HOUSING DEMAND, SUPPLY AND AFFORDABILITY IN KITSAP COUNTY

WASHINGTON REALTORS® REPORT

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HOUSING DEMAND, SUPPLY AND AFFORDABILITY IN KITSAP COUNTY

Kitsap County has a unique set of demographic and economic drivers that influence its housing market. It has self-contained drivers in the form of military installations that employ thousands of uniformed personnel and civilian workers, as well as private businesses that are tied to the military economy, all of which respond to signals independent of the rest of the economy. Kitsap County's attractive landscapes and relative affordability make it a popular retirement area, especially for military retirees. But at the same time, Kitsap County is home to commuters to King and Pierce counties and, increasingly, home to those who can work remotely.

Kitsap County's housing market has long been tied closely to the military economy. Housing demand rises and falls with the headcounts at the bases and the Bremerton shipyard, and prices and rents follow the Basic Allowance for Housing (BAH) that is given to uniformed personnel living off-base.

In the past decade, home prices in Kitsap County have surged upward. In September of 2022, the median sales price of a single family home in Kitsap County was $540,000, down from a peak of $600,000 in June 2022, but up from $383,000 in September 2019, pre-pandemic. This 41 percent increase mirrors, to some extent, national patterns of home price increases, but is also in line with longer term trends in home prices in the Puget Sound region.

To put this home price in some context, with normal assumptions about financing, a household wanting to buy that $540,000 home would need a 20 percent down payment and an annual income somewhere in the neighborhood of $120,000. The median annual wage paid to a worker in Kitsap County is about $62,000, so two average income earners with a large down payment would barely be able to qualify for this home.

This paper will review the housing situation in Kitsap County as it has unfolded over the past 20 years, in terms of both supply and demand. County and city plans drafted under the Washington State Growth Management Act began to take effect in the early 1990s and by 2000 their impact was being felt in land and housing markets: a booming regional economy began to run out of inexpensive land for homebuilding. Because of the special circumstances of the pandemic, we will stop most of the analysis in 2019 or early 2020, before the unprecedented, and still unresolved, economic and demographic shifts of the pandemic began to occur.

MEASURING AFFORDABILITY

Data and discussions concerning housing affordability usually suffer from a basic methodological problem: they compare housing costs in an area to the incomes of people living in the area. This ends up being circular, since people living in an area, by definition, can afford that area. Over time, a more expensive area will become populated primarily by higher income households, especially in single family ownership housing. When these high incomes are applied to a standard affordability calculation, they can give a false impression of affordability that does not reflect the housing cost situation faced by people working in that area.

A far more helpful comparison is between housing costs in an area and the earnings of people working in that area. It should be a goal of public policy that people should have an opportunity to live within a reasonable commute of where they work. And, even more helpful, is to concentrate on the earnings of those taking new jobs being created in an area, since they are the ones that will be looking for housing in the current cost environment.

In this report we use wages to assess affordability to the extent possible. Wage data is not as finely grained as income data, but we can make reasonable estimates of wages at the sub-area level. We also discuss the growth in jobs in sub-areas and the wages associated with those jobs, to see if housing affordability is improving or deteriorating at the margins.

We will begin by looking at the demand for housing generated by economic and job growth in Kitsap County, focusing on several key drivers. We will then shift to the supply of housing that has been brought to market during that period, always making a clear distinction between the single family and multi-family markets. We then put supply and demand together, and examine trends in housing prices and affordability, and the trends in commutes that result from buyers having to “drive to qualify.” The relationship between land costs and housing prices is explained in some detail in Appendix B.

To help understand how demographic and housing supply trends fit with the current housing market, focus groups of active Realtors were convened in King, Kitsap, Pierce and Snohomish Counties in the summer and fall of 2022. Findings from these focus groups have informed the analysis of this paper, and highlights are found in Appendix A. Appendix B describes the relationship between land prices and housing prices.

The reader will note that the data used in this report will often cover inconsistent timelines. That is because the data used is often not available for all years, or because a particular data series began or ended in an awkward timeframe. Administrative and survey data that help us understand trends in housing has generally been improving, but quality data is not always available as far back or as recently as we might like.

1. CHANGES IN HOUSING DEMAND IN KITSAP COUNTY

“A home is where a job goes at night.” To understand housing demand, we need to understand employment growth. The Puget Sound region[1] as a whole is not an above-average retirement or vacation destination (although Kitsap County itself does have more retirees, as we will see below), so regional housing demand should be roughly proportional to employment growth at the regional level. Within the region, it should be a policy goal that everyone should have the opportunity to live and work within the same sub-area of the region.

Kitsap County is considered one of the subareas, so we need to determine if sufficient housing is being developed to meet the needs of those working there. And we cannot just look at averages and current employment. We need to look at what economists call the margins: the area of change. In other words, new housing needs to meet the needs of the most recent job growth, not the historic or average employment pattern.

1 For purposes of this report the Puget Sound Region refers to the four counties included in the Puget Sound Regional Council: King, Kitsap, Pierce, Snohomish. There is clearly “leakage” in both job and housing markets to adjacent counties—especially Thurston, Skagit, Island—but this leakage does not affect the fundamental trends in movement of people and jobs in the four counties.

Fig 1 Kitsap County Total Employment

	2001	2019	Growth
Private wage and salary employment	51,623	63,978	24%
Self employment	22,369	27,604	23%
Federal civilian	13,896	20,479	47%
Military	13,076	15,601	19%
State and local	12,203	13,879	14%
Total employment	113,167	141,541	25%

Source: Bureau of Economic Analysis

Figure 1 shows the growth in major categories of employment in Kitsap County from 2001 to 2019.

Of note is that private wage and salary employment is only 45 percent of total employment in Kitsap County, where it is 66 percent across the region. Federal civilian and uniformed military employment accounts for 25 percent of employment in Kitsap County, but only 5 percent region-wide.

The county saw growth in all major employment categories. During this time employment in the four-county region grew by 32 percent, with Kitsap County having the slowest growth rate among the four counties.

GROWTH IN COVERED EMPLOYMENT

Figure 2 shows changes in covered employment (jobs covered by the unemployment insurance system, which does not include the self-employed or uniformed military) in Kitsap County by major industry sectors between 2000 and 2019 (pre-pandemic).

Fig 2 Kitsap County Covered Employment*

	2019 Employment	Job growth 2000-2019		County avg annual wage 2019
Constuction/natural resources	4,849	1,191	33%	$55,255
Wholesale/transp/utilities	2,413	612	34%	$54,743
Manufacturing	2,757	1,036	60%	$55,158
Retail stores	11,018	991	10%	$33,157
Information	1,292	-66	-5%	$54,663
Finance/insurance/real estate	2,761	181	7%	$58,228
Professional services	4,718	1,377	41%	$76,545
Administration and waste mgmt	2,280	-114	-5%	$40,150
Healthcare and social serv.	12,330	4,179	51%	$45,811
Arts/entertainment	1,193	-94	-7%	$20,542
Accommodations and food service	8,160	2,502	44%	$20,604
Other services	3,495	362	12%	$37,517
Federal government	20,104	6,108	44%	$83,029
State and local government	13,340	1,592	14%	$56,710
Total	90,710	19,857	28%	$53,945

*Does not include self employed and uniformed military

Sources: Puget Sound Regional Council, Washington State Department of Employment Security

Over 20 years, covered employment in Kitsap County grew by nearly 20,000 jobs, or 28 percent. As seen above in Figure 1, the most important source of growth was federal civilian workers at the county's Navy bases (Figures 1 and 2 are derived from different data sources and will not match exactly). But also note the last column in Figure 2, average wages. Kitsap County does not have a large base of high paying private sector jobs, such as other counties in the region have with software and manufacturing industries. This puts a limit on the ability of the county's economy to support high housing prices.

Figure 3 shows job growth at the city level for the four cities in Kitsap County as well as for unincorporated areas.

Fig 3 Covered Employment Growth 2000 to 2019

	Const./Resources	FIRE*	Manufacturing	Retail	Services	WTU**	Government	Education	Total
Bainbridge Island	18	-29	-79	69	2,082	71	362	-77	2,418
Bremerton	155	-198	918	-36	-491	-6	4,696	92	5,128
Port Orchard	231	85	44	865	1,076	319	205	212	3,037
Poulsbo	235	-78	14	404	1,151	67	100	86	1,979
Uninc. Kitsap	553	402	140	-312	4,331	159	2,276	-254	7,295
Total	1,192	182	1,037	990	8,149	610	7,639	59	19,857

* Finance, insurance, real estate

** Wholesale, transportation, utilities

Source: Puget Sound Regional Council

We see the strong growth in government employment in Bremerton, home to the Puget Sound Naval Shipyard. But Bremerton has also seen a decline in service employment as much business has shifted to the unincorporated areas around Silverdale.

MILITARY HOUSING NEEDS

Although the economy of Kitsap County has been diversifying, its backbone is still the U.S. Navy. In a typical regional economy, the economic base, or primary economy (that portion of the economy that brings in money from outside the region—e.g. manufacturing, tourism) constitutes about one third of employment. The secondary economy, which recirculates money locally (retail, local government, local services) makes up the other two thirds of regional employment.

As seen in Figure 1, civilian and uniformed military (which brings in outside money from the Federal government) make up about 25 percent of Kitsap County employment, or perhaps three quarters of the county's economic base. Since the secondary economy is always tied to the primary economy (more outside money means more to circulate locally and vice versa) Kitsap county employment and housing demand are very closely tied to personnel levels of the Navy bases.

A high level of military employment has a unique impact on the county's housing markets. First, the missions of the bases can shift abruptly, with sudden shifts in civilian and uniformed personnel. When ships are reassigned, their personnel will acquire or leave off-base housing.

Second, uniformed personnel living off-base are given a Basic Allowance for Housing (BAH), that is keyed to the local market. The BAH can be used for either rental housing or purchased housing. Figure 4 shows the BAH amounts for 2022 for Kitsap County.

