



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

2007 SECOND QUARTER

Second Quarter | Vol. 2 Issue 2 | 2007



Dave Stark

As we pass the half way point in 2007, the underlying forces that are driving the South Central Wisconsin real estate market are starting to define themselves, and as they do so, the future course of things is coming into focus. After a year of confusing and often contradictory signals, the market seems to be settling into a somewhat predictable groove. The bad news, if you choose to view it that way, is that it's looking more and more apparent that we won't be returning any time soon to the go-go market of a couple years ago. On the other hand, demand is remaining relatively constant, and that should set the stage for a return to equilibrium.

basis, but because they are smaller markets, they don't change the overall percentages much. If we add in condos, sales for the first half of the year are down about 5.5% in this three county area compared to last year, and down about 11.6% from the 2005 record. So, as predicted, sales have stabilized in the first half of 2007, and we're expecting the rest of the year to follow a normal seasonal pattern. Prices remain firm in all markets. The second half of 2006 was much slower than the first, so it will be interesting to see how the second half of 2007 compares. Based on current offer activity, we're backing off our earlier prediction that the second half of 2007 will be up 5 to 10 percent over 2006. But we don't expect much falloff either. In other words, we seem to have found a new level of activity, about 10-12% below the record, and unsustainable, pace of a couple years ago.

continued on page 2

In Dane County, single family sales were down 4% in the second quarter, and only 2% year to date, but they're off 13% year to date from their 2005 high. Sauk and Columbia Counties are off slightly more on a percentage

	DANE COUNTY								
	Single Family			Condominiums			Total Residential		
	2007	2006	2005	2007	2006	2005	2007	2006	2005
2nd Quarter Sales*	1,632	1,706	1,983	635	646	692	2,267	2,352	2,675
Year-to-Date	2,575	2,636	2,963	904	997	1,003	3,479	3,633	3,966
Active Inventory	3,049	2,871	1,831	2,388	2,281	1,207	5,437	5,152	3,038
Inventory Days	209	189	104	422	396	196	269	246	127
Average Price	\$265,321	\$262,865	\$252,647	\$193,692	\$188,085	\$180,345	\$244,861	\$243,828	\$232,258

	SAUK COUNTY								
	Single Family			Condominiums			Total Residential		
	2007	2006	2005	2007	2006	2005	2007	2006	2005
2nd Quarter Sales*	181	224	217	23	45	40	204	269	257
Year-to-Date	309	335	326	44	67	52	353	402	378
Active Inventory	613	561	423	273	290	173	886	851	596
Inventory Days	380	281	219	1,330	722	485	487	355	260
Average Price	\$179,259	\$184,184	\$169,433	\$217,178	\$210,030	\$141,158	\$183,642	\$188,499	\$165,031

	COLUMBIA COUNTY								
	Single Family			Condominiums			Total Residential		
	2007	2006	2005	2007	2006	2005	2007	2006	2005
2nd Quarter Sales*	214	222	248	29	33	26	243	255	274
Year-to-Date	317	351	349	40	46	45	357	397	394
Active Inventory	576	543	405	188	106	115	764	649	520
Inventory Days	302	274	183	727	360	496	352	285	213
Average Price	\$181,688	\$175,299	\$167,398	\$200,075	\$205,672	\$169,777	\$183,900	\$179,230	\$167,623

* Closed sales reported to the SCW MLS between 04-01-07 and 06-30-07. "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

2007 SECOND QUARTER *(continued from page 1)*

The key remaining condition that continues to throw our market out of balance is the level of active inventory for sale, and here, with digging, we can start to see where the seeds of a more balanced and vigorous market are already planted. After shooting up between 2005 and 2006, days of inventory in all markets have pretty well stabilized, with the exception of Sauk County, but that is probably a statistical aberration because of the

small market size. In all markets, condominium inventories are higher relative to sales than single family houses. But in certain price ranges, particularly in Dane County, we're starting to see inventories really dry up, and with the falloff in building permits, this trend will start to seep into the broader market in the next 6 to 12 months (see below for an in depth discussion). We're not out of the woods, but we can see light.

Where the Homes Are Moving

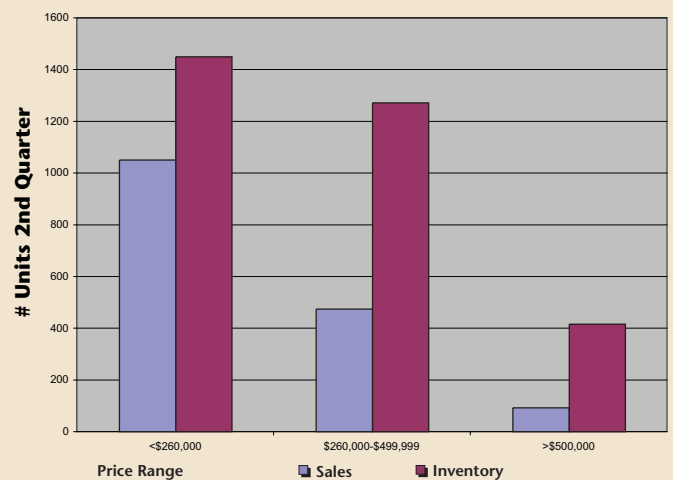
People often ask us, "What price ranges are moving?" The accompanying charts answer that question, and they also show where this market is headed, as suggested above. It may surprise you to know that 65% of the single family homes sold in Dane County in the second quarter sold for under \$260,000. Yet only 46% of the inventory is in that price range. At the second quarter pace of sales (not seasonally adjusted), the entire inventory of homes in that range will sell out in just over 4 months, which is considered a seller's market. Between \$150,000 and \$220,000, there is less than 4 months of inventory, and nearly 40% of the sales occurred there.

