



A DRAMATIC DECADE

We've come to the end of one of the most tumultuous and consequential decades in the history of housing.

The decade began with housing deeply mired in a recession the likes of which we had never seen.

Dane County housing sales had dropped nearly 40 percent from the high reached only five years earlier, and would fall another five percent in 2011. The Dane County median residential price[‡] had fallen only about eight percent in 2010

from the peak reached in 2007, which was thankfully far less than many markets around the country.

But the median price would not begin to rise meaningfully again until 2013. Thirty-year mortgage rates had fallen from 8.21 percent at the turn of the millennium to 5.03 percent to start 2010.



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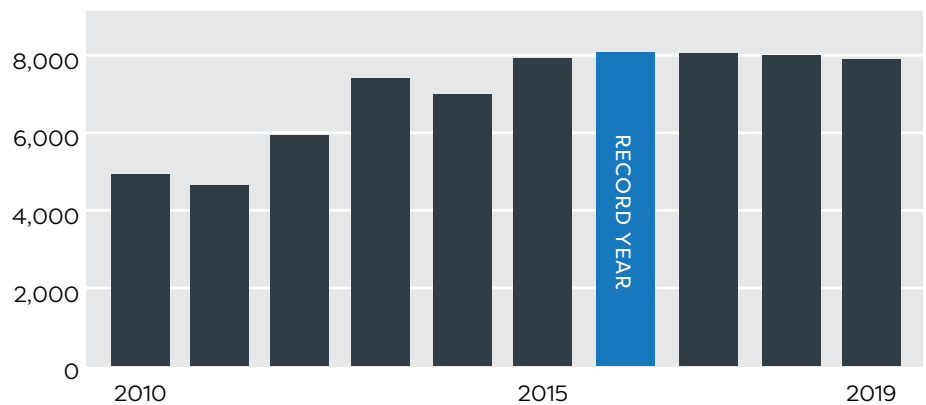
WE ENDED 2009 with nearly nine months of inventory.[†] It was a time when people were losing faith in the value of housing as a reliable store of value. My, what a difference 10 years makes.

Housing finally started to bounce back in 2012 after five years of struggle, and really took off the following year. Sales quickly regained their peak in 2015, and have stayed fairly steady since. But while sales peaked, inventories bottomed, falling steadily every year to around three months in 2015 and only 1.4 months today. Prices regained their peak in 2014 and are now up 48 percent from their bottom in mid-2010. Interest rates have helped fuel the rally by staying low throughout the period, currently at 3.72 percent.

In short, we've moved in 10 years from one of the most intense buyer's markets we've ever experienced to one of the most intense seller's markets we've ever experienced. How can this be? How can a normally slow and steady asset like residential real estate suddenly go through such dramatic swings?

There are, of course, no easy answers. We've discussed many of the influences on the market in previous editions of this newsletter. But we think reviewing the history is enlightening because in hindsight, it's fairly easy to follow the threads that led us to where we are now. And we think understanding those threads will lend insight into what we can expect in the decade to come.

DANE COUNTY RESIDENTIAL HOME SALES



Sales bounced back in 2012 and regained their peak in 2015 creating a shortage of housing inventory that we still battle today. This decade we have gone from an intense buyer's market to one of the most intense seller's markets we've ever experienced.

CONSTRICTED INPUTS

Without reviewing history in detail, the recession of 2007-2011 was a direct result of monetary and lending excesses from the 1990's through 2005. When those excesses were removed or reversed, the financial markets cratered, bringing the housing market with them. Unfortunately, in times of turmoil, leaders often learn the wrong lessons, or perhaps over-learn the right ones. In the aftermath of the recession, regulators put tight clamps on the lending industry (some of which were needed, some of which weren't), and lenders became risk-averse to a fault. The result has been a lack of new construction at all levels, particularly in the "affordable" housing segment. This has led to constricted inventories and rising prices.

