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Analysis of the Long Island, New York Housing Market As of October 1, 2004



ECONOMIC RESEARCH

U.S. Department of Housing and Urban Development

Foreword

This analysis has been prepared for the assistance and guidance of the U.S. Department of Housing and Urban Development (HUD) in its operations. The factual information, findings, and conclusions may also be useful to builders, mortgagees, and others concerned with local housing market conditions and trends. The analysis does not purport to make determinations regarding the acceptability of any mortgage insurance proposals that may be under consideration by the Department.

The factual framework for this analysis follows the guidelines developed by HUD's Economic and Market Analysis Division. The analysis and findings are as thorough and current as possible based on information available on the "as-of" date from local and national sources. As such, any findings or conclusions may be modified by subsequent developments. HUD wishes to express its appreciation to those industry sources and state and local government officials who provided data and information on local economic and housing market conditions.

This analysis takes into consideration changes in the economic, demographic, and housing inventory characteristics of the market area during three periods: from 1990 to 2000, from 2000 to the as-of date of the analysis (Current date), and from the Current date to a Forecast date. The analysis presents counts and estimates of employment, population, households, and housing inventory as of the 1990 Census, 2000 Census, Current date, and Forecast date. For purposes of this analysis, the forecast period is 24 months.

The prospective demand expressed in the analysis should not be construed as a forecast of building activity; rather, it presents the prospective housing production that would maintain a reasonable balance in the demand-supply relationship given the market conditions on the as-of date of the analysis. This analysis was prepared by José Calzadilla, the Division's Field Economist in the New York Regional Office, based on fieldwork conducted in July 2004. Questions regarding the findings and conclusions of the analysis may be addressed to Mr. Calzadilla at 212-542-7168 and at jose_calzadilla@hud.gov.

Housing Market Area

The Long Island, New York Housing Market Area (HMA) is coterminous with the Nassau-Suffolk, New York Metropolitan Division and is composed of Suffolk and Nassau Counties. New York City's Borough of Queens borders the HMA to the east abutting Nassau County. The HMA contains numerous rural and recreational areas. Because economic activity in the HMA is dispersed, no dominant employment center exists. For the purposes of this analysis, the Long Island HMA has been divided into two submarkets: Suffolk County and Nassau County.

Summary

The economy in the Long Island HMA improved steadily throughout the 1990s after a recession earlier in the decade. Since 2000, increases in nonfarm employment have slowed considerably primarily due to significant job losses in manufacturing. The economy is expected to improve during the forecast period, with a rate of nonfarm job growth slightly higher than the average annual gain from 1990 to 2000.

Population growth in the HMA since 1990 has occurred primarily due to net natural increase. Since 2000, however, increased levels of in-migration have resulted in a moderately higher rate of population growth than occurred from 1990 to 2000. In-migration stimulated by jobs and affordability of housing has been the major factor for population growth. As interest rates rise, in-migration will slow modestly, leading to stable population growth during the forecast period. Similarly, household growth is also forecast to remain stable during the forecast period.

The current demand-supply conditions for housing in the Long Island HMA are tight. Since the mid-1990s, growth in the housing inventory has not kept pace with owner or renter household growth. Although the number of households has increased steadily since 2000, the number of building permits has declined. Consequently, vacancy rates for both renter and owner housing have decreased. During the forecast period, conditions in the sales and rental housing markets are expected to remain tight, and most housing activity will continue to occur in the Suffolk County submarket.

During the 2-year forecast period ending October 1, 2006, demand for new market-rate sales housing is estimated to be 6,300 homes annually; the demand for new market-rate rental housing is estimated at 2,350 units annually.

Economy of the Area

The defense industry was the major employer in the HMA until significant decreases in national defense spending occurred in the early 1990s. The ensuing recession resulted in substantial job losses. Beginning in 1993, the economy began to recover and continued to grow throughout the remainder of the decade.

Growth of the economy in the HMA since the mid-1990s has been strong primarily due to consistently expanding service-providing employment sectors. From 1990 to 2000,

66,700 nonfarm jobs were added in the HMA, and nonfarm job growth averaged 0.7 percent annually. From 1993 to 2000, after the recession in the early 1990s, nonfarm jobs increased on average by 22,000 a year, an average annual increase of 2.1 percent. Since 2000, the average annual increase in nonfarm jobs slowed to 0.3 percent. Data for nonfarm wage and salary employment by industry sector are presented in Table 2.

