This is a summary of the 4th Annual WI Real Estate Summit, hosted by Marquette University Center for Real Estate and the Greater Milwaukee Association of REALTORS®.

Almost 200 attendees gathered on Monday February 1st 2016 at the Wisconsin Club in Milwaukee, WI to hear from keynote speakers Dr. Lawrence Yun of the National Association of REALTORS® and Dr. David Clark of Marquette University. Dr. Yun provided an overview of the national housing market and trends while Dr. Clark focused on the local markets. The event concluded with a panel discussion moderated by Dr. Mark Eppli focusing on topics such as Millennials, Baby Boomers, affordability, credit and financial constraints.

**Economic and Housing Outlook - Dr. Lawrence Yun**

Looking at the United States Economy, we are moving at a moderate and sustainable pace in the right direction. The Chinese markets are creating headwinds and a wobbly stock market. Lifetime wealth is at an all-time high as of October 2015, which should suggest that the economy has recovered. However, both consumer confidence and median household income are at neutral levels and will likely remain constraint given the election year.

With annual GDP growth under 3% for the past 10 year, economic anxiety remains high. This is further emphasized by homeownership rates hitting a 50 year low. Low ownership rates have been created by first time buyers not participating in the market, not because they do not want to own a home, but instead due to larger student loans and mortgage availability driving these individuals to a lower price ranges of homes that do not meet expectations.

With the Federal Reserve expected to do two rounds of interest rate increases in 2016, four rounds in 2017, and two additional rounds in 2018, mortgage rates, despite being relatively constant over time, will likely begin to rise. Dr. Yun predicts that by year end, mortgage rates will increase from 3.9% to 4.5%.

Apartment rents are at the 7 year high and with high absorption and low vacancy rates it is expected that rents will continue to rise. Low inflation will continue as long as gas prices stay level, however if the consumer price of living increases, inflation will follow.

A positive for the housing market is that the credit box could be opening. Not only does FICO have a new method of assessing risk but Freddie Mac and Fannie Mae are considering lower down payments. Average credit score of accepted mortgages are 750 which is down from its previous 760 level.
Prior to the recession, the average length of time to own a home was 6 years. Today that is up to 9 or 10 years. As a result, the market has a good number of pent up home sellers who have equity in their homes again and are looking to trade up. Additionally, it has been 10 years since the first foreclosures began and approximately 2 million boomerang buyers beginning to return to the market.

Dr. Yun concludes that despite the economy being subpar and job growth less strong consumer prices will increase, new homes will rise, and home prices will see moderate growth in the near future.

**The Wisconsin Housing Market 2016 vs. 2015 - Dr. David Clark**

Narrowing down the focus, the next keynote speaker, Dr. David Clark, focused on the Wisconsin housing market. Looking at employment in the state, new nonfarm jobs have been created consistently since the recession. Discouraged workers have been decreasing since 2010 and the periods of unemployment in the state have been returning to normal.

2015 was a strong year for home sales in the state. Closed sales have increased by 11.4%, median sale price is up 5.1%, and days homes are on the market has decreased. Inventory is tight in the state with 4.8 months being the average inventory for the 26 metro counties in the state. The number of months increases to 10.3 for non-metro counties.

Home prices in the state are almost at their pre-recession levels. Prices do experience a seasonal pattern with February being the cheapest month to purchase a home. According to FHFA constant quality index, which provides an apples to apple comparison, at the national level the housing market has completely recovered. In the state, we have not completely recovered though our peak to trough during the housing crisis was smaller than national averages.

The trend line in housing permits in the state shows growth in new construction though the growth has been slow. Considering median home price, an estimate of median family income, and current mortgage rates, affordability is evaluated by looking at how much of a median priced home the median family can afford. Affordability has increased over the past couple years and within the state affordability is better than the national average.

Going forward into 2016 a few predictions for the state’s housing market were revealed. Dr. Clark sees modest growth, mortgage rates that are likely to rise, the continued expansion of the housing market but not as much as 2015, improving inventories, and price increases that are on par with last year.

