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# REAL ESTATE MARKET SOURCE

OF SOUTH CENTRAL WISCONSIN

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Dave Stark

In our last issue of the Real Estate Market Source, we predicted a slow first quarter for residential closings, followed by an uptick in the second quarter (see [www.starkhomes.com](http://www.starkhomes.com) for back issues of the Real Estate Market Source). Well, we were certainly correct about the soft first quarter. However, an increase in customer inquiry and showing activity after spring break gives us reason to hope that the second quarter might also meet our projections.

It appears closings will be off roughly 25% from the first quarter of 2007 in the combined Dane, Sauk, and Columbia markets. We admit that this is an even bigger drop than we anticipated. However, we also didn't anticipate a record snowfall year, when many weekends in January and February were virtually wiped out as far as showings go. The

earliest possible Easter didn't help either, as activity is always reduced in the weeks before and after the holiday for academic spring breaks. Excuses aside, this was a rough quarter.

On the brighter side, since late March, we've seen a noticeable increase in activity on our web site, in open houses, and in our showing volumes. Showings on our listings were off 18% in January and February, but were even with last year in March, and are on pace to be over 20% ahead of last year in April. Offer activity is picking up as well. Pending sale data in the MLS is notoriously unreliable and always late in being reported, so we won't really know until May or June if the market overall is taking a real turn. But the traffic signals are certainly positive.

In our last issue, we pointed to a number of fundamentals that appeared to be moving in a positive direction for our market. **Although inventories have undergone their normal spring rise**, they have more or less leveled

## DANE COUNTY

	Single Family			Condominiums			Total Residential		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
1st Quarter Closings	686	916	970	212	251	354	898	1,167	1,324
Active Inventory	2,888	2,875	2,637	2,247	2,425	2,147	5,134	5,300	4,629
Mos. of Inventory	8.8	6.5	5.7	22.1	20.1	12.6	11.9	9.5	7.3
Median Price	\$219,172	\$225,000	\$228,200	\$175,000	\$165,700	\$175,000	\$209,000	\$214,900	\$215,000

## SAUK COUNTY

	Single Family			Condominiums			Total Residential		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
1st Quarter Closings	85	124	108	8	21	22	93	145	130
Active Inventory	632	546	504	29	224	239	881	770	743
Mos. of Inventory	15.8	9.4	9.9	66.1	22.7	23.1	20.1	11.3	12.1
Median Price	\$151,500	\$152,000	\$153,000	\$187,000	\$107,950	\$197,875	\$160,000	\$149,000	\$160,000

## COLUMBIA COUNTY

	Single Family			Condominiums			Total Residential		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
1st Quarter Closings	77	100	129	3	10	13	80	110	142
Active Inventory	560	502	439	168	177	88	728	679	527
Mos. of Inventory	15.5	10.7	7.2	119.0	37.6	14.4	19.3	13.1	7.9
Median Price	\$149,900	\$157,000	\$162,500	\$147,500	\$152,568	\$208,000	\$149,700	\$157,000	\$163,500

\* Closed sales reported to the SCW MLS between 01/01/08 and 03/31/08. Data for all years pulled between the 15th & 20th of the month following the end of 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 quarter represented, adjusted to account for seasonal variations.

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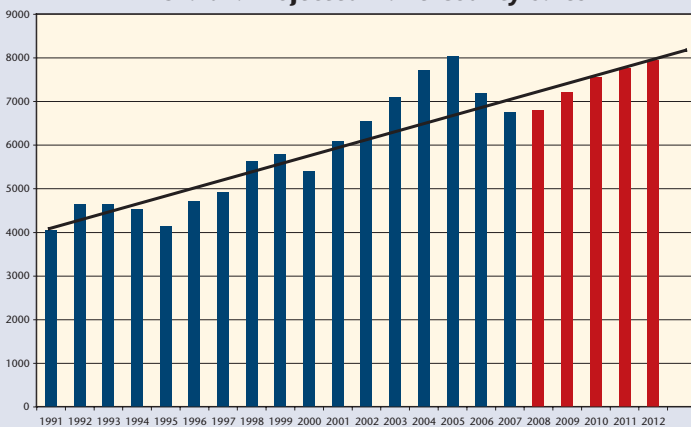
# MARKET OBSERVATIONS

