

HOUSING DEMAND, SUPPLY AND AFFORDABILITY IN SNOHOMISH COUNTY



WASHINGTON REALTORS® REPORT

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HOUSING DEMAND, SUPPLY AND AFFORDABILITY IN SNOHOMISH COUNTY



Snohomish County is among the most successful areas of the state and has excelled at providing attractive middle-income neighborhoods and communities. Snohomish County has provided an important relief valve for housing demand from King County, where rapid job growth has not been matched by adequate production of single family homes.

In the past decade, home prices in Snohomish County have surged upward. In September of 2022, the median sales price of a single family home in Snohomish County was \$735,000, down from a peak of \$839,000 in April 2022, but up from \$492,000 in September 2019. This 49 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 \$735,000 home would need a 20 percent down payment and an annual income somewhere in the neighborhood of \$150,000. The median annual wage paid to a full-time worker in Snohomish County is about \$65,000, so two full time median income earners with a large down payment would not be able to qualify for this home.

The housing situation in Snohomish County is complicated by the shortage of single family homes in King County, to the south, where wages are higher than in Snohomish County. People who work in King County, but cannot afford homes there, bring their higher incomes to Snohomish County, bid up prices and force many people who depend on Snohomish County wages out of the market. This pattern has been in place for a long time, and as the data in this report will indicate, it shows no sign of stopping.

This paper will review the housing situation in Snohomish County as it has unfolded over the past 20 years. 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.



Fig 1 Snohomish County Total Employment

	2001	2019	Growth
Private wage and salary employment	200,740	276,787	38%
Self employment	57,823	86,974	50%
Federal civilian	9,407	12,104	29%
Military	23,636	32,380	37%
State and local	42,430	48,692	15%
Total employment	334,036	456,937	37%

Source: Bureau of Economic Analysis

We will begin by looking at the demand for housing generated by economic and job growth in Snohomish County, focusing on a few 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.”

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. Data that helps 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 SNOHOMISH COUNTY

“A home is where a job goes at night.” To understand housing demand, we need to understand employment growth. The Puget Sound region¹ is not an above-average retirement or vacation destination, 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.

Snohomish County is one of the subareas, so we need to determine if sufficient housing is being developed to meet the needs of those working there, as well as for the inevitable price refugees who work in King County. And we cannot just look at averages and current employment: the great majority of those living and working in Snohomish County do not have a housing problem at the moment. 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.

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

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 2 Snohomish County Covered Employment

	2019 Employment	Job growth 2000-2019	County avg annual wage 2019
Construction/natural resources	25,418	8,759 53%	\$61,445
Wholesale/transp/utilities	13,115	5,254 67%	\$67,604
Manufacturing	60,383	6,929 13%	\$101,487
Retail stores	34,473	7,453 28%	\$36,023
Information	5,233	478 10%	\$88,606
Finance/insurance/real estate	12,452	3,364 37%	\$77,844
Professional services	12,484	5,603 81%	\$87,502
Management of firms	1,356	564 71%	\$86,986
Administration and waste mgmt	9,718	4,548 88%	\$42,913
Private education	2,293	1,188 108%	\$26,744
Healthcare and social serv.	37,007	19,407 110%	\$51,515
Arts/entertainment	3,823	662 21%	\$22,450
Accommodations and food service	23,990	8,424 54%	\$23,142
Other services	7,770	698 10%	\$37,877
Government	39,946	8,367 26%	\$65,236
Total	289,461	81,698 39%	\$63,479

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

Fig 3 Covered Employment Growth 2000 to 2019

	Const./Resources	FIRE*	Manufacturing	Retail	Services	WTU**	Government	Education	Total
Arlington	1,343	65	-770	-478	1,167	605	140	195	2,267
Bothell	81	464	-629	-434	3,730	324	58	291	3,885
Edmonds	41	-34	-31	290	4,067	-84	-994	-61	3,194
Everett	664	2,856	6,442	205	6,731	1,961	267	614	19,740
Lake Stevens	636	243	58	865	1,688	220	234	783	4,727
Lynnwood	593	223	-1,747	1,263	4,579	-114	-43	-55	4,699
Marysville	826	26	238	1,505	3,079	268	456	795	7,193
Mill Creek	232	574	19	595	1,856	157	95	89	3,617
Monroe	622	71	510	454	947	85	474	141	3,304
Mountlake Terrace	116	304	168	55	1,307	188	-104	-6	2,028
Mukilteo	981	327	1,023	-9	1,051	430	-64	76	3,815
Snohomish	281	0	77	588	797	59	16	273	2,091
Other cities	91	-2,437	301	202	1,129	-52	311	103	-352
Uninc. Snohomish	2,251	682	1,270	2,352	9,446	1,206	4,463	-180	21,490
Total	8,758	3,364	6,929	7,453	41,574	5,253	5,309	3,058	81,698

* Finance, insurance, real estate

** Wholesale, transportation, utilities

Source: Puget Sound Regional Council

The county saw substantial growth in all major categories. During this time employment in the four-county region grew by 32 percent, with Snohomish County growing at about the same rate as Pierce County, and higher than King County's employment growth rate of 30 percent.

GROWTH IN COVERED EMPLOYMENT

Figure 2 shows changes in covered employment (jobs covered by unemployment insurance, which does not include the self-employed and those in the military). Covered employment data is far more detailed than the total employment data used in Figure 1) in Snohomish County by major industry sectors between 2000 and 2019 (pre-pandemic).

Over 20 years, covered employment in Snohomish County grew by nearly 82,000 jobs, or 39 percent. In spite of the fluctuations at the Boeing Company, the manufacturing sector grew by 7,000 jobs, or nearly 13 percent, and paid very high wages. The higher-paying construction and transportation sectors grew well, but so did the lower paying accommodations and retail sectors. The county saw strong growth in professional services and administration sectors but did not share much in the massive growth that King County saw in the information sector, which includes software. As will be discussed below, the healthcare sector saw very strong growth, but with lower than average wages.

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

Much of the strong growth in manufacturing took place in Everett. Service sector growth, which includes healthcare, was spread throughout the county.

GROWTH IN MANUFACTURING EMPLOYMENT

Manufacturing is the backbone of the Snohomish County economy. Statewide, manufacturing accounted for 8.4 percent of covered employment in 2019, but 21 percent in Snohomish County. Two thirds of the manufacturing employment in Snohomish County falls under the "transportation equipment category," and the great majority of that is at the Boeing Company. But manufacturing employment outside the transportation equipment sector still amounted to over 6 percent of county employment in 2019, which is not far behind King County's entire manufacturing employment share.

Fig 4 Manufacturing Employment in Snohomish County

	2019 Employment	Average Annual Wage 2019 Dollars		
		2002	2019	Growth
Transportation equipment	42,100	\$97,950	\$115,128	18%
Computer & electronics	5,135	\$87,838	\$102,182	16%
Fabricated metal	4,170	\$49,295	\$55,067	12%
Machinery	1,464	\$55,823	\$81,595	46%
Food	1,280	\$40,201	\$40,042	0%
Furniture	927	\$44,567	\$49,785	12%
Wood products	824	\$48,991	\$57,085	17%
Nonmetallic minerals	722	\$51,358	\$56,218	9%
Plastics & rubber	625	\$50,062	\$54,844	10%
Printing	596	\$42,848	\$56,567	32%
Electrical equip & appliance	268	\$57,278	\$67,674	18%
Other	2,496	\$90,983	\$63,696	-30%
Total	60,607	\$84,948	\$101,487	19%

Source: Washington State Department of Employment Security

Figure 4 shows manufacturing employment by subsector in 2019, and inflation-adjusted real wage growth from 2002 to 2019.

