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Dave Stark

A year ago at this time, we were excited by the possibilities that 2012 held for us. Three months ago, we celebrated a solid year, with sales approaching normal levels for our market. As we write this edition of the Market Source Newsletter, we find ourselves in a market that feels not just solid, but hot. In some respects, almost manic. For the Dane, Sauk, and Columbia County markets, sales in the first quarter of 2013 were up 19.9% over the first quarter of 2012 (which you might recall was up 21% over 2011). Almost all the increase was in Dane County, where combined single family and condo sales were up 25.6% over last year. Sauk County sales were up only marginally, and Columbia County was actually down a hair. Folks in those counties should not despair, though. The

first quarter is always the slowest quarter of the year for closings, and we're hearing reports of good offer activity to the north. We expect their sales numbers to firm up in the second quarter and beyond.

What is indisputable is that the market has turned the corner in a big way. The combination of shrinking inventories, continued low interest rates, and a certain amount of pent-up demand has created an atmosphere in which many agents are as busy as they've been in their careers. Multiple offers on new listings are becoming almost common, and new construction is finally seeing a meaningful increase in activity. Some imbalances remain. Interest rates are below normal market levels. Foreclosures and short sales, though dwindling, are still with us. New construction still has room to grow. But the primary news is that things are moving again. Assuming this pace continues, the imbalances will continue the process of working themselves out.

DANE COUNTY

	Single Family			Condominiums			Total Residential		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
1st Quarter Closings	863	735	597	269	167	163	1132	902	760
Active Inventory	1911	2484	2860	847	1311	1465	2758	3795	4325
Months of Inventory	4.8	7.8	9.2	7.6	16.7	15.9	5.4	9.5	10.7
3 Month Median	\$213,000	\$201,000	\$215,000	\$140,000	\$141,000	\$150,000	\$196,250	\$190,000	\$205,712
12 Month Median	\$218,700	\$216,400	\$223,000	\$143,625	\$151,875	\$150,000	\$203,500	\$205,000	\$207,500

SAUK COUNTY

	Single Family			Condominiums			Total Residential		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
1st Quarter Closings	123	116	88	12	16	16	135	132	104
Active Inventory	570	634	649	141	148	225	711	782	874
Months of Inventory	11.0	13.4	16.2	19.7	27.8	40.9	12.1	14.9	19.1
3 Month Median	\$145,900	\$123,000	\$114,200	\$134,250	\$102,500	\$129,000	\$145,000	\$120,000	\$116,700
12 Month Median	\$137,000	\$130,000	\$141,500	\$133,500	\$136,250	\$154,500	\$136,750	\$130,000	\$143,500

COLUMBIA COUNTY

	Single Family			Condominiums			Total Residential		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
1st Quarter Closings	94	101	74	10	9	4	104	110	78
Active Inventory	486	533	618	61	101	101	547	634	719
Months of Inventory	10.1	12.6	16.8	11.4	34.6	40.4	10.2	14.1	18.3
3 Month Median	\$110,000	\$109,602	\$91,750	\$ 97,250	\$ 81,500	\$130,250	\$107,500	\$103,000	\$91,750
12 Month Median	\$128,000	\$125,000	\$139,950	\$97,625	\$137,500	\$98,250	\$126,500	\$126,000	\$139,000

* Closed sales reported to the SCW MLS between 1/1/13 and 3/31/13. Data for all years pulled between the 12th & 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 12 months.

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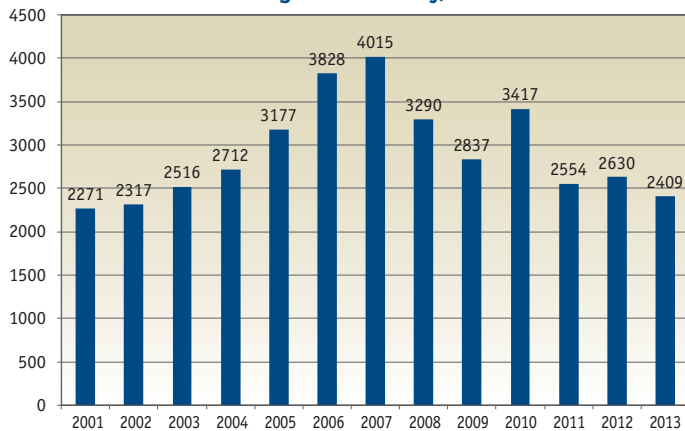
MARKET OBSERVATIONS

In our last issue (go to www.starkhomes.com to find back issues of the Real Estate Market Source Newsletter), we discussed the reasons why the market we had was not yet “normal.” It still isn’t. But it’s a lot better than it was two years ago, and continued improvement seems likely over the rest of this year and hopefully beyond. So for this edition, we’ll take up the happy task of exploring what’s going on, and how you should navigate a strong market for a change.