In addition to gaining jobs after 1993, the economy relinquished its previous dependence on one major industry—defense—and became more diversified. Service-providing sector jobs increased at an average annual rate of 2.2 percent from 1993 to 2000 and accounted for 86.3 percent of all nonfarm jobs in the HMA as of 2000. During the same period, professional and business services and educational and health services added one-half of all service-providing jobs from 1993 to 2000. These sectors were among the fastest growing in the HMA with professional and business services increasing at an average annual rate of 4.5 percent and educational and health services increasing at an average annual rate of 3 percent.

From 2000 to the Current date, employment growth in three sectors—educational and health services, local government, and leisure and hospitality—offset all job losses in other sectors and contributed most of the job gains in the HMA. During this period, educational and health services added the greatest number of jobs—18,000, or an average of 2.7 percent annually—and increased faster than all other sectors in the HMA. The educational and health services sector includes two of the leading employers in the HMA: North Shore-Long Island Jewish Health System and the State University of New York at Stony Brook. From 2000 to October 1, 2004, local government added 13,600 jobs, one-half of which were in response to the growing school-age population. The leisure and hospitality sector added 8,300 jobs during the same period and was the second fastest growing sector in the HMA with an average growth rate of 2.6 percent annually. Since 2000, more than 92 percent of the increase in leisure and hospitality jobs has been due to increases in the food services and drinking places subsector.

The unemployment rate in the HMA rose from 4.0 percent in 1990 to 7.7 percent in 1992 due to losses in nonfarm jobs and a recession in New York City. In 1990, approximately one-fifth of workers in the HMA commuted to New York City; this commutation pattern remained stable through 2000. Resident employment increased by 1.6 percent a year from 1990 to 2000; the labor force grew at the much slower rate of 0.9 percent annually. From 1993 to 2000, resident employment grew an average of 1.2 percent annually, twice the rate of labor force growth. Growth in nonfarm jobs, particularly in service-providing sectors, resulted in the average annual unemployment rate declining from 7.7 percent in 1992 to 3.3 percent by 2000.

From 2000 to the Current date, the number of unemployed people in the HMA increased by 21,900 because the labor force grew at a faster average annual rate than employment. Labor force growth during this period averaged 1.2 percent annually, while the rate of employment growth averaged 0.9 percent a year. Consequently, the unemployment rate for the 12 months ending October 2004 increased to 4.3 percent from the 3.3-percent rate in 2000. Trends in annual average civilian labor force and total employment from 1993 through the Current date are presented in Table 1.

During the 2-year forecast period, the Long Island HMA economy is expected to improve as the service-providing sectors begin to grow more rapidly. Nonfarm jobs are forecast to increase at an average rate of 0.8 percent annually during the next 2 years.

Household Incomes

According to HUD's Economic and Market Analysis Division, the median family income in the Long Island HMA was estimated to be \$85,300 in 2004. The HMA had the third-highest median income in New York State, behind Westchester and Rockland Counties.

Population

From 1990 to 2000, the population in the HMA increased at an average annual rate of 0.5 percent. Population increases between 2000 and the Current date averaged 0.6 percent a year, or an average annual increase of 17,125. Between the Current date and the October 1, 2006 Forecast date, the population of the HMA is projected to increase by this same annual rate to 2,865,000. Trends in population change for the HMA and its submarkets from 1990 to the Forecast date are presented in Table 3.

All the population growth between 1990 and 2000 and four-fifths of the population growth between 2000 and the Current date occurred due to net natural increase (resident births minus resident deaths). Annual data from the New York State Department of Health indicate that population change as a result of net natural increase averaged approximately 16,000 people a year from 1990 to 2000 and 13,500 annually after 2000. From 1990 to 2000, the annual net natural increase decreased as the number of births declined and the number of deaths remained stable. Since 2000, births have continued to decline, and deaths have begun to increase modestly. This decline in the net natural increase, however, did not subsequently result in slower population growth, because increased in-migration also occurred.

