



# 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

## 2006: THE YEAR IN REVIEW

Fourth Quarter | Vol. 1 Issue 4 | 2006



Dave Stark

Regular readers of this newsletter will know that 2006 was, to put it mildly, a strange year in real estate. Despite continued record low interest rates and a relatively strong economic and employment picture, it's well known that housing sales in South Central Wisconsin took a breather in the second half of the year. What was particularly startling was how sudden and pronounced the change was from the first half of the year to the second. The good news is that, at least as of this writing, it appears that the recovery could be equally as sudden, and perhaps as dramatic.

the first half of the year, but down 19.2% in the second half. For the year, Dane County was off roughly 12%. In Sauk and Columbia Counties, sales were actually up almost 4% in the first half of the year, but down almost 10% in the second half, and off about 3% for the year overall.

The question this all begs is: **Why did this happen? And, perhaps more important: When will things turn back up?**

For the year, sales of single family homes and condos were down roughly 8% in the area covered by the full South Central Multiple Listing Service. However, for the first 6 months of the year, sales were basically flat, down about 1%. For the second 6 months, sales were down 14.5%. In Dane County, the slowdown was even more dramatic; sales were down 4.7% in

Mark J. Eppli, Bell Chair of Real Estate at Marquette University, offered some concise insight into the first question during a talk to members of the Wisconsin Realtors Association in December. According to Eppli, housing prices are almost entirely influenced by the interaction of two things: employment growth and housing inventory. Employment growth has been strong nationally, but Wisconsin taken as a whole lags the national trend a little bit. However, Madison has the highest rate of employment growth in the state, solidly exceeding the national average.

*(continued page 2)*

DANE COUNTY									
	Single Family			Condominiums			Total Residential		
	2006	2005	2004	2006	2005	2004	2006	2005	2004
4th Quarter Sales*	903	1,044	1,159	281	383	375	1,184	1,427	1,537
Full Year	5,133	5,827	5,774	1,931	2,154	1,877	7,064	7,981	7,651
Average Price	\$269,443	\$259,760	\$242,208	\$196,769	\$184,347	\$180,501	\$249,647	\$239,343	\$226,912
Active Inventory	2,624	2,318	1,678	2,424	1,695	862	5,048	4,013	2,540
Inventory Days	227	173	113	673	345	179	332	219	129

SAUK COUNTY									
	Single Family			Condominiums			Total Residential		
	2006	2005	2004	2006	2005	2004	2006	2005	2004
4th Quarter Sales*	129	147	151	25	22	13	154	169	164
Full Year	639	655	604	131	110	91	770	765	695
Average Price	\$182,714	\$176,158	\$164,166	\$214,917	\$181,323	\$160,591	\$188,212	\$176,899	\$163,523
Active Inventory	526	453	353	208	179	131	734	632	484
Inventory Days	318	240	182	649	634	786	372	292	230

COLUMBIA COUNTY									
	Single Family			Condominiums			Total Residential		
	2006	2005	2004	2006	2005	2004	2006	2005	2004
4th Quarter Sales*	138	149	132	17	13	19	155	162	151
Full Year	666	728	678	86	77	80	752	805	758
Average Price	\$183,442	\$170,187	\$165,760	\$202,270	\$179,138	\$197,434	\$185,606	\$171,039	\$169,123
Active Inventory	463	379	308	114	110	74	577	489	382
Inventory Days	262	198	182	523	660	304	290	235	197

\* Closed sales reported to the SCW MLS between 10-01-06 and 12-31-06. "Inventory Days" represents the number of days it would take to sell the entire active inventory at the pace of sales for the most recent quarter represented, adjusted to account for seasonal variations.

## MARKET OBSERVATIONS

### 2006: THE YEAR IN REVIEW (continued)

Our problem, then, has been inventory growth. As you can see in the charts elsewhere in this newsletter, inventory growth has accelerated in the last three years. An interesting additional development is the huge growth in condo inventory, particularly in the lower price ranges. Traditionally, first time home buyers bought the small, older housing stock as “starter homes.” They rarely bought new construction. The starter homes they bought were sold by people moving up the housing chain. Now, a significant number of first time home buyers are buying condos, which can be built more affordably. But they don’t displace anyone when they do this...they don’t make it possible for another buyer to buy. **Bottom line, overbuilding in the short term has flooded our market with inventory, making it tougher for the market to clear.**

The final piece in the puzzle has been publicity. Eppli also informed us in December that in 2002, 2003, and 2004, there were 907, 614, and 789 mentions respectively in the national media of a “housing bubble.” In 2005, there were 3,492 mentions. As we’ve discussed in previous issues of this newsletter, there are some “bubble” markets on the coasts, but we are clearly not one of them. Unfortunately, many people are still influenced by the bad press, and they headed for the sidelines in the second half of the year.

