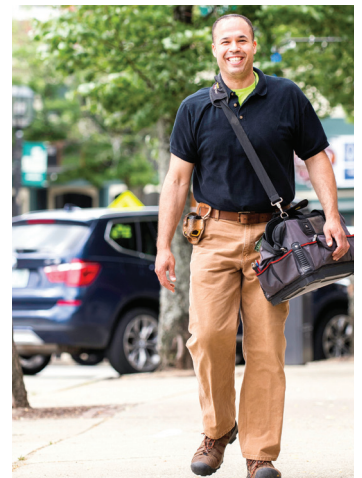




HOUSING MARKET REPORT

NOVEMBER 2018



New Hampshire Housing



PERSPECTIVES ON NEW HAMPSHIRE'S RENTAL MARKET

Dean J. Christon
Executive Director
New Hampshire
Housing Finance
Authority

We compile this housing report three times a year to analyze trends and influences in the homeownership and rental housing markets. In the past few years, the relationship between our housing needs and our state's economic prosperity has become more established. While the growth of our statewide median income offers a reassuring reflection of the state's economy, it also adds weight to the questions about where our workforce will live.

For this edition of our *Housing Market Report*, we asked the NH Department of Business and Economic Affairs, an economist from the national real estate website Trulia, and New Hampshire economist Russ Thibeault to share their perspectives on the housing market, and what they foresee coming.

GRANITE STATE HOUSING MARKET REFLECTS NATIONAL TRENDS

Since late spring a crescendo of expert voices are implying that the housing market is finally starting to soften after years of mounting home price growth and historically low inventory. The data corroborate these opinions: Nationally, flat and falling home sales and declining rates of home price increases indicate the housing market is slowing. But prospective homebuyers who have been frustrated by the housing market are likely to feel skeptical that the winds are shifting completely in their favor. Housing trends coming out of New Hampshire reflect what is happening nationally, presenting a mixed bag for home seekers. Here is some of the what we're seeing in the Granite State:

- Median home values have recovered to pre-recession peaks. Homes in New Hampshire bottomed in early 2012 after losing one-third of their value from their pre-recession peak, but by April of this year they have climbed back to their pre-recession heights.
- Inventory, which has been at historically low levels since 2016, are slowly starting to climb back up. In the Manchester metro area, inventory in August and September reached its highest level since March, 2017 (seasonally adjusted). But starter home inventory makes up only a quarter of all available inventory, posing a particular challenge for first time homebuyers.
- Building permits for 2018 through July for single-family and multifamily homes in New Hampshire are up slightly, showing a modest increase of 10% and 57% over the same time last year, respectively. But nationally, single-family home permits are still down one-third below their 1985 to 2000 historical average.

Cheryl Young, Senior
Economist, Trulia
Young was the keynote
speaker at our October
Housing and the
Economy Conference.
Trulia.com



So, while home values and inventory are recovering, chronically under-building since the Great Recession means that there is still a long way to go before buyers feel in control. First-time homebuyers represent the market segment most acutely affected since inventory shortages and lack of affordability is concentrated in the bottom end of the market.

AFFORDABLE HOUSING IS KEY TO OUR ECONOMY

Since the Department of Business and Economic Affairs was established in 2017 by Governor Sununu and the Legislature, the New Hampshire economy has been red-hot. Companies and manufacturers of all sizes have seen record growth, fueling demand for a workforce and sending the unemployment rate to one of the lowest in the country.

The good news of rebounding growth from the Great Recession is countered by a state at full employment. In the second and third quarter of 2018, there are, in any given week, up to 18,000 open jobs that stand to cool the growth, as employers pause and calculate how much they can do if they can't get the workers.



Affordable housing is key to BEA's work to recruit young workers, especially those between 28 and 32 looking to return to their New Hampshire roots, and it is a critical component for a balanced and healthy economy for the long term. There just isn't enough housing for our college graduates and seasonal workers looking to rent or for young families ready to commit to a career, while balancing basic expenses and tuition loan payments.

Wildolfo (Will) Arvelo is the director of the Division of Economic Development, New Hampshire Department of Business and Economic Affairs
dbea.nh.gov



More than meeting the needs of the thousands of businesses in the state, young workers add to the vibrancy of our communities. The educated workforce, for which we are known, also attracts new businesses to these cities and towns and encourages entrepreneurs who want to make the places where they live even better.

Solving the problem will mean looking at regulations and other impediments to meeting the demand for affordable rents and housing. Shutting the door leaves New Hampshire out in the cold in terms of lost opportunity, revenue and competitiveness.

THE FUTURE AIN'T WHAT IT USED TO BE

Reading through Cheryl Young's comments on the New Hampshire housing market and Will Arvelo's thoughts on our economy's labor force issues brings to mind Yogi Berra's dictum that "It's déjà vu all over again."

This is not the first time that we've experienced a tight housing market along with a strong economy and low unemployment. In fact, these characteristics tend to go hand-in-hand — a strong economy often begets low unemployment, rising home prices, a shrinking housing inventory and stressed-out housing affordability.

But things are playing out differently this time. First, unlike in past recoveries, wages are nearly stagnant. In this regard it's as if we are still in a recession. Low wage growth is constraining the ability to pay for housing in the face of rising home prices and rents. So, part of our housing affordability pressure is because of slack wage growth in this recovery.

The other thing that's different is that rising prices and thin inventories usually stimulate new housing construction, which can soften the impact of low inventories. Yet, this time around homebuilding remains in the doldrums and the few homes that are being built are affordable only for the few.

So, both wages and home construction are acting like we are still in a recession, the highly touted recovery notwithstanding. Even in these good economic times, many of the millennials we need to build the state's future are priced out of the for-sale and rental markets, or simply can't find the housing they want.

Typically, something happens to realign the economic and housing chess pieces. In the early '90s it was overbuilding that got ahead of demand, resulting in a housing crash. In 2008 it was overly lax mortgage underwriting standards that led to high foreclosures and a subsequent crash. Neither of those triggers is present today.

But there are some rumblings that may presage a shift in the fundamentals of both the economy and housing market. Mortgage rates have moved in lock-step with the Federal Reserve's rising rate policies. The 30-year fixed-rate mortgage has jumped from 3.4 % in 2016 to nearly 5% in fall 2018, adding \$300 a month to the payment on a \$225,000 mortgage and adding to the impact of rising prices. In the past, rising rates have transformed the housing market, shifting it from a seller's market to a buyer's market. Some would be relieved to wake up to softer prices, rising inventories and a return to normal rental vacancy rates.

So, while things are different this time around, we may nonetheless be on the brink of a realignment that will moderate the housing market and the economy. Hopefully this time around the market will cool, not crash. And hopefully, Yogi was spot on when he said, "The future ain't what it used to be."

