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Limited Inventories Constrain Home Sales and Drive Up Prices in July

MADISON, Wis. — The shrinking inventory of existing homes kept sales below last July and drove median prices to record levels, according to the most recent analysis of the existing home market by the Wisconsin REALTORS® Association (WRA). The July sales of existing homes dropped for the second straight year, falling 5.0 percent compared to July 2016 and falling 7.5 percent relative to July 2015. Median prices in July increased 5.9 percent to \$180,000 compared to July 2016, the highest recorded July price since the WRA recalibrated its data collection methodology in 2005. Home prices bottomed out in 2011 at \$140,000 and have since steadily increased 28.5 percent.

“Low unemployment rates and relatively low mortgage rates continue to fuel the demand side of the housing market, but inventory constraints have kept our sales down,” said WRA board chairman Erik Sjowall. On a seasonally adjusted basis, the state unemployment rate stood at 3.2 percent in July, down a full percent from July 2016, and for the second straight month, the 30-year fixed-rate mortgage rate was below 4 percent. “With all the talk of the Federal Reserve increasing interest rates, the 30-year rate is only about a half percent above its lowest point in late 2011,” said Sjowall. “REALTORS® would be selling a lot more homes if inventories were growing, but we’re seeing just the opposite,” he said. Inventories are 13.8 percent lower than July of last year and 45 percent below July 2011 where they peaked at nearly 72,000 homes available for sale. “With new listings flat and just 5.8 months of available supply, there is no relief on the horizon,” Sjowall said.

“Tight supply and strong demand is a recipe for price pressure, and that’s exactly what we’re seeing in the state,” said Michael Theo, WRA President and CEO. He pointed out that this phenomenon is not unique to Wisconsin, with the National Association of REALTORS® reporting that the median price in the second quarter of 2017 was 6.2 percent higher than that same quarter in 2016. “Remarkably, our housing continues to be affordable, but it’s been slipping,” said Theo. The Wisconsin Housing Affordability Index shows the fraction of the median-priced home that a qualified buyer with a 20 percent down payment and a 30-year fixed-rate mortgage can afford to buy, assuming the buyer earns the median family income in the state. The index stood at 211 in July, which means that buyer can afford 211 percent of the median-priced home. By comparison, the index was at 225 in July 2016. “Income has been growing over the last year but not enough to offset the slight rise in mortgage rates and more substantial increase in prices,” said Theo. He expected continued erosion in affordability over the next six to 12 months.

The recent announcements of the Foxconn project that will add relatively high-paying manufacturing jobs in the state and the ongoing expansion by Amazon in southeastern Wisconsin will continue to fuel the housing market, but Theo is actually optimistic that the supply side will improve in the next few years. “Builders know that there are good opportunities for continued growth in sales and will likely accelerate their pace of construction as these major new projects develop,” he said. He also expects demographic trends to favor growth in the supply of existing homes as aging baby boomers transition out of single-family housing. For the time being, however, buyers need to be prepared to move quickly. Sellers are clearly in the driver’s seat, so buyers need to work with their lender to get their financing pre-approved. “Working with a REALTOR® who is experienced and moving aggressively when you find the right property are the keys to success in this tight market,” 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.