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REAL ESTATE MARKET SOURCE
OF SOUTH CENTRAL WISCONSIN

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Three months ago, writing in our previous issue, we suggested that if we could replicate the performance of 2013 we'd be doing very well, perhaps even exceeding expectations. It therefore comes as no surprise that in comparison to last year, first quarter sales in the South Central Wisconsin market were down a bit from the same period a year ago. The combined Dane, Sauk, and Columbia County markets were down 4.5% from last year in total. Dane County was down 5%, Sauk was down 16%, while Columbia County was actually up 15%. Parsing the numbers a bit further, single family sales in Dane County were down only 2.6%, while condo sales were down 12.6%. This is interesting because last year, condo sales were up 37% compared to 22% for single family, suggesting that perhaps even more pent up demand was released in the condo market last year than we had thought. In any event, this is not a sparkling start, but not a disappointment either. Median prices are up about 4.5% from last year in Dane and Sauk, just over 6% in Columbia, due largely to continuing lean inventories and further reductions in distressed sales.

It must be said that while the numbers aren't bad, the market seems to have had a constricted feeling to it as we started the year, sort of like running in sand. We were making progress, but it felt like more of a struggle. Part of that can be

DANE COUNTY

	Single Family			Condominiums			Total Residential		
	2014	2013	2012	2014	2013	2012	2014	2013	2012
1st Quarter Closings	841	863	735	235	269	167	1,076	1,132	902
Year-to-Date Closings	841	863	735	235	269	167	1,076	1,132	902
Active Inventory	1,773	1,911	2,484	694	847	1,311	2,467	2,758	3,795
Months of Inventory	3.7	4.8	7.8	5.1	7.6	16.7	4	5.4	9.5
3 Month Median	218,500	213,000	201,000	147,000	140,000	141,000	200,500	196,250	190,000
12 Month Median	227,950	218,700	216,400	153,500	143,625	151,875	213,000	203,500	205,000

SAUK COUNTY

	Single Family			Condominiums			Total Residential		
	2014	2013	2012	2014	2013	2012	2014	2013	2012
1st Quarter Closings	97	123	116	16	12	16	113	135	132
Year-to-Date Closings	97	123	116	16	12	16	113	135	132
Active Inventory	557	570	634	149	141	148	706	711	782
Months of Inventory	9.5	11	13.4	17.7	19.7	27.8	10.6	12.1	14.9
3 Month Median	135,000	145,900	123,000	85,250	134,250	102,500	134,000	145,000	120,000
12 Month Median	140,950	137,000	130,000	146,900	133,500	136,250	143,000	136,750	130,000

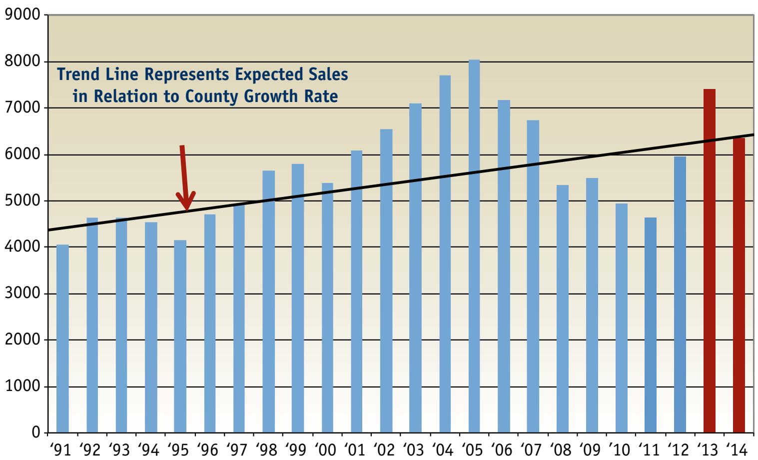
COLUMBIA COUNTY

	Single Family			Condominiums			Total Residential		
	2014	2013	2012	2014	2013	2012	2014	2013	2012
1st Quarter Closings	112	94	101	8	10	9	120	104	110
Year-to-Date Closings	112	94	101	8	10	9	120	104	110
Active Inventory	436	486	533	62	61	101	498	547	634
Months of Inventory	8.2	10.1	12.6	13.1	11.4	34.6	8.6	10.2	14.1
3 Month Median	127,250	110,000	109,602	150,450	97,250	81,500	131,250	107,500	103,000
12 Month Median	136,400	128,000	125,000	127,000	97,625	137,500	134,250	126,500	126,000

