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# REAL ESTATE MARKET SOURCE

## OF SOUTH CENTRAL WISCONSIN

RELEASED MAY 2010

FIRST QUARTER 2010 | VOL. 5 ISSUE 1



Dave Stark

The increased pace of sales started in the 4th quarter of 2009 has continued into the first quarter of 2010. Residential sales reported to the South Central Wisconsin MLS for the combined Dane, Sauk and Columbia County markets were up 22.7% from the same period a year ago. This follows on the heels of the 47% increase in the 4th quarter of 2009, and the pace of offers suggests that the second quarter of 2010 will also be very strong. While there are still some uncertainties and cross-currents in the data, the persistence of the energy in the market is very encouraging. It appears that the fear based economy we were dealing with a year ago is largely a thing of the past. How the remaining uncertainties resolve themselves over the coming months will determine how long it will be

until we can truly call this market "normal" again.

What are the uncertainties we refer to? A big one, which will be starting to resolve as you read this, is the expiration of the federal government's home-buyer tax credit program. The credit was available for offers accepted by April 30, 2010, and that are closed by June 30, 2010. As we write this (April 20), the offer deadline is looming, and the pace of offers is very hot. How the market responds to the program's end will be interesting, and we'll discuss it in more detail below.

Another interesting cross current that we didn't fully expect is a significant increase in single family inventories, not only since the beginning of the year (which is seasonally normal), but over this time last year. Clearly, there is pent up selling demand in the market, and sellers have come out in droves to take advantage of increased buying demand. We'll discuss this in more detail below too.

### DANE COUNTY

	Single Family			Condominiums			Total Residential		
	2010	2009	2008	2010	2009	2008	2010	2009	2008
1st Quarter Closings	625	546	686	205	138	212	830	684	898
Active Inventory	3,051	2,693	2,888	1,865	2,095	2,247	4,916	4,788	5,134
Months of Inventory	10.4	10.5	8.8	19.3	32.2	22.1	12.6	14.9	11.9
3 Month Median	\$217,500	\$214,410	\$219,172	\$145,000	\$154,900	\$175,000	\$200,000	\$202,450	\$209,000
12 Month Median	\$219,000	\$228,500	\$232,900	\$149,000	\$163,000	\$168,000	\$201,000	\$215,000	\$217,000

### SAUK COUNTY

	Single Family			Condominiums			Total Residential		
	2010	2009	2008	2010	2009	2008	2010	2009	2008
1st Quarter Closings	96	73	85	12	1	8	108	74	93
Active Inventory	747	695	632	221	228	249	968	923	881
Months of Inventory	16.5	20.2	15.8	39.1	484.3	66.1	19.0	26.5	20.1
3 Month Median	\$126,500	\$132,000	\$151,500	\$174,900	\$307,000	\$187,000	\$129,950	\$133,450	\$160,000
12 Month Median	\$136,250	\$145,450	\$162,400	\$151,450	\$151,250	\$168,450	\$138,250	\$147,000	\$162,586

### COLUMBIA COUNTY

	Single Family			Condominiums			Total Residential		
	2010	2009	2008	2010	2009	2008	2010	2009	2008
1st Quarter Closings	83	70	77	5	8	3	88	78	80
Active Inventory	721	623	560	118	127	168	839	750	728
Months of Inventory	18.5	18.9	15.5	50.1	33.7	119.0	20.3	20.4	19.3
3 Month Median	\$140,000	\$123,250	\$149,900	\$190,000	\$149,950	\$147,500	\$141,000	\$132,000	\$149,700
12 Month Median	\$144,165	\$150,000	\$159,000	\$139,900	\$160,000	\$159,900	\$144,000	\$155,000	\$159,000

\* Closed sales reported to the SCW MLS between 1/01/10 and 3/31/10. 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.

