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REAL ESTATE IN-DEPTH

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NAR Predicts Higher Home Sales, Prices and Rates in 2022

By John Jordan

WASHINGTON—As part of the National Association of Realtors' Real Estate Forecast Summit held on Dec. 15, real estate economists and experts predicted a continued strong market, marginal improvement in the nation's for-sale inventory crisis and higher interest rates.

The virtual program began with an opening address by 2022 NAR President Leslie Rouda Smith, followed by a keynote address by Todd M. Richardson, general deputy assistant secretary for policy development and research at HUD; an economic outlook by NAR Chief Economist Lawrence Yun and a Housing Outlook panel that featured: Ken H. Johnson, Associate Dean of Graduate Programs, Florida Atlantic University; Lesli Gooch, Ph.D., CEO, Manufactured Housing Institute; Naa Awaa Tagoe, Acting Deputy Director, Division of Housing Mission and Goals for the Federal Housing Finance Agency; and Danielle Hale, Chief Economist, Realtor.com.

NAR President Smith said that the association believes that interest rates will rise in 2022 and that inventory levels will begin to increase next year as well. Later that morning, a majority of members of the Federal Reserve indicated the Fed would likely increase short-term lending rates three times next year, possibly beginning in the spring.

Lawrence Yun, chief economist with the National Association of Realtors, revealed that NAR believes that when all home sales close at the end of December, 2021 sales will be at the highest level since 2006. Dr. Yun is the subject of this month's Five Questions With feature on page 2 of the Economic Forecast supplement.

Realtor.com Chief Economist Hale outlined a host of predictions for 2022. She said that there is concern about inventory levels. "One of the things that we are optimistic about in our forecast is that there is not going to be a huge change, but we do expect that inventory will bottom (out) and start to increase into 2022," she said.

Hale added that Realtor.com sees strong buyer demand boosting home sales in 2022. Sales will be spurred in future years by the 45 million people in the 26-35 age group who will be looking to form families in coming years. Realtor.com expects the median home sale price to rise by 2.9%; existing home sales to be 6.6% higher, for sale inventory to increase slightly by 0.3% and mortgage rates to average 3.3% for the year and be at 3.6% at the end of 2022.

Other trends Hale sees in 2022:

- Home sales to reach 16-year highs.
- Home prices to increase but at a more moderate pace.
- Apartment rents will outpace home price growth.
- Home buyers will continue to prefer the suburbs.
- Hispanic buyers will continue to be a growing demographic.

In her 2022 forecast posted at Realtor.com, Hale noted, "while urban areas continue to be pricier and fast-paced, the advantage of shifting to the suburbs to get a better bang for the buck and face a less competitive market has eroded. Nevertheless, with affordability likely to be even more top of mind for buyers in the face of rising home prices and rising mortgage rates, the suburbs are likely to maintain their recent cachet."

Hale noted that 2022 will continue to be a seller's market. "Homebuyers have much to look forward to in 2022. After years of declining, the inventory of homes for sale is finally expected to rebound from all-time lows. Still, the housing market will remain competitive for buyers, particularly for those looking for homes in entry-level price tiers," she stated in her online forecast.

Project Costs Range from $650M to Nearly $1.3 Billion

NYSDOT PEL Study Recommends Moving Forward With Third Lane Expansion Project on Route 17

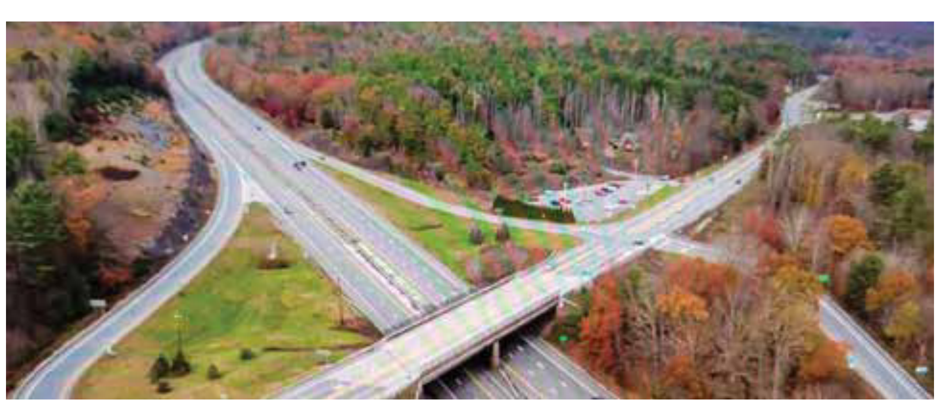
By John Jordan

POUGHKEEPSIE—The highly anticipated final report from the New York State Department of Transportation's Route 17 Planning and Environmental Linkage (PEL) Study group is recommending the state move forward with a General Use Third Lane in each direction on Route 17 in Orange and Sullivan counties that could if built as one major project cost anywhere from $650 million to $1.27 billion to complete.

