FALL MARKET SOURCE NEWSLETTER

Written by Stark Company Realtors CEO David Stark

Stark

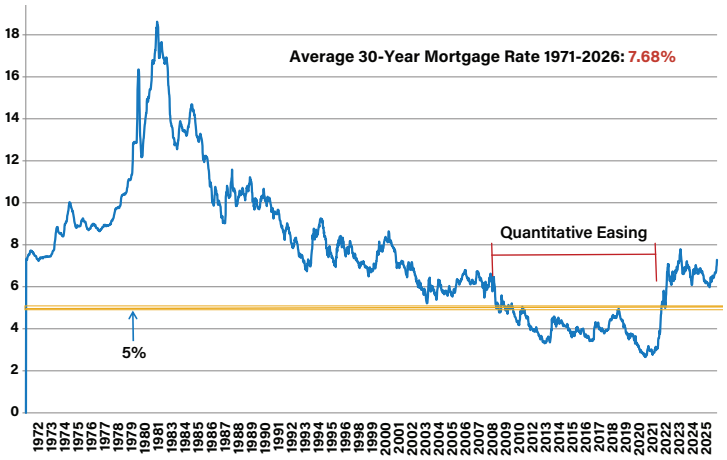
YOUR AUTHOR WILL remember 2026 as the year of the whipsaw. Since we began writing this Newsletter in 2006, it's hard to remember a time that has featured so many sharp reversals. Three months ago, we wrote that we were pleased with the somewhat unexpected resiliency in the market, despite the uncertainties created by the war in Iran. Now, following a Fed rate hike that seems to have precipitated a tantrum in the bond markets, we are facing yet another change in the environment.

The action in the bond markets is the big news. The headline is that the weekly Freddie Mac 30-year mortgage survey index jumped to 7.28% on October 1st, the highest it has been since November 2023. The last time it measured over 7% was during a brief stretch in April/May of 2024. The 30-year bottomed out at 5.98% for one week in February, leading to optimism that this would be the year housing turned the corner. Since then, due to the war, a new and more hawkish Fed Chair, stubborn inflation due largely to higher oil prices because of the war, and heavy demand for debt from both the federal government and the tech industry, rates have been drifting steadily upward.

Despite these apparent headwinds, the local housing market is, so far, continuing to demonstrate its resiliency. Dane County residential sales are up 6.4% so far this year, although there's an interesting divergence between condos and single-family homes that we'll discuss later. Sauk/Columbia sales are more or less flat when compared to last year. Dane County inventory continues to creep upward, with combined residential supply up 14% from last year. Interestingly, Sauk/Columbia inventory has actually dropped by 2% since last year. The Dane County 12-month combined residential median price rose 3.36% from last year to $465,000. All decent numbers that suggest gradual improvement.

And yet, we believe that the market is facing a significant turning point. The general media is already spinning the increase in mortgage rates as a crisis, blaming high rates for making housing unaffordable. This is the typical, simplistic framing, but we think it's actually backwards. In fact, we believe this is the first significant progress we've made in starting to finally return the housing market to a more normal and sustainable equilibrium, something we frankly have not seen since the 1990s. In order to help our readers understand why, we're going to try to provide some longer term perspective on the trends that are making the headlines, and why today's events are normalizing, not destabilizing.

U.S. 30-YR MORTGAGE RATES 1971-2026



*Freddie Mac U.S. weekly mortgage rate averages as of 10/08/2026.

Mortgage Rates

We're going to start with mortgage rates, because they are at the heart of what's happening now, and understanding rates is the key to understanding the entire market.

Above is a chart showing the Freddie Mac weekly 30-year mortgage survey going all the way back to its inception in April 1971. The very first reading, on April 2, 1971, was 7.33%. From that point, you can see the huge spike in rates that occurred between roughly 1979 and 1986 (the time baby boomers like to reminisce about), when the Federal Reserve raised rates sharply to combat what was, at that time, severe double digit inflation - inflation that was much higher and more persistent than today's. You can see rates drift lower starting in the late 1980s, and then you can see the other big Fed intervention in response to the 2008 financial crisis, which lasted until 2022 (the intervention, not the crisis). But, as we said, perspective is everything, and we're going to offer some now.

Here's the big takeaway: the average 30-year mortgage rate over the entire period covered by this chart is 7.68%, very close to today's rate. But, you say, look at that spike in the 1980s. Doesn't that distort the numbers? Yes, it does, but so does the period between 2009 and 2022, when the Fed was keeping its discount rate near zero (something it had never done before) and was buying mortgage securities in a program called Quantitative Easing in order to drive mortgage rates down. If you strip out those

two periods when the Fed was pushing rates either very high or very low, the average rate for the remaining time is...7.73%.

