

# Washington State's Housing Market: A Supply/Demand Assessment

## First Quarter 2002

Washington Center for Real Estate Research  
Washington State University  
P.O. Box 644861  
Pullman, WA 99164-4861  
(800) 835-9683

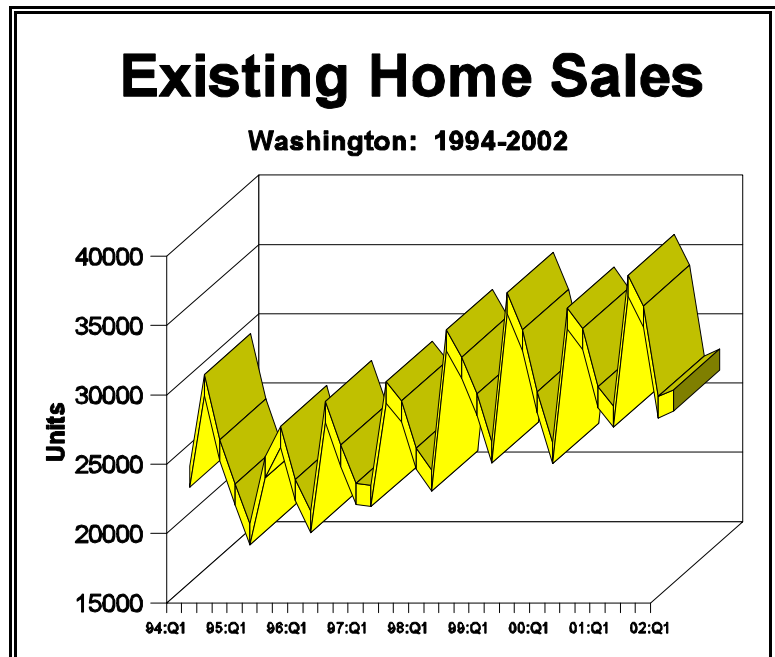
The national recession is a year old, and economists are increasingly finding evidence of recovery. Meanwhile, Washington's economy seems to be resisting recovery, remaining stagnant. While less stellar than last year, housing remains buoyant, especially the resale market. This strength is largely driven by continued low mortgage rates which encourage first-time buyers to make the jump to homeownership, and help some repeat buyers pursue their dream home.

### Home Resales

During the first quarter a total of 28,150 resale home transactions were tallied, an increase of 4.3 percent compared to the first quarter of 2001. Significantly, this was the most active opening quarter since WCRER began monitoring Washington's resale housing market at the beginning of 1994.

Despite the overall good news, there were wide variations in regional activity. Twelve of Washington's 39 counties recorded fewer sales than during the first three months of 2001, and the declines were often significant. Whitman and Pacific counties all saw sales slide by more than 10 percent from year-ago levels. The Tri-cities, Everett and Bremerton markets also experienced declines in sales of more than five percent. Meanwhile, seven counties experienced sales increases in excess of 20 percent -- a remarkable showing. Market strength was especially pronounced in the Wenatchee and Ellensburg areas, both of which increased home resales by more than 50 percent compared to early 2001.

Seven counties each had at least 1,000 sales during the quarter, led as always by King County's 7,590 sales. Collectively these large counties accounted for 20,440 home sales, 72.6 percent of the state total.



## Housing Construction

A total of 7,455 housing units were authorized by permitting jurisdictions during the first quarter, a level of activity 17.3 percent below a year ago. This level of construction activity is somewhat above the fourth quarter. King, Pierce and Snohomish counties, respectively, were the three most active in terms of building permit activity. Those three areas represented nearly 55 percent of the residential building permits issued. Ten counties reported more building permits issued than a year ago, while 20 reported declines. Among urban areas, Yakima, Benton/Franklin and Thurston counties reported increased construction activity, while Spokane was essentially unchanged and all remaining metropolitan areas reported less active construction. Single-family building permit activity was 6.2 percent below last year, meaning the apartment construction market absorbed the bulk of the decline.

