

## Shrinking Supply Could Spell Trouble for Spring Markets

Buyers are eager, but low inventory leads to declining home sales

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The brutal winter blizzards have ended and the sun is finally (mostly) shining, which can only mean one thing: the spring market has arrived. Realtors emerge from the long winter ready to list new inventory--the weather is finally conducive to open houses (no booties! clear walkways! longer days!) and with hungry buyers across the Northeast, all signs point to a healthy spring market. Except one. During the past several years of market recovery, inventory has been steadily declining. This has led to quicker, more aggressive offers and frequent bidding wars. But, the market has been able to keep pace, by providing enough available homes to sustain the number of buyers. So, even with Months of Supply continuously dropping, Unit Sales have kept rising. Until now. It appears supply has finally caught up with demand, and the result is clear: there simply aren't enough homes on the market to meet the overwhelming number of buyers.

According to the National Association of Home Builders, 17 percent of respondents to a recent poll said they are planning to buy a home within the next 12 months. Additionally, 45 percent of respondents to the same poll are looking to buy an existing home, 41 percent are looking at either existing or newly built homes, and the other 13 percent are looking specifically for a new home. However, the question that hasn't been answered is what homes they will be buying. There simply isn't enough existing inventory to accommodate that high number of potential buyers.

Interestingly, the biggest gap in terms of market availability is in lower-cost, entry-level homes, while one of the biggest pools of buyers entering the marketing are millennials looking for, lower-cost, entry-level homes. There continues to be a wide disconnect between market demand and market availability. As builders continue to focus on homes intended for buyers moving up in house, first-time home buyers find themselves with limited options. This is compounded by the fact that rents continue to rise across the country--according to CNBC, in 2017 rents rose nearly 3 percent, making it even harder for first-time buyers to save down payments at all, never mind larger ones for more expensive homes.

For builders, this market trend, which at this point is less of a trend and is now just the market, opens up opportunities. Historically, when inventory is low, buyers flock towards new construction. And for first-time millennial homebuyers, inventory is low. Boomers aren't downsizing as expected--instead of moving to smaller homes or retirement communities, the largest generation of homeowners are instead choosing to "age-in-place", bucking the very market trends that analysts rely on. Now, instead of selling their starter homes, which would be perfect entries into the market for millennials, much of what is available on the market is simply out of millennials' price range.

So, what exactly are millennials looking for in a first-time home purchase? One of their biggest requirements is a boon for builders: move-in ready homes. Most millennials, according to

Business Insider, don't want to deal with the hassle or cost of a fixer-upper. Additionally, they're looking for open floor plans and high-end kitchens--spaces to entertain and host friends and family. Another key feature millennials tend to look for is a dedicated space to use as an office. With telecommuting increasing in popularity, this generation is focused on how they can work from home while maintaining a high level of productivity. They're also focused on location--many millennials want to have easy access to the amenities of a city, so easy access to transportation and major hubs is important.

With the hugely untapped market of millennial first-time homebuyers looking to purchase starter homes, this leaves open a chance for builders to fill a desperately increasing need. As was said in a late-1980s classic film: if you build it, they will come.

### Q1 2018 By the Numbers Housing Permits Rise in Q1 2018

To start the year, permits saw a 33.8 percent increase, after finishing 2017 down 7.1 percent. The total number of permits increased from 773 in Q1 2017 to 1,034 in Q1 2018.

The largest gain was in 3-4 Unit permits, which rose 175 percent, followed by 5+ Unit permits, which increased 83.6 percent. An increase was also seen in 2-Unit permits, which grew by 27.3 percent, while 1-Unit permits fell in Q1, down 8.9 percent from 407 to 371 year-over-year.

On a county-by-county basis, the growth was driven entirely by three counties: New Haven at 246.6 percent, Hartford County at 128.46 percent and New London at 32.26 percent. Meanwhile, Windham declined 42.86 percent, Fairfield declined 36.8 percent, Litchfield declined 25 percent, Middlesex declined 24.62 percent and Tolland declined 4.62 percent.

