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# REAL ESTATE MARKET SOURCE

OF SOUTH CENTRAL WISCONSIN

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Dave Stark

Our biggest challenge in putting together this issue of the Market Source Newsletter was deciding where to begin. As we write (in mid-October), the financial markets are experiencing convulsions the likes of which few of us have seen in our lifetimes. And of course, the connections to the housing markets are well known, although not well understood, which provides us with a virtually unlimited supply of topics to discuss. It's for times like these that we hope we can provide a real service, as we see our mission to be your definitive, trusted source of knowledge about the real estate market.

Let's start by assessing the current state of the real estate market in South

Central Wisconsin. Believe it or not, there is some moderately good news to report. While the 3rd quarter of 2008 again showed a decline in activity from the same period in 2007, **the size of the decline was smaller than in the first two quarters. Sales in the Dane, Sauk, and Columbia County markets were down 15.6% from the 3rd quarter of 2007. Year to date, they're down 21.1%. Dane County fared the best, down only 12.2% for the quarter and 18.6% for the year. Sauk is down 27.9% for the quarter and 28.6% for the year. Columbia was down 33.8% for the quarter and 37.7% for the year.** Inventories continue to decline slowly in Dane County, while continuing to rise slowly in Sauk and Columbia. Months of inventory are not much changed from last quarter (please visit [www.starkhomes.com](http://www.starkhomes.com) to view last quarter's issue of the Market Source Newsletter to see a detailed analysis by price range of relative inventory levels).

## DANE COUNTY

	Single Family			Condominiums			Total Residential		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
3rd Quarter Closings	1,212	1,369	1,397	415	483	566	1,627	1,852	1,963
Year to Date	3,337	4,003	4,130	1,087	1,431	1,598	4,424	5,434	5,728
Active Inventory	2,935	3,018	3,118	2,099	2,234	2,407	5,034	5,252	5,525
Mos. of Inventory	8.8	8.1	8.2	18.4	17.0	15.6	11.3	10.4	10.3
Median Price	\$235,000	\$243,000	\$235,000	\$168,075	\$162,500	\$159,136	\$217,000	\$222,000	\$215,000

## SAUK COUNTY

	Single Family			Condominiums			Total Residential		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
3rd Quarter Closings	149	185	177	11	37	40	160	222	217
Year to Date	369	495	512	44	83	107	413	578	619
Active Inventory	691	600	616	209	252	292	900	852	908
Mos. of Inventory	16.9	11.9	12.8	69.2	25.0	26.8	20.5	14.1	15.3
Median Price	\$150,000	\$168,000	\$160,000	\$158,000	\$158,000	\$151,200	\$151,450	\$164,750	\$159,950

## COLUMBIA COUNTY

	Single Family			Condominiums			Total Residential		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
3rd Quarter Closings	119	179	178	12	19	22	131	198	200
Year to Date	322	502	529	28	60	68	350	562	597
Active Inventory	671	591	555	175	175	112	846	766	667
Mos. of Inventory	20.6	12.1	11.4	53.2	33.8	18.7	23.5	14.2	12.2
Median Price	\$156,500	\$174,750	\$165,000	\$176,000	\$145,000	\$141,250	\$160,000	\$174,500	\$164,500

\* Closed sales reported to the SCW MLS between 07/01/08 and 09/30/08. Data for all years pulled between the 15th & 21st 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

What's good about this is that the slide in housing activity that began in earnest about this time last year seems to be abating. Building activity remains very subdued both here and nationwide. **But the National Association of Realtors recently released data showing that August pending home sales were at the highest level in over a year, up 5.5%. NAR is predicting a roughly 8% increase in home sales in 2009 over 2008.** We just returned from a peer group meeting of real estate brokers from around the country, and virtually all reported stabilizing sales and prices. Much of the increased activity was in the markets hardest hit by foreclosures (California, Florida, Arizona and Nevada) as prices in those markets have fallen to the point where buyers are being drawn back into the market.

