

## Builders Association of Greater Indianapolis State of the Industry – January 2023

Dear Industry Members & Consumers,

This letter serves to provide an update on the current state of the Indianapolis area housing industry, building on the updates provided in the Builder’s Association of Greater Indianapolis’ State of the Industry Letter in Fall 2022. This update provides 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 experienced a slow-down in new consumer purchases in the last 90 days of 2022 driven by inflation, fuel prices, and rising interest rates. We saw a 23 percent decrease in 2022 permit activity compared to 2021, but a housing slowdown itself was not shocking given the unprecedented rate of growth that occurred in the housing market in both 2020 and 2021. 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 — activity that was not anticipated.



While we continue to experience the issues identified in previous State of the Industry letters, such as labor shortages, limited lot availability, price increases, and low inventory of new and existing homes, there are several economic shifts that continue to contribute to a slowdown while consumers adjust to the new affordability of new home construction.

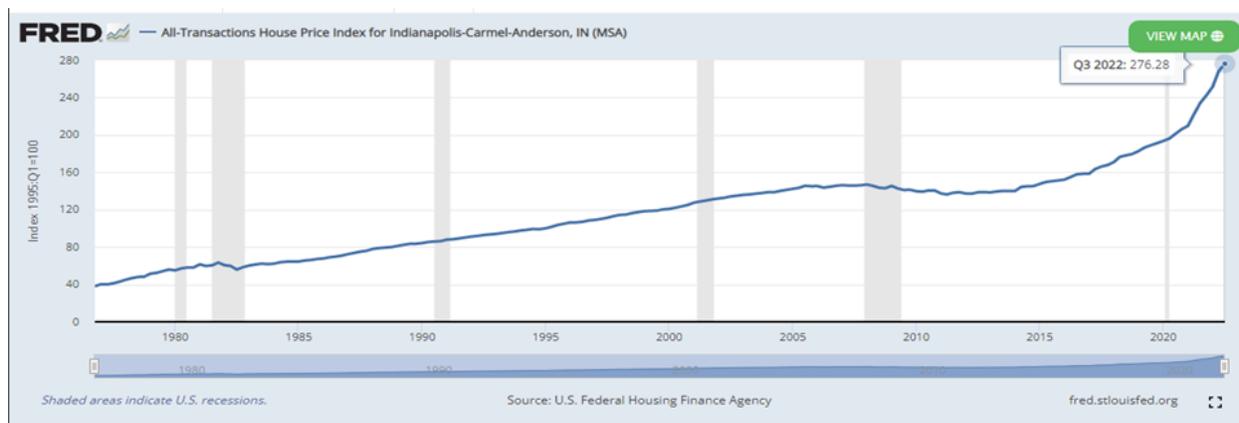
Prominent shifts include:

- Inflation – Currently beginning to slow, but we continue to see rising costs for consumer goods and services.
- Mortgage Rates – While slowly increasing from historical lows, and fluctuating over the last few months, they are now approaching 7% which compares closely to the approximate average rate in the US since the late 1980s.

Given these realities, BAGI members are anticipating permit activity to slow and stabilize to levels similar to those seen in 2022, resulting in a decrease in sales of approximately 25% through 2023 from the peak

level experienced in 2021. This trend can be seen in Central Indiana’s recent single-family home building permits report shared 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 the 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.



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 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.

Check out the latest industry news and learn about additional resources available to you on the Market Updates page of the BAGI website at [bagi.com/market-updates](http://bagi.com/market-updates).

Steve Lains, BAGI CEO