With high wages at the Boeing Company, manufacturing pays well. The average manufacturing industry job (including production workers as well as engineering and management staff) paid over \$101,000 per year in 2019, well above the county average of \$63,000 per year. The average non-transportation manufacturing job paid over \$70,000 per year.

But even with these higher wages, many manufacturing workers will struggle to afford homes. The average transportation equipment industry wage would be enough to afford a home costing around \$575,000 at pre-pandemic interest rates of around 4 percent, and the average non-Boeing manufacturing wage would have been enough to afford a home costing around \$350,000. In late 2019, the median home price in Snohomish County was just under \$500,000. (In the interest rate environment of early 2023, the average transportation equipment wage would be able to afford a home priced at \$465,000 and the non-Boeing manufacturing wage would support a home priced at about \$300,000).

Fig 5 Snohomish Co Health Professions Employment

	2019 Employment estimate	2019 Average Wage	Monthly housing payment
Aides and assistants	3,953	\$43,195	\$1,188
Administrators	1,811	\$67,005	\$1,843
Therapists	1,640	\$67,770	\$1,864
Nurses, physicians asst.	5,574	\$76,663	\$2,108
Physicians	1,525	\$192,995	\$5,307
Technicians	3,970	\$60,129	\$1,654
Total	18,474	\$73,817	\$2,030

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

GROWTH IN HEALTHCARE EMPLOYMENT

During the 2000-2019 period, the largest job growth in Snohomish County took place in healthcare, in terms of both absolute numbers and percentage. 25 percent of all new 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 Snohomish 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 are not in health-specific occupations). It also shows the monthly housing payment that would be supported by the average wage for that occupation.

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 pay rapidly increasing rents.



**Fig 6A Daily commuters to
King Co. 2019**

Commuting from:	
Everett	18,611
Bothell	17,232
Edmonds	12,315
Lynnwood	11,017
Marysville	9,273
Mountlake Terrace	7,283
Lake Stevens	6,600
Mill Creek East	6,365
Silver Firs	6,175
North Lynnwood	5,856
Mill Creek	5,250
Martha Lake	5,125
Monroe	4,374
Mukilteo	4,367
Bothell East	3,675
Maltby	3,645
Alderwood Manor	2,648
Arlington	2,228
Brier	2,209
Snohomish	1,963
Other Snohomish County	37,375

Source: U.S. Census Bureau

**Fig 6B Daily commuters
from Snohomish Co. 2019**

Commuting to:	
Seattle	72,492
Bellevue	22,727
Redmond	14,779
Kirkland	12,372
Shoreline	6,367
Renton	5,702
Woodinville	5,448
Kent	3,943
Tukwila	3,870
Issaquah	2,859
Auburn	2,311
SeaTac	1,553
Federal Way	1,177
Kenmore	1,150
Cottage Lake	841
Sammamish	837
Burien	713
Mercer Island	676
Lake Forest Park	446
Duvall	398
Other King County	12,925

Source: U.S. Census Bureau

SPILLOVER DEMAND FROM KING COUNTY

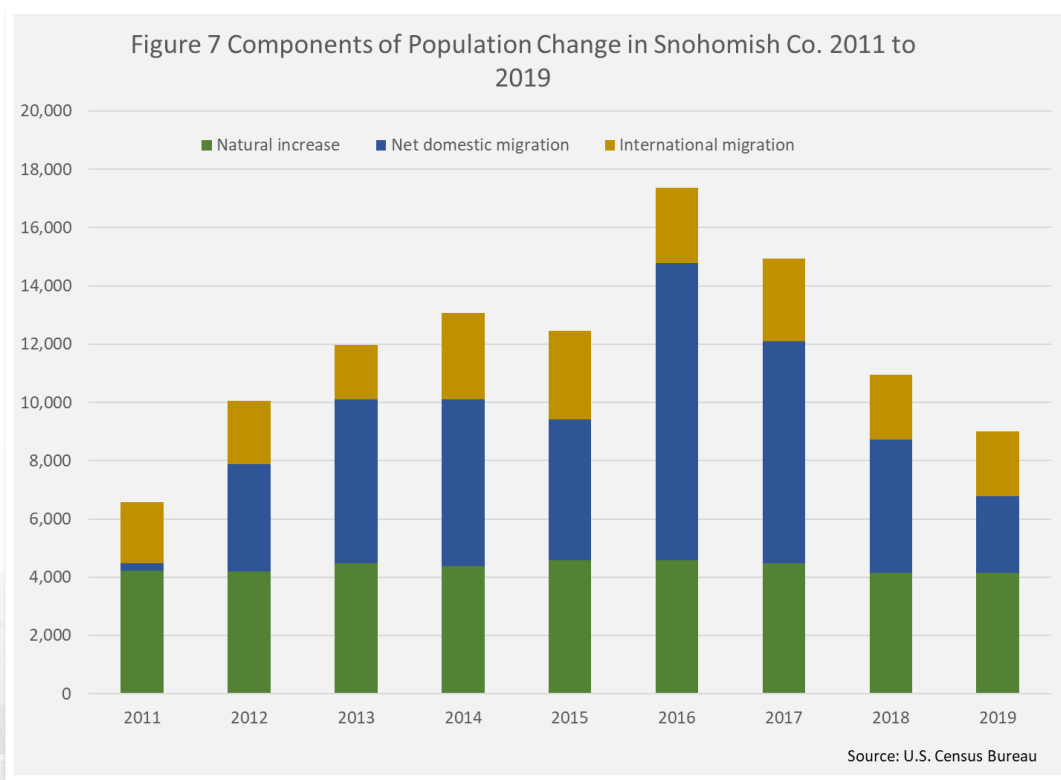
A key source of demand for housing in Snohomish County comes from job growth in King County. According to the U.S. Census Bureau, around 175,000 people commute from Snohomish County to King County each day. Figure 6A shows the origins of commuters heading from Snohomish to King County in the morning, and Figure 6B show the destinations of Snohomish County commuters.

About 45 percent of those commuting from Snohomish County to King County are destined for Seattle and Shoreline, and about 40 percent are headed to East King County. The bulk of the 12 percent of commuters who are headed from Snohomish County to South King County are likely headed to Boeing facilities in the south county area.

Migration data from the Internal Revenue Service shows the movement of people from King County to Snohomish County, by tracking address changes on tax returns. In the five years from 2014 to 2019, the IRS counted 56,000 households moving from King County to Snohomish County, and 37,000 households moving from Snohomish to King County, for a net flow of about 19,000 households moving from King to Snohomish. There was a net flow of over 40,000 people in these households. The households moving from King to Snohomish were, on average, larger than the households moving from Snohomish to King, suggesting that movers to Snohomish 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 in the short run (parents of newborns likely already have a house; many people who pass away are already moved out of their homes), but in-migration certainly does, as each new household needs a place to move into. Figure 7 shows the two components of growth for Snohomish county from 2010 to 2019.



Between 2009 and 2019, net in-migration accounted for 63 percent of Snohomish County's growth. While natural growth is fairly steady, migration varies widely over time. 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.

Nearly half of the households moving to Snohomish County in 2019 had lived in King County the prior year. About 2,800 households, or 12 percent, came from California. Movements from places like Honolulu and San Diego suggest Navy personnel.



