

Don R. Scheidt & Co., Inc. is pleased to provide our eleventh Residential Market Analysis for Greater Lafayette. This year's focus will be on *Foreclosure, Equity and Appreciation*.

We have had a positive response to our market study in the past, and many of you have asked for additional copies. We are happy to provide a reasonable number of extra copies at no cost, and can provide a larger number at our cost. The market study will be available for downloading from our home page at: <http://www.donrscheidt.com>. We are interested in your opinion of this report and ideas for future reports. Feel free to contact our office.

### **SPECIAL ANNOUNCEMENT**

Don R. Scheidt & Co., Inc. is pleased to announce we are moving to 2927 Union Street, Lafayette, Indiana. We expect to be in our new offices by April 1, 2005. Our telephone numbers will remain the same.

### **ACKNOWLEDGMENTS**

The following information is a compilation of facts and figures gleaned from several sources including the Lafayette Regional Association of REALTORS, Greater Lafayette Chamber of Commerce, U.S. Bureau of the Census, Tippecanoe County Area Plan and Building Permits Office, Lafayette and West Lafayette City Engineer's Offices, Greater Lafayette Progress, Inc., The Lafayette Leader, Lafayette Business Digest, Journal and Courier, Indiana Workforce Development, as well as various governmental offices, our own market research, and all of you.

### **OVERVIEW**

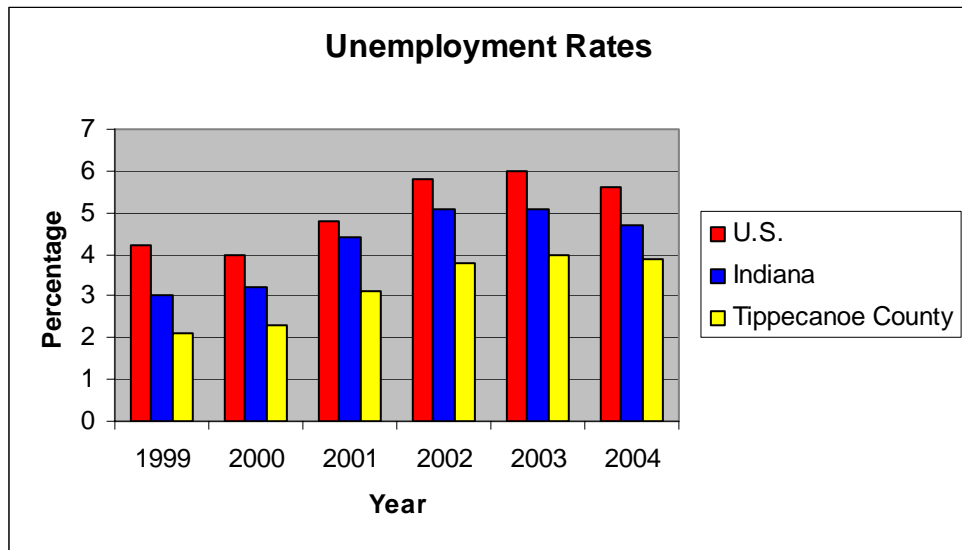
2004 was another strong sales year in the residential real estate market with the number of sales exceeding that of 2003 and with building permits at an all time high; however, average days on market increased and the average sale price of all reported residential MLS sales decreased slightly.

The Lafayette MSA (including Tippecanoe and Clinton Counties) has consistently had one of the lowest unemployment rates in Indiana and has remained fairly stable over the past three years with little change since 2002. Please see the chart on the following page, which illustrates the unemployment history of the Lafayette MSA.

Contributing to the stability of the region has been a diversified employment base with a strong manufacturing sector. The Tippecanoe County work force is estimated at 73,860. According to the local Chamber of Commerce, top employers include Wabash National employing approximately 3,100, Greater Lafayette Health Services employing 2,600, and Subaru-Isuzu Automotive employing 2,600. Purdue University has a major impact on the region with approximately 38,000 students and employing over 13,000. Other leading employers include Caterpillar Tractor, Arnett Clinic, Tippecanoe School Corporation, and Eli Lilly & Company.

