A Three-County Regional Housing Needs Assessment:

Ulster, Orange and Dutchess Counties From 2006 to 2020

Ulster County Data Only

June 2009

Prepared By the Planning Departments of Ulster, Orange and Dutchess Counties of New York

With Project Consultation from Economic & Policy Resources, Inc.

About the Study

This housing needs assessment study was initiated in the Summer of 2007 and was completed over the course of one and a half years. The Planning Departments of Ulster, Orange and Dutchess Counties decided to pursue a joint housing needs assessment due to the strong regional economic linkages between the Counties and the shared housing affordability challenges. The three Counties are inextricably linked through their relationship with the New York City Metro area, which brings both benefits (in terms of employment and business opportunities) and costs (through higher living expenses, transportation challenges, and an influx of new residents from the New York City area).

The Counties also share similar challenges in meeting the affordable housing needs of their residents, an issue that was exacerbated by the housing market expansion from 2000 to 2006. As house prices increased rapidly during this period, household incomes also increased but not at a rate fast enough to keep pace with house prices. The regional economy has also been challenged to adapt with a changing global economy, in which workers in the three Counties are competing not only with workers in other states, but also with workers in other countries and dramatic technological improvements. Manufacturing job losses in the region have been offset with job gains in the services sector, but these service sector jobs typically pay lower wages.

The three Counties also share the common experience of planning and developing transportation corridors suitable to meet the needs of regional commuters, both those traveling between the counties and for those who work in the New York City area. A substantial number of workers commute to jobs outside of their respective home County: 33.5% in Ulster County, 34.5% in Orange County, and 30.8% in Dutchess County, according to the 2000 Census. Coordinating what has been described as a fragmented transportation system, has become a priority of regional planning leaders, and also has implications for future affordable housing needs.

This study represents an effort to develop a regional mindset in addressing housing affordability issues in the three Counties, encouraging elevated and more informed discussion, and joint planning where commonalities make coordination logical. However, recognizing that differences between the counties exist, such as geography, planning priorities and local regulations, it is also important to note that each of the Counties will likely find that solutions work with different degrees of success, and no single approach to address housing affordability issues is recommended in this study.

In October of 2008, the New York State Division of Housing and Community Renewal (DHCR) released the Mid-Hudson Regional Report, a section of the overall Statewide Affordable Housing Needs Study. The report consisted of a series of focus group discussions with community stakeholders and housing

advocates from the three Counties covered in this study, plus Putnam and Sullivan Counties. The timing of the release of the DHCR report is rather fortunate, as it served as an appropriate preface to this needs assessment study. The DHCR report offered a *qualitative* view of affordability challenges in the region, including comments and observations on housing quality and conditions, diversity in the housing stock, and local community resistance to affordable housing development (also referred to as the NIMBY attitude, or Not In My Backyard). This housing needs assessment study completed by Dutchess, Orange and Ulster Counties is *quantitative* in content and can serve to supplement the DHCR report by providing local planners and decision makers with data, and where little or no data exist, carefully developed and thoroughly vetted estimates were made.

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Executive Summary

Some of the region's residents in Dutchess, Orange and Ulster Counties are currently experiencing housing affordability challenges. The housing market expansion that began in the late 1990s and continued to 2006 contributed to the current housing affordability situation. During that time period, house prices grew at average rates of approximately 10% per year, while median household income grew at less than 4% per year. The three Counties also experienced substantial in-migration from the New York City area, as New York City residents sought cheaper, and for some safer, housing outside of the immediate metro area. Finally, another factor contributing to housing affordability issues in the region is community resistance to, and negative perceptions surrounding, affordable housing development.

This Regional Housing Needs Assessment (RHNA) examined the current need for affordable housing in the 3-County region, using 2006 as the base year (the last full year of data available at the beginning of the study). Forecasts were also made of the expected need for affordable housing over the study period from 2006 to 2020. After quantifying the need for affordable housing, an estimate was made for the number of affordable units that each County will need to construct from 2006 to 2020 in order to address the current and expected affordable housing needs. The quantitative analysis was conducted by tenure category, for owners and renters, and also by income category relative to the County median household income – 50%, 80%, 100% and 120% of median household income for each respective County.

The recent downturn in the U.S. housing market, which began to play out as this RHNA progressed, played an important role in the analysis. The economic and demographic forecast, a foundation piece for the assessment, accounted for events in the housing market and the broader U.S. recession. The forecast expects a period of restrained growth and declining or flat house prices out to 2010. House price declines are expected to alleviate some affordability pressures in the 3-County region, but not to the same extent that the price run-up added to those pressures. Therefore, despite some temporary relief in the near-term, affordability pressures are expected to continue to burden residents in the 3-County region over the time horizon of the RHNA, or through to 2020.

Overall, it is estimated that in 2006 Ulster County had an affordability gap of 15,953 units (10,696 owner and 5,257 renter) in 2006, which is expected to increase by 6,079 units by 2020. Ulster County could construct 6,624 units by calendar year 2020 in order to begin to address the affordability gap faced by its residents. This portion was derived based on the demographic trend of a declining average household size, and the additional pressure that is placed on the housing stock as a result of this trend in all three counties.

While the construction of affordable units in the 3-County region would represent a strong initial step towards alleviating affordability pressures, it is just one way to help alleviate affordable housing pressures. The construction of additional units is a supply side approach, but likely needs to be part of a broader strategic effort to make housing more affordable for the region's residents. Such a strategy should include, demand side initiatives as well. A demand side approach may consist of facilitating the creation of good-paying jobs as a way to assist the three counties' households to be able to afford housing. A singular supply or demand side approach would not likely garner the type of consensus needed for the three counties to take significant action and effectively meet the estimated affordable housing need of their residents, either currently or as those needs are likely to grow over the next 11 years.

1. Introduction

Dutchess, Orange and Ulster Counties are currently experiencing housing affordability challenges for some population groups and household income categories. This is true even though the country went through a housing friendly period marked by the lowest mortgage interest rates in more than 40 years. The national home ownership rate peaked in 2004, when 69% of American households owned their home, although this rate has since decreased, and it remains historically high.

Strong demand for owner housing, in part in response to the extended period of exceptionally low mortgage interest rates, has in recent times outpaced the ability of developers to add units to the inventory. This demand has forced up single family home prices at a much faster rate than household income. Also, few of the new units delivered to the housing stock by the market have been targeted toward low and moderate income buyers. This has created an imbalance between household income growth and home prices that continued until 2006. The housing market began to slow in 2007, with house sales and prices declining in the first half of 2008. Since the beginning of 2008, the national housing market has undergone a "correction" with price declines in many of the major markets of the county, with some declines exceeding 25% from peak prices in 2006.

The economic and housing market factors are further exacerbated in the counties by the presence of community resistance to compact and affordable housing development. This resistance is often tied to perceptions, both correct and incorrect, about the associated municipal cost increases and negative impacts on property values in neighborhoods where such compact and affordable housing development is planned and constructed.

Another factor influencing housing prices in the 3-County region is the phenomenon of in-migration from areas to the south, closer to New York City. As housing prices increased nationally during the 1990s and early 2000s, the New York City area was also affected. According to government figures, housing prices in the New York metropolitan area increased by about 275% from 1995 to 2006 and the metro region is one of the most expensive places to purchase a home[1]. As housing costs rose in New York City and its immediate suburbs, many residents decided to move farther away in search of more affordable home prices, many of them to the 3-County region. These new arrivals have created increased demand and encouraged additional units to be built, however the newly built units were for the most part affordable only to those newly-arrived, higher income residents. As a result, the share of housing units available at prices affordable to low and moderate income county residents has decreased.

PT[1] From the Office of Federal Housing Enterprise Oversight (OFHEO); According to the National Association of Realtors, the New York-Wayne-White Plains metropolitan area had a median home price of $539,000 in 2006, ranked fifth highest in the nation.

The costs of home ownership in the 3-County region have risen significantly over the last seven to eight years, with the median sale price of a single family home increasing by about 140% or more since 1996 in all three of the counties[2].

- **Dutchess County**: The median single family home sales price rose from $135,000 in 1996 to $330,000 in 2006, an increase of 144%, or 9.3% per year. Substantial percentage increases, in the double digits, began in 2001 and continued until 2005. While there was some variation in this trend at the municipal level, most of the 22 municipalities followed this pattern of relatively flat or slightly increasing prices through the 1990s, and then sharp price increases beginning in 2001.

- **Orange County**: The median single family home price in Orange County increased from $124,900 in 1996 to $298,500 in 2006. This represents a 139% increase overall, or an average annual increase of 9.1%. Again, the data show that prices at both the county and municipal level began to increase sharply around 2001.

- **Ulster County**: House prices in Ulster County followed a similar trend over the same time period: the median single family home price increased from $95,000 in 1996 to $244,665 in 2006. This is an increase of 157% over the 11 year period, or 9.9% per year. For 20 of the county's 22 municipalities, trends mirror those in Dutchess and Orange Counties.

[2] Median prices are calculated using NY ORPS data. The prices differ from published NY ORPS figures due to the inclusion of condo units in the medians reported here, while condo units are excluded from the calculation of NY ORPS medians.

2. Assessing Housing Affordability

2.1 Affordability Calculations

The affordability analysis presented in the RHNA is based on U.S. Department of Housing and Urban Development (HUD) guidelines. Owner occupied housing is affordable if not more than 30% of a household's gross income is spent on a mortgage payment, utilities, taxes, and insurance.[3] For renter units, the HUD standard is that no more than 30% of a renter household's income should be spent on rent and utilities (including fuel for heat, hot water and cooking, electricity for lights, water and waste water charges, and trash removal).

An affordable house price was determined through the following steps: an affordable monthly housing payment was calculated by dividing median annual household income by 12 and then multiplying by 30%, following HUD guidelines. Insurance costs and property taxes were estimated and deducted from this affordable monthly housing payment, resulting in an amount available to "affordably" pay a monthly mortgage. Based on this affordable mortgage payment, an affordable house price was calculated assuming a fixed interest rate, a private mortgage insurance rate, and a 30-year loan term. These calculations allowed us to determine the value of a house that could be purchased, given a certain income level, without a household being housing-cost stressed.

