CONNECTICUT HOUSING FINANCE AUTHORITY

Starter Homes

A Brief Analysis of Affordable Homebuying in Connecticut

NOVEMBER 2021

Research, Marketing, and Outreach
Authored by: Jonathan M. Cabral, AICP

Introduction

As of the first quarter of 2021, the homeownership rate of occupied units stands at 65.6 percent in the United States. According the to the US. Census Bureau, the homeownership rate has had no statistical difference from the rate in the fourth quarter 2020 or even the rate in the first quarter of 2020. Connecticut has experienced a decline in homeownership since 2011, in the aftermath of the financial crisis years earlier, however, has seen some stabilization in the rate in the years since.

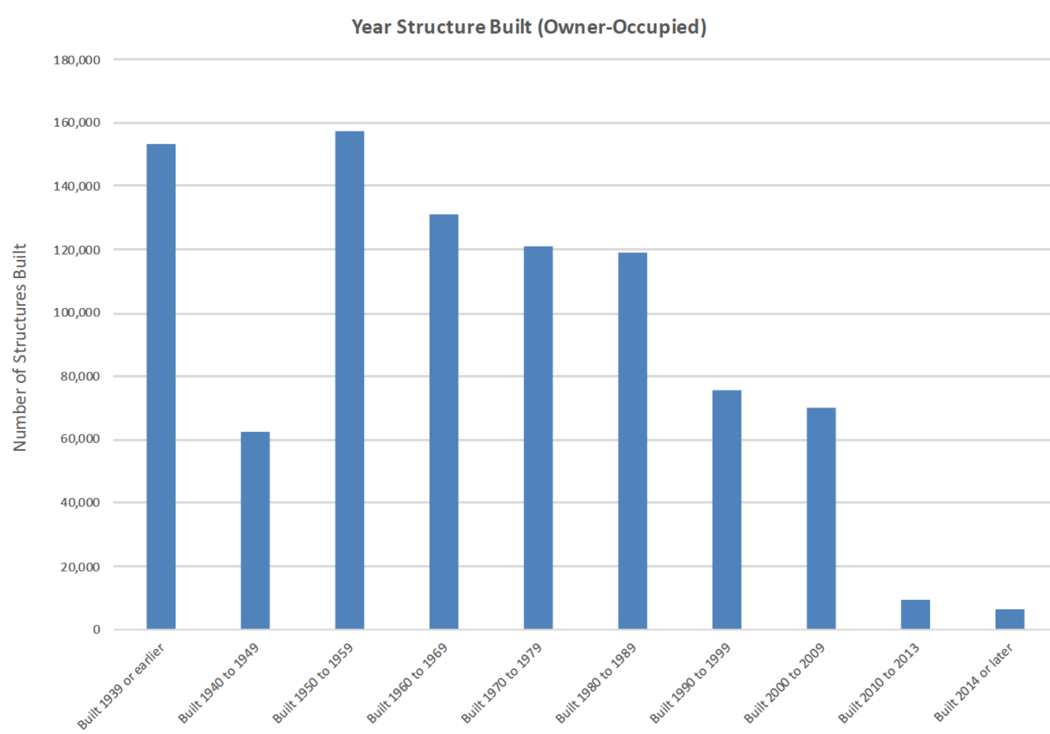
Demographics are Destiny

Connecticut's population growth has remained stagnant, trending slightly downwards until 2020 when Connecticut experienced a slight bump upward. More significantly, the state has seen a steady increase in the number of household formation since 2011. The growth in the number of households has been a growing trend. In the United States, household formation changed as the percentage of family households has declined while nonfamily households have increased. Most notably, the percentage of one person households have increased by more than doubling between 1960 and 2020. More than 80 percent of older adults live alone or are empty nesters, while more than 50 percent of young adults live alone or with a roommate (Mather et al., 2019).

