

IN the Spotlight:

Hoosiers and Affordable Housing: The Indiana Housing Finance Authority

The Indiana Housing Finance Authority (IHFA) works to address the entire spectrum of housing needs, from homeless shelters to rental to homeownership. But the impact of its programs reaches far beyond housing. Decent, safe and affordable housing creates stability in both families and communities. Such stability can have a direct impact on a family member's employment, a child's education and investment in a neighborhood.

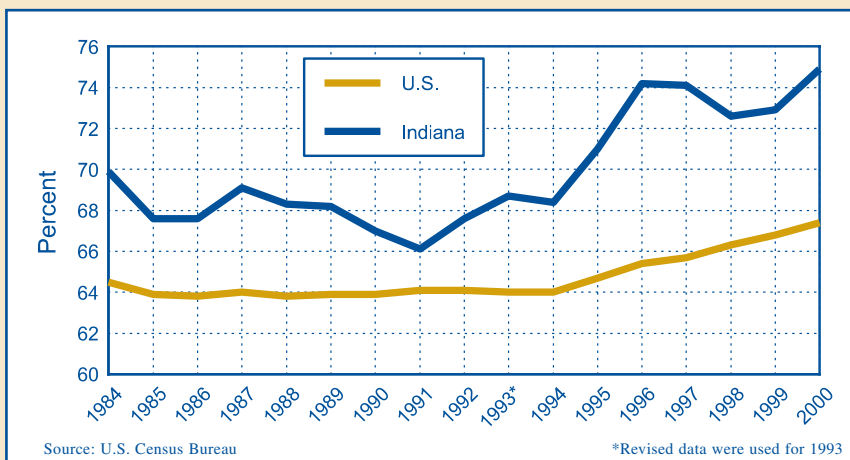
IHFA's partners in the affordable-housing industry include realtors, lenders, for-profit and not-for-profit developers, community development corporations, local units of government, investors, investment bankers, federal

and state agencies, tenants and legislators.

IHFA was created by the Indiana General Assembly in 1978, receiving no state revenues for its programs or operations. All of IHFA's resources are federal and include an allocation of private activity bonds from the Indiana Development Finance Authority for single-family programs, Rental Housing Tax Credits, the HOME Investment Partnerships Program (HOME) and Community Development Block Grant (CDBG) funds. IHFA's financial soundness has earned an Aaa rating for single-family bonds and an Aa3 rating for general obligations/ issuer bonds.

(continued on page 2)

Figure 1: Homeownership Rates, 1984–2000
Hoosiers outpace the nation in owning homes



INSIDE *this issue:*

- **IN THE SPOTLIGHT** 1
Hoosiers and Affordable Housing: The Indiana Housing Finance Authority
- **IN LOCAL AREAS: PART I** 5
Unemployment Rates Edge Up Slightly
- **IN LOCAL AREAS: PART II** 6
Slight Jump in Unemployment Rates Normal This Time of Year
- **IN THE NEWS** 8
No Recession in National Unemployment Data
- **IN THE DETAILS** 10
Building Permits: Useful Indicator or Meaningless Information?

**Indiana
Unemployment
Rate for
January 2001:
3.7%**

IN the Spotlight

(continued from page 1)

In 2000 IHFA committed \$351 million in resources to stimulate \$445 million in investment in housing-related activities, including rehabilitation, new construction and mortgage financing. IHFA's programs fall into three areas: Homeownership, Community Development and Rental Housing.

Homeownership

Indiana enjoys one of the highest homeownership rates in the country. At 74.9% in 2000, Indiana ranked

eighth highest in homeownership rates in the country, well above the national average of 67.4% (see Figure 1 and Figure 2).

To help low- and moderate-income families become first-time homebuyers, IHFA administers a program of below-market-interest-rate mortgages, Mortgage Credit Certificates (MCCs) and down-payment assistance. MCCs are tax credits that homeowners can claim on a percentage of the interest they pay on their mortgage each year. Both the mortgage program and MCCs are

