

MATTHEWS REAL MARKET UPDATE

A Service of David Matthews Associates

Real Estate Appraisers and Counselors

A PERIODIC REVIEW OF LOCAL REAL ESTATE MARKET TRENDS

THIS NEWSLETTER IS PUBLISHED FOR OUR CLIENTS TO ASSIST THEM IN MONITORING THE CHANGES IN THE REAL ESTATE MARKET IN SOUTHWEST INDIANA. EMPHASIS IS PLACED ON THE EVANSVILLE METROPOLITAN AREA.

SUMMARY:

AGRICULTURE ~ Strong price increases

APARTMENTS ~ Rising occupancies

CBD ~ Flurry of activity, oversupply

INDUSTRIAL ~ Increased demand

LODGING ~ Stronger market projected nationally

OFFICE ~Corporate HQ growth

RESIDENTIAL ~No local bubble, buyer's market

RETAIL ~ Good balance in supply and demand

TRANSPORTATION ~ I-69 and many other state highway projects underway

TECHNOLOGY'S INFLUENCE ON APPRAISING

The valuation of real estate interests has been around a long time. The Old Testament mentions the appraisal of land. Of course, technology at that time consisted of papyrus scrolls, pen and ink. Math concepts were limited. The zero was not invented until 300 B.C. by the Babylonians. Valuation techniques probably consisted of simple, qualitative sales comparison and gross income multipliers.



The abacus, invented by either the Babylonians around 1000 BC or the Chinese 2,000 years earlier, was the first accurate and fast method to do complex multiplication and division improving precision and allowing use of larger numbers. The slide rule was invented in the 1600's by an English minister. Around this time, the first adding machine was invented by Schickard and then

Pascal to help his father who was a tax assessor. In 1911 Burroughs Company introduced an adding machine with the first memory system, a paper tape. This machine cost \$10,000 in today's dollars.

The first modern hand-held calculator was a mechanical device invented in the early 1960's by Curt Herzstark, an Austrian. The Curta could calculate compound numbers and was popular with appraisers and scientists. You

turned the dials and cranked a handle to produce results, including present value of future income.

Desktop solid state electronic calculators hit the market in 1962 with the HP35 retailing for \$395, making it easy to add, subtract, multiply and divide with multi-decimal place precision. One of the first electronic computers capable of running multiple regression programs was General Electric's mainframe in Cleveland, Ohio which was made available to appraisers in the early 1970's via acoustic couplers using standard phones. It also did simple graphs. This system evolved from the first electronic calculator (computer), the ENIAC, created in 1946 for the military to calculate artillery firing tables.

In the 1960's and the early 1970's, the Wang Computer allowed L. W. Ellwood to create and test his formula for evaluating investment equity in real estate projects for New York Life Insurance Company. Appraisers used this formula to develop capitalization rates and appraise real estate, not what Ellwood had in mind. Appraisers loved these new concepts and the pre-printed cap rates developed to six decimal places.

In 1978, the world changed forever with the introduction of the Apple II Plus 48KB RAM, a desktop computer using Intel chips that ran Microsoft's floating point software. At a cost of \$1,195, it was available to most appraisers and could run Visi-Calc, the first interactive spreadsheet invented by Dan Brooklyn a Harvard student who never

patented it. Appraisers could run discounted cash flows and create electronic databases for storage and retrieval of comps. Some believe this led in part to the savings and loan crisis of the 1980's because MBA's and appraisers could create a discounted cash flow and project future values based upon then current inflation rates which made bad projects look good. Overbuilding occurred because of flawed projections. This led to the government "controlling" the appraisers with license laws, Financial Institutions Reform Recovery Act (FIRREA) and the Uniform Standards of Professional Appraisal Practice (USPAP) which was adopted in 1987. Electronic word processors were developed in 1979 with Wordstar, followed by Wordperfect and later, Microsoft Word in the 1980's. Appraisal reports expanded in length and depth. In 1987, Microsoft launched Excel and MS-DOS and, along with Quattro Pro, made data graphing easy in the later versions. Spreadsheets allowed more flexibility in discounted cash flow models, sensitivity analysis and graphs allowed visual presentation of value patterns. Geographical Information Systems (GIS) and the internet which have made data much more accessible, are some of the latest tools available to appraisers.



GIS, which has been addressed in previous newsletters, puts geographical information into electronic form that can be stored and

transmitted through computers. Assessors' databases are an excellent GIS example providing 24/7 access and savings to both the government and to the taxpayer in terms of time and energy. The more enlightened governmental bodies allow free public access to public records via the internet. Vanderburgh, Gibson and Posey Counties all have public information currently on websites. The best is Vanderburgh County with assessment data, taxes, zoning, flood elevations, crime statistics, aerial photographs, and much more. Other minor modern miracles for appraisers include laser measuring devices, voice recognition software, and global positioning satellite (GPS) navigation.

