

## HOUSING PRICES AND AFFORDABILITY

Trends in the national housing sector have shown a substantial cool down over the last year, with home prices in several previously overheated metropolitan area markets stabilizing and even declining in some places. These national trends have begun to have some impact within the central Puget Sound region, but relative to other metropolitan areas across the U.S., the housing market here remains quite robust. This issue of *Puget Sound Trends* takes a look at recent trends in local housing prices and its impact on affordability in the region.

Housing affordability in the region's home buying market has eroded significantly over the last three to four years, as shown by the Housing Affordability Indices reported in Table 1. Since 2000, growth in area median household incomes has been steadily outpaced by the rise in home prices. Between 2000 and 2003, the growing gap between income and home prices was offset by a decline in mortgage lending rates to historically low levels, which served to bolster housing affordability overall. But since then, we have seen a reversal of direction in lending rates occur, as well as encountered a heated housing market that produced a string of double-digit annual percent increases in home prices in all four of the region's counties. As a result, housing affordability for home buyers, and especially first-time buyers, has declined to the lowest levels recorded since these data indices began to be tracked in the mid 1990s.

For renters, median income levels generally kept better pace with the increase in average rents between 2000 and 2006. The 2000/01 recession actually led to decreasing average rents in King and Snohomish counties between 2002 and 2004. Yet despite the relative stability of prices in the rental housing market, decennial Census and American Community Survey data indicate that affordability for renters also declined during the first part of this decade (see Figure 1).

Figure 1 illustrates the distribution of the region's households, for both homeowners and renters, by the percent of gross monthly income spent on housing costs in 1989, 1999 and 2005. It shows that over time, our region's households are having 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 costs.

In 2005, one out of every three homeowners (33 percent) was spending 30% or more of their gross income on housing costs, compared to 28 percent in 1999 and 18 percent in 1989. One out of every four homeowners (24 percent) is currently spending 35% or more on housing. Renters are even more housing cost burdened than the typical homeowner. Four and a half out of every 10 renters (45 percent) are currently spending 30% or more of their gross income to cover rent and utilities, compared to 38 percent in 1999 and 37 percent in 1989. Three and a half out of every 10 renters (36 percent) today are spending 35% or more on housing.

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 and other amenities. Housing costs typically include rent or mortgage payments, taxes and insurance for owners, and may include utility costs.

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**Table 1. Regional Housing Market Data**

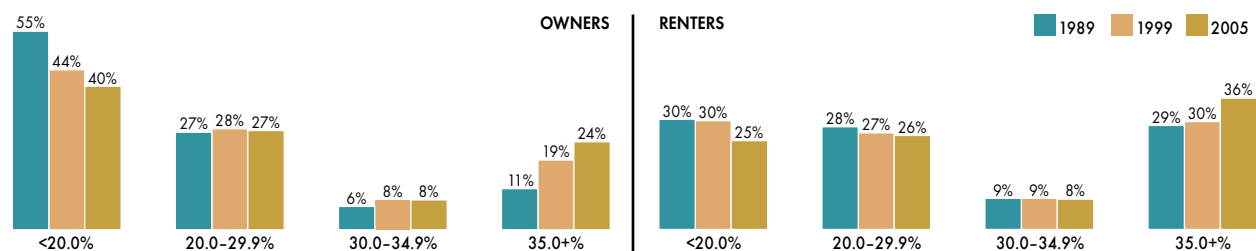
	2000	2001	2002	2003	2004	2005	2006	Average Annual Percent Change 2000-2006	
<b>Median Household Income</b>							(prelim. est.)	(projection)	
King	\$56,400	\$56,800	\$57,400	\$58,100	\$62,000	\$63,700	\$65,900	2.6%	
Kitsap	\$50,100	\$50,800	\$51,200	\$51,300	\$51,900	\$52,400	\$55,600	1.8%	
Pierce	\$47,600	\$50,100	\$51,800	\$53,100	\$55,100	\$54,100	\$57,100	3.1%	
Snohomish	\$56,000	\$56,300	\$57,800	\$58,800	\$60,500	\$60,900	\$63,300	2.1%	
WA State	\$48,400	\$49,300	\$49,800	\$50,500	\$53,000	\$53,800	\$56,800	2.7%	
<b>Median Sales Price (existing single family homes, in thousands)</b>									
King	249.9	262.0	278.5	292.4	322.0	369.0	425.0	9.3%	
Kitsap	149.4	155.0	165.9	184.0	204.0	248.8	275.0	10.7%	
Pierce	151.8	159.0	170.0	178.5	195.5	235.0	270.0	10.1%	
Snohomish	196.4	210.0	220.0	231.0	248.0	289.9	345.4	9.9%	
WA State	176.3	179.9	188.5	203.8	223.7	254.9	293.8	8.9%	
<b>Housing Affordability Index (All Buyers)</b>									
King	92.5	103.2	104.6	121.3	105.1	87.4	70.4	-	
Kitsap	130.9	140.3	145.9	155.5	136.7	111.8	96.2	-	
Pierce	119.5	133.8	135.8	153.1	137.8	115.4	95.9	-	
Snohomish	110.3	116.2	119.7	133.2	123.1	105.7	85.4	-	
WA State	106.4	118.6	119.8	135.0	123.0	106.6	87.9	-	
<b>Housing Affordability Index (First Time Buyers)</b>									
King	53.1	58.7	59.2	68.2	58.4	48.5	39.4	-	
Kitsap	80.9	85.6	88.1	92.8	81.5	66.9	57.7	-	
Pierce	73.6	81.1	81.1	90.1	80.5	67.5	56.3	-	
Snohomish	68.7	71.9	73.8	81.5	74.6	63.6	51.7	-	
WA State	65.1	72.9	69.8	78.6	71.5	61.9	51.3	-	
<b>Average Rent</b>									
King	\$790	\$840	\$870	\$850	\$840	\$850	\$880	1.7%	
Kitsap	\$610	\$640	\$660	\$690	\$730	\$730	\$770	3.9%	
Pierce	\$590	\$600	\$630	\$670	\$670	\$690	\$730	3.8%	
Snohomish	\$730	\$780	\$790	\$770	\$750	\$750	\$770	0.9%	
WA State	\$690	\$740	\$760	\$750	\$750	\$760	\$780	2.1%	

Notes: 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.

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.

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

**Figure 1. Households by Percent Gross Monthly Income Spent on Housing Costs: 1989, 1999 and 2005**



Source: U.S. Census Bureau - 1990 Census, 2000 Census, 2005 American Community Survey.

Housing market data published by the Washington Center for Real Estate Research can be accessed online at <http://www.cb.wsu.edu/~wrcrer/>. For questions regarding this issue of *Puget Sound Trends*, contact Carol Naito at 206-464-7535 or [cnaito@psrc.org](mailto:cnaito@psrc.org).