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In May...

Nonfarm Employment
Connecticut..................... 1,688,100
Change over month .... -0.08%
Change over year .... +0.8%

United States 143,894,000
Change over month .... +0.03%
Change over year .... +1.7%

Unemployment Rate
Connecticut............................. 5.7%
United States 4.7%

Consumer Price Index
United States 240.236
Change over year .... +1.0%

2015 State Housing Market: Permits Up, Prices Fall

By Kolie Sun, Senior Research Analyst, DECD

2015 was a strong year for the U.S. housing market, due to high home sales and rising home prices. Connecticut followed the nation in terms of sales, however, prices continued to fall. The multifamily unit segment became more important than ever in the state's housing industry as demand for multi-units is on the rise. In this annual article, we will examine several aspects of the state's housing sector and the factors leading to an increasing demand for rental units.

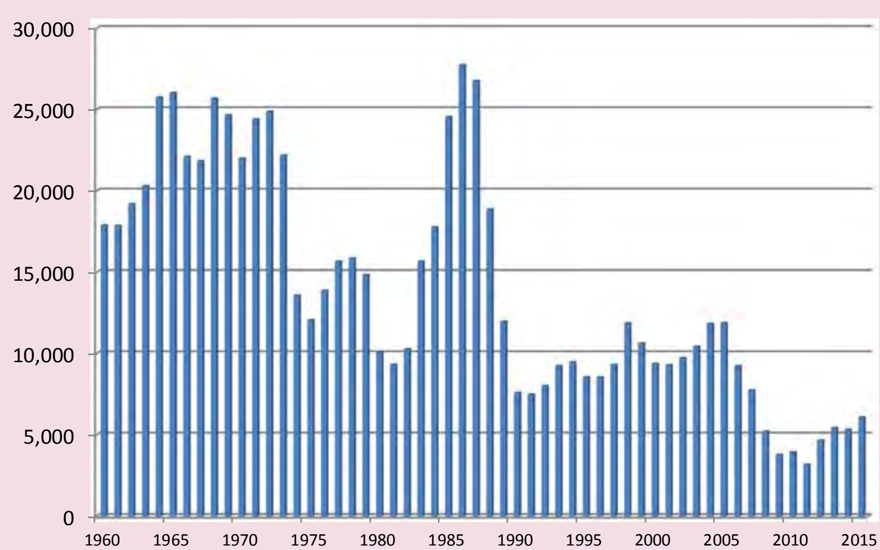
Housing Production

According to the recent Bureau of the Census release, cities and towns in Connecticut authorized a total of 6,077 single and multifamily homes in 2015. Although this level of production represents a 14.0% increase compared to 5,329 in 2014, it is still 21.5% below the pre-recession level of 7,746 in 2007 (see chart 1).

Fairfield County, once again, dominated the number of housing permits with the largest share (42.8%) in 2015, followed by New Haven County (19.1%) and Hartford County (14.7%). Windham County had the smallest share (1.5%). Notably, the state's multifamily units (5 units or more) accounted for over half of the total number of housing units authorized, while 40.1% were single-family homes in 2015. Several municipalities showed strong performance in the multifamily unit category; Stamford led all municipalities with 639 units authorized, followed by Danbury with 551, Milford with 358, Norwalk with 350, and New Haven with 262. The combined permits issued for the top five municipalities accounted for 35.5% of all housing permits issued in the state.

The Department of Economic and Community Development (DECD)

Chart 1. Connecticut Housing Units Authorizations, 1960-2015



THE CONNECTICUT ECONOMIC DIGEST

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Table 1. Median Rent and Share of Renter Households

	Median Rent		% Rent Higher	Share of Renter Households	
Year	US	CT	CT/US	US	CT
2005	$862	$994	15.3%	33.1%	30.5%
2006	$887	$1,031	16.2%	32.7%	30.5%
2007	$878	$1,036	18.0%	32.8%	30.0%
2008	$924	$1,088	17.7%	33.4%	31.0%
2009	$909	$1,086	19.5%	34.1%	31.2%
2010	$905	$1,050	16.0%	34.7%	32.0%
2011	$891	$1,045	17.3%	35.4%	32.6%
2012	$891	$1,027	15.3%	36.1%	33.1%
2013	$903	$1,037	14.8%	36.5%	33.7%
2014	$934	$1,076	15.2%	36.9%	33.6%

Source: Census American Community Survey (ACS) 1-yr estimates

surveys each municipality for demolition information perennially. One hundred forty-five Connecticut towns responded (86% response rate), reporting 1,230 demolished units in 2015. As a result, the state's net gain of 4,847 units brings its housing inventory estimates to 1,506,593 units.

