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ECONOMIC PERSPECTIVES

A BROADER LOOK AT HOUSING AFFORDABILITY

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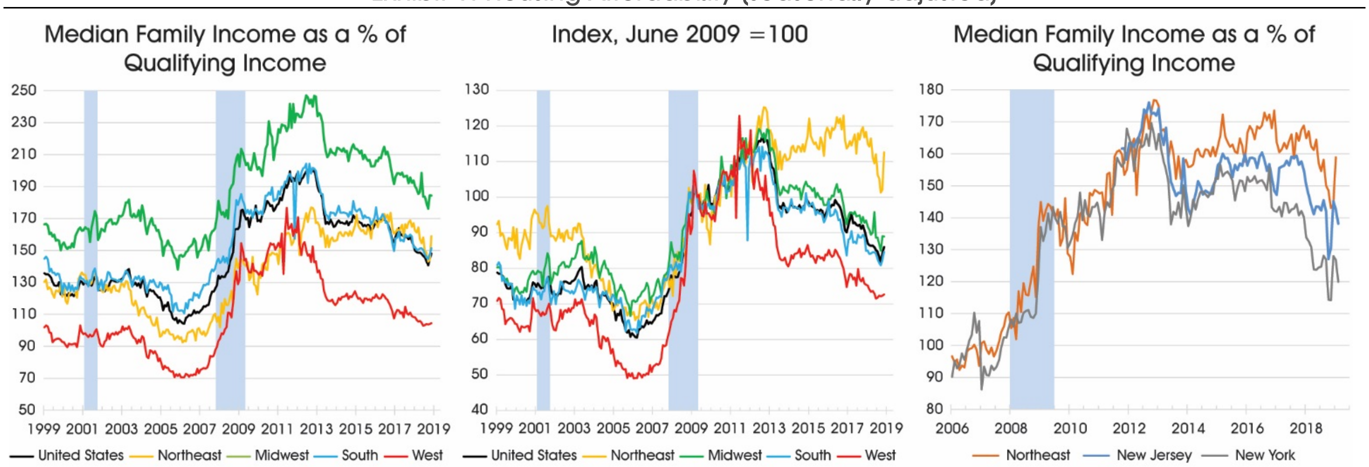
HIGHLIGHTS:

- *Housing affordability fell across the U.S., but held up comparatively well in the Northeast*
- *Housing opportunity gauges provide an alternative way of looking at the affordability issue*
- *Proportion of homes on the market accessible to median income earners declined in FHLBNY district*
- *An increasingly limited portion of local housing market accessible to low-income earners*

HOUSING AFFORDABILITY FELL ACROSS THE U.S., BUT HELD UP COMPARATIVELY WELL IN THE NORTHEAST

When considering the outlook for residential real estate in the United States, the same factors are often cited as constraining sales: record nominal purchase prices, tight inventories, particularly for lower-cost dwellings, increased construction costs and stringent building regulations. Housing affordability indexes measured as median family income as a percentage of qualifying income have generally been trending lower from the Great-Recession peaks experienced in 2012, but regional experiences have varied widely (see Exhibit 1, left). Nationwide affordability in January, as measured by this metric, stood 26.7% below its October 2012 top. The peak-to-present changes in housing affordability in the Midwest (-25.4%) and in the South (-25.9%) have been similar to the country as a whole. Soaring home values in the West have closed the gap between median family and qualifying incomes in that region by almost 41% to a mere 4.5 percentage points at the beginning of the year. On the other end of the spectrum, housing affordability in the Northeast has eroded by a comparatively small 10.1%, with median family income in the area eclipsing qualifying income by roughly 59 percentage points. Indeed, if we look at housing affordability across the four Census Regions since the economy bottomed in June 2009, only the Northeast has experienced an improvement (see Exhibit 1, center). Detailed local data imply that housing affordability has held up well in the Northeast because of developments in New England and Pennsylvania. While still well above the breakeven 100% mark, housing affordability in both New Jersey and New York remains well below the regional average (see Exhibit 1, right).