The PEL Study Group is also recommending that interchange upgrades be undertaken at exits in Orange and Sullivan counties and that improvements be made in the region to improve connectivity to existing transit. The scope of the construction of the General Use Third Lane beginning at Exit 131 in Harriman (Orange County) to Exit 103 (Rapp Road) in Monticello in Sullivan County would determine the cost of the project. Option 1, which involves using the basic existing footprint of the roadway and shoulders to accommodate a third lane in each direction would cost $385 million to $470 million for the Orange County stretch of roadway and another $265 million to $325 million in Sullivan County.

Under Option 2, which would involve widening the existing roadway to accommodate the third lane expansions in both directions so that most of Route 17 would conform to federal Interstate standards, the costs would escalate. For the Orange County stretch, the cost would run between $615 million to $750 million, while the Sullivan County component's cost ranges from $425 million to $520 million.

The PEL Study Group in its report released on Nov. 22 did not recommend one option over the other and also while listing interchanges in Orange and Sullivan counties that could be upgraded, it did not issue any specific recommendations, although it did point out those with the greatest need.



The NYSDOT report cited the most pressing need involves a stretch of Route 17 from Harriman to Exit 122 in Middletown in Orange County.

In referencing the need for a General Use Third Lane, the study group stated, "Reconstruction under the General Use Third Lane Alternative would provide the opportunity to address deficiencies in the existing roadway to correct nonstandard features and storm-related flooding. High crash locations containing curves and overpasses would benefit from widening shoulders, increasing pavement friction, and increased banking (removal of non-conforming super elevation) under this concept. Increasing the capacity of Route 17 would provide a 24% reduction in congestion related crashes overall, per the Crash Modification Factors Clearinghouse."

The study indicated the cost of the interchange upgrades in Orange County could run from $135 million to $175 million and in Sullivan County from $43 million to $144 million.

Improvements to Connectivity to Existing Transit projects are projected to cost between $1 million to $1.5 million in Sullivan County and $9 million to $10 million in Orange County.

The study group also recommended moving forward with a No Build scenario, but that was done chiefly because it is a requirement of the National Environmental Policy Review Act (NEPA) process for any proposed Route 17 project. The group also considered the construction of a High Occupancy Vehicle Lane and the addition of Light Rail and Bus Rapid Transit but did not recommend going forward on any of those options.

While study group officials have stated at previous virtual public workshops that the full project would likely not move forward all at once due to funding constraints and other factors, the report listed the total project cost involving the construction of the General Use Third Lane, interchange improvements and improvements to connectivity to existing transit projects would run from $529 million to $935 million in Orange County and $309 million to $665.5 million in Sullivan County.

While the Route 17 expansion may qualify for some federal funding, it is likely that the overall project would be done in phases and based on the report it appears work would begin on a stretch of the roadway in Orange County.

"As previously noted, NYSDOT will determine the logical termini and specific project limits of the General Use Third Lane Alternative in the future, following careful consideration of existing and projected traffic congestion, public and agency input, and available funding," the report stated. "Based on this Route 17 PEL Study, the area of greatest need appears to be between Exits 120 (NY Route 211 – Wallkill) and 131 (Woodbury), a distance of approximately 22 miles, and the segment of the corridor that is projected to experience the highest levels of congestion in the year 2055."

Advocates for the Route 17 expansion were heartened to learn that the project could receive funding from the $1.2-trillion infrastructure bill recently signed into law by President Biden

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5 QUESTIONS WITH NAR Chief Economist Lawrence Yun

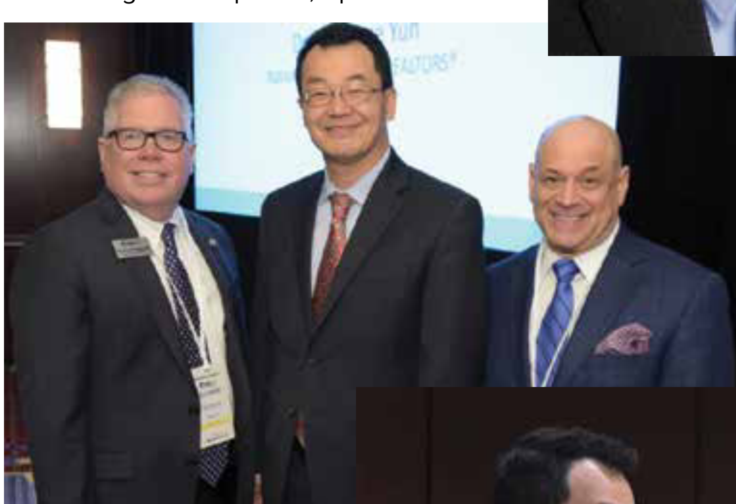
By John Jordan

The Delta variant surge and the emergence of the Omicron COVID-19 variant, as well as high inflation, have many business leaders nervous heading into 2022. The residential real estate sales market has been booming in the United States, thanks to strong demand and low borrowing rates.

