



THE | REAL ESTATE MARKET SOURCE

O F S O U T H C E N T R A L W I S C O N S I N

First Quarter | Vol. 1 Issue 1 | 2006

Welcome to the inaugural edition of Stark Company Realtors'®: "The Real Estate Market Source"

Our goal is to provide you, our clients, customers and friends, with useful information about what's really happening on South Central Wisconsin's local real estate scene.



David K. Stark

By "useful", we mean accurate, informed, and relevant to you. We've been frustrated, frankly, by much of the public discussion about the real estate market, particularly over the past year as we've moved from an extremely strong seller's market into a market that is more balanced, at least by historical standards. Much of what you've read or heard recently originates from national sources and has little relevance to what's happening here. Often, coverage has focused on the negative or

the sensational, without offering enough informed context to promote understanding of what it really means. None of that is helpful to you, the local real estate consumer, who simply wants to buy or sell a home or investment property as quickly and easily as possible.

To accomplish this mission, we promise that we'll tell it like we see it, and try to give enough facts to help you become an informed real estate consumer. What makes real estate so difficult to analyze from a macro-economic perspective, and difficult to buy and sell, is that every parcel is

unique, as is every buyer or seller who tries to transfer it. So it's virtually impossible for any broad real estate analysis to give an individual buyer or seller complete advice on what to do. However, there are trends and market conditions, both local and national, that will affect individual situations. An understanding of these trends and conditions will help consumers make better decisions. That's what we'll try to give you here.

We hope you enjoy it, and we welcome your feedback to help us make it even better! Feel free to email us at Feedback@StarkHomes.com.

FIRST QUARTER, 2006

There could be no better illustration of the confusing nature of today's discussions about real estate than the market in South Central Wisconsin in 2006. Despite relentless stories about the "bursting real estate bubble," and "rising rates taking the steam out of the real estate market," our local market remained robust in the first

quarter. As you'll see in the accompanying charts, the overall level of sales activity is similar to a year ago. What has changed, however, is the relationship between the number of sales and the level of active inventory for sale. The result is that, while the overall level of demand is much like it was one year ago, sellers have 50 to 100%

more competition on the market for the same number of buyers. The result: it feels slower to many sellers, whose houses may be sitting on the market longer than in the past. However, it remains our experience that homes in good condition that are priced competitively will still sell quickly, sometimes in a matter of days.

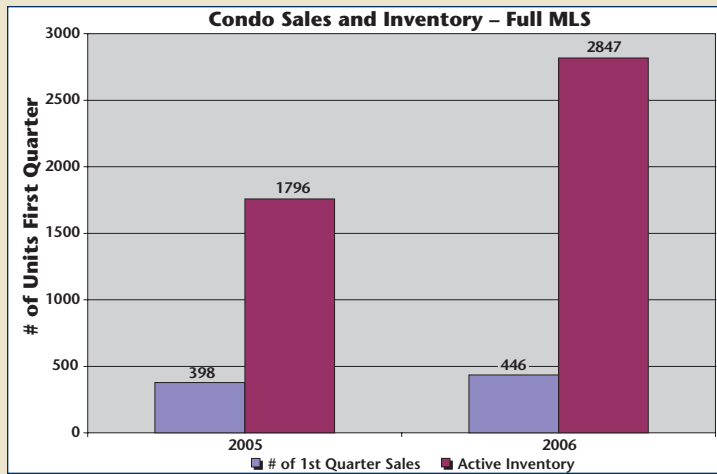
The loud, ominous predictions of a housing "bubble" that is about to burst have also thus far proved wrong, at least here in South Central Wisconsin. In fact, sale prices were up pretty much across the board compared to the same time last year. Measuring this can be trickier than it appears, since the mix of housing on the market changes from year to year, particularly in condominiums and new construction. Last year, for example, saw a number of value priced condo conversions on the market. This year, there have been fewer, so the average sold condo price has been 24% higher than a year ago. But that doesn't necessarily mean that the sale price of a particular condo unit would rise by that same percentage since last year. This is why sellers must examine sales of property like theirs, as well as the inventory of similar properties currently on the market, before making a pricing decision.

