SPRING MARKET SOURCE NEWSLETTER

Written by Stark Company Realtors CEO David Stark

WE WRITE THIS edition of the Market Source Newsletter at a very interesting time for the South Central Wisconsin housing market. There are numerous cross currents suggesting the markets are improving, but slowly. There is a strong sense that buyers and sellers alike are starting to accept the current environment and moving forward with greater confidence. We also are starting to see gradual structural improvements, particularly with regard to inventories and price increases.

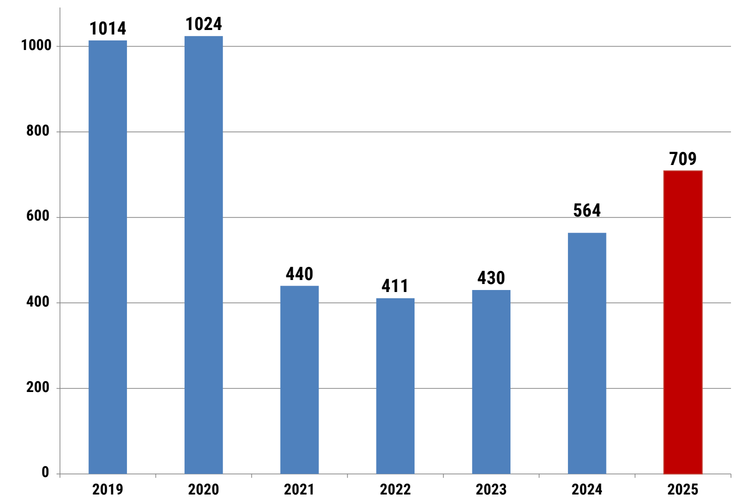
As a baseline metric, the number of sales continues to slowly but steadily increase. Residential sales were up 6.5% in the first quarter in Dane County, and up 7.6% in Sauk and Columbia. This compares to a relatively flat first quarter one year ago. As we'll discuss further, inventory continues to claw its way up. On the other hand, new listings continue to lag historic levels, holding back the number of homes that are sold and maintaining upward pressure on prices.

What is becoming clearer to us is that the process of adaptation to the new mortgage rate environment will be gradual, and our readers should not expect a sudden change in the overall market, be it the number of sales, the level of inventory, mortgage rates, or the pace of price increases. Nonetheless, the market does seem to be improving. Let's examine the various parts to see if we can glean where this is all going.

INVENTORIES

We'll start here, because this is the metric that has shown the most continuous improvement, and will ultimately have the greatest impact on all the others. We continue to see steady increases over where we were last year. As of this writing, Dane County inventories stand at 709 homes on the market, compared

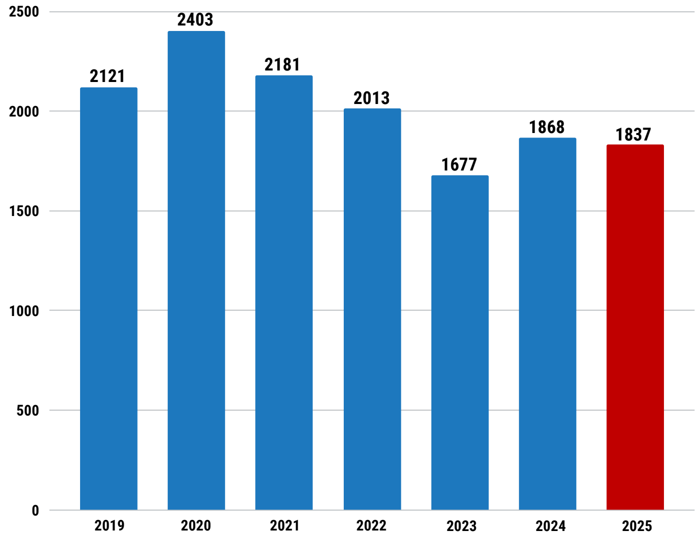
DANE COUNTY INVENTORY ON FIRST MONDAY IN APRIL