### 2007: SO WHAT’S AHEAD?

It’s still early, but as we head into 2007, the news looks to be more good than gloom. Here’s what we’re seeing in the key areas that affect real estate markets.

**Interest Rates.** Long term interest rates have still not moved, and the current 30 year rate remains around 6.25%. Most economists are predicting very little change in 2007.

**Inventories.** Inventories have started dropping. In the total South Central Wisconsin market, combined single family and condo inventories are down 10% since October. Last year, they rose 2% during the same period. While still 22% higher than a year ago, they were 39% higher just 3 months ago. More good news; there were 277 days of single family inventory on the market 3 months ago; now, it’s down to 233. 180 days is considered a “balanced” market, so we’re almost there. The bad news; 3 months ago, there were 485 days of condo inventory on the market. Today, it’s risen to a whopping 646 days.

**Building Permits.** Building permits have fallen by roughly 40% in Dane County. While difficult for builders, this is the necessary precursor to reducing inventories. Condos aren’t included in this figure, however, so we don’t really know the extent to which new condo projects may be continuing to cloud the picture.

**Prices.** According to the Office of Federal Housing Enterprise Oversight (OFHEO), prices in the Madison MSA (Dane, Iowa and Sauk counties) rose 1.09% in the 3rd quarter of 2006 (the fourth quarter has not yet been published), and 4.19% for the 12 months ended 9/30/06. This ranked us 178th in appreciation of the 275 markets studied. Our quarterly rate is slightly better than the 0.86% increase for the nation as a whole. Our annual rate is well under the 7.73% annual rate for the nation as a whole. What does this mean? Slow and steady wins the race. While many markets saw severe price downturns in the 3rd quarter of 2006, we stayed about on pace. The crashing “bubble” markets that you’re reading about are

### 2007: SO WHAT’S AHEAD? (continued)

those whose prices were rising much faster than ours, then hit the wall. We’ve remained moderate, and very close to our long term average.

**The Media.** While still not exactly positive, a number of stories have been printed lately quoting economists and other experts that the worst is probably behind us, and that the housing market is poised for a rebound.

**The Experts.** As per the above, many forecasters are predicting a housing rebound. Most are looking for a significant uptick in activity in the second half of 2007.

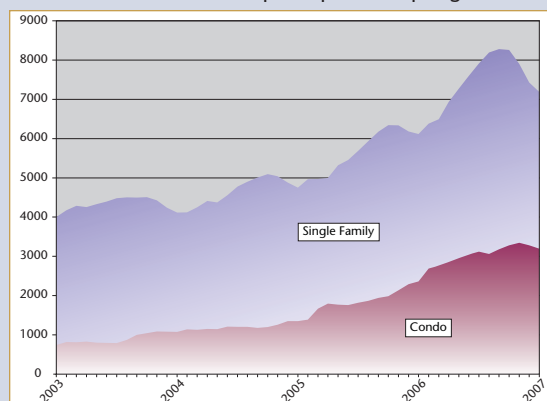
**Anecdotes.** Unscientific as it is, our salespeople have been reporting significantly better activity since November. As I write this, in January they are reporting an even higher level of activity. It will take a few months for this to start to show up in the statistics since the sales have to be made, and then closed, before they’re reported. But based on what we’re experiencing, it looks to us like the market is already breaking open.

Add it all up, and there’s a compelling body of evidence that 2007 could quickly turn into a very good year. You probably won’t see it reflected in the 1st quarter statistics, because most of the sales that will be reported will be closings from offers written in the last part of 2006, which was still a little soft. But the momentum is already building, and seems to be accelerating. The single family inventory is almost back in balance. If sales pick up, and inventory continues to fall or even stays fairly steady, we could be tipping back to a seller’s market in single family homes by this spring or summer.