Tables 3 below, shows calculations of affordable home prices by income group, displaying the median house price the resulting affordability gaps in price (the difference between the median house price and the affordable house price for each respective income category). Clearly, many households had to choose between either foregoing a house purchase, or going ahead with a purchase but almost certainly becoming housing cost-stressed, that is, making housing payments that exceeded the 30% threshold.

The affordability analysis for Ulster County yielded the following results. The affordable mortgage payment for a household earning 120% of median household income was $1,022. The household was still short of the county median house price by about $73,000 and only 21.3% of the total house sales were at or below the affordable price. As with the other counties, the affordability gap increased for the lower income groups and the percentage of houses available to them at or below their affordable price decreased. Again, only 3.5% of houses sold could have been affordably purchased by households earning 50% of the median household income or less. On the renter side in Ulster

[3] Consistent with the consensus of the study technical review committee, owner utility costs were not included in the owner affordability calculations in order to remain consistent with guidelines for some federal and state housing programs. Utilities were included in the calculations of the affordable rent.

County, only the lowest income group had an affordable rent that was less than the median rent, similar to the other two counties, however in Ulster the dollar gap was greater by more than $60. Again, as in the other Counties, for income categories at or above 80% of median household income, the affordable rent was sufficient to pay the median rent in the County.

Table 3. Ulster County Estimated Affordable Home Price/2006 Profile of Affordable Home Sales

Percent of Median Household Income	A 50%	B 80%	C 100%	D 120%
Annual Household Income	**$26,174**	**$41,878**	**$52,348**	**$62,818**
Monthly Household Income	$2,181	$3,490	$4,362	$5,235
% of Income for Payments	30.0%	30.0%	30.0%	30.0%
Affordable Mortgage, Property Tax and Insurance Payments/Month	$654	$1,047	$1,309	$1,570
Insurance	$29	$46	$58	$70
Taxes	$155	$248	$310	$372
Private Mortgage Insurance (@ 0.78%)	$44	$71	$88	$106
Mortgage Payments (@ 6.41%)	$426	$682	$852	$1,022
Affordable Home Price (2006)	$71,607	$114,572	$143,215	$171,858
Median Price Home (2006)	$244,665	$244,665	$244,665	$244,665
Affordable Price-Difference from Median	($173,058)	($130,093)	($101,450)	($72,807)
Home Sales Priced At or Below the Median Price	67	134	219	405
Percent of the Total (1904 Total Single Family Sales)	3.5%	7.0%	11.5%	21.3%

Prepared by Economic and Policy Resources, Inc

Table 3a. Ulster County Estimated Affordable Rent, 2006

Percent of Median Household Income	A 50%	B 80%	C 100%	D 120%
Annual Household Income	**$26,174**	**$41,878**	**$52,348**	**$62,818**
Monthly Household Income	$2,181	$3,490	$4,362	$5,235
% of Income for Rent and Utilities	30.0%	30.0%	30.0%	30.0%
Affordable Renter Payments/Month (Rent Plus Utilities)	$654	$1,047	$1,309	$1,570
Monthly Utility Expense (Excluding Telephone)	$81	$96	$97	$97
Monthly Affordable Rent (Excluding Utilities)	$574	$951	$1,211	$1,473
Estimated 2006 Median Rent	$738	$738	$738	$738
Affordable Rent Gap	($164)	$213	$473	$735

Prepared by Economic and Policy Resources, Inc

This analysis was repeated for each city and town of the three counties, factoring in each municipality's property taxes, median income, median house price, and assumed insurance rates and utility costs across municipalities. The analysis allowed an affordable house price and rent to be identified by income level for each municipality, and for the determination of the number of sales at or below each income group's affordable price on the owner side.

2.2 Housing Wage Analysis

This section provides a brief description of a supplemental housing wage analysis that was completed in order to connect the abstract concept of housing affordability to the region's labor market. Earnings in selected job sectors in the 3-County region were compared to the earnings necessary to affordably own a median priced house, or pay rent on a 2-bedroom apartment. Data from the Bureau of Labor Statistics' Quarterly Census of Employment and Wages (QCEW) are used in the analysis, and allow for comparison between average earnings in various sectors of the regional labor market and the income necessary to avoid housing burden, or the housing wage.

The analysis shows that in each of the three counties, the average wages in some major job sectors were not sufficient to affordably purchase a median priced home for a single earner household. Therefore, multiple wage earners would be needed in these sectors. The difference between the average wage and the housing wage is especially apparent on the owner side in the Accommodation and Food Services and Retail Trade Sectors. These sectors pay wages that would require a household to have seven wage earners in the household in Dutchess and Orange Counties, and five wage earners in Ulster County. The gaps in the average wage and housing wage are also apparent on the renter side, but to a lesser degree.

2.3 Special Analysis: SWOT Interviews

As part of this RHNA, a Strengths, Weaknesses, Opportunities, and Threats assessment (or what is commonly known as a SWOT) was conducted. Key regional stakeholders active in housing issues were identified in each county by the respective County Planning Departments. The interviews were conducted during late October-early November 2007. Those selected for interviews involved a broad range of participants in the regional housing arena including local government officials, non profit administrators, and private developers. The objectives of these interviews were: (1) to obtain a "reality check" on the data our analysis team had assembled, (2) to get a face to face description of the facts and nuances of the situation "on the ground" including any possible constraints and/or opportunities, (3) to identify notable constraints to housing development in the region, and (4) to solicit ideas and insights to the housing market issues and identify housing market opportunities that could be of use following the completion of this RHNA.

While there are many findings of note in this SWOT analysis, one general finding came clearly through from the interview process. SWOT respondents in various ways indicated that although the three County governments, several competent non-profit agencies and several private developers in the region understand the problem and are willing to take action, only a few of the municipalities outside of

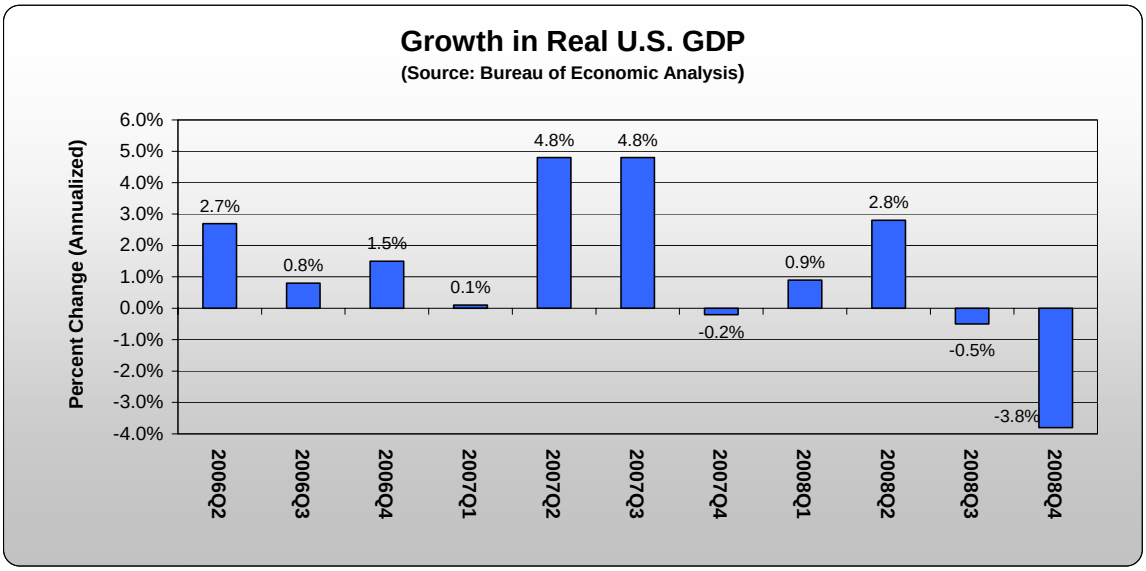
the region's cities have shown a willingness to undertake necessary actions to address the region's housing challenges. This condition will likely act as a general impediment to the development of housing in at least parts of the 3-County region.

The final part of this SWOT assessment included the development of an inventory of ideas from stakeholders that could be used to jumpstart the development of an action agenda. Among the key necessary actions identified by SWOT respondents to address the regional housing challenges included: (1) housing-friendly adjustments to land use regulations, and (2) critical direct capital spending that would permit and/or encourage the development of housing that is affordable at the price points in the range of need identified by this assessment study.

3. U.S. Economic Outlook

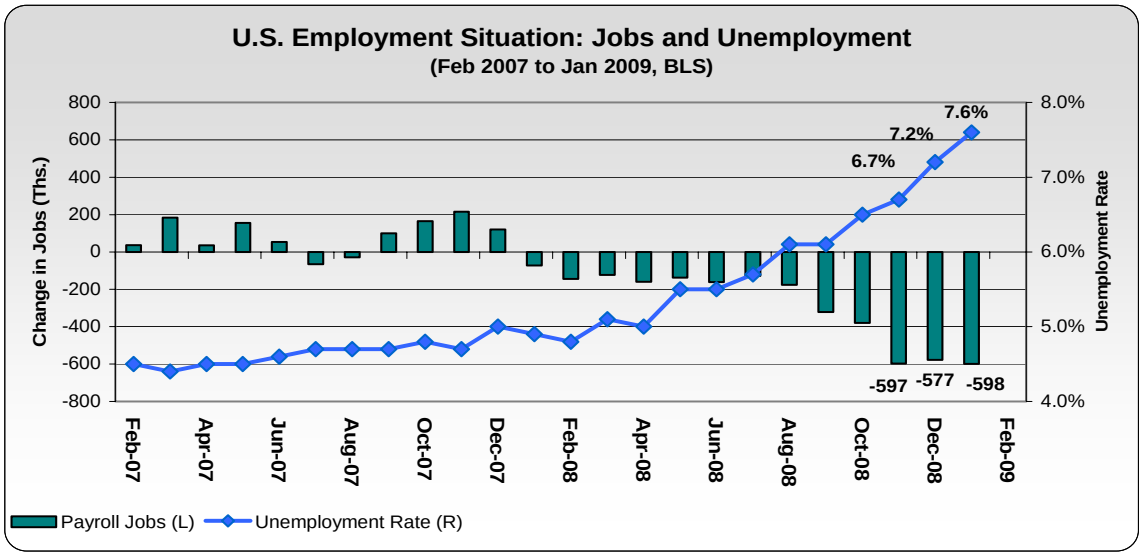
This RHNA began in late summer of 2007, just as the U.S. economy entered the current downturn. In December of 2008, the National Bureau of Economic Research (NBER) officially determined that the U.S. recession began in December of 2007, and as of February 2009, has lasted for 14 months. Several factors will be discussed in this section, including: (1) the recent downturn in many regional housing markets and throughout the country, (2) the tightening of credit market that has made credit more expensive and more difficult to obtain, and (3) volatile energy prices that have squeezed household budgets and added significantly to business costs .