Exhibit 1: Housing Affordability (seasonally adjusted)

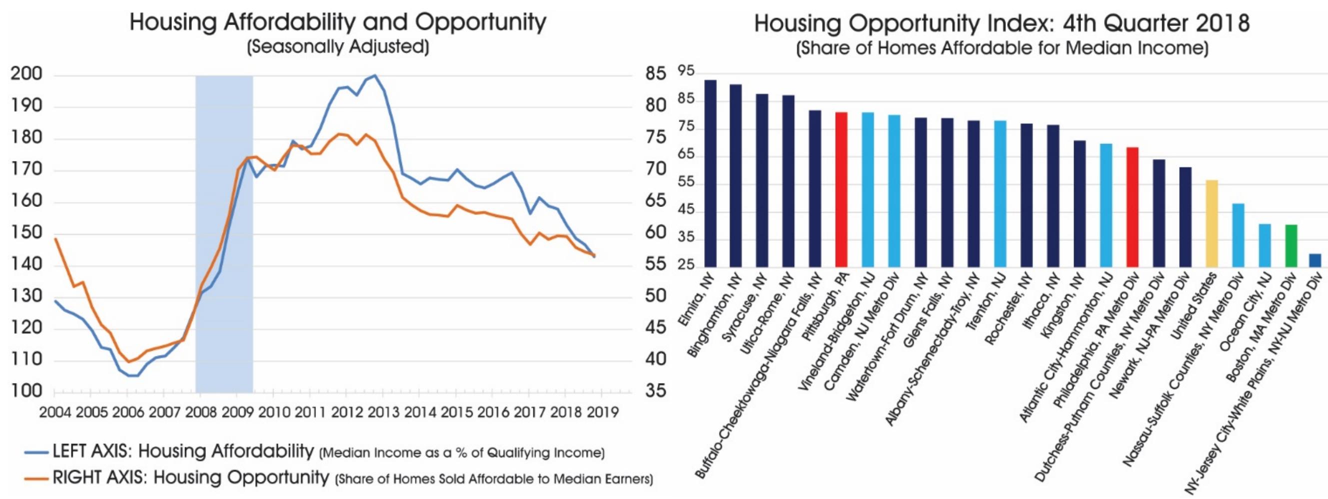


Note: Shaded areas denote recessions. Sources: National Association of Realtors, NJ Realtors, New York State Association of Realtors and FHLBNY estimates.

HOUSING OPPORTUNITY GAUGES PROVIDE AN ALTERNATIVE WAY OF LOOKING AT THE AFFORDABILITY ISSUE

Housing affordability indexes are essentially financial comfort barometers that provide no information on the array of choices available to potential buyers. Housing Opportunity Indexes (HOI) constructed by the National Association of Home Builders attempt to fill that void. Defined as the share of homes sold in a given area that would have been affordable to median income earning families using standard mortgage underwriting criteria, they provide an alternative way of looking at the interaction of income and housing cost. Housing opportunity during the current expansion peaked at 75.5% during the winter of 2012, with affordability reaching a top by fall of that year (see Exhibit 2, left). As of the final quarter of last year, median-income families could purchase 56.8% of the dwellings on the market. As is the case with a variety of economic variables, housing opportunity has varied widely across the majority of the FHLBNY coverage area (see Exhibit 2, right). Earning the median income of $71,000 in Elmira, NY, for example, made a family eligible to purchase 92.7% of the homes on the local market over the final three months of 2018. By contrast, those earning a slightly larger $78,000 in the New York-Jersey City-White Plains, NY-NJ Metro Division would be able to consider buying just 29.9% of the dwellings available for sale. For reference, median income earning families in Pittsburgh and Philadelphia were able to consider purchasing 81.1% and 68.4% of their respective fourth-quarter housing stocks, while residents in Boston could access just 40.5%.

