

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

## Fourth Quarter 2003

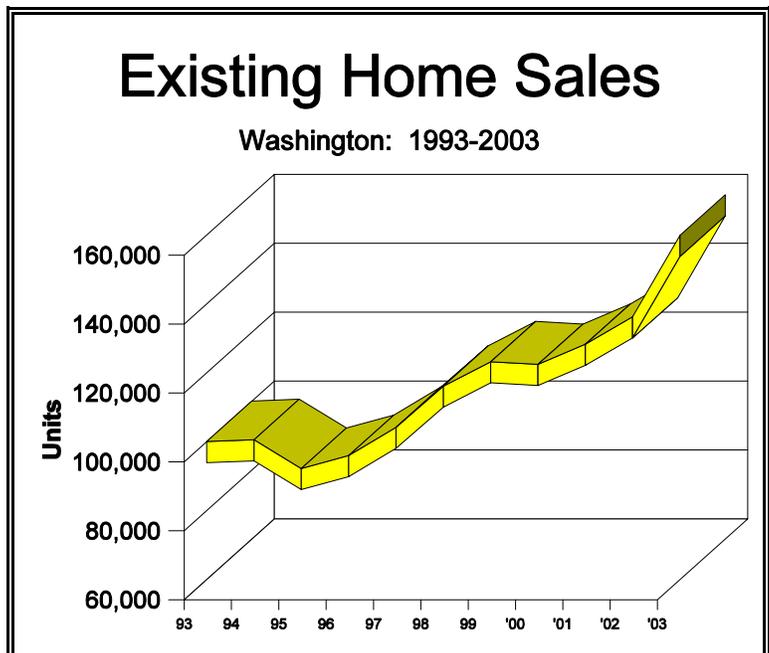
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**B**oth Washington State and the nation set records for existing home sales for the third consecutive year during 2003. Nationally 6,100,000 resale transactions for single-family homes were recorded, 9.6 percent more than 2002, despite a prolonged recession and sluggish recovery, especially in terms of jobs. Similarly, Washington recorded sales totaling 156,880 units, an even more robust increase of 15.1 percent compared to the prior year. Since the Washington economy was harder hit by the recession than many other states, the strong housing market surprised some casual observers. Housing market strength in 2003 is generally attributed to a continuation of the lowest mortgage interest rates in 40 years. Since stocks, which had not provided much competition to real estate in terms of appreciation since the late 1990s began to recover in 2003, the investment-driven home sales were replaced with households seeking a home of their own, or housing closer to their dreams. Single-family construction, measured by either building permits or housing starts achieved new records in 2003 both nationally and in the West (there is no state-level housing start data, and permit data for states is not yet final). Total permits and starts were at their highest levels in 30 years even though apartment construction remains limited by significant vacancies in many places. WCRER research reported separately has indicated apartment vacancies in Washington are below national averages, but are still high enough to discourage most multifamily construction.

### 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 14.8 percent from the fourth quarter of 2002, reaching a total of 38,140 units sold between October 1 and December 31. These statistics show a seasonal decline in actual sales compared to the third quarter.

Only five of the 39 Washington counties reported fewer home sales in late 2003 than a year earlier, with Whitman and San Juan counties



reporting the only double-digit percentage declines. On the other extreme, tiny Wahkiakum county had the biggest percentage increase in home sales, but five additional counties had increases of more than 20 percent compared to the closing quarter of 2002. Among metropolitan counties the strongest market was in Cowlitz County (27.8 percent increase), while the weakest was in Whatcom County (4.3 percent decline).

Note: This report uses the definitions of metropolitan and micropolitan areas as finalized by the Office of Management and Budget in July 2003. 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 nine micropolitan areas.