It's too early to say whether the current financial turmoil will cause another pause in real estate activity. So far, it has not, as offer activity appears to be continuing at a pace similar to last year. As you'll see elsewhere in this issue, **mortgage money remains available at attractive rates and terms.** So as dramatic as the current news has been, it has not fundamentally changed anything as far as real estate goes. While it's true that the sloppy lending practices of the last 8 or 9 years catalyzed this mess, it's old news now. Real estate has been working through this for the last three years, and is becoming a real value again, even in the most overpriced markets. **Real estate usually leads the country into recession, and also usually leads it out.** The much discussed \$700 billion (bailout, rescue, pick your label) from the government should eventually stabilize the credit markets. **But real estate is proving once again to be a stable long term asset when compared to the volatility of stocks and bonds.** It certainly has been in our market. What people need is good information they can believe in. We'll try to provide some.

## PRICES

Let's start with the most important, and most misunderstood facet of our market: prices. The accompanying chart shows median residential prices in Dane County charted quarterly from 2000 through the present. As you can see, the median increased steadily through 2005, and has been pretty much level since. From 2000 through 2005, prices increased at an average of 7% per year (not the 15-20% in the markets that melted down in the past couple years). Since then, our median has increased a total of 2-3%, currently standing at \$215,000. **Taken as a whole, our median has risen an average of 4.6% per year since 2000. By comparison, from 1991 through 2000, our median rose 5.8% per year. So with the last three flat years, the decade of the 2000's has actually underperformed our historical average. Some bubble.** This is why we continue to preach that we have nothing to fear from falling prices. As long as inventories stay higher than a normal 6 month's worth, we will be in a moderate buyer's market, and prices will stay flat. The median may even fall slightly in the next few months. But the fundamental value of our real estate remains

Median Price, Dane County

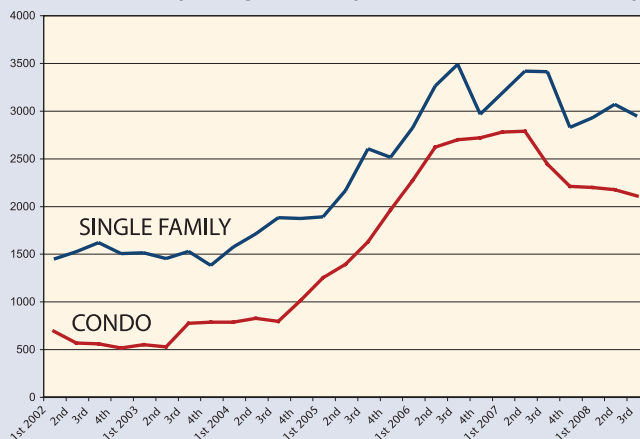


solid, and buyers have nothing to gain by waiting. **In fact, failure to take advantage of today's conditions will cost anyone who waits.**

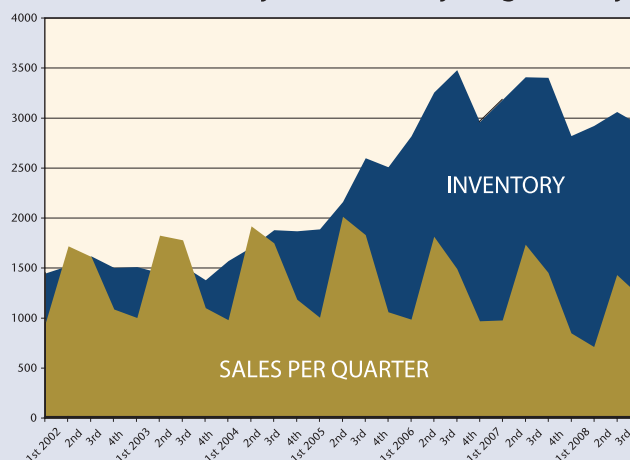
## INVENTORIES

Speaking of inventories, the first chart below shows the pattern over this decade. Note how inventories rose quickly during 2004 and 2005, leveled off in 2006, and have been lurching downward since. As best we can tell, the perception of **rising demand encouraged overbuilding in certain neighborhoods. Also, condominiums became a staple in virtually every new development** during this period.