Google Earth (www.earth.google.com) is one of the best examples of aerial photography in some locations. Southwestern Indiana is unfortunately not one of the areas with high resolution photographs. Alta Vista Terra Server (www.terraserver-usa.com) is another well-

developed program with U.S. Geological Survey maps as well as aerial photographs.

Appraisers, real estate professionals and property owners can all benefit from these new technologies in understanding the world in which we live and that almost everything that happens has an effect on real estate values in some way.



SOX AND APPRAISALS

Most people in business have heard of the Sarbanes-Oxley Act (SOX). SOX requires CEO/CFO certification requirements for annual and quarterly reports filed with the SEC, increased current reporting requirements, enhanced enforcement, stiffer civil and criminal penalties, and closer review of periodic filings by the SEC. The Act also establishes a new Accounting Oversight Board responsible for regulating accounting firms that audit companies filing financial reports with the SEC. While SOX primarily applies to publicly traded companies, many SOX compliant companies are now requiring similar business practices from their vendors.

At its core, SOX requires affected businesses to adequately document business practices and decisions and the value of corporate assets and liabilities. SOX demands careful, ongoing accounting of all assets, including real estate, and all financial transactions including sales, leases, and mortgages, of property and equipment. Objective appraisals are critical tools when making decisions about the disposition of any such assets. Appraisals will document the value of those assets and will substantiate that a transaction was "arm's length" for full value. Even short of asset dispositions, SOX requires certification of the accuracy of a company's financial statements and its statement of values of assets and liabilities. Periodic appraisals can be useful to independently confirm the "book value" of long held assets thus insuring the accuracy of the company's financial statements.

While SOX has resulted in substantial expenses for many businesses it has also helped restore confidence in business practices generally. Appraisals are an important tool to insure SOX compliance as well as good business practices.

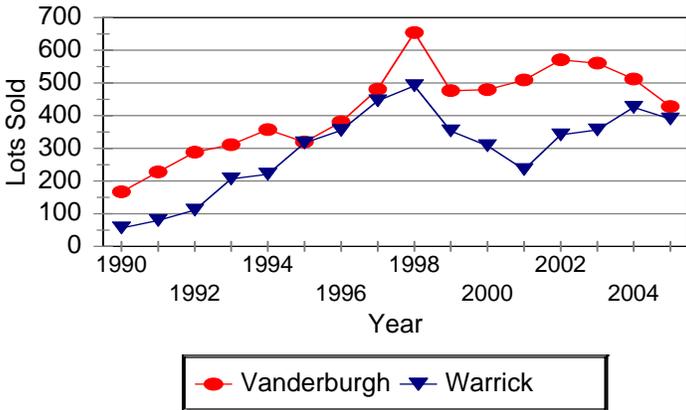
This article was written by attorney Mark E. Miller. Mr. Miller practices in Evansville, Indiana and his clients include both publicly traded and closely held businesses. If you have any questions about this article, you can contact Mr. Miller at (812) 425-1490 or mmiller@indianalawonline.com.

BUILDING PERMITS, LOT AND HOME SALES

New home construction continues to flourish in the greater Evansville area. However, the number of new subdivisions recorded in Vanderburgh County and Warrick County in 2005 were not as high as the previous year. In 2005, Vanderburgh County had 10 subdivisions recorded, compared to 14 in 2004. Warrick County had 11 new subdivisions recorded in 2005 compared to 23 in 2004. The following graphs indicate the number of total vacant lots sold in Vanderburgh County and Warrick County over the past 16 years.

LOT ACTIVITY BY YEAR

Vanderburgh & Warrick Counties

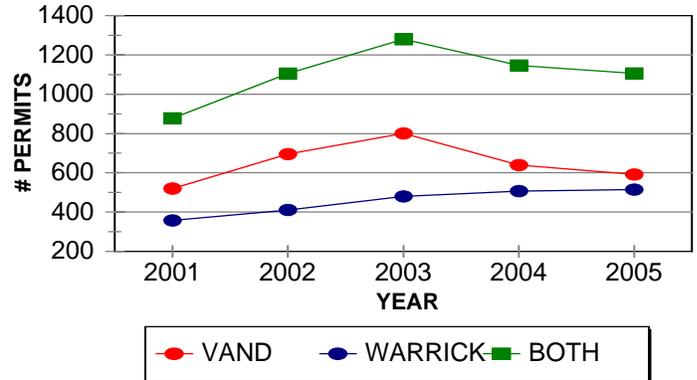


and Warrick Counties for the past few years. The number of building permits filed in the year 2005 decreased slightly in Vanderburgh County, and rose slightly in Warrick County, compared to 2004. This does not yet reflect the tornado's impact. The following graph shows the new single family housing permits in the two counties.

Warrick County is catching up with Vanderburgh County

BUILDING PERMITS

Vanderburgh & Warrick Counties



and due to the tornado, may pass Vanderburgh County in 2006 in permits issued.

