Connecticut's Housing Recovery Slowed in 2014

By Kolie Sun, Senior Research Analyst, DECD

The state's overall housing recovery that began in 2012 continued, albeit at a slower rate, in 2014. One new positive trend was the increasing demand on multifamily units that sustained the housing sector. In this article, we will examine many aspects of the state’s housing industry and the factors leading to a higher demand for multifamily homes.

Housing Production

According to the most recent release from the U.S. Census, in 2014 Connecticut cities and towns authorized 5,329 new housing units; these include single and multifamily homes. This level of production is a 1.8 percent decrease compared to 5,424 in 2013 and 31.2 percent below the pre-recession level of 7,746 in 2007.

In 2014, Fairfield County continued its trend with the largest share (35.4%) of total housing permits; followed by New Haven County (21.4%) and Hartford County (18.1%). Windham County had the smallest share (2.2%). Several municipalities showed strong performance in the multifamily unit category: New Haven led all municipalities with 412 units authorized, followed by Stamford with 391, East Lyme with 363, Danbury with 317 and Norwalk with 236. The combined permits issued for these five communities accounted for nearly one-third of last year’s total housing production.

In February, the Connecticut Department of Economic and Community Development (DECD) surveyed demolition activities from each municipality. One hundred and...
The Connecticut Economic Digest is published monthly by the Connecticut Department of Labor, Office of Research, and the Connecticut Department of Economic and Community Development. Its purpose is to provide users with a comprehensive source for the most current, up-to-date data available on the state’s workforce and economy. The Digest can be accessed free of charge from the DOL Web site. Articles from The Connecticut Economic Digest may be reprinted if the source is credited. Please send copies of the reprinted material to the Managing Editor. The views expressed by the authors are theirs alone and may not reflect those of the DOL or DECD.

Managing Editor: Jungmin Charles Joo
Associate Editor: Sarah C. Pilipaitis

We would like to acknowledge the contributions of many DOL Research and DECD staff and Rob Damroth to the publication of the Digest.

Connecticut Department of Labor
Sharon Palmer, Commissioner
Dennis Murphy, Deputy Commissioner

Andrew Condon, Ph.D., Director
Office of Research
200 Folly Brook Boulevard
Wethersfield, CT 06109-1114
Phone: (860) 263-6275
Fax: (860) 263-6285
E-Mail: dol.econdigest@ct.gov
Website: http://www.ctdol.state.ct.us/lmi

Connecticut Department of Economic and Community Development
Catherine Smith, Commissioner
Ronald Angelo, Deputy Commissioner
Tim Sullivan, Deputy Commissioner

505 Hudson Street
Hartford, CT 06106-2502
Phone: (860) 270-8000
Fax: (860) 270-8200
E-Mail: decd@ct.gov
Website: http://www.decd.org

According to the Federal Housing Finance Agency’s House Price Index (HPI), the U.S. house prices advanced 4.9 percent from the fourth quarter of 2013 to the fourth quarter of 2014 while the state’s HPI increased at a mere 0.7 percent. Connecticut ranked near the bottom at 48th.

Housing Affordability
Housing affordability is generally defined as paying no more than 30 percent of household income for housing costs, including mortgages, property taxes and insurance. Based on the 2009-2013 American Community Survey (ACS) 5-year estimates, nearly 40 percent of the state’s households spend more than 30 percent of their household income on housing costs. According to a report by the Partnership for Strong Communities in 2014, 49 percent of renters pay more than 30 percent of their income on housing.

According to a National Low Income Housing Coalition report in 2014, the Fair Market Rent (FMR) for a two-bedroom apartment is $1,197. In order to afford this level of rent and utilities – without paying more than 30 percent of income on housing – a household must earn $3,991 monthly or $47,890 annually. Assuming a 40-hour work week, 52 weeks per year, that level of income translates into a “Housing Wage” of $23.02. By way of example, a household would need 2.6 full-time minimum wage earners to make the two-bedroom FMR affordable.

Meanwhile, the Partnership for Strong Communities also reported that Connecticut “remained 6th in monthly median housing costs and 8th in median home values, despite slight decreases in both.” The Partnership added that although the state’s per capita rate of housing production increased over the last two years, Connecticut “still ranked 50th for the last decade, leaving behind a legacy of high housing costs.” Connecticut rose to 47th in 2013 with a new influx of multifamily building permits.

Using another measure, Connecticut’s permits per 1,000 Population stood at 1.5 in 2014; ranked at 48th, followed by West Virginia and Rhode Island.

The Partnership for Strong Communities in 2014, 49 percent of renters pay more than 30 percent of their income on housing.

