

COMPARING APPLES TO APPLES

Wichita Housing Market Forecast 2006

Center for Real Estate | Wichita State University



Comparing Apples to Apples



Although we often speak about the “housing market,” in reality each neighborhood – and even each home itself – is unique. To understand the market as a whole, it is important to measure changes over time by making an apples-to-apples comparison. That is why the theme for the 2006 Wichita Housing Market Forecast is “comparing apples to apples.” I hope you find the information in this year’s forecast to be a valuable resource as you work and live in the Wichita Area.

Dr. Stanley D. Longhofer, Director, Center for Real Estate

I offer special thanks to Henry David Thoreau and his “Wild Apples” essay of 1862, from which the quotations in this forecast were taken. I am also indebted to many colleagues and friends who have helped make this year’s forecast possible:

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"Surely the apple is the noblest of fruits. Let the most beautiful or the swiftest have it. That should be the 'going' price of apples."

Our Core Supporters

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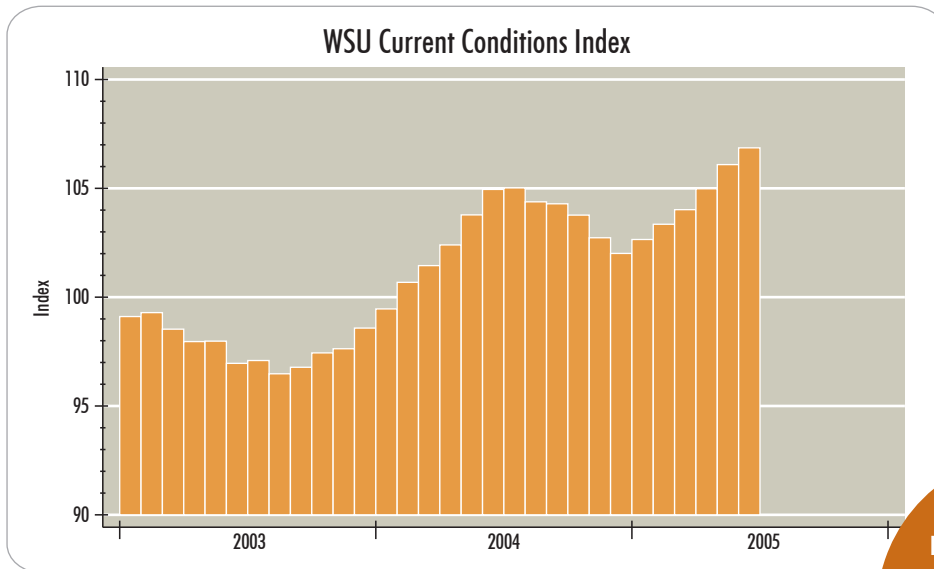
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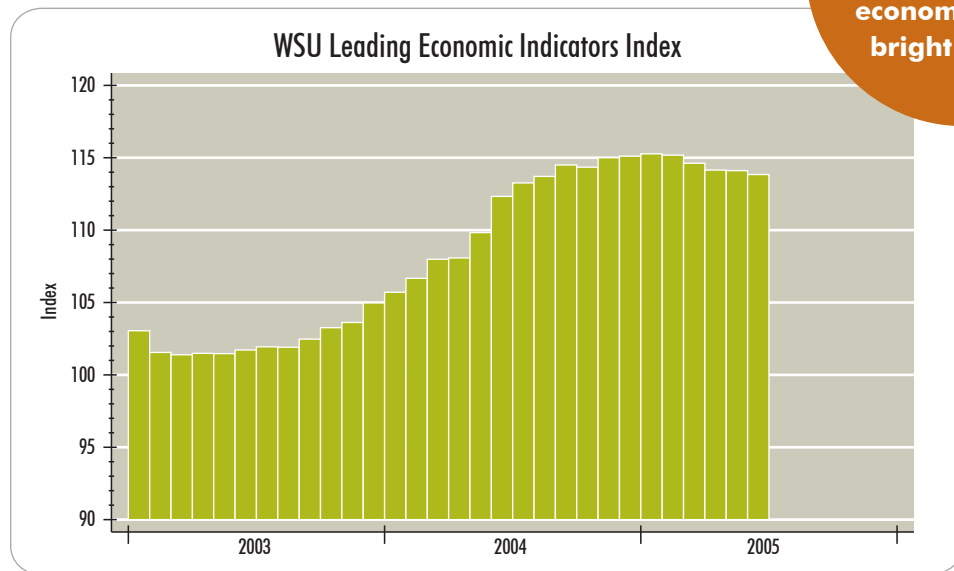


A Market Perspective

The Wichita economy is the soil in which the housing market grows, and current economic indicators suggest it is a fertile soil indeed. After bottoming out in the summer of 2003, the WSU Current Conditions Index has risen appreciably over the past two years. The index did fall somewhat at the end of 2004, but since then growth has resumed, indicating a significant strengthening of the local economy.

