

MATTHEWS REAL MARKET UPDATE

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

- **FUTURE OF EVANSVILLE** - Bright
- **RESIDENTIAL** - Soft, but no crash
- **AGRICULTURAL** - Strong price increase
- **CBD** - Central business district still oversupplied but improving
- **SUBURBAN** - Retail and offices in balance
- **MEDICAL** - New construction leaving older buildings vacant or underused
- **RETAIL** - In balance with slow growth
- **INDUSTRIAL** - Slowing but still active
- **LAND MARKETS** - Plentiful supply of east side retail land; need more shovel ready industrial sites

30 YEARS OF CHANGE



Land use and transportation planners have a challenging profession. They must envision solutions to problems that will not arise for another 10, 20 or 30 years. The Metropolitan Planning Organization (MPO) recently finished a 2035 year plan for Vanderburgh, Warrick and Henderson Counties. It shows their projection of new road projects that will be needed decade by decade for the next 30 years and can be viewed at www.evansvillempo.com.

Appraisers have it easy by comparison, since we typically value property based on a relatively short future time frame of 1 to 10 years. After all, value is the present worth of future benefits. However, we should have some idea as to what may happen in the next few decades to assist long term investors, site selectors, builders, etc. So, it may be helpful to look 20 to 30 years into the future and the first step in doing that is looking 20 to 30 years into the past.

In the mid 1970s the Evansville MSA which includes Vanderburgh, Warrick, Posey and Henderson counties contained a population of ±270,000 compared to an estimate of 350,000 today for a growth rate of approximately 1% per year. The 1970s saw the fastest gain since the 1950s. Newburgh began explosive growth becoming the prime bedroom community for Evansville. In Vanderburgh County, residential growth was occurring on the eastside of Evansville primarily. The north and west sides of the city lacked sewer extensions in most areas which prevented small lot subdivisions.

East-west access across the city was lacking and consisted primarily of Division Street which had an active rail road down the middle. North-south access through the city was via Hwy 41 from which we earned the nickname "Stoplight City".



In the mid 1970s downtown retail flourished with department stores, jewelry stores, clothing and shoe stores, bookstores and parking meters. Acres of vacant riverfront land had been cleared by the city for redevelopment, and a new Walkway was built that would later prove to be detrimental to downtown retail. The Ohio River was blocked off from the downtown by a high levee wall. The retail clusters presenting competition to the downtown were West Franklin Street shops, Washington Square Mall (the first indoor mall in Indiana) on South Green River Road with the adjacent Lawndale strip center, Town Center, North Park on First Avenue and a couple K-Mart stores. Within the next 10 to 20 years retail shopping patterns would change dramatically with the construction of Eastland Mall on North Green River Road, Northbrook on First Avenue, new Wal Marts, University Shopping Center on the west side and eventually Pearl Drive development where the site for development of a second mall by General Growth in the mid 1970s once had been proposed.

Industries occupied many older inner-city multi-story brick and one story concrete block buildings that were becoming obsolete. This was due to the increasingly popular and less expensive one-story, pre-engineered steel buildings with much higher ceiling heights and clear span interiors without columns, making them the building of choice for new construction. Slowly the older multi-story buildings were resold at low prices and converted primarily into warehousing. Suburban industrial parks began popping up.

The one property type that has not dramatically changed location is the office market which is still centered in the central business district (CBD). The major banks have built new facilities either in new locations in the CBD like Old National, Fifth Third (previously Citizens National Bank), or Integra (formerly National City Bank) added a new wing and remodeled. Some of the downtown banks and savings and loans were acquired by other larger banks such as Permanent Federal, Peoples Bank, and Midwest S&L. The CBD remains the prime office center for a one hundred mile radius.

From these changes we have an idea of how far we have come. The Lloyd Expressway, Lynch Road, I-164, University Parkway, widened Diamond Avenue, have all improved traffic flow, allowing more suburban residential expansion. Evansville followed the nation wide trend of retail following new rooftops resulting in loss of retail in the CDB due to the substantial competition in locations far more convenient for the shopper. Industry and residential subdivisions have expanded into suburban areas where land is plentiful and affordable, but only where sewers and roads have been extended and zoning allows such uses. Since residential subdivisions are allowed in agricultural zones as well as in residential zones there are few limitation on residential growth other than access to jobs, shopping, schools and utilities. Hilly topography and expensive sewer lift stations have limited residential development on the west side of the city. Flood plain issues limit growth in some southwest, northeast and southeast locations in the county.

The future of real estate markets is difficult to project. In 1983 David Matthews participated in the Downtown Master Plan as the local real estate consultant for the team. Recommendations included constructing condo and apartments such as the Old Post Office Condos; adding up to 100,000 sq ft in office space by the late 1980's; having government assist retail which was struggling with facade easements and restoration; delaying any new hotel or motel construction due to oversupply; adding a new convention center and remodeling the Victory Theater into a performing arts center. The 1988 study of the CBD done by Halcyon, Inc forecasted 9,900 sq. ft. in new retail space would be needed from 1988 to 2000. Retail occupancy actually declined in this period. Halcyon recommended 10,000 square feet in new entertainment venues which was a substantial underestimate due to the addition of Casino Aztar. They predicted 254 new housing units but due to the demolition of Riverside One in the early 2000's, the number of housing units actually declined. This was offset recently by ±125 new loft condos plus the proposed 100 upscale apartments in the McCurdy. Another prediction included substantial growth in office space by 2000 which was accurate in concept, but premature and optimistic with the new Old National and Vectren buildings not being built until the mid 2000s, adding much less than the Ha-

lycon estimated 662,900 square feet.

