

This is the third article of a monthly column on the real estate market and related issues in the upper Hudson River Valley. It also appears in Capital District HomeStyle Magazine.



Market Highlights

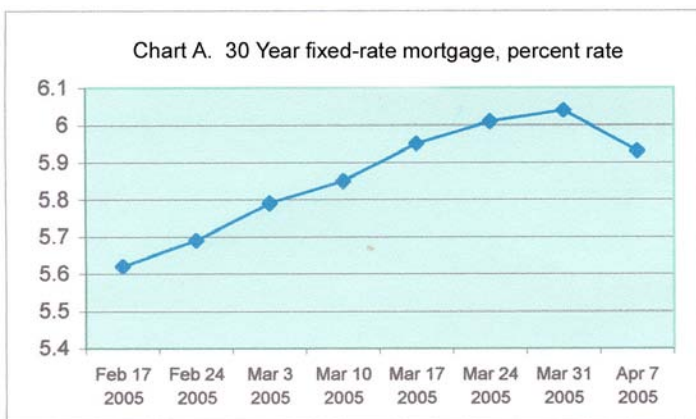
Single family house median selling price for February in New York State, the most recently reported month, showed a 23 increase from a year earlier. The number sold, however, decreased 4.3% from the month of February 2004. The same figures for January also showed a year-on-year price increase (21%) and sales number decrease (-2.5%), suggesting a trend of increased prices yet fewer sales, this reported by the New York State Association of Realtors.

To help us see further into the future the National Association of Realtors (NAR) has just developed the Pending Home Sales Index (PHSI), a new leading indicator of housing market activity. It is derived from a sample of statistics from Multiple Listing Services (MLSs) and large broker "number of sales under contract" not yet completed. Typically sales are completed or closed one to two months later and thus this is a leading indicator of future sales. NAR reports that over 80% of all pending home sales go to settlement within a 2-month time-period and a significant share of the rest close in month 3 and month 4.

The Pending Home Sales Index for February stands at 123.2, which was 2.2 percent above January and 10.4 percent above February 2004. David Lereah, NAR's chief economist, said "The Pending Home Sales Index tells us that home sales activity in the near term is expected to be historically high, but is trending off of peak levels recorded in 2004," he said.

Mortgage rates trends upward, slightly

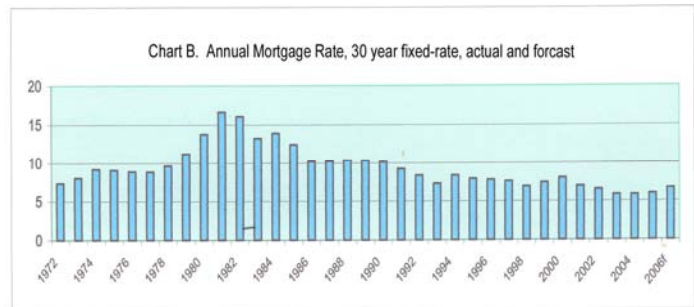
Freddie Mac released the results of its Primary Mortgage Market Survey in which the 30-year fixed-rate mortgage (FRM) averaged 5.93 percent for the week ending April 7, 2005 (Chart A), down from last week when it averaged 6.04 percent, and down from an upwards trend since February. Last year at this time, the 30-year FRM averaged 5.52 percent.



"Financial markets currently are very inflation sensitive, putting upward pressure on mortgage rates," said Frank Nothaft, chief economist for Freddie Mac. "However, several economic indicators suggest that the economy isn't overheating and that inflation is relatively contained.

Looking ahead into the spring home buying season, we don't expect mortgage rates to rise too much or too quickly in the near term. As a result, housing activity should stay on track for a strong 2005."

