

The State of Indiana's Housing Market

2017

Prepared for
Indiana Association of REALTORS®



KELLEY SCHOOL OF BUSINESS

INDIANA UNIVERSITY

Indiana Business Research Center



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Executive Summary

By most measures, the Indiana housing market continues to improve. Most notably, Indiana set a new record in 2016 for the number of existing home sales, and prices for existing homes in the state are up 8 percent over their pre-recession peak. Meanwhile, the state's foreclosure rate is now below 2 percent and is at its lowest point since 2000 (see **Table 1**).

While buyer demand surges, there are still areas of concern for the state's housing market. The inventory of homes for sale, for instance, continues to dwindle. In fact, in 2016 the state's average months supply of inventory—a measure of how long it would take to exhaust the existing stock of homes on the market at the current sales rate—was 20 percent lower than in 2015 (which itself was down 12 percent over the previous year). Add in declining rental vacancy rates and rising mortgage interest rates, and these conditions could begin to impact housing affordability for some Hoosiers.

Table 1: Indiana Housing Market by the Numbers

	U.S.	Indiana
Existing Home Sales, Percent Change between 2015 and 2016	3.8%	7.7%
House Price Appreciation, 2015:3 to 2016:3	6.4%	5.7%
Residential Building Permits, Number of Units, Percent Change between 2015 and 2016*	0.6%	-0.9%
Foreclosure Rate, 2016:3	1.6%	1.7%
Months Supply of Inventory, 2016 Average	4.4	4.7
Rental Vacancy Rate, 2016:4	6.9%	10.0%

*The Census Bureau listed the 2016 permit data as preliminary at the time this report was published. These data may be revised. Sources: Indiana Association of Realtors, National Association of Realtors, Federal Housing Finance Agency, U.S. Census Bureau, Mortgage Bankers Association

This tight supply has yet to translate into much momentum in residential construction. After some gains in 2012 and 2013, the annual number of permits for new housing units in the state has been essentially flat over the last three years, although permits for single-family homes did increase in 2016.

In many ways, the Indiana housing market has shown great improvement in recent years, but the recovery is still not complete. The state will likely have to see continued improvement in the economic and demographic fundamentals for the market to begin to hit on all cylinders again.

This report examines the latest data to gauge the state of Indiana's housing market. The first section presents a detailed overview of market conditions with a focus on home sales and prices, mortgage delinquency and foreclosure, and affordability. The next section examines the demographic drivers of the housing market, including household formation rates, migration and generational shifts in the population. Finally, we consider the role of housing in Indiana's economy with a look at construction trends.

Key Findings

- Indiana recorded its largest number of existing homes sales on record last year with nearly 86,500 sales in 2016. This mark represents a 7.7 percent increase over the previous year and a slight 0.1 percent improvement over the previous record set in 2006.
- While homebuyer demand was strong in 2016, the inventory of homes on the market was exceptionally low. The average inventory of homes for sale in 2016 was down 15 percent from 2015 and 21 percent lower than in 2014.
- Indiana's median price for existing home sales rose to \$139,900 in 2015—more than a 5 percent increase over the previous year and 27 percent above the low point in 2009. The Federal Housing Finance Agency's House Price Index shows that Indiana had the 27th-fastest rate of price appreciation among states in the last year.
- Indiana's foreclosure rate has declined dramatically of late, falling to its lowest point since 2000. The state's foreclosure rate has dropped by more than 3.2 percentage points since the end of 2011 and now sits at 1.7 percent. Over this period, Indiana has improved from the nation's ninth-highest foreclosure rate to 19th-highest.
- One of the many positive effects of a lower foreclosure rate is that the state's homeownership rate appears to be stabilizing. Between 2006 and 2013, Indiana's homeownership rate dropped steadily from 72.1 percent to 68.5 percent. In 2014 and 2015, however, the share of homeowners was essentially unchanged at around 68 percent. Indiana had the nation's 13th-highest homeownership rate in 2015.
- Housing affordability conditions have declined slightly in the last couple of years as house prices rise and mortgage rates fluctuate, but housing in Indiana remains quite affordable. According to the National Association of Realtors, each of the Indiana metro areas for which they report data ranked in the top one-third of all metros for housing affordability in 2015.
- After a stalled household formation rate in 2014, this key demographic driver of housing activity may have improved in 2015. The U.S. Census Bureau's American Community Survey shows Indiana had a household formation rate of 0.5 percent between 2014 and 2015; however, this gain was not statistically significant.
- The value of residential construction covered by building permits increased by only 3.1 percent in 2016—the smallest annual gain in the last five years.
- The number of new housing units permitted for construction in Indiana in 2016 dropped by 0.9 percent compared to the previous year. This decline has been driven by a slowdown in multi-family development. The number of permits for new apartment units in 2016 was down 28 percent year-over-year. By contrast, the number of permits for single-family homes increased by nearly 12 percent in 2016.

Market Conditions

Existing Home Sales Reach Record Level in 2016

Driven by exceptionally low mortgage rates, an improving economy and a dramatic slowdown in new home construction in recent years, the market for existing homes is now as hot as it's ever been. In fact, with nearly 86,500 existing home sales in 2016, Indiana posted its largest sales tally on record last year, just slightly improving upon the previous high-water mark set in 2006 (see **Table 2**).

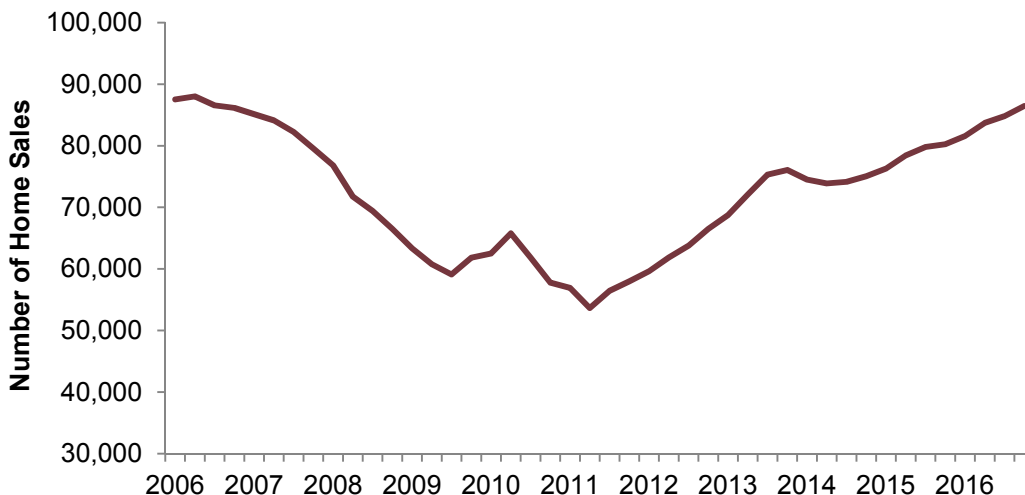
Table 2: Indiana Existing Home Sales, 2006, 2010 to 2016

	2006	2010	2011	2012	2013	2014	2015	2016
Existing Home Sales	86,350	57,942	58,334	66,871	76,257	75,055	80,244	86,455
Annual % Change		-6.5%	0.7%	14.6%	14.0%	-1.6%	6.9%	7.7%

Source: Indiana Association of Realtors

With the exception of a brief lull in 2014, Indiana's existing home market has been on the rebound since its low point in the middle of 2011, when the state registered only 53,600 existing home sales over the previous 12-month period (see **Figure 1**). Comparing this trough to the current peak, the number of existing home sales in Indiana has increased 61 percent over the past five-and-a-half years

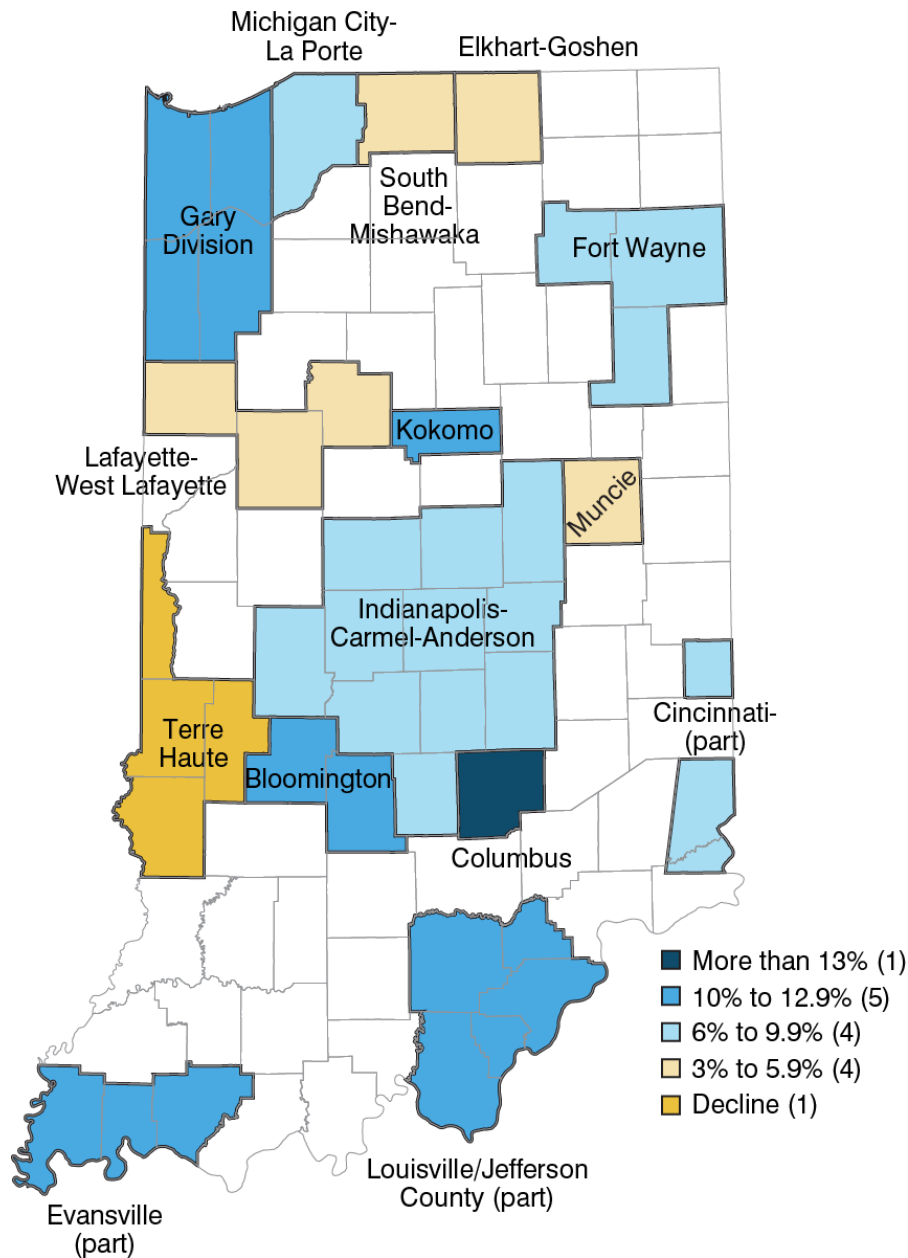
Figure 1: Indiana Home Sales, Moving Four-Quarter Total, 2006:1 to 2016:4



Source: Indiana Association of Realtors

Looking at local markets in 2016, the Columbus metro area had the state's greatest increase in annual existing home sales with a gain of nearly 17 percent (see **Figure 2**). The Bloomington, Gary, Louisville (Indiana portion only), Evansville and Kokomo areas also had a strong year, each with gains of better than 10 percent. The 11-county Indianapolis-Carmel-Anderson metro, which accounts for 30 percent of the state's total population, claimed 39 percent of Indiana's home sales in 2016.