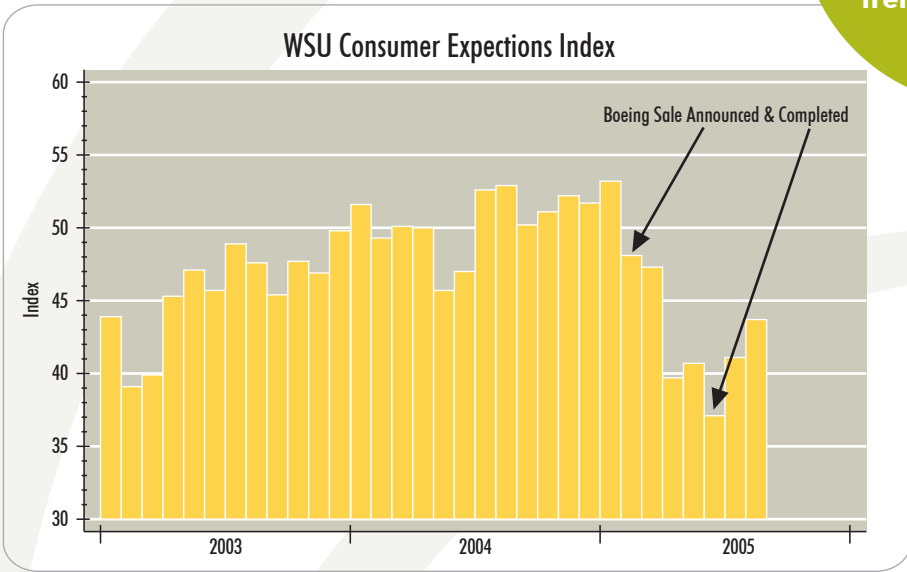


Local economic indicators suggest a growing economy with a bright future.



Future economic growth looks promising as well. The WSU Leading Economic Indicators Index has been on a significant upswing over the past two years, increasing by 12.3 percent between the second quarters of 2003 and 2005.

On the whole, area consumers appear to be less optimistic than current and leading economic trends would seem to warrant.



Despite the strong outlook, consumer confidence dropped precipitously during the first half of 2005. Much of this may have been due to uncertainty surrounding the sale of Boeing Commercial Airplanes, which was first announced in February; since the sale was finalized in early June, however, consumer expectations have increased each month. Nevertheless, rising gas prices and the potential for higher inflation are still concerns for area consumers.



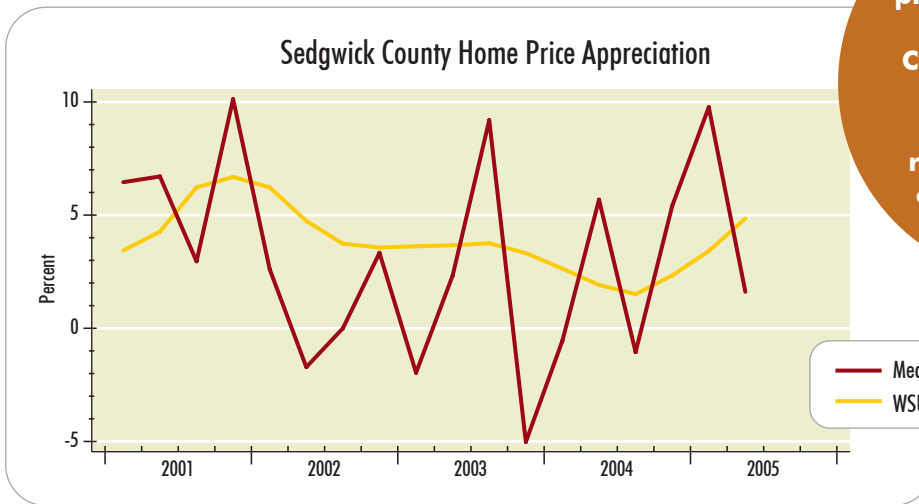
Janet Harrah, Director,
Center for Economic Development
and Business Research

"I saw one year...some trees fuller of fruit than I remember to have ever seen before."