Fig 8 Origins of Migrants to Snohomish
Based on federal tax returns filed in 2019

	Households	Individuals	Hd size
From all U.S.	22,687	39,810	1.8
From within Washington	14,570	25,113	1.7
From another state	8,117	14,697	1.8
From APO/FPO addresses	130	232	1.8
King	10,617	18,524	1.7
Pierce	699	1,181	1.7
Island	523	963	1.8
Skagit	519	912	1.8
Whatcom	432	635	1.5
Los Angeles	330	582	1.8
Maricopa	307	575	1.9
San Diego	267	518	1.9
Kitsap	262	417	1.6
Spokane	238	379	1.6
Orange	192	340	1.8
Thurston	190	321	1.7
Clark (NV)	160	308	1.9
Honolulu	139	242	1.7
Santa Clara	135	242	1.8
Multnomah	129	179	1.4
Washington (OR)	120	239	2.0
Clark (WA)	119	199	1.7
Chelan	105	154	1.5
Riverside	104	176	1.7
Other Washington	866	1,428	1.6
Other California*	1,727	3,240	1.9
Other Oregon*	609	1,037	1.7
Other West*	3,260	5,830	1.8
Balance of US**	638	1,189	1.9

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

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

Source: U.S. Internal Revenue Service



2. TRENDS IN HOUSING SUPPLY IN SNOHOMISH COUNTY

As the preceding discussion makes clear, two large needs drive housing demand in Snohomish County. First, most people working in Snohomish County would find it convenient and likely more affordable to live there. Second, Snohomish County is a destination for people working in King County but unable to afford homes there.

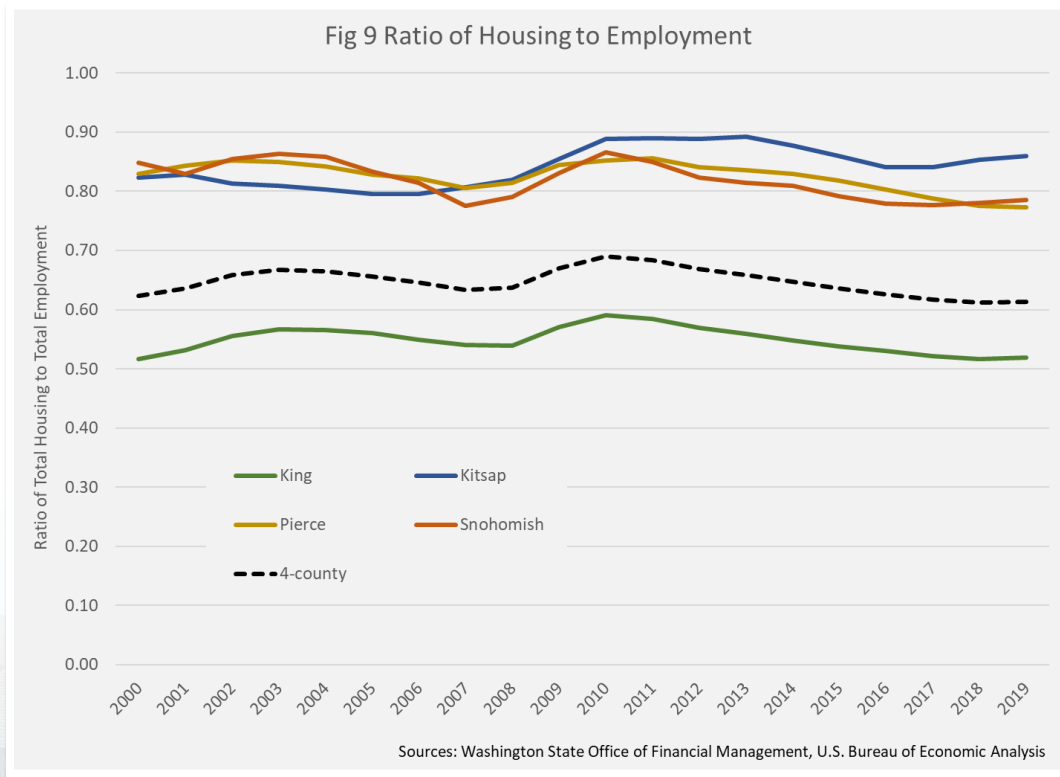
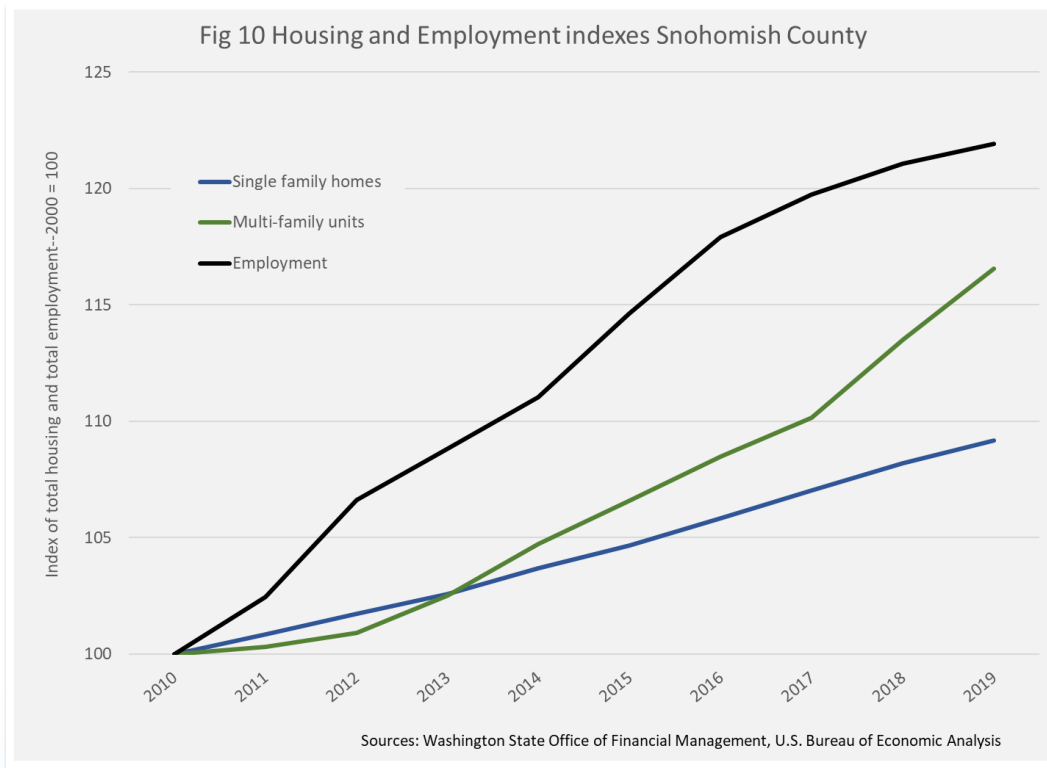


Figure 9 shows the ratio of housing units to jobs for the four counties of Central Puget Sound.

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. 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, then, we will concentrate on the degree to which the housing supply of Snohomish County is keeping pace with demand generated by employment growth within the county. Figure 10 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.



As the region emerged from the Great Recession, employment grew rapidly in Snohomish County. Between 2010 and 2019, job growth averaged 2.5 percent per year, the fourth-highest job growth rate in the state. Housing, however, grew at a slower pace. The total housing stock grew by 11 percent, with the single family stock growing just 9 percent and the multi-family stock growing by 17 percent.

Figure 10 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. The permitting data becomes much less reliable in recent years, so we cut off the analysis at 2017.

