

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

## Third Quarter 2003

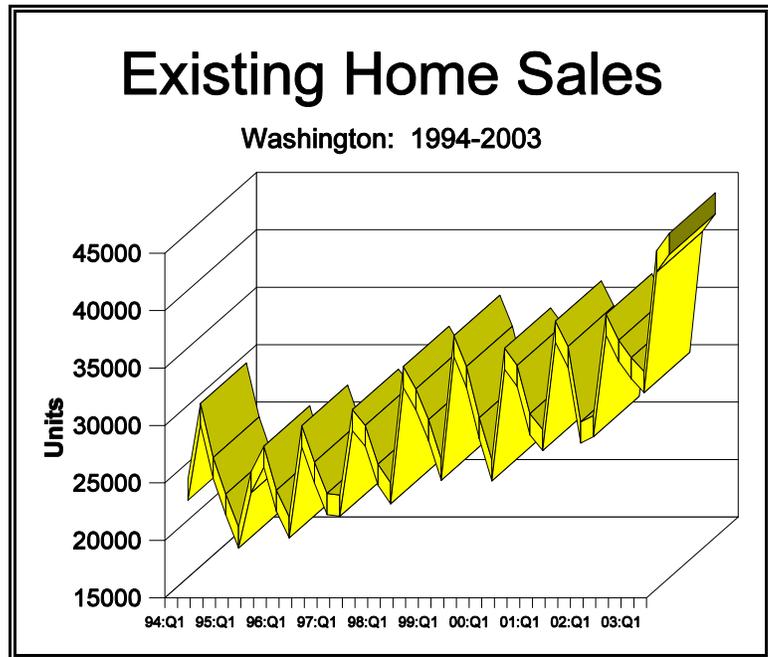
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**D**espite an uptick in mortgage rates and continued lackluster economic news, home sales in Washington during the third quarter set another record. Housing construction including both single-family houses and apartments was also quite strong. Consistent with market strength, home prices continued to advance. Housing affordability declined from the last quarter, but remained above a year ago. National housing markets also set volume records during the second quarter, with Washington one of the strongest states.

### 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 26.8 percent from the third quarter of 2002, reaching a total of 44,070 units sold (closed) between July 1 and September 30. This represents an increase of 1,520 closed sales compared to the previous sales record set just three months ago.

Improvements in home sales were very broad-based, with only two of Washington's 39 counties reporting fewer sales than a year earlier. The



Note: This report uses the new definitions of metropolitan and micropolitan areas as finalized by the Office of Management and Budget in July. Briefly, metropolitan areas are, as before, larger communities with at least 50,000 people in the urban core. Micropolitan areas are smaller cities, with 10,000-50,000 people in the urban core. Currently, Washington has 17 metropolitan counties in 13 metropolitan areas (or divisions) and eight micropolitan areas.

slower activity was in the Moses Lake micropolitan area (Grant County) and adjacent Adams County. Double-digit increases compared to last year were reported in 30 counties, led by spectacular sales in Clark and San Juan counties. Among Washington's 17 metropolitan counties, the activity increases ranged from 7.6

percent in Spokane County to 49.9 percent in Clark County. Among the micropolitan areas the changed ranged from a 3.5 percent decline from a year ago in Grant County to a 27.4 percent increase in Kittitas County (Ellensburg).

## Housing Construction

Construction activity also increased compared to the third quarter of 2002, with total building permit activity totaling 11,661 units, 21.9 percent more than a year earlier. Single-family permit activity jumped 16.7 percent, while permits for buildings with at least two units jumped by 40.1 percent. The surge in multifamily construction reflects a return to normal rental markets after a period of above average vacancy reported by both WCRER and Dupre + Scott, a Seattle-area consulting firm. Nationally, apartment vacancy remained at record levels in the third quarter.