Comparing Apples to Apples

A recent report by the National Association of REALTORS® showed that the median sale price of existing homes nationally was up 14.1 percent in June compared to a year earlier. At the same time, local Multiple Listing Service statistics show that the median price of existing homes in the Wichita area *fell* by 1.5 percent in June. Does this mean the Wichita housing market is in a slump during one of the biggest housing booms in American history?



The WSU Home price index indicates that Sedgwick County home prices have risen at an average annual rate of 3.9 percent over the past five years.

The average appreciation of area homes was 4.9 percent between the second quarters of 2004 and 2005.

The answer is no. The problem is that the median sale price is simply the middle price of all homes that have sold. As a result, the median price is strongly influenced by *which* homes are selling at a given point in time. If low-end homes are selling well, the median sale price will drop, even if each individual home's value has risen.

In fact, this is what happened in Wichita between June 2004 and June 2005. In June 2004, homes above \$200,000 comprised 11.0 percent of all existing home sales, while these high-end homes only made up 9.0 percent of all sales in June 2005.

Sources: National Association of REALTORS®; WSU Center for Real Estate using data provided by the Sedgwick County Appraiser's Office; South Central Kansas Multiple Listing Service
 Notes: a) Year-over-year percentage change in the WSU HPI for Sedgwick County
 b) Year-over-year percentage change of existing home sales in entire MLS system
 c) Year-over-year percentage change as measured using 4th quarter values



At the same time, 13.6 percent of the existing homes that sold in June 2004 had prices below \$50,000, compared to 14.5 percent of the sales in June 2005. Thus, the drop in the median sale price over the year was a result of the *composition* of homes that sold, not a reduction in home values.

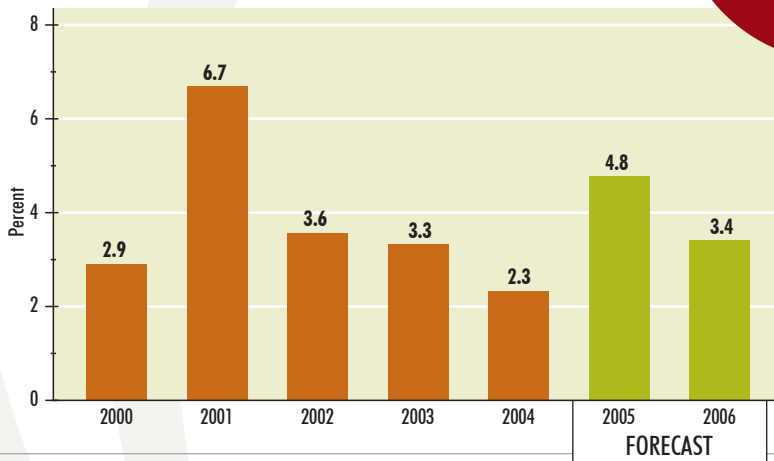
In order to accurately track home price appreciation, we need a way to make an apples-to-apples comparison over time. The WSU Home Price Index (HPI) does just this. We look at every home sale in Sedgwick

County and take into account their sizes, number of bedrooms, neighborhoods, and other physical characteristics to come up with a measure of home price appreciation that isn't affected by which homes sell when.

Home price appreciation should slow somewhat in the coming months, ending 2005 with a total gain of 4.8 percent for the year.

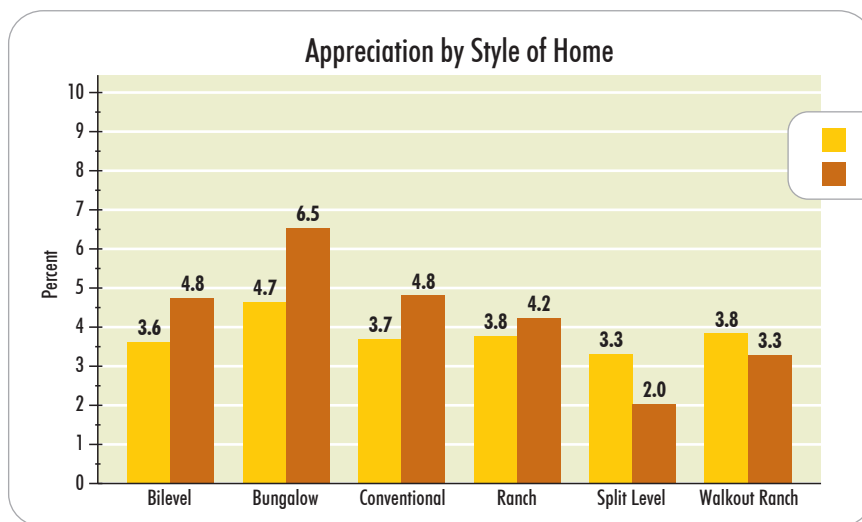
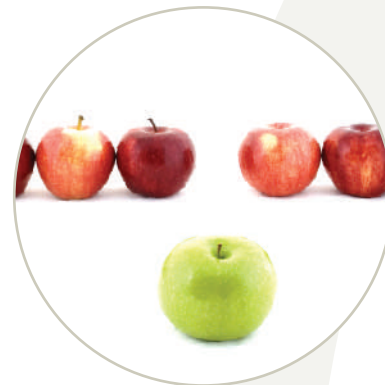
Sedgwick County home prices will rise by 3.4 percent on average in 2006.

