

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

## Second Quarter 2002

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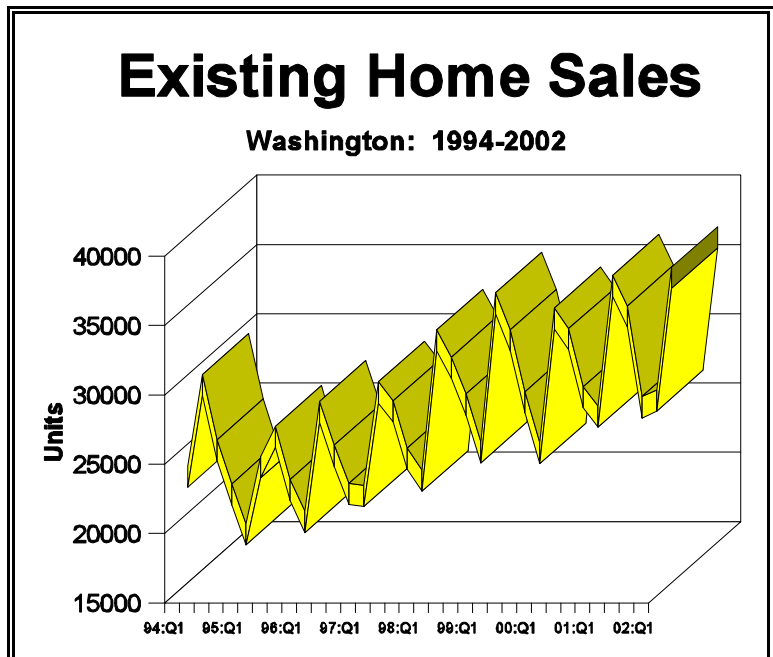
**T**alk of a “housing bubble,” is fueled by strength of housing markets in the face of an economy which stubbornly refuses to clearly move into recovery mode. Despite general interest rates which should spur business spending just as they have encouraged home buyers to take advantage of bargain financing, economic activity remains sluggish in Washington and nationally. Housing prices throughout the country reflect the strength of the market, with increases frequently well above the inflation rate. Washington state, with one of the highest unemployment rates in the nation so far this year has seen a strong, but not stellar market, both in terms of sales activity and prices.

### Home Resales

During the first quarter of 2002 a total of 37,000 resale home transactions were tallied, an increase of 1.6 percent compared to the second quarter of 2001. Significantly, this was the most active 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. Ten of Washington’s 39 counties recorded fewer sales than during the April-June period of 2001, and the declines were often significant. Snohomish County, part of the Seattle metropolitan area, recorded the largest year-to-year decline (9.2%). Other urban areas reporting softer sales were Island County (Seattle MSA) and Benton/Franklin counties (Tri-Cities). Meanwhile, sales surged in Whitman County, and were up by at least 20 percent in nine mostly rural communities.

Two counties (King and Pierce) represented nearly half of the



state's home sales. By contrast, seven counties recorded fewer than 100 sales apiece, and collectively represented only 0.6 percent of the state total.

## Housing Construction

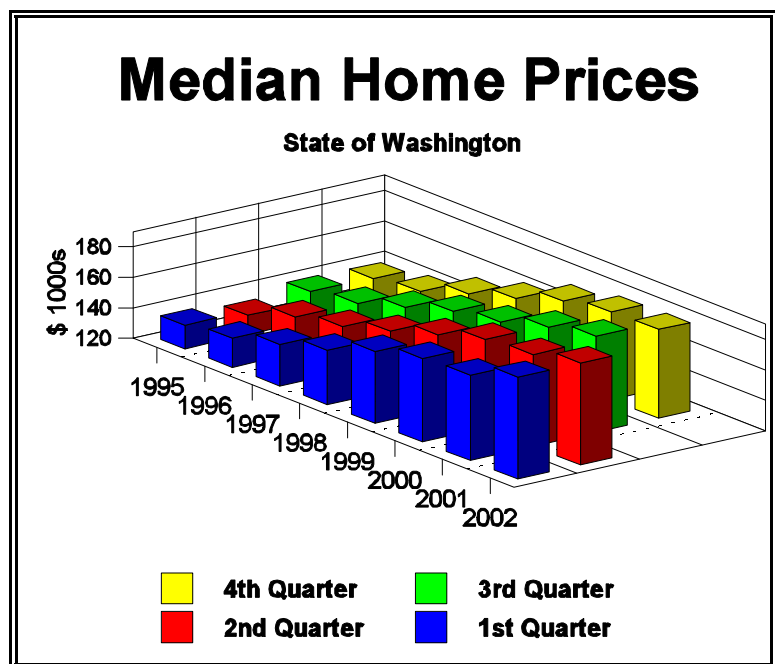
A total of 11,267 housing units were authorized by permitting jurisdictions during the second quarter, a level of activity 4.7 percent above a year ago. Single-family construction was especially strong, increasing 9.0 percent statewide compared to a year earlier. Building permits for multifamily units (2+) declined somewhat, consistent with rising vacancy rates as renters move to home ownership in this low mortgage rate environment.