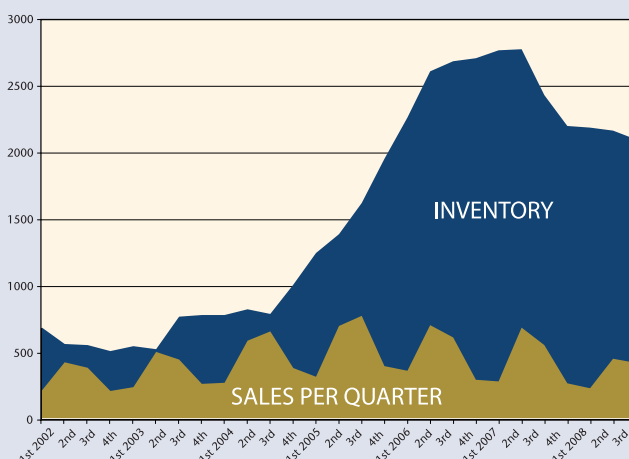
Dane County Single Family and Condo Inventory



Sales to Inventory, Dane County Single Family



Quarterly Sales to Inventory, Dane County Condos



While demand for condos has been steady, new condo construction added to the overall housing mix and sapped off some of the demand that would have gone to single family housing previously. The remaining two charts show the relationship between quarterly sales (note the very regular seasonal pattern) and total inventories. As you can see, inventories have risen much faster than demand has fallen. **In the early part of the decade, we had less than 3 months of inventory available. Now, it's double that for single family and quadruple that for condos.** (Bear in mind that condo inventories are always higher relative to sales because so many of them come to market in bunches.)

What this story tells us is that when you analyze the numbers, **our market does not have to move that much to get back into balance.** We estimate a normal level of sales for Dane County is between 6500 and 7000 sales per year (single family and condo combined). This year we'll clock in at 5500. That means demand only has to rise about 20% to get back to normal. We think we might approach 6000 sales in 2009 (but we're not counting on it) and will get back to 6500 or so by 2010. At that level, single family inventories only need to fall about 15% from current levels, and condo inventory about 25%, to get us back into balance. Given the slow pace of new construction, we might be close to those inventory levels next year, particularly in single family. **The buyer's market shouldn't have too much longer to run.**

## CREDIT AND MORTGAGE AVAILABILITY

The "seizing up" of the credit markets has left many assuming that mortgage money is no longer available. This is patently untrue. That said however, the credit markets are going through historic changes that do bear some discussion.

**Suffice it to say that in general, in South Central Wisconsin, mortgage money remains as available as it has ever been.** Underwriting standards continue to be a moving target, however, so buyers need to do what they can to educate themselves, or rely on a trusted advisor, to help them understand their options. Marv Balousek of The Wisconsin State Journal published a good summary article on this topic in their Business section on Saturday, October 18 (it can be found online at [StarkHomes.com/marketsource\\_news.html](http://StarkHomes.com/marketsource_news.html)). Generally, if you have a good credit score (720 or higher), and a downpayment of some kind (20% preferred, but lower is available), you won't have any trouble. Borrowers with lower credit scores or downpayments still have options, but they'll have to search a little harder. With less than 20% down, you will now pay private mortgage insurance. FHA guaranteed financing is making a big comeback, with downpayments as low as 3%. **All borrowers for all types of loans will now need to verify their employment and income; liar loans are history, thank goodness.** And the appraisal process is becoming much more strict. Even though our prices are not falling, appraisers are being required by banks to be very objective, particularly when the down payment is low. We've had a few closings delayed because of financing or appraisal snags, so buyers and sellers should be prepared for a more stressful process in some cases.

But to sum it up, what we have is a return to the responsible underwriting standards of old, which were designed to keep people from buying more house than they can afford. There's certainly nothing wrong with that.

## THE EFFECT OF FEAR

In trying to decide what we really felt our readers needed to know, we simply can't avoid discussing the role fear plays in the functioning of markets. **We have been saying for some time now that fear has been the primary force keeping many buyers out of the housing markets, to everyone's detriment.** If there is one word that explains everything happening in our economy today, it's "fear." Webster defines fear as "painful agitation in the presence or anticipation of danger." Webster also discusses the synonym "panic," which it defines as "unreasoning and overmastering fear causing hysterical activity." This, in a nutshell, is what we have today.