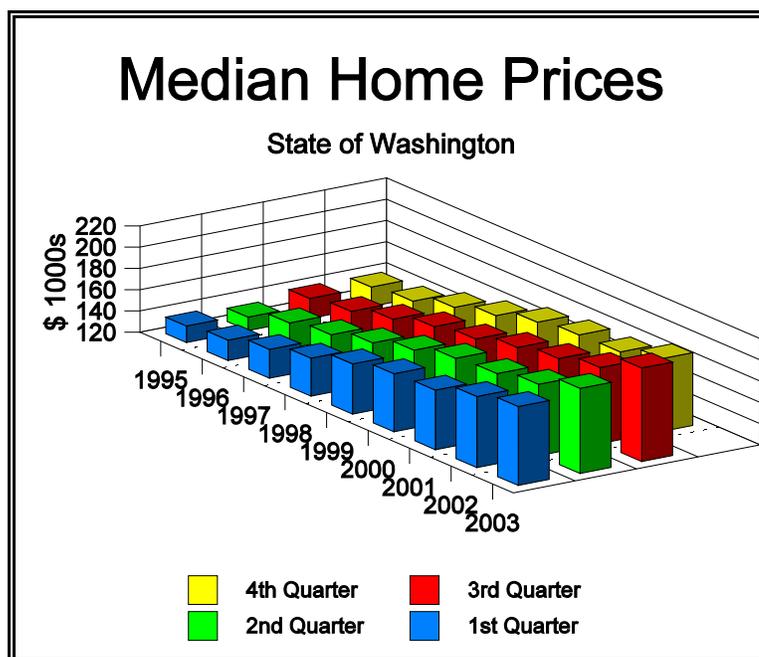
## Home Prices

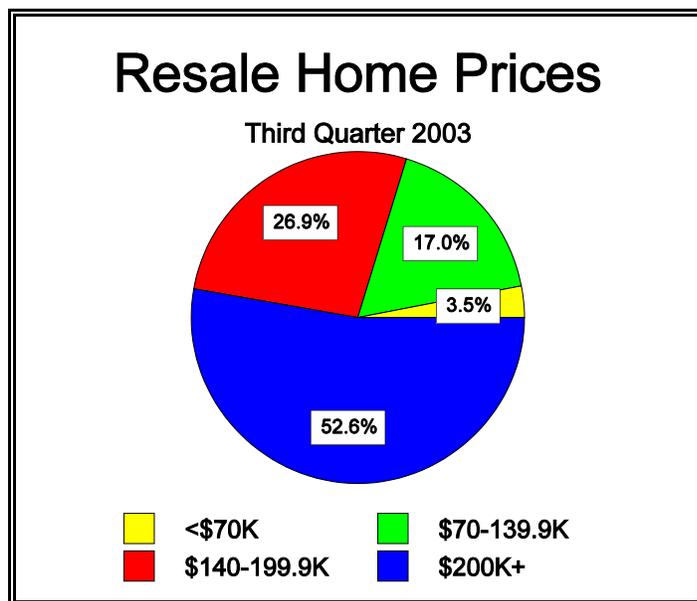
The median selling price for a resale home in the state of Washington during the third quarter of 2003 remained above \$200,000 for the second time (\$208,000). This is 8.6 percent higher than last year's third quarter median, reflecting the overall robust nature of the housing market during the period.

Local area prices ranged from a low of \$60,000 in tiny Columbia County to a high of \$320,000 in San Juan County. King County's median was \$300,000, marking the first time any local market reached that prevailing price level. Only three counties joined Columbia with medians less than \$100,000 (all above \$90,000), while two additional counties reported medians in excess of \$200,000.

Columbia County recorded a median price below a year ago, but such movements are typically the result of small numbers of sales. All other Washington counties reported price increases, ranging from 0.5 percent in Whitman County (Pullman micropolitan area) to 25.6 percent in Pacific County. Among the metropolitan areas price changes ranged from 2.8 percent in Benton/Franklin counties (Kennewick-Richland-Pasco) to 15.9 percent in Kitsap County (Bremerton-Silverdale).