What does the future hold for Southwest Indiana in 30 years? I-69 will be a part of every day life by 2035 connecting Evansville to Indianapolis as originally envisioned, and providing direct routes to Memphis, Houston and Mexico to the southwest and Indy, Ft. Wayne, Port Huron and Canada to the northeast. It will create a demand in our centrally located region for warehousing and industries needing over night access to the major markets of the Midwest, Southeast and East Coast. The tri-state area will become even more important as an energy provider with our plentiful coal, the Ohio River providing cheap transportation and cooling capacity for power plants and good cropland for the production of bio-fuels. The coming water shortages in the western and southeast growth areas may create moratoriums in construction forcing people to literally find greener pastures, for example here in the Ohio River Valley where water is plentiful.



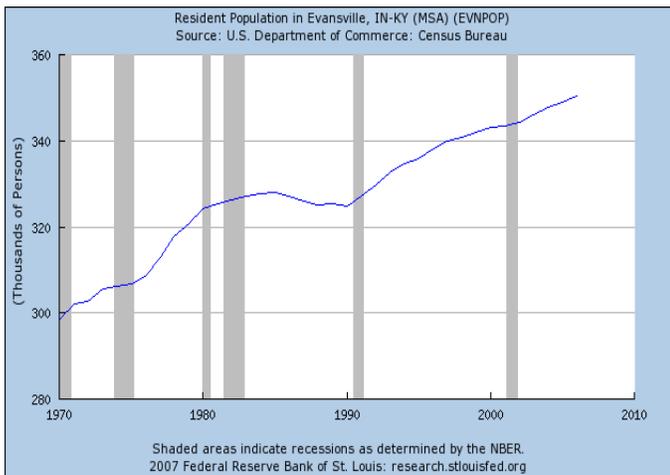
The following is a possible scenario for 2035:

I-69 is one of the major north/south interstates in the US, carrying over 50,000 vehicles per day through Evansville and has spurred industrial and commercial development throughout the Evansville region, requiring new interchanges.

Residents of Evansville will be complaining about the traffic, discussing the best location for the next large "green" office building, having already seen several corporate office headquarters built with good views of the river near Pigeon Creek. The new City River Park on the riverfront by Pigeon Creek is easily accessible and has parking that affords a view of the river from your car and wooded and grassy knolls for picnicking and river watching. The Marina on Pigeon Creek is a bustling place. The Pigeon Creek Greenway Passage ties the Trailhead on Fulton Avenue into the 100 miles of trails that winds through the fields of bio-mass grass, woodlands, and homes serving Newburgh, Darmstadt, and USI and provides for an easy commute for traditional bikers and the new personal electric scooters seen everywhere now. Wildlife abounds along the pristine Pigeon Creek as it winds through the county.

Older office and industrial buildings in and near downtown vacated by companies building new facilities continue to be converted to multi-use properties. The Lloyd Expressway, now almost 50 years old, continues to be upgraded, but more interchanges are needed. The newest retail is locating on new suburban sites along I-164 and the Lloyd and Hwy 62 as growth continues to move north and east. The developments in Vanderburgh and Warrick Counties have grown together into one urban area. A new east west highway in the north half of

Vanderburgh, Warrick and Posey counties ties the University Parkway that connects with I-64 to Highway 61 north of Boonville. Residential growth follows the new sewer lines that extend into the northwest area once known as Armstrong Township. Since townships were abolished years before and with the more efficient local unified government, growth has been well planned and organized to keep the rural character of the area while allowing increased residential density and commercial expansion. The new industrial development located in the Warrick Industrial Park, along Hwy 41 in Vanderburgh County, near the expanding inter-modal terminal in Gibson County, around the Evansville Slack Water Port, and the Henderson County Riverport continues to bring in well paying jobs. The new airport can accommodate the latest Econo-Jet fleet that directly connects Evansville with Orlando, New York, Denver, Minneapolis and Dallas. The improved road system, utilities, affordable electric cars and new schools have made all areas of Vanderburgh County attractive to the growing number of residents. The surrounding counties are experiencing the same demographic changes and the MSA is now estimated at over 400,000, surpassing growth rates of the earlier decades. The Evansville MSA is an active progressive city that still retains its charm and friendliness. The second bridge over the Ohio, currently under construction, is needed to handle the increasingly heavy truck traffic on I-69 and as a precaution after the moderate earthquake a few years ago that did some minor damage throughout the tri-state.



The economy continues to evolve and improve with more entrepreneurs starting businesses fostered by the local universities and local and state governments' economic development activities and the growth in the industrial-service segment which provides customized products quickly. Crime rates remain low. WNIN, the local public broadcasting station, provides in-depth local programming and assists the region by convening forums to involve everyone in cultural, business, educational, health and governmental matters that affect our quality of life. The art community, museum, zoo rec-

reational opportunities and affordability continue to rank Evansville as a top 10 city. The warmer weather makes the winters more bearable, if not the summers. Evansville, with the help of the government's proactive stance on planting new trees and providing advice through the city's arborists, is nick-named the Emerald City attracting national attention again as the ideal place to live, work and play.



This exercise is done only to make us think about where we have been and where we could go. Dreams can become reality if we can visualize our goals and through concerted and united effort, work to accomplish them.

It is difficult to accurately forecast an ever changing world. We, as appraisers, are constantly looking for the signs of change, such as changes in a locality's demographic, building permits, homes sales, relocations, supply and demand, traffic counts, governmental programs, wage scales, cost of living, shopping patterns, leisure activities, etc. Evansville has come a long way in the last 30 years and continues to grow and change for the better each year. It is time we all realized that Evansville is a special place positioned well to enter the coming decades and that for the most part we are fortunate to have been either born here or to have relocated here. We should be proud of what we have and share those thoughts with others we meet in a positive way.



RESIDENTIAL HOT AND NOT

While new home construction has cooled a bit, there is still interest in the latest trends. There is no dearth of ideas when you consider the many magazines and TV shows that specifically cover residential home design. Expanding on the concept, let's look into the near future to follow the baby boomers and their impact on new home construction and remodeling.

The leading edge boomers reached 60 years old this past year and their knees are telling them so. Many live in large, two-story homes and are looking to downsize or move into homes that allow one level living. This could be condominium units, including the downtown loft condos or suburban condos, or suburban homes. New suburban homes often have a master bedroom, laundry, kitchen, living room and garage all on one level with bedrooms upstairs for children or guests. It is interesting to note that empty nesters with children who have left town probably have need for more bedrooms upstairs than those who have grown children in town since the in town children can return to their own homes at night.