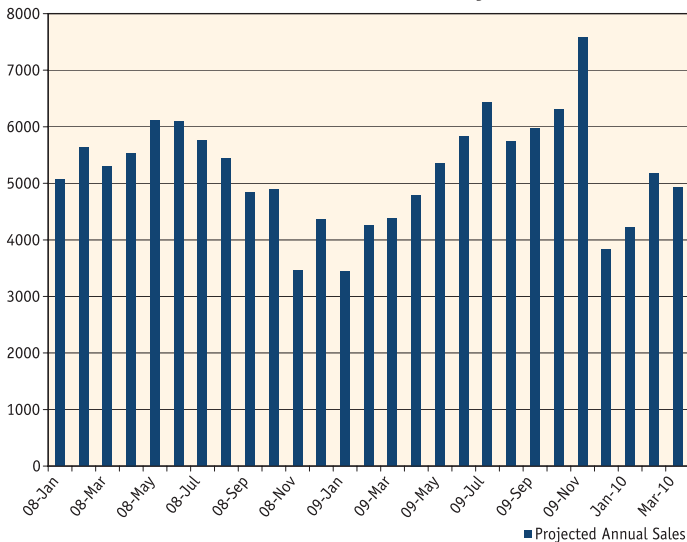
# MARKET OBSERVATIONS

Finally, the Federal Reserve discontinued a very aggressive program of buying mortgage backed securities on March 31st. Most experts predict this will result in mortgage rates moving up over the coming year. The Fed is counterbalancing this influence by continuing to keep underlying interest rates very, very low, and it's clear that the Fed still wants mortgage rates to remain affordable so as not to stifle the recovery in housing. So while we expect rates to rise somewhat as the year goes on, we doubt they will rise too much, probably staying under 6% for the 30 year fixed rate. So far in April, the change in rates has been minimal, remaining below 5.25%. This is encouraging, since it suggests the availability of funding for mortgage products can continue into the foreseeable future.

## LIFE AFTER THE TAX CREDIT

The first 2009 tax credit program covered only first time home buyers, and the original program required first time buyers to close on or before November 30, 2009. The program was clearly motivating to many first time buyers, and we witnessed a major spike in closings in November of last year, followed by a December that was not much better than the dismal December of 2008. The chart below shows seasonally adjusted monthly activity from 2008 to the present. Note the seasonally adjusted drop between November and December of 2009.

**Annualized Monthly Sales**



For better or worse, the government elected to extend the credit program in early November of 2009, covering any offer accepted by April 30 2010, and closed by June 30, 2010. Furthermore, the government expanded the credit to include current homeowners who had lived in their primary residence for 5 consecutive years out of the last 8, and who were buying a new primary residence. The question this raises, of course, is whether the drop-off in closings after June 30th will be as severe as we experienced last December.

It's hard to gauge just how motivating this round of the credit program has been. As we write these words in April, offer activity remains robust. As you read these words in May, the credit will no longer be available for new offers, and we'll be starting to learn the answer to the question. Anecdotally, there seems to be general agreement in the industry that the repeat buyer credit has not had much effect. The first time buyer credit presented an incentive for a renter to become an owner, a meaningful opportunity to realize the dream of home ownership sooner rather than later. For those who were already homeowners, however, it seems that the promise of a \$6500 bonus from the government was not enough inducement to go through the current hassle of selling a home and buying another if they weren't planning to do it already.

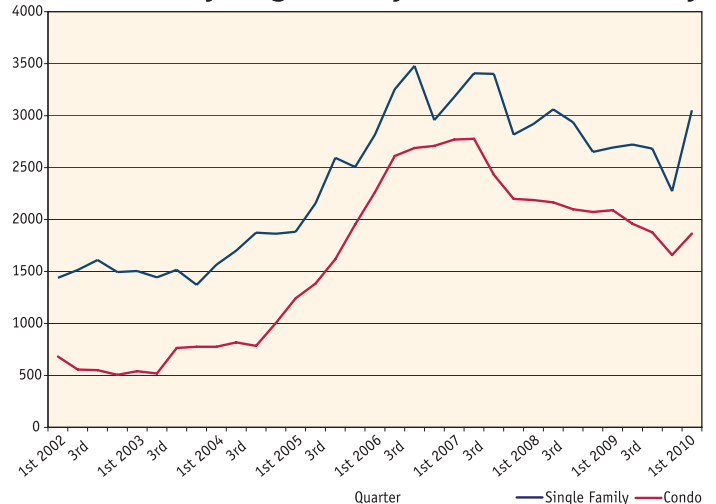
Given these ambiguities, it's hard to predict what the effect of the demise of the program will be. There will certainly be some drop-off in closings after June 30th, since we know there are buyers, particularly first-timers, who are moving their purchase up to take advantage of the credit. But this time the credit is expiring in the middle of the busiest part of the spring market, whereas last year's version expired just before the holidays, when activity is always at its lowest ebb. Steve Murray of Real Trends, one of the industry's most respected observers, predicts a roughly 10% drop in July closings nationally compared to July 2009. Even without the credit, the buying environment remains very favorable, with historically low interest rates and continued improvement in the overall economic picture.

