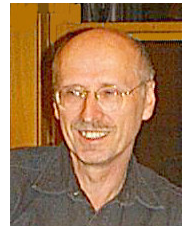


This is the second article of a monthly column on the real estate market and related issues in the upper Hudson River Valley. It also appears in Capital District HomeStyle Magazine.



THE REAL ESTATE REPORT Roderic H. Blackburn

Last month I focused on trends in the real estate market in and around Columbia County. This issue is broader, comparing our region to New York State and to the nation.

Housing sales slow slightly in January

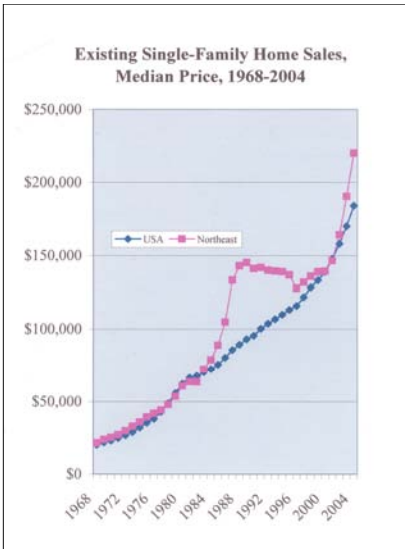


Chart A. Note the dramatic rise in prices in the Northeast in the late 1980s, followed by a stagnant period up until 1998.

According to preliminary housing sales data from the New York State Association of Realtors (NYSAR), sales of existing single-family homes in New York decreased 2.5% in January 2005 compared to a year earlier. During the same period the median selling price went up 21 percent (Chart A). However in just one month, December 2004 to January 2005, the number of sales dropped 30.8%. Are the low January sales a portend of a trend change? Only 2 or 57 counties reported growth in the number of sales between December and

January. One month does not a trend make; February figures will be out shortly and will tell us more, and will be reported here next month

Mortgage rates

Mortgage rates, the cost of borrowing money to buy a house, are intimately tied to trends in the real estate market. The long term mortgage rate trend (Chart B) shows a general down trend since 1981 correlating for most, but not all years, with an active real estate market. This trend is seen as coming to and end by at least one authority.

"Concern that long-term interest rates are too low and comments from Fed officials this week helped push mortgage rates higher this week," said Frank Nothaft, Freddie Mac vice president and chief economist. "We've been expecting this for some time, so the rise in rates for the third consecutive week doesn't really come as a surprise to

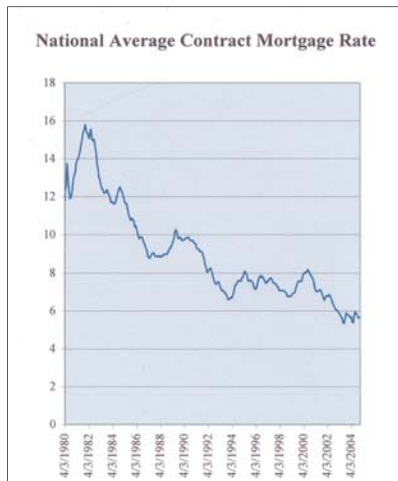


Chart B. The downward trend of mortgage rates since 1982 spurred the boom in real estate in the next seven years.

the market. House values rose nationally at a rate of over 10 percent in 2004, the strongest annual growth since 1979. However, as mortgage rates begin to trend upward we expect the rate of house price appreciation to begin to slow to perhaps seven or eight percent nationally this year.

Freddie Mac released the results of its Primary Mortgage Market Survey on March 3. A year ago the 30-year fixed-rate mortgage (FRM) averaged 5.59 percent. The week ending February 24, 2005 it averaged 5.69 percent and March 3 it averaged 5.79 percent. With the Federal Reserve Board raising the discount rate five time in the last few months (Chart C) most expected mortgages rates to be higher by now. Since they are not, Charles M. Staro, NYSAR's chief executive officer is optimistic: "We anticipate the factors, such as low mortgage interest rates, that have contributed to the housing market's strength in the past several years, including last year's record-setting market, will continue to drive housing sales as this year progresses."

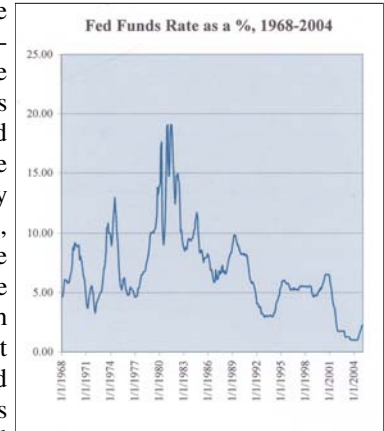


Chart C. The Federal Funds rate down trend from 1982 made possible lower mortgages rates contributing significantly to the real estate boom thereafter.

Housing as investment

A new study by the National Association of Realtors (NAR) indicates that one-quarter of all houses bought in 2004 were for investment, not owner-occupation. David Lereah, NAR's chief economist reported "We've seen a shift over the last few years with a growing number of second-home buyers purchasing primarily for investment. This led us to a new examination and understanding as to how much larger investment homes are as a share of the overall housing market."