Figure 4 U.S. Navy Basic Allowance for Housing
Kitsap County 2022

		Without Dependents	With Dependents
E1	Seaman Recruit	$1,635	$1,989
E2	Seaman Apprentice	$1,635	$1,989
E3	Seaman	$1,635	$1,989
E4	Petty Officer 3rd Class	$1,635	$1,989
E5	Petty Officer 2nd Class	$1,800	$2,088
E6	Petty Officer 1st Class	$1,896	$2,334
E7	Chief Petty Officer	$1,989	$2,406
W1	Warrant Officer 01	$1,965	$2,349
W2	Warrant Officer 02	$2,139	$2,439
W3	Warrant Officer 03	$2,217	$2,538
W4	Warrant Officer 04	$2,346	$2,589
W5	Warrant Officer 05	$2,421	$2,646
O1	Ensign	$1,887	$2,121
O2	Lieutenant JG	$2,058	$2,331
O3	Lieutenant	$2,241	$2,535
O4	Lieutenant Commander	$2,406	$2,664
O5	Commander	$2,448	$2,754
O6	Captain	$2,523	$2,772

Source: U.S. Navy

The military cannot come close to providing enough housing on-base for its personnel: there is a total of 1,733 family housing units among all the Kitsap installations. Local housing markets must meet the needs of the bulk of uniformed personnel and their families. To be fair to its sailors, the Navy must provide enough housing allowance to meet local market conditions, and therefore adjusts the allowance based on a survey of local rental conditions.

Because the BAH is tied to local housing market, a sailor can afford to pay more rent than their pay grade might suggest. Looked at another way, if we assume rent should be about 33 percent of gross income, the BAH for a Seaman would be 33 percent of an annual income of $59,000, which is far above the $42,000 that an E-1 would receive in pay and BAH combined. Many military personnel have resources for housing that are far above what a civilian in a similar place in their life would have.

When housing markets are tight, the BAH can act as a floor for rents in the area that is well above what a low-wage civilian could afford. When apartments are scarce, owners can charge the BAH even if it is well above what the civilian market would otherwise indicate. And the Defense Department raises the BAH to conform to local conditions, so rent increases become sort of self-fulfilling. The BAH is an essential recruiting and retention tool for the military, but it can strain local housing markets when rental supply is tight.

GROWTH IN HEALTHCARE EMPLOYMENT

During the 2002-2019 period, the largest private sector job growth in Kitsap County took place in healthcare, in terms of absolute numbers. 34 percent of all new private sector jobs in the county were in the healthcare-social services sector. Healthcare is an important sector to watch, since it is growing rapidly, and healthcare providers do not have much geographic flexibility: healthcare services are located in the center of a service area. The average wage in healthcare is well below the overall average wage for the county. Within the sector, wages vary widely.

Figure 5 shows Kitsap County employment and average wages by occupations that are specific to healthcare (the total is less than the total employment for the sector seen in Figure 2 because many people who work in the sector do not work in health-specific occupations). It also shows the monthly housing payment that would be supported by the average wage for that occupation.

Fig 5 Kitsap Co Health Professions Employment

	2019 Employment estimate	2019 Average Wage	Monthly housing payment
Aides and assistants	2,682	$41,745	$1,148
Administrators	450	$61,987	$1,705
Therapists	386	$76,948	$2,116
Nurses, physicians asst.	1,948	$79,099	$2,175
Physicians	374	$189,830	$5,220
Technicians	968	$63,843	$1,756
Total	6,808	$67,051	$1,844

Sources: Washington State Department of Employment Security, Puget Sound Regional Council

As healthcare institutions look to lower costs, they are employing more aides and assistants, who will be paid below the average wage in the county. And as we will see below, aides, assistants and technicians will struggle to pay rapidly increasing rents.

COMMUTING TO KING AND PIERCE COUNTIES

Kitsap County sits across Puget Sound from the other three counties of the region, so is not as convenient a place to commute from. But is enviable lifestyles and relative affordability have made it home to many people who commute by ferry to the eastern side of Puget Sound, and across the Narrows bridges to Pierce County. Figure 6 shows the destinations of Kitsap County residents in 2019, pre-pandemic, according to the Census Bureau's One the Map program (these figures should be considered approximations due to inherent data limitations).

Fig 6 Kitsap County Daily commuters 2019

Commuting to:	Commuters	Share of all commuters
Seattle	15,200	16.2%
Tacoma	3,147	3.4%
Bellevue	2,434	2.6%
Renton	1,172	1.2%
Tukwila	1,125	1.2%
Kent	1,101	1.2%
Olympia	973	1.0%
Everett	924	1.0%
Kirkland	749	0.8%
Federal Way	702	0.7%
Redmond	678	0.7%
Lynnwood	642	0.7%
Auburn	623	0.7%
SeaTac	617	0.7%
Shoreline	563	0.6%
Lakewood	484	0.5%
Puyallup	460	0.5%
Bothell	430	0.5%
Issaquah	361	0.4%
Burien	352	0.4%
Other King County	1,319	1.4%
Other Pierce County	4,784	5.1%
Other destinations	10,094	10.8%
Commute within Kitsap	44,866	47.8%

Source: U.S. Census Bureau

Fewer than half of those commuting from homes in Kitsap County to jobs covered by unemployment insurance are staying within Kitsap County. 25 to 30 percent are headed to a destination in King County (there is uncertainty due to the data collection method) and about 10 percent are headed to Pierce County.

As seen in Figure 2, wages paid in Kitsap County are not all that high. Commuters earning higher wages in King or Pierce counties can easily outbid those working in Kitsap County for housing.

Migration data from the Internal Revenue Service shows the movement of people from King County to Kitsap County, by tracking address changes on tax returns. In the five years from 2014 to 2019, the IRS counted 6,736 households moving from King County to Kitsap County, and 4,838 households moving from Kitsap to King County, for a net flow of about 1,898 households moving from King to Kitsap. There was a net flow of over 4,500 people in these households. The households moving from King to Kitsap were, on average, larger than the households moving from Kitsap to King, suggesting that movers to Kitsap were more likely to be families.

STRONG IN-MIGRATION

Population growth comes from two sources: natural growth (births minus deaths) and net in-migration (in-migrants minus out-migrants). Natural growth does not drive housing demand directly (parents of newborns likely already have a house), but in-migration certainly does, as each new household needs a place to move into. Figure 7 shows the two components of growth for Kitsap county from 2010 to 2019.

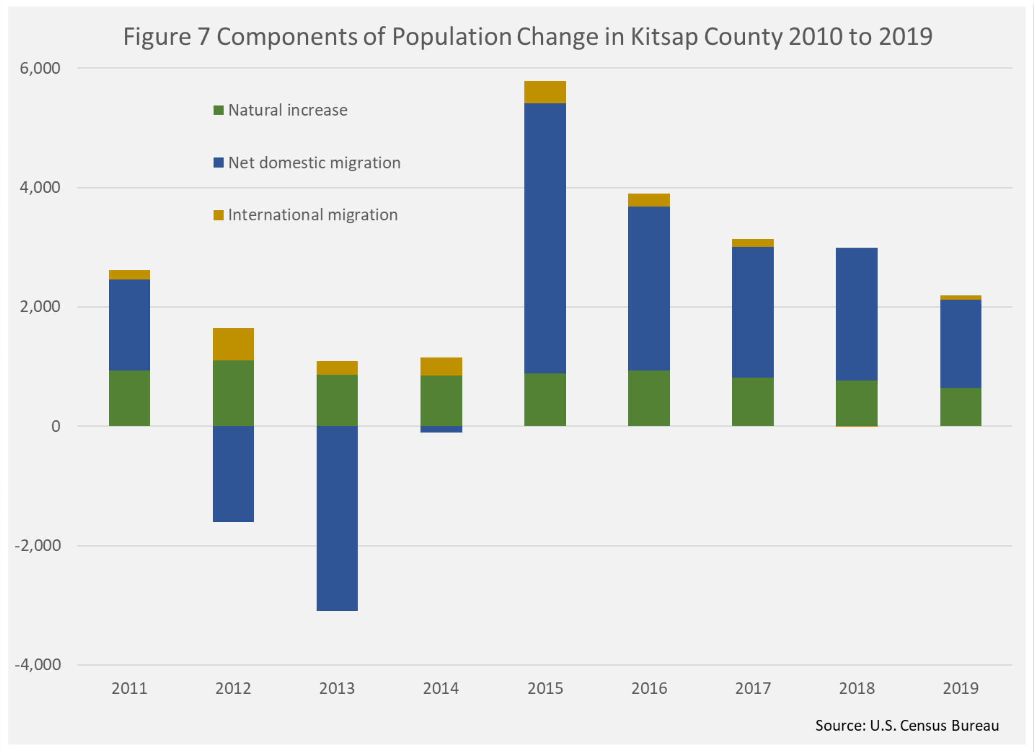


Fig 8 Origins of Migrants to Kitsap County

Based on federal tax returns filed in 2019

	Households	Individuals	Hd size
From all U.S.	9,290	17,104	1.8
From within Washington	3,733	6,466	1.7
From another state	5,557	10,638	1.9
From APO/FPO addresses	345	692	
King	1,355	2,242	1.7
Pierce	936	1,674	1.8
San Diego	572	1,357	2.4
Mason	313	580	1.9
Snohomish	297	538	1.8
Honolulu	216	519	2.4
Los Angeles	182	329	1.8
Thurston	131	238	1.8
Berkeley (South Carolina)	125	217	1.7
New London (Connecticut)	112	249	2.2
Maricopa	105	189	1.8
Jefferson	100	173	1.7
Saratoga (New York)	99	134	1.4
Spokane	83	141	1.7
Clallam	76	139	1.8
Riverside	72	151	2.1
Camden (Georgia)	64	182	2.8
Multnomah	63	100	1.6
Orange	61	114	1.9
Virginia Beach	59	138	2.3
Other Washington	442	741	1.7
Other California*	252	493	2.0
Other Oregon*	70	135	1.9
Other West*	220	376	1.7
Balance of US**	3,285	5,955	1.8

*Includes only counties with 20 or more households moving to King County

**Includes Western counties with fewer than 20 households moving to King County

Source: U.S. Internal Revenue Service

Between 2009 and 2019, net in-migration accounted for 60 percent of Kitsap County's growth. While natural growth is fairly steady, migration varies widely over time, especially in a place like Kitsap with a large population of military personnel. This can strain housing supply. Bringing on new supply takes quite a long time, and as seen in Figure 7, in-migration can surge unexpectedly.

It is also important to see where in-migrants are coming from. This will give some indication of the purchasing power they bring with them. Figure 8 shows the totals for in-migration for 2019, as well as the top 20 counties of origin of in-migrants, based on federal tax returns. Figure 8 only includes those who have filed a federal tax return the prior year, so does not include foreign nationals moving to the U.S. for the first time. It does include military personnel who would have filed their taxes from a foreign location.

