1st Quarter 2009

U.S. Housing Market Conditions

New England Regional Report

HUD Region I

1st Quarter Activity

The following summary of the New England region's housing market conditions and activities has been prepared by economists in the U.S. Department of Housing and Urban Development's (HUD's) field offices. The report provides overviews of economic and housing market trends within the New England region. The report is based on information obtained by HUD economists from state and local governments, from housing industry sources, and from their ongoing investigations of housing market conditions carried out in support of HUD's programs.

Job losses in New England, which began in mid-2008, continued during the first quarter of 2009. During the 12 months ending March 2009, nonfarm employment in the region averaged fewer than 7 million jobs, indicating a loss of 70,300 jobs, or 1.0 percent, compared with a gain of 55,200 jobs during the previous 12 months. The decrease in employment was broad based, with all states in the region posting net losses. The goods-producing sectors accounted for 49,500, or 70 percent, of the job losses, which were evenly distributed between the construction and manufacturing sectors. This rate of job losses represents a significant increase from the average annual job losses of 11,600 in goods-producing sectors between 2004 and 2008. During the 12 months ending March 2009, the service-providing sectors lost 20,800 jobs, or 0.3 percent, compared with the average annual gain of 63,500 service-providing jobs since 2004.

In the region, during the 12 months ending March 2009, slightly more than 60 percent of the goods-producing jobs lost in the region were in Connecticut and Massachusetts. Together, the two states lost 15,900 jobs in the construction sector and 14,600 jobs in the manufacturing sector. Commercial and residential real estate development has slowed and rising business costs and budget cuts have contributed to the loss of many defense-related and high-technology jobs. Together, Connecticut and Massachusetts also accounted for about one-half of the service-providing jobs lost in the region during the past 12 months. Significant losses in the professional and business services, leisure and hospitality, and trade sectors, totaling 23,600 jobs, were partially offset by the gain of 21,600 jobs in the education and health services sector. Nonfarm job losses totaled 6,600 in Maine and 5,600 in Vermont, down 1.1 and 1.8 percent, respectively. In the two states, the only employment sector to post job gains, albeit small ones, was education and health services. Although New Hampshire lost 5,700 goods-producing jobs, a decrease of 5.4 percent, during the 12 months ending March 2009, the state was the only one in the region to record employment growth in the service-providing sectors, with an increase of

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2,300 jobs, led by employment gains in the trade and the education and health services sectors. During the period, Rhode Island lost a region-high 7.3 percent of its goods-producing jobs, totaling 5,300 jobs, and lost the largest number of service-providing jobs in the region, totaling 8,500, or a 2.0-percent decrease, with job losses recorded in both goods-producing and service-providing sectors. During the 12 months ending March 2009, the unemployment rate in New England averaged 6.2 percent, up from 4.5 percent during the previous 12 months. New Hampshire had the lowest rate, at 4.4 percent, up from 3.5 percent a year earlier, and the rate in Rhode Island increased to 8.9 percent from 5.6 percent during the 12 months ending March 2008.

In response to a weakening economy along with reduced home sales volume and decreasing home prices, home construction activity, as measured by the number of building permits issued, continued to decline in all states in the region. During the 12-month period ending March 2009, 22,450 permits were issued, down 31 percent from the number issued during the previous 12-month period. This decrease consisted entirely of single-family permits, which fell by more than 43 percent to 13,700 homes from the 24,200 homes permitted during the previous 12 months. The largest decline in single-family permits occurred in Massachusetts, where 4,750 homes were permitted, 41 percent fewer than during the previous 12-month period. The greatest percentage of decline in the number of single-family permits issued occurred in Connecticut, where the 2,535 permits issued represented a 51-percent decrease compared with the number issued during the 12 months ending March 2008. During the most recent 12-month period, the number of permits issued in Maine and New Hampshire totaled 2,670 and 1,950, respectively, down 43 and 45 percent, respectively, from the number issued during the same period ending March 2008. The smallest regional declines in activity occurred in Rhode Island and Vermont, where only 800 and 990 permits, respectively, were issued, decreases of 37 and 35 percent, respectively, compared with the number of permits issued during the previous 12-month period.

Due partly to more favorable financial and mortgage market conditions in New England, multifamily construction activity, as measured by the number of units permitted, totaled 8,750 during the 12 months ending March 2009, up 4 percent from the 8,400 units permitted during the same period a year earlier. In Massachusetts the number of multifamily units permitted increased by 5 percent to 4,680; this figure represents 54 percent of the total number of multifamily units permitted in the region during the past 12 months. In New Hampshire and Rhode Island, the number of units permitted increased by 25 percent to 775 units and by 10 percent to 275 units, respectively. In Maine and Vermont, the number of units permitted decreased by 8 and 7 percent, respectively. In Connecticut, the number of multifamily units permitted remained stable, at 2,110 units. During the 12 months ending March 2009, two of the largest metropolitan multifamily markets in the region—the Boston-Cambridge-Quincy, Massachusetts-New Hampshire metropolitan area and the Bridgeport-Stamford-Norwalk, Connectcut metropolitan area—recorded increases of 9 percent to 4,575 units and 12 percent to 995 units, respectively.