Russ Thibeault is president of Applied Economic Research, an economic and real estate consultancy in Laconia. AERH.com



NEW HAMPSHIRE HOUSING FINANCE AUTHORITY

HOUSING MARKET REPORT ■ NOVEMBER 2018

TABLE OF CONTENTS	Perspectives on New Hampshire’s Housing Market	2
	Economic Indicators	5
	• Unemployment Rate (US, New England, New Hampshire)	
	Household Income	6
	• Owner and Renter Median Household Income	
	• Household Income Required to Afford a 2-Bedroom Apartment	
	Home Prices	7
	• Comparison of Interest Rates	
	• Impact of Interest Rates on Mortgage Payment	
	• MLS Median Sales Price	
	• New Hampshire MLS Residential Property Sales by Year	
	Home Sales and Inventory	9
	• MLS Housing Inventory	
	• MLS Current Listings	
	• MLS Closed Sales	
	• Housing Permits (Single-Family & Multi-Family)	
	• Index of NH and US Single-Unit Housing Permits Authorized	
	• Foreclosure Deeds in New Hampshire	
	New Hampshire’s Rental Market	12
	<i>The full 2018 NHHFA Residential Rental Cost Survey is at NHHFA.org.</i>	
	• Monthly Median Gross Rental Cost, by County	
	• 2018 Median Gross Rent	
	• Percent of NH’s Rental Units, by County	
	ADUs and the Need for More Housing Options in NH	14
	<i>Our Accessory Dwelling Units guides are available at NHHFA.org/ADU.</i>	
	• Average NH Household Size, by Decade	
	• Average Square Feet in New Single-Family Houses in Northeast	

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Front cover: (from top) NeighborWorks® Southern New Hampshire RENEW project (photo - Justin Cross), Manchester; residents of Gilford Village Knolls apartments; bikes at Kensington Woods, Bedford; Kuhn family, Manchester (photo - Cheryl Senter); Kareem, Dover (photo - Robert Jenkins).
 Back cover: Bradley Commons, Dover

ECONOMIC INDICATORS

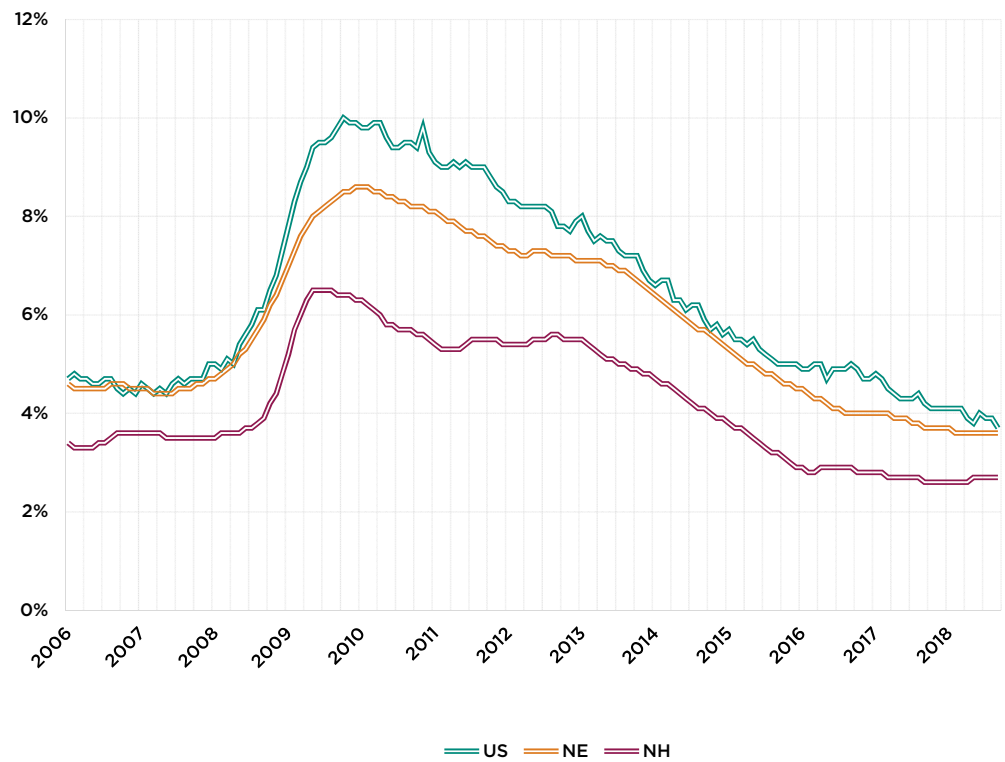
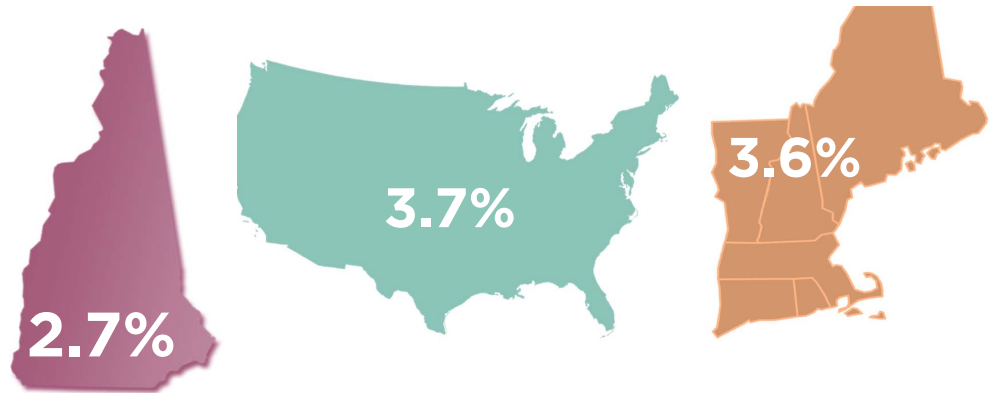
By most indicators, NH has a strong economy. New Hampshire job opportunities appear plentiful, and household income has increased over the past five years.

UNEMPLOYMENT RATE (US, NEW ENGLAND, NEW HAMPSHIRE)

Seasonally adjusted

With an unemployment rate below 3% for over two years, New Hampshire continues its streak of what is essentially “full employment.” Our seasonally adjusted unemployment rate for September is 2.7%. The state’s unemployment rate has been below 3% for 34 straight months.