Building permits issued ranged from 3,442 in King County (8.8% above last year) to 16 in Pacific County (11.1% below a year ago). Twenty-one of the 32 counties for which the Census Bureau collects monthly building permit information reported higher levels of activity than a year ago.

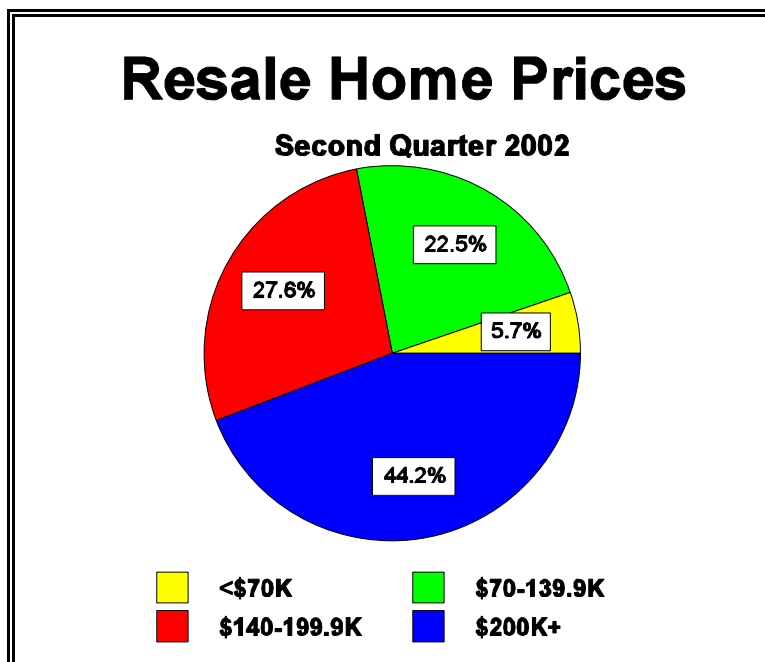
## Home Prices

The median selling price for a resale home in the state of Washington during the second quarter of 2002 was \$187,100. This is a price level roughly \$7,000 higher than a year earlier, a 3.7 percent increase in the median. While this is a less rapid increase than reported for the first quarter, it is still above the overall inflation rate.

Median prices increased compared to a year earlier in 23 of the 34 counties for which WCRER prepares estimates. Double-digit increases were posted in only two counties, but this indicates the Washington market is not being overrun with excess demand creating an overheated situation leading to a bursting bubble. A bit more worrisome is the fact that in the 11 counties where the median price declined over the last year, many of the declines were in excess of 10 percent.



The most costly housing in Washington during the second 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 \$282,500, 6.6 percent above last year and 51.0 percent above the statewide median. The median price resale home remained below \$100,000 in ten counties, with the lowest median of \$72,800 in Pacific County, where the median price declined 2.2 percent in the last year.



Neighboring Grays Harbor County had the second lowest median, \$85,100.

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 2,100 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

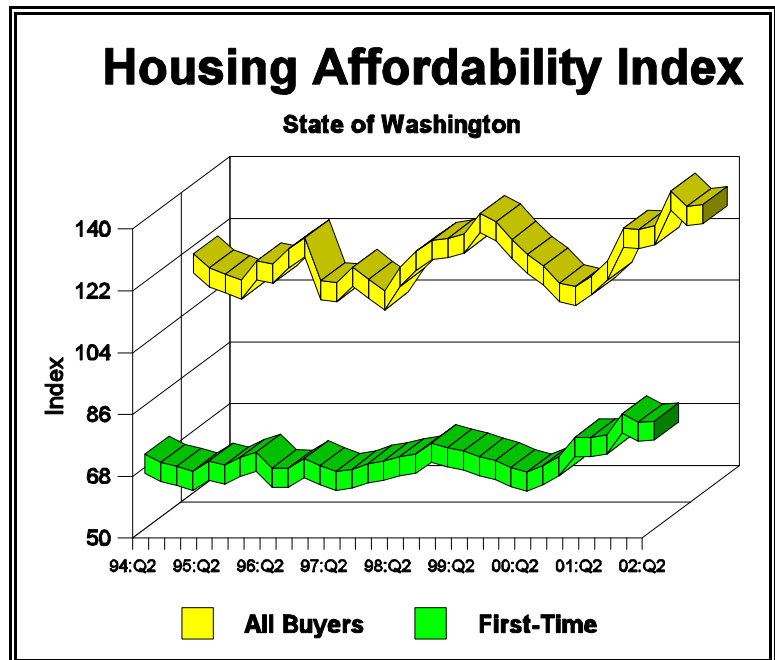
A central feature of these reports is always the statistics on housing affordability. Following the model developed 20 years ago by the National Association of REALTORS®, the Washington Center for Real Estate Research calculates a housing affordability index for all buyers and for first-time buyers. These affordability calculations depend on statistics from a variety of sources. The effective mortgage rate on loans closed during the quarter (6.79 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

affordability index.

