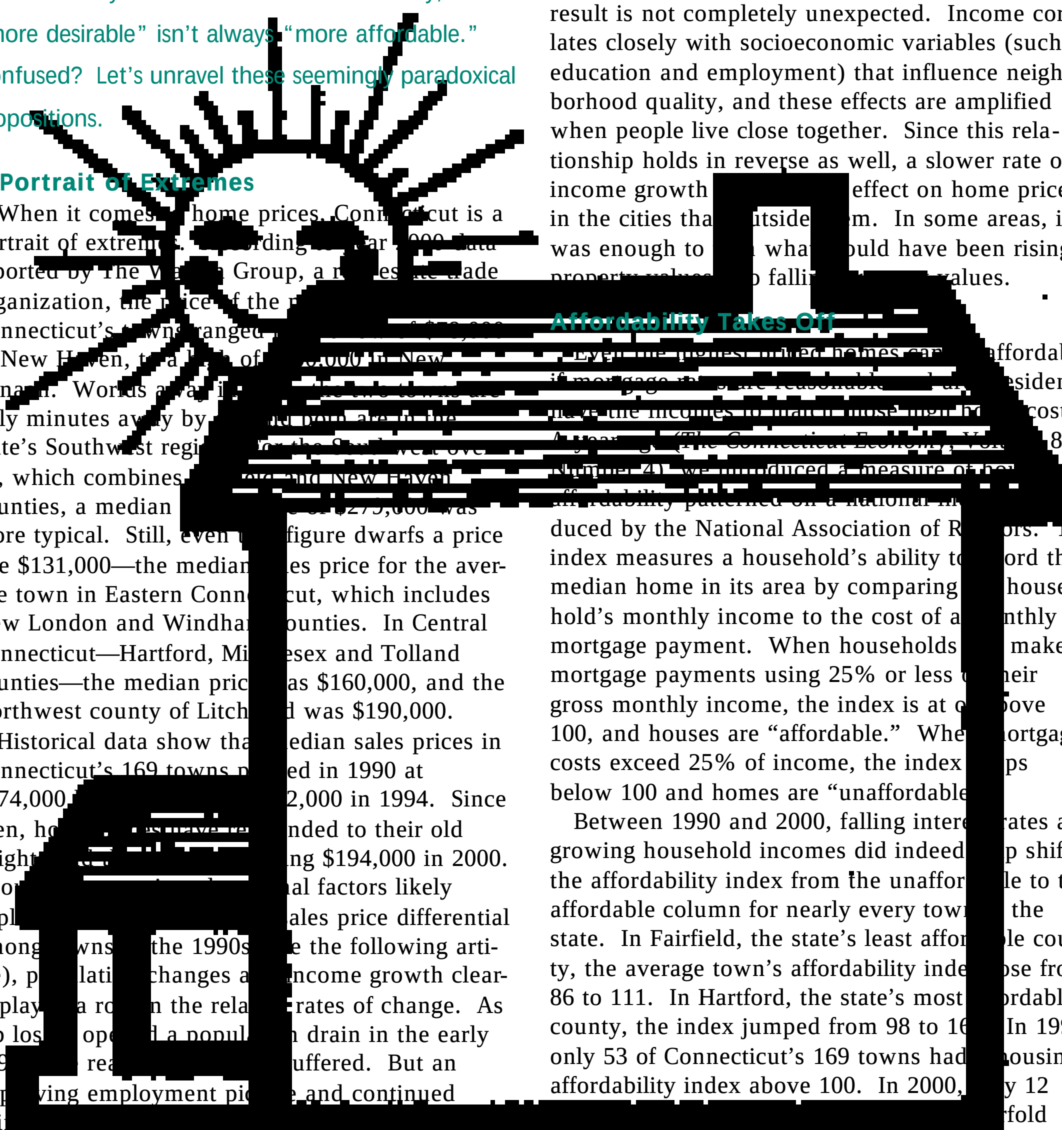
Housing Affordability Returns, But at a Price

By Steven P. Lanza

As we've noted before in these pages, housing in Connecticut has become much more affordable over the last decade. But closer inspection reveals that "more affordable" isn't always "more desirable," at least not everywhere in the state. Conversely, "more desirable" isn't always "more affordable." Confused? Let's unravel these seemingly paradoxical propositions.



A Portrait of Extremes

When it comes [illegible] home prices, Connecticut is a portrait of extremes. According to [illegible] 2000 data reported by The W[illegible] Group, a [illegible] estate trade organization, the price of the [illegible] Connecticut's towns ranged [illegible] in New Haven, to a high of [illegible] in New Canaan. Worlds apart [illegible] the two towns are only minutes away by [illegible] both are in the state's Southwest region. [illegible] the Southwest overall, which combines [illegible] and New Haven counties, a median [illegible] of $275,000 was more typical. Still, even [illegible] figure dwarfs a price like $131,000—the median [illegible]es price for the average town in Eastern Conn[illegible]cut, which includes New London and Windha[illegible] counties. In Central Connecticut—Hartford, Mi[illegible]sex and Tolland counties—the median pric[illegible]as $160,000, and the Northwest county of Litch[illegible]d was $190,000.

