MARKET SOURCE NEWSLETTER

Written by President David Stark

WHAT A DIFFERENCE THREE MONTHS MAKES. After six months of perhaps the most chaotic market we've ever witnessed, things have calmed down considerably. It seems, at least for now, that the era of 100 showings, 20 offers, and $30,000 overbids has given way to one with perhaps one to three offers, averaging near or slightly over the list price.

To give you some texture for this change, we'll draw on some excellent work being done by Paul Richert, a member of our management team, researching the characteristics of offers that have been accepted this year. A few revealing factoids:

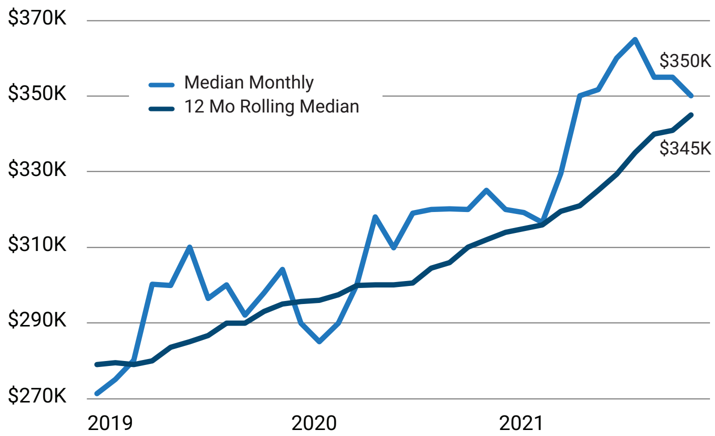
- In the last 45 days, 31% of buyers paid less than the asking price, and the remaining 69% paid an average of $3,004 over the list price.
- Only 19% of contracts contained an escalator clause, and only 37% of those were even exercised.
- Fewer than half of buyers are now waiving the inspection, and contingencies like radon testing or home warranties are becoming more common again.

Of course, competing offers are still common, but now more often just a handful, if that. And as we'll see in a moment, inventories remain lower than any of us would like to see. This is not yet what we would call a "normal" market. But the shift in intensity that we were observing just as we wrote our last edition of this newsletter has continued through the summer and into the fall.

Another difference from earlier this year, and from last year at this time, is the pace of sales. Dane County sales are still up 3.6% year to date over last year, but they were up 8.2% YTD at the end of the second quarter. Closings were actually down 16% in September. Sauk/Columbia sales were up 13% YTD three months ago. They are now basically flat. This is not to suggest that the market is radically slowing. But we won't be repeating the record pace of last fall.

Still, imbalances remain that will be hard to overcome in the near future. This leads to the metric everyone is most concerned with—prices. We'll start there in our analysis.

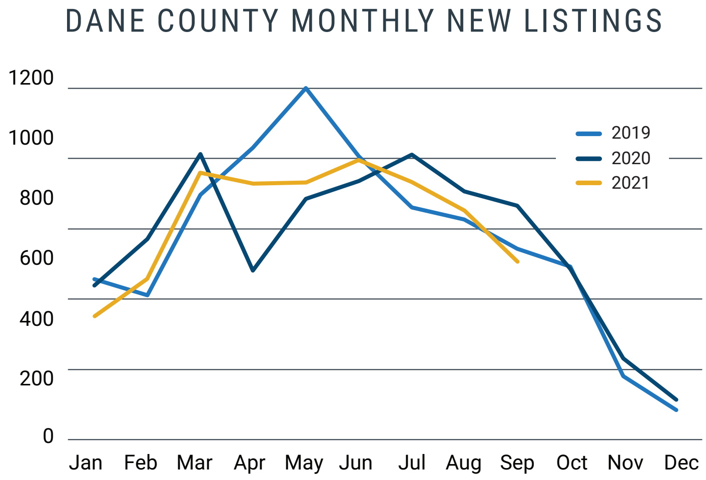
DANE COUNTY MEDIAN PRICE



PRICES AND INVENTORIES

There is no getting around the fact that today's low inventory/high demand environment is putting upward pressure on prices. Over the 12 months ended in September, the Dane County residential median price is up 11.3%. That's almost double the 6-7% increases of the last few years. Even during the "real estate bubble" of 2000-2005, Dane County median prices only rose 6-7% per year.