Figure 2: Change in Existing Home Sales by Metro Area, 2015 to 2016



Source: Indiana Association of Realtors

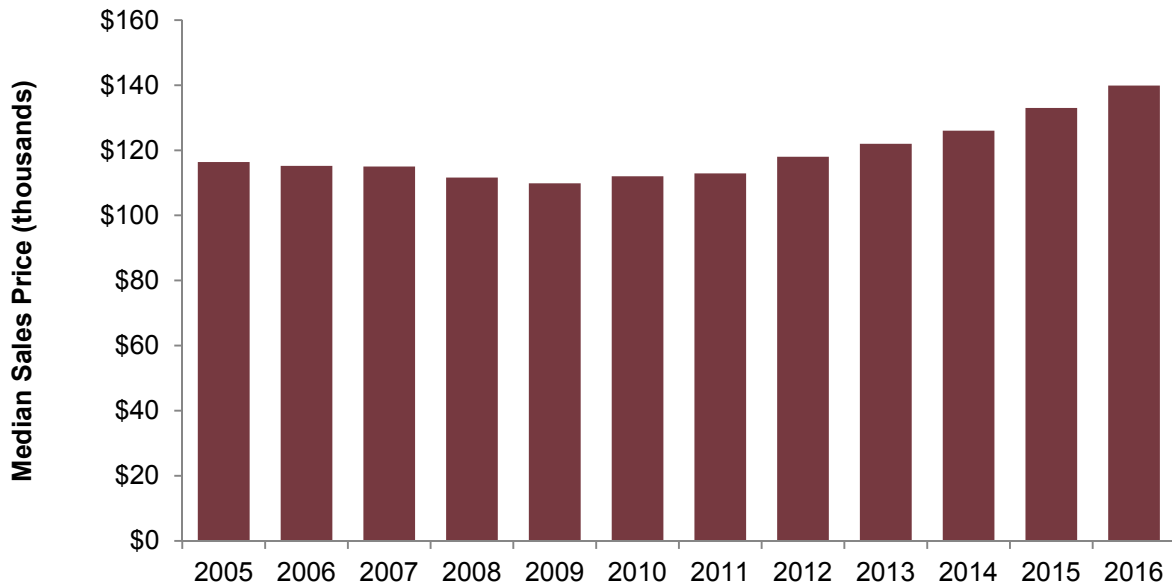
The 48 counties that are outside of metro areas combined to post a 6.2 percent increase in sales last year. Among counties with at least 200 sales, Henry County had the largest increase at 18 percent followed by Gibson (16 percent), Daviess (16 percent) and Dubois (14 percent) counties.¹

¹ See the appendix for home sales and median sales price data for all Indiana counties.

Sales Prices Continue Steady Growth

As demand has picked up, house prices are also on the rise. At \$139,900 last year, the state's median sales price for existing homes increased more than five percent in 2016—the fifth consecutive year that Indiana has had a price increase of at least 3 percent (see **Figure 3**). Furthermore, the median price in 2016 was 27 percent above the low point in 2009.

Figure 3: Indiana Median Sales Price, 2005 to 2016



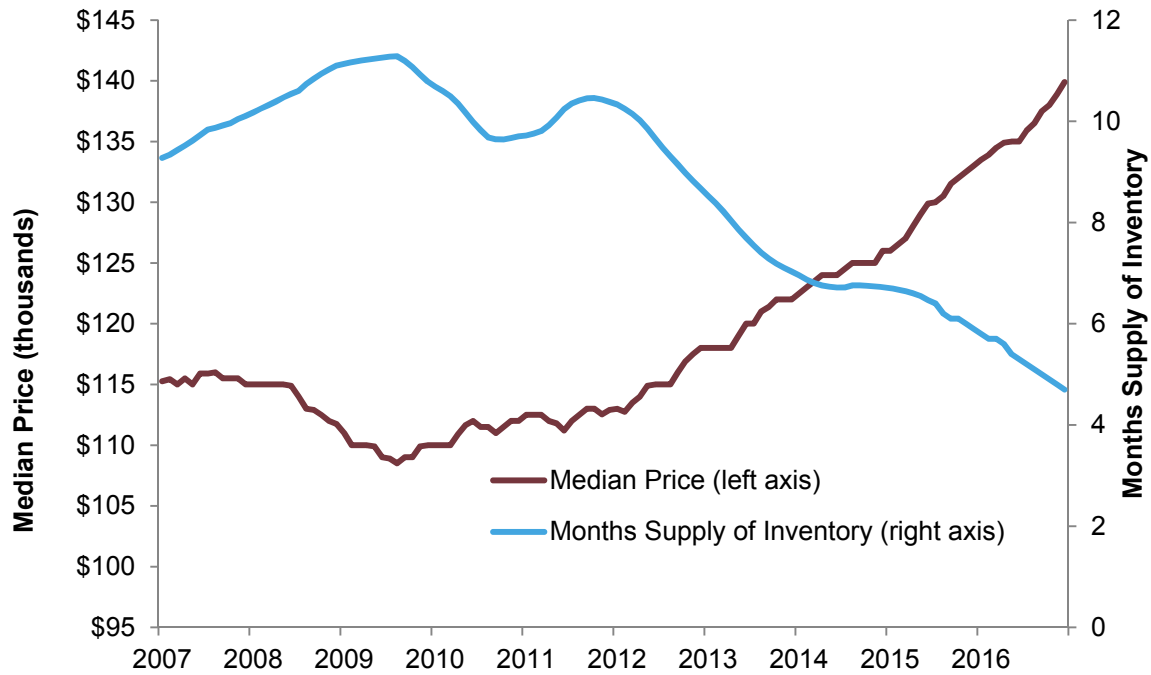
Source: Indiana Association of Realtors

Looking around the state, the median sales price held steady or increased in 67 of Indiana's 92 counties in 2016. For counties with at least 500 home sales last year, Boone (11.6 percent increase), Allen (7.5 percent), Tippecanoe (7.1 percent), and Elkhart (7.1 percent) counties had the largest price gains last year. Among the state's larger markets, only Putnam (0.8 percent decline), Vigo (-1.0 percent), Howard (-1.1 percent), Kosciusko (-1.6 percent) and Bartholomew (-3.3 percent) counties saw their median house price decline in 2016.

The sharp climb in prices over the last five years has been driven in large part by a shrinking inventory of existing homes for sale. In 2016, Indiana's average monthly inventory was roughly 32,700 existing homes on the market. This mark is down almost 15 percent from 2015 and 54 percent lower than the inventory in 2007.

The decline in inventory coupled with an uptick in demand has led to a sharp drop in the estimated months supply of existing homes for sale in Indiana. The months supply measure is an estimate of how long it would take to work through the inventory of homes for sale in a given month at the average monthly sales rate over the previous year. As one would expect, there is a strong negative relationship between months supply and prices (correlation = -0.96), with prices increasing as supply began to drop steadily in 2011 (see **Figure 4**).

Figure 4: Median Sales Price and Months Supply, 12-Month Moving Average, January 2007 to December 2016

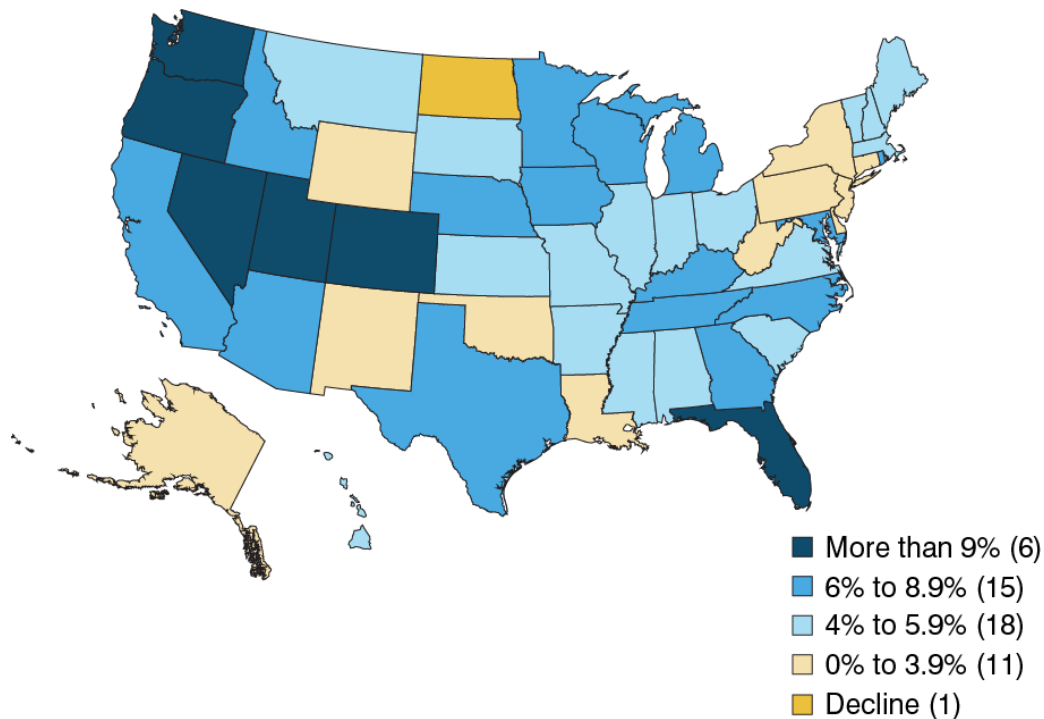


Source: Indiana Association of Realtors

Indiana House Prices in Perspective

Other measures show that Indiana's house prices are improving as well. According to the Federal Housing Finance Agency's House Price Index (HPI), Indiana has seen price appreciation for 19 consecutive quarters dating back to early 2012, and the state's home prices in the third quarter of 2016 are up 5.7 percent year-over-year. This rate of appreciation ranked 27th-fastest nationally. In the last year, neighboring Michigan (7.5 percent), Kentucky (6.4 percent), Ohio (5.9 percent) and Illinois (5.9 percent) each saw stronger rates of growth (see **Figure 5**).

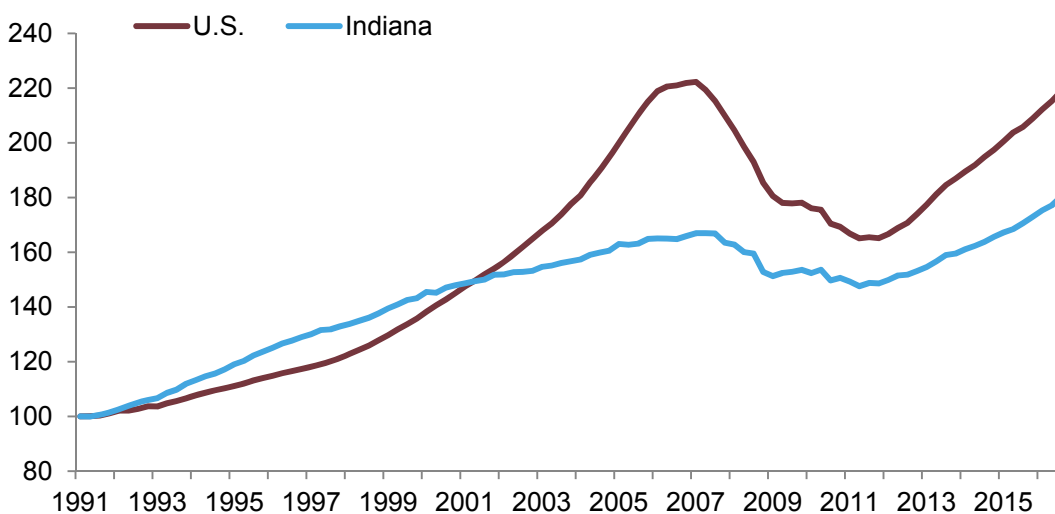
Figure 5: Change in House Price Index by State, 2015:1 to 2016:3



Source: Federal Housing Finance Agency, House Price Index (expanded data series, seasonally adjusted)

It is important to note that comparing states based on one-year growth rates can be misleading. States like Michigan and Ohio are outpacing Indiana now because they are rebounding from far more severe price declines during the housing bust. House prices in Michigan declined by 45 percent after the crash and Ohio had a drop of 25 percent. Indiana had a comparatively mild 12 percent slide in prices between 2007 and 2011. In the third quarter of 2016, Indiana house prices were 8 percent above the pre-recession peak (see **Figure 6**). House prices in Michigan and Ohio, by contrast, are still 13.4 percent and 5.6 percent below their respective peaks.

