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RELEASED FEBRUARY 2010

FOURTH QUARTER 2009 | VOL. 4 ISSUE 4



Dave Stark

What a difference a year makes! Last January, the economy in general was in as panicky a state as we have ever seen. The stock markets were in a freefall that didn't bottom out until March, and the real estate markets spooked. Closings were down 20% in the 4th quarter of 2008, and as we learned three months later, down another 22% in the first quarter of 2009. Taken together, the fourth quarter of 2008 and the first quarter of 2009 were arguably the worst six month period our market has ever experienced.

What we didn't know for sure back then was how this would all turn out, and whether, or how quickly, our markets would eventually recover. Well, we now have an answer, and the news is

very good. In the fourth quarter of 2009, closings in Dane, Sauk and Columbia Counties were up a whopping 47.7% over the same quarter last year. Better yet, our prediction three months ago that we might see a full year sales increase for 2009 has come to pass. Combined single family and condo closings in the three county area were up 5.5% by year end over 2008. When you consider that we started the year down 22% in the first quarter and another 7.6% in the second, the turnaround is nothing short of remarkable.

The breadth of the increases was impressive, and the sprint in the 4th quarter really made a difference. In the fourth quarter, Dane County sales were up 39%, 29% in single family and 79% in condos. Sauk County was up 45.5%, 57% in single family while falling slightly in a thin condo market. Columbia County really bounced back, up 162% overall, 181% (almost triple) in single family alone. Of course, these big percentage increases say as much about how bad it

DANE COUNTY

| | Single Family | | | Condominiums | | | Total Residential | | |
|-----------------------|----------------------|-----------|-----------|--------------|-----------|-----------|-------------------|-----------|-----------|
| | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 |
| | 4th Quarter Closings | 876 | 680 | 820 | 313 | 175 | 251 | 1,189 | 855 |
| Year-to-Date Closings | 4,182 | 4,022 | 4,923 | 1,265 | 1,277 | 1,750 | 5,447 | 5,299 | 6,673 |
| Active Inventory | 2,273 | 2,435 | 2,531 | 1,658 | 1,902 | 2,059 | 3,931 | 4,337 | 4,590 |
| Months of Inventory | 6.4 | 8.8 | 7.9 | 13.0 | 26.8 | 21.1 | 8.1 | 12.5 | 11.0 |
| 3 Month Median | \$210,250 | \$229,000 | \$239,900 | \$151,100 | \$169,900 | \$181,970 | \$194,900 | \$219,000 | \$224,250 |
| 12 Month Median | \$218,000 | \$229,000 | \$232,900 | \$150,000 | \$166,900 | \$167,900 | \$202,000 | \$215,000 | \$218,000 |

SAUK COUNTY

| | Single Family | | | Condominiums | | | Total Residential | | |
|-----------------------|----------------------|-----------|-----------|--------------|-----------|-----------|-------------------|-----------|-----------|
| | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 |
| | 4th Quarter Closings | 135 | 86 | 105 | 12 | 15 | 20 | 147 | 101 |
| Year-to-Date Closings | 526 | 452 | 599 | 41 | 59 | 103 | 567 | 511 | 702 |
| Active Inventory | 620 | 622 | 540 | 217 | 207 | 224 | 837 | 829 | 764 |
| Months of Inventory | 11.3 | 17.8 | 13.2 | 44.5 | 34.0 | 28.8 | 14.0 | 20.2 | 15.7 |
| 3 Month Median | \$130,000 | \$136,500 | \$165,000 | \$125,450 | \$128,000 | \$165,000 | \$129,000 | \$135,000 | \$165,000 |
| 12 Month Median | \$139,900 | \$150,000 | \$160,000 | \$155,000 | \$157,500 | \$151,500 | \$140,000 | \$151,500 | \$159,200 |