This is great news on many fronts. First of all, it means that first time home buyers have not been scared out of the market by all the negative media lately. It also suggests that, at least in Dane County, the alleged sub-prime crisis we detailed in our last newsletter has had minimal effect. Perhaps even better, it means that many move up buyers can sell their current homes, generally fairly quickly. This is also the price range where a whopping 73% of the condo inventory is, and an even more whopping 87% of the condo sales! (See last quarter's newsletter and page 3 for a more detailed discussion of the condo market.) That means the fear some have had that condos are stealing buyers from single family homes is completely unfounded in the lower price ranges, where the bulk of the activity is. In fact, the under \$260,000 price range is fairly brisk across the board, with supply and demand in nice balance.

The corollary to this, of course, is that the upper price ranges are where the action is less brisk. But even here, at least between \$260,000 and

\$500,000, there is only 8 months of single family inventory currently on the market; still high by historic standards, but not impossibly high. It's over \$500,000 where the market is most out of balance, with over a year of single family inventory. And there's good news here too, because this is the range where most new construction occurs, and building permits continue to run at very low levels compared to previous years. While it will take some time, this inventory will eventually be absorbed, and when it is, you'll see a balanced, or even a seller's market return. It's already here in the lower half of the market. When it returns in the upper half, the perceptions that this is a "slow" market will quickly fade.

Dane County 2nd Quarter Single Family Sales and Inventory



STRATEGIES FOR SELLERS AND BUYERS

SELLERS

More and more, it's starting to look like your chances for success in this market hinge on what segment of the market you're playing in, and how realistically you attack that segment. As the feature on page 2 shows, if you're in the mid to upper \$200,000's or less, the market is fairly favorable for you. We don't see price increases here yet, but you can probably safely price to recent comparable sales. If you're over that price, you really need to price to the current competition, as well as paying attention to what's actually sold recently. Buyers are still snapping up fair values, but if you're not in line with the market, you'll simply be passed over. Also, listen to objective advice; the market isn't emotionally attached to your home the way you are. If you're holding out for top dollar, you might be better off taking your home off the market for a while and waiting until conditions improve.

BUYERS

As always, your situation is the reverse of seller's. In the mid to upper \$200,000's, the market is moving very well, so you can't assume that the home you like will be around a few weeks or days from now. Above that, you can employ a more discerning eye. However, the well priced and presented properties still sell very quickly in all price ranges, so educate yourself to value, and be ready to act when you see it. As always, we advise taking a long term view. Prices are steady, and will start up again when the supply dwindles. Our strong local economy will protect your value over the long run. The mortgage market has also stabilized quickly, and as long as you're working with a reputable lender, you shouldn't have any surprises. Fixed rate loans are extremely favorable right now, so you can lock in a low payment for as long as you own the home.

NEWS

“Condoldrums; The sluggish housing market extends to many of the area’s new condominium projects.” *Wisconsin State Journal Business Section*, July 8, 2007.

There have been so many articles written like this in the past few months it’s hard to pick one to comment on, but this one is very recent, and very local, so it serves as a great example. The article focused on 9 condo projects currently for sale around the area, and attempted to again make the point that our local real estate market is in a state of disarray. More specifically, the article asserts that projects built before 2005 have done well, while those that have come on the market after that time are struggling.

VIEWS

The most salient point missed by the article is that, from a demand point of view, the condo market really has not slowed down all that much. As the chart on page 1 shows, Dane County condo sales for the first half of 2007 are down roughly 9% from the last year, but less than 2% in the 2nd quarter alone. What the chart also shows (and this is a microcosm of the whole local market) is that inventories took a big jump up between 2005 and 2006. So it’s true that the months of inventory on the market have gone up. But that begs the next question: Have they gone up too much?

Condo projects are not like single family houses. Houses are built one at a time. Condos are built in bunches. When a new project comes on the market, it doesn’t just bring one home, it brings 10, 20, sometimes hundreds of homes. Developers know this, and they assume a certain number of years in their plans to sell out the project. Overall in Dane County, there are 14-15 months of condo inventory on the market, based on the current sales rates. While that’s double the sales time of two years ago, our guess is that if you told most developers they’d likely sell out in a year and a half, they’d be thrilled.