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



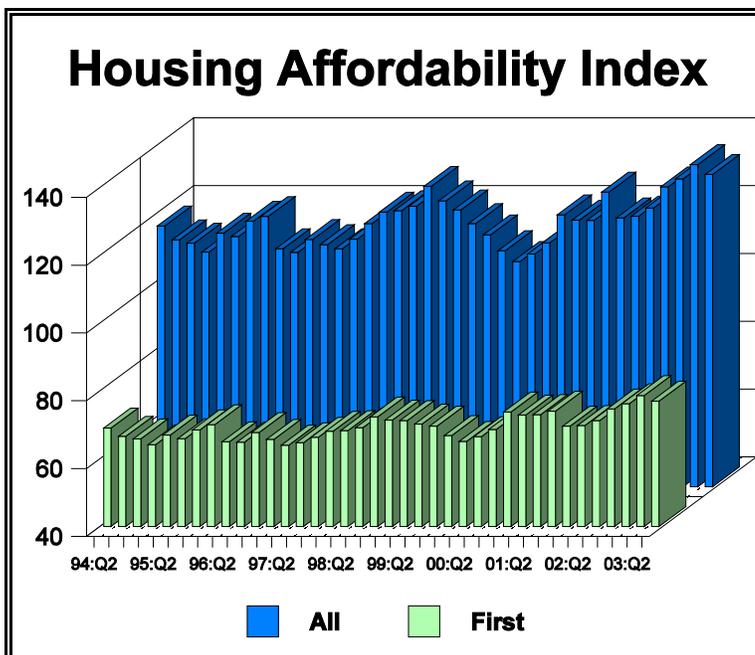


largest concentration of less costly housing is outside a reasonable commuting distance from major population centers. However, even in urban areas, lower cost housing is often available, especially if the buyer is willing to invest some hard physical labor improving the home. In fact, while “only” 3.5 percent of the single-family homes sold during the third quarter were priced no higher than \$70,000, this represents about 1,540 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 (5.66 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 or unrelated adults sharing a housing unit (roommates, etc.). 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. Beginning with this report, income data has been revised for consistency with Census 2000, resulting in changes to local affordability estimates for the last several quarters.

The Housing Affordability Index for Washington State in the third quarter stood at 132.1, meaning that a median income family had 32.1 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 122.2 which prevailed a year ago, but slipped somewhat from 135.0 for the second quarter of 2003. The strong affordability measure is due almost exclusively to the extended decline in mortgage rates, now only marginally above their lowest level in over 40 years.

The all-buyer affordability index indicated that a median income family could afford to purchase the median price home in 35 of the 36 counties for which the statistics are calculated. Locally, housing affordability indexes ranged from a low of 83.4 in San Juan County to a high of 373.9 in Columbia County. Among metropolitan areas, affordability indices ranged from a high of 198.7 in Spokane County to a low of 117.4 in King County. The impact of the income revisions was especially obvious in the King County data, where affordability statistics now correspond better with local perception of the difficulty affording housing in greater Seattle.

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 third quarter of 77.0. While modestly lower than the second quarter value, the current statistic is the second highest value since WCRER began computing it nearly 10 years ago. These high levels of first-time buyer affordability explain surging homeownership rates.

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 16 counties, including both urban and rural areas. In another six 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 King) 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 is assumed that these buyers would have been able to find mortgages for their purchases at an interest rate of 5.50% (approximately the same as 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	\$ 91,730	\$ 4,828	\$ 96,558
\$ 45,000	\$ 938	\$165,114	\$ 18,346	\$ 183,460
\$ 70,000	\$ 1,458	\$256,844	\$ 64,261	\$ 321,105
\$125,000	\$ 2,604	\$458,650	\$ 246,965	\$ 705,615

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 \$96,558 above. This 27.5 percent jump is due solely to the effect of lower interest rates. When reviewing these statistics it is important to remember that the median family income in the state during the quarter was \$60,983, and ranged from a low of \$38,920 in Ferry County to \$78,184 in King County. Household incomes were predictably lower, ranging from \$31,361 in Whitman County to \$61,619 in King County. The statewide median household income was \$49,859. This means the lower two price ranges remain most relevant for most residents of the state.