Annual Appreciation and Forecast^c



McIntosh or Granny Smith?

Even when you make an apples-to-apples comparison it is important to remember that, just like apples, homes come in different varieties. Average appreciation is just that - average - and no one owns an "average" home. Even when you have a reliable measure of home price appreciation like the WSU HPI (which takes into account factors such as the size, number of bedrooms, neighborhood, and style of construction), you must keep in mind that any individual home's appreciation can - and likely will - differ from the average.



Older, bungalow-style homes set the pace among major home styles, appreciating by 6.5 percent over the past year; split-level homes trailed the pack at only 2.0 percent.

To show this, we segmented homes across three key factors - architectural style, size, and location - and calculated the WSU HPI separately for each subgroup. These breakdowns show that smaller homes, older bungalow-style homes, and those on the city's south side have been the driving force behind home price appreciation over the past year.

Source: WSU Center for Real Estate using data provided by the Sedgwick County Appraiser's Office

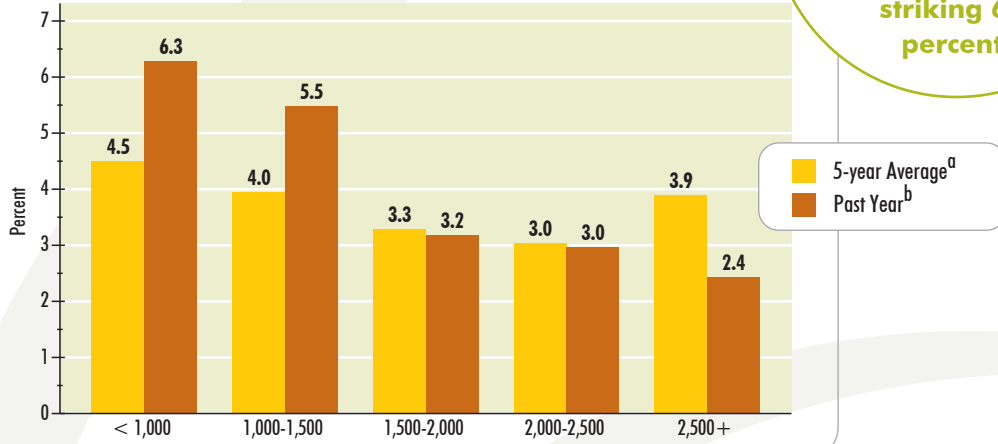
Notes: a) Five-year annualized growth rate through 2nd quarter of 2005

b) Year-over-year percentage change as measured using 2nd quarter values

c) Total square feet of finished living area

Small has been big over the past year, as homes with less than 1,000 sf have appreciated by a striking 6.3 percent.

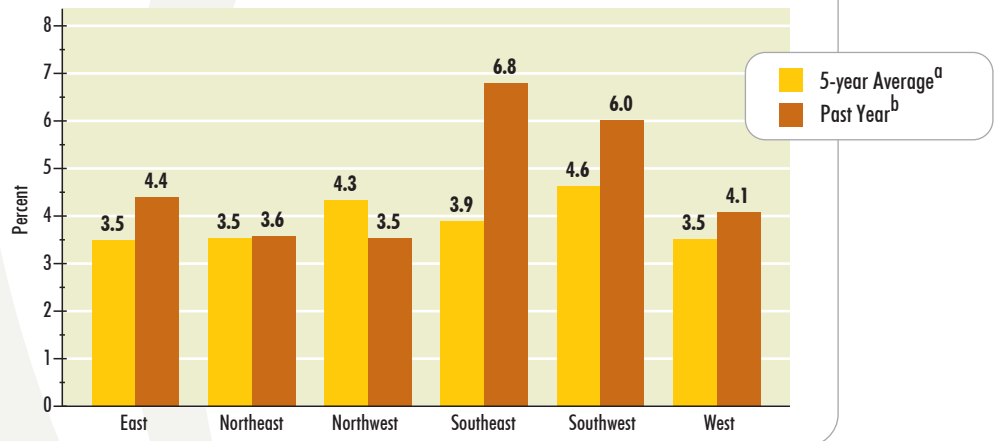
Appreciation by Size of Home^c



Homes in SE and SW Wichita have shown the strongest appreciation over the past year, growing by 6.8 and 6.0 percent, respectively.