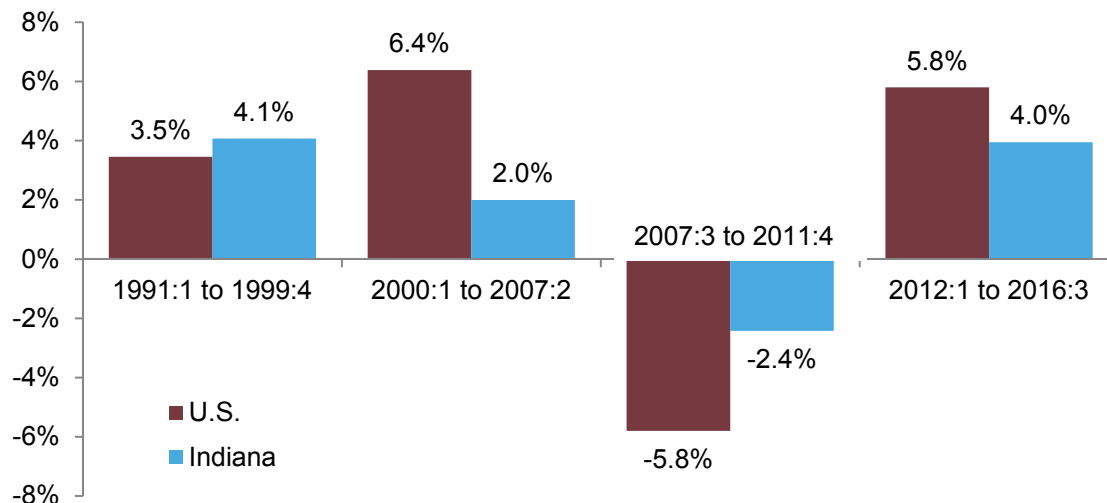
Figure 6: House Price Index, 1991:1 to 2016:2



Source: Federal Housing Finance Agency, House Price Index (expanded data series, seasonally adjusted)

Looking at the previous graphic, it's easy to see that both Indiana and the U.S. have undergone four distinct periods of house price appreciation trends over the past 25 years. The Hoosier state saw comparatively strong gains during much of the 1990s, but its pace of growth began to slow just as the price bubble era started to emerge elsewhere. Prices began to decline in Indiana and the U.S. in 2007, but both have had a sustained rebound in effect since early 2012 (see **Figure 7**). Since early 2012, prices in Indiana have been growing at an average annualized rate of 4.0 percent—much stronger than the pace the state set between 2000 and 2007 and roughly on par with the trend of the 1990s.

Figure 7: Average Annualized Growth in HPI over Select Periods, 1991:1 to 2016:2



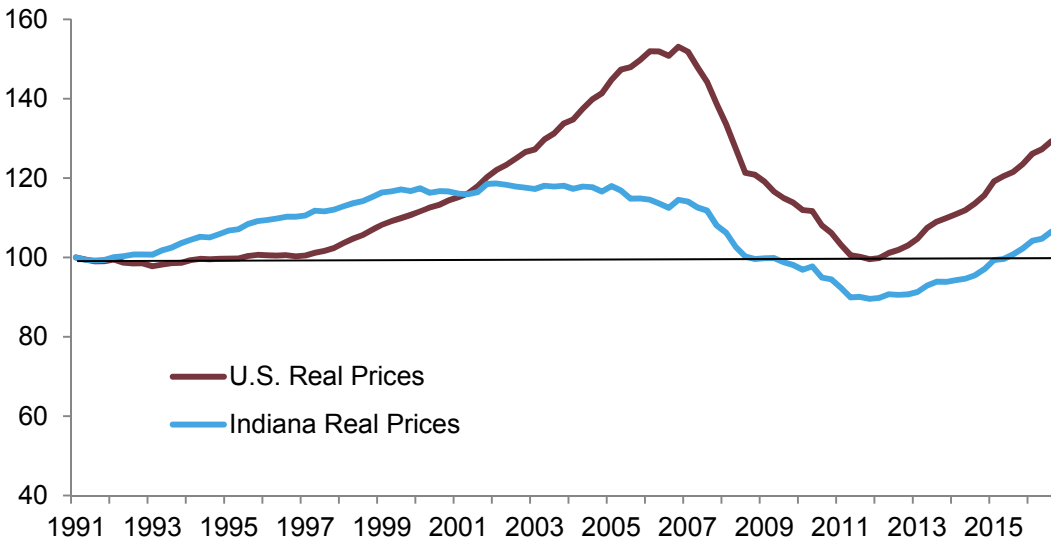
Source: Federal Housing Finance Agency, House Price Index (expanded data series, seasonally adjusted)

The HPI and median sales price data presented so far indicate that Indiana house prices are at an all-time high in 2016. Now that the worst of the housing slump is in the rearview mirror, prices should continue to set new records as long as there is inflation.² But how do Indiana's current home values stack up when adjusted for inflation?

Figure 8 shows the trends in Indiana's and the nation's price index in "real terms" (i.e., adjusted for inflation). When measured in real terms, Indiana's house prices peaked in late 2001—when home values had appreciated nearly 19 percent since 1991. The state's real house prices in the third quarter of 2016 were still about 10 percent below this 2001 peak, and roughly on par with home values seen in the mid-1990s. Looking back over the past 24 years, the only periods of sustained real house price appreciation in Indiana have been from 1991 to 1999 and from 2013 to 2016.

² Nick Timiroas, "Are Home Prices Again Breaking Records? Not Really," Real Time Economics (blog): *Wall Street Journal*, July 28, 2015, <http://blogs.wsj.com/economics/2015/07/28/are-home-prices-again-breaking-records-not-really/>.

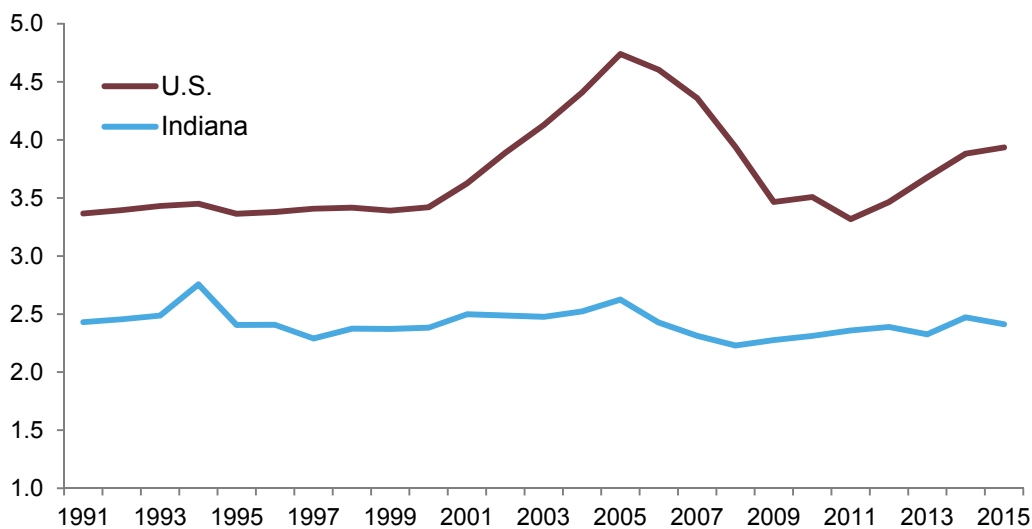
Figure 8: House Price Index Adjusted for Inflation, 1991:1 to 2016:2



Note: The HPI values are adjusted for inflation using the Consumer Price Index for all items less shelter (Series SA0L2)
 Source: Federal Housing Finance Agency, House Price Index (expanded data series, seasonally adjusted)

Of course, the U.S. as a whole has also had periods where price gains outpaced inflation, with the housing bubble era the most notable example. In Indiana, however, changes in house price trends have historically been tied to the state’s economic performance. During the 1990s, for example, the state’s real house price appreciation was fueled by a rise in the state’s real median household income that outpaced the national average. When income gains slowed or reversed in Indiana, the rate of house price appreciation followed along. As a result, the ratio of median sales prices to median household incomes in most Indiana housing markets has held remarkably steady over the last quarter century—even during the bubble years and subsequent crash (see **Figure 9**).

Figure 9: Ratio of Median Sales Price to Median Household Income, U.S. and Indiana, 1990 to 2015



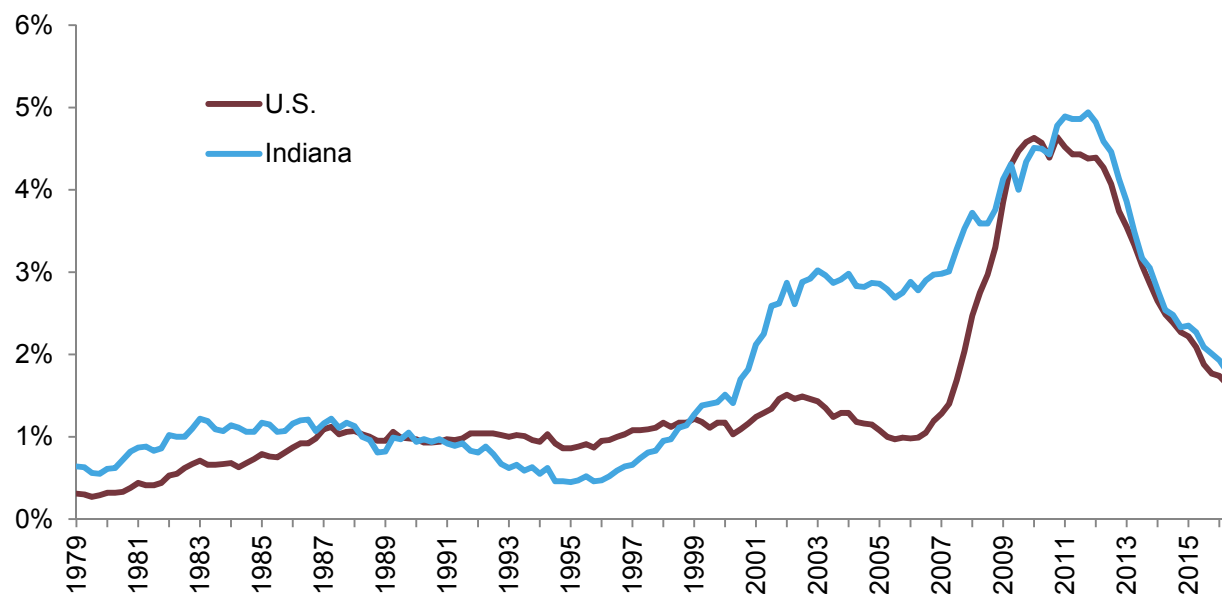
Source: Joint Center for Housing Studies at Harvard University, using data from Moody’s Data Buffet®

Indiana Foreclosure Rate at Lowest Level since 2000

Another factor helping to boost house prices is the dramatic decline in foreclosures. At the height of the crisis, not only did foreclosures sell at deep discounts, but they had negative effects on house prices across the board by adding to inventory at a time of weak demand and often depressing the value of homes located near foreclosed properties. The foreclosure situation has improved in recent years, however, and its effect on prices has certainly diminished. According to the mortgage technology firm FNC Inc., for instance, foreclosures accounted for roughly 37 percent of all U.S. home sales in early 2009, but the share has dropped to 9.8 percent in June 2016.³

According to the Mortgage Bankers Association, the state's foreclosure rate has declined more than 3.2 percentage points from 4.94 at the end of 2011 to 1.70 in the third quarter of 2016, which is the state's lowest rate since 2000 (see **Figure 10**). Even with this drop, Indiana's foreclosure rate remains slightly above the U.S. average and ranks 19th-highest among states.