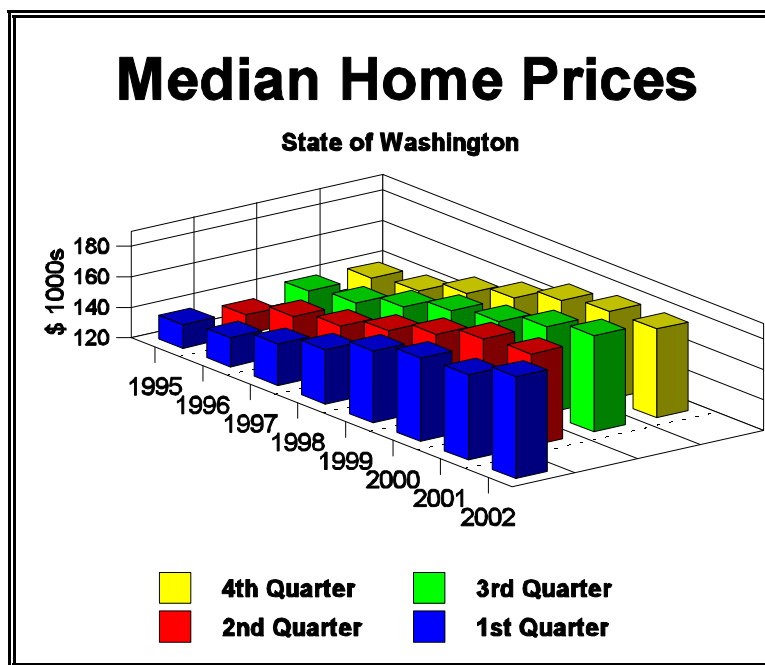
Complete data on building permits throughout the state during 2001 have recently been released by the Census Bureau. This data indicates that a total of 38,345 permits for new housing units were issued last year, a decline of 2.1 percent from 2000 activity. This represents the third consecutive year of reduced building permit activity statewide. The largest number of residential building permits were issued in King County (9,855), while Garfield County issued no permits in 2001. A total of 26,736 permits were issued for single-family homes, 69.7 percent of the total residential permits statewide. Fewer than half of the permits issued in King County were for single-family homes. In all other areas apartment construction represented a much smaller share of the total.

## Home Prices

The median selling price for a resale home in the state of Washington during the first quarter of 2002 was \$186,900. This is a price level \$10,000 higher than a year earlier, a 6.1 percent increase in the median, roughly twice the inflation rate. This is a record high for the quarterly statewide median.

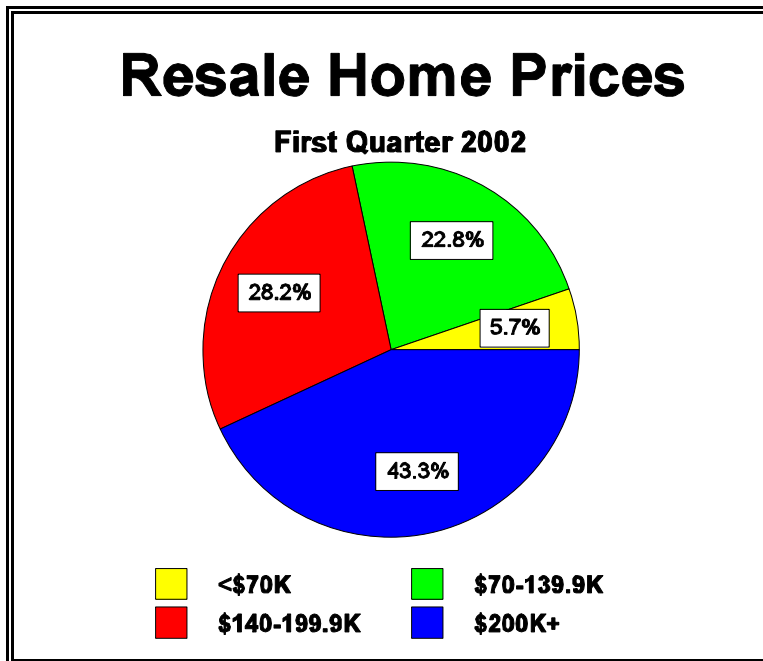
Median prices increased compared to a year earlier in 29 of the 34 counties for which WCRER prepares estimates. Double-digit increases were posted in eight counties, and tiny Wahkiakum county which reported a 300 percent increase in median, largely because the first quarter 2001 value was artificially low.

The most costly housing in Washington during the first quarter once again was found in King County, with San Juan and Snohomish Counties the nearest competition. The typical home in King County sold for \$267,700, 43.2 percent above the



statewide median. The median price resale home remained below \$100,000 in nine counties, with the lower median of \$74,800 in Pacific County, where the median price is now 12.1 percent higher than a year ago. Neighboring Grays Harbor County had the second lowest median, \$80,000.

