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The purpose of this study is to evaluate the impact of Marcellus Shale on housing, specifically, to evaluate the changes in the cost and stock of single family home, new construction, low income, and rental rates.

Issue Brief

The Impact on Housing in Appalachian Pennsylvania as a Result of Marcellus Shale – Real Estate

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The **INSTITUTE** for
Public Policy & Economic Development

*A partnership among Keystone College, King's College, Luzerne County Community College,
Marywood University, Misericordia University, Penn State Wilkes-Barre, The Commonwealth Medical College,
University of Scranton, & Wilkes University*

Issue Brief

Marcellus Shale's Impact on Real Estate

The Institute for Public Policy & Economic Development has created a series of briefs focusing on issues discovered in crafting the recent study released entitled, *The Impact on Housing as a Result of Marcellus Shale*. The study was funded by the Appalachian Regional Commission and is available in its entirety at www.institutepa.org. This brief explores impacts on the real estate market in counties that are being greatly impacted by drilling.

The presence of vast natural gas reserves in the region known as the Marcellus Shale – an area including much of Pennsylvania and stretching from New York to West Virginia – has been known for decades. This geography represents a large portion of Appalachia. However, recent emphasis on domestic energy production, coupled with new technologies that make the recovery of these natural gas reserves cost effective, have led to increasing interest and activity directed toward developing these resources.

Most of the counties within the Marcellus Shale area are rural, and the potential impact of widespread gas development is expected to be profound. Such development can be an economic boon. However, housing in the shale area can be affected in a number of ways; some positive and some negative.

This information on real estate in this brief comes from interviews conducted for the study. We utilized a purposive sample of 2-5 key informants in each county of the 12 counties in the study region. A total of 32 key informants were interviewed across the twelve counties.

Semi-structured interviews were conducted with key informants asking about awareness and perceptions of impacts on housing in their respective county. Also, key informants were asked to describe some of impacts of development, both positive and negative. Interviews were conducted between May and September 2011, either in person or via telephone, to accommodate the respondent's schedules.

Certain individuals were targeted, including county/city housing authority representatives, realtors, county planning and development departments. We selected these individuals by identifying leaders within specific organizations and county-based leadership positions. This analysis does not provide a statistical summary or assess the prevalence of these views among participants.

Land Sales

The cost of land in many of the counties with extensive drilling activity has skyrocketed. In 2004, the cost of an acre was \$1,700-\$1,800. Currently, the average prices are now between \$3,000 \$15,000 per acre. The number of land sales dropped 40%.

In the past, many people came to the Bradford and Tioga areas to purchase land for recreation, such as hunting or fishing. Currently, many who own land are not selling in hopes of cashing in off of future royalties. Vacant land purchases have been impacted, as owners are holding their land in hopes of exploration hitting them. Asking prices have increased in rural areas, as owners feel land is worth more. One participant described prices as ridiculous and cited the example of an asking price of \$8 million for 30 acres of land.

Many who want to sell land, however, wish to retain mineral rights. However, many banks will not provide financing to a buyer without at least a sharing of the mineral rights. Sellers want to keep mineral rights but buyers want them. Buyers are speculating that they will get money for royalties and sellers asking more money because there is hope of leasing one day. Because these counties are rural, they normally have a great deal of land sales. A decrease is a significant change for these areas. With the current slump in the housing market, low land sales can cause additional strain on an already struggling economy. The low availability and high price of land could negatively affect building. If individuals who are interested in purchasing land in order to build on it and are unable to, residential and commercial building permits may see a decrease as could construction jobs.

Home Sales/Building

Before Marcellus Shale drilling began, many of the homes purchased in the Northern Tier were done so by individuals from other states looking for a place to retire. Many of these people moved to the county for its quality of life or aesthetic. They are now leaving because of the changing landscape and the hustle and bustle that was absent from the area just a few years ago. Large acreage parcels with homes recently stopped being listed for the most part. The few that are listed are done so at very high prices - \$400,000-\$500,000 and up which is very unusual for the area. Someone interested in buying a low acreage home would have to spend at least \$100,000 for livable properties because many properties are old and must be refurbished.

According to one realtor, *“[There have been] cases where people have been questioning whether it’s prudent to hold onto mineral rights.”*

There has not been any negative impact on home values as of yet. People with a lot of money are buying so low to moderate income having difficult time purchasing. Mortgage industry – requires equity and good credit. Unless you have great credit and money down – buying is an issue.

All of the counties in the study have fallen victim to the housing crisis. In 2008, building permits began to decrease in several counties because of the economic and housing crisis occurring nationwide. Luzerne County experienced the largest drop that year – decreasing by nearly 50% from 2007. In 2010, many of the counties in the study area began to see an increase in building permits suggesting those housing markets could be beginning to recover. It did not appear that shale development has had much of an impact as of yet on residential home building. Several of the counties with a high number of wells also experienced an increase in building permits between 2009 and 2010.

