

# 2019 Legislative Review Luncheon

## Markets and Economics

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Washington Center for Real Estate Research

University of Washington

[realestate.washington.edu](http://realestate.washington.edu)

June 18<sup>th</sup> 2019

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# Presentation Brief

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- > Dynamic relationship between house prices and interest rates
- > Housing Affordability Index
- > County level affordability statistics
- > Supply Dynamics
  - Market dynamics
  - Affordable rental and ownership issues and trade-offs

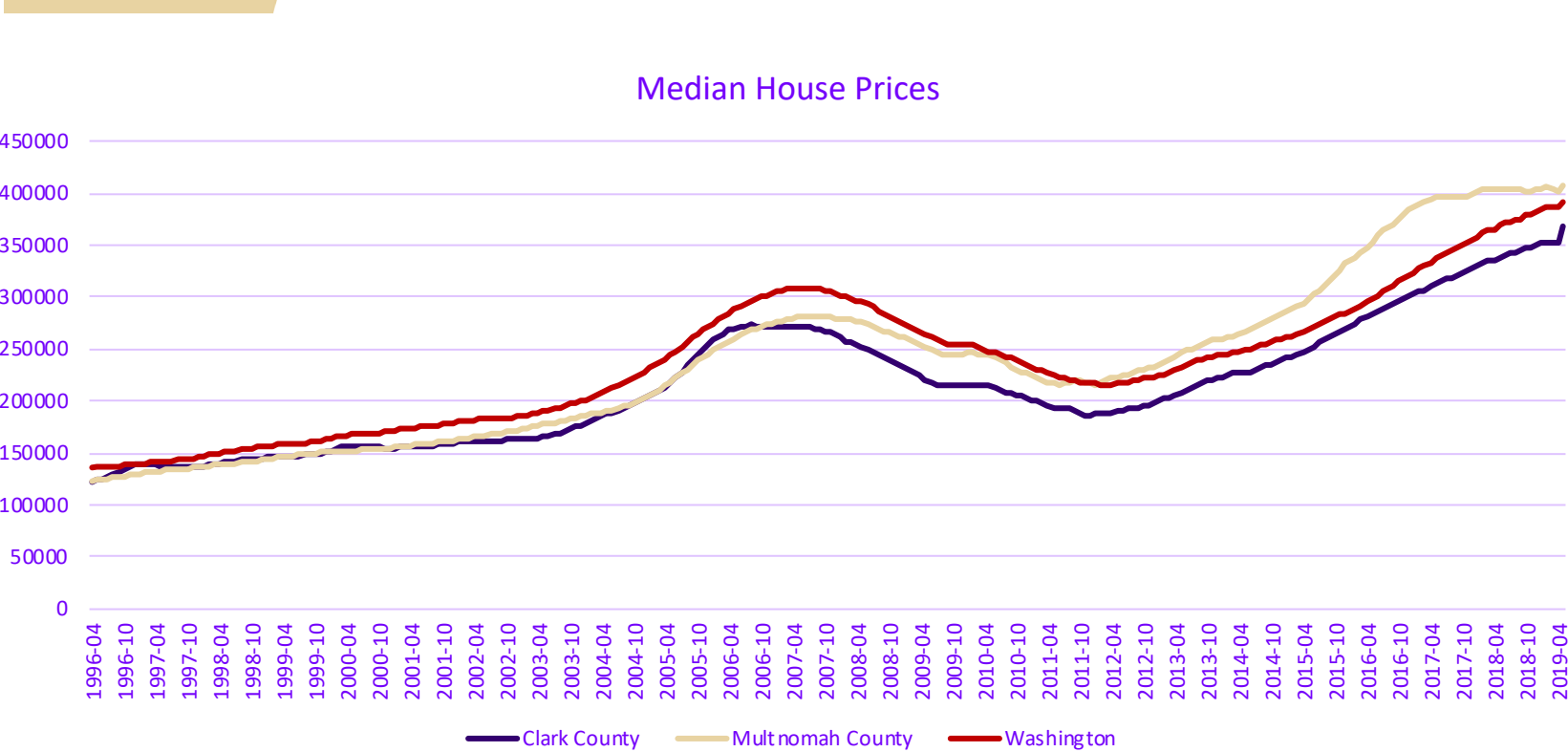
# Mortgage Payments and Interest rates

<b><u>Mortgage Amount</u></b>	<b><u>Nov-2017</u></b>	<b><u>Nov-2018</u></b>	<b><u>Jun-2019</u></b>	<b><u>Payment Change (High/Low)</u></b>
\$100,000	\$471.67	\$525.27	\$490.77	\$53.60
\$150,000	\$707.50	\$787.90	\$736.15	\$80.40
\$200,000	\$943.34	\$1,050.54	\$981.54	\$107.20
\$250,000	\$1,179.17	\$1,313.17	\$1,226.92	\$134.00
\$300,000	\$1,415.00	\$1,575.81	\$1,472.31	\$160.81
\$350,000	\$1,650.84	\$1,838.44	\$1,717.69	\$187.61
\$400,000	\$1,886.67	\$2,101.08	\$1,963.08	\$214.41
\$450,000	\$2,122.51	\$2,363.71	\$2,208.46	\$241.21
\$500,000	\$2,358.34	\$2,626.35	\$2,453.85	\$268.01
*assumes 30-year fixed rate.				
#November average interest rate obtained from US Federal Reserve (FRED), June interest rate from MBA				
Rate for November 2017 was 3.90%; November 2018 was 4.81%; June 2019 is 4.23%				

Source: WCRER.