"Of course no flavors are thrown away; they are intended for the taste that is up to them. Some apples have two distinct flavors...some all sour, and others all sweet, and this diversity on all parts of the tree."

Appreciation by Sector

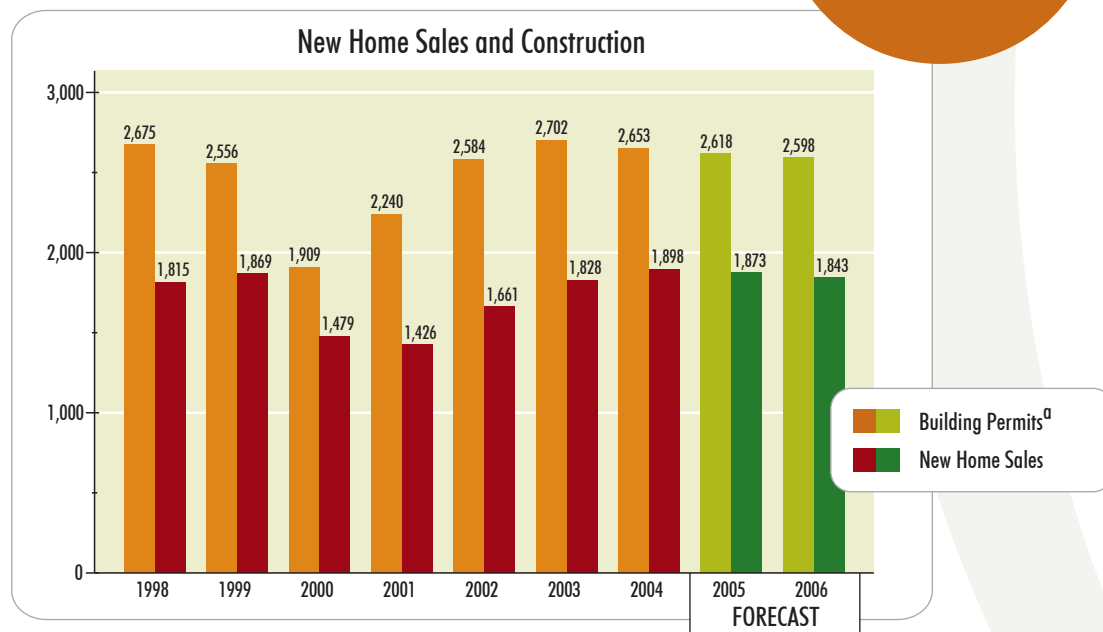


In Full Bloom



New homes continue to blossom throughout the area. Although new home construction was down 4.5 percent during the first half of the year, it appears that the pace of construction will pick up as we move into the beginning of 2006. Strong sales through the first six months of this year have caused the inventory of new homes to fall to a seasonally adjusted 4.4 months supply, down from 5.9 months in January. As a result, permits should rise through the rest of the year as builders seek to replenish their inventories of spec homes.

New home construction will end 2005 down 3.1 percent, at 2,618 units.

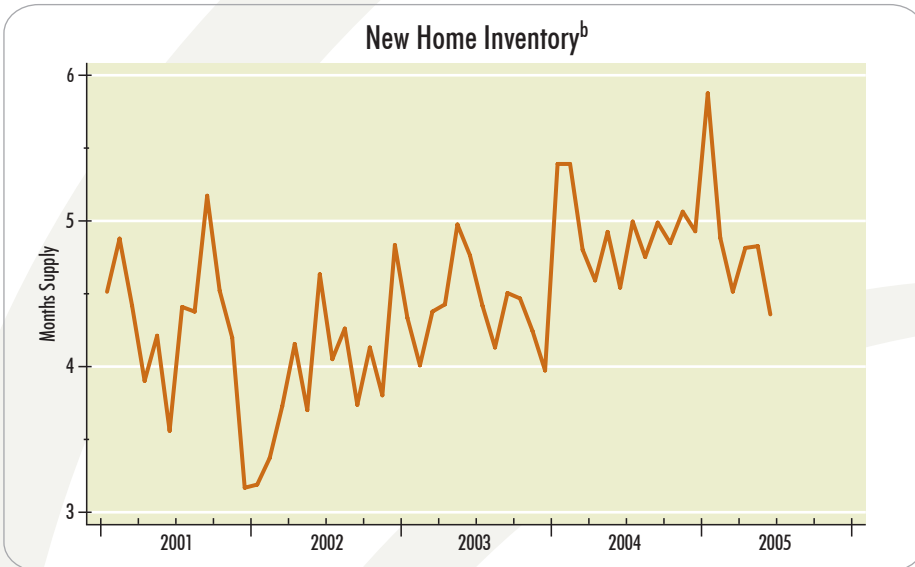


The pace of construction will continue to slow in 2006, to 2,598 units.

