



SPRING | 2019

HUDSON VALLEY REGIONAL HOUSING MARKET

The Center for Housing Solutions and Urban Initiatives, a unit of Hudson Valley Pattern for Progress, is pleased to present the Spring 2019 edition of the Regional Housing Market newsletter in partnership with Rand Realty—Better Homes and Gardens Real Estate. Pattern for Progress has teamed with the experience and knowledge of Matt and Joseph Rand to bring an additional perspective and analysis of the regional housing market. This issue focuses on trends to watch in 2019 and an affordability analysis of market rate housing through a comparison of median sales, interest rates, income, insurance and taxes in 2008 against 2018. We have used a combination of comparable data sets and statistics to provide an overall regional snapshot of the housing market in the Hudson Valley.



SEVEN TRENDS TO WATCH IN 2019

Joseph Rand, Managing Partner & General Counsel, Better Homes and Gardens Rand Realty

We now stand 10 years away from the bottom of the real estate market and the financial crisis. The stock market tanked, Lehman Brothers was going bankrupt, and the TARP program was rescuing banks. The financial crisis halted the housing market that was booming for most of the 2000s.

As prices continued to rise, financing a home with a conventional loan became more and more difficult. Wall Street had an insatiable appetite to buy home mortgage loans of any kind, regardless of the underlying quality, bundle the loans and sell to investors. Loans were often underwritten with no money down, no income check, and a low “teaser” rate. As a result, home prices just kept rising and rising with no end in sight. This all came to an abrupt stop when prices topped out, teaser rates expired, payments went up, buyers started to default, securitized loans blew up and the bubble popped. Prices in the Hudson Valley fell by 25%, sales fell by 35%, inventory exploded and foreclosures skyrocketed. The market was in a free-fall. After a number of federal programs and tax policy changes, the market began to stabilize in mid-to late-2010.

So where do we stand today, a full 10 years since the bottom of the market? In short, we are in the midst of a seller’s market, but one that has not yet spurred meaningful price appreciation. There are other answers that are a bit more complex, and to assist buyers and sellers navigate this market, here are seven trends to watch:

TREND #1

Sales are up, but might have topped out: After six straight years of increases, sales in some counties are now almost double where they were in 2009-10, at the low point of the market. Sales have reached historically high levels and are very close to the peak reached in the last seller’s market of 2002.

TREND #2

Inventory is down, but stabilizing: Inventory is measured by calculating how long it would take to sell every home on the market. The industry indicates that a balanced market has six months of inventory. Less than that often leads to bidding wars and higher prices, and that is where the market is today. Inventory increased a bit in some markets, but has essentially leveled off, which indicates sales may start to increase now that there is more “fuel for the fire.”

TREND #3

Prices are trending upward, but not by much: Basic economics tells us that rising demand and decreasing supply should drive prices up. However, even with sales up and inventory down, prices have been slow to appreciate in most of the region.

TREND #4

The SALT cap had a modest but meaningful impact on appreciation in the high end: The lower-priced markets continued to appreciate in 2018—in fact, their appreciation accelerated. But in almost all the higher-priced markets, the appreciation rate slowed. Will that impact continue? Maybe, although you could argue that buyers and sellers will eventually adjust to the new taxing environment as it slowly gets priced into the markets, and that the other market fundamentals (economy, interest rates, market cycle, etc.) are strong enough

TREND #5

The seller’s market still points toward future price appreciation: Generally, we see some good reasons to believe that prices will appreciate over the next five years: 1) The economy is strong 2) Interest rates are still near historic lows 3) The demographics are promising because millennials are starting to come of age for home buying 4) Appreciation trickles up — value in the lower-end market is rising.

TREND #6

Interest rates are still near historic lows: Rates have been in a general state of decline since 1981. Ten years ago, at the bottom of the market, the 30-year rate was 5% and everyone was excited. However, since the 30-year rate dropped to almost 3.5% a few years ago, many buyers complain about today’s rates soaring above 4%. The truth is that even at 4.5% - rates are still extremely low. The buying power of a rate increase from 4% to 4.5% is approximately \$12,000.

TREND #7

Homes are more affordable than at any time in the past 30 years: Now, just to be clear, we’re not saying that homes are cheaper than they’ve ever been. That’s not true. Depending on the year, homes have appreciated, and if you go back more than 15 years, they’ve appreciated pretty dramatically. We’re just saying that if you control for inflation, the monthly payment needed to buy the average-priced home is about as low as it’s been in a generation. The biggest reason — rates are still at historic lows. After all, about 10 years ago, the average interest rate was about 6%. For the past few years, it’s been below 4%. That’s a huge difference in your monthly payment.

