

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

## Third Quarter 2002

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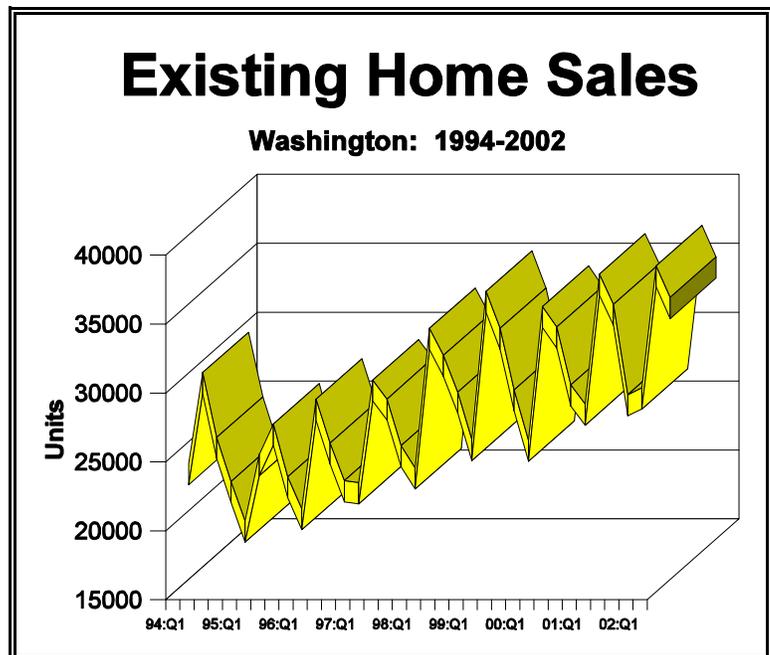
**D**espite an economy which has produced the highest unemployment rate in the nation here in Washington, the housing market continues to sustain remarkable strength, even if its performance cannot sustain the record levels of home sales reported in other parts of the country. Existing home sales during the third quarter increased by 1.5 percent when compared to last year, fueled in large part by the rural areas of the state which offset market weakness in the traditional economic strongholds of the Central Puget Sound. Buoyed by the lowest mortgage interest rates in over 30 years, home prices continued to increase at rates in excess of the inflation rate, although inventory accumulation resulted in price discounting in the high-end housing market.

### Home Resales

During the third quarter of 2002 a total of 34,710 resale home transactions were tallied, an increase of 1.5 percent compared to the third quarter of 2001, roughly the same relative strength recorded last quarter. While the number of home sales was slightly below the previous quarter, that appears to be a seasonal difference. WCRER intends to introduce seasonal adjustment of these statistics when there has been sufficient housing data released about the 2000 Census to allow a 10-year revision to the estimates.

Despite the overall good news, there were wide variations in regional activity. Eleven of Washington's 39 counties recorded fewer sales than during the July-September period of 2001, and the declines were often significant. Seven urban counties, including most of the greater Seattle market reported fewer sales than a year ago. Meanwhile, sales surged in rural counties in Northeast Washington, Southeast Washington and the central portion of the state.

The six-county Seattle Consolidated Metropolitan area generated 21,740 home sales, 62.6 percent of the state total. Since these counties represent many higher-price



transactions, the dollar volume share coming from greater Seattle would be much higher than 60 percent.