Supply and Demand for Existing Houses Based on MLS Sales and Askings Data: June 30, 2006

On November 6, 2005, a devastating tornado swept through the tri state area. It took lives and destroyed numerous mobile homes in Vanderburgh County and damaged Ellis Horse Racing Park in Henderson, Kentucky. In Warrick County, more than 500 traditional detached homes were affected, including approximately 420 totally destroyed. Houses that had some damage, but did not have to be rebuilt, i.e., roof damage, chimney damage, etc. numbered over 150 per the Building and Planning Commission of Warrick County. Some whose homes were entirely destroyed are selling their lots and purchasing another home or lot in a different area or subdivision, perhaps a more expensive area. Some are rebuilding their home on their existing lot, resulting in a new home in a neighborhood of older homes. It is difficult at this point to predict the long term effect this tornado will have on the housing market in Warrick County.



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Building permit statistics provide insight into the supply and demand for homes. From the following graph one can see the trend in new home starts for Vanderburgh

Price Range (x \$1000)		Vand. County	Warrick County	Posey County	Total
\$0-\$49	Sold in past yr	522	68	37	627
	For sale today	194	14	12	220
	Months Supply	4.46	2.45	3.90	4.21
\$50-\$99	Sold in past yr	813	159	82	1,054
	For sale today	392	64	42	498
	Months Supply	5.79	4.83	6.15	5.67
\$100-\$199	Sold in past yr	1,040	436	91	1,567
	For sale today	402	148	49	599
	Months Supply	4.64	4.07	6.45	4.59
\$200-\$299	Sold in past yr	228	146	27	401
	For sale today	140	86	18	244
	Months Supply	7.37	7.07	8.00	7.30
\$300-\$499	Sold in past yr	82	107	6	195
	For sale today	62	98	4	164
	Months Supply	9.08	10.99	8.00	10.09
\$500 & up	Sold in past yr	20	24	0	44
	For sale today	27	24	1	52
	Months Supply	16.17	12.00	0.00	14.17
All Homes	Sold in past yr	2,706	940	243	3,889
	For sale today	1,220	434	126	1,780
	Months Supply	5.41	5.54	6.22	5.49
% of Total Sales		70%	24%	6%	100%

A "for sale" supply of houses less than three months is

considered an undersupply and a “seller’s market” while a supply of more than six months is an oversupply and is a “buyer’s market”. Below \$200,000 the markets are currently fairly balanced but above \$300,000 it is more of a buyer’s market. Compared to last year the number of homes sold is up but there are more listings so the average month’s supply increased by approximately a week. An inflation study of homes scattered throughout the Evansville area indicated home prices have continued to rise around 3% a year.

Apartments have seen a substantial drop in vacancies in the past year to below 5% today per our sample survey of middle to upper end garden style units.

FARMLAND VALUES ON THE RISE



Values of agricultural farmland in Indiana increased significantly from January 2005 to January 2006, rising at a rate of approximately 12% over a 12 month period, or 1% per month. David Matthews

Associates began developing an annual farm land inflation rate study in 2003, measuring the annual increase in land values. We found that inflation has been increasing steadily in the last couple years. In the prior year, southwest Indiana farm values increased 7% and in the past year the inflation rate nearly doubled to 12%. These land value increases are the highest since 1996-1997, when the Purdue Land Values Survey reported a statewide increase of 12 percent to 15 percent.

Indiana is not the only state with extreme increases in agricultural land values. Our study also includes the states of Illinois, Tennessee, and Kentucky. Illinois increased 14% and both Kentucky and Tennessee experienced 10% inflation rates in 2005. So when can we expect these inflation rates to slow down, and why? According to the Purdue Land Values Survey which interviews farm managers, rural appraisers, land brokers, bankers, farmers, etc., the hot and dry weather we had in the summer of 2005 led to reduced crop yields and less buying power for farmers. USDA predicted in November 2005 a 7% reduction in corn production from 2004. Long-term interest rates are expected to increase in 2006, so farm land prices will probably increase at a much slower rate, perhaps only 4% to 6%, according to the Purdue University studies. Furthermore, increases in costs of crop production led by fuel and fertilizer costs can be expected. Unfortunately, the crop prices are not expected to rise enough to cover these extra costs for farmers. Irrigation is becoming more popular since it dramatically increases production and allows other more profitable crops.

Overall, farmland values are expected to continue to increase throughout 2006, but not at the high inflation rate we saw last year. The financial condition of the Indiana farm sector is the strongest since the 1960s due to strong farm income in 2003, 2004, and 2005, along with record-high land values.