	FULL MLS					
	Single Family		Condominiums		Total Residential	
	2006	2005	2006	2005	2006	2005
Sales	2,220	2,182	446	398	2,666	2,580
Average Price	\$190,143	\$188,456	\$218,290	\$176,631	\$194,923	\$186,705
Active Inventory	6,978	4,998	2,847	1,796	9,257	6,641
Inventory Days	199	145	404	286	234	163

	DANE COUNTY					
	Single Family		Condominiums		Total Residential	
	2006	2005	2006	2005	2006	2005
Sales	880	983	322	312	1,202	1,295
Average Price	\$256,995	\$246,096	\$220,673	\$184,452	\$246,714	\$231,347
Active Inventory	2,637	1,688	2,147	1,135	4,629	2,823
Inventory Days	190	109	423	231	252	138

* Closed sales reported to the SCW MLS between 01/01/06 and 03/31/06. "Inventory Days" represents the number of days it would take to sell the entire active inventory at the pace of sales for the period represented, adjusted to account for seasonal variations.

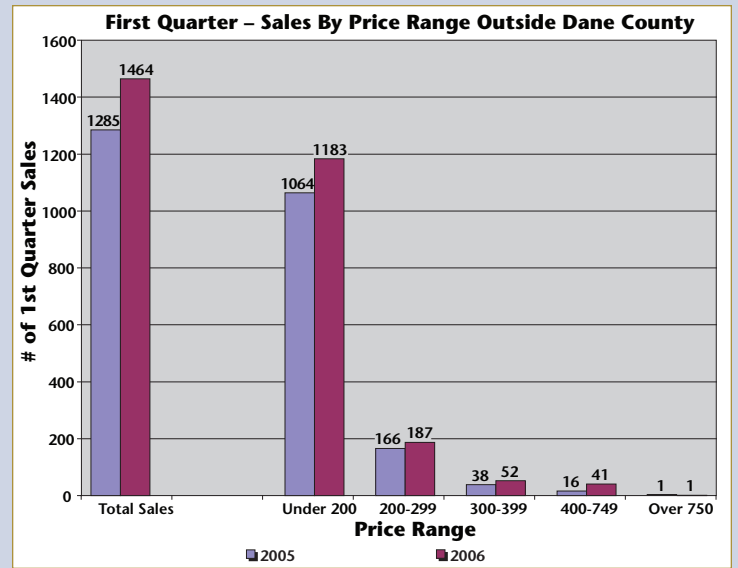
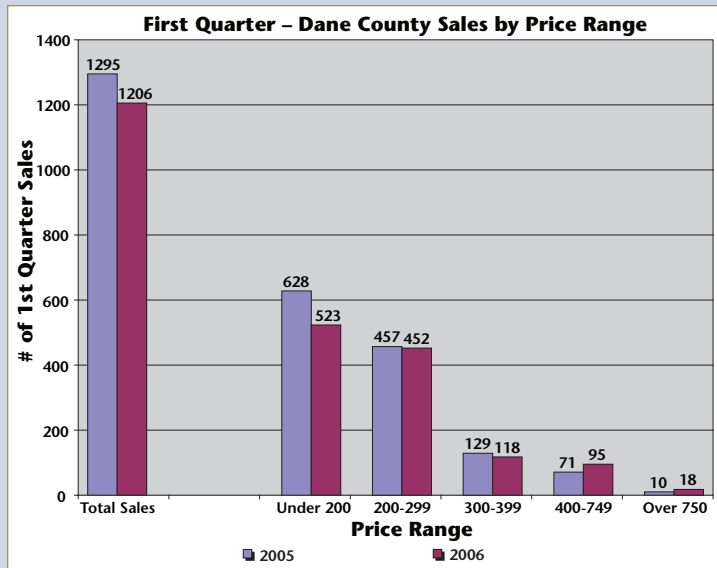
MARKET OBSERVATIONS



