



THE REAL ESTATE REPORT

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Get Real: What you can expect to buy (or sell) for how much.

It's February. The holidays are over, and the new real estate season is upon us. Last year's wall flowers are coming back on the market. Withheld properties are now showing up for the first time. Are prices down after the last six months of credit/speculation shock? Are houses selling more slowly? What are realistic prices for houses now? Let's Get Real about what you can expect to sell your house for, or, as a buyer, what you will likely pay for your dream house.

2007 final sales figures

First some statistics: In New York State existing home sales are down about 18% from the height of the market in 2005. The median sale price of existing houses is down 7.2% over the last two years. More locally, the upper Hudson Valley counties are selling fewer houses (more or less equaling the state sales decline of -18%), but median prices have stayed about even over the period. This was also the case in the prior real estate cycle of 1990-2000: median prices did not go down even though the number of sales did. This relative stability of prices is likely a result of the continued interest of New York City residents wishing to own second homes in this region.

Looking at what houses have sold for in our own region, we first note some disparities among counties. Median sale prices for 2007 are: Albany \$200,000; Rensselaer \$180,000; Greene \$171,000; Columbia \$237,500; Ulster \$255,000; and Dutchess \$335,000. The east side of the river has higher prices than the west, and the closer you get to New York City the higher the prices. Keep these differences in mind when looking in published sources (real estate magazines and real property records) for how much your dollar will buy (or sell) for you now.

What influences value

There are other caveats to keep in mind too. Unless you actually visit properties which have sold, it is hard to appreciate what has determined their values, other than the basic descriptive facts of location, house square footage and parcel size. Location has a dramatic effect on value as the old saw "location, location, location" repeats in our consciousness. Next, square footage of finished space has value because it costs \$150-250 (sometimes more) per square foot to build, repair or replace a house. If regularly upgraded and maintained in fine general condition, a house may hold value indefinitely -- if only because the alternative is to pay for a new house. If a house has not been kept up, its value will decrease substantially. The value of land varies widely depending upon location, condition, soil, topography, views, water, and, of course, size. The per unit (square foot or acre) pricing of a parcel is, however, not like the per unit (square foot) pricing of building costs, which remain more or less constant despite increases in size. Rather, the larger the parcel, the lower the price per unit (square foot or acre). This is true because the amount of property area which must be devoted to the house alone is generally small relative to the total parcel; "extra" land is therefore less valuable, unless it can be subdivided and sold.

Lastly, there is the variable of perceived quality -- one of the

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most important variables, but least tangible and least quantifiable. Some buyers are happy with an older house provided it is clean and everything works. Let's call them *functionalists*; they want things to work. Then there are buyers who may love the architectural qualities of newer or older houses, but they can't accept anything that looks aged or out of fashion. They care a great deal about "decorator quality" amenities: stainless steel kitchen appliances, the latest in bathroom features, large open rooms, views, etc. Let us call them *visualists*; their style and quality of living is well above just what is clean and works. For visualists, the house preferences espoused by functionalists are just the beginning.

Visualists are already subtracting \$100,000-200,000 (or more) from asking prices for what they see as necessary to bring a house and its property up to their standards. For this "discount" they will redo the kitchen and bathrooms to high standards; smooth or replace walls which show age (stripping painted surfaces as "necessary"); clean, sand or replace floors as needed; repaint the exterior; and replace all utilities and appliances if these were not up to modern standards, regardless of whether they work. The really high-end visualists will do these things and still more - move walls to open up the living areas, make larger bedrooms and bathrooms, provide a bathroom for each bedroom, even make a first floor master bedroom and bathroom suite by adding a wing. For these homeowners the very top-of-the-line kitchen appliances are expected. Then they add a Jacuzzi, Gunite pool, wine cellar, media center, acres of landscaping, patio, gardens (replaced each spring after the deer maraud them), garage, barns, stable and guesthouse.

