



MARKET SOURCE NEWSLETTER

Written by President David Stark

▶ **ANOTHER UNUSUAL, EVENTFUL,** and highly consequential year for the South Central Wisconsin housing market is in the books. Not only did Dane County set another sales record, but we also saw price increases unlike any since the 1970's, all in a setting that tested the process of home buying like never before.

There is no doubt the macro-economic conditions that COVID, and the response to it, have created will once again have a profound influence on the housing market. A new wrinkle for 2022 is general price inflation and its potential duration and intensity. Normally, inflation puts upward pressure on interest rates and the recent statements from the Federal Reserve suggest they will tolerate and perhaps encourage rates to rise. This, along with wage inflation, will have an impact on housing affordability that's hard to predict. We also enter the new year with even less inventory than we had a year ago. These forces, combined with consumer attitudes, will determine the course of the market in the upcoming year.

As we traditionally do with our first edition of the year, we will summarize the submarkets in our region in detail. We will also summarize the current state of the variables that will influence the market in 2022. Based on where we're starting, it will be fun to see how things unfold as the year progresses.

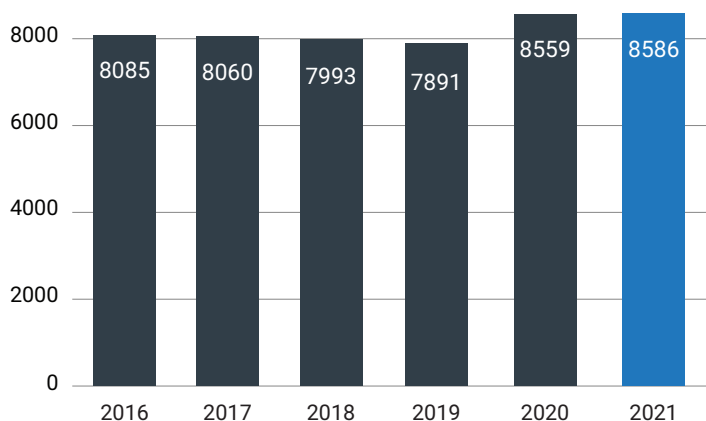
▶ SALES

Dane County set a new record for residential sales in 2021, barely. The 8,586 sales were up 0.3% from 2020. Frankly, this is remarkable because there were only 8,897 new listings, down 3.5%, 323 fewer than last year. Sauk/Columbia sales were down 2.9% for the year, with new listings down 1.5%.

▶ INVENTORIES

With sales up and new listings down, inventories could only go one way, and that was down, to make up the slack. That means

ANNUAL DANE COUNTY SALES



Dane County starts the year with 33% fewer listings than we had at the start of 2021. Sauk/Columbia listings are down 19%.

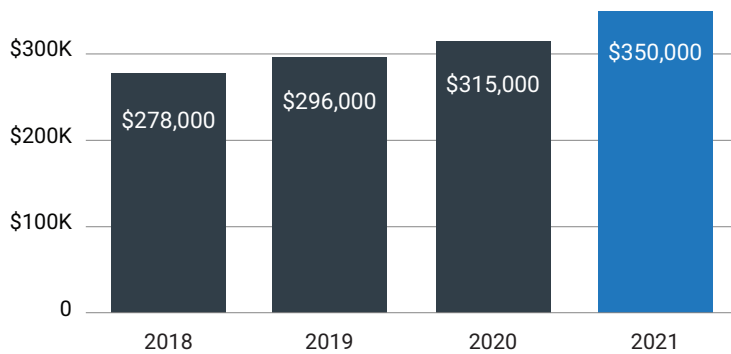
▶ MORTGAGE RATES

Freddie Mac reported average 30-year mortgage rates of 3.1% in December, up from 2.68% a year ago and 2.9% in September. Their latest page reports 3.22%, and most observers are expecting the Federal Reserve to allow rates to rise further yet as the year goes on.

▶ PRICES

Dane County's 12-month median combined residential price (single family and condo) rose 11.1% over the course of 2021. Sauk/Columbia's median rose 6.2% over the same period. As usual, most increases were negotiated in the first half of the year, when buying activity is most intense and reported in the second and third quarters as closings are reported.