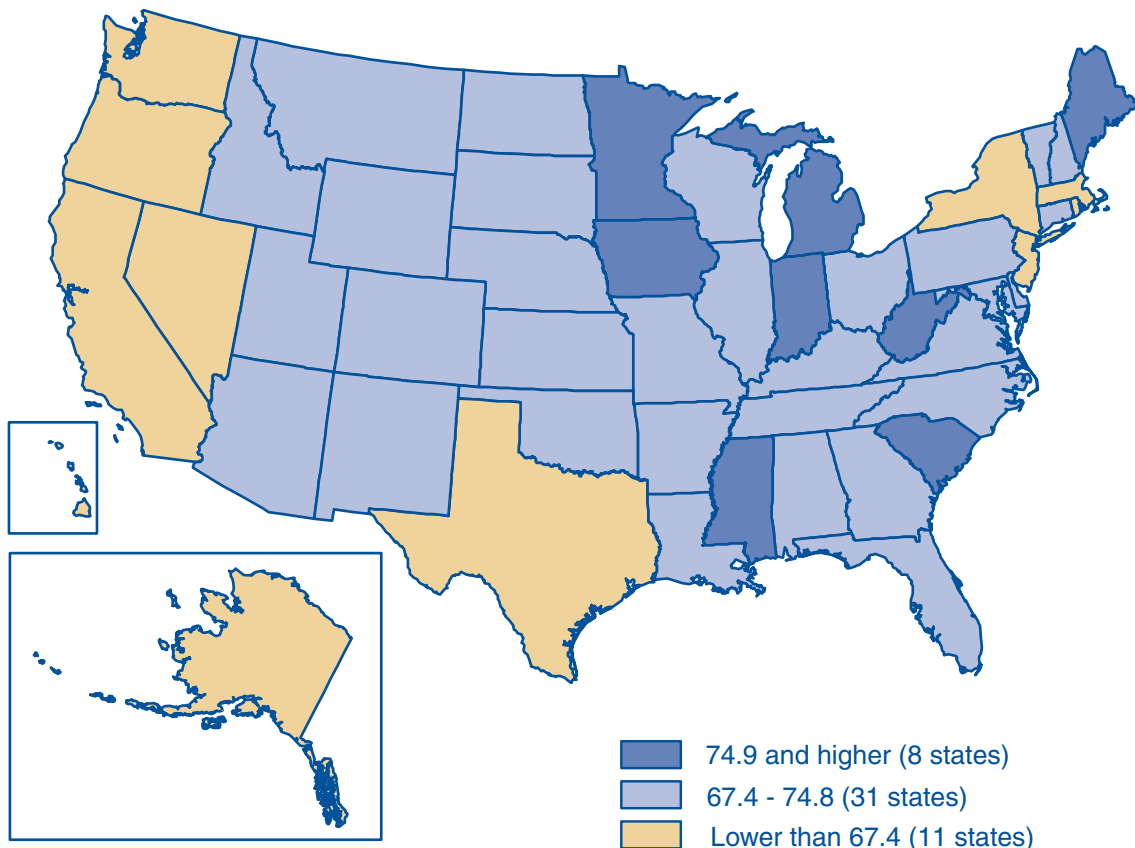
made possible through private activity bond allocations. Down-payment assistance is financed primarily with HOME funds.

Community Development

IHFA's Community Development programs support a variety of housing activities with federal HOME and CDBG funds and Indiana's Low Income Housing Trust Fund. The housing activities supported through these programs include emergency shelters, youth shelters, transitional housing, migrant/seasonal farmworker

Figure 2: 2000 Homeownership Rates by State

Indiana enjoys one of the highest homeownership rates in the nation



Source: U.S. Census Bureau, Housing Vacancies and Homeownership Rates

housing, rental housing, homeownership counseling, down-payment assistance, homeownership and owner-occupied rehabilitation.

To assist local units of government and Community Housing Development Organizations (CHDOs) plan and prepare for housing activities, IHFA also funds housing-needs assessments, feasibility studies and predevelopment loans. Additional funds are awarded to CHDOs for operating funds.

Rental Housing

For many seniors and young people, — both growing sectors of Indiana’s population — renting can be preferable to owning. The two primary programs that IHFA administers to provide financial incentives for developers to build or rehabilitate affordable rental housing are Rental Housing Tax Credits (RHTCs) (see Figure 3 on page 4) and Multifamily Bonds.

RHTCs are authorized by Section 42 of the Internal Revenue Code. RHTCs can be used as a credit on a developer’s federal tax return or can be sold to investors to raise equity for a development. Multifamily Bonds are a form of private-activity bond that is tax-exempt and issued by state or local governments. The interest on these bonds is generally tax-exempt, which is attractive to investors and typically results in lower financing costs and interest rates for the developer. Both programs are administered on a competitive basis to for-profit and not-for-profit developers. As a requirement of the programs, the units developed with these resources must be rented at affordable rates for at least 15 years.

(continued on page 4)

A Detailed Look at IHFA’s Impact in 2000

Homeownership

- 2,405 Hoosiers bought their first homes with more than \$169.1 million in IHFA mortgages. The average income of these households was \$32,098 and the average purchase price was \$72,857.
- Of these loans, 844 also received down-payment assistance totaling more than \$3 million. The average income for these households was \$22,865 and the average purchase price was \$57,998.
- IHFA also issued 492 MCCs totaling almost \$41 million. The average income of these households was \$36,849 and the average purchase price was \$86,097.

Community Development

- 182 units of emergency shelters and transitional housing were funded with \$3.25 million.
- 146 units of affordable rental housing were funded with \$3.76 million.
- 59 single-family homes for sale or lease-purchase to low- and moderate-income families were funded with \$1.86 million.
- 332 owner-occupied homes were rehabilitated with \$4.5 million.
- 246 families received homeownership counseling and down-payment assistance with \$2.15 million.

Rental Housing

- 1,543 affordable rental units in 29 developments across the state were allocated \$80 million, over a 10-year period, in RHTCs. The total anticipated cost for these developments is more than \$112 million.
- 1,115 affordable rental units in five developments were awarded more than \$39.3 million in Multifamily Bond issues. The total anticipated cost for these developments is more than \$60 million.



For more information about the Indiana Housing Finance Authority or any of its programs, call (317) 232-7777 or visit the IHFA Website at www.indianahousing.org.

IN the Spotlight

(continued from page 3)

As well as creating new rental housing units, IHFA is very concerned about the preservation of existing affordable rental units. Because of this, IHFA became the Participating Administrative Entity (PAE) in the U.S. Department of Housing and Urban Development's (HUD's) Mark-to-Market program. This program is designed to restructure the rent or debt of property-based Section 8 developments in order to keep them in the Section 8 program when their contracts expire. To date, IHFA has successfully kept 625 units in eight properties in the Section 8 program.

In addition, effective Oct. 1, 2000, IHFA became the contract administrator for 292 Section 8 property-based contracts in Indiana. This is part of HUD's efforts to decentralize their responsibilities and assign them to statewide organizations.