* Closed sales reported to the SCW MLS between 1/1/14 and 3/31/14. Data for all years pulled between the 15th-18th 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.

attributed to the sheer power the market showed early last year. The weather was warm, interest rates were still at record lows, and we had a great deal of pent up demand to satisfy, leaving this year feeling less energetic by comparison. There is little doubt in our minds that this year's brutally cold weather, lasting the entire first quarter, held us back (it's still cold in mid-April!). It seems everything is delayed by about a month. We have less pent up demand than a year ago, and interest rates are up a click. Still, April seems to have brought with it the best energy we've seen so far, and the offer pace has picked up substantially. While April closings may still lag last year, May is looking very promising, and if things continue as they are, we may start to catch up as we move into the summer.

Dane County Residential Sales, 1991-2013



In truth, we too often allow ourselves to be sucked into a lazy analysis where we simply compare to last year, where "up" or "down" serve as proxies for "good" or "bad". A better way is to try to compare to "normal," if we can figure out what normal is. The chart above takes a stab at this. Our regular readers have seen this chart before, and it reminds us that 2013 was the third best year ever, surpassed only by the boom years of 2004 and 2005. The trendline in the chart predicts what a "normal" level of sales would be, assuming they would grow at roughly the same rate as the region's population. Looked at this way, it seems unrealistic to expect "normal" in 2014 to be equal to a time when the market was clearly overheated, followed by the most severe downturn in our experience. We'd prefer to do away with the booms and busts. So far in 2014, Dane County is on pace for about 6,350 sales, which is right on the line. If we finish somewhere in that range, we're going to feel good about it, even if it is a bit below the previous year.

With interest rates still unnaturally low, and inventories remaining lean, it's fair to say that the market is still working its way toward a true equilibrium. We'll examine some segments of the market in more detail in the balance of this issue, to help our readers develop their strategies in what looks to be shaping up as a very busy spring.

INVENTORIES AND THE MOVE UP BUYER

Much has been written over the past year on how quickly and dramatically inventories have dried up. The trend has continued into 2014, with inventories down about 10% in Dane and Columbia Counties from a year ago. Far more meaningful than the absolute level of inventories, however, is the relationship between inventories and sales, which we express as "months of inventory." Simply put, it measures the number of months it would take to sell all current active inventory at the current pace of sales. Dane County now has 3.7 months of single family inventory, and 5.1 months worth of condos on the market.

We've noticed something of a chicken and egg phenomenon occurring that's retraining the growth of inventories. In a complete reversal from 3-5 years ago, many move-up buyers are now expressing reluctance to put their homes on the market first for fear that they'll sell too FAST, before they've found the home they'd like to move into, prompting the need to potentially move twice. It's a Catch-22; the owners with homes they'd potentially like to sell are holding them off the market because they haven't found a home they'd like to buy, partly because they don't feel there are enough homes for sale. No wonder the market feels strangled.

To some of these seller/buyers, we'd like to offer the thought that this market presents one of the most unique and compelling opportunities we've seen for the move-up buyer in quite some time, one that's probably not going to last forever.

Look at the chart below, which breaks down months of inventory for single family homes in Dane County by price range. While we have only 3.7 months of inventory overall, note the difference between homes selling below $500,000 and those selling above. While inventories are tight below $400,000 to $500,000, we still have ample supply above $500,000. Below $400,000, we have 4 months of inventory or less. Above $750,000, we have nearly two years.

Dane County Single Family 2014 Sales by Price Range

	Active	% of Total Actives	Sold	% of Total Sales	Months of Inventory
0-200	434	24.5%	2,059	36.2%	2.5
200-300	544	30.7%	2,104	37.0%	3.1
300-400	307	17.3%	913	16.1%	4
400-500	179	10.1%	306	5.4%	7
500-750	193	10.9%	239	4.2%	9.7
750-1,000	69	3.9%	40	0.7%	20.7
1,000+	47	2.7%	26	0.5%	21.7
Totals	1,773	100.0%	5,687	100.0%	3.7

For the move-up buyer, this is a perfect situation. Depending on your price range and the neighborhood you're looking in, supply and demand is potentially in your favor on both sides of the transaction. Eventually, supply and demand will come more into balance in all price ranges, as it always does. But for now, as the market continues to search for that equilibrium, an opportunity is before you. Whether you put your current home on the market before or after you find something to buy is up to you, of course, and you should consult with your Realtor about the specific conditions in your neighborhood and your personal financial picture before you decide. Our Stark Company Realtors Mobile App is a great way to get a feel for the supply/demand dynamics in your neighborhood; your Stark Realtor can help you with that too. But whatever you do, don't fall victim to paralysis by analysis. The market is moving, and we're already starting to see more action in the upper price ranges this spring, so the window will close.