The rapid growth of new home sales seen since 2001 has begun to slow.

Sources: □ Wichita Area Builders Association; South Central Kansas Multiple Listing Service; WSU Center for Real Estate
 Notes: □ a) Single-family residential building permits in the Wichita area as collected by the Wichita Area Builders Association
 □ b) Ratio of active new home listings to new home sales

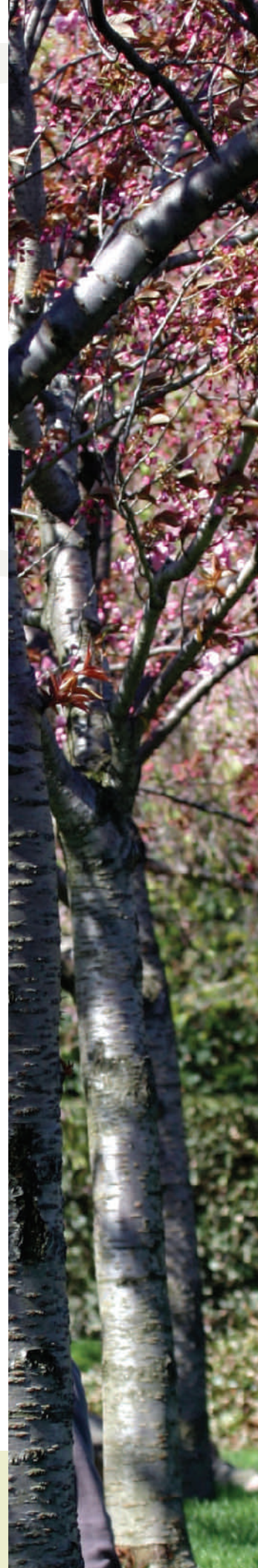
"The flowers of the apple are perhaps the most beautiful of any tree's, so copious and so delicious to both sight and scent."



Sales of new homes have continued at a record pace. Nearly 1,900 new homes were sold in the Wichita area in 2004, topping the highest figure on record of 1,869 in 1999. Sales continue to be up through the first half of this year as well. Nonetheless, the rate of growth has been slowing over the past few years, and we forecast that total new home sales in 2005 will be down by 1.3 percent. Sales should fall by another 1.6 percent to 1,843 units in 2006.



Listings for new homes have fallen short of sales through the first half of the year, leaving only a 4.4 months supply of new homes in June of this year.

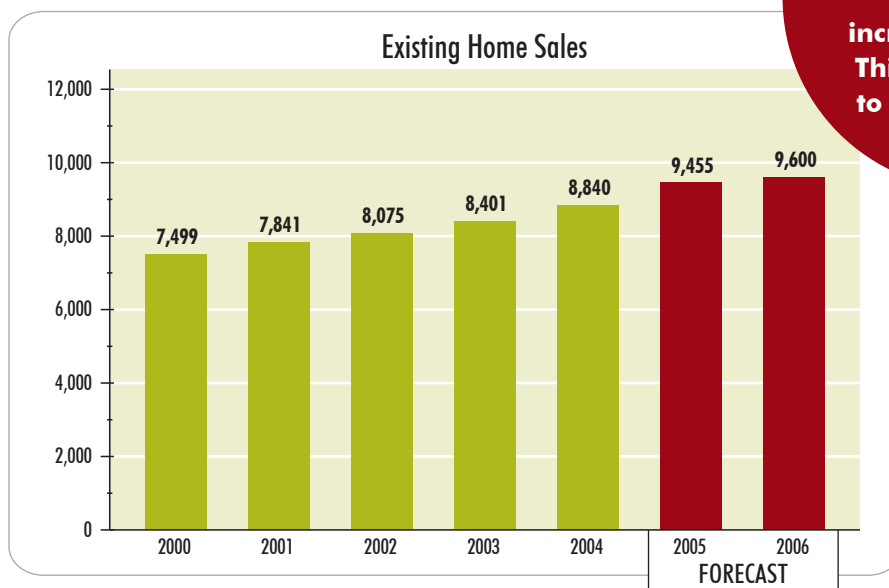




A Bountiful Harvest

Wichita area existing home sales set a new record in 2004 and are on pace to do so once again in 2005. Mortgage rates have remained remarkably low, even as the Federal Reserve has raised short term interest rates. This, coupled with the best job outlook we've seen in years, should cause sales to rise by a robust 7.0 percent this year.