# Median House Prices by type



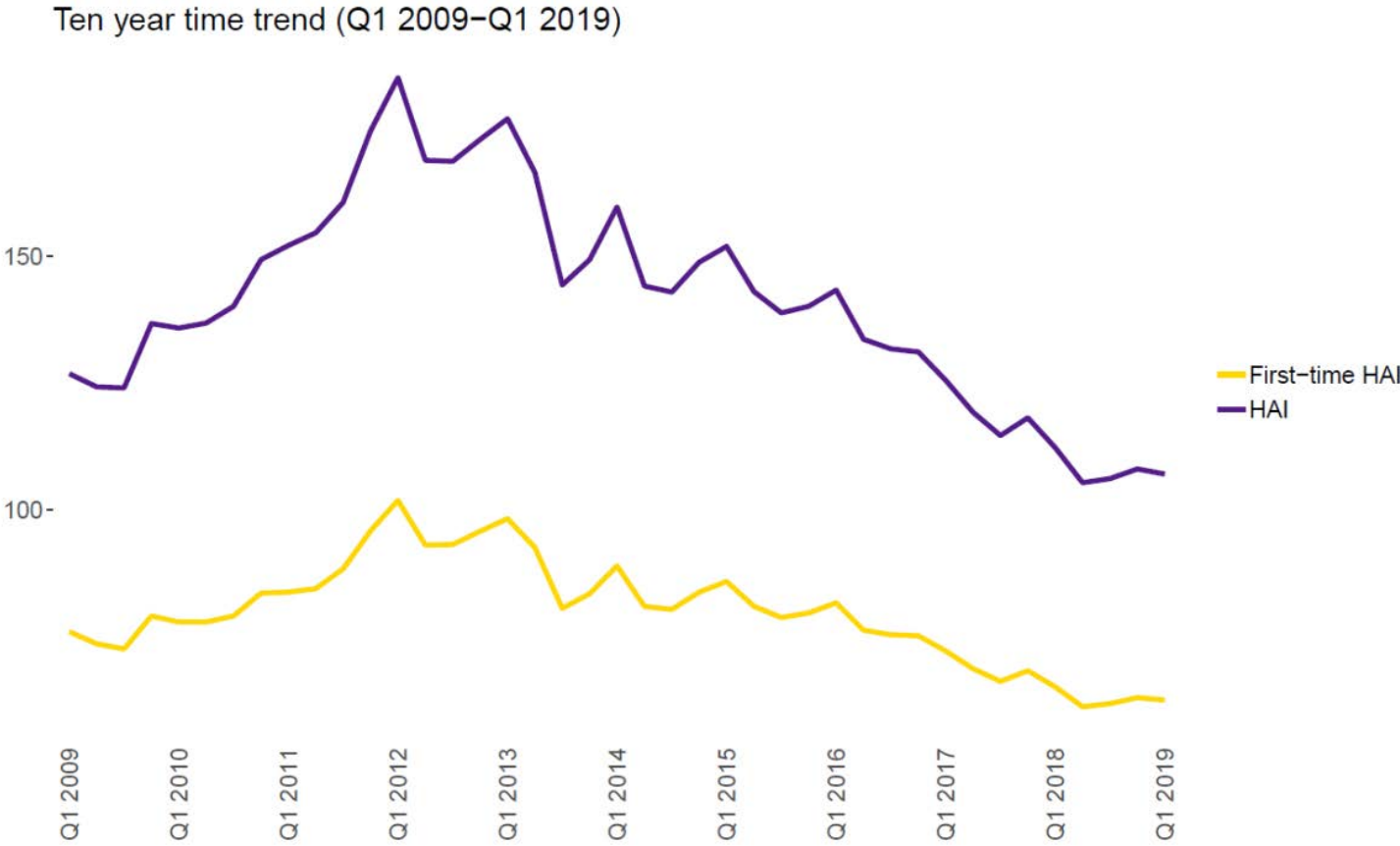
Statewide Overall Median = \$369,700

Clark County Median = \$374,200

Seasonally adjusted – Data Sources: Zillow, NWMLS, RMLS, WCRER.



# Housing Affordability Index - Washington



Source: Washington State Housing Market Report: WCRER



# Housing Affordability Index – Most and Least Affordable

## LEAST AFFORDABLE

<u>County</u>	<u>Median Price</u>	<u>Y-o-Y Change</u>	<u>HAI</u>
San Juan	\$633,300	33.30%	56.7
King	\$656,600	-2.40%	75.8
Jefferson	\$387,500	7.10%	90.1
Snohomish	\$479,800	1.60%	96.1
Whatcom	\$382,500	6.00%	98.1
Kittitas	\$342,200	9.80%	101.5
Skagit	\$345,700	1.00%	104.9
Adams	\$240,000	56.60%	105.3
Pierce	\$354,600	6.60%	110.5
Clark	\$361,100	4.10%	111.2
Island	\$355,800	1.90%	112.2
<b>Statewide</b>	<b>\$374,700</b>	<b>4.0%</b>	<b>107.1</b>

## MOST AFFORDABLE

<u>County</u>	<u>Median Price</u>	<u>Y-o-Y Change</u>	<u>HAI</u>
