



# MARKET SOURCE NEWSLETTER

Written by President David Stark

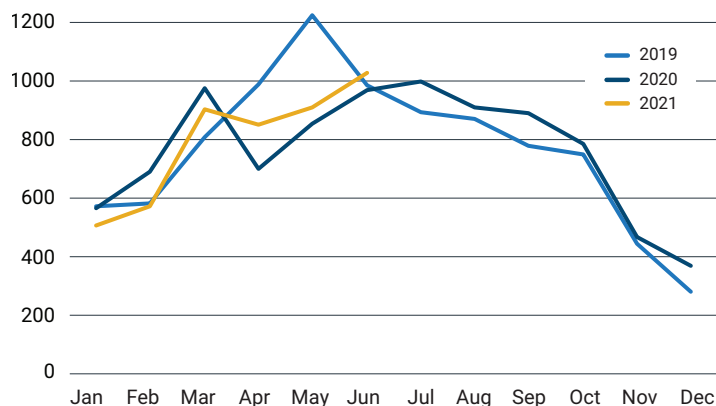
► WE ARE NOW SIX MONTHS INTO THE MOST UNUSUAL MARKET any of us have witnessed. Yet, we enter the second half of the year on pace for what could be another record year. Furthermore, it seems that the market has suddenly shifted a bit, leaving us feeling optimistic, and maybe a little less stressed, as we move into the summer.

We started the second quarter of 2021 with barely two weeks of inventory in Dane County and a month's worth in Sauk/Columbia. Bidding wars were intense. Virtually every home that hit the market sold for over the asking price. Many contingencies once considered necessary and routine, such as inspection, appraisal, and even financing, went by the wayside. Some buyers were paying sellers' closing costs, or making up shortages in appraisals in order to protect their financing. It was, in short, a crazy market.

Despite the chaos, sales are up 8.2% YTD from last year in Dane County, and up 13.1% in Sauk/Columbia. We must add an asterisk to those increases however when comparing to last year. Readers will recall that the pandemic really took off in mid-March 2020, and our economy was partially locked down a few weeks later. As a result, April and May dramatically underperformed by normal seasonal standards, and we're now comparing today's activity to an abnormally weak second quarter. But as we all know, the second half of 2020 took off like a rocket ship. How will the second half of 2021 play out? Time will tell, but as mentioned above, there seems to have been a shift that could affect the course of the rest of the year.

In the mania of the first part of 2021, a pattern developed where buyers threw themselves at every new listing en masse. It resulted in stampedes of overlapping showings, multiple competing offers, routine overbids, and perhaps most importantly, scores of disappointed buyers after a winner was

## DANE COUNTY MONTHLY NEW LISTINGS



chosen. In the last few weeks, that pattern seems to be shifting. While the evidence is largely anecdotal, it appears that some buyers (smartly in our view) have decided they no longer want to play that game. Instead of flocking to the next new listing, it appears some buyers have decided to be more selective on when they make an offer, or even look.

We think there are a couple reasons for this shift. Some buyers, having failed repeatedly to land a house in the spring, were forced to sign new leases for the fall, and will probably reappear later this year or early next. Some just decided they didn't like the environment and dropped out, waiting for better times. But those who remain are being pickier, and it's showing in our data. In just the last month, the average overbid has been cut nearly in half in many price ranges (except over \$600,000, where it rose). While most homes still sell for an average overbid of up to 5% or so of the asking price, we've recently heard of a few selling under. The average size of appraisal waivers and escalator

clauses also fell. So far June and July showings are down nearly 25% from last year. All of this suggests that the extreme conditions of earlier in the year may be easing.

There's another possible reason some buyers are starting to be more cautious: price increases. Acute inventory shortages have led to escalating prices, which in turn have caused some to question whether real estate is becoming overvalued. It's an important question, and we'll tackle below why we still think the answer is "no."