The more recent uptick in household formation may be driven by other demographic factors as well. During the Great Recession, the divorce rate declined nationally, with an estimated 150,000 fewer divorces occurring than had been projected between 2009 and 2011 (Cohen, 2014). During the economic recovery that followed the recession, divorces rebounded. This is likely due to married couples delaying divorce and remaining together because they were not financially secure enough to afford separation. A more significant reason for the increase is largely due to generational demographic shifts. According to the Pew Research Center, millennials now outnumber the Baby Boomer generation, become the largest living adult generation (2019). Additionally, millennials are coming of age and forming their own households, resulting in greater demand for housing and increased rates of homeownership by millennials (Brechlin, 2018). Compared to previous generations, millennials have delayed having children or opting to not have children. Student loan debt, millennials lived experience of growing up during the financial crisis sparked by the housing market crash, and slow economic recovery for young adults are all significant reasons why millennials have also delayed purchasing a home. Between 1960 and 2017, the young adult homeownership rate declined 10 percentage points, however about 67 percent of surveyed renters have indicated a preference to purchase if they had the right financial resources (Mather et al., 2019).

Supply and Demand and New Yorkers… Oh My!

While the long-term impact of the COVID-19 Pandemic on the housing market remains uncertain, the Connecticut market has experienced some unusual activity. Home sales without a mortgage outpaced those with a mortgage between April and June of 2020, largely due to a dip in mortgage lending and a jump in cash offers. Additionally, Connecticut became one of the top "inbound" states to move to, while neighboring New York and Massachusetts both became top "outbound" states due to COVID-19 (Polansky & McFarland, 2020).



Source: 2019 American Community Survey 5-Year Estimates

Investors also add to the pressures on demand in Connecticut. Based on the last 20 years of Warren Group home sales data, the state has seen a small, but steady, increase in homes purchased by investors.[1] In 2001, around 10.3 percent of homes sold at or below $200,000 were purchased by investor owners, while by 2019 that number was closer to 25.4 percent. Investors pulled back slightly in 2020 but they still played a significant part in the home purchase market accounting for just shy of 23 percent of home purchases.

It wasn't only demand that impacted the state's housing market, constrained supply exacerbated the stresses on the market. Between 2010 and 2019, there was an estimated 77 percent decline in the number of owner-occupied homes built when compared to owner-occupied homes built the previous decade. This is likely in largely part to the devastating effect that the financial crisis had on homeowners, however the decline goes back several decades earlier. Housing production in Connecticut peaked in the 1950s and has been in a steady decline since the 1960s. Roughly 157,500 owner-occupied homes were built between 1950 and 1959 compared to the 15,900 or so built between 2010 and 2019.

