

# Indiana

## Business Review



**Demographic Changes and Future Housing  
Demand in Indiana: A Preliminary Look**

**A publication of the  
Indiana Business  
Research Center,  
Indiana University  
School of Business**

**Fall 1991**

# Contents

## *Indiana Business Review*

Volume 66, Number 4  
Fall 1991

Published six times each year by the Indiana Business Research Center, Graduate School of Business, Indiana University.

Jack R. Wentworth, Dean;  
Morton J. Marcus, Director and Editor; Brian K. Burton, Managing Editor; Carol O. Rogers, Contributing Editor; Melanie Hunter, Senior Editorial Assistant; Melva Needham, Dorothy Fraker, Circulation; Jo Browning, Office Manager. Printed by Indiana University Printing Services.

Unless otherwise noted, information appearing in the *Indiana Business Review* is derived from material obtained by the Indiana Business Research Center for instruction in the School of Business and for studies published by the Center. Subscriptions to the *Indiana Business Review* are available to Indiana residents without charge.

1

George H. Lentz and Maurice K.S. Tse  
**The Relationship Between Demographic Changes and Future Housing Demand in Indiana: A Preliminary Look from the Census**

9

Lynn E. Minick  
**A Labor Perspective on Workplace Literacy**

# The Relationship Between Demographic Changes and Future Housing Demand in Indiana: A Preliminary Look from the Census

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**T**his article summarizes a portion of a report prepared by the authors for the Indiana Housing Finance Authority to determine the adequacy and affordability of the supply of housing within the state to meet the current and projected future needs of the state's diverse household population.<sup>1</sup> To assess the housing situation in Indiana, the report addressed the following questions:

- How are demands for housing in Indiana changing in accordance with trends in demographics?
- What is the condition and what are the trends of housing affordability in Indiana, especially for low to moderate income homeowners and renters?
- What is the condition and what are the trends in the adequacy of the stock of housing, with housing adequacy being defined as the physical conditions of the housing units (physical adequacy) and by the extent of overcrowding (spatial adequacy)?

We will address only the first of these questions, the relationship between demographic changes and future housing demand in Indiana. Unfortunately, large blocks of information from the 1990 Census, particularly data relating to income and housing conditions at the state level, have not yet been released. Therefore, the portions of the report dealing with housing affordability and the habitability conditions of the housing stock within Indiana are incomplete. Rather than relate these portions of the report at this time, we prefer to wait until more information is released from the Bureau of the Census next year.

## Housing Demand

Housing demand refers broadly to the number and types of housing units demanded in a population. It is essentially local in nature, and arises primarily from two sources: area demographics, which constitutes the raw material of housing demand and establishes the need for housing; and the current and expected future income of households, which provides the economic ability to obtain housing units. In other words, income converts the need for shelter into effective demand for housing. For the majority of households, income is principally a function of the employment opportunities available to the household head and the other working members of the household. But for householders (heads of households) who are retired, elderly, unable to work, or whose income is below a certain level, income comes largely from pensions and retirement plans and entitlement programs such as social security and welfare payments.

## Population Changes and Housing Demand

Demographic, or population, variables are important determinants of the demand for housing. Demographic variables relevant to housing can be divided into three major categories: 1) the size of a popula-

tion; 2) the composition of the population; and 3) the number and types of households that are formed by individuals in the population. Projections of housing demand generally begin with demographics.

**Population Size.** The size, or volume, of the population at any one time is not in itself particularly important for assessing housing demand. Much more important for housing demand are changes in the size of the population as a whole and of subgroups within the population. Population growth or decline, and the rate of growth or decline, are the dynamic components of population size. Changes in the size of a particular area's population come from additions to and subtractions from the area's population resulting from births, deaths, and migrations of people into (in-migrations) and away from (out-migrations) an area.

Population growth has slowed dramatically in Indiana over the past 30 years. Between 1960 and 1970, Indiana's overall population increased by 11.4%, from 4,662,498 to 5,193,669. From 1970 to 1980, the population increased by 5.7% to 5,490,224. But from 1980 to 1990, the population increased by less than 1% to 5,544,159.

**Population Composition.** Population composition refers to the makeup of the population, with individuals grouped into age, sex, income, racial, ethnic, and other categories. Changes in population composition are a function of relative rates of births, deaths, and migration among different population groups. Only the age and racial/ethnic composition of Indiana's population were examined in the report.

## Age Composition of the Population

The age distribution of the population and changes in the age distribution are important for assessing housing demand because householders in different age groups tend to exhibit different housing demands. Moreover, changes in the size of particular age groups have important implications for future housing demand.

Trends in the age profile of the population need to be considered to formulate a picture of current and future housing demand. We constructed the age profile of the population of the state to reflect householder age groupings used by the Bureau of the Census, which are as follows: 15 to 24, 25 to 34, 35 to 64, 65 to 74, 75 to 84, and 85 and over.