Lincoln	\$140,000	40.00%	212
Columbia	\$167,800	9.10%	192.7
Okanogan	\$173,600	-22.80%	162.5
Ferry	\$165,000	5.10%	156
Pacific	\$191,200	0.60%	151.3
Asotin	\$207,000	3.80%	148.9
Grant	\$195,500	8.10%	146.4
Skamania	\$275,000	-4.30%	146.1
Grays Harbor	\$199,000	5.50%	143.8
Mason	\$239,500	5.90%	138
Spokane	\$255,600	13.50%	134.6
Garfield	\$207,000	3.80%	133.6

Source: Washington State Housing Market Report: WCRER

# First Time Buyers HAI – Most and Least Affordable

## LEAST AFFORDABLE

<u>County</u>	<u>FTB Price</u>	<u>Median Change</u>	<u>FTB-HAI</u>
Franklin	\$204,050	9.00%	23.8
San Juan	\$443,310	33.30%	24.3
Wahkiakum	\$177,450	18.30%	24.9
Skagit	\$241,990	1.00%	34.2
Mason	\$167,650	5.90%	34.8
Ferry	\$115,500	5.10%	43
Kittitas	\$239,540	9.80%	45.5
King	\$459,620	-2.40%	45.6
Pierce	\$248,220	6.60%	50.4
Snohomish	\$335,860	1.60%	53
<b>Statewide</b>	<b>\$262,290</b>	<b>4.0%</b>	<b>62.5</b>