Multifamily Demand on the Rise
In the 1970s and 1980s, nearly two-thirds of housing permits issued were for single-family units. The share rose to 85 percent and scaled back to 75 percent in the

-continued on page 5-
next two decades. In 2014, the share of single family units decreased significantly to 51.8 percent,\(^{11}\) the lowest in four decades. The split has been shifting and demand on multifamily housing is climbing (See chart on page 1).

Connecticut’s demographic landscape is ever changing. The population of age 65 and older is projected to grow 34.5 percent from 2015 to 2030 and those aged 25 to 34 to grow 3.8 percent.\(^{12}\) These demographic shifts have a direct impact on housing choices.

Many baby boomers reaching retirement age seek to downsize from their suburban homes to new quarters. They want to pay off their mortgages, lower housing expenses, enjoy convenience and live in a walkable neighborhood.

At the other spectrum, the millennial generation faces different issues. According to a recent survey from Fannie Mae, millennials want to buy homes — 90% prefer owning over renting. But student loan debt, tight lending standards and stiff competition have made it almost impossible for many of them to make the move.\(^{13}\) Hence, we could see a higher percentage of renter household formations than that of homeowner households.

Transit-oriented-development (TOD) provides housing opportunities, especially for boomers and millennials as they look for smaller, denser, more affordable, energy-efficient homes within walking distance to services and close to mass transit.\(^{14}\) Hence, the demand for multifamily homes in TOD is expected to rise.

### Conclusion

While it’s true the pace of the state’s housing market recovery in 2014 did not match that of the two previous years, the overall momentum is still gaining and conditions exist for the recovery to continue. In fact, 2015 holds much promise.

Frank Nothaft, chief economist at Freddie Mac, foresees a robust year for housing in 2015. He expects that housing starts will rise about 15 percent, homes sales will be up 4 percent and home prices increase 3.5 percent to 4 percent above last year’s level. With 30-year mortgages currently at 3.75 percent, Nothaft called them “dirt cheap” and said he expects rates to rise this year but remain at affordable levels.\(^{15}\)

Household formation is a primary factor that impacts housing demand. The key demographic to watch is the millennials as they enter the peak home-buying stage. This cohort, the largest generation in the U.S. labor force,\(^{16}\) and their purchasing decision could lead to a surge in home sales.

An improved economy, historically low mortgage rates, and strong consumer confidence should take the state’s housing recovery to a higher level in the years ahead.\(^{17}\)

---

**GENERAL ECONOMIC INDICATORS**

<table>
<thead>
<tr>
<th>(Seasonally adjusted)</th>
<th>1Q 2015</th>
<th>1Q 2014</th>
<th>CHANGE 4Q</th>
<th>NO.</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Drift Indicator (1996=100)*</td>
<td>112.8</td>
<td>114.4</td>
<td>-1.6</td>
<td>-1.4</td>
<td>111.2</td>
</tr>
<tr>
<td>Leading</td>
<td>114.7</td>
<td>112.6</td>
<td>2.1</td>
<td>1.9</td>
<td>114.1</td>
</tr>
<tr>
<td>Coincident</td>
<td>131.2</td>
<td>128.4</td>
<td>2.8</td>
<td>2.2</td>
<td>130.0</td>
</tr>
<tr>
<td>Farmington Bank Business Barometer (1992=100)**</td>
<td>161.49</td>
<td>155.99</td>
<td>5.50</td>
<td>3.5</td>
<td>160.75</td>
</tr>
<tr>
<td>Philadelphia Fed’s Coincident Index (July 1992=100)***</td>
<td>161.88</td>
<td>156.68</td>
<td>5.20</td>
<td>3.3</td>
<td>161.50</td>
</tr>
</tbody>
</table>

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

---

1 Demolition permits include only the dwelling units, main buildings only; out-buildings such as sheds, garages, barns, swimming pools are excluded.  
2 DECD methodology: Housing inventory estimates derived using Census 2010 total housing units as base, adjusted by net gains of subsequent years from 2011 through 2014.  
3 The HPI is a measure of the movement of single-family house prices, measuring average price changes in repeat sales or refinancings on the same properties. This information is obtained by reviewing repeat mortgage transactions on single-family properties whose mortgages have been purchased or securitized by Fannie Mae or Freddie Mac since January 1975.  
6 See footnote 4.  
7 See footnote 4.  
9 See footnote 4.  
10 CT Department of Housing as reported by the Partnership for Strong Community, see footnote 4.  
11 Census: In 2014, State authorized total 5,329 housing permits, 2,760 are single-family.  
13 Millennials squeezed out of buying a home, CNNMONEY 6/1/2014.  
14 See footnote 4.  
15 Eye on Housing: A More Robust Year for Housing in 2015, Michael Neal, 1/26/2015.  