COLUMBIA COUNTY

| | Single Family | | | Condominiums | | | Total Residential | | |
|-----------------------|----------------------|-----------|-----------|--------------|-----------|-----------|-------------------|-----------|-----------|
| | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 |
| | 4th Quarter Closings | 163 | 58 | 106 | 10 | 8 | 10 | 173 | 66 |
| Year-to-Date Closings | 513 | 380 | 607 | 42 | 36 | 70 | 555 | 416 | 677 |
| Active Inventory | 561 | 576 | 488 | 111 | 156 | 184 | 672 | 732 | 672 |
| Months of Inventory | 8.5 | 16.1 | 11.8 | 27.3 | 48.0 | 47.3 | 9.6 | 27.3 | 14.9 |
| 3 Month Median | \$137,550 | \$139,900 | \$149,000 | \$120,000 | \$189,000 | \$113,500 | \$137,000 | \$146,000 | \$139,950 |
| 12 Month Median | \$143,900 | \$155,500 | \$159,900 | \$146,450 | \$163,200 | \$162,450 | \$143,900 | \$156,700 | \$159,900 |

* Closed sales reported to the SCW MLS between 10/01/09 and 12/31/09. 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

was a year ago as how good it is now. Nonetheless, the fact that we've recorded a full year increase in sales after 3 years of declines is very encouraging.

While an increase in the raw number of sales is good news, there is a more important metric that is also showing marked improvement. The overall decline in inventories is continuing, to the point where a balanced market is starting to look achievable in many areas. In Dane County in particular, inventories have been moving steadily lower, down to about 3900 now from a peak of 5500 back in 2006. Single family inventories have dropped to the point where we are close to a balanced market, at just over 6 months of inventory.

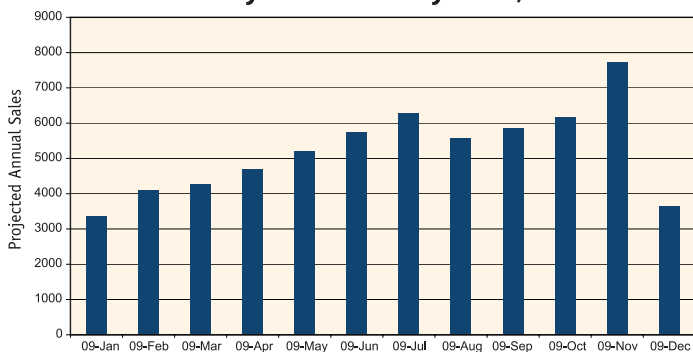
Months of inventory (defined as the number of months it would take to sell through the entire inventory at the current pace of sales) provides one of the most encouraging statistics of all. In Dane County, overall months of inventory are down by a third from a year ago, from 12.5 to 8.1. Months of condo inventory are half what they were a year ago. Single family inventories are close to balance. Sauk and Columbia Counties, where inventories have stayed stubbornly higher, also showed dramatic improvement. Columbia County was particularly impressive, with overall months of inventory falling from 27.3 to 9.6, a 65% drop.

A note on months of inventory calculations: There are many ways to calculate months of inventory. The pace of sales can be measured over any period of time; 3 months, 6 months or even a full year. Furthermore, because our market is very seasonal, raw quarterly or semi-annual numbers can give very different results, since the seasonal pace of sales is so variable. Our practice is to use the most recent quarter's closings, and make a seasonal adjustment to account for what we would normally expect at this time of year. We think this gives our readers the most immediate and accurate view of what's happening. In normal years, the first and fourth quarters are slower than the second and third. On average, about 20.5% of the year's sales occur in the 4th quarter.

THE EFFECT OF THE FIRST TIME HOMEBUYER TAX CREDIT

To fully analyze what happened in 2009, we must take into account the profound effect of the federal First Time Homebuyer Tax Credit. Our readers know that in early 2009, as a part of the government's "stimulus plan," a tax credit of up to \$8,000 was made available to first time home buyers. To qualify, buyers had to close on their purchase by November 30 of 2009. If you wonder if the credit had an effect, look at the chart below.

Dane County 2009 Monthly Sales, Annualized



The chart shows monthly sales in Dane County, seasonally adjusted, just as we do for months of inventory. Each bar represents the number of sales that would occur annually if the seasonally adjusted pace of sales for that month continued for a full year. Look at the bar for November 2009, and then the one for December. It's safe to say that we saw a little drop off after the original November 30 deadline passed. Obviously, buyers were working feverishly to close before the credit expired.

December was dealt an extra dose of uncertainty, as speculation swirled in November about whether the tax credit program would be extended. Offers to purchase fell precipitously in early November as buyers sat on

the sidelines waiting to see what would happen. On November 7, we got our answer as the credit program was extended for purchases closed by June 30 2010, with the additional stipulation that the offer must be accepted by April 30. To make it even better, the extended credit has been expanded beyond first time buyers to include current homeowners who are buying a new primary residence and have lived in their current home for 5 consecutive years out of the last 8. These buyers are eligible for a credit of up to \$6500. A summary of the extended and expanded tax credit program is presented below. Visit our website, www.StarkHomes.com, for further details.