Source: U.S. Bureau of Labor Statistics



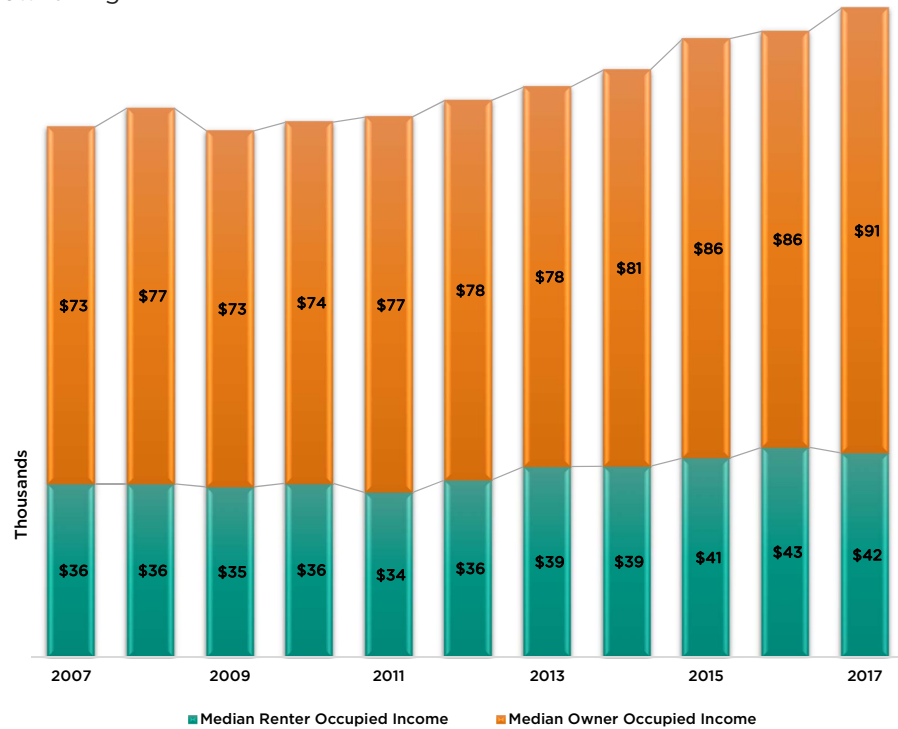
HOUSEHOLD INCOME

Affordability and income. While household income has been increasing since 2012, people are staying in rental apartments longer due to a lack of available units to move into. New construction of multi-family rental units has slightly increased in the state.

OWNER AND RENTER MEDIAN HOUSEHOLD INCOME

Source: U.S. Census Bureau, American Community Survey (2007-2017), 1 Year Estimates B25119. Median Household Income the Past 12 Months

The median renter-occupied household income has increased in the prior five years but seems to be leveling. This may be due to full employment in the state and higher income households remaining renters, as well as older households downsizing.



HOUSEHOLD INCOME REQUIRED TO AFFORD A 2-BEDROOM APARTMENT

Source: 2018 NHHFA Residential Rental Cost Survey
U.S. Census Bureau, 2017 American Community Survey

In New Hampshire, 46% of rental households are paying 30% or more of their household income on rent. Lower-income families are likely to be paying an even higher percentage of their household income towards rent.

	Median 2-BR Rent	Household Income Required	% of 2018 Renter Household Median Income
Statewide	\$1,177	\$47,100	117%
Belknap County	\$1,071	\$42,800	126%
Carroll County	\$1,077	\$43,100	116%
Cheshire County	\$1,068	\$42,700	133%
Coos County	\$861	\$34,400	143%
Grafton County	\$1,146	\$45,800	125%
Hillsborough County	\$1,368	\$54,700	129%
Merrimack County	\$1,160	\$46,400	129%
Rockingham County	\$1,456	\$58,200	124%
Strafford County	\$1,174	\$47,000	123%
Sullivan County	\$971	\$38,800	110%

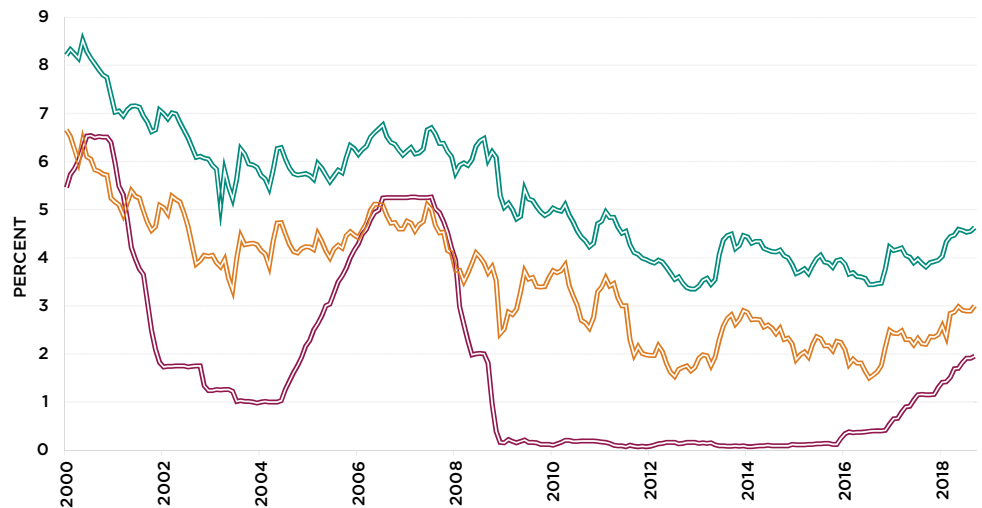
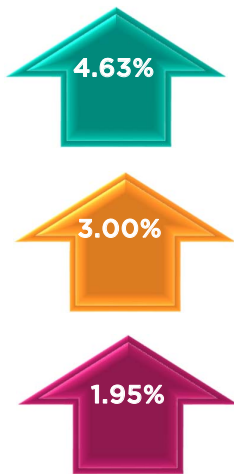
HOME PRICES

New Hampshire home prices continue to rise, making homeownership more challenging, especially for first-time buyers. The increase in prices reflects the lack of supply as well as the strength of the economy. Increasing mortgage rates pose a challenge for first-time buyers, and may begin to cool the market.

COMPARISON OF INTEREST RATES

Mortgage interest rates continue to climb and have reached the highest level since September 2013. The Fed has signaled that rates are likely to continue to increase.

Source: Freddie Mac Primary Mortgage Market Survey; US Federal Reserve Selected Interest Rate H.15.



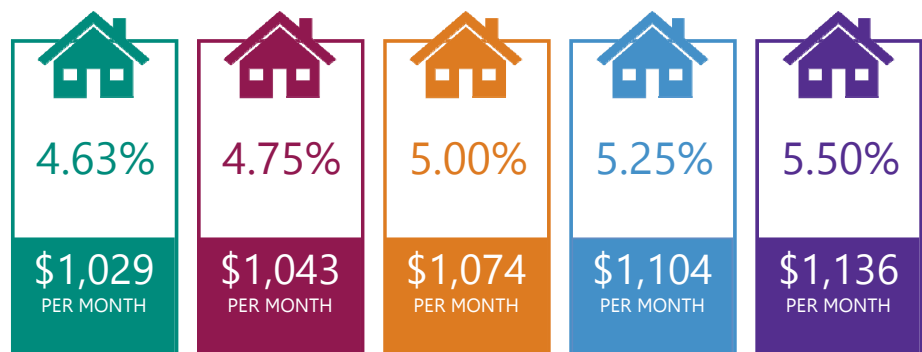
— Mortgage Interest Rates — Fed Funds Rate — 10 year Treasury

IMPACT OF INTEREST RATES ON MORTGAGE PAYMENT

Now that interest rates have begun to rise and are expected to continue in that direction, a one point difference in rates will increase a homeowner's monthly payment by more than \$100, as reflected in the graphic below.

Source: The 4.63% interest rate is based on Freddie Mac's primary mortgage market survey for September 2018.

