

HOUSING MARKET & AFFORDABILITY

Information provided by
Glenn E. Crellin
Director, Washington Center for Real Estate Research
Washington State University
P.O. Box 644861
Pullman, WA 99164-4861
(800) 835-9683
(509) 335-1671/ fax (509) 335-7863
Web Site: www.cbe.wsu.edu/~wcrer

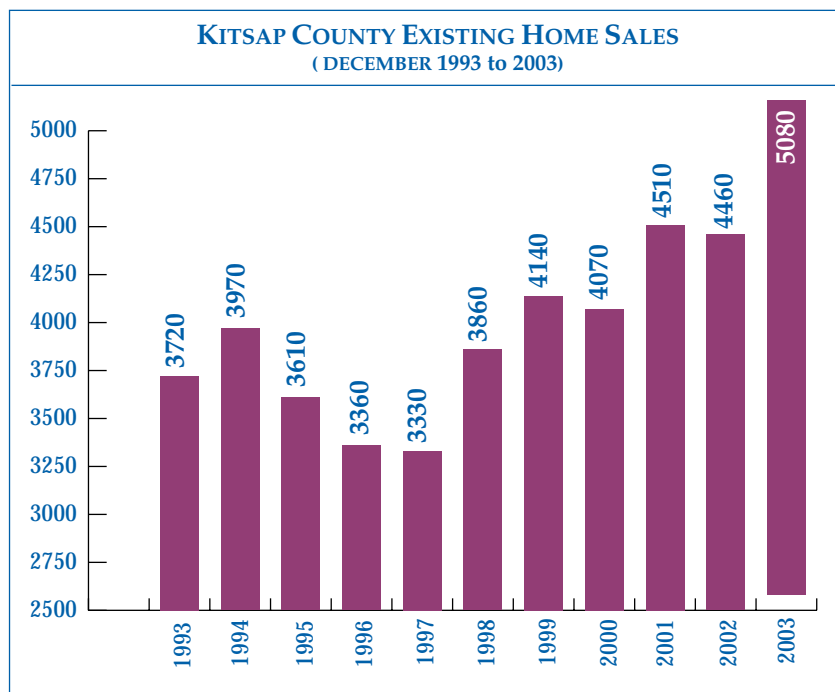
Housing Market and Housing Affordability Data Sources:

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 2003 Experienced the Second Highest Sales Total on Record:

Housing markets in Washington State, like the remainder of the nation, were driven less by economic fundamentals than by the lowest mortgage interest rates over 40 years. Local, state and national markets experienced record levels of resale housing activity during 2003. While the increase in sales activity in Kitsap County was somewhat below most urban communities in Western Washington, the sales total for 2003 was above 5,000 units for the first time, representing a 12.9% increase in sales activity compared to 2002 (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 - 1998-2003								
ANNUAL TOTALS								
County	1998	1999	2000	2001	2002	2003	Percent Change 01-02	Percent Change 02-03
Benton/ Franklin	2,820	2,740	2,810	3,240	3,220	3,540	-0.8%	+8.9%
Clark	5,160	4,990	4,930	5,470	5,760	7,270	+5.3%	+20.8%
King	35,120	36,890	35,130	34,170	35,820	44,130	+4.8%	+18.8%
Kitsap	3,860	4,140	4,070	4,510	4,460	5,080	-1.1%	+12.2%
Pierce	17,860	21,970	21,970	23,400	24,770	28,780	+5.9%	+13.9%
Snohomish	12,990	12,910	12,390	14,550	13,910	16,940	-4.4%	+17.9%
Spokane	6,860	6,850	6,850	7,520	8,150	8,500	+8.4%	+4.1%
Thurston	3,140	3,380	3,260	3,470	3,810	4,260	+9.8%	+10.6%
Whatcom	3,250	3,270	3,140	3,410	3,870	4,470	+12.8%	+13.4%
Statewide	113,090	120,150	119,390	125,240	133,200	156,880	+6.3%	+15.1%

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 2003 increased by approximately 8.1% across Washington last year, significantly more than the 4.8% increase reported in 2002. 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. Again in 2003, the rate of housing price increase jumped in Kitsap County, reaching a Median Price level 10.9% above 2002. Only three other counties in the state recorded double-digit price increases.

Kitsap County Median Price (\$166K) is \$100K Less Than King County:

Kitsap county home prices remained noticeably lower than the prevailing price in neighboring King County, with a 2003 Median of \$184,000 compared to \$292,400 across the Sound. In percentage terms, the increase in Median Prices in Kitsap County was more rapid than in greater Seattle. The Median Price locally is also lower than in neighboring Jefferson County, but somewhat higher than in Pierce County (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.

TABLE 3

MEDIAN HOME PRICES - 1999-2003 (Annual)							
County	1999	2000	2001	2002	2003	Percent Change 01-02	Percent Change 02-03
Benton/ Franklin	\$110,200	\$119,400	\$125,500	\$140,300	\$145,300	+11.8%	\$3.6%
Clark	\$139,900	\$147,000	\$152,000	\$156,500	\$165,500	+3.0%	+5.8%
King	\$233,000	\$249,900	\$262,000	\$278,500	\$292,400	+10.9%	+5.0%
Kitsap	\$143,100	\$149,400	\$155,000	\$165,900	\$184,000	+7.0%	+10.9%
Pierce	\$145,000	\$151,800	\$159,000	\$170,000	\$178,500	+6.9%	+5.0%
Snohomish	\$185,000	\$196,400	\$210,000	\$220,000	\$231,000	+4.8%	+5.0%
Spokane	\$105,300	\$103,500	\$107,400	\$109,700	\$119,500	+2.1%	+8.9%
Thurston	\$129,000	\$137,900	\$144,500	\$154,900	\$167,000	+7.2%	+7.8%
Whatcom	\$143,100	\$146,500	\$152,600	\$159,100	\$176,700	\$4.3%	+11.1%
Statewide	\$166,600	\$176,300	\$179,900	\$188,500	\$203,800	+4.8%	+8.1%

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 Fourth Quarter of 2003, the answer remained "Yes", due primarily to low mortgage rates.