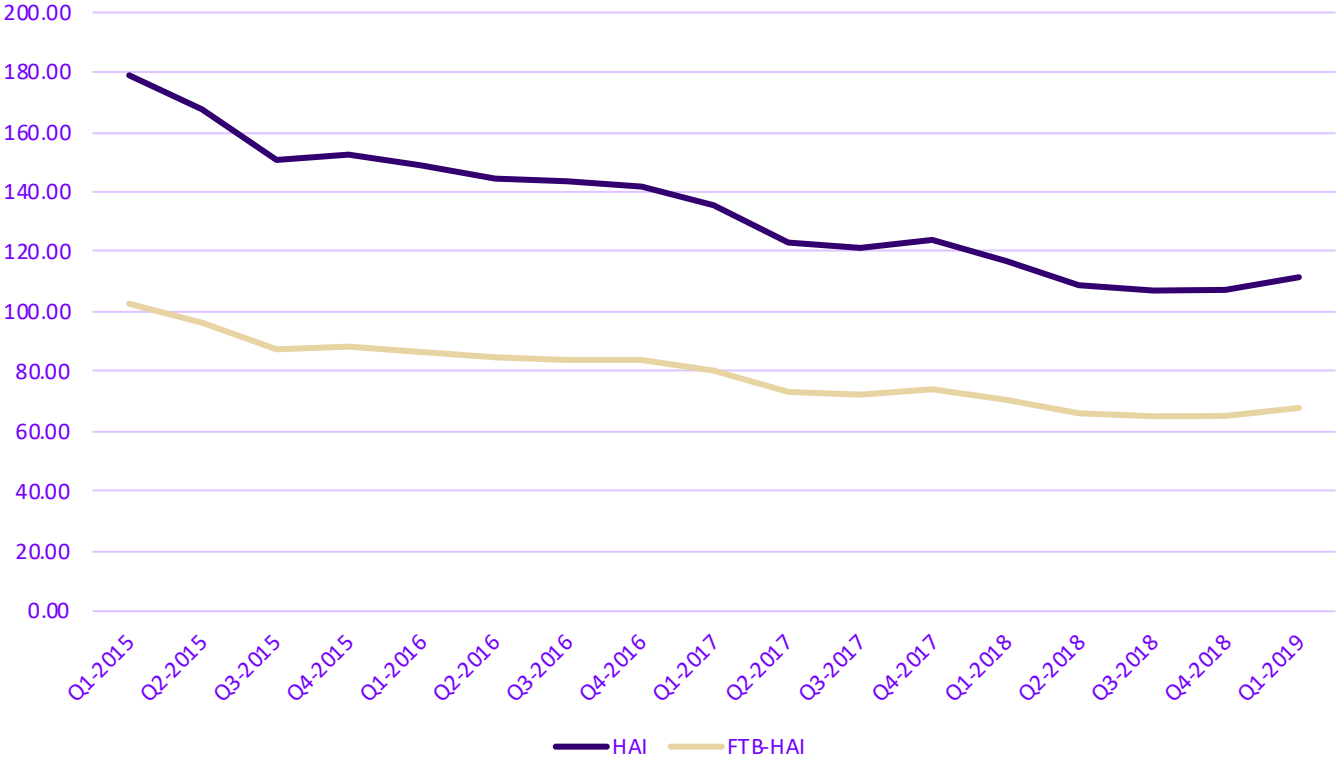
## MOST AFFORDABLE

<u>County</u>	<u>FTB Price</u>	<u>Median Change</u>	<u>FTB-HAI</u>
Lincoln	\$98,000	40.00%	181.1
Columbia	\$117,460	9.10%	138.8
Clallam	\$195,860	2.40%	134.3
Okanogan	\$121,520	-22.80%	125.9
Garfield	\$144,900	3.80%	99.1
Walla Walla	\$169,190	7.70%	98.6
Lewis	\$176,330	20.60%	93.7
Kitsap	\$248,080	8.60%	92.4
Asotin	\$144,900	3.80%	91.3
Grays Harbor	\$139,300	5.50%	86

