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2/18/2019 1:19:00 AM

## OPINION: Housing demand in Indiana's communities

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A year ago, my Center colleagues and I met with staff from [Accelerate Indiana Municipalities](#) to consider several different issues facing Indiana over the coming years. Among the leading issues they asked us to study was housing. That is the genesis of a housing study published by Ball State last week. The results will be surprising to many Hoosiers.

Our study examined more than 20 years of home prices, construction costs and other factors that influence new home construction across all Indiana counties. The chief finding of the study is that the traditional economic factors of supply and demand explain nearly all new home construction in Indiana's counties. In short, in a world where markets often do not work well, housing is a place where markets set home prices and quantities very effectively.

The problem is that many folks don't like those market outcomes. This will be especially hard for many groups who have been arguing that there is a shortage of housing in many corners of the state. That view is mistaken, and it doesn't take sophisticated economic models to debunk the notion of a housing shortage in Indiana. After all, the U.S. Census reports more than 300,000 vacant homes across our state. There are enough vacant single-family homes to house almost one third of all Hoosiers.

The truth is that Indiana has the exact opposite of a housing shortage. The excess supply of homes in the state is a meaningful economic drag on communities. In particular, the excess stock of housing suppresses the value of existing homes. This has become the real housing problem both in Indiana and across much of the Midwest. There are decades of economic research on the issue.

The excess in homes is largely caused by outmigration in many places. The problem is actually so acute that in 62 of Indiana's 92 counties, the average home is worth less than it would cost to rebuild. In those counties, new speculative home construction has essentially stopped. In fact, in only 12 Indiana counties is it clearly profitable to build a new speculative home. That is why across the state, new home construction remains around half of what it was in the two decades before the Great Recession.

Now, many realtors will argue that these vacant homes don't matter, because they aren't really part of the real estate market. No one, they argue, will buy them. They are about half-right. No one is likely to buy them, but they are part of the real estate market just the same. The problem is that they have a zero (or lower) value. Of course, if these homes were located in downtown Chicago or Atlanta they'd be worth hundreds of thousands of dollars each, and would attract an equal amount of renovation dollars. That no one will buy them speaks forcefully about their value, and, sadly, the value of other homes in those counties. That offers a tough reckoning for much of our state.

Of course, not all the news is bad. One factor that likely keeps housing less expensive in Indiana is the absence of very restrictive land use policies like those that afflict parts of California. This will continue to act as a magnet for younger households, as long as the other fundamentals are strong.

To be clear, home prices reflect fundamental factors of supply and demand. Our study describes how factors such as school quality, low crime rates and nice neighborhoods influence home prices. We also estimate how large the effects of population change, the size of the county, negative or positive price shocks and labor market conditions contribute to new home construction. We also provide maps of other issues of importance, such as vacancy rates and rental market conditions.

Our study also makes policy recommendations. We believe municipal governments should understand the fundamentals of housing before embarking on efforts to subsidize new construction. We also think that stabilizing middle class communities and eliminating blight should be a growing focus of state and local government.

Mostly, we argue it is important to stick to fundamentals. Low housing values are likely due to underlying problems within communities. Fixing these problems will most likely solve

most housing woes. However, some places may need additional resources to fix the problem. We recommend a broad reform of TIF that would make it less costly to communities, but more available for addressing housing problems. We also argue that the state's property tax rules likely contribute to rental shortages and the astonishing over supply of vacant homes. This may be remedied by public policy, but it'll take a summer study commission to fully evaluate alternatives.

Housing is a tough, emotional issue across much of Indiana. Still, for most places the problems have been mis-diagnosed. Housing markets work very well, and housing fundamentals determine both price and quantity of new housing stock. If housing market results aren't doing what you want in your neighborhood, its best to focus on the fundamentals: schools, amenities and community characteristics.

#### Related Links:

- [Economic Considerations for Indiana's Housing Markets](#)