**Fig 11 Permits issued in Snohomish 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*	3,487	1,382	1,050	140	192	159
2003*	3,557	1,252	736	228	288	125
2004	3,657	1,148	832	155	160	143
2005	4,276	1,088	717	211	160	118
2006	4,516	942	665	213	64	108
2007	4,356	970	661	216	93	76
2008	3,144	887	581	187	119	63
2009	2,287	738	453	130	155	43
2010	1,757	546	307	114	126	35
2011	1,773	479	237	98	144	20
2012	1,882	871	310	252	309	5
2013	1,846	1,496	454	369	672	3
2014	1,876	1,712	545	486	681	7
2015	1,932	1,757	531	406	820	19
2016	2,188	1,473	505	411	557	23
2017	2,394	1,461	630	360	471	32
2002-2017	44,927	18,201	9,213	3,977	5,011	979

*Data for one year only. Not averaged

Source: Puget Sound Regional Council

Figure 11 shows permits issued within Snohomish 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.

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—just over half of the peak year of 2006. The easy financing and lending practices that led to the housing crash were certainly in evidence in Snohomish 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 now exceeds pre-crash levels, especially in large projects of over 50 units.



How short of demand is housing construction in Snohomish County? Figure 12 estimates the number of single family homes and multi-family units that would be required to meet the needs of Snohomish County job growth between 2002 and 2017 (assuming that spillover demand from King County remains constant) and compares that estimate to the actual homes and units permitted.

Fig 12 Estimate of Required and Permitted Housing Snohomish County 2002-2017

Snohomish job growth 2002-2017*	105,272
Single family homes per job in 2002	0.56
Multifamily units per job in 2002	0.23
Single family homes required for job and commuter growth	58,848
Multi-family units required for job and commuter growth	24,168
Single family homes permitted 2002-2017	44,927
Multi-family units permitted 2002-2017	18,201
Single family home deficit 2002-2017	13,921
Multi-family unit deficit 2002-2017	5,967
Percent of required single family homes permitted	76%
Percent of required multi-family units permitted	75%

*includes self employed and uniformed military

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

During this 15 year period Snohomish County added about 75 percent of the single family and multi-family housing that would have been required by employment growth. Due to overbuilding during the 2000s, the single family housing deficit in Snohomish County was small up to about 2012. But as we might expect, given the trajectories seen in Figure 10, the deficit shot up rapidly after 2012.

The deficit in single family construction assumes that there is a constant demand for homes in Snohomish County by people who work in King County. This demand has increased at almost exactly the same rate as job growth in Snohomish County itself, so the jobs-housing ratio from 2002 has not changed much.



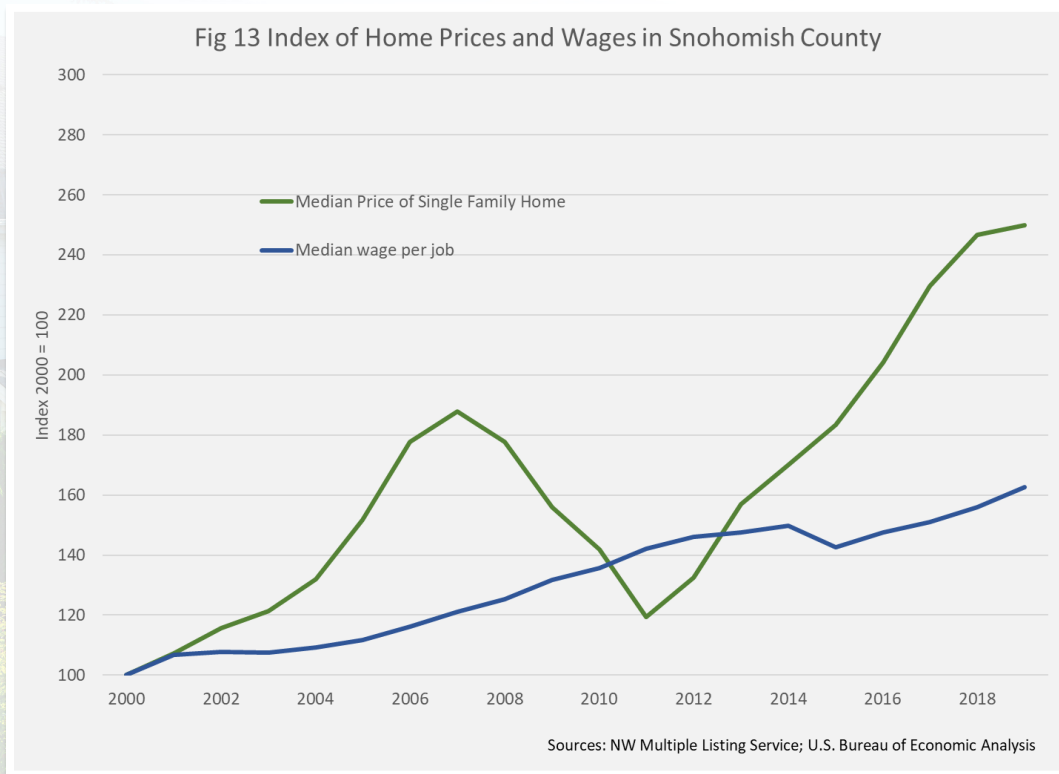
What has changed is the number of people commuting into Snohomish County from adjacent counties to the north. In 2002, 12 percent of jobs in Snohomish County were held by someone commuting from somewhere other than Snohomish or King counties. This had risen to 19 percent by 2017. About 6 percent of jobs in Snohomish County are held by people commuting from Island, Skagit and Whatcom counties. A growing number of commuters to Snohomish County live in Kitsap County.

3. TRENDS IN HOUSING PRICES AND AFFORDABILITY IN SNOHOMISH COUNTY

Snohomish County has been one of the fastest growing areas of the state for decades. Since 1960, the population of Snohomish County has risen nearly 400 percent, while the state has grown 175 percent and King County has grown 150 percent. The County got a big jumpstart in the 1960s with the development of Boeing's Everett facilities, and, as noted, has provided homes for tens of thousands of individuals and families working in King County.

Snohomish County has provided ample middle income housing in high quality neighborhoods. The geography of much of the county is conducive to homebuilding, and the county and local planning and regulatory environment has tended to encourage affordable and middle-income homebuilding. In addition many areas of the county have provided excellent upper-middle income housing that is somewhat more affordable than comparable homes in Seattle and East King County.

Over the past ten years, as excess inventory from the housing crash has been absorbed, and as Snohomish County employment has steadily grown, prices have begun to outpace wages. Figure 13 shows the relationship between median 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.



The green line shows the boom and price decline of the years 2000 to 2011. From 2011 through 2019, pre-pandemic, median prices climbed an average of 9.7 percent per year, more than doubling in that time. Median wages, meanwhile, increased an average of only 2.6 percent per year. The historic affordability of Snohomish County, combined with price drops of 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 an HAI above 100 indicating more affordability, and an HAI below 100 indicating less affordability. The HAI for Snohomish County peaked at 171 in 2011, in the wake of the housing bust. But affordability declined steadily with the HAI bottoming out at 93 in 2018. The HAI has hovered around 100 since 2019.