Regardless of what happens, we hope our readers will forgive us an indulgence in a brief editorial aside. Frankly, we think this is a perfect time for the tax credit program to expire. While last year's version undoubtedly helped kick start a market that badly needed it, the current market seems to have a fair amount of inherent energy. Last year's fear is nowhere to be seen. Looking forward, a market can never be fully healthy when it's dependent on artificial stimulation and support from the outside. It keeps consumers on the sideline waiting for the next "fix," and sends a message that the market is inherently sick and in need of external support. So, while we expect some kind of dip after mid year, we think our market is fundamentally sound enough that we can, and should, take the training wheels off and allow it to ride on its own. We think the seasonal and fundamental momentum we now have should be enough to carry us forward. The sooner the market finds its own, unsubsidized level, the sooner this whole chapter will be behind us.

## INVENTORIES

As we mentioned above, the spike in inventories in the first quarter was somewhat surprising. Up to now, the inventory trend has been steadily down. With increased activity, we expected the trend to continue. A couple factors are likely at work.

**Dane County Single Family and Condo Inventory**



For starters, remember that inventories always rise in the spring. Sellers list in advance of the spring selling season, and inventories slowly decline from about May on. There were 2,538 single family listings taken in the first quarter of 2010, compared to 1,926 last year, a 32% increase. Closings, meanwhile, were only up 22%. While reliable market wide current offer data is hard to come by, our own experience suggests that offer activity is likely up by 50% or more. It's normal for many of the properties currently listed as active to already have offers on them that haven't been reported. That means a big closing quarter is ahead of us, and inventories will undoubtedly get worked down again as more closings occur.

It's possible that some sellers were motivated by the tax credit as well, hoping to catch a buying wave. Doubtless many would also like to be buyers, and might have hoped to take advantage of the credit, or simply favorable buying conditions, if they could first sell their existing property. It's also likely there are sellers who failed to sell last year who are back to try it again this year. Whatever the reason, it appears that inventories will remain ample for most of 2010. If buying activity continues to grow, as we expect it will, the supply will revert to normal levels over the next year or two.

## CONDOS HEATING UP

Little noticed in the excitement over the increase in overall sales activity is the fact that condos, at least on a percentage increase basis, have performed even better than single family homes over the past six months. Since October, single family home sales are up 22.4% in Dane County, while condo sales are up a whopping 65.5%. While single family inventories are up, as noted above, condo inventories are down 11% since last year. The combination of rising sales and falling inventories has cut the number of months of condo inventory almost in half. Condos tend to be less expensive than single family homes, which has undoubtedly made them attractive to first time home buyers. To be sure, we still have more condo inventory to work off than we do in single family, and we expect both to improve even more over the next three months and beyond. But the growing strength in condos is welcome as yet another indicator of the steady improvement in all areas of our market.