Source: Washington State Housing Market Report: WCRER

# Clark County Housing Affordability

## Clark County Affordability Index



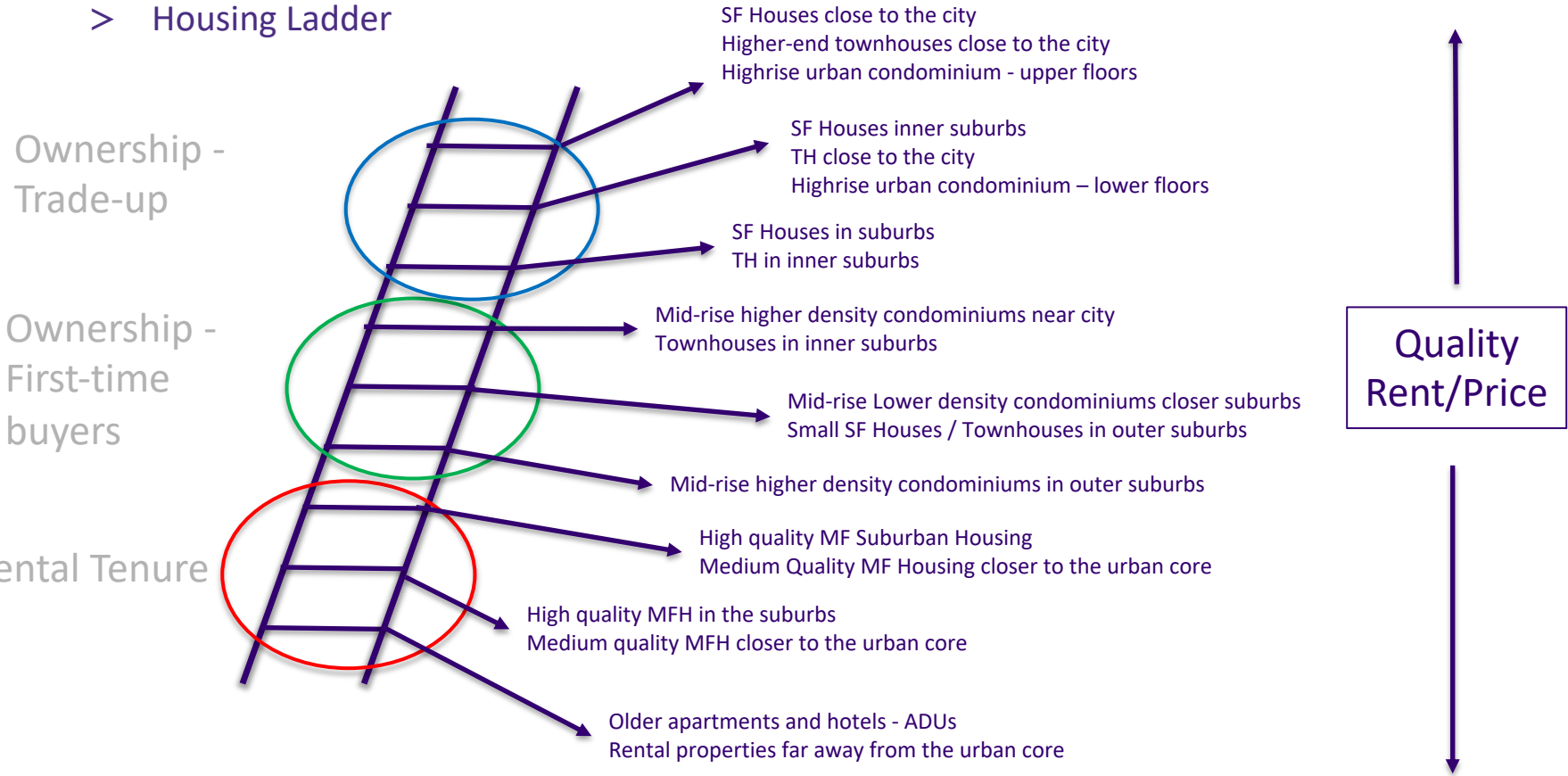
Source: Washington State Housing Market Report: WCRER