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, when inventories and demand typically begin to decline. 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.

**Percentage of Homes on Market Below Specified Price – September, 2003**

Home Price	State-wide	Benton/ Franklin counties	Chelan/ Douglas counties	Clark county	King county	Kitsap county	Pierce county	Snoho- mish county	Spokane county	Thurston county	Yakima county
\$ 80,000	6.5%	7.8%	15.9%	3.4%	0.0%	1.6%	1.5%	1.0%	21.4%	4.5%	16.9%
\$160,000	27.3%	51.9%	54.5%	22.5%	2.4%	18.6%	23.4%	8.5%	65.5%	30.4%	63.4%
\$250,000	54.9%	83.9%	77.1%	49.9%	22.4%	47.0%	62.4%	49.7%	83.9%	72.2%	86.6%
\$500,000	86.8%	99.2%	95.7%	87.7%	69.5%	85.0%	91.7%	91.0%	97.0%	97.6%	97.8%

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 effectively no homes in King County have asking prices below \$80,000 while three in ten have an asking price in excess of \$500,000.

It should be pointed out that the income used to calculate the statewide first-time buyer affordability index is halfway between the assumptions for the two lower categories. This means if those households were actively in the home purchase market, they would be competing for the lowest-priced 15% 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-September listing inventory, with the resulting statistic multiplied by 12 to yield a month's supply. Accordingly, there was a 3.4 month's supply of homes on the market at the end of the quarter. This represents a continued modest decline in inventory compared to the 4.0 month supply which prevailed at the end of the second quarter.

A 4-6 month inventory is considered normal. Accordingly, the overall state market can be characterized as a "tight" inventory. In a normal inventory situation, neither rapid price increases nor significant price declines should be expected in the short term, but current inventories suggest prices will continue to outstrip inflation. The minimum 2.7 month supply was reported for Thurston County while the maximum was an 8.7 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 only seven months. This may indicate the high-end market in greater Seattle, which has experienced some price softening in recent quarters, may be stabilizing.

**Month's Supply of Housing by Price Range  
September, 2003  
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	6.4	5.0	7.0	20.4	12.0	6.1
Benton/Franklin	5.0	6.6	7.3	10.7	14.7	7.1
Chelan/Douglas	6.3	4.2	5.4	10.4	55.2	5.6
Clark	4.8	1.6	2.3	6.7	25.5	3.3
Cowlitz	4.7	5.5	9.1	16.8	108.0	6.6
Ferry/Pend Oreille/Stevens	6.7	8.0	12.0	25.7	n/a	8.7
Grant	4.7	6.1	6.4	32.3	n/a	6.3
Grays Harbor	6.2	5.5	9.8	23.1	n/a	6.8
Island	3.2	2.1	3.5	8.6	23.8	5.0
King	1.2	1.8	2.0	2.9	7.1	3.1
Kitsap	1.5	1.6	2.6	5.1	11.3	3.1
Lewis	2.5	5.1	9.1	11.0	96.0	5.4
Mason	3.3	4.8	5.4	8.1	96.0	5.2
Pierce	1.6	1.9	2.5	5.1	14.6	3.0
Skagit	3.6	3.6	3.9	7.7	34.1	5.0
Snohomish	6.4	2.6	2.6	3.9	10.9	3.3
Spokane	3.0	2.7	3.4	7.3	19.0	3.3
Thurston	4.4	1.8	3.0	4.6	8.1	2.7
Whitman	6.7	2.8	4.7	5.3	n/a	4.1
Yakima	5.1	5.3	7.2	14.0	32.0	6.2
<b>STATE</b>	<b>3.9</b>	<b>2.7</b>	<b>2.7</b>	<b>3.9</b>	<b>8.8</b>	<b>3.4</b>