

## Housing Prices and Affordability

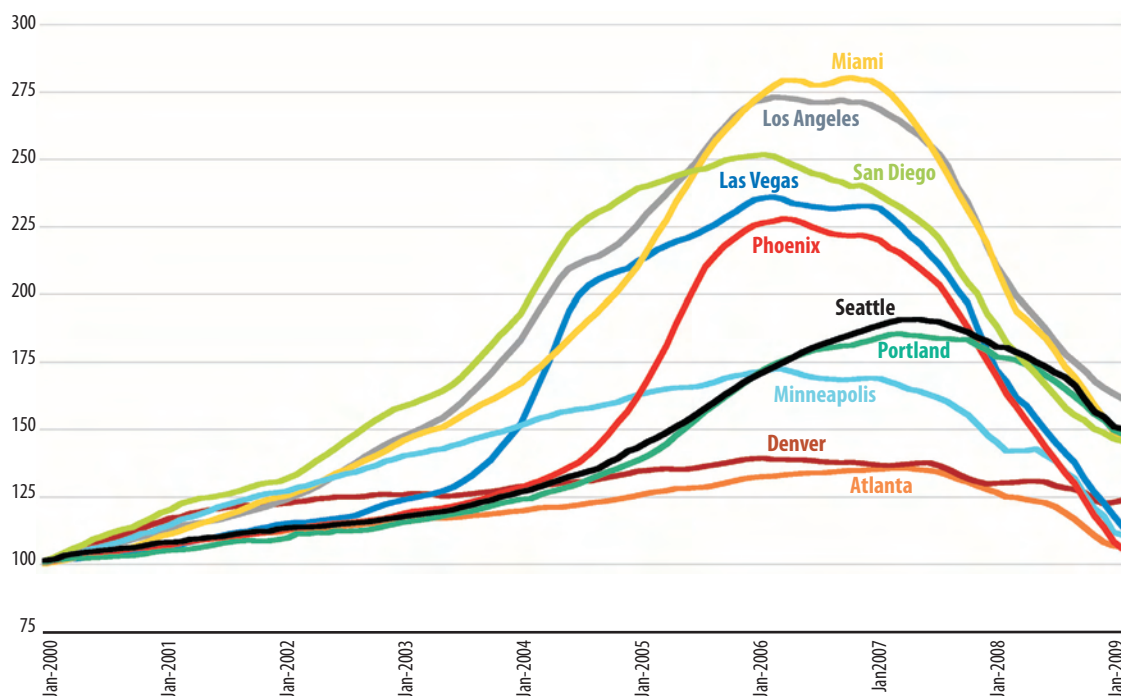
During the early stages of the national and global economic downturn, the central Puget Sound housing market fared better than many of its counterparts in metropolitan areas across the U.S. But the impacts of the recession and housing/foreclosure crisis have since hit home, beginning in the second half of 2007. This issue of *Puget Sound Trends* takes a look at recent trends in national and local housing prices and their impact on affordability in the region.

Of the 20 U.S. metropolitan areas tracked by the Case-Shiller Home Price Index (see Figure 1), the majority of regions saw single family home prices peak, then begin to decline, during the first half of 2006. Prices in the most highly inflated housing markets continued to fall at precipitous rates throughout 2007 and 2008 and into the early part of 2009.

The greater Seattle housing market, by comparison, sustained price increases at a more moderate (albeit still heated) pace through mid-2007, and the ensuing rate of decline has generally been less steep. While current housing prices in the central Puget Sound have returned to 2005 levels, this reflects a much greater retention of home values than in many other metropolitan areas.