Overall, the nation experienced a 13.0% increase in housing permit authorizations from 2014 to 2015. New York State experienced the largest percentage increase of permit activity, while North Dakota saw the largest decline during the same period. Connecticut fared better than the nation in terms of permit growth and ranked 19th in the country according to the Census Bureau.

Home Sales and Prices

In 2015, the state's real estate market gained momentum in the number of sales but not prices. According to the Warren Group report, Connecticut single-family home sales picked up a 16.9% gain from 25,660 in 2014 to 29,986 in 2015, the strongest growth in more than a decade. Condominium sales also gained ground with a 13.3% increase from 6,961 in 2014 to 7,886 in 2015.

The stronger sales could not command higher prices, which exemplified the common saying: "In a typical housing recovery, sales pick up first, followed by prices." From the same report, the median single-family home sales price fell 2.2% from $251,500 in 2014 to $246,000 in 2015. This marked the second consecutive year home median prices declined. Condominium prices also fell 3.3% during the same time period.

According to the Federal Housing Finance Agency's House Price Index (HPI),[1] the U.S. house prices advanced 5.8% from the fourth quarter of 2014 to the fourth quarter of 2015, while the state's HPI increased at a mere 0.1%. The U.S. ranked 19th and Connecticut 50th.

Stagnating values and falling prices have other consequences. Mortgage delinquency occurs when a homeowner fails to make a mortgage payment. "The percent of delinquent mortgages in Connecticut is 0.1%. With U.S. home values having fallen by more than 20% nationally from their peak in 2007 until their trough in late 2011, many homeowners are now underwater on their mortgages, meaning they owe more than their home is worth. The percent of Connecticut homeowners underwater on their mortgage is 0.2%."[2]

Rental Markets

In Connecticut, the number of renter-occupied housing units increased to 455,778 units in 2014 from 451,382 in 2013, although the percentage of renter-occupied housing units changed little at 33.6%, according to the 2014 American Community Survey,[3] the most recent data available. In 2005, about 30.5% of state residents rented (See table 1).

The table also shows that the median gross rent for Connecticut increased to $1,076 in 2014 from $1,037 in 2013, although the rent peaked in 2008 at $1,088. Connecticut's median rent is consistently higher than the nation. This is one of the indicators showing that state residents bear higher housing costs than the nation.

The demand for apartments and condominiums continued to rise, as evidenced by the number of structures with 5 units or more authorized last year. In 2015, Connecticut issued 3,493 multifamily permits, the largest number since 1988. This level of permitting accounted for 57.5% of the total number of housing units authorized, the largest share in

-continued on page 5-

-continued from page 2-

several decades. At the national level, only five regions, including Connecticut, along with the District of Columbia, New York, New Jersey, and Massachusetts, authorized more than half of the total number of housing units in the multifamily category last year.

A new wave of rental housing with extra amenities is becoming more attractive to certain demographic groups, such as baby boomers and millennials. An increasing number of older Americans are becoming renters. The millennials, the largest segment of the population, changed the economic landscape with their lifestyles, spending patterns, and consuming behaviors. This group also delays marriage and family formation, and prefers renting than owning. For this reason, the demand for rental housing is increasing. As reported by the Joint Center for Housing Studies of Harvard University, for the U.S. as a whole, 37% of all households rent—the highest level since the mid-1960s.

