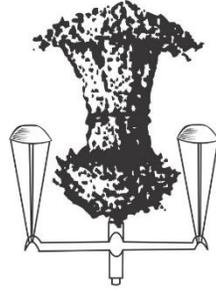


2018 Tippecanoe County Ratio Study Narrative



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Introduction:

The 2018 Tippecanoe County Ratio Study is an analysis of sale price compared to assessed values for residential and commercial parcels. The sales window for assessed values effective January 1, 2018 runs from January 1, 2017 through December 31, 2017. The analysis contained in this narrative substantiates the annual adjustments made to properties for the 2017 assessment year.

Annual ratio studies are broken into several different segments to compare similar properties in each township. These segments focus on sales of vacant and improved parcels, as well as residential and commercial/industrial parcels. Agricultural sales are omitted from the study due to unique legislation that dictates their assessment and leads to low correlation between sale price of agricultural parcels and their assessed values. Areas without enough sale activity to substantiate market wide adjustment are also omitted.

Annual adjustments to each type of property are tied to sales activity regardless of valuation methodology. Vacant land sales are used to set, or update base rates for land valuation in both residential and commercial areas. Improved sales of residential parcels are used to determine trending factors to be applied to each dwelling's depreciated replacement cost. Sales of Commercial and Industrial parcels, which are mostly valued on the income approach, are used to calibrate capitalization rates with respect to observed market trends (rents, vacancies, expenses, etc.) in order to set a level of valuation consistent with the Indiana Department of Local Government Finance guidelines per IC 6-1.1-5-14.¹

The 2018 median level of assessment for Tippecanoe County is 89.74 with a Lower Confidence Level Median of 89.35 and a Upper Confidence Level Median of 90.11 using 95% confidence intervals. This median ratio represents another downward slide from 2017's median ratio of 91.30, this continual slide downward represents yet another year of strong sales performance that outpace assessment methodology with respect to responsible, stable tax policy.

¹ Wood, Barry. "2017 Ratio Study Guidance." Department of Local Government Finance. Indianapolis, IN. 2017. 1.

Residential Sales Analysis:

Residential sales volume in Tippecanoe County in 2017 kept pace with 2016's exceptional post-recession numbers. However, while transaction volume may seem stabilized, the upward pace of sales level indicates that the local market doesn't appear to be flattening off any time soon. The residential analysis section will highlight a persistent theme cautious increase in areas where sales levels have increased to new highs, resolving to increase values in stabilized and well-measured increases.

Residential Vacant Sales and Land Valuation Analysis:

The 2018 assessment year includes 154 valid residential vacant land sales. The sale volume is down nearly 25% from 2017, however the sale level observed has continued to increase in all sectors underscoring the observation that supply, rather than demand is the current impediment to new home construction in Tippecanoe County. Areas of new development south of the City of Lafayette in Wea Township, as well as west and north of West Lafayette in Wabash and Tippecanoe Townships feature the greatest amount of sales with cohesive sales data that firmly support sales data. In addition to site value adjustments supported by vacant land sales, we've also used the 2018 annual adjustment process as an opportunity to adjust land prices in established neighborhoods where trending factor increases have made it evident for years that location is the main factor driving upward sales.

Residential Improved Sales:

Valid residential improved sales volume remained stabilized in 2018 with 2873 valid transactions (down slightly from 2017). The easiest observable trend from the residential improved sales is that sale-level is greatly exceeding assessment level yet again, as the median ratio continues to slip downward despite aggressive increases in assessed value in many sectors. The Tippecanoe Assessor's Office is committed to maintaining statutory reconciliation levels per DLGF guidelines, however we are also cautious not to do at the expense of destabilizing increases to the tax base. Our method has been, and will continue to be graduated, responsible, and defensible increases to property value until sales level off and we reach our target point of reconciliation near a 95% ratio.

One major change to residential valuation methodology in 2018 is the implementation of values based on multiple-regression analysis for the first time in Tippecanoe County. We selected 5 pilot neighborhoods for this valuation method: Benjamin Crossing (639), Blackthorne (546), Hadley Moors (539), Robin Wake (515), and Valley Lakes (220). The reason these neighborhoods were selected was two-fold; first they all have adequate sale volume on a yearly basis to make individual regression modeling a viable approach and second they all contain similarly built homes with adequately cataloged inventory data in our camera system to determine which independent variables best correlate to value. Our regression models showed a reduced COD of approximately 2% compared to sales in each of these neighborhoods so we felt more comfortable raising them each in excess of 5% on average. It is our hope that as we continue developing regression models we will be able to tighten dispersion and predict values based on sales with greater accuracy in the future.

Commercial Vacant Sales:

The commercial vacant sales section of the 2018 Ratio Study exists simply for the fact that there were enough sales (12) county-wide to meet the IAAO requirements for a ratio study within a given jurisdiction. However, the fact that these sales are strewn about the county in 2 different townships makes it difficult to make any meaningful determinations about commercial land calibration with such a small sample size. That being said, there are 3 sales that are clustered around Veteran's Memorial Pky South in Wea Township that substantiate existing high base rates in the area and bolster commercial values moving forward.

Commercial Improved Sales:

2017's sale volume of 68 valid transactions provides us yet another year of data points to better calibrate our income approach models. County-wide, the vast majority of improved commercial parcels are valued on a capitalized income approach. Exceptions to this rule include special-use properties that lack market data and do not fit any of our established valuation models for income capitalization. The income approach relies on aggregate market data to support valuation models. Tippecanoe County's income approach values have historically been derived through in-house income/expense data verification while relying on third party research surveys for capitalization rates because the local market typically lacks sales volume to develop market-specific cap rates. The 68 sales in Tippecanoe County present a substantial sample by which to modify existing models, most specifically with respect to multi-family, retail, office, and warehouse/distribution properties.

The largest amount of activity, with the highest valued transactions took place in the multi-family market in both Lafayette and especially West Lafayette in the campus housing market. Local initiatives have created a frenzy of multi-family development near Purdue, including multiple 10-plus story apartment buildings currently in construction. The development friendly atmosphere has also attracted institutional grade investors to existing properties such as Grant Street Station, a 278 bed room development built in 2013 which sold for north of \$31million in 2017. While campus housing is pacing the multi-family market, sales in this sector were strong county-wide and we expect to see levels to continue to increase in the newer, more functional developments with a potential decline in older less functional developments as new units come online in the next few years.

For the sake of commercial improved ratio study analysis Fairfield and Wea townships have been combined as they are both mostly within the municipal boundaries of the City of Lafayette and share the same market base across most all commercial industries. Wabash Township, which includes the City of West Lafayette, is valued separately as the market is disparate due to the high volume of student housing, retail, and office/R&D facilities near Purdue University. The sales pool in this study and regressive trend indicated has led to valuation changes that progressively affect the top end of the market in all sectors. The expectation is using this ratio study's sales to substantiate older, lower valued property base rates across markets, we can stabilize our commercial industrial base while still keeping up with top end performance in order to drive the price related differential back toward a point of equalization.

