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REAL ESTATE MARKET SOURCE

OF SOUTH CENTRAL WISCONSIN

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Dave Stark

As the saying goes, it's always darkest before the dawn. The adage seems to be proving true once again when it comes to real estate activity in South Central Wisconsin. As we predicted, closings in our market were down sharply during the first quarter of the year following last fall's stock market meltdown and the series of aftershocks that followed through the first few months of 2009. In the combined Dane, Sauk and Columbia County markets, closings were down roughly 22% when compared to the first quarter of 2008. They were down 41% from the same period two years ago. For all of 2008 there were 6,226 sales in the three county market. For all of 2007, there were 8,052.

If the first quarter pace in 2009 were to continue for the entire year, sales would total a meager 4,700. No doubt about it...this was a long cold winter.

This was not a tough prediction to make, given the extraordinary financial events of the past 6 months, and the fact that the November to February period is always the least active in our seasonal market. Plus, closings generally lag behind offers to purchase by an average of about 60 days, and it's fair to say that offer activity in the November/December period was tepid at best. So we knew coming into this year that the first quarter would be slow, and it did not disappoint. However, the past 30 days have given us reason to think that the worst may be behind us, with brighter days ahead.

Let's start with the fact that since mid-March, offer to purchase activity has picked up noticeably. While it still is not up to the level of even two or three years ago, it is approaching that of last year at this time, and seems to be accelerating. Since mid-October, the market has felt not just sluggish, but depressed. Now, it's starting to feel normal again, with real energy returning. There are a number of concrete reasons.

DANE COUNTY

	Single Family			Condominiums			Total Residential		
	2009	2008	2007	2009	2008	2007	2009	2008	2007
1st Quarter Closings	546	686	916	138	212	251	684	898	1,167
Active Inventory	2,693	2,888	2,875	2,095	2,247	2,425	4,788	5,134	5,300
Months of Inventory	10.5	8.8	6.5	32.2	22.1	20.1	14.9	11.9	9.5
3 Month Median	\$214,410	\$219,172	\$225,000	\$154,900	\$175,000	\$165,700	\$202,450	\$209,000	\$214,900
12 Month Median	\$228,500	\$232,900	\$230,000	\$163,000	\$168,900	\$165,750	\$215,000	\$217,000	\$215,000

SAUK COUNTY

	Single Family			Condominiums			Total Residential		
	2009	2008	2007	2009	2008	2007	2009	2008	2007
1st Quarter Closings	73	85	124	1	8	21	74	93	145
Active Inventory	695	632	546	228	249	224	923	881	770
Months of Inventory	20.2	15.8	9.4	484.3	66.1	22.7	26.5	20.1	11.3
3 Month Median	\$132,000	\$151,500	\$152,000	\$307,000	\$187,000	\$107,950	\$133,450	\$160,000	\$149,000
12 Month Median	\$145,450	\$162,400	\$160,000	\$151,250	\$168,450	\$146,750	\$147,000	\$162,586	\$159,250

COLUMBIA COUNTY

	Single Family			Condominiums			Total Residential		
	2009	2008	2007	2009	2008	2007	2009	2008	2007
1st Quarter Closings	70	77	100	8	3	10	78	80	110
Active Inventory	623	560	502	127	168	177	750	728	679
Months of Inventory	18.9	15.5	10.7	33.7	119.0	37.6	20.4	19.3	13.1
3 Month Median	\$123,250	\$149,900	\$157,000	\$149,950	\$147,500	\$152,568	\$132,000	\$149,700	\$157,000
12 Month Median	\$150,000	\$159,000	\$163,000	\$160,000	\$159,900	\$168,136	\$155,000	\$159,000	\$163,400

* Closed sales reported to the SCW MLS between 01/01/09 and 03/31/09. 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

First, and perhaps most importantly, the tone of the financial news has improved in the last month. After the first dramatic stock selloff last fall, financial markets appeared to stabilize, only to fall to new lows in January and February as the new administration took over and offered "stimulus" plans that were poorly received by investors (more on the stimulus plan in a moment). However, starting in March, events took a turn for the better. The Federal Reserve and Treasury announced a series of programs, including asset purchase programs and some minor revisions to accounting rules. While these may appear mysterious to the average home owner, they had a very positive effect on the stock markets, which are now up more than 20% from their lows, and appear to be moving beyond the heavy fear based selling that pushed the entire economy into such a black mood. Plus, many banks are starting to post positive earnings, giving yet another boost to financial stocks. This has led to more positive economic news in recent weeks, easing consumer fears that Armageddon was on the horizon. While unemployment will remain in the news, probably for the rest of this year, it's important to understand that employment is what economists call a "lagging indicator," meaning it's the last thing to go bad in a recession, and the last to recover as well. The stock market, however, is a leading indicator, and tends to get better long before the underlying economy does. So its continued improvement is a good sign that should not be ignored.