Another new influence is ethanol which is having an impact by increasing demand for cropland which may explain some of the price increases. In Iowa alone, an estimated 3 million acres of corn were processed into ethanol. One bushel of corn can produce at least 2.7 gallons of ethanol, and one acre of corn can produce 300 gallons of ethanol, which is enough to fuel four cars for one year with a 10% ethanol-blend. Since 2000, the U.S. ethanol industry has more than doubled to over 1.5 billion gallons of production capacity. This equals 5 million acres (7,800 square miles) of cropland or 6% of the 81.6 million acres of corn planted in the United States in 2005.

THE CENTRAL BUSINESS DISTRICT (CBD)

The flux in the downtown office market that began in 2004 continues. Moves afoot include, as of late May, a proposal by Hilliard Lyons to relocate from the Hilliard Lyons Building at the corner of Fourth and Main Streets to the Koch Originals Building on Main Street near First Street. The Koch Originals Building was originally the Red Spot Paint building and has been on the market for sale or lease for a number of years. The old Permanent Federal office building at Third and Locust Streets, which was vacant for several years, was purchased by local investors who have signed Welborn Health Care as the first floor office tenant who will be relocating out of the St. Mary’s building at Fifth and Walnut Streets. The upper floors of the former Permanent Federal building are proposed to be remodeled into condominiums with some special rooftop features. Old National Bank built a beautiful new multiple story, 225,000 square foot office building at Riverside Drive and Main Street. They vacated their last portions of their tenancy in the 420 Main Building in early 2005. The 420 Main Building, the tallest building for a 100 mile radius, is now over 90% vacant and has some very good quality space at comparatively low asking rents. Vectren Corporation relocated out of the Hulman Building on Fourth Street to their attractive new headquarters on Riverside Drive creating substantial vacancy in their old building. Commerce Bank located their new community bank on the first floor. The Small Business Incubator was acquired by INDOT for the new Fulton/Lloyd interchange. They occupied approximately 45,000 SF and desire to relocate in the downtown. The Technology Park along with another user are also looking for space in the downtown. The Centrum Building is under consideration.

Some potential downtown office users have decided to locate in the suburban area instead of in the CBD including Cinergy who is finishing a beautiful new building at Lynch and Green River Roads and Shoe Carnival who have finalized site selection on the far east side near the Lloyd and I-164 for a two story building.

Overall, there are a number of tenants looking for space in the downtown and a good supply of space in existing buildings to serve those needs. This surplus of space has softened the market and given the advantage to tenants and buyers in negotiating. Nationally, with the good economy, there is expansion of office demand and with the lack of new supply, vacancy rates are declining. However, Evansville's CBD vacancy rate is 28% overall which is much higher than past years due to the new supply.

While most of the activity involves either relocation to existing space or the addition of new office space and not expansion of demand, there are some signs that new demand is increasing. Even with increased demand it will take several years to absorb all the vacant office space in the downtown. Some of the initiatives being instituted by the city to promote the CBD are loft housing grants which are competing with office users for space, encouragement of office use in the downtown and proposals to improve two-way street patterns, way faring signage and improving the portals into the downtown such as a new overpass and off-ramps at Fulton Avenue and the Lloyd Expressway. These should increase demand for live, work, eat and play space in the downtown.

Several condominium and apartment projects are underway, including the Renaissance on Main which features 23 condominiums in the four story former JC Penney building. These condos will include stainless steel appliances, bamboo floors, roof patios, granite countertops, and units from 1,100 sf to 1,380 sf. The 26 unit Atrium is a planned upscale condo project at MLK and Walnut with other loft projects including the completed upper level of Stratman's on the 400 block of Main Street, which feature modern units with all stainless steel appliances, washers/dryers, and a private roof patio space; the upper level of Club Fitness Zone on which construction has not yet begun; 230 Main Street (the oldest building remaining in downtown Evansville) which is being remodeled for retail, office and loft space; one

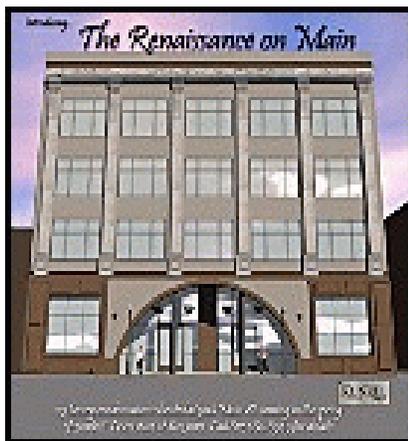
completed loft at 14 SE 3rd Street in the former Crescent Coal Mine Company building; one completed loft atop the Jungle restaurant; and one loft at 119 SE 4th Street atop Jaya's authentic foods. Downtown Evansville, Inc. reports 21 total residential completed units, 52 units under construction and more in the planning stages. The idea of living in the CBD is really catching on in Evansville.

The city's Downtown Improvement Committee is looking into removing one way streets, improving signage and wayfaring, enhancing CBD portals such as Fulton Avenue, and encouraging an art colony, etc. They will be asking for community input on these issues and more.

