INDIANA ASSOCIATION OF REALTORS®

RESEARCH SUMMARY · AUGUST 2026

How We Live, Where We Buy, What We Build

Indiana's housing shortage isn't just a deficit of units. It's a mismatch between the homes we build and the households we're adding.

Households with 1-2 people account for 76% of the state's growth. But starter homes under $250,000 have dropped from 32% of our new homes to only 5%.

Lack of available and affordable housing inventory is consistently identified as the top business issue for Indiana REALTORS®; residential construction has never fully recovered from the Great Recession and lags well behind household growth.

But Indiana's housing shortage isn't just a statistical deficit of interchangeable units; it's also a mismatch of new development and demographic demand: The homes we build should reflect the needs of the households we're adding and be attainable by reasonable market standards.

Recent growth is driven by domestic and international migration and concentrated in smaller (1-2 person) households, which translate to more immediate housing demand.

This analysis shows that new construction has shifted, but not quickly enough to match household formation trends, to the particular detriment of young first-time homebuyers and older homeowners considering downsizing options. The cost of new construction is also unaffordable for the majority of Hoosier households.

Local land use policies, development standards and other regulatory costs play a role in distorting the building market and worsening our affordability challenges. While there's no single solution, there are a series of reforms and opportunities to better meet today's housing needs and maintain a healthy homeownership rate.

HOUSEHOLD GROWTH + EXISTING HOMES

Indiana is adding small households fast. This is changing the market.

8 for 10

Eight new households for every 10 population gained since 2019

ACS 5-Yr Estimates

76%

Of household growth since 2019 is 1-2 person households

ACS 5-Yr Estimates

55%

Of growth in homeowners are 1-2 person households

ACS 5-Yr Estimates

Growth Trends: Indiana is adding more – but smaller – homeowner households.

Indiana's population growth since 2010 has been solid – behind only Minnesota within the Midwest-Great Lakes region, in the middle of the pack nationally. But how we've grown has shifted: Birth rates have declined but migration (international and domestic) has increased, helping half of Indiana's counties grow from 2024 to 2025.

More new households are being formed relative to population growth, driving strong demand for new housing. Since 2019, Indiana has added nearly eight new households (homeowner and renter) for every ten new Hoosiers; 76% of these households are 1-2 occupants as our average household size fell below 2.5.

Among new homeowner households, 55% fall into this category: Indiana added nearly 150,000 owner-occupied households between 2019 and 2024 and 80,000 are 1-2 person.

Household size affects housing demand and price.

In 2019, a four-bedroom home in Indiana sold for a 2% premium (on a price per square foot basis) compared to a three-bedroom home. One or two-bedroom homes sold at meaningful 7% discount. (Our comparisons use price per square foot to control for overall size; we also control for location and other market factors to assess bedroom count as a driver of price.)

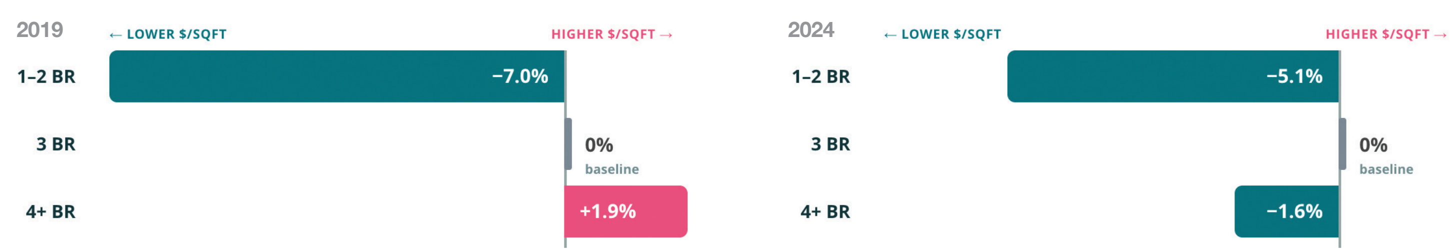
In short, Hoosiers paid more per square foot for larger homes configured to support larger households in 2019.

But by 2024, the 4+ bedroom premium had collapsed into a –1.6% price penalty; four bedroom homes now sell for slightly less (per square foot) than three-bedroom homes.