Historical data show tha[illegible]edian sales prices in Connecticut's 169 towns p[illegible]ed in 1990 at $174,000[illegible]2,000 in 1994. Since then, h[illegible]nded to their old height[illegible]ng $194,000 in 2000. Tho[illegible]al factors likely expl[illegible]ales price differential among[illegible]wns[illegible]the 1990s[illegible]e the following article), p[illegible]lati[illegible]changes a[illegible]ncome growth clearly play[illegible] a ro[illegible]n the rela[illegible]rates of change. As job los[illegible] ope[illegible]d a popul[illegible]n drain in the early 199[illegible] rea[illegible]uffered. But an imp[illegible]ving employment pic[illegible]e and continued gai[illegible]ing revival later in the decade. In fact, these two variables alone—income and population—explain more than a third of the change in home prices across Connecticut towns over the period 1990 to 2000. Both were important, but income changes (estimated from the latest Connecticut Department of Economic and Community Development data) packed double or more the punch of population changes (based on the latest Census figures).

The strength of these influences was particularly dependant on a town's level of urbanization. The average "urban" town (44 in total with a population density over 1,000) saw home prices increase 2.8% between 1990 and 2000, while the average "non-urban" town saw prices increase by 8.4%. Across all towns, a one percentage point increase in population produced a 0.4 percentage point increase in home prices at the mean, holding income growth constant. But the effect of income growth on home prices was more robust, especially in urban towns. There, every percentage point increase in per capita income growth above the average raised home prices by an additional 2.8 percentage points. In non-urban towns, by contrast, every one point increase in per capita income growth raised home prices by just 0.8 points. This result is not completely unexpected. Income correlates closely with socioeconomic variables (such as education and employment) that influence neighborhood quality, and these effects are amplified when people live close together. Since this relationship holds in reverse as well, a slower rate of income growth [illegible] effect on home prices in the cities tha[illegible]utside[illegible]m. In some areas, it was enough to [illegible] wha[illegible]uld have been rising propert[illegible] falli[illegible] values.

Affordability Takes Off

Even the [illegible] affordable if mortgage [illegible] residents have the incomes [illegible] costs. [illegible] (*The Connecticut Economy*, Vol[illegible]8, Number 4) we introduced a measure of hou[illegible] affordability patterned on a national in[illegible]duced by the National Association of R[illegible]ors. The index measures a household's ability t[illegible]ord the median home in its area by comparing [illegible] household's monthly income to the cost of a[illegible]nthly mortgage payment. When households [illegible] make mortgage payments using 25% or less [illegible]eir gross monthly income, the index is at o[illegible]bove 100, and houses are "affordable." Whe[illegible]ortgage costs exceed 25% of income, the index [illegible]ps below 100 and homes are "unaffordable[illegible]

Between 1990 and 2000, falling inter[illegible]rates and growing household incomes did indeed [illegible]p shift the affordability index from the unaffor[illegible]le to the affordable column for nearly every tow[illegible] the state. In Fairfield, the state's least affor[illegible]le county, the average town's affordability inde[illegible]ose from 86 to 111. In Hartford, the state's most [illegible]ordable county, the index jumped from 98 to 16[illegible] In 1990, only 53 of Connecticut's 169 towns had [illegible]ousing affordability index above 100. In 2000, [illegible]y 12 [illegible]rfold (pages 10-11), which maps housing affordability by town for 2000, provides a vivid illustration of the relatively high level of affordability in Central and Eastern Connecticut and the lesser degree of affordability in the Southwest.

Despite the generally rising level of affordability, gaps between the highs and lows in the state remain. Often they have widened. Among counties, Hartford's affordability index has grown from 14% above Fairfield's in 1990 to 46% above it in 2000. Greenwich remains the least affordable town in Fairfield County, and in the state. In 1990 its index measured 72, and by 2000 it had barely budged to 73. But in Sherman, first in Fairfield affordability in 1990 and tied for first (with Stratford) in 2000, the index rose from 115 to 148. So as housing grew more affordable in the 1990s, the gap between the top and bottom towns grew wider, even in Fairfield County.

"More Affordable" Isn't Always "More Desirable"

Between 1990 and 2000 there have been some notable shifts in patterns of affordability, and the fault line lies along an urban-suburban divide. Cities have grown relatively more affordable, suburbs less so. In Fairfield County, the working-class cities of Bridgeport and Danbury, which had ranked 19th and 14th in affordability among the county's 23 towns, moved up to 3rd and 4th place, while swanky Westport moved from 3rd to 20th. In Hartford County, the blue-collar towns of East Hartford and New Britain, which had ranked near the bottom of its list of 29 towns, now rank 2nd and 4th, while upscale Simsbury and the adjacent town of Granby dropped from the top ten to 22nd and 24th, respectively. Likewise, in New Haven county, the cities of New Haven and Waterbury climbed from 24th and 19th to 1st and 2nd out of 27, while suburban Madison and Guilford dropped from the top ten to the bottom five.