The empty nesters leaving their old homes often downsize in square footage but not in quality. The equity in their home provides the ability to move up in quality while maintaining the same size or smaller size home. Room sizes are expanding. One of the trends is to have a very large great room with family room, kitchen, dining area and for-

mal dining room all without interior partitions. This trend may be changing since it can be difficult to control noise and ambient temperatures and provide maintenance changing high ceiling light fixtures and cleaning windows. Also, there is a general loss in privacy. However, the feel of spaciousness and freedom within this style house is attractive to many. Interior features in demand include granite countertops, custom made cabinets (often Amish built), three car garages, large walk-in showers in the master bedroom suite, and an abundance of ceramic, clay tiles, marble, and exotic or hardwood floors.

In Money Magazine's May 2007 edition, an article entitled "The Five Dumbest Renovation Fads and What to do Instead" included oversized great rooms, poorly laid out oversized kitchens, large, three-car, front-loaded garages that hide the house, poorly designed porches blocking sunlight into the living areas and overuse of recessed and track lighting. There is certainly room for disagreement with this article but their points are well taken. Fads sometimes overshadow good design. For example, the aging population needs higher candle power, but this can be accomplished with a mixture of lighting fixtures, including recessed lighting, to create a more attractive environment.

SUPPLY AND DEMAND OF HOMES

(x \$1000)	Data as of 7/07	Vand. County	Warrick County	Posey County	Total
\$0-\$49	Sold in past 12 months	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 12 months	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 12 months	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 12 months	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 12 months	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 12 months	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 12 months	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%

WHAT HOME IMPROVEMENTS ARE MOST DESIRABLE IN TODAY'S MARKET?



The National Association of Realtors recently completed its 2007 *Profile of Buyer's Home Feature Preferences*. The last such survey was in 2004. Some of the results were as follows:

The Top Five Most Desired Home Features

- ⇒ Central A/C
- ⇒ Oversized garage
- ⇒ Walk-in closet
- ⇒ Backyard
- ⇒ Cable/Satellite ready.

Top Five Features For Which Buyers Will Pay Premium

- ⇒ Walk in closet in master bedroom
- ⇒ Hardwood floors
- ⇒ Granite counter tops
- ⇒ Separate showers in main bath
- ⇒ Whirlpool tub

CROPLAND PRICES STILL ON THE RISE

The market is looking good for grain farmers. However, prices of cropland continue to rise, due to higher corn prices pushed up by the ethanol boom. The effects of demand for ethanol are starting to become more apparent, resulting in higher than normal land price increases.

Every year our office collects data on the percentage increase in cropland prices in Indiana, Kentucky and Illinois. The most recent data, including information from an annual Purdue University study, indicated an increase of 12.5% for the state of Indiana in 2006. In 2005, Indiana's crop land prices went up approximately 12%. Illinois cropland had a significantly higher increase at 15% in 2006 and 14% in 2005. Kentucky experienced agricultural land price increases of 11% in 2006 and 10% in 2005. As the use of ethanol in gasoline becomes more of a reality, the price per acre of cropland will continue to rise.

ETHANOL'S IMPACT ON OUR AREA FARMS

A rough approximation of the amount of tillable acres in Warrick, Gibson, Posey and Vanderburgh in Indiana and Henderson, KY based on scaling aerials from Google Earth is 800 to 1,000 square miles which equals 512,000 to 640,000 acres (640 acres per square mile) say 600,000 acres. The average production for average cropland reflecting losses from drought, flood, blight, etc. is approximately 150 bushels of corn per acre, at best. This indi-



cates a potential supply of 90 million bushels of corn, if no wheat, soybean, or other crops are grown. The Aventine ethanol plant, the state's largest, is projected to produce 220 million gallons of ethanol per year and the Abengoa plant 100 million, both in Posey County. Using the State of Indiana's reported ratio of 2.7 gallons of ethanol per bushel of corn, a total of 128 million bushels will be needed with some waste. Therefore, locally we can supply only 70% of the corn needed if all tillable land is planted in corn. In 2007, Indiana farmers planted less than 60% in corn. If this grew to 75%, farmers in the greater Evansville area could only meet roughly half the demand of these two ethanol plants. Other ethanol plants are proposed just outside this ring of counties. Thus, grain will have to be sent in by barge, truck, and rail to meet this demand.

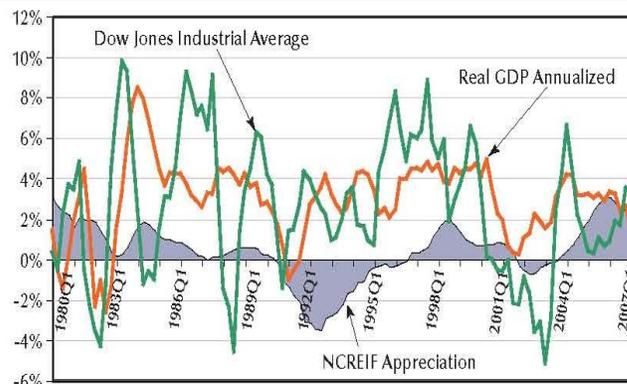
In the future to improve the efficiency of growing our fuel, new crops may be introduced to our area such as switch grass, rhizome grasses or new varieties of sugar cane. This will change the rural environment and appearance, as well as require new equipment and farming techniques. Corn is used in so many ways such as live stock feed, sweeteners, plastics, cereals, etc. So, corn will have to be grown somewhere and economics will decide where and when. Even with high corn prices, it is sometimes more profitable to grow wheat and double crop soybeans rather than a single planting of corn.

