

MAURICE CHALMERS  
DIRECTOR  
OFFICE OF LEGISLATIVE  
BUDGET REVIEW



NASSAU COUNTY LEGISLATURE  
1550 FRANKLIN AVENUE, ROOM 126  
MINEOLA, NEW YORK 11501  
(516) 571-6292

### Inter-Departmental Memo

To: Hon. Norma Gonsalves, Presiding Officer  
Hon. Kevan Abrahams, Minority Leader  
All Members of the Nassau County Legislature

From: Maurice Chalmers, Director  
Office of Legislative Budget Review

A handwritten signature in blue ink, appearing to be "M. Chalmers", written over the "From:" line.

Date: December 18, 2014

Re: Nassau County Housing Market Spotlight

---

The following memo provides a current status update on Nassau's housing market, its impact on County revenue streams and a forecast of 2015.

cc: Dan Mc Cloy, Director of Law, Finance & Operations  
Chris Ostuni, Majority Counsel  
Michele Darcy, Minority Policy Director  
Peter Clines, Minority Counsel  
Eric C. Naughton, Deputy County Executive

# Spotlight on Nassau County's Housing Market

Office of Legislative Budget Review, December 2014

The Nassau County housing market is a significant driver of the local economy. There is a sizable impact on County revenue when the housing market stalls. OLBR believes that recent developments in the local housing market may help explain Nassau's atypical year to date sales tax collections compared to neighboring counties. Moreover, the primary causes of the housing decline, stagnant wages and relative high sale prices are expected to correct themselves and positive growth in home transactions and sales tax collections are anticipated for 2015.

Commodity purchases made for a new home historically have represented 10.8% of County sales tax collection. Table 1 displays the year to date annual growth in County sales tax collection for Nassau, Suffolk and Westchester counties.

**Table 1**

Local Sales Tax Collections	
YTD Cash Receipts Through Third Qtr. 2014	
County	%
Nassau	-5.5%
Suffolk	1.8%
Westchester	3.0%

Source: NYS Dept. of Tax & Finance

Not only are Nassau's year to date sales tax collections weak compared to Westchester and Suffolk, but the forecasted growth in home sales is also weak in comparison to these counties. Table 2 provides annual sales for each county from 2012 through 2013, as well as a 2014

forecast for each county. The second to fourth quarters of 2014 have had and are expected to record annual decreases in the number of homes sold in Nassau. This decline is believed to be a contributing factor in the current fall in Nassau's sales tax collections.

**Table 2**

Annual Actuals and Forecast Number of Home Sales				
Qtr	2012	2013	2014	14 vs. 13
1	1,856	1,941	2,056	5.9%
2	2,404	2,700	2,471	-8.5%
3	2,939	3,599	3,404	-5.4%
4	2,283	3,102	2,757	-11.1%
<b>Nassau</b>	<b>9,482</b>	<b>11,342</b>	<b>10,688</b>	<b>-5.8%</b>
Qtr	2012	2013	2014	14 vs. 13
1	2,035	2,212	2,322	5.0%
2	2,504	2,980	2,867	-3.8%
3	3,007	3,781	3,727	-1.4%
4	2,572	3,336	3,356	0.6%
<b>Suffolk</b>	<b>10,118</b>	<b>12,309</b>	<b>12,272</b>	<b>-0.3%</b>
Qtr	2012	2013	2014	14 vs. 13
1	1,251	1,341	1,526	13.8%
2	1,788	2,225	1,959	-12.0%
3	2,243	2,943	2,863	-2.7%
4	1,747	1,973	2,011	1.9%
<b>Westchester</b>	<b>7,029</b>	<b>8,482</b>	<b>8,359</b>	<b>-1.5%</b>

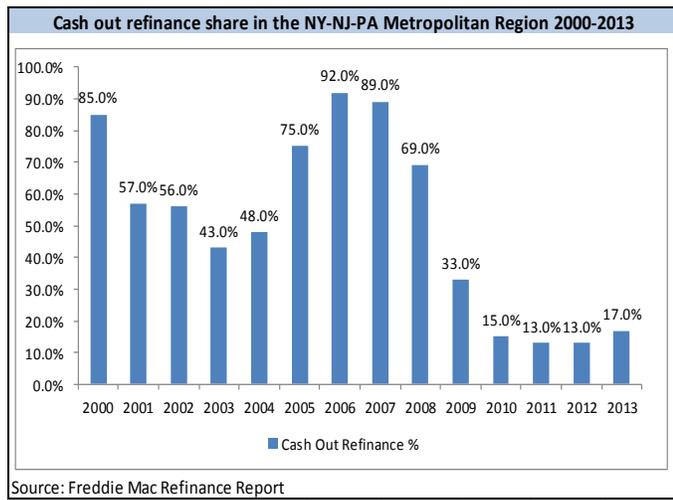
This memo seeks to illuminate recent trends in the Nassau County housing market, to explain their impact on County revenue streams, and to forecast the economic impact in 2015.

