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## RECORD HIGH, RECORD LOW

Throughout the past year, we have used all kinds of adjectives to describe market activity and often called it a “year of extremes.”

That’s truly what it was.

Perhaps the most amazing thing about 2016 was that despite continued inventory shortages, we seemed to find the homes to sell.

The result was a record for residential sales in Dane County. The 8,075 sales squeaked past the previous high set in the heyday of 2005 (by just 35 homes). Sales in 2016 were up 1.8 percent from the year before.

## REAL ESTATE MARKET SOURCE

OF SOUTH CENTRAL WISCONSIN

**A YEAR OF EXTREMES SEEMS TO FIT 2017** as well. On January 6th, there were a mere 1,042 single-family homes and condos on the Dane County market, down 27 percent from the same time last year. That’s only 1.6 months of inventory<sup>†</sup> compared to 2.2 months a year ago and 3.2 months in 2014. While the beginning of January always represents the low point for inventory, the fact that we continue to hit new lows each year is remarkable.

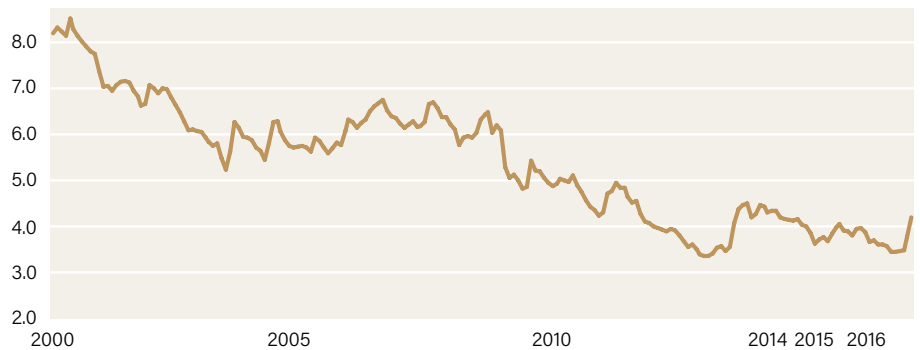
As of January 16th, we’re already starting to see multiple offers on new listings with the “official spring market” still nearly six weeks away. One wonders what we could do with normal inventory levels.

## RATES & PRICE: AN INTERESTING BOND

As if this wasn’t enough, there’s another variable added to the mix this year: interest rates. A year ago, the Federal Reserve made their first move on interest rates, and there was no appreciable effect on mortgages. In fact, rates went down a little. The Fed didn’t make another move until December, when they raised the federal funds rate another 25 basis points. Again, no discernible difference, but for a very different reason. You might say the Fed was “Trumped.”

Experts disagree on exactly why it happened, but regardless of the reason, the bond market reacted wildly after Trump’s victory, taking many by surprise. Interest rates shot up by three-quarters of a percent over the next six weeks, and mortgage rates followed suit. The 30-year mortgage rose from about 3.5 percent — where it had been for most of the year — to top out at 4.5 percent. The Fed action was lost in the turmoil. The movement in rates has since settled down, and as of this writing, we sit at about 4.125 percent.

### 30-YEAR MORTGAGE RATES



During the “bubble years” from 2000 to 2005, we had higher-than-normal home price increases. Rates sat between five and seven percent. We’re fairly certain we can sustain today’s strong housing market with rates in the four, or even five, percent range.

Pundits, ourselves included, have been predicting a rise in mortgage rates for six years now. Is it for real this time? It *feels* different. The market appears to be anticipating economic strength, and perhaps inflation, if the new government follows through on its promises of infrastructure spending and tax cuts. Add in the Fed’s stated intention to raise rates a few more times this year, and it appears we may finally have arrived at the time when rates truly will “return to normal.”

But does it matter? Take a look at the 30-year mortgage chart above. What’s interesting to us is not the current spike, which is easy to see, but the period from 2000 to 2005. During the “housing bubble,” rates ranged between five percent and seven percent. Our current rates remain low by comparison. Clearly, we still have room on the upside before rates become a problem.