Figure 10: Share of Mortgages in Foreclosure, 1979:1 to 2016:3

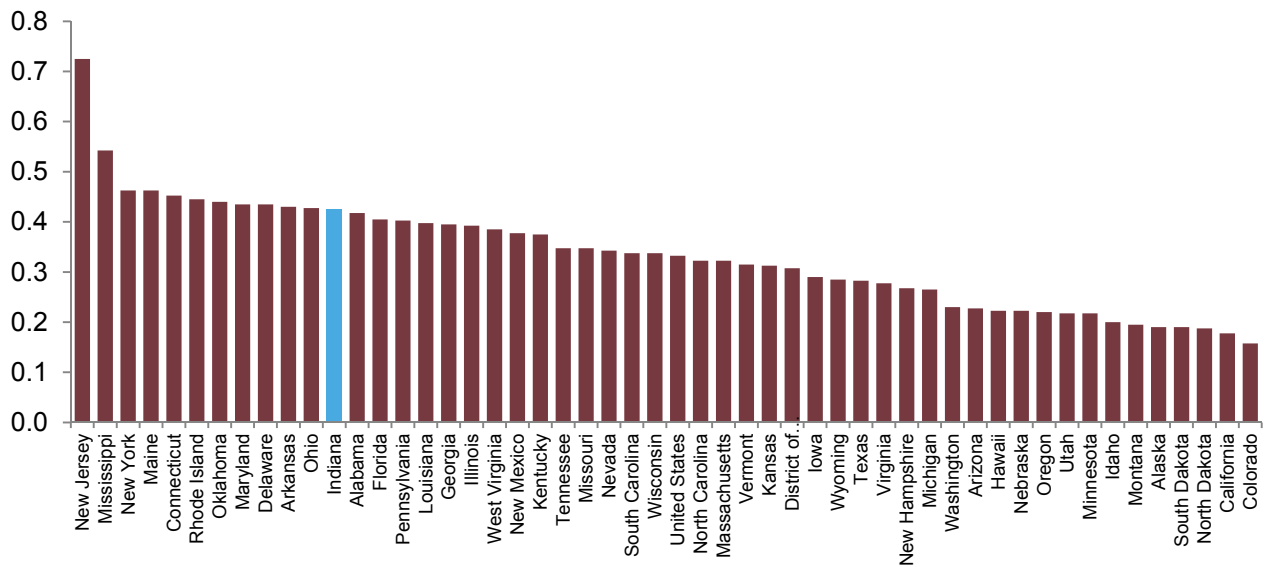


Source: National Delinquency Survey, Mortgage Bankers Association

Indiana's trend for the rate of new foreclosure starts per quarter has followed a similar path to the state's overall foreclosure rate. This foreclosure starts measure peaked in the first quarter of 2009 when 1.3 percent of all mortgages in Indiana entered the foreclosure process, and the state had an average quarterly start rate of approximately 1 percent between 2002 and 2012. In the third quarter of 2016, Indiana's rate was down to 0.32 percent—its lowest mark since 1998. While this is a significant improvement, the state's foreclosure start rate sits at the higher end of the spectrum when compared to other states. Over the past four quarters, Indiana's start rate averaged 0.43 percent, which was the third-highest mark for a Midwestern state and ranked 12th-highest overall (see **Figure 11**).

³ "FNC Index: April Home Prices Up 1.1%," FNC Inc., June 15, 2016, www.fncreidentialpriceindex.com/press_releases.aspx?pr=110.

Figure 11: Share of Mortgages Starting a New Foreclosure, Four-Quarter Average, 2016:3



Source: National Delinquency Survey, Mortgage Bankers Association

Looking Ahead

Indiana’s market for existing homes is as strong as it has been for some time, and it should continue to improve through 2017. With start rates so low, look for the state’s foreclosure situation to continue to improve, although the pace of decline will likely become more moderate than it was between 2011 and 2016. Indiana’s foreclosure rate is already at its lowest point in 16 years, and while it may not drop to the levels set in the mid to late 1990s, it will likely settle well below the rates seen between 2002 and 2006—a period before the housing crash when Indiana had one of the highest foreclosure rates in the nation.

One reason for such optimism is that the state’s improving economy and rising house prices mean that fewer Hoosiers are at risk of falling into foreclosure. According to CoreLogic, only 3 percent of Indiana homeowners with a mortgage had negative equity during the third quarter of 2016.⁴ This mark is down sharply from nearly 12 percent at the beginning of 2013, and is well below the U.S. share of 6.3 percent. About one-quarter of Indiana homeowners with negative equity were close to getting their heads back above water (i.e., within 5 percent of home value). So as prices continue to rise, more and more of Indiana’s underwater homeowners will be in a better position to avoid foreclosure in the event that they fall behind on their payments.

While the wave of foreclosures was a significant drag on the housing market, the rebound from this crisis could help boost home sales over the next several years. That is, given that foreclosures really began to take off roughly nine years ago, many of these former homeowners have had enough time to repair their credit and qualify for mortgages again. Many others may not be eligible yet, but will be soon. The National Association of Realtors estimates that roughly 150,000 Hoosiers lost their homes through foreclosures or

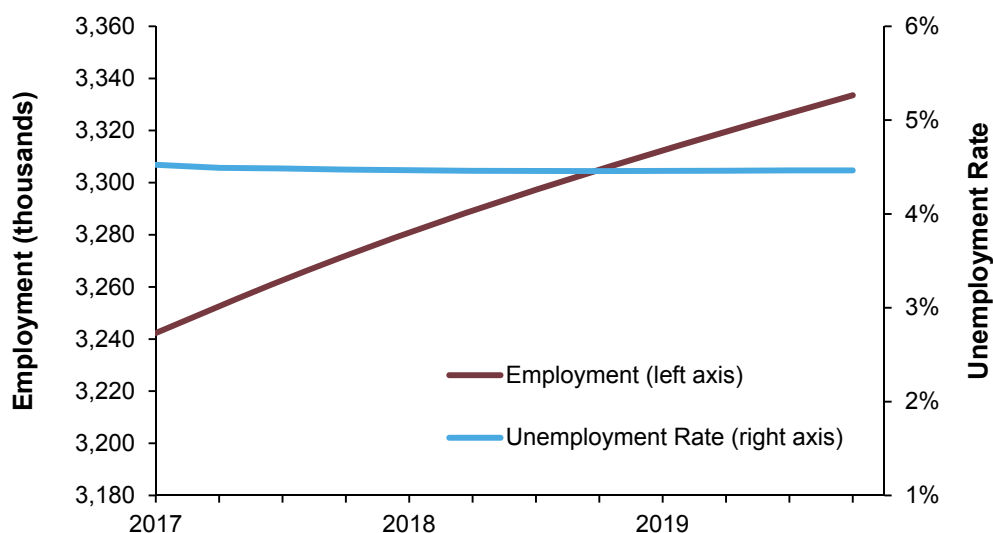
⁴ “CoreLogic Equity Report,” Third Quarter 2016, <http://www.corelogic.com/research/negative-equity/corelogic-q3-2016-equity-report.pdf>.

short sales in the eight years following the crash, but that 18,000 of them were already homeowners again by the end of 2014, and another 30,000 will be looking to buy in the next several years.⁵

The return of these so-called “boomerang buyers”—along with the emergence of the large millennial generation—should be important sources of additional buyer demand for years to come. Whether Indiana home sales continue to climb in the near term, however, will depend more on the strength of the economy and housing affordability.

In terms of job gains, Indiana’s economy took a bit of a step back in 2016. The state added roughly 24,000 jobs last year, which is about half of the average annual gains Indiana saw between 2012 and 2015. However, Indiana’s unemployment rate has fallen to 4.0 percent in December 2016—the state’s lowest rate since 2001. According to the latest forecast from the Indiana Business Research Center (IBRC) and the Center for Econometric Model Research (CEMR) at Indiana University, Indiana should see a slight uptick in employment growth in the next few years with an average annual gain of 30,400 jobs per year between 2017 and 2019 (see **Figure 12**). The state’s unemployment rate is not expected to shift much over the next three years, however.

Figure 12: Indiana Employment and Unemployment Rate Forecast, 2017:1 to 2019:4

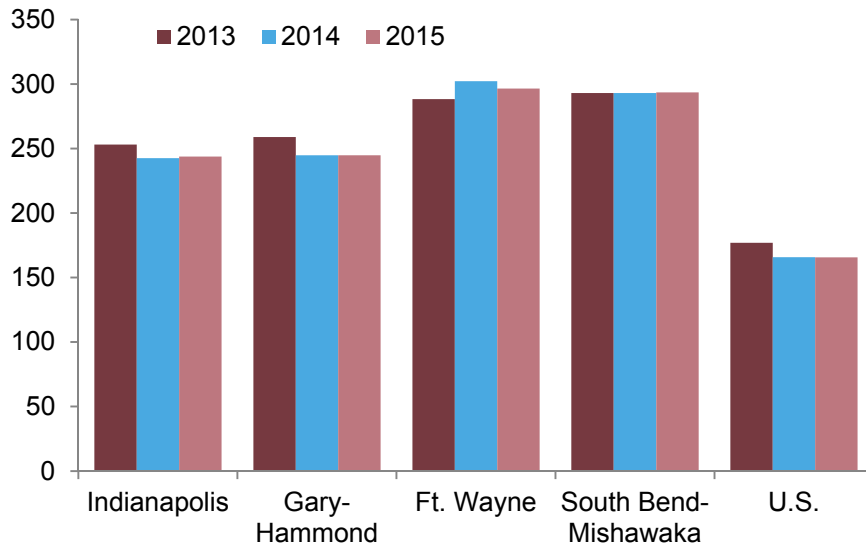


Source: Indiana University Center for Econometric Model Research and Indiana Business Research Center (released in December 2016)

As for affordability, Indiana’s housing markets are among the most buyer-friendly in the country. According to the National Association of Realtors, each of the Indiana metro areas for which they publish data ranked among the top one-third of all metros in affordability in 2015. As house prices climbed in the last couple of years, the costs of homeownership have increased some, but housing in Indiana remains far more affordable than the national average (see **Figure 13**).

⁵ Ken Fears, “Return Buyers: Many Already Here, Many More to Come,” Economists’ Outlook (blog): National Association of Realtors, April 17, 2015, www.economistsoutlook.blogs.realtor.org/2015/04/17/return-buyers-many-already-here-many-more-to-come/.

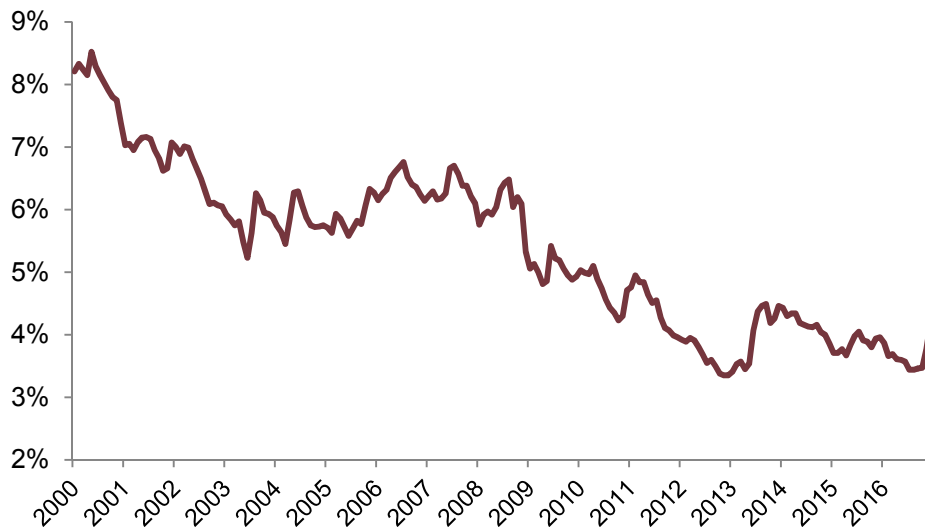
Figure 13: Housing Affordability Index, Select Metro Areas, 2013 to 2015



Note: An index value of 100 means that a metro's median household income is exactly enough to qualify for a mortgage on a home priced at the median level for that area. Values above 100 indicate that the median income is more than enough to qualify. Ft. Wayne's index value was 283 in 2014, meaning that its median household income was 283 percent of the income needed for a mortgage on the median-priced house.
Source: National Association of Realtors

Of course, the degree of homebuyer affordability is heavily influenced by mortgage rates too. After peaking at 4.5 percent in December 2013, the 30-year conventional mortgage rate declined steadily to a low of 3.4 in July and August of 2016 before jumping to 4.2 percent in December (see **Figure 14**). The extremely low rates through much of the year certainly helped to fuel the strong home sales in 2016, but the likelihood of higher rates in 2017 will have some impact on affordability. In their January 2017 economic forecasts, however, neither Freddie Mac (mortgage rate at 4.5 percent in the fourth quarter of 2017) nor the Mortgage Bankers Association (4.7 percent) expect a dramatic rise in rates in 2017.