NATIONAL REAL ESTATE MARKET DATA

According to the Korpacz Real Estate Investor Survey, third quarter 2007 report, the fundamentals of the investment grade real estate market are healthy. This has helped calm the fears that the sub prime credit crunch would create a major problem in commercial real estate. All-cash buyers are still active especially in the major markets. Highly leveraged investors are out of the market and prices are softening a bit to attract the second tier buyers. So, prices for the prime market income producing properties have not fallen as they have in some major residential markets that were over-sold to speculators. Secondary and tertiary markets may see some pressure to raise cap rates and thus lower prices because of perceived higher risk in these market. Manhattan has recorded recent prices of over \$1,000/SF for office buildings. In Evansville, prices above \$150/SF for general offices or retail are rare.

The following graph shows the strength of the real estate market as presented by the National Council of Real Estate Investment Fiduciaries (NCREIF). Real estate has experienced negative growth only twice in the last 27 years, while the Dow Jones has experienced negative growth 6 times. During this period the national economy (GDP) fell into negative numbers three times.

GDP, DOW JONES INDUSTRIAL AVERAGE, AND
NCREIF APPRECIATION COMPARISON
Four-Quarter Moving Average Growth Rates
1Q1980 to 2Q2007



Source: Moody's Economy.com, PricewaterhouseCoopers LLP

Shopping center sales have been strong nationally due to mergers and would have been greater if more product was available. Cap rates for national investment grade properties average 7.2% down from 7.36% last year. The smaller local centers can not command rates this low as explained above.

Central Business District (CBD) office vacancy rates have been falling nationally from 13.3% two years ago to 9.7% today.

As stated in RERC's Real Estate Report's Spring 2007 issue, real estate investment prices are expected to remain strong as long as capital doesn't get ahead of fundamentals. Investors are warned not to get too greedy, which happened in residential markets and caused the bubble and current problems discussed elsewhere in this report.

Prudential Real Estate Investors (PREI) in their mid-year Market Perspective reported good prospects for the short term in investment real estate but that the slowing economy and problems in the residential markets could pose problems for commercial real estate investors.

The collapse of the sub-prime loan market was caused by large investors and foreign buyers who backed away from acquiring the mortgage backed securities (MBS) after they saw increases in defaults and foreclosures on the loans. This shut down capital flow and forced many of the mortgage brokers specializing in these higher risk loans to disappear. There is a reason why these sub-prime loans carry higher rates of return for the investor; they are riskier and have more probability of default. Unfortunately, some of the credit rating agencies overrated the strength of these investments and in other cases unscrupulous lenders and appraisers overstated the underlying collateral

value and mislead the borrowers and MBS buyers.

After the S&L Crisis in the 1980s, the federal government felt they had to do something to prevent this type problem in the future. They tightened rules on federally insured lenders and created a license law to certify real estate appraisers. This obviously did not fix the problem long term. What will the feds and the states do this time to curb over-lending? The feds have already increased lending restrictions. The states will also probably look to licensing mortgage brokers who operate generally without government oversight.

In 1940 less than half of the households owned their own home. By 1950 it was 55%, by 1969 60% and in 2000 it was 66.2%. The 2006 census update showed 67.2% and as of today it has risen to over 68%. It appears from the news stories that some buyers should not have purchased homes. They were undercapitalized and some lost everything in the resulting foreclosure. Owning your home is generally a very good investment, but it does require careful planning: saving for a down payment and full knowledge of the total costs of maintaining a home, paying taxes for the services provided to the home owner, and paying the mortgage, insurance and utilities. Many bought without adequate knowledge or resources, or bought too expensive of a house based on low rate adjustable mortgages which later adjusted to a higher and unaffordable mortgage payment.

LOCAL ECONOMIC GROWTH

I-69 will spur economic and job growth in Southwest Indiana for decades to come, but it has to be built first. As of October 1, 2007, the first 2 1/4 miles of right-of-way beginning at the NW corner of I-64 and Hwy 57 and running north to a point a half mile north of Hwy 68 have been appraised over half of the 29 properties involved have been purchased by INDOT. Construction should start in 2008 on this short first segment then move north.

Even without I-69, the Evansville area has seen strong growth in the industrial, office, educational, entertainment and retail segments with 1,500 new jobs announced in 2007. Some recent large projects include:

In Evansville, Berry Plastics' 600,000 SF \$20 million distribution center at the airport and its announced \$20 million corporate headquarters expansion, AT&T's \$22 million Call Center in the old Sam's facility on Vogel Road, Tele-Services 15,000 SF Call Center in Washington Square Mall, Shoe Carnival's new corporate offices in Cross Point, Brake Supply in VIP, Creative Press' new \$5 million replacement facility to be relocated by the proposed Fulton Lloyd Interchange, Casino Aztar's \$40 million Le Merigot Hotel and entertainment district, USI's 117,000 SF \$32

million building project, UE's 90,000 SF \$24 million building project, Evansville Zoo's Amazonia \$11 million project, and American General's continued expansion near the SE corner of Fulton and the Lloyd. In Mt. Vernon, Countrymark proposed a \$20 million refinery expansion to allow 375 million gallons of product, Aventine's 220 million gallon ethanol plant under construction, and Abengoa proposed ethanol plant. In Warrick County the Gateway Hospital and medical Office/Clinic complex continues to expand with no signs of stopping.

LOCAL OFFICE MARKET

CBD MARKET



The vacancy rate for multi-tenant office buildings in the Central Business District (CBD) has improved somewhat this past year. The vacancy rate according to the 2007 office study conducted by our firm was 25.9% which was a decrease in one year's time from 28.2%. That 2.3% decrease represents 40,200 SF of additional multi-tenant space being occupied since last year. Class A space showed the largest absorption. The oversupply of office space keeps office rents soft and adds to the attractiveness of downtown since the best deals on office space in town are currently found there. If all the single occupant and owner occupied office buildings in the CBD are included, which add another 1.22 million SF to the 1.67 million SF of rental, the vacancy rate for the 2.89 million total office SF drops to 14.5%.