## UNEMPLOYMENT HISTORY

As can be seen by the following chart, unemployment rates increased gradually from 1999 to 2003. There was a slight decrease in the rates for 2004. The United States has a rate of 5.6%, Indiana has a rate of 4.7% and Tippecanoe County has a rate of 3.9%. Nearby White County has an unemployment rate of 6.7%, Clinton County has a rate of 6.0%, and Montgomery County has a rate of 4.0%.



## INTEREST RATES

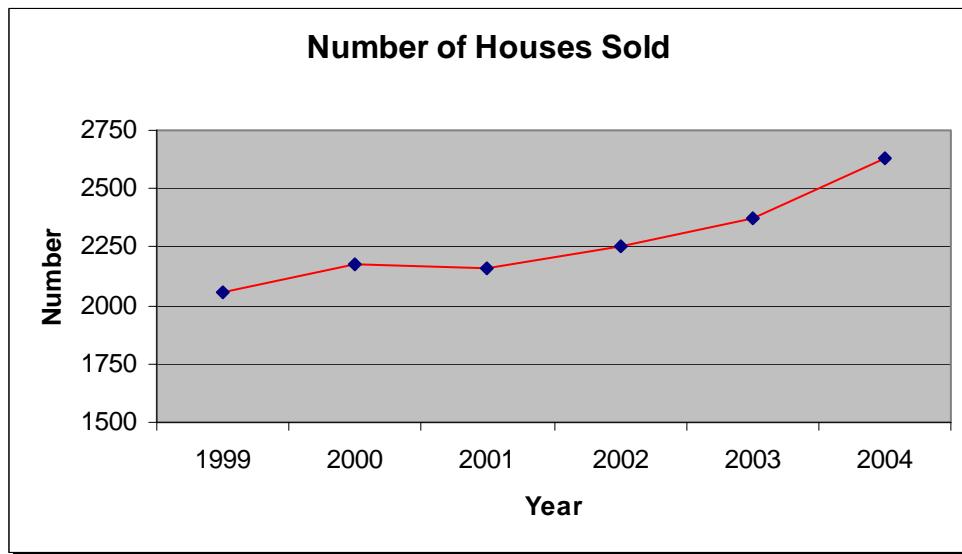
At the beginning of 2002, 30-year mortgages were in the 7% range. According to the Freddie Mac Weekly Mortgage Market Survey, the 2003 average 30-year rate was 6.02% and the 15-year mortgage rates average 5.36%. As of January 13, 2005, the average 30-year rate was 5.74% and the 15-year rate was 5.14%. The following charts indicate the fluctuations in fixed-term mortgage interest rates over the past several years. Rates hit a low in mid-2003 and have remained low since making this an attractive time to borrow money and/or purchase a home. Low interest rates have helped keep the nation-wide housing market strong.

Will interest rates increase during 2005? Mortgage interest rates will likely increase during 2005, but we expect them to remain attractive. How will attractive mortgage rates affect our local housing market? Theoretically, lower mortgage interest rates should bolster homes sales; however, other factors such as household income, job creation and the local economy, in general, affect the housing market. Some local employers have eliminated overtime, thus lowering household income. The effect is evident in lower appreciation rates and higher foreclosure rates versus the national average. We do not have the increasing wages that fuel increasing home appreciation.

