



SUMMER MARKET SOURCE NEWSLETTER

Written by Stark Company Realtors CEO David Stark

► AS WE PASS the halfway point for 2024, the housing market seems to have settled into something of a groove. While it still does not feel “normal” yet, it seems to be functioning reasonably well under the constraints of low inventory that have plagued it for years. The shock of higher borrowing costs seems to have worn off, and while consumers may not like where rates are now, there does seem to be a growing understanding that the days of 3% mortgages are not coming back, and that waiting to move is ultimately self-defeating.

All that said, the process of finding true equilibrium in the new environment is still ongoing, and some imbalances in the market remain. Chief among them is the aforementioned shortage of inventory. But, there is good news on that front. For the first time since the pandemic, we have real evidence of inventory accumulation. We are up to 1.5 months of inventory (from 1.0 a year ago) in Dane County, and 2.0 months in Sauk and Columbia Counties. While that's still well below what would be considered a “balanced” market, it's the first meaningful increase in the last four years. Dane County inventory is up 40% overall, with single family up 30% over this time last year, and condo inventory more than doubling, up 110%. Inventory in Sauk and Columbia Counties is up a respectable 23% since last year.

The effect this has had on sales has been interesting. Dane County residential sales (single family and condo combined) were up 9.5% in the second quarter, and are up 6% for the year. Sauk/Columbia sales are up 14% for the quarter and 10.5% for the year. What took us a bit by surprise, however, was that closings for the month of June alone were actually down 7% from last year in Dane County, and down 15% for the month in Sauk/Columbia. June is normally the busiest month of the year for closings, and the expectation was that the momentum from earlier in the year would continue. Perhaps June was just a blip, and we'll continue to grow in July and beyond. However, it appears that accepted offers reported to the MLS in June were also down by 5.7%, from 653 last year to 616 in June of 2024.

One month does not a market make, and the fluctuations in absolute terms are neither large nor particularly worrisome in and of themselves. But it does cause us to wonder if perhaps we're starting to reach the point where resistance to rising prices is beginning to slow the market just a tad. This is pure speculation on our part, of course, and it will take a few more months of data to confirm whether we have a trend or an isolated event. But one way or another, it's clear that the market continues to encounter some resistance to the free flow we'd like to see. It also helps, we think, to parse the market by price range to see where the pockets of resistance may be developing.

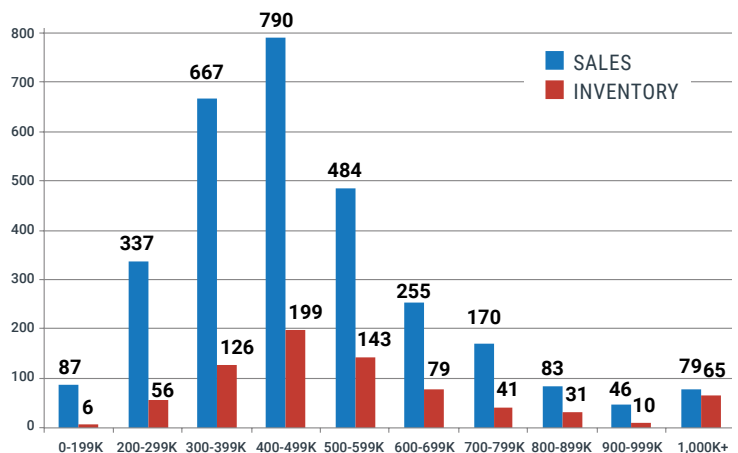
► INVENTORY BY PRICE RANGE

In the charts on this and the following page, you can see how sales and inventory are distributed through the various price ranges in Dane County. These charts show sales through June of 2024

compared to inventory on hand as of July 9th for single family and condo sales combined, months of inventory, and a chart comparing single family and condo sales by price range. There are a number of interesting observations to make about them.

- 63% of sales in Dane County so far in 2024 are below \$500,000, but only 51% of available inventory is under \$500,000.
- Overall months of inventory are surprisingly evenly distributed across all price ranges, with the exception of over \$1,000,000, with 4.9 months, and under \$200,000 with only 0.4 months.
- 78% of condo sales are under \$400,000, while 76% of single family sales are over \$400,000.
- Following from that, 75% of all sales under \$300,000 are condos, only 25% single family. Only 14% of sales over \$300,000 are condos, the rest are single family.
- Under \$300,000, condos outsell single family by a 3 to 1 ratio.