SUBURBAN MARKET



The Suburban Office Market showed a modest 0.2% decrease in multi-tenant office vacancy rates. Historically, this market's vacancy rate has been steady and not oversupplied. Our Suburban Office Market study surveys over 950,000 SF of multi-tenant space.

The recent trend has been to build "vanilla box finish" business strip buildings that are easily adapted to retail or office use which tends to lessen the risk to the developer. Another trend has been for owners to build and occupy their own new buildings and this segment doesn't meet the criteria to be included in our Suburban Office Market study. These one- or two-story, masonry and steel owner occupied buildings with adequate on-site parking continue to be a popular choice for many suburban office users.

MEDICAL OFFICE MARKET

This segment of the market has seen overbuilding in the marketplace. The trend has been to move to newer specialty buildings near the hospitals such as near the Gate-

way Complex and this has caused the older vacated medical office buildings to suffer in resale value since there are few buyers, if any. Many of these new buildings are for multi-physician practices. This oversupply of vacant medical office may take years to absorb, if ever. Some, like the medical office at the northeast corner of Highway 41 and Lincoln Avenue, may be razed for land reuse as commercial sites if they are well located. Conversions of medical office buildings to general offices is often difficult and may not be economically feasible.

LOCAL RETAIL MARKET

The Evansville retail market is ever changing but have you noticed the box store growth? In the past 10 years, we have seen good retail growth on all sides of Evansville as we become an even stronger regional retail market. The Pearl Drive area on the west side, the Green River and Lynch Road area on the north side, the Pavilion regional lifestyle center on the east side, all have been developed in the past 5 - 6 years.

But the less noticed retail growth has been in the absorption of almost all the old vacant box stores (+100,000 SF) in the market in the past couple of years. These include:

1. Apple Center in Newburgh converted a vacant K-mart store into a retail strip center.
2. Burlington Coat Factory now occupies Plaza East on N. Green River Road.
3. Rural King now occupies the former K-Mart store at N. St. Joseph & Diamond.
4. The old Sam's Vogel Road location is being converted to a call center.
5. The former Target store at Lawndale was partially leased to Big Lots.
6. A tenant has recently been reported for the empty south anchor of Washington Square Mall.
7. K-Mart on the Lloyd at Burkhardt was converted to a shopping center with Gordman's, Best Buy, Hobby Lobby, Guitar Center and more.
8. Best Buy on Green River Road was converted to a JoAnn Fabrics.
9. Gander Mountain located in at Village Commons.

Still vacant are the Plaza West Center at First and Diamond Avenues and the former Wal-Mart store in Univer-

sity Center. The supply of new box stores built include the new east side Target, the west side's Wal-Mart Super Store, Home Depot and Kohl's. Surrounding communities are seeing the same trend with Princeton's Menard's and the Wal-Mart expansion to a super store, Boonville's Super Wal-Mart, Henderson's new Super Wal-Mart and Lowe's stores. Adding to this inventory is the Lakeside Commons Schnuck's store and the expansion of the Newburgh Schnuck's, plus the recent announcement of a Super Wal-Mart for Newburgh.

This is an addition of a dozen new or expanded box store users to our Tri-state market in just a short couple of years and successful reuse of nine vacated older facilities.

LAND MARKETS

CENTRAL BUSINESS DISTRICT

In the heart of the downtown, there is little undeveloped land requiring any new residential and office development to be adaptive reuses of older vacant buildings like JC Penny's, DeJongs, Koch Originals, Permanent Federal, Farmer's Daughter, Centrum Building, and the old library. Land prices have been fairly stable in the past year, but because there is a limited amount of available land in the downtown, price levels could change as new development occurs, especially if the Arena is built in the downtown. The Region's highest prices other than national pharmacy sites are found in the CBD along the river at ±\$25/SF.

SUBURBAN COMMERCIAL LAND

As mentioned in last year's newsletter, the west side is almost out of buildable land. The resistance to rezoning and hilly topography make it difficult to create new supply of commercial/office/industrial/apartment land. On the north side, expansion of commercial uses is slow but with increased attention and proposed construction along Highway 41 south of Ingelfield Road.

On the east side of Evansville, there is a large supply of commercial potential land which includes the Hirsch tract (north of Columbia Street and east of Burkhardt Road), the northwest corner of Green River Road and Theater Drive which is beginning to be developed, the remaining vacant land parcels between Green River Road and Burkhardt Road along Vogel Road and Virginia Street, the land east of Burkhardt Road between the Lloyd Expressway and Highway 62, the land along Lynch Road from Highway 41 east to Highway 62, and the land along Epworth Road north of Highway 66. These vacant land tracts, which are all available for development with adequate roads and utilities, create a very large supply of over 2,000 acres. If single family residential and light industrial can be blended

in, then the absorption would be accelerated. On top of this, a large tract on the north side of Highway 66 in Newburgh has been placed on the market for retail and office development and will be the site of a new Wal Mart. All this generates an adequate supply of land for the next several decades. Demand will be increased from the impact of Interstate 69 which will run through this area via I-164.

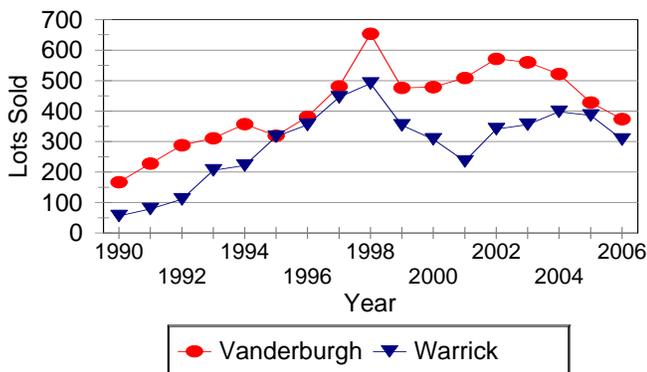
APARTMENT LAND

There are a few tracts that are zoned R-3 and R-4 allowing multi-family residential properties typically developed at 15 to 20 units per acre on the east and west sides of Evansville. Rezoning land on the west side of Evansville has proven difficult recently. This has not been the case on the east side of Evansville, especially along I-164. However, demand appears to be weak at the present time for new apartment projects. This is because there is an oversupply of units, which were built a few years ago on the east side which increased vacancies. Also increasing vacancies in apartment projects, locally and throughout the nation, are due to the increase in home ownership created by the recent low mortgage interest rates and minimum down payments. This aggressive mortgage market also created an increase in foreclosures throughout the nation with Indiana having been one of the leading states.