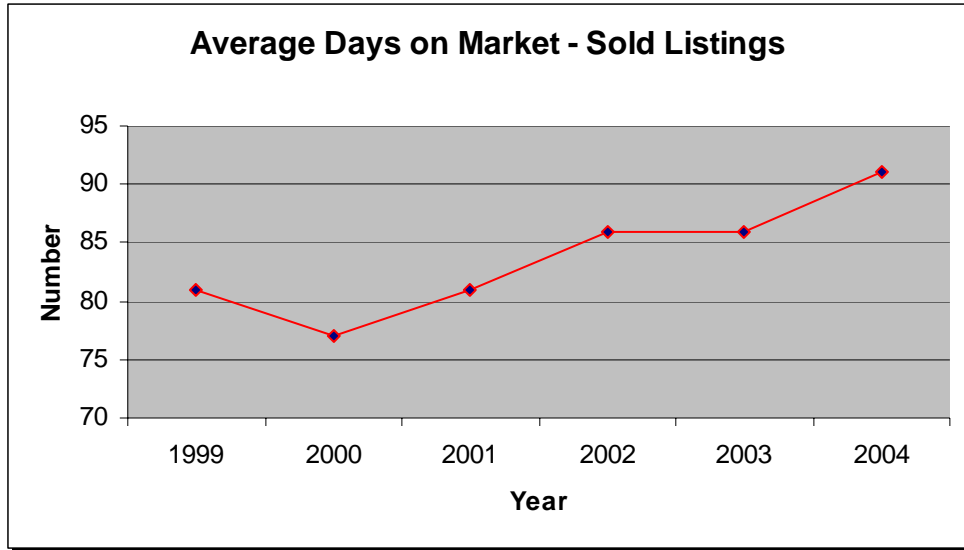


## EXISTING HOME SALES

The number of homes sold through the local MLS is a good approximation of demand for existing homes. The six-year history of the number of homes sold is shown below.



There has been some concern that the increase in the number of houses sold could be attributed to an increase in number of new constructions being listed in the MLS. According to the MLS, 2002 figures included 95 houses built in 2002. 2003 figures included 172 houses built in 2003 and 2004 figures included 178 houses built in 2004. There was also an increase of 158 houses sold in Areas 700-709 which may be attributable to a larger number of reported sales in the outlying areas as more realty companies join our local board. Adjusting for these differences, one would conclude that overall sales of existing houses has not increased as significantly as first indicated. These numbers would indicate that perhaps a greater percentage of new construction is being reported through the MLS than in past years and may be skewing the data. A more accurate representation of the existing home market (units sold and average sale price) obviously would not include new construction data.



As can be seen by the preceding charts, there was a significant increase in the number of homes sold in 2004 versus 2003 and average marketing time for sold listings increased to 91 days. There has been a 15%+ increase in days on market between 2000 and 2004.

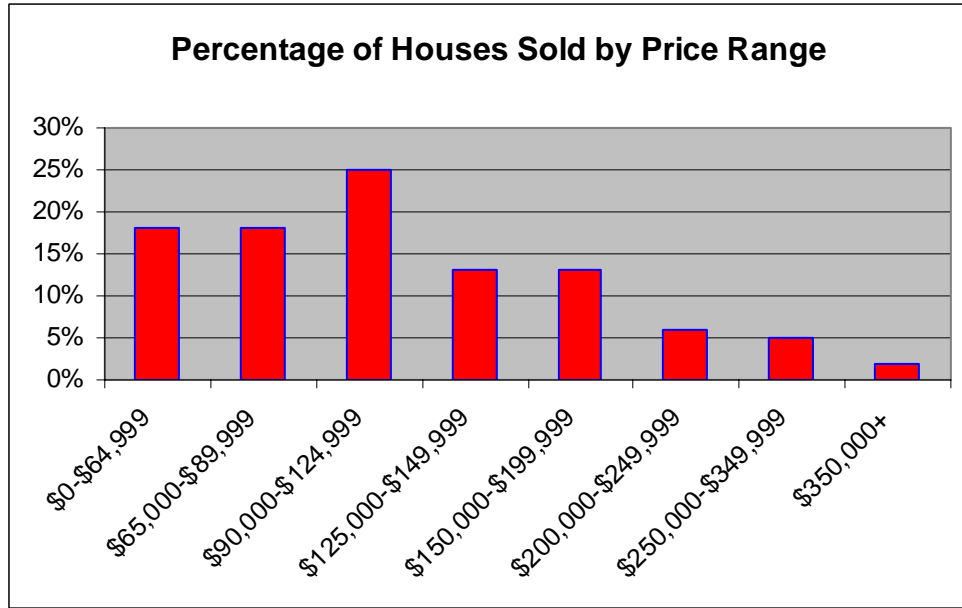
As of January 18, 2005 there were 1,376 residential active listings with an average marketing time of 114 days. It is also of interest to compare the number of active listings from year to year. According to the MLS there were 4,545 listings in 2003 and 4,942 listings in 2004. The ratio of active listings to sold listings is roughly 52% to 53%.

Following is a chart showing the average single-family home price for all homes sold through the Lafayette Regional Association of REALTORS MLS from 1999 to 2004.