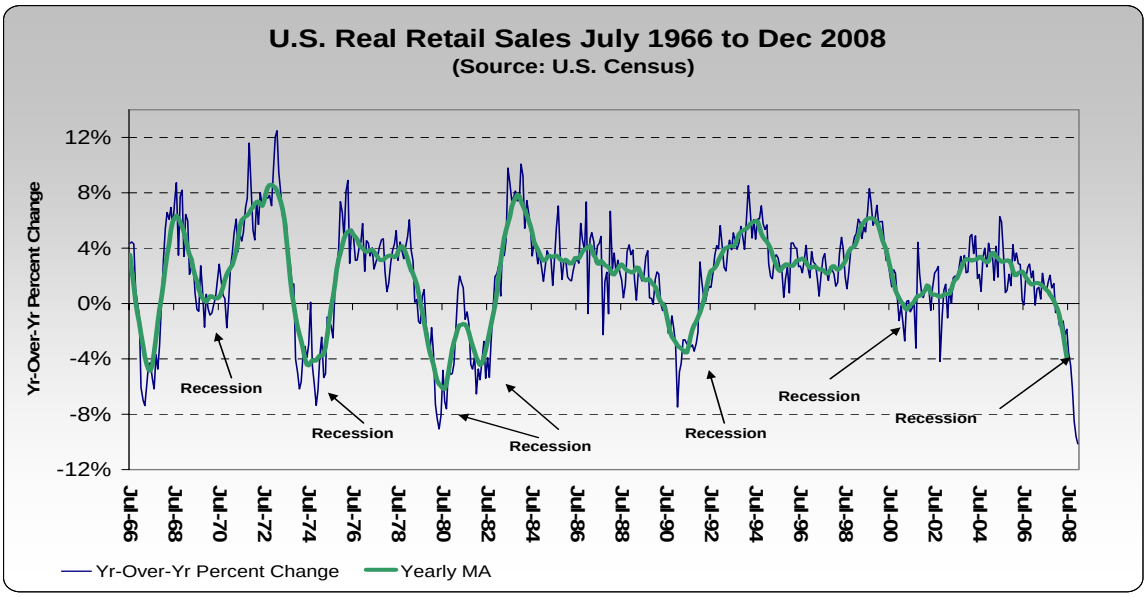
Since the fall of 2007, virtually all major economic indicators corresponding to the performance and health of the U.S. economy have deteriorated. The government reports that the country's overall economic output has been weak over the last year, with the exception of the second quarter in 2008—which was aided by substantial government rebate checks . Gross Domestic Product (GDP), declined in the last quarter of 2007 at an annual rate of 0.2% from the previous quarter. Figures on GDP growth are shown in the graph below, indicating weak growth in first quarter, stronger growth in the second quarter (aided by the rebate checks), and declines in the third and fourth quarters.



In addition to the weak GDP numbers over the last 4 quarters, most other indicators were only weakly positive and in most cases negative. In the latter category were declines in payroll jobs, retail sales, and the national housing market that in many ways is going through its worst downturn since the "Great Depression" of the 1930s. U.S. employers shed over 2 million jobs in 2008, driving up the unemployment rate to 7.2%. Retail sales have been weak in nominal terms, but when accounting for inflation, real retail sales have actually

been negative for the past 9 months versus the same period the previous year (see the chart below). This is an indication that households and consumers are under increasing budget pressures–a troubling sign as roughly 70% of the nation's economy is tied to personal consumption.



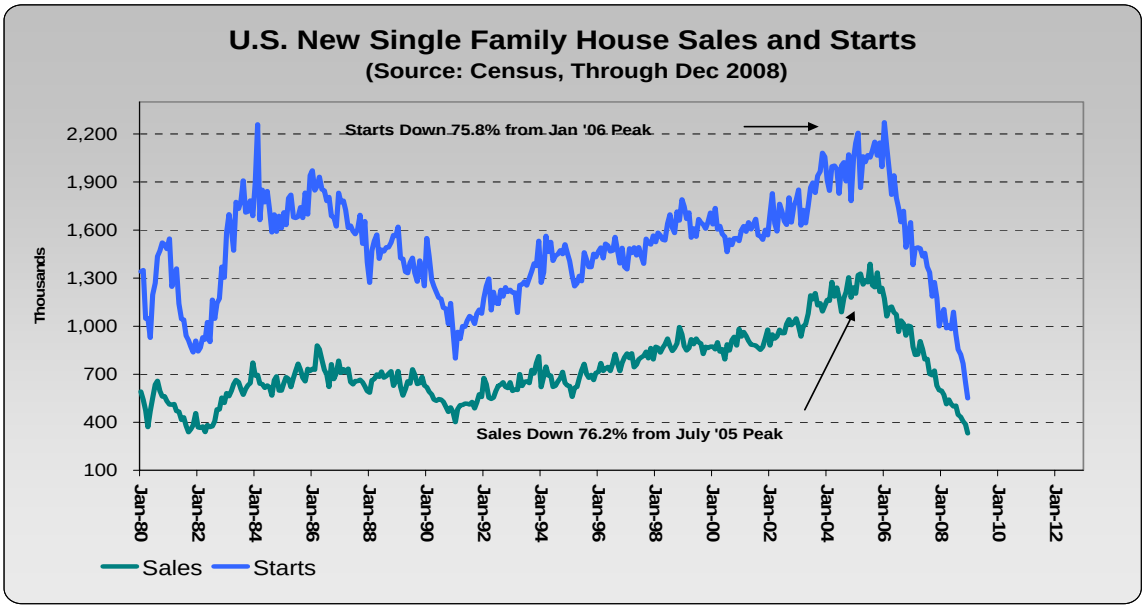


3.1 The U.S. Housing Market and the Economy

Nearly all of the economy's current problems have roots in the housing sector and the ripple effect the housing market decline has had throughout the economy. The decline in house prices have left many home owners with loans to pay off that are greater than the value of the home. This has encouraged some owners to simply walk away from their mortgage, resulting in a foreclosure; or

cash strapped buyers have opted to sell quickly and at a discounted price. Forced liquidation and foreclosure sales put downward pressure on prices, sometimes amounting to 30%-40% discounts off the original purchase price. These forced, discounted sales, in turn, often serve to exacerbate value-to-mortgage problems in the market. As prices are forced down, more home owners suddenly find themselves in a situation where the value of their mortgage is greater than the value of their house.

Housing sales and construction data indicate that the housing market has yet to reach its bottom as of February of 2009. Nationally, single family home sales have fallen by 76.2% since their peak in July 2006, and housing starts have dropped by 75.8% since their peak in January 2006 (see the chart below). The housing downturn has had numerous other impacts on the economy. As the value of homes have fallen, consumers have not been able to extract equity from their homes to the degree to which they previously did during the run up in housing values from the late 1990s to the mid-2000s. Because wage and salary increases have been small and have not kept up with inflation, households today have considerably less spending power, and news of recent housing price declines suggest that they have considerable less wealth to draw from as well. According to some estimates, housing price declines across the nation have cost the average homeowner about $30,000 in lost equity (or wealth).

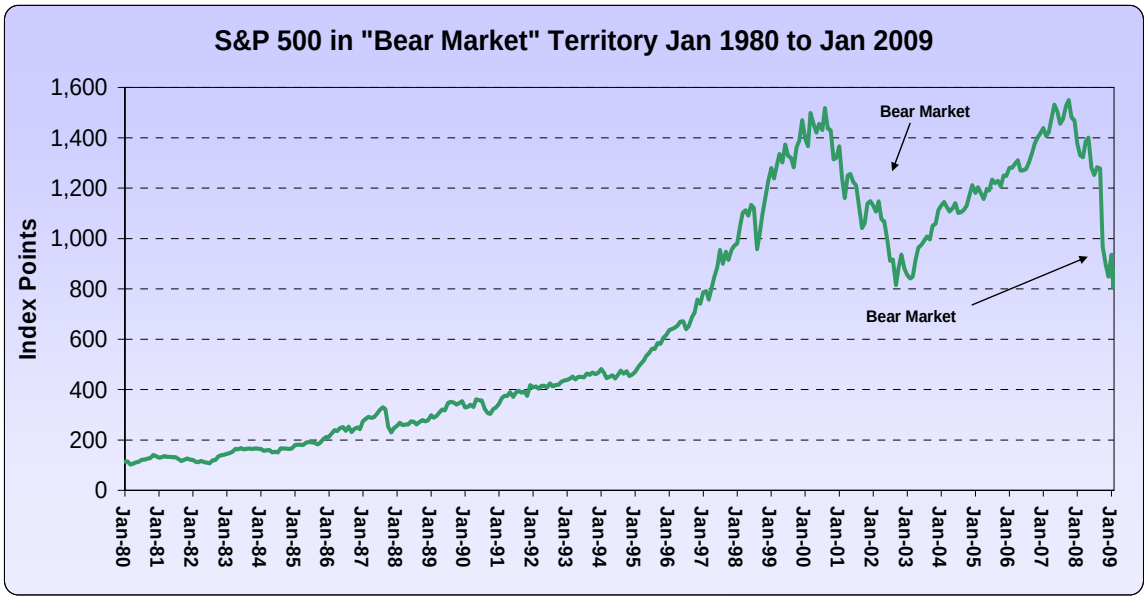


3.2 Financial Markets

September of 2008 witnessed the near collapse of U.S. and global financial markets. Ever since September 7th, when Fannie Mae and Freddie Mac went into conservatorship, markets have been in a volatile and unmistakably downward spiral, with interbank lending markets around the world suffering from the inability to gauge risk. Since access to capital is a fundamental element in

the financial system, the resulting contraction of interbank lending has been a problem for major economies all over the world. In short, the contagion that began in August of 2007 spread beyond Wall Street and the financial sector to the broader economy. Confidence has been a major problem and central banks around the globe are still trying to deal with this spreading contagion.