Figure 1. Case-Shiller Home Price Index

Single Family Home Price Index for Selected Metropolitan Areas (Seasonally Adjusted)



Source: Standard & Poor's

Note: Data available for 10 additional metropolitan areas. Case-Shiller home price index data is available for download at: [http://www2.standardandpoors.com/portal/site/sp/en/us/page.topic/indices\\_csmahp/2,3,4,0,0,0,0,0,1,1,0,0,0,0.html](http://www2.standardandpoors.com/portal/site/sp/en/us/page.topic/indices_csmahp/2,3,4,0,0,0,0,0,1,1,0,0,0,0.html)

Puget Sound Regional Council

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Figure 2. Regional Housing Market Data

	1995	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	% Change 2008-2009	Avg Annual % Change 2000-2009
<b>Median Household Income</b>													
									prelim. est.	projection			
King	\$45,400	\$56,100	\$56,900	\$58,100	\$58,800	\$63,600	\$62,700	\$65,800	\$68,200	\$68,800	—	—	—
Kitsap	\$40,600	\$50,100	\$51,600	\$52,700	\$53,200	\$53,900	\$54,600	\$58,400	\$56,800	\$57,200	—	—	—
Pierce	\$38,200	\$47,600	\$49,300	\$50,100	\$51,500	\$53,700	\$54,600	\$56,500	\$57,700	\$58,900	—	—	—
Snohomish	\$45,000	\$56,000	\$57,300	\$57,800	\$58,900	\$61,200	\$62,100	\$65,500	\$66,800	\$67,300	—	—	—
WA State	\$39,000	\$48,300	\$49,300	\$50,000	\$50,800	\$53,500	\$53,700	\$56,200	\$59,100	\$60,000	—	—	—
<b>Median Sales Price (existing single family homes)</b>													
										Q2	Q1		
King	\$166,500	\$249,900	\$262,000	\$278,500	\$292,400	\$324,000	\$374,000	\$425,000	\$455,000	\$450,000	\$375,000	-16.7%	4.6%
Kitsap	\$124,600	\$149,400	\$155,000	\$165,900	\$184,000	\$206,900	\$250,000	\$275,000	\$290,300	\$271,300	\$239,500	-11.7%	5.4%
Pierce	\$121,400	\$151,800	\$159,000	\$170,000	\$178,500	\$199,900	\$240,000	\$270,000	\$281,400	\$268,500	\$235,000	-12.5%	5.0%
Snohomish	\$149,600	\$196,400	\$210,000	\$220,000	\$231,000	\$250,000	\$297,000	\$345,400	\$371,000	\$349,400	\$311,800	-10.8%	5.3%
WA State	\$136,600	\$176,300	\$179,900	\$188,500	\$203,800	\$225,000	\$260,900	\$293,800	\$309,600	\$291,900	\$253,500	-13.2%	4.1%
<b>Ratio of Median Sales Price to Median Household Income</b>													
King	3.7	4.5	4.6	4.8	5.0	5.1	6.0	6.5	6.7	6.5	—	—	—
Kitsap	3.1	3.0	3.0	3.1	3.5	3.8	4.6	4.7	5.1	4.7	—	—	—
Pierce	3.2	3.2	3.2	3.4	3.5	3.7	4.4	4.8	4.9	4.6	—	—	—
Snohomish	3.3	3.5	3.7	3.8	3.9	4.1	4.8	5.3	5.6	5.2	—	—	—
WA State	3.5	3.7	3.6	3.8	4.0	4.2	4.9	5.2	5.2	4.9	—	—	—
<b>Housing Affordability Index (All Buyers)</b>													
King	110.4	92.5	103.2	104.6	121.3	105.1	87.4	70.2	66.4	74.3	102.5	—	—
Kitsap	121.6	130.9	140.3	145.9	155.5	136.7	111.8	95.8	92.0	106.2	136.1	—	—
Pierce	117.7	119.5	133.8	135.8	153.1	137.8	115.4	95.5	94.0	105.3	138.7	—	—
Snohomish	114.5	110.3	116.2	119.7	133.2	123.1	105.7	85.1	78.3	87.7	112.4	—	—
WA State	114.8	106.4	118.6	119.8	135.0	123.0	106.6	87.6	83.5	95.5	125.5	—	—
<b>Housing Affordability Index (First Time Buyers)</b>													
King	62.1	53.1	58.7	59.2	68.2	58.4	48.5	39.3	37.2	41.4	57.0	—	—
Kitsap	74.7	80.9	85.6	88.1	92.8	81.5	66.9	57.5	55.3	63.9	81.8	—	—
Pierce	72.3	73.6	81.1	81.1	90.1	80.5	67.5	56.1	55.3	62.1	87.9	—	—
Snohomish	71.3	68.7	71.9	73.8	81.5	74.6	63.6	51.5	47.5	53.2	68.1	—	—
WA State	67.0	65.1	72.9	69.8	78.6	71.5	61.9	51.1	49.1	56.2	73.3	—	—
<b>Average Rent</b>													
	1997												
King	\$650	\$790	\$840	\$870	\$850	\$840	\$850	\$880	\$950	\$1,030	\$1,070	3.8%	3.3%
Kitsap	\$580	\$610	\$640	\$660	\$690	\$730	\$730	\$770	\$780	\$820	\$850	4.4%	3.7%
Pierce	\$510	\$590	\$600	\$630	\$670	\$670	\$690	\$730	\$750	\$800	\$830	3.6%	3.9%
Snohomish	\$620	\$730	\$780	\$790	\$770	\$750	\$750	\$770	\$850	\$930	\$950	1.7%	2.9%
WA State	—	\$690	\$740	\$760	\$750	\$750	\$760	\$780	\$840	\$900	\$930	3.7%	3.3%