As can be seen the average home price increased steadily from 1999 to 2001 with a dip in 2002 and an increase in 2003. Average sale price remained similar in 2004.

The chart below shows the number of homes sold in 2004 through the local Lafayette Regional Association of Realtors MLS, by price range.



According to the preceding chart, 61% of all homes sold were less than \$125,000.00. These “entry-level” homes will continue to be in demand, as new construction generally starts near \$100,000. 25% of homes sold were in the \$90,000 to \$124,999 price range, similar to last year. There were a greater percentage of sales in the less than \$64,999 price range than last year. The percentage of sales in the \$65,000 to \$199,999 price ranges decreased. There was a percentage increase in the \$200,000+ price ranges. This year there were 47 sales in the \$350,000+ price range or approximately 2% of the total market.

It is also interesting to compare segments of the region. The following table shows the average sale price, median sale price and marketing time of homes in each of the areas designated by our MLS. These can briefly be described as follows:

- Area 100:** Lafayette Schools, north of South Street
- Area 200:** Lafayette Schools, south of South Street
- Area 300:** Lafayette Schools, north and east
- Area 400:** West Lafayette Schools
- Area 500:** Tippecanoe County Schools, north of State Road 26
- Area 600:** Tippecanoe County Schools, south of State Road 26
- Area 700:** Other (Areas 700-709 combined for this chart)

Area	2002	Units Sold	Average	2003	Units Sold	Average	2004	Units Sold	Average
------	------	------------	---------	------	------------	---------	------	------------	---------

		2002	DOM		2003	DOM		2004	DOM
100	\$ 81,622	143	56	\$ 82,500	140	71	\$ 78,276	155	84
200	\$99,387	395	75	\$100,743	400	81	\$98,339	393	86
300	\$126,205	125	101	\$130,968	117	81	\$132,573	104	83
400	\$169,852	159	77	\$167,813	187	78	\$167,626	204	80
500	\$182,045	391	89	\$170,885	454	83	\$173,528	516	91
600	\$133,973	353	83	\$134,745	416	79	\$141,864	442	84
700	\$ 90,992	649	103	\$ 94,294	662	110	\$ 92,107	820	104

This table shows what we might expect: The homes within the city limits of Lafayette (that tend to be older) have a lower average sale price. The average sale price in Areas 100 and 200 decreased. The marketing times for all areas, except Area 700, increased.

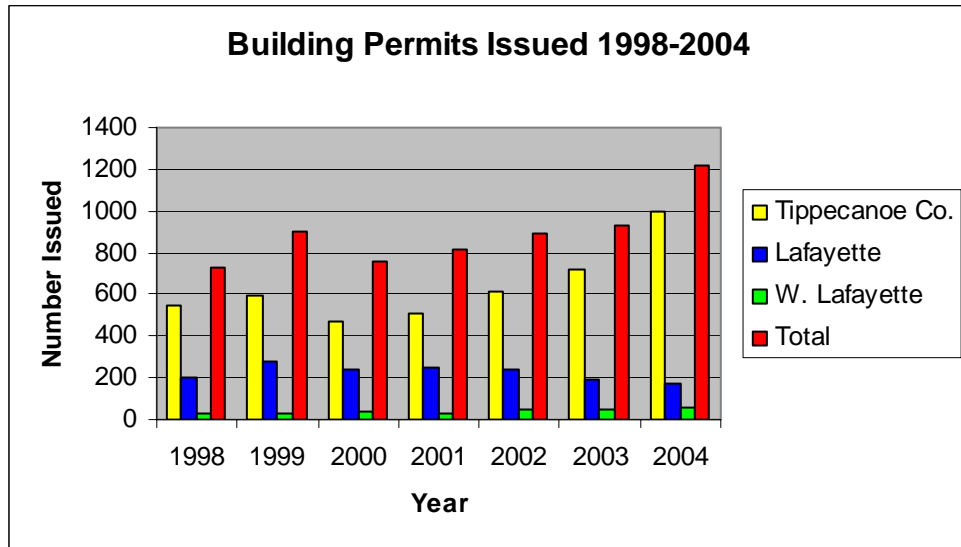
Area 700 consists primarily of homes outside of Tippecanoe County and encompasses a wide variety of locations and styles of homes. The total number of sales in Area 700 increased significantly. This may be a result of a larger number of MLS participants. The average price of homes in Area 700 is significantly lower than the overall average with a longer marketing time, which is a further indication of the strength of the Tippecanoe County market.