## Housing Construction

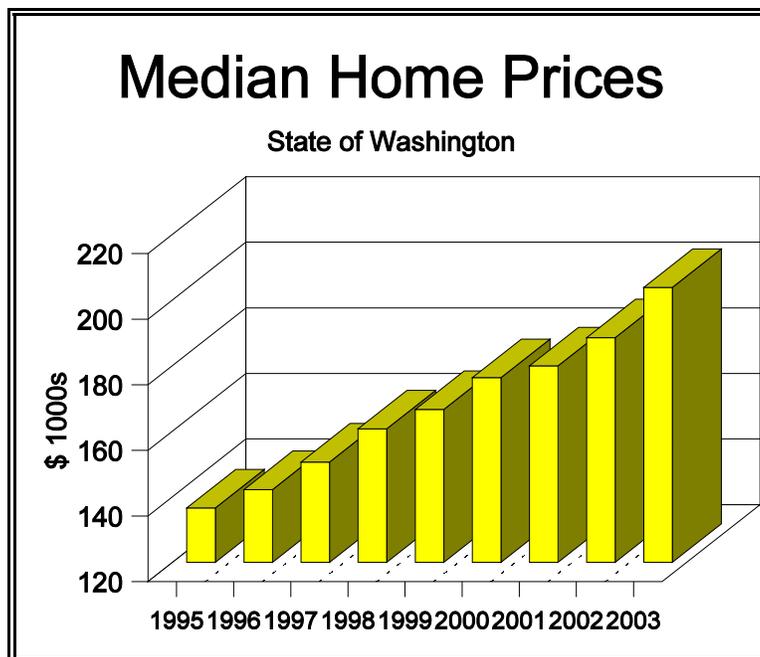
Construction activity, as measured by building permits, declined compared to the fourth quarter of 2002, but weakness was limited to multifamily construction. Single-family building permits were 6.4 percent higher than last year, with 7,110 new homes authorized for construction. Far more complete data on 2003 building permits will be included in the next issue of **Washington State's Housing Market**, since the Census Bureau typically releases final annual permit numbers in April.

At the local level, housing construction declined overall compared to late 2002 in nine counties and increased in the other 22 where the Census Bureau releases monthly statistics. Okanogan County showed the greatest construction increase (141.7%) while Whitman County had the sharpest decline (55.8%). These same communities were the extremes for single-family construction, but one county which reported lower overall permits showed an increase in single-family construction. This reversal of position by King County has a clear impact on statewide numbers. While multifamily construction was still sluggish during the closing quarter, apartment vacancy in Washington, as reported by WCRER or Dupre + Scott, showed some improvement and has clearly fewer problems than the national rental market, which continues to record near-record vacancy rates.

## Home Prices

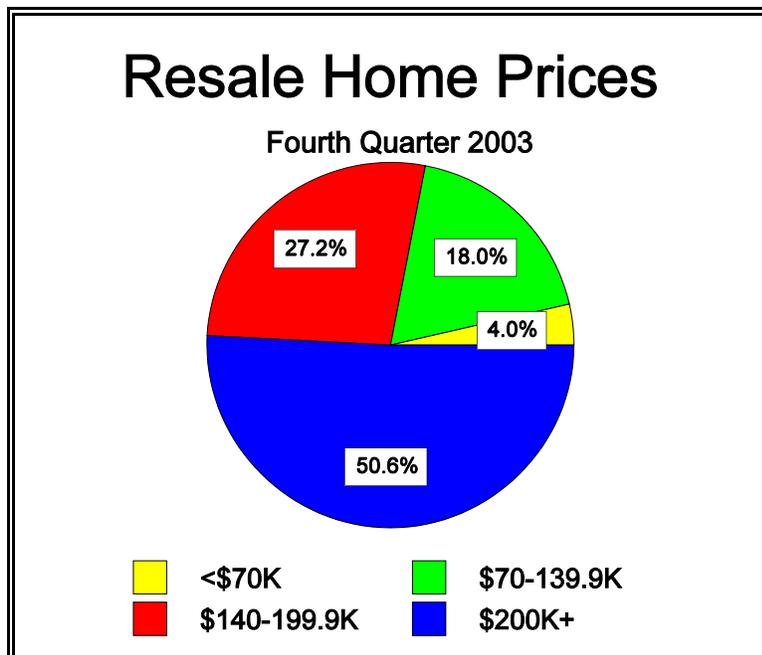
The median selling price for a resale home in the state of Washington during the fourth quarter of 2003 was \$205,700. This is \$17,100 higher than last year's fourth quarter median, but seasonally lower (\$2,300) than last quarter. The median price for all of 2003 was \$203,800, an increase of 8.1 percent compared to 2002. This rate of price increase is consistent with the very active market, and modestly above the national statistic.