My judgment of what you get for your money comes from seeing a lot of houses inside and out, then seeing what they sell for, mostly in Columbia and Greene Counties. There are assumptions built into this calculus: the house is structurally sound and in "livable condition" (even if not updated), the utilities work, and the location is acceptable. With regard to condition, if the real estate ad reads "excellent," realistically it means it is all new or in very good condition. "Very good" means quite livable as is, with possible minor upgrades and surface reconditioning recommended. "Good" does not usually mean what we think; it likely means that it is *not* so good and needs upgrading, repair and redo of surfaces. "Fair" is not fair at all; it means pretty poor, though mostly sound, needing a thorough redo, even gutting. "Poor" means you are taking your life in your hands to enter the door - a shell with structural problems. If you see the word "average" - which is no condition term at all - read "good," which really means, as I have indicated, not so good. Unfortunately those in the real estate business, unlike appraisers, do not have standardized criteria for describing condition.

Let's go shopping. Here is what your dollar will bring in our area:

1. For under \$100,000 (27% of the market): You will find a small house of 700-1500sf (square feet of living area). (As an indication of size, 1500sf used to be the national average for a single family home; now it is 2500sf.) Don't expect much for location or condition. If the location is bad, no rehab will pay for itself. If the condition is bad, you may get your money out in a good market. Today rehabbing cheap old houses for a profit-

able flip are for those who are patient, accepting that perhaps only a distant rising market will bail them out.

2. Under \$200,000 (23%): A newer house (last 50 years) of 1000-1500sf in a subdivision on 3/10 to 1 acre, 2 bedrooms, 1½ baths, in very good condition if not too old. If an older house: 1500-2500sf, likely 19th century, often in town. 2 bedrooms, 2 baths, good to very good condition. If in the countryside, 1-4 acres. If it needs upgrading, it will be under \$150,000; if a real overhaul, then under \$100,000. Last generation's average house.

3. Under \$300,000 (25%): If a new house, 1800-2500sf, 3 bedrooms, 2-3 baths, ½ -5 acres, suburban, 2 car garage, patio. If an old house: 1500-2500sf, 3 bedrooms, 2 baths, ½ -5 acres, in town or in country, very good condition. \$237,000 is the median price of houses selling in Columbia County in 2007 (coincidentally exactly the same for the state as a whole). Note, three quarters of all house sales in our area are below \$300,000.

4. Under \$400,000 (10%): Newer: 2500-3300sf, 3-4 bedrooms, 3 baths, 2-10 acres, country location. Older: 2500-3300sf, 3-4 bedrooms, 3 baths, 2-10 acres, country location. An example would be a house of 3000sf, 4 bedrooms, 3 baths, 5 acres, country location selling for \$450,000. (On all these selling prices, the original asking price may have been 10-20% higher.) At 2500sf these are the national average size of house. At this price we begin to see in-ground pools.

5. Under \$500,000 (5%): Newer: 2500-3300sf, 3-4 bedrooms, 3 baths, 2-10 acres, country location. Older: 2500-3300sf, 3-4 bedrooms, 3 baths, 2-10 acres, country location. Example: 3000sf, 4 bedrooms, 3 baths, 5 acres, country location for \$450,000.

6. Under \$750,000 (5%): Newer: 2800-3500sf, 3-4 bedrooms, 3-4 baths, 5-10 acres. Example: 3200sf, 4 bedrooms, 4 baths, 5 acres for \$570,000. Older: 2500-3200sf, 4 bedrooms, 3 baths, 5-15 acres. Example: 3000sf, 4 bedrooms, 2 baths, 10 acres for \$618,000. It is at this level that visualists begin to find houses they can turn into their ideal homes.

7. Under \$1,000,000 (2%): Newer: 3000-4000sf, 3-5 bedrooms, 3 baths, 10-80 acres. Example: 4000sf, 4 bedrooms, 3 baths, 30 acres for \$765,000. Older: 3500-4500sf, 3-5 bedrooms, 3 baths, 10-80 acres. Example: 4000sf, 4 bedrooms, 4 baths, 47 acres for \$905,000. At this level buyers begin to acquire larger parcels of land. If ten acres will give you privacy, 20 to 80 acres can give you isolation.