Source: U.S. Census Bureau, Washington State Office of Financial Management, Washington Center for Real Estate Research

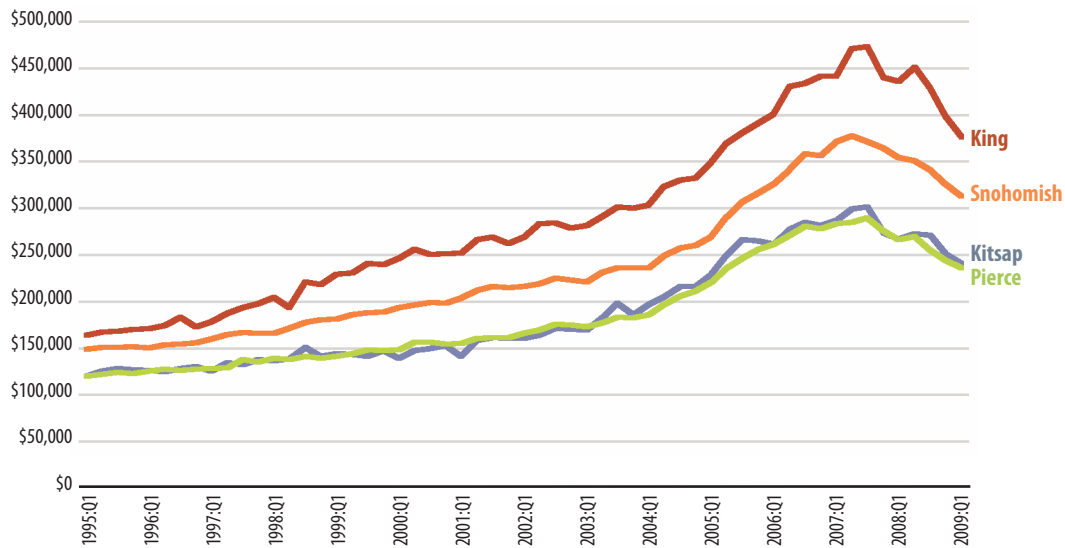
Notes: Unless otherwise noted, median household income data are annual, median sales prices are annual, affordability indices are for the 2nd quarter, average rents are for March, figures are not adjusted for inflation. Housing market data published by the Washington Center for Real Estate Research is available for download at: <http://www.cb.wsu.edu/~wcrer/>.

The All Buyer Housing Affordability Index measures the ability of a family earning 100% of area median family income to qualify for a conventional mortgage loan on a median price home. A value of 100 indicates balance between income levels and the cost of housing. An index above 100 means a typical family has more than enough income to qualify for a mortgage loan. For example, an index of 120.0 means the family earns 120% of the necessary income. An index below 100 indicates the family has less than enough income. The calculation assumes a 20% down payment and 25% qualifying ratio. The First Time Buyer Index assumes the purchaser earns 70% of area median household income, and the home costs 85% of area median price. The calculation assumes a 10% down payment and 25% qualifying ratio. All loans are assumed to be for 30 years.

