

HOUSING MARKET & AFFORDABILITY 52

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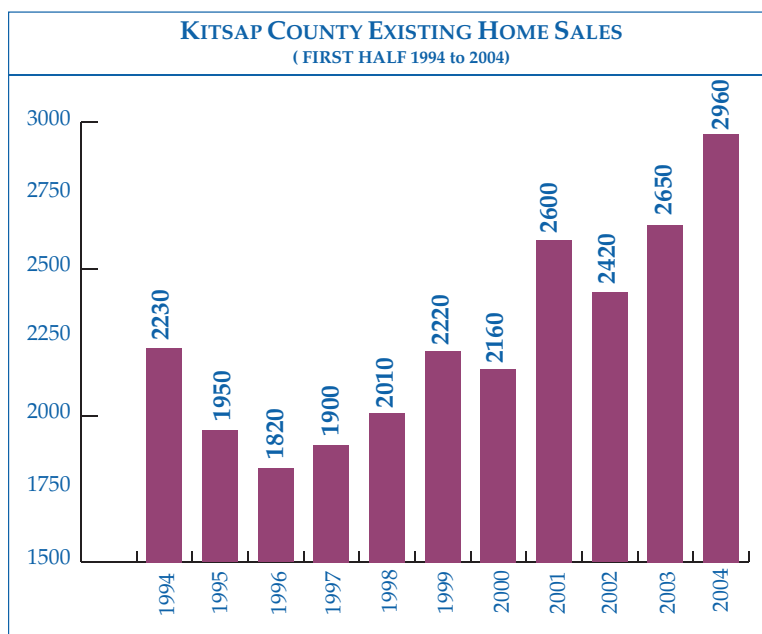
Housing Market and Housing Affordability Data Sources:

This analysis of housing markets and housing affordability in Washington was prepared for the "Kitsap 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.

The Year 2004 Experienced Record Sales:

Housing markets in Washington State, like the remainder of the nation, were driven by improving economic fundamentals and by the lowest mortgage interest rates. Statewide housing markets began the year somewhat behind 2003's record pace, but the second quarter surged again to record territory. In Kitsap County, first half home sales were decidedly above the comparable period in previous years. Only once in history, have over 5,000 homes sold in the county during a single year, but nearly 3,000 were sold during the first six months of this year. The record first half was 11.7 percent above the previous first half record, set last year. Among the counties compared in this report, Kitsap had the greatest year-to-year increase in existing home sales (see Table #1).

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 1990 Census. WCRER will move to a Census 2000-based estimate later this year. Because of the Census benchmark process, sales activity reported by the Center will be higher than other measures, but should be generally consistent in terms of percentage changes.

In 2003, all markets recorded increased levels of sales activity compared to 2002. The sales activity increase in Kitsap County (+12.2%) was less than the Washington State average (+15.1%), but still was a very good year (see **TABLE #2**).

TABLE 2

| RESALE HOUSING ACTIVITY - 1999-2004 | | | | | | | | |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|---------------|----------------------|----------------------|
| FIRST HALF TOTALS | | | | | | | | |
| County | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | Percent Change 02-03 | Percent Change 03-04 |
| Benton/ Franklin | 2,740 | 2,810 | 3,240 | 3,220 | 3,540 | 1,910 | +10.2% | +10.4% |
| Clark | 4,990 | 4,930 | 5,470 | 5,760 | 7,270 | 3,360 | +22.0% | +4.3% |
| King | 36,890 | 35,130 | 34,170 | 35,820 | 44,130 | 22,270 | +15.3% | +10.5% |
| Kitsap | 4,140 | 4,070 | 4,510 | 4,460 | 5,080 | 2,960 | +9.5% | +11.7% |
| Pierce | 21,970 | 21,970 | 23,400 | 24,770 | 28,780 | 15,830 | +17.3% | +3.0% |
| Snohomish | 12,910 | 12,390 | 14,550 | 13,910 | 16,940 | 8,090 | +17.6% | +10.1% |
| Spokane | 6,850 | 6,850 | 7,520 | 8,150 | 8,500 | 3,940 | +1.7% | +7.7% |
| Thurston | 3,380 | 3,260 | 3,470 | 3,810 | 4,260 | 2,510 | +5.6% | +11.1% |
| Whatcom | 3,270 | 3,140 | 3,410 | 3,870 | 4,470 | 2,200 | +16.2% | +9.5% |
| Statewide | 120,150 | 119,390 | 125,240 | 133,200 | 156,880 | 81,050 | +14.6% | +8.6% |

