

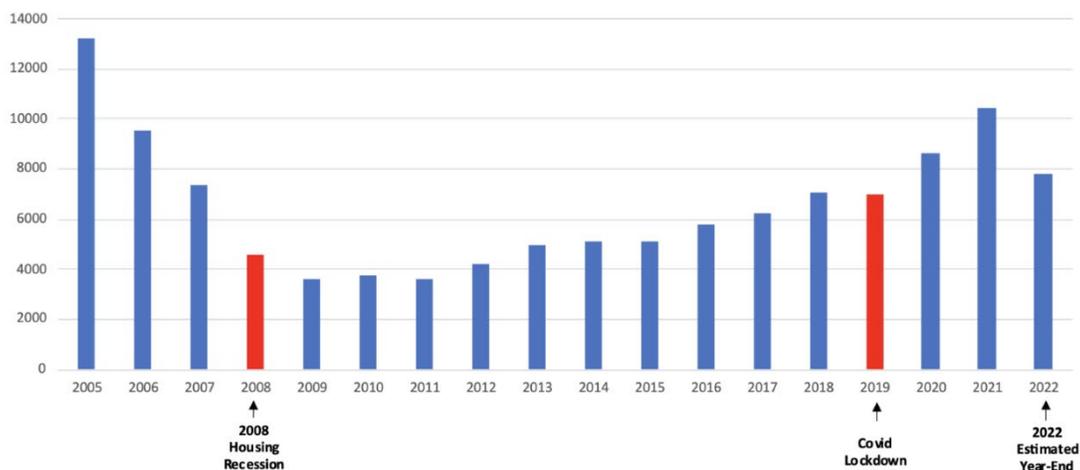
## Builders Association of Greater Indianapolis (BAGI) State of the Industry – August 2022

Dear Industry Members & Consumers,

This letter serves to provide an update on the current state of the Indianapolis area housing industry, building on the Builder's Association of Greater Indianapolis' May State of the Industry Letter that provided valuable information regarding the systemic issues in the residential construction industry that were, and still are, disrupting job schedules and project pricing in the construction market.

Our industry has experienced a slow-down in new consumer purchases in the last 60 days driven by inflation, fuel prices, and rising interest rates. Although the pace at which this slow-down occurred is surprising, a housing slowdown itself is not shocking given the unprecedented rate of growth that occurred in the housing market over the last 24 months. As context for this current market, we must remember that the housing market was healthy and functioning efficiently in the pre-pandemic environment. Following the initial pandemic shut down, the market accelerated almost 50% in just two years.

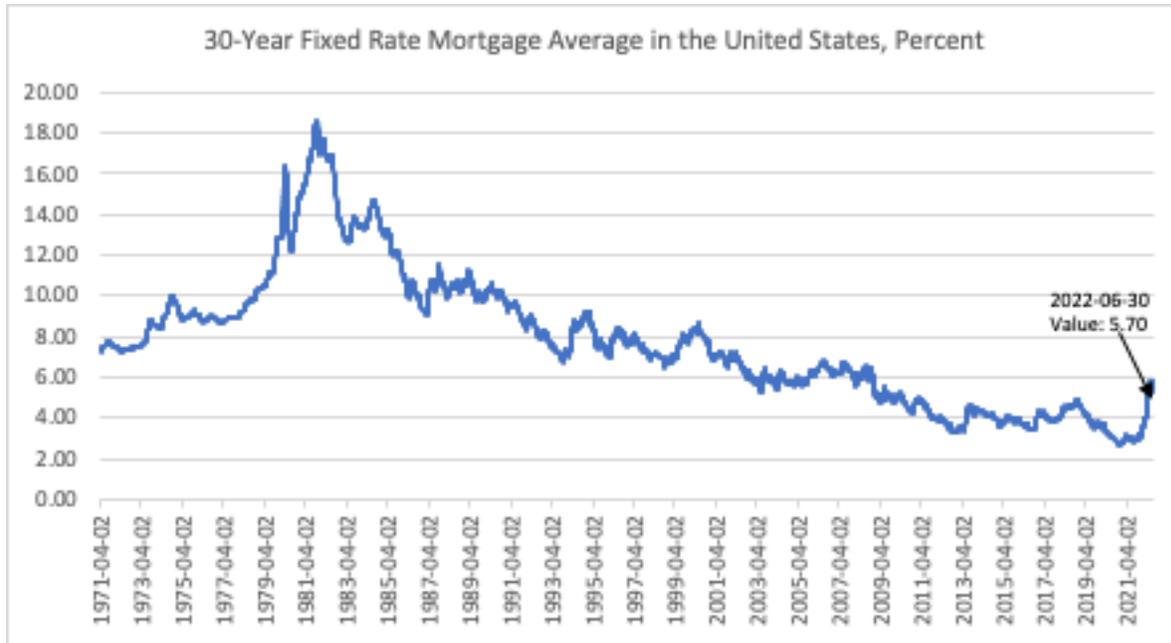
Indianapolis Nine-County Market Annual Permits 2005 – 2022 Estimated Year-End



Source: <https://www.bagi.com/permits/>

While we continue to experience the issues identified in previous State of the Industry letters, such as labor and material shortages, limited lot availability, price increases, and low inventory of new and existing homes, there are now economic shifts that have created the environment for a slowdown in demand while consumers adjust to the current circumstances. Prominent shifts include:

- **Inflation** – currently beginning to slow but has risen 9% since January of this year, creating rising costs for consumer goods and services.
- **Fuel Prices** – while starting to see improvement, we are still at the highest prices since 2008.
- **Mortgage Rates** – while slowly increasing from historical lows, they are now approaching 6% which compares closely to the approximate average rate in the US since the late 1980s.