Economically sensitive County revenue streams (e.g. sales tax, County Clerk fees, etc.) register

strong returns when the County’s housing market is performing well. Equity extraction and commodity purchases related to home construction and sales are the two main impacts the housing market makes on the County’s economy.

When home prices are appreciating, individuals may refinance and turn their home equity into cash. Home equity extraction increases both sales tax and County Clerk fee revenue. Chart 1 shows the percentage of annual refinancings in which cash was extracted from a home (cash out refinancing) in the New York metropolitan area for each year from 2000 to 2013.

**Chart 1**



Prior to the Recession of 2008, cash out refinancings were a heavily used funding vehicle for residents. Due to both a loss of equity as well as stricter credit standards, this funding source is no longer being utilized at historical rates. However, it should be noted that usage did increase in 2013. The loss of this funding source has dampened both County Clerk fee and sale tax revenues.

Several factors influence home sales. Market interest rates, household wages, and household wealth for the initial down payment, all combine

to determine if and where a home is purchased. Chart 2 details historic annual average US 30 year mortgage interest rates from 2000 to 2014.

**Chart 2**



Recently 30 year mortgage interest rates have been and are at historic lows. This has incentivized those with the requisite equity, wealth and wages to either purchase a home or refinance an existing mortgage. This has had a positive impact on County Clerk and Sale Tax revenues.

As can be seen in Table 3, wage growth has been sluggish. Using both US and NYS Department of Labor Statistics data, it was found that real wage growth (actual wage growth minus consumer price growth) has been weak since 2012 and has turned negative during the second and third quarters of 2014. This has weakened both sales tax collections and County Clerk fee revenues.

**Table 3**

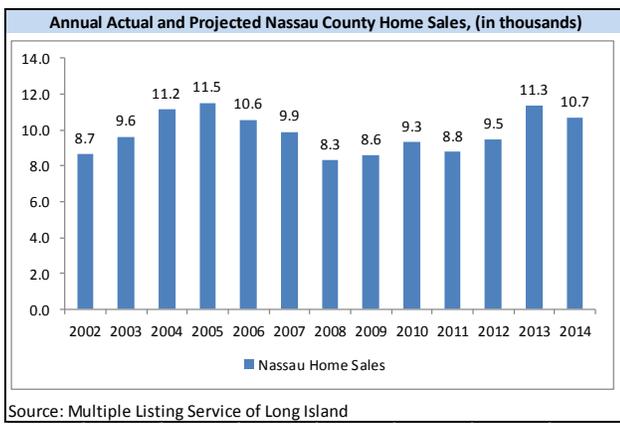
	NYS Yrly Wage %	Yrly. Reg. CPI %	Real Wage %
2012Q1	2.7%	2.7%	0.1%
2012Q2	2.0%	1.9%	0.1%
2012Q3	2.6%	1.4%	1.2%
2012Q4	1.6%	1.9%	-0.4%
2013Q1	1.3%	2.1%	-0.9%
2013Q2	2.3%	1.6%	0.8%
2013Q3	2.2%	1.8%	0.4%
2013Q4	1.4%	1.3%	0.1%
2014Q1	1.6%	1.4%	0.2%
2014Q2	1.0%	1.7%	-0.7%
2014Q3	-0.1%	1.3%	-1.4%

Sources: US and NYS Departments of Labor

The Recession not only diminished home equity and led to stricter credit standards, it also erased household wealth overall. It has been estimated that from 2007 to 2010 the wealth of a typical American household fell 39%.<sup>1</sup> The wealth decline made it difficult for borrowers to amass the down payment necessary to purchase homes. Additionally, the more strict credit standards required higher down payments, thus further challenging individuals attempting to purchase homes.

Despite, the sluggish wage growth, wealth loss, stricter credit standards, and loss of home equity financing, Chart 3 reveals that the number of homes sold in Nassau has attained pre-Recession levels, and has even increased after Superstorm Sandy. Chart 3 details the actual annual number of homes sold in Nassau County from 2002 to 2013 along with a projection of 2014 sales.

**Chart 3**



Viewing the Multiple Listing Service of Long Island (MLS LI) data by quarter (table 2, page 1) reveals that a decline began in home transactions in the second quarter of 2014, just like the second quarter 2014 drop in NYS real wages. Using year to date historic percentage, Nassau County is expected to see an 11.1% decline in

<sup>1</sup> Fry, Richard, "The Changing Profile of Student Borrowers", Pew Research Center's Social and Demographic Trends Project, Washington, D.C., October 2014.

fourth quarter 2014 home sales. This forecast may be seen in Table 2.