The September 2008 financial market turmoil has affected the ability to obtain credit, for households and businesses, and this problem is still being worked out as of February 2009. As house prices have declined and the number of foreclosures has increased, investors holding mortgage-backed securities have incurred major losses. As a result, investors and banks are wary to lend and credit has become much harder to obtain as the perceived risk of lending has increased. This, in turn, has affected business' ability to finance expansion and to hire new workers, and households' ability to consume on credit has been reduced. The tight credit markets have seen the virtual disappearance of sub-prime loans made to riskier borrowers, and even credit for good risks is more difficult to obtain. The lack of available credit and resulting uncertainty has affected financial markets as seen in the recent volatile performance of the stock market. The stock market indexes have recently dropped to levels not seen in five years, although there have been some signs of stabilization as of the beginning of 2009.

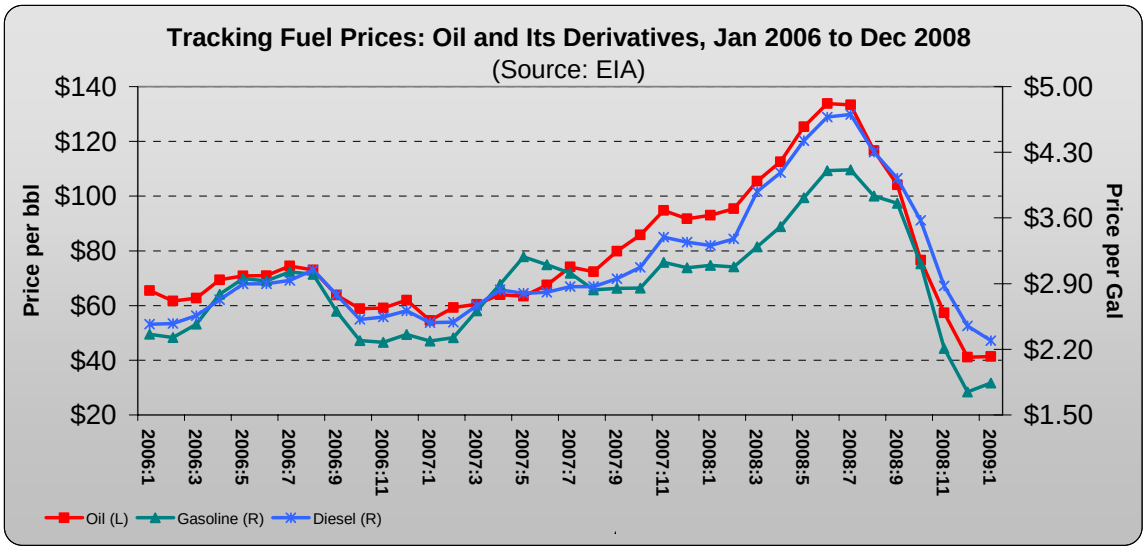


The financial market problems have forced the U.S. government, and governments around the world, to intervene in order to restore confidence to the system. So far government intervention around the world has included aggressive easing of monetary policy by central banks and the remarkable efforts to provide additional liquidity to banks, though government purchases of securities and equity acquisitions – meaning that government becomes a stock holder and part owner – of major financial institutions. This equates to effective

nationalization of many financial institutions. In addition, governments around the world have stepped in to insure bank deposits in various forms and amounts, in order restore confidence and prevent all out runs on the banks. In short, the developments in the global financial markets in September and October of 2008 have been nothing short of unprecedented and continue to affect the U.S. and global economies as of February 2009.

3.3 Energy Prices

Energy prices play an important role in this RHNA and have attracted much attention in the media in the last two to three years, beginning with the spike in gasoline prices following Hurricane Katrina in the late summer of 2005. Since Katrina, the price of crude oil and its derivatives gasoline, diesel fuels, and home heating oil have experienced substantial spikes, followed by periods of decline. However, the path of energy prices has been unmistakably higher as the price of a barrel of West Texas Crude oil, a commonly used bench mark, nearly quadrupled, from an average monthly price of $34 per barrel in January 2004 to $133 per barrel in July 2008. As shown in the graph below, both gasoline and diesel fuel followed suit as crude oil prices have risen. Prices peaked in July of calendar year 2008, as there have been significant declines in the prices of both oil and its derivative fuels since the July peak. However, it is important to note that the price of oil remains volatile and elevated relative to historic levels, and continue to siphon off spending power from households and businesses. The recent decline in oil prices was likely driven by recession fears, and most forecasts expect that the upward trend will continue as the U.S. economy begins to recover over the next 2-3 years. As consumers and businesses spend more on fuel, less money is available to spend elsewhere. In addition, most expenditures for energy are made to entities that have few linkages to the regional economy, meaning that that money usually leaves the local economy.



The 3-County region has not escaped the adverse impact of elevated energy prices. An estimated $286.7 million was siphoned out of the regional economy by elevated petroleum prices in the first half of 2008, according to our estimates. When broken down by County, we estimate that Dutchess County spent an additional $98.5 million on petroleum, Orange County an additional $126.4 million, and Ulster County an additional $61.7 million, representing money that was taken out of the local economy.[4]

3.4 Looking Forward

As announced in December 2008, the US economy is officially in a recession as of December 2007. The events in the national economy over the past year influenced the long term economic and demographic forecast for the 3-Counties in three important ways: (1) credit is expected to be more difficult to obtain in the near term period 2006-10, (2) energy prices are expected to remain at levels that are elevated relative to historic prices (despite the recent declines), and (3) the struggling economy will likely exacerbate relatively weak population growth forecasted in the region.

Regarding the first, this means that achieving home ownership will likely be more difficult over the next several years, compared with the low interest rate period of the early 2000's. Tighter credit could also mean that recovery from the current economic downturn will be slow and protracted, as businesses in the Hudson Valley, and the U.S. as a whole, struggle to find financing for expansion. Once the housing and financial market problems have run their course and begun to recover, the economy should eventually return to expansion at a level closer to its long term average rate of growth (roughly 2-3% per year in terms of GDP).

[4] See Appendix J for more details on this estimated impact of elevated petroleum prices in the 3-County region.

Regarding the second, high energy prices will likely act as a drag on the economy unless or until new technologies are developed and implemented that that reduce energy usage and the nation's reliance on fossil fuels. The above estimate of additional spending on petroleum is an example of how high energy prices siphon off money from the regional economy without any offsetting public spending.[5] The third factor, slowing population growth, is a trend that can be observed in other regions in the northeast part of the country as well. The changing demographics imply that the next 15 years or so will likely be very different than the last 15 years, with relatively restrained economic growth expected.

[5] Offsetting public spending refers to taxes that siphon off money from households, but are at least accompanied by government spending. Increased energy prices reduce the amount that households spend and are not accompanied by any government spending that offset the reduced household spending.

4. Housing Market Trends in the 3-County Region

4.1 Housing Market Analysis Through June of 2007

The national housing market experienced a rapid expansion at the end of the 1990s and during the first six years of this decade. Housing in the 3-County region experienced the same expansion and double-digit year-to-year percentage increases in median house prices. Since the fall of 2007, virtually all housing market indicators have deteriorated and it is clear that this unprecedented rapid expansion was unsustainable. House prices, sales, housing starts, and building permits have all declined and are expected to remain sluggish over next one to two years. Table 4 below contains data available at the time of this RHNA, and displays median home prices for the three counties from 1993 to 2006, and partial data for 2007.[6] The trends are similar across the counties: In general, gradually rising prices during the 1990s and sharp increases beginning in 2000 or 2001. Although still positive, in 2006, the housing market began to slow down, as reflected in much lower year-to-year price increases. The "cooling off" in the housing market is evident in 2007 data. When compared to figures from the previous year, sales were below 2006 levels and median prices were just slightly higher in Orange and Ulster Counties, and even declined in Dutchess County. This analysis was completed with data through the first half of calendar 2007, and an update is provided in the next section, covering developments in the 3-County housing market though the third quarter of calendar 2008.

Prior to the current downturn in the housing market, the rapid rise in prices presented increasing affordability challenges for households in the region. Tables 4a, 4b, and 4c below, again show changes in house prices, but this time compared to growth in median household income for each county. The tables show that the three counties experienced similar predicaments: from 1996 to 2006, median house prices grew at annual average rates of 9-10% while median household income grew at an average rate of less than 4%. The data indicate that income fell behind housing prices and made home ownership less affordable in the counties.

[6] Data are from the New York Office of Real Property Sales and include only "arms-length" sales of single family homes and condominium units. It was obtained during the initial months of this study and this analysis stops at mid-2007. Additional data is brought to this analysis though not with the level of detail of the NYORPS data.