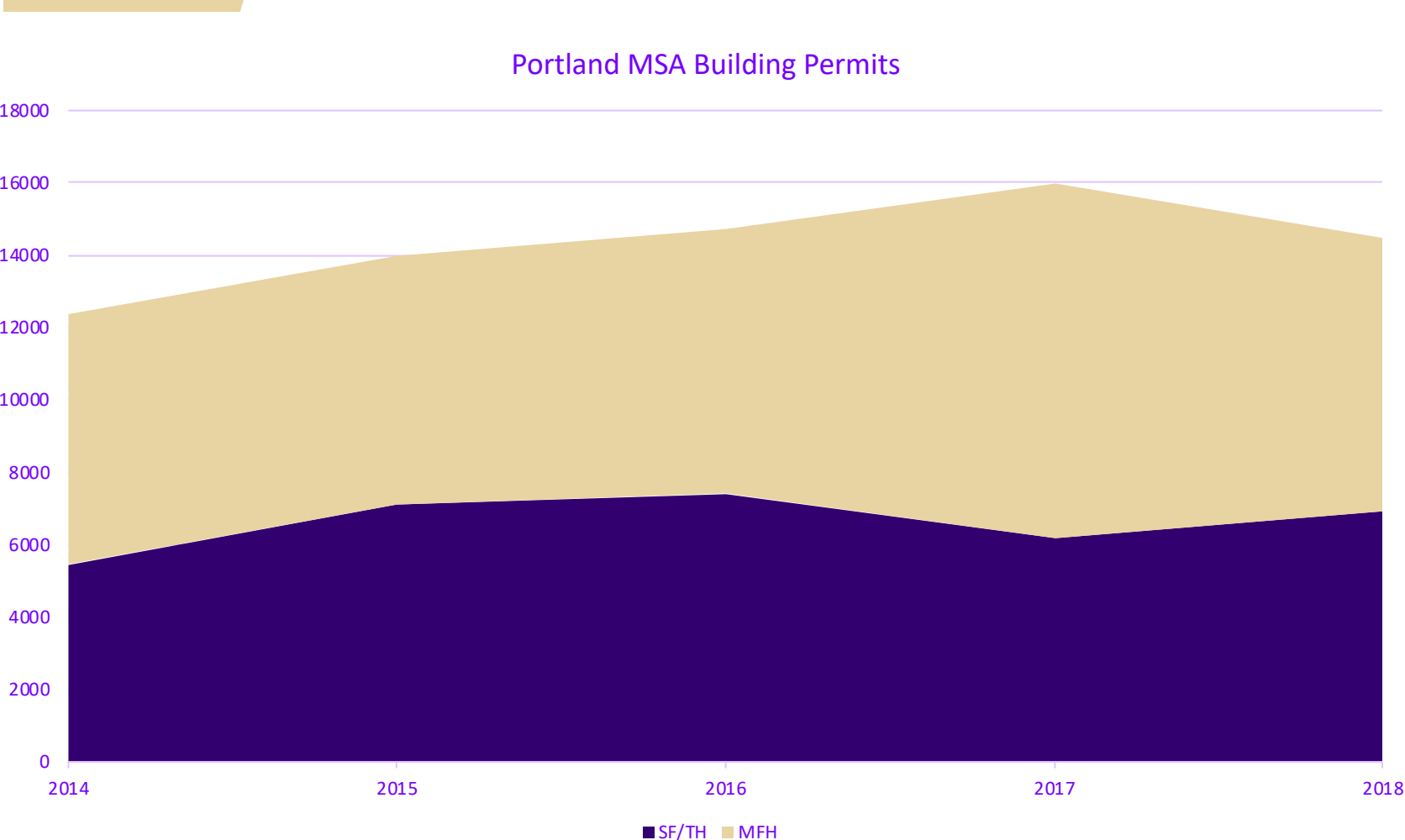
# Basics of urban housing markets

## > Housing Ladder



Each rung on the ladder represents a particular submarket

# Building Permits by House Type

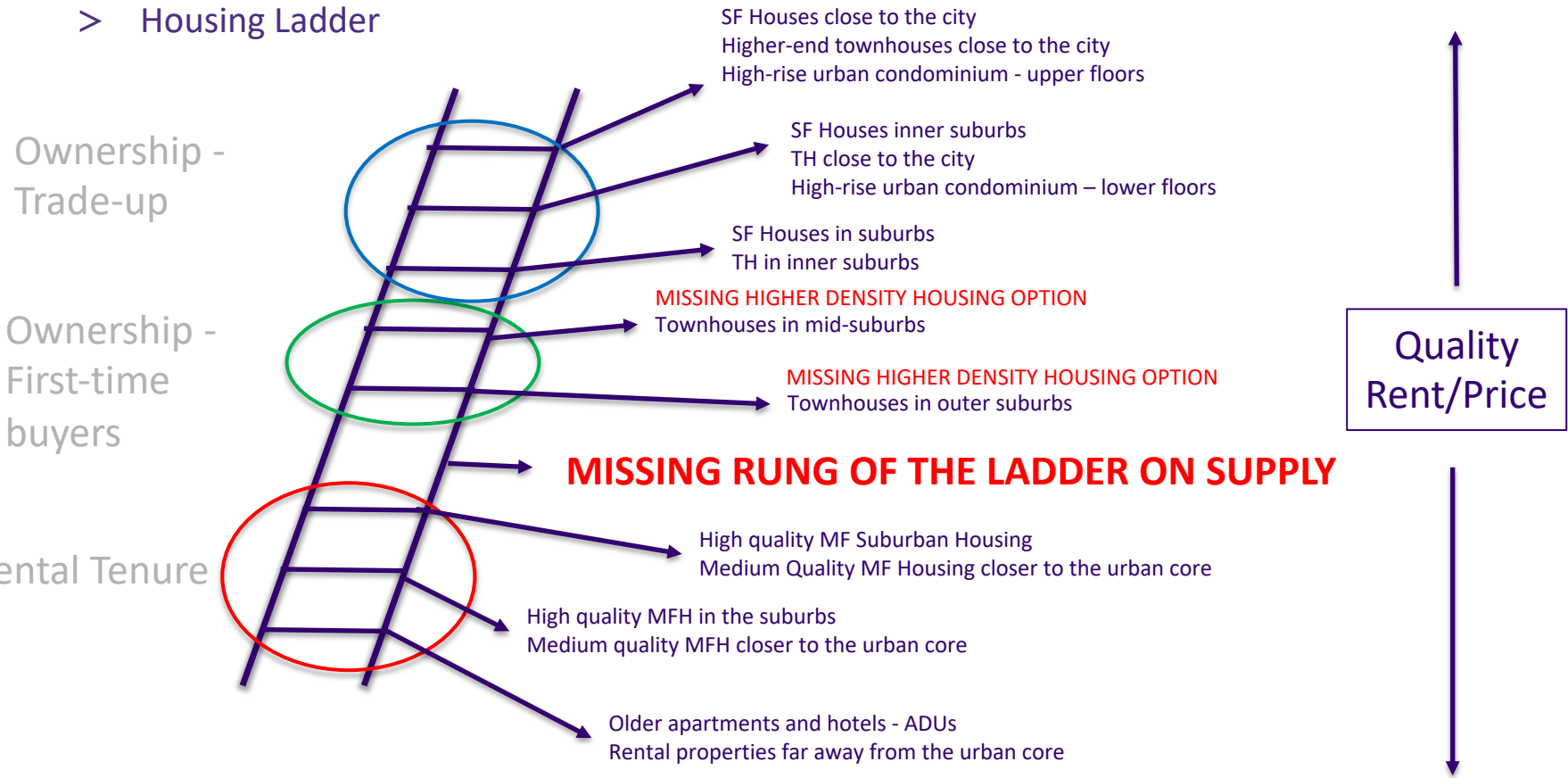


Source: Census C-40 Reports, Washington State Housing Market Report: WCRER



# Current Supply Dynamics

## > Housing Ladder



Vacuum between rental tenures and first time buyers  
This is called the MISSING MIDDLE



# Supply Issues, Policy and Affordability

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- > For urban regions, supply constraints exist on both geographical and policy levels
- > Outside of demand issues, policy and infrastructure constraints influence housing supply and availability
- > These policies might include:
  - Growth Management Act
  - Condominium Liability
    - > Lending Policies
    - > Other policies creating risk
- > Contagion of existing issues in Puget Sound to larger outlying areas

# There s a vacuum and it must be filled!

- > Demographic changes drive demand for particular types of housing
  - I-5 Corridor has seen the highest price growth rate in the state over the past 18 months
  - Regional Arbitrage
  
- > Rental market is the only place to go!
  
- > Issues with one part of the housing ladder will manifest themselves further down the housing ladder
  - Water doesn't flow up hill
  
- > Cap Rate Compression outside of the Puget Sound region
  - Seattle cap rates are close to 3.5% for smaller sized multifamily
    - > Incumbent advantage within the city if controls tighten
  - Cap rate spread between classes in Clark County is approximately 1.5%
    - > Range is between 5.5% for prime and between 7.0% and 8.5% for rehab
  - These trends represent the first part of contagion
  - The cap rate spread and continued downward pressure indicates that investors believe there is significant room for rental growth in regional markets while vacancy rates are still low
  
- > Expectation on residential investment markets moving forward
  - Will condominium liability changes make a difference to Clark County?

# Economics, Filtering and Continuum of Tenure

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- > Concept of Filtering
  - Build higher end housing first taking advantage of obsolescence
  - Just build anything...
  - Issues on continuum of tenure
  
- > Continuum of tenure
  - Market must be able to deliver supply within all price categories
  - Will the deals pencil out?
  
- > Economic Synergies
  - Labor mobility and corporate costs
  - New York, New York vs. Buffalo, New York
  
- > Expectations
  - Rental market cannot meet the expectations that many households want for the future
  - Economic and labor market expectations
  - Lifestyle changes over time

# Clark County Association of Realtors

Thank You

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