

HOUSING MARKET & AFFORDABILITY

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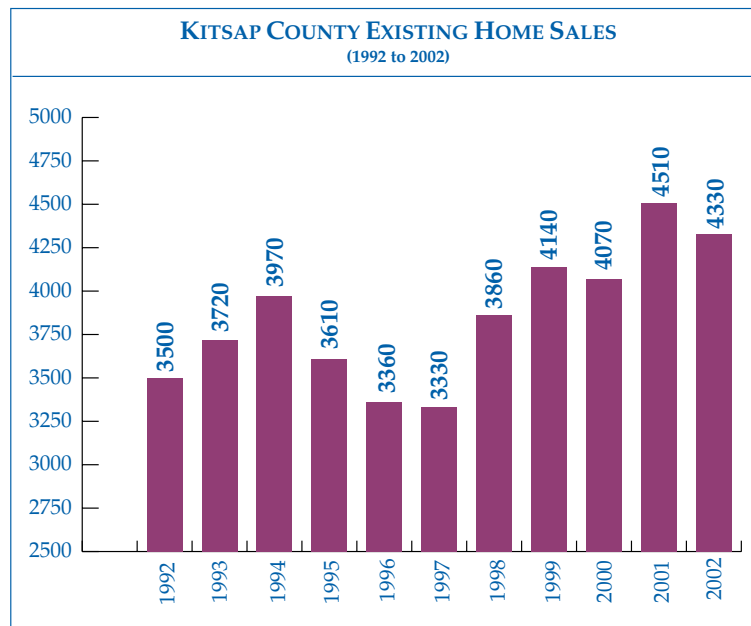
Housing Market and Housing Affordability Data Sources:

This analysis of housing markets and housing affordability in Washington was prepared for the Kitsap County TRENDS publication by the Washington Center for Real Estate Research at Washington State University. It is based on a quarterly report published by the Center which examines county-by-county housing markets across the state. Data estimates are based on data from the U.S. Department of Commerce, multiple listing services, local REALTOR associations and private data vendors.

Record Home Sales Activity in 2001:

Housing markets in Washington State during the first half of 2002 responded to a combination of soft underlying economics and the lowest mortgage interest rates seen in a generation. Households that were confident about their personal employment situation were willing to purchase homes. This market was led by first-time buyers, but the sellers of those homes were able to move into higher price ranges. Home sales were less robust in Kitsap County than in many areas of the state, with the level of sales activity in the first half actually declining by 6.9% compared to early 2001 (See Table #1). Among the counties compared in this report, only Snohomish County reported a weaker first half.

TABLE 1



Washington Center For Real Estate Research:

The Washington Center for Real Estate Research uses data from multiple listing systems and other groups that monitor housing market activity throughout the state to compute measures of existing home sales (housing resales, excluding new homes sold). Since many sales take place outside of multiple listing systems, the data is linked to sales reported in the most recent published Census (they are still using 1990). Accordingly, the sales activity reported by the Center will be higher than other measures, but should be generally consistent in terms of percentage changes.

Statewide Home Sales Up By 2.8%/ Kitsap County Sales Down By -6.9%:

As can be seen in TABLE #2, five of the nine markets compared for this report experienced higher levels of home resales during the first half of 2002 than they reported during the same period in 2001. Clark County showed no change. Three counties, including Kitsap County, showed a decline in home resale activity over a year ago. Kitsap County experienced a decrease in home resales of -6.9%. The statewide average of resale housing activity during the first half was 2.8% ahead of a year earlier.

TABLE 2

RESALE HOUSING ACTIVITY - 1997-2002 FIRST HALF TOTALS								
County	1997	1998	1999	2000	2001	2002	Percent Change 00-01	Percent Change 01-02
Benton/ Franklin	1,170	1,300	1,370	1,380	1,640	1,570	+18.8%	-4.3%
Clark	2,010	2,470	2,450	2,390	2,640	2,640	+10.5%	0.0%
King	16,690	16,810	17,750	16,340	16,960	17,480	+3.8%	+3.1%
Kitsap	1,980	2,010	2,220	2,160	2,600	2,420	+20.4%	-6.9%
Pierce	13,300	17,860	21,970	21,970	23,400	13,100	+12.0%	+1.4%
Snohomish	5,220	6,310	6,290	5,940	6,790	6,250	+14.4%	-8.0%
Spokane	2,600	3,030	3,100	3,130	3,370	3,600	+7.7%	+6.8%
Thurston	1,510	1,620	1,820	1,760	1,920	2,140	+9.1%	+11.5%
Whatcom	1,220	1,530	1,580	1,660	1,660	1,730	+9.9%	+4.2%
Statewide	50,830	54,810	59,560	58,280	63,390	65,150	+8.8%	+2.8%

Home Prices:

Sales competition and potential marketing time for homes is of interest primarily to those who are actively in the housing market as either buyers or sellers. General business analysts also find the resale housing activity statistics useful. Far greater interest is expressed over the data on median home prices. Part of this interest is from individuals who want to own a home, but who have found the Puget Sound region's rapidly escalating housing costs diminishing their ownership potential. Others find their homes are a considerable element in their financial portfolio, and monitor housing prices like they would stock prices. Certainly the state of housing prices is a frequent topic of conversation throughout Washington.