Local area prices in the fourth quarter ranged from a low of \$60,000 in Columbia County to a high of \$300,000 in San Juan County. Only five counties reported median prices less than \$100,000, while King, Snohomish and



Jefferson joined San Juan with medians above \$200,000.

Nine counties recorded increases in median prices of at least ten percent compared to the fourth quarter of 2002, while six counties experienced lower median prices. Among those, only Okanogan, whose data is being reported for the first time, reported a significant decline. Among metropolitan counties, price changes ranged from a 5.5 percent decline in Asotin County to a 10.2 percent jump in Whatcom County. Among the micropolitan markets, the prices were all higher, ranging from 0.9 percent in Clallam County to 15.1 percent in both Grays Harbor and Whitman counties.



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” 4.0 percent of the single-family homes sold during the fourth quarter were priced no higher

than \$70,000, this represents about 1,500 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 for each county in the state. These affordability calculations depend on statistics from a variety of sources. The effective mortgage rate on loans closed during the quarter (national average, 5.83 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

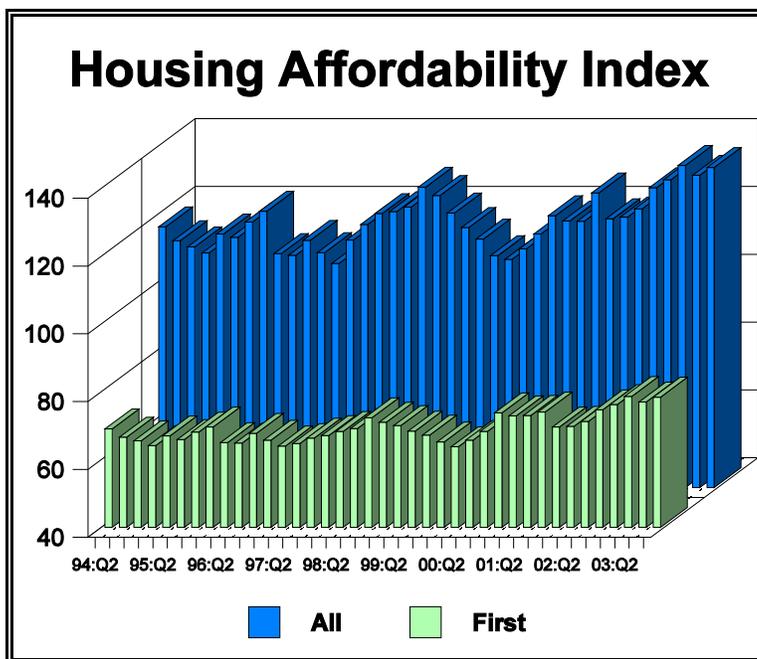
people related by blood, marriage or adoption who share a housing unit. Single adults with children or other dependent relatives (e.g. an aging aunt) are families. Household income includes all families as well as persons living alone or unrelated individuals sharing a housing unit (roommates). Since 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 fourth quarter stood at 134.4, meaning that a median income family had 34.4 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 128.4 which prevailed a year ago, and slightly improved from 132.1 in the third quarter. The strong affordability measure is due primarily to mortgage rates remaining near their lowest level in over 40 years.

Locally, housing affordability indexes ranged from a low of 88.0 in San Juan County to a high of 369.9 in Columbia County. Among larger urban areas, affordability indices ranged from a high of 224.1 in Asotin County to a low of 116.9 in King County. Among the smaller urban areas the range is from a low of 135.1 in Island County to a high of 193.9 in Grays Harbor County.

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 first-time buyers index for the fourth quarter of 78.4. Only once in the 10 years WCRER has been computing the statistic has it be less difficult for first-time buyers to participate in homeownership. No wonder record levels of home ownership are 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 19 counties, including both urban and rural areas. In another six 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 San Juan and Jefferson counties, 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 5.75% (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	\$ 89,249	\$ 4,697	\$ 93,946
\$ 45,000	\$ 938	\$160,648	\$ 17,850	\$ 178,498
\$ 70,000	\$ 1,458	\$249,897	\$ 62,474	\$ 312,371
\$125,000	\$ 2,604	\$446,245	\$ 240,286	\$ 686,531

This table clearly illustrates how income growth coupled with ownership of homes with increasing values moves a household up the ownership housing ladder. Now, 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 \$62,512, and ranged from a low of \$39,135 in Ferry County to \$78,994 in King County. Household incomes were predictably lower, ranging from \$31,546 in Whitman County to \$62,183 in King County. The statewide median household income was \$51,132. This means the lower two price ranges remain most relevant for most residents of the state.