It has been our position all along that rates not only will rise, but *should* rise, and the economy will be better for it. As long as the return to normalcy is gradual, our expectation is that the housing market will not be much affected. The period from 2001 to 2005 proved that we can have a vibrant market at higher rates. We expect the same this time around.

A possible beneficial side effect of higher mortgage rates might be a moderating of price increases. The 12-month median<sup>‡</sup> in Dane County rose just under six percent for 2016, and 3.8 percent in Sauk and Columbia counties. The imbalance of supply and demand is the cause (see the fall edition of *Market Source Newsletter* for a discussion of market dynamics by price range).

In normal markets, housing prices tend to increase at, or slightly above, the rate of inflation over the long run. Our economy has undergone an unusually long period of very low inflation, at least as measured by the Consumer Price Index. Six percent home price increases for a few years, while above the current inflation rate, shouldn't be problematic. But if it goes on too long, it can move us out of the range of fundamental value. We still think we're ok, especially with our region's strong economic and population growth. But as Millennial buyers start to enter the housing market in ever greater numbers,

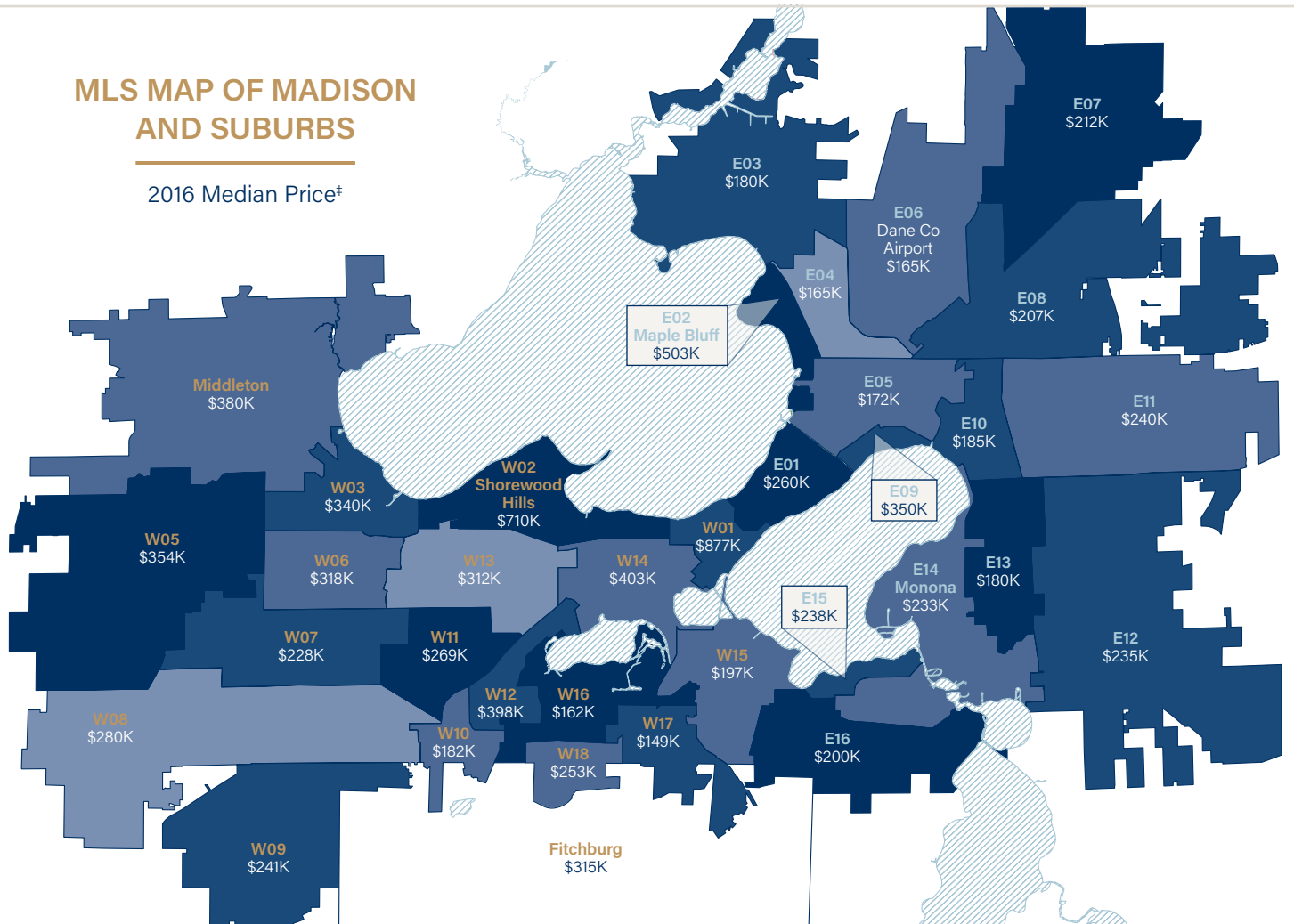
we'll need the inventory; especially under \$300,000 where we have most of the demand, if we want to keep prices in check.