What's in store for the residential and commercial markets next year. *Real Estate In-Depth* turned to National Association of Realtors Chief Economist Lawrence Yun for some answers.

In a recent blog, Dr. Yun noted that anyone under the age of 40 has never experienced inflation rates this high, noting that consumer prices rose 6.8% in November.

"We are already well aware of higher food and gasoline prices, up 6% and



58% respectively from a year ago. Rents are up 3% and accelerating at better than 5% on an annualized basis. The heating bill will not be pretty, as natural gas prices are higher by 25%. This rapid inflation is

the reason higher mortgage rates are expected in 2022. The Federal Reserve will have to raise interest rates to contain them. The average 30-year fixed mortgage rate is likely to reach 3.7% by the end of 2022 from the current near 3% rate," Dr. Yun predicted. He did note that real estate has historically been used as a hedge against inflation.

At the National Association of Realtors, Yun supervises and is responsible for a wide range of research activity for the association including NAR's Existing Home Sales statistics, Affordability Index and the Home Buyers and Sellers Profile Report. He regularly provides commentary on real estate market trends for its 1.4 million Realtors.

He also creates NAR's forecasts and participates in many economic forecasting panels, among them the Blue Chip Council

and the *Wall Street Journal* Forecasting Survey. He also participates in the Industrial Economists Discussion Group at the Joint Center for Housing Studies of Harvard University. He appears regularly on financial news outlets, is a frequent speaker at real estate conferences throughout the United States, and has testified before Congress. Dr. Yun has also appeared as a guest on CSPAN's Washington Journal.

Dr. Yun received his undergraduate degree from Purdue University and earned his Ph.D. from the University of Maryland at College Park.

Recently, Dr. Yun responded in writing to *Real Estate In-Depth*'s submitted five questions on key economic trends heading into 2022.

1

Real Estate In-Depth: What is your forecast for single-family, condo and co-op sales for 2022 and do you expect a more normalized market next year based on recent sales results?

Dr. Yun: A slight decline, by 2% or so, from the super robust figures in 2021. That's due to the anticipated rising mortgage rates.

2

Real Estate In-Depth: How will inflation influence the market in 2022? Do you expect rising consumer costs to be an issue for the entire year or do you think that some of the things influencing inflation, such as supply chain problems, labor shortages and high gas prices, will be resolved or sufficiently addressed in the near future?

Dr. Yun: Inflation is annoying and quietly eats away at people's savings. One impact to real estate is that some homebuilding activity will be delayed due to materials and needed supply not being able to get to U.S. shores on a timely basis. The other more important impact is that the Federal Reserve will need to raise interest rates to contain inflation. The higher interest rates of course hurt homebuying affordability.

3

Real Estate In-Depth: Will the commercial office market continue to struggle in 2022 or will return to office programs begin to eat away at vacancy rates in major markets, such as New York, San Francisco, etc.?

Dr. Yun: A big wild card is "what is going to happen to office spaces?" I believe the work-from-home hybrid will become fairly normal and hence the demand for office spaces will not pick up on net. The office vacancy rates will continue to hover at high levels even as the economy is adding jobs. The expensive markets of San Francisco and New York will have a harder time as some of the workers who would have been there can now work-from-home in less expensive locations.

4

Real Estate In-Depth: Will the Infrastructure Bill and the Build-Back Better legislation, if passed, have a beneficial impact on the overall economy and the real estate market and if so, how?

Dr. Yun: The upgrading of highways and bridges, along with the expansion of broad band into rural communities facilitate economic commerce and job creations. Any dollars to boost housing supply will be a major positive. At the same time, the bill has many other components with an unclear impact on how to pay for them. Even if taxes are not raised, the higher budget deficit can boost the borrowing costs for all, including for homebuyers.

5

Real Estate In-Depth: We all know that the COVID-19 pandemic has been a wild card for the economy. Is that still the case and are there any other wild cards that could change your 2022 forecast for the better or worse?