Figure 14: 30-Year Conventional Mortgage Rate, January 2000 to December 2016



Source: Freddie Mac

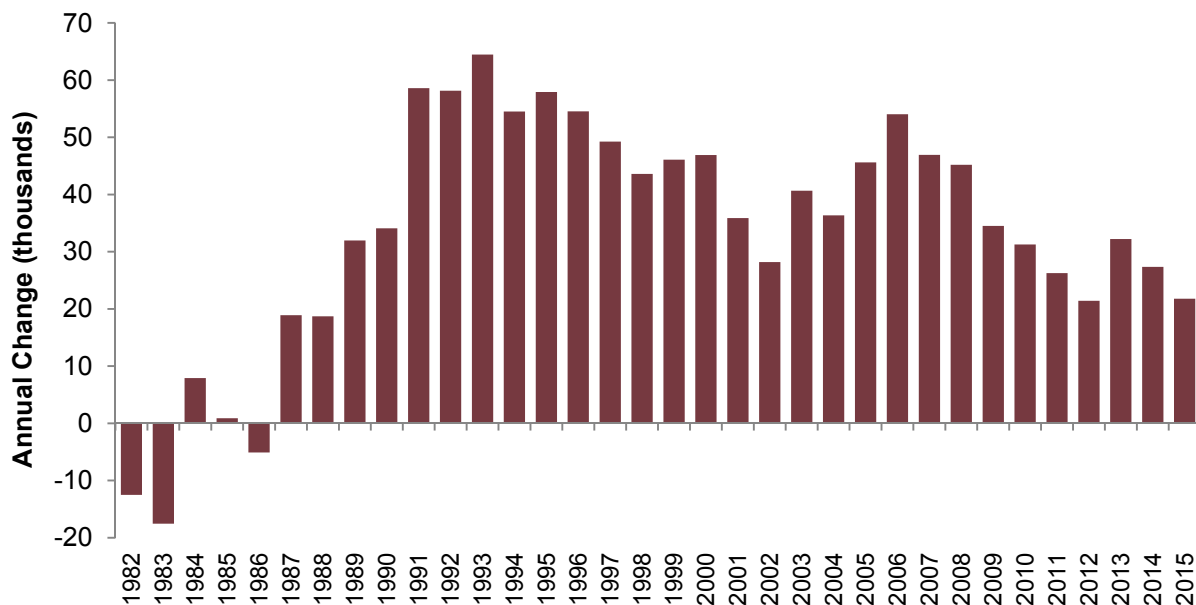
Demographic Fundamentals

Population Growth and Household Formation Continues to Lag in 2015

The improvements made in Indiana’s housing market in recent years have occurred with little help from the demographic drivers of the housing market. Annual population growth in Indiana, for instance, remains low. The state added 21,800 residents in 2015—its second-smallest annual gain since 1989 (see **Figure 15**). Over the past four years, Indiana has grown by an average of nearly 26,000 people a year, which is less than half the average annual gain during the 1990s (53,600 per year) and still well below the average mark set during the 2000s (40,300).

One bright spot in the population numbers is that some important age groups—from the perspective of the housing market—are showing growth. Indiana’s population between the ages of 25 and 44, for instance, grew by roughly 1,700 in 2015. This is a fairly modest number, but it is the third consecutive year that this young-adult group has grown after declining for at least 12 years previously. This age group, which is typically responsible for net gains in new households and home purchases, will continue to grow as the comparatively large millennial generation comes of age.

Figure 15: Indiana Annual Population Change, 1982 to 2015

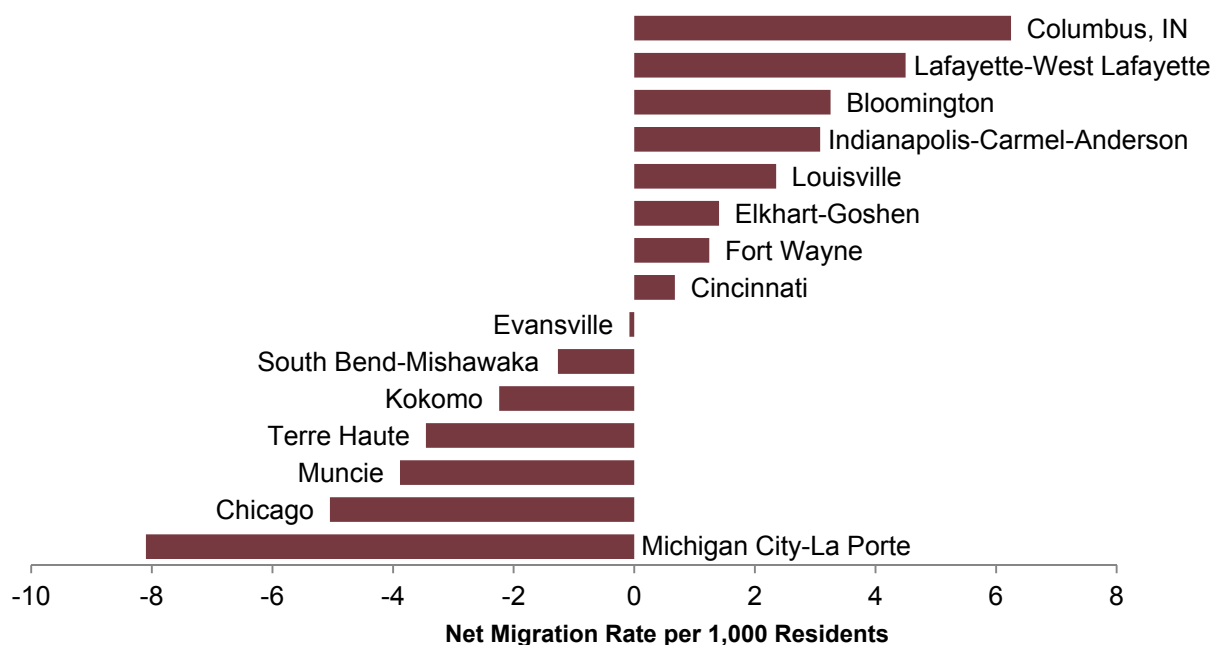


Source: U.S. Census Bureau population estimates

The state's slowdown in population growth has been driven by both a decline in births and lackluster migration rates. After posting modest net in-migration figures in 2013 and 2014, the U.S. Census Bureau estimates that Indiana had an average annual net outflow of about 2,850 residents per year over the last two years. In all, the Census Bureau estimates that Indiana has had an annual net out-migration of residents in four of the seven years between 2010 and 2016.

Not all Indiana communities are losing population through migration, however. As **Figure 16** shows, there was a mixed bag of migration rates in 2015 for metro areas that are at least partially located in Indiana. The Columbus, Lafayette and Bloomington areas showed the strongest net in-migration rates, while Michigan City, Chicago and Muncie had the largest relative net outflows. The state's 48 counties not part of a metro area had a combined net out-migration rate of nearly four migrants per 1,000 residents.

Figure 16: Net Migration Rates for Select Metro Areas, 2015



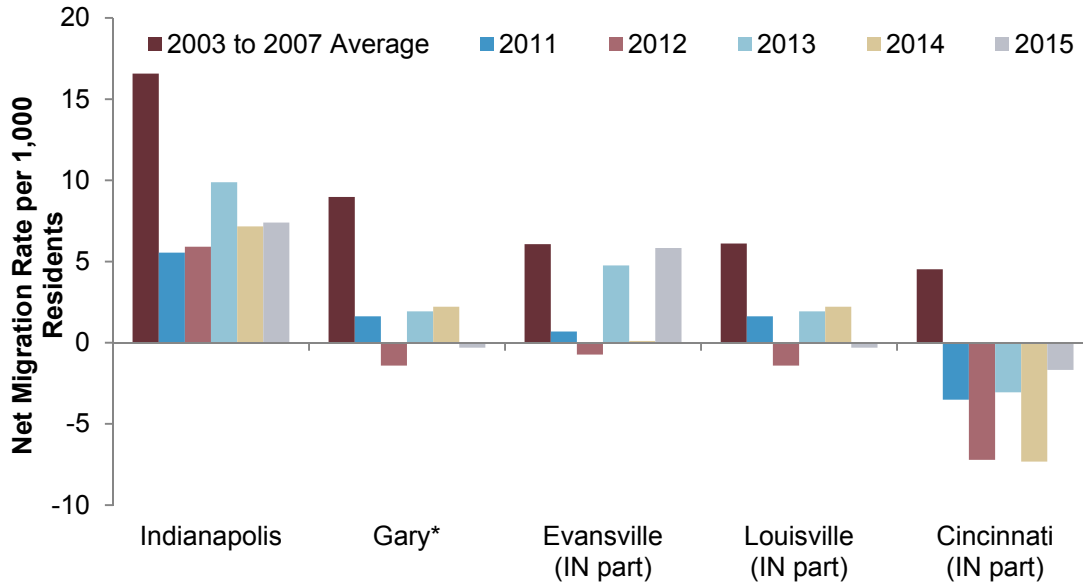
Source: U.S. Census Bureau population estimates

The migration slowdown is proving to be one of the most durable side effects of the Great Recession. Even as the economy improves and home sales trend up, the movement of new households into the state—or even between counties within Indiana—remains low by pre-recession standards. This slowdown is most evident in many traditionally fast-growing suburban areas.

Figure 17 compares the annual net migration rates over the last five years for the suburban counties of several metro areas in the state against their average annual levels before the recession. The 10 suburban counties of the Indianapolis metro area averaged an annual net in-migration rate of nearly 17 migrants per 1,000 residents between 2003 and 2007, but the average annual inflow so far this decade is well below half of this pre-recession level. For the suburban counties in the Gary metro division (i.e., Porter, Jasper and Newton counties), the average annual migration rate so far this decade is just one-tenth of the mark set between 2003 and 2007. Migration is also down in Indiana's suburban counties in

the Louisville and Cincinnati metros, although Warrick County is leading a revival in the Indiana portion of the Evansville area.

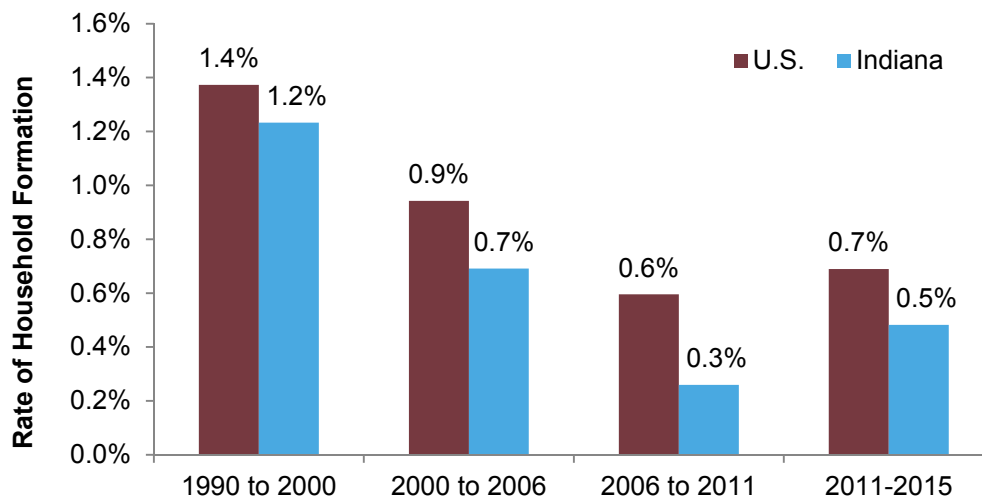
Figure 17: Comparison of Net Migration Estimates for Indiana’s Suburban Counties in Select Metro Areas



* The Gary Metropolitan Division is the Indiana portion of the larger Chicago-Naperville-Elgin metro area.
Source: U.S. Census Bureau population estimates

Given the state’s sluggish population growth and in-migration, it is little wonder that household formation rates have slowed too. In the wake of the housing slump, Indiana was adding new households at an anemic 0.3 percent per year. This measure has improved slightly in recent years, with the state’s average annual household formation rate up to 0.5 percent between 2011 and 2015 (see **Figure 18**). Stated in raw numbers: Indiana added more households in the last four years (48,000) than it did over the five years between 2006 and 2011 (31,800).