The Wisconsin State Journal published another excellent series of opinions in their October 5 Sunday Forum section. Nick Tasler, the director of research and development for TalentSmart, a global think tank, says this in his article [Blame Fear, Not Greed, For This Crisis](#): "My research confirms decades of decision-making research before it, revealing time and again that 75 percent of people are cautious and only 25 percent are risky and impulsive. Most people worry far more about falling behind than they worry about getting ahead." (This article can also be found on [StarkHomes.com/marketsource\\_news.html](http://StarkHomes.com/marketsource_news.html)). He explains how bubbles really start to inflate when people start buying out of "fear of being left behind." He then says: **"The most dangerous part of a bursting bubble is the impulsive aftermath. As the housing bubble bursts, dysfunctional impulsive behavior climaxes because the fear of losing compounds. Typically cautious people make mad dashes for the exits and trample good judgment on the way out."**

This is what we are dealing with now on a national level. **The recent tumble in the stock markets is fear driven, not rational.** The freezing of the credit markets is nothing more than fear on the part of banks that if they lend to another bank, the bank they lend to might fail (i.e. Lehman Brothers) and not pay them back. So they're sitting on mountains of cash, waiting to see what will happen next.

Decisions made in fear are **virtually always bad decisions in the long run. We all know, in our heads, that the markets will recover, and if we were smart and courageous, we'd be buying assets everywhere we could right now.** That's what Warren Buffett is doing. But our fear overrides good sense, and a situation that we should be able to work our way out of becomes a panic that delivers far more pain than it should. This is what we've been trying to say about our local housing market for the past three years. The only thing standing between us and good health in the housing market is fear. There are smart buyers around the country who are starting to figure this out. We hope more buyers will start to figure it out here too. **Allowing fear to drive you is costly. If it keeps you on the sidelines much longer, it could be very costly.**

## ADVICE FOR BUYERS AND SELLERS

### BUYERS

If you've read the rest of this newsletter, you know the story. Housing in our market is very fairly valued right now, and your opportunity to buy it at today's prices is limited. **Either next year or the year after, prices will start moving up again. They will not, on a broad scale, move down.** But the balance of inventory favors you, so you have the opportunity to negotiate a good price. That doesn't mean 20% below the list price. The average in our market is a sale price at about 96% of list, closer to 97% in Dane County. But smart sellers are offering good values. Get them now while you can.

### SELLERS

You must pay attention to the inventory numbers elsewhere in this newsletter. But beyond that, you also need to sit down with your real estate professional and **understand the absorption rates that apply to your house, your neighborhood, and your price range.** We've found some sellers who believed the national press 5 years ago, thinking their house was going up 20% a year in value. It wasn't, so you have to adopt a sense of realism. There is always a market in operation, and there is always something you can do to get results. It's all about offering value to the buyer. Make your house the best option, and your chances will improve.

# 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, 9/30/08	5,525	541	469
12 mo. ended, 6/30/08	5,847	614	538
12 mo. ended, 9/30/07	6,672	738	717



##### Comments

We think we're at the bottom. Expect a similar pace through the winter.

##### 30 Year Mortgage Rates

September 2008	6.04%
June 2008	6.32%
September 2007	6.51%



Despite financial volatility, they'll remain in the sixes.  
*(Source: Freddie Mac)*

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

	Dane	Sauk	Columbia
3rd Quarter 2008	\$217,000	\$151,450	\$160,000
2nd Quarter 2008	\$215,000	\$156,000	\$164,950
3rd Quarter 2007	\$222,000	\$164,750	\$174,500



Medians bounce around, especially in small databases. Prices remain essentially flat.

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

	3rd Quarter	Year-to-Date
2008	180	560
2007	261	893
2006	295	1,122



Off 70% from peak in 2005. Still not enough easing of inventories.

##### Inventories – Single Family & Condo

	Dane	Sauk	Columbia
September 2008	5,034	900	846
June 2008	5,235	903	834
September 2007	5,252	852	766



Trending down in Dane, **but up in Sauk and Columbia.** Expect slow improvement.

## OUR VALUE ADDED SERVICES...ALL UNDER ONE ROOF

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Home Warranty Protection Programs

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