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February Home Sales Slip and Prices Rise on Tight Inventories

MADISON, Wis. — Wisconsin’s existing home sales slipped in February even as prices continued to grow at well above the rate of inflation, according to the most recent analysis of the state housing market by the Wisconsin REALTORS® Association. Specifically, home sales fell 2.6 percent in February 2017 relative to February 2016, and the median price rose 6.1 percent to \$154,900 over that same period. In contrast, the annual inflation rate stood at 2.5 percent in January, the most recent month available.

“Needless to say, February is not a month where we see a lot of home sales in Wisconsin, but we would have expected stronger sales given the strength of the economy and relatively low mortgage rates,” said Erik Sjowall, WRA board chairman. The statewide unemployment rate fell to 3.9 percent in January, which puts it at the lowest level since December 2000. “With 30-year fixed-rate mortgages in the low 4 percent range for the first two months of the year, you would think that this would have been a strong February for sales, but sales fell short of their February levels of 2016 in most regions in the state,” said Sjowall. Compared to February 2016, sales were down in five of the six regions of the state. Only the Northeast region saw its sales increase, which increased 6.1 percent. The other regions fell anywhere from 2.6 percent to 11.4 percent. Sjowall puts much of the blame on tight inventories in the state. “Inventories naturally fall in the winter months, but these are the tightest February inventories seen since the WRA began tracking available supply in 2009,” he said. In fact, on a seasonally adjusted basis, the last two months have been the tightest inventories on record.

“The strong demand and limited supply have been putting significant price pressure on the existing home market,” said WRA president and CEO Michael Theo. Median prices have been increasing at an annual rate of more than 6 percent since September 2016. The market has shifted from a buyer’s market just two years ago to a strong seller’s market today. Indeed, there were 7.5 months of supply in February 2015, and there are only 4.5 months of supply statewide in February 2017. The inventory problem is even more severe in the 26 metropolitan counties in the state, which had just 3.4 months of available supply in February.

Remarkably, housing remains quite affordable, but there is no doubt that affordability is slipping and is likely to fall even further if mortgage rates increase as expected over the next year. The Wisconsin Housing Affordability Index measures the fraction of the median-priced home that a creditworthy borrower with median family income can qualify to buy, given a 20 percent down payment and the remaining balance financed with 30-year fixed-rate mortgage. The index stood at 233 in February, down from 251 in February of last year, which is a 7.2 percent decline in affordability. Mortgage rates dropped to 3.44 percent in July of last year but have moved up nearly three quarters of a percent to 4.17 percent in February. “While inflation was relatively stable over the first half of 2016, it has definitely accelerated since that time,” said Theo. The annual pace of inflation has more than doubled from around 1 percent for the first seven months of the year to an annual rate of 2.5 percent in January 2017. “The Fed has raised the federal funds rate by a half percent over the last four months and is likely to increase it by at least another half percent by the end of 2017, which will almost certainly push mortgage rates up this year,” said Theo. “We’ve been lucky to have low mortgage rates and modest improvements in income to help offset the steadily rising prices, but affordability will almost certainly suffer when the cost of credit increases,” he said. “The key to success for buyers in this tight market is to work with a REALTOR® who is experienced and knows the neighborhood, and then be prepared to move quickly when the right opportunity presents itself,” said Theo.

The Wisconsin REALTORS® Association is one of the largest trade associations in the state, representing over 14,000 real estate brokers, sales people and affiliates statewide. All county figures on sales volume and median prices are compiled by the Wisconsin REALTORS® Association and are not seasonally adjusted. Median prices are only computed if the county recorded at least 10 home sales in the quarter. All data collected by Wisconsin REALTORS® Association are subject to revision if more complete data become available. Beginning in 2010, all historical sales volume and median price data at the county level have been re-benchmarked using the Techmark system which accesses MLS data directly and in real time. The Wisconsin Housing Affordability Index is updated monthly with the most recent data on median housing prices, mortgage rates, and estimated median family income data for Wisconsin. Data on state foreclosure activity is compiled by Dr. Russ Kashian at the University of Wisconsin – Whitewater.