Home Prices:

Generally speaking, the volume of home sales activity is of interest only to economists, real estate salespeople and individuals who are actively trying to sell or buy homes. Far greater interest is expressed over the data on Median Home Prices and “appreciation”. 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 they monitor housing prices like they would stock prices. While stock prices have recovered somewhat in recent months, housing is still being treated as an “investment” more than just shelter by many, spurring a great deal of interest in housing price trends. Certainly, the state of housing prices is a frequent topic of conversation throughout Washington state.

Home prices in the first half of 2004 increased by approximately 11.7% across Washington state compared to the first half of 2003. In both years, the rate of increase in housing prices was well in excess of the general inflation rate, reinforcing consumer belief that housing purchases are good investments. The rate of home price increase in Kitsap County, as of the middle of the last two years, has been above the statewide increase in each year. The County had the most rapid price increases as of mid-year 2003, and was in second place in 2004.

Kitsap County Median Price (\$204K) is \$118K Less Than King County:

Kitsap county home prices remained noticeably lower (37% lower) than the prevailing price in neighboring King County, with a 2004 median of \$204,000 compared to \$322,000 across the Sound. In percentage terms, the increase in median prices in Kitsap County was more rapid than in greater Seattle. Among the urban areas compared in this section, three were more expensive than Kitsap County and five were less costly (see TABLE #3).

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. The disparities would be even greater if Average (Mean) prices were compared.

TABLE 3

| MEDIAN HOME PRICES - 2000-2004 (Second Quarter) | | | | | | | |
|--|------------------|------------------|------------------|------------------|------------------|----------------------|----------------------|
| County | 2000 | 2001 | 2002 | 2003 | 2004 | Percent Change 02-03 | Percent Change 03-04 |
| Benton/ Franklin | \$119,400 | \$125,500 | \$140,300 | \$145,300 | \$147,400 | +9.8% | +0.1% |
| Clark | \$147,000 | \$152,000 | \$156,500 | \$165,500 | \$182,500 | +6.3% | +10.7% |
| King | \$249,900 | \$262,000 | \$278,500 | \$292,400 | \$322,000 | +2.7% | +11.0% |
| Kitsap | \$149,400 | \$155,000 | \$165,900 | \$184,000 | \$204,000 | +11.1% | +12.7% |
| Pierce | \$151,800 | \$159,000 | \$170,000 | \$178,500 | \$195,500 | +4.8% | +11.1% |
| Snohomish | \$196,400 | \$210,000 | \$220,000 | \$231,000 | \$248,000 | +5.5% | +7.8% |
| Spokane | \$103,500 | \$107,400 | \$109,700 | \$119,500 | \$127,100 | +10.2% | +8.4% |
| Thurston | \$137,900 | \$144,500 | \$154,900 | \$167,000 | \$184,000 | +10.6% | +10.9% |
| Whatcom | \$146,500 | \$152,600 | \$159,100 | \$176,700 | \$212,700 | +9.4% | +24.8% |
| Statewide | \$176,300 | \$179,900 | \$188,500 | \$203,800 | \$223,700 | +7.0% | +11.7% |

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 households) in the area. The question then arises, could this typical family afford the monthly payments on a typical home? During the Second Quarter of 2004, the answer remained "Yes", due primarily to low mortgage rates.

