

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

## Fourth Quarter 2002

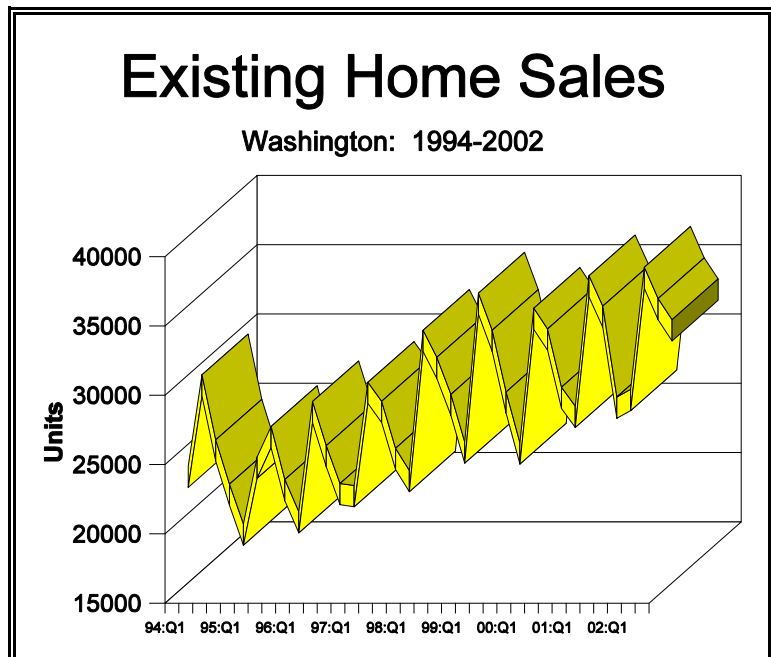
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**B**oth Washington State and the nation set records for existing home sales for the second consecutive year during 2002. Nationally 5,563,000 resale transactions for single-family homes were recorded, 5.0 percent more than 2001, despite a continuing recession and the sluggish beginning of “recovery”. Similarly, Washington recorded sales totaling 133,200 units, an increase of 6.3 percent compared to the prior year. Washington was dealing with serious economic problems – weakness in the key technology and aerospace industries and the highest unemployment rate in the nation. Housing market strength is generally attributed to a continuation of the lowest mortgage interest rates in 40 years coupled with investment performance of financial assets which has been lackluster at best. Construction of single-family homes was robust nationally and in Washington, but apartment construction is limited by rising vacancies in rental communities, accentuated by a surge of moves by first-time home buyers taking advantage of financing bargains.

### Home Resales

Statistics collected from multiple listing services and from organizations which monitor deed recordings in areas where multiple listing coverage is less complete, indicate that sales of single-family homes (excluding most new construction) jumped 20.1 percent from the fourth quarter of 2001, reaching a total of 33,230 units sold between October 1 and December 31. While these statistics show a decline in actual sales compared to the third quarter, the accompanying graphic clearly illustrate the decline as less sharp than normal. The surge in activity also reflects the abnormally sharp decline in the closing months of 2001 – the aftermath of September 11 is still being observed statistically.

All 39 Washington counties reported greater numbers of home sales during the fourth quarter than a year earlier, with the 3.4 percent increase in Yakima County the lowest. The annual statistics indicate home sales declined in four counties, with the 4.4 percent decline in Snohomish county representing the weakest



performance. Among the urban areas, Whatcom County was the strongest with a 12.8 percent increase in sales, followed by 9.8 percent in Thurston County.