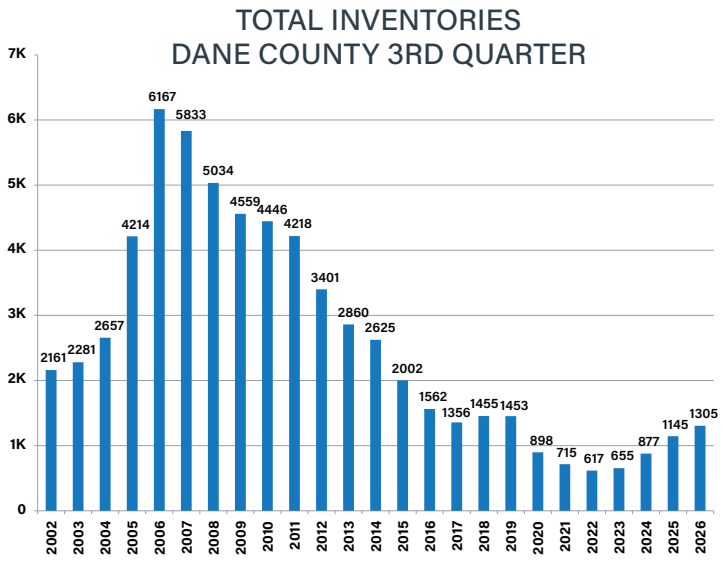
The fact of the matter is that, absent overt Fed intervention, 30-year mortgage rates average in the mid-7% range. That's where we are today. In fact, the very first time we ever had a mortgage rate under 5% in the history of the survey was January 15th, 2009, when the Fed started Quantitative Easing. Rates then stayed below 5% for 13 straight years, due entirely to Fed intervention. Inevitably, these artificially low rates, coupled with high federal spending, especially during the pandemic, caused inflation to start to rage out of control. The Fed was finally forced in 2022 to end its Quantitative Easing program to stamp out the inflation it was causing, not just in the general economy, but particularly in housing. Ultra low rates stimulated demand while draining away supply, forcing prices upward. The reason housing prices are so high today is that the Fed kept mortgage rates too low for too long.

This proves what we've been saying all along. Today's rates are not too high. The rates of the 2010s and the pandemic were much too low. And they led directly to the inventory reductions and ensuing price increases that buyers continue to struggle with today.

Inventories

Here's another area where perspective is needed. Included are charts showing both raw inventories for combined single-family and condos in Dane County, and months of inventory over the same period. All readings are for the end of the third quarter, which is when inventory peaks.

First, notice the gargantuan increases in supply through 2006, and then how puny inventories have become since 2016. This explains two things: first, today's inventory environment is light-years different from 2006, which is why we do not expect major price decreases. On the other hand, the ultra low inventories we've had since 2016 are the reason prices have increased more than they otherwise would have. And finally, if you look at the months of inventory chart, you'll notice that even though our inventories remain very low by historical standards, we have now increased to the point where we've pretty much caught up with where we were 10 years ago.

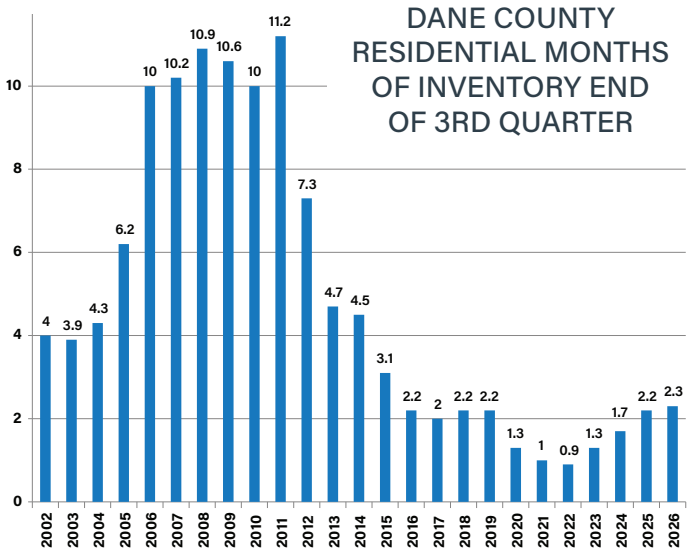


We think it's important for both buyers and sellers to understand this. By historical standards, inventories are still low, but the extreme pandemic lows are now behind us. It is not the seller's market that it has been since 2020. More homes are starting to linger on the market, and while overbids have still occurred this year, average sale-to-list prices for the year are essentially even. In September, the average sale was roughly $6,000, or 1%, under list price. Price reductions are becoming more common. But none of this is a bad thing. It means that the market is finally starting to look a little bit more normal, as it should.

