

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

First Quarter 2003

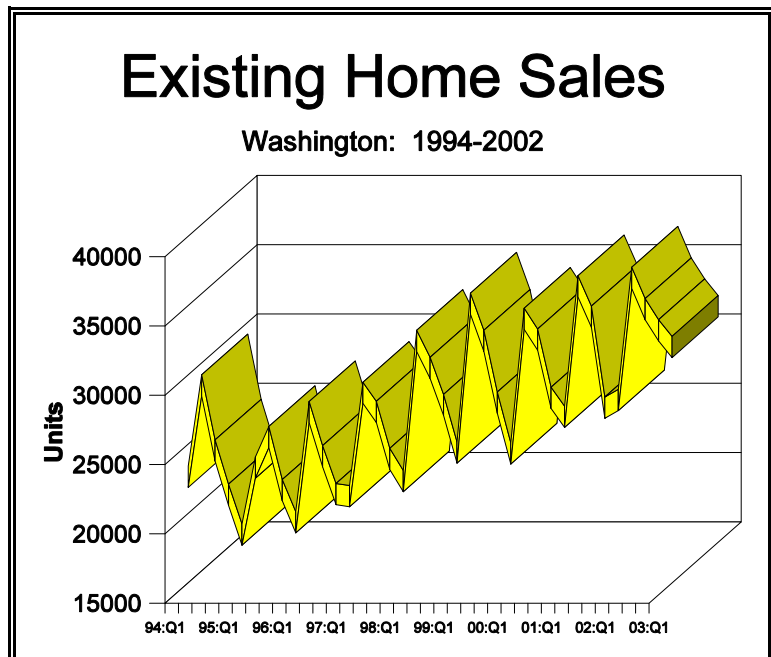
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Housing markets are generally sluggish during the winter months of the first quarter, but sustained, and even declining mortgage interest rates during the January through March period resulted in the highest level of home resales during a first quarter. Housing construction was also strong during the quarter, especially for single-family homes. Despite weaker economic statistics than observed elsewhere in the country, Washington's housing market activity paralleled the remainder of the nation.

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 13.6 percent from the first quarter of 2002, reaching a total of 32,030 units sold (closed) between January 1 and March 31. While these statistics show a decline in actual sales compared to the fourth quarter, the accompanying graphic clearly illustrates a seasonal decline which is much shallower than normal.

Improvements in home sales were very broad-based, with only six of Washington's 39 counties reporting fewer sales than a year earlier. All communities reporting fewer sales were outside the state's urban markets. Meantime, severely rural areas reported sharply increased sales activity, lead by Whitman county where home sales were more than double a year ago. A total of 10 counties reported sales increases of at least 25 percent. Again, rural areas reported the most significant changes in activity. Among the state's urban markets, Clark County reported the largest increase, and Spokane County reported a modest decline. It is important to note that the market in Spokane waited until March to catch fire, and in statistics reported for March and April is reporting significantly stronger home sales.



Housing Construction

Construction activity also increased sharply compared to the first quarter of 2002, with total building permit activity totaling 8,807 units, 18.1 percent more than a year earlier. Single-family permit activity jumped 16.7 percent, while permits for buildings with at least two units increased somewhat more rapidly. The increases in multifamily construction remain somewhat surprising, given the levels of apartment vacancy reported by WCRER or Dupre + Scott for Washington communities. National data indicates apartment vacancy rates were even higher than those reported for Washington counties.

Census Bureau annual data on building permits, has just been released. It indicates a total of 40,426 residential permits were issued in Washington last year, an increase of 5.4 percent compared to 2001, the highest overall level of construction since 1999. Single-family construction was the driving force, with 30,438 single-family permits issued, an increase of 13.8 percent from the prior year, and the highest rate of single-family construction in the eleven years included in this report.