## Housing Construction

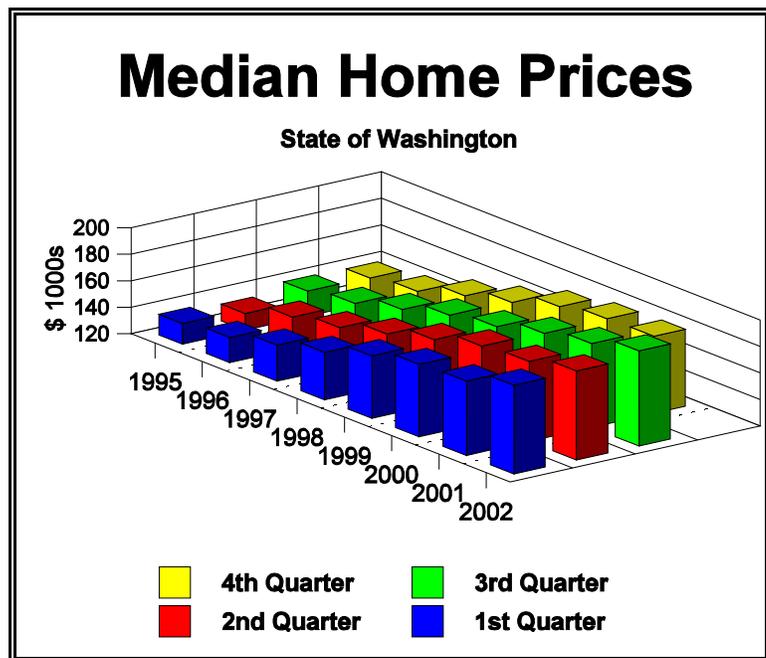
Overall building permit activity declined compared to last year by 2.5 percent, resulting in only 9,564 housing units being permitted for construction. However, the entire decline was a reduction in multifamily (apartment) construction. Building permits for single-family homes was actually 11.6 percent above a year earlier -- another remarkable fact during this year of sluggish economic performance. Again, mortgage rates must receive the credit for enticing buyers into the market.

Building permits issued ranged from 2,149 in King County (10.5% below last year) to 15 in Pacific County (11.8% below a year ago). Meanwhile, 21 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 third quarter of 2002 was \$191,600. This is a price level roughly \$13,400 higher than a year earlier, a 4.6 percent increase in the median.

Median prices increased compared to a year earlier in 23 of the 34 counties for which WCRER prepares estimates. Double-digit increases were rare, but many communities recorded price increases far above the modest inflation rate. At the same time, a surprising number of areas reported significantly lower median prices. Some of the same small markets which reported very strong sales also were areas where prices were softer, and those low prices combined with affordable mortgage rates may have helped spur sales.



The resort housing market in San Juan County reclaimed the dubious distinction of being the most expensive, with a median price of \$295,000. Once again King and Snohomish counties were the only other areas where the median price exceeded \$200,000. At the other end of the price spectrum, Pacific county again reported the lowest median (\$80,000). While the location of this lower cost housing is the same as last quarter, the median price is quite a bit higher than three months ago. A total of nine counties reported median prices below \$100,000. Unfortunately, they are all in areas outside a reasonable commuting radius to the state's employment centers.



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 effort improving the home. In fact, while "only" 5.4 percent of the single-

family homes sold during the first quarter were priced no higher than \$70,000, this represents nearly 1,900 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

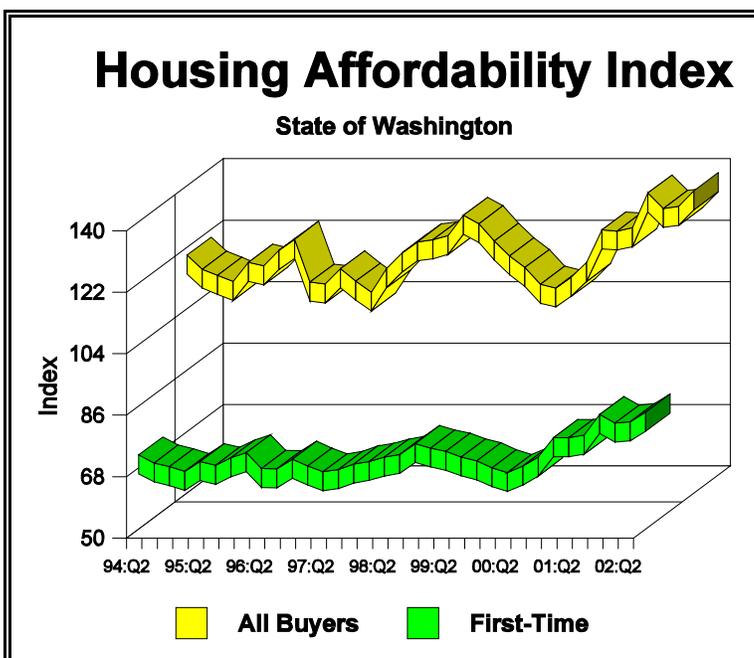
A central feature of these reports is always the statistics on housing affordability. Following the model developed 20 years ago by the National Association of REALTORS®, the Washington Center for Real Estate Research calculates a housing affordability index for all buyers and for first-time buyers. These affordability calculations depend on statistics from a variety of sources. The effective mortgage rate on loans closed during the quarter (6.39 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 135.8, meaning that a median income family had 35.8 percent more income than the bare minimum required to qualify for a mortgage on the median price home. This represents a significantly improved affordability condition compared to the index of 125.0 which prevailed a year ago. Affordability also increased somewhat when compared to the second quarter. The improvement in affordability is due primarily to lower mortgage rates.

