Testimony of Mr. Rick Wajda

Chief Executive Officer

On Behalf of the

Indiana Builders Association

Before the

Senate Special Committee on Aging

Hearing on:

Housing Issues

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Chairman Casey, Ranking Member Braun, and members of the Senate Special Committee on Aging, I am pleased to appear before you today on behalf of the Indiana Builders Association (IBA), to share our views on the state of housing and the barriers our industry is currently facing to provide safe and affordable housing at all price points and for all sectors of the home-buying public, including older Americans.

My name is Rick Wajda, and I am the Chief Executive Officer for the Indiana Builders Association.

The Indiana Builders Association represents over 2,600 member companies engaged in the residential and light commercial construction industry across the state of Indiana and we are affiliated with the National Association of Home Builders.

The primary challenge to the building industry is the lack of attainable, affordable housing in the single-family and multi-family markets. These challenges are consistent across the board for rental units as well as for sale housing.

Indiana has done an excellent job over the years of attracting employers to our communities and making our state a great place to live, but with low inventory and rising material and labor costs, our members are having a difficult time providing workforce housing to Hoosiers.

Record low inventory and a building industry that has not met current demand for new housing at various price points has created a shortage of available workforce housing. Estimates indicate a shortage of new homes across the state of 30,000 to 50,000 units. Put into context, Indiana needs 18k to 22k new houses a year to meet average demand and produced 18,614 new homes in 2020, for the first time since 2007.

Why were home builders underbuilding coming out of the recession?

After the downturn, the number of home builders declined significantly and the availability of financing for acquisition, development, and construction (AD&C) activities were severely constrained. These factors significantly limited the production of new housing when housing demand was increasing.

According to the National Association of Home Builders Priced Out Report, the 2023 median new home price in Indiana is $397,428. The income needed to qualify for the median new home price is roughly $120,000. Of the approximately

2.8 million households in Indiana, 75% are unable to afford the median price of a new home. These numbers hold true across the country as well.

In Pennsylvania, 86% of households are unable to afford the median price of a new home. Ohio-81%; Nebraska-75%; Arizona-81%. The U.S. average is 73% for households unable to afford the median price of a new home.

On top of these already challenging dynamics, any increase in housing costs pushes potential buyers out of the market. In Indiana, for every $1,000 increase in the cost of a house, over 3,000 households are priced out of the market. Nationally, that number is over 140,000.

Take for example inflationary pressures and rising mortgage rates. In March of 2020, the new median house price in Indiana was $296,265 and the interest rate on a 30-year mortgage was 3.5%. Assuming 20% down, the monthly payment, excluding taxes and property insurance, was $1,064 a month.

Today, the same house costs $397,428 or 34% more and the interest on the same 30-year mortgage is 7.25%, more than double the rate.

As a result of these increases, the new monthly mortgage payment today is $2,168; $1,100 more a month for the same house.

The fact is homeownership is unattainable for many across Indiana including two-earner households due to tight supply, inflationary pressures, regulatory costs, and rising mortgage rates.

Which is why we must look at reducing the cost of housing at all levels.

According to the National Association of Home Builders Economics Group, nearly 25% of the costs of a new home nationwide can be attributed to regulations.

Regulations come in many forms and can be imposed by various levels of government. At the local level, jurisdictions may charge permit, hook-up, and impact fees and establish development and construction standards that either directly increase costs to builders and developers, or cause delays that translate to higher costs. State and federal governments may be involved in this process directly or indirectly. For example, restrictive building codes add thousands of dollars to the cost of a house, making it that much more difficult to qualify for a mortgage.

In terms of identifying solutions to improve affordability, we must rebuild the industry's infrastructure, which includes our labor force and reliable sources of lending and building materials. All regulations should be examined for their impact on housing affordability. Communities can reduce the cost of producing new housing by eliminating fee increases, assisting with infrastructure costs, and allowing for higher density housing where the market demands it. Our aging population may want to age in place or age in community. Creativity and options to allow this must be explored and implemented.

In Indiana, the General Assembly recently concluded and passed legislation that creates a residential infrastructure fund to the tune of $75 million dollars over the next 2 years, to assist communities in building out infrastructure for residential housing. Think, sewers, roads, sidewalks, etc. This transformative piece of legislation will open areas for development and reduce the infrastructure costs currently paid for upfront by the builder/developer, but ultimately passed on in the cost of the house to the homebuyer.

In conclusion, our citizens, and particularly older Americans, want to choose where they live and the type of home that best meets their needs. Our industry stands ready to assist in helping to expand the availability of safe and affordable housing.

Thank you, Chairman Casey, Ranking Member Braun, and members of the Committee, for your time today.