Not surprisingly, a large share of migrants to Kitsap County are coming from places with a large U.S. Navy presence, such as San Diego and Honolulu. About 15 percent of in-migrants to Kitsap County come from King County. This is much less than the flow from King to Pierce and Snohomish counties, where King County in-migrants make up 35 and 48 percent, respectively.

Also note that the household sizes of in-migrants vary by origin. Statewide, the average household size is 2.1 persons, and the average for migrants is 1.7. In Kitsap County the average for all migrants is the same as statewide. But looking at the households coming from places with a large Navy presence, the size jumps over two, indicating that large numbers of Navy families with children are coming to Kitsap county.

Fig 9 Labor Force Participation Rate

Population age 16 and over employed, unemployed or in the military

	Total	Male	Female
King	70%	76%	64%
Snohomish	67%	74%	61%
Pierce	66%	72%	60%
Thurston	63%	67%	58%
Whatcom	62%	68%	57%
Kitsap	62%	69%	54%
Skagit	59%	66%	53%
Island	58%	66%	51%
San Juan	53%	57%	50%
Mason	51%	54%	47%
Jefferson	44%	44%	43%
Washington State	65%	70%	59%
United States	63%	68%	59%

Source: U.S. Census Bureau

RETIREMENT DESTINATION

While Kitsap County has many of the attributes of a retirement destination, its population of retirees appears only slightly above the state average for counties. Identifying retirees is not straightforward (no one has to register with the government when they retire, any many people work part time or seasonally after officially retiring), but a few measures provide some in sight.

First, about 18 percent of Kitsap County's population is over age 65, which is slightly higher than the state average of 15 percent. The median age in Kitsap County is 39.2 years old, only slightly higher than the state median age of 37.8. By comparison, the median ages of Jefferson, San Juan and Clallam counties are 59.0, 56.7 and 54.4, respectively.

Figure 9 shows labor force participation rates for the nation, Washington and the counties around Puget Sound.

With 62 percent of adults in the labor force, Kitsap is just slightly below the national average and three points below the state average. Men in Kitsap County are just about at the state average for labor force participation.

We can also track retirement income. Social security payments make up about 5 percent of personal income in the state, and about 6 percent in Kitsap County. Veterans' benefits make up about 2 percent of Kitsap county personal income, and 1 percent of state personal income.

The areas of the state to the west of Puget Sound are all active retirement destinations, but Jefferson and Clallam counties have a much larger share of retirees than Kitsap.

WORK FROM HOME

The work-from-home requirements of the pandemic have proven quite sticky. While we have no prior experience on which to base predictions about the staying power of this trend, many observers believe that a large share of the office-based workforce will continue to work from home for a large part of the week. Kitsap County could be strongly affected by this trend.

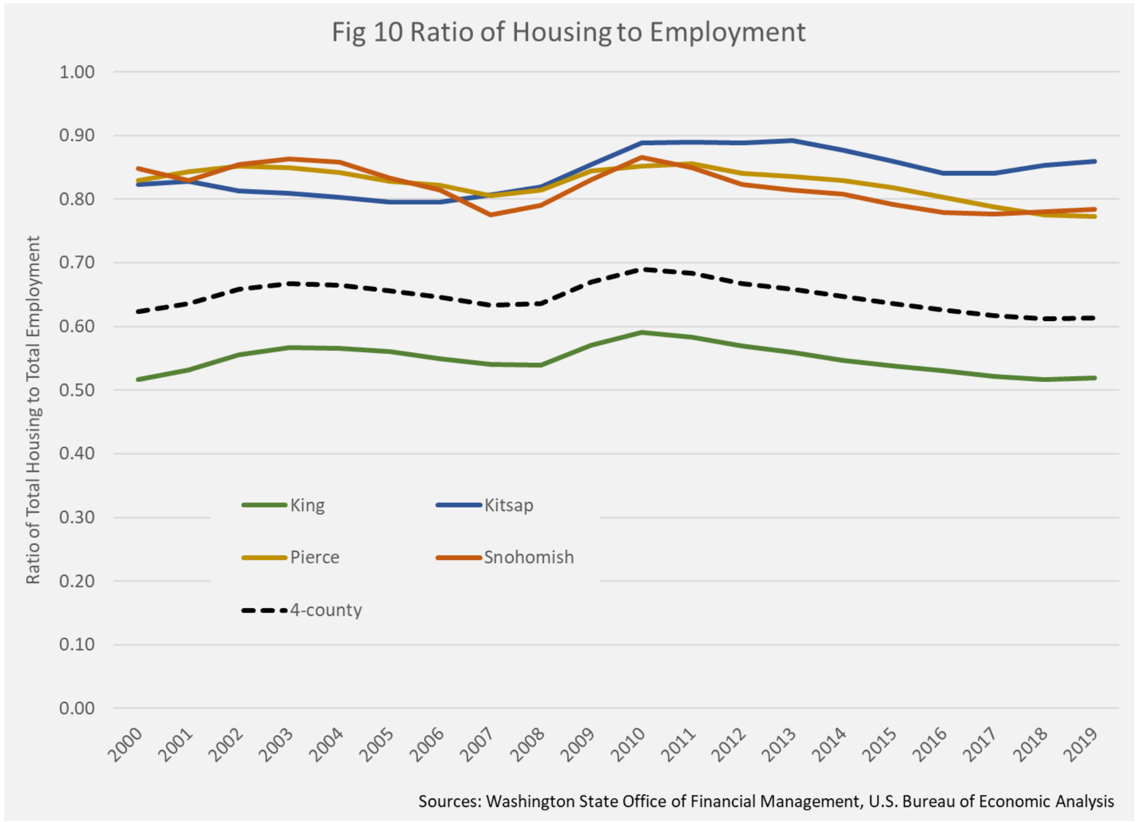
Its combination of semi-rural lifestyles, affordability and accessibility to job centers on the other side of Puget Sound make Kitsap a strong candidate for those wishing to leave the more crowded and expensive parts of the region. This would bring more people to Kitsap County that have a large pool of equity from selling an expensive home, and incomes that likely exceed those common among people working in Kitsap County.

The bigger picture of work-from home is uncharted territory—no one knows how it will play out over time. But we can be pretty confident about two things. First, it will continue to some extent—there is no going back to pre-2019. Second, Kitsap County has all the characteristics of a prime area for those who can continue to work from home and are looking for a non-urban setting. So it is not a question of whether work-from-home affects Kitsap County's housing markets, but how much it does.

2. TRENDS IN HOUSING SUPPLY IN KITSAP COUNTY

As the preceding discussion makes clear, three large needs drive housing demand in Kitsap County. First, most people working in civilian jobs in Kitsap County would find it convenient and likely more affordable to live there. Second, Kitsap County absorbs and large and varying population of military personnel and their families who are assigned to the Navy facilities in the county. Third, Kitsap County provides affordability and lifestyle choices for people whose jobs are based in King and Pierce counties.

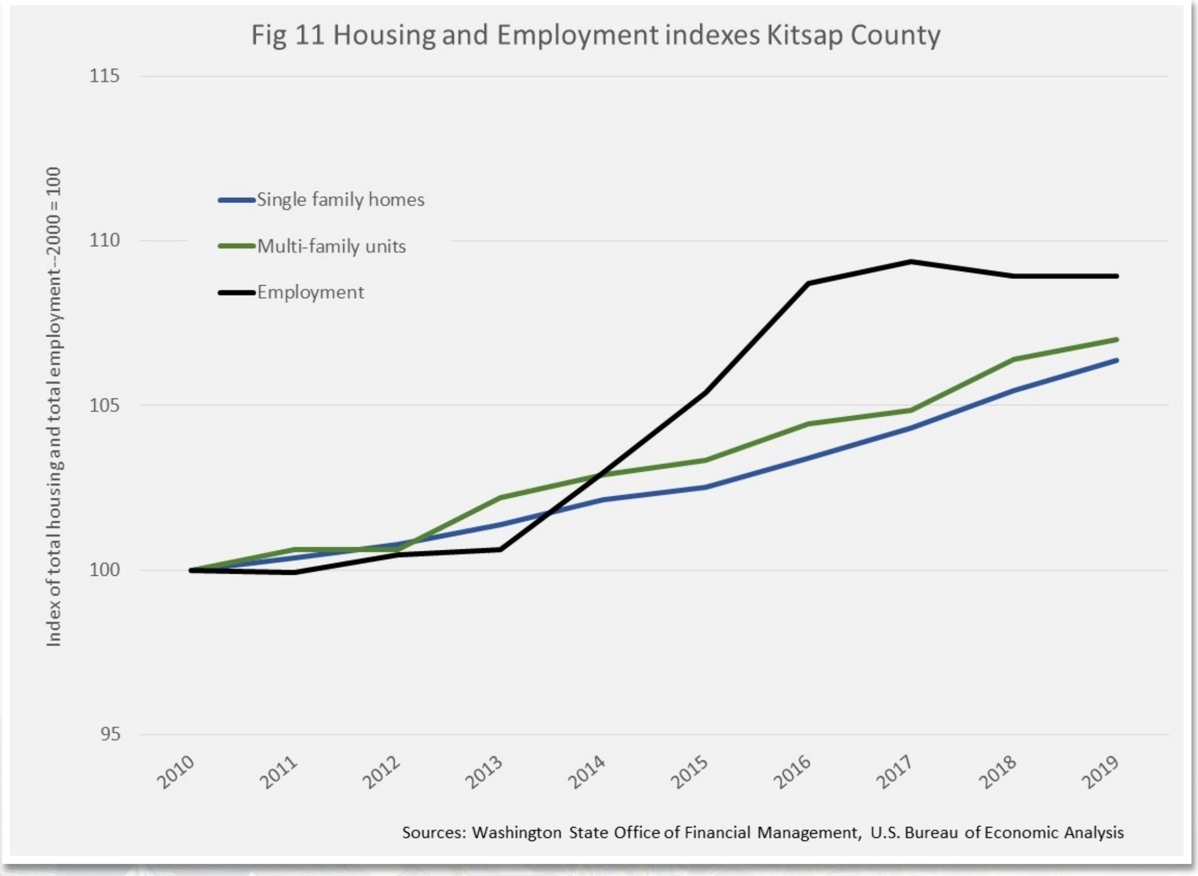
Figure 10 shows the ratio of housing units to jobs for the four counties of Central Puget Sound.