The Economist reported on March 5: "There is certainly evidence that prices are being driven by speculative demand", citing the high rate of investor buying. The magazine also observed that house prices "are at record levels in relation to rents" in America (and several other countries) with the ratio of prices to rents 32% above the average of the last quarter century. Rents have been increasing at a modest average of 2.5% per year, far below the increase in housing cost, especially evident since 1998. Can we take comfort from the fact that the price/rent ratio in some other countries is much higher (Britain, Australia, France and Spain)? Housing prices in Australia and Britain have not declined but the rate of increase has declined over the last year after years of strong growth.

Who are these new investors? Michael Derus, citing the NAR report on the subject, has some observations of who they are. "Some of these transactions reflect a new breed of buyers -- 20- to 30-somethings seeking their fortunes through smart property investments." He quotes one broker in the mid-west: "They live

in the place a few years, fix it up, then use the equity to buy another place." These younger buyers, Derus says, aren't entranced with traditional investments, having seen stocks plummet and bonds languish. Real estate is their investment. Real estate may be Generation X's pension plan.

Do Booms result in Busts?

On February 10, 2005 the Federal Deposit Insurance Corporation issued a report by staffers Cynthia Angell and Norman Williams entitled. U.S. Home Prices: Does Bust Always Follow Boom? Their findings and conclusion are reassuring and I paraphrase them here.

U.S. home prices are up almost 50% in five years, surpassing any increase in at least 25 years (Chart A). Some have become concerned about a home price collapse. Do booms invariably result in busts?

Using statistics on cities and defining a boom as a 30% or larger gain in inflation-adjusted home prices during a 3 year period (and a bust as a 15% or greater decline in 5 years), they found that since 1978 63 U.S. metropolitan areas have experienced at least one boom (24 having more than one boom) but only 21 experienced a bust. Only 17% of booms resulted in a bust. Countrywide, of 361 urban areas, only 20% have experienced either a boom or bust. For most of the country price trends have been remarkably stable.

How do booms usually end? Of the 54 boom episodes prior to 1998, 45 did not see a subsequent bust. For 83 percent of our post-boom cities, nominal prices continued to inch up and any declines after inflation were very modest. Home prices in these markets simply stagnated, or stalled out, following their booms rather than going bust (This was the case for the Northeast real estate market in 1989-1997, see Chart A).

Cities experiencing home price busts are those which also had some local or regional economic shock severe enough to seriously impact employment or population change. The boom in prices is not enough in itself to cause a bust. There have been two widespread booms and busts in the last 25 years, in the "oil patch" states in the mid-1980s, and in California and the Northeast in the early 1990s. The former had to do with an oil boom and bust, the latter with Post Cold War defense cut backs in selective areas. The New York to Washington D.C. corridor did not experience a bust (declines of 15% or more) as defined here although a slowdown in the real estate market was locally evident.

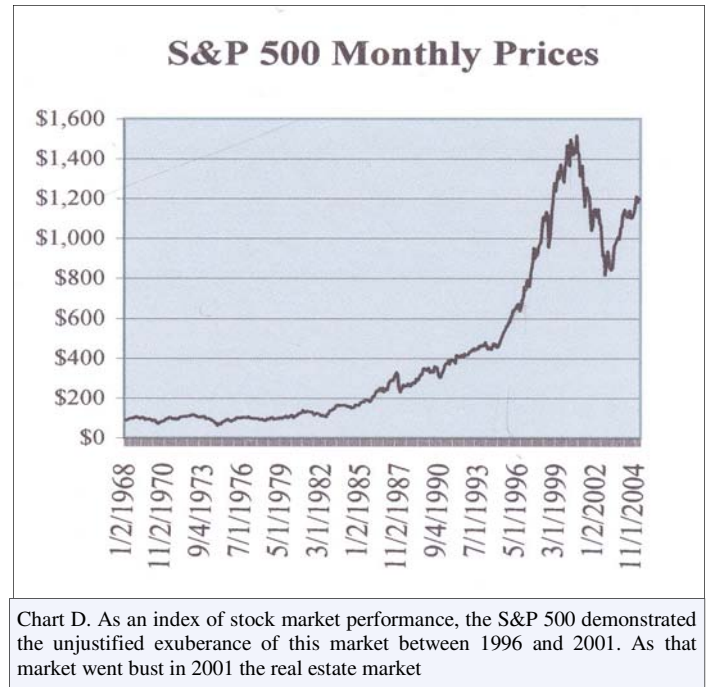


Chart D. As an index of stock market performance, the S&P 500 demonstrated the unjustified exuberance of this market between 1996 and 2001. As that market went bust in 2001 the real estate market

Comment

Like all markets, residential real estate responds to a number of influences regionally and nationally (supply and demand filtered through interest rates, alternative investment opportunities (Chart D), employment and personal income, regional and residential fashions, etc). Our own region, the upper Hudson River Valley, is experiencing a strong boom in real estate, the result of a healthy regional economy ("Tech Valley" being a prime mover) and the desirability of the Valley as a second home haven near to New York City. Both are trends which are less vulnerable to the local employment and population reversals (caused by natural resource or defense busts in the past) which other regions of the country have experienced when they have had busts. We have reason to sleep more soundly than our fears might have let us, thanks to the power of statistics.

Roderic H. Blackburn is the principal of R. H. Blackburn & Associates, Inc.- Real Estate. An anthropologist by training with a career in museums, architectural history, and real estate. He has several books to his credit, including *A Visible Heritage, Columbia County, New York, A History in Art and Architecture* (recently reprinted), and *Dutch Colonial Homes in America* (Rizzoli International Publications, 2002).