One final thought on the upper end of the market. To some extent, having more supply in the upper end compared to the lower end is not unusual. High end houses are often highly customized, and high end buyers can afford to be picky. This can lead to competition with new construction, since buyers with particular tastes will often end up building their dream home instead of buying it. We have always been a market with what might be described as a "meaty middle," so there relatively little supply or demand on either the very high or very low end. We point this out because it would be wrong to get the impression that there are problems with the upper end of the market. The fact is that the upper end always moves a little more slowly, and probably still has more work to do than the rest of the market to return to equilibrium. But it will get there in time. If you're thinking of moving there, it's a great time to do it.

ASSESSMENTS AND PRICES

As we were writing this edition of the Market Source, the City of Madison published the new 2014 property assessments, to much fanfare in the media. Overall, the City reported a 3% increase in the average home value, to $237,678. This correlates fairly closely with MLS data, which showed a 2.83% increase in the average sale price in the City of Madison between 2012 and 2013. The average sale price in the MLS in 2013 was slightly lower than the average assessment, at $223,529 (for single family and condos combined). For single family alone, the average MLS price in the City rose 3.42%, to $239,212, slightly above the average residential assessment.

We always try to counsel home buyers and sellers not to read too much directly into assessments as a measure of a home's actual value. It's often close, but rarely exact, and can be off by quite a bit, both high and low. Remember that the purpose of an assessment is not to tell you how much your home is worth, but to determine how much in property tax you will pay relative to your neighbor. It's also important to remember that rising assessments don't automatically mean higher taxes. That won't be known until this fall, when municipal budgets are set and apportioned across the available tax base. There has been a great deal of new construction, particularly commercial, in Madison over the past few years, and these new projects will absorb some of the increase, if any, in the overall tax levy.

What is important about this news, for all of us, is that the assessor and the MLS agree that real estate prices are on their way up again. As long as the increases remain slow, steady, and reasonable, this is great news. Sellers can see their equity rise, and any remaining homeowners who owe more on their mortgages than their homes were worth can look forward to being "right side up" once again, if they're not already. Buyers can buy with confidence that they won't lose value after closing.

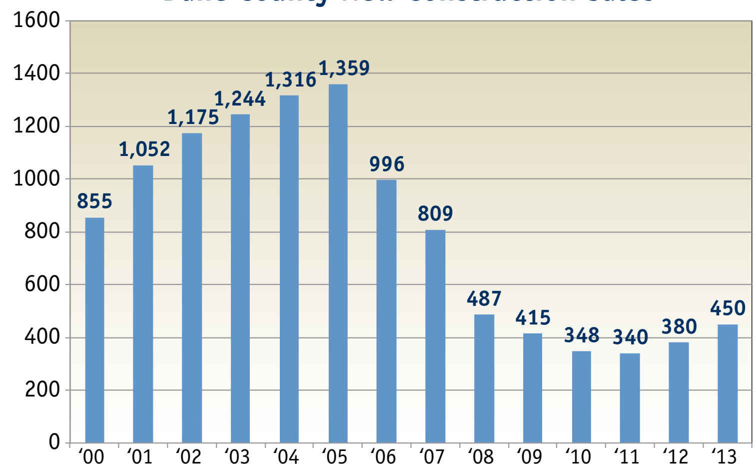
Could we ever return to the bad old days of falling prices? Well, anything is possible, of course. But if we've learned anything in the past 10 years, it's that loony lending practices that don't match a borrower's ability to pay with the size of their loan are a recipe for disaster. As long as lenders are observing sound lending practices, prices will be kept in line with people's ability to afford them, and should rise gradually at around the rate of inflation. That seems to be exactly what's happening now. It's the best of all worlds, and we hope our leaders can avoid the mistakes of the past so we don't have a repeat of 2007-2011 in the future.

BUYERS SELLERS NEW CONSTRUCTION

One of the last remaining pieces necessary to declare the market fully healed is the revival of new construction. The chart below shows the annual number of single family home sales reported to the MLS in Dane County with a maximum "zero" age, which means the home was built in the year it was sold. In truth, the numbers shown in the chart only represent about half the actual number of new homes built, since many new homes are custom built for a specific owner and therefore never offered on the open market and often not reported to the MLS. But the general trends the chart reveals are accurate, and they show that new construction has not recovered as quickly as the resale market. At the market peak in 2005, 16.9% of MLS sales were new construction. In 2013, it was 6.1%. Clearly, new construction still has some upside.