The relationships here are remarkably steady. King County consistently has a lower ratio of housing to jobs than the region as a whole, and Snohomish, Kitsap and Pierce Counties have a higher ratio. The decline in the ratio starting around 2010 can be attributed to several factors. First, as the nation emerged from the Great Recession, job growth picked up faster than housing growth, with more jobs for each household. Second, vacancies have been falling. Third, especially in King county, labor force participation rates have increased slightly, with more young workers in the workforce compared to retirees and other non-workers.

Kitsap, Pierce and Snohomish counties are providing housing to people working in King County, and the degree to which they are doing that is not changing much at all. The good news is that the share of King County's housing needs having to be met by adjacent counties is not growing. But the bad news is that with strong job growth in King County, the number of new homes and apartments that must be provided in adjacent counties is quite large.

For now, though, we can concentrate on the degree to which the housing supply of Kitsap County is keeping pace with demand generated by employment growth within the county. Figure 11 shows an index of employment growth and growth in the total stock of single family and multi-family housing units. The index shows, for each year, the number of housing units and jobs for every 100 that existed in 2010.



Employment and housing growth were both slow as Kitsap County emerged from the Great Recession, which is consistent with the negative population growth seen in Figure 7. Employment growth picked up sharply between 2013 and 2016, again paralleling the population growth seen in Figure 7. Employment growth then flattened between 2016 and the onset of the pandemic. Meanwhile, housing growth was steady over that 10 years, ultimately falling short of employment growth by the end of the period.

Figure 11 is based on estimates of total existing housing units made by the Office of Financial Management. We now turn to actual construction of new housing. Building permit data is not always consistent or timely, but we can get a reasonable assessment of construction using building permit data collected by the Census Bureau and presented locally by the Puget Sound Regional Council. (A large amount of permitting data is missing from PSRC datasets beginning in 2018, so to be consistent we will cut off the analysis at 2017.)

Figure 12 shows permits issued within Kitsap County, by cities and the county, for single family and multi-family homes. To smooth out the normal variation in permitting, the figure for each year (except 2002 and 2003) is the average of that year plus the two previous years.

Fig 12 Permits issued in Kitsap County
Trailing 3-year average. Net after demolitions

	Single family	Multi-family				Mobile home
		Total	2 to 19	20 to 49	50 and over	
2002*	1062	44	0	0	161	161
2003*	1147	81	0	0	90	90
2004	1,107	76	56	0	20	84
2005	1,066	266	78	120	68	36
2006	834	256	68	120	68	6
2007	792	275	97	130	48	-10
2008	644	99	81	18	0	-12
2009	588	33	15	18	0	-12
2010	366	-16	-52	8	28	3
2011	291	-66	-94	0	28	2
2012	355	25	-10	7	28	1
2013	417	106	57	22	27	-1
2014	446	153	80	22	51	-3
2015	484	167	77	15	75	-2
2016	492	103	55	0	48	3
2017	623	158	95	39	24	9
2002-2017	10,274	1,873	763	598	512	255

*Data for one year only. Not averaged

Source: Puget Sound Regional Council

The drop in permitting since the Great Recession, especially in single family, is quite striking. Even in 2017, the strongest year for single family in the chart from the 2010s, the rate of building is well below the 2000s. The easy financing and questionable lending practices that led to the housing crash were certainly in evidence in Kitsap County. But even with some degree of overbuilding, we have not returned to even half of the rate of single family building that the county saw in the early 2000s. Multi-family construction remains below pre-crash levels.

How short of demand is housing construction in Kitsap County? Figure 13 estimates the number of single family homes and multi-family units that would be required to meet the needs of Kitsap County job growth between 2002 and 2017 (assuming that spillover demand from King and Pierce counties remains constant) and compares that estimate to the actual homes and units permitted.

Fig 13 Estimate of Required and Permitted Housing Kitsap County 2002-2017

Employment growth 2002-2017*	18,962
Single family homes per job in 2002	0.57
Multifamily units per job in 2002	0.16
Single family homes required for job growth	10,836
Multi-family units required for job growth	2,976
Single family homes permitted 2002-2017	10,274
Multi-family units permitted 2002-2017	1,873
Single family home deficit 2002-2017	562
Multi-family unit deficit 2002-2017	1,103
Percent of required single family homes permitted	95%
Percent of required multi-family units permitted	63%

*includes self employed and uniformed military

Sources: Puget Sound Regional Council, U.S. Bureau of Economic Analysis, author's calculation

During this 15 year period Kitsap County added nearly all of the single family housing that its job growth would suggest. At the same time, the county added less than two thirds of the multi-family housing that would have been required. While multi-family construction was strong in the 2010s in much of the region, it did not take off in Kitsap County.

3. TRENDS IN HOUSING PRICES AND AFFORDABILITY IN KITSAP COUNTY

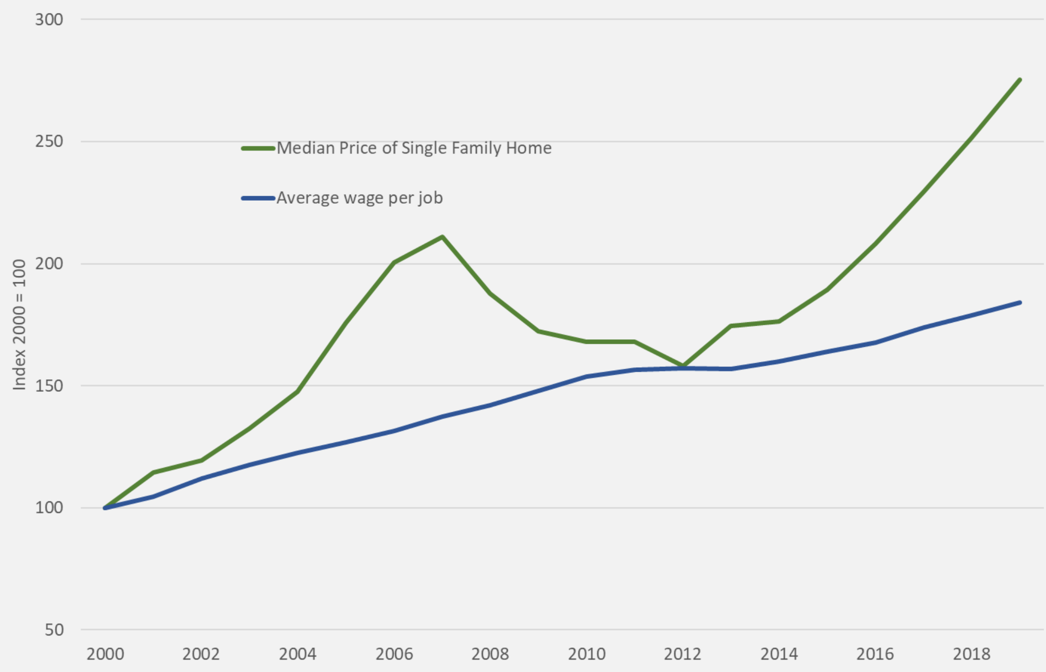
Kitsap County was one of the fastest growing areas of the state in the 1960s and 1970s, as the Navy expanded at Bremerton and Bangor. But since 1990, Kitsap has grown at a rate below the statewide average. From 1960 to 1990, Kitsap County grew 125 percent, the seventh fastest rate among the state's 39 counties. From 1990 to 2022, Kitsap grew 48 percent, below the state average of 54 percent, ranking it 22nd among the counties.

With much of its growth potential determined by decisions made by the Navy, and with ferries acting as a deterrent for many commuters, Kitsap has maintained a steady, if unspectacular growth rate. But its unique lifestyle opportunities and its relative affordability has made it an important destination for people seeking more space, less traffic, less crowding and a more rural lifestyle, still within commuting distance of King County job centers.

As seen in Figure 13, Kitsap County has been able to provide just enough single family housing for its workforce. Multi-family housing has, however been a challenge and is falling short.

Over the past ten years, as excess inventory from the housing crash has been absorbed, and as Kitsap County employment has steadily grown, prices have begun to outpace wages. Figure 14 shows the relationship between average wages and median home prices since 2000. The index shows the wage or price in a given year for every $100 of wage or price in 2000.

Fig 14 Index of Home Prices and Wages in Kitsap County



Sources: NW Multiple Listing Service; U.S. Bureau of Economic Analysis

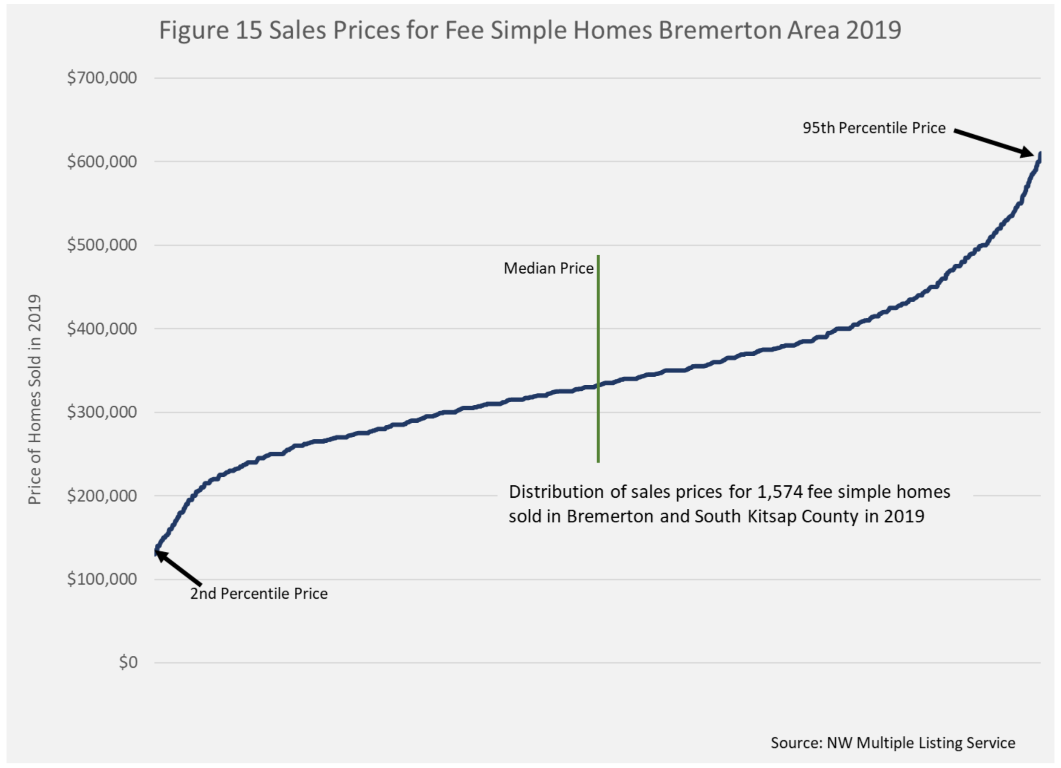
The green line shows the boom and price decline of the years 2000 to 2012. From 2012 through 2019, pre-pandemic, median prices climbed an average of 6.7 percent per year, while wages increased an average of only 2.3 percent per year.

