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2018 Housing Market Remains Strong Despite Limited Inventories

MADISON, Wis. — Despite low inventories, Wisconsin home sales in 2018 were only slightly off the record sales pace in 2017 as median prices continued to outpace inflation, according to the most recent analysis of the state housing market conducted by the Wisconsin REALTORS® Association (WRA).

Statewide home sales fell 2.2 percent below the record sales seen in 2017, making 2018 the third strongest year for home sales since the WRA re-benchmarked its data collection methods beginning in 2007. Strong demand but low supply of homes for sale pushed the 2018 median price up to \$184,000, which is 7.0 percent above prices for 2017. The month of December closed the year on relatively weak sales volume, with home sales down 13.1 percent compared to December 2017. The imbalance of supply and demand pushed the median price for December up 5.3 percent to \$179,000 over the past 12 months.

“We had a very solid year for sales, even though we had weak inventories again in 2018,” said WRA Chairman Jean Stefaniak. Statewide, inventory levels in December were unchanged from 12 months earlier, with just 3.9 months of supply. This is well below the six-month benchmark that characterizes a balanced housing market. “With the exception of higher-priced homes, supply has been very low, giving sellers the clear advantage in most of the markets across Wisconsin,” said Stefaniak. A review of sales over the last year shows inventory levels between 2.9 and 4.0 months for homes selling below \$350,000. Homes priced between \$350,000 and just under \$500,000 had 5.1 months of supply. In contrast, there were 9.7 months of supply for homes priced at or above \$500,000. “There are some great opportunities in our high-end homes, but it’s important to remember that we don’t sell a lot of properties in that range, so most buyers are still facing a strong seller’s market,” Stefaniak said. Only about 4.4 percent of all homes sold in Wisconsin are in that top price bracket.

“Strong demand and relatively weak supply in 2018 created significant price pressure,” said WRA President & CEO Michael Theo. Median prices rose 7 percent in 2018 compared to 2017. Fortunately, this hasn’t been inflationary. Declining energy prices helped to keep inflation in check, especially late in the year. The U.S. Bureau of Labor Statistics estimates December inflation rates fell below 2 percent, which brought inflation for all of 2018 in at just 2.4 percent. “High inflation leads to high mortgage rates, so it’s good the Fed has kept inflation in check,” said Theo.

“Housing affordability has definitely slipped this year,” said Theo. The Wisconsin Housing Affordability Index shows the fraction of the median-priced home that a buyer with median family income qualifies to buy, assuming 20 percent down and the loan balance financed using a 30-year fixed-rate mortgage. “We’ve got opposing forces when you look at changes in income, home prices and mortgage rates,” said Theo. “On the one hand, the strong economy has increased family income levels, which tend to improve affordability, but that’s countered by strong price appreciation and the upward drift in mortgage rates,” he said. The affordability index fell from 227 in December 2017 to 203 this past December.

So what’s in store for the Wisconsin housing market in 2019? “We are closing in on the longest economic expansion in post-war history, but the economy remains strong nationally and statewide,” said Theo. The national economy grew at a strong pace in 2018, with real GDP growing at 4.2 percent in the second quarter and 3.4 percent in the third quarter. The Wisconsin unemployment rate has remained at or below 3 percent since February, which are all good signs.

However, there are economic headwinds in 2019, including slowing growth in Europe, China and India, as well as ongoing trade disputes with some of our largest trading partners. While the WRA continues to believe a U.S. recession is unlikely in 2019, the recent decline in affordability combined with slowing

economic growth will likely moderate housing demand. On the supply side, the WRA expects some small improvements in 2019. Total listings of existing homes for sale in December were similar to the levels of December 2017, falling just 1.9 percent over the last 12 months. This is a departure from previous months where double-digit declines in listings occurred. Builders are reporting some moderate improvement in new construction, with new single-family building permits increasing 2 percent in January through October 2018 over the same period in 2017. Finally, foreclosures have remained stable at the lowest levels since the early part of the 2000 decade.

“While there’s a lot of uncertainty about the future direction of the economy, especially given the volatility in the stock market, we’re cautiously optimistic about Wisconsin’s housing market in 2019,” said Theo. Assuming no recession, the WRA predicts the combination of solid but moderating demand and flat or slightly improving supply should keep housing sales in the vicinity of the last three years. This should also keep prices from going up as quickly as they did in 2018. “A slight cooling of demand pressure may be just the break that some families need to finally buy a home,” Theo said, adding, “Using a REALTOR® who is experienced is still the best approach to finding real opportunities in this housing market.”

The Wisconsin REALTORS® Association is one of the largest trade associations in the state, representing over 16,400 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 the Wisconsin REALTORS® Association are subject to revision if more complete data become available. Beginning in June 2018, all historical sales volume and median price data from 2015 forward at the county level have been re-benchmarked using the Relitix system, which accesses MLS data directly and in real-time. Data prior to January 2015 are derived from the Techmark system, which also accessed MLS data directly. 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 are compiled by Dr. Russ Kashian at the University of Wisconsin – Whitewater.