INVENTORIES

As we chronicled last quarter, the drop in active inventory levels over the past six months has been dramatic, particularly in Dane County. This, more than anything, is the element that has kicked the market into a much higher gear. While our market did not experience the price volatility many markets did, we did see our inventories rise to very high levels. This created a buyer’s market, stagnant to slightly falling prices, and more foreclosures and short sales because sellers simply had a tough time selling their homes, even if they were motivated to do so. Fixing the inventory problem was the key to getting the market moving again, and it seems that almost overnight, it’s been fixed. In a buyer’s market, buyers lack urgency, as they figure homes they’re interested in will stay on the market for a while, or something better might come along. Now, the shoe is suddenly on the other foot, and buyers who hesitate often lose out.

New Listings Dane County, 1st Quarter



Much has been made nationally of the “shadow inventory” of foreclosed homes that are still out there ready to flood the market. Our sources tell us that at least around here, that pipeline is getting pretty thin. In fact, the pace of new listings coming on the market is the slowest it’s been in years. In the chart above, you can see that new listings in the first quarter hit the market at the slowest pace since 2002, down 8.4% from last year. If anything, you’d expect the hot market to draw more inventory to the market, not less. The weather has been very cold this year, which could be discouraging some sellers, and there appears to be an uptick in new listings in early April. Whatever the cause, our worry now is too little inventory in some areas, not too much. Unless new listings pick up, or new construction fills the gap, we could see real shortages down the road. The question then becomes, will prices start to rise?

PRICES

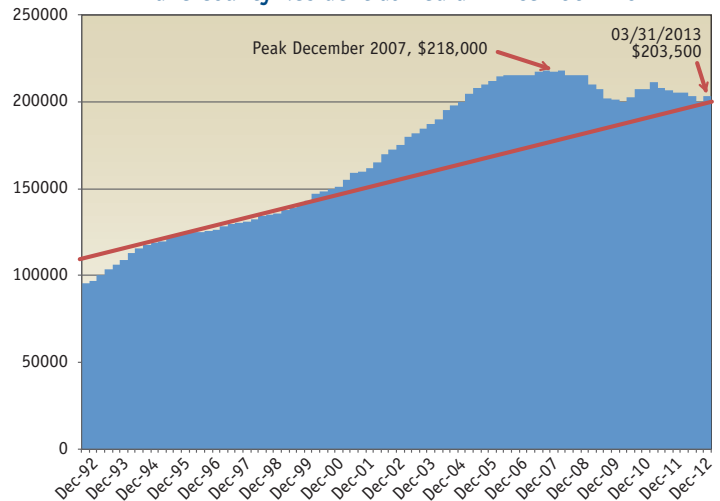
There is probably more confusion surrounding real estate prices than any economic indicator in today’s economy. Real estate prices vary widely from market to market, but for reasons that escape us, the media in the last few years have become focused on national indexes of real estate prices, to the detriment of clarity for consumers. This includes national web services like Zillow and Truila, as well as the S&P Case-Shiller index, leading consumers to perceptions about the value of their homes and the direction of prices that are often wildly inaccurate.

For example, take the case of Zillow. At a recent industry conference, a representative from Zillow told us that Zillow does not claim to know the actual value of a home, but rather they have an algorithm that produces an estimate (they call it a “Zestimate!”) that aims to establish a price that is within 20% of the actual value, either way, 80% of the time. Needless to say, this is no way to determine the actual value of your home.

Case-Shiller presents a different set of problems, primarily in that it measures price movements in only 20 cities, none of which are in Wisconsin. Furthermore, many of the cities it does measure are in the areas hardest hit by the housing meltdown, including California, Arizona, Nevada, and Florida, the big four of the housing bust. From the national perspective, it’s our feeling that Case Shiller exaggerated price drops during the recession, and is now exaggerating the increases during the recovery. Through January 2013, Case-Shiller claims that home prices have increase 8.1% since January of 2012. That may be true in the 20 cities they measure, but it is most definitely not the case here in South Central Wisconsin.

The chart below tracks changes in Dane County’s 12 month median price quarter by quarter all the way back to 1992. The trend line tracks where prices would be if they increased about 3% per year, roughly the rate of inflation. Based on that, our median is where it should be, increasing just under 2% in the first three months of the year. The median is down about 1% from a year ago, a far cry from where Case-Shiller would lead you.