It should be noted that these figures are not an absolute indication of appreciation or depreciation of individual homes. However, the averages may be indicative of some general strengths and weaknesses in the market.

### TIPPECANOE COUNTY OVERVIEW

#### NEW CONSTRUCTION

The best estimate of new construction supply is the number of building permits issued. Please see the following table summarizing the number of single family building permits issued in Tippecanoe County, Lafayette, and West Lafayette for the past five years.



The preceding table shows a rather steady increase in the number of issued building permits from 1999 to 2003 with a slight dip in 2000. The largest increase (29.18%) occurred between 2003 and 2004. According to the monthly summary provided by the Tippecanoe County Area Plan Commission, issued

building permits hit their highest level during the months of March, August, and May. These numbers do not include manufactured or mobile housing. It is interesting to note that while single-family building permits have increased steadily since 2000, multi-family building permits have decreased from 1,108 units in 2000 to 117 units in 2004 indicating a possible over-supply of multi-family units.

An additional indication of the future supply of homes can be determined by analyzing the number of lots that have been platted or proposed recently. Tippecanoe County Area Plan provided the following information. There are 22 different approved major subdivision projects offering 944 single-family residential building sites, which have been made available since January 1, 2004. In addition to these recorded subdivisions, there are several subdivisions, which have received preliminary approval.

Major subdivisions, as categorized by the Area Plan Commission, approved in 2004 are summarized on the following table:

**MAJOR SUBDIVISIONS APPROVED 2004**

<i><b>Subdivision</b></i>	<i><b>Lots</b></i>	<i><b>Township</b></i>
Arbor Chase, The Village	56	Wabash
Arbor Chase, The Estates	55	Wabash
Bridlewood SD Ph 1 Pt 2	78	Perry
Fiddlesticks SD Ph 1	74	Wea
Fiddlesticks SD Ph 2	59	Wea
Hadley Moors SD Pt 5 Ph 2	29	Wabash
Harrison Highlands SD Ph 1 Sec 2	14	Tippecanoe
Harrison Highlands SD Ph1	108	Tippecanoe
Hickory Ridge	66	Wea
Huntington Farms Ph 3 Sec 1	31	Wabash
Lafayette Redevelopment SD Pt 2	22	Fairfield
Lindberg Village SD Ph 4	70	Wabash
Orchard SD Ph 2 Sec 2	7	Wabash
Orchard SD Ph 2 Sec 1	28	Wabash
Saint Joseph West SD	18	Wabash
Shawnee Ridge SD Ph 3	12	Tippecanoe
Stonehenge SD Ph 2, Pt 1	36	Wea
Stones Crossing SD Sec 2	68	Wea
Stones Crossing SD Sec 3	55	Wea
Sweetbriar 5 <sup>th</sup> SD Ph 1	8	Fairfield
Wakerobin Estates II Ph 3	45	Wabash
Watkins Glen S SD Pt 6 Ph 1	1	Fairfield
Winding Creek SD Sec 3	4	Tippecanoe
<b>Total</b>	<b>944</b>	

Major subdivisions, as categorized by the Area Plan Commission, receiving preliminary approval are