RESIDENTIAL DEVELOPMENT LAND

The following graph indicates the number of total vacant lots sold in Vanderburgh County and Warrick County over the past 17 years.

LOT ACTIVITY BY YEAR
Vanderburgh & Warrick Counties

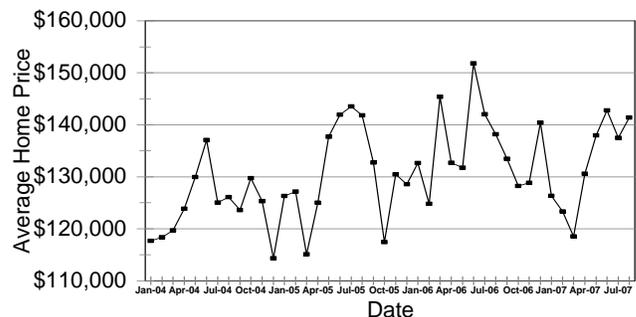


Only a small percentage of the available land that can be developed residentially has been built out in the Tri-State area. Homes can be built on virtually any type of land in the general area with the exception of severe flood plains. Even land that is in the 100 year flood plain can be developed if it is only a few feet below the 100 year flood plain

elevation. Several subdivisions in Vanderburgh County have been successfully developed on such land.

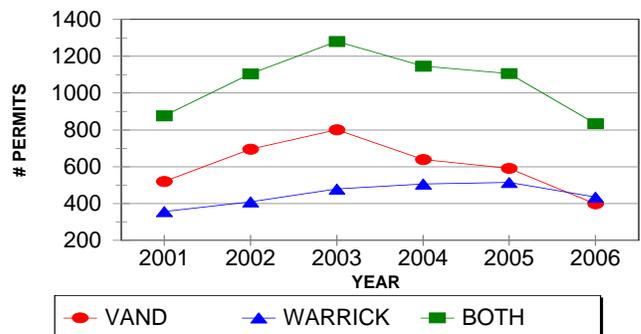
Overall, the abundance of available land in Southwest Indiana is a benefit to our area because it keeps land prices low, making our area attractive for industrial, commercial and residential developers keeping housing prices affordable. The cost of labor and materials do not vary substantially within the United States but the price of land does. The factors affecting price the most are almost always supply and demand. Areas with limited land, such as San Francisco, Aspen, and Manhattan, which all have physical limitations on expansion coupled with strong population growth and high densities, have the highest land prices while areas such as Evansville with large expanses of level, developable land and low population growth have very affordable land and housing prices. Indianapolis has the lowest home prices of any major market for the same reasons and Evansville is one of the most affordable cities in the US for housing. It can be startling what you don't get for your money in many housing markets. If you want a good buy in housing with very little risk of a housing bubble collapse, Evansville is the place.

Sale Prices of Homes
Vanderburgh & Warrick Counties



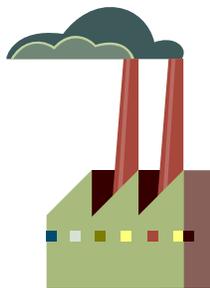
The following graph shows the new single family housing permits in Vanderburgh and Warrick Counties.

BUILDING PERMITS
VAND AND WARRICK COUNTY



THE INDUSTRIAL LAND MARKET

Suburban Land: There is a large supply of raw land with utilities available for industrial development, especially along Highway 41. The supply of smaller developed lots is shrinking, though, as the developed parks are built out, and more "shovel ready" sites are needed.



The Vanderburgh Industrial Park (VIP) has a total of 204 developed acres in 18 lots ranging in size from 4.75 acres to 23.6 acres. Recent additions to the park include the new Brake Supply facility and, across the street from the park, the new Shoe Carnival mega-warehouse. Seven lots sold from 2001-2006 for an average of one per year. Eleven lots remain available.

The Daylight Industrial Park was platted and developed in 2001-2002 and sold the bulk of its twelve lots. The Enterprise Park at the SE corner of Hwy 62 and I-164 quickly sold its six larger lots in 2000-2002 and has four of its five original smaller lots available. Burkhardt/Lynch is geared more to light industrial/service properties, office warehouse and wholesale facilities and, like Enterprise, has only its smaller <math>< \frac{1}{2}</math> acre lots located on the extreme south end of the park remaining available. This indicates weaker demand for <math>< \frac{1}{2}</math> acre lots.

East Pointe Business Park, developed around the 15 acre Working Beverage complex, was planned to have 48 lots. The first phase developed the west and south portion with ten of the 13 developed lots sold. The platted lots are in the 1.5 acre to 2 acre range but have been selling in 2 to 3 lot blocks. This seems to indicate more demand for larger tracts than smaller.

The seventeen lot Castle Creek Park was developed in 2000-2001, sold 1 lot in 2002, 3 in 2006 and 3 in 2007. The entire 14 lot, 24.16 acre balance was purchased in December of 2006 for \$1,285,000 or \$53,187/acre for the developed subdivision. The buyer intends to market the lots. Baseline Industrial Park also has primarily smaller, 1.5 to 2.5 acre lots. Four of the seventeen lots have been sold. The remaining 13 lots are listed for \$150,000 to \$260,000 per acre. This park also has seen little activity. Both of these parks may have been overpriced originally, and thus have not sold well. These two Hwy 41 corridor parks are not typical for the Evansville market. The market demand should catch up eventually and absorb these lots because they are well located and well designed.