We alluded earlier to a divergence between single-family homes and condos. While total residential sales, both year-to-date and in the third quarter, were up in Dane County overall, this was not the case for condos. Condo sales were actually down 10% in the third quarter and are now down 3.3% for the year. At the same time, condo inventories are up 30% from this time a year ago and are now above where they were in 2016. The 12-month condo median price is actually down slightly from a year ago, from $322,000 to $320,000. We now have 3.3 months of condo inventory. By contrast, single-family sales are up 9% for the year, and prices are up 4.9%, with 2.1 months of inventory. Single-family inventory remains well below its pre-pandemic levels.

Buyers

The market has been gradually moving in your favor for some time now, and it's reaching the point where it can start to pay you dividends. If you're interested in a condo, you now have plenty to pick from. While you might still encounter competition on certain properties, there will be others where reasonable negotiation might be possible. The recent rate increases will have to be factored in, of course, but sellers will have to consider them too. If you can put more money down or want to consider an adjustable rate, those are also options. As always, be sure you're comfortable with the payments before you commit. And finally, remember that inventories are currently at their seasonal peak. They will dwindle quickly, especially in December and January. You have more choices right now. Otherwise, when spring arrives, the competition will heat up again.



The reasons for this divergence are not yet entirely clear. One possible contributing factor is that new regulations requiring condo associations to beef up their reserves have led to an increase in condo fees, impacting affordability. Condos are less expensive than single-family homes on average, but perhaps many first time buyers have decided they'd prefer to hold out for a single-family home. Whatever the reason, condos have clearly returned to a balanced market more quickly than single-family homes, and we'll watch these trends with interest as time goes on.

What This Means

We began by asserting that the recent changes in the market are positive, rather than negative, developments. Let us explain why.

Since the late 1990s, the housing market has been dealing with a series of forces that have steadily distorted its natural balance. It started with the push to make housing "affordable" for everyone by developing exotic mortgage instruments, sub-prime mortgages, and relaxed underwriting standards that pushed housing prices higher by encouraging people to buy houses they couldn't afford. When foreclosures started to climb and the financial system was threatened, the Federal Reserve responded with its Quantitative Easing program, which succeeded in averting the worst of the crisis. But instead of winding the program down after the crisis ended, the Fed kept it in place for another decade. The result was, again, too much demand for housing (along with financial assets generally), diminishing inventories, and rising prices. They doubled down on the policy during the pandemic, pushing the market way out of balance. This left us with virtually zero inventory of homes and rapidly rising housing prices. We've been grappling with the aftermath for the last four years.

We fully understand the frustrations that many first-time buyers feel about trying to access the housing market today. Unfortunately, knowing who to blame doesn't make this any easier. But in our opinion, continuing the mistakes of the past only extends the duration of the problem. To solve it, we've got to stop doing the things that got us here and allow the market the space it needs to heal itself. Lowering rates artificially is not the answer; it's the problem. While rates might drift a bit lower when the Iran war ends, our belief is that 30-year rates in the 6-7% range are not only here to stay but are also necessary to allow the market to return to balance.

We're already seeing signs that it's working. The increases in condo inventory and the leveling of price increases are signs that the condo market is more balanced than it's been in years. Over time, as inventories continue to rise, single-family prices should also continue to level off. We've already been dealing with reduced transaction volumes for the past four years, which will encourage the continued accumulation of inventory. While meaningful aggregate price decreases remain unlikely, some sellers may have to adjust their expectations in the near term, and over the longer term we should expect appreciation to be modest. If we stay the course, in a few years we should be back to the days where 30-60 day marketing times are normal, prices increase around the rate of inflation, and buyers have the luxury of negotiating with the seller by themselves, rather than competing with hoards of others on every purchase.

The fact of the matter is that the market became addicted to ultra low mortgage rates. But this led to low inventories and high prices. We've all been waiting for things to return to normal, but we've also forgotten what normal looks like. The first step to normal is normal mortgage rates. We have that now. The rest will follow in time.

Sellers

The party may not quite be over yet, but it seems to be coming to an end. The ultra low inventories that gave you so much leverage are behind us, putting buyers on more equal footing. This means you'll have to be thoughtful about how you price and be prepared to possibly negotiate. Inventories will decline over the next three months, but there's no telling what the mortgage rate environment will look like next spring, and inventories will almost certainly be higher going into next year than they were to begin 2026. That means predicting price increases for next year is less certain than it has been for some time. Prices have increased about 3.4% so far this year. Expect something less than that next year. For all these reasons, trying to time the market closely is probably not productive. Rather, we're back to a time where your personal needs regarding when and why you sell are far more important than market dynamics. If you've owned your home for any length of time, you're going to come out just fine, even if you can't stimulate an overbid anymore. There's nothing wrong with that.