Locally, housing affordability indexes ranged from a low of 87.5 in San Juan County (the only county to register an affordability index below 100) to a high of 200.5 in Grant County. Among the urban communities, affordability ranged from a low of 108.9 in Island County to a high of 188.1 in Spokane. King County's index was very close to the statewide measure, while Snohomish was a little less affordable and Pierce a little more.



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 81.5.

The first-time buyer index again exceeded 100, indicating the typical renter COULD afford a typical starter home in eleven Washington counties during the third quarter. County-level affordability estimates ranged from a high of 123.9 in Grant County to a low of 50.8 in San Juan County. Among the urban markets first-time buyer affordability ranged from 106.5 in Spokane County to a low of 69.9 in Island County. For first-time buyers Snohomish County was somewhat more affordable than neighboring King 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 September, just as the market is poised to enter its less active phase, and some prospective sellers decide to wait until after the holidays. 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 \$62,430, and ranged from a low of \$32,805 in Okanogan County to \$90,998 in King County. Household incomes were lower, ranging from \$28,285 in Okanogan County to \$73,000 in King County. The statewide median household income was \$52,511. This means the

lower two price ranges remain most relevant for most residents of the state.

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

Home Price	State-wide	Benton/ Franklin counties	King county	Kitsap county	Pierce county	Snoho- mish county	Spokane county	Thurston county	Whatcom county	Yakima county
\$ 80,000	6.8	11.9	0.0	2.4	2.1	0.6	28.5	3.2	10.0	19.4
\$160,000	39.0	47.6	2.7	24.2	29.0	9.3	73.2	35.0	40.3	65.9
\$250,000	73.3	79.3	24.8	53.8	70.7	51.3	90.2	72.8	68.1	88.5
\$500,000	93.6	98.4	73.3	87.8	94.7	92.1	98.6	96.1	92.2	98.7

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 6.8% 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**

WCRRER 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 third quarter Washington recorded a 4.8 month's supply of homes on the market, down slightly from a 5.5 month's supply in June. This decline in available inventory is consistent with slower market activity expected in the months ahead.

Ferry/Pend Oreille/Stevens counties once again had the highest overall month's supplies (over 12 months) as of September 30. If a 5-6 month's supply is considered "normal", Washington's overall inventory can be characterized as balanced. This will be consistent with price increases at about the inflation rate, but markets with greater inventory levels may see less appreciation.

As reported last quarter, 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  
September, 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	7.3	6.8	12.3	42.7	N/A	8.1
Benton/Franklin	5.5	5.4	8.0	15.6	54.0	7.2
Chelan/Douglas	5.7	4.9	7.8	13.0	88.0	6.5
Cowlitz	5.5	7.9	11.9	34.0	36.0	8.8
Ferry/Pend Oreille/Stevens	8.0	13.6	24.0	49.2	48.0	13.0
Grant	5.1	8.0	14.8	12.0	N/A	7.7
Grays Harbor	7.7	9.4	17.4	25.3	N/A	9.9
King	0.7	2.0	2.8	4.5	9.9	4.4
Kitsap	1.7	2.2	4.1	7.7	14.4	4.2
Mason	6.4	6.6	8.6	21.3	39.0	7.9
Pierce	2.3	2.7	4.2	6.9	15.8	4.1
Skagit	3.7	4.1	5.5	11.3	39.2	6.4
Snohomish	5.3	3.3	3.5	6.3	16.9	4.6
Spokane	7.4	6.2	8.3	12.8	24.9	7.2
Thurston	2.6	2.1	4.2	7.5	25.5	3.5
Whatcom	7.7	3.4	4.2	9.3	22.1	5.0
Whitman	9.9	7.4	6.9	12.0	N/A	8.0
Yakima	6.7	6.7	12.3	17.2	44.0	8.1
STATE	5.6	3.8	3.9	5.8	11.7	4.8