HOMEOWNERSHIP AFFORDABILITY MATRIX: 2008

	Columbia	Dutchess	Greene	Orange	Putnam	Rockland	Sullivan	Ulster	Westchester
HUD Area Median Income (2008)	\$61,800	\$78,900	\$55,500	\$78,900	\$76,800	\$96,700	\$57,400	\$66,700	\$101,600
Median Monthly Income	\$5,150	\$6,575	\$4,625	\$6,575	\$6,400	\$8,058	\$4,783	\$5,558	\$8,467
Monthly Income Available for Housing Debt ¹	\$1,442	\$1,841	\$1,295	\$1,841	\$1,792	\$2,256	\$1,339	\$1,556	\$2,371
Median Sales Price (NYSAR 2008)	\$222,500	\$310,000	\$180,000	\$290,000	\$373,000	\$450,000	\$149,500	\$240,000	\$650,000
Down Payment of 10% ²	\$22,250	\$31,000	\$18,000	\$29,000	\$37,300	\$45,000	\$14,950	\$24,000	\$65,000
Estimated Principal Mortgage	\$200,250	\$279,000	\$162,000	\$261,000	\$335,700	\$405,000	\$134,550	\$216,000	\$585,000
Estimated Monthly Mortgage	\$1,201	\$1,673	\$971	\$1,565	\$2,013	\$2,428	\$807	\$1,295	\$3,507
Overall Full-Value Tax Rate ³	1.88%	1.83%	1.99%	2.34%	2.15%	2.38%	2.54%	2.23%	2.03%
Estimated Annual Real Estate Taxes ⁴	\$4,183	\$5,673	\$3,582	\$6,786	\$8,020	\$10,710	\$3,797	\$5,352	\$13,195
Estimated Monthly Real Estate Taxes	\$349	\$473	\$299	\$566	\$668	\$893	\$316	\$446	\$1,100
Estimated Homeowners and PMI Insurance ⁵	\$233	\$290	\$205	\$277	\$332	\$383	\$185	\$244	\$515
Estimated Monthly PITI	\$1,782	\$2,436	\$1,474	\$2,408	\$3,013	\$3,704	\$1,308	\$1,985	\$5,122
Estimated Monthly PITI as a % of Monthly Median Income	34.60%	37.05%	31.88%	36.62%	47.08%	45.96%	27.34%	35.72%	60.49%
Affordability at 28% Housing Debt to Income	Not Affordable	Not Affordable	Not Affordable	Not Affordable	Not Affordable	Not Affordable	Affordable	Not Affordable	Not Affordable

METHODOLOGY

The homeownership affordability matrix is designed as a guide to determine and provide changes in home affordability over the past 10 years. The matrix calculates whether the median priced home in each county is affordable or not.

The matrix calculates monthly payments based on annual income, median sales price, annual real estate taxes and homeowners insurance, private mortgage insurance and the interest rate. The calculation assumes a 30-year, fixed rate loan with a 10% down payment to reduce the cost of private mortgage insurance (PMI). However, many first time buyers have insufficient savings and obtain a mortgage with 5% down payment. This triggers a higher level of PMI and increases the monthly payment, which decreases their buying power. The mortgage payment in the analysis for 2008 is based upon a 6.0% fixed rate, 30-year mortgage, and the 2018 analysis uses a fixed rate of 4.5%.

The affordability matrix utilizes the median household income as reported by the US Department of Housing and Urban Development (HUD) for each county in the Hudson Valley region. The median income level for each county is calculated by HUD utilizing the American Community Survey (ACS) 5-year data set in combination with the most recent consumer price index (CPI). The AMI in Putnam County is not 100% of the published median. The matrix uses the 50% AMI level x 2 to depict a more accurate median.

The real estate taxes are derived from the New York State Department of Tax and Finance, which publishes the overall full-value tax rates for each county. The home owner insurance rates are based on the Insurance Information Institute data for New York State and adjusted for inflation for the 2018 figure. Insurance rates may vary from county to county and are typically based on the size, construction type, replacement value and location of the home. For purposes of this analysis, the statewide average is used.

AFFORDABILITY AND UNDERWRITING DEFINED

According to HUD, an affordable home is typically based upon a housing payment of no more than 30% of monthly income. The percentage of income used toward the housing payment is also known as the "front end" debt to income ratio, which is expressed as a percentage of monthly income. The affordability matrix and analysis uses a debt to income ratio of 28% so as to be consistent with typical lending criteria for conventional loans. The housing payment includes the mortgage principal, interest, taxes and insurances (PITI). When the monthly PITI is above 28% of household income, the home price is not affordable.