Looking ahead

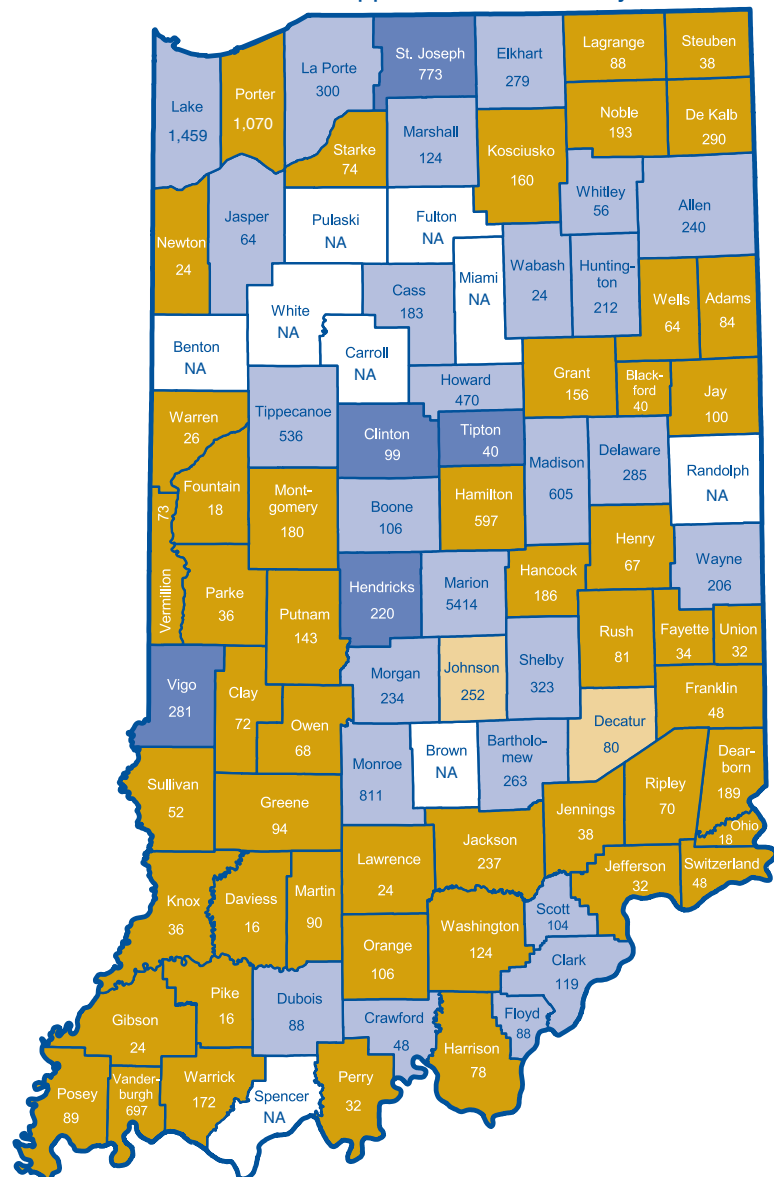
Late in 2000, the U.S. Congress passed legislation that will significantly expand some of IHFA's programs. This legislation, the Consolidated Appropriations Act for 2001, increased the cap on the amount of RHTCs that can be allocated in a state from \$1.25 per capita to \$1.50 per capita effective Jan. 1, 2001, and to \$1.75 per capita effective Jan. 1, 2002. The cap on private-activity-bond volume was also increased from \$50 per capita to \$62.50 per capita effective Jan. 1, 2001, and to \$75 per capita effective Jan. 1, 2002. Both caps will be indexed for inflation beginning in 2003.

Figure 3: Average Annual Rental Housing Tax Credit, Per Unit by County

Calculated based on all active tax-credit units, 1986-2000

- \$5,000 or more (5 counties)
- \$3,000 - \$4,999 (26 counties)
- \$1,000 - \$2,999 (50 counties)
- Less than \$1,000 (2 counties)
- No RHTC units (9 counties)