**Panel - Dave Belman, Belman Homes, Jim Imhoff, First Weber, Lee Turner, Bank Mutual, Lawrence Yun, David Clark, moderated by Dr. Mark Eppli, Marquette University**

Dr. Eppli began the discussion by asking the panelist what they saw in 2015. From a financial perspective, Lee was surprised that rates remained low in 2015. With the rolling out of TRID in October he saw the industry struggle with the new deadlines and the transition into the new guidelines. He believes that 2016 the regulatory changes will continue to be an impact. Providing the realtors perspective, 2015 was a wonderful year for Jim. All of his offices across the state saw increases. He is most concerned with the sharing of information between buyers and sellers. Additionally he sees rates easing up a little moving forward. Dave provided the construction perspective and said that new construction is flat locally due to high cost of lots, smaller developers having a hard time getting
financing, and a labor shortage of skilled laborers. Moving into 2016 he believes that the year will be another flat year for new construction.

Concerning affordability the panelist were asked why despite affordability being at an all-time high, ownership is still so low. Dr. Yun referred to credit constraints limiting the affordability. Within the state, Dr. Clark said that some communities are more affordable limiting the affordability. Within the state, Dr. Clark said that some communities are more affordable than others citing Dane, Waukesha, and Ozaukee counties have lower affordability. All of the panelist agreed that in five years, ownership rates would be higher than they are today. As far as new construction, Dave said that 25% of the cost of a new home is due to regulations which creates a huge gap in affordability. What is currently being brought to market is not suitable for 1st time home buyers.

Next panelist were asked if they believe there is a psychological barrier preventing individuals from participating in the market. Dr. Yun again cited credit and discussed how people are afraid of getting a mark on their credit. Additionally, the industry warns against short sales and how difficult to handle they can be. Dr. Clark expands by saying that with it being 10 years since the first foreclosures the impact on people’s credit is probably behind us and there is likely a higher willingness to reenter the market.

Dr. Eppli then turned to conversation to focus on different demographic groups, specifically millennials and empty nesters. When asked about attributes that have been attributed to millennials such as marrying later, higher student loan debt, and less interest in material things, the panelist believe that these attributes do play a role in less participation in the market. Lee cites personal experience which Jim and Dave both discussed the new set of criteria for what it means to be successful. They are not driven by homeownership until they are ready to form a family. Yet, when they get to this point they do not want their parents homes, instead they want the best location and high quality homes.

Looking at the two groups that have the largest share of the market, millennials and baby boomers, Dr. Eppli asked panelist if there is a mismatch occurring in the market. Dr. Yun says that falling energy prices are making it less certain because a couple of years ago he predicted that areas closer to the city center would outperform suburban areas but not this is not as clear. From a construction standpoint Dave sees baby boomers are not being catered to as much as they might deserve. Jim sees there being a large movement towards 70-80 year old neighborhoods for houses that need to be renovated due to their location. Dr. Clark sees that minority groups may actually be the driving population and that city centers will always be desired by first time home buyers and schools will continue to drive suburban growth.

Moving back to financial constraints and credit, the panelist were asked to comment on if credit is still tight. Lee sees hints but not action of loosening credit while Dr. Yun sees DC as conflicted. Policy makers want to open up credit but lenders are discouraged by the threat of lawsuit. Lee continues to say that lenders stay within the regulated mortgage guidelines because it protects the financial institution from litigation. Going outside of these guidelines puts you at higher risk. Jim adds that violating the rules can lead to Fannie and Freddie forcing you to buy back the loan. The guidelines restrict self-employed workers who are seeing steady income are still shut out of the market due to their lack of W2.

Dr. Eppli next questioned why in the new home market is not more robust. Dave cites affordability and the fact that the big builders are getting bigger. He again discusses the shortage of skilled labor that is being experienced in the market. Dr. Yun agrees with Dave and says that big builders have been tapping Wall Street money and small local builders have not been able to get the local banks to lend to them. Dr. Clarks disagrees and believes that small builders have always been cyclical and are more heavily affected
by market fluctuations. Jim concludes that the problem is “lots, labor, and fear”. Lots are not available, laborers are not returning to the market, and fear that the investment may not be worth it.

The panel concluded with a series of rapid fire questions from Dr. Eppli. When asked what inning of the cycle single family homes are all panelist answered between inning 6 and 8. All of the panelist see mortgage rates increasing over the next year in the range of 4.4-4.7%. Millennials are seen as the bigger concern moving forward and finally the sales volume is expected by all of the panelist to be less than or equal to 5% growth in the next year.

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