## Housing Construction

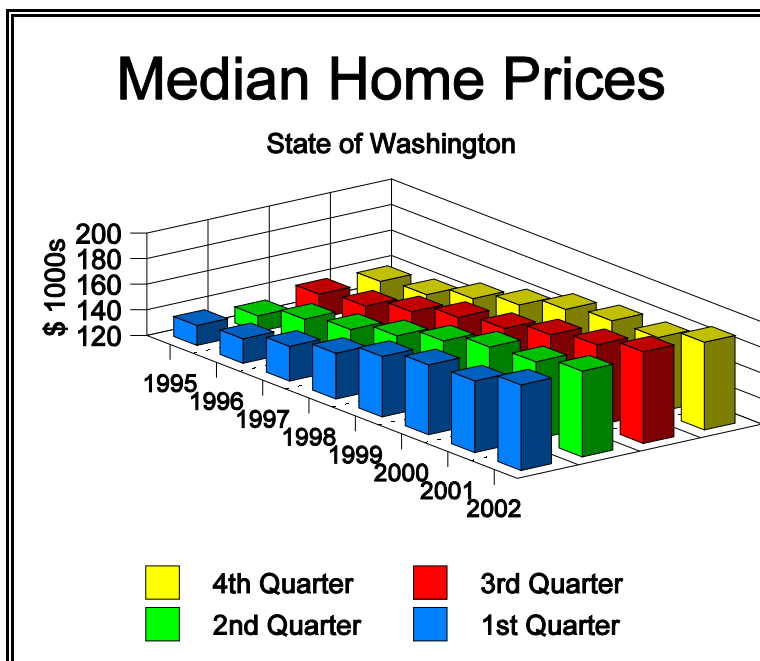
Construction activity increased sharply compared to the fourth quarter of 2001, with total building permit activity totaling 9,292 units, 28.4 percent more than a year earlier, which was clearly impacted by 9/11. Single-family permit activity surged 33.5 percent, while permits for buildings with at least two units increased at a much slower 16.9 percent rate. Any increases in multifamily construction are somewhat surprising, given the levels of apartment vacancy reported by WCRER or Dupre + Scott for Washington communities. National data indicates apartment vacancy rates were at record levels at year-end 2002.

Census Bureau annual data on building permits, which is developed from a far larger sample of jurisdictions, will not be available for several months. The First Quarter 2003 issue of Washington State's Housing Markets will include the annual data for each county as well as revised estimates of housing inventory by type.

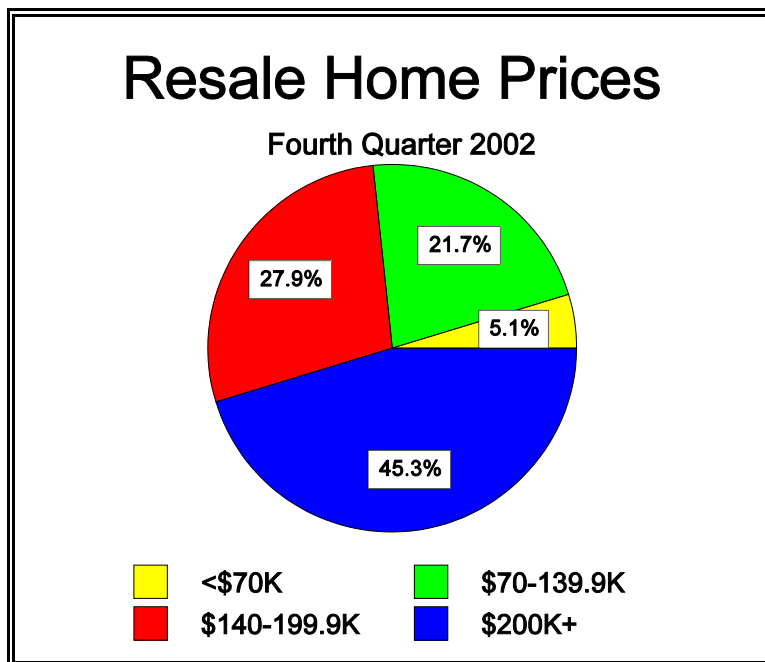
## Home Prices

The median selling price for a resale home in the state of Washington during the fourth quarter of 2001 was \$188,600. This is \$10,400 higher than last year's fourth quarter median, but seasonally lower (\$3,000) than last quarter. The median price for all of 2002 was \$188,500, an increase of 4.8 percent compared to 2001. This rate of price increase is consistent with a very active market, but is inconsistent with suggestions that a "bubble" is about to burst.

Local area prices ranged from a low of \$82,800 in Pacific County to a high of \$297,000 in San Juan County. Only six counties reported median prices less than \$100,000, while King, Snohomish and Jefferson joined San Juan with medians above \$200,000.