Typical bank underwriting also includes a "back end" debt to income ratio, again expressed as a percentage of monthly income. The "back end" ratio includes recurring monthly debt such as a car payment, credit cards, personal loans and student debt. Today's typical "back end"

¹ 30% of the median monthly household income may be used for principal, interest, taxes and insurance (PITI)

² Assumes a 10% down payment and the requirement of private mortgage insurance (PMI)

³ Based on NYS Department of Tax and Finance

⁴ Overall Full-Value Tax Rate x Median Price

⁵ 2008 Matrix uses the NYS Average \$1,030/year; 2018 Matrix uses the NYS Average \$1,370/year, Insurance Information Institute; adjusted for inflation

HOMEOWNERSHIP AFFORDABILITY MATRIX: 2018

	Columbia	Dutchess	Greene	Orange	Putnam	Rockland	Sullivan	Ulster	Westchester
HUD Area Median Income (2018)	\$76,100	\$94,600	\$67,500	\$94,600	\$104,300	\$105,000	\$71,300	\$79,200	\$117,100
Median Monthly Income	\$6,342	\$7,883	\$5,625	\$7,883	\$8,692	\$8,750	\$5,942	\$6,600	\$9,758
Monthly Income Available for Housing Debt ¹	\$1,776	\$2,207	\$1,575	\$2,207	\$2,434	\$2,450	\$1,664	\$1,848	\$2,732
Median Sales Price (NYSAR 2018)	\$239,000	\$280,000	\$182,000	\$245,000	\$335,900	\$415,000	\$127,500	\$230,000	\$500,000
Down Payment of 10% ²	\$23,900	\$28,000	\$18,200	\$24,500	\$33,590	\$41,500	\$12,750	\$23,000	\$50,000
Estimated Principal Mortgage	\$215,100	\$252,000	\$163,800	\$220,500	\$302,310	\$373,500	\$114,750	\$207,000	\$450,000
Estimated Monthly Mortgage	\$1,090	\$1,277	\$830	\$1,117	\$1,532	\$1,892	\$581	\$1,049	\$2,280
Overall Full-Value Tax Rate ³	2.49%	3.03%	2.66%	3.73%	3.27%	3.50%	3.73%	3.23%	2.87%
Estimated Annual Real Estate Taxes ⁴	\$5,951	\$8,484	\$4,841	\$9,139	\$10,984	\$14,525	\$4,756	\$7,429	\$14,350
Estimated Monthly Real Estate Taxes	\$496	\$707	\$403	\$762	\$915	\$1,210	\$396	\$619	\$1,196
Estimated Homeowners and PMI Insurance ⁵	\$272	\$299	\$234	\$276	\$336	\$388	\$198	\$266	\$444
Estimated Monthly PITI	\$1,858	\$2,283	\$1,468	\$2,155	\$2,783	\$3,491	\$1,176	\$1,934	\$3,920
Estimated Monthly PITI as a % of Monthly Median Income	29.29%	28.96%	26.09%	27.33%	32.02%	39.90%	19.79%	29.30%	40.17%
Affordability at 28% Housing Debt to Income	Not Affordable	Not Affordable	Affordable	Affordable	Not Affordable	Not Affordable	Affordable	Not Affordable	Not Affordable

ANALYSIS: A BRIGHTER PICTURE

The analysis shows that in 2008, just as the market began its spiral toward the housing crash, Sullivan County was the only county where a median priced home was affordable to households at 100% of the AMI. Median-priced homes in Putnam, Rockland and Westchester county showed housing debt to income ratios ranging from 46% to just over 60%.

The housing market went through drastic changes between 2008 and 2018. The story of the housing bubble and subsequent burst is well know. The market has slowly recovered, but has not reached the peak years in the mid 2000s. The real estate market is still dealing with the consequences of bad loans, poor underwriting, homeowners that are still underwater, foreclosures, short sales and zombie properties. Subsequent to the housing bubble burst, adjustments were made by the banks and underwriting became very strict. Median home prices continued to drop for a few years and interest rates remained higher than during the housing boom.

The analysis of the real estate market in 2018 paints a very different picture, and affordability levels are showing a much better scenario. The AMI has risen and taxes and insurance costs have also increased. Columbia and Greene are the only two counties that show a higher median price. The 2018 AMI along with todays underwriting assumptions indicate that the median price of a home in Greene, Orange and Sullivan County are affordable. The "front end" ratio of affordability in Columbia, Dutchess and Sullivan are nearly met, while Putnam at 32% and Rockland and Westchester at about 40%, are still out of reach for households at the AMI.