DANE COUNTY MONTHLY NEW LISTINGS

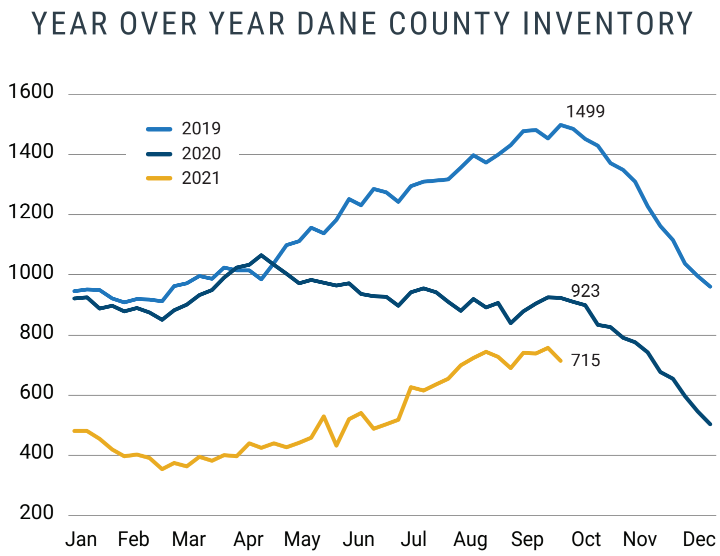


Some see these increases as alarming, and we agree that they are not ideal. As we have said many times before, in a healthy real estate market, prices should rise at or slightly above the underlying rate of inflation in the economy. Prices are certainly rising faster than that today. That said, the ultimate health of a housing market should be judged by the ability of the average home buyer to afford the home they want to buy. By that standard, our market is clearly not yet overpriced, or we wouldn't be seeing the demand we're seeing. Make no mistake—this is organic demand, driven by growth in our region, particularly the Millennial generation in the midst of their prime first time home buying years. The challenge then, is to provide enough housing to meet that demand. The issue most housing markets around the country are facing, including ours, is finding enough inventory, either through new construction or from resales, so that everyone who wants to buy a home can get one.

Looked at through this lens, the issue housing is facing today is that it has become, for a variety of reasons, a scarce yet very valuable resource. Until it becomes less scarce, its cost will rise until it reaches the point where buyers either cannot afford it or no longer see it as a good value. Another wrinkle that bears watching is the rise in general inflationary pressures that the economy has started to experience since the pandemic. Frankly, there is a lot of stimulus money in the economy now, and we have well documented supply chain issues that are pushing up costs, including many of the inputs to new housing construction. Consumers have more money to spend, and if incomes rise, demand will rise with it, another upward push on prices. It's probably fair to say that housing is being "re-priced" for a changed environment. Eventually, higher prices will call forth more supply, and supply chain issues will be unclogged, allowing price increases to finally stabilize.

The question then, is how much longer these increases will continue. Our sense is that they will continue next year and

YEAR OVER YEAR DANE COUNTY INVENTORY



IF YOU'RE BUYING

Activity since Labor Day has been normal for this time of year, which is encouraging. It means buyers are out and taking advantage of what's here, but the panic is gone. There will be good buys to be had in the fourth quarter, with less competition from other buyers. This may be the best time all year to wait for just the right situation to come along, and hopefully buy on your terms. That said, we still have fewer homes for sale now than we did a year ago, so it remains a seller's market. That means weak offers will likely not be accepted in any but the most unusual situations. We are seeing more offers with inspection contingencies again, and most homes are selling within a few thousand dollars of the asking price either way. Do your homework up front, know your limitations and live within them, and have your agent help you understand the market for each home you're considering. You should have a little more control now than you might in the spring.

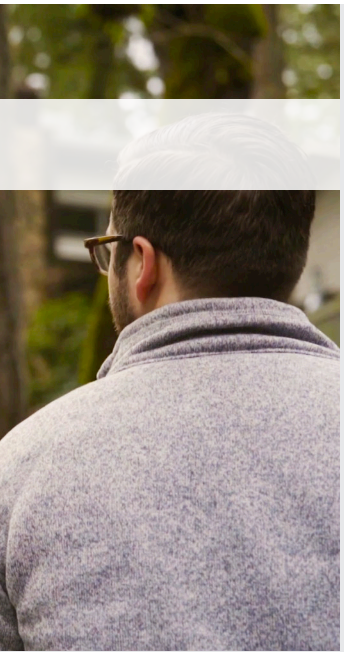
perhaps beyond, but not at this pace indefinitely. Mortgage rates are showing signs of creeping up, which will shave some buyer purchasing power. Mortgage loan underwriting remains prudent on the whole, which limits how much any given buyer can afford. And buyers already seem to be approaching this market with more caution than they were earlier in the year. We certainly hope sellers finally start putting their homes on the market in larger numbers than they have been since the pandemic began. If these factors combine to allow standing inventory to accumulate over the next year or two, price increases should return to a more sustainable rate.