Another positive influence is the first time home buyer tax credit contained in the government's \$770 billion stimulus package. While opinions differ on the wisdom of much of what this bill contained, there is no doubting that the home buyer tax credit is stimulating our housing market. Interest in the credit is very high, and our agents report being swamped by first time home buyer activity. This is an excellent sign, as the homes they buy free up their sellers to buy their own new home, and so on. We predict a frenzy of activity in the second half of the year as buyers scramble to take advantage of the credit before it expires on November 30 (more on the tax credit at right).

BY THE NUMBERS

A national survey of potential first-time home buyers done by Century 21 Real Estate Corp. in early March showed concerns about the economy but most respondents were eager to buy.

The survey found:

- 78%** said now is a good time to buy.
- 85%** consider current home prices affordable.
- 73%** said taking advantage of lower prices was a major reason to buy now.
- 56%** were open to buying a foreclosed home.
- 63%** would buy a fixer-upper.
- 77%** were more likely to buy in the next six months because of the \$8,000 tax credit.
- 72%** considered current mortgage rates affordable.
- 75%** believed it was more difficult to get a home loan now.
- 59%** rated their understanding of the home buying process as only "fair" or "poor."

The survey covered 1,000 people and had a 3.1% margin of error.

Source: Wisconsin State Journal 04/12/09

Finally, we continue to be in an environment of record low interest rates, making housing the most affordable it's been in years. Even the national news has improved, as housing activity has picked up in many of the states where the problem was most acute. A recent survey by Century 21 found that 70-80% of first time buyers felt that now was a good time to buy, that prices were affordable, and that they planned to try to take advantage of low prices, interest rates, and the tax credit this year if they could (see the table above). According to the National Association of Home Builders, half of all households can now afford the median priced house nation wide. A refinancing boom is under way, and surveys of consumer and builder optimism are starting to show improvement.

While no one knows exactly how the future will play out, our best guess is that the market will continue to slowly improve throughout the balance of 2009, and start to approach something resembling "normal" in 2010. Continued improvement in the financial news and

stable interest rates will be key influences as the summer progresses. One thing that's abundantly clear is that the underlying demand for housing remains as strong as ever. The climate of fear that has held so many out of the market seems to finally be waning, and pent up demand is starting to take center stage. While we expect some further bumps in the road, we hope the worst is behind us.

FIRST TIME HOMEBUYER TAX CREDIT

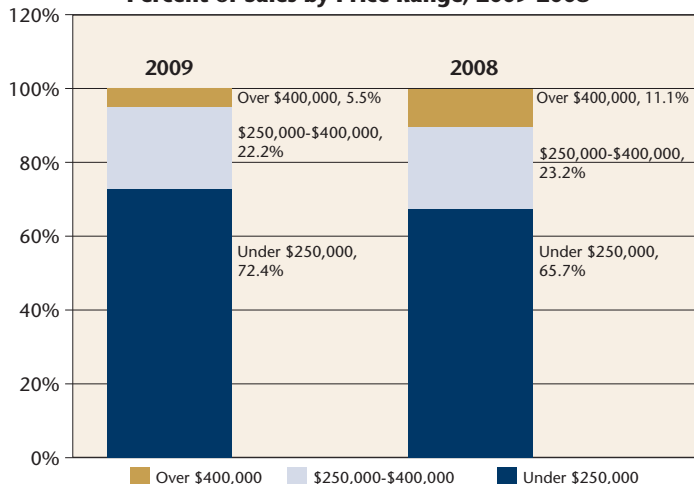
Arguably most stimulative provision in the entire economic stimulus package was the First Time Homebuyer Tax Credit. Unlike a similar credit passed last year, this year's version does not have to be paid