Dr. Yun: COVID has brought about the work-from-home flexibility for which I think we are only in the first or second inning of a long game. Many Americans are mis-housed. Too small or not needing to be so close to the downtown office locations. Therefore, there will be steady readjustment to find the right home and that will support home sales in the upcoming years.

Fordham, OneKey, HGAR Event Explored Overcoming Barriers to Development

NEW YORK—Commercial development plays an imperative role in the success and longevity of a community. However, the road to its execution can be riddled with legal, ethical and environmental hinderances. Real estate experts joined leading development and public policy professionals to discuss commercial development complexities and their resolutions in a virtual panel Nov. 18 hosted by Fordham University's Real Estate Institute, the Hudson Gateway Association of Realtors, Inc. (HGAR) and OneKey MLS.

"Breaking Down Roadblocks in Commercial Development" featured Noam Bramson, the Mayor of the City of New Rochelle; Arthur Collins, Principal and President, Collins Enterprises LLC of Old Greenwich, CT.; Rella Fogliano, Founder and CEO, MacQuesten Development LLC and MacQuesten Construction Management LLC of Pelham.; and Eon Nichols, Partner and Vice-Chair, Real Estate, Corporate, Finance and Non-Profit Groups, Cuddy & Feder LLP of White Plains.

New Rochelle Mayor Bramson took a historical angle to his observations, highlighting the region's surge of growth in the 1980s and 1990s as a result of vehicle accessibility and usage. Now, the commercial development focus has changed as "people rediscover the virtues of compact, walkable transit-served neighborhoods where goods and services are all readily accessible, where transportation costs are somewhat lower," Bramson said, and emphasized the future of commercial development looks bright. "The change, which may have created some challenges for our region in the post '80s, '90s period, is now opening up new opportunities for urban centers that have the infrastructure to support growth but which have not been previously seen as ripe for it."

He noted that the zoning changes implemented by the City of New Rochelle now allow projects that conform to the zoning to get to the site plan approval process in 60 days to 90 days.

"The predictability and the speed are absolutely essential and the results have been remarkable," he added. "Since adoption of that framework we have adopted 30 significant projects, six of them are completed and are leasing up at a rate exceeding expectations, 11 of them are under construction" and a number of others will begin construction in a few months.

"It has been a flood of investment of a kind that we have never experienced before," Mayor Bramson said.

The discussion was moderated by

Continued on next page

Rep. Maloney Says SALT Cap Reform is on the One-Yard Line

By John Jordan

BEDFORD HILLS—At a press conference on Dec. 6, U.S. Rep. Sean Patrick Maloney (D-18) expressed confidence that the reform of the unpopular SALT Cap is at hand.

From left, Bedford Supervisor MaryAnn Carr, U.S. Rep. Sean Patrick Maloney, Westchester County Executive George Latimer, HGAR's Leah Caro and Richard Haggerty

There have been reports that Senate Democrats are at odds over the particulars of how to reform the SALT Cap, which is to be part of President Biden's "Build Back Better" social spending package. The House passed the $1.75-trillion spending plan in November that includes a provision to raise the $10,000 cap on state and local tax deductions to $80,000 through 2030.

Rep. Maloney was joined by local officials, including Westchester County Executive George Latimer and Bedford Supervisor MaryAnn Carr, as well as representatives of the Hudson Gateway Association of Realtors—former President Leah Caro and Chief Executive Officer Richard Haggerty—at the press briefing staged at the Bedford Hills Community House.

"I am confident it will pass the Senate," U.S. Rep. Maloney said. "I think if it gets modified, I think it will be minor modifications." He later said, "I think we are on the one-yard line here and we are going to punch it into the end zone."

Rep. Maloney said that the SALT Cap imposed in 2017 under the Trump administration was geared to pay for tax cuts for the wealthy and to punish Democratic-leaning states such as New York and California. "It's been a fight. It has not been easy getting peoples' local tax deductions, but we have been focused on this like a laser beam and we are going to get it done," he predicted.

HGAR's Caro, who is co-chair of the association's Legislative Committee, said the SALT Cap has suppressed activity among the working and middle class looking to grow or build generational wealth through homeownership. She added that it also deterred younger buyers from purchasing homes in New York State, which Caro noted has contributed "to the brain drain of our great region as other areas and states become more economically appealing" to younger buyers.

"By increasing the cap from $10,000 to $80,000, the pull of owning one's own home will be restored; providing stability in burgeoning neighborhoods, allowing our young people to stay in the Hudson Valley so we can benefit from their forward thinking and knowledge and keeping New York a place that millions want to call home," Caro said.