Measures of central tendency, like median prices (half the homes sold were more expensive, half less) which use a single number to represent a distribution of home prices, tend to confuse some consumers into believing there is nothing less expensive than the median in the marketplace. While



there were significant numbers of homes which sold for prices well below the statewide median, the largest concentration of less costly housing is outside a reasonable commuting distance from major population centers. However, even in urban areas, lower cost housing is often available, especially if the buyer is willing to invest some hard physical work improving the home. In fact, while "only" 5.7 percent of the single-family homes sold during the first quarter were priced no higher than \$70,000, this represents roughly 1,600 homes. Clearly, affordable ownership housing is available and being purchased throughout Washington state. It should be stressed that these statistics represent only resale, single-family homes. Condominium apartments

and manufactured homes represent other affordable ownership housing options.

### Housing Affordability

A central feature of these reports is always the statistics on housing affordability. Following the model developed in 1982 by the National Association of REALTORS®, the Washington Center for Real Estate Research calculates a housing affordability index for all buyers and for first-time buyers. These affordability calculations depend on statistics from a variety of sources. The effective mortgage rate on loans closed during the quarter (6.71 percent) is used in this calculation. While the average downpayment on home purchases is 25 percent, the most frequently encountered downpayment is 20 percent. Accordingly, that percentage is used in the calculation of the all-buyer index. A 30-year term is assumed for paying off the loan.

$$\text{HAI} = \frac{\text{Median Family Income}}{\text{Minimum Qualifying Income}} * 100$$

Income is the other key component of affordability analysis. WCRER obtains county-level data on family and household incomes from a consulting firm. In economic statistics, a family is two or more people related by blood, marriage or adoption who share a housing unit. Single adults with

children or other dependent relatives (e.g. an aging aunt) are families. Household income includes all families as well as persons living alone. Since the vast majority of home purchases (approximately 85%) are made by families, family income is used in the calculation of the all-buyer index.

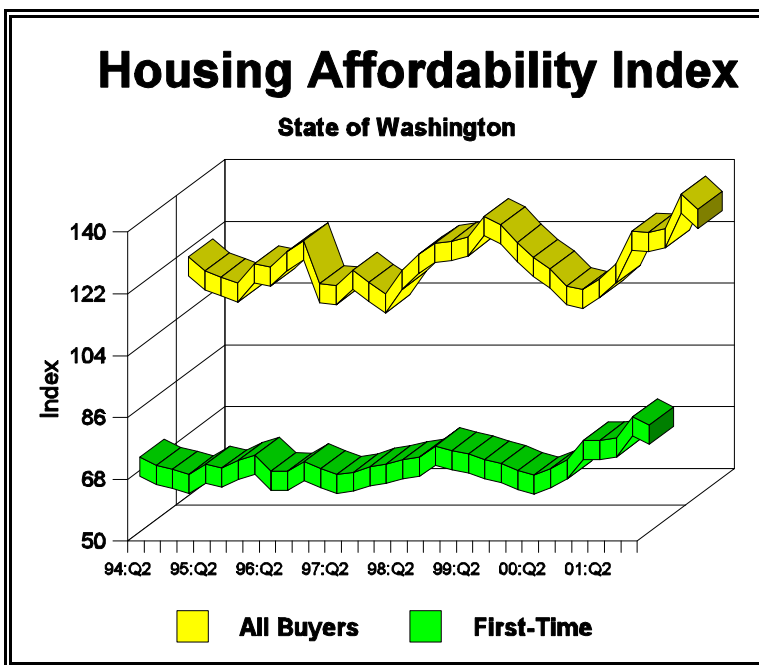
The Housing Affordability Index for Washington State in the first quarter stood at 130.6, meaning that a median income family had 30.6 percent more income than the bare minimum required to qualify for a mortgage on the median price home. This represents an improved affordability condition than the index of 124.3 which prevailed a year ago. However, because of the jump in median prices and a slight increase in mortgage interest rates compared to the fourth quarter,

affordability slipped a little compared to late last year. The annual improvement in affordability is due primarily to a decline in mortgage rates as the Federal Reserve Board used monetary policy to minimize the recession rather than concentrating on preventing inflation.