**Our fearless prediction? If all the trends identified above continue, we think first quarter closings in 2007 will be slightly behind last year, the second quarter will be about even, and the third and fourth quarters could be 5 to 10% ahead. We might not quite hit the record total we recorded in 2005, but it could be close. We’ll look back a year from now and see if we were right.**

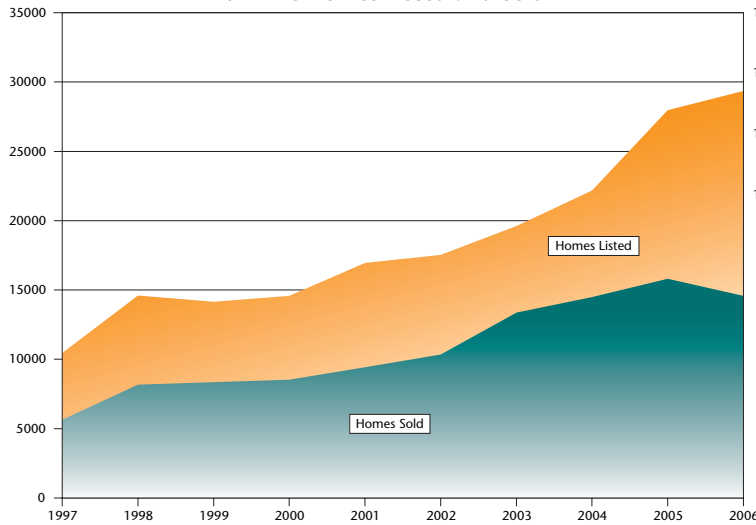
### FALLING INVENTORIES?

As you can see in the accompanying chart, inventories have been rising steadily for the past 4 years, but really shot up in the last two. As you can also see, they normally fall slightly going into the new year. But this year, especially for single family homes, the fall off has been more dramatic than usual. We still have a way to go, but with the big drop in building permits, this trend could continue as sales pick up in the spring.

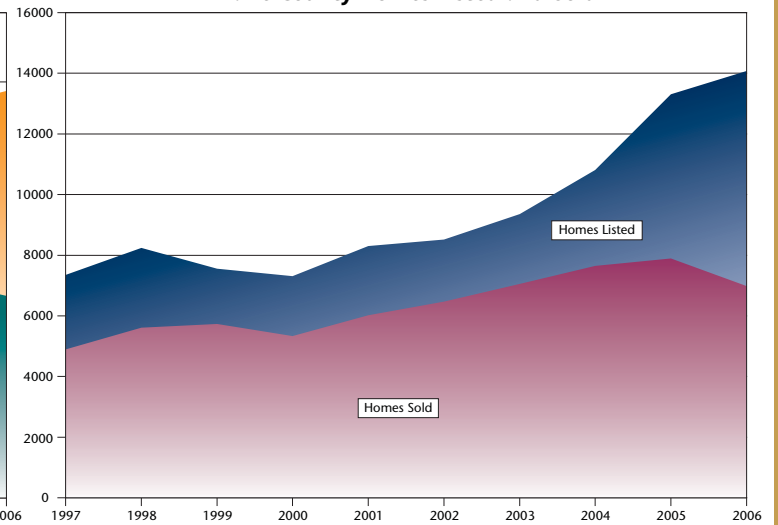


*History of Residential Housing Market for South Central Wisconsin over the last decade*