Condominium Craze

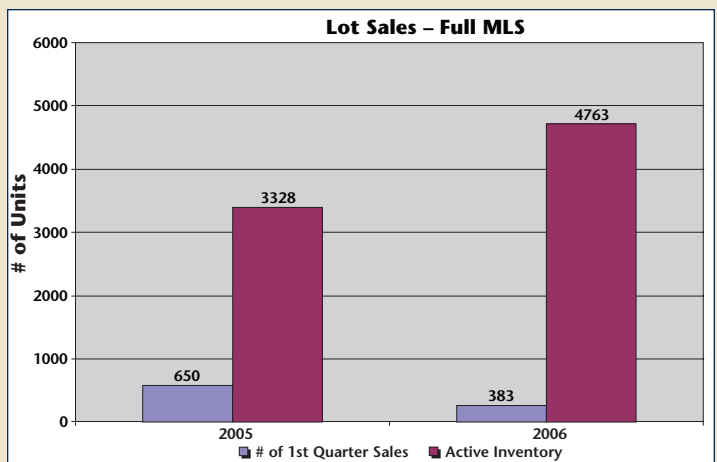
Condominiums have become a very popular option for many buyers. They allow for more density on expensive land, thus lowering the overall cost. Their low maintenance make them perfect for singles, people who travel a lot, and older homeowners.

They have also been about the only source of new inventory under \$200,000 in our market. Condo sales in Dane County are up 12% since a year ago. However, active inventory of condos is up by 59%. It seems that new projects either sell quickly or struggle, depending on how they are presented and how they compete. Developers are already noticing this trend, and are proceeding cautiously if they're not already under construction. We believe this inventory will eventually fall, but how quickly is anyone's guess.



Moving Out?

Residential Sales were up almost 14% outside Dane County, but down 7% inside Dane County. Not surprisingly, the average price outside Dane County is much lower: \$151,969 compared with \$246,865 inside. This suggests more buyers are going farther afield to find value. Inventory is larger compared to sales inside Dane County as well. Paradoxically, sales over \$400,000 rose smartly both inside and outside Dane County, while sales under \$200,000 fell by 17% inside Dane County. This is probably inventory driven. In mid April there were only 97 days of single-family inventory under \$200,000 in Dane County (but about a year's worth of condos!). It appears that the market of highest demand, single family homes under \$200,000, is not being fully satisfied inside Dane County.

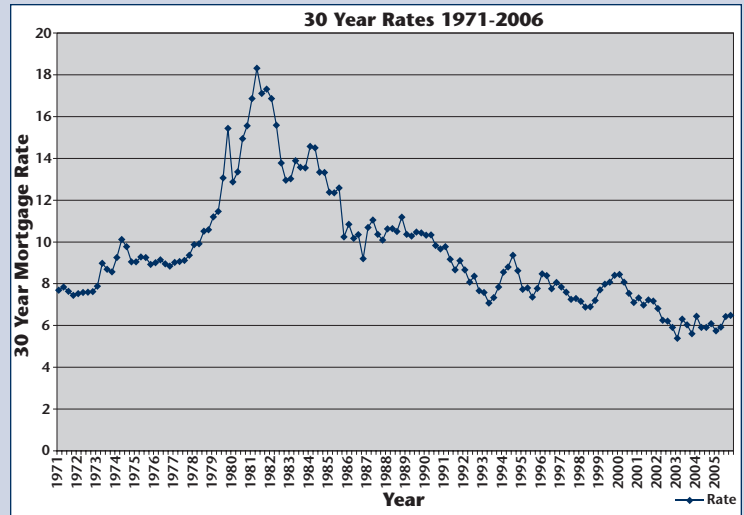


Lots of Lots

Lot sales were down by nearly 50% overall, and by almost two thirds in Dane County compared to the first quarter of 2005. This is by far the most dramatic drop of any sector and probably reflects a reluctance by builders to commit much more capital until inventories clear up a bit. This theory is supported by the 28% drop in housing starts in Dane County. Despite this falling demand, the number of lots actively for sale grew from the same quarter a year ago. More amazing: A year ago, there were 167 days of lot inventory on the market in Dane County. At this writing, inventory days have risen to 777! How long this will take to clear is anyone's guess, but developers would be wise to proceed with caution for at least a few months. We'll watch this trend with interest.