Locally, housing affordability indexes ranged from a low of 89.4 in Wahkiakum County (one of only two counties to register affordability indices below 100) to a high of 202.7 in Asotin County. Jefferson County reported the other sub-100 index, while 12 additional counties registered measures of at least 160. Among the urban communities, affordability ranged from a low of 109.9 in Island (followed by 120.9 in Franklin) to a high of 190.4 in Spokane (with Benton at 167.6).

While statistically sound, the all-buyer index does not adequately describe the difficulty households have purchasing their first home and beginning the process of developing equity. Most first-time buyers are younger, less established in their careers and without the financial means for a large downpayment. Accordingly, a separate index which adjusts the assumptions has been developed, again patterned on the national methodology. It assumes a 10 percent down payment, even though many lower down payment programs are widely available. Less expensive homes are purchased by first time buyers, typically at prices 85 percent of the area median price. Because the assumed downpayments is less than 20 percent of the purchase price, mortgage insurance must be carried, effectively increasing the mortgage rate by one-quarter point. Since most higher-income households have already purchased homes, the income measures for renters are lower. Household rather than family incomes are used because many more first-time buyers live alone. To account for the departure of the higher income group from the pool, the first-time buyer income is estimated to be 70 percent of the median household income in the area. Using these assumptions produces a statewide index for the first quarter of 78.3.

The first-time buyer index exceeded 100, indicating the typical renter COULD afford a typical starter home in eleven Washington counties during the first quarter. This is the most affordable level



for first-time buyers since the Center began computing the index in 1994. County-level affordability estimates ranged from a high of 115.5 in Asotin County to a low of 53.5 in Jefferson County. Among the urban markets first-time buyer affordability ranged from 107.7 in Spokane County to a low of 70.4 in Island County.

### **Affordable Housing Availability**

The range of choices for several communities around the state is described for four household categories. In all cases it is assumed a household is willing to spend 25% of gross income on principal and interest payments and that overall debt levels are average. Household category groups are defined by their income and their ability to make a downpayment. The groups studied are:

- # \$ 25,000 income, 5% downpayment
- # \$ 45,000 income, 10% downpayment
- # \$ 70,000 income, 20% downpayment
- # \$125,000 income, 35% downpayment

It will be assumed that these buyers will be able to find mortgages for their purchases at an interest rate of 7.00% (somewhat above prevailing rates during the quarter).

### **Affordable Home Purchase Prices for Selected Income/Asset Groups**

<b>Income</b>	<b>Affordable Housing Expense (P&amp;I)</b>	<b>Mortgage Amount</b>	<b>Downpayment</b>	<b>Home Purchase Price</b>
\$ 25,000	\$ 521	\$78,310	\$4,122	\$82,462
\$ 45,000	\$ 938	\$140,988	\$15,666	\$156,654
\$ 70,000	\$ 1,458	\$219,148	\$54,788	\$273,936
\$125,000	\$ 2,604	\$391,401	\$210,754	\$602,155

This table clearly illustrates how income growth coupled with home ownership can move a household up the ownership housing ladder. The next question is how much opportunity there will be in Washington to find a home which can be afforded under the assumptions. Using data reported by multiple listing systems around the state, the proportion of homes available for sale at the end of the quarter with prices at or below each threshold price indicates the degree of choice available to each group, and how difficult it will be to find suitable ownership housing.

One additional note is needed. The homes used in this calculation are those available for sale as of the end of March, when inventories are building in anticipation of the spring selling season. Since these systems typically handle only about 80 percent of the market, and some areas were not able to report details about their listing inventory in the format the Center uses, housing choices may differ somewhat from these estimates. Since these are offering prices, actual sales may occur below or above these prices, depending on local market conditions, and motivations of the buyers and

sellers. Nevertheless, they are reflective of housing market access in these communities.

When reviewing these statistics it is important to remember that the median family income in the state during the quarter was \$60,552, and ranged from a low of \$32,812 in Okanogan County to \$86,582 in King County. Household incomes were lower, ranging from \$27,569 in Okanogan County to \$69,669 in King County. The statewide median household income was \$50,846. This means the lower two price ranges remain most relevant for most residents of the state.