The Housing Affordability Index for Washington State in the second quarter stood at 131.2, meaning that a median income family had 31.2 percent more income than the bare minimum required to qualify for a mortgage on the median price home. This represents an improved affordability condition compared to the index of 124.0 which prevailed a year ago. Affordability also increased somewhat when compared to the first quarter. The improvement in affordability is due primarily to lower mortgage rates achieved as the Federal Reserve Board used monetary policy throughout 2001 to minimize recessionary pressures rather than concentrating on preventing inflation. Continuing economic weakness has convinced the Fed that interest rate increases are not yet warranted.



Locally, housing affordability indexes ranged from a low of 99.5 in Jefferson County (the only county to register an affordability index below 100) to a high of 205.7 in Pacific County. Among the urban communities, affordability ranged from a low of 104.3 in Island County (followed by 125.3 in Franklin) to a high of 185.7 in Spokane (with Benton at 171.9).

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 second quarter of 78.7.

The first-time buyer index again exceeded 100, indicating the typical renter COULD afford a typical starter home in eleven Washington counties during the second 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 116.4 in Grant County to a low of 58.6 in Jefferson County. Among the urban markets first-time buyer affordability ranged from 105.3 in Spokane

County to a low of 67.2 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 June, in the midst of the busiest selling season. Since these multiple listing 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 \$61,394, and ranged from a low of \$32,588 in Okanogan County to \$87,874 in King County. Household incomes were lower, ranging from \$27,667 in Okanogan County to \$70,795 in King County. The statewide median household income was \$51,628. This means the lower two price ranges remain most relevant for most residents of the state.

**Percentage of Homes on Market Below Specified Price – June, 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	9.8	14.4	5.0	0.1	3.5	2.7	0.9	28.6	4.0	10.1	17.7
\$160,000	36.0	46.5	35.3	2.8	28.3	32.1	10.5	74.4	39.0	46.1	67.6
\$250,000	62.8	78.4	68.2	24.9	55.8	70.4	52.3	90.4	71.8	74.5	88.9
\$500,000	90.0	98.2	93.8	73.0	88.7	94.7	92.0	98.4	96.1	93.6	98.4

These statistics make it very clear that in most parts of the state first-time home buyers face extremely limited choices in the housing market, whereas the trade-up buyers have a wide assortment of homes from which to choose in all communities. It is noteworthy that virtually no homes in King County have asking prices below \$80,000 while nearly 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 9.8% 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 second quarter Washington recorded a 5.5 month's supply of homes on the market, up slightly from a 4.7 month's supply in March. Since the number of homes sold during the quarter was a record, the inventory accumulation is significant.

Whitman and Ferry/Pend Oreille/Stevens counties once again 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 can be characterized as balanced as of mid-year. This will be consistent with price increases at about the

inflation rate, but markets with greater inventory levels may see less appreciation. The fact that only King County has an inventory of homes priced above \$500,000 which is capable of sustaining that market segment for less than a year may indicate that price discounting in the upper price ranges is becoming more commonplace.

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 month's 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  
June, 2002  
Selected Washington Counties**

<b>County</b>	<b>Under \$80,000</b>	<b>\$80,000 - \$159,999</b>	<b>\$160,000 - \$249,999</b>	<b>\$250,000 - \$499,999</b>	<b>\$500,000 and above</b>	<b>Total Market</b>
Asotin	9.1	9.5	17.8	82.3	n/a	11.6
Benton/Franklin	4.7	3.8	7.4	15.2	64.0	6.9
Chelan/Douglas	7.1	6.4	8.6	12.0	108.0	7.6
Clark	3.6	1.8	2.9	5.6	17.4	3.1
Cowlitz	5.9	7.9	11.8	25.2	n/a	9.3
Ferry/Pend Oreille/Stevens	11.0	16.4	32.4	51.6	n/a	18.5
Grant	6.6	8.4	13.9	14.4	n/a	8.9
Grays Harbor	8.4	10.1	23.0	37.8	n/a	11.3
King	1.9	1.8	2.5	4.3	9.4	4.3
Kitsap	2.5	2.5	4.1	8.4	16.3	4.9
Lewis	6.8	9.4	14.1	34.3	n/a	10.7
Mason	7.5	8.7	13.2	25.2	168.0	11.7
Pierce	2.9	3.0	4.3	8.5	20.8	4.7
Skagit	6.1	4.0	6.1	15.5	36.4	7.8
Snohomish	8.1	3.2	3.2	5.8	14.9	4.6
Spokane	8.0	6.9	8.3	14.5	31.7	8.7
Thurston	3.2	2.3	4.0	8.9	20.6	4.0
Whatcom	10.5	5.7	6.8	10.9	25.8	8.1
Whitman	28.6	11.8	9.7	15.7	n/a	19.3
Yakima	5.7	7.1	10.9	18.2	78.0	8.3
STATE	6.7	4.3	4.1	6.0	11.8	5.5