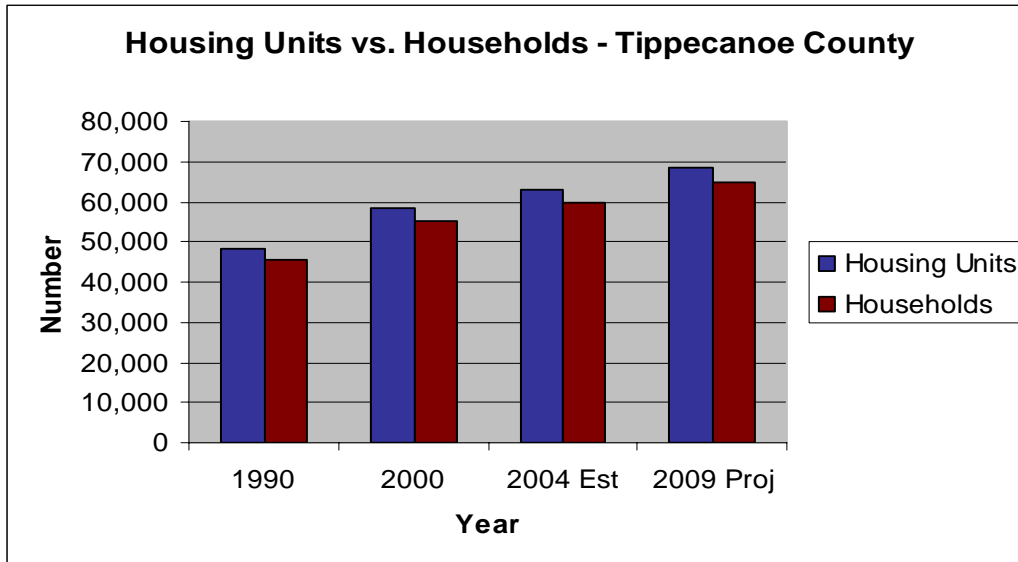
summarized on the following table:

**MAJOR SUBDIVISIONS PRELIMINARY APPROVAL 2004**

<i>Subdivision</i>	<i>Lots</i>	<i>Township</i>
Avalon Bluffs SD	247	Wea
Barrington Woods SD	245	Perry
Blackthorne SD Ph 2	98	Wabash
Harrison Highlands SD Ph 1 Sec 2	14	Tippecanoe
Lauren Lakes SD	677	Tippecanoe
Luck SD	4	Fairfield
Masons Ridge SD	90	Wea
Shawnee Ridge SD Ph 4	79	Tippecanoe
Winding Creek SD Sec 4	47	Tippecanoe
Total	1501	

Major subdivisions receiving preliminary approval during 2004 would add 1,501 building sites to the inventory for a total of 2,445 new subdivision building sites. In addition to the number of subdivision lots, there are approximately 152 residential planned development lots for a total of 2,597. Based upon the number of building permits issued, this would add a little more than 2 years to the available building site inventory. Information regarding the number of active subdivisions with vacant lots was not available.

The number of new households entering the market annually is estimated at 5,152 new households from 2004 to 2009 or an average of 1,030 per year and the number of housing units is projected to increase from 62,990 to 68,412 or an average of 1,084 annually, as projected by *CCIM STDB*, a private market data research company. This information would tend to indicate an oversupply of housing units for Tippecanoe County since 1990; although the percentage of housing units to number of households remains relatively unchanged.



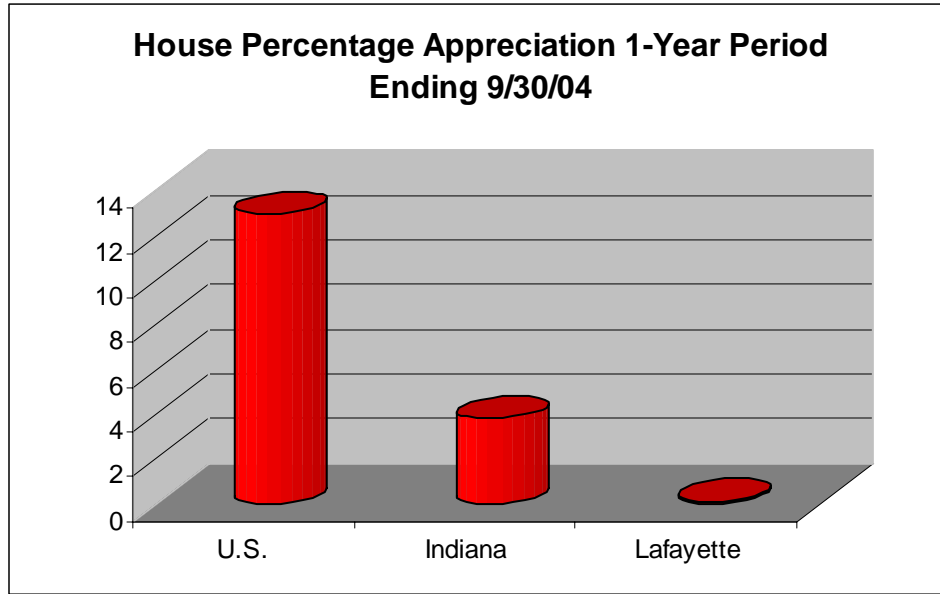
Demand must be drawn from other sources such as existing homes and the rental market in order for these lots to be absorbed in a reasonable time period. Another possible source of new households entering the market is the commuter population. According to *STATS Indiana*, a web based information service of the State of Indiana and the Indiana Department of Commerce, about 19,781 people commute to Lafayette from adjoining counties and about 4,046 commute from Lafayette to other cities/towns in adjoining counties – a net gain of 15,735. And, of course, renters will become purchasers as long as purchasing a home is more economically feasible. The local economy remains strong, and interest rates remain favorable in the 6% range. Home sales, both volume and units, continue to increase. The areas with the greatest increases are those areas with the greatest amount of residential construction in either volume or price range.