Between 1990 and 2000, out-migration from the HMA averaged 1,560 people annually. Out-migration from the HMA occurred in the early 1990s due to significant job losses. Beginning in the latter half of the 1990s, an economic recovery stimulated in-migration. After 2000, historically low interest rates increased home affordability and prevented a decrease in migration due to slower job growth. In-migration has averaged 3,700 people annually since 2000. In-migration will increase modestly during the forecast period to an average of 3,800 people annually due to continued strong demand for single-family homes and forecast increases in employment.

Since 1990, the population of Suffolk County has increased and continues to increase at a faster rate than Nassau County's. Between 2000 and the Current date, Suffolk County's population increased at an average annual rate of 0.9 percent compared with a 0.4-percent rate in Nassau County. America's first suburban development, Levittown, was constructed in Nassau County just after World War II, and the area developed rapidly afterward. Currently, most of the land in Nassau County suitable for development has been used; all the population increase since 1990 resulted from net natural increase. Suffolk County accounts for approximately three-fourths of the landmass of the HMA

and still has land available for development. Subsequently, population growth in this submarket has occurred due to both in-migration and net natural increase. Between 2000 and the Current date, Suffolk County is estimated to have gained an average of 8,400 people annually from net natural increase and 4,000 people from in-migration.

During the forecast period, the net natural increase in the HMA will continue trending downward and is projected to average 13,050 people annually. In-migration will increase modestly to an average of 3,800 people annually as the Suffolk County submarket continues to produce a sizable number of single-family homes.

Households

The rate of change in household growth in the HMA has been stable. Since the 2000 Census, the rate of change is equal to the 0.7-percent average annual increase that occurred between 1990 and 2000. As of the Current date, the Long Island HMA has an estimated 943,600 households, reflecting an average annual increase of 5,975 households since 2000. Most of the household increases have occurred in Suffolk County because all the net in-migration to the HMA has occurred in this submarket.

The number of households is forecast to increase annually by 5,850, or increase by only 125 fewer a year than since 2000. The rate of household growth will accordingly decrease slightly during the forecast period to an average annual rate of 0.6 percent. Table 3 presents the trends in household growth from 1990 through the Forecast date for the HMA and its submarkets.

Housing Inventory

Total building permits averaged 4,840 annually from 1990 to 2000. Permit activity fell from 5,025 in 1990 to 3,725 in 1993 due to the downturn in the economy. In 1994, the number of permits began to increase and totaled 6,320 in 1999. From 2000 to the Current date, an average of 5,175 permits was issued annually, a decline from the latter half of the 1990s. Since 1990, more than three-quarters of the permit activity occurred in Suffolk County. The trends in building permit activity from 1994 through the Current date for single-family and multifamily housing in the HMA and its submarkets are presented in Table 5.

Single-family permits, which made up 83 percent of the total permit activity as of 2000, averaged 4,275 units annually from 1990 to 2000. After declining from 1990 through 1992, single-family permit activity expanded as economic conditions improved, increasing from 3,350 in 1993 to 5,230 as of the end of 1999. Beginning in 2000, when arranging suitable parcels of land for development became more difficult, single-family permit activity began to decline. The number of permits issued decreased from 5,010 in 2000 to 3,320 during the 12-month period ending October 1, 2004, an average annual decrease of 4,150. Approximately four-fifths of the total single-family permit activity since 1990 has occurred in Suffolk County due to the greater availability of land there than in Nassau County.

Multifamily building permit activity averaged 565 annually from 1990 to 2000. Activity was modest from 1990 to 1993 but began to increase in 1994. From 1994 to 2000, multifamily building permits averaged 800 annually. Since 2000, with home prices rising considerably and rental markets remaining tight, the number of apartments permitted in the HMA has increased. From 2000 to the Current date, multifamily permit activity has averaged 1,025 annually. As with single-family construction, the availability of buildable land in Suffolk County has concentrated new multifamily units in that county as well. Since 1990, multifamily permits issued in Suffolk County have accounted for approximately 65 percent of all multifamily permits issued in the HMA.