Eight counties recorded increases in median prices in excess of ten percent compared to the fourth quarter of 2001, while only three counties experienced lower median prices. Among those, only Whitman reported a significant decline, but the Pullman market is so concentrated in the late spring to early fall academic relocation period that significant variations in price levels at other times may not be meaningful. Among urban areas price changes ranged from a 0.4 percent increase in the fourth quarter medians in Island County to a 13.0 percent jump in Yakima County.



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 labor improving the home. In fact, while “only” 5.1 percent of the single-

family homes sold during the fourth quarter were priced no higher than \$70,000, this represents about 1,700 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 (6.11 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.

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 third quarter stood at 144.2, meaning that a median income family had 44.2 percent more income than the bare minimum required to qualify for a mortgage on the median price home. This represents an improved affordability condition than the index of 135.1 which prevailed a year ago, and much improved from 114.8 at the

end of 2000. Affordability was also significantly above the third quarter (prices were seasonally lower, mortgage rates were lower and incomes increased). The strong affordability measure is due primarily to a continuing decline in mortgage rates to their lowest level in over 40 years.

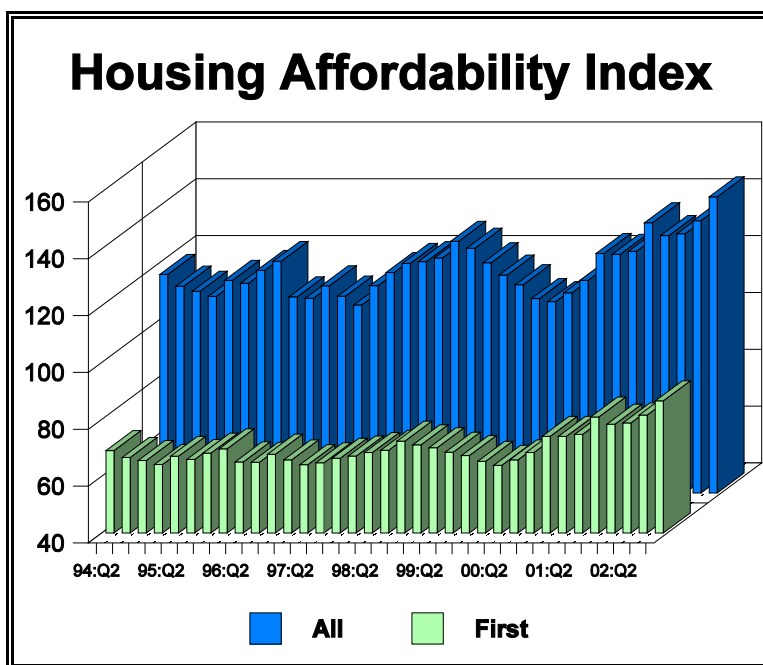
Locally, housing affordability indexes ranged from a low of 89.9 in San Juan County to a high of 205.7 in Spokane County. Among urban areas, affordability indices ranged from that high in Spokane County to a low of 118.0 in Island County. King County's index was 143.6, very near the statewide measure, despite high absolute prices. High prevailing incomes in the county are the primary factor keeping housing affordable.

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 downpayment 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 fourth quarter of 86.5. This is the highest value for this statistic since WCRER began computing it nearly 10 years ago. Continued high levels of first-time buyer affordability are significant in explaining record levels of home ownership being achieved nationwide.

The first-time buyer index exceeded 100 (meaning the typical first-time buyer could realistically be able to afford the typical starter home in that community) in eleven counties, including both urban and rural areas. In another nine counties the index was above 90, indicating a slight increase in the down payment or purchasing a home slightly below the assumed price would result in an affordable purchase. At the other extreme, first-time buyer indexes were below 60 in three counties (San Juan, Jefferson and Kittitas) indicating the affordability crisis has not ended.