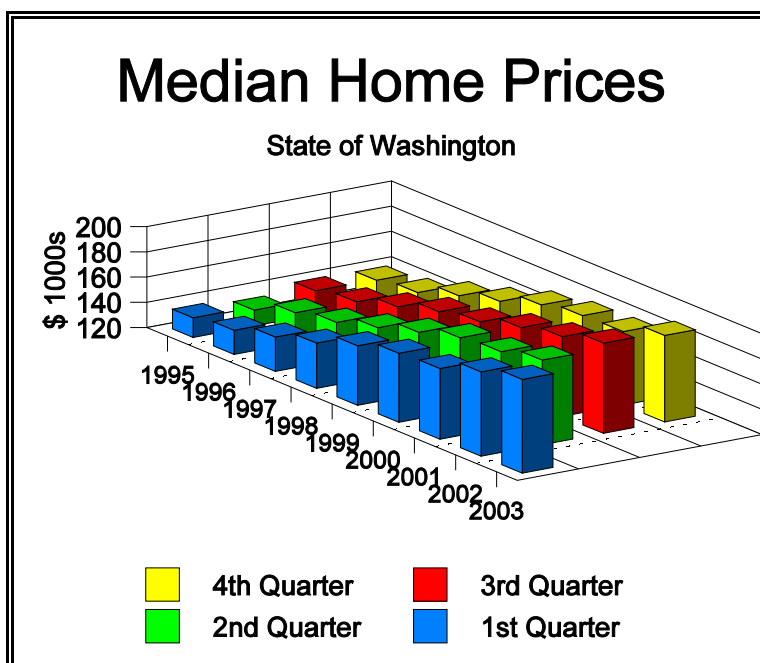
Home Prices

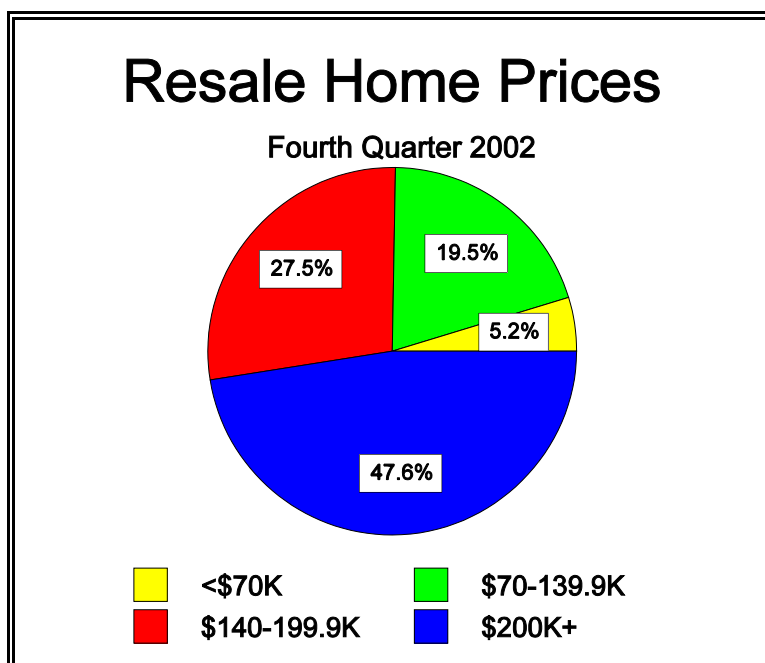
The median selling price for a resale home in the state of Washington during the first quarter of 2003 was \$194,400. This is \$7.5 higher than last year's first quarter median, and is the highest median ever recorded. The 4.0 percent year-to-year change in median is somewhat lower than observed in other recent quarters.

Local area prices ranged from a low of \$74,000 in Pacific County to a high of \$287,000 in San Juan County. Three counties reported median prices less than \$90,000, while King, Snohomish and Jefferson joined San Juan with medians above \$200,000.

Three counties recorded lower median prices than a year ago (Lewis, Pacific and Wahkiakum), but they are generally small communities, prone to significant percentage changes related to small samples. Meanwhile, median prices were at least ten percent above a year ago in six counties. Looking exclusively at the urban counties, the price changes ranged from 2.3 percent in Benton/Franklin and Snohomish to 8.6 percent in Spokane, the first really significant movement in median prices in that market in some time.

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” 5.2 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 (5.90 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 first quarter stood at 145.1, meaning that a median income family had 45.1 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 130.6 which prevailed a year ago, and somewhat improved from 144.2 at the end of 2002. 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 95.5 in San Juan County to a high of 211.2 in Asotin County. Among urban areas, affordability indices ranged from a high of 208.9 in Spokane County to a low of 117.5 in Island County. King County's index was 148.7, very near the statewide measure, despite high absolute prices. High prevailing incomes in the county are the primary factor keeping housing affordable.

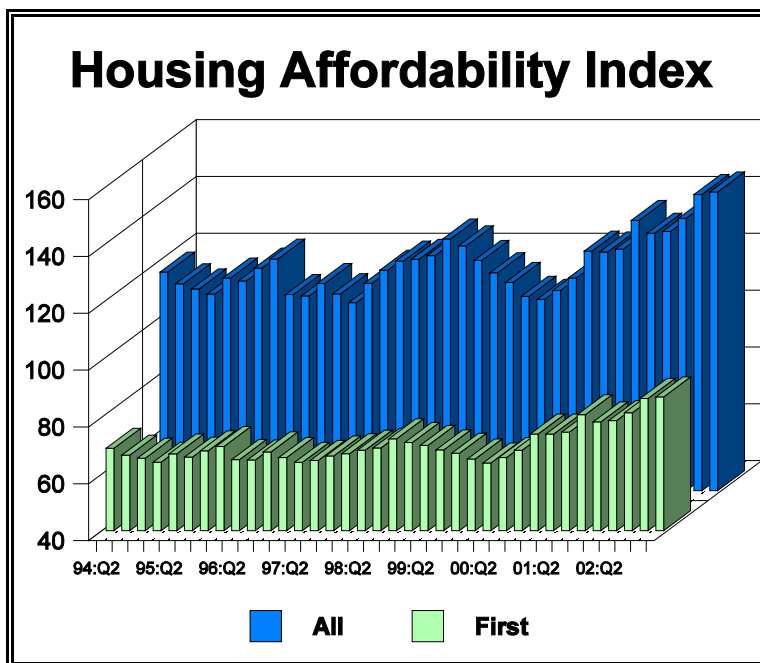
While statistically sound, the all-buyer index does not adequately describe the difficulty households have purchasing their first home and beginning the process of developing equity.