Figure 18: Average Annual Household Formation Rates, 1990 to 2015



Source: U.S. Census Bureau, Decennial Census and American Community Survey

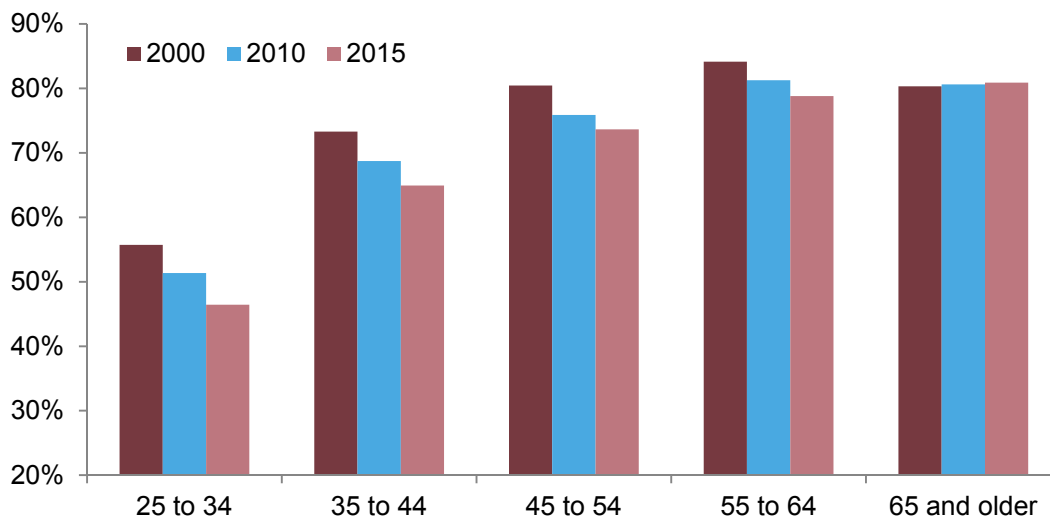
Indiana's Homeownership Rate Holds Steady in 2015

If new households begin to form at a greater rate, will they be looking to buy or rent? If recent trends hold, more will be looking to the rental market than was the case before the housing slump. Indiana's homeownership rate peaked at 72.1 percent in 2006, and then plunged more than 3 percentage points to 68.5 percent by 2013. With falling foreclosure rates and strong buyer demand in recent years, the state homeownership rate appears to have held steady since 2013, with no statistically significant changes in this measure over the last two years.

While the homeownership rate holding firm in 2015 is certainly welcome news, the focus on the overall homeownership rate tends to distract attention from even larger shifts in most age-specific rates. Over the past 15 years, for instance, Indiana's total homeownership rate was down 3.3 percentage points, but the homeownership rates for Indiana's 25-to-34 and 35-to-44 age groups have declined by 9 percentage points and 8 percentage points, respectively, over the same period (see **Figure 19**). The state's 45-to-54 age group didn't fare much better, declining nearly 7 percentage points between 2000 and 2015. Only Indiana's senior age group has seen its homeownership rate rise.

The comparatively small change in the overall homeownership rate is simply a function of the fact that the Indiana population is growing older and the likelihood of being a homeowner increases with age. With the baby boom generation now between the ages of 52 and 70, this age group holds a larger share of the state's population than ever before. This is also the prime age group for homeownership. Thus, the continued aging of this outsized cohort will boost the state's total homeownership rate, even if age-specific rates only hold constant going forward.

Figure 19: Indiana Homeownership Rates by Age, 2000 to 2015



Source: U.S. Census Bureau, Decennial Census and American Community Survey

Looking Ahead

The key demographic question for the Indiana housing market in the near term will be whether or not household formation rates improve. The household formation rate is driven by two factors: so-called headship rates (i.e., the number of households divided by the adult population) and the level of migration to the state. With regard to headship rates, the negative effects of the Great Recession caused many young adults to delay forming a new household, while some older adults were forced to leave their homes

and reside with family or friends. This increased “doubling up” has led to a decline in headship rates in nearly all age groups in Indiana. In 2007, for instance, approximately 50 percent of Hoosiers between the ages of 25 and 34 were the head of their own household, but the headship rate for this age group had dropped to 45 percent by 2015.

Table 3 provides estimates of the shortfall in the number of households in Indiana caused by the decline in headship rates. The shortfalls were calculated by looking at the differences in the actual number of households in 2015 compared to the number of households we would expect if age-specific headship rates were still at the levels seen before the recession hit in 2007. The decline in the headship rate for the 25-to-34 age group referenced earlier translates to 41,000 fewer households in the state within this group alone. This number accounts for nearly half of the state’s total estimated shortfall. All told, Indiana would have had 84,000 more households in 2015 if headship rates were still at 2007 levels.

Table 3: Estimated Shortfall in Number of Indiana Households in 2015

Age Group	Headship Rate, 2007	Headship Rate, 2015	Actual Number of Households in 2015 (thousands)	Number at 2007 Headship Rates (thousands)	Difference (thousands)
15 to 24	14.5%	12.5%	117.6	135.7	-18.1
25 to 34	49.8%	44.7%	380.5	421.5	-41.0
35 to 44	54.5%	51.6%	424.9	446.4	-21.5
45 to 54	57.4%	55.8%	490.5	502.0	-11.5
55 to 64	58.3%	57.9%	495.1	496.5	-1.4
65+	62.1%	62.8%	606.4	597.1	9.3
Total	48.9%	47.3%	2,515.1	2,599.2	-84.0

Source: U.S. Census Bureau, American Community Survey

This shortfall should represent a pool of currently pent-up housing demand that could enter the market in the coming years. While Indiana’s headship rates may not get back to 2007 levels, the state should see a rebound in this measure over the next few years if it is anything like the rest of the nation. An analysis from the Urban Institute indicates that the U.S. headship rate should improve by roughly 1.5 percentage points between 2013 and 2020.⁶ This increase reflects both the effect of an aging population and more young adults starting households as the labor market improves.

As for migration, the number of new residents moving to Indiana continues to disappoint. So far in this decade, the state is averaging a net in-migration of 870 residents a year, which is down from the average annual net inflow of 8,000 residents a year last decade.

The IBRC’s population projections produced in 2012 indicate that Indiana should expect an average annual net in-migration of 6,000 residents per year between 2015 and 2020. If Indiana can begin to move closer to hitting this mark in the years ahead and headship rates rebound as expected, then household formation should pick up steam.

⁶ Laurie Goodman, Rolf Pendall and Jun Zhu, “Headship and Homeownership: What Does the Future Hold?,” The Urban Institute, June 2015, www.urban.org/sites/default/files/2000257-headship-and-homeownership-what-does-the-future-hold.pdf.

The emergence of the large millennial generation will also provide a shot in the arm to household formation. This group, which was between the ages of 19 and 34 in 2015, outnumbered Generation X (age 35 to 50) by more than 98,000 residents in Indiana in 2015. This gap will likely shrink some as younger millennials advance past college-age, but they will still help to boost household formation if Indiana can retain and attract its fair share from this group.

An important question concerning millennials, though, is whether their housing decisions will be similar to previous generations. Although there is much talk that this generation will usher in a significant shift in housing preferences, research indicates that this group may not end up that different after all. According to a Fannie Mae survey conducted last summer, 72 percent of current renters between the ages of 25 and 34 feel that owning a home makes more financial sense than renting does, and 91 percent of millennials who currently rent expect to buy a home someday.⁷ Meanwhile, a 2013 survey conducted by the Demand Institute indicates that nearly half of all millennials expect to settle in the suburbs compared to 38 percent who stated they prefer urban living.⁸

While the desire to buy a home may be there, the means may not. Sixty-two percent of the renters between the ages of 25 and 34 questioned in the Fannie Mae survey referenced above indicated they believe it would be difficult for them to get a mortgage at this time. Roughly 60 percent of renters in this age group who plan to buy say that they are waiting for their incomes or their credit ratings to improve before entering the market. Even with these caveats, millennials are already driving the market for existing homes, accounting for 35 percent of all home sales in the U.S. in 2015—the largest share of any defined generation group.⁹

The aging of the baby boom generation will also influence the housing market over the next two decades. The oldest members of this generation turned 65 in 2011 and the entire cohort will be of traditional retirement age by 2030. By that point, the share of Indiana's population that is age 65 or older will increase to 20 percent from 13 percent in 2010, according to the IBRC's population projections.

This process will impact the housing market in a number of ways, such as increasing demand for senior-oriented housing. That said, there is a lot of evidence that a healthy share of boomers plan to spend their retirement years in their current homes, or "age in place." A national survey of boomers by the Demand Institute in 2013 found that 63 percent of respondents did not plan to move after retirement. Of those who stated they did plan to move, two-thirds said that they wanted to remain in their current state of residence.¹⁰ So even though the size of Indiana's population over the age of 65 will balloon, we may not necessarily see a flood of Hoosier retirees moving to warmer climes over the next two decades.

Another demographic shift with potential implications for the housing market is the state's increasing racial and ethnic diversity. So far in this decade, each of the larger race and ethnic groups in Indiana grew in number, but the state's white population had the smallest increase by far at roughly 1,751 residents

⁷ "Millennials Look to Income Improvements as Key to Unlocking Homeownership," Fannie Mae National Housing Survey, August 2015, www.fanniemae.com/resources/file/research/housingsurvey/pdf/082115-topicanalysis.pdf.

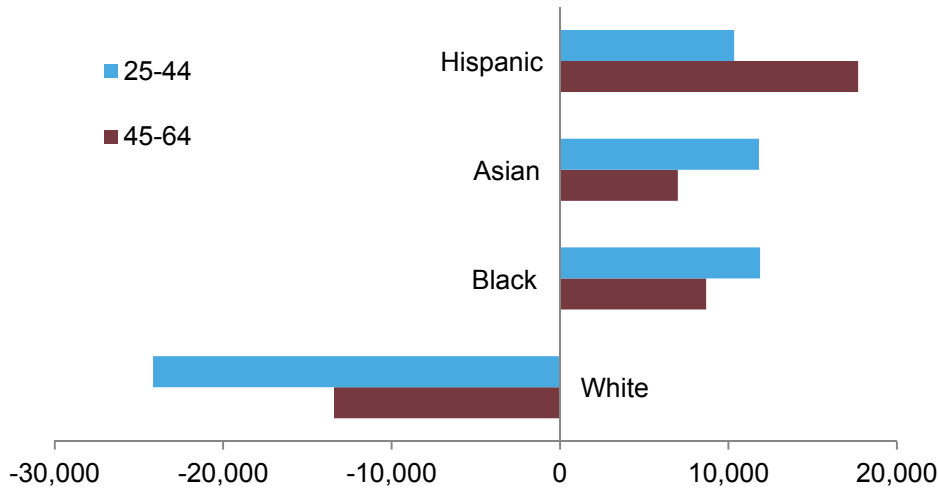
⁸ Jeremy Burbank and Louise Keely, "Millennials and Their Homes: Still Seeking the American Dream," The Demand Institute, September 16, 2014, www.demandinstitute.org/millennials-and-their-homes/.