The silver lining to the decline in regional home values is the attendant improvement in housing affordability. Affordability in the region's home buying market had eroded significantly between 2004 and 2007, as a heated housing market produced a string of double-digit annual percent increases in home prices in all four of the region's counties, and lending rates reversed direction, rising again from historical lows. As a result, housing affordability for home buyers, and especially first-time and lower-income buyers, declined to the lowest levels recorded since these data indices — developed by the Washington Center for Real Estate Research — began to be tracked in the mid-1990s.

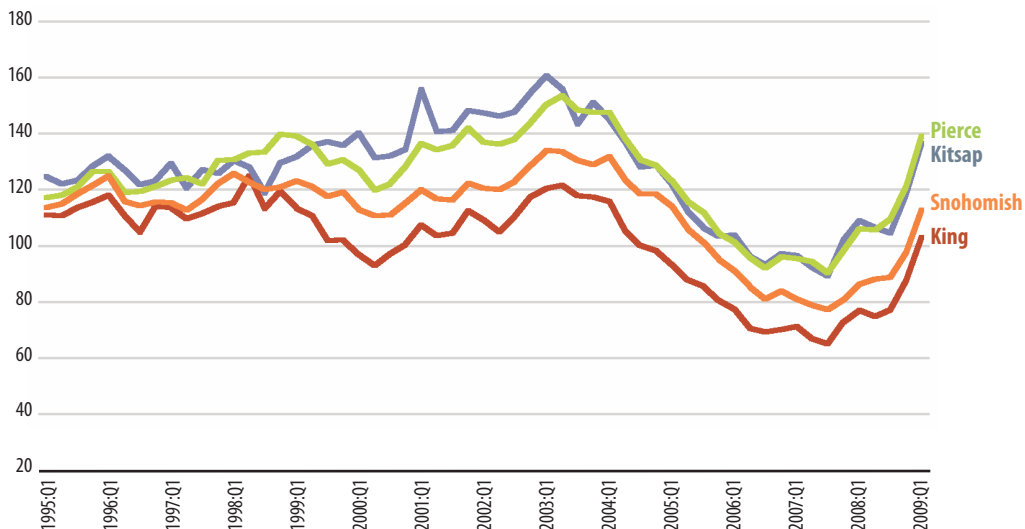
**Housing affordability** is commonly defined in terms of housing costs as a percentage of household income. Housing is considered unaffordable when a household's monthly housing costs exceed a certain threshold percentage — the conventional U.S. standard ranges from 25% to 33% (most commonly 30%) of gross monthly income — thereby reducing the budget available for basic necessities. Housing costs typically include rent or mortgage payments, taxes, insurance, and utility costs.

**Figure 3. Median Single Family Home Price**  
(Not Seasonally Adjusted)



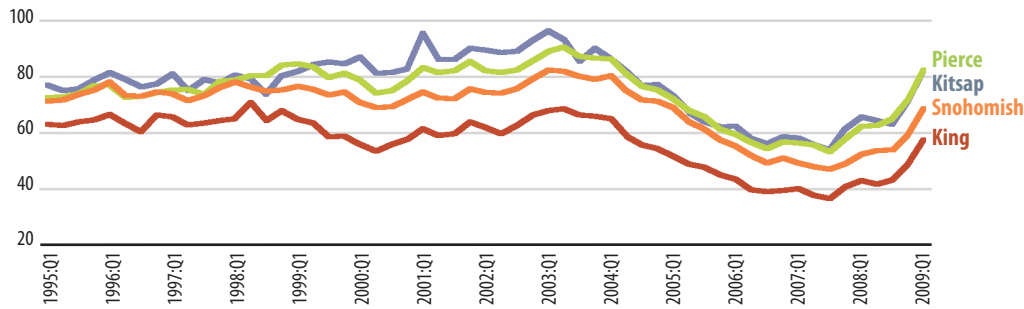
Source: Washington Center for Real Estate Research