The Warrick County Industrial Park, which has been acquired but not yet developed, is located near the northeast quadrant of I-64 and I-69 with access via old Highway 57. This park will benefit greatly from the completion of I-69.

Posey County still has land available in the Riverport but the new Aventine Ethanol Plant will use a substantial part of this land. A second plant, Abengoa, is also currently in the planning stages for Posey County.

Future industrial development will probably include the soon to be expanded Epworth Road corridor south of Highway 62 which has seen some 150 acres rezoned in the last few years, land along Oak Grove Road between the Epworth corridor and Evansville and land along Highway 62 east of Lynch Road. A bold plan has been proposed to create a slack water port on the Ohio River near Old Henderson Road for an inland, inter-modal port facility. All of these areas are in the early stages of planning or development and will not generate new supply for years.

Overall, there is demand in this region for "shovel ready" industrial sites. While there is raw land available, some clients want sites that are ready for them to begin digging without the need to extend sewers, build roads or utilities.

Urban Industrial Land: Industrial land in the urban areas is limited and growth has naturally shifted to the north and east. There have been some successes in developing urban industrial properties, e.g. the old stockyards which were purchased in 1993 for \$11,565/acre for the 11.5 acres, cleaned up, subdivided into small lots and resold between \$40,000/acre and \$85,000/acre. The City of Evansville is proposing the City Center Industrial Park to be created west of Fulton Avenue, north of Columbia Street and south of Pigeon Creek. This is an older, residential and industrial area that would benefit from the infusion of new capital, new jobs and new infrastructure. It is located fairly close to the new interchange of Fulton Avenue and the Lloyd Expressway to the south and Fulton Avenue and Diamond Avenue to the north. If the University Parkway is extended to join with Interstate 64, this would further enhance the desirability of this location.

IMPROVED INDUSTRIAL PROPERTIES

The industrial market is more difficult to survey than other market sectors due to, among other things, the broader range of property types and less definable market areas. What we are presenting is a slice of that market with limited analysis to indicate the current state of the market and future trends.

In recent years, the improved industrial market, previously stable though mildly sluggish, has strengthened significantly. In 2004 there were eighteen recorded sales of industrial properties over 5,000 SF per the Vanderburgh Co. Assessor's records. For 2005 this increased 122% to 40 sales, then fell in 2006, then rose in 2007.

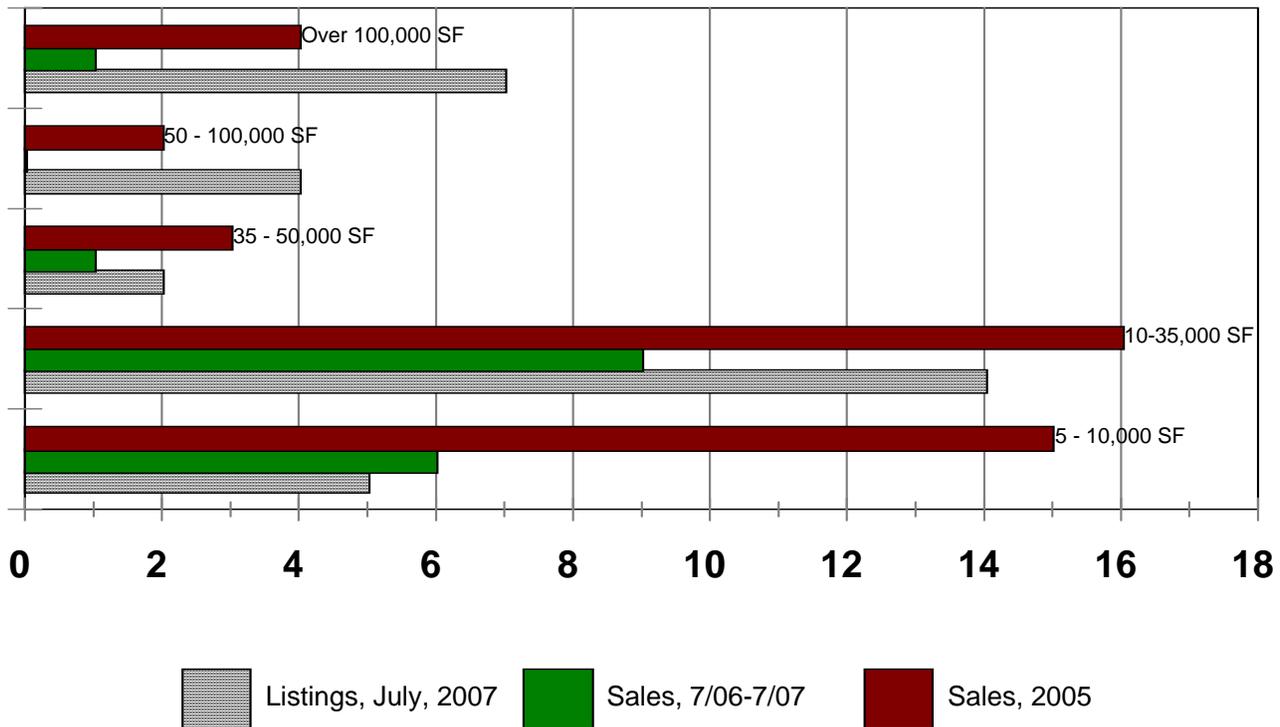
All recorded industrial sales within Vanderburgh County

INDUSTRIAL SUPPLY AND DEMAND ANALYSIS

7/06-7/07 Sales, July 2007 Listings							
#	Sales	Size	Months Supply	Avg. \$/SF, Sales	Min. \$/SF	Max. \$/SF	% Std. Dev.
5	6	5 – 10,000 SF	10	\$45.89	\$10.50	\$71.88	41.45%
14	9	10 – 35,000 SF	19	\$20.04	\$10.67	\$37.88	48.21%
2	1	35 – 50,000 SF	24	\$43.46	\$43.46	\$43.46	0.00%
4	0	50 – 100,000 SF					
7	1	Over 100,000 SF	84	\$18.38	\$18.38	\$18.38	0.00%
32	40		7.2	\$22.02	\$10.67	\$43.46	50.28%

Evansville Industrial Market

of Listings & Sales 2006-2007



for July, 2006 to July, 2007 were collected, totaling 17 sales. These ranged from 5,000 SF to 245,000 SF with sale prices from \$10.67/SF to \$71.88/SF. The sales and listings from Loopnet were then segregated into classes by size. The two data sets were combined and are shown on the above bar graph. This 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. 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 great-

est demand there appears to be a balance between supply and demand, trending into a modest over-supply. Above 50,000 SF there is a substantial oversupply. The earlier trend towards oversupply in larger properties tapered back somewhat in 2006 and has stabilized.