1-2 bedroom homes still don't sell for quite as much as three-bedroom homes but have gained value relative to all new construction in counties where small (1-2 person) households are growing the fastest.

In 2019, larger homes commanded a per square foot premium and smaller homes were discounted. By 2024, the premium for large homes was gone. Smaller homes got less of a discount.

Difference in price per square foot versus a 3-bedroom home, controlling for location and home characteristics.



Source: Indiana Association of REALTORS® MLS data

Read the full research: data.indianarealtors.com/what-we-build

Understand Indiana's growth, household formation, and new construction market.

- **Map:** Every county, grouped by the demographic changes driving its growth
- **Zoning Library:** Lot and parking minimums, ADU rules for 50 Indiana cities and towns
- **Visualize:** Cost breakout for the typical new home

NEW CONSTRUCTION MARKET

Lot sizes are shrinking despite zoned lot minimums. But houses are still growing larger and more expensive.

5%
Of new homes sold on the MLS are $250,000 or less
IAR MLS Data

3 ▸ 4
Median bedroom count in new homes rose from 2019 to 2024
IAR MLS Data

30% ▸ 8%
Large-lot subdivisions dropped as a share (2015-2025)
Sales Disclosures, Indiana Gateway

Market Mismatch: Despite the trend towards 1-2 person households, more new construction homes have four or more bedrooms.

In 2019, 48% of new single-family homes in Indiana had four or more bedrooms. By 2024, contrary to the growth in 1-2 person homeowner households, that share had climbed to 54%. Four-bedroom (or larger) homes are still the majority of new construction MLS sales in 2026.

Larger homes are obviously more costly; new construction pricing has been flat over the past 24 months (June 2024 – June 2026) – but while new construction price per square foot is 13% higher than existing homes, the final median sale price of a new home sold on the MLS is 45% higher than existing homes.

New construction ‘starter homes’ are now a rarity: As recently as 2019, 32% of all MLS new construction sales were $250,000 or lower; over the last twelve months, just 5% of all new construction listings sold at or below $250,000.

Builder and consumers already want smaller lot sizes, but zoning is a frequent roadblock (or a discretionary process that increases costs).

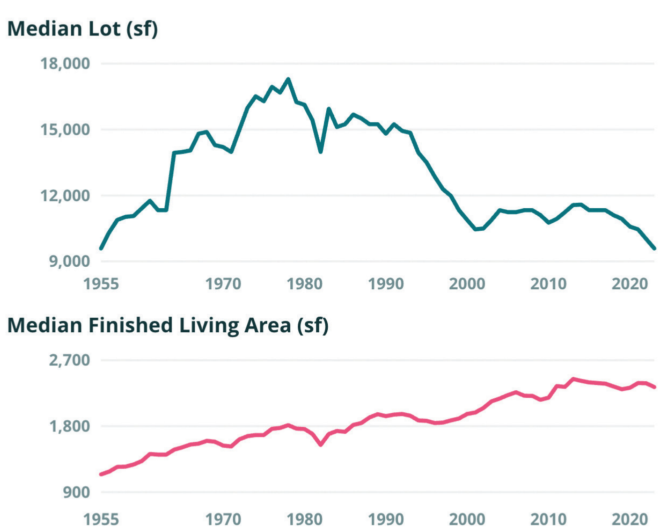
Indiana’s median residential lot size has fallen from a late-1970s peak of 17,000 square feet to roughly 9,600 square feet; this is still larger than the national lot median (8,500 square feet).

Consumer preference for smaller lots (and more walkable neighborhoods) has already moved the market (large-lot subdivision development has fallen by more than two-thirds in the last decade), but large lot size minimums still drive land use policy.

In suburbs like Westfield, Zionsville and Fishers, the typical new lot is already smaller than the smallest published zoning minimum; this means builders are negotiating Planned Unit Developments or securing variances, adding months of delay and carrying costs.

We now build in 1955-sized lots, but the houses are twice as big.

