

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

## Fourth Quarter 2004

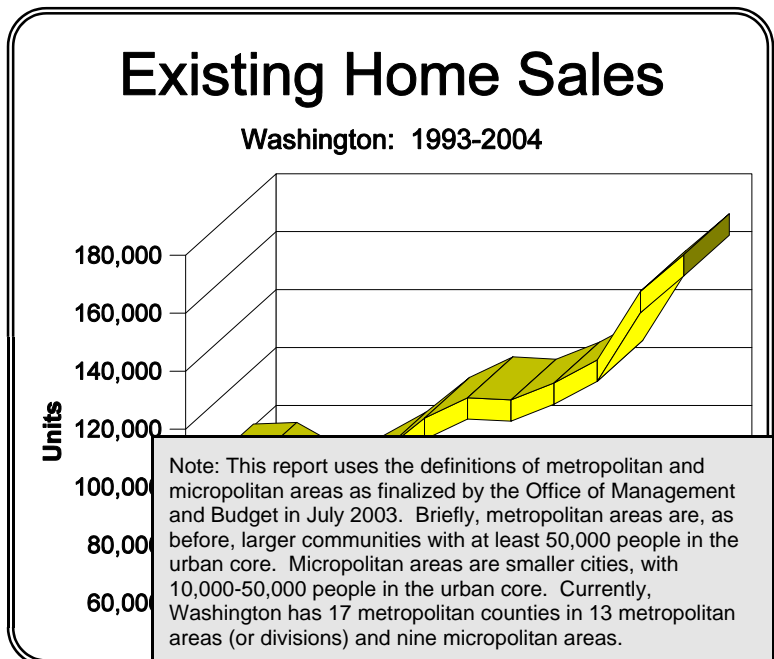
Washington Center for Real Estate Research  
Washington State University  
P.O. Box 644861  
Pullman, WA 99164-4861  
(800) 835-9683

**S**ales records were set during 2004 for existing homes at the national, regional and state level for the fourth consecutive year. Nationally 6,675,000 resale transactions for single-family homes were recorded, 9.4 percent more than 2003, as the post 9/11 recovery finally took hold. The entire West (13 states, Rockies to the Pacific) recorded 1,850,000 single-family sales, an increase of 12.1 percent. Washington alone recorded sales totaling 169,560 units, an increase of 8.0 percent compared to the prior year. Since the recovery in the overall Washington economy has not quite matched the national level, the modestly less robust home sales is still reflective of incredible strength. Housing market performance in 2004 is attributed to a continuation of the lowest mortgage interest rates in 40 years coupled with stronger underlying economics. Single-family construction, measured by either building permits or housing starts achieved new records again in 2004 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 since 1978 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, resulting in a more robust multifamily construction market in Washington than elsewhere in 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 11.4 percent from the fourth quarter of 2003, reaching a total of 42,500 units sold between October 1 and December 31. These statistics show a typical seasonal decline in actual sales compared to the third quarter.

Seven of the 39 Washington counties reported fewer home sales in late 2004 than a year earlier, with Clallam County reporting the only double-digit percentage decline. On the other extreme, Whitman County



had the biggest percentage increase in home sales, but 12 additional counties had increases of more than 20 percent compared to the closing quarter of 2003. Among metropolitan counties the strongest market was in Chelan/Douglas counties (25.5 percent increase), while the weakest was in Asotin County (Lewiston, ID-WA) (4.3 percent decline).

## Housing Construction

Construction activity, as measured by building permits, surged 31.4 percent compared to the fourth quarter of 2003, the recovery of always volatile multifamily construction was especially pronounced. Single-family building permits were 11.2 percent higher than last year, with 7,905 new homes authorized for construction. Far more complete data on 2004 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.