### First-Quarter Unit Sales Decline in Single Family Marketplace

In Q1 2018, Single-Family Home Sales in the state of Connecticut decreased 5.7 percent, from 6,561 to 6,187 year-over-year. On a county-by-county basis, decreases were seen across the state, including: Windham County at 12.1 percent, New London

### 2018 vs. 2017 -County by County - Permits Issued First Quarter Comparison with only 104 municipalities reporting

County	2018 Total	2017 Total	% Diff
Fairfield	237	375	-36.80%
Hartford	281	123	128.46%
Litchfield	3	4	-25.00%
Middlesex	49	65	-24.62%
New Haven	357	103	246.60%
New London	41	31	32.26%
Tolland	62	65	-4.62%
Windham	4	7	-42.86%
Total	1034	773	33.76

Data Source: US Census Compiled by DECD Research

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County at 6.9 percent, Hartford County at 6.9 percent, New Haven County at 6 percent, Fairfield County at 4.8 percent, Tolland County at 3 percent, Middlesex County at 2.9 percent and Litchfield County at 1.6 percent.

Averages Sales Price for single-family homes in Connecticut increased 2.6 percent through Q1 2018, from \$361,606 to \$371,077. Increases were seen in Windham County (17.7 percent), Tolland County (15.7 percent), New London County (9.5 percent), New Haven County (6 percent), Middlesex County (3.6 percent), Hartford County (1.6 percent) and Fairfield County (0.1 percent). Litchfield County experienced a year-over-year decrease of 7.7 percent.

To round out the quarter, Average List Price increased 3.6 percent, Months of Supply fell 11.7 percent and Price Per Square Foot increased 4.2 percent.

### Connecticut Condominium Sales Decline in Q1

To finish Q1 2018, we saw Units Sold decrease for condominiums in the state of Connecticut, down 10.9 percent, from 1,765 in Q1 2017 to 1,572 in Q1 2018. This followed a solid end to 2017, where Unit Sales increased 5.4 percent year-over-year. Many counties experienced declines, including: Tolland County at 34.9 percent, New Haven County at 18.7 percent, Middlesex County at 15.7 percent, Hartford County at 7.9 percent, Fairfield County at 6.7 percent and New London County at 4.1 percent.

Both Windham and Litchfield Counties stayed flat this quarter, with a 0 percent change.

Averages Sales Price of condominiums in Connecticut increased 2.1 percent, from \$211,333 to \$215,718. This increase was driven entirely by a 9.9 percent increase in New London County, a 7.9 percent increase in Middlesex County and a 5.9 percent increase in Hartford County. Meanwhile, prices fell 14.1 percent in Tolland County, 2.7 percent in Windham County, 2.3 percent in Litchfield County, 0.7 percent in Hartford County and 0.5 percent in New Haven county.

To round out Q1 2018, Average List Price decreased 0.7 percent, Months of Supply fell 15.6 percent and Price Per Square Foot decreased 2.8 percent.

### Conclusion

In conclusion, shortened supply remains a significant issue that shows no signs of resolving itself. Builders remain pressured by material costs, a lack of labor and fewer viable lots, even while millennial first-time homebuyers are calling for more inventory. In Connecticut, even while permits for new construction increased, all of that construction was in multi-family units--the total permits for single-family homes continued to decline. This indicates no plans for local builders to begin meeting buyer demand for starter homes, leaving a huge segment of potential homeowners with fewer and fewer buying options. ■