ALTERNATIVES AND CAUTIOUS OPTIMISM

Keep in mind these scenarios are based on a 10% down payment. There are mortgage products and programs available for first time buyers that make homeownership achievable. There are also local organizations that provide grant assistance and counseling services for first time buyers.

The State of New York Mortgage Agency (SONYMA) has low down-payment programs, matching grants and rehabilitation loan products to assist new home buyers. There are also Federal Housing Administration (FHA) and US Department of Agriculture (USDA) mortgage products with some flexibility in the front end and back end ratios.

It is also important to understand the current seller's market is pushing prices up, as the number of sales have increased and inventory remains low. Mortgage interest rates are still at historic lows and some lenders have more flexibility with their underwriting guidelines.

Overall, the homeownership market is much better than it was in 2008.



The real estate market is greatly influenced by the impact of student debt on the borrowing capacity of millennials. According to the Federal Reserve Bank of New York, outstanding student debt increased by \$15 billion in the 4th quarter of 2018 to an all time high of \$1.46 trillion. The 90+ day delinquency rate (default) hit 11.4% during the 4th quarter of 2018, which is the highest rate since the 4th quarter of 2015.

According to College-insight.org, the average student debt in New York state is an estimated \$31,000, which carries a monthly payment of approximately \$400. This monthly debt payment not only reduces the purchasing power in the real estate market, but it also hinders the ability to save for a down payment and closing costs needed to buy a home. Homebuyer assistance programs along with financial literacy and credit counseling are critically important for first-



Market Snapshot: 1st Quarter 2019

The data in the following table is based upon the New York State Association of Realtors (NYSAR) first quarter report released in April 2019. The data includes single family homes, condos and townhomes as reported to the association from local multiple listing services.

	Closed Sales			Median Price			Months of Inventory (Supply)		
	2018	2019	% Change	2018	2019	% Change	2018	2019	% Change
Columbia	161	137	-14.9%	\$246,200	\$250,000	1.5%	10	10.1	1.0%
Dutchess	643	614	-4.5%	\$250,000	\$266,000	6.4%	5.3	5.5	3.8%
Greene	156	127	-18.6%	\$175,000	\$217,500	24.3%	11.6	10.6	-8.6%
Orange	911	905	-0.7%	\$226,500	\$235,000	3.8%	4.8	4.5	-6.3%
Putnam	266	235	-11.7%	\$311,000	\$315,000	1.3%	4.6	4.9	6.5%
Rockland	501	539	7.6%	\$385,000	\$390,000	1.3%	4.6	4.8	4.3%
Sullivan	259	208	-19.7%	\$102,000	\$130,000	27.5%	10.7	14.9	39.3%
Ulster	450	408	-9.3%	\$219,000	\$225,000	2.7%	6.3	6.1	-3.2%
Westchester	1,753	1,682	-4.1%	\$435,000	\$450,500	3.6%	4.6	4.5	-2.2%

The number of closed sales in the first quarter of 2019 is remarkably weaker than in first quarter of 2018, except for Rockland County, which shows a 7.6% increase. The median sales price has increased in every county in the valley and New York state.

The real estate industry typically considers four to six months of inventory as a “Balanced Supply;” less than four months is an “Undersupply” or a Sellers Market and more than six months is an “Oversupply” or a Buyers Market. When the inventory shows less than two months supply there is strong pressure on upward pricing. Inventory of more than nine months places strong downward pressure on pricing. The months of inventory of homes is tightening in Greene, Orange, Ulster and Westchester, which have all seen a decline in the supply. The months of inventory in Columbia, Dutchess, Putnam, and Rockland have seen a marginal increase. Sullivan County not only witnessed the sharpest decline in the percentage of closed sales it also saw an increase of more than four months worth of supply of inventory. The 1st quarter of 2019 indicates an overall balanced supply, except for the rural counties of Columbia, Greene and Sullivan, which show an oversupply. However, with such a limited number of homes on the market and upward pressure

The Center would like to thank its investors:



This report represents a snapshot in time and is based upon available information and the analysis of existing markets, demographics, data and statistics. The report is not meant to be used as a financial forecasting model or for any financial decisions now or in the future.

Pattern for Progress is the Hudson Valley’s public policy, planning and advocacy organization that creates regional solutions to quality-of-life issues by bringing together business, nonprofit, academic and government leaders from across nine counties to collaborate on regional approaches to affordable/workforce housing, municipal sharing and local government efficiency, land use policy, transportation and other infrastructure issues that most impact the growth and vitality of the regional economy.

Join Pattern and be part of the solution!

HUDSON VALLEY PATTERN FOR PROGRESS

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