

The Connecticut Real Estate Market Report

Fall Update - September 2011

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If you're a regular reader of the business news, you surely know that the embattled domestic housing market is still dealing with the aftershocks of foreclosures, excess inventory and stubbornly high unemployment rates. While the statewide data I'll share with you later in this article suggests that Connecticut has continued

to deal with the same challenges in the first eight months of 2011, a growing number of economists see unique buying opportunities if homebuyers act now.

Why? Because we're witnessing a kind of "Perfect Storm" for homebuyers, one that has spawned a near perfect alignment of low interest rates and low prices. Historically, the U.S. housing market has been characterized by either one of two scenarios:

- Low prices but high interest rates or, conversely,
- Low interest rates coupled with high prices

Rarely have both mortgage interest rates and home pricing been so low at the same time.

Pricing

The average national sales price of new and existing homes sold in 2010 was \$223,000. Compared to a peak average national sales price of \$271,000 in 2005, these figures reflect a peak-to-trough price correction of about 30%.

Interest Rates

Interest rates today are as low as 2.75% for a 5/1 ARM or 3.5% for a 15-year mortgage. And the Federal Reserve has spoken bluntly about its intention to keep interest rates low for the next two years, ensuring that homeowners can lock in low rates when they refinance and that homebuyers who qualify for a loan can take advantage of both record low mortgage rates and depressed prices.

This rare confluence of historically low rates with unusually low prices won't last forever. When the economy eventually recovers, home prices will rebound.

Location, Location, Location

When it comes to housing markets —unlike other hard-hit segments of the economy—everything is local. What does this mean? Residential real estate markets have always responded to local market influences like the jobs climate, population growth, the quality of schools, quality of life and the specific amenities of individual homes relative to the local market.

Residential home prices in 15% of the 315 metro areas tracked by Local Market Monitor, a real estate data provider, have risen in the last 12 months, thanks to growth in certain industries such as mining, natural gas and leisure and hospitality. According to *Smart Money* magazine, bidding wars have helped home prices

surge above list price in some affluent towns like Chatham, New Jersey.

Rising rental prices

Rents are on track to rise by 4% this year, the fastest pace since the housing bubble burst. Rising rents could boost home sales when home purchases start looking as attractive as renting, to first-time homebuyers.

Uncertainties Remain

Despite the combination of low rates, low pricing, locally resilient markets and rising rents, there still remain a variety of factors injecting uncertainty to market forecasts. Persistently high unemployment rates will mute whatever housing recovery takes hold. And there are still a number of distressed properties that haven't yet hit the market. For as long as they continue to make their way through the housing pipeline, they'll continue to drag pricing down.

Connecticut Market Snapshot

Let's take a closer look at how housing sales fared in Connecticut during the eight months of the year.

Housing Permits:

Comparing the number of housing permits issued during the first seven months of 2011 compared to the same time last year, most counties in the state are still experiencing significantly reduced activity, from -5.6% in Tolland County to as much as -61.0% in New Haven County (Lets not forget that New Haven permits shot up in April '10 with 456 housing permits issued for the Becker building in Downtown New Haven). There is, however, one bright spot that has enjoyed a sizeable increase in housing permits this year, compared to last: Fairfield County (409 permits or 30.7%).

Statewide, 2011 year-to-date building permits numbered 1,428, down -31.18% from last year's 2,075 permits issued during the same seven-month time period.

A look at units sold, average list and sales prices, inventory and price per square foot do not show a great deal of movement in the first eight months of 2011 compared to the same time last year.

Number of Home Sales and Inventory:

The number of single family home units sold was down -11.10% statewide during the first eight months of 2011, compared to the same period last year. By county, the drop was least severe in Litchfield County (-4.30%), Middlesex County (-5.20%) and Fairfield County (-7.00%) and steepest in New London County (-17.30%)

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**Connecticut Housing Permits
January to July
2011 vs 2010**

County	Number of Housing Permits Issued Jan to July		% Change
	2011	2010	
Fairfield	409	313	30.7%
Hartford	295	366	-19.4%
Litchfield	58	63	-7.9%
Middlesex	95	147	-35.4%
New Haven	278	713	-61.0%
New London	105	208	-49.5%
Tolland	118	125	-5.6%
Windham	70	140	-50.0%

The number of units sold did not always correspond with the rise or fall of inventory by county. In Litchfield County, where home sales fell less sharply than any other county (-4.30%), inventory rose by a modest 0.10% compared to 2010, yet in Middlesex County, which also experienced a relatively modest drop in units sold (-5.20%), inventory rose by 8.70%. Statewide, inventory rose by 1.40% compared to the same time last year.