The statewide "All-Buyer Affordability Index" slipped to 120.0, (see TABLE #6), meaning the typical family had 23.0% more income than the bare minimum required to qualify for the home. A year ago, the index was 135.0, so the decline in affordability is significant. In Kitsap County, the All Buyer Index was somewhat higher (136.7), but the reduced affordability is more pronounced, losing nearly 20 points in the last year. However, housing remains more affordable in Kitsap County than in either King or Snohomish counties, and is roughly comparable with Pierce County. These comparative affordability measures should be a real plus when it comes to attracting and retaining businesses.

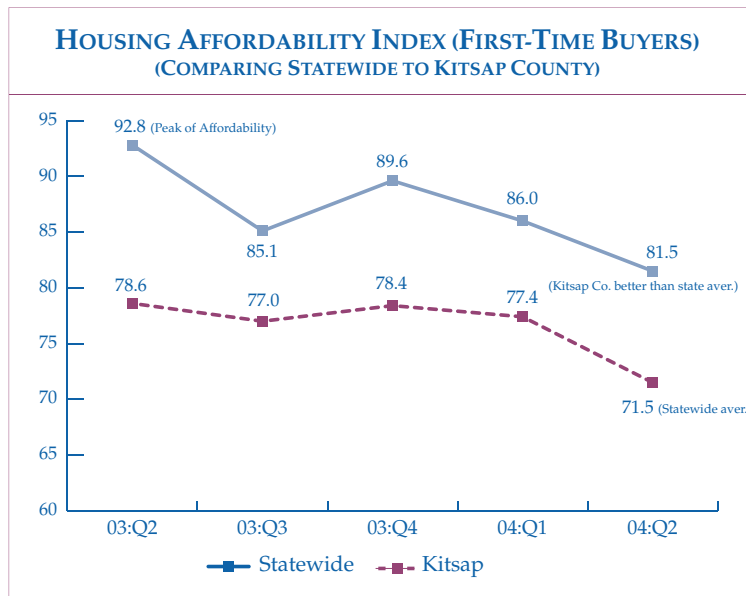
First-Time Buyer Index:

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% downpayment, 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 Washington State renter who might want to own a home has only 71.5% of the income required to qualify for a mortgage on the typical starter home.

Kitsap County Has More Affordable Housing Than State Average:

Kitsap County’s first-time buyer affordability in the First Half of 2004 was somewhat better than the Washington State average, recording an index of 81.5 (see TABLE #4). As illustrated in the accompanying graph, affordability for first-time buyers in Kitsap County has been a bit more erratic than the statewide measure, but both have generally improved during the last ten years, reaching a peak a year ago. While affordability has declined somewhat in the last year, it remains very high by historical standards in Kitsap County and throughout Washington, thanks primarily to interest rates which have remained near a 40-year low rate.

TABLE 4



Month’s Supply of Housing/ Appreciation Potential:

Last year, WCRER introduced the “Month’s Supply” of housing available for sale to this analysis, a comparison between sales during the year to the inventory of homes available for sale in selected price ranges in each market. Conventional wisdom suggests that an inventory of 5-10 months is “normal”, with supplies less than five months suggesting rapid price increases may be on the horizon, while inventories in excess of ten months suggests sellers may need to adjust their price expectations downward.

Low Inventory of Homes For Sale Throughout the State:

Virtually every market included in this analysis saw a very limited inventory available for sale at mid-year, with a statewide month's supply of 4.9 months. This is consistent with the rapid increase in median prices discussed earlier. Kitsap County also had a very short supply of homes on the market in June 2004 -- only 3.8 months (see TABLE #5). However, this represents a larger inventory than existed at year-end 2003, suggesting price increases during the latter part of 2004 may be a bit slower than recently observed.

Extreme Shortage of Homes at All Price Levels Below \$250,000:

Examining the detailed information by price range, there is an extreme shortage of inventory at all price levels below \$250,000, and continued shortage (although less severe) for homes priced from \$250,000 to \$500,000. The only component of the market which can be considered "balanced" is for homes costing more than half a million dollars. It should be noted that the shortest month's supply for homes priced less than \$80,000 in the entire state was in Kitsap County -- more restricted choice of affordable homes locally than in the Greater Seattle area. Only two counties, King and Clark, had shorter inventories of homes priced from \$80,000 to \$159,999, but only a little tighter. Builders of less costly homes should find a very receptive market for their product in Kitsap County.