Table 4a. House Prices and Household Income in Dutchess County, 1996 to 2006

Year	Median House Price	% Change	Median HH Income	% Change
1996	135,000		45,880	
1997	135,000	0.0%	47,552	3.6%
1998	137,500	1.9%	49,050	3.1%
1999	146,000	6.2%	53,086	8.2%
2000	159,900	9.5%	54,261	2.2%
2001	182,250	14.0%	56,741	4.6%
2002	219,900	20.7%	55,589	-2.0%
2003	250,000	13.7%	56,649	1.9%
2004	279,900	12.0%	59,257	4.6%
2005	321,000	14.7%	62,866	6.1%
2006	330,000	2.8%	66,669	6.0%
Avg Ann Change 1996-06		9.3%		3.8%

Note: Median Home Price data from NY ORPS; includes condos
Note: Median HH Income data from Economy.com

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Table 4b. House Prices and Household Income in Orange County, 1996 to 2006

Year	Median House Price	% Change	Median HH Income	% Change
1996	124,900		44,756	
1997	125,000	0.1%	45,129	0.8%
1998	130,850	4.7%	47,978	6.3%
1999	134,000	2.4%	52,058	8.5%
2000	141,000	5.2%	52,360	0.6%
2001	159,900	13.4%	54,779	4.6%
2002	182,000	13.8%	54,311	-0.9%
2003	213,000	17.0%	55,121	1.5%
2004	249,000	16.9%	56,774	3.0%
2005	282,500	13.5%	59,451	4.7%
2006	298,500	5.7%	62,416	5.0%
Avg Ann Change 1996-06		9.1%		3.4%

Note: Median Home Price data from NY ORPS; includes condos
Note: Median HH Income data from Economy.com

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Table 4c. House Prices and Household Income in Ulster County, 1996 to 2006

Year	Median House Price	% Change	Median HH Income	% Change
1996	95,000		35,942	
1997	95,000	0.0%	36,621	1.9%
1998	98,500	3.7%	39,399	7.6%
1999	105,000	6.6%	42,551	8.0%
2000	118,000	12.4%	43,113	1.3%
2001	127,000	7.6%	45,103	4.6%
2002	142,500	12.2%	44,519	-1.3%
2003	170,000	19.3%	45,807	2.9%
2004	200,000	17.6%	47,126	2.9%
2005	240,000	20.0%	49,572	5.2%
2006	244,665	1.9%	52,348	5.6%
Avg Ann Change 1996-06		9.9%		3.8%

Note: Median Home Price data from NY ORPS; includes condos
Note: Median HH Income data from Economy.com

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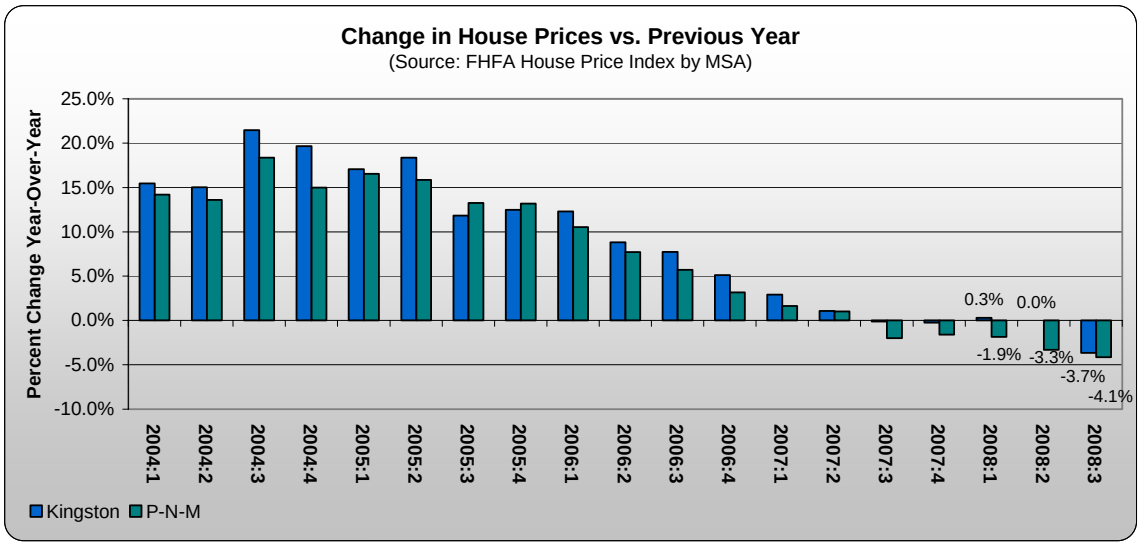
4.2 Update on Housing Market Through September of 2008

An additional year has gone by since the first part of the housing market analysis was completed. For more recent data on the housing market in the 3-County region, the quarterly housing price index published by the Federal Housing Finance Agency (FHFA) is examined in this section. The index is published by Metropolitan Statistical Area (MSA). There are two MSAs in the 3-County region: the Poughkeepsie-Newburgh-Middletown (P-N-M) MSA and the Kingston MSA. The following chart provides a more recent picture of developments in the local housing market, which has deteriorated substantially over the 4 quarters since the initiation of this RHNA in the fall of 2007. According to the FHFA index, house prices did in fact begin to decline in the third quarter of calendar year 2007 in both MSAs. In the two most recent quarters for which data are available, the second and third quarters of 2008, year-over-year house prices changes were 0.0% and -3.7% in the Kingston MSA, and -3.3% and -4.1% in the P-N-M MSA.

The indicators suggest that the market has yet to bottom out and additional price declines are expected over the next 2-3 quarters. As described in the economic and demographic forecast, the declines in house prices are expected to be more pronounced in Dutchess and Orange Counties than in Ulster County, and using the FHFA house price index, so far, this scenario is being played out as expected.



With additional price declines expected, the effects of the current downturn in the housing market, and the general economy, will be felt over at least the next 2-3 years. As a result of declining house prices in the near term, some houses will be more affordable for new buyers. However, the housing market recession is not expected to relieve pressure for the majority of current home owners burdened by housing costs. For home owners who purchased their house during the peak of the housing market, their house payments will not be altered unless they are able to refinance their mortgage (which will be increasingly difficult due to tight credit markets and stricter lending standards implemented by most banks).[7] For these reasons, the housing market downturn is not expected to relieve affordability pressure to the same degree that the expansion and price run-up increased that pressure. The affordability calculations presented in section 2.1 offer insight as to the degree of price declines that would be needed to alleviate affordability pressures in the region. In order for the median income household to afford a median priced house, median prices in each of the 3 counties would have to decline by more than 40% from 2006 levels. The next section provides context and shows how affordability pressures intensified from 1996 to 2006.

4.3 Affordability Pressures 1996 to 2006

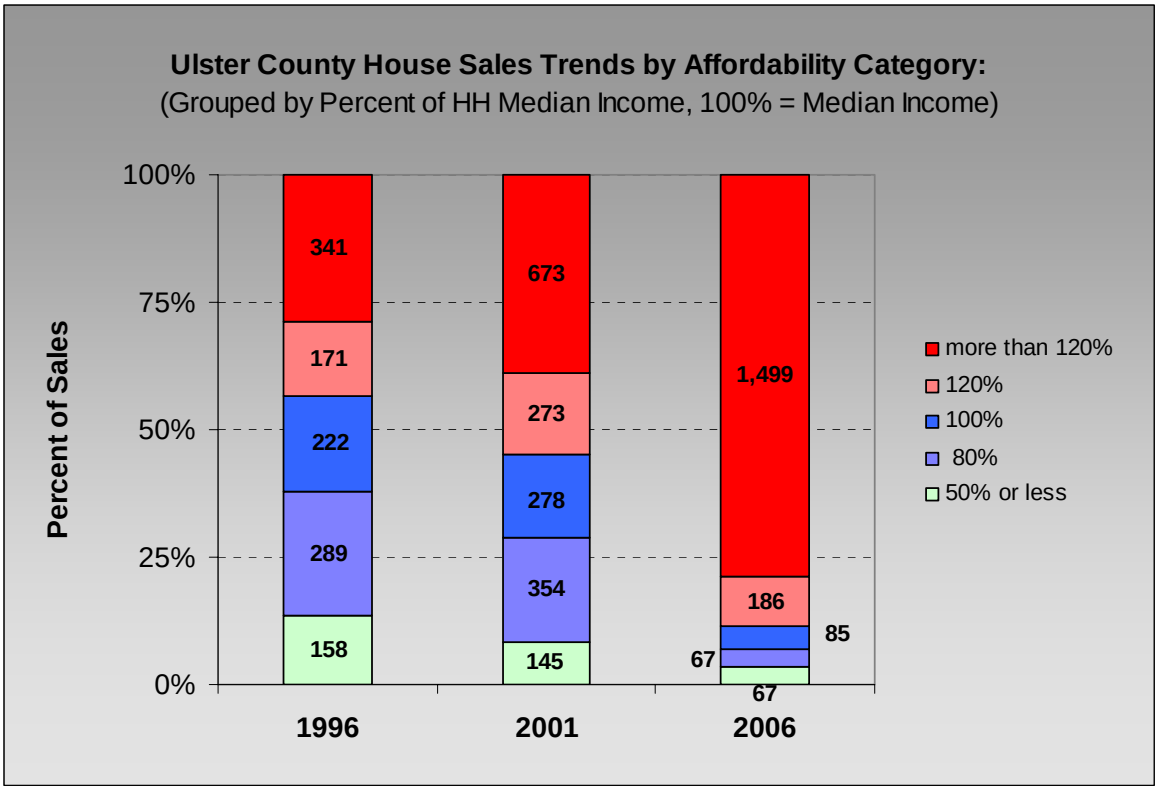
For many owner households, even with record low interest rates in the early 2000s, the rapidly increasing house prices, along with increasing property taxes, made home ownership increasingly unaffordable. The following analysis determines that from an affordability perspective, the percentage of houses on

[7] Some lenders may agree to alter the terms of mortgages for some borrowers through public and private initiatives that attempt to keep home owners in their home, such as Project Hope. However, the majority of home owners at risk of mortgage default will not be covered by these programs.

the market available to households earning less than 120% of the county median income decreased from 1996 to 2006.

In 1996, households in Dutchess County earning at least the median income were able to affordably purchase just over half of the houses sold on the market.[8] In 2001, this percentage had decreased to 37% and by 2006 only 233 houses on the market, or 8% of the total sales, were under the affordability threshold for households in this income category. The lower income households were even more "squeezed" as fewer houses were at or below their affordable price.

Housing sales data show similar trends in Ulster and Orange Counties over the same time period. In Orange County, the median household income was sufficient to affordably purchase just over half of the houses sold in 1996 and this proportion decreased to 41% in 2001, and to 10%, or 480 houses, in 2006. In Ulster, a household earning the median income could afford to purchase 57% of the houses on the market in 1996 and this proportion decreased to 45% in 2001 and to 11% in 2006. The lower income households had fewer options available as shown in the graph below.