The historic affordability of Kitsap County, combined with price drops of the housing crash had provided some cushion for affordability. But that cushion is largely gone now. The Washington Center for Real Estate Research publishes its Housing Affordability Index (HAI) that indicates whether a household with the median income can afford the median priced house. An HAI reading of 100 means that the median income is just able to afford the median priced home, given prevailing interest rates, with readings above 100 indicating more affordability. The HAI for Kitsap County peaked at 170 in 2012,in the wake of the housing bust, having been as low as 89 in 2007. But since 2012, affordability has declined steadily with the HAI reaching 113 in 2019, pre-pandemic, plunging to 64 in the third quarter of 2022.

We do need to be careful about just focusing on median prices, as the HAI does. We need to look at the distribution of prices across the range of the market. As the HAI indicates, the median income in Kitsap County has, until recently, been enough to afford the median priced home. But what happens below the median? Do prices fall at the same rate that incomes do as we move below medians?

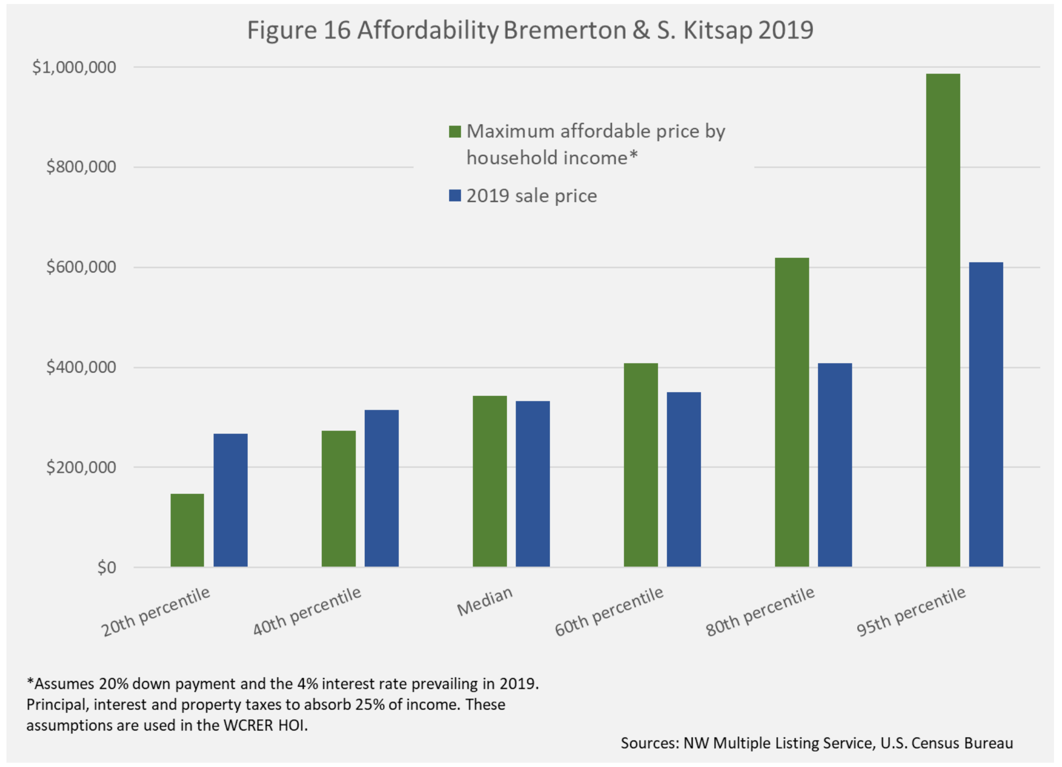
The answer to that question is no. The curve of home prices, from least to most expensive, is far flatter than the curve of incomes. To illustrate this, we will look at home sales prices in the area of Kitsap County that covers Bremerton and south. This will correspond to NWMLS areas 141 through 145, and 148 and 149. For income data we will use the Census Bureau's Kitsap South Public Use Microdata Area (PUMA), which covers roughly the same area and contains about 61,000 households.

Figure 15 shows the curve of sales prices for fee-simple homes in this area sold in 2019 (pre-pandemic). We eliminate the outliers at the bottom 2 percent and the top 5 percent.



Note that prices rise quickly at the very lowest end (mostly detached homes with little value in the structure, or small fee simple townhouses) and again at the upper end. But the middle is fairly flat. The difference in price between the home at the 40th percentile level and the home at the 60th percentile level is just $36,000, or about 11 percent of the median.

Incomes, however, are not this flat. Income data is far less granular, but we can see what happens when we compare incomes in that PUMA/MLS area (wage data is not available) with home prices. Figure 16 shows, for 2019, what would be affordable to a family at each income quintile for residents of the PUMA/MLS area alongside the actual prices of homes sold in the MLS area at those quintiles.



At the 20th percentile level homes are nearly twice as expensive as the income would support, but we probably would not expect a lot of home ownership at that income level. But at the 40 percent level, where we should expect ownership, the home at that level is somewhat unaffordable. Income at the 40 percent level is just about enough to purchase the home at the 20 percent level. Under these assumptions, the median income is just about enough to purchase the median home, as indicated by the HAI. Things then improve, as incomes rise and home prices rise much less.

This illustration does not represent actual market dynamics (most people will not live and work in the same PUMA) but it does show that just paying attention to the median ignores the plight of those whose incomes are falling below median, but not seeing house prices falling at the same rate.

The starting point for understanding this (at least for detached homes) is the value of the lot underneath the house, which will be consistent across a given market area, but vary between market areas. Appendix B explains this in more detail.

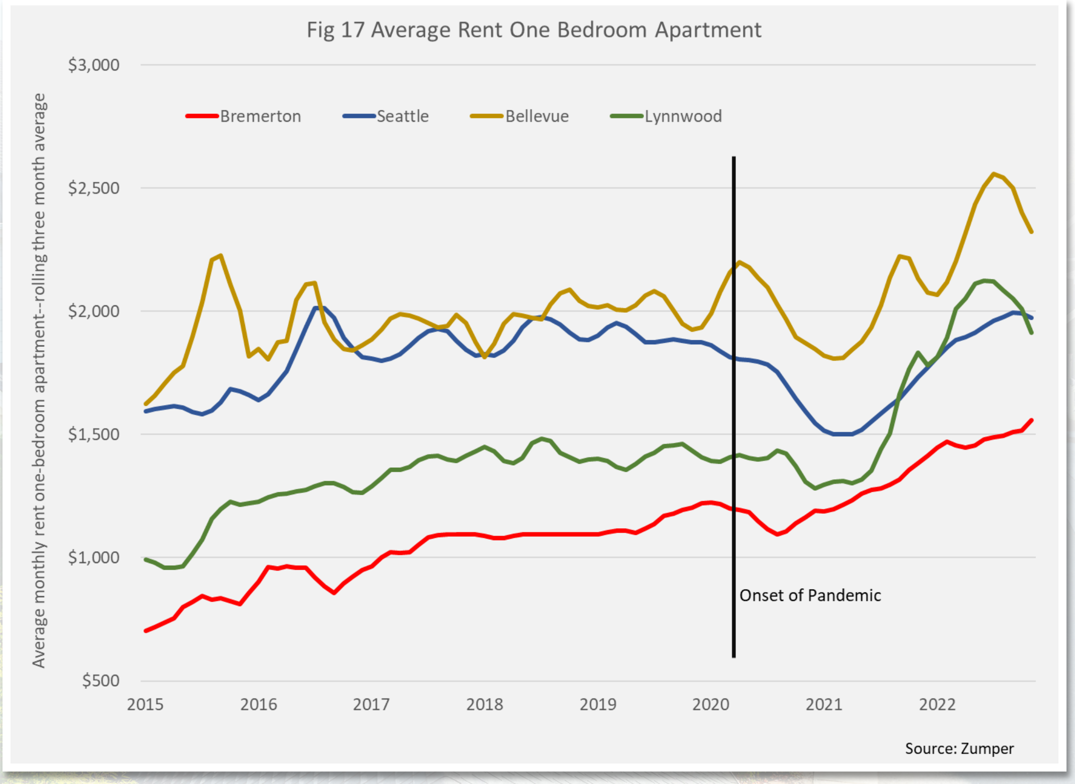
Although data is not good enough to prove it, it seems intuitive that if we did the same exercise and just concentrated on the wages paid to civilian workers whose jobs are in Kitsap County, the picture would look less rosy. The 2019 income at the 40 percentile level for Kitsap County was $62,500, but that includes income earned by commuters in the higher paying areas of King and Pierce counties. Figure 2 shows that average incomes many sectors of the Kitsap County economy are far below that.

Kitsap County has been able to maintain affordability in the aggregate and is a good place for those earning higher incomes outside the county and many of those receiving the Navy's BAH. But for many of those working in jobs in the local service economy, prices remain out of reach.

Those seeking affordability in Kitsap County will not get much relief in the rental market. Rents across Kitsap County have been increasing above inflation. In 2000, the median one-bedroom apartment in Kitsap County rented for $805 in 2019 dollars. By 2019, pre-pandemic, that median apartment was renting for $1,500.

Over the past 20 years, rent on a one-bedroom apartment in Kitsap County has increased 86 percent, after adjusting for inflation, while inflation-adjusted average wages increased just 13 percent. In 2000, the median rent for a one-bedroom apartment was about 20 percent of the average monthly wage in the county, and by 2019, median one-bedroom rent was 31 percent of the average wage.

The sudden shifts of work arrangements during the pandemic caused rents to shift around the region. Generally, rents farther away from the Seattle-Redmond axis increased more than rents closer in. Work-from home allowed many people to move further from expensive job centers and to shift to lower priced housing, putting pressure on rents in outlying areas. Figure 17 shows average one-bedroom rents for the past eight years for four markets in the region.