The youngest householder population group, age 15 through 24, insofar as they form separate households (are not dependents or residents of group quarters or institutions, such as university dormitories), tend largely to occupy rental housing. Householders in the 25-34 age bracket have been the largest source of first-time homeowners, although a substantial portion of householders in this age bracket continue to be renters. The large majority of householders in the

35-64 age bracket are homeowners, and householders in this age bracket are the major source of second round, or upgrade, homeowners.

Elderly householders, those age 65 and over, generally tend to prefer housing units of moderate cost that permit them to live independently for as long as they can. This may mean "trading down" to smaller homes or perhaps returning to rental units. But a large portion of elderly households also continue to live in the housing units in which they have been living for some time, thus indicating a possible need for maintenance and repair assistance for elderly homeowners. The super elderly, those 75 and over, tend to have a much greater need for assisted housing facilities or group quarters, such as nursing

homes. However, though many of the super elderly may not be able to live fully independent lifestyles, they often do not need the full services of a nursing home, which means other options for assisted living may be desired.

Table 1 displays the number of persons in each of the above age brackets for the census years of 1970, 1980, and 1990, except that the 75-84 and 85-and-over brackets have been combined into one bracket. The under-15 age bracket is shown for completeness. Figure 1 displays the age profile of the state by the percentage of the total state population in each bracket for the same three census periods.

The census data show a very different trend in the age profile of the state for the 1980s than for the 1970s. Over the decade of the 1970s, the largest numeric and percentage increase occurred in the 25-34 age bracket, with a numeric increase of approximately 235,000 and a percentage increase of 36.7%. The smallest percentage gain occurred in the 35-64 bracket (3.9%), although this bracket still had a sizable numeric increase of 62,676.

Over the decade of the 1980s, the 35-64 and 25-34 groups reversed positions with respect to relative gains. The 35-64 age group showed the largest jump, with an 11.7% increase from 1980 to 1990 (a numeric increase of about 196,500). The 25-34 age group, on the other hand, showed only a 4.7% rise (a numeric increase of about 41,000). The changes relating to the 25-34 and 35-64 age groups over the past two decades reflect the advancement of the "baby boom" generation to "middle age," the entrance of the "baby bust" generation into adulthood, and possibly the large out-migration of younger adults that occurred in the early 1980s.

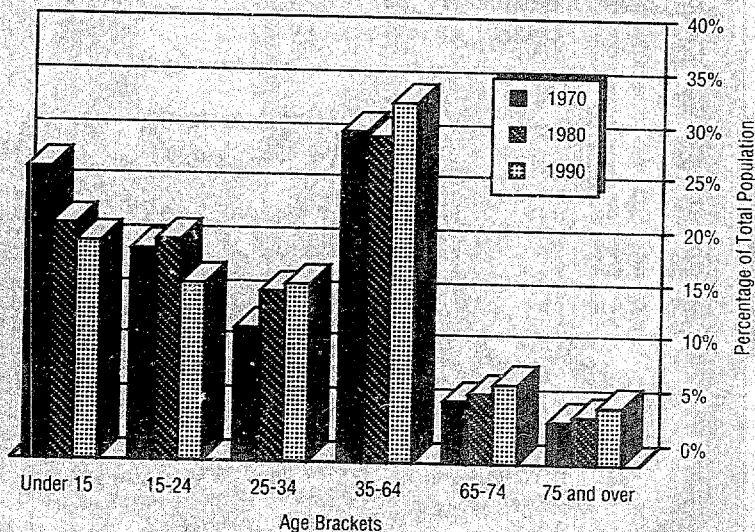
The effect of the "baby bust" is evident in the trends of the youngest population groups. From 1970 to 1980, the 15-24 age group increased by 131,325, a 14.3% rise, but from 1980 to 1990, this age group decreased by 203,075, a 19.4% decline. The size of the under-15 age group as well as its share of the state's population declined over each of the past two decades, clearly indicating a long-term influence of the "baby bust" on future housing demand.

Significant numeric and percentage gains occurred in the elderly population. The 65-74 age bracket grew by 51,736 from 1970 to 1980, a 17.3% increase, and by 51,582 from 1980 to 1990, a 14.7% increase. The 75-and-over age bracket grew by 39,839 from 1970 to 1980, a 20.4% increase, and again by 59,230 from 1980 to 1990, an increase of 25.2%. The increases in the two elderly population groups reflect the general aging of the population. The percentage of the state's population age 65 and older increased from 9.6 percent in 1970 to 12.6 percent in 1990.