RETAIL

The flurry of commercial activity experienced in the early 2000's has subsided a bit. There is still commercial development on all three sides of town. The west side has seen the opening this past year of the Kohl's department store on Rosenberger Avenue, north of the Lloyd. The old Wal-Mart is leased to Sears but Sear's planned home store concept throughout the United States has been dropped including the plans for this property though Sears is paying rent and currently marketing the building. Vacancy in retail facilities on the west side is estimated to be approximately 7% indicating a good balance. There are a few retail lots available for development but the supply is very limited. The question is, "where will new supply develop?" Schutte Road has seen an apartment complex developed on the southeast corner but remonstrations at Eickhoff Road north of the Lloyd prevented rezoning for apartment use. It brings to question whether commercial rezonings can be achieved. Lands north and south of the existing commercial developments are less attractive because of the topography and the distance from the Lloyd Expressway. So, as demand pressures build over the next decade, it will be interesting to see how and where new commercial land can be developed to satisfy this growing westside demand. Unfortunately, planned improvements to W. Lloyd are 10 years away.

On the north side, there has been relatively little new retail growth with the exception of on Highway 41, south of Boonville-New Harmony Road. Heritage Federal and a new multi-tenant building were recently developed. Vacancy rates for all the north side area including the First Avenue area are estimated to be approximately 30%. There are still a number of sites available for retail development, though with no takers. Lynch Road has made the east side of Evansville more accessible and more competitive. There are few available vacant sites on the north side. The northeast side has substantial available land for development.



The east side is experiencing good commercial growth but not excessive growth which would lead to oversupply. Our annual shopping center survey shows the east side vacancy at 11.2%. The Pavilion has achieved lease up with all the out lots developed with rents at premium levels. This facility recently sold for \$56,000,000 which was a substantial increase over the original development cost indicating strong national demand for good leased up lifestyle centers. Evansville continues to generate a surprisingly strong retail sales market. It has been reported that the east side Wal-Mart and Sam's are some of the highest grossing stores in the chain and other new stores are often found to be near the top grossing stores for their chain. The southeast corner of Lynch Road and Green River Road continues to expand with the new Black Buggy restaurant and the new corporate headquarters of First Federal Savings Bank and Cinergy. On the Lloyd Expressway, the only small retail/restaurant property for sale is the old Garfield's in Cross Pointe indicating strong demand. Green River Road south of the Lloyd has seen some improvement with the remodeling of Computers Plus and a multi tenant retail center at 119 S Green River Rd. Eastland Mall lost one department store with the merger of Lazarus and Famous-Barr into Macy's but this was quickly filled by Dillard's, expanding the variety of goods available. Coach is coming soon and will occupy the space next to Hot Topic. Look for some major upgrades, new decorating and more upscale tenants in the next year. North of Morgan Avenue on Green River Road, there is a considerable amount of land available with some new development occurring. The expansion of restaurants continues throughout the greater Evansville area as new franchise operations come in, including most recently Panera Bread, Starbucks, Cold Stone Creamery, etc. However, we are near the saturation point with restaurants, with the new national franchised operations pushing out the older, local and regional restaurants such as the east side location of Wolf's BBQ, the Vintage Tomato and Old Country Buffet.

INDUSTRIAL

Small Lot Industrial Land

The well located east side park lots over one acre continue to sell well. Smaller under 0.75 ac or the much larger lots have less demand.

Daylight Industrial Park on North Green River Road. A 12 lot sub recorded in 2001 sold four lots in 2003 and four more in 2005. Six of the eight lots were purchased in pairs each with 3.00 acres or more, indicating good demand for medium sized lots.

East Pointe Business Park at Highway 62 and I-164 is being developed in phases. Roughly 40%-50% of the acreage has been developed and sold off so far.

Enterprise Park with 12 lots at Highway 62 @ I-164 has

one lot of 4.41 acres and five lots of ± 0.62 acres each yet unsold. The other lots of 1-3 acres or larger sold out quickly over three years.

The **Burkhardt-Lynch Park** is 90% sold out of the 65 total lots. Only one of the smaller one half acre lots not on Burkhardt has sold. Since industrial demand points clearly to 1.00 - 1.50 acre lots having the greatest demand, these will most likely be purchased in packages.

Along the Highway 41 corridor both the **Castle Creek Subdivision** and the **Baseline Industrial Park** sit mostly vacant. Four of the seventeen lots in Baseline sold in 2000-2001 with no recent sales. Castle Creek has sold one lot and another is pending at this time.

Improved Industrial Properties

In the last year the improved industrial market, previously stable though mildly sluggish, has strengthened significantly. In 2004 there were 18 recorded sales of industrial properties over 5,000 SF per the Vanderburgh Co. Assessor's records. For 2005 this increased to 40 sales, up 122%. Not only were there increases in all size categories over 2004, there were four sales over 100,000 SF in 2005 compared to zero in 2004.