The National Association of Realtors predicts mortgages rates to rise to about 6.5% by the end of 2005, and close to 7% by the end of 2006. It is useful to note that when the real estate took its tumble in the late 1980s, the 30 year mortgage rate was at 10% (Chart B), a long way from the current 6%. Consequences of real estate prosperity



Last night I sat at a dinner party table in Kinderhook, among new and old friends, musing on how this dinner party might go differently from those described in a New York Times article on the same subject and county, published two days before. The article revolved around table manners while our discussions revolved around another arena of manners, that of neighbors and their behavior at public meetings. All acknowledged that our community is split quite dramatically. This has become obvious at hearings where the direction of community development - how we will live in the future - is discussed and subsequently decided by the planning board, the historic preservation commission, the zoning board of appeals, and the village and town boards. For some that is too many layers of government, too intrusive on their lives, liberty, and property. For others zoning is protection against visually intrusive changes in their neighborhood. The debates can become acrimonious, expressing different values and interests beyond the issue of planned or unplanned development.

Directly or indirectly an important aspect of these controversies has to do with maintaining or enhancing personal or neighborhood property values. No one sets out to lesson his own or his neighbors' property values, rather there is a difference in perception about how far one's interest extends: to one's property line or to the neighborhood, the town, or even the county. In this sense, there is a difference in "vision" amongst neighbors about their neighborhood and what should be allowed to happen. The challenge for planners - and neighbors - is to understand the difference in vision and thereby bridge an evident gap in neighborly trust in order to re-establish a real sense of community. This is not to say that our sense of community is failing (after all community splits are as old as politics), rather that this time the split is not just economic, or social, or cultural, but a combination of these which is beginning to cut through traditional political alignments.

The dinner party discussion itself became quite animated even though all could be seen as "visualists," taking the side that neighborhoods need to be protected from unplanned changes. The issue, as I see it, is not their position on the current zoning controversy over a new mall (negative), but how to understand the other side's position; the "functionalists" (for

want of a better word) reluctance to embrace planning and zoning and their apparent fear of visualist political organization and fund-raising capacity to further their goals. Reaching across the visualist/ functionalist divide is likely the only way to heal a split community, a community which both sides see as important to their future happiness.

Another consequence of real estate prosperity is the apparent fact that with home prices double what they were five years ago (an inflation rate far in excess of average increases in income), an increasing segment of our community cannot afford to buy the kind of home they grew up in. Chart C shows for New York State the ratio of the median price of a home divided by the median household income. Before the real estate boom of the late 1980s the ratio was 3.6 (a home cost 3.6 times one's annual household income). By the height of the boom a house cost 5.1 times income. As the boom eased the ratio retreated to 3.4 only to rise again in the present boom to 5.1.

Chart C. Median House Price/ Median Household Income 1884-2004



This is a bitter pill for those with modest incomes. A young couple out of high school, even college, is confronted with new houses costing \$250-350,000. When grown children cannot afford to buy a house near their parents, or a house near work without a long commute, the bitterness is palpable.

"Affordable" housing is more likely to be found in far off distressed communities, not in nearby new developments. We may yet see a return to smaller houses of fifteen years ago when the average was 1500 square feet (more recently it has been 2500 square feet). Overlooked in this angst is the fact that the parent's home, purchased many years before, is a nest egg which has grown by multiples

This dilemma is also being visited upon the affluent in a curious way. The commonly expressed ideal for a New Yorker seeking a charming country second home in the upper Hudson River Valley is a period house on enough land for privacy, off a main road, with a view or water. This used to cost \$250-\$350,000 not long ago but today it is \$700,000 or more. And that is selling price; asking prices can be much more. Even still there are far more willing buyers at these prices than there are properties that meet their wants without some deficiency.. The latter point is important when seeking older homes. There are many for sale but a high proportion have some issue which is disappointing: condition, close to a road, no special amenities, not an open room arrangement, close neighbor, inferior neighborhood, undesirable renovation, too small, noise, etc, etc. The alternative is new construction, but for affluent buyers with a dream of country living the existing stock of "spec" houses reminds them too much of tract developments with vinyl siding, unbalanced design, and barren landscaping. Perhaps fine for the young couple with children, but not for the second home buyer. For them, new construction to their own design is increasingly the answer. The challenges of accomplishing that without trauma we will visit in another column.