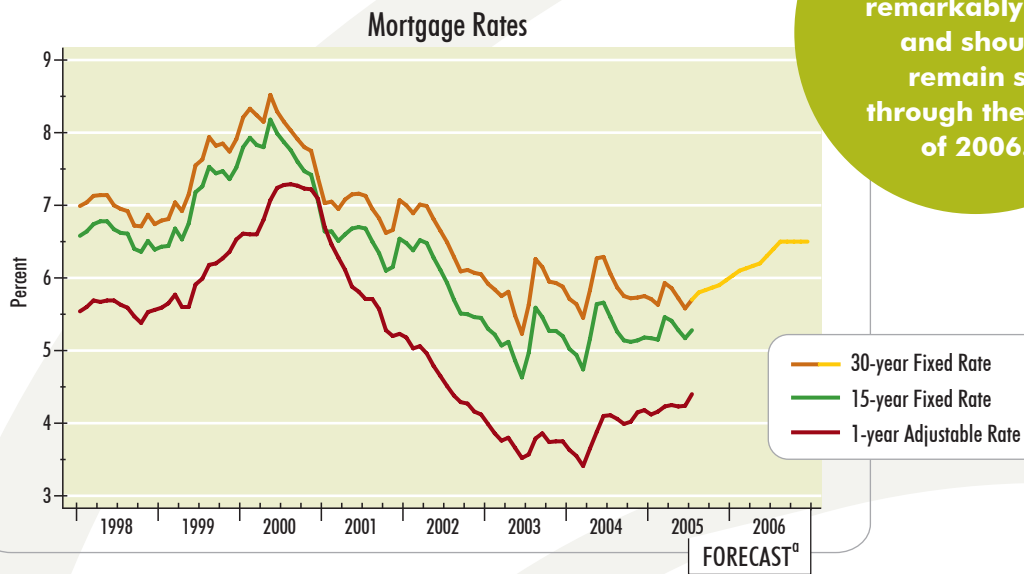
Existing home sales were up by 5.2 percent in 2004, the largest increase on record. This pace appears to be accelerating in 2005.



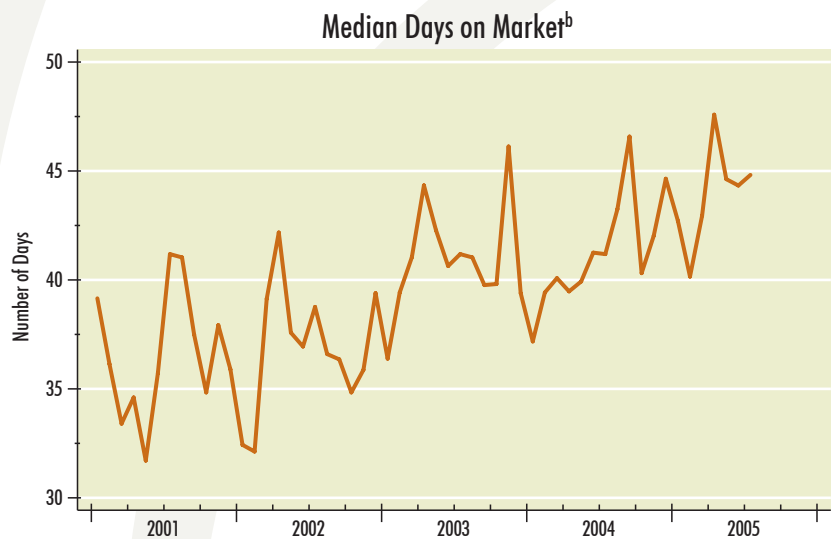
Although sales continue to be strong, there are signs it is becoming a "buyers market." As a result, sales growth should slow to 1.5 percent in 2006.

There are some signs that the market is beginning to soften, however. The amount of time it takes to sell a home has risen steadily over the past several years, and several of the participants in this year's Real Estate Roundtable indicated that buyers are being more selective and taking more time as they survey the homes on the market.

Sources: [] South Central Kansas Multiple Listing Service; WSU Center for Real Estate; Federal Home Loan Mortgage Corporation; [] Mortgage Bankers Association of America
 Notes: [] a) Mortgage Bankers Association of America's August 2005 forecast of the 30-year conventional mortgage rate
 [] b) Median number of days between listing and contract dates for existing homes, seasonally adjusted



Interest rates have remained remarkably low, and should remain so through the end of 2006.



