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In May...

Nonfarm Employment

Connecticut 1,622,700
 Change over month -0.18%
 Change over year +0.6%

United States 131,043,000
 Change over month +0.04%
 Change over year +0.7%

Unemployment Rate

Connecticut 9.1%
 United States 9.1%

Consumer Price Index

United States 226.0
 Change over year 3.6%

State's Housing Market: a Long Road to Recovery

By Kolie Sun, Senior Research Analyst, DECD, Kolie.Sun@ct.gov

Housing market activity is one of the barometers of the health of the state and national economies. The anemic housing permit growth, weak home price increases, and fewer residential real estate transactions in 2010—when coupled with high unemployment, a jobless economic recovery and a rising foreclosure rate—suggest that the state’s housing doldrums may continue. This article examines the housing market from several perspectives.

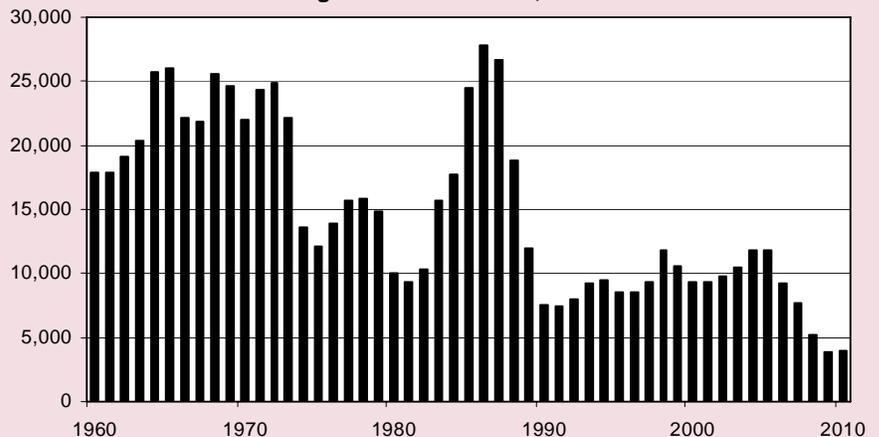
Housing Production

Perhaps the single most significant development in the Connecticut housing market in 2010 was revealed by the decennial census. Data releases by the Census Bureau in spring 2011 showed that Connecticut added 101,900 net housing units as of April 1, 2010 compared with Census 2000. This statistic is somewhat surprising in that housing permits were issued for 76,800 units during the same period. The apparent discrepancy is the result of the

construction lag from the late 1990s, when building activity was brisk. Specifically there were potentially 24,000 units that were under construction at the time of the 2000 Census that were counted at the 2010 Census.¹

According to a recent release from the Bureau of the Census, cities and towns in Connecticut authorized 3,932 new housing permits in 2010—the second lowest level in more than six decades (see chart below). This level of permitting or intent to build represents a 3.6 percent increase compared to 3,786 units authorized in 2009. The 2010 number is the first permit increase in five years, but represents 42 percent of the number of permits issued in 2006. The City of New Haven issued the largest number of permits (478) last year, followed by Stamford (152), Danbury (128), Berlin (116) and Wilton (106). The combined permits issued for the top five municipalities accounted for 25 percent of all housing permits issued in the state. Among the total 2010 housing

CT Housing Units Authorized, 1960 - 2010



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permits issued, 67 percent were single-family homes and 29 percent were multi-family dwellings.

Based on the responses to the Department of Economic and Community Development (DECD) annual demolition survey, which 75 percent of the municipalities completed, 834 units were demolished in 2010. As a result, this represents a net gain of 3,098 housing units in 2010, bringing the estimated state housing inventory to a level of 1,455,105 units.

Fairfield County issued the largest number of demolition permits in 2010. Many communities in that region demolish and rebuild on existing properties. For example, the Town of Westport demolished 79 homes, ranking highest among all municipalities for demolition while issuing 63 new housing permits in 2010. Westport had nearly as many demolition activities as new home construction during 1990-2010. The data showed that, on average, Westport issued 60 permits and 52 demolition permits annually over the period 1990-2010. However, the town had little housing inventory growth from 10,065 units in Census 2000 to 10,399 units a decade later.

Home Sales and Prices

Federal housing tax credit programs such as the first-time homebuyer tax credit incentive program extended to April 2010, and the \$6,500 tax credit for move-up/repeat home buyers, helped to boost home sales for the first six months of 2010. The housing market remained lackluster for the remainder of the year. According to the Warren Group, single-family home sales dipped slightly to 24,270 transactions in 2010, down 0.5 percent from 24,401 transactions in 2009. This is the sixth consecutive year of sales declines since 2005. The condo market followed a similar trend with a decline in sales by 7.3 percent in 2010.

After decreasing in 2008 and 2009, Connecticut home prices increased in 2010. The median single-family home price rose to \$250,000 in 2010 from \$240,000 in 2009, a four percent increase. Notwithstanding the increased median home price, it is still 15.3 percent below the peak median price of \$295,000 in 2007. The condo median sales price increased 2.4

percent to \$182,250 in 2010 from \$178,000 in 2009.

The Housing Market Index (HMI) published by the National Association of Home Builders tracks general economic and housing conditions. DECD averaged the monthly ratings to yearly numbers for the period 1985 to 2010. Given that the HMI was 15 in 2009, the lowest since 1985, the HMI's score of 16 in 2010 equaled its 2008 level. This implies the housing industry was somewhat improved, but might take several years to return to the previous high.