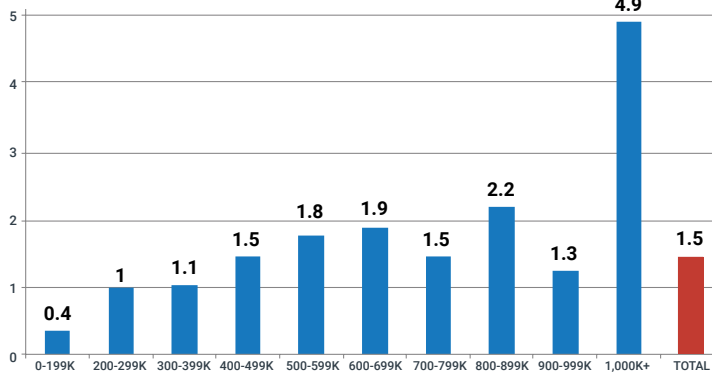
DANE COUNTY SALES VS INVENTORY THRU JUNE 2024



There are a few conclusions we can draw from this. First, the market has become somewhat bifurcated between condos and single family. Under \$300,000 in Dane County, condos are the primary option. There are only 62 listings under \$300,000 in Dane County, of which 41 are condos, and only 21 are single family. By extension, this means that single family buyers have been largely pushed over \$300,000. There are still a decent number of condo sales in the \$300,000s, but single family outsells condos by 2 to 1 in that price range, and after that, it's pretty much all single family.

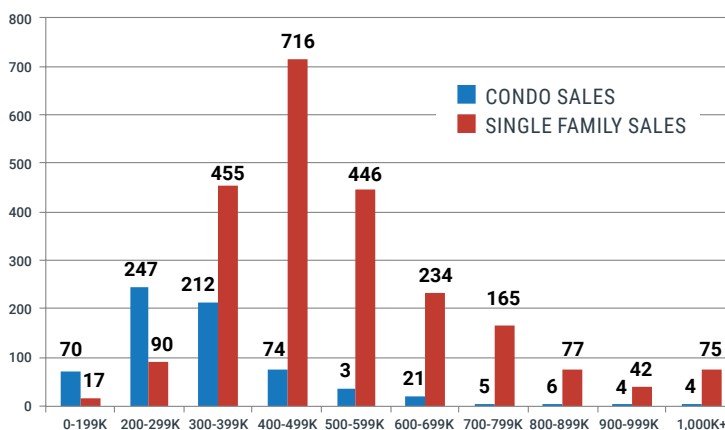
Second, it's somewhat surprising how consistent the number of months of inventory are across the price spectrum. This may partly be a product of the bifurcation we discussed in the previous paragraph. Between \$200,000 and \$1,000,000, months of inventory range from 1.0 to 2.2. Inventories are lowest between \$200,000

MONTHS OF INVENTORY BY PRICE RANGE



and \$400,000, at 1.0-1.1 months. But the average overall is 1.5, and most of the rest is between 1.3 and 2.2. Only over \$1,000,000 do months of inventory rise significantly, to nearly 5 months. Below \$400,000, we have condos, and above that single family, but in each case we have between 1 and 2 months of inventory, regardless of price range or property type.

CONDO VS SINGLE FAMILY BY PRICE RANGE THRU JUNE 2024



Third, condo inventory has somewhat saved the day in the lower price ranges. Condo inventory has more than doubled since last year, giving buyers who want a gateway into housing an option they didn't have even last year. It's likely an appealing option for young professionals with no kids and budding careers, a demographic that is growing quickly in Madison. It would be nice if we had more condo inventory in the higher price ranges to provide an option for older empty nesters looking to simplify their lives, as this would free up some badly needed single family inventory. But the increase is welcome, regardless of price range.