FEATURE	FIRST-TIME HOMEBUYER TAX CREDIT EFFECTIVE FOR PURCHASES JAN. 1, 2009 THROUGH NOV. 30, 2009
Amount of Credit	Lesser of 10 percent of cost of home or \$8000
Eligible Property	Any single family residence (including condos, co-ops, townhouses) that will be used as a principal residence.
Refundable	Yes. Reduces (or can eliminate) income tax liability for the year of purchase. Any unused amount of tax credit refunded to purchaser.
Income Limit	Yes. Full amount of credit available for individuals with adjusted gross income of no more than \$75,000 (\$150,000 on a joint return). Phases out above those caps (\$95,000 and \$170,000).
First-time Homebuyer Only	Yes. Purchaser (and purchaser's spouse) may not have owned a principal residence in 3 years previous to purchase.
Revenue Bond Financing	Purchasers who utilize revenue bond financing can use credit.
Repayment	No repayment for purchases on or after January 1, 2009 and before December 1, 2009
Recapture	If home is sold within three years of purchase, entire amount of credit is recaptured on sale. Applies only to homes purchased in 2009.
Termination	December 1, 2009
Effective Date	January 1, 2009

back. It amounts to an \$8,000 gift from the government for buying a house, and first time homebuyers are definitely taking notice. First time homebuyer activity has exploded locally in the past few weeks, and we expect it to continue for the balance of the year. This is great news for our housing market, as the entrance of new homeowners into the market makes it possible for sellers, many of whom have been stuck for months, to finally move up. First time buyers constitute the incremental increase in demand necessary to finally soak up the excess inventory that's been holding us back for the past three years.

The table above lays out the basic parameters of the credit. For more complete information, visit www.starkhomes.com and click the icon in the right hand column. And as always with tax related issues, be sure

Percent of Sales by Price Range, 2009-2008



to talk to your tax advisor before making any final decisions, as there are often details that can influence your individual ability to take advantage of the benefit.

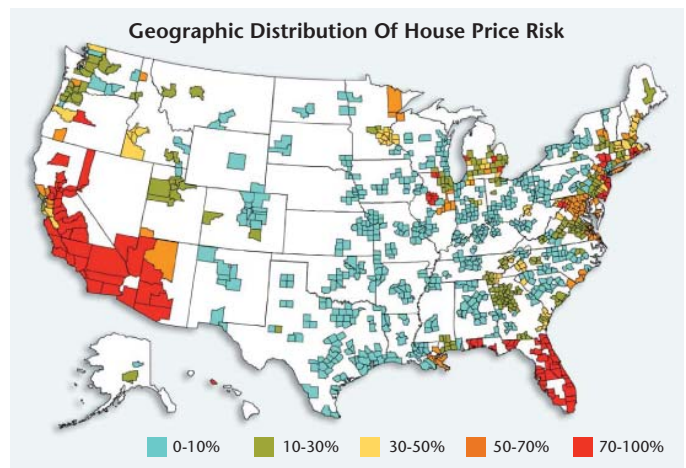
An interesting side effect of the credit in the short run has been a skewing of activity to the lower end of the price spectrum. So far this year, 72.4% of Dane County sales reported have been below \$250,000, compared to 65.7% last year. For all of 2008, only 64% of sales were under \$250,000. Furthermore, only 5.5% of sales have been over \$400,000 so far this year, compared to 11.1% last year. Based on offer activity in April, the trend seems to be accelerating, which makes sense given that the credit legislation hadn't been passed when the year began. Sellers of more expensive property should not despair, however, as the sellers of the less expensive properties will be coming to buy your home as the year moves on. On the other hand, we've consistently had fewer months of inventory in the lower price ranges, and we might start to see shortages develop at the low end of the market in the coming months.

ASSESSMENTS AND PRICES

As we write this issue of the Market Source, reassessment notices were mailed to homeowners in the City of Madison. While the headline in the paper was unfortunate ("Home Values Drop in Madison"), the crux of the news confirmed exactly what we've known throughout this housing "collapse," or whatever name it's been given. Housing values have not collapsed in our market, but have remained remarkably level, and the "drop" in assessments for 2008 averaged out to 1% for the city as a whole. This squares very well with the 1.4% drop in the MLS median price for all of 2008, and the 0.81% drop reported by the Federal Housing Finance Authority for the Madison MSA. In fact, prices have been so steady here in the past 3 years that our annualized median price for all residential property has been stuck at \$215,000 since the third quarter of 2006, with the exception of a blip up to \$218,000 in 2007 (hence the 1.4% decline back to \$215,000 in 2008).

As always, homeowners should remember that actual price movements will vary from neighborhood to neighborhood, between price ranges, and frankly from house to house. Our regular readers know that inventory supplies are much tighter in the lower price ranges than they are in the upper ones, which has likely led to greater price weakness in the upper price ranges, such as it is. The fundamental message, however, is that any fears homeowners may have had that the investment in their home was imperiled due to "collapsing" housing values are unfounded.