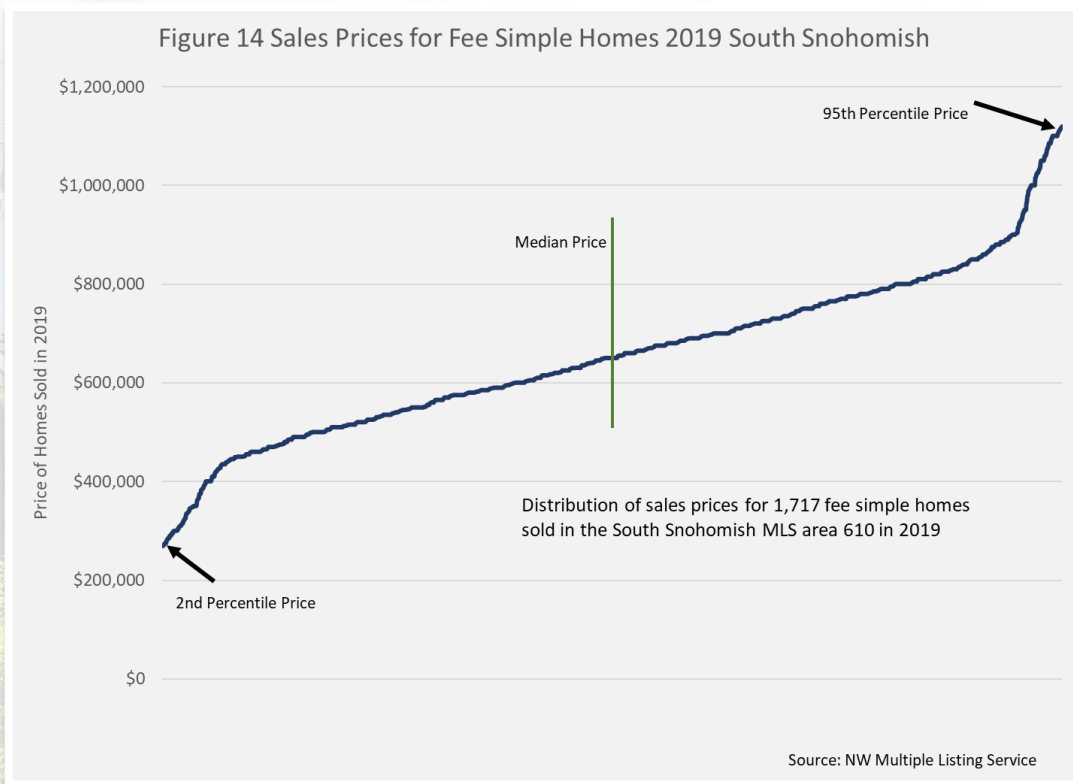
We do need to be careful about just focusing on median prices, as the HAI does.

We need to look at the distribution of prices across the range of the market. As the HAI indicates, the median income in Snohomish 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?

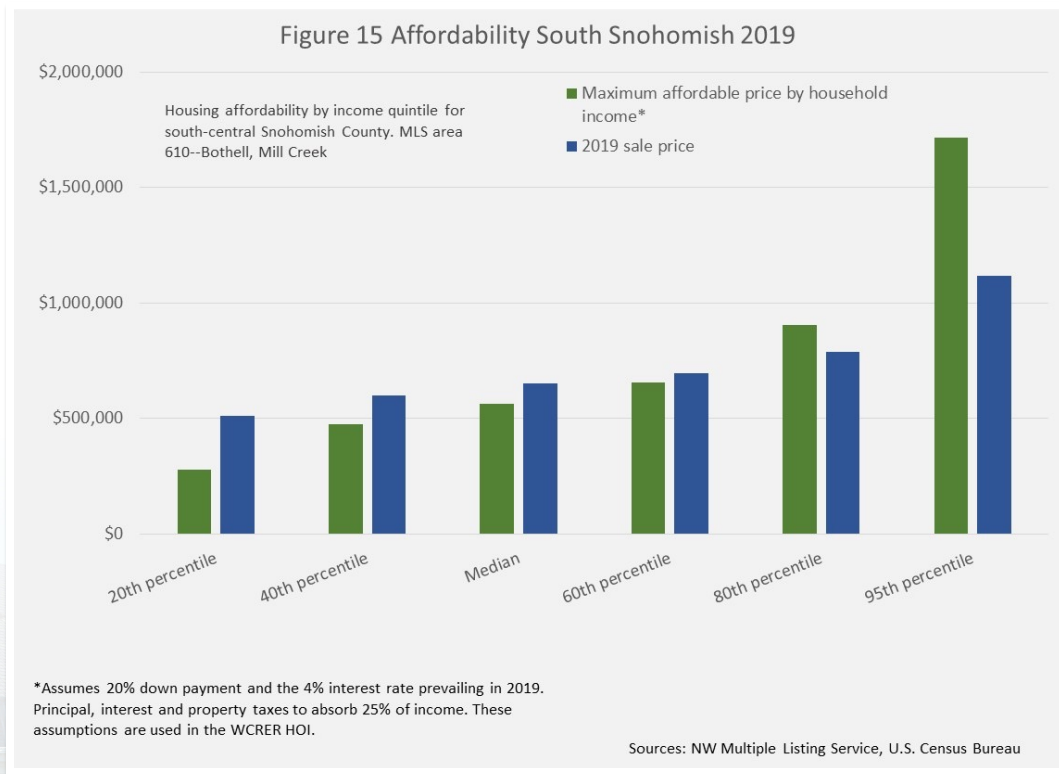
The answer to that question is no. The curve of home prices, from least to most expensive, is flatter than the curve of incomes. To illustrate this, we will look at home sales prices in the area of Snohomish County that covers Bothell, Mill Creek and Maltby. This will correspond to NWMLS area 610. For income data we will use the Census Bureau's Public Use Microdata Area (PUMA) 26103, which covers roughly the same area and contains about 54,000 households.

Figure 14 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 \$94,000, or about 14 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 15 shows, for 2019, what would be affordable to a household 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 unaffordable. Income at the 40 percent level is not even enough to purchase the home at the 20 percent level. Under these assumptions, the median income is not enough to purchase the median home, as indicated by the HAI. Things then improve, as incomes rise and home prices rise much less. At the 60th percentile level homes are just about affordable at that income level. At the 80th and 95th percentile level, homes are very affordable.

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 is misleading. Households with incomes much below median will find it difficult to afford any home at all.