Number of units appears in each county



Source: Indiana Housing Finance Authority

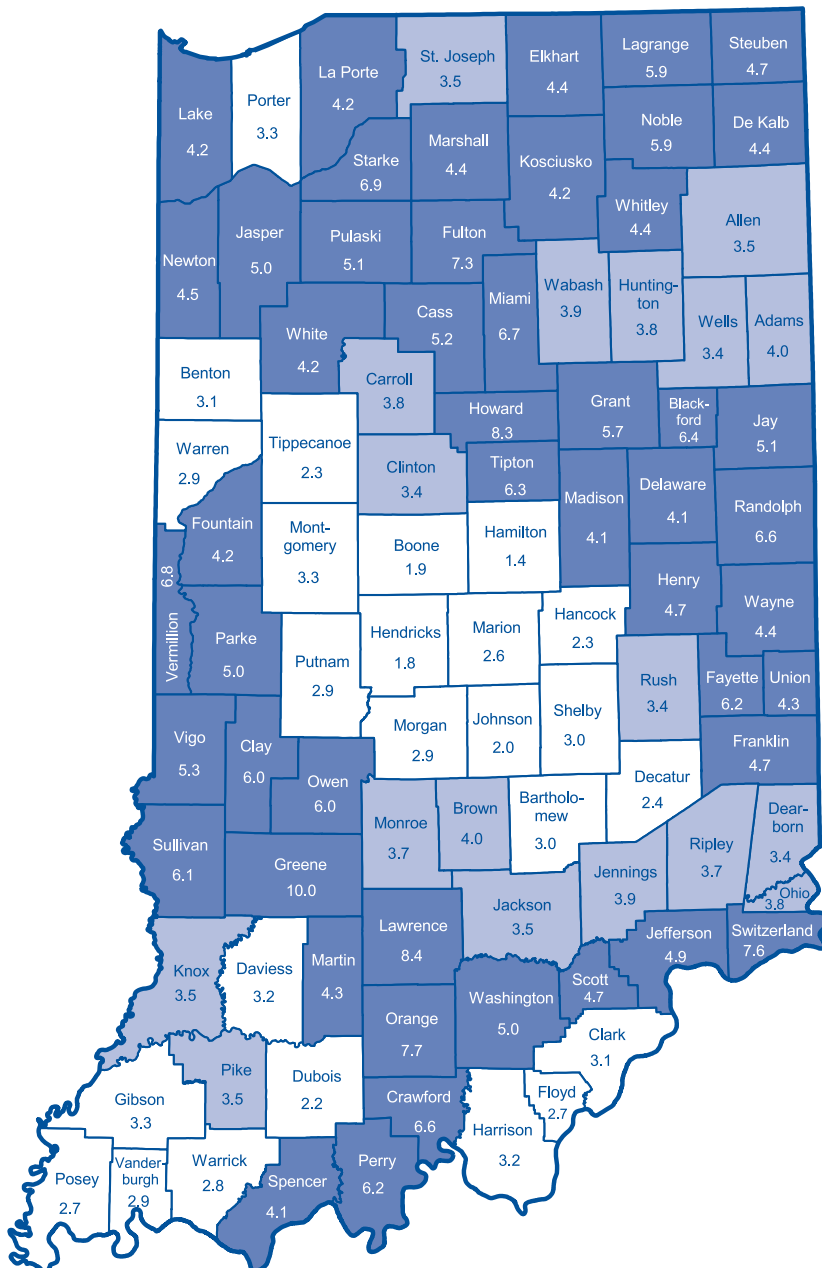
Unemployment Rates Edge Up Slightly

Figure 1: January 2001 Unemployment Rates by County

The national unemployment rate for January 2001 was 4.7%

State Unemployment Rate = 3.7

- Above State Rate (49 counties)
- Approx. Equal to State Rate (+/- 0.3) (18 counties)
- Below State Rate (25 counties)



Source: Indiana Department of Workforce Development

A jump in unemployment rates from December to January is normal. An increase to 3.7% does not by itself signal a recession in Indiana. See 'IN Local Areas: Part II' on page 6 for a detailed explanation.

Slight Jump in Unemployment Rates Normal This Time of Year

Indiana's unemployment rate edged up to 3.7% in January, according to figures just released by the Indiana Department of Workforce Development. The comparable rate for the nation on a non-seasonally adjusted basis was 4.7% in January.

Indiana's January rate of 3.7% was up from the 2.7% rate reported for December 2000. A jump from December to January is normal,

This January's rate was right in line with past Januaries in years of rapid economic expansion.

however. An increase to 3.7% does not by itself signal a recession in Indiana.

Anytime unemployment spreads, of course, it brings pain and disruption to those citizens who lose their jobs. From that standpoint, even a tiny rise in unemployment is bad news. The January rate is not necessarily bad news for the state as a whole, though. Analysts point to several facts that help put the higher unemployment number in perspective.

First, almost every January brings an uptick in the unemployment rate. Christmas workers leave payrolls and winter weather slows construction work. This combination nearly always pushes the unemployment rate higher in January, even in the best of times.

January's increase, therefore, was to a large degree expected.

In addition, as shown by the line on the chart in Figure 1, the January report of 3.7% was the same as the rate posted in January 1999 and January 1998 (the January 2000 rate* was 3.4%). This January's rate was right in line with past Januaries in years of rapid economic expansion. If 3.7% was not bad news for the state economy then, it's hard to argue that it is bad news now.

The January report held another very encouraging sign. Although the unemployment rate went up compared to December, total employment among Indiana residents also was up when compared to January last year. Employment numbers are shown by the bars in Figure 1.

IDWD reported there were 2,959,000 Hoosiers employed in January — a record high for the month of January. The figure was 2,957,000

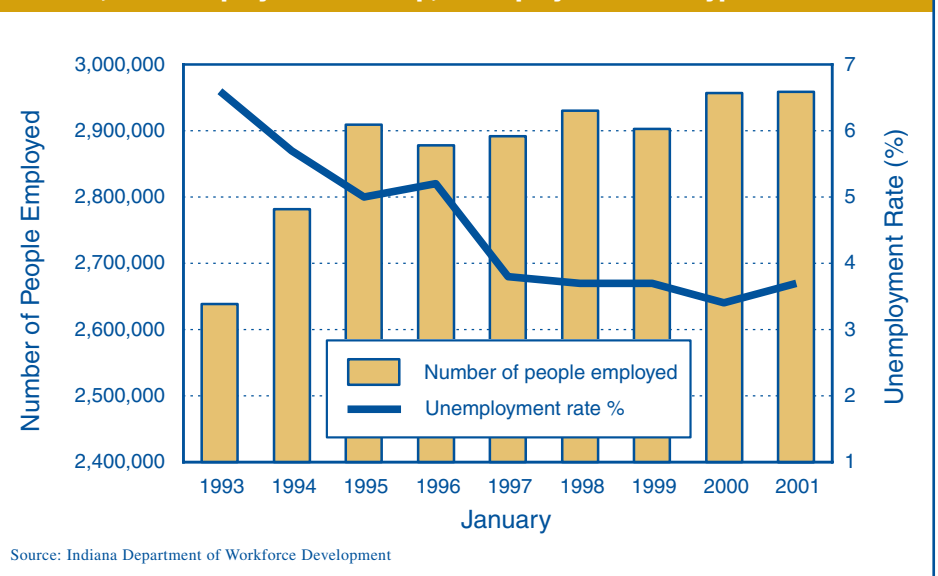
the previous January. The economy of Indiana apparently is still generating new jobs despite the fact that unemployment also is higher.