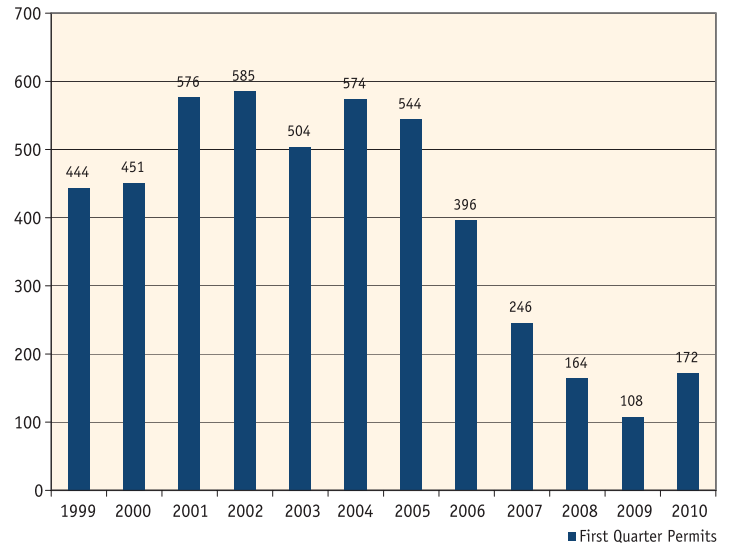
## NEWS AND VIEWS

### News: City of Madison Assessments Decline 3.1% in 2009

**Views:** While some consumers might be dismayed by this news, it is consistent with what we've reported over the past several years. It's no secret that our local medians have fallen in the past year. Dane County's 12 month median fell from \$215,000 a year ago to \$201,000 this year, a 6.5% decrease. However, as noted in previous issues of our newsletter, the first time homebuyer tax credit has skewed activity to the lower end of the price spectrum. Our guess is that about half the drop in the median is a result of the increased activity at the lower end of the sales universe, and the other half is actual price decline. This is consistent with a 3% drop in overall prices. The Federal Housing Finance Authority (FHFA) publishes the most reliable index of housing price changes in the country, and they measured the average actual price decline at 1.57% in our area for all of 2009. Buyers and sellers should both bear in mind that these broad measures are averages, and actual results vary a great deal by neighborhood and price range. The assessment data included neighborhoods that rose in value on average, and some that fell. Consumers should also

remember that the purpose of tax assessments is to assess taxes equitably, not set sale prices. While assessments are influenced by actual sales data, actual sales can vary from current assessments by as much as 20%. No matter how you view it, our market has not endured in any way the huge price declines some other states experienced. With a strong economy and low local unemployment, we continue to weather the storm well.

## First Quarter Dane County Building Permits



### News: Building Permits Rise in First Quarter

**Views:** As you can see in the chart above, building permits in Dane County are indeed up for the first quarter of 2010 over the same period last year for the first time since 2004. Nonetheless, we still have a long way to go to get back to the level of new construction we saw in and around 2004. Any increase is good news for our beleaguered building industry. But the concurrent spike in active inventories is a red flag for builders that we're not out of the woods yet. This does not mean that consumers shouldn't consider new construction as an option. It's still the best way to get exactly what you want in a home, and new homes have the latest technology, appliances, and building techniques, usually come with excellent warranties, and often require less maintenance over the first 10 or so years of their lives. A well designed and built new home can hold its value over time as well or better than older models. But it looks like another year or so before new development will pick up again in a big way.

## ADVICE FOR BUYERS AND SELLERS

### BUYERS

For better or worse, the tax credit is now history. That doesn't mean you don't have opportunity. The combination of ample inventories and continued low interest rates means conditions favor buying now even without the credit. Heavy second quarter closings will likely reduce inventories in the next three months, and interest rates will eventually rise; we just don't know exactly when, or by how much. Plus the general economic news is improving. Remember the basic rule: real estate is a long term, get rich slow investment. Those who buy now will be very glad they did 5-10 years from now. Sale prices are still averaging 95-96% of list price. A good house with a realistic seller is what you're looking for.

### SELLERS

It will probably be a month or two before we really know what the expiration of the tax credit means for true underlying demand. While prices remain firm in general, you really have no choice but to assess as accurately as you can what the immediate competition in your neighborhood is, and position yourself in such a way as to make success likely within your desired timeframe. The blizzard of new inventory that's recently come on the market should slow down as we move into summer. After all the credit assisted closings have occurred at the end of June, we'll really know where we stand. Expect demand to look much like a year ago in the second half of the year, but without the credit assisted boost in the lower price ranges. If you're not within 95% of a realistic selling price, you're probably still wasting your time.

# REAL ESTATE MARKET SOURCE

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### TREND WATCH

#### Likely direction next 6 months

##### Number of homes sold (12 Months)

	Dane	Sauk	Columbia
12 mo. ended, 3/31/10	5,603	606	561
12 mo. ended, 12/31/09	5,447	567	555
12 mo. ended, 3/31/09	5,094	496	412



##### Comments

Continuing to move up. 2nd Quarter will be bigger than the first.

##### 30 Year Mortgage Rates

March 2010	4.97%		
December 2009	4.93%		
March 2009	5.00%	Source: Freddie Mac	



Slow, steady increase expected. The Fed stopped buying on March 31.

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

	Dane	Sauk	Columbia
12 mo. ended, 3/31/10	\$201,000	\$138,250	\$144,000
12 mo. ended, 12/31/09	\$202,000	\$140,000	\$143,900
12 mo. ended, 3/31/09	\$215,000	\$147,000	\$155,000



Expanded Credit has not worked as hoped. The big closing months are coming up.

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

	1st Quarter	
2010	172	
2009	109	
2008	164	Source: MTD Marketing Services



Slow improvement but still not great. Inventory increases in 1st Quarter didn't help.

##### Inventories – Single Family & Condo

	Dane	Sauk	Columbia
March 2010	4,916	968	839
December 2009	3,931	837	672
March 2009	4,788	923	750



Whoa! We didn't see this coming. Pent up seller demand is higher than we thought. It should ease with 2nd Quarter Closings.

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