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Analysis of the Dutchess County, NY Housing Market

As of August 1, 2003



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 be useful also to builders, mortgagees, and others concerned with local housing conditions and trends. The analysis does not purport to make determinations regarding the acceptability of any particular mortgage insurance proposals that may be under consideration in a particular locality or the housing market area.

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 upon information available on the "as-of" date from both 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 Censuses, Current date, and Forecast date. For the 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 demand-supply relationship given the market's condition 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 2003. Questions regarding the findings and conclusions of the analysis, may be addressed to Mr. Calzadilla at 212-264-8000, ext. 3168, and at Jose_Calzadilla@hud.gov.

Housing Market Area

The Dutchess County, New York Housing Market Area (HMA) is coterminous with the Dutchess metropolitan statistical area and is defined as Dutchess County. For the purposes of this analysis the HMA has been divided into two submarkets: Southern Dutchess and the Remainder of the HMA. The Southern Dutchess submarket comprises the City of Beacon, Beekman Town, East Fishkill Town, Fishkill Town, Fishkill Village, La Grange Town, the City of Poughkeepsie, Poughkeepsie Town, Union Vale Town, Wappinger Town, and Wappingers Falls Village.

Summary

After a contraction in 2002 the economy is recovering; employment growth, however, remains below the levels experienced from 1998 to 2001. Corporate expansions and relocations, primarily in Southern Dutchess, have strengthened and diversified the HMA's economy. The rate of economic growth is expected to increase steadily during the 2-year forecast period; growth rates, however, should continue at rates below those recorded between 1998 and 2001.

Housing market conditions in the HMA have improved considerably in recent years. The Dutchess County HMA, like other suburban counties near New York City, has undergone substantial housing development in areas closer to, or having better transportation links to, New York City.

The sales market is currently tight and sales home prices have been rising for several years. The rental market is tight and demand for new market-rate rental housing remains strong in spite of a continued tenure shift to homeownership in recent years. The annual rates of population and household growth are expected to remain near current levels during the 24-month forecast period.

During the forecast period ending August 2005, demand for new home sales is estimated at 2,100 annually. Demand for new market-rate rental housing during the period is estimated at 160 units annually.

Economy of the Area

From 1990 to 2000 total resident employment decreased at an average annual rate of 1.2 percent. Significant losses to resident employment were concentrated in the first half of the decade, though gains have been sustained since then. From 1990 through 1994, during a national economic downturn, employment in the HMA decreased at an average annual rate of 3.3 percent. This recession coincided with the loss of approximately 11,000 jobs at IBM. The subsequent economic recovery began in 1995 and resulted in average employment gains of approximately 1.1 percent during the rest of the decade. From 2000 through the Current date, resident employment increased at a rate of 2.6 percent annually. Increases in the number of residents employed, but commuting outside the HMA, have been responsible for this increased rate of growth. The trends in annual average civilian

labor force and total employment from 1992 through the Current date are presented in Table 1.

In contrast to resident employment, nonfarm job gains in the local economy have been modest. Between 1990 and 2000, total nonfarm employment decreased at an average annual rate of 0.7 percent. From 1990 through 1994, nonfarm employment decreased at an annual average rate of 3.1 percent and increased 1.8 percent between 1995 and 2000. Between 2000 and the Current date, nonfarm employment gains have averaged a modest 1.0 percent annually. The diversified nature of the local economy, however, and the continued in-migration of higher income households have enabled the HMA to fare better than many areas in New York State. Employment estimates prepared by the New York State Department of Labor for 2003 indicate that a sustained recovery may now be under way. Trends in annual average nonfarm wage and salary employment by industry from 1992 through the Current date are presented in Table 2.