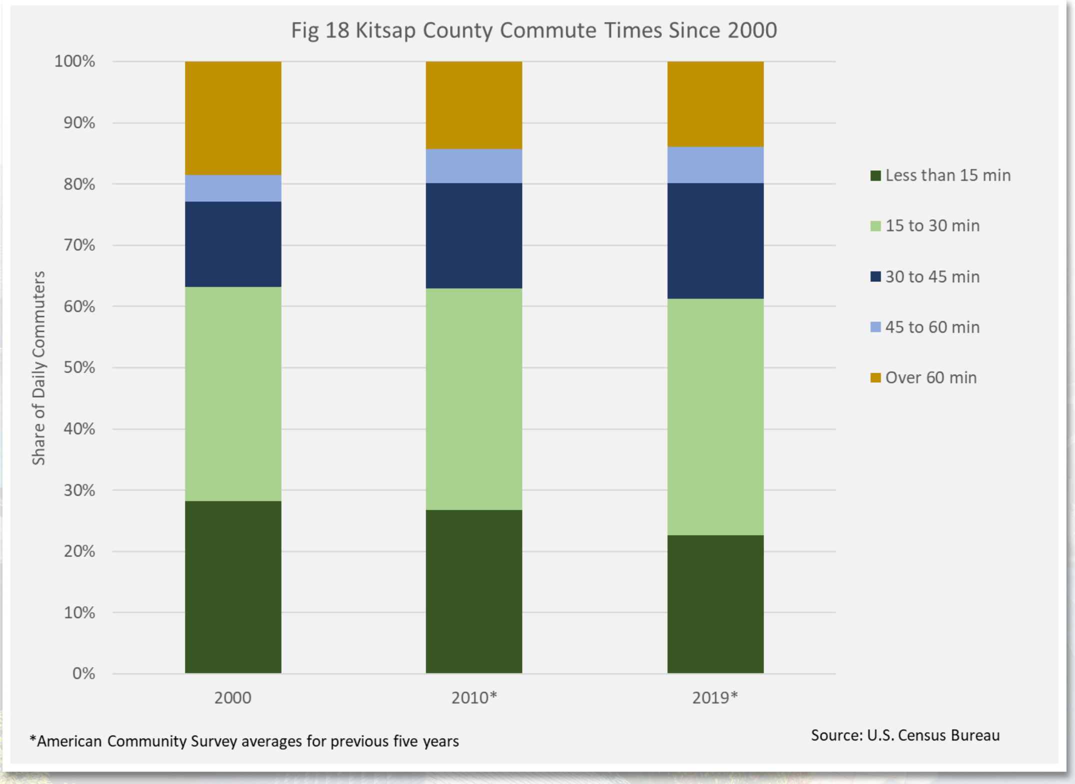
Rents in the high cost areas of Seattle and Bellevue were relatively steady from 2015 to the onset of the pandemic in early 2020. Then we see rents falling in Seattle and Bellevue, then recovering to their pre-pandemic levels by late 2022. But in the lower cost markets of Bremerton and Lynwood, we see a sharp climb in rents starting in late 2021, as many renters realized that work-from-home was going to continue indefinitely and that they could relocate to a lower cost area and still keep doing their job in Seattle or Bellevue.

As seen in Figure 13, apartment construction has been weak in Kitsap County, so if the trend toward people moving to places like Kitsap County to take advantage of work-from-home continues, there would seem to be little rent relief in sight.

TRENDS IN COMMUTING IN KITSAP COUNTY

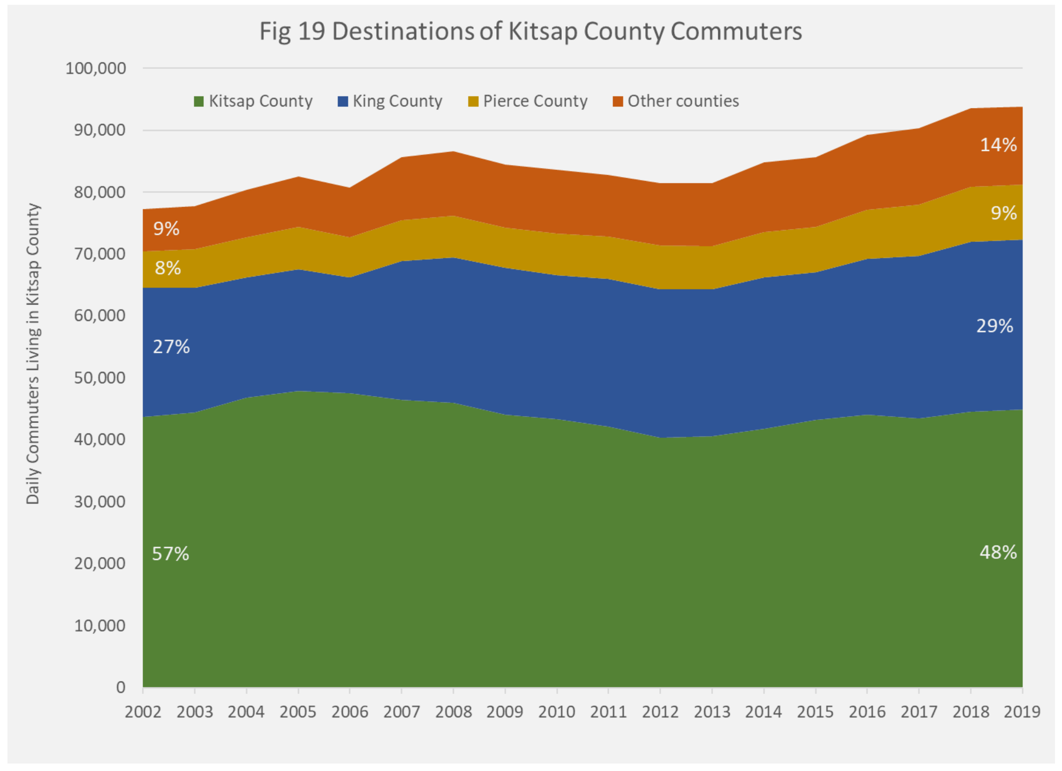
As noted above, Kitsap County has a different commuter profile than the other two counties adjacent to King County. The prospect of a daily ferry commute complicates the decision to move to Kitsap to take advantage of lower costs and the possibility of a more rural lifestyle. As seen in Figure 6, a large number of people do commute to King and Pierce counties and elsewhere from Kitsap. Ferry commute times have changed little over the years, and with a few exceptions, traveling to and from ferries on the Kitsap side has not gotten too much worse with population growth.

Figure 18 shows changes in commute times for the past two decades for commuters living in Kitsap County.



Commutes have lengthened somewhat over this period, but not a great deal. (The share of commuters traveling over one hour seems low, when considering the share of commuters heading to King County as seen in Figure 6—difficult to have a door-do-door ferry commute of less than an hour.)

Figure 19 shows the change in destinations for Kitsap County commuters.



The share of commuters staying in the county has shrunk noticeably. Not only are commuters heading to King and Pierce counties, they are heading in growing numbers to Snohomish, Thurston and Mason counties.

CONCLUSION

Kitsap County has a truly unique geographic, demographic and economic profile. Its two primary economic roles—host to Navy bases and home to commuters to other counties—have remained remarkably stable. The county offers lifestyle alternatives to many commuters that are not as widely available nearer the Interstate 5 corridor.

Until recently, Kitsap County was able to maintain moderate housing prices. But recent spikes in prices and rents are making the county far less affordable to those who work there. A well-known pattern is emerging: high incomes from commuters and work-from-home residents can push up prices of limited housing supply beyond what can be afforded by those working in the local civilian economy.

A second concern is the poor fit between Kitsap County's traditional semi-rural atmosphere and the regional policy directives toward urbanism. Kitsap has always been a place where people went to escape cities and to enjoy larger lots, low densities, low traffic and small-town atmospheres. The one-size-fits-all planning regimes imposed on Kitsap seem a poor fit.

The challenge for policymakers going forward is to maintain Kitsap County's appeal as a close-in, less dense and urban alternative to the Interstate 5 corridor, while meeting the housing needs of military personnel and lower wage civilian workers. This suggests promoting a different mix of housing than current policies drive towards: more walk-up apartments and small single family homes, and fewer mid-rise stacked flats.

Planning must also acknowledge Kitsap County's attractiveness to higher income households from the other side of Puget Sound as well as from out of state. More affluent households can easily bid up prices of scarce real estate, squeezing out those dependent on the local economy.

APPENDIX A
FOCUS GROUP FINDINGS

Focus groups of real estate professionals were conducted in King, Kitsap, Pierce and Snohomish counties in the summer and fall of 2022. The objective of these group interviews was to gain a sense of market preferences among homebuyers, and the ways in which those preferences have been shifting. Shifts are noted that have taken place over the past 20 to 30 years, as well as during the recent pandemic years.

Shifts in market preferences can be the result of changes in social trends, public policy, environmental conditions, demographics, economic conditions or exogenous forces such as the pandemic. As will be noted, however, some preferences resist change even in the face of these larger contextual changes.

It is important to remember that focus groups and other qualitative research methods are intended to gather a range of issues and ideas that should be further explored. For most of this summary there is no attempt to quantify the scope or intensity of any of the issues and ideas. But these matters do come into play in planning processes and deserve consideration and further research. There are a small number of "dead ends," or instances where there was broad consensus among the real estate professionals that certain ideas are non-starters.

The focus group discussions centered around a short paper exercise that asked the participants to name factors that go into decisions by people seeking new homes, and to rank those factors in importance for three demographic groups. This summary is organized around those factors and the ways in which each factor:

Has changed. How have preferences of those seeking homes shifted in the middle-term and short term?

Has not changed. What are the constants in preferences that persist in the face of other changes in the region?

Presents opportunities. Are there ways to further the provision of housing opportunities at various levels and for various groups?

Presents challenges. What persistent challenges lead to barriers to housing for various groups?

Suggests dead ends. What concepts have a very low likelihood of success?

KITSAP

4 COUNTY FINDINGS

WASHINGTON REALTORS®

4 COUNTY FINDINGS

1. HOME SIZE AND LOT SIZE

WHAT HAS CHANGED.

Home office space. New work-from-home opportunities have led to the need for home office spaces that are separate from other living spaces. These can be extra bedrooms, or spaces carved out of flex-spaces like bonus rooms.

