

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

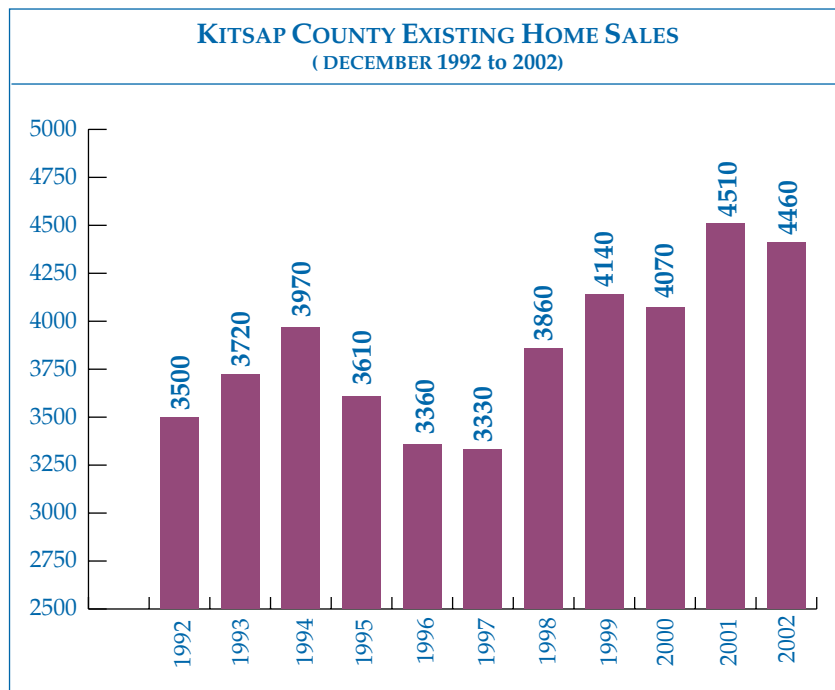
Housing Market and Housing Affordability Data Sources:

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 2002 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 in a generation. Both state and national markets experienced record levels of resale housing activity during 2002. While the statewide sales total rose, home sales in Kitsap County declined slightly during the year. A total of 4,460 resale transactions were tallied locally, representing a decline of 50 sales from the 2001 record pace. The year 2002 experienced the second highest sales total on record (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 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.

While most markets recorded increased levels of sales activity compared to 2001, Kitsap was joined by Snohomish and Benton/Franklin Counties in the negative category. Snohomish County in particular experienced a slowing market in 2002, despite the favorable mortgage rates (see **TABLE #2**).

TABLE 2

RESALE HOUSING ACTIVITY - 1997-2002								
ANNUAL TOTALS								
County	1997	1998	1999	2000	2001	2002	Percent Change 00-01	Percent Change 01-02
Benton/ Franklin	2,710	2,820	2,740	2,810	3,240	3,220	+15.6%	-0.8%
Clark	4,630	5,160	4,990	4,930	5,470	5,760	+11.0%	+5.3%
King	33,430	35,120	36,890	35,130	34,170	35,820	-2.7%	+4.8%
Kitsap	3,330	3,860	4,140	4,070	4,510	4,460	+10.8%	-1.1%
Pierce	13,300	17,860	21,970	21,970	23,400	24,770	+6.5%	+5.9%
Snohomish	11,520	12,990	12,910	12,390	14,550	13,910	+12.5%	-4.4%
Spokane	5,960	6,860	6,850	6,850	7,520	8,150	+9.8%	+8.4%
Thurston	2,700	3,140	3,380	3,260	3,470	3,810	+6.4%	+9.8%
Whatcom	2,880	3,250	3,270	3,140	3,410	3,870	+8.6%	+12.8%
Statewide	101,170	113,090	120,150	119,390	125,240	133,200	+4.9%	+6.3%

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.

Home prices in 2002 increased by approximately 4.8% across Washington last year, roughly double the increase reported in 2001. Similarly, prices in Kitsap County recorded a pace of increase double a year earlier, reaching 7.0 percent. Among the urban counties compared in this analysis, only Benton/Franklin (Tri-cities area) and Thurston (Olympia area) recorded faster 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 2002 Median of \$165,900 compared to \$278,500 across the Sound. It is somewhat surprising that the comparatively sluggish local sales activity would be accompanied by such a strong price performance (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 - 1998-2002 (Annual)							
County	1998	1999	2000	2001	2002	Percent Change 00-01	Percent Change 01-02
Benton/ Franklin	\$108,400	\$110,200	\$119,400	\$125,500	\$140,300	+5.1%	+11.8%
Clark	\$137,500	\$139,900	\$147,000	\$152,000	\$156,500	+3.4%	+3.0%
King	\$206,500	\$233,000	\$249,900	\$262,000	\$278,500	+4.8%	+6.3%
Kitsap	\$145,600	\$143,100	\$149,400	\$155,000	\$165,900	+3.7%	+7.0%
Pierce	\$138,000	\$145,000	\$151,800	\$159,000	\$170,000	+4.7%	+6.9%
Snohomish	\$175,600	\$185,000	\$196,400	\$210,000	\$220,000	+6.9%	+4.8%
Spokane	\$102,600	\$105,300	\$103,500	\$107,400	\$109,700	+3.8%	+2.1%
Thurston	\$127,100	\$129,000	\$137,900	\$144,500	\$154,900	+4.8%	+7.2%
Whatcom	\$138,900	\$143,100	\$146,500	\$152,600	\$159,100	+4.2%	+4.3%
Statewide	\$160,700	\$166,600	\$176,300	\$179,900	\$188,500	+2.0%	+4.8%

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 2002, the answer remained "Yes", and much more emphatically than in recent quarters.