### **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 6.25% (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	\$ 84,590	\$ 4,452	\$ 89,042
\$ 45,000	\$ 938	\$152,261	\$ 16,918	\$ 169,179
\$ 70,000	\$ 1,458	\$236,851	\$ 59,213	\$ 296,064
\$125,000	\$ 2,604	\$422,949	\$ 227,741	\$ 650,690

This table clearly illustrates how income growth coupled with ownership of homes with increasing values 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 December, when inventories are typically at their seasonal low (fewer people attempt to sell their homes over the holidays). Since these MLS 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 WCRER 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 \$63,336, and ranged from a low of \$32,928 in Okanogan County to \$92,900 in King County. Household incomes were predictably lower, ranging from \$27,478 in Pacific County to \$74,485 in King County. The statewide median household income was \$53,327. This means the lower two price ranges remain most relevant for most residents of the state, but suggests

a revision in the income groups for this analysis will be appropriate for 2003.

**Percentage of Homes on Market Below Specified Price – December, 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	9.0	10.8	4.0	0.1	2.4	2.1	0.7	28.3	4.5	8.6	22.4
\$160,000	33.9	49.6	31.3	2.8	25.0	29.6	9.2	73.1	36.4	38.2	68.7
\$250,000	62.7	80.6	66.0	26.5	54.1	71.4	53.9	90.1	72.6	66.3	89.6
\$500,000	90.2	98.1	93.0	74.0	88.2	94.9	92.0	98.5	96.2	93.0	98.6

These statistics make it very clear that in most parts of the state first-time home buyers still 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 over one-quarter have an asking price in excess of \$500,000.

It should be pointed out that the \$25,000 income level is now somewhat below the income used to calculate the statewide 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 9.0% 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. 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 full-year 2001 are compared to the end-of-year listing inventory, with the resulting statistic multiplied by 12 to yield a month's supply. Accordingly, there was a 4.5 month's supply of homes on the market at year-end, due primarily to the seasonal decline of listings. This represents a modest increase in inventory compared to the 3.8 month supply which prevailed at year-end 2001.

The overall state market can be characterized as a "normal" inventory, meaning that neither rapid price increases nor significant price declines should be expected in the short term. Individual local markets exhibit different characteristics, however. The range of inventory narrowed this year, with a minimum 2.8 month supply reported for Thurston County while the maximum was an 8.9 month supply in Cowlitz County.

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 many units offered for sale which need substantial work. The large number of areas reported as "n/a" for the most expensive homes means a months supply would be meaningless since there were no sales of expensive homes during 2001. Homes priced above \$500,000 are in excess supply in all areas, and may be subject to some bargain

seeking. The same may be true in the next lower price category in markets which can be generally characterized as less expensive, but without widespread inventory accumulation at all price ranges there is little danger of wholesale price declines absent a significant trigger event.

**Month's Supply of Housing by Price Range  
December, 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	5.6	5.8	8.1	33.8	n/a	6.4
Benton/Franklin	4.8	5.1	6.8	11.0	40.0	6.2
Chelan/Douglas	4.5	3.8	4.5	11.1	43.2	4.9
Clark	7.3	3.8	6.6	12.3	53.1	6.6
Cowlitz	5.4	9.0	10.3	32.2	48.0	8.9
Ferry/Pend Oreille/Stevens	6.7	8.8	11.0	30.0	36.0	8.8
Grant	5.5	7.4	10.5	13.3	n/a	7.2
Grays Harbor	6.3	8.3	12.4	20.5	n/a	8.3
Island	2.4	2.8	4.5	9.4	30.2	5.5
King	1.4	1.7	2.4	3.4	7.5	3.5
Kitsap	1.8	2.0	3.5	6.3	12.0	3.6
Lewis	4.0	6.5	10.9	33.7	n/a	7.3
Mason	5.6	4.8	6.5	12.5	40.0	6.0
Pierce	2.2	2.8	3.9	5.8	12.8	3.8
Skagit	4.4	4.0	4.9	8.4	36.0	5.6
Snohomish	4.3	3.0	3.4	5.0	14.2	4.1
Spokane	6.9	5.7	7.2	10.9	22.1	6.6
Thurston	3.3	1.8	3.1	5.9	17.4	2.8
Whatcom	5.8	3.0	3.8	8.8	16.5	4.5
Whitman	15.0	5.4	6.7	8.7	n/a	7.8
Yakima	3.8	3.3	5.1	7.8	30.0	4.0
STATE	5.4	3.8	3.8	4.9	9.7	4.5