DANE COUNTY MEDIAN PRICE



▶ WHAT IT MEANS

We enter 2022 with even less inventory than we had at the start of 2021. That certainly suggests that 2022 will be a repeat of last year. But there are variables that might change the market's trajectory.

We were frankly shocked that more sellers didn't appear last year, and we do not know how many will appear this year. Even if listings increase, demand is likely to be intense enough that inventory will have a tough time accumulating, which means buyers will have plenty of competition again this spring. Which leads to another question: how will buyers respond? Last year, buyers appeared to become more cautious as the year went on. We all learned a lot about how to attack the market and gain a measure of control (see advice for buyers below). So, will the bidding wars be as intense? Or will buyers try to pick their spots?

Another variable is mortgage rates, and by extension, affordability. Prices will continue to rise only if buyers remain willing and able to pay them. If interest rates rise by 1%, the maximum 30-year mortgage loan a buyer qualifies for will decline by 10%. Rising rates will automatically erode purchasing power, which should moderate price increases. And if buyers don't like the relative value they get for what they can afford, some may drop out of the process altogether and rent.

Our best guess is that 2022 will unfold much like 2021, with bidding wars pushing up prices yet again. However, we expect

rising mortgage rates to moderate those increases somewhat, and we expect buyers generally to be slightly more cautious in their approach. Expect price increases in the 6-8% range, and sales to be down roughly 5% as inventory fails to rise.

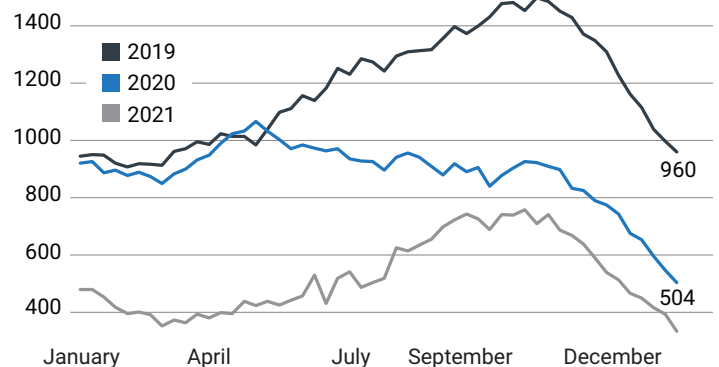
▶ NEIGHBORHOOD ANALYSIS

Nearby you'll find our map of Madison MLS subareas, along with charts of statistics for the major cities and villages in our region. Here are some tips for enhancing your understanding. The data are for single family sales only. Condos are not included.

Perhaps the easiest statistic to misinterpret is the change in median price for a given subarea or municipality. Remember that medians are determined by listing all the sales in a given market from lowest to highest. The median is the sale that falls in the exact middle of the list. The danger is in reading too much into a change for a very small database. For example, a 38% rise in the median in Shorewood Hills does not mean that all properties in Shorewood Hills rose 38% in value. It's just where the middle sale happened to fall. The 8.6% increase in Fitchburg is probably more meaningful.

Also bear in mind that year end is the seasonal low point for inventory. We will see higher inventories in all markets 6-9 months from now. But we are starting the year with the lowest inventory we've ever seen, with virtually nothing available at the start of the year. We hope these numbers improve quickly.