Exhibit 2: Looking at Housing Availability Through a Supply Side Lens

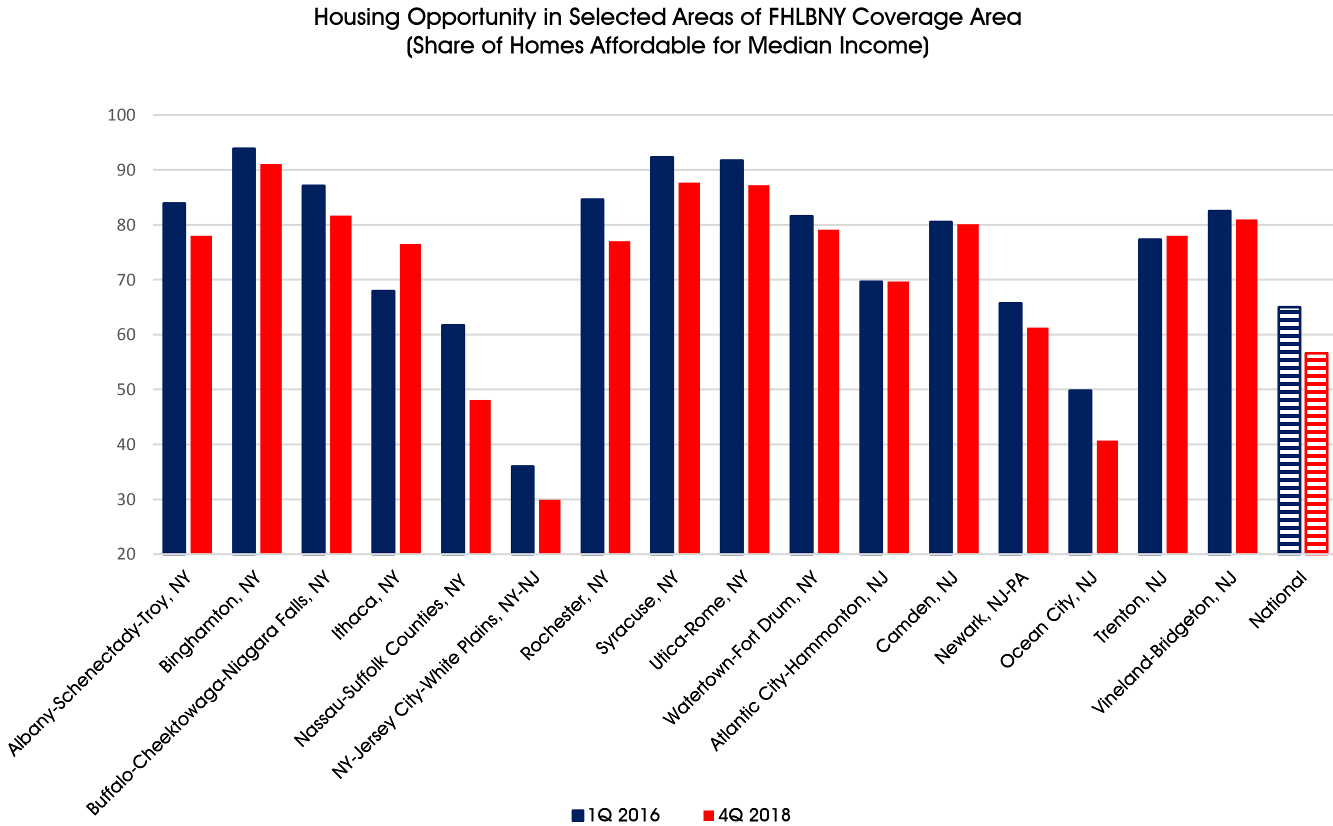


Note: Shaded area denotes recession. Sources: National Association of Home Builders and National Association of Realtors.

PROPORTION OF HOMES ON THE MARKET ACCESSIBLE TO MEDIAN INCOME EARNERS DECLINED IN FHLBNY DISTRICT

The proportion of the available stock of homes on the market accessible to families earning the median income in the United States dropped from 65% during the winter of 2016 to just 56.6% last fall. With few exceptions – Atlantic City-Hammonton, Trenton and Ithaca – major areas of the FHLBNY district followed suit (see Exhibit 3 below). Nassau and Suffolk counties of New York experienced the largest absolute decline in housing opportunity over that time span, with median income earnings families now able to afford just 48.1% of the local supply of homes, down from 61.7% in the first quarter of 2016. Binghamton (91.1%), Syracuse (87.7%) and the Utica-Rome area (87.2%) offered the greatest opportunity to prospective buyers in the Empire State at the end of 2018. In the Garden State, median-income earners enjoyed the widest accessibility to housing in the Vineland-Bridgetown area (81%), Camden (80.1%) and Trenton (78%).

Exhibit 3: Housing Opportunity Narrowed Nationally and Locally Since Beginning of 2016