Homebuyer Tax Credit Changes

Congress has extended and expanded the homebuyer tax credit. The modifications in the column labeled "December 1 – April 30, 2010" became effective when President Obama signed the bill. All changes made to the old tax credit became effective on that date, as well.

| FEATURE | Jan 1 – Nov 30, 2009 Rules as enacted Feb 2009 | Dec 1 – April 30, 2010 Rules as enacted Nov 2009 |
|---|---|--|
| First-time Buyer – Amount of Credit | \$8000 (\$4000 married filing separate) | \$8000 (\$4000 married filing separate) |
| First-time Buyer – Definition for Eligibility | May not have had an interest in a principal residence for 3 years prior to purchase | Same |
| Current Homeowner – Amount of Credit | No Provision | \$6500 (\$3250 married filing separate) |
| Effective Date – Current Owner | No Provision | Date of Enactment |
| Current Homeowner – Definition for Eligibility | No Provision | Must have used the home sold or being sold as a principal residence consecutively for 5 of the previous 8 years |
| Termination of Credit | Purchases after November 30, 2009. (Becomes April 30, 2010 on Date of Enactment.) | Purchases after April 30, 2010 |
| Binding Contract Rule | None | So long as a written binding contract to purchase is in effect on April 30, 2010, the purchaser will have until July 1, 2010 to close. |
| Income Limits (Note: Increased income limits are effective as of date of enactment of bill) | \$75,000 – single \$150,000 – married Additional \$20,000 phase out | \$125,000 – single \$225,000 – married Additional \$20,000 phase out |
| Limitation on Cost of Purchased Home | None | \$800,000 Effective Date of Enactment |
| Purchase by a Dependent | No Provision | Ineligible Effective Date of Enactment |
| Antifraud Rule | None | Purchaser must attach documentation of purchase to tax return |

With the extended tax credit now in place, we think it's a virtual certainty that the first and second quarters of 2010 will be very, very active. Based on our experience at the end of last year, we expect that offer activity will again fall off fairly steeply after April 30, and closing activity will likewise decline after June 30. We expect the year to be atypical in terms of the normal seasonal patterns, with heavier than normal activity in the first half, followed by an unusual drop-off. The question is, will accelerated activity in the first half reduce inventories to the point where the market can move forward from there on a somewhat normal footing? While we won't know anything for sure until a year from now, our guess is that while 2010 will be "front end loaded," the foundation for further growth in 2011 and beyond will have been laid.

PRICES

It's impossible to miss the fact that median prices in all markets were down in 2009. However, the distorting effect of the tax credit cannot be overlooked either, since only first time homebuyers were eligible in 2009, and first time buyers tend to buy less expensive homes. The result was a skewing of activity to the lower end of the range from late spring on. To calculate a median, all the sales in a given market over a given time frame are ranked from most to least expensive, and the sale smack in the middle is the median. Therefore, medians don't really tell us if prices are rising or falling. They tell us what's in the middle of the range of properties that actually sold.

The Federal Housing Finance Agency publishes a quarterly index that measures actual price appreciation for every sale covered by a Fannie Mae or Freddie Mac mortgage. The index is published quarterly, and the fourth quarter index won't be available until late February. However, the third quarter 2009 index for the Madison market showed a 12 month

4th QUARTER SALES BY PRICE - DANE COUNTY

| SINGLE FAMILY | 2008 Sales | % of Total | 2009 Sales | % of Total | Current Inventory | Months of Inventory |
|---------------|------------|------------|------------|------------|-------------------|---------------------|
| < 200,000 | 1,369 | 33.8 | 1,684 | 40.2 | 709 | 5.1 |
| 200-300,000 | 1,619 | 40.0 | 1,620 | 38.7 | 789 | 5.8 |
| 300-400,000 | 580 | 14.3 | 519 | 12.4 | 337 | 7.8 |
| 400-500,000 | 236 | 5.8 | 198 | 4.7 | 155 | 9.4 |
| 500-700,000 | 172 | 4.3 | 130 | 3.1 | 165 | 15.2 |
| > 700,000 | 70 | 1.7 | 38 | 0.9 | 139 | 43.9 |
| Total | 4,046 | 100.0 | 4,189 | 100.0 | 2,294 | 6.6 |