⁹ "Home Buyer and Seller Generational Trends 2016," National Association of Realtors, March 19, 2016, www.realtor.org/reports/home-buyer-and-seller-generational-trends.

¹⁰ Jeremy Burbank and Louise Keely, "Baby Boomers and Their Homes: On Their Own Terms," The Demand Institute, October 30, 2014, www.demandinstitute.org/baby-boomers-and-their-homes/.

between 2010 and 2015. What's more, all of the white population's growth over this period happened in the 65 or older age group, while younger age groups have declined (see **Figure 20**).

Figure 20: Indiana Population Change by Race and Ethnicity for Select Age Groups, 2010 to 2015



Note: The term Hispanic refers to an ethnicity, not a race. Hispanic residents can be of any race. These specific race groups refer to non-Hispanic residents of that race only.
 Source: U.S. Census Bureau population estimates

Growth in minority groups has more than made up for the decline in both the 25-to-44 age group and the 45-to-64 bracket. With these shifts among adult age groups, the white population's share of the Indiana total in 2015 ranges from 90 percent of all Hoosiers age 65 or older to 77 percent of the total in the 25-to-44 age group.

These are meaningful shifts considering that housing and income trends vary widely by race and ethnic groups in Indiana. For instance, the homeownership rate for Indiana's white householders was 73 percent in 2015. By contrast, 51 percent of the state's Hispanic households own their homes and 36 percent of black households are owner-occupied.

Income disparities certainly play a role in these different rates as the median household income for Indiana's white population in 2015 (\$53,080) was much higher than for Hispanic (\$41,020) and black (\$31,639) households. Clearly, economic development and improved educational outcomes will be critical to closing the gaps in income and homeownership.

Housing and the Economy

Residential Construction Remains Weak

Residential Fixed Investment (RFI)—a component of GDP that includes investment in new construction and home improvements—is the most commonly watched indicator of housing’s contribution to the economy.¹¹ One reason that RFI is widely followed is that it tends to be a leading indicator of economic activity since RFI typically peaks before the start of a recession and it tends to rebound before a downturn ends, helping to pull the country out of its slump.¹² However, given housing’s central role in this most recent economic downturn, RFI is only now beginning to provide a boost to the recovery.

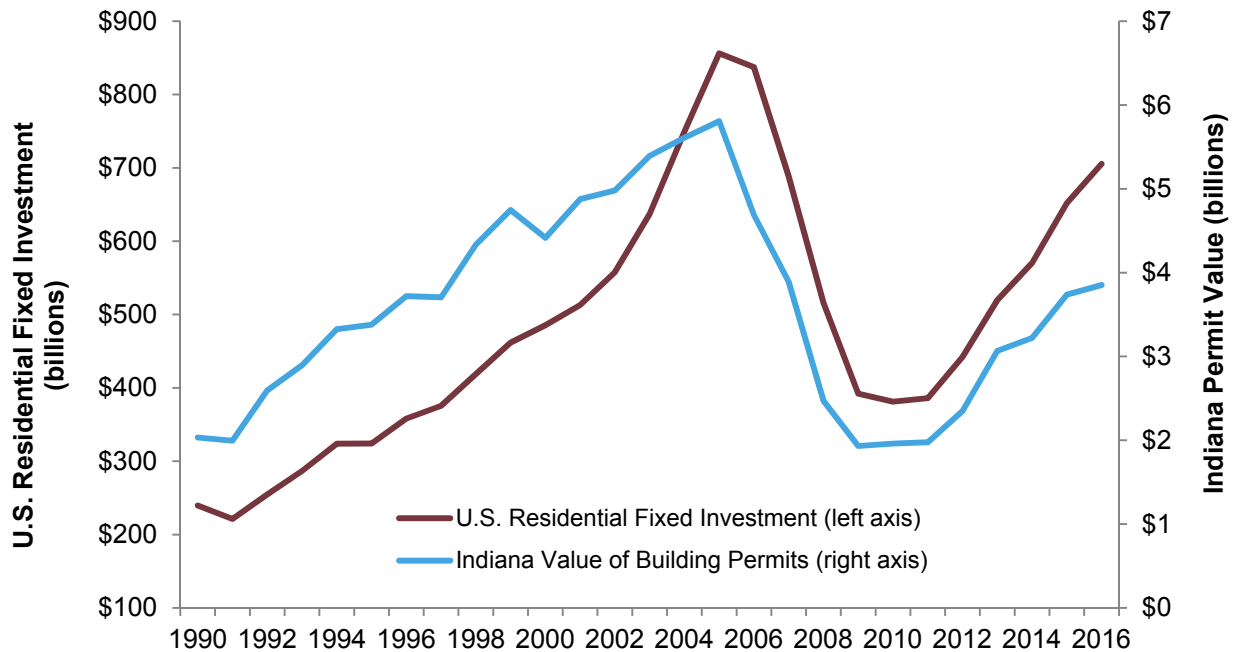
While residential investment has picked up some in recent years, it remains low by historical standards. Between 1950 and 2007, RFI accounted for 4.9 percent of annual U.S. GDP on average. As the demand for new single-family homes has plummeted, however, RFI’s share of economic activity bottomed out at 2.5 percent in 2011 and stood at just 3.8 percent in 2016.

There is no measure of RFI at the state level, but other indicators such as the value of annual building permits tend to follow the same path. **Figure 21** compares the change in national RFI to Indiana’s annual value of building permits. Both indicators peaked in 2005 and fell dramatically through 2011. The value of residential construction in Indiana has rebounded since then with an average annual increase of 14.3 percent per year over the last five years. With a jump of only 3.1 percent last year, however, 2016 represented the lowest annual increase in this measure over this period. Even with the improvement in recent years, the value of construction has fallen to an extent that the dollar total for permits in 2016, even when measured in nominal terms (i.e., not adjusted for inflation), was below the level seen in 1998.

¹¹ According to the U.S. Bureau of Economic Analysis, RFI consists of the purchase of residential structures and the residential equipment that is owned by landlords and rented to tenants. Investment in residential structures includes the new construction of housing units, improvements to existing housing units, the purchase of manufactured homes and brokers’ commissions on sales.

¹² Kathryn Byun, “The U.S. Housing Bubble and Bust: Impacts on Employment,” *Monthly Labor Review*, December 2010.

Figure 21: U.S. Residential Fixed Investment and Indiana Value of Building Permits, 1990 to 2016



Source: U.S. Bureau of Economic Analysis and U.S. Census Bureau

Housing’s Impact on Employment

The trend in the number of permitted units has been even more dramatic. After a sharp decline during the Great Recession, the state saw decent jumps in new units in 2012 and 2013, but the annual number of permits has been nearly flat since then. In 2016, housing permits declined by 0.9 percent in Indiana. New construction has fallen to such an extent that the number of units permitted in Indiana in 2016 was just 45 percent of the peak level set in 1999.

There has been some shifts in the types of units built, however. What little resurgence there was in new construction in the last few years was largely driven by new multi-family developments. Between 1990 and 2012, multi-family units accounted for roughly 20 percent of all housing units built in Indiana each year, but this share jumped to about 32 percent between 2013 and 2015. In 2016, however, the number of new multi-family units declined by 28 percent while permits for single-family homes increased by 12 percent. Single-family units accounted for 77 percent of all Indiana construction permits last year compared to 23 percent for multi-family units.

Of course, the dip in residential construction triggered a similar pattern in employment in this industry. Indiana lost residential construction jobs from 2005 through 2011, but has been slowly gaining them back over the last four years. Indiana had around 6,700 fewer residential construction jobs in 2015—a 35 percent decline—relative to 2005. By comparison, the state’s total employment was off by less than 1 percent over the same period. Still, the 2015 value was 1,200 jobs above the low in 2011, so we are seeing slow growth.

The employment impacts of this decline and slow recovery don’t end with the construction industry. With fewer housing units built, there is a reduced demand for other goods and services related to the industry, such as architecture and design, building materials and home furnishings. According to IMPLAN

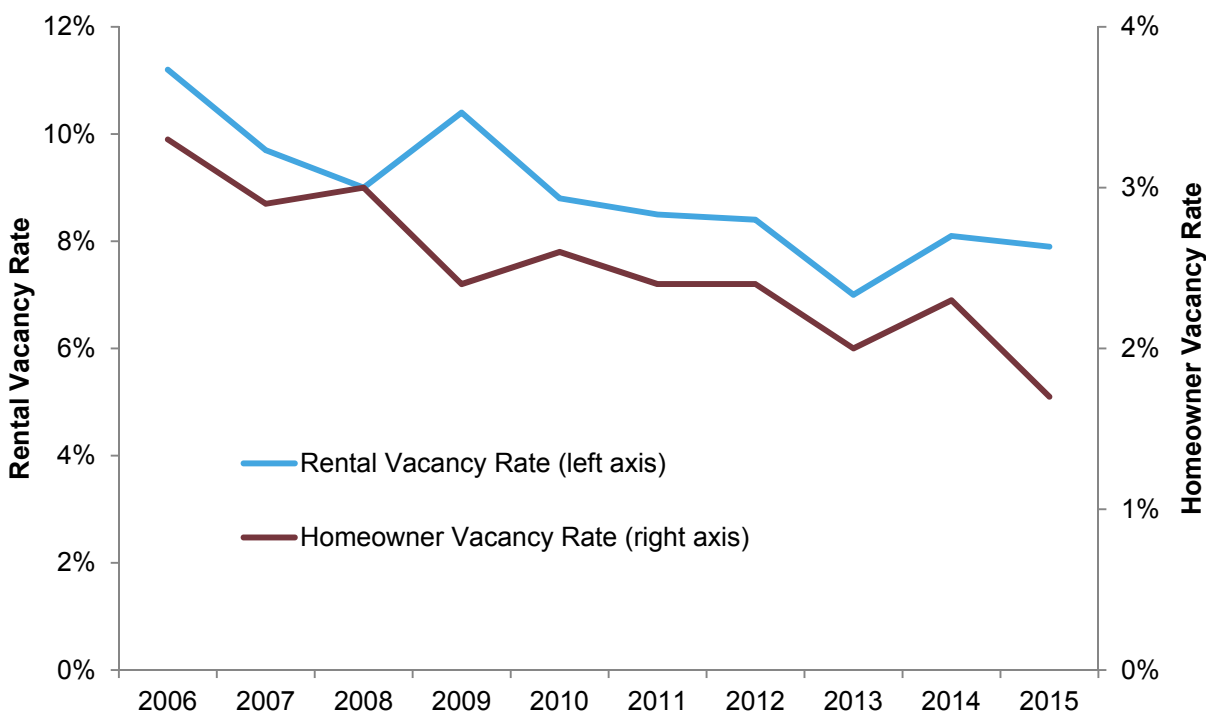
economic modeling data, residential construction has an employment multiplier of 2.3 in Indiana, meaning that each job in this industry supports an additional 1.3 jobs in other industries throughout the state. If this multiplier holds, the decline of 6,700 construction jobs between 2005 and 2015 translates to a loss of an estimated 8,710 jobs in other industries in the state.

Looking Ahead

Clearly, a return to growth in residential construction would be a shot in the arm for the Indiana economy. Several industry forecasts predict that construction activity at the national level will continue to pick up over the next couple of years. Both Freddie Mac’s and the Mortgage Bankers Association’s January 2017 outlooks, for instance, forecast an 8 percent increase in housing starts in 2017, and slightly lower gains in 2018. If residential construction could see a similar uptick in Indiana, then housing will come closer to assuming its usual role in the state’s economy.

Several indicators show that construction is bound to improve at some point. First, vacancy rates continue to decline in Indiana, indicating a tightening housing market. Both the rental vacancy rate (7.9 percent) and the homeowner vacancy rate (1.7 percent) in Indiana have seen a general pattern of decline since 2006 (see **Figure 22**).

