



PB 98:7
October 9, 1998

Housing Prices Continue to Soar

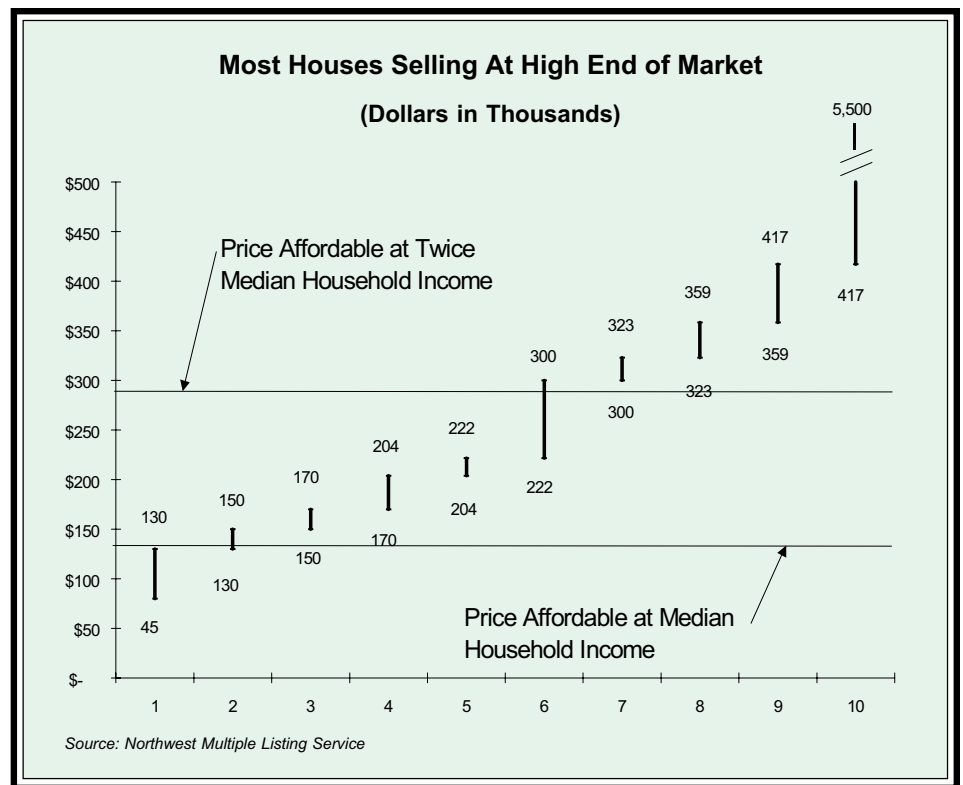
In *Housing Affordability in the Puget Sound Metropolitan Area* the Washington Research Council documents the challenges faced by new homebuyers in the region, particularly those with low or moderate incomes. The report, prepared by the Research Council for The Housing Partnership, a public-private group dedicated to increasing housing opportunities in the Puget Sound region, examines housing affordability, the relationship between the housing market and the economy, and progress toward meeting regional housing goals.

Housing Affordability. The housing market is increasingly closed to buyers earning less than the median household income. Perhaps the best measure of housing affordability is the real estate market itself. Although there are a variety of affordability measures, the experience of homebuyers is best reflected in current transactions data. The following chart shows the distribution of resale prices, in increments of 10 percent, as recorded in the Northwest Multiple Listing Service database for King County through mid-August of 1998. The median price over this time period was \$222,000. The least expensive 10 percent of homes sold at prices below \$130,000; the most expensive tenth at prices between \$417,000 and \$5,500,000.

What is striking about these figures is the lack of market activity below the price affordable to a household earning at the median income level. More than 80 percent of the homes sold were sold at prices beyond the reach of the median household; more than 40 percent were sold at prices outside the reach of households earning twice the median.

Interest rates have a powerful effect on measured affordability. The current low interest rates mitigate the affect of recent price increases on affordability. Low interest rates, however, are a national phenomenon. Seattle's relative ranking among metropolitan areas suggests the magnitude of the problem. Of 191 regions monitored by the National Association of Home Builders, 155 were more affordable. A review by E&Y Kenneth Leventhal, looking at "mid-management" quality housing ranked Seattle 59th in affordability among the 75 markets studied.

A common measure of the "affordability gap" is the difference between the median price of a home and the price of a home that a household earning the median income



could afford. In Seattle, late last year, the median priced home sold for \$186,100; a household earning the median income of \$45,266 could afford a house costing \$132,732.

Housing and the Business Cycle. Recently escalating housing prices and rents mirror the pattern of the past two business cycles, during which employment and population growth exerted strong demand in a supply-constrained housing market. Based on this experience, housing costs are likely to continue to rise for the next several years, stabilizing (or dropping) only when the economy slows.

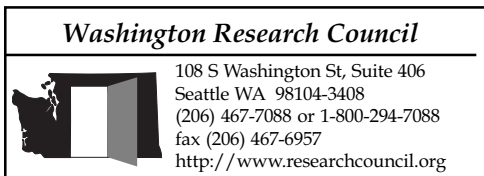
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The current escalation in prices builds on a high plateau. In the Seattle metropolitan area, housing costs have risen steadily for three decades. While there have been consecutive years with little market movement, prices have rarely declined. Since 1970, real (inflation-adjusted) housing prices have increased 138 percent. (Quality improvements may account for about one-quarter of the increase.)

Rents, too, are increasing rapidly as vacancy rates decline. The current run-up in rents parallels the rise in housing prices in the later stages of past business cycles. Potentially exacerbating problems in the rental market is the relatively low level of recent construction activity, a marked contrast to the pattern in the late 1980s.

Other Issues. The report also looks the efforts of the government in the four-county region to address housing affordability as directed by the Growth Management Act. In addition, snapshot comparisons are provided between Seattle and five metropolitan areas facing similar population and housing challenges.

For a copy of the full report, please contact the Washington Research Council at 1-800-294-7088 or 206-467-7088. The report is also available from the Research Council web site, <http://www.researchcouncil.org>



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