| CONDO | 2008 Sales | % of Total | 2009 Sales | % of Total | Current Inventory | Months of Inventory |
|-------------|------------|------------|------------|------------|-------------------|---------------------|
| < 200,000 | 902 | 69.9 | 987 | 77.8 | 1,074 | 13.1 |
| 200-300,000 | 238 | 18.5 | 192 | 15.1 | 308 | 19.3 |
| 300-400,000 | 71 | 5.5 | 57 | 4.5 | 137 | 28.8 |
| 400-500,000 | 39 | 3.0 | 19 | 1.5 | 70 | 44.2 |
| 500-700,000 | 29 | 2.3 | 11 | 0.9 | 46 | 50.2 |
| > 700,000 | 11 | 0.9 | 3 | 0.2 | 27 | 108.0 |
| Total | 1,290 | 100.0 | 1,269 | 100.0 | 1,662 | 15.7 |

4th QUARTER SALES BY PRICE - SAUK COUNTY

| SINGLE FAMILY | 2008 Sales | % of Total | 2009 Sales | % of Total | Current Inventory | Months of Inventory |
|---------------|------------|------------|------------|------------|-------------------|---------------------|
| < 150,000 | 225 | 49.8 | 299 | 56.8 | 211 | 8.5 |
| 150-200,000 | 112 | 24.8 | 111 | 21.1 | 134 | 14.5 |
| 200-250,000 | 55 | 12.2 | 66 | 12.6 | 77 | 14.0 |
| 250-300,000 | 25 | 5.5 | 26 | 4.9 | 62 | 28.6 |
| 300-500,000 | 31 | 6.9 | 19 | 3.6 | 92 | 58.1 |
| > 500,000 | 4 | 0.9 | 5 | 1.0 | 48 | 115.2 |
| Total | 452 | 100.0 | 526 | 100.0 | 624 | 14.2 |

4th QUARTER SALES BY PRICE - COLUMBIA COUNTY

| SINGLE FAMILY | 2008 Sales | % of Total | 2009 Sales | % of Total | Current Inventory | Months of Inventory |
|---------------|------------|------------|------------|------------|-------------------|---------------------|
| < 150,000 | 178 | 47.1 | 277 | 54.1 | 179 | 7.8 |
| 150-200,000 | 88 | 23.3 | 129 | 25.2 | 117 | 10.9 |
| 200-250,000 | 58 | 15.3 | 49 | 9.6 | 84 | 20.6 |
| 250-300,000 | 24 | 6.4 | 27 | 5.3 | 45 | 20.0 |
| 300-500,000 | 23 | 6.1 | 27 | 5.3 | 84 | 37.3 |
| > 500,000 | 7 | 1.9 | 3 | 0.6 | 45 | 180.0 |
| Total | 378 | 100.0 | 512 | 100.0 | 554 | 12.9 |

price decline of 1.1%. By contrast, the Dane County median fell 6.1%. Sauk County fell by 7.6% and Columbia County fell by 8.2%. How can we reconcile this, and what does it mean for home owners?

The best way to understand what's going on is to analyze sales and inventories by price range. For each of the last two issues of the Market

Source, we've published tables showing the number of sales in each price range for last year and this year, the percentage each price range is of the total, the active inventory, and the months of inventory in each range based on current period sales. We've found this approach useful enough that we've published the same tables again for the full years 2009 and 2008. Tables are included for Dane County single family and Dane County condos, along with single family tables for Sauk and Columbia Counties (their condo markets are too thin to be meaningful). The months of inventory for these tables were calculated based on sales totals for the entire year, rather than the seasonally adjusted most recent quarter as on the front page. Given the slowness of the first 5 months of the year, these probably slightly overstate the months of inventory based on current conditions.

In Dane County, we see that single family sales increased year over year under \$300,000, and fell above that. Sales under \$200,000 went from 33.8% of all sales in 2008 to over 40% in 2009. This is the tax credit in action. Furthermore, even taken over a full year, there are less than 6 months of inventory under \$300,000. In other words, we've reached a balanced market in the lower price ranges with a tax credit fueled surge approaching in the next 4 months. Expect brisk competition for the best properties in these price ranges, and the likelihood that prices may start to rise in this range next year. On the other hand, we have over a year of inventory over \$500,000, and almost 4 years worth over \$700,000. This is a much thinner market, with many unique properties that are hard to value. But if there is price weakness in Dane County, the upper price range is where you'll find it.