Between 1990 and the Current date, jobs in goods-producing industries declined 38.5 percent, while those in service-producing industries increased 14.8 percent. While goods-producing industries made up 29.6 percent of total nonfarm employment in 1990, their share of total nonfarm employment decreased to 18.4 percent as of the Current date. During the 1990s, professional and health services saw the greatest industry growth, while manufacturing posted the most significant declines. Between 1990 and 2000, the manufacturing supersector in the HMA lost 10,200 jobs, or an average annual decrease of 3.5 percent. Though manufacturing suffered the loss of a further 1,500 jobs between 2000 and the Current date, the annual average rate of decrease has slowed to 1.1 percent. The education and health services and professional and business services supersectors added 5,000 and 1,800 jobs respectively between 1990 and 2000, or an average annual increase of 3.1 and 2.9 percent. The annual average rate of growth between 2000 and the Current date has slowed slightly to 2.5 percent in the professional and business services supersector, but the growth rate of the education and health services supersector has increased to an average of 4.1 percent annually during this period.

Since 2000 the economy has maintained moderate growth and continues diversifying in spite of slight job losses in 2002. Beginning in 2000, IBM invested approximately \$2.5 billion in a new 140,000-square-foot chip-making plant that opened in 2002. This project remains the largest private-sector investment in New York State history. Gap Inc. also opened a 2.3 million-square-foot distribution center with an investment of \$220 million during 2001. Both facilities, situated in the Southern Dutchess submarket, are expected to contribute approximately 1,500 jobs to the local economy. Other major investments have included a \$100 million upgrade at the MiCRUS/Philips Semiconductors facility, an \$85 million investment in a new performing arts center at Bard College, and an approximately \$85 million investment in expansion at two Vassar Brothers Medical Center facilities.

Based on recent employment trends and continued in-migration, total resident employment is forecast to increase during the next 2 years at a faster rate than in the past 24 months: 1.5 percent, or 1,800 jobs annually. Most forecast employment growth is

estimated to occur in Southern Dutchess, where most of the HMA's employers are located.

Household Incomes

HUD's Economic and Market Analysis Division estimates the median family income in the Dutchess County HMA to be \$67,800 in 2003, a 7.2 percent increase since the 2000 Census. The rate of increase in median family income during the past 3 years is lower than the 8.0 percent average annual rate of increase from 1990 to 2000. The analyst attributes the decline in the rate of increase to the in-migration of lower-income households.

Population

From 1990 to 2000, the population growth in the HMA occurred primarily in the Southern Dutchess submarket, which contained most of the employers in the county and had excellent transportation and commutation linkages to New York City. The dynamics of population change have shifted since 2000, and the Remainder of the HMA now is growing at a faster rate than Southern Dutchess because of lower home prices and more available land for construction.

As of the Current date the population of the Dutchess County HMA was estimated to be 287,500, or an average annual gain of 0.8 percent since the 2000 Census, which was equal to the average annual rate of growth between 1990 and 2000.

Net natural increase (resident births minus resident deaths) accounted for 67 percent of the population increase in the HMA between 1990 and 2000. In-migration accounted for the other 33 percent. Population change as a result of net natural increase averaged approximately 1,400 persons a year between 1990 and 2000. Vital statistics published by the New York State Department of Health indicate that the relatively consistent rate of decline during the prior decade has continued through 2001, but has now stabilized. During the 1980s, in-migration averaged approximately 690 persons annually. Net out-migration occurred early in the 1990s, but stronger economic conditions offset this trend as the decade progressed. From 2000 to the Current date net in-migration has averaged an estimated 1,150 persons annually.

Based on the level of economic growth and in-migration anticipated during the 2-year forecast period, population growth is expected to continue at about the same rate during the forecast period as it did from 2000 to the Current date. As of August 1, 2005, the population of the Dutchess County HMA will be an estimated 291,700 people, or an average annual gain of 2,100 persons.

Households

Between 1990 and 2000 the annual rate of growth averaged 1,000 households, or 1.1 percent. Total households in the Dutchess County HMA are estimated at 103,350 as of

the Current date, reflecting an average annual increase of more than 1,145 since the 2000 Census. The trends in households from 1990 through the Forecast date for the HMA and the two submarkets are presented in Table 3.

The number of households in the HMA will increase by 1,075 annually during the 2-year forecast period to total 105,500 households as of the Current date.