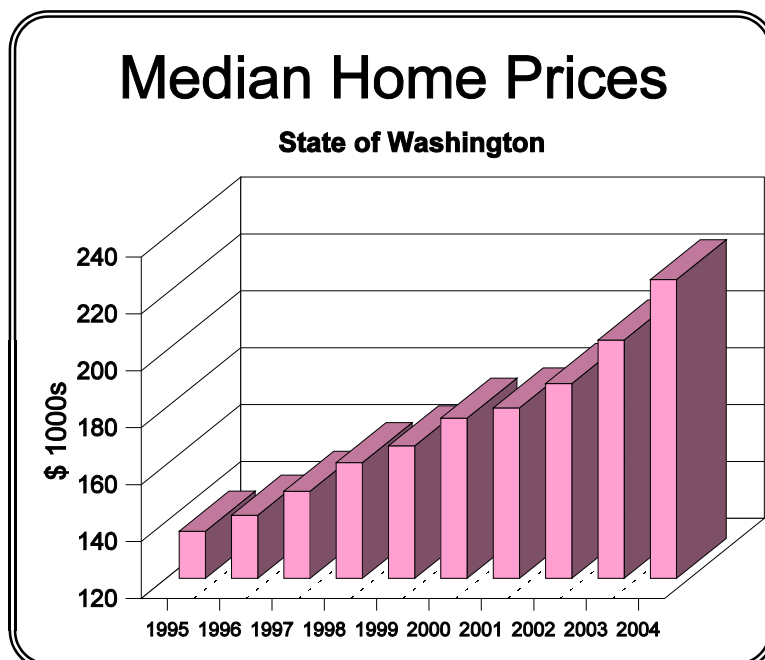
At the local level, housing construction declined overall compared to late 2003 in 11 counties and increased in the other 20 where the Census Bureau releases monthly statistics. Douglas County showed the greatest construction increase (133.3%) while Whitman County had the sharpest decline (61.8%). Douglas County also had the greatest increase in single-family construction, but Pacific County reported the most significant decline in single-family permits (41.4%). The 5-county Central Puget Sound region had very strong construction, with King, Pierce, and Snohomish counties all recording at least 30 percent jumps in construction. Multifamily construction was especially strong throughout the region.

## Home Prices

The median selling price for a resale home in the state of Washington during the fourth quarter of 2004 was \$231,700. This is \$26,000 higher than last year's fourth quarter median. Median prices during the fourth quarter are usually a little lower than the third quarter, but in 2004 an increase of \$1,700 was observed. The median price for all of 2004 was \$225,000, an increase of 10.4 percent compared to 2003. The median price in Washington was \$40,900 above the national median and \$40,800 below the median in the West. The national median increased 8.3 percent during 2004, while in the West the increase was 13.5 percent.

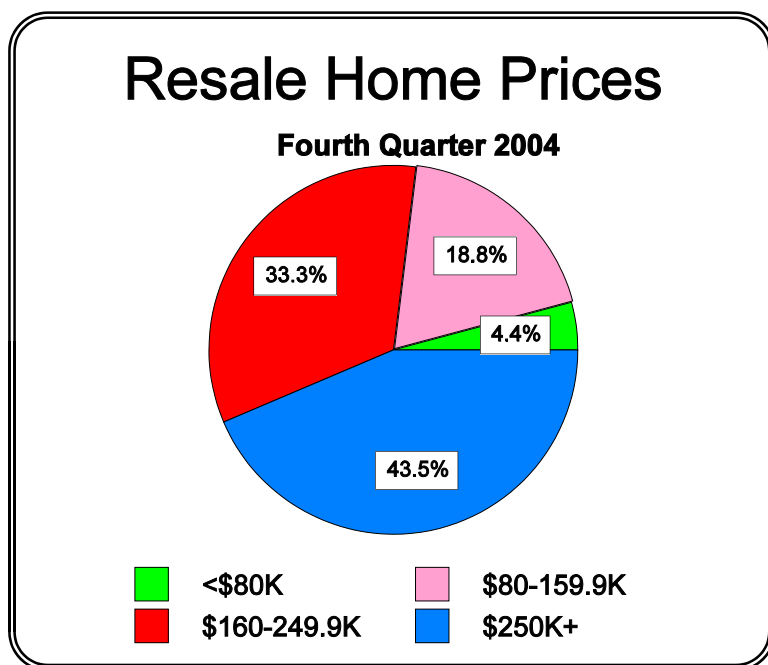
Local area prices in the fourth quarter ranged from a low of \$84,000 in Okanogan County to a high of \$365,000 in San Juan County. Only two counties reported median prices less than \$100,000, while King, Snohomish, Jefferson, Whatcom, Island, Kitsap, Pierce and Skagit joined San Juan with medians of at least \$200,000.