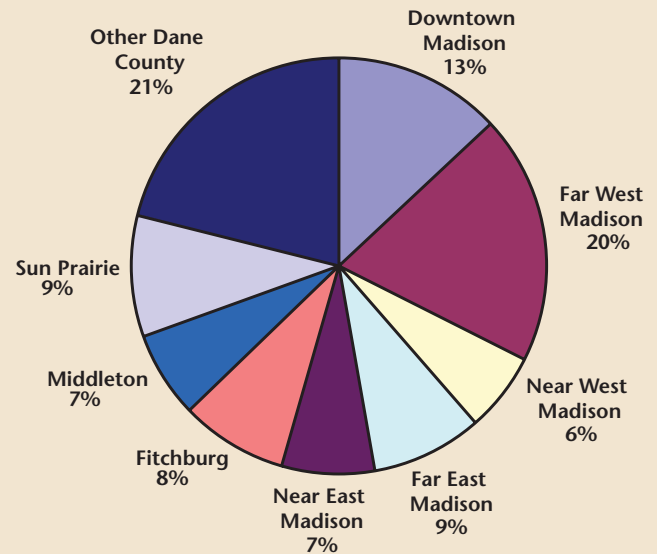
MONTHS OF CONDO INVENTORY			
Middleton	11	Near East	16
Far West	12	Sun Prairie	17
Far East	13	Downtown	25
Fitchburg	16	Near West	28

But, you say, there are projects that have been around much longer than that. True, and the State Journal article did a fine job of picking out many of them. The chart above shows the number of months of condo inventory in most of the major areas of the county. Of the projects mentioned in the article, 4 of the 5 biggest are all either Downtown (The Loraine, Nolen Shore), or Near West (Monroe Commons, Westin Place) where there are over 26 months of inventory, far higher than in other parts of the county. The 5th is Bella Casa in Middleton, a conversion project that is selling very well in a low inventory market. Gardd Parc is sold out, and the

VIEWS (continued)

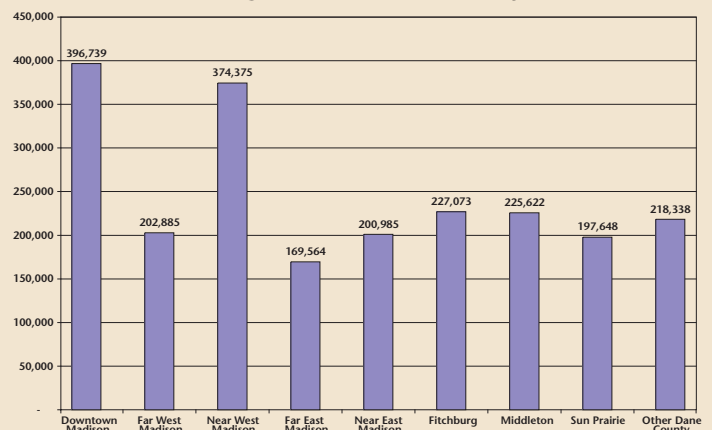
other 3 projects mentioned are small. Also, look at the pie chart attached (reprinted from our last issue) showing the distribution of the condo inventory throughout the County. Only 19% of the inventory is Downtown or Near West. In the areas with the remaining 81%, existing inventories are selling out much more quickly, averaging less than 14 months. And finally, look also at the reprint of the average prices in each area. Not surprisingly, the Downtown and Near West areas are by far the most expensive.

Distribution of Condo Inventory in Dane County



The bottom line is this. The perception of the condo market in Dane County is distorted by the performance of a few very large, very expensive projects in high priced neighborhoods with low absorption rates. Unfortunately, the State Journal article played right into those misperceptions. The rest of the condo market is just fine. It will take a little longer to sell out than it did a couple years ago, but inventories are slowly starting to fall. As we said last month: in a couple years, we’ll be talking about a condo shortage again.

Average List Price of Condos by Area



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TREND WATCH

		Likely direction next 6 months				Comments
Number of homes sold (annualized)		Dane	Sauk	Columbia		
12 mo. ended, 06/30/07	6,826	731	716	↔	Probably flat through the rest of 2007.	
12 mo. ended, 03/31/07	6,987	790	720			
12 mo. ended, 06/30/06	7,628	789	713			
30 Year Mortgage Rates						
June 2007		6.79	↔	Likely to stay somewhere between 6% and 6.75%.		
March 2007		6.29				
June 2006		6.81				
Average Residential Price – Single-Family & Condos		Dane	Sauk	Columbia		
June 2007	\$244,861	\$183,642	\$183,900	↔	Flat until the inventory draws down.	
March 2007	\$244,450	\$161,507	\$167,047			
June 2006	\$243,828	\$188,499	\$179,230			
Building Permits – Dane County Single-Family		Second Quarter	Year-to-Date			
2007	394	648	↓	Not likely to start back up until 2008 at the earliest.		
2006	429	823				
2005	697	1,251				
Inventories – Residential & Condos		Dane	Sauk	Columbia		
June 2007	5,437	886	764	↓	They've leveled off, but it doesn't look like they'll fall until next year.	
March 2007	5,300	770	679			
June 2006	5,125	851	649			

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