The 2005 sales include the sale of the Hahn property on North Garvin, the 358,625 SF former Chrysler plant. There was an early 2006 sale of the former Faultless Castor property, a very large, older, underutilized manufacturing building.

PROPERTY ASSESSMENTS

In the 1990's and before, real estate taxes were based upon an antiquated true tax value system in which the market value of the property was not the predominant basis. The new system, implemented in the assessment prior to the current, instituted a market value system for the first time, as required by Judge Fisher's court ruling. Conversion to market value required new methodologies which were adopted with various degrees of success. However, the concept is good and will be refined in years to come to be more reflective of individual market values. The next step was to keep market values current and equitable within a county. To avoid having to individually reassess every property each year, the new method of trending assessments was designed. In simple terms, this is a procedure which applies an adjustment for inflation in real estate values to assessments.



Trending involves collecting sales of similar properties within a neighborhood and dividing by their assessed values to see the ratio of assessment to sale price or vice versa. This factor is applied to the old assessments to bring them up to date. For example, if the average price within a neighborhood was \$110,00 and the average assessment within that neighborhood for similar properties was \$100,000, then a 10% upward adjustment would be required resulting in a factor of 1.1. This 1.1 would then be applied to each assessment of similar properties within a neighborhood whether they had sold or not. If the assessor does a good job analyzing the sales data, omits the non-market sales (such as non-arm's length sales, premium adjacent owner sales or sales between relatives at discounted prices) and uses good market data, this method should approximate the overall inflation adjustment applicable to the neighborhood. If the old assessment was equitable then the new one should be also. If a neighborhood had been under-assessed in the past this method will apply a greater factor to bring prices up to current levels, resulting in a greater than average increase. This method is valid in concept and should produce reasonably accurate assessments over time, but periodic reassessment will still be needed because of the compounding of any errors and due to other changes within the neighborhood not measured by the trending adjustments.

The system Indiana uses to administer property assessments requires over 1,000 township assessors and trustees. Many are untrained in real estate appraisal and many are part-time employees. In Vanderburgh County there are eight township assessors and one county assessor. The elected county assessor coordinates the assessments of the elected township assessors. A better system would be one in which there is a single decision maker, i.e. the County Assessor, who is selected based on his or her professional qualifications.

Real property taxes carry a large responsibility in funding state and local government. Various studies have been made looking at removing property taxes entirely but the resulting tax burden on income tax, sales tax or fees would hurt the competitiveness of Indiana and Evansville in attracting jobs and people. Fringe cities such as Evansville would find it difficult to attract retailers since sales tax would be substantially less in abutting states. Property taxes also provide a very stable form of revenue stream compared to income tax and sales tax which can vary during recessions.

This doesn't mean there cannot be an improvement in the allocation of these taxes. It makes sense to fund services and facilities such as roads, bridges, police and fire protection, and utilities from property taxes since they directly benefit real estate by their presence. The cost to educate our children through high school requires approximately 50% of the local tax revenues. However, education is not directly related to a property's location even though neighborhoods with the top quality schools are often more in demand which can push up property values. So there is some logic in removing education cost from property taxes.

WHAT IS EVANSVILLE'S MARKET AREA?



Demand for products and services emanate within a neighborhood, within a community, and within a region.

Some products, such as milk and bread, are strictly neighborhood items, while clothes are typically found in community or regional shopping centers. Major medical services, patients, IMAX patrons, some new car buyers, and concert-goers may be attracted from as far as an hour's drive or say, for example, from approximately half way between Louisville and Evansville. Evansville, being perceived as a safer and easier city to navigate than Indianapolis, Nashville, Louisville and St. Louis, can draw people from the middle ground. A ± 60 mile radius encompasses around 33 counties in Indiana, Illinois and Kentucky. This represents a potential market area for Evansville of approximately 975,000 persons, or 390,000 households. This area grew by 1.37% from 2000 to 2007 and is expected to grow another 0.8% by 2012. This large pool of potential visitors to our community helps explain the high ratio of shopping centers, medical facilities and entertainment venues in Vanderburgh County when considered on a local per capita basis.



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COMPANY POLICIES

Our company policy is that we do not divulge any confidential information concerning personal finances which we may receive in the performance of our assignment. Our policies go beyond this and keep confidential the results of all appraisals and counseling assignments and, when requested, the fact that we are even completing an assignment for a specific client or for a specific property. As members of the Appraisal Institute, all of our appraisal staff subscribe to the highest ethical standards in the industry. These go above and beyond the state requirements of the Uniform Standards of Professional Appraisal Practice (USPAP). Each staff member is encouraged to become involved in professional organizations and in our community. Some of the activities of the associates in recent years include president, chair or director of all of the following: Young Evansville Professionals (YEP), Rain-tree Girl Scouts, WNIN, Evansville Chapter of the Appraisal Institute (AI), Hoosier State Chapter of AI, AI Regional Representative, National AI Education Trust, American Institute of Real Estate Appraisers, Evansville Chamber Board, Transportation and Governmental Affairs Committees, MLS Service Corporation and member of Downtown Improvement Committee & EMPO Advisory Committee. David Matthews was recently elected National President of the Real Estate Counselors Group of America which is a select group of 30 real estate counselors, PhDs, analysts, and appraisers throughout the United States.

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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
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