Nine counties recorded increases in median prices of at least 20 percent compared to the fourth quarter of 2003, while only Grant County experienced a lower median price.



Among metropolitan counties, price changes ranged from a 1.9 percent increase in Chelan/Douglas counties to a 29.6 percent jump in Whatcom County. Among the micropolitan markets, the range was from Grant's 4.3 percent decline to 29.6 percent in Clallam 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" 4.4



percent of the single-family homes sold during the fourth quarter were priced no higher than \$80,000, this represents about 1,850 homes. It should be noted that the price ranges illustrated in the accompanying graph have been updated beginning with this report. 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 where price data is available. These affordability calculations depend on statistics from a variety of sources. The effective mortgage rate on loans closed during the quarter (national average, 5.72 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.

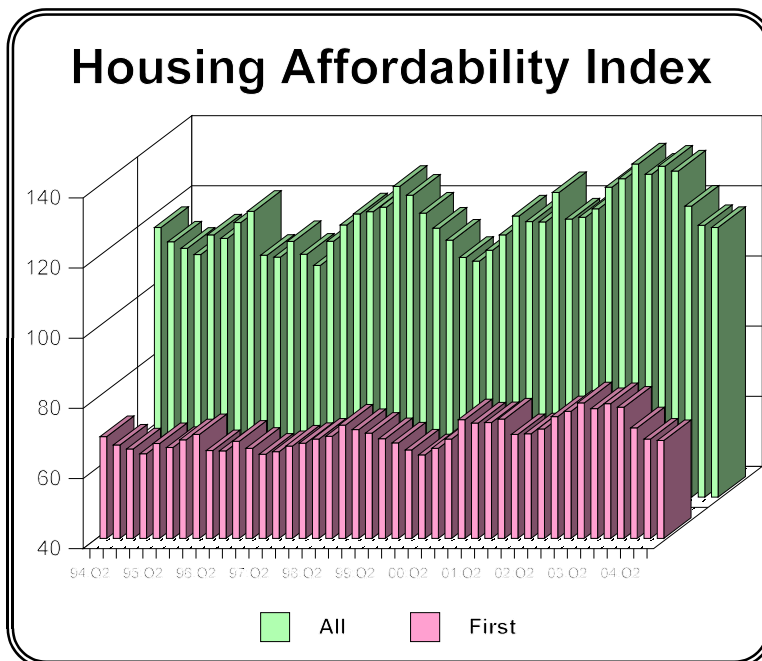
The Housing Affordability Index for Washington State in the fourth quarter stood at 116.9, meaning that a median income family had 16.9 percent more income than the bare minimum required

to qualify for a mortgage on the median price home. This represents a sharply diminished affordability condition than the index of 134.4 which prevailed a year ago, and slightly worse than the 117.5 reported for the third quarter. While family incomes and mortgage interest rates had changed little in the last year, the surge in home prices consistently eroded the affordability of housing in 2004.

Locally, housing affordability indexes ranged from a low of 66.9 in San Juan County to a high of 236.3 in Columbia County. Among metropolitan areas, affordability indices ranged from a high of 188.7 in Benton County to a low of 97.8 in King County. Among the smaller urban areas the range is from a low of 113.9 in Island County to a high of 195.1 in Grant 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 67.9. While first-time buyer affordability has declined in the last year, it remains a very affordable option, resulting in a continuing strong first-time homebuyer market.

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 seven counties, including both urban and rural areas. Unfortunately, this is down sharply from 19 affordable counties a year ago. In another ten counties the index was above 90, indicating a small 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, Jefferson, King and Whatcom counties, indicating the affordability crisis is becoming more intrusive.