Dane County condos show a similar pattern, but more pronounced. As we've explained before, there is always more condo inventory because they are built in large quantities. But nearly 80% of sales in 2009 were under \$200,000, and demand over \$400,000 is fairly light. While the numbers can change quickly in markets this thin, it's going to take some time to sell off the upper end inventory. Developers have really pulled in their horns, so we don't expect much new inventory to hit the market for a while, which is good.

Sauk and Columbia Counties have shown great improvement in the last 6 months. These markets are much less expensive than Dane County, making them attractive choices for first time buyers. These counties were also harder hit by the foreclosure wave than Dane was, Columbia County in particular. However, they're working their way through that inventory, and a balanced market is not far off in the lower ranges. The upper ranges will remain a challenge for a while yet.

CONCLUSION

With the tax credit extended and expanded to cover current homeowners, our best guess is that the first half of 2010 will put our market in pretty good shape going forward. Giving current homeowners a tangible reason to move now should finally help bring inventories down in the upper ranges. It's no longer a buyer's market under \$200,000 in Dane County, and the rest of the market will soon follow suit. This should also set the stage for a resumption in new construction, which is long overdue. Absent another confidence sapping shock to the economy, the fear of housing seems to have abated, the most critical element for recovery. While there will be a mid year dip in activity, our hope is that the foundation will have been laid for normal upward growth in the latter part of 2010 and beyond.

ADVICE FOR BUYERS AND SELLERS

BUYERS

If you're a first time buyer, the federal government has given you a do over, and you don't want to miss it this time, since it's highly unlikely they'll give you another one. If you're a current homeowner, this is your only chance to get a \$6500 bonus check for acting now, rather than a year from now. Add in that the Federal Reserve is still buying mortgages, so rates remain near all time lows. Inventories are starting to dwindle. A year from now, prices are likely to be on the rise in many sectors, and rates are almost certain to be higher. Do we need to give you any more reasons to act now?

SELLERS

If you position yourself competitively this spring, your chances of success are the best they've been in three years. Under \$200,000, we might start to see a seller's market again. The upper ranges are a little less clear, since awareness of the credit for current homeowners does not seem as high as it should be, and inventories are much higher. You still don't have the upper hand, but you're not way behind the eight ball anymore either. Your chances are good if you're realistic.

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Likely direction next 6 months

Number of homes sold (annualized)

| | Dane | Sauk | Columbia |
|------------------------|-------|------|----------|
| 12 mo. ended, 12/31/09 | 5,447 | 567 | 555 |
| 12 mo. ended, 9/30/09 | 5,094 | 521 | 445 |
| 12 mo. ended, 12/31/08 | 5,299 | 511 | 416 |



Comments

Extended tax credit will create huge gains through June.

30 Year Mortgage Rates

| | | | |
|----------------|-------|--|---------------------|
| December 2009 | 4.93% | | |
| September 2009 | 5.06% | | |
| December 2008 | 5.29% | | Source: Freddie Mac |



They're already back over 5% in January. Expect closer to 6% 12 months from now.

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

| | Dane | Sauk | Columbia |
|------------------|-----------|-----------|-----------|
| 4th Quarter 2009 | \$202,000 | \$140,000 | \$143,900 |
| 3rd Quarter 2009 | \$207,000 | \$140,000 | \$146,000 |
| 4th Quarter 2008 | \$215,000 | \$151,500 | \$156,700 |



Our guess is that the expanded credit will get the upper and middle ranges going again.

Building Permits – Dane County Single-Family

| | 4th Quarter | Year-to-Date |
|------|-------------|--------------|
| 2009 | 151 | 603 |
| 2008 | 107 | 667 |
| 2007 | 274 | 1,167 |



Finally an up arrow! The tax credit should help the first half of the year.

Inventories – Single Family & Condo

| | Dane | Sauk | Columbia |
|----------------|-------|------|----------|
| December 2009 | 3,931 | 837 | 672 |
| September 2009 | 4,539 | 929 | 788 |
| December 2008 | 4,337 | 829 | 732 |



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