[8] One way to measure housing affordability is to determine a median income household's ability to afford a median priced house. The National Association of Realtors, for example, publishes an affordability index which incorporates this concept. Although this type of analysis was not explicitly done in this study, the charts in this section imply that affordability in all three Counties in 1996 likely was not nearly as much of an issue as it was in 2006.

The chart above illustrate how affordability pressures have increased since 1996 and options in the housing market for low- and middle-income households have become fewer and fewer. With fewer affordable options for low- and middle-income households, the low interest rates and a variety of riskier lending products (that included temporary low rates that would reset to higher rates) were attractive and made home ownership achievable and feasible. Still, many of these households found themselves burdened by high housing costs.

5. Economic and Demographic Forecasts, 2006 to 2020

Economic conditions, population growth, and household formation will determine housing demand in the 3-County region over the forecast period. This section provides a summary description of the forecast for the relevant economic and demographic variables. A summary is presented for the region overall, and then for each county in the near term (to 2010) and long-term (to 2020). The detailed economic and demographic forecast tables are available in Appendix B on page 54.

5.1 Economic Variables

5.1.1. 3-County Region Summary

Overall, the region's output, or GRP, will increase by 1.5% annually, from $26.8 billion in 2006 to $28.5 billion in 2010.[9] Output will then increase by 2% per year out to 2020, to a total of $34.7 billion. It is expected that annual growth will be subdued in the near-term to 2010 and will pick up in the long term out to 2020. This is a result of the current housing market and financial market problems, which are expected to slow growth over the next 2-3 years, nationally and in the 3-County region.

Total non-farm employment in the 3-County region will grow from 320,360 in 2006 to 329,420 in 2010, an annual growth of 0.7% over the four year period. Continuing out to 2020, employment will grow slightly faster at about 0.8% per year, reaching 355,480 jobs. The construction and manufacturing sectors are expected to lose 320 jobs and 670 jobs respectively. The total increase in jobs will be 35,480 and most of the growth will come from the education and health services, leisure and hospitality, and financial activities sectors, with 14,910, 5,790, and 3,460 jobs respectively.

Growth will be restrained in the near-term due to two primary reasons relating to the housing market: (1) less money will be available for financing mortgages; and (2) and securing that available financing will be difficult due to stricter lending standards and higher down payments likely to be required. This situation presents substantial downside potential as the housing industry is such an important part of the U.S. economy. The inputs that go into building, maintaining and furnishing homes create demand for many other sectors; construction, manufacturing, retail, and the transportation sector are all highly linked to the housing industry. A downturn in the housing market has the potential to cause a ripple effect and spread to other sectors, which has indeed happened in 2008.

[9] GRP, or Gross Regional Output, is reported here, and in the individual county sections, in 2000 dollars, adjusted for inflation.

Problems in the housing market have spread to the financial sector, which has experienced a "credit crunch" since August of 2007. Banks are wary to lend to each other and investors are skeptical about putting their money into housing linked investments. This drying up of credit translates into less money available for firms to hire new workers and purchase new equipment, and less money available to consumers to make purchases on credit – especially big-ticket items such as cars and homes that typically require financing.

In December of 2008, the National Bureau of Economic Research (NBER) announced that the United States entered into a recession in December of 2007. The announcement confirmed what virtually all economic indicators had been suggesting most of the year. Home prices and sales, retail sales, and employment levels have all fallen and the unemployment rate has risen. While output in the first and second quarters of the year technically remained positive, inventories grew while domestic consumption actually went negative, an indication that there probably was no real growth in the output of the economy. Data for the third and fourth quarter confirm that the national economy did indeed contract, as was expected by analysts. The recovery from this downturn is expected to be at a historically slow pace and take at least the next 2-3 years, and possibly longer without significant and on-going intervention through fiscal (e.g. the 2nd stimulus package currently being debated) and monetary policy.

The following section presents the forecast for Ulster County.

5.1.4. Ulster County

GRP of Ulster County is expected to grow at a yearly compounded rate of 1.2% from $5.1 billion in 2006 to $5.4 billion in 2010. Growth in GRP out to 2020 will be at about 1.8% per year and GRP will reach $6.4 billion. Total non-farm employment in Ulster County will increase from 64,810 in 2006 to 67,390 in 2010, an increase of 0.9% per year. Continuing the forecast out to 2020, total non-farm employment will continue to grow at an annual rate of 0.8% per year to 73,070 jobs. The manufacturing sector is expected to lose about 170 jobs, and government employment will decrease by about 270 jobs. The construction, trade-transportation-utilities, financial activities, education and health services, and leisure and hospitality sectors will add jobs. Most of the 8,260 additional jobs will be in the education and health services and leisure and hospitality sectors, with each adding 2,700 and 2,600 jobs respectively. Financial activities will grow by 900 jobs and trade-transportation-utilities will grow by 860 jobs.

5.2 Demographic Variables

5.2.1. 3-County Region Summary

The population of the 3-County region overall will grow from 855,920 in 2006 to 872,340 in 2010, an increase of 16,420, or annual growth of 0.5%. Growth will continue at about the same annual rate of 0.5% out to 2020 and 48,020 more

residents will be added to the population bringing the total to 920,360. Most of the growth will be among older residents: of the total increase of 64,440 persons over the period 2006 to 2020, more than 40,000 will come from the 65 and over age group, and more than 19,000 will come from the age group 45 to 64.

The number of households in the region will grow by 0.7% per year, adding 8,500 new households by 2010. Household growth will continue at the rate of more than 0.8% per year going forward to 2020, and 28,300 more households will be added. Given the trend of declining household size described above for each county, the average household size for the region overall will also decline from 2.84 persons per household in 2006 to 2.81 in 2010, and to 2.72 in 2020.

5.2.4. Ulster County

Ulster County's population will grow from 184,390 in 2006 to 187,530 in 2010, an increase of 3,140 residents at an annual growth rate of 0.3% per year. Growth will continue to 2020 at a rate of 0.5% per year, adding 9,930 residents and bring the total population to 197,460. The largest contributions to the overall population growth will be from the 45 to 64 age group followed by the 65 and over and 25 to 44 age groups.

The county will add 1,900 households by 2010, growing at an annual rate of 0.6%, and then continue growth at a similar annual rate and add 4,500 more households by 2020. Average household size will decline from 2.63 persons per household in 2006 to 2.61 in 2010, reaching 2.58 in 2020.

6. Current Housing Units Needed, 2006

6.1 Affordability Gap Analysis

This section provides estimates of the need for additional housing units in the 3-County region in 2006.[10] Need was determined using a "gap" analysis in which supply and demand were estimated and then compared against each other. This was done by income category and by tenure status (owner and renter households). An inventory update as of December 31, 2006 was made and this represents the supply side of the ledger. Demand by income and tenure status was estimated based on available data sources and the two are compared – demand versus supply. Such a comparison reveals whether or not demand exceeds supply, and if so to what extent, at each household income level and for owners and renters. If demand exceeds supply, such a gap is an indication that the number of units available to be purchased (or rented for the renter part of the analysis) at an affordable price (or rent) is not sufficient, and households will likely be paying more than the HUD threshold of 30% of household income toward housing costs.

The gap analysis incorporated the affordability calculations described in Section 2 above. The affordable house prices and rents were determined by income category relative to the County median household income: 50%, 80%, 100%, and 120% of median household income. Estimates of the number of owner and renter units demanded were based on distributions of household income reported from the 2006 American Community Survey. Estimates of unit supply were developed based on a variety of sources, including the 2006 American Community Survey unit data, building permit data, respective County Planning Department rental surveys, and parcel data used for property tax purposes.

The analysis confirmed that there are current affordability gaps in each of the 3 counties. Owner unit demand exceeds supply for all income categories at or below 120% of the County median household income. In Ulster County, there is a 5,936 unit gap at 50% of median household income level, a 2,746 unit gap at 80% of median household income, a 1,216 unit gap at the median household income, and a 798 unit gap at 120% of the median household income.

The data show that in all three counties the deficiency between the supply and demand of renter units is for the most part confined to the 50% of median household income and below group. For the most part, there were sufficient numbers of units available for rent for households with incomes between 50% and 80% of the median household income. At the 50% of median household income level, demand exceeded supply by 5,082 units in Ulster County. The analysis was also conducted at income levels between 50% and 80% of median

[10] The inventory update is made for 2006, the base year of the study and the jumping off point for the forecasts.

household income, and this resulted in the detection of additional gaps between supply and demand –175 units in Ulster County. These numbers are included in tables later in the report in the 80% of median household income and below on the renter side.

6.2 Municipal Allocations

Each municipality's portion of the county affordability gap in 2006 was determined through a process of municipal allocations. The municipal allocations were estimated taking into account a variety of factors that would affect affordability: historical trends, property taxes, household income, poverty rates, and price growth relative to income growth. A "development capability" factor was also included that accounted for municipalities' capability to accommodate compact development and captured the effect of elevated energy prices. Through a process of weighting and indexing, these factors determined each municipality's respective proportion of the County level estimates. The municipal allocations throughout this report are only available at the Town and City level. Villages are included in the Town data and allocations. Unfortunately, census data are insufficiently detailed at the village level to create accurate projections and allocations for these communities. Upon the completion of this study, the Dutchess, Orange and Ulster County Planning Departments, with advice from this study's consultant, intend to develop a methodology which will enable villages to break out their allocations from the town level estimates. Table 9 below shows the municipal allocations for Ulster County for both owner and renter tenure groups.