Housing Inventory

Between 1990 and 2000 the annual increase in net additions to the housing inventory averaged 850 units. As of the Current date, it is estimated that 109,300 housing units are in the Dutchess County HMA, or an average annual increase of 960 since the 2000 Census. This increase in net additions to the housing inventory has been driven by greater housing demand since 2000 and a corresponding increase in permitting during the same period. A profile of the housing inventory, occupancy trends, and vacancy rates by tenure is included in Table 4.

Strong demand for housing since 2000, generated by lower interest rates and more affordable prices than most areas in the New York City primary metropolitan statistical area, has influenced new home construction activity, and single-family permits averaged approximately 925 units annually. New construction home sales has been predominantly single-family, detached housing.

The number of multifamily building permits also has been trending upward from an average of 90 units per year reported between 1990 and 2000. Since 2000, annual multifamily activity, as measured by building permits, has increased significantly to approximately 190 because of continued strong demand for rental apartments. Independent senior housing has received much interest of late, with one project recently completed and more than five additional projects at various stages in the pipeline. Trends in building permit activity from 1993 through July 31, 2003 for single-family and multifamily housing in the HMA and the two submarkets are presented in Table 5.

Housing Vacancy

Vacancy rates in the HMA have decreased sharply since 1990. In 1990 the sales vacancy rate was 1.8 percent and the rental vacancy rate was 6.8 percent (the latter high rate attributed to the high levels of multifamily construction during the 1980s). Increasing demand for homes in the 1990s reduced the sales vacancy rate to 1.3 percent by 2000. Increases in population and households, coupled with modest levels of multifamily construction, contributed to the lower rental vacancy rate of 4.5 percent in 2000. As of the Current date, housing market conditions have improved as the sales and rental vacancy rates are estimated to have decreased to 1.0 and 4.0 respectively.

Sales Market Conditions

Conditions are currently strong throughout all price ranges of the sales market in the Dutchess County HMA, though recently homes have been staying on the market for longer periods. Demand has exceeded housing production since 2000, which has been reflected in tighter market conditions and significant increases in the price of homes. Between 2000 and 2002 median single-family home prices increased approximately 38 percent, from \$174,000 to \$240,000. Home prices have continued to rise at similar rates throughout 2003. The number of homes sold during this period has been relatively stable, averaging approximately 2,300 per year. Low interest rates do not fully account for increased demand. Excellent transportation connections to major employment centers in the Southern Dutchess submarket, combined with relatively lower home prices than those in Westchester County and New York City to the south, have contributed significantly to this robust demand.

Rental Market Conditions

Rental demand has steadily exceeded supply since 1990 and, as a result, vacancy rates have decreased. Apartment construction averaged approximately 95 units a year during the 1990s, less than half the number of units produced in the late 1980s. By 2000, renter vacancy rates had decreased to 4.5 percent, compared with 6.8 percent in 1990. Rental price increases of more than 5 percent have been common since the beginning of 2000 and have generally been greater for larger unit types. Since 2000 the renter vacancy rate has fallen and is estimated to be 4.0 percent as of the Current date. This decrease has occurred because additions to the rental inventory, as measured by building permits, did not keep pace with the net increase in total renter households.

The average rent for a two-bedroom/two-bath unit in a newly completed Class A development is \$1,200 per month. The highest rents can be found in the Southern Dutchess submarket, while rents typically run lower in the Remainder of the HMA. Lower rents often are associated with longer commuting times, fewer public services, and less business, commercial, or service infrastructure.

According to Dutchess County's two most recent rental housing surveys, approximately 2,500 subsidized apartments in the HMA are consistently fully occupied. Demand is especially strong for these units, as indicated by waiting lists averaging more than 1 year. Approximately 53 percent of these subsidized units are targeted exclusively to seniors, with the remainder open to all households.

Forecast Housing Demand

The principal factor of demand is forecast household growth. In addition, it will be necessary to replace an estimated 250 units expected to be lost from the inventory because of demolitions and other causes. Based on anticipated household growth and current market conditions, estimates indicate a demand for approximately 2,100 units of market-rate sales housing and 160 market-rate rental units annually during the 2-year

forecast period ending August 1, 2005. This level of construction would ensure the maintenance of balanced demand-supply conditions. The portion of total demand met by sales housing is expected to continue to increase because of both economic growth and continued in-migration. It is anticipated that much of the demand for detached homes will be for properties priced between \$225,000 and \$350,000.

