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Weak Inventory Limits Home Sales and Drives Up Prices

MADISON, Wis. — The combination of very strong demand and very weak supply has resulted in a continuing drop in home sales in May, according to the most recent analysis of the existing home market by the Wisconsin REALTORS[®] Association. Specifically, home sales fell 5 percent in May 2018 relative to May 2017, and the median price increased 8 percent to \$188,000 over that same period, which represents the third straight month where home sales have failed to increase from their levels in the previous year. Still, on a year-to-date basis, home sales are roughly the same as last year, following a solid home market during the winter months. However, the median price of homes through the first five months of 2018 is 7.3 percent higher than the January-through-May period of 2017.

“The Wisconsin economy is very strong with robust job growth and record low unemployment rates,” said WRA Chairman Peter Sveum. The U.S. Bureau of Labor Statistics (BLS) reports that over the past 12 months, Wisconsin added 20,600 new private sector jobs, which kept the statewide seasonally adjusted unemployment rate at 2.8 percent for the second straight month. In addition, the BLS indicates that the state set a new record for employment levels in May with nearly 3.1 million persons employed in the state. “A strong economy typically translates into a strong housing market, but you need homes to sell and, unfortunately, they’re just not available,” said Sveum. There was 4.6 months of inventory available in May which signals a strong market. This compares with 4.0 months of supply at the national level in April, so Wisconsin’s inventory problem is national in scope. “Anyone trying to buy a home in this market recognizes the tight housing supply, often seeing multiple offers and offer prices above the listing price. The issue is particularly acute in our urban markets,” he said. The metropolitan counties in the state had just 3.6 months of available supply in May. In contrast, housing is much more plentiful in rural counties where there was 7.1 months of housing supply.

“These tight inventories have caused home prices to rise at pace that is close to three times the rate of inflation, which has eroded affordability,” said WRA President and CEO Michael Theo. While headline inflation has increased at an annual pace of 2.8 percent in May, due primarily to increases in energy and shelter, home prices rose at 8 percent in Wisconsin. Housing affordability fell 15.3 percent over the past year. The Wisconsin Housing Affordability Index shows the fraction of the median-priced home that a buyer with median family income can afford to buy if they have good credit, a healthy 20 percent down payment, and if they finance the remaining balance with a 30-year fixed rate mortgage. The index stood at 215 in May of last year, and it fell to 182 in May 2018. “You still get a lot of home for your money in Wisconsin, but affordability has begun falling more rapidly as home price appreciation has accelerated and mortgage rates have inched up,” said Theo. The 30-year fixed mortgage rate stood at 4.01 percent in May 2017, and it increased to 4.59 last month.

The Federal Reserve is committed to keeping inflation under control and has increased short-term rates by a half percent this year. It has indicated it is likely to add another half percent to those rates by the end of the year. While these rising rates may seem like bad news to homebuyers, in the long run, it will control inflation which is in the best interest of the overall economy. “If the Fed can keep inflation in check, mortgage rates will remain low by historical standards,” said Theo. He added that even in this market, it is possible to find good value. “A REALTOR[®] who is experienced knows these markets and can find the right home,” said Theo. “The key to success is having your financing pre-approved, avoiding contingencies and moving quickly when your REALTOR[®] finds the right home for your family,” he said.

The Wisconsin REALTORS[®] Association is one of the largest trade associations in the state, representing over 15,700 real estate brokers, salespeople 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 at Whitewater.