Table 9. Estimated 2006 Affordability Gap in Ulster County

	Owners	Percent of County Total	Renters	Percent of County Total
Denning, Town of	66	0.62%	12	0.22%
Esopus, Town of	540	5.05%	190	3.61%
Gardiner, Town of	425	3.97%	117	2.23%
Hardenburgh, Town of	28	0.26%	9	0.17%
Hurley, Town of	373	3.49%	74	1.41%
Kingston, City of	1,255	11.73%	1,461	27.80%
Kingston, Town of	110	1.03%	7	0.13%
Lloyd, Town of	446	4.17%	301	5.73%
Marbletown, Town of	511	4.78%	94	1.79%
Marlborough, Town of	589	5.50%	179	3.40%
New Paltz, Town of	770	7.20%	534	10.16%
Olive, Town of	402	3.76%	88	1.67%
Plattekill, Town of	490	4.58%	265	5.05%
Rochester, Town of	372	3.48%	94	1.79%
Rosendale, Town of	395	3.69%	166	3.17%
Saugerties, Town of	1,112	10.40%	494	9.39%
Shandaken, Town of	245	2.29%	120	2.29%
Shawangunk, Town of	812	7.59%	178	3.38%
Ulster, Town of	760	7.10%	295	5.61%
Wawarsing, Town of	500	4.67%	403	7.67%
Woodstock, Town of	496	4.64%	175	3.33%
Total	10,696	100%	5,257	100%

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7. Prospective Housing Units Needed, 2006 to 2020

The estimates of the municipal allocations were then projected out to the year 2020, the forecast horizon of the RHNA. The projections were made based on historical trends and the "development capability" factor described above, which reflects the expectation that future housing unit demand and affordability challenges will be concentrated in those communities with sufficient infrastructure to accommodate compact development. In today's planning language, these allocations are a balance between a traditional "fair-share" approach where units are allocated based on the existing housing stock and a "smart growth" approach where units are focused around existing centers and infrastructure. The core of these allocations is a "fair share approach" with modest adjustments for "smart growth" criteria. The tables 14 and 15 below show the projections of the affordability gaps out to 2020. The tables also include total unit demand (or total expected units in other words) out to 2020.

For owner and renter units in Ulster County, the City of Kingston and the Town of Ulster were designated as municipalities that are already compact and highly capable of future compact development. Growth in total unit demand and increasing affordability pressures are expected to occur in these two communities, and to a lesser extent in the Towns of Lloyd, Marlborough, New Paltz, Saugerties, Shawangunk, and Wawarsing.

Table 14. Forecast of Owner Affordability Gap and Total Demand, By Municipality in Ulster County

	Unit Affordability Gap by Municipality				Total Unit Demand			
	2006	2010	2015	2020	2006	2010	2015	2020
Ulster								
Denning, Town of	66	69	74	79	164	166	170	173
Esopus, Town of	540	575	638	699	2,622	2,690	2,777	2,855
Gardiner, Town of	425	448	492	534	1,701	1,782	1,839	1,890
Hardenburgh, Town of	28	29	31	33	65	70	71	73
Hurley, Town of	373	388	418	445	2,407	2,442	2,505	2,564
Kingston, City of	1,255	1,368	1,610	1,950	4,639	4,886	5,164	5,426
Kingston, Town of	110	119	134	148	292	309	326	329
Lloyd, Town of	446	465	502	537	2,547	2,675	2,799	2,909
Marbletown, Town of	511	550	618	686	1,992	1,995	2,065	2,129
Marlborough, Town of	589	625	691	755	2,126	2,182	2,251	2,314
New Paltz, Town of	770	831	948	1,081	2,614	2,724	2,849	2,962
Olive, Town of	402	426	469	510	1,577	1,685	1,733	1,777
Plattekill, Town of	490	517	567	614	2,876	3,072	3,261	3,430
Rochester, Town of	372	380	402	419	2,153	2,161	2,226	2,286
Rosendale, Town of	395	399	416	427	1,921	1,993	2,051	2,104
Saugerties, Town of	1,112	1,138	1,205	1,262	5,645	5,738	6,067	6,361
Shandaken, Town of	245	247	254	259	1,051	1,111	1,129	1,146
Shawangunk, Town of	812	891	1,043	1,226	3,002	3,003	3,144	3,271
Ulster, Town of	760	826	966	1,160	3,736	3,943	4,172	4,377
Wawarsing, Town of	500	513	545	573	2,749	2,866	2,999	3,118
Woodstock, Town of	496	515	554	589	2,298	2,331	2,385	2,435
	10,696	11,319	12,576	13,986	48,179	49,824	51,982	53,928

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Table 15. Forecast of Renter Affordability Gap and Total Demand, By Municipality in Ulster County

	Unit Affordability Gap by Municipality				Total Unit Demand			
	2006	2010	2015	2020	2006	2010	2015	2020
Ulster County								
Denning, Town of	12	14	16	17	40	45	49	48
Esopus, Town of	190	233	256	280	1,043	1,098	1,097	1,104
Gardiner, Town of	117	145	160	177	564	610	615	623
Hardenburgh, Town of	9	10	11	12	25	27	23	19
Hurley, Town of	74	91	100	109	406	451	456	464
Kingston, City of	1,461	1,843	2,071	2,328	5,567	6,085	6,508	6,931
Kingston, Town of	7	8	9	10	50	54	60	61
Lloyd, Town of	301	372	410	452	1,457	1,558	1,641	1,721
Marbletown, Town of	94	114	122	132	568	574	593	612
Marlborough, Town of	179	218	237	258	1,041	1,061	1,065	1,075
New Paltz, Town of	534	658	722	792	2,363	2,527	2,677	2,825
Olive, Town of	88	106	114	123	421	414	437	459
Plattekill, Town of	265	323	349	379	1,310	1,333	1,241	1,281
Rochester, Town of	94	114	122	131	715	735	719	711
Rosendale, Town of	166	204	223	244	784	843	852	865
Saugerties, Town of	494	613	678	751	2,392	2,488	2,686	2,770
Shandaken, Town of	120	145	156	168	436	495	525	532
Shawangunk, Town of	178	224	252	283	879	977	1,025	1,071
Ulster, Town of	295	384	445	516	1,520	1,676	1,814	1,943
Wawarsing, Town of	403	505	563	628	1,771	1,919	1,999	2,077
Woodstock, Town of	175	215	235	257	784	826	866	893
	5,257	6,541	7,252	8,045	24,137	25,793	26,947	28,082

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Over the forecast period of the RHNA, affordability pressures are expected to increase for both owners and renters. The near-term decrease in owner affordability pressures in Dutchess and Orange Counties is caused by the decline in house prices currently being experienced in the regional housing markets. The decline in house prices is expected to be less pronounced in Ulster County. Despite the temporary relief, affordability pressures are expected to increase out to 2020, for both tenure groups in all three counties.

8. Targets for Building Affordable Housing

8.1 Strategies to Address Affordability Challenges

Affordable housing remedies have traditionally been categorized into two approaches: demand side solutions or supply side solutions. A demand side approach would attempt to make housing more affordable from the perspective of the households. The primary instrument of this demand side approach for owners has been through assistance with financing and down payments, usually considered the two most prohibitive barriers to home ownership. For renters, the primary instrument to increase households' ability to pay has been through subsidizing apartment units with the federal Section 8 housing assistance program.

From the supply side perspective, affordable housing can be addressed by increasing the supply of affordable units. This can be done through planning and zoning regulatory changes, or through incentives for developers. The Planning Departments of the three counties agree that this supply side approach is the option over which county and municipality governments in the region can have the most influence, and the avenue through which they can make a substantial impact in their respective areas. Therefore, one of the goals of this RHNA was to establish the quantity of affordable housing units to construct that would help to alleviate the affordability pressures, should the Counties and municipalities decide that such an approach is appropriate. The build targets are presented in two sections, the first focusing on the current affordability gap (as of 2006), and the second focusing on the prospective affordability gap (out to 2020). The current and prospective built targets combined represent the total number of affordable units to construct in order to address both the current and prospective affordability gaps.

The building of additional affordable units is not a "magic bullet" solution and this supply side strategy is likely to be effective only when part of broader efforts to remedy the situation, including both demand and supply side initiatives. Solutions to housing affordability challenges usually include other strategic economic development efforts that seek to create and retain jobs in the local economy, as well as increase the incomes earned by residents in the community. While the previous sections described the current and expected need for affordable housing in the 3-County region, the following section provides estimates of how many affordable units the Counties would need to construct in order to meet some of that need. It should be emphasized that constructing additional affordable units would only address a portion of the overall affordability gap.

8.2 Build Targets to Address the 2006 Affordability Gap

There are different approaches that can be taken regarding how many housing units would be needed in order to address the current affordability challenges. Units can be built to target certain members of the population, either by age or income, and there are logical arguments to support these different supply side strategies. In this RHNA, a build number was calculated that attempts to minimize value judgment and still address the need for affordable housing. The build number was calculated based on the declining household size trend, a demographic trend that many counties in the northeast part of the country have experienced over the last twenty to twenty-five years. The logic behind the calculation is that as the average household size decreases, just this trend alone places additional pressure on the housing stock that must provide sufficient housing units. If the average household size would have remained the same in the three Counties from 1980 to 2006, for example, substantially fewer housing units would be needed to provide sufficient housing for residents in the region. The build number is calculated by dividing the 2006 population by the 1980 average persons per occupied housing unit (which is larger than the current average) yielding a smaller number of total housing units.[11] This number is interpreted as the number of units that would be needed if the average household size had remained the same since 1980. Subtracting this number from the actual total housing units yields the difference, which is an indication of how much harder the housing stock has to work simply due to the declining household size trend. This difference is the estimated number of units to build, and this would just address the pressure placed on the housing stock from the declining household size trend. The tenure break down of the build number is determined by multiplying by each tenure's proportion of the total affordability gap.

The build numbers were broken down further to determine an appropriate build number by income level relative to each respective County median household income. Adjustments were made to reflect the desire of many retired home owners to remain in their units, as opposed to moving in with relatives or to a group quarters living situation, such as a nursing home or assisted-care facility. As many retired home owners live on relatively low, fixed retirement incomes they represent a large portion of the lowest income group, and the adjustment resulted in a reduction of the owner build number at the lowest income level. An equal adjustment was made in the positive direction to the renter build number at the lowest income level, implying that, for some low-income home owners, transition to quality, affordable rental housing may be a more desirable and viable option than home ownership under intense affordability pressures.

[11] Persons per housing unit is used as a proxy for persons per household in the calculation; while not technically the same, the two are used interchangeably here.

It is estimated that 2,323 additional affordable owner units and 2473 additional renter units (a total of 4,797 units) are needed in Ulster County. The unit build numbers represent the number of affordable units that would need to be built in order to address the current affordability gap (as of December 31, 2006). The next section presents additional detail in the build targets for each income group.