As of the Current date, 42,950 seasonal units are located in the HMA, of which more than 90 percent are in Suffolk County. These units represent 4.3 percent of the total housing inventory. Most seasonal units in the Suffolk County submarket are located in the towns of Easthampton and Southampton. Seasonal units historically have been concentrated in Suffolk County due to its long coastline and proximity to New York City.

Housing Vacancy

From 1990 to 2000, the housing inventory increased by an average of 5,290 units each year. The number of households, however, increased an average of 6,050 annually. Owner-occupied households increased by an average of 4,625 a year, and renter-occupied households increased by an average of 1,425 annually. With builders unable to keep up with the demand, the market began to absorb vacant available units at an average of 1,040 units annually. As a result, the number of vacant available units for sale or rent in 2000 was approximately half the number available in 1990, and vacancy rates declined. From 1990 to 2000, the owner vacancy rate decreased from 1.6 to 0.7 percent, and the rental vacancy rate decreased from 5.5 to 2.7 percent.

Since the 2000 Census, the housing inventory of the HMA has continued to increase by an average of 6,160 units annually. Demand still exceeds supply, and, as a result, the sales and rental markets both have tightened modestly. As of the Current date, the sales vacancy rate declined to 0.6 percent and the rental vacancy rate declined to 2.5 percent. The counts of housing inventory, occupancy, and vacancy by tenure for 1990, 2000, and the Current date are presented in Table 4.

Sales Market Conditions

In light of a tight sales market and with housing demand continuing to exceed production, home prices and sales market activity have increased significantly since 2000. According to the Multiple Listing Service of Long Island, Inc., from 2000 to 2004 average single-family home prices increased approximately 65 percent, or an average of 16 percent annually, from \$248,000 to \$410,000. From 2000 to December 31, 2003, the number of home closings in the HMA increased by 30.4 percent.

The submarkets differ significantly in average home closing prices and sales market activity. Most of the sales market activity is occurring in Suffolk County. Since the late 1990s, due to a greater availability of land for development, Suffolk County has

consistently had more than 30 percent more home closings annually than Nassau County. As of 2004, the average home closing price in Suffolk County was approximately \$357,000, while in Nassau County the average home closing price was \$479,000. The proximity of Nassau County to employment centers in New York City explains much of this price difference.

Rental Market Conditions

The rental market in the Long Island HMA is currently tight because housing unit additions have not kept pace with rental housing demand. The average rent for a two-bedroom/two-bath unit in a newly completed Class A development is \$2,250 per month. Rents are highest in areas closer to New York City, local employment centers, and major transportation thoroughfares. Generally, rents decline toward the eastern portions of the HMA, with the exception of seasonal communities.

In Suffolk County, a proposal exists to create a large mixed-use development named Heartland Town Square on 452 acres surrounding the Pilgrim State Psychiatric Center in Brentwood. The proposal calls for approximately 9,000 residential units and approximately 4 million square feet of office and retail space to be built in three 5-year phases. In the town of Riverhead, potential development space exists within the Calverton/Grumman Airport property that the town acquired from the U.S. Navy; however, the scope of development is unresolved.

Forecast Housing Demand

The principal factor of forecast demand is household growth. Based on anticipated household growth and current market conditions, a demand for approximately 6,300 units of market-rate sales housing and 2,350 market-rate rental units annually is anticipated during the 2-year forecast period ending October 1, 2006. In addition, an estimated 2,100 units expected to be lost from the inventory due to demolitions and other causes will need to be replaced. This level of construction will ensure the maintenance of balanced demand-supply conditions. A tabular summary of the annual qualitative demand for rental housing for the HMA is presented in Table 6.

Table 1
Labor Force and Total Employment
Long Island HMA
1993 to October 1, 2004

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Previous 12 Mos.	Current 12 Mos.
Labor Force	1,376,800	1,370,800	1,368,300	1,378,700	1,410,300	1,419,500	1,430,000	1,421,900	1,427,500	1,476,100	1,485,800	1,484,900	1,490,900
Total Employment	1,287,400	1,293,100	1,300,300	1,321,100	1,356,000	1,373,900	1,382,600	1,379,900	1,380,300	1,413,100	1,423,500	1,422,400	1,427,000
Unemployment	89,500	77,700	68,000	57,600	54,300	45,600	47,400	42,000	47,200	63,000	62,300	62,100	63,900
Rate (%)	6.5	5.7	5.0	4.2	3.9	3.2	3.3	3.0	3.3	4.3	4.2	4.2	4.3

Note: Numbers may not add to totals due to rounding.