For buyers needing yet more reassurance, PMI Mortgage Insurance Company publishes a quarterly assessment of price risk for all 381 Metropolitan Statistical Areas in the country. The PMI risk assessment measures variables such as price changes, overall housing affordability, and unemployment trends to come up with their "risk index," which is an estimate in percentage terms of the likelihood that prices in a given market will be lower in 2 years.



Source: PMI Mortgage Insurance

The Madison MSA fell into the lowest, or "minimal" risk category, with a 6% chance of lower prices two years from now. There is wide variation throughout the country, with a number of markets having a 99.9% chance of lower prices in two years, most in the big four disaster states of California, Florida, Arizona and Nevada. A map published by PMI Mortgage Insurance showing the distribution of risk throughout the country is printed above. As we've said so many times before, we're lucky to live in South Central Wisconsin!

MORTGAGE FINANCING PICTURE

Interest rates remain at historic lows, averaging 5% or less for 30 year loans as of this writing. The Federal Reserve seems determined to keep them there, having recently started a program of directly buying mortgage backed securities in order to keep rates down. Also, loans remain very available. The "lack of lending" banks are being (often unfairly) accused of is largely in the commercial real estate, development, and business sectors, not residential home loans. That said, there are issues today that buyers should be prepared for. One big problem we've encountered involves rapidly shifting underwriting guidelines that can sometimes change in the middle of the approval process. We've seen loan applications that looked like no-brainers suddenly run into last minute problems not because of issues with the borrower, but because the ultimate lender changed a guideline in mid-stream. Appraisal guidelines are much tighter than they were a few years ago, and new guidelines are again due out shortly. Also, many financial institutions cut back on processing staff during the winter, and now the surge in refinancings and purchases has left them scrambling to get approvals out in time. Refinancings are going to the back of the line, and may take months to approve. If you encounter last minute requests or changes in your loan approval process, don't panic. The system is evolving on the fly, and there are likely to be bumps in the road. Work with your lender, and most issues can be resolved.

ADVICE FOR BUYERS AND SELLERS

BUYERS

If you haven't owned a home at any time in the last three years and would like to, there has perhaps never, ever, been a better time to buy one than right now. The government's \$8,000 first time homebuyer tax credit is a free gift, and all you need to do to get it is close on a home by November 30, 2009. If you're not a first time buyer, you still have record low interest rates and ample inventories to choose from. Inventories will start to dry up in a couple months under \$300,000 because of the first time buyer activity, and competition will likely be intense come the fall. The sooner you act, the better off you'll be.

SELLERS

The clouds are starting to lift for you, particularly in the lower price ranges. However, you've still got lots of competition, so reaching for a higher price is not yet an option. Sale prices are still averaging about 96% of the list price, so asking more than 3-4% above what you think your home will really sell for is probably a waste of time. Plus the house will have to appraise and appraisers are getting tougher. You might as well face it now rather than having the deal fall apart over the appraisal. Also be realistic about your home's condition, and take the time to fix the things that matter. If you do it right, your chances of selling quickly are good, and improving.

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TREND WATCH

Likely direction next 6 months

Number of homes sold (annualized)

	Dane	Sauk	Columbia
12 mo. ended, 3/31/09	5,094	496	412
12 mo. ended, 12/31/08	5,299	511	416
12 mo. ended, 3/31/08	6,399	665	655



Comments

Pace of offers strongly suggests it's up from here.

30 Year Mortgage Rates

March 2009	5.00%
December 2008	5.29%
March 2008	5.97%



Tough for them to go much lower but the Fed wants them to stay low.

Median Sales Price – Single-Family & Condos (12 Months)

	Dane	Sauk	Columbia
1st Quarter 2009	\$215,000	\$147,000	\$155,000
4th Quarter 2008	\$215,000	\$152,000	\$157,450
1st Quarter 2008	\$217,000	\$162,586	\$159,000



Steady in Dane, some weakness in Sauk & Columbia. Flat for another year.

Building Permits – Dane County Single-Family

	1st Quarter
2009	109
2008	164
2007	255



This is close to the bottom, but inventories will have to fall more before a big upturn.

Inventories – Single Family & Condo

	Dane	Sauk	Columbia
March 2009	4,788	923	750
December 2008	4,337	829	732
March 2008	5,134	881	728



Trend slowly down in Dane. Need more activity in Sauk & Columbia.

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