DANE COUNTY ACTIVE INVENTORY



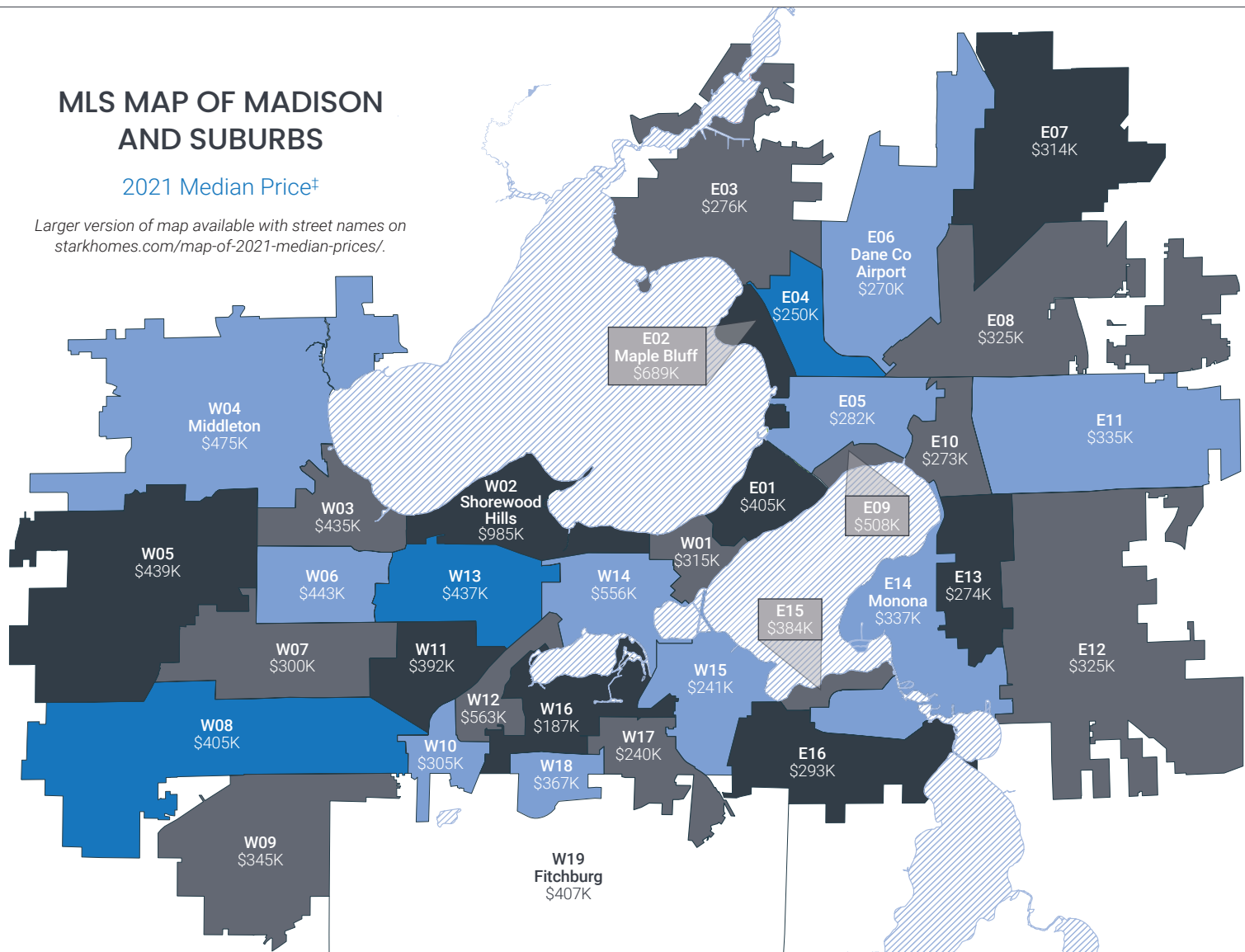
IF YOU'RE BUYING If we learned anything in 2021, it's that throwing yourself at every new listing is a sure way to induce buyer burnout. Here's what you need to do to bring the process under control. If you haven't already, find a buyer's agent you trust and have a long talk with them about what you hope to accomplish. Get pre-approved, and know exactly how much mortgage you can afford. Then, have an honest conversation with your agent about what you're willing to do. Be realistic about how much you're willing to pay, what contingencies you'll insist on, and what you must have in a house. Then stick with your limits. The goal is to feel good about the outcome, win or lose, each time you make an offer. If this year is anything like last year, you'll probably lose a few before you win one. It's easier to live with losing when you know you would have been uncomfortable doing any more. And if you win, you know you can afford it.