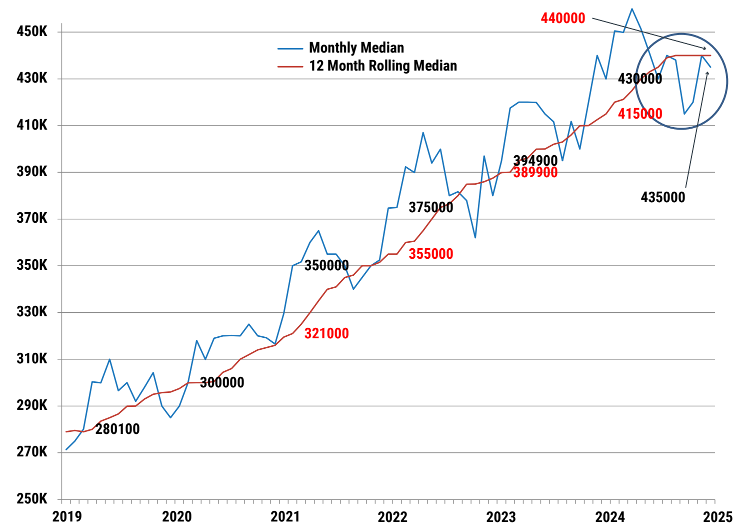
to 564 a year ago, an increase of 26%. Of that number, 552 are single family homes and 157 are condos. For comparison's sake, at this point in 2020, just before the pandemic started to reduce inventories to their current low levels, there were 1,024 homes on the market, or 44% more than we have today. That said, inventory has improved by 25-30% per year for the last two years. At that rate, we should be able to grow enough to catch up to 2020 within a couple more years.

The key to getting that accomplished will be to see more listings enter the market. On that front, the news is mixed. Through March, Dane County has seen 1,837 new listings hit the market, roughly a 5% increase in new listings over the first three months

FIRST QUARTER
NEW LISTINGS DANE COUNTY



MONTHLY VS. 12-MONTH MEDIAN PRICE
DANE COUNTY THRU MARCH 2025



of 2024. While any increase is welcome, this is not by itself enough to make a big difference. We were very pleased to see over 200 new listings hit the market in Dane County during the first week of April, which helped inventories jump by about 50 homes over the same week. April is normally the biggest listing month of the year, so we're hoping to see further improvement over the next couple of months.

There has been much discussion in Madison, Dane County, and throughout the region about the need to build more housing in order to satisfy demand, given our region's fast pace of growth. The fact that policy makers are finally aware of this problem and are trying to address it is both encouraging and commendable. However, and we're simply being realistic here, it's unlikely that new construction by itself will be sufficient to solve our inventory woes.

We've started tracking the percentage of current inventory that was built within the last two years, and we've discovered an interesting trend. Since the beginning of the year, the number of new construction listings on the market at any given time has ranged between 310 and 330 (in other words, basically flat). By comparison, re-sale inventory started the year at 281 and now sits at 398. So, in essence, it seems that new construction provides a steady baseline of available homes regardless of the time of year, while re-sellers rise and fall with the seasons. But it also suggests that increasing inventory by means of new construction alone will be a very difficult, if not impossible, task. To truly increase inventory, we need to see re-sellers enter the market in greater numbers. Fortunately, that seems to be happening, and we hope the trend continues.

▶ PRICES

It's well established that over long periods of time, housing prices rise at or slightly above the underlying rate of inflation. Over shorter time periods however, they can rise faster or slower than normal, or in rare instances even fall, as they did for a few years during the housing recession of 2007 to 2011. Since 1993 (when we began keeping track), the Dane County 12-month median price has increased an average of 4.8% per year. Since 2019, however, prices have risen an average of 9.5% per year, well above the normal rate. The reason is clear: low inventories are leading to competing offers and overbids.

There is some evidence that the pace of price increases is starting to slow. The 12-month median increased only 7.3% over the course of 2024, a slight improvement. More interesting to us, however, is the movement in the median over the past six months—or perhaps we should say, non-movement. Since October of last year, the 12-month median price has been stuck at exactly $440,000 for Dane County single family and condo prices combined. This is the first time we've seen the 12-month median stay flat for more than two months in a row since we began tracking this.

For some perspective, we use the 12-month median price rather than one-month or even six-month medians because it strips normal seasonal variations out of the number. As you'll notice in the chart above, the one-month median is volatile and follows a seasonal pattern. This is because the monthly data set is much smaller and is therefore more susceptible to seasonal variations in supply and demand, as well as the mix of properties that happen to sell during each month. The one-month median gets pushed up in the spring and summer when demand is highest, usually running well ahead of the trailing 12-month median. It then falls back later in the year, allowing the 12-month median to catch up. For all these reasons, we feel the 12-month median, while it somewhat lags the market, especially early in the year, still presents a more accurate and stable picture of where prices are really heading. Despite that stability, it's still highly unusual for it to remain flat for a full six months. You'll also notice that at no time during the most recent six-month stretch did the one-month median rise above the 12-month.

