nerej
CELEBRATING 55 YEARS

Housing in Connecticut remains the canary in the coal mine

February 14, 2013 - Connecticut

On January 21, the Connecticut Chapter of the Appraisal Institute hosted Dr. Ed Deak, professor of economics, Emeritus Fairfield University, for the 21st consecutive year. As usual, Dr. Deak provided an insightful look at the current conditions and outlooks for the U.S. and Connecticut economies. His presentation is summarized in the following paragraphs.

The recent recession began in December 2007 and ended in June 2009; however, the U.S. recovery remains painfully slow and fragile. The unemployment rate peaked in October 2009 at 10.0% and has declined to 7.8% as of the end of 2012. The national unemployment rate is projected to continue declining and end 2013 at 7.5%. It is important to note that the unemployment figures exclude discouraged workers and those that have settled for part-time positions. The effective unemployment rate is estimated to be 14.6% when including these workers. Of the 8.8 million jobs lost, 5.4 million have been recovered. Job growth averaged 153,000 jobs per month in 2012. In December 2012, the private sector added 168,000 jobs, while the government sector lost 13,000 jobs. Job growth of 200,000 jobs per month is needed to signal a strong recovery.

The national housing depression has been made worse by the decline in jobs. It is estimated that 24% of existing mortgages remain underwater with 2.2 million in the foreclosure pipeline. An additional 4.4 million are estimated to be over 30 days delinquent. Existing home prices remain down by a third from the peak; however, they are up 3.5% from a year ago. New home permits, starts and sales have also started increasing slowly. Although the housing recovery is slow, low prices and low fixed rates have created a favorable environment for those seeking to purchase or refinance a home, assuming they qualify.

The recovery of the stock market combined with low interest rates are a positive sign for the economy. Business balance sheets are strong and many companies are flush with cash as a result of low interest rate environment combined with cost consciousness that followed the recession. Companies have been able to increase profits without hiring new workers. Household balance sheets are also improving with signs of increased savings and a decrease in mortgage debt with defaults. As a result, spending can be expected to increase.

The Connecticut economy experienced a loss of 117,500 jobs between March 2008 and February 2010. Approximately 28,700 or 24.4% of the lost jobs have been regained. Within the state, the unemployment rate reached a low of 4.3% in March 2006 and peaked in February 2009 at 9.2%. As of year-end 2012, the unemployment rate was 8.6%. Sectors that have gained jobs include educational and health services, trade, leisure and hospitality, and information. The sectors that have lost jobs include professions and business services, government, manufacturing and construction. Over the next 12 to 24 months, it is anticipated that 6,000 to 12,000 jobs per year will be added and the lost jobs will be recovered by third quarter 2016. The unemployment rate is anticipated to end 2013 at 7.7% and decline to 6.3% by 2016. Real income peaked in 2007 at $187 billion and began increasing again in 2011. In 2011, real income increased by 2.7% to $182 billion, with a modest increase 0.5% in 2012 to $183 billion. Real income is projected to increase to $186 billion in 2013 and to $212 billion in 2016. As a result, tax revenues are expected to increase slowly.

In Connecticut, the number of new home permits issues peaked in 2005 at 11,885 and stood at 3,173 in 2011. A 48% increase was experienced in 2012 with 4,682 new home permits issued. This figure is anticipated to increase to 5,173 in 2013 and to 8,557 in 2016 as a result of pent-up demand. The number of total home sales also peaked in 2005 at 61,300. In 2012 there were 36,300 home sales, which represents a 13% increase over the number of sales in 2011 (32,100). The number of home sales is projected to increase in 2013 to 45,100 and peak in 2015 at 51,500. A slight decline is projected in 2016 to 50,600 as a result of anticipated mortgage rate increases. The median home price peaked in 2007 at $321,000 and continued to decline in 2012 to 247,000, which represents a 5.5% decrease from the 2011 median home price estimate of $258,000. The median home price is forecast to increase to $249,000 in 2013 and to $285,000 in 2016. As of fourth quarter 2012, the inventory of homes decreases to 4.6 months. This represents a 36% decrease over fourth quarter 2011.

Housing in Connecticut remains the canary in the coal mine; however, 2013 is expected to see positive trends in the number of new home permits issued, total number of sales, and median home prices. Although many challenges remain in the state, the recovery in the automobile industry, stock market and growth in real income are indicators for a positive outlook.

FRQ Property Advisors, LLC is a commercial real estate appraisal and consulting company located in Hartford, Conn. The firm specializes in the analysis of commercial real estate, with an emphasis on multitenant income producing property, including office, retail, industrial and mixed-use developments. The company's mission is to provide unbiased, credible valuation services in a timely manner.

Rocco Quaresima is principal for FRQ Property Advisors, LLC, Hartford, Conn.