TABLE 5

| MONTH'S SUPPLY OF HOMES BY PRICE RANGE - MID-YEAR 2004 | | | | | | | |
|--|----------------|--------------------|---------------------|---------------------|---------------------|--------------|------------|
| County | Under \$80,000 | \$80,000-\$159,000 | \$160,000-\$249,999 | \$250,000-\$499,999 | \$500,000 and above | Total Market | Year Ago |
| Benton/Franklin | 4.5 | 6.7 | 9.2 | 11.6 | 36.0 | 7.8 | 6.8 |
| Clark | 5.9 | 0.9 | 2.2 | 5.1 | 15.0 | 3.9 | 5.3 |
| King | 1.3 | 1.3 | 1.2 | 2.2 | 5.5 | 2.4 | 3.6 |
| Kitsap | 1.2 | 1.4 | 1.9 | 3.9 | 8.7 | 2.7 | 3.8 |
| Pierce | 2.1 | 1.5 | 1.9 | 4.7 | 12.6 | 2.6 | 3.4 |
| Snohomish | 3.6 | 2.6 | 1.9 | 3.4 | 8.3 | 2.8 | 3.9 |
| Spokane | 2.4 | 1.9 | 3.4 | 6.2 | 25.3 | 2.8 | 3.2 |
| Thurston | 3.2 | 1.4 | 1.9 | 5.0 | 11.7 | 2.4 | 3.0 |
| Statewide | 3.5 | 2.6 | 2.3 | 3.5 | 7.2 | 3.1 | 4.9 |

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 2004 | | | | | | | | | | |
|---|-------------------------------|----------------|----------------|----------------|----------------|--------------------------------------|---------------|---------------|---------------|---------------|
| County | All-Buyer Affordability Index | | | | | First-Time Buyer Affordability Index | | | | |
| | 03:Q2 | 03:Q3 | 03:Q4 | 04:Q1 | 04:Q2 | 03:Q2 | 03:Q3 | 03:Q4 | 04:Q1 | 04:Q2 |
| Benton/ Franklin | 189.4 140.6 | 187.5 138.8 | 193.7 143.0 | 197.8 146.0 | 189.6 139.9 | 113.8 89.5 | 112.5 88.1 | 116.0 90.6 | 118.4 93.1 | 113.5 90.0 |
| Clark | 174.1 | 170.6 | 167.6 | 167.6 | 155.0 | 107.5 | 105.2 | 103.2 | 102.8 | 94.8 |
| King | 121.3 | 117.4 | 116.9 | 115.4 | 105.1 | 68.2 | 65.9 | 65.6 | 64.5 | 58.4 |
| Kitsap | 155.5 | 142.9 | 150.8 | 144.5 | 136.7 | 92.8 | 85.1 | 89.6 | 86.0 | 81.5 |
| Pierce | 136.9 | 140.3 | 147.2 | 147.1 | 137.8 | 90.1 | 86.9 | 86.1 | 86.0 | 80.5 |
| Snohomish | 133.2 | 130.1 | 128.6 | 131.3 | 123.1 | 81.5 | 79.6 | 78.6 | 79.9 | 74.6 |
| Spokane | 208.2 | 198.7 | 199.5 | 205.7 | 188.6 | 115.5 | 110.0 | 110.3 | 113.6 | 104.0 |
| Thurston | 171.2 | 164.5 | 165.8 | 168.5 | 153.8 | 100.6 | 96.5 | 97.1 | 98.8 | 90.3 |
| Whatcom | 147.9 | 137.2 | 139.9 | 127.3 | 112.3 | 82.1 | 76.0 | 77.3 | 71.8 | 64.8 |
| Statewide | 135.0 | 132.1 | 134.4 | 133.0 | 123.0 | 78.6 | 77.0 | 78.4 | 77.4 | 71.5 |