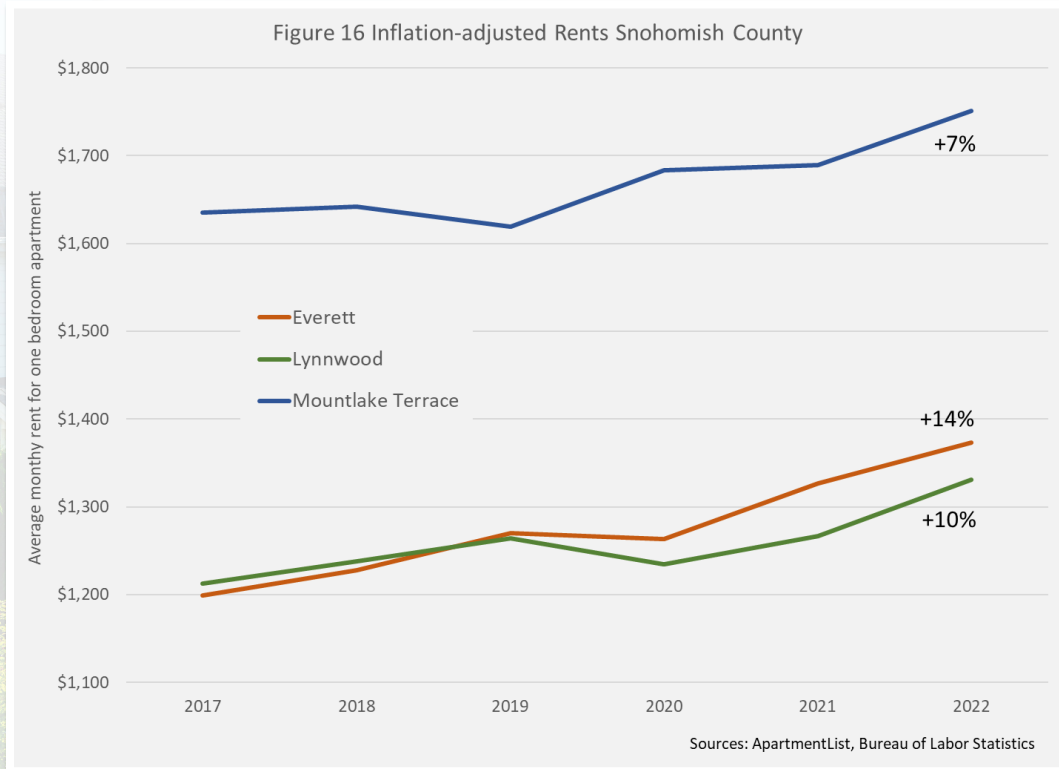
The starting point for understanding this (at least for detached homes) is the value of the lot underneath the house, which will be consistent across a given market area, but vary between market areas. Appendix B explains this in more detail.

Snohomish County is no longer the affordable place it has historically been for middle income homebuyers. Its economy continues to grow, as seen in Figures 1 and 2, but homebuilding has not kept up, as seen in Figure 12. With the excess housing production of the 2000s now fully absorbed, and inadequate production in the pipeline, the upward trajectory of the green line in Figure 13 is likely to continue. Add to this the spillover demand for housing from people employed in King County but unable to afford homes there, and we can see no end to price pressures. The drop in prices in late 2022 reflects artificially high interest rates, and once rates come down again, prices will likely rise.

Those seeking affordability in Snohomish County will not get much relief in the rental market. Rents across Snohomish County have been increasing above inflation. In 2000, the median one-bedroom apartment in Snohomish County rented for \$932 in 2019 dollars. By 2019, pre-pandemic, that median apartment was renting for \$1,765.

Over the past 20 years, average rent on a one-bedroom apartment in Snohomish County has increased 89 percent, after adjusting for inflation, while inflation-adjusted average wages increased just 20 percent. In 2000, the median rent for a one-bedroom apartment was about 22 percent of the median monthly wage in the county, and by 2019, median one-bedroom rent was 38 percent of the median 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 shift to lower priced housing, putting pressure on rents in outlying areas. But the upward trend in rents in Snohomish County predates the pandemic. Figure 16 shows inflation-adjusted median one-bedroom rents for the past five years for three Snohomish County markets.



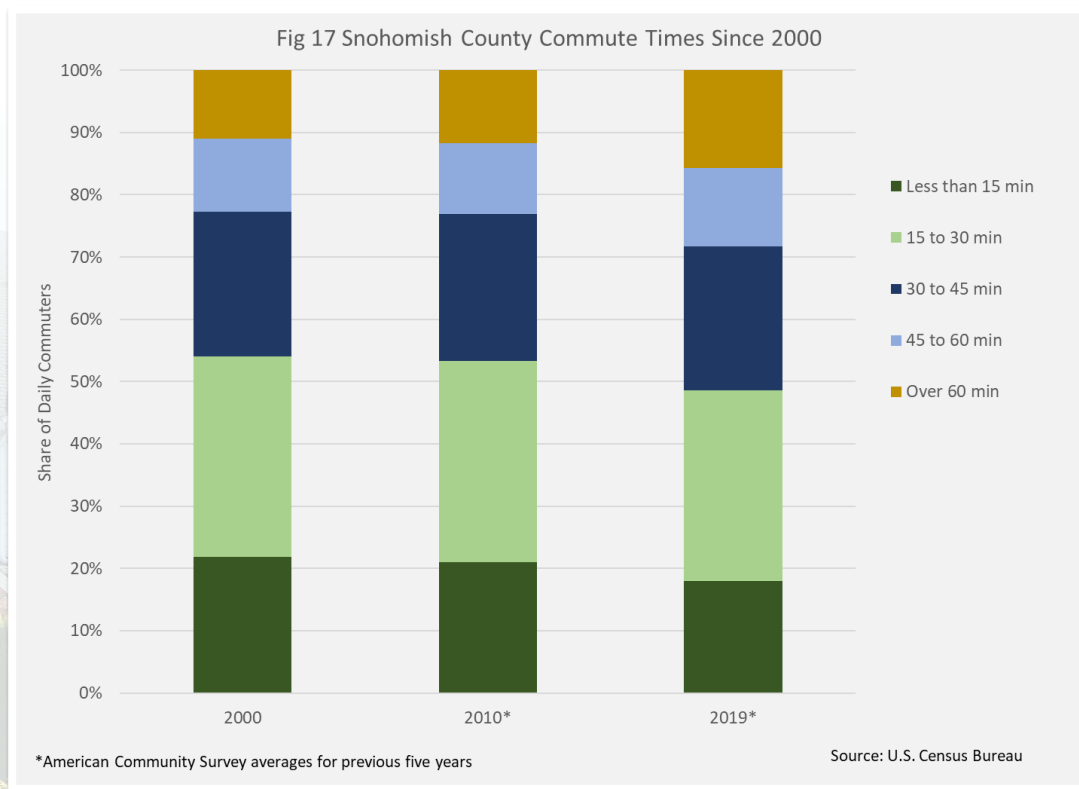
We can see rents increasing in two of the three markets prior to the time the pandemic hit the rental market in mid-2020. This would be consistent with the under-production of apartments in Snohomish County, seen in Figure 12. The jump in rents from 2020 to 2022 is consistent with the idea that people who can work from home were choosing to live in what had been more affordable areas, such as Everett and Lynnwood.

TRENDS IN COMMUTING IN SNOHOMISH COUNTY

When homebuyers cannot afford a home in their preferred area, typically close to where they work, they will “drive to qualify.” Unless that homebuyer changes jobs, they will face a longer commute than before they bought their new home. Longer commutes are the natural outcome of housing shortages and high prices: those who can afford high prices get the shorter commutes and those who cannot afford high prices get longer commutes. This pattern has intensified as formerly low cost areas in central cities and older, inner ring suburbs have become more attractive.

