



MARKET SOURCE NEWSLETTER

Written by President David Stark

► THREE MONTHS AGO, we looked forward to 2021 with a sense of optimism, grounded in the assumption that as the COVID-19 pandemic slowly faded, the year ahead would return us to some version of “normal.” Three months in, while it’s hard to know exactly how to characterize the housing market right now, “normal” does not yet seem to be an apt word.

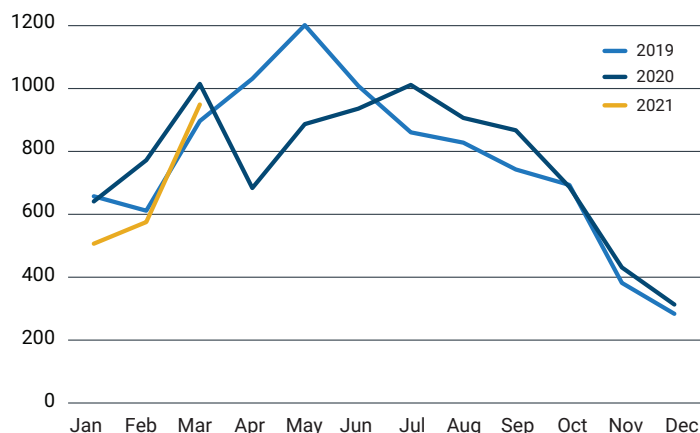
Due to a confluence of factors, 2021 has gotten off to one of the strangest starts in our memory. The primary reason, of course, is a historic shortage of active inventory on hand. Active inventory is down roughly 65% from this time last year, both single family and condo. We enter the spring market with about a half month’s worth of inventory across the board.

What no one anticipated was how strongly demand for housing would rebound in the third and fourth quarters of 2020, leading to a record year overall. That demand has not abated. In fact, it seems to have intensified in the first three months of 2021. The combination of growth in our region coupled with continued low interest rates had buyers shooting out of the gates after the first of the year.

Normally, intense demand for a product calls forth supply. So far in 2021 however, new listings are down by about 10% from the same period last year. Theories abound as to why this is happening, including residual concerns about COVID, recent refinancing or remodeling that is keeping owners in their homes longer, or baby boomers living longer and choosing to “age in place.” While all probably are factors, we believe the reason most responsible is sellers’ fear they won’t be able to find anything to buy after they sell. This is not an irrational fear, but it’s leading to a “chicken and egg” situation where new inventory is locked up because there’s no inventory.

This seller reluctance is important. Inventory normally rises and falls in a predictable cycle throughout the year. Last year,

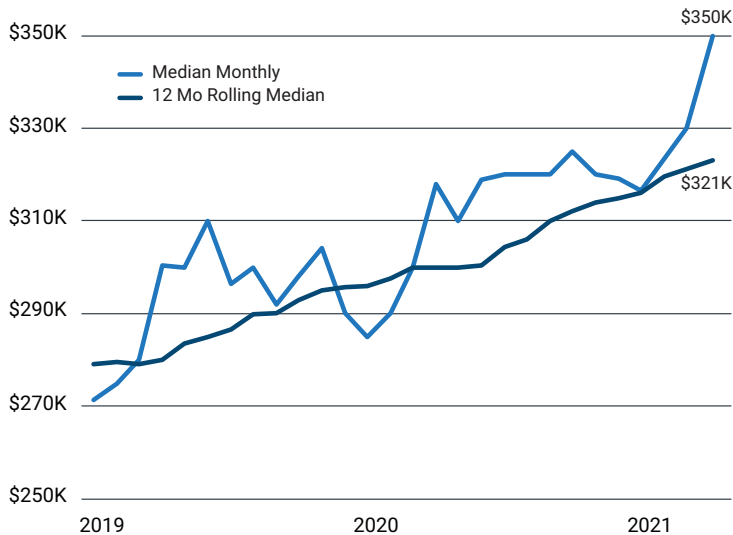
DANE COUNTY MONTHLY NEW LISTINGS



that cycle was demolished, with inventory falling steadily all year and causing us to start 2021 with a severe shortage. We were able to sell a record number of homes in 2020 because we had a record number of sellers put their homes on the market. Inventory still fell because we sold them faster than we listed them. If the sellers don’t show up this year, our sales numbers will be down, despite intense demand.

When supply and demand are this far out of balance, prices are sure to rise. Dane County’s 12-month residential median is up 7% since last year, and Sauk/Columbia’s is up 9%. While we put less stock in three-month medians because of the small sample size, it’s hard not to note that the Dane County median price for the first three months of the year is up 14% from the first three months of 2020. This might iron itself out as the year goes on, but for now, the mismatch between supply and demand has the market in something of a frenzy.

DANE COUNTY MEDIAN PRICE



► ARE WE IN A PRICE BUBBLE?