out, with condo inventories starting to fall as most new projects have been put on hold. New construction still remains very subdued, off another 36% from last year, 58% from two years ago, and 70% from 2005. **Because of the big drop in closings in the first quarter, months of inventory have risen on paper, but bear in mind that the first quarter is always the thinnest of the year, so the database is small and the numbers can be volatile.** We're confident they will improve throughout the summer. 30 year mortgage rates have fluctuated between 5.75% and 6.25%, great by any standard. While it may look like median prices are down, don't be fooled. It's common for median prices to dip in the first quarter, and the small database also makes this number both volatile and often misleading. We saw the same thing last year, but by year's end, prices were up. **Overall, our prices are still holding firm.**

The question we've been asking ourselves is: where will this all settle in? What is the "natural level" of activity we can count on going forward? Well, we've done the research and we think we have a sense of what that might be. Below, we'll show you some charts that give a pretty good picture of where we've been, where we are, and some metrics that we think show us where we're going.

## HOW MANY SALES?

Chart 1: Projected Dane County Sales

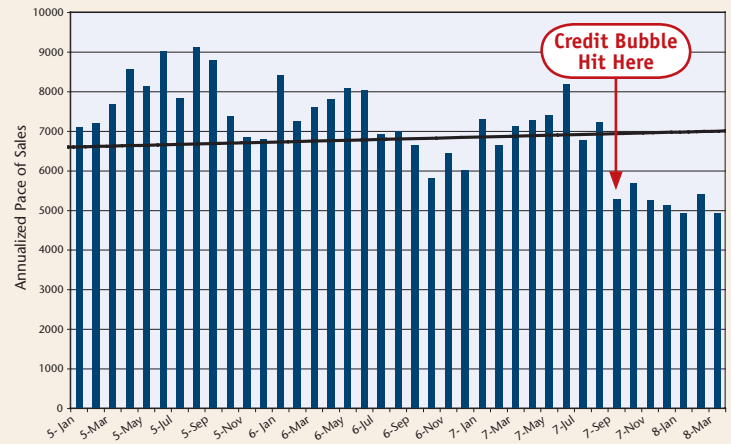


The first thing to assess is the underlying level of demand. Is this market "slow," or is it normal? How many sales should we expect under normal circumstances going forward?

Take a look at Chart 1 above. The blue bars are the actual annual level of sales in Dane County from 1991 through 2007. The red bars are our projection going forward. The trend line we've drawn is not random. We researched the growth in the number of owner occupied housing units as reported in the US Census over the same period, and analyzed the relationship between the number of housing units and the number of sales. The trend line is set where the number of sales would be on average relative to the number of housing units, with particular emphasis on actual results during the 1990's.

As you can see, we clearly exceeded the expected level of sales from 2002 through 2006 (even though 2006 felt a little slow by comparison). We underperformed in 2007, and we think we'll underperform again in 2008, **mostly because the slow start will be hard to totally overcome. We conservatively predict that 2009 will be much like 2006,** and then the chart shows where sales should be if we resume the trend. If this projection is accurate, inventories should start to shrink through the balance of this year, and return to normal levels (4 to 6 month supply) as 2009 progresses.

Chart 2: Dane County Monthly Sales Activity, Seasonally Adjusted

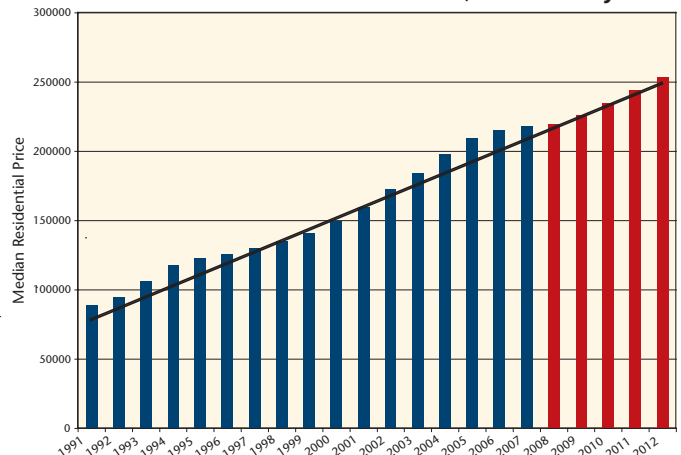


We also thought you'd be interested in the picture Chart 2 reveals. Chart 2 shows closed Dane County sales month by month from January 2005 through March 2008, seasonally adjusted to the expected level of annual sales based on each month's normal contribution to the total year. The trend line is the expected annual level of sales based on the size of the housing stock, as in Chart 1. What's interesting here is that it's easy to see when the market went quiet. 2006 started pretty well, then slowed a bit in the fall. 2007 looked like it was getting back on track until September, and then the bottom fell out. **Our readers will recall that this is when the credit bubble really burst.**