Multi-generational needs. Many families, especially immigrant families, will anticipate the need to house parents or adult children, and will want spaces that afford privacy, functional features and appropriate access.

Acceptance of smaller lot sizes. As single family lot sizes in subdivisions have shrunk over the past 30 years, the market has come to accept these smaller parcels as a reasonable tradeoff for new construction.

WHAT HAS NOT CHANGED

Space for families. Families with children still want ample bedrooms, bathrooms, recreation rooms and other spaces that give everyone enough room.

Single level homes for older residents. Homeowners who want to age in place will seek out single level homes or homes with ground floor bedrooms, laundry etc.

Guest space. Homeowners without children at home still want guest bedrooms and spaces for visiting family and friends. Many anticipate housing their adult children.

Privacy and light. Even in higher density environments, people still value privacy (no one looking in the windows) and natural light (windows and more than one side).

Willingness to commute to afford larger lots. For those who want larger lot sizes, many buyers are willing to commute long distances.

Expectation of large lots in outlying areas. Buyers moving to outlying areas, especially in Kitsap County and parts of Pierce County, expect large lots. That is the reason they moved there.

OPPORTUNITIES

Townhouses and duplexes. In certain markets, buyers can get the spaces and privacy they need in townhouse or duplex developments.

Cottage cluster. The concept of small, detached homes clustered around common open spaces has proved successful, especially for older single people who still want a detached home but without the size or maintenance requirements of traditional single family homes.

CHALLENGES

Missing middle economics. The economics of duplex, townhouse, cottage and other "missing middle" forms of housing are not simple. Zoning must be crafted so these building forms are viable uses of land that might otherwise be used for single family homes.

DEAD ENDS

Families with children in multi-family buildings. While it is common in in the Mid-Atlantic area, and in many parts of the world, there is little enthusiasm for raising children in large walk-ups or stacked flat buildings. When economically feasible, families with children will almost always opt for detached homes, even if it means a long commute for parents. Resistance to raising children in multi-family settings has not changed in recent decades and there is no sign that it will change in the future.

2. LOCATION

WHAT HAS CHANGED

Commute times less important. For those who can work from home all or part of the time, commute times have become a much less important factor in location decisions.

Walkability. Both younger and older buyer groups are placing increased emphasis on walkability and the ability to access retail and other services on foot.

WHAT HAS NOT CHANGED

Schools are important. The importance of school quality varies by buyer group, but many groups still place great value on the quality of local public schools.

Safety is very important. Crime and safety, in both perception and reality, are very important to all groups.

Access to medical services. Older buyers want to have good access to healthcare services.

Access to retail. Easy access to retail and basic services is important, but not highly important.

OPPORTUNITIES

Fee simple townhouses, duplexes, cottages. Some buyers who are willing to accept smaller lots will consider semi-attached homes at densities in the range of 10 to 30 units/acre.

CHALLENGES

Commutes for those that cannot work from home. A large share of the working population cannot work from home. These people often hold middle and lower income jobs and face new affordability issues in outlying areas.

DEAD ENDS

Trading high density for short commutes for families. None of the real estate professionals can detect any willingness among families to compromise their preferences on density in order to get shorter commutes. The idea that families might want to live in urban centers with very short commutes seems to be a non-starter.

3. FEATURES AND CONDITION OF HOME

WHAT HAS CHANGED

Less interest in renovation. Younger buyers are less interested in buying homes on which they will need to do substantial work. They lack the skills to do the work themselves and lack the financial resources to pay for the work.

Emphasis on new construction. Many buyers, especially some immigrant groups, place a high emphasis on new construction or newer homes. This is because of concern about both layouts and condition.

Smaller exterior spaces. Many buyers are willing to accept relatively small yards and outdoor spaces.

Low maintenance exteriors. Many buyers are looking for exterior spaces that do not require much maintenance.

WHAT HAS NOT CHANGED

Desire for private open space. Although they will be flexible on the size, homebuyers still want to have some private open space. This might be a deck, hardscaped area or low maintenance landscaping, but it must allow for private space for small children and pets.

4. OWNERSHIP

WHAT HAS CHANGED

Expansion of ownership options. New options present buyers with expanded ownership and income options, such as including attached and detached ADUs and short term rentals.

WHAT HAS NOT CHANGED

Desire for investment value. The rate at which individuals and families want to own their own home has not changed. Home ownership is still seen as a solid investment, especially for some immigrant groups.

OPPORTUNITIES

Flexible ownership structures. Flexible ownership methods, such as condominiumizing duplexes and including ADU income, can expand opportunities for both owners and renters.

CHALLENGES

Avoiding condominium ownership. Many buyers fear the complications and expenses of condominium ownership.

Avoiding HOAs. While homeowner's associations (HOAs) can provide order and predictability to communities, especially high density ones, many buyers are leery of the rules and processes that HOAs require.

DEAD ENDS

Convincing buyers to be renters. Buyers and renters have different objectives and expectations, and they tend not to move from one category to the other. While the case can be made that other investment strategies can generate long terms returns comparable to home ownership, few prospective owners will opt to remain renters and pursue those alternative strategies.

KITSAP COUNTY HIGHLIGHTS

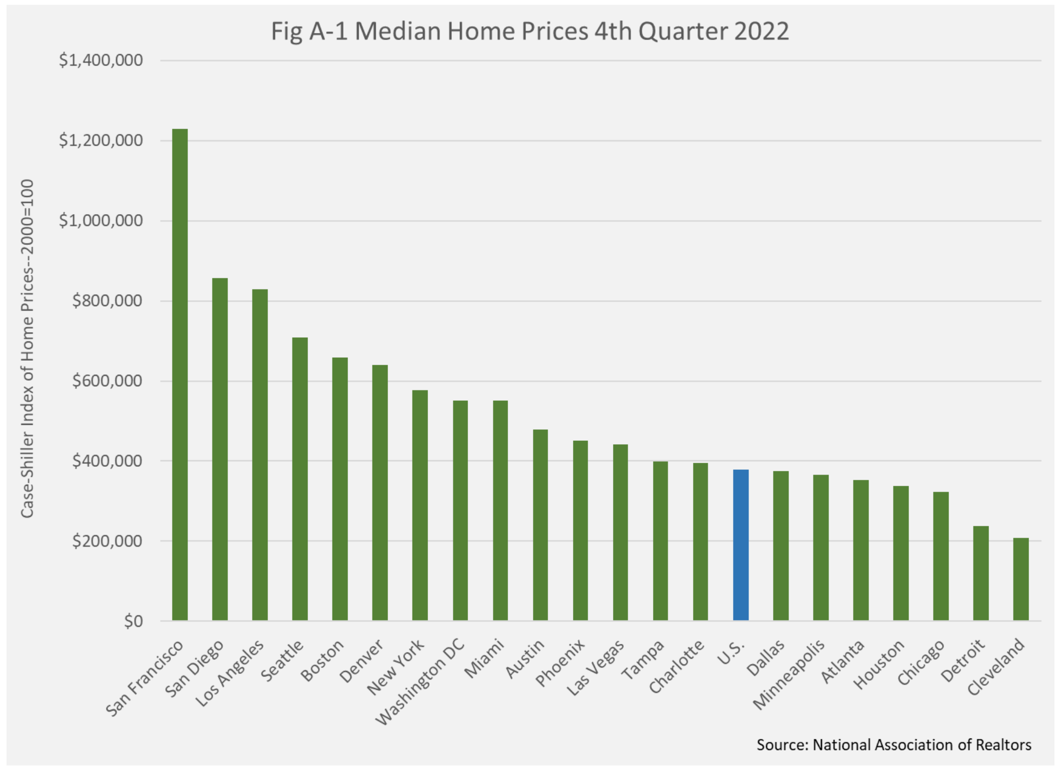
The Kitsap County focus group of active Realtors was convened in July 2022. Some key points coming out of the Kitsap County discussion:

- Housing development and marketing responds to changes in Navy personnel and the levels of the Basic Allowance for Housing. Price points are set by rank.
- The Navy shipyard in Bremerton is just getting underway with huge upgrades that will bring Navy personnel and construction workers to the area, adding to housing demand.
- Career Navy personnel will buy a house in Kitsap and then hold it as a rental when they transfer out of the area.
- Traditional ferry commuting is less of a force in housing markets. Fast ferries, combined with tech company buses, is attracting tech workers to Kitsap.
- Multi-family housing does not work for families.
- Townhouses have not worked well in Kitsap in the past. May be room for them in the market in the future.
- People move to Kitsap for a unique combination of rural atmosphere and lower costs. People moving from high cost areas have cash left over after selling their previous home.
- Large lot, lower density housing is considered a “move up” opportunity, and that form is getting scarce.

APPENDIX B
WHY SINGLE FAMILY HOMES ARE SO EXPENSIVE

Single family home prices in the Seattle area have consistently increased faster than the rate of wage and income growth, making it harder for families to afford to live in areas convenient to their workplace. As homebuyers shift from expensive areas to moderately priced areas, they push up prices in those areas, forcing families that otherwise might have lived there to, themselves, move on to the next most affordable area. “Drive to qualify” has become the norm.

It does not have to be this way. Home prices, and their rate of increase, vary widely around the country and are not tied to relative levels of economic success in a region. Figure A-1 shows median home prices for major metro areas around the country in the fourth quarter of 2022. Figure A-2 shows the rate of increase in prices in those cities based on the widely observed Case-Shiller home price index, which tracks repeat sales of existing homes.