Foreclosures

RealtyTrac reports that 2.9 million U.S. properties received foreclosure filings in 2010, representing an increase of 1.7 percent from 2009 and an increase of 23.2 percent from 2008. The report showed that one in every 45 housing units received at least one foreclosure filing in 2010.

The Connecticut foreclosure rate worsened in 2010, with 21,705 foreclosure filings, a 10.3 percent increase from 19,679 in 2009, while one in 66 (or 1.5 percent) housing units faced foreclosure. Nevada led all states with the highest foreclosure rate once again in 2010, followed by Arizona and Florida. Connecticut ranked 22nd.

Growth Perspectives

Historical housing data reveals that permit growth experienced ups and downs during the last five decades. Based on the Compound Annual Growth Rate (CAGR²) calculation, the decades of the 1960s and 1990s experienced modest permit growth of 2.3 percent and 2.5 percent, respectively. The positive housing industry growth was the direct result of the economic prosperity during those times.

Due to the oil crisis in the 1970s, we had double-digit inflation and interest rates, and the housing market suffered significant negative impacts. During the past decade, the recessions, the subprime mortgage crisis, and the financial meltdown were the major factors that impacted the housing industry. The data show housing permits declined at a CAGR of 9.3 percent in the 1970s and 9.1 percent in the 2000s. A majority of consumers felt the

--Continued on page 5--

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2000s round of economic and housing downturn was the worst in recent memory. The data proves the economic situation was devastating, but not the worst compared to the 1970s era.

Housing and Population

State housing inventory increased 7.4 percent from 1,385,975 from the Census 2000 count to 1,487,891 in 2010. Connecticut had 116,804 vacant homes which translated into a 7.9 percent vacancy rate in 2010, the lowest of all the states compared to the national average of 11.4 percent. Maine had the highest proportion of empty housing stock at 22.8 percent in 2010.

According to the 2010 Census release, Connecticut's population was at 3,574,097, a 17.4 percent increase from 3,045,423 in Census 2000. The state median age of 37.4 in 2000 increased to 40.0 in 2010. Median age is the number dividing population into two groups, one half of the population is younger than the median age and the other half is older.

Population growth outpaced housing unit growth by more than twofold. If housing growth kept up with the population, then the projected housing stock should be at 1,626,575 units. It suggests a shortage of 138,684 housing units. Because of this, the average house-

hold size increased from 2.2 people to 2.4 reported by the Census, indicating the potential for overcrowding in households during the ten-year span.

Housing Affordability

A perennial issue in assessing the housing market is housing affordability. The Hartford-based Partnership for Strong Communities defines "affordable" housing as units that cost no more than 30-40 percent of household income. Similarly the "housing wage" is the amount a person must earn working full time to be able to afford fair market rent on a two-bedroom unit paying no more than 30 percent of their income on rent. For 2010, the Connecticut statewide "housing wage" is \$23.00 while the estimated mean renter wage is \$17.01, making the statewide two-bedroom housing wage 135 percent of a typical renter's wage.

The percentage of homes valued under \$200k dropped to 23.1 percent in 2010 from 65.2 percent in 2000 and 49 percent of renters and 36 percent of all households are spending more than 30 percent of their income on housing, according to HOMEConnecticut. Therefore, Connecticut housing market is less affordable and out of reach for many would be renters and homeowners.

Outlook

The Connecticut housing market did not have strong performance last year and the residential permit data up to April 2011 has been growing slowly. This does not bode well for the state's housing industry or the state economy.

At the national level, Paul Dales, a senior economist at Capital Economics, recently wrote, "On the Case-Shiller measure, prices are now 33% below the 2006 peak and are back at a level last seen in the third quarter of 2002." With fewer than expected jobs being added to payrolls, unemployment remaining high at 9.1 percent and the rising cost of living hitting most Americans hard, all signs point to a troubled economy ahead. Many economists believe housing is going through a double-dip recession. Capital Economics, a leading independent macro economic research consultant, may have summed it up best by stating: "back in the Depression, it took 19 years for house prices to recover to their previous peaks...and it will likely take longer this time around." ■

¹ "Housing Data: Statistics on Housing Growth in Connecticut Conflict" by Kenneth R. Gosselin, The Hartford Courant.

² $CAGR = (Value_n / Value_1)^{1/n}$

GENERAL ECONOMIC INDICATORS

	1Q 2011	1Q 2010	CHANGE NO. %		4Q 2010
<i>(Seasonally adjusted)</i>					
Employment Indexes (1992=100)*					
Leading	116.0	114.9	1.1	0.9	116.4
Coincident	102.6	101.1	1.4	1.4	102.4
General Drift Indicator (1986=100)*					
Leading	104.9	105.0	-0.1	-0.1	105.9
Coincident	107.1	105.6	1.5	1.4	107.1
Farmington Bank Business Barometer (1992=100)**	124.5	122.0	2.5	2.0	124.8
Philadelphia Fed's Coincident Index (July 1992=100)***	MAY	MAY			APR
<i>(Not seasonally adjusted)</i>	2011	2010			2011
Connecticut	156.2	151.2	5.0	3.3	155.8
United States	152.6	149.4	3.2	2.2	152.4

Sources: *The Connecticut Economy, University of Connecticut **Farmington Bank ***Federal Reserve Bank of Philadelphia

The Connecticut Economy's **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 four leading (housing permits, manufacturing average weekly hours, Hartford help-wanted advertising, and initial unemployment claims) economic variables, and are indexed so 1986 = 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).