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Demographic shifts and the impact on real estate values - by Marc Nadeau

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The landscape is changing in Connecticut and this time we're not just referring to trees, shrubs and coastline. Yes, there have been obvious changes to the physical landscape by way of eroding beaches, flooding in areas that historically were not impacted by flooding and a continued erosion of our state roads and highways and, to those naysayers that think climate change has nothing to do with the physical changes to many areas within our state, I say think again! All one has to do is to pull an older legal description of a waterfront property most anywhere in the state and one will find that the distance to the water is now much closer than it was say, 50 or 100 years ago.

In as much that the changes to the physical landscape are impacting values, this article is not so much focused on the environmental shifts in the state as opposed to the economic changes.

Real Estate Value Changes as a result of a shifting landscape of population

Seemingly, most of us have recovered from what I like to call the Meltdown of 2008, when the entire financial system experienced a hiccup like no other. Century-old banking institutions failed, auto manufacturers went out of business, millions of homeowners just walked away from their homes and the equity markets for the most part fell off the proverbial financial cliff. It would certainly seem as though the past events helped shape the psychological view of the buying and owning a home – which may help explain the rising demand for good rental properties versus a decline in home ownership.

Connecticut has seen a significant shift in physical population as well as income distribution. A recently-published paper by Manisha Srivastava from Connecticut's Office and Policy and Management entitled "Connecticut's Population and Migration Trends: A Multi-Data Source Dive" succinctly dissects the changes in the population landscape. In short, the state is losing not just population but also higher-wage earners who had become the foundation for Connecticut's economic platform. The following chart shows recent and projected population flow within the state.

Chart 1 shows a migration away from the state of 20,000 to 30,000 people each year over the past

few years. What may be more important is the component of the shifting population and who they are and their place within the economic stratum. According to the Connecticut Budget released in May of 2017, the state is reeling from the consequences of sliding tax revenues that have historically come from the financial section, most notably from hedge fund managers. Recent figures have shown that the tax revenue from the state's top 100 highest-paying taxpayers declined 45% from 2015 to 2016. That drop translates into a \$200 million loss in tax revenue for Connecticut.

A Deeper Look into the Migrating Population: Connecticut has become one of the most expensive states to live on nearly all fronts. Everything from housing costs to energy costs, to the state income tax rates, Connecticut is a front-runner in nearly all of the aforementioned categories.

- Recently published energy costs reveal that the cost of energy in Connecticut is nearly twice that of the national average.
- Connecticut is the sixth most expensive state to live in from the standpoint of average housing costs.
- The state ranks as the second-most expensive place to live from a tax standpoint. The tax figure is a collective one, factoring in both state income and local property taxes.
- There has been a general growth in reporting of individual income in the northeast with Connecticut being the laggard. Chart 2 compares Connecticut to other Northeast states.

In comparison to Massachusetts for example, which has had an increasing population and has benefitted from a migration of top businesses and corporations to the state, Connecticut is simply failing. And, the reality is that much of Connecticut's migrating income is not necessarily leaving the country but is going to other states including that of Massachusetts, Florida and other southern states. In the past three years alone we have seen major corporations make the move to greener pastures. These corporations include: United Technologies relocating to West Palm Beach, Florida with the benefit of no state income tax for its employees and a 10-year property tax abatement; Pfizer relocating to the Boston area from New London, Connecticut leaving behind a wake of a ravaged and unspoken for landscape of redevelopment parcels that came about by one of the worst Supreme Court Decisions in the history of this country, *Kelo vs. City of New London*; and General Electric Corporation announcing its move to Massachusetts after its life-long history of being headquartered in Fairfield. These corporations are taking with them not just their employees but also the taxable income associated with those employees, most of which are upper management people earning salaries at the high end of the wage spectrum.

The effect on Real Estate and the Fix for the Problem: In as much this appraiser/author has a practice that is concentrated along the shoreline, east of New Haven, this appraiser has generally seen a slow waning of prices across the board. That waning of prices has averaged approximately 3% annually over the past couple years. Shown in Chart 3 for the Town of Guilford, one of the many impacted shoreline towns.

Source: Connecticut Multiple Listing Service

Interviews with brokers in other parts of the state reveal like if not greater rates of price decline.

The fix is without question rooted in the political landscape where lawmakers need to come together in a partisan way, finding revenue sources (other than individual and corporate taxation). These revenues will be needed to restore our infrastructure, restore Connecticut's reputation as a viable state to do business in and ultimately, draw back the needed foundation of the working population.

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