LOOKING AHEAD TO 2022

With only a few months left in 2021, the conditions that will influence 2022 are coming into focus. Some we know for sure, others are less certain.

- Inventory will remain low. Current inventory is still 20% below last year, but perhaps more importantly still 52% below 2019. Since inventory peaks in early October, it is virtually certain that we will start next year roughly where we started this year, perhaps even lower.
- Mortgage rates will probably remain low. There is some indication that the Federal Reserve may start to tighten monetary conditions later this year or early next. Inflation fears have been discussed due to supply chain issues in the general economy along with continued high federal spending. If general inflation does take hold, the market could push rates higher regardless of Fed policy. But a move high enough to meaningfully reduce demand is unlikely, at least not by next spring.
- The South Central Wisconsin region is the fastest growing in the state. We added roughly 75,000 residents in Dane County over the past decade. Demand for housing will continue regardless of other economic conditions.
- We'd like to think new listings will improve next year, but we were surprised they didn't improve this year. It remains a mystery why more sellers didn't choose to sell in April and May, the prime home selling months. It's hard to imagine that pattern repeating, but this remains something of a wild card as we approach next year.
- The course of the pandemic presents another wild card. We all hope that things will have calmed down by next spring, leading to a more normal season. However, we're still living with the Delta surge, which could have ripple effects in employment, schools, and people's attitudes if it does not abate. If the pandemic has taught us anything, it's that it's hard to know with certainty what's coming.
- Finally, how buyers will choose to attack next year's market may be the biggest wild card of all. In 2020, low inventory caused a buying panic in the spring. When summer arrived, buyers seemed to pull back and become more selective in how they approached the market. Will that attitude continue, or will a new wave of buyers start the madness all over again?

If we could wave a magic wand, we'd like to see sellers come on the market in droves early next year, and keep coming all year long. Whether they do or not, it seems certain that homes will sell just as quickly in 2022 as they have in 2021. Multiple offers will still be with us. Buyers will need to write very strong offers to win, and prices will rise again. But, if sellers come out in bigger numbers, and buyers approach the market with more restraint, it's possible we won't see the double digit price increases we saw this year. If sellers stay home and buyers go nuts, it could be 2021 all over again. Our best guess is that things will be a little less crazy next year, but at this point it's nothing more than a guess. The ingredients are there for a repeat, and how consumers approach it will make all the difference.



IF YOU'RE SELLING

We've been pleading with you to sell for a couple years now, and we're still hoping you will. While demand will be a bit more subdued in the 4th quarter, it remains a strong seller's market, so your chances of success are good. Plus, you probably won't have to wade through 20 or 30 offers to pick a winner. That process is more draining and difficult than you might think. What you probably shouldn't expect now is a red hot bidding war. You might only have one or two offers to pick from, and you might even have to negotiate a little with a buyer to strike a final deal. Price increases are probably done for the year, so the comps your agent shows you will be a good indication of what you'll get. It's true that you'll probably get more money in a bidding war next spring. However, the process might be more difficult then, and competition for the home you want to buy could be more intense. If you prefer a more relaxed experience, give it a try now. If you don't succeed, there's always next year.

Charts on page four represent sales reported to the South Central Wisconsin Multiple Listing Service (SCWMLS) with closing dates on or before September 30, 2021. 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. 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 10/10/21. This is not intended to solicit existing listings.

DANE COUNTY REAL ESTATE AT-A-GLANCE

Q3 2021 compared to Q3 2020

ACTIVE INVENTORY

715

20.4%

YEAR-TO-DATE CLOSINGS

6,536

3.6%

12 MONTH MEDIAN PRICE‡

$345K

11.3%

MONTHS OF INVENTORY†

1.0 mo

23.1%