Source: New York State Department of Labor

Table 2
Nonfarm Employment by Industry
Long Island HMA
1993 to October 1, 2004

Employment Sector	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Previous 12 Mos.	Current 12 Mos.
Total Nonfarm	1,058,000	1,074,600	1,093,100	1,101,100	1,121,000	1,148,400	1,190,200	1,218,000	1,218,700	1,215,500	1,222,700	1,220,400	1,231,800
Goods-Producing	148,300	144,000	144,000	146,100	149,800	155,000	163,200	166,500	161,200	156,400	152,500	153,000	151,400
Natural Res., Mining, & Constr.	39,800	41,400	42,800	44,600	47,500	51,400	57,500	61,000	62,400	64,300	64,200	64,200	64,900
Manufacturing	108,400	102,600	101,200	101,500	102,200	103,600	105,700	105,500	98,900	92,100	88,200	89,100	86,600
Service-Providing	909,700	930,600	949,100	955,000	971,300	993,400	1,027,000	1,051,500	1,057,500	1,059,100	1,070,200	1,067,100	1,080,400
Trade, Transport., & Utilities	245,800	249,200	255,200	255,100	260,600	264,000	267,100	273,100	272,000	267,500	270,300	269,600	272,300
Wholesale Trade	64,900	65,000	65,100	65,500	66,000	68,000	71,100	71,500	73,900	72,300	73,000	72,800	73,700
Retail Trade	135,600	139,100	144,400	145,200	147,500	151,200	158,000	162,800	160,900	159,100	161,400	160,800	162,800
Information	28,400	26,800	26,600	26,900	28,400	30,000	30,700	31,800	32,900	32,500	29,100	29,800	28,000
Financial Activities	81,500	82,100	80,400	80,000	80,300	81,000	85,500	84,200	81,400	82,000	83,000	82,500	84,100
Professional & Business Svcs.	117,300	124,800	128,800	131,500	136,400	140,900	148,700	155,600	157,700	153,100	152,000	152,100	152,900
Education & Health Svcs.	148,800	153,300	158,800	162,900	164,700	170,300	175,600	178,500	180,900	187,500	193,200	192,200	196,500
Leisure & Hospitality	74,400	75,600	77,100	76,400	77,800	79,200	82,800	86,000	88,700	90,100	92,800	92,000	94,300
Other Services	39,000	40,800	42,600	43,400	44,500	46,000	50,800	52,100	49,700	50,100	50,800	50,700	51,100
Government	174,500	178,100	179,600	178,900	178,700	182,100	185,700	190,200	194,100	196,300	198,900	198,200	201,200
State	28,400	28,400	27,200	26,100	25,700	25,600	25,600	25,900	27,400	25,600	25,000	25,200	24,800
Local	126,200	129,700	132,300	132,300	133,000	136,500	139,500	143,100	145,400	149,100	153,300	152,100	156,700

Note: Numbers may not add to totals due to rounding.

Source: New York State Department of Labor

Table 3
Population and Household Trends
Long Island HMA
April 1, 1990 to October 1, 2006

	April 1, 1990	April 1, 2000	Current Date	Forecast Date	Average Annual Change					
					1990 to 2000		2000 to Current		Current to Forecast	
					Number	Rate (%)	Number	Rate (%)	Number	Rate (%)
Population										
Long Island HMA	2,609,212	2,753,913	2,831,000	2,865,000	14,470	0.5	17,125	0.6	17,000	0.6
Suffolk County Submarket	1,321,864	1,419,369	1,475,000	1,500,000	9,750	0.7	12,350	0.9	12,500	0.8
Nassau County Submarket	1,287,348	1,334,544	1,356,000	1,365,000	4,720	0.4	4,775	0.4	4,500	0.3
Households										
Long Island HMA	856,234	916,686	943,600	955,300	6,045	0.7	5,975	0.7	5,850	0.6
Suffolk County Submarket	424,719	469,299	489,000	497,500	4,458	1.0	4,375	0.9	4,250	0.9
Nassau County Submarket	431,515	447,387	454,600	457,800	1,587	0.4	1,600	0.4	1,600	0.4