### **FORECLOSURE, EQUITY, AND APPRECIATION**

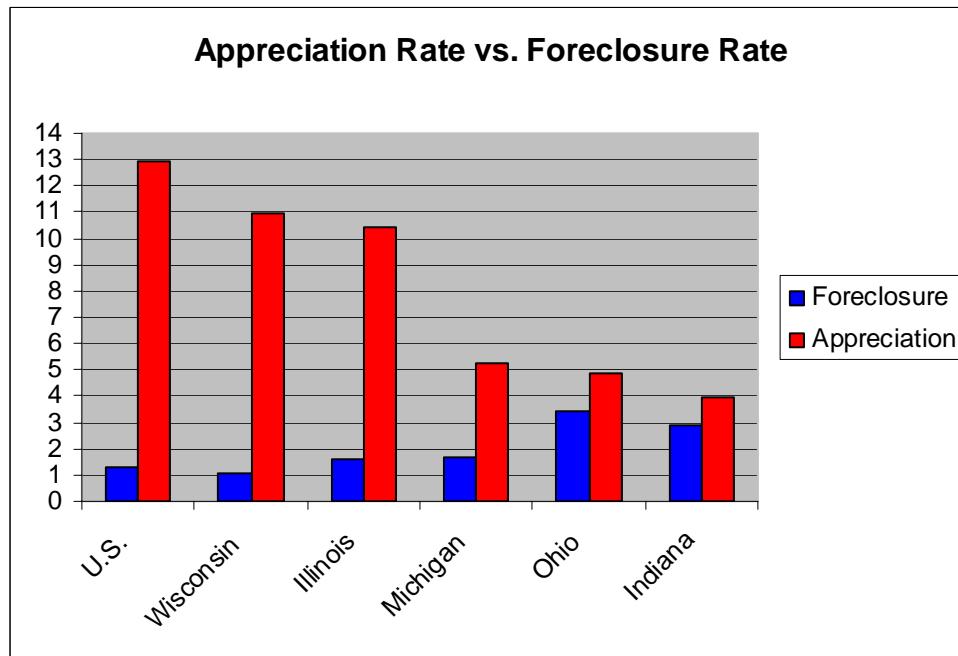
The increased foreclosure rate is becoming a national, as well as, a local concern. According to the Mortgage Bankers Association, Indiana ranked first nation-wide in the number of foreclosures during 2003. During 2004 Indiana ranked second. Unfortunately, even though Indiana's ranking went from first to second, the number of Indiana foreclosures increased to 5.3% for the first quarter 2004. The nation-wide foreclosure average was 1.3%. Nearly 11% of Indiana FHA insured loans were delinquent.

According to the Tippecanoe County Sheriff's Department there were approximately 249 foreclosures between September 2003 and September 2004. Foreclosure is an issue affecting all of us. Foreclosure properties are scattered throughout Tippecanoe County and are not limited to a few specific neighborhoods. Of these, approximately 14% were in the moderate household income range (\$20,000 to \$40,559), 58% were in middle household income range (\$41,786 to \$58,954) and 29% were in the upper household income range (\$63,099+). There were none in the low household income range (less than \$20,000). In short, foreclosure is affecting middle-Americans through vacancies, lesser maintained properties, and decreased property values.