The statewide "All-Buyer Affordability Index" jumped to 134.4, (see TABLE #6), meaning the typical family had 34.4% more income than the bare minimum required to qualify for the home. This translates into the ability to purchase a more expensive homes with more amenities than would have been available to that household in the past. In Kitsap County, the All Buyer Index was somewhat higher (150.8). Housing is more affordable in Kitsap County than in the other primary counties in the immediate Puget Sound region, a fact which should be a real plus when it comes to attracting and retaining businesses.

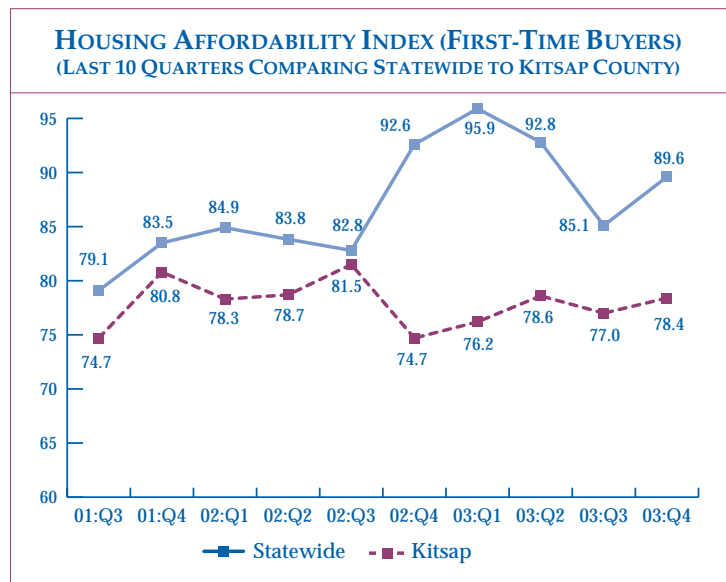
First-Time Buyer Index:

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 78.4% of the income required to qualify for a mortgage on the typical starter home.

Kitsap County & State Almost Identical in “First-Time Buyer Index”:

Kitsap County’s first-time buyer affordability in the Fourth Quarter 2003 was somewhat better than the Washington State average, recording an index of 89.6 (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 then years. First-time buyer affordability at year end 2003 was marginally higher than a year ago across the state, but had declined a bit in Kitsap County as home price increases more than offset the interest rate declines. And, income levels could not make up the difference when the labor market was dealing with so much unemployment.

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 2003 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 marked decline in inventory during 2003, with a statewide month's supply of 2.8 months compared to a 4.5 month's supply at the end of 2002. 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 at year-end 2003 — only 2.4 months (see TABLE #5), compared to 3.6 months a year ago.

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. While homes with those prices may be typical in many urban areas of California, even the most costly markets in Washington are not nearly that expensive. It should be noted that the shortest month's supply for homes priced less than \$160,000 in the entire state was in Kitsap County — more restricted choice of affordable homes locally than greater Seattle. Builders of less costly homes should find a very receptive market for their product.

TABLE 5

MONTH'S SUPPLY OF HOMES BY PRICE RANGE - YEAR-END 2003						
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	5.7	6.6	9.2	21.6	6.3
Clark	3.6	1.5	2.5	5.6	20.3	3.0
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
Pierce	1.4	1.8	2.1	4.3	11.6	2.5
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
Statewide	3.4	2.4	2.2	3.2	6.6	2.8

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 5

HOUSING AFFORDABILITY CONDITIONS - LAST 5 QUARTERS ENDING 4TH QTR 2003										
County	All-Buyer Affordability Index					First-Time Buyer Affordability Index				
	02:Q4	03:Q1	03:Q2	03:Q3	03:Q4	02:Q4	03:Q1	03:Q2	03:Q3	03:Q4
Benton/ Franklin	177.5 132.5	190.2 141.5	189.4 140.6	187.5 138.8	193.7 143.0	107.1 84.8	114.5 90.4	113.8 89.5	112.5 88.1	116.0 90.6
Clark	165.9	173.0	174.1	170.6	167.6	103.0	107.2	107.5	105.2	103.2
King	117.1	120.1	121.3	117.4	116.9	66.0	67.6	68.2	65.9	65.6
Kitsap	154.3	160.3	155.5	142.9	150.8	92.6	95.9	92.8	85.1	89.6
Pierce	112.8	126.0	136.9	140.3	147.2	85.2	88.6	90.1	86.9	86.1
Snohomish	128.5	133.6	133.2	130.1	128.6	78.9	81.9	81.5	79.6	78.6
Spokane	204.5	206.0	208.2	198.7	199.5	114.0	114.6	115.5	110.0	110.3
Thurston	167.1	171.0	171.2	164.5	165.8	98.8	100.8	100.6	96.5	97.1
Whatcom	145.0	138.7	147.9	137.2	139.9	81.0	77.2	82.1	76.0	77.3
Statewide	128.4	130.8	135.0	132.1	134.4	74.7	76.2	78.6	77.0	78.4