Will rising mortgage rates blunt potential price increases? We'll see.

We hope potential sellers who have put off moving take the plunge and put their homes on the market this year. Builders are becoming more active, but still not at the level necessary to fill the hole in supply. We'll see what the new year brings, but our best guess is that prices will rise by a similar amount in 2017.

## MLS MAP OF MADISON AND SUBURBS

2016 Median Price<sup>†</sup>



East Madison	2016 # Sold	Current Inventory	Months of Inventory <sup>1</sup>	% Change to Median	West Madison	2016 # Sold	Current Inventory	Months of Inventory <sup>1</sup>	% Change to Median	Other	2016 # Sold	Current Inventory	Months of Inventory <sup>1</sup>	Median Price	% of Change
E01	31	10	3.9	-9.4	W01	1	2	24	-	Baraboo	181	55	3.7	\$142K	3.3
E02	38	8	2.5	15.6	W02	28	5	2.1	6.0	Cottage Grove	92	6	0.8	\$256K	-1.1
E03	155	10	0.8	6.5	W03	43	3	0.8	-7.6	DeForest	180	26	1.7	\$247K	15.6
E04	82	3	0.4	13.8	W05	240	48	2.4	7.1	Fitchburg*	239	32	1.6	\$315K	11.7
E05	127	3	0.3	-0.8	W06	71	11	1.9	8.9	McFarland	137	30	2.6	\$259K	7.0
E06	3	0	-	-	W07	9	1	1.3	6.9	Middleton*	208	45	2.6	\$380K	-2.5
E07	57	4	0.8	8.7	W08	265	32	1.5	4.9	Mt. Horeb	93	18	2.3	\$240K	6.6
E08	102	5	0.6	16.6	W09	299	10	0.4	1.7	Oregon	137	20	1.8	\$270K	7.6
E09	35	2	0.7	8.4	W10	46	10	2.6	15.3	Portage	124	43	4.2	\$122K	11.1
E10	71	5	0.9	17.1	W11	72	6	1.0	6.0	Stoughton	195	39	2.4	\$190K	1.1
E11	250	35	1.7	9.4	W12	68	8	1.4	3.3	Sun Prairie	581	66	1.4	\$256K	9.1
E12	207	8	0.5	4.2	W13	124	11	1.1	7.8	Verona	169	32	2.3	\$321K	6.5
E13	71	14	2.4	4.1	W14	74	8	1.3	4.7	Waunakee	239	46	2.3	\$392K	-1.9
E14	92	7	0.9	3.1	W15	19	2	1.3	12.9						
E15	19	4	2.5	6.0	W16	6	1	2.0	53.1						
E16	34	0	-	9.4	W17	5	0	-	46.2						
					W18	24	2	1.0	17.7						
<b>Total</b>	<b>1,374</b>	<b>118</b>	<b>1.0</b>	<b>8.7</b>	<b>Total</b>	<b>1,841</b>	<b>237</b>	<b>1.5</b>	<b>8.2</b>						

<sup>†</sup>Included in total median price for West Madison.

East Madison's total median price for 2016 was \$214.5K. West Madison's total median price for 2016 was \$302K.