Why do we point this out? As we outlined above, inventories have been slowly but surely increasing, and increased supply will take some pressure off prices. We also see some evidence, albeit mainly anecdotal, that buyers are starting to become a bit pickier. So while it's still early in the year, these factors coupled with the leveling of the median are suggestive of the possibility that the pace of price increases may be slowing.

We hasten to add, emphatically, that this does NOT mean that price increases have stopped, or that prices may start to fall. Inventories are still too low, despite their recent improvement, for that to happen. In March, the average sale price was again over the list price, meaning that bidding wars are continuing. And we are just entering the spring market, when most of the annual price increases occur. We have no doubt that prices will start to rise soon, probably starting this month. But with all that said, the pace of increases could be beginning to slow just a bit. If our prices were to rise at the 30-year average, it would put our median around $460,000 by the end of this year. That's probably a pretty good prediction.

▶ FINANCIAL MARKETS

As we write this in early April, financial markets are experiencing some unusual volatility due to the president's recent announcements regarding trade policy. We have no special knowledge or opinions regarding the wisdom of the president's policies, and will accordingly not comment on them. However, we assume that what it may mean for mortgage rates and housing generally may be of interest to our readers. The difficulty we face is that by the time you read this, there is a good chance the situation may change, rendering any insight we might offer outdated.

Nonetheless, there are some principles we think will apply no matter how this evolves, so we'll restrict our comments to those.

In virtually all our commentary, our thinking is guided primarily by the belief that markets are always seeking equilibrium. When markets encounter an outside shock or change in the environment, they move in an effort to absorb the shock but eventually settle back to their long-term point of balance. In terms of the president's trade policies, the markets primarily affected were the stock and treasury markets. Mortgage-backed securities, while influenced by treasury rates, are not directly affected and will tend to move as treasuries move. It is possible that tariffs and other restrictions may at some point in the future have an impact on the costs associated with building a new home. That is far from certain at this point, with many moving parts and potential alternate outcomes that we can't predict today. We'll cross that bridge if and when we get there.

So far, mortgage rates remain in about the range they've traded for the past few months, and while we don't know what the situation will be when you read this, we believe the ultimate impact on housing affordability will be insignificant in the long run. We think that rates will generally fluctuate between 6% and 7% over time. If rates do move higher for a while, inventories will accumulate, which will be a long-term benefit. If they move lower, activity will increase, but inventories will likely shrink with more upward pressure on prices. Either way, affordability is likely to be better today than it will be a year from now.

Our best advice is to pay minimal attention to financial markets and focus on your housing needs. The goal is to find housing that meets your needs for the long run. If you can find an affordable way to do that, you should. Let the financial markets take care of themselves.

ADVICE FOR BUYERS & SELLERS

BUYERS

Inventories have risen a bit, and while they're still not back to what we would consider "normal," they're definitely getting better. That means you enter this spring with more choices than you've had since 2020. We're entering the second quarter, when price increases are the greatest, so be prepared for competition on many properties. That said, with a bit more inventory to pick from, you can perhaps afford to be more patient than you could have been over the last few years. It will vary from property to property, so be sure you have a good agent that knows the market and can advise you appropriately. Despite whatever chaos may appear to exist in the mortgage markets, when all is said and done the price you pay to buy is far more important than the mortgage rate, and if rates come down after you buy, you can always refinance.

SELLERS

The spring market is upon us, which means conditions are the most favorable to you of any time of the year. However, we head into the spring with the most inventory we've had since 2020, so you might need to temper your expectations a bit from what they've been the last few years. This is not to say it's a buyer's market. Supply and demand still favors you, so it's a great time to sell. If you're hoping to find something to buy before you sell, this market will present you with more options. But it's also probably wise to price on the conservative side at first and let the market come to you. If your home is in high demand, the offers you get should reflect that. And be patient. It might take a couple weeks before the offers come in.

Charts in this publication represent sales reported to the South Central Wisconsin Multiple Listing Service (SCWMLS) with closing dates on or before March 31, 2025. 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 03/31/25. This is not intended to solicit existing listings.

Stark

Real People. Real Success.

DANE COUNTY

REAL ESTATE AT-A-GLANCE

QUARTER 1 - 2025

NEWSLETTER - SPRING

ISSUE 2 | VOLUME 20

709

ACTIVE INVENTORY

1.3

MONTHS OF INVENTORY

So far increasing normally, and ahead of the last four years.

$440K

12-MONTH MEDIAN PRICE

6,399

YEAR-TO-DATE CLOSINGS

The busy season is just ahead. It seems to be a bit more active. Most price increases occur in the second quarter. We think increases will be more moderate this year.