

Is There Still an Affordable Housing Crisis?

By: Anne Saylor, Housing Coordinator

Next month Dutchess, Orange and Ulster Counties will release the long-awaited three-county Regional Housing Needs Assessment. The purpose of the study, begun in August 2007, was to quantify the need for affordable housing in the three-county region. Since a lot has changed in the housing market since the inception of the study, we thought we'd take a moment to address a question that may be on the minds of many people: Is there still an affordable housing crisis in Dutchess County?

Affordability in the Rental Market

The answer is two-fold, and in the rental market it is clearly "yes." There is no evidence of any significant decline in rents in Dutchess County. The most recent Dutchess County Rental Housing Survey, completed in November 2008 and at a time when home prices were dropping, noted rent increases of 7-8% in apartment complexes and slightly more moderate increases in apartments in multi-family buildings. The rent for a one-bedroom in an apartment complex averaged \$1,002. A household would need to make \$41,640 to afford this apartment. This income level was a struggle for many people in good economic times and is even more problematic today as people are losing jobs, having hours cut back or experiencing wage cuts. Even if rent increases are moderate or cease, the existing rents remain unaffordable to many people in our community.



A local apartment complex offering a free month to entice new renters.

It is also important to note that last year's vacancy rate was 4.2%. While this is high for Dutchess County, it is low from a national perspective. This low vacancy rate suggests that landlords, particularly those in large apartment complexes, could absorb additional vacancies before they would lower rents. Anecdotal evidence suggests that landlords are offering incentives such as a free month's rent or free storage rather than lowering rents.

Affordability in the Owner-Occupied Market

There is a more complicated answer in owner-occupied housing. Clearly sale prices have declined significantly. The chart below shows the change from August 2007 to today:

Single-Family Sale Price			
	<i>August 2007</i>	<i>April 2009</i>	<i>Percent Change</i>
<i>Median Sale Price</i>	\$350,000	\$265,000	-24%
<i>Average Sale Price</i>	\$406,086	\$312,484	-23%

One of the measures of affordability in the housing market is whether a family earning the median income can afford the median priced house. For the first time in years, it appears that this standard has been met. Using the current median family income of \$81,800, a family could afford to purchase a home worth \$284,000, which exceeds the current median sale price of \$265,000 by \$19,000.

Tenuous Affordability

However, it is very likely that this “affordability” will be temporary for a variety of reasons. Most importantly, while the decline in housing prices has clearly made housing more affordable, the extraordinarily low interest rates engineered by the Federal Reserve are also creating “affordability.” For the above calculation, we used the current interest rate of 5%. An increase to 6%, which is what rates were just one year ago, would make the median priced house unaffordable as the family would only be able to purchase a house worth \$257,000. Most economists agree that once the economy begins its recovery the Federal Reserve must raise interest rates to more reasonable and sustainable levels.

There is also the impact that foreclosures are having on the decline in sale prices. It is likely that housing prices will increase as we move back to more conventional transactions between a willing buyer and seller. There is also a concern that many of the newly “affordable” units are older homes in need of at least modest repairs that may be difficult for some households to finance.

Changes in Lending Requirements

There has also been a significant tightening in the criteria for securing mortgages that is redefining who can get a mortgage and for how much. Gone are the days of “no documentation” mortgages. Mortgages for households with poor credit have disappeared, while the minimum credit score for a conforming (regular) loan has increased from 620 to 700. Banks are limiting housing expenses to 30-33% of household income, down from almost 50% just a few years ago. Closing costs, which are increasing, must be paid by the buyer and can no longer be rolled into the mortgage or paid with a second mortgage.

And last but not least, downpayments, which have been “optional” for the past few years, are now between 5-10% at a time when declining house and stock market values make it difficult for many parents/relatives to provide significant gifts to help with these costs. While these changes are positive in many ways, in the sense that we are returning to a more conventional, lower-risk approach to financing, they do make it more difficult for many people to secure mortgages for the lower priced houses that are becoming available.

Our Work Continues

Clearly, significant pressure still exists in the housing market and our work is not done in creating moderately-priced rental and owner-occupied housing for people who live and work in our community. In next month's eNewsletter we will quantify this need with the results from the Regional Housing Needs Assessment and discuss how communities can create such housing. Stay tuned!



[CLICK HERE](#) to view past issues of the DCPF's newsletter, *Plan On It*.

This newsletter was developed by the Dutchess County Department of Planning and Development, in conjunction with the Dutchess County Planning Federation.

To unsubscribe from our e-newsletter mailing list, please send an email with the word "unsubscribe" in the subject line to DCPlanningFederation@co.dutchess.ny.us.