IF YOU'RE SELLING On paper, your job is easier than a buyer's in this market, but that doesn't mean it's easy. As we start the year, be prepared for a flood of offers. Be sure your agent can explain all the variables so you make the best decision. If you're on the fence about selling, the market conditions you'll have this year will probably be as favorable as they'll ever be. If mortgage rates rise as predicted, buyers' purchasing power will be reduced, so don't expect this party to last forever. We are not predicting price decreases; our supply is too low, and our region is growing too fast for that to happen anytime soon, barring a major unforeseen event (which we've learned to never fully discount). If your fear is finding something to buy after you sell, consider buying first. Your risk of holding two homes is low in this market. Talk to your agent about strategies to overcome this problem. You don't want to stay put simply because you don't know how to attack the market successfully.

MLS MAP OF MADISON AND SUBURBS

2021 Median Price†

Larger version of map available with street names on starkhomes.com/map-of-2021-median-prices/.



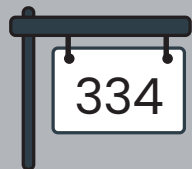
East Madison	2021 # Sold	Current Inventory	Months of Inventory†	% Change to Median	West Madison	2021 # Sold	Current Inventory	Months of Inventory†	% Change to Median	Other	2021 # Sold	Current Inventory	Months of Inventory†	Median Price	% Change to Median
E01	49	3	0.7	11.3	W01	1	0	0	-26.1	Baraboo	184	5	0.3	\$213K	12.8
E02	24	1	0.5	3.4	W02	20	0	0	38.3	Cottage Grove	120	1	0.1	\$414K	22.1
E03	157	2	0.2	15.0	W03	55	5	1.1	-2.5	DeForest	210	12	0.7	\$361K	13.1
E04	88	4	0.6	13.6	W05	366	18	0.6	5.2	Fitchburg*	362	14	0.5	\$407K	8.6
E05	125	5	0.5	10.9	W06	56	1	0.2	19.3	McFarland	151	0	0	\$400K	5.3
E06	3	0	0	66.7	W07	9	0	0	7.1	Middleton*	169	9	0.6	\$475K	12.3
E07	55	0	0	14.1	W08	221	5	0.3	15.7	Mt. Horeb	106	11	1.3	\$353K	8.1
E08	148	4	0.3	14.0	W09	278	1	0.1	10.4	Oregon	174	3	0.2	\$393K	12.2
E09	24	0	0	11.2	W10	47	3	0.8	35.6	Portage	159	8	0.6	\$180K	5.9
E10	64	1	0.2	14.0	W11	92	2	0.3	12.1	Stoughton	200	5	0.3	\$290K	6.4
E11	287	5	0.2	14.9	W12	55	1	0.2	16.6	Sun Prairie	587	15	0.3	\$363K	13.2
E12	183	4	0.3	10.4	W13	164	1	0.1	10.9	Verona	216	5	0.3	\$405K	3.9
E13	87	2	0.3	10.5	W14	89	5	0.7	4.8	Waunakee	277	24	1.0	\$485K	3.2
E14	100	5	0.6	-0.9	W15	17	0	0	-15.6	*Included in total median price for West Madison.					
E15	10	0	0	22.5	W16	5	1	2.4	-12.4						
E16	32	2	0.8	6.6	W17	5	0	0	26.3						
					W18	14	0	0	9.3						
All East 1,436	38	0.3	12.3		All West 2,025	66	0.4	9.3							
East Madison's total median price for 2021 was \$314K.					West Madison's total median price for 2021 was \$410K.										

Charts on page four represent sales reported to the South Central Wisconsin Multiple Listing Service (SCWMLS) with closing dates on or before December 31, 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. ©2022 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 1/10/21. This is not intended to solicit existing listings.

DANE COUNTY REAL ESTATE AT-A-GLANCE

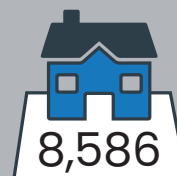
Compared year over year to 2020

ACTIVE
INVENTORY



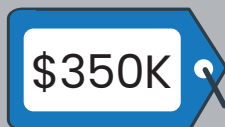
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32.5%

YEAR-TO-DATE
CLOSINGS



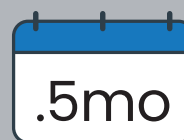
↑
0.3%

12 MONTH
MEDIAN



↑
11.1%

MONTHS OF
INVENTORY



↓
28.5%