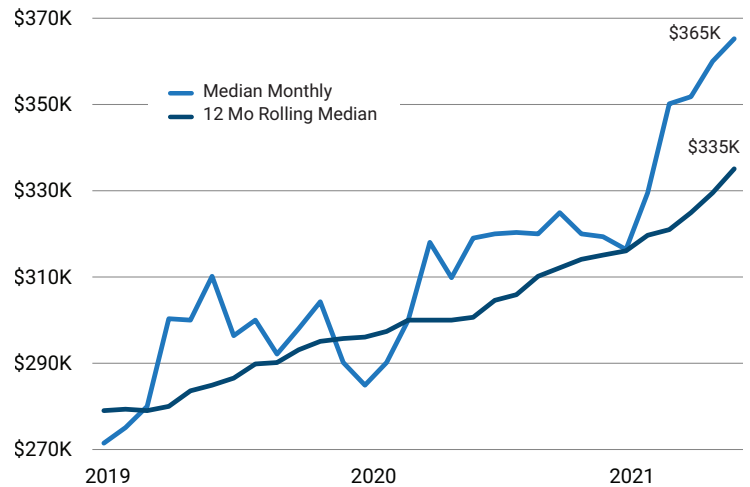
## ► INVENTORY AND PRICES: WHAT'S HAPPENED, WHERE ARE WE HEADED?

For starters, we note that the Dane County combined residential 12 month median price is up 11.7% from one year ago. More dramatically, the median price for the first six months of 2021 is up 14% from the median for the first six months of 2020. Sauk/Columbia's 12 month median is up 18% from last year, albeit on a lower price point. By comparison, Dane County's 12 month median only rose 6.4% over the entirety of 2020, and 6.5% in 2019. Even during the "housing bubble" of 2001-2006, medians in our market were only rising at a pace of around 6-7% per year. The last time we remember seeing price increases like this was the late 1970's, during the oil price inflation.

So, we come back to the recurring question: is this a bubble? More pointedly, should buyers worry that they're overpaying? While current increases can't help but give us pause, we continue to believe that the answer is still no, we are not in a bubble, and there are good reasons why we and many other experts think this is so.

To boil it down to the fundamentals, what's happening in real estate right now is that we have a highly demanded and essential asset (homes) that is in chronically short supply. Homes are scarce in relation to demand. Furthermore, this is a national phenomenon, not a local one. While estimates of the exact number vary, experts

## DANE COUNTY MEDIAN PRICE



say that the United States is currently under-built by as many as 5 million homes in relation to organic demand and population growth. To make it worse, we are falling further behind every year by about another 400,000 homes, as the largest generation in history (Millennials) enters the prime home buying years.

This imbalance will not be cured quickly. The seeds were sown during the last recession, when building crawled to a halt. While new construction has recovered since then, it remains nowhere near the pace before the recession, nor is it approaching the levels needed to satisfy growing family formations.

This is nothing like the situation we endured 15 years ago, when home prices did fall rapidly for a time (although they've more than recovered since). Back then, we had extremely high levels of inventory, over-building spurred by very loose credit, and over-buying for the same reason. It was too much supply chasing artificial demand. When the loose credit was removed, demand

## IF YOU'RE BUYING

Planning and discipline are the keys to success. While competition seems to be ebbing a little, we still have more demand than supply, so you should anticipate at least some competition, no matter what. That means you still should be writing clean, competitive offers. But you want to be comfortable with your final decision, and the best advice is to do your market research with your agent, set your maximum price, and stick with that limit. You might not win every time, but when you do win, you can be confident you made a good decision. Here's another possible factor in your favor: most price increases happen in the second quarter of the year, when demand is strongest. Our data shows that the average overbid has been quite a bit lower in the last month than it was earlier in the year. So set your rules and pick your spots. We expect you'll have an easier time winning for the balance of this year.

## TIPS TO SUCCEED



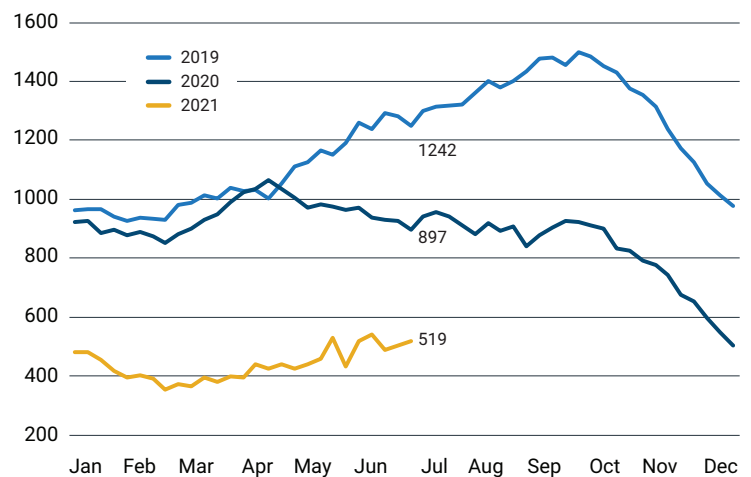
collapsed, and we were stuck with a huge oversupply. Prices corrected before heading back up again. This is the opposite of today. Today we have a chronic undersupply being sought by buyers who are well qualified and buying within their means. They're not chasing rising prices, like 15 years ago. They're simply looking for a place to live, and they're having trouble finding one. Heavy competition is bidding up prices. It's going to take years for supply to rise to meet this growing demand. Under these circumstances, it's hard to envision a near term scenario in which prices reverse and head back down.