\$250,000 HOME LOAN 30 YEAR MORTGAGE WITH 20% DOWN



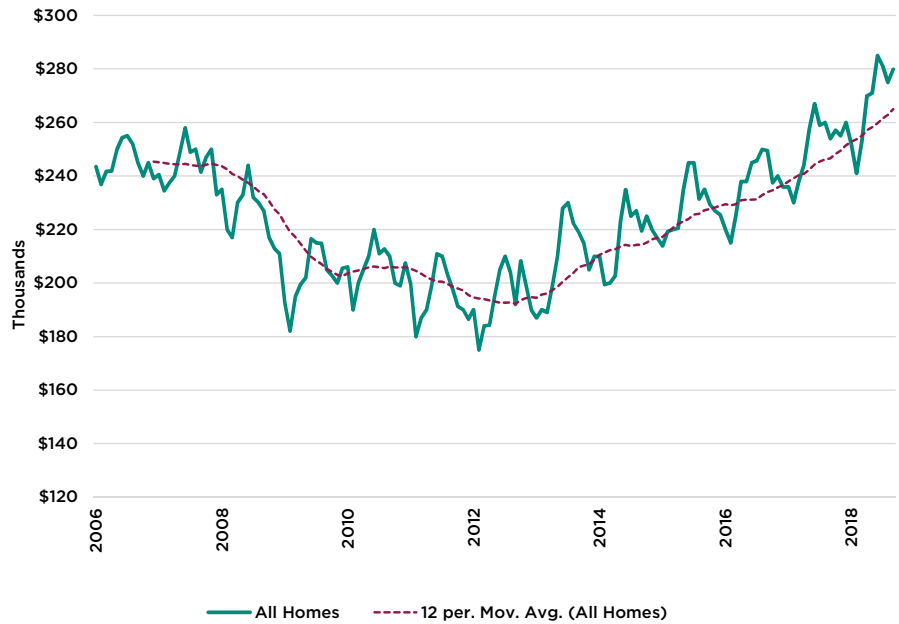
HOME PRICES

MLS MEDIAN SALES PRICE

Based on information from the Northern New England Real Estate Network and compiled by NHHFA. Excludes land, interval ownership, seasonal camps/cottages, multi-family property, mobile/manufactured homes and commercial/industrial property.



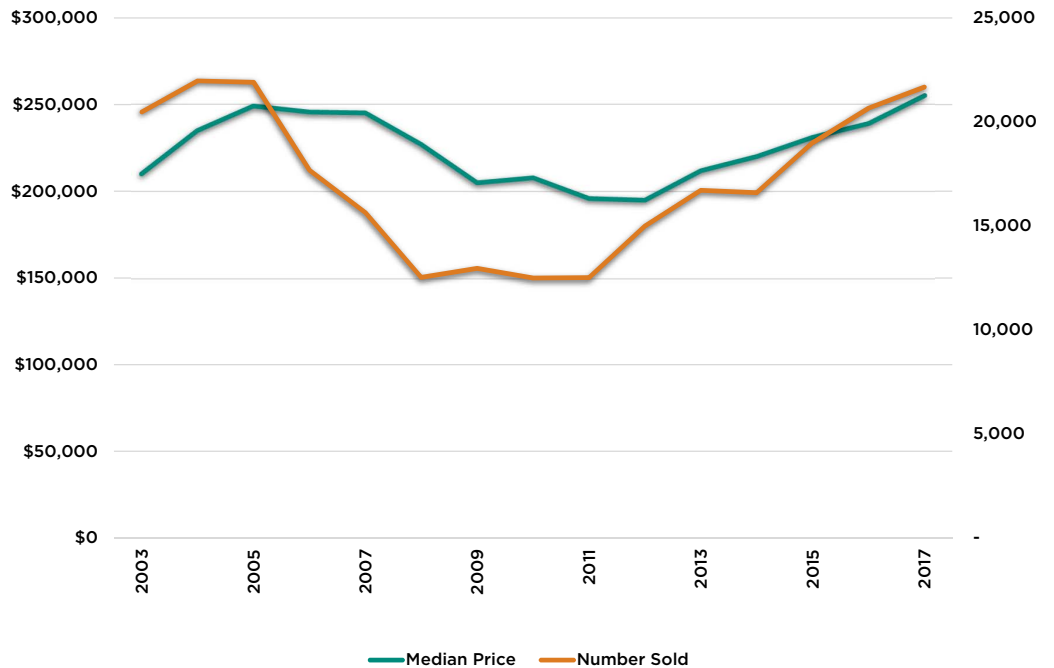
New Hampshire home prices continue to increase as 10.6% fewer homes were listed this September versus last September. That is about 37% less inventory when compared to September 2015, and 25% less inventory when compared to 2016.



NEW HAMPSHIRE MLS RESIDENTIAL PROPERTY SALES, BY YEAR

Based on information from the Northern New England Real Estate Network and compiled by NHHFA. Excludes land, interval ownership, seasonal camps/cottages, multi-family property, mobile/manufactured homes and commercial/industrial property.

The same number of houses are being sold now as there were prior to the Great Recession. Prices are at the highest point that they've been in the past 15 years.



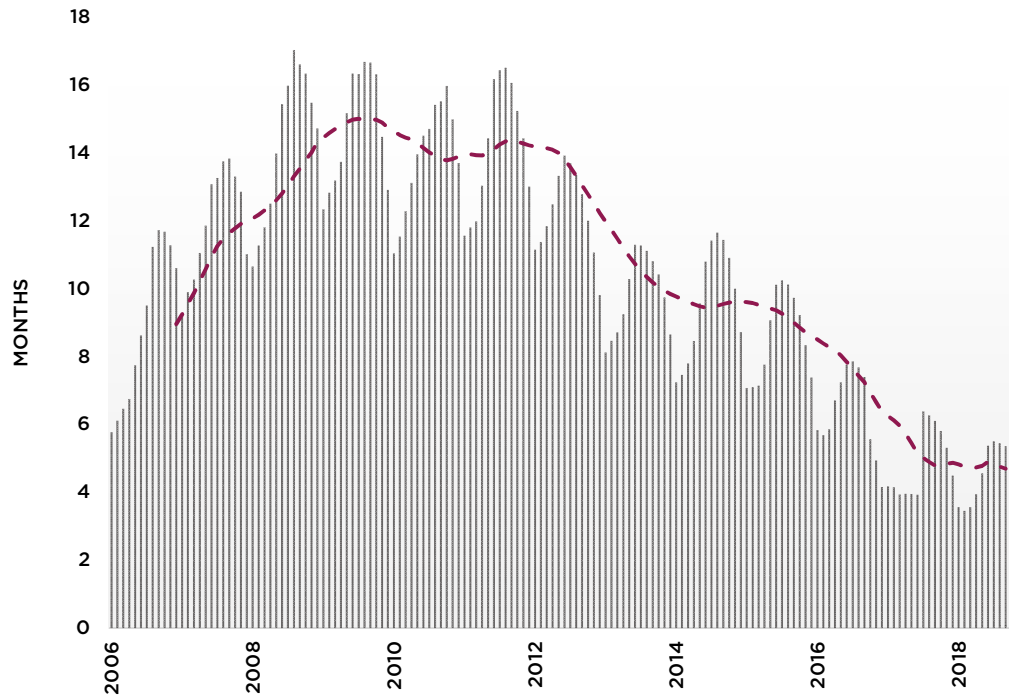
HOME SALES AND INVENTORY

The housing market in the state continues to favor sellers, not buyers. Homebuyers face an extremely competitive market due to low inventory at most pricing levels. Smaller homes of interest to first-time homebuyers and those who wish to downsize from a larger home sell particularly quickly.