So this rising affordability in the cities is a good thing, right? Not if it is the result of mediocre income growth, a dwindling population, and plummeting property values. And unfortunately, that's exactly what has happened. In the cities of Bridgeport, Danbury, New Haven, Waterbury, East Hartford and New Britain, income growth barely matched their respective county averages. And, due to both this slower income growth and declining populations, home prices in each locale (except Danbury) fell, most at double-digit rates. This same pattern appeared in the state's other big county, New London, but because the drop in urban home values relative to the county average was less severe, there weren't the same big shifts in town rankings. In the state's wealthier suburbs, by contrast, income growth typically led county averages, the population swelled, and the growth in home values far outstripped the norm.

Beyond Affordability

Rising housing affordability, at least in some portions of Connecticut, exacts a steep price. Often, it is gained at the expense of falling property values, a population drain, and a strained local economy. Economists often speak of the ability of markets to harness self-correcting economic forces. The renewed affordability of urban living should, all things considered, attract new residents and prompt a central city renaissance.

But there's another possibility. The steady urban population exodus may make city living increasingly undesirable, and feed a cumulative spiral downward, all against a backdrop of rising affordability. It's not clear that either option is inevitable, but it's also not clear the latter option is avoidable. Making its cities both vibrant *and* affordable may be Connecticut's biggest challenge in the decade ahead.

Costly Homes, Crowded Roads... Welcome to Southwest Connecticut

by Dennis Heffley

Southwest Connecticut—Fairfield and New Haven Counties—houses half the state's 3.4 million residents, but accounted for 57% of the state's total personal income in 1999. And between 1989 and 1999, total personal income in the two counties grew 62%, compared to 43% for the rest of the state. Envious?

Don't be. Southwest Connecticut's robust economy also has a downside: success has generated conditions that could limit future growth, there and throughout the state. Among the area's most pressing and highly publicized problems are road congestion and high housing costs—two closely connected issues.

Location, Location,... But That's Not All

Economic models of urban land use stress the link between house prices (or rents) and transportation costs. Other things constant, households will pay more to locate nearer work to avoid long commutes. Alone, this would cause residential property values, adjusted for structural size and quality, to decline with a town's distance from major employment centers. But, besides location, other local factors might affect the market value of a Connecticut town's housing. Neighborhood quality (per capita income, crime rates, road congestion) and local public policies (educational and noneducational spending, property tax rates, state aid to towns, and zoning) are likely candidates. Like home prices, these local characteristics vary sharply, even within a small state.

Last year, across Connecticut's 169 towns, the median sales price of single-family homes ranged from $78,000 in New Haven to $900,000 in New Canaan—more than an 11-fold difference between two towns less than 40 miles apart. The median number of rooms in owner-occupied units (from the 1990 Census—we're still awaiting the 2000 figures), ranged from 5.4 in Bridgeport to 8.5 in New Canaan and Weston. Per capita personal income in Hartford ($19,210) is less than one-fifth the level in New Canaan ($108,008). Hefty differences also exist in crimes per thousand residents (Hampton's 3.7 to New Haven's 97.2), per capita noneducational spending (Mansfield's $431 to Greenwich's $2,674), equalized mill rates (Griswold's 5.1 to Hartford's 33.8), and per capita state aid (New Canaan's $49 to Hartford's $1,687). Even school spending per pupil, long the target of state-level equalization efforts, is 75 percent higher in Greenwich ($11,648) than in Colchester ($6,669). Based on an earlier study of local zoning practices, minimum lot-sizes range from zero (no minimum) up to 5 acres in several towns. Finally, the measure of road congestion—daily vehicle-miles per square mile of land—is unavailable for towns, but varies sharply at even the county level (Litchfield County's 4,529 to Fairfield County's 31,223).

Despite large differences in median prices and local characteristics, the geographic patterns are hardly random. Because potential buyers will pay more for favorable features and require discounts for unfavorable ones, property markets readily "capitalize" local characteristics into house prices. We used town-level data to estimate this relationship between the median sales price and local characteristics. Regression analysis showed that the nine characteristics noted above, along with five location variables—distances from New York, Boston, Hartford, Springfield, and the shore—jointly accounted for 93% of the variation in the median sales price across the state's 169 towns. For 11 of the 14 variables, the estimated effects on price were both consistent with housing market theory and statistically significant (almost certainly not zero).

What Matters?

Connecticut lies between New York and Boston. Both of these major metropolitan areas affect local property values. Controlling for house size (median number of rooms) and other town characteristics, the median sales price drops about 14.1% for each 10% increase in distance from New York City, and about 9.4% for each 10% increase in distance from Boston. As expected, price also falls with distance from Springfield (MA) and from Long Island Sound, but neither effect is statistically significant. Both effects may be quite localized: Springfield's influence may be concentrated in a handful of Connecticut's north-