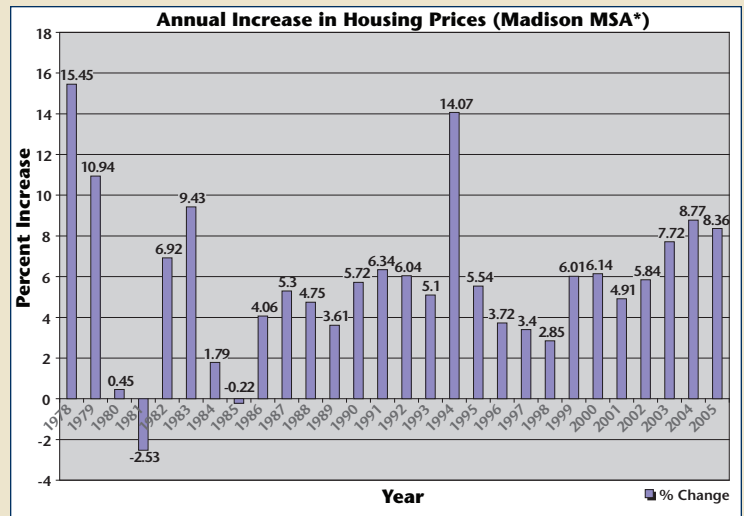
Interest Rates

- As of this writing, 30-year mortgage rates stand at about 6.75%, give or take an eighth. This is up a little more than 1% from the low point in 2003.
- Even if rates creep over 7%, they will still be lower than they were at any time in the 30 years prior to 2001.
- The Federal Reserve controls short-term rates, not long-term rates. Accordingly, 15- and 30-year rates are not much lower today, if at all, than short-term adjustables. If you plan on staying in your home longer than 5 years, lock in a long-term rate now.
- The ease of refinancing today has taken much of the interest rate risk out of the equation for buyers. If rates go higher than they are now, you'll be glad you locked in today. If they go lower, you can always refinance. If you can afford the house you want at today's rates, don't let rates scare you off.



Housing Prices

- According to the Office of Federal Housing Enterprise Oversight (OFHEO), housing prices in the Madison Metropolitan Statistical Area (MSA)* increased 8.36% in 2005, which ranked 148th out of 275 markets measured.
- Since 1978, prices in the Madison MSA have increased on average about 5% or so per year. While the last 3 years have seen appreciation a little higher than the average, it hasn't been as high as widely believed.
- Over time in a healthy market, homes generally appreciate at, or a little above, the underlying inflation rate. Generally, this has been the case in our market. We are clearly not a "bubble market."
- Higher inventories of homes for sale are likely to slow appreciation in 2006. We expect average appreciation in the 4% range for the year.



* Includes Dane, Columbia and Iowa counties.

STRATEGIES FOR SELLERS AND BUYERS

SELLERS

Given the fact that demand for housing is still fairly strong, we recommend sellers approach this market with realism, rather than despair. Well priced and presented properties are still selling well, often quite quickly. On the other hand, properties that are perceived as overpriced in the market can sit for a long time. If your home is in a price range with a lot of competition, you must differentiate yourself, which usually means asking a reasonable price, getting the home staged, and marketing it properly. Sellers trying to command a premium price will likely be disappointed, and may end up getting less than they would have had they presented their property competitively in the first place. Be sure to get good, competent advice from a knowledgeable source. Shortcuts and guesses can cost you.