Tighter lending standards and the increasing pace of job losses during the past year have resulted in softer home sales market conditions throughout the region. According to the Massachusetts Association of REALTORS® (MAR), during the 12 months ending March 2009, home sales in the state totaled 35,575 units, a 9-percent decline compared with the number of sales during the previous 12-month period, and the median sales price declined by 12 percent to $301,600. The Rhode Island Association of REALTORS® reported that, during the 12 months ending March 2009, home sales in the state were down 7 percent to 6,625 units, and the median price declined by more than 18 percent to $220,375 due to an increased level of distressed home sales. The Maine Real Estate Information System, Inc., reported that, during the 12 months ending March 2009, home sales in the state were down 19 percent to 9,200 units and the median price was down 9 percent to $175,325.

MAR reported that, during the 12 months ending March 2009, the number of homes sold in the greater Boston market area totaled 8,260, down 12 percent from the number sold during the previous 12 months, and the median price declined 8 percent to $441,750. The Greater Hartford Association of REALTORS®, Inc., reported that, during the most recent 12-month period, 7,570 homes were sold in the greater Hartford market area, down nearly 20 percent compared with the number sold during the previous 12-month period, and the median price declined by 7 percent to $240,625.

According to the Federal Housing Finance Agency, during the fourth quarter of 2008, home prices in the region decreased by 6.2 percent from prices recorded during the same quarter a year ago. This rate was below the 8.2-percent national home price rate of decline. In addition, the S&P/Case-Schiller® Home Price Index indicates that the Boston metropolitan area ranked third in the nation for the lowest 1-year depreciation rate, down only 7 percent as of February 2009 compared with the rate recorded as of February 2008. In February 2009, the composite index, which is derived from data from 20 metropolitan areas nationwide, was down by more than 18 percent compared with the level recorded in February 2008.

Most New England condominium markets are soft, exhibiting declining sales and falling median prices. MAR reported that, during the 12 months ending March 2009, condominium sales in Massachusetts totaled 15,050 units, down 18 percent from sales recorded a year ago, and the median price was down 6 percent to $264,650. The greater Boston area posted condominium sales of 7,975, a 14-percent decline from sales recorded a year ago and a 4-percent drop in the median price to $341,500. According to the Listing Information Network, Inc., during the first quarter of 2009, the median price of a luxury condominium in the city of Boston decreased by 19 percent to $560,000 as sales declined by 42 percent compared with sales during the first quarter of 2008.

In general, rental housing markets throughout the New England region are balanced; however, as has been the general trend for the past few years, the larger metropolitan area rental markets are softening and recording higher vacancy rates. Most of the smaller metropolitan areas, which had limited additions to the rental inventory, exhibited lower and declining vacancy rates. According to Reis, Inc., during the first quarter of 2009, the Boston metropolitan area rental market added nearly 1,000 new rental units after adding nearly 3,100 units in 2008. Subsequently, the rental vacancy rate increased to 6.4 percent, up from 5.9 percent a year ago, as lagging apartment absorption accompanied job losses. In Fairfield County, Connecticut, only 245 rental units were added to the market during the first quarter of 2009; however, job losses associated with financial difficulties in New York City resulted in negative absorption and a rental vacancy rate of 6.0 percent, up from 4.9 percent during the first quarter of 2008. The rental inventory has not increased significantly in either the Hartford or Providence areas, but weaker labor markets have resulted in increased vacancy rates of 5.3 and 7.6 percent, respectively, compared with rates of 4.7 and 7.3 percent a year ago. Nearly all the smaller metropolitan rental markets have experienced lower vacancy rates, despite weakened economies. In some cases tighter credit conditions shifted demand to rental housing, as growth in the rental inventories has remained moderate. Rental vacancy rates in these smaller markets range from 3.7 percent in Springfield to 4.6 percent in Portland.

Regardless of the prevailing trends in each rental market, during the first quarter of 2009, nearly all markets posted rent increases compared with rents recorded during the first quarter of 2008. Rent data from Reis, Inc., indicate that, despite rising vacancy rates, Fairfield County (Connecticut) and Boston, the highest cost rental markets in the region, recorded rent increases of more than 1 percent to $1,807 and more than 2 percent to $1,732, respectively. During the first quarter of 2009, the Springfield, Massachusetts metropolitan area had an average rent of $879, up more than 3 percent from the rent recorded a year ago. The Manchester-Nashua, New Hampshire metropolitan area had an average rent of $1,068, up more than 2 percent from the rent recorded during the first quarter of 2008.