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

Home Price	State-wide	Benton/ Franklin counties	Chelan/ Douglas counties	Clark county	King county	Kitsap county	Pierce county	Skagit county	Snoho- mish county	Spokane county	Thurston county	Yakima county
\$ 80,000	6.4	8.2	13.7	2.7	0.1	1.3	1.3	3.5	0.8	21.0	3.3	17.8
\$160,000	27.4	52.3	54.2	20.7	2.4	17.7	24.2	26.9	7.6	61.4	30.1	61.7
\$250,000	54.8	85.0	77.7	52.1	20.7	45.5	62.6	56.9	48.2	81.1	68.9	86.6
\$500,000	87.0	98.6	95.4	87.9	69.3	85.7	92	89.6	90.5	96.4	96.9	98.1

These statistics make it clear that in most parts of the state first-time home buyers still face extremely limited choices in the housing market, while trade-up buyers have a wide assortment of homes from which to choose in all communities. Significantly, virtually no homes in King County have asking prices below \$80,000 while 30 percent 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 6.4% of the available statewide inventory. These lower-cost homes, if they are in reasonably good condition in stable neighborhoods, should 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**

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 full-year 2003 are compared to the end-of-year listing inventory, with the result multiplied by 12 to yield a month's supply. There was only a 2.8 month's supply of homes on the market at year-end, due primarily to the seasonal decline of listings. This represents an extremely tight listing inventory, suggesting that rapid increases in prices can be expected in the short term if interest rates remain low and no surge of new listings reaches the market.

Historically, balanced markets are characterized by a five to seven months supply of homes on the market. Most markets in the state can be described as having a shortage of inventory, with the remainder balanced. No market has excess inventory as of year-end 2003. The most severe shortage of listings was in Kitsap County, while the longest month's supply was in Northeast Washington.

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 month's 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 with the exception of King County, but it is common for homes at this level to take longer to sell since they tend to be unique, and buyers in those price ranges have the ability to be more selective.

**Month's Supply of Housing by Price Range  
December, 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	5.5	4.1	7.9	14.9	12.0	5.3
Benton/Franklin	4.7	5.7	6.6	9.2	21.6	6.3
Chelan/Douglas	4.1	3.4	4.1	7.8	45.6	4.3
Clark	3.6	1.5	2.5	5.6	20.3	3.0
Cowlitz	4.5	5.3	6.6	13.8	108.0	5.9
Ferry/Pend Oreille/Stevens	5.6	6.6	8.0	16.4	48.0	6.9
Grant	3.9	5.5	5.9	20.0	n/a	5.5
Grays Harbor	5.5	4.8	6.6	15.5	n/a	5.7
Island	3.6	2.2	2.7	6.6	16.0	4.1
King	2.2	1.6	1.4	2.2	5.2	2.4
Kitsap	1.0	1.2	1.9	4.0	7.4	2.4
Kittitas	1.2	2.6	4.2	9.4	25.3	4.2
Lewis	3.3	5.5	7.4	10.9	144.0	5.7
Mason	3.9	3.7	4.3	5.4	52.8	4.3
Pierce	1.4	1.8	2.1	4.3	11.6	2.5
Skagit	4.1	2.8	3.2	6.2	21.9	4.1
Snohomish	5.1	2.3	2.3	3.4	9.1	2.9
Spokane	2.5	1.9	2.8	6.0	17.5	2.6
Thurston	3.3	1.6	2.2	4.8	9.5	2.4
Whitman	7.0	2.9	4.0	3.8	n/a	3.9
Yakima	3.9	3.8	5.9	11.0	26.4	4.7
STATE	3.4	2.4	2.2	3.2	6.6	2.8