There is another reason why a higher unemployment rate in January 2001 was to be expected. That is the uncertainty about the reported unemployment rates in the last four months of 2000. The process of estimating the state unemployment rate is usually very accurate, but there is always some margin of error. And there were indications that the calculations in September through December last year were coming out at the low end of that margin. If that was in fact the case, then we would have expected to see an increase in the reported rate in January, even if there was no actual change in unemployment, just to get the numbers back on track.

No one likes to see higher unemployment. Given the January

Figure 1: January Employment and Unemployment in Indiana

In 2001, total employment was up, unemployment was typical



numbers, though, there is no recession in sight yet for Indiana.

Some metro areas show weak economic results

Statewide, the economic numbers may have been comforting in January, but some of the state’s metropolitan areas turned in much weaker performances.

Auto manufacturing layoffs in Kokomo helped doubled the unemployment rate there to 8% in January. Kokomo’s rate, up from 4% in December, was by far the highest unemployment rate in any Indiana metro area.

Unemployment also rose in two metro areas that historically have turned in some of the state’s strongest economic numbers. January unemployment in Bloomington and Elkhart-Goshen was up from December and also was higher than in January a year ago.

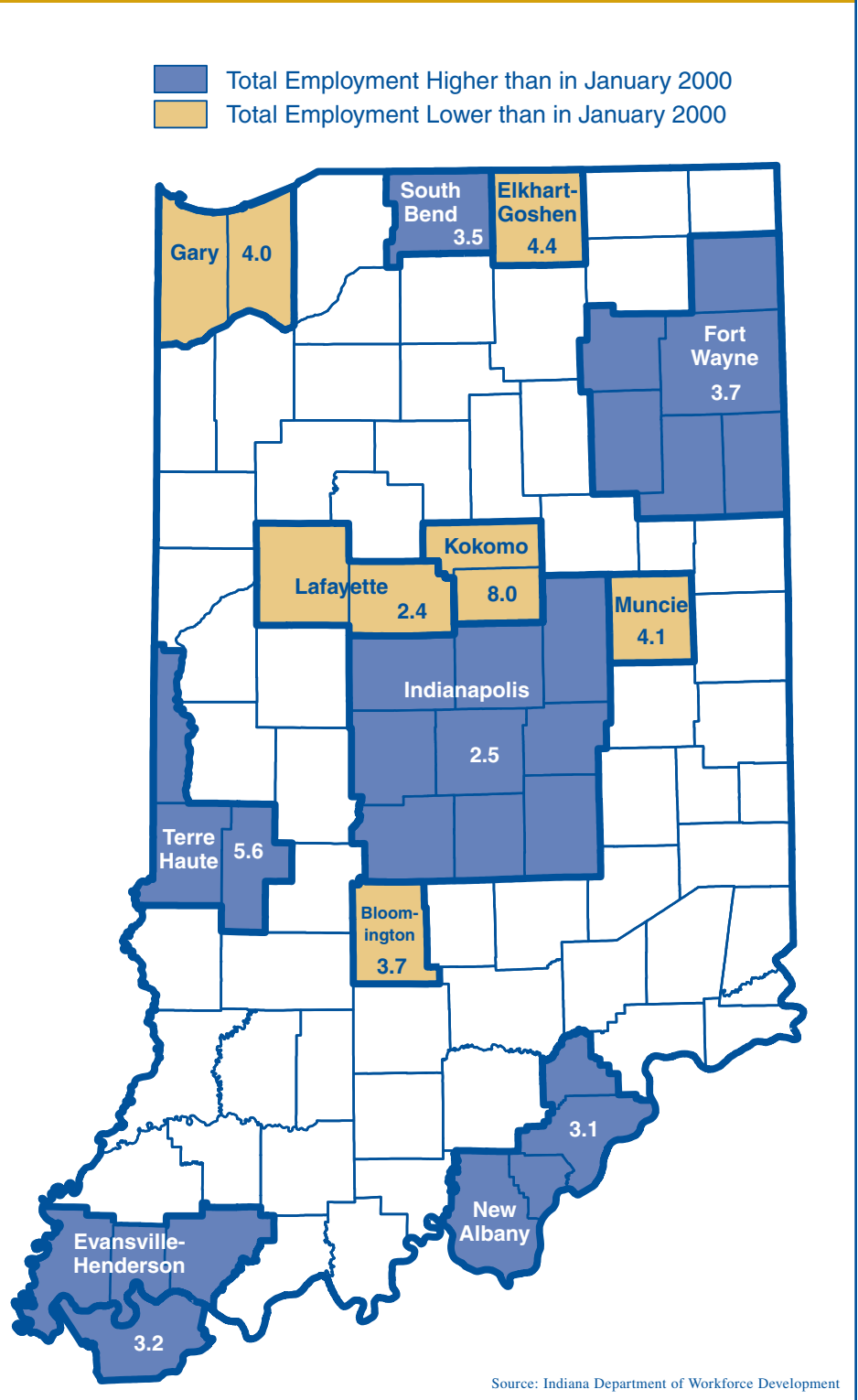
Other areas showed continued strength. Compared to the preceding January, this January’s unemployment rate was down in Evansville, Gary, South Bend and Indianapolis.