Housing Unit Building Permit Totals												
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total
Blair	226	255	322	363	496	180	193	294	195	125	159	2,808
Bradford	159	162	145	194	169	104	104	122	92	56	175	1,482
Cambria	220	205	213	240	320	246	232	174	264	94	117	2,325
Clearfield	186	218	169	234	303	176	177	134	89	131	124	1,941
Clinton	137	172	132	159	150	100	105	98	61	33	31	1,178
Fayette	352	254	283	249	273	99	103	80	313	221	240	2,467
Forest	47	83	70	31	32	21	3	4	11	12	10	324
Luzerne	603	651	889	935	884	814	872	771	357	340	359	7,475
Lycoming	313	388	355	289	349	299	300	206	194	118	207	3,018
Susquehanna	130	140	159	164	170	136	113	116	91	120	73	1,412
Tioga	196	164	167	160	148	113	111	98	80	84	99	1,420
Wyoming	98	100	117	98	142	99	85	66	55	49	63	972

Source: U.S. Census Bureau

Building capacity is another issue. General contractors are used in the drilling industry and in many of the drilling counties there are only a few firms. The same holds true for residential construction companies and specialty contractors. Given the needs of the natural gas industry from the building industry and the already limited capacity, any new construction projects will be challenged by the supply of local contractors. As discussed in the full study, this is another area where regional efforts make sense.

Home sales fluctuated through the 2006-2010 period. Median home prices were a bit less predictable than home sales and fluctuated throughout the period. Wyoming County showed the highest median prices as the only county to go over the \$100,000 mark each year. The lowest median sale prices occurred in Clearfield County.

Median Sale Price					
	2006	2007	2008	2009	2010
Blair County	\$73,000	\$74,000	\$76,000	\$82,000	\$75,450
Cambria County	\$63,000	\$40,450	\$22,250	\$34,250	\$60,000
Clearfield County	N/A	N/A	\$20,000	\$59,900	\$58,950
Clinton County	\$77,000	\$82,750	\$82,450	\$80,000	\$71,000
Fayette County	\$63,800	\$60,000	\$67,450	\$72,500	\$66,500
Luzerne County	\$83,820	\$89,300	\$80,000	\$85,000	\$84,000
Lycoming County	\$96,000	\$95,000	\$85,900	N/A	N/A
Tioga County	\$69,700	\$71,900	\$78,000	\$70,250	\$70,000
Wyoming County	\$120,000	\$118,000	\$120,000	\$130,000	\$129,187

Source: PolicyMap

**Data for Bradford, Forest, and Susquehanna were unavailable.*

Rental Units

In counties where shale drilling is in an advanced stage, there are many housing issues effecting residents. The issues of most concern are a dramatic increase in rents and the shortage of affordable housing. Due to the influx of gas workers from other states (most in the region temporarily) there is a shortage of rental units. Because these workers tend to earn more than local residents, they are willing to pay higher rents. Landlords have capitalized on this by increasing rents upwards of 100 percent to 150 percent. Since the existing local residents cannot afford this increase, this results in current local tenants being forced to move out, while gas workers move in. According to on key informant, *“Traditional low income renters are getting squeezed out of the market”*. Another interview discussed his thoughts on landlords and their how they are allegedly looking for ways to get lower paying tenants to vacate a property; *“They are purposely trying to get rid of them; they are looking for reasons to terminate [the lease].”* An example was given of rents continuing to go up. Recently in Bradford County, a farmhouse was being rented for \$5000 per month.

One realtor in Bradford County said about rental units, *“there is none to be had”*. At the time of the interview there were only seven properties listed for rent in the entire county. Many

individuals are moving back home with parents while some are moving in with their adult children due to the lack of available and affordable units.

Some key informants were positive about the rental increases. According to the realtor, landlords are seeing increases in utilities and taxes, so they are justified in increasing rents. According to one participant, *“Landlords are finally able to capitalize on market – get into positive flow. They were just breaking even before – now can make money.”* There has been some rental activity in the Back Mountain area, as landlords who are anticipating changes are increasing their rents, although such instances are not happening to the degree that they are occurring in other areas.

A Tioga County-based university is also experiencing some issues with housing availability and affordability for its students. Participants reported that some students were transferring to different institutions because they could not find housing. There have been cases of secondary education teachers from out of the county taking positions within the county and being unable to find housing. As a result, they must commute an hour or so to work.

Because there are so few rental units available in the Northern Tier counties, many residents are moving out of the county and even the Commonwealth. Many are going to southern New York State, just across the border of Bradford and Tioga Counties. One key informant said, *“there is an exodus out of Bradford and Tioga [Counties] into New York State. He indicated that his nonprofit organization is being “impact(ed) like never before because New York housing is being taken by Pennsylvania folks who can’t find place to live”.* Other key informants in Pennsylvania suggested their counties are being impacted. Wyoming, for example, is seeing an influx as well. One key informant said that residents from Bradford County are *“floating there.”* In addition, folks from Wyoming going to Lackawanna and Luzerne Counties” Wyoming County is in the early stages of development but are experiencing their own rental problems due to additional gas workers, residents migrating from Bradford and Tioga Counties only exacerbates these issues. Lackawanna and Luzerne Counties have virtually no development occurring yet, but may begin to experience many of the same issues as counties undergoing rapid development.

References

The Impact on Housing as a result of Marcellus Shale. Ooms, Teri and Sherry Tracewski. November 2011.