Dane County Residential Median Price 1992-2012



Is this bad news? Absolutely not. We’ve reported frequently that our prices did not increase like they did in the “bubble markets,” and for that reason they didn’t fall like the bubble markets either. If you break down Case-Shiller, you see that today’s big increases are in previously hard-hit markets like Atlanta (up 13.4%), Las Vegas (15.3%), Los Angeles (12.1%), Miami (10.8%), Minneapolis (12.1%), San Francisco (17.5%) and Phoenix (23.2%!). Many of these markets were over-inflated during the boom, and became under-valued during the bust. Much of the buying in these markets is by investors buying foreclosures and other under-priced property. Their prices are not so much increasing as they are working their way back to fundamental value. Our prices are already there, and we expect future price increases to be correspondingly moderate in the near term.

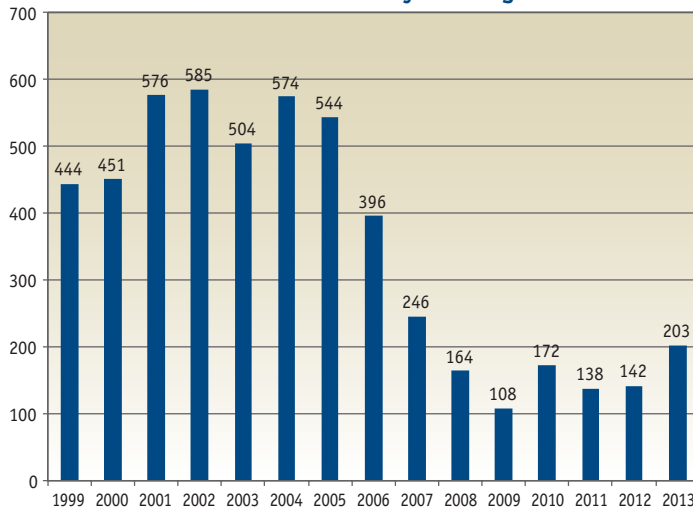
Despite the unknowns, the likely direction of prices in 2013 appears to be up. However, avoid the temptation to get your price information from national indexes. If you must refer to a national index, use the federal government’s FHFA index, which is far more broad based, less volatile (5.5%

increase nationally in 2012), and includes data for the Madison region (the most recent FHFA report for the 4th quarter of 2012 showed Madison with a decline of 0.16% for the year, essentially flat, and a rise of 0.34% for the 4th quarter). Most of all, remember that all real estate is local, and varies not just from city to city, but neighborhood to neighborhood, street to street, house to house. No index will tell you anything definitive about the property you want to buy or sell. That's determined by the buyer and the seller, and always will be.

NEW CONSTRUCTION

Along with foreclosures and short sales, among the last elements to get back on track is new construction. Perhaps no other participants in the real estate market took as severe a hit as did builders and land developers. The reasons are easy to understand. With so much excess inventory available and prices soft, there was very little demand for new construction, which is always slightly more expensive than "used" housing, and less flexible in its pricing. Now, with choices far fewer and pricing likely to be more firm, perhaps new construction can gain some traction.

First Quarter Dane County Building Permits



The chart above shows single family building permits for the first quarter back to 1999. Clearly, we have room to grow. That said, new construction had its best first quarter since 2007, with new single family permits in Dane County up 43% from last year. And, the peak building season is still ahead of us. If you can't find what you want on the used market, perhaps now is the time to consider building your own. With interest rates low and building lots plentiful, there may never be a better time.