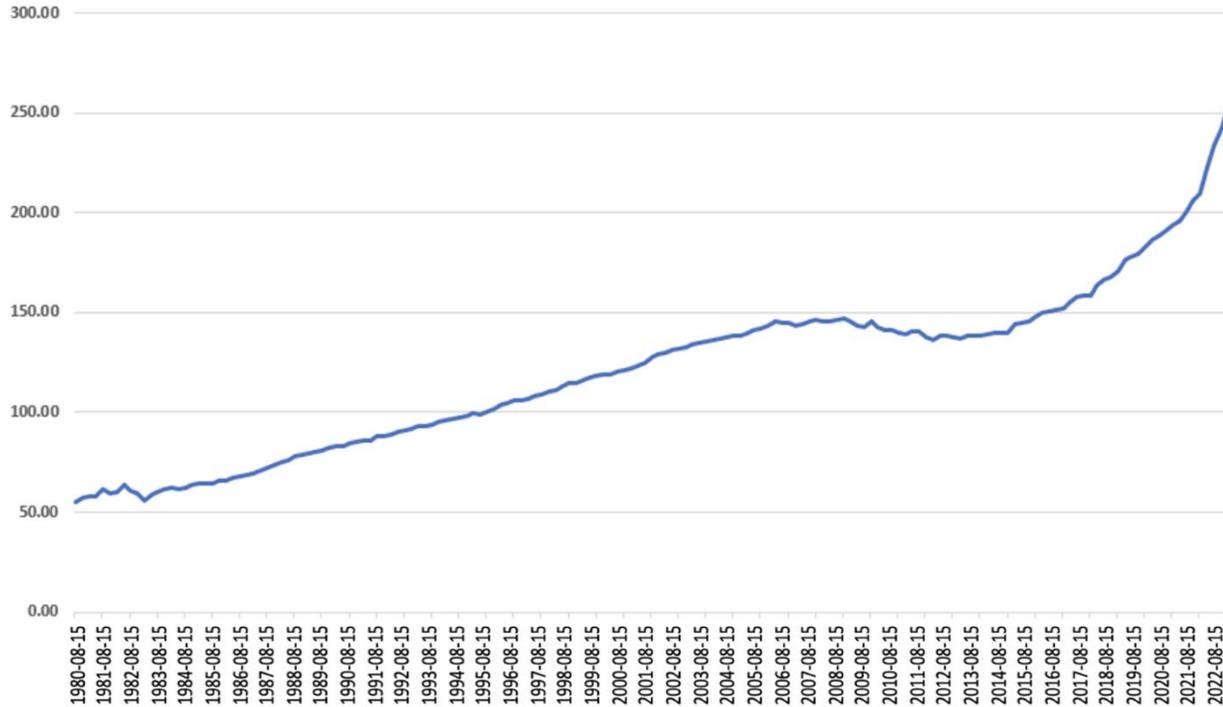


Source: Freddie Mac, 30-Year Fixed Rate Mortgage Average in the United States [MORTGAGE30US], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/MORTGAGE30US>, August 1, 2022.

Given these realities, BAGI members are reporting a slowing in consumer traffic to models which is anticipated to result in slowing sales of approximately 25% through 2023 from the peak level experienced in 2021 as seen from Central Indiana’s recent single family home building permits report this month. However, there is no need for concern as the fundamentals of the new construction housing market bode well for a healthy market through 2024 and beyond. Most notable of these factors are low inventory of finished new construction homes, continued historical low levels of existing homes, increasing household formation, and continued interest in new homes in both millennials and empty nesters — the country’s largest demographic populations.

Keeping in mind that the market was vibrant in 2019, the next 24 months could bring the market back to a more stable position of supply, demand, and production. Based on this, and the positive housing market fundamentals, we do not anticipate that we will experience the “housing bubble burst” that some in the media are reporting. Indianapolis has historically been a market that has seen steady home price growth. In fact, the housing prices in Indianapolis have continued to increase over the last 5 decades, a period that includes the 2008 housing recession.

**All Transactions House Price Index for Indianapolis-Carmel-Anderson, IN (MSA)**



Source: U.S. Federal Housing Finance Agency, All-Transactions House Price Index for Indianapolis-Carmel-Anderson, IN (MSA) [ATNHPIUS26900Q], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/ATNHPIUS26900Q>, August 1, 2022.

While we have and continue to face challenges, we remain confident that this slowdown is not a recession, but a correction – a change in the market that will see price growth slowing, a continued stable supply of new homes, and increased product/labor availabilities. This, in turn, should provide greater opportunity for hopeful Hoosiers the ability to obtain their goal of owning a home. Rest assured that BAGI will continue to remain steadfast in our mission to support homebuilding professionals and consumers by providing the education, advocacy, and promotional resources they need. We will also continue to share market updates if the market conditions and changes dictate.

Members of BAGI are committed to building and remodeling quality homes in central Indiana, and in turn, to help grow our local economy. The housing market is always changing, yet it is still a great time for investment in remodeling or building a new home with historically low interest rates. Check out the latest industry news and learn about additional resources available to you at BAGI.com.

Steve Lains, BAGI CEO  
President

Andrew Brindley, 2022 BAGI Board