### **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
- \$ 50,000 income, 10% downpayment
- \$ 75,000 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	\$ 1,042	\$178,498	\$ 19,833	\$ 198,331
\$ 70,000	\$ 1,563	\$267,747	\$ 66,937	\$ 334,684
\$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. When reviewing these statistics it is important to remember that the median family income in the state during the quarter was \$60,499, and ranged from a low of \$37,395 in Okanogan County to \$72,302 in King County. Household incomes were predictably lower, ranging from \$29,982 in Stevens County to 57,577 in Snohomish County. The statewide median housing income was \$49,319. This means the lower two price ranges are most relevant for 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 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.

**Percentage of Homes on Market Below Specified Price – December, 2004**

County	Home Price Maximum			
	\$80,000	\$160,000	\$250,000	\$500,000
Asotin	19.2%	63.6%	86.4%	98.1%
Benton/Franklin	7.1%	51.1%	84.4%	97.7%
Chelan/Douglas	12.7%	42.2%	74.3%	94.3%
Clark	3.9%	12.8%	41.9%	81.3%
Cowlitz	22.0%	65.6%	86.1%	100.0%
King	0.1%	1.6%	12.2%	61.3%
Kitsap	1.2%	10.3%	33.5%	78.0%
Pierce	1.0%	13.0%	48.5%	87.8%
Skagit	4.3%	24.3%	50.8%	85.8%
Spokane	13.2%	44.7%	71.9%	93.6%
Snohomish	0.7%	5.2%	26.6%	86.5%
Thurston	2.4%	18.5%	53.4%	91.4%
Whatcom	3.5%	11.4%	37.1%	85.2%
Yakima	15.5%	61.7%	85.0%	97.6%
Statewide	5.4%	23.1%	46.8%	83.5%

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 nearly 40 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 5.4% 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 2004 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 2.3 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.

The 2004 year-end month's supply is two weeks shorter than recorded a year earlier. This suggests rapid price increases will continue into 2005.

Historically, balanced markets are characterized by a five to seven months supply of homes on the market. Most markets in the state, in communities large and small, 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 King County, with Thurston and Kitsap counties close behind, each recording inventory levels of less than two months. The longest month's supply was in the balanced Tri-Cities market, with a listing inventory capable of sustaining sales at current rates for 6.1 months.

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 2004. Homes priced above \$500,000 are in excess supply in most areas, but Kitsap and Snohomish counties would be characterized as balanced, while King County has a modest shortage even of expensive homes. 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, 2004  
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	3.3	3.5	7.3	13.9	72.0	4.5
Benton/Franklin	5.3	5.3	6.7	8.0	29.5	6.1
Chelan/Douglas	3.2	1.8	3.0	4.2	9.0	2.7
Clark	5.8	0.9	1.6	3.8	13.0	2.5
Cowlitz	2.9	2.8	3.9	11.2	9.0	3.6
Ferry/Pend Oreille/Stevens	4.0	3.7	4.6	16.1	12.0	4.5
Grant	3.5	4.9	5.5	14.3	24.0	5.0
Grays Harbor	2.2	3.0	5.4	6.1	n/a	3.3
Island	1.8	1.9	1.8	3.2	10.8	2.8
King	3.0	1.2	0.8	1.4	3.6	1.7
Kitsap	1.1	0.7	1.0	2.7	6.0	1.8
Kittitas	1.5	2.8	3.1	8.6	11.1	4.1
Lewis	3.1	4.5	4.5	10.2	156.0	4.8
Mason	3.1	1.9	3.6	4.9	16.0	3.1
Pierce	1.6	1.2	1.5	3.4	9.9	2.1
Skagit	6.0	2.1	1.6	3.4	7.8	2.6

*Washington State's Housing Market: A Supply/Demand Assessment*  
*Fourth Quarter 2004*

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<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>
Snohomish	3.8	1.7	1.0	2.8	6.2	2.1
Spokane	2.0	1.5	3.0	5.2	18.0	2.4
Thurston	2.1	1.1	1.3	3.4	11.4	1.9
Whatcom	2.0	1.0	1.2	3.3	7.9	2.1
Whitman	4.8	3.2	3.8	6.0	n/a	4.0
Yakima	4.6	4.5	5.0	9.8	25.7	5.1
Statewide	2.9	2.1	1.6	2.5	5.1	2.3