Driven by low mortgage rates and turmoil in equity markets, home prices reflected both homeownership benefits and investment potential, with prices continuing to rise in the face of sluggish overall economics. As can be seen in TABLE #3, as of mid-year 2002, the median home price in Washington was 3.7% higher than last year. Despite a reduced sales volume in Kitsap County, the local median price increased by a nearly identical 3.4% — greater than the rate of inflation

Kitsap County Median Price (\$163K) is \$100K Less Than King County:

Kitsap County home prices are noticeably lower than the prevailing price in neighboring King County. The median price of a home in Kitsap County was \$162,900 compared to the median price of a home in King County of \$282,500 (see TABLE #3). Among the five major counties in the greater Seattle area, only Thurston (Olympia) has a lower median price than Kitsap County, a situation which should make the local housing market more attractive to buyers from throughout the region.

A quick note about median prices is needed. Half the homes sell for prices above the median, half below. Both buyers and sellers are sometimes confused by these prices. Suburban sellers often forget that there are many less expensive homes in less desirable (by their standards) neighborhoods which help keep the medians down. Meanwhile, prospective buyers may be frightened out of the market by the unfounded belief they can't buy a home for less than the median.

TABLE 3

MEDIAN HOME PRICES - 1998-2002 (Second Quarters)							
County	2nd Qtr 1998	2nd Qtr 1999	2nd Qtr 2000	2nd Qtr 2001	2nd Qtr 2002	Percent Change 00-01	Percent Change 01-02
Benton/ Franklin	\$105,500	\$108,300	\$117,100	\$124,500	\$134,200	+6.3%	+7.8%
Clark	\$138,500	\$140,000	\$147,200	\$152,500	\$155,000	+4.3%	+1.6%
King	\$192,000	\$229,500	\$255,000	\$265,000	\$282,500	+3.9%	+6.6%
Kitsap	\$137,500	\$142,000	\$146,500	\$157,500	\$162,900	+7.5%	+3.4%
Pierce	\$137,000	\$143,000	\$155,000	\$159,000	\$168,000	+2.6%	+5.7%
Snohomish	\$170,000	\$184,600	\$195,000	\$211,000	\$218,000	+8.2%	+3.3%
Spokane	\$103,600	\$103,800	\$103,700	\$106,100	\$106,400	+2.3%	+0.3%
Thurston	\$129,000	\$130,000	\$136,000	\$145,000	\$150,000	+6.6%	+3.4%
Whatcom	\$137,200	\$144,600	\$149,600	\$155,200	\$155,800	+3.7%	+0.4%
Statewide	\$158,900	\$168,800	\$178,000	\$180,400	\$187,000	+1.3%	+3.7%

All-Buyer Affordability Index:

Affordability is calculated two ways. The "All-Buyer Affordability Index" assumes a purchaser selects the area's median price home, makes a 20% down payment, and takes out a 30-year mortgage at prevailing interest rates. This buyer is assumed to earn a typical or median income for a **family** (no one-person house-holds) in the area. The question then arises, could this typical family afford the monthly payments on a typical home? During the Second Quarter of 2002, the answer remained "Yes", and much more emphatically than in recent quarters.

The statewide "All-Buyer Affordability Index" stood at **131.2** in June (see TABLE #6), significantly higher than this time last year, but below the level which prevailed at year-end 2001. It should be interpreted that a middle income family with a 20% down payment could afford the payment on a home priced about 30% above the statewide median. In Kitsap County a nearly identical measure of **135.0** prevailed.

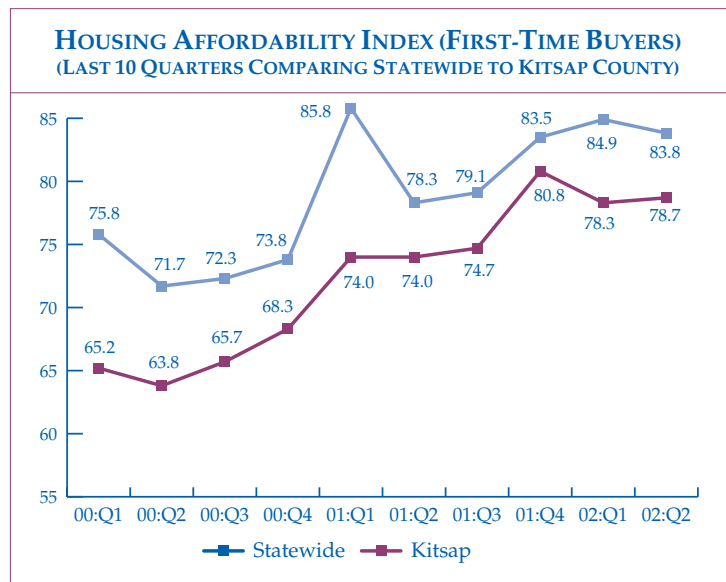
First-Time Buyer Index:

The real issue of affordability, however, is the ability of a household to purchase their first home. The calculation of the "First-time Buyer Index" begins with a less expensive home (85% of median), a 10% down payment, and a 30-year loan with private mortgage insurance. To account for the fact that most higher-income households are already home owners, the comparative income level is 70% of the median household income (single-persons are more likely to be first-time buyers). The resulting picture of Washington is a place where it is difficult to buy your first home. The typical renter who might want to own a home has only 78.7% of the income required to qualify for a mortgage on the typical starter home.

Home Affordability Attracts New Businesses

Kitsap County's first-time buyer affordability in the Second Quarter 2002 stood at 83.8 (see TABLE #4). This relative affordability for first-time buyers in the county may be the key in attracting new businesses to the community.

TABLE 4



Month's Supply of Housing/ Appreciation Potential:

The newest housing market measure introduced by WCRER is the comparison between sales during the Second Quarter 2002 to the inventory of homes available for sale in selected price ranges in each market. If it is assumed that a "normal" market provides roughly a 5-month supply of homes, values significantly lower than five indicate the market is primed for rapid price increases in that market segment, while values significantly higher than five imply the owners of properties may need to be flexible in their pricing in order to sell the property in a reasonable time. Based on these statistics (see TABLE #5), the market in Kitsap county is currently well balanced, with a slight shortage of lower-priced homes and only a moderate oversupply of homes priced above \$500,000. This means the local market would be expected to see strong price performance for a home priced under \$160,000, and some softness of prices in the higher end (above \$500,000) homes.

TABLE 5

MONTH'S SUPPLY OF HOMES BY PRICE RANGE - JUNE 2002						
County	Under \$80,000	\$80,000-\$159,000	\$160,000-\$249,999	\$250,000-\$499,999	\$500,000 and above	Total Market
Benton/Franklin	4.7	3.8	7.4	15.2	64.0	6.9
Clark	3.6	1.8	2.9	5.6	17.4	3.1
King	1.9	1.8	2.5	4.3	9.4	4.3
Kitsap	2.5	2.5	4.1	8.4	16.3	4.9
Pierce	2.9	3.0	4.3	8.5	20.8	4.7
Snohomish	8.1	3.2	3.2	5.8	14.9	4.6
Spokane	8.0	6.9	8.3	14.5	31.7	8.7
Thurston	3.2	2.3	4.0	8.9	20.5	4.0
Whatcom	10.4	5.7	6.8	10.9	25.8	8.1
Statewide	6.7	4.3	4.1	6.0	11.8	5.5

All-Buyer Index and First-Time Buyer Index Both Show Kitsap is Affordable:

TABLE #6 below illustrates the relative affordability of Single-Family homes in Kitsap County utilizing both ways of calculating affordability ("All-buyer Index" and "First-time Buyer Index").

TABLE 6

HOUSING AFFORDABILITY CONDITIONS - LAST 5 QUARTERS ENDING 2ND QTR 2002										
County	All-Buyer Affordability Index					First-Time Buyer Affordability Index				
	01:Q2	01:Q3	01:Q4	02:Q1	02:Q2	01:Q2	01:Q3	01:Q4	02:Q1	02:Q2
Benton/ Franklin	171.8	174.4	170.4	167.7	171.9	103.0	104.4	101.8	100.1	102.5
	119.8	123.0	121.5	120.9	125.3	73.1	75.1	74.2	73.8	76.5
98.3	147.9	147.7	154.9	160.0	154.4	91.4	91.1	95.3	98.3	94.7
74.9	120.3	121.9	131.9	130.4	124.4	68.9	69.9	75.6	74.9	71.5
84.9	127.2	128.2	135.2	137.1	135.0	78.3	79.1	83.5	84.9	83.8
85.7	133.5	136.1	143.1	141.4	140.0	80.5	82.3	86.8	85.7	85.0
77.6	114.7	115.7	122.9	124.3	123.8	71.5	72.1	76.6	77.6	77.3
107.7	177.1	168.1	185.5	190.4	185.7	99.7	94.8	104.7	107.7	105.3
89.2	141.3	140.5	151.6	148.7	148.8	84.5	84.1	90.8	89.2	89.3
77.6	130.7	136.0	139.2	138.4	140.6	73.8	76.6	78.1	77.6	78.6
78.3	124.0	125.0	135.1	130.6	131.2	74.0	74.7	80.8	78.3	78.7