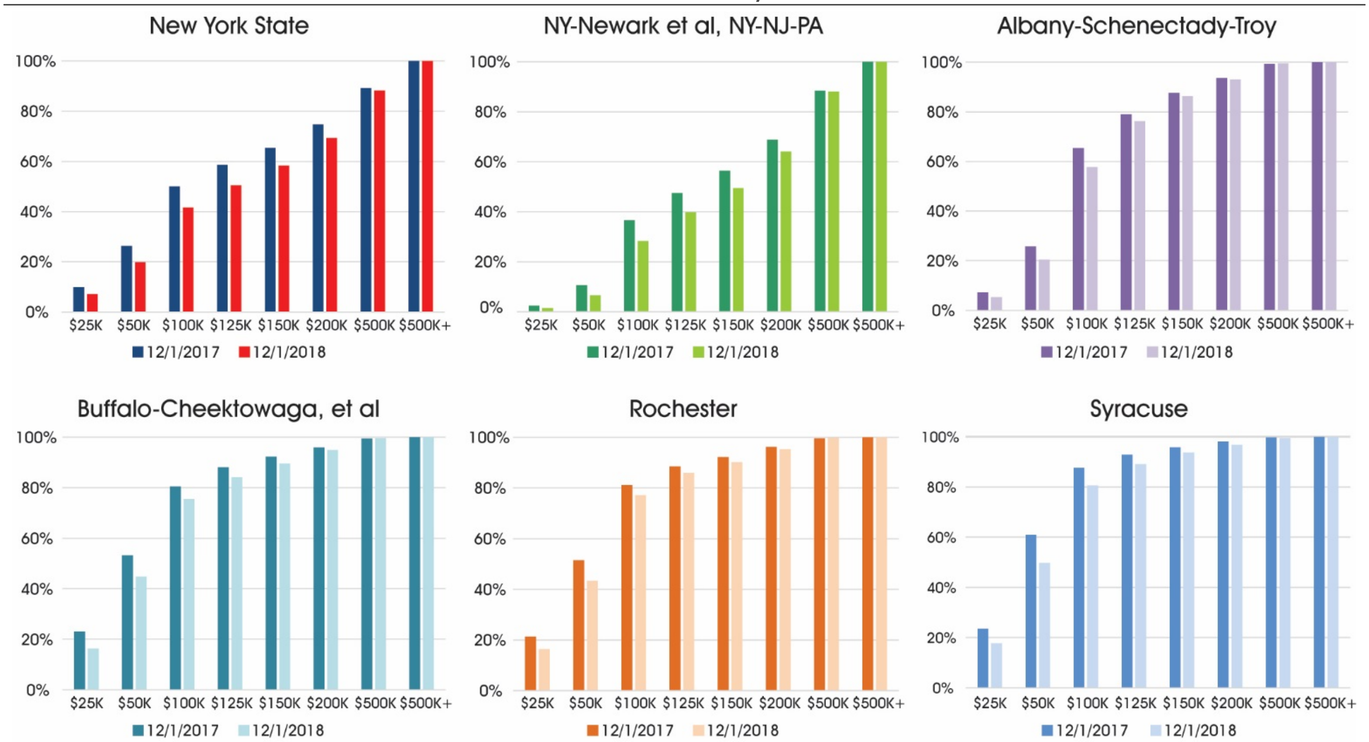
Source: National Association of Home Builders.

AN INCREASINGLY LIMITED PORTION OF LOCAL HOUSING MARKET ACCESSIBLE TO LOW-INCOME EARNERS

Housing affordability and opportunity indexes provide useful information on developments at the center of the family earning distribution, but are little use in determining how tight or easy current market conditions are for particular income segments. Fortunately, the National Association of Realtors has assembled monthly data on housing affordability at different income levels for all active inventory on the market in the 100 largest metropolitan areas. The main conclusions from data available for portions of the FHLBNY coverage area:

housing opportunity narrowed over the course of 2018, with lower income families generally experiencing the largest declines (see Exhibit 4). In New York State, the percentage of homes on the market that could be considered by those earning $100,000 or less dropped from 50% at the end of 2017 to 41.6% last December. Families with similar incomes in the NY-Newark et. al. area saw the share of available homes in their price range fall by 8.4 percentage points to just 28.3% last year. While considerably higher than the statewide average and metro New York City area shares, upstate regions also experienced significant declines in the proportion of their local housing stocks accessible to those of comparatively modest means. The aforementioned highlights the importance of initiatives such as the FHLBNY's First Home Club℠, now the Homebuyer Dream Program™, in assisting low- and moderate-income individuals/ households in achieving their goal of home ownership.

Exhibit 4: REALTORS® Affordability Distribution Curves



Source: National Association of Realtors.

QUESTIONS / COMMENTS?

The *Economic Perspectives* newsletter is authored by the FHLBNY's Financial Economist, Brian Jones. Contact your Relationship Manager at **(212) 441-6700** to discuss the information shared in this newsletter and any potential business opportunities with the FHLBNY as your partner.