## NEIGHBORHOOD ANALYSIS

As we always do at this time of year, we've broken down the Greater Madison market and included data on the major municipalities in Dane, Sauk and Columbia Counties. The data is for single-family homes only. Medians are for all of 2016, and the increases are compared to the same time frame in 2015. Sales are also for the full year. It is immediately apparent, especially in the City of Madison, that some areas are starting the year with nearly non-existent inventory levels. It's more acute on the East side, with only one month of inventory overall, compared to 1.5 months on the West side. For what it's worth, the most dramatic example of low inventory and high sales is sub-area E05, just north and east of the Yahara River, with only about a week's worth of inventory. There were only three active listings there at the beginning of this year, and yet 127 homes sold there over the course of 2016. That's *tight*.

It's also worth noting that in the City of Madison, medians overall rose about eight percent, compared to just under six percent for Dane County as a whole. Changes in the median varied greatly by sub-area, but be careful about reading too much into variations that were either very high or very low. Remember, to arrive at the median, sales for an area are ranked in order of price—the median is the sale in the exact middle. The smaller the data set, the less representative the median is of actual price increases.

Still, all real estate is local, and knowing the specific supply and demand dynamics where you live is helpful. Also, remember that early January is the absolute low point for inventories every year. For that reason, we thought it might be interesting to look at this breakdown again three months from now, to see what the market looks like as we head into the peak.

For now, it looks like you can expect another year of heavy bidding for new listings, with plenty of activity. We'll look forward to bringing the news to you in future editions as the year moves on.



## ADVICE FOR BUYERS

Unfortunately, it looks like you have another year of competitive home buying ahead of you. However, if you want to buy, you should still make the effort. Prices and interest rates are on the rise, and it will only cost you more later. It's never been more important to have a trusted agent to get you into new listings as quickly as possible. When they call you, get out there and look. If they say to write aggressively, *do it*. A good buyer's agent can also advise you on how much to offer, how to make your offer appealing, and when you're offering too little or too much. That doesn't mean you'll win every time. Odds are you'll try a few times before you get one. But stay with it. Eventually you'll break through.



## ADVICE FOR SELLERS

For many of you, fear of not finding a home to buy is what's holding you back. At some point though, you have to take the plunge. If you can risk owning two homes for a while, consider buying first and selling later. Depending on where you live, your risk of owning two homes for long might not be very high. Plus, offers contingent on sale will probably not fly in this market. Consult with your agent and make the best decision for you. Also, don't forget new construction. If you can't find it, build it (that goes for buyers too). And work closely with your agent when pricing your home to sell. It's always possible to start too high, but in this market, it's also possible to start too low. Multiple offers the first day are to be expected. If you haven't sold in a couple weeks, you've almost certainly erred on the high side.

### DANE COUNTY

	Single Family			Condominiums			Total Residential		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
4th Quarter Closings*	1213	1202	1070	345	333	288	1558	1535	1358
Year-to-Date Closings	6283	6263	5388	1792	1672	1594	8075	7935	6982
Active Inventory	805	1068	1357	237	363	482	1042	1431	1839
Months of Inventory†	1.5	2.1	3.0	2.4	3.4	4.4	1.6	2.2	3.2
12-Month Median‡	262,900	249,765	239,000	170,000	155,000	154,950	245,000	231,250	220,168

### SAUK & COLUMBIA COUNTIES

	Single Family			Condominiums			Total Residential		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
4th Quarter Closings*	378	371	320	42	42	41	420	413	361
Year-to-Date Closings	1605	1525	1315	179	165	189	1784	1690	1504
Active Inventory	509	658	811	88	120	122	597	778	933
Months of Inventory†	3.8	5.2	7.4	5.9	8.7	7.8	4.0	5.5	7.4
12-Month Median‡	168,000	160,000	150,000	148,000	150,000	134,900	165,000	159,000	147,500

\*Sales reported to the South Central Wisconsin Multiple Listing Service (SCWMLS) with closing dates between 10/1/16 and 12/31/16. Data for all years was pulled between the 7th-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. ‡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. ©2017 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 1/10/17. This is not intended to solicit existing listings.