Wisconsin REALTORS® Association

Wisconsin Housing Market Fueled by Strong Demand but Weak Inventory

By Michael Theo, WRA President and CEO

The Wisconsin economy has been strong in 2017, with solid job growth, low unemployment, and low inflation. Specifically, total nonfarm jobs grew by 42,400 between October 2016 and October 2017, with 13,000 new jobs in manufacturing over that time period. The unemployment rate has been below 4% throughout the first 10 months of the year, which is considered full employment by economists. Finally, inflation is in check, with the annualized inflation rate at 2% in October 2017. The combination of a good economy and mortgage rates below 4% should have generated strong growth in home sales in 2017, but continued weak inventory levels, especially in the metropolitan areas, have kept sales only slightly ahead of the 2016 pace. Weak supply pushed home prices up at an annual pace of 6% for the first 10 months of 2017 relative to that same period in 2016. There were just 5.1 months of supply statewide in October, and only 3.9 months in the metropolitan areas of the state. Below six months is considered to be a seller's market. While the millennial generation is starting to move into owner-occupied housing, both the tight supply and continued high levels of student debt have driven national first-time home buyer rates to just 34% of all housing sales, according to the 2017 Profile of Buyers and Sellers conducted by the National Association of REALTORS®. This compares to a long-run average of 39%.

The national economy for the next year should remain strong, especially if the U.S. House and Senate can agree on a tax overhaul bill. The Fed remains committed to a restructuring of its balance sheet and slowly raising short-term interest rates. The nomination of **Jay Powell** to be the next Fed Chairman, succeeding **Janet Yellen**, suggests no radical change in Fed strategy under the new chairman. While the current economic expansion is 73 months in length, and the average post-war expansion has been 58.4 months, the last three expansions have averaged 95 months in length. Given the modest growth coming out of the Great Recession, and the tendency of the current administration to reduce regulation and cut taxes, the likelihood of a recession in the next year is remote. Indeed, the Philadelphia Fed's Survey of Professional Forecasters put the risk of negative growth in Real Gross Domestic Product at just 18.1% by the third quarter of 2018. In addition, the Conference Board reported at the end of October that Consumer Confidence had hit its highest level since December 2000. The state economy should remain healthy in 2018, and the combination of growth derived from expansions of Amazon and Foxconn as well as other existing firms in the state bodes well for continued economic growth.

The challenge for the state housing market for 2018 will be to mitigate supply constraints. There are three primary sources of housing supply: foreclosed properties, new construction, and new listings of existing homes. Foreclosures are thankfully at normal pre-recession levels, so they are no longer a major source of supply. New construction has been steadily improving, but has been constrained by labor shortages in the trades as well as restrictions on land development in some areas. Finally, many Baby Boomers have resisted moving post-recession, choosing instead to age-in-place. However, as this generation continues to age, health-driven housing transitions will move more of those homes onto the market. Modest improvement in new listings is likely over the next year.

The federal tax overhaul was still being debated at the time this article was written but many of the proposed changes with respect to residential real estate have met with strong opposition from the National Association of REALTORS®, homebuilders, and others. The impact of proposed changes in mortgage interest and state and local tax deductions may be less severe in Wisconsin than states where housing values are much higher because the current proposals cap the amount that can be deducted rather than eliminate them in total. Wisconsin has high property tax rates, but its median home prices are well below those seen in the heavily urbanized east-coast and west-coast markets, and the majority of homes would be below the cap-level on both mortgage interest and state and local tax deductions. A more troubling aspect of the proposal is the elimination of interest deductions on second homes, which could have significant ramifications on the northern regions of the state. Overall, if federal policymakers maintain the deductions on second homes, keep mortgage rates low, and reduce the tax and regulatory burden, and if state and local officials hold the line on property tax rates, 2018 is shaping up to be another solid year for the Wisconsin housing market.

Founded in 1909, the Wisconsin REALTORS® Association (WRA) is one of the largest trade associations in Wisconsin. It represents and provides services to more than 15,000 members statewide. WRA's goal is to promote the advancement of real estate in Wisconsin and provide cutting-edge tools to help REALTORS® enjoy a successful career and be competitive in their market.