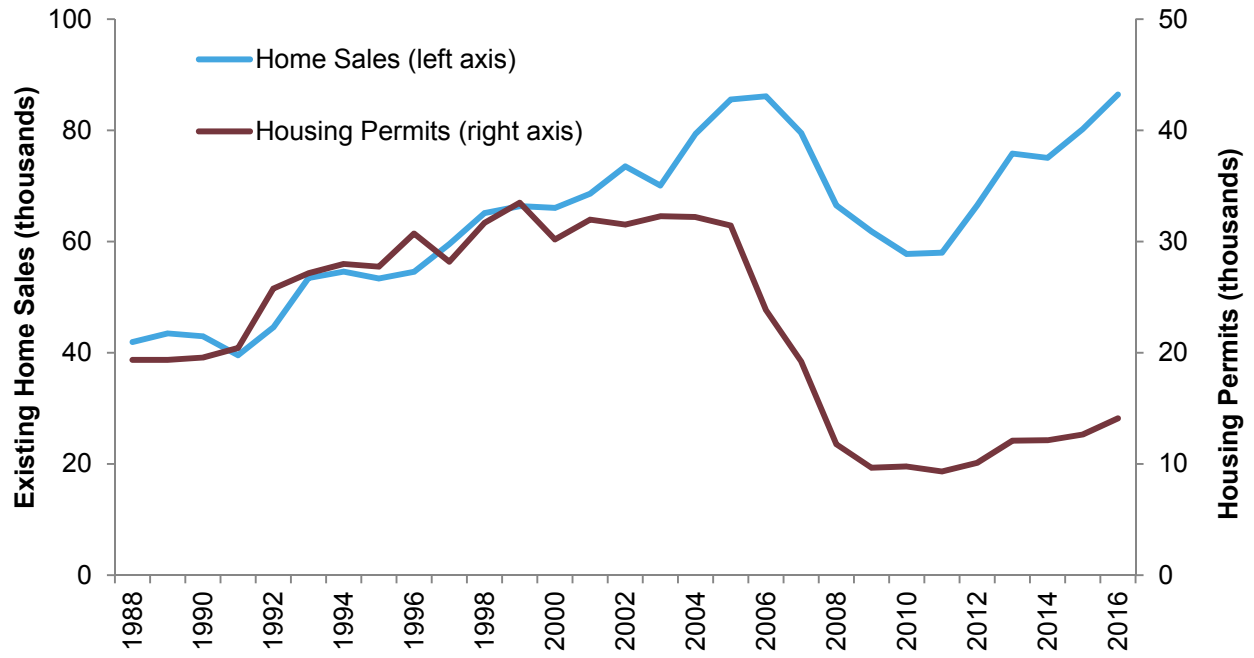
Figure 22: Indiana Homeowner and Rental Vacancy Rates, 2006 to 2015



Source: U.S. Census Bureau, American Community Survey

Another sign that new construction could pick up soon is the wide gap between the number of existing home sales in the state and the number of new single-family permits. From 1988 to 2005, there was a fairly consistent ratio of approximately two existing home sales for each single-family housing permit in Indiana (see **Figure 23**). In 2016, however, that ratio was roughly six-to-one. Given the current situation of strong buyer demand but low inventory of existing homes for sale, the demand for new homes is bound to improve over the next few years.

Figure 23: Indiana Existing Home Sales and Single-Family Housing Permits, 1988 to 2016



Source: U.S. Census Bureau, Moody's Economy.com, Indiana Association of Realtors

Conclusion

In many respects, the Indiana housing market appears to be in great shape. In particular, existing home sales, house prices and the foreclosure rate have made strong improvements in the last couple of years. With Indiana's economy doing fairly well and mortgage rates likely to stay below 5 percent for a while longer, these measures will likely remain strong.

Some indicators that are key to a thriving housing market in Indiana have still yet to recover from the Great Recession, however. Population growth and migration remain very low, for instance, and residential construction is still not truly on the rebound. With construction so weak but buyer demand strong, the inventory of homes for sale has been exceptionally low of late. Another area of concern is the declining homeownership rate for younger Hoosiers.

As always, the strength of the Indiana economy will determine whether these measures improve. Growth in employment and wages will draw more people to the state, help translate a tight market into new residential construction, and allow more people to achieve the dream of homeownership. If the state's economy can continue to build steam, the effects will hopefully begin to boost these drivers of a strong housing market.

Appendix

Table 4: Home Sales and Median Sales Price by County

County	Existing Home Sales, 2015	Existing Home Sales, 2016	Percent Change	Median Sales Price, 2015	Median Sales Price, 2016	Percent Change
Indiana Total	80,244	86,455	7.7%	\$133,000	\$139,900	5.2%
Adams	253	259	2.4%	\$90,000	\$90,000	0.0%
Allen	5,197	5,664	9.0%	\$120,000	\$129,000	7.5%
Bartholomew	1,199	1,399	16.7%	\$162,300	\$157,000	-3.3%
Benton	78	60	-23.1%	\$68,000	\$72,950	7.3%
Blackford	78	100	28.2%	\$74,900	\$60,158	-19.7%
Boone	1,125	1,249	11.0%	\$209,700	\$234,000	11.6%
Brown	220	295	34.1%	\$164,500	\$190,000	15.5%
Carroll	181	168	-7.2%	\$120,000	\$117,000	-2.5%
Cass	346	359	3.8%	\$73,000	\$75,900	4.0%
Clark	1,810	2,038	12.6%	\$137,950	\$144,000	4.4%
Clay	216	233	7.9%	\$82,250	\$89,900	9.3%
Clinton	225	223	-0.9%	\$88,500	\$93,000	5.1%
Crawford	74	91	23.0%	\$84,750	\$80,400	-5.1%
Daviess	194	224	15.5%	\$85,000	\$99,500	17.1%
Dearborn	549	584	6.4%	\$147,000	\$154,000	4.8%
Decatur	276	264	-4.3%	\$112,750	\$119,000	5.5%
DeKalb	521	548	5.2%	\$112,900	\$119,900	6.2%
Delaware	1,104	1,161	5.2%	\$85,451	\$87,000	1.8%
Dubois	341	388	13.8%	\$135,000	\$131,000	-3.0%
Elkhart	1,870	1,927	3.0%	\$126,000	\$134,900	7.1%
Fayette	155	120	-22.6%	\$65,450	\$71,900	9.9%
Floyd	1,144	1,257	9.9%	\$142,950	\$152,000	6.3%
Fountain	55	55	0.0%	\$80,000	\$85,000	6.3%
Franklin	172	153	-11.0%	\$143,800	\$139,950	-2.7%
Fulton	166	179	7.8%	\$82,200	\$86,200	4.9%
Gibson	298	347	16.4%	\$98,000	\$110,500	12.8%
Grant	533	596	11.8%	\$75,000	\$79,900	6.5%
Greene	192	190	-1.0%	\$82,500	\$78,000	-5.5%
Hamilton	6,662	6,979	4.8%	\$229,900	\$240,000	4.4%
Hancock	1,251	1,334	6.6%	\$151,000	\$157,950	4.6%

County	Existing Home Sales, 2015	Existing Home Sales, 2016	Percent Change	Median Sales Price, 2015	Median Sales Price, 2016	Percent Change
Harrison	430	443	3.0%	\$123,000	\$140,000	13.8%
Hendricks	2,828	2,985	5.6%	\$165,000	\$172,000	4.2%
Henry	342	404	18.1%	\$73,900	\$73,250	-0.9%
Howard	1,197	1,318	10.1%	\$98,000	\$96,950	-1.1%
Huntington	410	439	7.1%	\$89,000	\$90,000	1.1%
Jackson	420	437	4.0%	\$120,000	\$117,250	-2.3%
Jasper	333	389	16.8%	\$135,000	\$147,000	8.9%
Jay	108	103	-4.6%	\$68,000	\$75,000	10.3%
Jefferson	287	321	11.8%	\$119,900	\$115,000	-4.1%
Jennings	166	172	3.6%	\$88,500	\$82,000	-7.3%
Johnson	2,693	2,800	4.0%	\$147,500	\$155,000	5.1%
Knox	317	302	-4.7%	\$76,000	\$93,000	22.4%
Kosciusko	918	1,028	12.0%	\$145,000	\$142,750	-1.6%
Lagrange	208	228	9.6%	\$127,500	\$129,950	1.9%
Lake	5,610	6,282	12.0%	\$140,000	\$146,000	4.3%
LaPorte	1,223	1,314	7.4%	\$120,000	\$128,000	6.7%
Lawrence	421	441	4.8%	\$87,000	\$96,950	11.4%
Madison	1,475	1,572	6.6%	\$85,000	\$89,100	4.8%
Marion	12,956	14,087	8.7%	\$122,000	\$127,000	4.1%
Marshall	358	399	11.5%	\$125,000	\$132,400	5.9%
Martin	47	62	31.9%	\$86,950	\$81,500	-6.3%
Miami	292	287	-1.7%	\$67,750	\$70,750	4.4%
Monroe	1,646	1,844	12.0%	\$165,000	\$168,958	2.4%
Montgomery	455	513	12.7%	\$103,000	\$110,000	6.8%
Morgan	968	1,065	10.0%	\$138,900	\$145,000	4.4%
Newton	155	172	11.0%	\$105,000	\$103,950	-1.0%
Noble	442	480	8.6%	\$102,000	\$117,900	15.6%
Ohio	42	51	21.4%	\$109,500	\$119,000	8.7%
Orange	40	42	5.0%	\$60,000	\$60,050	0.1%
Owen	168	194	15.5%	\$98,300	\$112,000	13.9%
Parke	61	42	-31.1%	\$69,200	\$73,000	5.5%
Perry	129	123	-4.7%	\$92,500	\$87,000	-5.9%
Pike	108	85	-21.3%	\$72,000	\$77,250	7.3%
Porter	2,219	2,438	9.9%	\$172,900	\$179,900	4.0%
Posey	209	250	19.6%	\$115,350	\$127,900	10.9%
Pulaski	59	83	40.7%	\$64,575	\$81,000	25.4%
Putnam	455	517	13.6%	\$119,450	\$118,500	-0.8%

County	Existing Home Sales, 2015	Existing Home Sales, 2016	Percent Change	Median Sales Price, 2015	Median Sales Price, 2016	Percent Change
Randolph	161	190	18.0%	\$66,000	\$65,050	-1.4%
Ripley	211	232	10.0%	\$121,500	\$121,250	-0.2%
Rush	11	11	0.0%	\$55,750	\$45,000	-19.3%
Scott	148	161	8.8%	\$87,600	\$108,500	23.9%
Shelby	511	542	6.1%	\$109,700	\$117,250	6.9%
Spencer	204	217	6.4%	\$123,400	\$121,000	-1.9%
Starke	224	213	-4.9%	\$82,950	\$85,000	2.5%
Steuben	482	488	1.2%	\$130,000	\$146,200	12.5%
St. Joseph	2,958	3,103	4.9%	\$118,500	\$120,625	1.8%
Sullivan	120	113	-5.8%	\$69,500	\$75,000	7.9%
Switzerland	64	66	3.1%	\$90,000	\$102,500	13.9%
Tippecanoe	2,252	2,390	6.1%	\$140,000	\$150,000	7.1%
Tipton	144	137	-4.9%	\$104,759	\$113,450	8.3%
Union	13	6	-53.8%	\$57,750	\$60,000	3.9%
Vanderburgh	2,357	2,609	10.7%	\$119,900	\$125,000	4.3%
Vermillion	93	97	4.3%	\$57,700	\$65,000	12.7%
Vigo	1,094	1,077	-1.6%	\$98,000	\$97,000	-1.0%
Wabash	292	297	1.7%	\$85,500	\$83,700	-2.1%
Warren	53	67	26.4%	\$97,500	\$83,500	-14.4%
Warrick	886	953	7.6%	\$161,866	\$170,250	5.2%
Washington	250	283	13.2%	\$91,000	\$95,450	4.9%
Wells	321	317	-1.2%	\$105,000	\$109,000	3.8%
White	265	293	10.6%	\$102,000	\$120,000	17.6%
Whitley	450	437	-2.9%	\$118,000	\$133,000	12.7%

Note: Home sales data are not available for Wayne County.
Source: Indiana Association of Realtors