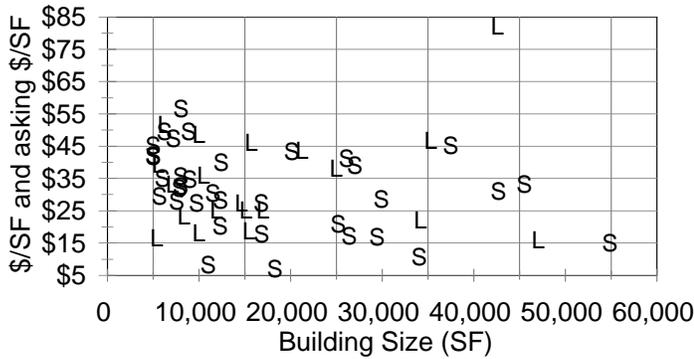


As with land, the highest demand for improved properties is on the east side. A "windshield" survey of several east side industrial parks indicated a very tight market. As previously mentioned, no vacancies were noted in the **Burkhardt-Lynch Park**. The **MJM Industrial Park** off Old Boonville Hwy has a single new vacant spec building. **Kotter Avenue Park** has only a single, $\pm 5,000$ SF office warehouse property for sale. A 20,000 SF portion of a larger multi tenant property is listed for lease. The **Eastside Ind. Park** has no vacant industrial properties over 5,000 SF for sale or lease but several office buildings had vacancies.

Loopnet - one of the leading online real estate listing services (www.loopnet.com) currently has 329 commercial and industrial listings for sale and 138 properties for lease in Vanderburgh County. The local MLS system had 40 such listings. The MLS mainly offers residential.

Evansville Industrial Sales & Listings

2005 Sales, 2/06 Listings, <60,000 SF

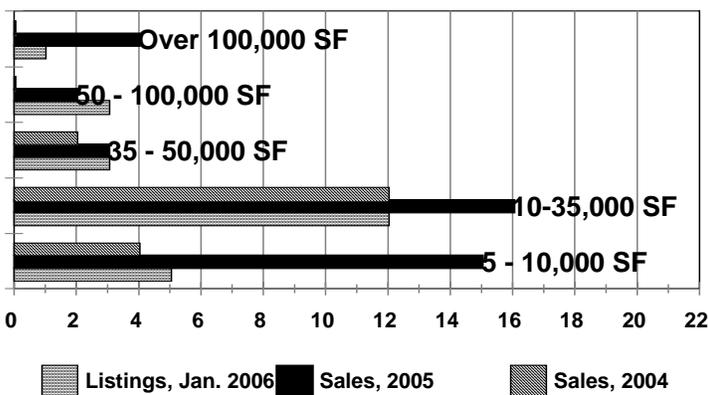


A total of 24 industrial improved listings were found. Size varied from 5,400 SF up to 148,000 SF. Prices per square foot ranged from a low of \$15.92/SF up to \$51.61 for one of the smaller properties. There was a single listing at \$82.10/SF but this is far off the typical market range. When arrayed on a graph the expected value curve becomes apparent.

For an idea of the demand, all recorded industrial sales within Vanderburgh County for 2005 were collected, a total of 40 sales. These ranged from 5,000 SF to 936,639 SF with sale prices from \$6.25/SF to \$56.59/SF. The sales and listings were then segregated into classes by size. The two data sets were combined and are shown on the following bar graph, which shows not only the number of listings & sales but illustrates those segments of the market with greatest demand, under 35,000 SF, and least demand, over 50,000 SF.

Evansville Industrial Market

of Listings & Sales by Size, 2006



Marketing time is typically one year or less in the Evansville area. Any greater time and the market is felt to be oversupplied. In the area of greatest demand there appears to be a balance between supply and demand,

trending to an under-supply. This is supported by the lack of properties for sale or lease in the high demand areas.

The earlier trend towards oversupply in larger properties has tapered back somewhat with the increased market activity. The 2005 sales include the sale of the Hahn property on North Garvin, the 358,625 SF former Chrysler plant. There has also been a recent, early 2006, sale of the former Faultless Castor property - another very large, older, underutilized manufacturing building and the modern 237,000 SF Shoe Carnival Distribution warehouse and Whirlpool distribution warehouses on St. George.