Note: Rate of change is calculated on a compound basis.
Sources: 1990 and 2000—U.S. Census Bureau
Current and Forecast—Estimates by analyst

Table 4
Housing Inventory, Tenure, and Vacancy
Long Island HMA
1990 to October 1, 2004

	Long Island HMA			Suffolk County Submarket			Nassau County Submarket		
	1990	2000	Current	1990	2000	Current	1990	2000	Current
Total Housing Inventory	927,609	980,474	1,008,200	481,317	522,323	543,400	446,292	458,151	464,800
Occupied Units	856,234	916,686	943,600	431,515	469,299	489,000	431,515	447,387	454,600
Owners	687,396	733,624	754,000	340,253	374,360	389,200	347,143	359,264	364,800
%	80.3	80.0	79.9	80.1	79.8	79.6	80.4	80.3	80.2
Renters	168,838	183,062	189,600	84,466	94,939	99,800	84,372	88,123	89,800
%	19.7	20	20.1	19.9	20.2	20.4	19.6	19.7	19.8
Vacant Units	71,375	63,788	64,600	56,598	53,024	54,400	14,777	10,764	10,200
Available Units	20,736	10,364	9,730	13,006	6,567	6,300	7,730	3,797	3,420
For Sale	10,830	5,199	4,790	6,679	3,274	3,110	4,151	1,925	1,680
Rate (%)	1.6	0.7	0.6	1.9	0.9	0.8	1.2	0.5	0.5
For Rent	9,906	5,165	4,940	6,327	3,293	3,190	3,579	1,872	1,740
Rate (%)	5.5	2.7	2.5	7.0	3.4	3.1	4.1	2.1	1.9
Other Vacant	50,639	53,424	55,000	43,592	46,457	48,150	7,047	6,967	6,850

Sources: 1990 and 2000—U.S. Census Bureau
 Current—Estimates by analyst

Table 5
Residential Building Permit Activity
Long Island HMA
1994 to October 1, 2004

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004 ^a
Long Island HMA											
Total	4,662	4,098	5,445	5,329	5,881	6,318	6,438	5,648	5,369	4,240	3,539
Single-family	3,840	3,821	4,337	4,439	5,283	5,228	5,011	4,409	4,446	3,521	2,885
Multifamily	822	277	1,108	890	598	1,090	1,427	1,239	923	719	654
Suffolk County Submarket											
Total	3,909	3,238	4,469	3,957	4,860	5,167	4,932	4,658	4,384	3,208	2,629
Single-family	3,214	3,050	3,658	3,447	4,474	4,435	4,125	3,677	3,669	2,807	2,340
Multifamily	695	188	811	510	386	732	807	981	715	401	289
Nassau County Submarket											
Total	753	860	976	1,372	1,021	1,151	1,506	990	985	1,032	910
Single-family	626	771	679	992	809	793	886	732	777	714	545
Multifamily	127	89	297	380	212	358	620	258	208	318	365

^a Through October 1, 2004.

Sources: U.S. Census Bureau, C40 Series Construction Reports
U.S. Census Bureau, Building Permits Survey

Table 6
Estimated Qualitative Annual Demand for New Market-Rate Rental Housing
Long Island HMA
October 1, 2004 to October 1, 2006

One Bedroom		Two Bedrooms		Three Bedrooms	
Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand
1,875	820	2,250	1,050	2,500	470
1,925	710	2,300	880	2,550	380
1,975	650	2,350	790	2,600	350
2,025	570	2,400	670	2,650	320
2,075	480	2,450	560	2,700	280
2,125	390	2,500	440	2,750	240
2,175	310	2,550	350	2,800	210
2,275	240	2,650	270	2,900	180
2,375	180	2,750	210	3,000	160
2,475	140	2,850	170	3,100	90
2,575	100	2,950	130	3,200	50

Note: Distribution is noncumulative.
Source: Estimates by analyst