Forecasted annual rental demand is more than the annual average building-permit volume since 2000. The modest number of multifamily permits issued during the period tightened the market for Class A units. During the forecast period, demand is expected to be strongest for one- and two-bedroom units. A tabular summary of rental qualitative demand for the HMA in total appears in Table 6.

Table 1
Labor Force and Total Employment
Dutchess County HMA
1992 to August 1, 2003

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	Previous 12 Mos.	Current 12 Mos.
Labor Force	125,000	122,900	117,400	115,100	116,800	119,200	118,800	119,600	119,600	120,400	129,200	124,900	131,000
Employment	116,500	112,500	109,200	109,300	111,900	114,400	114,900	115,500	116,000	116,500	123,900	119,900	126,000
Unemploy- ment	8,400	10,400	8,200	5,800	4,900	4,800	4,000	4,100	3,600	3,900	5,300	4,900	5,000
Rate (%)	6.7	8.5	7.0	5.0	4.2	4.0	3.4	3.5	3.0	3.2	4.1	3.9	3.8

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

Source: U.S. Department of Labor, Bureau of Labor Statistics

Table 2
Total Wage and Salary Employment
Dutchess County HMA
1992 to August 1, 2003

Employment Sector	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	Previous 12 Mos.	Current 12 Mos.
Total Nonfarm	108,800	104,100	102,000	103,600	105,500	107,200	108,900	112,900	115,900	119,400	118,900	119,000	119,900
Total Private	86,000	81,600	79,700	81,400	83,000	84,500	86,500	90,600	93,400	96,200	95,700	95,800	96,800
Goods-Producing	29,600	23,800	21,800	22,700	23,200	23,700	24,000	24,100	23,500	23,400	22,200	22,800	22,000
Construction & Mining	4,600	4,000	3,900	4,000	4,000	4,100	4,300	4,700	5,200	5,700	5,500	5,700	5,600
Manufacturing	25,000	19,800	17,900	18,700	19,200	19,600	19,700	19,400	18,300	17,600	16,700	17,200	16,400
Service-Producing	79,300	80,300	80,200	80,900	82,400	83,400	84,900	88,900	92,400	96,000	96,700	96,200	97,900
Trade, Transportation, & Utilities	17,600	18,300	18,100	18,200	18,000	17,900	18,200	18,800	19,900	20,300	19,900	20,100	20,500
Retail Trade	12,300	13,100	13,200	13,000	12,900	12,900	13,000	13,500	14,100	14,100	14,200	14,300	14,700
Information	1,700	1,800	1,800	1,800	2,000	1,900	1,900	2,000	2,300	2,200	2,100	2,100	2,100
Financial Activities	4,700	4,700	4,500	4,300	4,400	4,700	4,700	4,900	4,700	4,800	4,700	4,800	4,800
Professional & Business Services	5,900	6,000	5,900	6,400	6,600	6,700	6,900	8,000	8,400	8,900	8,700	8,600	9,100
Education and Health Services	16,600	17,200	17,700	18,000	18,400	18,900	19,800	21,400	22,400	23,800	25,300	24,800	25,500
Leisure & Hospitality	7,100	6,900	6,900	7,100	7,200	7,200	7,400	7,800	8,300	8,600	8,800	8,800	8,700
Other Services	3,000	3,000	3,000	3,000	3,200	3,500	3,600	3,700	3,800	3,800	3,800	3,800	4,000

Note: Numbers may not add to totals due to rounding.
Source: U.S. Department of Labor, Bureau of Labor Statistics

Table 3
Population and Household Trends
Dutchess County HMA
April 1, 1990 to August 1, 2005

	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										
Dutchess County HMA	259,462	280,150	287,450	291,700	2,069	0.8	2,210	0.8	2,100	0.7
Southern Dutchess	175,292	191,706	197,500	200,100	1,641	0.9	1,620	0.8	1,500	0.8
Remainder of HMA	84,170	88,444	90,500	91,600	427	0.5	590	0.7	600	0.7
Households										
Dutchess County HMA	89,567	99,536	103,350	105,500	997	1.1	1,145	1.2	1,075	1.0
Southern Dutchess	60,435	66,787	69,150	70,500	635	1.1	710	1.1	675	1.0
Remainder of HMA	29,132	32,749	34,200	35,000	362	1.2	435	1.3	400	1.2