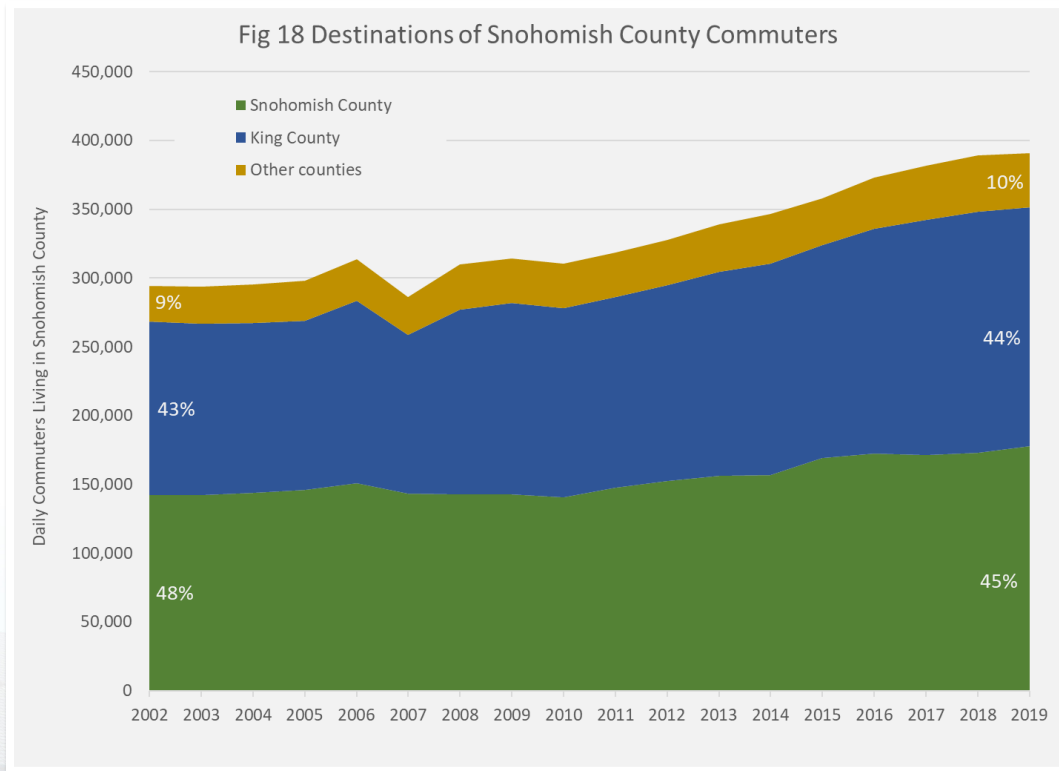
The new patterns of work-from-home have changed this dynamic in ways that are not fully understood. Nevertheless, a large segment of the workforce does not have the option of working from home, and will always need to commute.

Figure 17 shows changes in commute times for the past two decades for commuters living in Snohomish County.



From 2000 to 2010, commutes did not change much (although there was a recession in the region in 2010). But they have lengthened somewhat since 2010. Fewer commuters enjoy very short commutes of less than 15 minutes, and more commuters are traveling for more than an hour to and from work. The share of Snohomish County workers employed in King County has increased only slightly over the past 20 years, so the larger share of commuters with lengthy commutes is likely due as much to increased road congestion as to an increasing share of long distance commuters.

Figure 18 shows the destinations of Snohomish County commuters since 2002.



During this 17-year period, Snohomish County added about 35,000 commuters who stay in the county but added over 47,000 commuters heading to King County each morning.

CONCLUSION

Over the past couple of generations, Snohomish County has been among the most economically successful areas of the state. It has seen its manufacturing base expand, while manufacturing has been shrinking in most areas. It has always been near the top of the list of fastest growing counties in the state. High wages paid by Boeing and other manufacturers, combined with technology-based business development in the Bothell area, have given the county a strong wage base.

The advantages of living in Snohomish County have not been lost on those working in King County. Nearly as many commuters living in Snohomish County head across the county line to the south as stay within the county. The higher wages of King County, combined with lower housing prices in Snohomish County, have led tens of thousands of commuters to accept the often punishing trip to work in the morning. But now with many more opportunities to work from home, Snohomish County can expect to see even more households fleeing the high prices of King County.

For most of this period, Snohomish County builders were able to keep pace with demand generated by job growth in both Snohomish County and King County. But in the past decade homebuilding has fallen behind, both single family and multi-family. Affordability has slipped. With a large, anticipated drop in single family home construction in King County in the coming years, Snohomish County can count on further pressures on prices in its attractive neighborhoods and communities.

Leaders in Snohomish County should continue their innovative work in encouraging a variety of housing types in the county, with particular concentration on homes for families with children. As new types of “middle housing” come onto the market, leaders and planners need to focus on the attractiveness of those forms for families, and not assume that households with children will adapt to much higher densities. This is a time of innovation in housing, and the cooperative spirit in Snohomish County should help find the best solutions for families that want to enjoy the county’s high quality, affordable lifestyle.

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?



SNOHOMISH

4 COUNTY FINDINGS



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 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.



SNOHOMISH COUNTY HIGHLIGHTS

The Snohomish County focus group of active REALTORS® was convened in August 2022. Some key points coming out of the Snohomish County discussion:

- Investment value is very important. Housing alternatives must include ownership and the opportunity to build wealth over time. No change in the desire for ownership vs. rental.
- Families are no more willing than in the past to raise children in apartments if they can help it.
- Commute times and distances are still important for some buyers, but not a central concern as in the past.
- Private open space and back yards are still important. The size of the yard is less important for some buyers. Many buyers are willing to endure long commutes in order to have large lots.
- Snohomish County is seen as an area that offers an alternative to the more “urban” spaces of King County.
- Size of the house, floor plan, number of bedrooms and bathrooms are central concerns for all buyer groups.
- Condition of homes is very important, especially for younger buyers. Fewer buyers are willing to put “sweat equity” into their homes. Fewer skills among younger buyers.
- Proximity to amenities is important for all groups.
- Snohomish County has seen a great deal of townhouse construction and has made duplex construction easier. But these forms are not favored by families with children. Privacy is an issue with higher density housing.
- Condominiums have not been a successful model in Snohomish County lately.
- The policy environment for housing in Snohomish County has been positive.