Condominium sales fell at a slightly higher rate, by -15.30%, statewide. The drop in units sold was sharpest in Tolland (-31.00%) and Middlesex (-30.20%) counties. Meanwhile, condominium inventory dropped by -5.10%, statewide.

Average List and Sales Prices:

Statewide, average list prices fell by -2.80% in 2011 while average sales prices rose by 5.60%. A county by county breakdown reveals that the drop in average list prices ranged from negligible (-0.20% in Fairfield County) to slight (-5.00% in Hartford County).

Average sales prices, on the other hand, rose statewide by 5.60%, to \$442,115. However, on a county by county basis, average sales prices fell by as much as -12.60% in Litchfield County, although most counties (Hartford, New Haven, New London and Tolland) experienced an average sales price change ranging from -3.40% to +2.70%.

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Real Estate Market Overview
2011 vs. 2010
January 1st to August 31st

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First Eight Months 2011 vs. First Eight Months 2010 -- Single Family Homes

County	Number of Units Sold		% Inc. / Dec.	Average Sales Price		% Inc. / Dec.	Avg List Price		% Inc. / Dec.	Inventory		% Inc. / Dec.	Price per SF		% Inc. / Dec.
	2011	2010		2011	2010		2011	2010		2011	2010		2011	2010	
Fairfield	4,068	4,374	-7.00%	\$859,980	\$801,052	7.40%	\$1,223,981	\$1,225,931	-0.20%	6,355	6,447	-1.40%	\$319	\$305	4.60%
Hartford	3,513	4,066	-13.60%	\$277,471	\$270,188	2.70%	\$334,359	\$351,810	-5.00%	4,327	4,071	6.30%	\$141	\$144	-2.00%
Litchfield	856	894	-4.30%	\$321,846	\$368,046	-12.60%	\$565,730	\$585,994	-3.50%	2,123	2,120	0.10%	\$164	\$184	-10.90%
Middlesex	813	858	-5.20%	\$325,646	\$309,462	5.20%	\$464,525	\$467,033	-0.50%	1,484	1,365	8.70%	\$168	\$164	2.40%
New Haven	2,907	3,374	-13.80%	\$276,953	\$272,465	1.60%	\$364,750	\$379,133	-3.80%	4,449	4,449	0.00%	\$148	\$153	-2.90%
New London	1,127	1,363	-17.30%	\$262,121	\$268,562	-2.40%	\$407,204	\$423,128	-3.80%	2,206	2,214	-0.40%	\$146	\$150	-2.30%
Tolland	543	614	-11.60%	\$251,418	\$260,323	-3.40%	\$309,606	\$324,185	-4.50%	982	909	8.00%	\$131	\$138	-5.60%
Windham	514	584	-12.00%	\$174,977	\$184,494	-5.20%	\$247,658	\$256,584	-3.50%	906	942	-3.80%	\$110	\$113	-3.20%
Statewide Stats	14,341	16,127	-11.10%	\$442,115	\$418,545	5.60%	\$620,372	\$638,410	-2.80%	22,835	22,521	1.40%	\$208	\$204	2.10%

First Eight Months 2011 vs. First Eight Months 2010 -- Condominiums

County	Number of Units Sold		% Inc. / Dec.	Average Sales Price		% Inc. / Dec.	Avg List Price		% Inc. / Dec.	Inventory		% Inc. / Dec.	Price per SF		% Inc. / Dec.
	2011	2010		2011	2010		2011	2010		2011	2010		2011	2010	
Fairfield	1,211	1,276	-5.10%	\$319,109	\$339,653	-6.00%	\$388,995	\$384,701	1.10%	2,195	2,415	-9.10%	\$226	\$232	-2.70%
Hartford	961	1,225	-21.60%	\$181,346	\$188,665	-3.90%	\$195,143	\$206,091	-5.30%	1,507	1,476	2.10%	\$135	\$141	-4.40%
Litchfield	131	145	-9.70%	\$139,065	\$144,486	-3.80%	\$182,632	\$183,367	-0.40%	349	366	-4.60%	\$115	\$119	-3.10%
Middlesex	143	205	-30.20%	\$191,530	\$174,366	9.80%	\$211,227	\$218,595	-3.40%	356	314	13.40%	\$147	\$145	1.50%
New Haven	899	1,125	-20.10%	\$164,586	\$174,484	-5.70%	\$197,671	\$201,970	-2.10%	1,595	1,744	-8.50%	\$132	\$142	-7.20%
New London	211	214	-1.40%	\$184,244	\$193,192	-4.60%	\$237,953	\$222,560	6.90%	409	440	-7.00%	\$146	\$147	-0.80%
Tolland	80	116	-31.00%	\$158,804	\$159,895	-0.80%	\$198,186	\$211,543	-6.30%	187	196	-4.60%	\$123	\$134	-7.70%
Windham	40	36	11.10%	\$130,268	\$113,483	14.80%	\$158,929	\$159,057	-0.10%	98	104	-5.80%	\$102	\$102	0.10%
Statewide Stats	3,676	4,342	-15.30%	\$220,636	\$226,043	-2.40%	\$261,649	\$266,059	-1.70%	6,699	7,056	-5.10%	\$166	\$170	-2.50%

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Average list and sales prices for condominiums fell by -1.70% and -2.40%, respectively, statewide. The average condominium sales price, statewide, stood at \$220,636 for the first eight months of 2011. Average condo sales prices rose the most in Windham County (14.80%), to \$130,268.

