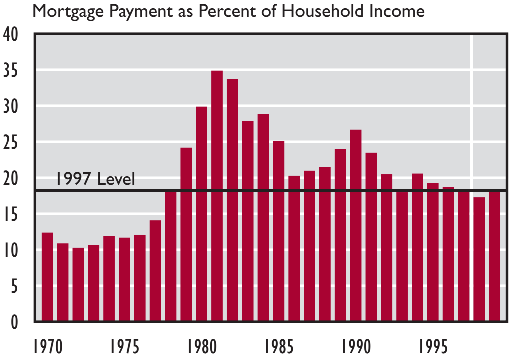
Special Topic: Housing Affordability

A crisis?

A young couple finds their dream home, but it is financially out of reach. An association of realtors claims that housing prices have "locked out" many buyers. The City of Seattle mulls over proposals, ranging from tax incentives to smaller lots, to do something about the housing affordability crisis.

Puget Sound Housing Affordability
Mortgage Payment as Percent of Household Income



But is there a crisis? Two facts would suggest not. First, the home ownership rate in the United States hit an all-time high in 1997. The Census Bureau estimated that the rate climbed to 65.7 percent last year, implying that nearly two-thirds of American households owned their home. In the Seattle PMSA (King, Snohomish, and Island counties), the home ownership rate, though not breaking a record, rose to 63.1 percent. The Seattle rate was just below the national metropolitan average (63.7 percent) and the fourth highest among the twelve largest metropolitan areas on the west coast. Seattle trailed Ventura (67.6 percent), which headed the pack, but led Los Angeles-Long Beach (47.7 percent) by a sizable margin.

Second, in spite of escalating prices, Puget Sound residents bought a record number of homes in 1997. Regional home sales soared to 49,200, up 10,000 from 1996. Sales exceeded the previous record set in 1989 by nearly 6,000.

More affordable.

Record levels of home ownership and sales do not add up to a housing affordability crisis. In fact, numbers reveal that here and elsewhere homes are more affordable today than anytime in the past twenty years.

A simple index of housing affordability is a new homeowner's first-year mortgage payment (the mortgage rate multiplied by 90 percent of the average home price, assuming a 10 percent down payment) as a percent of average household income (per capita income multiplied by average household size).

Last year, the mortgage payment amounted to 18.0 percent of household income. With the minor exception of 1993, the index had not been this low since 1977, when it measured 14.0 percent.

As shown in the chart, the housing affordability index is highly variable, changing with home prices, household incomes, and mortgage rates. Housing was most affordable in 1972, when the index fell to 10.2 percent. But circumstances that year were unusual: 70,000 lost jobs at Boeing, a collapsing housing market, and a low mortgage rate. Homes were least affordable in 1981, as the mortgage payment ate up 34.8 percent of household income. Not only had home prices tripled during the 1970s recovery, but the mortgage rate, fueled by high inflation, had skyrocketed to 16.6 percent.

The affordability index hit another high of 26.6 percent in 1990 following a 50 percent jump in home prices at the end of the 1980s housing boom. Between 1990 and 1997, however, the index fell nearly 9 percentage points to 18.0 percent, as household incomes rose faster than home prices and the mortgage rate dropped from 10.1 percent to 7.6 percent. Currently, incomes are failing to keep up with home prices. Nevertheless, a recent drop in the mortgage rate to 7.0 percent has made housing even more affordable today.

A concern, yes.

All this does not imply a lack of concern about housing. Rising incomes and falling mortgage rates have failed to make home ownership a possibility for everyone. And a growing population, tightening land-use restrictions, and an inadequate transportation system may eventually add a stiff premium to housing costs in the region, much as they have in Vancouver, our neighbor to the north.

Puget Sound Housing Affordability

	1972	1981	1990	1997
Average home price ($)	22,680	77,370	159,500	196,780
Average household income ($)	14,620	33,290	54,760	74,650
Mortgage rate (%)	7.3	16.6	10.1	7.6
Annual mortgage payment* ($)	1,490	11,580	14,540	13,450
Payment as percent of income	10.2	34.8	26.6	18.0

*Mortgage payment in the first year assuming 10 percent down.

But before we plunge headlong into various schemes to rectify matters, we must ask whether there is in fact a housing affordability crisis. The answer for now is a flat no.