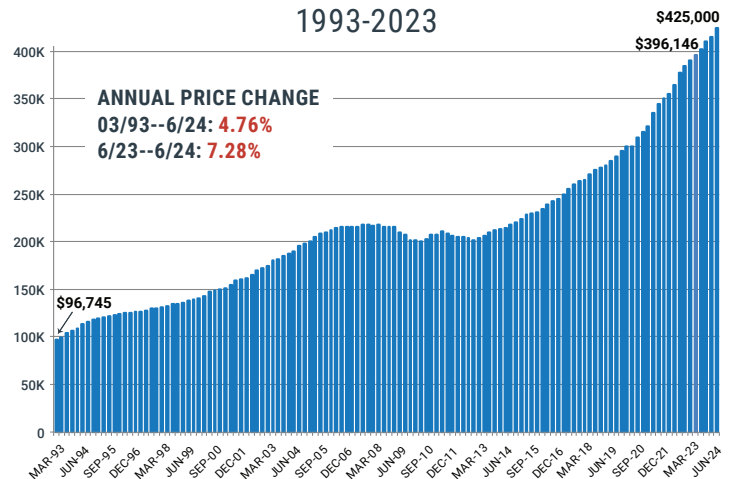
► PRICE PRESSURES

While inventory appears to be finally on the upswing, we still have a long way to go to bring us to the point where supply and demand are more balanced. And so, like much of the rest of the country, we are seeing continued upward pressure on prices. The Dane County 12-month median residential price (single family and condo combined) has risen 7.28% over the past year, currently sitting at \$425,000. Over just the first six months of 2024, the median price has been \$443,000, suggesting prices are still on the rise.

Prices increase the most in the second quarter, so most of this year's increase is probably behind us. Our guess is that the median for 2024 will end up in the \$440,000 to \$450,000 range, higher for single family, lower for condos.

How will this price spiral end? First and foremost, until we get more inventory, price pressures will remain elevated. How much inventory must we add? At the current pace of sales, Dane County will see roughly 6,000 sales this year through the MLS. To get to 3 months of inventory, we'd need roughly 1,500 homes on the MLS at any one time. We currently have about half that. While 6 months of inventory has traditionally been thought of as a "balanced" market, our feeling is that 3 to 4 months would feel like we were swimming in inventory by comparison to today. How long it will take us to get there is anyone's guess, but if inventory were to continue to increase at 30% per year, it would take roughly three years to get to 1,500 homes on the market. That seems plausible to us, although it's far from certain.

DANE COUNTY MEDIAN PRICE CHANGE, 1993-2023



None of this will cause price increases to stop altogether. Since 1993, Dane County prices have risen roughly 4.75% per year on average. We've been well above that for the past 5 years, but we expect the rate of increase to come down as inventories go up. For now, until we get more supply, buyers can expect continued steady increases in prices.

► THE ROLE OF NEW CONSTRUCTION

As the lack of available inventory has become obvious to most observers, including government officials and the media, much has been said about the need to "build more housing," particularly "affordable" housing. The question is, can we build our way to a better market? We believe the answer is mixed. It helps, but is not a solution by itself in the near term.

For the first 6 months of 2024, 558 of the 2,998 closings in Dane County, or 18.6%, were homes constructed in 2023 or 2024, presumably all or mostly all purchased directly from the builder. Of those, 508 were single family homes, and the remaining 50 were condos. By comparison, there were 506 sales in the first six months of 2023 of houses built in 2022 or 2023, again roughly 18% of the total, of which 452 were single family and the rest condos. (It should be noted that new construction sales are more likely to

occur off the MLS than resales, so there are undoubtedly more new construction sales occurring that our data is not capturing.)

Does this help? Absolutely. We'd have 18% fewer sales than we did without them. New construction accounts for 18% of this year's new listings as well. Even more interestingly, a snapshot of active inventory taken on July 11th showed 40% of current inventory on that day was built in 2023 or 2024. 42% of new construction listings entered this year are still active.

This suggests new construction may be selling a bit more slowly than resales do, but that's not surprising in that new construction is always a bit more expensive than a similar resale. This is as it should be. A used model of any asset will normally sell for less than its brand-new counterpart. The downside of this is that it's hard to directly influence the "affordable" part of the equation with new construction. The fact of the matter is that it's difficult today to build a single family home in Dane County and sell it for much less than \$400,000. Of the 508 newly constructed single family closings so far this year, there were 40 under \$400,000 (\$305,000 was the cheapest), and 178 in the \$400,000s. The 290 remaining sales were over \$500,000. The median price for all new construction sales so far this year has been \$529,900. All housing helps take the pressure off prices, and our price issues would be even worse without new construction. But it will take time for our housing stock to grow enough to meaningfully put a damper on price increases.