Obviously, the sensational news from last fall has sent buyers scurrying to the sidelines once again. Since interest rates, prices, and our overall economy have remained solid throughout this period, buyer fear is the only convincing and sufficient explanation for the reduced demand we've experienced since then. We can only reiterate that buyers are missing their last, best opportunity to buy at today's prices if they're not acting now. We hope that the uptick in showing activity is a sign that they're starting to leave fear behind.

## SO HOW ABOUT PRICES?

Chart 3: Median Price Increases, Dane County



We charted median prices in Dane County too, since fear of falling prices has been one of the big deterrents to a more robust market. You can see the results in Chart 3. The trend line is calibrated as closely as we could get to the average appreciation rates we experienced in the 90's. Not unexpectedly, we were a little over trend during the same 2002 to 2006 period, but not much. **The relatively flat prices we experienced last year, and project again for this year, will pretty much bring us back on pace. After that, we predict prices will resume their normal 4-5% annual rise**

## WHAT HAPPENED TO ALL THE FORECLOSURES?

Thankfully, we haven't been hearing as much in the media about foreclosures in our market. What we do have is an excellent piece, Issue 18 (February, 2008) of the "Community Indicator" series, published by the Center for Community Economic Development of the UW Extension. It's titled County Civil Court Data Is The Key To Understanding Foreclosure Issues, written by Andy Lewis and Russ Kashian. Their primary finding: Foreclosures were up 26.3% in Wisconsin in 2007 over 2006, **far less than the 131% increase reported by RealtyTrac**, the most common source cited by the media. Why the difference? Here's what the authors have to say: "While the media has relied heavily on private sector data sources such as RealtyTrac and Foreclosure.com to report on the foreclosure crises, there is often a misunderstanding of what these data sources are reporting. When foreclosure filings are reported, that includes default notices, auction sale notices and bank repossessions. Typically there are numerous filings for the same property and often numerous lenders filing for the same property. In other words, the number of filings is not a good indication of the number of properties facing foreclosure." According to the authors, 819 unique Dane County properties were involved in foreclosure in 2007. **This is one unique case for every 257 properties in Dane County, or only 0.39% of the total. This is the 9th lowest unique foreclosure total per property of any Wisconsin county.** The report makes it clear that some Wisconsin counties are harder hit than others. While the report does not give the exact percentage increase for Dane County, it is shown on a map of the state as having between a 10.1-20.0% increase in 2007 from 2006, far less than many alarming media reports. A 20% increase would mean that foreclosures rose from 0.33% to 0.39% of total properties in Dane County. Sauk County is in the same category, while Columbia County is listed as increasing between 20.1 and 30%.

**As we've repeatedly pointed out, our foreclosure activity, while up some, is still not occurring on a large enough scale to be a factor in the performance of our market.** Foreclosures are a major factor in certain states. The experiences in those markets are fueling most of the negative media reports about housing, and are the major cause of the credit problems that are currently in the headlines. To see the entire report, go to our web site at [www.starkhomes.com](http://www.starkhomes.com) and click on "Newsletter and Published Articles" link.

## GREAT FINANCING STILL AVAILABLE

**One of the other more pernicious myths in the market today is that the "credit crisis" has vastly curtailed the availability of mortgage money. This is patently untrue. Lenders are eager for business, on very favorable terms.** Having said that, the irresponsible lending that went on in some states over the past few years, and the troubles that followed, have led to a return to more conventionally underwritten approval policies, and some changes in the overall product mix. Here is what consumers need to know about today's lending environment.