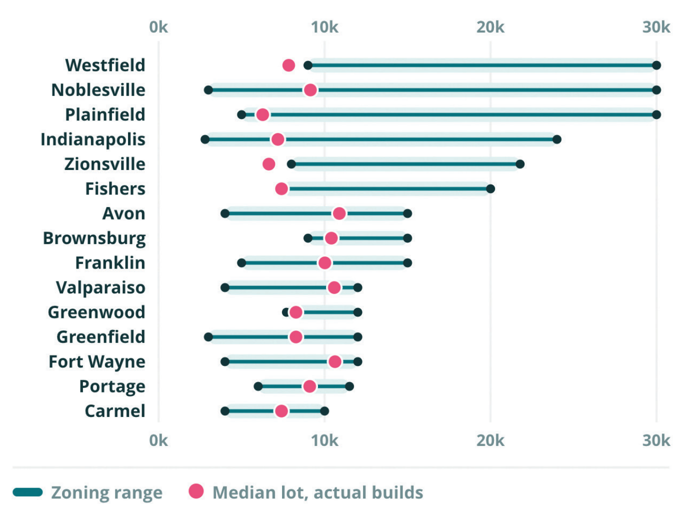
Median lot size and finished living area, 1955-2023



Source: Sales Disclosures, Indiana Gateway

Many growing communities use planned developments to get around outdated zoning codes

Top 15 cities by 2025 new-build sales, lot minimums vs. actual median lot



Source: Sales Disclosures, Indiana Gateway; Zoning ordinances collected from individual municipalities (data.indianarealtors.com/zoning-library)

Sales disclosures do not classify new construction. Values are estimated based on seller name. MLS new construction data is a only a share of all new construction, but is geographically representative. Full method and sources: data.indianarealtors.com/what-we-build

SOLUTIONS

Can we build new homes aligned with demand and attainable to younger homebuyers? No silver bullet solutions, but opportunities for reform.

Addressing these issues requires a full-court press of policy solutions similar to those directed at Indiana's overall housing shortage – these are overlapping challenges that share a root cause: Regulatory regimes and cost schedules at the local level that are almost uniformly focused on limiting rather than expanding our housing supply and allowing the market to deliver more diverse options suited to today's households. **Here are four levers for promoting starter-to-downsized new construction.**

01 Land use Lot size and planned development

The average 100-acre development in Indiana produces 454 new homes. **If we built at the national median lot size, that same development would create 513 homes, or a 13% increase in new construction.**

The National Association of Home Builders estimates that regulatory roadblocks and **delays add roughly $10,000 to the cost of a new home**. It's challenging to quantify this regulatory drag on the state level, but these hurdles are eliminated by reducing minimum lot sizes buildable by right rather than permission; reducing the minimum lot size further reduces the 'excess lot' disincentive to building smaller, 2-3 bedroom homes.

02 Material costs Regulatory mandates focus on aesthetics over affordability

Strict development standards in many communities – mandates around certain types of façade materials, aesthetic architectural requirements, etc. – add per-unit construction cost and skews the profitability calculation towards larger homes.

03 Other rules and mandates

Disproportionate **impact fees, minimum setbacks and off-street parking requirements** all add additional cost to the typical new construction home; the two-car garage mandate that is common in suburban new development is especially onerous for expanding the physical footprint of a home in a statewide market where 40% of new households are a single person.

Indiana is already implementing new laws limiting the scope of permitting and impact fees while allowing builders to seek private inspections to accelerate public approvals.

04 Encourage innovative construction methods and business models:

Value-focused builders are delivering new homes at or near $250,000 by changing how they build, not just where: **Manufactured and modular construction cuts building costs roughly in half compared** to site-built homes, and Indiana is already a leader in modular home construction.

Federal policy is starting to catch up: Congress ended the outdated chassis requirement for manufactured homes this year, opening the door to more financing options; state and local policymakers should be similarly proactive in restructuring the rulebook to welcome these affordable residential options.

Indiana builders who did achieve a $250,000 price point often did so by building **alternative products**, like 1,200-1,400 square foot homes to reduce building costs or **attached (townhouse-style) units** to spread shared costs over more homes.

A Blueprint for Building Smaller and Smarter

Reforming zoning, fees and development standards removes friction in the new construction pipeline that skews the market towards larger homes when builders could profitably be thinking smaller – smaller lots and smaller homes to fit smaller households. Removing regulatory barriers to building also harnesses market forces to improve affordability; rising inventory has a positive and significant relationship with slowing price appreciation.

Ultimately, focusing on smaller, more affordable options serves two fast-growing household cohorts – first-time owners and downsizing seniors whose moving choices, in turn, make room for new migrants and growing families.