So, can new construction solve the housing shortage all by itself? Probably not. Most observers estimate that Dane County will require in the neighborhood of 10,000 new housing units per year

to accommodate our county's growth. One-thousand new, owner-occupied units per year will not get the job done, and builders appear to be building as fast as they can. Fortunately, many more apartment units are being constructed, taking up some of the slack. But it remains unlikely that we'll be able to simply build our way out of the housing shortage any time soon. Until more current homeowners choose to put their homes on the market, our housing crunch will likely continue.

► THE OUTLOOK

As we write this, the Federal Reserve is signaling a bias toward starting to lower interest rates. In fact, as we were putting the finishing touches on this draft of the newsletter, the consumer price index came in better than expected, and 30-year mortgage rates immediately dropped into the upper 6s. The markets are currently betting on one or two rate cuts, possibly starting in September. While this will be welcome, our regular readers know that we don't expect major reductions in mortgage rates over the long run. Our current prediction is for a 30-year rate around 6.5% by year's end, maybe a bit less if the data remains favorable. While that may not seem like much, we think it will help bring a little more supply to the market, and all the issues we see right now would be helped immensely by more supply. So, while we expect the second half of 2024 to look much like the first, any change, be it an increase in inventory, a reduction in rates, a slowdown in price increases, or a slight increase in sales, will be a step in the right direction. Any combination of the above will help the market flow more freely. We think it's likely things will look a little better by the end of the year.

ADVICE FOR BUYERS AND SELLERS

► FOR BUYERS

It looks like you may finally be getting some relief. Inventories are at their highest level since 2020, providing you with more choices. Mortgage rates appear to have peaked, and might ease slightly by the end of the year. And the spring rush is behind us, meaning less competition for the choices you have. You are still likely to encounter competition, especially for new listings in highly sought-after neighborhoods, so be prepared to be aggressive within whatever limits you've set for yourself. If you're a first-time buyer, consider condos as a more affordable option. Supply has more than doubled for condos this year, and they're a great gateway to home ownership. We also remind you that your first home is not your forever home, so don't insist on perfection. In the higher price ranges, you can perhaps be a little more patient. And if you can afford to commute, looking further outside of Madison can provide more options and lower prices.

► FOR SELLERS

The market seems to have evolved to the point where it's not a slam dunk anymore that your home will sell in a day or two. While pricing properly to begin with is always the right strategy, overpricing now can mean weeks on the market in some circumstances, not just a few more days. The importance of micro-markets is becoming greater now too. Over the last few years, with ultra-low supply and high demand, buyers were desperate to buy whatever they could get, wherever it was. Now, as overall inventory increases, it will accumulate more quickly in certain neighborhoods and price ranges than in others. You could have two weeks of inventory in one neighborhood and 2 months in another nearby. The odds are still in your favor, but it's not the broad brush it once was. So get good advice and be clear-eyed about what the strengths and weaknesses of your home are. Then, approach the market with patience and see what comes to you.

Charts in this publication represent sales reported to the South Central Wisconsin Multiple Listing Service (SCWMLS) with closing dates on or before June 30, 2024. Data for all years was pulled between the 6th-10th of the month following the end of the quarter. †Months of Inventory represents the number of months it would take to sell the entire active inventory at the pace of sales for the most recent 12 months. A six-month inventory is considered balanced. ‡When all properties sold during the period are ranked in order of price, the median is the price of the home in the exact middle. ©2024 Stark Company Realtors®. All rights reserved. The above sales figures herein are based on data supplied to the SCWMLS Corporation by its Participants. The MLS does not guarantee and is not responsible for its accuracy. Data maintained by the MLS does not reflect all real estate activity in the market. Data presented here was generated from the SCWMLS on or before 7/12/24. This is not intended to solicit existing listings.

DANE COUNTY REAL ESTATE AT-A-GLANCE

Q2 2024



746

ACTIVE INVENTORY



1.5

MONTHS OF INVENTORY

We continue a steady accumulation. We are now up over 40% from last year in Dane County, 23% in Sauk & Columbia Counties.



\$425,000

12 MONTH MEDIAN PRICE



2,998

YEAR-TO-DATE CLOSINGS

Prices will continue to rise, although perhaps at a slightly slower pace for the rest of the year.