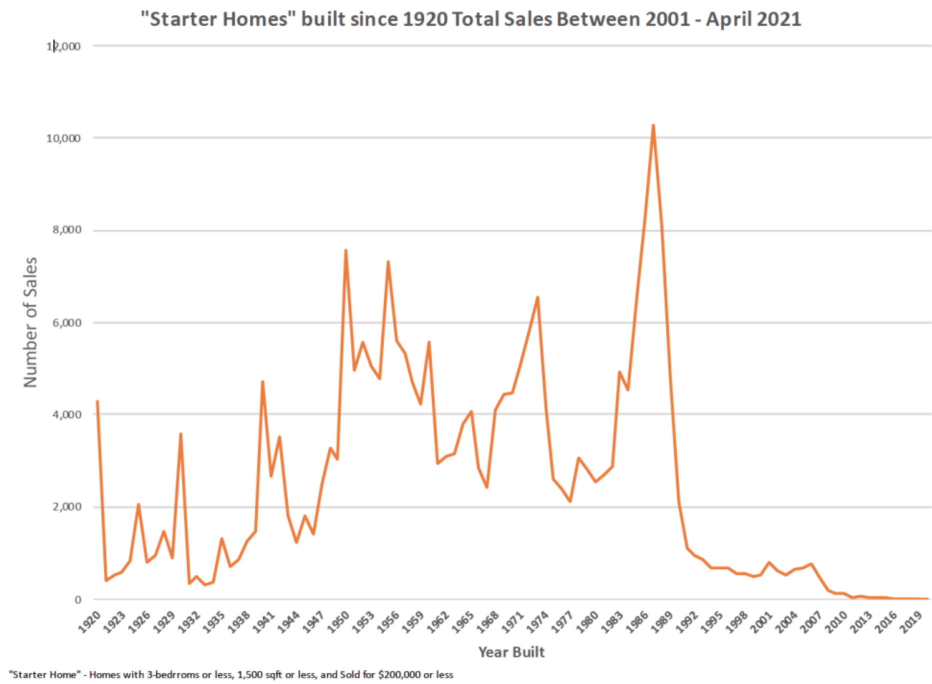
"Starter Home" Inventory

Purchasing a home has become more difficult for many in Connecticut, particularly first-time homebuyers and lower income individuals. Greater demand and a limited supply of housing has led to increased home prices. When adjusted for inflation, the median home sales price in 2020 was at an all-time 20 year high at $267,000, up from $235,000 the year before. With limited numbers of new housing built and increased demand driving prices upward, the number of homes sold at or below $200,000 declined in 2020. Based on 20 years of home sales data, the stock of "stater homes"[2] most purchased were built between 1950 and 1990. In fact, homes built in the mid to late 1980s tend to have the most churn in the market (CHFA, 2021). This is likely due to the significant number of condominiums built during this period in time (Cabral, 2019).

---

[1] CHFA defines "Investors" in the Warren Group purchase data to include purchasers of residential property by corporate entities such as LLCs, LLPs, etc., or individuals who have purchased multiple properties at a time.

[2] Starter Homes are defined as homes with 3-bedrooms or less, are 1,500 sq ft or less, and priced at or below $200,000.



The increased demand for single-family housing has in turn sparked a resurgence in new residential construction. According to the Joint Center for Housing Studies of Harvard (JCHS), single-family housing starts are on pace to top one million, a figure not achieved since 2007 (2021, p. 2). The lack of new housing construction, particularly around housing priced for entry level or lower income consumers, places a premium on the existing, older housing inventory. To make matters worse, the increased cost of construction material and a shortages of construction labor has resulted increased new housing production and rehabilitation costs. The cost of construction labor has increased by 2.8 percent in March of 2021 compared to the previous year, while lumber prices jumped a staggering 83 percent during the same period. These increased costs have resulted in a 14 percent year over year increase for new residential construction (JCHS, 2021, p. 12).

This lack of existing inventory, increased demand due to migration patterns and the large millennial generational cohort forming their own households has placed significant market pressure on first-time homebuyers and lower-income families looking to purchase a modest home. While home purchase lending products may help alleviate some of the market pressures, a supply-side production approach should be explored.

Work Cited

Bialik, K. & Fry, R. (2019). *Millennial life: How young adulthood today compares with prior generations*. Pew Research Center. https://www.pewresearch.org/social-trends/2019/02/14/millennial-life-how-young-adulthood-today-compares-with-prior-generations-2/

Brechlin, C.D. (2018). *Homeownership by Generation*. The Connecticut Housing Finance Authority. https://www.chfa.org/assets/1/6/Homeownership_by_Generation1.pdf

Cabral, J. (2019). *The Great Condo Construction Boom… and Bust*. The Connecticut Housing Finance Authority. https://www.chfa.org/assets/1/6/The_Great_Condo_Construction_Boom_and_Bust.pdf

Cohen, P.N. (2014). Recession and Divorce in the United States, 2008-2011. *Population Research and Policy Review*, 33(5), 615-628.

Connecticut Housing Finance Authority (2021). CT Monthly Housing Market Dashboard. Retrieved at https://www.chfa.org/about-us/ct-monthly-housing-market-dashboard/

Joint Center for Housing Studies of Harvard University. (2021). *The State of the Nation's Housing 2021.* https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard_JCHS_State_Nations_Housing_2021.pdf

Mather, M., Jacobsen, B.J., Jarosz, B., Kilduff, L., Lee, A., Pollard, K.M., Scommegna, P., & Vanorman, A. (2019). *America's Changing Population: What to Expect in the 2020 Census.* Population Bulletin 74(1)

Polansky, R. & McFarland, M. (2020, October 6). Connecticut now considered a top state for people who are moving. WFSB. https://www.wfsb.com/news/connecticut-now-considered-a-top-state-for-people-who-are-moving/article_2b23620e-07cf-11eb-b86e-cfeb66c56689.html