

# 2019

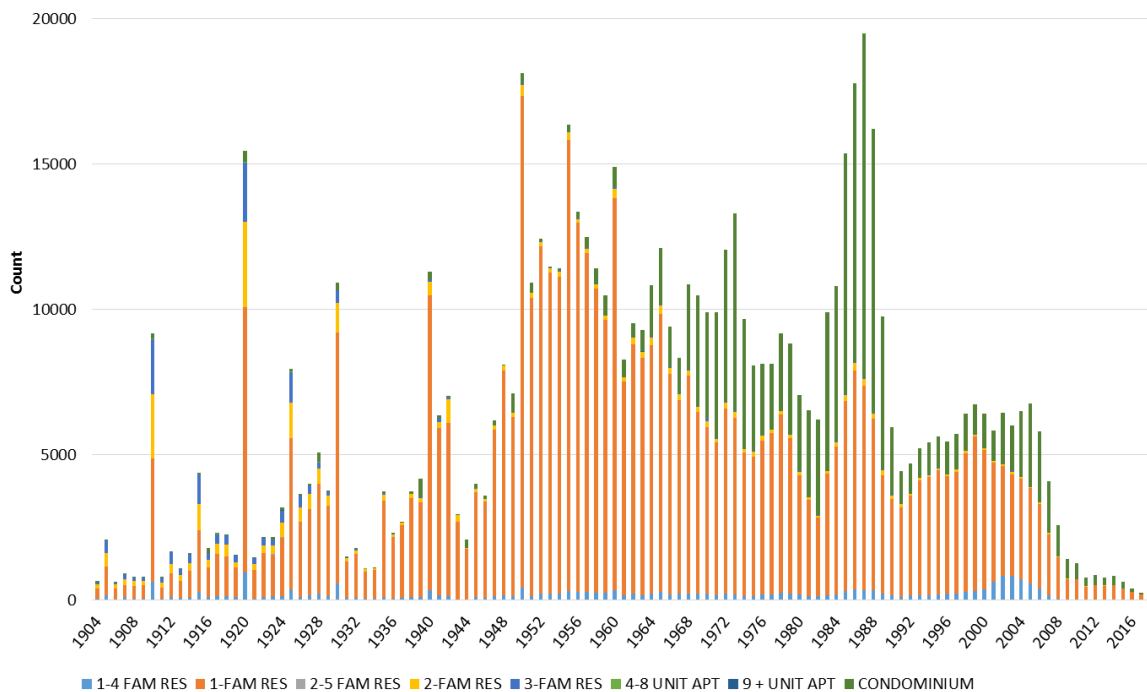
## The Great Condo Construction Boom... and Bust



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When you think of the 1980s you often think of a turbulent decade bookend by the Iran hostage crisis and the fall of the Berlin Wall, or as the decade of big hair and synthesized music. You can be forgiven if residential construction boom does not come to mind. Yes, during the 1980s Connecticut experienced a residential construction boom primarily driven by condominium construction. To meet the growing demand for owner-occupied housing, condominiums were built throughout the decade. Nationally there were 4.8 million condominium units in the United States in 1990, nearly 2.6 million more than in 1980. In 1980, Connecticut had 38,735 condominium units compared to 119,935 condominium units by 1990. Based on Warren Group home sales data, the majority of condominiums bought and sold over the last 18 years were built in the 1980s. This 209.6 percent increase paled in comparison to other states like Georgia with a 225.4 percent increase, Massachusetts with a 409.5 percent increase or Rhode Island with a 700.6 percent increase (Bureau of the Census, 1994).