MLS HOUSING INVENTORY

The supply of homes may be leveling as higher prices attract more sellers.

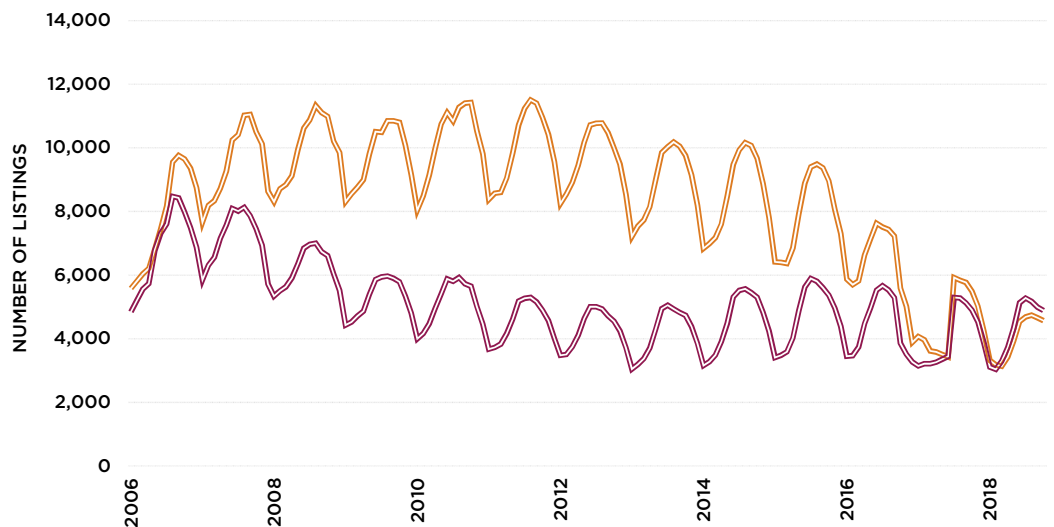
Based on information from the Northern New England Real Estate Network and compiled by NHHFA. Excludes land, interval ownership, seasonal camps/cottages, multi-family property, mobile/manufactured homes and commercial/industrial property.



MLS CURRENT LISTINGS

Between 2010 and 2018, listings for homes less than \$300,000 have dropped over 59% while listings of homes above \$300,000 have decreased by less than 13%. Homes under \$300,000 are typically in the price range desired by those looking for their first home.

Based on information from the Northern New England Real Estate Network and compiled by NHHFA. Excludes land, interval ownership, seasonal camps/cottages, multi-family property, mobile/manufactured homes and commercial/industrial property.

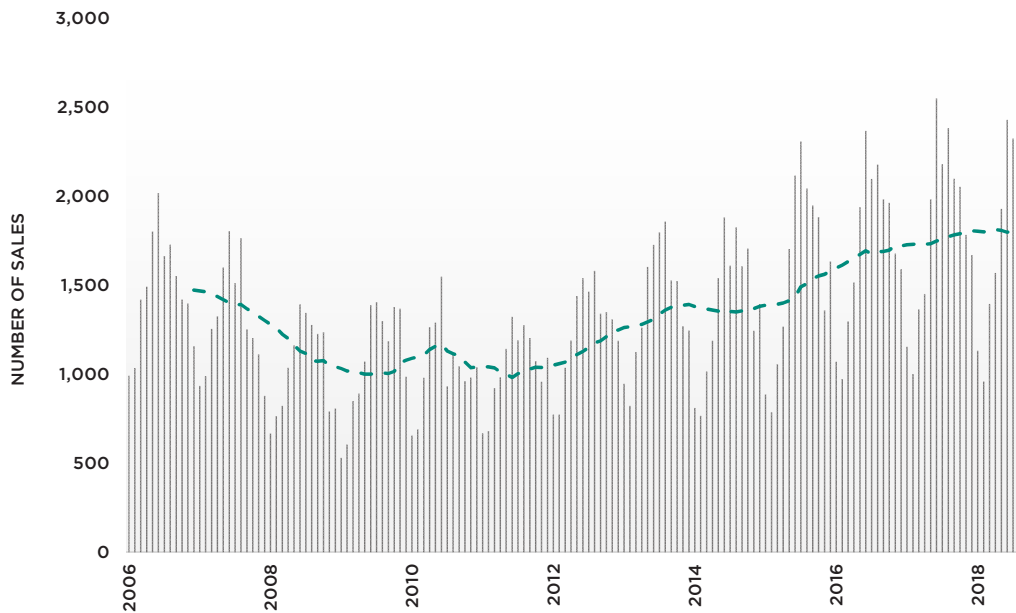


HOME SALES AND INVENTORY

MLS CLOSED SALES

Based on information from the Northern New England Real Estate Network and compiled by NHHFA. Excludes land, interval ownership, seasonal camps/cottages, multi-family property, mobile/manufactured homes and commercial/industrial property.

Fall and winter tend to be the low point of the homebuying season, so we may see sales start to level. Low home starts and limited inventory may limit economic growth.

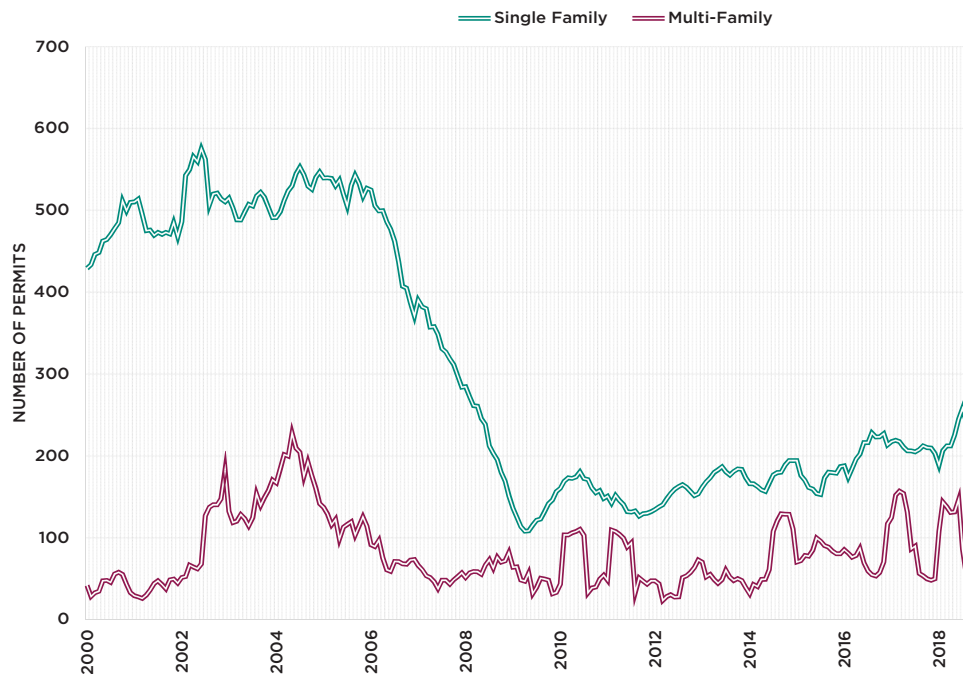


HOUSING PERMITS (SINGLE-FAMILY AND MULTI-FAMILY)

6-month moving averages, seasonally adjusted

Source: U.S. Census Bureau

New Hampshire has shown an increase in the number of housing permits issued in the last 5 years (through September 2018). Multi-family permits have increased in the highest cost markets (southern tier and Seacoast). The cost to build new single- and multi-family units means they tend to be at the high end of the market.