## Connecticut Real Estate Market Overview

### Full Year – 2018 vs. 2017 Single Family Marketplace January 1st to December 31st

County	Number of Units Sold		% Inc. / Dec.	Average Sales Price		% Inc. / Dec.	Avg List Price		% Inc. / Dec.	Months of Supply		% Inc. / Dec.	Price per SF		% Inc. / Dec.
	2018	2017		2018	2017		2018	2017		2018	2017		2018	2017	
Fairfield	1,504	1,580	-4.80%	\$741,501	\$741,104	0.10%	\$1,378,790	\$1,290,281	6.90%	6.50	7.60	-14.40%	\$253	\$267	-5.10%
Hartford	1,434	1,541	-6.90%	\$245,999	\$242,039	1.60%	\$341,763	\$334,748	2.10%	4.10	3.90	5.60%	\$124	\$129	-4.00%
Litchfield	422	429	-1.60%	\$278,206	\$301,273	-7.70%	\$624,406	\$634,222	-1.50%	7.90	9.60	-18.30%	\$136	\$152	-10.60%
Middlesex	371	382	-2.90%	\$289,841	\$279,869	3.60%	\$465,814	\$474,433	-1.80%	5.60	6.00	-7.40%	\$144	\$150	-3.70%
New Haven	1,390	1,479	-6.00%	\$245,404	\$231,585	6.00%	\$409,193	\$371,268	10.20%	4.80	6.10	-21.50%	\$127	\$131	-3.70%
New London	551	592	-6.90%	\$255,634	\$233,412	9.50%	\$407,510	\$398,089	2.40%	5.30	5.60	-6.10%	\$133	\$131	1.10%
Tolland	261	269	-3.00%	\$247,337	\$213,714	15.70%	\$293,911	\$292,547	0.50%	4.70	4.90	-4.80%	\$119	\$118	0.90%
Windham	254	289	-12.10%	\$221,165	\$187,864	17.70%	\$265,947	\$246,050	8.10%	3.60	4.00	-9.30%	\$118	\$109	8.70%
Statewide Stats	6,187	6,561	-5.70%	\$371,077	\$361,606	2.60%	\$703,711	\$679,554	3.60%	5.30	6.00	-11.70%	\$168	\$176	-4.20%

## Connecticut Real Estate Market Overview

### Full Year – 2018 vs. 2017 Condominium Marketplace January 1st to December 31st

County	Number of Units Sold		% Inc. / Dec.	Average Sales Price		% Inc. / Dec.	Avg List Price		% Inc. / Dec.	Months of Supply		% Inc. / Dec.	Price per SF		% Inc. / Dec.
	2018	2017		2018	2017		2018	2017		2018	2017		2018	2017	
Fairfield	546	585	-6.70%	\$314,341	\$316,617	-0.70%	\$470,511	\$443,770	6.00%	5.10	6.00	-15.90%	\$207	\$222	-7.00%
Hartford	373	405	-7.90%	\$169,349	\$159,855	5.90%	\$204,987	\$204,479	0.20%	4.40	4.60	-5.10%	\$119	\$122	-2.20%
Litchfield	65	65	0.00%	\$122,585	\$125,412	-2.30%	\$174,722	\$300,756	-41.90%	5.90	7.80	-23.50%	\$89	\$100	-11.00%
Middlesex	75	89	-15.70%	\$168,353	\$156,078	7.90%	\$226,592	\$248,243	-8.70%	5.30	6.30	-15.10%	\$130	\$125	3.90%
New Haven	392	482	-18.70%	\$163,733	\$164,490	-0.50%	\$236,675	\$231,283	2.30%	5.00	6.30	-21.00%	\$123	\$125	-1.60%
New London	71	74	-4.10%	\$173,411	\$157,728	9.90%	\$239,658	\$267,487	-10.40%	6.00	6.80	-12.20%	\$135	\$122	10.40%
Tolland	28	43	-34.90%	\$127,787	\$148,678	-14.10%	\$189,142	\$201,292	-6.00%	6.10	6.60	-8.70%	\$115	\$119	-3.60%
Windham	22	22	0.00%	\$161,380	\$165,844	-2.70%	\$191,124	\$156,958	21.80%	5.00	8.10	-38.60%	\$124	\$122	1.80%
Statewide Stats	1,572	1,765	-10.90%	\$215,718	\$211,333	2.10%	\$301,470	\$303,519	-0.70%	5.00	5.90	-15.60%	\$153	\$157	-2.80%

Information contained herein is based on information obtained from CMLS, CTMLS, GRWMLS and DARMLS and is deemed accurate but not guaranteed