Notes: Numbers may not add to totals due to rounding.
 Rate of change calculated on a compound basis.
 Sources: U.S. Census Bureau, 1990 and 2000 Censuses
 Current and Forecast: Estimates by analyst

Table 4
Housing Inventory Tenure and Vacancy
Dutchess County HMA
1990 to August 1, 2003

	Dutchess County HMA			Southern Dutchess Submarket Area			Remainder of HMA Submarket Area		
	1990	2000	Current	1990	2000	Current	1990	2000	Current
Total Housing Inventory	97,632	106,103	109,300	64,533	70,254	72,300	33,099	35,849	37,000
Occupied Units	89,567	99,536	103,330	60,435	66,787	69,150	29,132	32,749	34,180
Owners	61,899	68,636	71,930	40,570	44,880	46,910	21,329	23,756	25,020
%	69.1	69.0	69.6	67.1	67.2	67.8	73.2	72.5	73.2
Renters	27,668	30,900	31,400	19,865	21,907	22,240	7,803	8,993	9,160
%	30.9	31.0	30.4	32.9	32.8	32.2	26.8	27.5	26.8
Vacant Units	8,065	6,567	5,970	4,098	3,467	3,150	3,967	3,100	2,820
Available Units	3,119	2,376	2,035	2,040	1,633	1,380	1,079	743	655
For Sale	1,106	914	725	639	583	450	467	331	275
Rate (%)	1.8	1.3	1.0	1.6	1.3	1.0	2.1	1.4	1.1
For Rent	2,013	1,462	1,310	1,401	1,050	930	612	412	380
Rate (%)	6.8	4.5	4.0	6.6	4.6	4.0	7.3	4.4	4.0
Other Vacant	4,946	4,191	3,935	2,058	1,834	1,770	2,888	2,357	2,165

Sources: U.S. Census Bureau, 1990 and 2000 Censuses
 Current and Forecast: Estimates by analyst

Table 5
Residential Building Permit Activity
Dutchess County HMA
1993 to August 1, 2003

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003*
Dutchess County HMA											
Total	435	575	553	711	823	927	1,238	1,004	1,196	1,131	630
Single-family	419	566	513	617	742	847	1,084	991	895	924	532
Multifamily	16	9	40	94	81	80	154	13	301	207	98
Southern Dutchess Submarket Area											
Total	287	386	384	556	621	719	891	668	855	743	420
Single-family	276	382	349	478	551	653	769	668	570	573	326
Multifamily	11	4	35	78	70	66	122	0	285	170	94
Remainder of HMA Submarket Area											
Total	148	189	169	155	202	208	347	336	341	387	211
Single-family	143	184	164	139	191	194	315	323	325	351	206
Multifamily	5	5	5	16	11	14	32	13	16	36	5

* Partial building activity through August 1, 2003
Source: U.S. Census Bureau, C-40 Construction Series

Table 6
Estimated Qualitative Annual Demand for New Market-Rate Rental Housing
Dutchess County HMA
August 1, 2003 to August 1, 2005

One Bedroom		Two Bedrooms		Three Bedrooms	
Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand
1,000	70	1,200	80	1,500	10
1,050	60	1,250	70	1,550	10
1,100	55	1,300	60	1,600	5
1,150	50	1,350	50	1,650	5
1,200	40	1,400	40	1,700	0
1,250	35	1,450	35	1,750	0
1,300	25	1,500	25	1,800	0
1,400	20	1,600	21	1,900	0
1,500	16	1,700	20	2,000	0
1,600	10	1,800	15	2,100	0
1,700+	0	1,900+	0	2,200+	0

Notes: Distribution above is noncumulative.
Demand of fewer than 10 units is shown as 0.
Numbers have been rounded for comparison.

Source: Estimates by analyst