# of Listings	# of Sales	Size (SF)	Months Supply	Avg \$/SF Sales
5	15	5,000 to 10,000	4.0	\$39.01
12	16	10,000 to 35,000	9.0	\$24.72
3	3	35,000 to 50,000	12.0	\$36.39
3	2	50,000 to 100,000	18.0	\$14.98
1	4	100,000 SF +	3.0	\$22.28
24	40		7.2	

SUBURBAN OFFICE

A recent sample survey showed some minor changes in office occupancy but what was lost in one building was gained by another for no net overall change in the multi-tenant office supply and demand in the suburbs. Vacancy rates in multi-tenant properties are lowest for Eastside Class A space at under 10% and highest for Northside Class C space at over 15%. Some new owner occupied or single tenant buildings were built such as medical offices along East Lloyd leaving much of the old vacated medical space empty. Some new corporate offices were added such as Crescent/Cresline Plastics and the proposed Shoe Carnival (both in Cross Point) plus some other new offices primarily along Vogel, Virginia and I-164. In general, our major corporate citizens tend to select the CBD for their office headquarters, e.g. Vectren, American General, Research Systems, Card Management, Old National Bank, Integra Bank, Fifth Third Bank, Industrial Contractors, etc. as do attorneys, architects and the local government while medical and other professionals are finding the suburban locations more to their liking, especially on the Eastside.

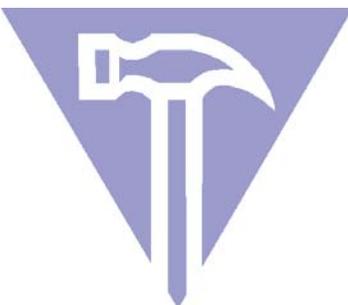
OFFICE BUILDING AUTOMATION

Recently, David Matthews was part of a real estate appraisal education delegation to Taipei, Taiwan and Shanghai and Beijing, China for the Appraisal Institute. While there, he toured several industrial parks which were vertical style rather than horizontal as found in the United States and several office buildings. One interesting facility was the Lite On facility in Taiwan (see photo), which manufactures many high-tech electronic and computer components. The Chinese government decided that a larger, modern office market was needed so they commissioned many world-renowned architects to design their new, first class office district in the Pudong district of Shanghai. From this tour and other sources, it appears that China is leading the world in high-tech office design. Many of their buildings have telephone network, or web-based controls for HVAC, lighting, window blinds, elevators, etc. which allow customization of each person's office through the internet. There are motion-sensored controls in elevators, restrooms, and for lighting. Office building directories are digital with interactive touch-screens providing vendor information, maps and layout of the buildings, local weather, traffic, nearby restaurants, available space, etc. Electronic interface systems are mostly wireless. Cell phones and other wireless devices are used to control these components. Parking garages use scanners to read license plates and automatically bill the customer in a paperless transaction.



Evansville has a few buildings with some of these features and there is a substantially greater number in larger cities, but few of these US buildings have the complete electronic package found in the newest office buildings on the other side of the globe.

WHAT'S THE PAYOFF OF HOME REMODELING?



The *Realtor* magazine has an annual report on Remodeling's Payoffs on various home projects on resale. Bathroom remodeling topped the list as having the highest return in relation to cost followed in order by minor kitchen remodeling, siding

replacement, attic bedroom, deck addition, basement remodeling, windows and roof replacement, family room addition and home office remodeling. Only the bathroom remodeling averaged a returned more than 100% of cost. The lowest returns were on roof, family room and home office which were less than 85% of cost received on resale.

Also, the *Realtor* recently published their survey on the hot building and design trends in the United States. New ideas included:

- ▶ Copycat materials - mimic old time favorites with light-weight, more energy-efficient versions.
- ▶ Living space expanding into the third floor attic, where land is expensive and horizontal expansion costs more
- ▶ Porches - enclosed and used more for living space,
- ▶ Windowless media rooms and home theaters
- ▶ Snoring rooms for the family member who snores, keeping that person from being banished to the sofa,
- ▶ Professional-style workout space with all the bells and whistles,
- ▶ Dual master suites or libraries accommodating extended family and life styles,
- ▶ We've seen wine cellars now how about cheese cellars,
- ▶ Multiples as in 2 refrigerators, 2 dishwashers, 2 sets of washers/dryers,
- ▶ Pre-wired whole-home systems for TV sound, security, thermostat and lights,
- ▶ Smooth is out, textures and mixing textures are in,
- ▶ Pet showers,
- ▶ Green (energy efficient) materials and back up generators in the hurricane zones,
- ▶ Remodeled homes-more homeowners want to buy "finished" already remodeled homes,
- ▶ 3 car garages with tiled & heated floors and TVs

Some of these trends are found in the local market while others have not yet found their way into our area. It is fascinating to see what the rest of the country wants and is willing to pay for.

TRANSPORTATION AND TRAFFIC**I-69 IS NOW IN THE DESIGN STAGE!**

This Evansville to Indy project is divided into 6 sections beginning with Evansville to Washington. Ground breaking is scheduled for 2008. I-69 should have the greatest positive economic impact on SW Indiana of any project for the next generation.



Local traffic patterns continue to evolve. Lynch Road and Morgan Avenue are prime examples of this change. Morgan (Hwy. 62) carried 30,600 vehicles/day in 1996 between Oak Hill and Green River Roads and in 2003 carried 25,880/day, a 15.4% decline in 7 years, probably due to the new Lynch Road. The 1998 traffic count on Lynch Road from Oak Hill to Green River Roads was 13,213/day, in 2002, there were 24,054/day which is an 82% increase after extension to Burkhardt Road. Lynch Road was then extended to I-164 and this month opened to Highway 62 and should carry even more traffic as a result. Also changing is the Green River Road intersection north of Morgan, an increase of 32% since 1996 (to 26,312/day) and new development patterns reflect this.