**Figure 4. Housing Affordability Index — All Buyers**



Source: Washington Center for Real Estate Research

Figure 5. Housing Affordability Index — First Time Buyers



Source: Washington Center for Real Estate Research

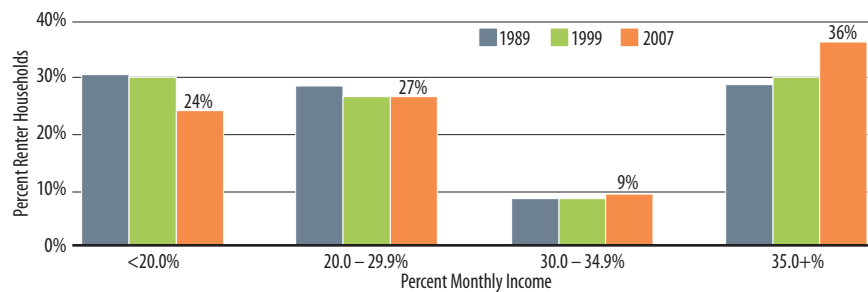
As home prices began to fall during the second half of 2007 (see Figure 3), there was a concomitant rise in the housing affordability indices. The All Buyers Index (see Figure 4) in all four of the region’s counties rose above 100.0 during the first quarter of 2009 for the first time since 2004. A value of 100 indicates balance; i.e., the ability of a family earning 100% of area median *family* income to qualify for a conventional mortgage loan on a median price home. A value above 100 means a typical family earns more than enough income to purchase a median price home, whereas a value below 100 indicates the same family has less than enough income.

The First Time Buyers Index (see Figure 4) for the four counties, on the other hand, remains well below the equilibrium level of 100.0, although it has shown improvement over the last eight quarters. The First Time Buyers Index assumes the purchaser earns 70% of area median *household* income, and the home costs 85% of area median price. It should be noted that the index does not take the condominium housing market into account. The data does suggest, however, that there continues to be a shortage of affordable housing opportunities available to first-time and lower-income home buyers.

For renters, income levels generally kept better pace with the increase in average rents over the last decade. The 2000/01 recession actually led to decreasing average rents in King and Snohomish counties between 2002 and 2004. The latest available data shows that the decline in housing prices has begun to translate into a flattening or reduction in rents. Average rents in King and Snohomish counties declined from September 2008 to March 2009, while they stayed stable in Kitsap and Pierce counties. Vacancy rates are continuing to rise, which indicates that rents are likely to continue to fall further.

Despite the fact that average rents kept a closer pace with income, Census data indicates that affordability for renters has declined during the first part of this decade. Figure 6 illustrates — for renter households in the region — the percent of gross monthly income spent on housing costs in 1989, 1999, and 2007. It shows that, over time, renter households have had to dedicate more of their income to cover housing costs, and that an increasing share of households are “housing cost burdened,” or spending more than 30% of their gross monthly income on housing.

Figure 6. Percent Monthly Income Spent on Gross Rent  
Central Puget Sound Region



Source: U.S. Census Bureau

Nearly half, or 45%, of renter households were spending more than 30% of their monthly income on housing costs during 2007, compared to 38% in 1999 and 37% in 1989. Over a third, or 36% of renter households spent more than 35% of their monthly income on housing costs during 2007, compared to 30% in 1999 and 29% in 1989. These statistics are significantly worse for lower-income renter households.

In summary, the national housing and foreclosure crisis has hit the central Puget Sound region. Home values across the region have fallen to 2005 levels, although this decline has been far more moderate than in other metropolitan areas across the U.S. On a positive note, these trends have resulted in significant increases in affordability levels in the regional home buyers market. Equilibrium between home prices and income has been reestablished for the typical middle-income family. The outlook for first-time and lower-income home buyers has also improved, although shortages in affordable housing opportunities continue to impact households in this segment of the market. Average rents have flattened in some counties and have begun to drop in others, with further declines likely to continue. Despite the relative stability in area rents compared to home prices, Census data indicate that housing affordability for renters has eroded over the last decade, particularly for lower income-renters.

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