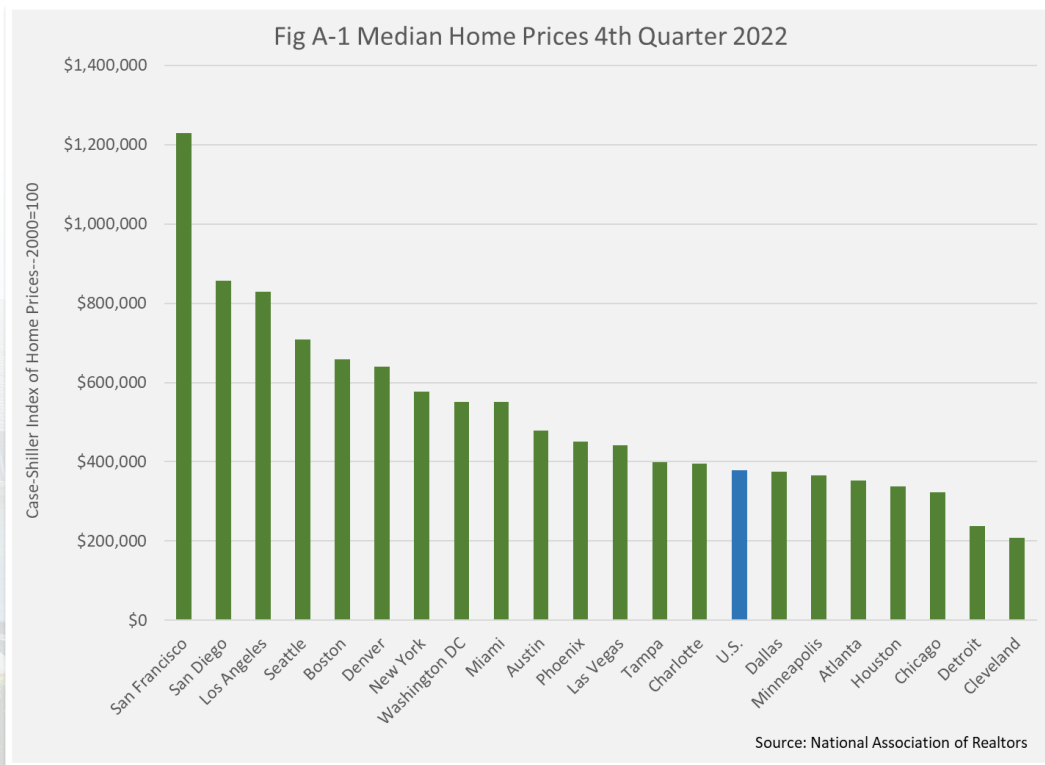


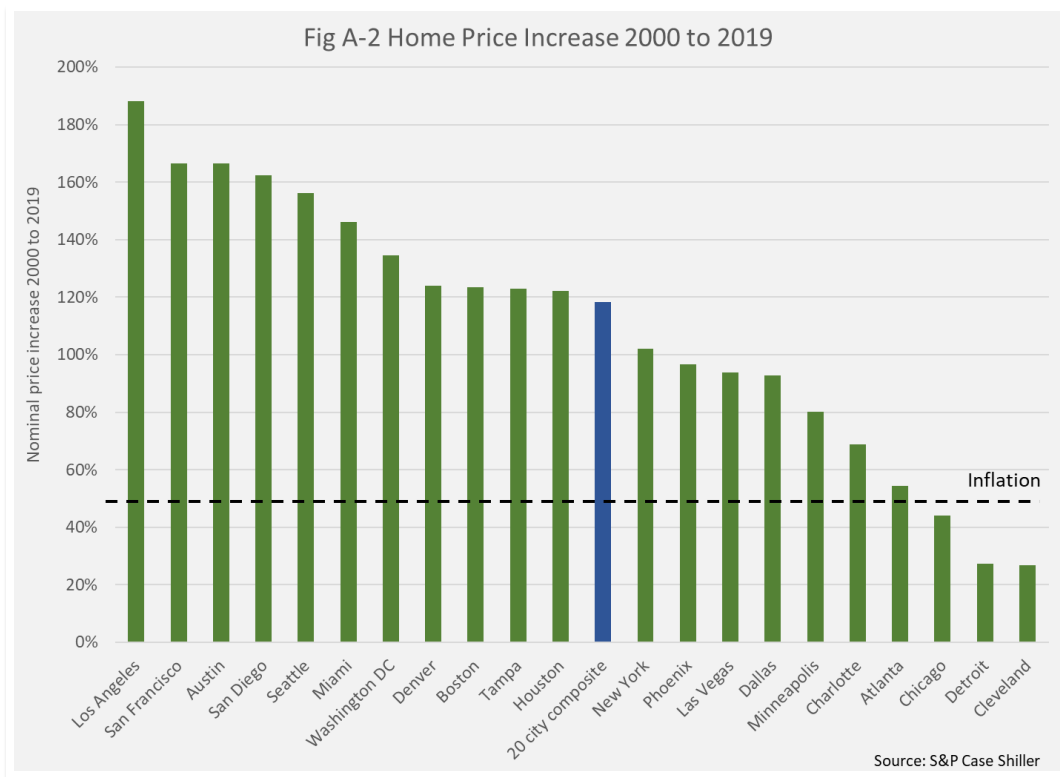
APPENDIX B

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.

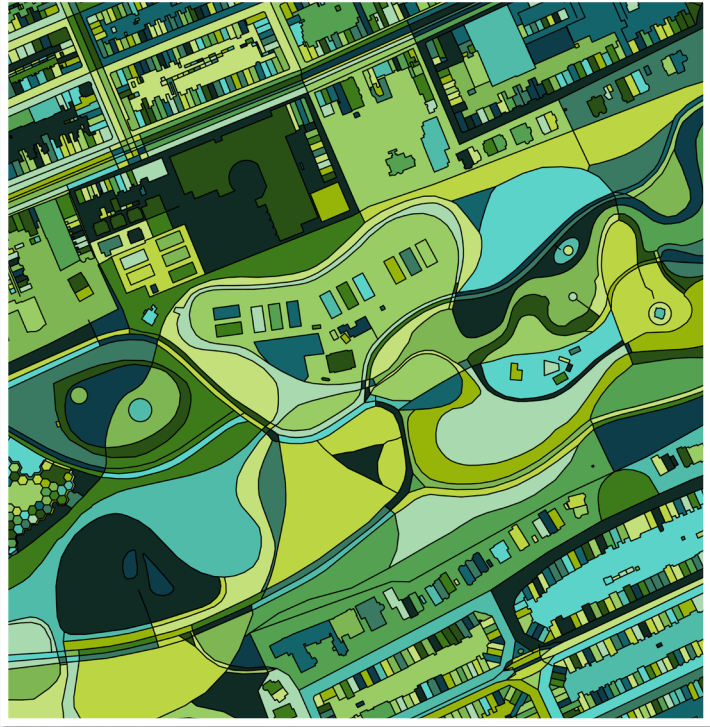
LAND IS THE ISSUE

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.

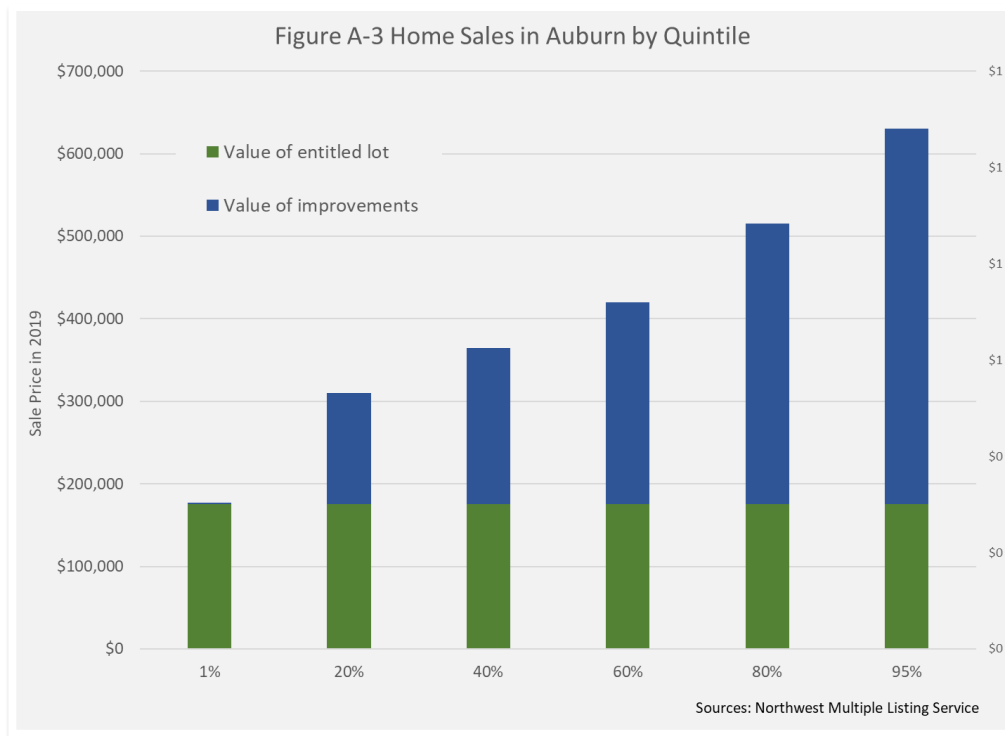
In a given market area, the value of a newly developed vacant lot, a lot under a tear-down, a lot under a quality used home and a lot under a brand new home will be similar.



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.