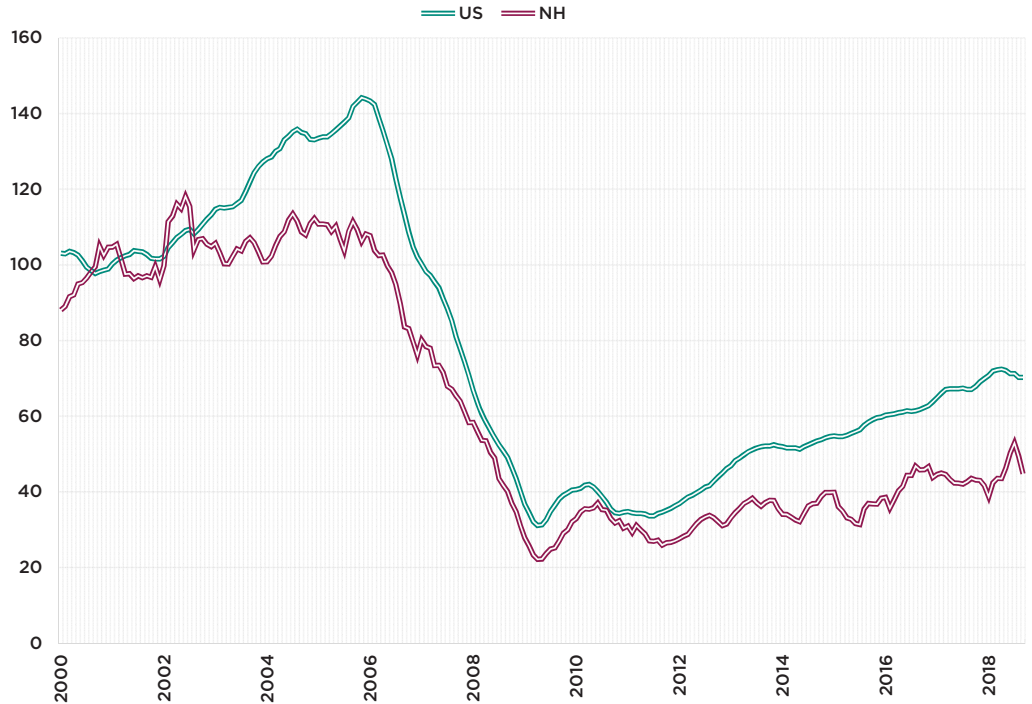
HOME SALES AND INVENTORY

INDEX OF NH & US SINGLE-UNIT HOUSING PERMITS ISSUED

Seasonally adjusted, 6-month moving average, indexed

Source: Index 2000 = 100
U.S. Census Bureau

The state has seen a small increase in single-unit housing permit activity since 2009. While this is an improvement, the gap in the number of permits issued in New Hampshire compared to the rest of the country continues to grow.

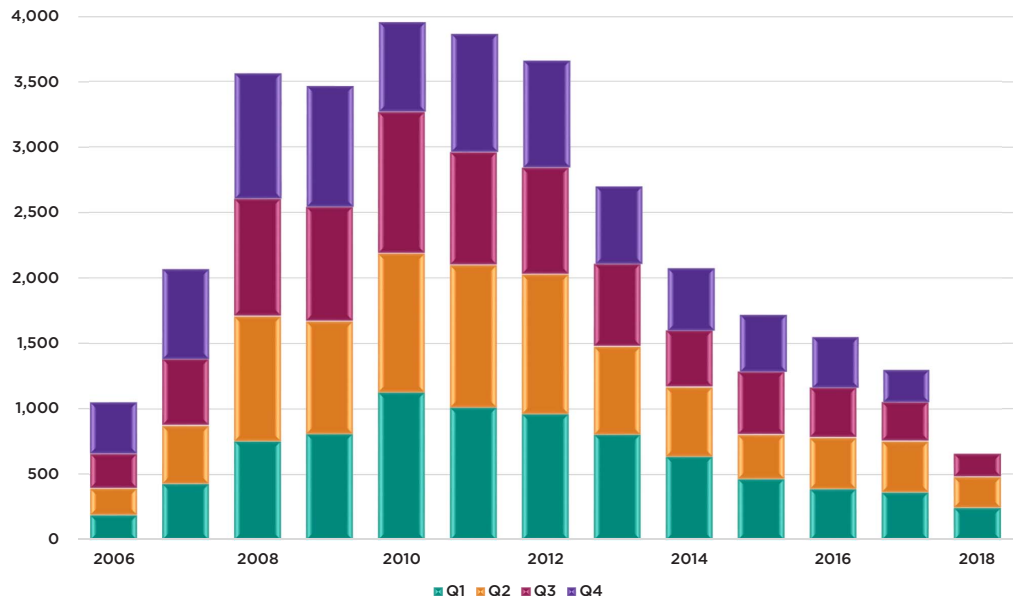


FORECLOSURE DEEDS IN NEW HAMPSHIRE

By quarter

Source: The Warren Group, compiled by NHHFA

The rate of foreclosures continues to decline from the peak in 2010 during the Great Recession. It is anticipated that this decline will continue as the cumulative foreclosures through Q3 of 2018 was 37% lower than in 2017.



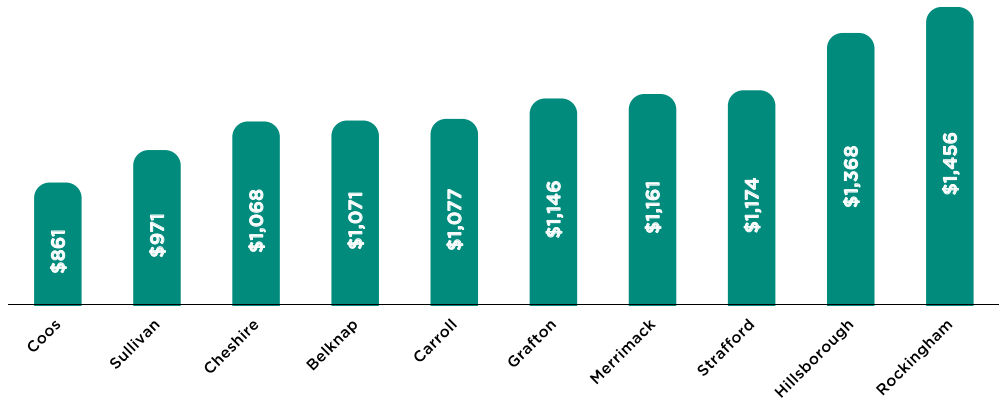
NEW HAMPSHIRE'S RENTAL MARKET

A tight rental market with low vacancy rates and rising rents continues to be the trend in most of New Hampshire, as reported in NHHFA's *2018 Residential Rental Cost Survey*. This strong demand makes it challenging for households to find affordable places to live.