- For borrowers with good credit (over 700 credit score) and 20% or more down, nothing has really changed. Rates remain very favorable, and money is readily available.
- The FHA program has become a popular choice for buyers with low down payments or marginal credit. It offers loans with as little as 3% down and no minimum credit score, although credit generally needs to be good for the past 12 months. Zero down payment loans can also still be had through FHA, with a "seller assisted grant" program. The VA and Farmers Home Loan programs also offer zero down programs to qualified borrowers and properties.
- Conventional loans can still be found with as little as 3% down. However, borrowers must have excellent credit. Also, borrowers putting less than 20% down on a conventional loan will have to pay Private Mortgage Insurance (PMI). **The good news here is that PMI is now tax deductible.**
- Loans where the buyer merely had to state his or her income, assets, employment, or not provide complete documentation, have largely left the market. This is a good thing, as this is where most of the troubles in the credit markets started. Sub-prime as we knew it is pretty much gone, at least for now.
- Adjustable rate loans are still available, but in the current rate environment, fixed rate loans are often a better choice.
- Appraisers have become much more picky. Getting the house to appraise is critical if the down payment is low.

In summary, downpayment and credit score are the two biggest factors in determining what kind of loan program you should choose. Be sure to work with established, reputable, local lenders. **Stay away from internet lenders and from deals that sound too good to be true.** With a little homework, good advice, and realism, the vast majority of buyers today can still find financing that meets their needs.

## ADVICE FOR BUYERS AND SELLERS

We're going to combine our normal advice for Buyers and Sellers into one section this time, because both of you have essentially the same problem. You're each trying to make sense of the current market, a market in transition. For that reason, what we're noticing this year is that buyers, to a greater degree than in the past, are lowballing their offers to try to take advantage of what they perceive is a market favorable to them. Sellers, for their part, don't want to give in. Negotiations have been more protracted, without much ground being gained.

Here's the fact: the average ratio of sale prices to list prices so far this year has been 96.5%, not much different than previous years. Here's what it means: if a property is well priced, it will sell for close to its asking price. Those that aren't well priced are either sitting, or their prices are being reduced until they become realistic. So sellers, if you're not well priced, get in line with the market as quickly as you can. You'll sit until you do. There's still too much inventory out there, and buyers have figured out that they have choices. Also, with tighter loan underwriting standards

for all types of loans, appraisals are becoming much more stringent, and loans are being denied if the house doesn't appraise. Overpricing is simply a waste of everyone's time. But buyers, you also need to be realistic. If a property looks like it's pretty well priced, it probably is, and the seller won't have to come way down to sell it. There are plenty of buyers in the market now, and realistic sellers don't have to come down another 10 or 15% just because you ask them to, nor will they. You'll miss out on some good buys over playing your hand.

If you believe what the charts on page two show you, this market is starting to stabilize, at today's price levels. While we realize there is a process of adjustment that we all have to go through, we also know that when properties are priced well, and the offers are strong and fair, it makes for transactions that are a lot less stressful for everybody than long negotiations that arrive at the same place. The sooner buyers and sellers resolve their different perceptions and get on the same page, the quicker we'll get back to normal.

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### TREND WATCH

#### Likely direction next 6 months

##### Number of homes sold (annualized)

	Dane	Sauk	Columbia
12 mo. ended, 3/31/08	6,399	665	655
12 mo. ended, 12/31/07	6,673	702	677
12 mo. ended, 3/31/07	6,987	790	720



##### Comments

We think the trend is starting to move up again.

##### 30 Year Mortgage Rates

March 2008	5.97%
December 2007	6.10%
March 2007	6.29%



Rates could be even lower if investors weren't so fearful.

(Source: Freddie Mac)

##### Median Sales Price – Single-Family & Condos

	Dane	Sauk	Columbia
1st Quarter 2008	\$209,000	\$160,000	\$149,700
4th Quarter 2007	\$223,745	\$165,000	\$144,950
1st Quarter 2007	\$214,900	\$149,000	\$157,000



Very misleading with a small database. One more flat year.

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

	1st Quarter	Year-to-Date
2008	164	164
2007	255	255
2006	395	395



Still no relief for builders. The inventory has to fall a little more.

(Source: MTD Marketing Services)

##### Inventories – Single Family & Condo

	Dane	Sauk	Columbia
March 2008	5,134	881	728
December 2007	4,590	764	672
March 2007	5,300	770	679



The increases since December are seasonal. They will slowly fall throughout the year.

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