Price Per Square Foot:

Finally, average price per square foot for single family homes rose slightly statewide, by 2.10%, to \$208 per square foot. Average price per square foot dropped most sharply in Litchfield County, by -10.90%, to \$164 per square foot. Fairfield County, with the highest average price per square foot, rose by 4.60%, to \$319 per square foot in 2011.

Average square foot pricing for condos fell by -2.50% statewide, to \$166 per square foot.

Those of us who have dedicated ourselves to the New Construction industry over many years understand the cyclical nature of the housing market. There's reason to believe that we have hit the bottom of the current upheaval in the housing market and that conditions will eventually yield to a more positive outlook. While we don't expect overnight improvements, the upcoming election year of 2012 and the likely passage of some form of jobs stimulation by Washington should help set the stage for a brighter future.

U.S. Home Forecast Calls for Pain

In September, the Wall Street Journal reported that economists, builders and mortgage analysts are predicting the weakened U.S. economy will depress housing prices for years, restraining consumer spending, pushing more homeowners into foreclosure and clouding prospects for a sustained recovery.

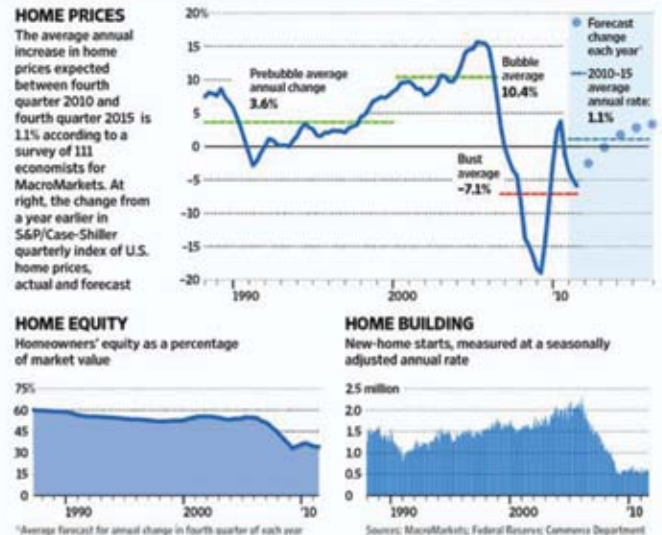
WSJ's Nick Timiraos reported on a new survey of economists stating that the housing market is likely to remain under pressure through 2015.

Home prices are expected to drop 2.5% this year and rise just 1.1% annually through 2015, according to a recent survey of more than 100 economists to be released Wednesday. Prices have already fallen 31.6% from their 2005 peak, as measured by the Standard & Poor's Case-Shiller 20-city index.

If the economists' forecast is accurate, it means housing faces a lost decade in which home prices recover just a fraction of what was lost between 2005 and 2015, leaving millions of homeowners with little, if any, equity in their homes. The

Housing's Rut | Three measures of a lingering problem

Housing's Rut | Three measures of a lingering problem



survey was conducted for MacroMarkets LLC, a financial technology company co-founded by Yale University economist Robert Shiller.

The housing bust has chilled consumer spending—the largest single driver of the U.S. economy—with eroding home equity contributing to the so-called reverse wealth effect that prompts people to spend cautiously because they feel poorer.

One in five Americans with a mortgage owes more than their home is worth, and \$7 trillion of homeowners' equity has been lost in the bust. Homeowners' equity as a share of home values has fallen to 38.6% from 59.7% in 2005.

“With all of the economic turmoil, both domestic and international, there's not much that points to an improving housing market at any point in the near future,” said Ara Hovnanian, chief executive of Hovnanian Enterprises Inc., the U.S.'s seventh-largest builder by deliveries.

While home prices aren't falling at anywhere near the pace of 2008, one worry is that even modest declines become self-reinforcing, pushing more homeowners underwater and exacerbating the downdraft caused by more foreclosures.

That, in turn, could prompt more credit tightening by lenders, further shrinking the pool of home buyers when more are needed to purchase bank-owned foreclosures.

The housing bust is weighing on the economy in part because bank-owned foreclosures have sidelined new construction, a traditional employment engine following a downturn.