MONTHLY MEDIAN GROSS RENTAL COST, BY COUNTY

Source: 2018 NHHFA Residential Rental Cost Survey

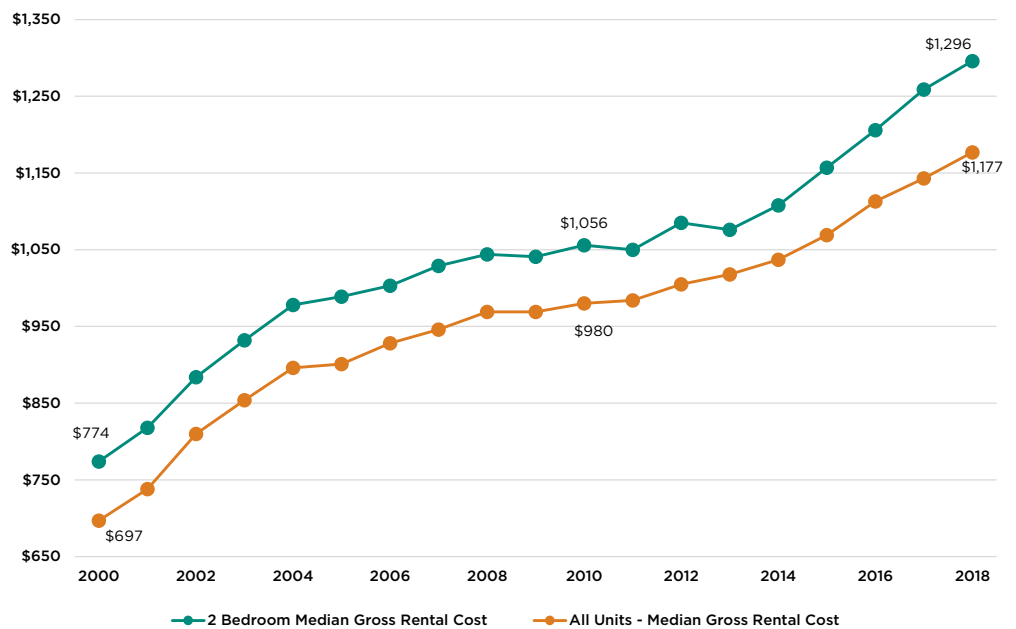
The statewide median gross rent for a two-bedroom unit in 2018 was \$1,296; an increase of 2.94% from the prior year. The high median rental costs in Grafton County are driven by the robust market in the Hanover/Lebanon area, which represents the largest percent of rental units in the county. The highest median gross rents remain in the southern tier.



2018 MEDIAN GROSS RENT

Includes utilities

Source: 2018 NHHFA Residential Rental Cost Survey

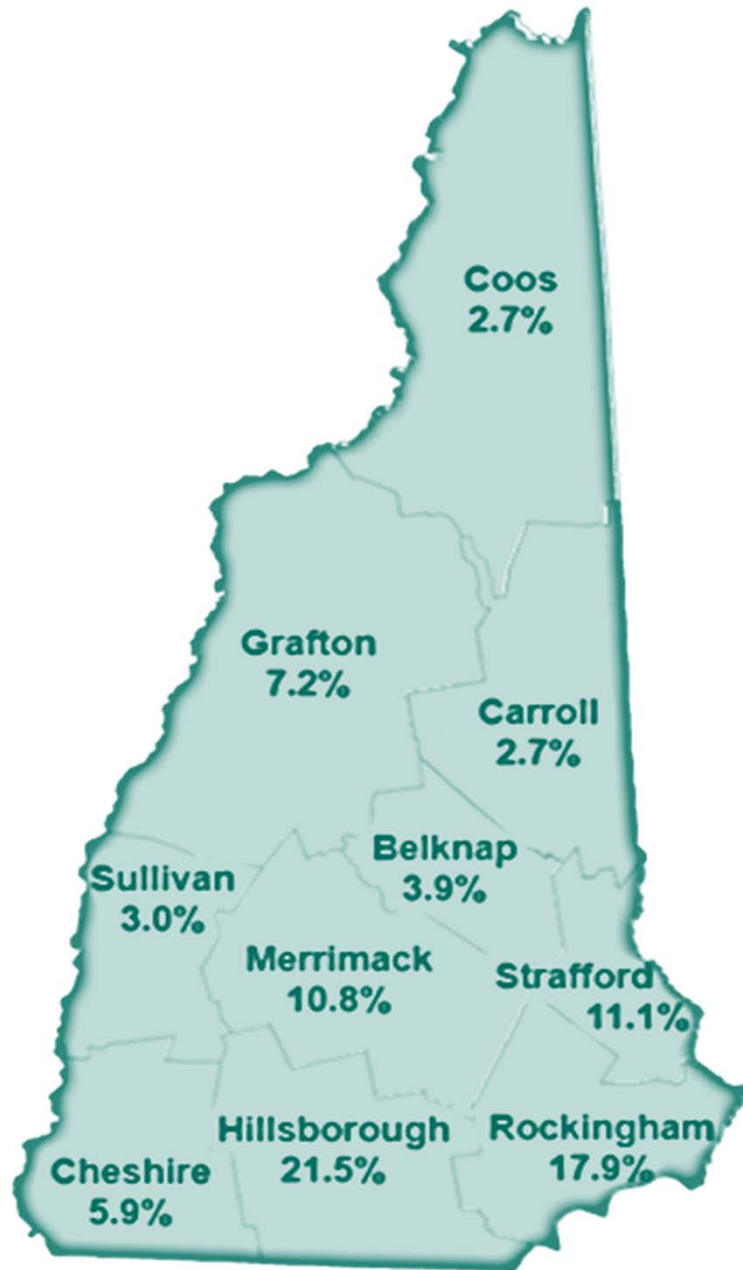


The statewide median gross rent (including utilities) for a two-bedroom unit has increased almost 15% in the past 5 years.

NEW HAMPSHIRE'S RENTAL MARKET

PERCENT OF NH'S RENTAL UNITS, BY COUNTY

Source: U.S. Census Bureau, American Community Survey (2012-2016), B25024; B25032



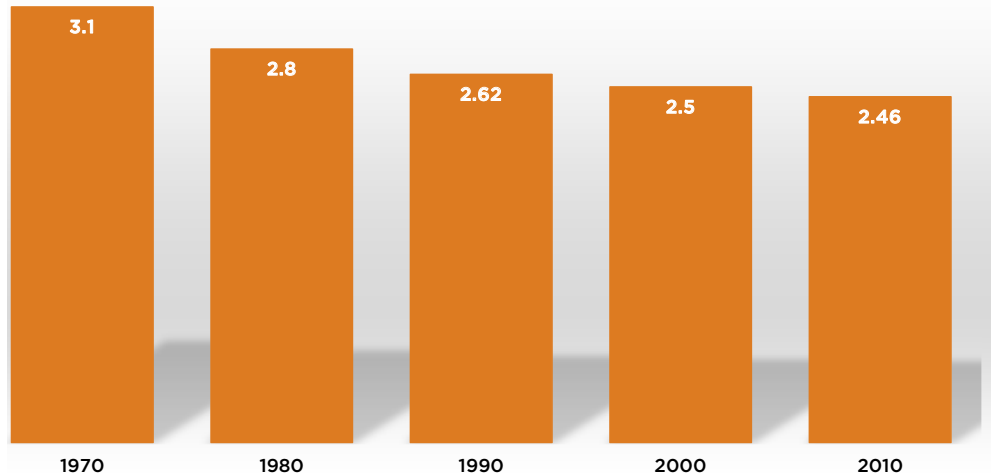
ADUs AND THE NEED FOR MORE HOUSING OPTIONS IN NH