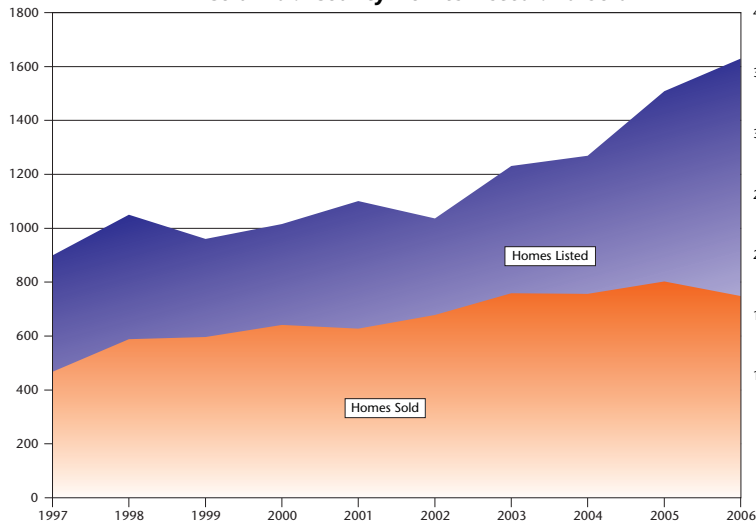
**Full MLS Homes Listed and Sold**



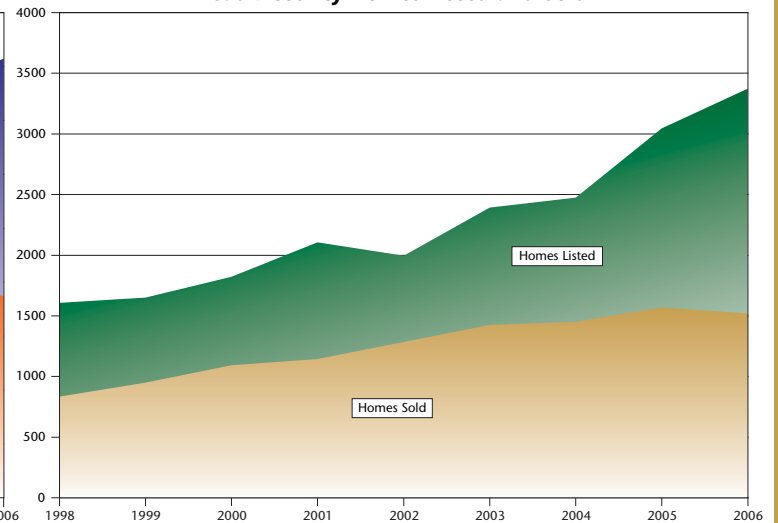
**Dane County Homes Listed and Sold**



**Columbia County Homes Listed and Sold**



**Sauk County Homes Listed and Sold**



**STRATEGIES FOR SELLERS AND BUYERS**

**SELLERS**

You're still sailing into a headwind, but the wind maybe starting to die. That makes for a tricky decision in the short run; do you cut your price and get out quickly, or do you gamble that the market will firm up later in the spring and reward your patience? If you've had your home on the market for a while, the answer depends largely on your reasons for selling, the time frame you need to meet, and your financial circumstances. There will be more new inventory in the spring, so at some point, you've got to get to the head of the line. If you're new to the market, make every effort to put your home in top condition, so it sparkles by comparison to your competition. Don't get greedy either if you get a quick offer; that's the whole idea. If you miss the first wave of buyers, you'll fall back to being one of the crowd, and we can't promise that the inventory will fall enough this year to bail you out.

**BUYERS**

While it's still a buyer's market, the unique advantage you've enjoyed for the past 8 to 12 months is starting to fade. Seasonally, we usually see a lot of new inventory come on the market in the first 3 or 4 months of the year, so you'll probably get some new things to look at in the short run. However, that's what everyone will be looking at, so we wouldn't be surprised to see competition for the newer listings, and you may not have much negotiating leverage there. Older inventory, including new construction and condos, is where the better buys will probably be, as some battle weary sellers might be very glad to see you. Don't be afraid to make an offer. If the inventory continues falling, prices may start rising again, so get in now and take advantage. Also, remember to think long term. Buying at any reasonable price today is likely to look very smart five years from now.

# REAL ESTATE MARKET SOURCE

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## TREND WATCH

### Likely direction next 6 months

#### Number of homes sold (annualized)

	Dane	Sauk	Columbia
12 mo. ended, 12/31/06	7,064	770	752
12 mo. ended, 9/30/06	7,153	785	760
12 mo. ended, 12/31/05	7,981	765	805



#### Comments

With any luck, the arrow will be pointing up next quarter.

#### 30 Year Mortgage Rates

December 2006	6.31
September 2006	6.53
December 2005	6.40



Nothing pushing rates up or down. Steady as we go.

#### Average Residential Price – Single-Family & Condos

	Dane	Sauk	Columbia
December 2006	\$249,647	\$188,212	\$185,606
September 2006	\$249,870	\$185,421	\$182,754
December 2005	\$239,343	\$176,899	\$171,039



Flat through the spring, then they'll start back up.

#### Building Permits – Dane County Single-Family

	Fourth Quarter	YTD
2006	271	1,389
2005	490	2,319



It all depends on how quickly inventories fall. The trend is hopeful for builders.

#### Inventories – Residential & Condos

	Dane	Sauk	Columbia
December 2006	5,048	734	577
September 2006	5,525	866	652
December 2005	4,013	632	489



With housing starts down, single-family inventories are heading towards balance. Condos have a way to go.

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