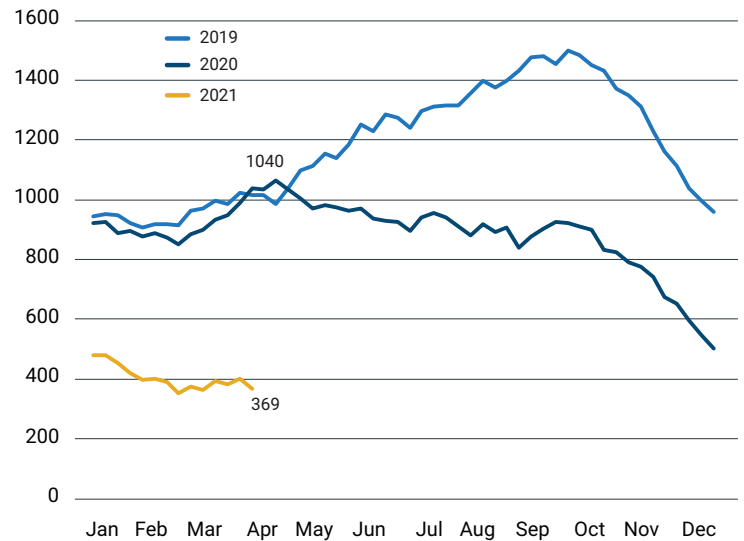
This frenzy has led many to ask the price bubble question, and it's true price increases are high by historical standards. The reason is no mystery. Demand is badly outstripping available supply, and as a result, buyers are engaged in intense bidding wars. To give you an idea how dramatic this is, in the last 45 days of the second quarter, 95% of our accepted offers under \$600,000 sold for over the asking price, with the winning bid averaging \$14,000 over list. As mentioned earlier, the median Dane County closed price was up 14% in the first quarter compared to the first quarter of 2020. To many, this looks like a bubble.

Nonetheless, our answer to the bubble question is "no" because to be a bubble, there needs to be a likelihood that it will eventually pop. For that to happen, supply would have to rise to such an extent that the supply/demand equation was fully reversed. Remember, when the last "bubble" popped in 2007, inventories were at levels ten times what they are now, and demand was artificial due to unsound underwriting practices. Today, demand is real, fueled by organic growth primarily from young first time home buyers, and from people looking to improve their housing. Loan underwriting remains very sound, and most buyers are putting between 10% and 20% down. Around 15% of our sales have been all cash. So the likelihood of massive loan defaults with inadequate equity like we saw 15 years ago is minimal.

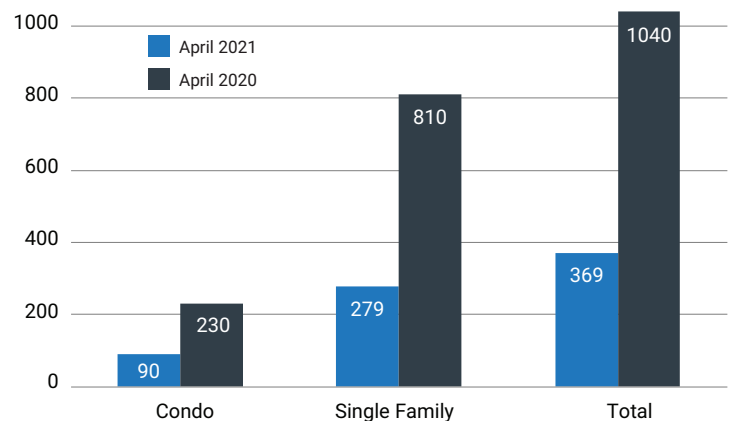
This means buyers can generally afford the homes they're buying long term. How then will the price increases end? Rather than a popping bubble and declining prices, our best guess is

that mortgage rates will eventually rise enough to take some of the steam out of current demand, coupled with perhaps prices themselves rising to the point where the combination of rate and price makes the rent vs. buy equation look less favorable to some buyers. This cooling demand will finally allow inventories to start to accumulate again, bringing supply and demand closer to balance, and price increases will slow or stop for a time. It might take some time for people to adapt to a "normal" supply/demand balance again, but once they do, home prices will probably resume their normal increases at or slightly above the rate of inflation. ►

YEAR OVER YEAR DANE COUNTY INVENTORY



DANE COUNTY INVENTORY COMPARISON APRIL 2020 VS APRIL 2021



Charts on page four represent sales reported to the South Central Wisconsin Multiple Listing Service (SCWMLS) with closing dates between 1/1/21 and 3/31/21. 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. ©2021 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 4/10/21. This is not intended to solicit existing listings.



TIPS TO SUCCEED

Due to our unique market conditions, we're expanding this section of our newsletter slightly so we can provide our readers with some perspective on how to tackle the market.