Charts in this publication represent sales reported to the South Central Wisconsin Multiple Listing Service (SCWMLS) with closing dates on or before Sept 30, 2026. Data for all years was pulled between the 6th-10th of the month following the end of the quarter. †Months of Inventory represents the number of months it would take to sell the entire active inventory at the pace of sales for the most recent 12 months. A six-month inventory is considered balanced. ‡When all properties sold during the period are ranked in order of price, the median is the price of the home in the exact middle. ©2026 Stark Company Realtors®. All rights reserved. The above sales figures herein are based on data supplied to the SCWMLS Corporation by its Participants. The MLS does not guarantee and is not responsible for its accuracy. Data maintained by the MLS does not reflect all real estate activity in the market. Data presented here was generated from the SCWMLS on or before 09/30/26. This is not intended to solicit existing listings.

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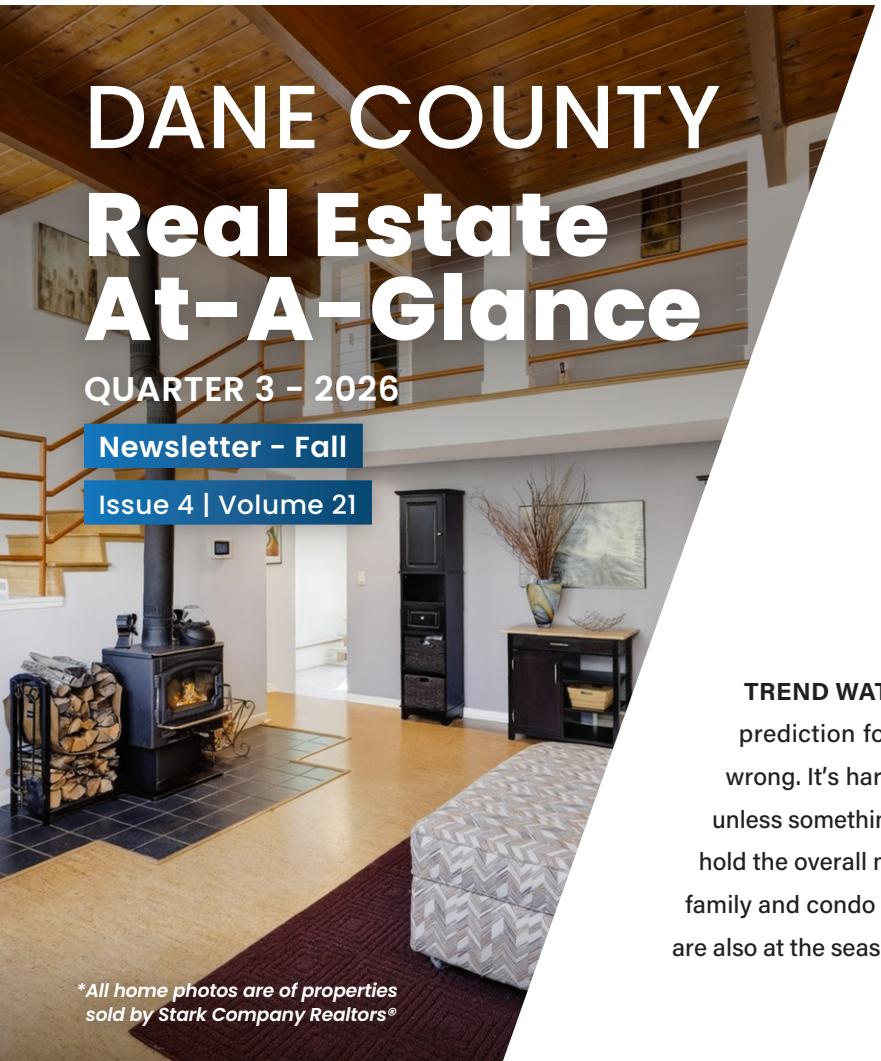

DANE COUNTY Real Estate At-A-Glance

QUARTER 3 - 2026

Newsletter - Fall

Issue 4 | Volume 21

*All home photos are of properties sold by Stark Company Realtors®

1,305 Active Inventory
↑ **14%** from previous year

$465K Median Price
↑ **3.4%** from previous year
(12-month rolling)

5,189 Closings
↑ **6.4%** from previous year

2.3 Months of Inventory
↑ **4.6%** from previous year

TREND WATCH Rising mortgage rates are likely to subdue demand. Our prediction for mortgage rates to remain steady three months ago was wrong. It's hard to predict, so expect something close to where we are now unless something changes. Appreciation is done for the year and condos may hold the overall median sale price back. We're at our seasonal peak for single-family and condo inventory, but we'll remain ahead of a year ago. New listings are also at the seasonal peak. We'll see how rising rates affect listings.