Since the state's Accessory Dwelling Unit (ADU) statute (RSA 674:71 - 73) became law in 2017, many homeowners have begun to consider adding an ADU as a rental unit or for a relative or caregiver. Doing so would benefit them and expand housing options in their community. [See page 15 & NHHFA.org/ADU](#)

AVERAGE NH HOUSEHOLD SIZE, BY DECADE

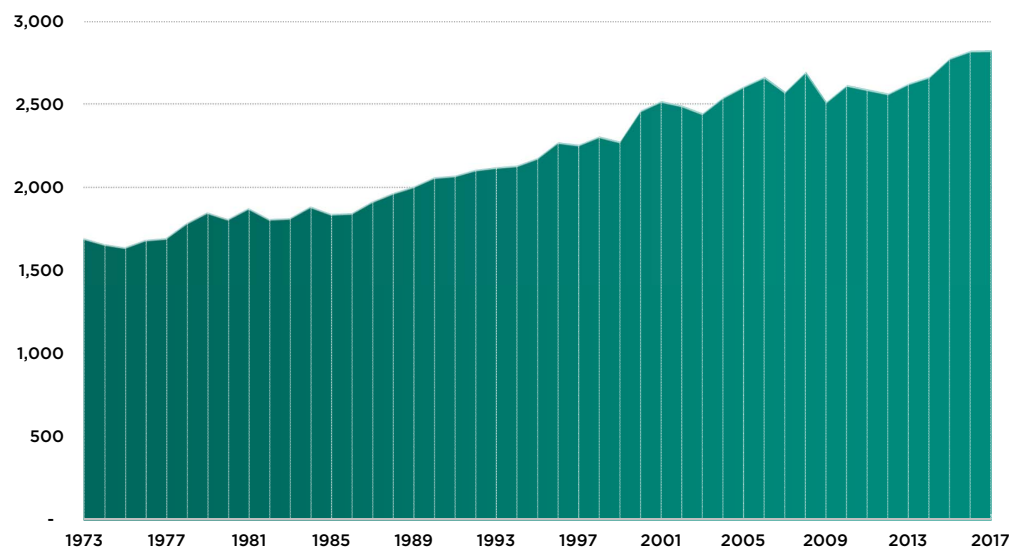
Source: US Census (Decennial Census for each year)

Since the average household size in the state is declining, there is an opportunity to encourage efficient use of housing stock and infrastructure, and provide more affordable housing options. ADUs provide a way to do this. Our current housing supply does not match the preferences that exist both for older residents wishing to downsize and younger workers looking for smaller, affordable homes. Housing units of three-plus bedrooms far outnumber one- and two-bedroom units in the state.



AVERAGE SQ. FT. IN NEW SINGLE-FAMILY HOUSES IN NORTHEAST

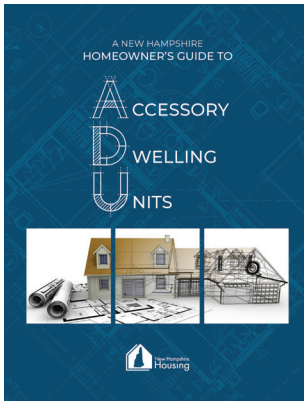
Source: US Census Bureau.
Built for sale houses are those built with the intention of being sold with the sale of land included in the transaction.



NHHFA HOUSING RESEARCH, PUBLICATIONS AND RESOURCES

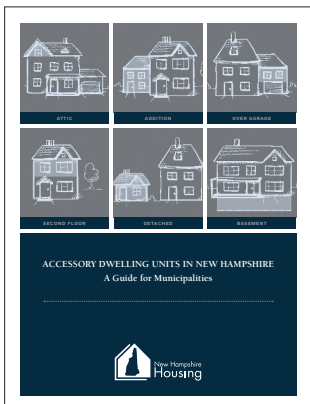
NHHFA's Policy, Planning and Communications Group focuses on researching, surveying and identifying the state's housing needs and conditions. It also provides technical assistance and information to public officials, municipalities, and the public on housing-related matters. Additionally, it administers grant programs to support initiatives by non-profits engaged in affordable housing activities.

As the leading source of key housing data in the state, NHHFA researches and produces reports, publications, and planning tools such as housing market reports, an annual survey of the state's rental market, single- and multi-family housing analyses, and special research studies.



HOUSING-RELATED STUDIES AND REPORTS

NHHFA published *A New Hampshire Homeowners Guide to Accessory Dwelling Units* and an ADU guide for local officials in 2018. These guides provide assistance in implementing the Accessory Dwelling Units statute (RSA 674:71-73) that became law in 2017. The intent of the law is to expand the supply of housing in New Hampshire communities by encouraging the efficient use of existing housing stock and infrastructure, and providing an affordable housing option.



HOUSING ADVOCACY AND GRANTS

Given the increased importance of this work, in 2018 NHHFA increased the funds available to support local housing advocacy and public education activities. It also is focusing on engaging partners such as local and regional chambers of commerce and economic development organizations in these efforts.

The state's network of workforce housing coalitions, along with Housing Action NH, are key to raising awareness about the need for a diverse and affordable range of housing in our communities. NHHFA provides grants to support the efforts of these coalitions: Vital Communities (Upper Valley); the Workforce Housing Coalition of the Greater Seacoast; and the Mt. Washington Valley Housing Coalition.

MUNICIPAL TECHNICAL ASSISTANCE GRANTS PROGRAM

To provide towns and cities with assistance to address locally identified planning needs, NHHFA partners with Plan NH to administer the Municipal Technical Assistance Grant Program. Municipalities may apply for grants of up to \$20,000. A cash match of 25% of the grant amount is required for all municipalities that choose to participate in the program. Additionally, NHHFA staff provide direct technical assistance to municipalities upon request.



HOUSING CONFERENCE SERIES

NHHFA hosts and supports a series of conferences each year for the financial, real estate, lending, development, nonprofit, and other housing-related sectors, as well as public officials and business leaders. These events encourage discussion about ways to address the Granite State's affordable housing and economic development needs.

Coming in 2019: NHHFA Homeownership Conference (March 19), NHHFA Multi-Family Rental Housing Development Conference (spring), and the NHHFA Housing and the Economy Conference (fall). [NHHFA.org/events](https://www.nhhfa.org/events)



New Hampshire Housing



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As a self-supporting public corporation created by the state legislature, New Hampshire Housing Finance Authority promotes, finances, and supports affordable housing.

New Hampshire housing market, economic and demographic data are available at NHHFA.org/data-resources-planning.