BUYERS

Buyers are currently being presented with the best of all possible worlds: reasonable interest rates and more properties to choose from than they've had for a while. It's a situation in which buyers should move aggressively to take advantage of existing opportunities. However, be careful not to overplay your hand. The number of homes selling is off only slightly from previous years, and still in the high range historically, meaning you're not alone in looking for real estate. Plus, savvy sellers are offering their homes very competitively, and we're still seeing a few multiple offer situations in these cases. Many buyers seem focused on properties new to the market, so look at homes that have been for sale for a while...there may be some overlooked gems there. Get good advice as to what constitutes a reasonable price, and don't be afraid to act if it looks and feels right.

THE | REAL ESTATE MARKET SOURCE

O F S O U T H C E N T R A L W I S C O N S I N



A family tradition since 1908

OUR BRANCH OFFICES

CENTRAL

2980 Arapaho Drive
Madison, WI 53719
608-256-9011

WEST

702 N. High Point Road, Suite 100
Madison, WI 53717
608-836-9300

EAST

4509 Cottage Grove Road
Madison, WI 53716
608-221-4000

SUN PRAIRIE

1625 W. Main Street
Sun Prairie, WI 53590
608-837-7345

MIDDLETON

1818 Parmenter Street
Middleton, WI 53562
608-831-3234

COLUMBUS

111 South Ludington Street
Columbus, WI 53925
920-623-5500

STOUGHTON

1609 Hwy 51 & Hwy 138
Stoughton, WI 53589
608-873-8181

RELOCATION

2980 Arapaho Drive
Madison, WI 53719
800-779-4037



TREND WATCH

Likely direction next 6 months

Number of homes sold (annualized)*

	Full MLS	Dane Co.
1st Quarter, 2006	16,054	7,937
4th Quarter, 2005	15,808	7,894
1st Quarter, 2005	14,680	7,713



Comments

Demand remains high, and Dane County is still growing. Interest Rates may slow it down if they rise much more.

* Sales for 12 months ended 03/31/06

30 Year Mortgage Rates

March, 2006	6.45
December, 2005	6.40
March, 2005	6.06



The Fed appears ready to pause, but nothing is certain. If inflation stays low, so will rates.

Average Residential Price – Single-Family & Condos

	Full MLS	Dane Co.
March, 2006	194,923	246,714
December, 2005	192,924	238,984
March, 2005	186,705	231,347



We won't see the same appreciation we have for the past few years, but likely still to rise about 4% this year.

Building Permits – Dane County Single-Family

1st Quarter, 2006	394
1st Quarter, 2005	547



May not have bottomed, but we think they're close. More contracts than specs.

Inventories – Residential & Condos

	Full MLS	Dane Co.
1st Quarter, 2006	9,257	4,629
4th Quarter, 2005	8,474	4,013
1st Quarter, 2005	6,641	2,823



As builders pull in their horns, excess inventories will likely fall.

OUR VALUE ADDED SERVICES...ALL UNDER ONE ROOF

With one call to a Stark Company Realtors® Sales Associate you have access to a full array of services designed to save you time and simplify the home buying or selling experience



your move-in connection

Moving into a new home can involve seemingly endless details. But one call to Stark EssentialsSM can shorten that list tremendously! We'll take care of utility hookups, phone connections, Internet service options and many other move-in services you may need.

608-204-4663

800-609-7970

Essentials@StarkHomes.com

SouthCentral Mortgage

CHASE Home Mortgage Affiliate

CALL US TODAY!

608-663-9966

www.South-Central-Mortgage.com

South Central Mortgage, a Chase Home Mortgage Affiliate, is our in-house lending partner. Working with a Stark Company Realtors® Sales Associate you have direct access to a wide array of financial solutions, tailored to your goals and objectives.



PREFERRED TITLE

608-271-2020

Title Insurance & Closing Services



608-831-0285

877-225-5847

Home Warranty Protection Programs