Unemployment rates aside, as the map on this page shows, some Indiana metro areas continue to grow in total employment. Evansville, Fort Wayne, Indianapolis, New Albany, South Bend and Terre Haute all had more people employed in January 2001 than in January a year ago. In the case of Indianapolis, the increase in employment over last January was more than 28,000 people.

**At the time of publication, the U.S. Bureau of Labor Statistics had not yet released benchmark data for 2000.*

Figure 2: January 2001 Unemployment Rates by MSA

Shadings show employment in comparison to January 2000



No Recession in National Unemployment Data

Unemployment is a serious matter. But the data gathered for determining labor market conditions do not always have the financial resources from Congress that they need to give the clearest possible picture of the nation's economy. Often we must wait until more data are gathered before drawing any conclusions from the information at hand.

A good example of this problem occurred with the release of the January 2001 data from the U.S.

Bureau of Labor Statistics. Amid great concern about the state of the U.S. economy, these data were jumped on as "evidence" of a recession-in-the-making. Let's look at the data in Table 1.

From December 2000 to January 2001, the number of unemployed people in the nation rose by 303,000, or 5.4% (see Table 1). This is an impressive jump — until it is seen in perspective.

Since the beginning of 1948, we have 636 monthly observations of the

change in the number unemployed. Of these monthly changes, 10.4% were either greater than 300,000 or less than -300,000. Therefore, on average, we can expect a change of 300,000 or more in the number of people unemployed once every 10 months. This suggests that such changes are not extraordinary.

Next let's look at the 5.4% increase in the number unemployed. The distribution of such percentage changes is shown in Figure 1. More than 80 times, the change in the number unemployed was between -1.6% and -0.5%. There were 18 observations in this series that fell between 4.6% and 5.5%. Again, this is not an extraordinary event.

The mean value of this series of changes is 0.25% with a standard deviation of 4.15%. Thus, the 5.4% change observed in January 2001 was 1.3 times the standard deviation and well within the range of values historically observed in this series. In short, a change of 303,000 (an increase of 5.4%) in the number unemployed is not itself a statistically disturbing finding.

A recession in the making?

There is no question that an increase of 303,000 reflects real hardship for those who lost their jobs. But is it the start of a recession? That answer must await more information. Yet while U.S. unemployment was increasing in January 2001, 163,000 more people reported that they were employed than in the previous month. That marks the sixth consecutive month of employment gains, a total of 1,101,000 more people at work than in July 2000.

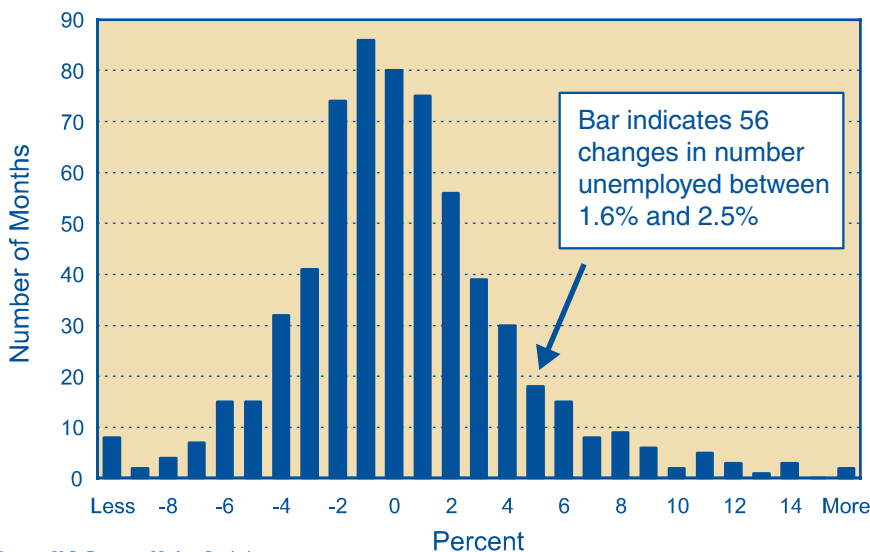
Table 1: January U.S. Employment Not Unusual

United States (000s)	Dec. 2000	Jan. 2001	Numerical Change	Percent Change
Labor Force	141,489	141,955	466	0.3
Employed	135,836	135,999	163	0.1
Unemployed	5,653	5,956	303	5.4
Unemployment Rate	4.0%	4.2%	0.2%	

Source: U.S. Bureau of Labor Statistics

Figure 1: Count of Monthly Changes in Numbers of Unemployed, 1948–2000

How large a percent change is normal?



Source: U.S. Bureau of Labor Statistics

In January 2001, the total unemployment rate rose to 4.2% of the labor force from 4.0% in December. At the start of the last recession — July 1990 — the unemployment rate rose to 5.5% from 5.2% and proceeded to increase to 7.8% in June 1992 (see Figure 2). As is characteristic of a recession, not only did the total unemployment rate rise, but the percent of the labor force unemployed 15 weeks or more also rose in this period. But in the current period, there is no evidence that this long-term unemployment rate is rising.

Although there is much uncertainty about the economy at this time, the evidence is not present in the unemployment rate to declare that a recession is upon us.

States in recession?

