



THE REAL ESTATE REPORT

September 2008

The Real Estate Market Roundup

There is no getting away from the news that the housing market has been in a slump for three years and the credit market in trouble for at least the last year. But readers of this column know by now that what hits the headlines may have little to do with their own personal experience or that of their region. While we should be aware of what is happening nationally, what really counts is what is happening locally. Equally significant, what happens this year may be less important than seeing where we are in the long-term real estate cycle. And although the cycles so often featured in the news may be national, again, there are many disparities by region and state, even by county. Let us look at some of the trends by region and through time. For the sake of brevity I will use information about existing single-family home sales and the median prices of those sold, seasonally adjusted.

National

Since the highpoint in the home real estate market about three years ago (which varies locally), it is surprising to note that median prices of existing homes sold have changed little, according to data collected by the National Association of Realtors (available to all at <http://www.realtor.org/research/research/ehspage>). 2005: \$219,000; 2006: \$221,900; 2007: \$217,900; and to 6/2008: \$213,800. Total change: down \$5200 or -2.4%. The stock market has done that much in one day. The trend in number of sales, however, is quite different. 2005: 6,180,000; 2006: 5,677,000; 2007: 4,939,000; and to 6/2008: 4,270,000 (annualized rate). That is a drop of 31%. This means that a lot of houses have not sold (or have sold slowly), while at the same time the median price of houses sold has changed little. For the country as a whole, many sellers have been able to weather the frustrating market by being patient and holding out for close to previously prevailing prices. Distress selling at fire-sale prices is not the national trend. So where is the beef? Regional statistics tell a more varied story.

Regional

The regions of the country are: Northeast, Midwest, South and West. For residential properties there are big differences in median prices among the regions. The West's sold home price median today is \$291,100, down 18% since a year ago and down 14.5% since 2005. The difference comes from 2006 being an up year, in fact the region's market top. The next most expensive region is the Northeast with a median price today of \$256,200, down 15.3% from a year ago and down 9% since 2005. 2007 was the market top for this region. The South is next with a median of \$186,200, down 2.3% from last year and up 2.8% since 2005. The Midwest, the manufacturing "rustbelt," is lowest with a median of \$172,200, but actually up 3.4% in the last year, and up 2.3% since 2005. It is clear that those regions which had the most price inflation before 2005 have had the most price deflation since. What goes up the most comes down the most in the correction side of a real estate cycle. That doesn't mean that cycles bring you back to beginning prices. In the current cycle (with recent cycles tending to be about ten years

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each) prices doubled in many parts of the country, so a current retracement of even 18% leaves a lot of increased value left in houses.

New York State

The New York State Association of Realtors accumulates real property records on prices and number of sales from nearly all counties. And buyers and sellers can wallow in monthly statistics to their heart's content (<http://www.nysar.com/consumers/stats.asp>). Immediately what appears so striking is the wide disparity among counties. Median prices vary from a low of \$61,500 in Chemung County to a high of \$675,000 in Westchester County. Obviously size and quality of house and land have something to do with this disparity, but most of the difference is a consequence of location alone.

In terms of price trends, there is equal diversity. In the last year the Westchester median price is down 12.2%, while Chemung is off 22.1%. Yet Allegheny County, with a median of \$62,375, is up 38.9%. Why? We cannot tell from the figures alone. A major economic change in a county, like a big employer closing (or opening), could be a reason. Or in a small county with few sales, an expensive house may have skewed the statistics dramatically, even in one month. New York counties as a whole were down 10.6% over the last twelve months, yet 27, about half, were positive.

Our Region

More locally, here is what has happened in the last 24 and 12 months (see table below):

This is a rather mixed bag of price levels and trends, as well as sale numbers, which confirms my original point that real estate markets are remarkably local; what happens in one county is often very different from what happens in the next despite the fact that we real estate brokers tend to think of our market as regional (Capital District, Upper Hudson River Valley, Berkshires, Catskills, etc.).

Of course part of the diversity in price trend has to do with the statistical "n", meaning that there may be only 25-40 sales in counties with small populations where one or two abnormally low or high-priced sales may deceptively change the median price -- and thus the price trend percentage. To get a more accurate understanding of what is really happening you need to follow these figures month by month, which requires an analysis too complicated to present in a short column.