In the first quarter of 2014, 9.5% of MLS single family sales were new construction. This is an early improvement over 2013, and we haven't hit the height of the building season yet. New construction is the most obvious source for the marginal inventory we need, and we know anecdotally that builders are optimistic going into this year. If this trend continues, it's another sign that our market is getting back in the groove.

Dane County New Construction Sales



ADVICE FOR BUYERS AND SELLERS

BUYERS

Three months ago, we advised you to be decisive and fast. That advice still holds. We're know many buyers are struggling to find what they want, and then when they find it, everyone else seems to want it too. That shouldn't discourage you, but if you find yourself in a competitive bidding war, preparation can help you win. You win by being the most attractive offer on the table. Price is one variable, of course, and you won't win a cream puff house by low-balling. But it's not the only variable. A strong preapproval from a reliable lender is a big advantage, removing uncertainty from the closing. A willingness to repair yourself some of the issues that an inspection is likely to reveal can also be attractive to a seller. Offers contingent on sale are likely to be passed over, or bumped quickly. Be creative, and take the time to find out what's truly important to the seller you're dealing with. They're going to decide which offer to take, and if you have strengths that a seller might value, put them to use. Sometimes, (not always of course, but sometimes,) those strengths can be just as important as price.

SELLERS

It might be easy to conclude after reading this edition that your problems are over, and you can be as aggressive as you want to be. In truth, the current environment is a fairly difficult one to price in. We are seeing some instances this spring where sellers are pricing on the high side and getting it. But we're also seeing instances when they're not getting it, and buyers seem to have become habituated to waiting for new inventory and pouncing on it. If you've been on the market for months, they want to know what's wrong, since they expect good houses to sell quickly. So, the first 30 days is just as important as it's ever been. Then there's the problem of appraisals. Appraisers have to rely on past sales to arrive at value, and in a rising market, it sometimes takes time for the comparable base to catch up, particularly in the spring. And of course, there is huge variability by neighborhood and, as we've seen in this issue, by price range. So, as always, it still comes down to a frank conversation with your Realtor about exactly what you need to accomplish with your sale, and when. If you're going to ask top dollar, then be sure you're giving value. Get the house in great shape, make the needed repairs, and remove as many objections as you can for a potential buyer. If you get passed over, especially in this market, you'll start to sink into oblivion, and that's a place you definitely don't want to be.

REAL ESTATE MARKET SOURCE

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TREND WATCH

Likely Direction Next Six Months

Number of Homes Sold (12 Months)

	Dane	Sauk	Columbia	Likely Direction	Comment
12 Months Ended 3/31/14	7,335	803	694	→	A slight dip in the first quarter, consistent with expectations.
12 Months Ended 12/31/13	7,397	825	677		
12 Months Ended 3/31/13	6,164	706	644		

30 Year Mortgage Rates

	Rate	Likely Direction	Comment
March, 2014	4.34%	↑	Rates seem to have leveled out, but the future is still up.
December, 2013	4.46%		
March, 2013	3.57%		

Source: Freddie Mac

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

	Dane	Sauk	Columbia	Likely Direction	Comment
12 Months Ended 3/31/14	213,000	143,000	134,250	↑	4.6% increase in Dane and Sauk, 6.1% in Columbia. Something similar could be in store for 2014.
12 Months Ended 12/31/13	212,000	145,000	132,000		
12 Months Ended 3/31/13	203,500	136,750	126,500		

Inventories – Single Family & Condo

	Dane	Sauk	Columbia	Likely Direction	Comment
March, 2014	2,467	706	498	→	Even leaner than a year ago. Let's see if new construction starts to fill the gap.
December, 2013	2,180	623	457		
March, 2013	2,758	711	547		

New Listings – Single Family & Condo

	Dane	Sauk	Columbia	Likely Direction	Comment
1st Quarter 2014	2,294	342	273	→	Weather delayed many sellers, and some want to find a new home first. Rising prices may attract sellers.
1st Quarter 2013	2,472	320	261		

 The above sales figures herein are based on data supplied to the South Central Wisconsin MLS Corporation by its Participants. The MLS does not guarantee and is not responsible for its accuracy. Data maintained by the MLS does not reflect all real estate activity in the market. Data presented here was generated from the SCW MLS on or before 04/18/14.

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