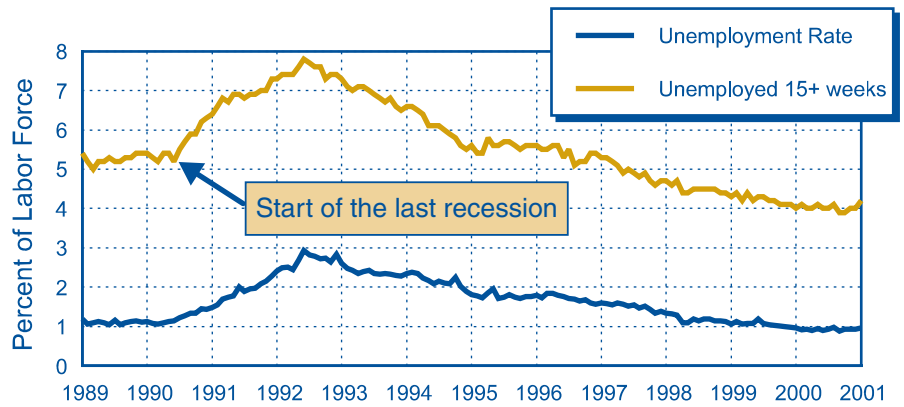
Although no national recession is evident, there may be unemployment recessions in a number of states (see Figure 3). Fifteen states and the District of Columbia had two or more consecutive quarters of rising unemployment rates. Nine of these 15, including Illinois, Michigan and Tennessee, experienced rising unemployment rates for at least three quarters in a row.

On the brink of an unemployment recession are eight states, including Kentucky. These states had rising unemployment rates in the most recent quarter and could tip into a recession in the first three months of 2001.

At the same time, four states (Arkansas, Montana, New Mexico and Ohio) are on the watch list. While their percentage unemployment rate did not increase in the fourth quarter, they

Figure 2: U.S. Unemployment Rates, 1989–2001

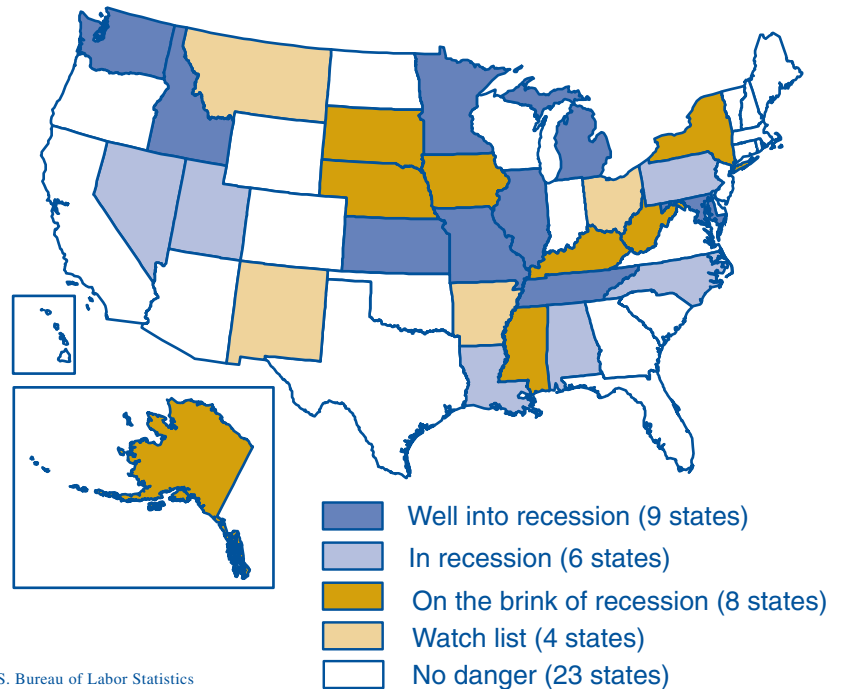
Standard and extended rates did not increase much in January



Source: U.S. Bureau of Labor Statistics

Figure 3: Quarterly Unemployment Rates Signal Recession in Some States

Indiana's fourth quarter still strong



Source: U.S. Bureau of Labor Statistics

show other signs of weakening labor markets. The remaining 23 states, including Indiana, Wisconsin, Florida and California, had no increase in

unemployment rates in the most recent quarter (2000:4) and reported other labor-market indicators at varying but not yet worrisome levels.

Building Permits: Useful Indicator or Meaningless Information?

At the national level, the New Housing Permits Data series is one of the 11 data sets comprising the Composite Index of Leading Economic Indicators. The housing market is generally seen as one of the first economic sectors to rise or fall when economic conditions improve or degrade, and housing permits and starts can be early indicators of activity in the housing market. New residential housing construction generally leads to other

types of economic production. The new-housing market is sensitive to interest rate changes and therefore sensitive to changes in interest rates initiated by the Federal Reserve. Locally, the new-housing market is affected by those same national interest rate fluctuations, but it also may be influenced by strictly local factors.

How good, though, are building permits data for local use at the county or place (city or town) level? Do the

data get close to the number of housing units eventually constructed? Why are there differences between the cumulative monthly numbers and the annual data? This article explores answers to those questions in order to help the user of such information recognize and understand its limitations.

What's in a name?

Building permits is shorthand for the official Census Bureau description, which is *new privately owned housing units authorized by building permits in permit-issuing places*. There are a couple of good reasons for the lengthy name. One is to make it clear that the permit is for a new housing unit, and one that will be privately owned. Another reason is to indicate that permits are those issued by an authorized, permit-issuing place, which is usually a city or town but is sometimes a county covering unincorporated territory.

Just a piece of paper?

A permit is still just a piece of paper, right? What most users of building permits information want to know is, how many permits result in a completed housing unit?