8. Under \$1,500,000 (1%): Newer: 3500-4500sf, 4-5 bedrooms, 4-5 baths, 15-40 acres. Example: 4200sf, 4 bedrooms, 5 baths, 20 acres for \$1,350,000. Older: 3000-6000sf, 4-5 bedrooms, 3-4 baths, 20-80 acres. Example: 3000sf, 4 bedrooms, 3 baths, 33 acres for \$1,250,000. If not a lot of acres, at this price expect a high-end renovation inside. Expect to see heavy expenses on landscaping around the house, pool, cabana, patio etc.

9. Under \$2,500,000 (1%): Newer: 3500-4500sf, 4-5 bedrooms, 4 baths, 15-60 acres. Example: 4500sf, 5 bedrooms, 4 baths, new barns, 15 acres for \$1,600,000. Older: 2800-3800sf, 4 bedrooms, 3-4 baths, out-buildings, 10-360 acres. Example: 3800sf, 4 bedrooms, 4 baths, guest house, gardens, all the upgrades for \$1,600,000. Here comes the really extravagant extra acres, buildings, life-style pleasures. These tend to be newer houses located for dramatic views, water, or both.

10. Under 3,500,000 (4/10 %): Newer: 2200-5500sf, 3-4 bedrooms, 3-5 baths, 50-150 acres. Example: 5500sf, 4 bedrooms, 5 baths, 74 acres for \$3,300,000. Older example: 7000sf, 6 bedrooms, 4 baths, 174 acres for \$3,620,000. How many rooms and acres do you really need? At this level impulse and caretakers take over. Stables and an indoor riding ring are affordable.

New trends in housing

Ten years ago all these prices were half what they are now. With average incomes going up 3% a year, it means downsizing is or will soon become a trend for lack of means, not just empty nesting. Despite the attention drawn to higher priced houses, the market for those over \$750,000 is really small, less than 5% of all houses sold in this region. Of all houses for sale about 14% are above this figure, a prescription for slow sales).

Another conclusion: my impression is that, for our *MMM - major market makers* (read Big Apple) - the magic tilting point between houses which are unacceptable and those which are large enough, have appealing character and condition, and have the required "basic" bells and whistles is at the \$600,000 level. Below that figure, even though 93% of all house sales are there, the ideal house is not likely to be found because of at least one of these major and insoluble issue: lack of privacy, annoying road noise, an undesirable neighborhood, or a structure not conducive to renovation to contemporary visualist standards.

The upper Hudson River Valley real estate market has been primarily driven by the MMM, at least since the Thruway was built in the 1950s and the Taconic Parkway was extended up to this region in the 1960s. Yet the "ideal house" of that market constitutes only 7% of all sales. How can the tail wag the dog? It happens because, in a strong real estate market (2000-2005), there is strong competition for the most desirable "visualist-quality" houses, those now at \$600,000 or so, which raises prices as buyers outbid each other. There are just not enough of the "right" houses available. Yes, builders add more each year, but often don't design them just right. Even land buyers who commission homes for themselves often don't design them to be perfect for later resale.

Today, in the middle of a slump in house sales (if not price levels), there are buyers who are having a hard time finding existing houses which meet their standards, new or old. So many older houses fail to meet current standards and are often not conducive to renovation or additions which will. In the future I expect to see a new generation of smarter builders and sensitive architects who will carefully cater to the visualist ideal and built stylish, energy-efficient "green" houses (modern or period style) in the best private locations, designed in sympathy with their local environment, having stunningly comfortable (visual and physical) interiors. Where for centuries we enjoyed a perfection of classical design, we can now raise the cacophony of 20th century experimentation to a new cultural consensus in home design. Take a fresh look at, for example, at Frank Lloyd Wright's lovely Usonian houses.