Housing Affordability

Housing affordability is generally defined as paying no more than 30% of household income for housing costs, including mortgages, property taxes and insurance. Based on the 2010-2014 American Community Survey 5-year estimates, nearly 40% of the state's households with a mortgage spend more than 30% of their household income on housing costs. According to a report by the Partnership for Strong Communities in 2015, 50% of renters pay more than 30% of their income on housing.[4]

According to a National Low Income Housing Coalition report in 2015, the Fair Market Rent (FMR) for a two-bedroom apartment is \$1,263. In order to afford this level of rent and utilities – without paying more than 30 percent of income on housing – a household must earn \$4,210 monthly, or \$50,515 annually. Assuming a 40-hour workweek, 52 weeks per year, that level of income translates into a "Housing Wage" of \$24.29 per hour, the eighth highest in the nation. By way of example, a household would need 2.9 full-time minimum wage earners to make the two-bedroom FMR affordable.[5]

In 2015, Connecticut became the first state to end chronic homelessness among veterans,[6] a major step toward ending all homelessness among veterans. The Partnership for Strong Communities also noted progress, saying: "The unprecedented support for affordable housing creation provided by Gov. Malloy and the General Assembly has resulted in thousands of new affordable units...including affordable units into market rate developments furthers economic integration and capitalizes on market demands for multi-family housing, the highest since 1987."[7]

Conclusion

In 2015, Connecticut's housing market continued on the road to recovery with strong permit growth, and a double-digit gain in home sales. Early data suggests that the growth is likely to continue this year. The state's residential permits through April 2016 rose nearly 18%,[8] and year-to-date (Q1 2016) home sales was up 25.6%[9] when compared to the same period a year ago, respectively.

According to the National Association of Realtors Chief Economist, Lawrence Yun: "Following the housing market's best year (2015) in nearly a decade, existing-home sales are forecasted to expand in 2016 at a more moderate pace as pent-up buyer demand combats affordability pressures and meager economic growth."[10] ■

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1 The HPI is a measure of the movement of single-family house prices, measuring average price changes in repeat sales or refinancing on the same properties.
2 Zillow.com: Connecticut Market Health, April 30, 2016.
3 2014 American Community Survey 1-year Estimates.
4 Housing In CT 2015: The latest Measures of Affordability, a report by Partnership for Strong Communities, December 2015.
5 National Low Income Housing Coalition, "Out of Reach 2015: Connecticut."
6 State of Connecticut, Office of the Governor.
7 Note 4, p.2.
8 Bureau of the Census, Residential Construction Branch.
9 The Warren Group: "Connecticut Home Sales Continue Torrid Pace in March," May 10, 2016.
10 National Association of Realtors: "NAR Forecast: Modest Increase in Home Sales Expected in 2016," January 12, 2016.

GENERAL ECONOMIC INDICATORS

(Seasonally adjusted)	1Q 2016	1Q 2015	CHANGE NO.	CHANGE %	4Q 2015
General Drift Indicator (1996=100)*					
Leading	117.7	110.1	7.5	6.9	116.8
Coincident	116.9	115.6	1.3	1.1	116.4
Farmington Bank Business Barometer (1992=100)**	134.5	132.0	2.5	1.9	134.1
Philadelphia Fed's Coincident Index (July 1992=100)*** *(Seasonally adjusted)*	**May 2016**	**May 2015**			**Apr 2016**
Connecticut	171.55	166.02	5.53	3.3	171.05
United States	179.01	173.74	5.27	3.0	178.58

*Sources: *Dr. Steven P. Lanza, University of Connecticut **Farmington Bank ***Federal Reserve Bank of Philadelphia*

General Drift Indicators are composite measures of the four-quarter change in three coincident (Connecticut Manufacturing Production Index, nonfarm employment, and real personal income) and three leading (housing permits, manufacturing average weekly hours, and initial unemployment claims) economic variables, and are indexed so 1996 = 100.

The **Farmington Bank Business Barometer** is a measure of overall economic growth in the state of Connecticut that is derived from non-manufacturing employment, real disposable personal income, and manufacturing production.

The **Philadelphia Fed's Coincident Index** summarizes current economic condition by using four coincident variables: nonfarm payroll employment, average hours worked in manufacturing, the unemployment rate, and wage and salary disbursements deflated by the consumer price index (U.S. city average).