Between 1996 and 2003 Highway 41 traffic in front of Toyota (in Gibson county) increased $\pm 16\%$ to $\pm 20,000$ vehicles/day. Highway 66 between Epworth and Bell Roads in Warrick County increased 25.7% those same 7 years to $\pm 34,000$ /day even during road widening construction. Highway 66, west of Red Bank Road increased 30% to $\pm 47,000$ /day from 2000 to 2003. Burkhardt Road, between Columbia and Virginia increased 36% from 1995 to 24,659/day in 2004.

The highest traveled intersection in the city remains at Highway 41 (50,900/day) and the Lloyd Expressway (62,900/day) according to the most recent traffic counts.

A substantial number of new projects are planned for Vanderburgh County including the widening of St. Joseph Ave., Diamond Ave., Green River Rd. and Weinbach Ave. New roads planned include the Eickhoff-Koressel extension to Diamond Ave, the recent extension of Lynch to Highway 62 and, of course, I-69. Intersection improvements planned include the Lloyd Expressway at Highway 41 scheduled for a full interchange in the next several years and new turn lanes at Stockwell Road. Fulton Avenue has been selected as the primary gateway into the downtown from the Lloyd. The overpass bridge will have a special architectural design to enhance the appearance and functionality.

In Warrick County projects include widening of Epworth

Road, Outer Lincoln Avenue, Telephone Road and Highways 66 & 62. Gibson County will see widening of Broadway (Highway 64) in Princeton and Posey is enjoying the new State Highway 69 from Mt. Vernon to I-64.

Did you know that EMPS (Evansville Metropolitan Planning Organization) formerly EUTS oversees transportation planning for 650 sq miles in Vanderburgh, Warrick and Henderson Counties. This area exceeds 200,000 persons which makes it eligible for federal funding. It also provides planning assistance to rural Posey and Gibson counties including their primary role in future planning of vehicles, buses, pedestrian and bicycle traffic utilizing census, population growth, economic and household information (yes, your census reply does count). The total cost of all transportation projects from 2006 to 2008 is \$323 million, of which 84% is federally funded. Their website, www.eutsmpto.com, shows their many on-going studies conducted for these purposes. They are currently planning projects up to the year 2035.

EVANSVILLE, INDIANA: A WELL RECOGNIZED CITY

Evansville has been recognized in several national studies as a top place to live. Our fine city was just named the nation's best for families relocating to a midsized city. In the summer of 2004, Evansville was named an All-American City. A few days after the All-American City status was announced, the Farmer's Insurance Group said Evansville and Henderson, Kentucky were jointly ranked as one of the nation's safest places to live. But wait, there's more! In 2005, America's Promise: The Alliance for Youth conducted a nationwide study and found that Evansville is among the top 100 communities for young people. Are you curious where Evansville falls on a list of the 50 Smart Places to Live? According to Kiplinger's Personal Finance, our city is 33rd. Do you know someone relocating to Evansville? They should take comfort in the fact that Evansville is the number ONE city for relocating families according to Worldwide ERC and Primacy Relocation. These honors should come as no surprise, with our affordable housing, good health care, low crime rates, entertainment venues, short commutes and extraordinary facilities for our youth.

Many citizens, organizations and businesses work very hard to better our city every day. It's a tough job, and these honors are well deserved by the people who make our city such a wonderful place to live.



Real Estate Appraisers & Consultants
 420 Main Street • Suite 1300
 Evansville, IN 47708

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David Matthews Associates
 Suite 1300 ~ 420 Main St, Evansville, Indiana 47708
 Call (812) 428-6000 or Fax (812) 428-7092
 E-Mail ~ dma@evansville.net
 Website ~ davidmatthews-assoc.com
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 Sarah Land ~ Editor

David Matthews MAI CRE SRA	Appraiser/Counselor
Janice Evans SRA	Residential Appraiser
John Petkovsek	Commercial Appraiser
Darlene Robinett	Commercial Appraiser
Wendy Goebel	Commercial Appraiser
Jeanie Bennett	Residential Appraiser Trainee
Sarah Land	Commercial Appraiser Trainee

David Matthews Associates is a full service real estate appraisal and counseling firm founded in 1980. The company specializes in the analysis and valuation of residential, commercial, industrial, farm and office properties in **Indiana, Kentucky and Illinois**. A substantial number of the major properties in the Tri-State have been purchased, sold or developed with the assistance of valuation, feasibility and counseling services of David Matthews Associates. For additional information or to make an appointment, please contact us at (812) 428-6000.