The question we're always asked, of course, is what will change this state of affairs? And again, there are no easy answers. More new construction in all price ranges is critical. This will require more skilled labor than is currently available, relaxed zoning rules to allow for more density, and a more thoughtful regulatory regime that protects the environment but doesn't add so much cost to housing that it becomes uncompetitive to build. None of those will materialize overnight, but our leaders need to start working on it now if we expect there to be much progress made in the upcoming decade.

Given the lay of the land today, what can homebuyers and sellers expect in the upcoming year?

THE YEAR AHEAD

We've been on pretty safe ground predicting that the upcoming year will be much like the year just ended—2020 is no different. Sales were down slightly in 2019, but only 2.3 percent from the record set in 2016. There's no reason to expect that 2020 sales will vary wildly from that range. There is a slight downward trend, however, and there is no doubt this is due to the restricted inventories. We'd be selling more houses if we had more houses to sell. However, we must remember that our region

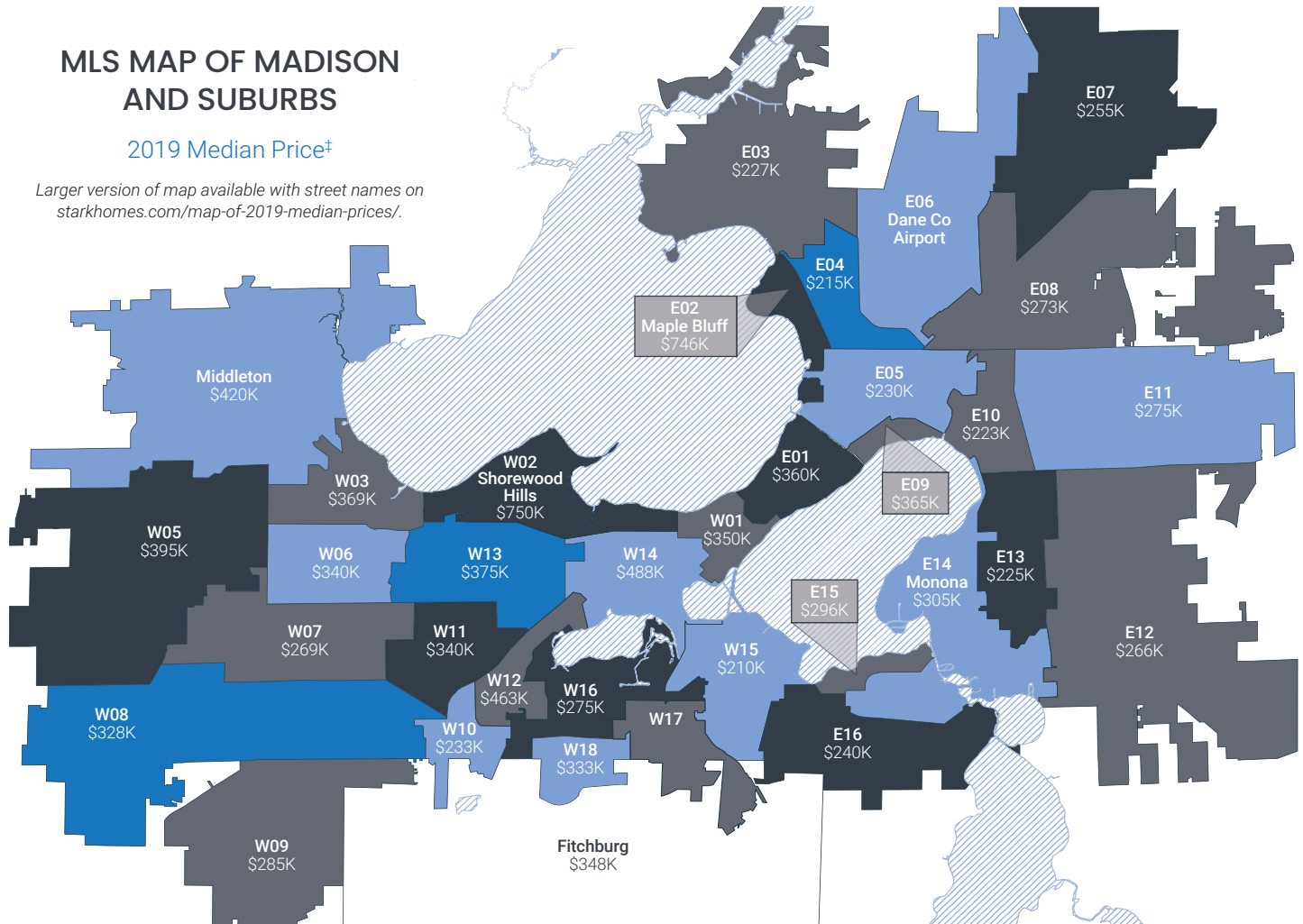
is among the fastest growing in the country, certainly in the state, and is increasingly on the map as one of the most vital and exciting tech growth centers in the nation.