County Executive Latimer said the raising of the SALT Cap will have a beneficial effect on the state and local economies. He said that homeowners will now have more discretionary income to pump back into the local economy that at present is being utilized to pay federal income taxes due to the harsh SALT cap.

He added that the decrease in tax burden will also make homes in Westchester more attractive and affordable to more middle-income buyers.

"I don't think there is any question that this is a home run for local governments and local residents," Latimer said.

Bedford Supervisor MaryAnn Carr said that the Bedford area has seen a great influx of new families moving into the area. "This particular tax cut is going to mean a lot to this community and the residents of this community," she said.

Carr said that many Bedford residents are not wealthy and are members of the working class that will greatly benefit from the raising of the SALT Cap.

Fordham, OneKey

Continued from previous page

John Barrett, Managing Director/Investment Sales Division, RM Friedland, and President, Commercial and Investment Division of HGAR. "When it comes to the process of entitlements for all these municipalities—essentially the developer has become conversant with every element of the project," said Collins. "Density, school-children generation, parking, traffic impact, building height, sun and shadows—all of this comes into play and we know by virtue of doing it a number of times what we are generating."

Nichols agreed, saying increased transparency will improve efficiency and productivity across the board in commercial development. "Having clarity and being able to communicate to the developers exactly what they can get in terms of a PILOT really helps and gives certainty to folks who want to develop there. When I look at other municipalities where there's no clarity in terms of a PILOT, the deals linger for years, months."

Barrett asked the panel to share advice to Fordham University real estate students on how to excel in commercial development. "In today's world, to start on your own is extremely difficult," said Fogliano, who noted as an impediment the high cost of land. "Work for a developer first and absorb as much as possible. Learn about the current landscape and its intricacies."

NYSDOT Study Recommends

Continued from page 1

when U.S. Rep. Sean Patrick Maloney (D-CD18) listed the Route 17 project at a press conference in Newburgh on Nov. 8 as one that could qualify for federal funding. He referenced the Infrastructure Act's $13.5 billion that will go directly to New York State's highways and bridges, and said that revamping Route 17 through Orange County is "a much-needed project that has been stalled for too long."

"Route 17 can receive funding through the Infrastructure Investment and Jobs Act," a spokesman for Rep. Maloney said. "However, the law does not directly earmark funds to specific projects. It will be up to New York State to determine how to dedicate their funds from this legislation to projects like Route 17. However, as he has throughout the legislative process drafting the Infrastructure Investment and Jobs Act, Rep. Maloney will continue to fight for funding for critical projects and priorities here in the Hudson Valley."

The PEL process is being initiated by the NYSDOT in cooperation with the Federal Highway Administration. The DOT last year began a scoping and preliminary review process as part of the $5 million PEL study, whose funding was secured through the 2018-2019 state budget.

The PEL study is a follow-up to a NYSDOT study released in May 2013 that examined the corridor between Monticello, Exit 103 (Rapp Road) and Harriman, Exit 131 (New York State Thruway) to help accommodate transportation demands brought about by economic growth in the region and to help accommodate future growth.

The 2013 final report recommended: adding a general use third lane, in each direction, from Interstate 87 in Harriman to just west of Middletown, Orange County; improve key interchanges in Orange and Sullivan counties; provide new and expanded park and ride lots at strategic locations in Orange and Sullivan counties and recommend some provisions for future transit.

The 17-Forward 86 Coalition has lobbied for the state to conduct the PEL study and now with the report completed will be shifting its focus to securing federal and state funding for the expansion project.

Maureen Halahan, President and CEO of the Orange County Partnership in Goshen and co-chair of the 17-Forward-86 Coalition, said, "We thank Governor Hochul, New York State Department of Transportation Commissioner Dominguez and the DOT team for finalizing the Planning and Environment Linkages (PEL) report for the Route 17 corridor, and Senator Schumer and Congressman Maloney for their continued support. We founded the 17-Forward-86 Coalition with the goal of expanding capacity on Route 17 and our effort to add a third lane across the corridor is nearing success. The PEL will help accelerate the delivery of specific projects to add a third lane along the corridor to ensure continued economic growth and an improved quality of life in our region."

Marc Baez, President and CEO of the Sullivan County Partnership and 17-Forward-86 Coalition co-chair, added, "We are so pleased New York State is moving forward with efforts to improve mobility and enhance safety on our roads. As we work toward an economic recovery, the quality of our infrastructure will play a key role in the future of our region and our state. Expanding the Route 17 corridor is crucial to that. We look forward to working with the DOT and the administration on moving through the next phases of the environmental process and securing construction funds in the upcoming DOT capital plan."

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