The federal government conducts monthly surveys of actual housing starts, which result in a set of national estimates of those units where construction has begun. But it cannot afford to do that at the state or local level. There are periodic surveys to discern, by region of the country, just how long it takes from permit to start of construction and how long from start to finish.

Table 1: From Permit to Start of Construction, Average Number of Months

1999	Midwest Average Months	United States Average Months	STANDARD ERROR	
			Midwest	U.S.
1 unit	0.5	0.7	9	3
2 to 4 units	0.5	1.1	*	18
5 units or more	1.4	1.8	21	5

Source: U.S. Census Bureau *Unreliable; standard error for this estimate was too large

Table 2: Percent Distribution of Permit-Authorized Housing Units Started By Number of Months from Authorization

1999 Number of Months	MIDWEST			UNITED STATES		
	1 unit	2-4 units	5 or more units	1 unit	2-4 units	5 or more units
Prior to or same month	59	66	45	55	48	32
1 month	32	25	27	33	28	28
2 months	5	3	8	7	11	14
3 months	1	2	7	2	6	7
4 months	1	1	3	1	2	8
5 or 6 months	<0.5	2	4	1	3	6
7 months or more	<0.5	<0.5	5	1	2	4

Source: U.S. Census Bureau

Table 3: Average Number of Months to Complete New One-Family Housing

1999	Midwest Average Months	United States Average Months	STANDARD ERROR	
			Midwest	U.S.
1-unit houses	7.0	6.2	3	1

Source: U.S. Census Bureau

Recent survey results show that on average, there is less than a month's elapsed time between the permit authorization and the beginning of construction in the Midwest region (which includes Indiana) and for the nation as a whole (see Table 1). The majority (96%) of single-family housing units authorized in the Midwest in 1999 were *started* within two months of permitting (see Table 2). However, it took an average of seven months to *complete* a single-family unit in the Midwest, compared to 6.2 months nationally (see Table 3).

There are no definitive answers available to us regarding the number of permit-authorized housing units that go un-built. However, we may be able to infer from the data in Table 2, which show that less than 1% of permits aren't begun within a seven-month period of time, that 1% or fewer don't get started. Local economic and building conditions are the final arbiters on this question.

When are the data available and for what geography?

Monthly data are available for those permit-issuing places that have been asked by the U.S. Census Bureau to voluntarily report on a monthly basis. There are approximately 9,000 such permit-issuing places nationally. The remaining 10,000 places report on an annual basis. An important aspect of this reporting by permit-issuing places is that it is voluntary. As a result, some places don't always report on time or at all in a given year (for example, in 1999, 22 Indiana cities, towns and unincorporated areas had not reported to the Census Bureau). When this

occurs, the Census Bureau "imputes" data based on trends from the previous years.

The bottom line: When using monthly building permits data, be aware that zeroes may only indicate that the place you have located doesn't report monthly. That is, if a user needs a definitive number of permits for many or all areas in Indiana (or any other state), using the annual data is the most comprehensive set of data. But even the annual data are subject to imputation for those places that didn't send in annual reports.

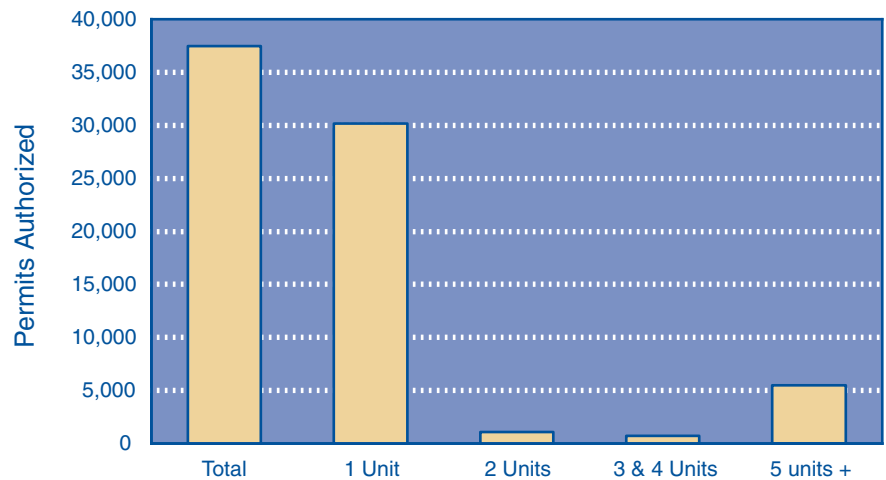
Where are they?

Building permits data are collected monthly and annually (via two separate reporting mechanisms) down to the place (aka city or town) level and are published via the Census Bureau's Web site. Approximately six weeks separate the reference month

(the month for which the data are collected) from the public release of the data. For example, state and place data for December 2000 were available by early February 2001 (see Figure 1). The majority of building permits data — national, state, metropolitan areas and places — are available on the U.S. Census Bureau's Web site. Annual data for counties are not available via the Web site but are available for purchase from the Bureau. However, annual Indiana county permits data are released on *STATS Indiana* (www.stats.indiana.edu).

For more detailed background and methodological information, turn to the construction statistics component of the Bureau's Web site, where a wealth of detailed statistics and documentation on housing stats, building permits and other construction data are available: www.census.gov/const/www/index.html.

Figure 1: New Residential Housing Unit Permits Authorized in Indiana
Cumulative, January to December 2000



Source: U.S. Census Bureau

IN CONTEXT

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IN Depth:

For all the latest state and county figures and complete time series data sets related to the Indiana economy, visit the following Internet sites:

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