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 87.1. 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 17 counties, including both urban and rural areas. In another five counties the index was at least 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 70 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 6.00% (somewhat above prevailing rates during the quarter).

Affordable Home Purchase Prices for Selected Income/Asset Groups

Income	Affordable Housing Expense (P&I)	Mortgage Amount	Downpayment	Home Purchase Price
\$ 25,000	\$ 521	\$ 86,871	\$ 4,572	\$ 91,443
\$ 45,000	\$ 938	\$156,367	\$ 17,374	\$ 173,741
\$ 70,000	\$ 1,458	\$243,238	\$ 60,810	\$ 304,048
\$125,000	\$ 2,604	\$434,353	\$ 233,882	\$ 668,235

This table clearly illustrates how income growth coupled with ownership of homes with increasing values can move a household up the ownership housing ladder. It is striking how the changes in interest rates in the last three years have changed this illustration. In WCRER's First Quarter 1999 report, using an assumed 8.0 percent mortgage rate, the \$25,000 income household could have purchased a \$75,679 home compared to \$91,443 above. This 20 percent jump is do solely to the effect of lower interest rates. 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 just being replenished in time for the Spring/Summer selling season. 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 \$64,243, and ranged from a low of \$33,051 in Okanogan County to \$94,802 in King County. Household incomes were predictably lower, ranging from \$27,368 in Pacific County to \$75,971 in King County. The statewide median household income was \$54,143. 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 soon.

Percentage of Homes on Market Below Specified Price – March, 2003

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	6.9%	9.3%	4.0%	0.1%	1.8%	1.9%	0.8%	23.5%	3.9%	12.1%	19.1%
\$160,000	29.5%	45.9%	29.9%	2.9%	21.7%	27.2%	10.0%	68.1%	36.4%	39.2%	65.5%
\$250,000	58.2%	82.8%	64.0%	34.2%	49.7%	68.5%	53.6%	86.2%	73.2%	62.2%	87.6%
\$500,000	88.4%	98.9%	92.5%	71.2%	87.6%	94.6%	92.3%	97.9%	95.1%	93.9%	97.9%

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 6.9% 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 last 12 months are compared to the end-of-March listing inventory, with the resulting statistic multiplied by 12 to yield a month's supply. Accordingly, there was a 4.3 month's supply of homes on the market at the end of the quarter. This represents a modest decline in inventory compared to the 4.5 month supply which prevailed at year-end 2002.

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 minimum 3.0 month supply was reported for Thurston County while the maximum was an 9.3 month supply in Northeast Washington (Ferry/Pend Oreille/Stevens).

The market remains 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 renovation/repair. 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 the last twelve months. Homes priced above \$500,000 are in excess supply in all areas, and may be subject to some bargain seeking. The one exception may be King County where the expensive inventory can sustain the market for fewer than nine months. Some price softness may be found in homes listed for \$250,000-\$500,000 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
March, 2003
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	6.0	6.8	10.4	31.4	n/a	7.3
Benton/Franklin	4.5	5.2	8.6	10.8	19.5	6.7
Chelan/Douglas	5.6	3.9	4.8	12.6	34.0	5.2
Clark	8.6	3.8	6.5	12.3	51.2	6.7
Cowlitz	4.1	7.8	10.5	25.3	60.0	7.9
Ferry/Pend Oreille/Stevens	7.3	8.5	14.2	27.4	48.0	9.3
Grant	4.7	7.4	10.5	14.0	12.0	7.0
Grays Harbor	5.4	7.4	10.5	20.8	n/a	7.4
Island	1.3	2.8	4.6	10.7	30.6	5.9
King	2.5	2.1	2.4	3.6	8.8	3.8
Kitsap	1.4	1.8	3.3	7.1	13.2	3.7
Lewis	3.5	6.7	13.5	20.4	n/a	7.2
Mason	4.7	5.1	6.9	12.3	44.0	6.0
Pierce	2.1	2.5	3.5	6.0	12.4	3.6
Skagit	2.9	4.4	3.8	8.4	32.5	5.3
Snohomish	5.1	3.1	3.1	4.7	13.4	3.9
Spokane	3.1	3.0	3.9	8.0	16.0	3.5
Thurston	3.6	2.0	3.3	5.7	26.7	3.0
Whatcom	9.1	2.8	2.9	10.0	14.4	4.4
Whitman	7.0	7.4	7.8	14.3	n/a	7.9
Yakima	5.7	5.7	8.6	12.5	36.0	6.7
STATE	4.1	3.4	3.6	5.1	10.6	4.3