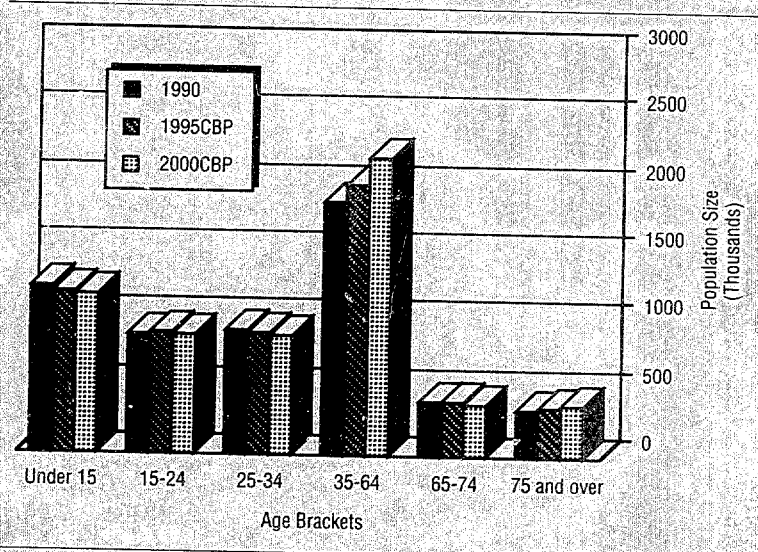
**Table 1**  
Number of Persons by Age Class, and Percentage Changes in Size of Age Class, Indiana 1970-1990

	1970	1980	1990	Percent Change:		
				1970-80	1980-90	1970-90
State Population	5,193,669	5,490,224	5,544,159	5.71	0.98	6.75
Under age 15	1,317,325	1,306,645	1,215,632	-0.81	-6.97	-7.72
Age 15-24	916,964	1,048,289	845,214	14.32	-19.37	-7.82
Age 25-34	639,471	874,408	915,109	36.74	4.65	43.10
Age 35-64	1,612,822	1,675,498	1,872,008	3.89	11.73	16.07
Age 65-74	298,723	350,459	402,041	17.32	14.72	34.59
Age 75 and older	195,086	234,925	294,155	20.42	25.21	50.78

**Figure 1**  
Indiana Age Profile for 1970, 1980, and 1990



**Figure 2**  
Indiana Population Projections for 1995 and 2000



#### Age-Profile Projections

For a five- or ten-year projection of housing demand, the fertility component of population change is not directly relevant because the people who will be making housing decisions five years from now are already born. The fertility component, though not important for forecasting the aggregate need for housing within a five- or ten-year forecast period, can, however, be important for decisions relating to the type of housing unit demanded, since it can affect expectations about family and household size. The mortality component of population change is also not important unless some catastrophic event or plague-like illness occurs that sharply increases the mortality within age groups that are important consumers of housing units.

Thus, for a five- or ten-year projection of housing demand, focus is normally placed on those age segments of the total population that will be needing housing within that time. These are the segments of the population that will be forming new households, or that are already formed as housing-consuming households, but who will be demanding different housing units because of changes in income, jobs, location preferences, and family and personal situations. Barring significant changes in migration, projecting changes to those age segments of the population that are likely to be demanding housing in the next five or ten years involves essentially following very predictable changes in those age brackets through time.<sup>2</sup>

Figure 2 displays the actual 1990 population and Census Bureau population projections for years 1995

and 2000. Census Bureau projections (CBP) indicate that the 35-64 age group will continue to experience the largest gain in the 1990s, with a projected numeric increase of about 132,700 from 1990 to 1995 and a numeric increase of about 305,900 from 1990 to 2000, a 16.3% rise over the decade. On the other hand, the 25-34 age group is projected to experience a decline of over 29,000 between 1990 and 1995 and a decline over the decade of about 96,100, a 10.5% decrease. The youngest age group, age 15-24, is projected to increase about 18,600 from 1990 to 1995, but then decline about 16,200 from 1995 to 2000, yielding a net increase over the entire decade of only about 2,500, a mere .29% rise.

Contrary to the trend of the past 20 years, the 65-74 age group is projected to decline over the decade of the 1990s, whereas the over-74 age group will experience a sizable increase. The Census Bureau projects a decrease in the size of the 65-74 age group of about 37,200 from 1990 to 2000, a decline of 9.25% over the span of the decade. The projected decline in the size of this age cohort could well reflect the decrease in the fertility rate during the Great Depression.<sup>3</sup> The 75-and-over age group is projected to increase about 38,600 from 1990 to 2000, a 13.1% rise.

The above population projections clearly indicate that the growth of the Indiana population in the 1990s will occur in the maturing segments of the population. The sizable increase projected for the 35-64 age group implies that the largest demand for housing will come from those already housed who move for various reasons, such as upgrading their housing because of an increase in household income, relocating because of job changes, or moving because of changing family situations (increase in the number of children, divorce, or emptying of the nest). The increase in the elderly population implies an increase in the demand for housing and housing services suitable for aging householders in varying states of health and physical capacity.

These projections also indicate a sharp drop-off in the younger segments of the population, who comprise the potential new housing consumers. The decline in the number of people in the 25-34 age group will have a substantial impact on the future demand for both rental housing and single-family homes, and thus on future housing construction. Historically (in recent history at least), this group has been the source of most first-time home buyers. The very small increase projected for the youngest householder age group (age 15-24) indicates a further decline in the demand for rental housing, but it also implies that without a sharp rise in in-migration, demographically driven housing demand in Indiana will be depressed into the 21st century.