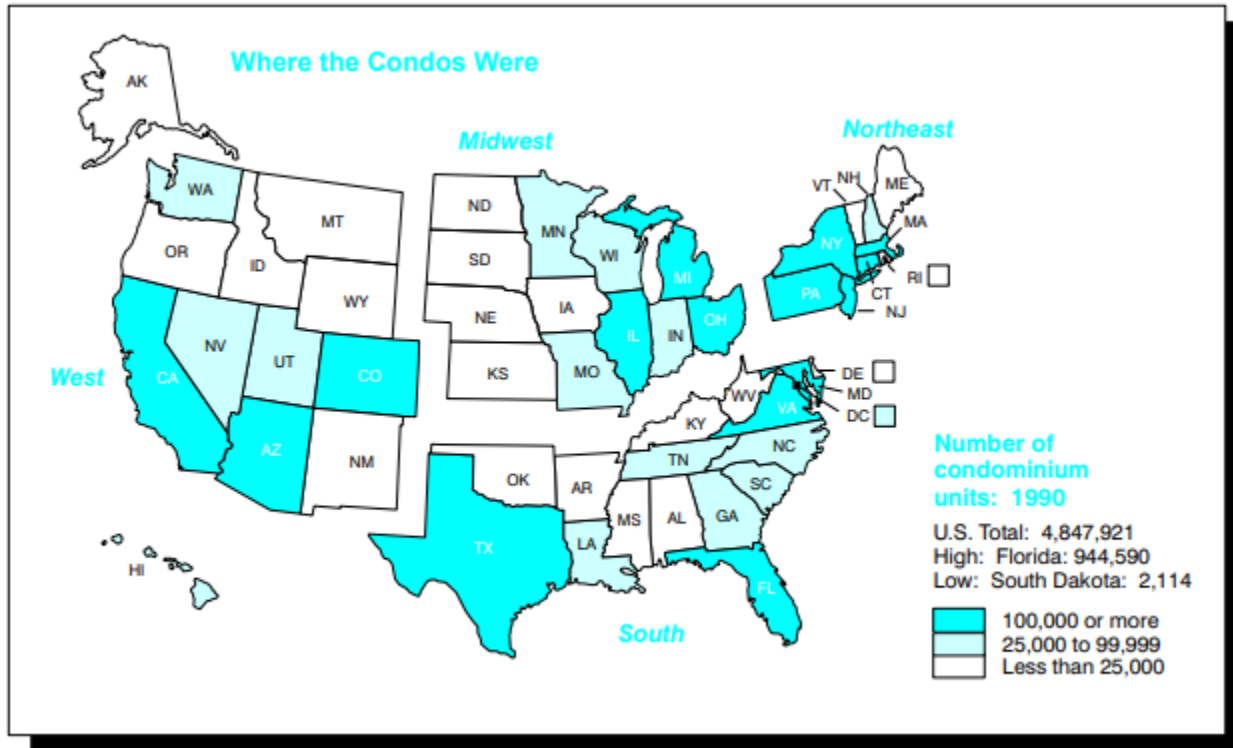
### Unit Type by Year Built



Source: Warren Group

Although the South had the most condominium units built during the 1980s with some 1,793,000 units, the Northeast region saw the largest percentage increase in condominiums between 1980 and 1990, at 263.4 percent according to the Bureau of the Census (1994). Some of the condominium units that came online during the 1980s were as a result of rental unit conversion, but the vast majority of condominium units were new construction.

### Number of Condominiums by State



(Bureau of the Census, 1994, p. 1)

Condominium construction began to takeoff during the late 1960s and 1970s in Connecticut. However, it wasn't until the 1980s that construction really accelerated. As noted above, Connecticut wasn't unique in seeing the increase in the construction of condominiums. It was clear in the late 1970s that the demand for rental units was wavering while the demand for owner-occupied housing was on the rise. Demographers had already predicted that the 1980s would see an increase in population as baby boomers began having children, one of the reasons why the children of boomers, today's millennials, are often referred to as "echo boomers". Condominiums were viewed as a great way to meet current market demand, while creating a housing stock that was flexible enough to meet future rental housing demand (Noto, 1979). The idea was that condominiums could be owner-occupied during the 1980s and 1990s to meet the homeownership demand, and then easily be converted into rental units when rental demand grows, which analysts expected to happen starting in the 2000s (Noto, 1979).

Beginning in 1980 the United States Congress introduced laws that eased regulator restrictions on bank thrifts. During the period between 1980 and 1990, deregulation changed the type of lending and investments that thrifts were capable of making. Deregulation coincided with tax code changes made in 1981, which triggered a construction boom that subsequently led to thrifts making riskier residential and commercial loans and investments. The construction boom led to overdevelopment, particularly in the Northeast and Connecticut. The condominium market in Connecticut had become so glutted by 1990 that it took at least two years for condominium units to sell (Federal Deposit Insurance Corporation [FDIC], 1997). The very thrifts that made capital so readily available for commercial and residential

construction began to fail by the mid-1980s. By 1986, some 385 thrifts had become insolvent. In total, the value of failed thrifts exceeded \$620 billion nationally between 1980 and 1994 (Alexander, Saldana, & Mauk, 2009). In 1991, 18.3 percent of Connecticut banks assets represented failed bank assets, one of the highest percentages in the country. Between 1980 and 1994, 32 banks failed in Connecticut (FDIC, 1997).

#### Large Connecticut Bank Failures in the 1990s

Institution	Failure Date	Assets (\$Millions)	Resolutions Costs (\$Millions)	Cost as a Percentage of Assets
Connecticut Bank & Trust Co.	1/6/91	7,211	152	2.11
Citytrust	8/9/91	1,919	505	26.32
Mechanics & Farmers Savings Bank	8/9/91	1,084	323	29.8
Connecticut Savings Bank	11/14/91	1,045	207	19.81
First Constitution Bank	10/2/92	1,572	127	8.08

*Note:* Resolution costs are as of year-end 1995. Adapted from "An Examination of the Banking Crises of the 1980s and Early 1990s" by FDIC, 1997, p. 373

By the summer of 1990, the United States was in recession. The construction sector had taken a hit and the building of new condominium units had decreased significantly in Connecticut and across the country. Condominiums continue to play an important part in Connecticut's housing stock as they tend to be affordable and a good introduction into homeownership. They're also well suited for individuals and couples who are looking to downsize from a larger home and all the upkeep that comes along with single-family homeownership.

#### References Cited

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