Looking at the numbers of sales there are many dramatic trends, almost all down by double figures for both 24-month and 12-month periods. This is what puts many real estate workers in a low mood as their commissions are earned more from number of sales than median prices. On the other hand, sellers, if patient, do relatively well when median prices have not changed much. What the lower sale numbers do indicate are certain national and/or regional trends: tighter mortgage qualifications, a softer economy (verging on recession), and otherwise qualified buyers who are sitting on their hands anticipating even better opportunities to buy at lower levels.

Regional attractions

Our region has many important attractions positively impacting on our real estate market, more so than many other regions beyond our borders. The Capital District has a relatively stable economic base as it is both a seat of government and a center for many educational institutions. Related to these is a new growth industry - a technology surge in our region which now boasts over a thousand technology-related firms. For over a century the Berkshire area has been a haven for the affluent (note their mansions) and culturally-inclined (consider Tanglewood, Jacob's Pillow, the Williamstown Theater Festival, and many other offerings). Saratoga once prospered on mineral springs, then casinos and racing. Today horses are still in the lead but the region is now a lifestyle destination for more than just the summer.

The Hudson Valley has been for decades a haven for New York City weekenders and to a great extent they dominate the upper half of the home market. Although they may be buying fewer homes at the moment, it is not for lack of cash or available credit. A lovely house in the country with ten acres costs less than half of what a one bedroom apartment costs in the city. In the eyes of weekenders a country home is a ridiculous bargain; they just feel that waiting longer may bring even lower prices. The statistics given here suggest that those who are waiting may be waiting in vain. The current real estate cycle is following the pattern of the prior two: five years of relatively level prices (we are in year four of these five if the pattern repeats again) followed by five years of advancing prices - resulting in a doubling in the prices of houses.

Among the other attractions of our region are outstanding recreational and scenic opportunities: mountains, rivers and streams; water sports, skiing, fishing, hiking, horse racing, fall foliage and sailing. Then there is a plethora of cultural amenities: summer festivals devoted to theater, dance and music, galleries, antique shops, historic sites and museums. Of course you need to stay somewhere to enjoy all this. That is where the riches of our rural landscape, lakes, rivers, cozy cottages and elegant period homes become irresistible. While so many slumber, this is a good time to awaken to the special opportunities for finding just the right home.

International interest in U.S. real estate

Here is a late minute tidbit on some of our new immigrants. The National Association of Realtors reports today that in the last year to May 2008 over 150,000 homes were sold to foreign nationals. Top destinations were Florida, California and Texas. Arizona, New York, Washington and Nevada were also popular. Typically foreign nationals bought single-family vacation homes. The average price was \$297,000 with 40% paying all cash (domestically the rate is 7%). They reside here about 2.6 months of the year. The top six countries of origin were Canada, the United Kingdom, Mexico, China, India and Germany. The decrease in the value of the dollar (down 24% against the Euro in two years), relatively low interest rates and plenty of inventory -- with lower prices in certain areas -- are all big

draws. Many are especially affluent, 14% spent over \$750,000. Of 4000 Realtors® surveyed, 26% served international clients in the past year and about half of those clients ended up purchasing a home. The primary reasons some clients did not eventually buy houses were home price trend concerns, immigration laws, and property taxes.

Existing single family housing sales in New York State to June 30, 2008

| County | Median sale price through June 30, 2008. | | | Number of sales through June 30, 2008 | | |
|-----------------------|--|---------------|---------------|---------------------------------------|---------------|---------------|
| | June 2008 | % change | % change | Sales | % change | % change |
| | | 12 months | 24 months | in June | 12 mo | 24 mo |
| Albany | \$217,000 | 0.9% | 4.8% | 203 | -22.8% | -19.1% |
| Rensselaer | \$170,151 | -5.6% | 3.5% | 102 | -17.7% | -17.7% |
| Greene | \$166,500 | unreported | -4.9% | 22 | unreported | -46.3% |
| Columbia | \$280,000 | 17.3% | 14.9% | 38 | -45.7% | -24.0% |
| Dutchess | \$313,750 | -15.2% | -10.3% | 212 | -13.5% | -31.8% |
| Saratoga | \$264,912 | 6.0% | -3.6% | 205 | -19.0% | -34.9% |
| Washington | \$120,000 | -9.9% | 4.3% | 33 | 10.0% | -10.8% |
| New York State | \$219,000 | -10.6% | -15.4% | 7647 | -19.6% | -30.5% |

Source: New York State Association of Realtors, <http://www.nysar.com/consumers/stats.asp>