Nevertheless, existing home sales will continue to rise in 2006, reflecting the strong local economy and mortgage rates that are expected to remain below 6.5 percent through the end of the year.

*"The more apples the tree beareth, the more she boweth to the folke."
Old English proverb*

Serving It Up

This August, the Center for Real Estate held its first-ever Real Estate Roundtable. This Roundtable brought together top residential real estate professionals from around the area to discuss what's cooking in the Wichita housing market. While we at the Center are good at crunching the numbers to identify broad trends in the market, this Roundtable provided a valuable reality check with a "view from the field."



"All the country over, people are busy picking up the windfalls, and this will make them cheap for early apple pies."



Thanks to everyone who participated in the Real Estate Roundtable:

- Marsha Allen, RE/MAX Realty Professionals
- Michael S. Borchard, Sedgwick County Appraiser's Office
- Craig Burns, First American Title Company
- Allan Carpenter, CRC Realty
- Dianna Delaney, Realty Executives HomeTown
- Lenny Diaz, Casas & Homes Realty
- Lynn Fleming, Prudential Dinning-Beard
- Wesley Galyon, Wichita Area Builders Association
- Angie George, Plaza Real Estate, Inc.
- Genny Goree, New Home Marketing
- Karen Hall, J.P. Weigand & Sons
- Janet Harrah, WSU Center for Economic Development
- and Business Research
- Jeff Lange, Jeff Lange Real Estate
- Lonny McCurdy, McCurdy Auction Service
- Sandy McRae, Prudential Dinning-Beard
- Dave Neal, Dave Neal & Associates
- Shari Rickard, Real Estate Connections
- Jay Russell, Jay Russell Communities
- John Schlegel, Wichita/Sedgwick County Metropolitan
- Area Planning Department
- Wayne Short, RE/MAX Realty Professionals
- Amelia Sumerell, Plaza Real Estate, Inc.
- Mary K. Vaughn, City of Wichita Housing Services
- James Wood, New Home Marketing

Housing Market Activity

	2004				2005	
	Q1	Q2	Q3	Q4	Q1	Q2
HOME PRICE APPRECIATION ^a	2.63	1.92	1.51	2.33	3.41	4.85
EXISTING HOME SALES	1,739	2,619	2,458	2,024	1,785	2,737
Volume ^b	168.873	288.290	266.782	212.546	187.711	302.297
Median Price	81,900	93,000	94,000	90,000	89,900	94,500
Percent of List ^c	98.28	98.50	98.51	98.15	98.21	98.68
Days on Market ^d	47	35	37	44	53	39
Months Inventory ^e	5.75	4.09	4.53	5.08	6.14	4.16
NEW HOME SALES	374	515	535	474	389	525
Volume ^b	66.079	96.404	99.108	90.307	73.394	98.991
Median Price	148,851	153,024	154,532	160,000	160,000	156,419
Months Inventory ^e	6.26	4.45	4.19	4.91	6.14	4.44
BUILDING PERMITS ^f	609	758	696	590	549	757

Housing Market Forecast

	2005		2006			
	Q3	Q4	Q1	Q2	Q3	Q4
Home Price Appreciation ^a	5.17	4.77	4.25	3.54	3.50	3.41
Existing Home Sales	2,728	2,205	1,889	2,761	2,780	2,170
New Home Sales	493	466	412	491	491	449
Building Permits ^f	680	632	615	748	656	579

"It would be well, if we accepted these gifts with more joy and gratitude, and did not think it enough simply to put a fresh load of compost about the tree."



Sources: WSU Center for Real Estate using data provided by the Sedgwick County Appraiser's Office, the South Central Kansas Multiple Listing Service, and the Wichita Area Builders Association
 Notes: a) Year-over-year percentage change in the WSU HPI for Sedgwick County
 b) Millions of dollars
 c) Median sale price as a percent of listing price
 d) Median number of days between listing and contract dates
 e) Quarterly average of the monthly ratio of active listings to sales
 f) Single-family residential building permits in the Wichita area as collected by the Wichita Area Builders Association



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Curious about how we construct the WSU Home Price Index? Need detailed historical data on the housing or commercial property markets? Or perhaps you simply want to be "in the know" about the latest market trends?

The WSU Center for Real Estate is the premier resource for data and analysis of area real estate markets. Our website offers the most comprehensive source of historical data compiled from a variety of published sources, along with insightful analysis into the latest market trends.