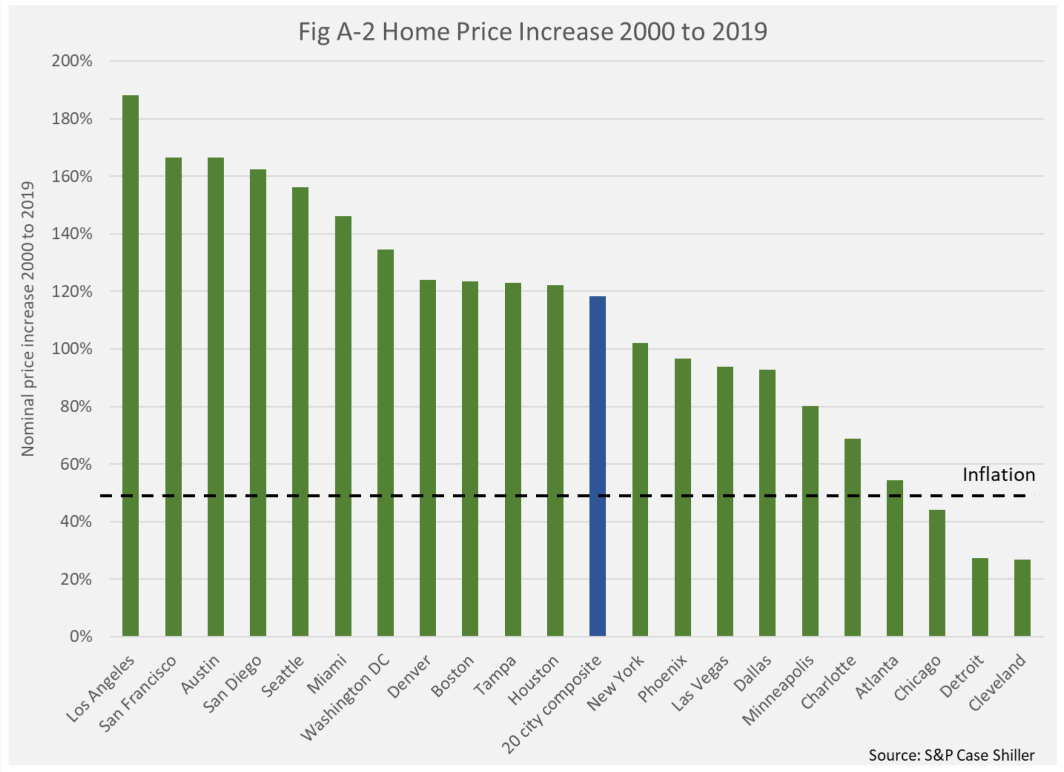


How can we account for this wide variation, especially when considering the lower prices and lower price growth rates in economically successful places like Atlanta, Charlotte and Dallas? Why should the median price in Seattle be twice as high as the median price in a booming place like Houston?

To understanding the difference in single family home prices around the country and why prices are so high in the Puget Sound area, it is helpful to consider a home as having two distinct components:

Entitled land. This is defined as a parcel that is legally described and, according to existing zoning, is allowed to have one single family home built on it (plus any accessory structures allowed by local zoning). We will refer to this as an “entitled lot.”

Improvements. This includes all the improvements to the land (roads, utilities) and the home itself.



CONSTRUCTION COSTS ARE NOT THE ISSUE

We can begin by emphasizing that construction costs—materials and labor—are not the source of variation in home prices around the country. Single family home construction costs do vary across metro areas, but not nearly as much as home prices.

According to Estimation QS, residential construction costs in Washington State are just about the national average. The least expensive state for construction, Idaho, is just 9 percent below the national average, and the most expensive state (other than Alaska and Hawaii), Massachusetts, is just 12 percent above the national average.

Most materials are traded on national markets, so prices of lumber, fixtures, paint, etc., will be similar around the country. Labor costs will vary, but labor is somewhat mobile and will shift in response to employment opportunities. Average wages for construction workers are just about the same in Texas as in Washington, while home prices are quite different.

LAND IS THE ISSUE

The general price level of new and existing homes is driven in a fundamental way by the land component of the package: the value of the entitled lot. The size of the parcel is not that important, as long as the allowable building envelope (heights and setbacks) in the zoning code allows for the size of home that meets market demand. We are seeing very expensive homes built on very small lots.

In other words, we can explain nearly all of the variation in Figure A-1 through differences in the value of entitled land. And, crucially, those land value differences apply across all homes, not just new construction.

In a given market area, a building lot that does not feature notable amenities (waterfront, views, golf course) or disamenities (on an arterial, next to a rail yard, under a flight path) is a commodity. That is, one lot is just about the same as another. Basic economics says that the value of any building lot will be equal to the cost of developing a similarly situated new lot.

In a given market area, the value of a newly developed vacant lot, a lot under a tear-down, a lot under a quality used home and a lot under a brand new home will be similar.

The value of entitled lots provides the "floor" for home prices, with the price of a barely habitable home roughly equal to the prevailing lot price in the market area (the structure having near zero value). The difference in home prices in a market area is then determined by the structures themselves, starting from the floor of lot values. Figure A-3 illustrates the relationship between lot values and home prices, using actual sales data from 2019 for the Auburn market area (MLS area 310).

In this area in 2019, 1,034 fee simple homes were sold, ranging in price from $135,000 to $2.15 million. The lowest priced detached home sold for $177,000. This home was old and in extremely poor condition, so we can assign no real value to the structure. The lot under this house could easily be redeveloped, so we will assign a value to the lot of $175,000 (we will ignore demolition costs and assume that the lot value includes roads, utilities, etc.).

We then look at the sales prices of homes sold in that area in 2019 at the 20th percentile level, 40th percentile, 60th percentile, 80th percentile and 95th percentile, assigning a lot value of $175,000 to each of them. (The top 5 percent of homes typically have high amenity values and are not illustrative of general market conditions.)

For the homes at each price level, the green bar represents the value of the entitled lot, and the blue bar represents the value of all the improvements. The total height of the bars is the sales price of the home at that percentile level in that market area in 2019. We see a fairly straight line upward for prices.

Figure A-4 shows details on the six properties in Figure A-3.

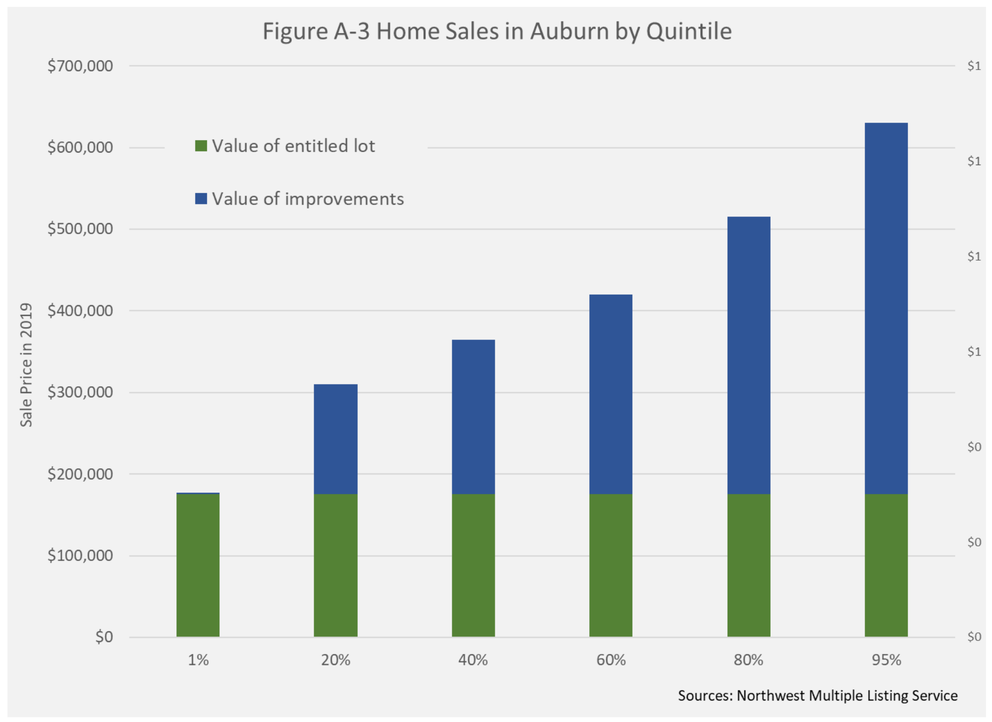


Fig A-4 Home Sales Auburn 2019

	Percentile level of ranked single family sales in 2019 in MLS area 310					
	1 percent	20 percent	40 percent	60 percent	80 percent	95 percent
Sale price	$177,000	$310,000	$364,950	$420,000	$514,950	$630,000
Home square feet	1,183	1,320	1,460	2,042	2,855	3,225
Lot square feet	11,325	10,000	10,000	5,250	3,904	6,435
Year built	1959	1992	1988	1998	2019	2017
Structure cost per square foot	$0	$102	$130	$120	$119	$141

Source: NW Multiple Listing Service

If we look at the size of the homes at each price level, and calculate the cost paid for the structure on a per-square-foot basis (dividing the value of the blue bar by the size of the home), we get remarkably consistent figures. The value of the improvements, per square foot, for the homes at the 40, 60 and 80 percentile level are quite similar, between $119 and $130.

This is a fairly homogenous market area, and the values of the structures are being determined primarily by size. As the homes get newer, they are getting larger and, therefore, more expensive. This is due to the familiar dynamic in homebuilding: the mandatory ratio of home price to lot value. In new construction, homes will generally be priced at least three times the lot value. Note that the home at the 80th percentile level was sold as new construction for $514,950, which is 2.94 times our assumed lot price of $175,000.

In a dynamic economy like that in the Puget Sound region, we can expect volatility in home prices—the rapid increase in prices in the 2020-2021 time frame are now being offset by price drops in 2022-2023. But over the longer term, stable or lower values for entitled lots will lead to generally lower prices for new and resale homes.

IMPLICATIONS

The value of entitled land acts as the floor under home prices, so that the price of a home will never be lower than that floor, even for the least habitable house. That floor sits at different levels depending on the demand to live in an area, but in even the lowest cost areas of the Central Puget Sound region, that floor sits above $200,000 in 2023.

A small parcel of undeveloped land on the periphery of a metro area has no real economic value other than as a home site. So, if that parcel is priced at $200,000, we can assume that is the minimum value of an entitled lot. The Washington State Growth Management Act, and the comprehensive plans and zoning codes developed under it, have severely restricted the amount of land that can be used for homebuilding. This scarcity, combined with strong demand, leads to these high prices for entitled lots.

The key to lowering the price of single family homes, at all price levels, will be to lower the value of entitled lots. In other words, make the green bars in Figure A-3 smaller, so that the price of homes more closely reflects the value of just the improvements. The only way to do that, absent some large secular shift in demand (i.e., an economic crash) is to increase the supply of entitled lots. That increase can be done in two ways.

First, vacant and redevelopable residential land within urban growth areas can be zoned for smaller parcel sizes so that more entitled lots can be created. Second, more land can be brought into urban growth areas. In either case, the addition of more entitled lots into the marketplace will lower the value of all entitled lots, lowering the floor under home prices and making all homes more affordable.