IF YOU'RE BUYING

We will not sugarcoat it—the current home buying environment is stressful. While it varies from house to house, in many, if not most, circumstances buyers should expect to encounter anywhere from at least a couple competing offers, to as many as 20, 30, or more. This means the likelihood of losing out is high, and most buyers make offers on a number of different houses before they finally land a winning bid. We've given a lot of thought to how to attack this market, and here is a brief summary of our best advice.

ESTABLISH STRATEGIES & TOLERANCES IN ADVANCE

First and most importantly, we believe that as a buyer, you should spend as much time as you can, up front—before ever going out to look at homes—with a good buyer agent who you trust. You should have a deep conversation with your agent about not just what you want, but what you're willing to do, and what you're not willing to do, in order to craft a competitive offer that has a chance to win. Be honest and transparent with your agent, and with yourself, about what you're willing to do. Talk openly about how much you can afford to pay (you **MUST** be preapproved by a good lender), how much you're willing to pay in certain circumstances (how much you can afford and how much you're willing to pay are not necessarily the same thing), what neighborhoods you're willing to look in, how far out you're willing to look, what you must have in a home and what would be nice but you'd be willing to give up, how much over the list price you're willing to pay, can you sell your current home first, or risk owning two for a period of time, and many other parameters. The goal is to be crystal clear with yourself and your agent about how you intend to attack this market. If you've done it properly, you should be very comfortable with every offer you write, and also comfortable with the result. If you win, you should know you didn't go outside your comfort zone. If you lose, you should know that it was not a situation in which you could do anything more.

What this process also does is allow you to perhaps be more strategic about where and when you decide to write an offer. Your agent should talk with the listing broker if possible and find out what's most important to their seller, because there's more that goes into an offer than just price. There might be situations in which you have a unique advantage.

BE READY TO ACT QUICKLY

When you do write, know that you'll have to do it quickly, so don't hesitate. Also, be clear on what contingencies you need. The fewer

the better. For example, about 80% of our recent offers had either no inspection contingency, or a willingness on the part of the buyer to accept defects up to a certain amount. Sellers also seem to be very motivated by a buyer's willingness to pay for appraisal shortages, up to a certain amount. There are other tips we can offer, but this gives you an idea of what you might consider doing.

In the end, when you finally do get an accepted offer, you should be comfortable with what you paid and look forward to living in your new home for years to come.

IF YOU'RE SELLING

While this certainly is a "seller's market" in every sense of the word, it does not mean you enter this market without challenges. First and foremost is the fact that sifting through multiple offers can be difficult. The record we know of this year is 45 offers on one house, although usually it's far fewer. Still, how do you decide which is best? It's rarely just about price. Contingencies, closing dates, buyer strength, and earnest money are all factors that might be important to you. Having a good agent who can help you choose your winning offer is a must. Your agent can also help you decide what work you need to do before you sell, if any, and how to set an offer price that maximizes your chances of the best sale. You'll often do better with a bidding war than you will pricing high and hoping someone bites.

Also, be ready for the flood of activity when the home is first listed. We've often advised that sellers simply leave town for the weekend (if they can) while the house is shown. On many listings, showing slots fill up instantly over several days, sometimes approaching 100 separate buyers wanting to take a look. It sounds crazy, but this is the reality of the market we're in.

PLAN FOR YOUR MOVE

The biggest concern we hear from sellers is, "Where will I move? What if I can't find a place to buy after I sell?" We understand this fear, but there are ways to deal with it. Just as buyers may have to take some risk with contingencies, you might have to take some risk with your current home. Again, have a deep conversation with your agent about what you're willing to do, and what you're not willing to do. If you can find a way to approach the process with a risk that feels manageable to you, that's the goal. Remember, in a strong seller's market, unless your home is unusual in some way, it will probably sell quickly, so your risk of owning two homes for long is low. Most sell within days. But again, you must be comfortable with that risk. Some sellers have demanded a clause allowing them to rent back from the new buyer for a period, usually 60 days, while they search for a new home. Others have made offers contingent on the sale of their current home, but with a short (7-10 days) time frame to get an offer, and perhaps with non-refundable earnest money. All of these are risks, of course, and you must be comfortable taking them.

We need more sellers to enter the market to ease the logjam we're currently dealing with. If you'd like to move but are not sure how to approach it, call an agent and have a conversation. We should be able to find an approach that works for you.

DANE COUNTY REAL ESTATE AT-A-GLANCE

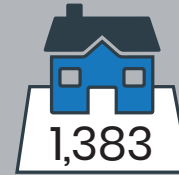
Q1 2021 compared to Q1 2020

ACTIVE
INVENTORY



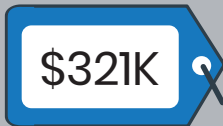
↓
64.5%

YEAR-TO-DATE
CLOSINGS



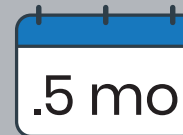
↑
2.6%

12 MONTH
MEDIAN[†]



↑
7.0%

MONTHS OF
INVENTORY[†]



↓
68.8%