Wisconsin’s Housing Market: Where Are We Now?

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Housing and the Economy are Intertwined
The “Great Recession” lasted 18 months and officially ended in June 2009.

Typical postwar recession 11.1 months
Great Recession-18 months

Avg. postwar expansion 58.4 months
Current recovery 85 months
Last three were 92, 120 and 73 months

Annual 2015: 2.9%
Annual 2016: 1.5%
Annual 2017: 2.3%

Annualized Quarterly 2018:
Q1: +2.2%
Q2: +4.2%
Q3: +3.4%
National Labor Market – Essentially at Full Employment

UNEMPLOYMENT RATE
JAN 2019: 4.0%

EMPLOYMENT GROWTH
JAN 2019: 1.9%

Source: U.S. Bureau of Labor Statistics
Strong Wisconsin Job Market
(Source: U.S. Bureau of Labor Statistics)

EMPLOYMENT GROWTH

UNEMPLOYMENT RATES

December
Unemployment
US 3.9%
WI 3.0%

Source: U.S. Bureau of Labor Statistics
Continued Income Growth

(SAAR: Annual Growth – Nov. 2.12%)

Source: U.S. Bureau of Economic Analysis
Inflation currently in check

- Fed shifting to less hawkish stance
  - Federal Funds Rate changes
    - Recently: December rate was increased 0.25%
    - Longer term picture: Increased from 0.25% rate in Nov. 2015 to 2.50% today
- Core inflation is within the 2% target rate of the Fed
Low inflation is good for mortgage rates

Source: U.S. Bureau of Labor Statistics
All of this has fostered strong demand for WI Housing
Even Millennial’s have begun to move toward own occupied housing

US Homeownership Rates – by Age

<table>
<thead>
<tr>
<th>Category</th>
<th>2016Q3</th>
<th>2017Q3</th>
<th>2018Q3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>63.5</td>
<td>64.2</td>
<td>64.4</td>
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<tr>
<td>Under 35</td>
<td>35.2</td>
<td>36</td>
<td>36.8</td>
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<tr>
<td>35-44 yrs</td>
<td>58.4</td>
<td>58.9</td>
<td>59.5</td>
</tr>
<tr>
<td>45-54 yrs</td>
<td>69.1</td>
<td>69.5</td>
<td>69.7</td>
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<tr>
<td>55-64 yrs</td>
<td>74.5</td>
<td>75.3</td>
<td>76.6</td>
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<tr>
<td>65+ yrs</td>
<td>78.7</td>
<td>79.2</td>
<td>78.6</td>
</tr>
</tbody>
</table>

Source: U.S. Census Bureau
Strong Demand Fundamentals – What about Supply?
Problem of Weak Supply

Sources of Supply:
- Foreclosures
- New Construction
- Existing homes
Wisconsin Unique Foreclosures

Source: Dr. Russ Kashian
UW-Whitewater
WI New Construction Growth is Modest

Source: U.S. Bureau of Census
The Real Problem is Existing Inventories

Wisconsin Months of Available Supply
Source: WRA

Source: Wisconsin REALTORS® Association
The Wisconsin Housing Market
Growing Demand/Tightening Supply

<table>
<thead>
<tr>
<th>Wisconsin Housing Statistics</th>
<th>Monthly</th>
<th>Year-to-Date</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Dec 2018</td>
<td>Dec 2017</td>
</tr>
<tr>
<td>Unit Sales</td>
<td>4,980</td>
<td>5,728</td>
</tr>
<tr>
<td>Median Price</td>
<td>$179,000</td>
<td>$177,000</td>
</tr>
<tr>
<td>New Listings</td>
<td>3,506</td>
<td>3,658</td>
</tr>
<tr>
<td>Total Listings</td>
<td>26,729</td>
<td>27,242</td>
</tr>
<tr>
<td>Months of Inventory</td>
<td>3.9</td>
<td>3.9</td>
</tr>
<tr>
<td>Average Days on Market</td>
<td>103</td>
<td>114</td>
</tr>
<tr>
<td>WI Housing Affordability Index</td>
<td>203</td>
<td>227</td>
</tr>
</tbody>
</table>
Wisconsin Housing Affordability Index

HAI Defined:
% of median priced home that a borrower with median family income can afford to buy, assuming 20% down and 80% financed with 30-year fixed rate mortgage at current rates

Lower the value, the lower is affordability

Wisconsin’s HAI:
Clearly seasonal
Peaked at 304 in Feb. 2013
Has been declining but remains above national rate

December 2018: WI HAI was 203
US HAI was 148

Source: Wisconsin REALTORS® Association
So where are we going?
Famous Forecasts

“God Himself could not sink this ship.”
Titanic deckhand, April 10, 1912

“The deliverance of the saints must take place some time before 1914”
Charles Taze Russell
American religious leader, 1910

“The deliverance of the saints must take place some time after 1914”
Charles Taze Russell
American religious leader, 1923
Expectations for WI Housing Market

• Expansion should continue through 2019 but there are preliminary signs of slower growth
  o Fed unlikely to continue rate hikes
  o Recession more likely in 2020 and should be of “conventional type”

• State economy on solid footing
  o Statewide job growth will continue
  o Unemployment can’t go much lower

• Housing demand pressure will likely moderate
  o High median prices will reduce demand pressure
  o Counter-acting this is growth in income and millennial household formation

• Inventory improvements will be modest
  o Oldest Baby-Boomer’s have now turned 70
  o New construction continues to improve

• Overall, there remains a solid outlook for the Wisconsin housing market over next year
  o Higher prices but not at pace of 2018
  o Sales in vicinity of 2018
Thank you!