8.3 Build Targets to Address the Prospective Demand

The existing affordability gap is projected to increase over the forecast horizon of this RHNA. Accordingly, additional units would need to be built from 2006 to 2020 in order to address future affordability pressures The estimates are calculated using the same principle described in Section 8.1, that a portion of affordability gap could be addressed through adding units to the supply, while other economic development initiatives would be required as well. Therefore, of the change in the affordability gap going forward from 2006 to 2020, a proportion could be addressed through building. It is assumed that that proportion should be the same proportion needed to address the current need for affordable housing (including similar adjustments made for low-income owners and renters that were described in Section 8.2).

As a result of following method of calculation, it is estimated that Ulster County would need to build 714 additional affordable owner units and 1,113 additional affordable renter units (a total of 1,827 units). **The distinction between the current and prospective build numbers is important: The prospective numbers represent the number of units the Counties will need to build in order to prevent falling further behind. Actions, including construction of additional units, above and beyond those "build numbers" would be needed to address the current affordability gap as it existed at the end of calendar year 2006.**

The current and prospective "To be Built" numbers were broken down by income level relative to the county median household income. The reader should notice that the affordability gap exists and will persist for owners at all income levels below 120% of the county median household income in each of the three counties. In general, the two lowest income groups, 50% and 80% of median household income and below, represent most of the gap. This indicates that affordability pressures are concentrated at those income levels. On the renter side of the tenure ledger, affordability pressures are experienced by households at the lowest income level, 50% of median household income and below. At the higher income levels, there appears to be sufficient affordable rental housing units in the counties. A small number of units are reported in the 80% and below income category for Orange and Ulster Counties—these were units that were detected when the analysis was conducted at income levels between 50% and 80% income levels (e.g. at 55%, 60% and 65% income levels).

Table 23. Ulster County Owner "To be Built" Numbers By Income Category

% of Median HH Income	Current Demand 2006	Prospective Demand 2010	2015	2020	Total Prospective	Total Demand (Current Plus Prospective)
50%	**892**	79	103	93	**274**	**1,167**
80%	**826**	87	132	136	**355**	**1,181**
100%	**366**	23	20	13	**56**	**422**
120%	**240**	16	13	0	**29**	**268**
Total	**2,323**	204	268	242	**714**	**3,038**

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Table 24. Ulster County Renter "To be Built" Numbers By Income Category

% of Median HH Income	Current Demand 2006	Prospective Demand 2010	2015	2020	Total Prospective	Total Demand (Current Plus Prospective)
50%	**2,421**	419	340	326	**1,085**	**3,506**
80%	**52**	12	8	8	**28**	**80**
100%	**0**	0	0	0	**0**	**0**
120%	**0**	0	0	0	**0**	**0**
Total	**2,473**	431	348	334	**1,113**	**3,586**

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8.4 Price and Rent Points Corresponding to the Build Targets

The above recommended "To be Built" numbers correspond to price and rent points for future affordable units, that is, the future prices and rents at which units should be built in order to be affordable to each income group. This allows for the statement: *"We will need X number of units at the price/rent of $Y in the year 20xx."* Such knowledge is critical for future affordable housing planning and is a key part of the RHNA.

The price points were developed based on median household income forecasts that were developed in the economic and demographic forecast section of the assessment.

Tables 29 to 30 below show the projected affordable prices and rent levels by county over the RHNA time frame out to calendar year 2020. The reader will note that growth in the affordable rent in the near-term 2006-10 period for renters is essentially flat. This is a reflection of the fact that utility costs were factored into the renter affordability calculations, while such costs were not factored into the owner affordability calculations. For renters, utility costs are expected to spike in the near term period which will leave less money available for rent, keeping growth in the affordable rent relatively flat. Utility costs will decrease in the out years of the RHNA time frame, but they will still constitute a higher portion of household income than 2006 and pre-2006 utility costs.

Table 29. Estimated Affordable House Prices in Ulster County

					Annual Percent Change		
	2006	2010	2015	2020	2006-10	2010-15	2015-20
% of Median HH Income							
50%	$71,607	$78,828	$90,399	$102,986	2.4%	2.8%	2.6%
80%	$114,572	$126,790	$146,497	$168,091	2.6%	2.9%	2.8%
100%	$143,215	$159,322	$185,469	$214,332	2.7%	3.1%	2.9%
120%	$171,858	$192,192	$225,414	$262,354	2.8%	3.2%	3.1%

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Table 30. Estimated Affordable Rents in Ulster County

					Annual Percent Change		
	2006	2010	2015	2020	2006-10	2010-15	2015-20
% of Median HH Income							
50%	$574	$583	$696	$793	0.4%	3.6%	2.6%
80%	$951	$975	$1,172	$1,344	0.6%	3.7%	2.8%
100%	$1,211	$1,251	$1,512	$1,748	0.8%	3.9%	2.9%
120%	$1,473	$1,530	$1,864	$2,169	1.0%	4.0%	3.1%

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8.5 County Level Build Numbers Distributed to the Municipalities

The County level build numbers were distributed to the municipalities based on each municipality's share of the county affordability gap. As the affordability gap is an indication of the need, this implies that the build numbers were distributed across the counties according to the estimated need. Table 33 below presents the distribution of the cumulative "To be Built" numbers by tenure, and also by current and prospective demand.

Table 33. Distribution of Ulster County "To be Built" Targets (Cumulative Through the Study Period)

Municipality	OWNERS				RENTERS			
	Current	Cumulative Prospective			Current	Cumulative Prospective		
	2006	By 2010	By 2015	By 2020	2006	By 2010	By 2015	By 2020
Denning, Town of	14	16	17	19	6	6	7	8
Esopus, Town of	117	128	141	153	89	105	117	129
Gardiner, Town of	92	100	111	120	55	65	72	80
Hardenburgh, Town of	6	7	7	8	4	5	5	6
Hurley, Town of	81	88	97	105	35	41	46	50
Kingston, City of	273	297	332	365	687	809	908	1,005
Kingston, Town of	24	26	29	32	3	4	4	5
Lloyd, Town of	97	105	116	125	142	166	186	205
Marbletown, Town of	111	121	134	146	44	52	58	63
Marlborough, Town of	128	139	154	167	84	98	110	121
New Paltz, Town of	167	182	203	221	251	295	329	362
Olive, Town of	87	95	105	114	41	48	54	59
Plattekill, Town of	106	116	128	138	125	146	163	179
Rochester, Town of	81	88	96	103	44	52	58	63
Rosendale, Town of	86	93	102	109	78	92	102	113
Saugerties, Town of	242	262	288	310	232	273	305	336
Shandaken, Town of	53	58	63	68	57	66	74	81
Shawangunk, Town of	176	192	215	236	84	98	110	122
Ulster, Town of	165	180	200	221	139	164	185	207
Wawarsing, Town of	109	118	130	139	190	223	250	276
Woodstock, Town of	108	117	129	139	82	96	108	118
Total	2,323	2,528	2,796	3,038	2,473	2,904	3,252	3,586

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9. Conclusions

The affordable housing challenge likely acts as a barrier to overall economic development and has emerged as an important issue in the 3-County region. This RHNA serves as a baseline assessment of housing needs in the 3-County region. The intent is to inform decision-makers in the region and to facilitate implementation of solutions. The RHNA provides municipal governments with the data necessary to position themselves well to meet the housing needs of their residents out to 2020, and successful implementation of solutions will likely be a necessity for future robust economic growth in the region.

As of 2006, a substantial number of the region's residents found themselves in increasingly untenable positions, and this situation has likely continued through 2007 and 2008, even after recent price declines in for-sale housing. The affordability situation in the region has been affected by several factors: (1) the housing market expansion of the late 1990s and mid-2000s exacerbated the affordability situation in the region as house prices grew rapidly and household income did not keep up; (2) An in-flow of new residents coming from surrounding metro areas (such as the New York metro area) that has resulted in increased demand for housing along the price spectrum which has placed significant upward pressures on housing prices throughout the 3-Ccounty area; (3) community resistance and perceptions about affordable housing has been cited as obstacle to affordable housing development; and (4) the regional economy has been challenged to retain good-paying jobs—particularly those in the manufacturing sector.

Currently, the U.S. economy is in a recession. The national economy is contracting in terms of output and shedding payroll jobs, while the unemployment rate has increased substantially over the last year. Indicators also suggest that the housing market is going through what is in many ways the worst downturn since the 1930s, as construction and prices have decreased from peaks in 2007. The economy's troubles are not likely to be resolved quickly, demonstrated by, and perhaps even exacerbated by, the government's willingness to intervene in the market as of February of 2009. While the intervention has probably been necessary to avert even further problems in the economy, such a government presence in the market will likely result in a slow and protracted recovery. This has implications for housing the 3-County region: with housing price declines expected in the near term period, residents may see some temporary relief in terms of affordability. However, It is unlikely that the decline in house prices will alleviate affordability pressures to the same extent that rapid growth in house prices during the early 2000s contributed to those affordability pressures. At the national level, affordability indicators as of February 2009 indicate that pressures have subsided to some degree due to price declines. This relief, however, is likely to be short-lived. Once the national economy recovers from the current

downturn, affordability pressures are likely to reemerge and increasingly burden both owner and renter households.

Although affordability challenges have gained prominence and are increasingly in the public spot light, most current data is limited at the county level, and for the most part, non-existent at the municipal level. This assessment is an effort to address this information gap and provide decision makers and local planning leaders with estimates of affordable housing needs in the 3-County region. The estimates were made for the "current" period (2006 was the base year of the study) and based on affordable prices that were determined by factoring in estimated costs associated with owning and renting, for income levels relative to median household income at the county level. The estimates of current need were followed by estimates of prospective housing needs for each county through calendar year 2020. The current and prospective housing unit needs were then complemented with price points for owners and rent levels for renter units. For owners and renters, estimates were also made of the portion of the needed units by tenure category that might be constructed as part of a comprehensive demand and supply approach to address the estimated affordability gap. These estimates were made for each of the three counties, and also for the 66 municipalities in the region.