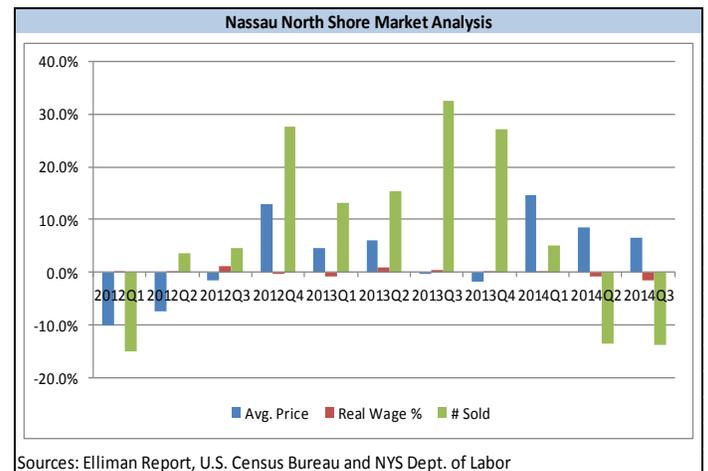
This decline is expected to end over the next six months. The November 2014 Siena College Research Institute's buying plan survey found that 6.8% of New York State residents expect to buy a house. That is the highest percentage recorded since November 2012.

In the fourth quarter 2014, both Suffolk and Westchester are expected to register positive annual growth in home transactions.

More localized figures obtained from the Elliman Report were used to determine the factors causing the relative weakness in Nassau's housing market. The Elliman report provides housing statistics for Nassau's north shore, south shore and middle island regions.

Chart 4 highlights the annual growth rates by quarter recorded in the north shore region for average closed sale prices, real wage growth and the number of homes sold.

**Chart 4**



On the north shore, it appears that escalating average home prices in 2014 are resulting in a decline in the number of homes sold. With stagnant wage growth and strict credit standards, it appears that buyers and sellers can't agree to

price and this is resulting in a decline in the number of homes sold.

**Chart 5**

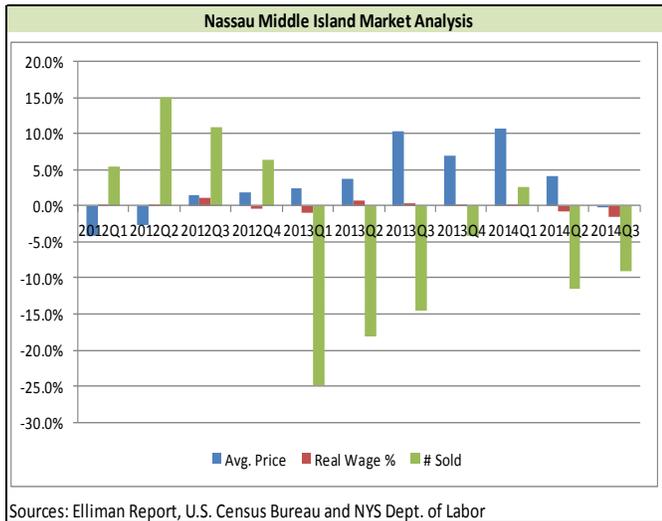


Chart 5 depicts the annual growth rates by quarter recorded in the middle island region for average closed sale prices, real wage growth and the number of homes sold.

In the middle island region, steady average price increases in 2013 and the first half of 2014 have resulted in an almost continual drop in the number of homes sold in 2013 and 2014

**Chart 6**

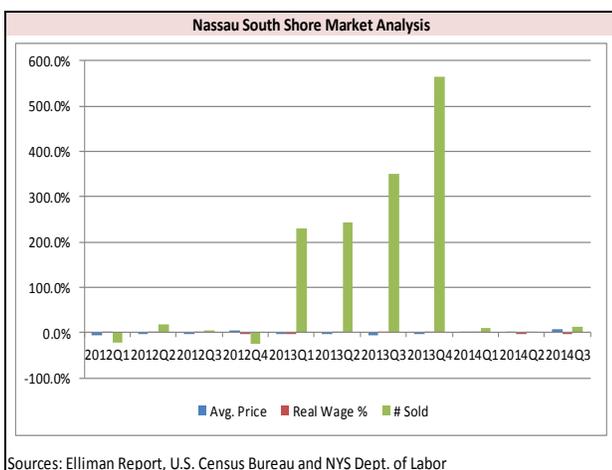


Chart 6 reveals the annual growth rates by quarter recorded in the south shore region for

average closed sale prices, real wage growth and the number of homes sold.