ADVICE FOR BUYERS AND SELLERS

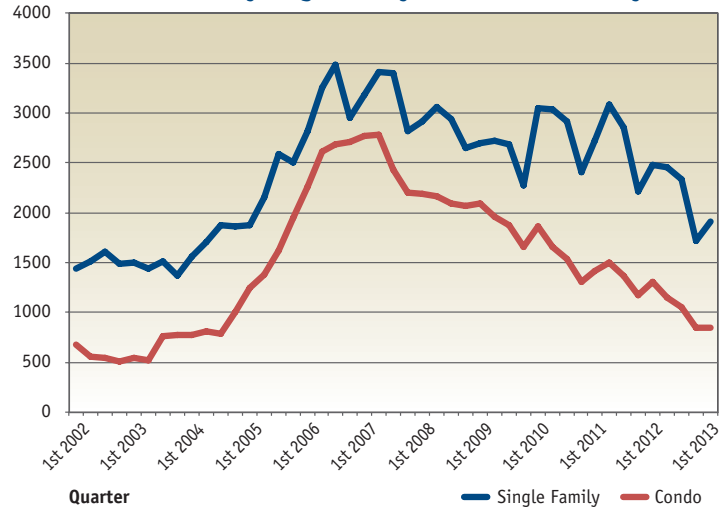
BUYERS

Two years ago, you had too much to choose from. Today, your challenge may be finding enough to choose from. The closer you are to Madison, the worse it's likely to be. If you don't mind the commute, looking farther out may give you more choices, and potentially more house for the money. New construction also could be worth considering. Expect new listings to get a lot of traffic, and if they're priced well, to attract multiple offers immediately. If you find yourself in that situation, don't waste time trying to lowball the seller. It won't work, and you won't get the house you want. We've seen a number of buyers lose two or three houses before they get this message. Financing is still a hassle, but the process is getting better. In short, be aggressive with your offer, patient with the process to closing. You'll get there, but it can be a bumpy ride.

CONDO CRAZE

A somewhat surprising aspect of the fast start to 2013 is the role condo sales played in the uptick. While Dane County single family sales were up a respectable 17.4%, condo sales sizzled, up 62% over the first quarter of 2012. Correspondingly, condo inventories fell to their lowest level since the third quarter of 2004. Months of inventory, which had remained stubbornly high in the condo market, fell from 16.7 last year to 7.6 this year.

Dane County Single Family and Condo Inventory



Condos have become an important affordable niche product in the overall housing mix, appealing to young singles, childless couples, and retirees who want to simplify or downsize. For that reason, much of the action in the condo market is in the lower price ranges. 56% of the first quarter's sales were under \$150,000, 73% under \$200,000. Only 5 sales were over \$500,000. Dane County's 12 month median condo price is a very affordable \$143,625, compared to \$218,700 for single family. Getting that part of the market on track is a big boost. With few if any new projects coming on the market currently, the condo market appears poised to return to balance even sooner than we thought.

LOOKING AHEAD

As we write this edition in mid-April, new offers are continuing to flow in, showings are up week by week, and new listings are starting to come at a faster pace. Nothing in the economic reports leads us to believe that interest rates will rise significantly any time soon. In short, we're looking forward to a robust 2nd quarter for 2013. The pace of the first quarter would suggest an annual total of about 6600 sales for Dane County, a 13% increase over all of 2012. We'll see if we can keep that up. In the meantime, let's enjoy a busy market for a change. We know for sure it's a lot more fun than the alternative.

SELLERS

If you've been waiting for the right time to sell, this may be the time. Cold weather hung on well into April, raising the possibility that the eventual arrival of warm temperatures will bring yet more buyers out of the woodwork, and perhaps prolong the spring selling season. While it's always important to be priced correctly, you have less competition in many areas, so you can perhaps be a little more optimistic than in years past. But don't over-play it. You still have to be better than the competition or you'll be passed over. Getting a home priced properly is not an academic exercise in finding the "correct" price. It's a strategic decision, where you must balance your desire for the best price with your need to sell and the competition you're faced with. It's always a good idea to try to look at your home through the eyes of a buyer, as objectively as you possibly can. That said, a couple years ago, getting your home sold at all was a 50/50 proposition. Today, if you're realistic, your chances are much better.

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Likely direction next 6 months

Number of homes sold (12 Months)

	Dane	Sauk	Columbia
12 Months Ended 3/31/13	6,164	706	644
12 Months Ended 12/31/12	5,913	703	652
12 Months Ended 3/31/12	4,790	630	541



Comments

The strong 4th quarter carries over into the 1st. The pace of increase may slow in the 2nd, but the trend is still up.

30 Year Mortgage Rates

March 2013	3.57%	Source: Freddie Mac
December 2012	3.35%	
March 2012	3.95%	



They seem to want to rise, then they fall back again. We just don't see much movement this year.

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

	Dane	Sauk	Columbia
12 Months Ended 3/31/13	\$203,500	\$136,750	\$126,500
12 Months Ended 12/31/12	\$200,000	\$134,900	\$126,250
12 Months Ended 3/31/12	\$205,000	\$130,000	\$126,000



Upward pressure is finally starting to build. The next quarter will be very interesting.

Building Permits – Dane County Single-Family

	1st Quarter	Year-to-Date
2013	203	203
2012	142	142
2011	138	138

Source: MTD Marketing Services



Meaningful improvement. With inventories this low, we could really see a comeback this summer.

Inventories – Single Family & Condo

	Dane	Sauk	Columbia
March 2013	2,758	711	547
December 2012	2,598	646	509
March 2012	3,795	782	634



A surprisingly small seasonal increase from 3 months ago. Expect further declines in quarters 3 and 4 if sales stay hot.

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