The Office of Federal Housing Enterprise Oversight reports the quarterly House Price Index (HPI) or housing price appreciation trends of 245 Metropolitan Statistical Areas (MSAs). According to this report, for the one-year period ending September 30, 2004, the average U. S. home price increased 12.97% compared to the Lafayette MSA appreciation rate of only .10%. In fact, Lafayette ranked 245<sup>th</sup> out of 245 reported MSAs. The five-year average annual appreciation rate for the Lafayette MSA was 2.23%. The entire report can be viewed at [www.ofheo.gov](http://www.ofheo.gov)



Foreclosure rates and appreciation rates appear to closely correlate. As can be seen by the table below which includes the U.S. and other Midwestern states, generally the higher the foreclosure rate, the lower the appreciation rate.



*A House of Cards, Refinancing the American Dream* by Javier Silva published at [www.demos-usa.org](http://www.demos-usa.org), reports homeowners cashed out \$333 billion of equity between 2001 and 2003. Much of this equity was used to cover living expenses, buy cars, and to pay on credit card bills. As homeowners cash out equity to pay off consumer debt, the cash value of their homes is decreased, and unless they are in a rapidly appreciating market, it may take years to recover from a cash-out refinance. It is possible to become “upside down” in a house, in other words, owe more than the house is worth. Homeowners have

exchanged short-term debt for long-term debt and in some cases putting their homes in jeopardy. Homeowners now have less equity in their homes than in 1973. Nation-wide equity has fallen from 68.3% in 1973 to 55% in 2004. While the equity rate for Indiana and the Lafayette MSA is difficult to document, it is likely these percentages are overstated for our area. This is due, in part, to the number of FHA loans originated in our area. FHA loans typically have a higher foreclosure rate than other loan types. FHA loans typically require a 3% down-payment leaving the buyer with little equity and by definition with few financial resources. During 2003 33% of loans originated in Indiana were FHA, as reported by The Federal Housing Finance Board. Caution is particularly important for the Indiana area as the appreciation rate is well below the national average and the foreclosure rate is well above the national average.

Foreclosure, equity and appreciation are connected. Less equity and low appreciation rates add up to increased risk of foreclosure.

## **RESIDENTIAL SUMMARY**

In conclusion, the single-family residential market in the Lafayette region remains strong and local industry has added to workforce. An abundance of new homes and lots are being supplied to the market and absorption levels continue to remain strong, despite limited appreciation, and increasing number of foreclosures and vacant housing units. Basic economic theory indicates that supply and demand tend toward equilibrium, and we may be nearing that point as appreciation rates have decreased, foreclosure rates have increased, and average market time has increased. The strength of the residential real estate market will depend on the interest rate environment, which remains favorable, and the local economy.

## **CONCLUSION**

Best wishes to all of you for a prosperous 2005.

Should you have any questions concerning this market study, please do not hesitate to contact Deborah Cook at the Lafayette office of Don R. Scheidt & Co., Inc. We also hope to assist you with any other real estate services you may need from time to time such as appraisals (including relocation, FHA, equity and conventional), feasibility studies, or market studies on other property types. If you are in need of appraisal services outside of our office service area, we also have two other office locations to serve you. I'd be glad to contact the appropriate office for you, or you may contact one of the other offices directly at the address printed below.

### **DON R. SCHEIDT & CO., INC.**

401 S. Earl Avenue, Suite 4-A  
Lafayette, IN 47904-3265  
Ph. (765) 447-1075 - FAX (765) 447-3408  
Email: [lafayette@donrscheidt.com](mailto:lafayette@donrscheidt.com)

434 Fourth Street, Suite 4  
Columbus, IN 47201-6728  
Ph. (812) 372-8478 - FAX (812) 372-4048  
Email: [columbus@donrscheidt.com](mailto:columbus@donrscheidt.com)

One Virginia Avenue, Suite 450  
Indianapolis, IN 46204-3616  
Ph. (317) 631-8478 - FAX (317) 687-8286  
Email: [drsindy@donrscheidt.com](mailto:drsindy@donrscheidt.com)

Please visit our home page at:  
<http://www.donrscheidt.com>