On the south shore, average prices dropped throughout 2013 after Superstorm Sandy hit and individuals saw this as a good opportunity to purchase houses in the south shore region. The number of homes sold on the south shore has grown an average of 201.6% per quarter from 2013 through 2014. Although sales volume has increased at a lesser pace in 2014, it has remained positive along-side average price growth.

In conclusion, the housing market is seen as having a significant impact on County Sales tax collections. NYS Department of Taxation and Finance figures from State Fiscal Year 2009 to 2012, show that purchases associated with new home sales are estimated to represent 10.8% of total County sales tax collections.

Recent increases in average home prices on the north shore and middle island regions are seen as putting home ownership out of reach for many and resulted in a decline in the number of homes sold in those regions. This trend was seen nationwide in the drop in US home construction, analysts said, “Price increases have cut into affordability for would-be buyers, limiting sales growth for new homes and cutting into sales for existing homes.”<sup>2</sup>

The declines in those regions were offset by the robust sales activity on the south shore. This market correction is expected to right itself in 2015 and positive growth is anticipated for 2015 Nassau homes sales.

Looking forward, the economy is expected to improve in 2015. According to New York Fed President William Dudley, “The U.S. economic outlook looks brighter, with growth likely to be

<sup>2</sup> The Associated Press, “US Home Construction Drops”, Long Island Business News, November 19, 2014.

somewhat above the trend of the past five years”. On average real US GDP is expected to grow to 2.9% in 2015 from 2.2% in 2014. Based upon this growth, the central bank is expected to raise interest rates in 2015.<sup>3</sup> Table 5 displays the current forecast for US real GDP and 30 year mortgage interest rates. This should positively impact County sales tax collections.

**Table 5**

<b>US Real GDP Growth Forecast</b>			
	<b>2014</b>	<b>2015</b>	<b>2016</b>
Mortgage Bankers Assoc.	2.2%	2.8%	2.5%
Federal Reserve	2.2%	3.0%	2.9%
Freddie Mac	2.3%	3.0%	3.0%
<b>Average</b>	<b>2.2%</b>	<b>2.9%</b>	<b>2.8%</b>
<b>US 30 Year Mortgage Interest Rate Forecast</b>			
	<b>2014</b>	<b>2015</b>	<b>2016</b>
Mortgage Bankers Assoc.	4.2%	4.8%	5.4%
Freddie Mac	4.2%	4.6%	5.5%
<b>Average</b>	<b>4.2%</b>	<b>4.7%</b>	<b>5.5%</b>

Several factors are expected to impact the local economy:

Bank regulators are looking to reduce credit standards to make it easier for individuals to obtain mortgages with lower down-payments. Previously, if a bank was not going to retain 5% of the mortgage on its books, a purchaser was required to put down 20%. The elimination of this requirement was adopted by the Federal Deposit Insurance Corporation, (FDIC). Final approval is still required from 5 other agencies.<sup>4</sup> This should positively impact County Clerk fees and sales tax collections.

Additionally, Fannie Mae and Freddie Mac announced that potentially by year end 2014 some first-time home buyers would be eligible to receive a mortgage with a 3% down payment.

<sup>3</sup> Egan, Matt, “Fed Official: Dreary Days for U.S. Economy may be Over”, [CNN/Money.com](#), December 1, 2014.

<sup>4</sup> The Associated Press, “New Rules Adopted in Hopes of Spurring Home Loans”, [Long Island Business News](#), October 21, 2014.

This should positively impact both County Clerk fees and sales tax collections.<sup>5</sup>

In 2015 both wages and jobs are expected to grow. The “quit rate” has hit its highest level in six years according to the Bureau of Labor Statistics’ September 2014 job opening and labor survey. When people quit their jobs it is taken as a sign of wage and job appreciation. In 2015 wage growth is projected to be 2.5%.<sup>6</sup>

Lastly, US households are beginning to borrow money again. According to the Federal Reserve, in the third quarter 2014, total household debt increased \$78 billion. The increase was led by mortgage and auto loans. This represented the fourth quarterly increase in the past five quarters. Economists at the Federal Reserve said, “It appears that the deleveraging period has come to an end and households are borrowing more”.<sup>7</sup>

**Prepared by:**

**The Office of Legislative Budget Review**

**Helen M. Carlson, Deputy Director**

**Deirdre K. Calley, Assistant Director**

**Tyler Barbieri, Legislative Budget Analyst**

<sup>5</sup> The Associated Press, “Most Americans to Buy Homes with 3 Percent Down”, [Long Island Business News](#), December 8, 2014.

<sup>6</sup> Bovino, Beth Ann, “3 Reasons You’ll Likely Get a Raise in 2015”, [CNN/Money.com](#), November 14, 2014.

<sup>7</sup> The Associated Press, “More-Confident US Households Step Up Borrowing”, [Long Island Business News](#), November 25, 2014.