Rising demand and level inventories mean rising prices. We expect to see prices bid up again this year. Our median price has risen steadily at about 6.5 percent per year since 2014, and that would be a good early guess for 2020. Prices increase more the most during the spring when demand is heaviest, so spring buyers will need to be aggressive. One thing we've pointed out recently is the distortion of normal seasonal buying patterns. Many buyers

MLS MAP OF MADISON AND SUBURBS

2019 Median Price[†]

Larger version of map available with street names on starkhomes.com/map-of-2019-median-prices/.



East Madison	2019 # Sold	Current Inventory	Months of Inventory†	% Change to Median	West Madison	2019 # Sold	Current Inventory	Months of Inventory†	% Change to Median	Other	2019 # Sold	Current Inventory	Months of Inventory†	Median Price	% of Change
E01	66	5	0.9	-12.2	W01	4	1	3.0	0	Baraboo	216	34	1.9	\$175K	6.1
E02	30	3	1.2	49.6	W02	29	1	0.4	-14.0	Cottage Grove	99	7	0.9	\$337K	14.2
E03	119	7	0.7	4.6	W03	40	8	2.4	4.5	DeForest	183	43	2.8	\$315K	15.8
E04	89	3	0.4	7.8	W05	328	40	1.5	6.5	Fitchburg*	291	20	0.8	\$348K	4.9
E05	122	6	0.6	4.6	W06	57	6	1.3	-5.0	McFarland	132	19	1.7	\$374K	12.8
E06	0	0	0	0	W07	8	1	1.5	8.4	Middleton*	183	18	1.2	\$420K	3.7
E07	63	3	0.6	1.3	W08	237	27	1.4	0.9	Mt. Horeb	126	16	1.5	\$285K	-1.6
E08	127	24	2.3	18.7	W09	270	4	0.2	5.2	Oregon	142	25	2.1	\$330K	10.0
E09	25	1	0.5	-14.1	W10	34	9	3.2	9.4	Portage	129	30	2.8	\$154K	18.5
E10	71	3	0.5	4.1	W11	71	5	0.9	7.1	Stoughton	193	26	1.6	\$258K	10.0
E11	283	31	1.3	2.6	W12	60	4	0.8	15.9	Sun Prairie	539	67	1.5	\$300K	4.9
E12	152	11	0.9	4.5	W13	125	6	0.6	2.1	Verona	163	28	2.1	\$355K	-2.8
E13	63	5	1.0	6.9	W14	92	11	1.4	14.2	Waunakee	228	34	1.8	\$431K	-4.8
E14	99	10	1.2	8.9	W15	34	2	0.7	-16.0	*Included in total median price for West Madison.					
E15	19	2	1.3	13.9	W16	5	2	4.2	48.5						
E16	27	2	0.9	4.8	W17	0	0	0	0						
					W18	20	1	0.6	-11.0						
Total	1,355	116	1.0	5.5	Total	1,888	166	1.1	4.5						
East Madison's total median price for 2019 was \$258K.					West Madison's total median price for 2019 was \$353K.										

are delaying their purchase to the summer or fall. We'll look for this pattern in 2020.