**Percentage of Homes on Market Below Specified Price – March, 2002**

Home Price	State-wide	Benton/ Franklin counties	Clark county	King county	Kitsap county	Pierce county	Snoho- mish county	Spokane county	Thurston county	Whatcom county	Yakima county
\$ 80,000	10.4	17.6	5.0	0.1	4.0	2.4	0.7	31.1	5.0	12.4	21.5
\$160,000	37.5	52.0	35.3	3.6	32.2	33.1	10.1	75.4	39.0	50.1	68.2
\$250,000	64.0	81.9	68.2	25.2	56.4	71.9	50.3	91.2	75.3	76.1	89.2
\$500,000	90.2	97.9	93.8	71.3	89.4	95.2	92.5	98.6	96.9	94.2	98.2

These statistics make it very clear that in most parts of the state first-time home buyers face very limited choices in the housing market, whereas the trade-up buyers have a wide assortment of homes to choose from in all communities. It is noteworthy that virtually no homes in King County have asking prices below \$80,000 while three in ten has an asking price in excess of \$500,000.

It should be pointed out that the \$25,000 income level is approximately the same as the income used to calculate the first-time buyer affordability index. This means if those households were actively in the home purchase market, they would be competing for the lowest-priced 10.4% of the available statewide inventory. These lower-cost homes, if they are in reasonably good condition in stable neighborhoods, will be expected to sell quickly, while higher priced homes may wait awhile for the right buyer, since there are many units available and relatively few qualified buyers for those homes. This is especially true for higher-end properties outside the Puget Sound region. All communities in Eastern Washington offer far greater choices of lower-cost homes.

**Available Inventory**

WCRER also computes estimates of the month's supply of housing by price range. A month's supply statistic measures how long it would take to sell all the homes currently available for sale if no new listings were added. The actual MLS sales during the last four quarters are compared to the end-of quarter listing inventory, with the resulting statistic converted to a month's supply. During the first quarter Washington recorded a 4.7 month's supply of homes on the market, down slightly from a 5.8 month's supply in December. Since inventory typically builds early in the year, the decline represents evidence of short supply in many communities.

Whitman and Ferry/Pend Oreille/Stevens counties had the highest overall month's supplies (over 12 months) as of March 31. With its dependence on Washington State University, the Whitman County market is especially seasonal, with most sales compressed into an extremely brief season. If a 5-6 month's supply is considered "normal", Washington's overall inventory exhibited

modest shortage of listings in the first quarter, a condition which could lead to continued price increases. The areas with the least relative inventory were the Clark and King counties, with a 2.7 and 3.6 month's supply, respectively. This implies those markets are most likely to see rapidly increasing prices.

Like the last report, the market is tightest for homes selling for mid-range prices. The longer month's supply for homes in the under \$80,000 category may be due to a significant number of units offered for sale which need substantial work. The large number of areas reported as "n/a" for the most expensive homes means a quarterly months supply would be meaningless since there were no sales of very expensive homes during the last year.

**Month's Supply of Housing by Price Range**  
**March, 2002**  
**Selected Washington Counties**

County	Under \$80,000	\$80,000 - \$159,999	\$160,000 - \$249,999	\$250,000 - \$499,999	\$500,000 and above	Total Market
Asotin	7.6	8.3	16.4	74.0	N/A	9.5
Benton/Franklin	4.0	3.1	5.6	10.0	180.0	4.5
Chelan/Douglas	8.2	5.7	8.4	9.5	180.0	7.2
Clark	3.5	1.7	2.6	5.2	15.9	2.7
Cowlitz	6.9	6.1	8.7	21.0	24.0	7.4
Ferry/Pend Oreille/Stevens	11.6	15.4	18.5	55.5	N/A	15.5
Grant	7.4	7.8	13.3	15.2	N/A	8.6
Grays Harbor	8.2	10.1	21.8	51.6	N/A	10.9
King	2.2	1.8	2.1	3.7	9.4	3.6
Kitsap	2.4	2.4	3.1	7.7	13.2	3.8
Lewis	8.1	10.8	13.1	36.0	N/A	11.4
Mason	7.3	7.9	11.1	17.1	120.0	9.0
Pierce	2.4	2.8	4.2	8.2	18.3	4.1
Skagit	4.6	3.4	6.2	12.7	31.5	6.2
Snohomish	5.3	2.7	2.8	5.6	14.2	3.8
Spokane	7.8	6.0	7.2	12.1	20.5	7.0
Thurston	3.5	2.1	4.3	7.5	17.1	3.5
Whatcom	12.5	5.6	5.9	9.6	24.0	7.0
Whitman	21.5	16.0	12.3	25.0	N/A	16.5
Yakima	6.6	6.0	10.3	18.0	168.0	7.4
STATE	6.7	4.0	3.6	5.4	11.4	4.7