The statewide "All-Buyer Affordability Index" jumped to **144.2**, (see TABLE #6), meaning the typical family had 44.2% 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 slightly lower (139.3). In fact, the jump in prices combined with prevailing incomes which are lower than in King County produced an All-Buyer Affordability Index for Kitsap County which is somewhat lower than the King County measure.

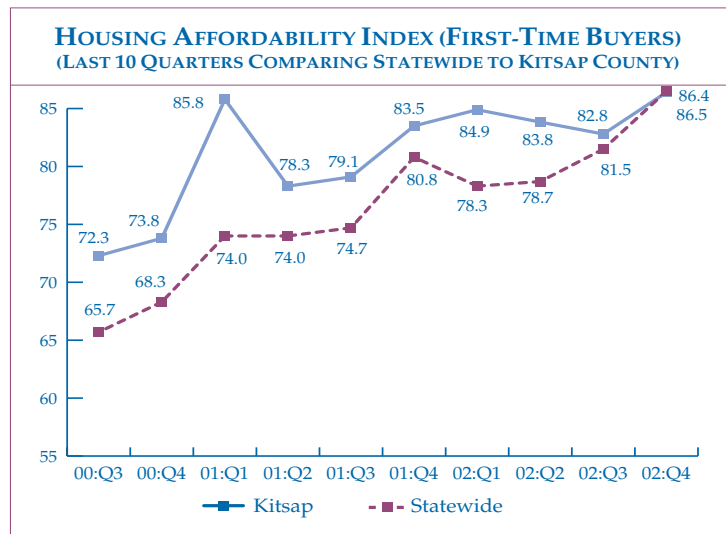
First-Time Buyer Index:

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 renter who might want to own a home has only 86.5% 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 2002 stood at an almost identical 86.4 (see **TABLE #4**). As illustrated in the accompanying graph, affordability for first-time buyers in other parts of the state has been increasing more rapidly than in the local community. Among the comparison communities, the affordability of housing for first-time buyers ranged from a low of 76.3 in Clark County (Vancouver, WA) to a high of 116.6 in Spokane.

TABLE 4



Month’s Supply of Housing/ Appreciation Potential:

The newest housing market measure introduced by WCRER is the comparison between sales during the year 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 shortage of lower-priced homes (under \$160,000) and only a modest 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 \$250,000, and some softness of prices at the top of the market.

TABLE 5

MONTH'S SUPPLY OF HOMES BY PRICE RANGE - YEAR-END 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	4.8	5.1	6.8	11.0	40.0	6.2
Clark	7.3	3.8	6.6	12.3	53.1	6.6
King	1.4	1.7	2.4	3.4	7.5	3.5
Kitsap	1.8	2.0	3.5	6.3	12.0	3.6
Pierce	2.2	2.8	3.9	5.8	12.8	3.8
Snohomish	4.3	3.0	3.4	5.0	14.2	4.1
Spokane	6.9	5.7	7.2	10.9	22.1	6.6
Thurston	3.3	1.8	3.1	5.9	17.4	2.8
Whatcom	5.8	3.0	3.8	8.8	16.5	4.5
Statewide	5.4	3.8	3.8	4.9	9.7	4.5

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 4TH QTR 2002										
County	All-Buyer Affordability Index					First-Time Buyer Affordability Index				
	01:Q4	02:Q1	02:Q2	02:Q3	02:Q4	01:Q4	02:Q1	02:Q2	02:Q3	02:Q4
Benton/ Franklin	170.4	167.7	171.9	170.1	176.1	101.8	100.1	102.5	103.5	107.7
	121.5	120.9	125.3	119.7	123.4	74.2	73.8	76.5	74.6	77.5
98.3	154.9	160.0	154.4	160.4	167.3	95.3	98.3	94.7	77.7	76.3
74.9	131.9	130.4	124.4	134.0	143.6	75.6	74.9	71.5	76.7	82.1
84.9	135.2	137.1	135.0	133.6	139.3	83.5	84.9	83.8	82.8	86.4
85.7	143.1	141.4	140.0	143.6	150.7	86.8	85.7	85.0	87.3	91.7
77.6	122.9	124.3	123.8	127.1	134.1	76.6	77.6	77.3	80.0	84.7
107.7	185.5	190.4	185.7	188.1	205.7	104.7	107.7	105.3	106.5	116.6
89.2	151.6	148.7	148.8	144.9	151.2	90.8	89.2	89.3	87.0	90.9
77.6	139.2	138.4	140.6	136.6	141.1	78.1	77.6	78.6	76.9	79.5
78.3	135.1	130.6	131.2	135.8	144.2	80.8	78.3	78.7	81.5	86.5