With all that said, the COVID pandemic exacerbated further the extraordinary conditions we face today. During the pandemic, many sellers were reluctant to put their homes on the market, understandably so. But demand also picked up more than anyone expected in the second half of the year, and we simply ran through the available inventory faster than sellers were listing it. This meant we entered 2021 chronically short of inventory, and demand remained red hot after the first of the year. Less supply with rising demand means escalating prices. This has been the story so far in 2021.

The good news is that the extreme inventory shortage caused by the pandemic might be correctable within a year or two. It's not hard to envision conditions that could allow inventory to accumulate to something like those before the pandemic hit. We're already seeing inventories creeping closer to last year, although we're still around 30% below last year's levels. Continued new construction, more baby boomers deciding to downsize, pandemic fears continuing to ease, and buyers becoming more cautious, all can help inventories struggle back up to pre-pandemic levels. If that happens, price increases will ease. But they won't disappear. The more fundamental long term shortage will remain, and that will take years to erase.

That said, there is no doubt in our minds that current price levels are sustainable. We probably just got here a year or two more

## YEAR OVER YEAR DANE COUNTY INVENTORY



quickly than we otherwise might have. But that doesn't mean every sale will prove to be reasonable. When many sales are like an auction, some buyers may end up paying more than they wanted to. For those planning to stay in their new home for 5-10 years, this is probably not a problem. But the way to avoid overpaying is to set firm parameters before you start looking and stick to your rules. If you can do that, you should be fine. Prices won't increase this quickly forever, but they will likely continue to increase at a slower pace long into the future. If you're patient and disciplined, your risk should be minimized.

The bottom line is that while this market has been chaotic, housing itself remains as valuable as it's ever been. We need more housing for the Millennial generation, and generations after that. Until we get it, there will be upward pressure on prices. Someday, the process will be smoother. But it's highly unlikely the cost over the long term will be lower.

## IF YOU'RE SELLING

If the shifts we've observed recently hold true through the balance of this year, you should lower your expectations a little in terms of how many showings and offers you'll get, and how far over the asking price buyers will bid. You'll almost certainly be able to get more for your home today than you could a year ago, so don't let the changes in short term tactics obscure the fact that your home has appreciated and you're going to get a great price for it. If you're one of the sellers who has been reluctant to sell because there's "nothing to buy," now might be a time to reconsider. There will be more new listings to look at this summer and fall, you shouldn't have as much buying competition as you would earlier, and your current home should sell quickly in most cases for a good price. If you really would like to live somewhere else but have been reluctant to pull the trigger, give your agent a call and talk about how it might be possible. We've learned a lot in the last six months, and we're confident we can get you where you want to go.

Charts on page four represent sales reported to the South Central Wisconsin Multiple Listing Service (SCWMLS) with closing dates between 4/1/21 and 6/30/21. 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 7/10/21. This is not intended to solicit existing listings.

# DANE COUNTY REAL ESTATE AT-A-GLANCE

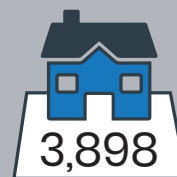
Q2 2021 compared to Q2 2020

ACTIVE  
INVENTORY



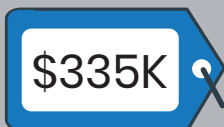
40.6%

YEAR-TO-DATE  
CLOSINGS



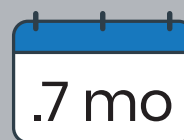
8.5%

12 MONTH  
MEDIAN PRICE<sup>†</sup>



11.7%

MONTHS OF  
INVENTORY<sup>†</sup>



50%