Some have wondered if the election will make a difference for housing. We think not. The economy is very strong nationally and locally, and there is no evidence that mortgage rates are likely to rise appreciably this year. We think a strong economy, solid stock market gains last year, and steady interest rates mean that the macro-economic environment positions us for another strong year.

NEIGHBORHOOD ANALYSIS

As always this time of year, we offer a breakdown of the Greater Madison cities and villages. The chart displays 2019 data by MLS sub-area. We chart single-family home sales only (no condos). For each area or municipality, you'll see the number of sales in 2019, the current inventory and months of inventory, the 12-month median price and the change in the median over the past year. We remind our readers that inventory is at its annual low point at the beginning of the year, but we've found lately that inventory on hand has not risen much during the spring, as new listings sell quickly and don't start to accumulate until late summer and fall. But fear not; there will be plenty of new listings coming on the market this spring. They just won't hang around very long in most cases.

Like last year, the median price increased a bit more in percentage terms on Madison's East side than the West side. This is due, we think, to the fact that eastside housing is slightly more affordable. The West side is larger, however, with quite a few more sales, so don't read too much into this. Also, we remind readers that increases in the median price[‡] do not necessarily translate into actual price increases on any particular house. The median price represents something like the center of gravity for the area being studied, and the more sales there are, the more likely the change in the median is to reflect actual price movements. In areas with very few sales, changes in the median are fairly meaningless. What you can see clearly is where activity is most intense, and where inventory is most tight. We expect the patterns to be similar through 2020.

TIPS TO SUCCEED

IF YOU'RE BUYING, another busy spring awaits you. That said, there are things you can do to prepare. Most important is to apply for financing **now**. In a competitive situation, a buyer with approved financing will almost always beat one who has yet to apply. Make the best offer you can initially, even if it's over full price. Keep contingencies to a minimum, and be reasonable about asking the seller to make repairs after an inspection. Remember, once you own a home, appreciation works for you. Until then, waiting only makes it more expensive, and prices rise the most during the spring. If you don't succeed this spring, come back later when the competition might be less intense.

IF YOU'RE SELLING, there's no reason to wait until March. Buyers are out **right now**. While it may seem great to get ten offers, it can be difficult to sift through them all since price is usually not the only consideration. The most important concept is to realize that if you list now and get no activity, you're almost certainly overpriced. If you are under \$350K-\$400K, a lack of early activity should be a warning sign. The more expensive your home, the more patient you'll have to be. You can perhaps reach a little on the list price, but remember if no one is offering, you've reached too high. Listen to your agent's advice and be strategic.

DANE COUNTY

	Single Family			Condominiums			Total Residential		
	2019	2018	2017	2019	2018	2017	2019	2018	2017
4th Quarter Closings*	1401	1312	1282	355	373	350	1756	1685	1632
Year-to-Date Closings	6241	6206	6263	1650	1787	1788	7891	7993	8051
Active Inventory	711	747	674	214	197	196	925	944	870
Months of Inventory†	1.4	1.4	1.3	1.6	1.3	1.3	1.4	1.4	1.3
12-Month Median‡	315,000	300,000	280,000	205,500	195,000	183,700	296,000	278,000	264,000

SAUK & COLUMBIA COUNTIES

	Single Family			Condominiums			Total Residential		
	2019	2018	2017	2019	2018	2017	2019	2018	2017
4th Quarter Closings*	316	341	362	55	33	47	371	374	409
Year-to-Date Closings	1530	1555	1543	186	209	224	1716	1764	1767
Active Inventory	305	355	367	52	69	71	357	424	438
Months of Inventory†	2.4	2.7	2.9	3.4	4.0	3.8	2.5	2.9	3.0
12-Month Median‡	205,000	194,500	180,000	176,000	161,000	160,500	202,250	189,450	179,500

*Sales reported to the South Central Wisconsin Multiple Listing Service (SCWMLS) with closing dates between 10/1/19 and 12/31/19. 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. 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. ©2020 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 1/10/20. This is not intended to solicit existing listings.