

# Executive Summary

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## Growth Management at 15— How Has Affordable Housing Fared?

The Growth Management Act (36.70A RCW) legislation or GMA was enacted in 1990 with the primary goal of preventing future sprawl and the problems connected to it. The GMA was targeted at the largest and/or fastest growing counties. While some of the provisions of the Act apply to all counties, only 29 counties are fully planning under GMA. Those 29 of Washington's 39 total counties encompass over 95 percent of the state's population. The Act directed counties, which were covered under the act, to specify areas designated for urban growth (UGA's). The Act also included several other goals such as the preservation of agricultural and resource lands, and the designation of environmentally sensitive areas. Another principal area of concern was the availability of affordable housing with a stated goal to:

"Encourage the availability of affordable housing to all economic segments of the population of this state, promote a variety of residential densities and housing types, and encourage preservation of existing housing stock."

The primary purpose of this study is to determine whether affordable homes, which were sold in 1990 when the Act was passed or sold in 1995 when the Act had been implemented in most jurisdictions, remained affordable in the housing market of 2005. This report focused on detached single-family residences and not other types of affordable housing such as mobile homes, condominium apartments, and semi-detached units. A secondary purpose of this study was to examine the effects of the GMA on the market for homes.

Housing prices have appreciated significantly over the last fifteen years. At the same time, the maximum price of an affordable home has increased as well. This begs the question of whether the supply of affordable housing has kept pace? Housing affordability (as measured by the Housing Affordability Index) depends upon many factors, including prevailing interest rates, median income, and median home price. Focus on aggregates, however make it impossible to apply the analysis to specific properties.

This study takes a novel approach to this problem. Using sales data together with property data garnered from assessor's records, a hedonic pricing model was developed for properties that sold in 2005. Next sales records for those properties that were considered affordable in 1990 and 1995 were extracted. The hedonic pricing model was then used to predict the 2005 market value for these properties. Finally, a measure of the affordable home retention rate was calculated based upon the projected value.

These models were estimated using data from Skagit, Snohomish, King, Pierce, and Kitsap counties. Data for Thurston county in 1995 was also used, as was data for Clark County (Vancouver), and Spokane County in eastern Washington. Most of counties represent metropolitan areas centered on the Puget Sound region—it was in these counties that sales data and assessor's data were more readily available.

The market value projection indicated there was loss in affordable homes across all counties studied—1990 and 1995 affordable homes did not remain affordable in 2005. As mentioned previously, home affordability varies with prevailing interest rates, median income, and median home price. This was reflected in the result that

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those counties with the most active markets, e.g., King and Snohomish, tended to have the lowest retention rates.

A secondary aspect of this study became apparent: lot sizes have generally declined over this time period. As the market heated up, lot size became more of a contributing factor in the homes' value. The result was that previously affordable homes from 1990 and 1995 had large lots by 2005 standards. This additional lot size tended to push previously affordable homes into the unaffordable range. The research could not resolve if this lot-size effect was solely attributable to the effects of the Growth Management Act or was due to other market pressures. However, it can be stated that a more compact urban form with higher density (smaller lots) was an implicit goal of the GMA.

### Results

The hedonic property value model produced the following affordable home retention rates for the subject counties:

**TABLE 1. FINAL RESULTS (% OF HOMES STILL AFFORDABLE IN 2005)**

County	Year	Total Sales	Affordable Homes			2005 Projection		
			Maximum Price	Number of sales	Percent of Total Sales	Maximum Price	Number Remaining Affordable	Percent Remaining Affordable
Skagit <sup>*</sup>	1990	207	\$98,000	134	64.7	\$241,300	109	81.3
	1995	327	\$145,800	221	67.6		181	81.9
Snohomish	1990	1,281	\$122,000	527	41.1	\$298,300	460	87.3
	1995	1,867	\$182,500	1,341	71.8		827	61.7
King	1990	3,935	\$132,000	1,648	41.9	\$312,400	1,130	68.6
	1995	6,294	\$194,700	4,150	65.9		1,697	40.9
Renton <sup>§</sup>	1990	--	--	114	--	--	93	81.6
	1995	--	--	318	--	--	186	58.5
Federal Way <sup>§</sup>	1990	--	--	130	--	--	127	97.7
	1995	--	--	283	--	--	240	84.8
Pierce	1990	1,772	\$106,000	1,108	62.5	\$265,200	908	81.9
	1995	2,443	\$153,500	784	32.1		1,413	79.2
Thurston	1995	732	\$157,700	548	74.9	\$278,000	516	94.2
Kitsap	1990	562	\$108,000	373	66.4	\$272,100	331	88.7
	1995	836	\$161,200	608	72.7		473	77.8
Clark	1990	675	\$108,000	472	69.9	\$270,200	434	91.9
	1995	1,253	\$161,000	892	71.2		810	90.8
Spokane <sup>‡</sup>	1990	1,380	\$96,000	970	70.3	\$228,600	932	96.1
	1995	1,720	\$141,100	1,174	68.3		1,123	95.7

<sup>\*</sup> Skagit County was estimated using a different model than most other counties based on just dummy variables representing Property Age. Refer to discussion in text.

<sup>§</sup> Renton and Federal Way calculations are based upon the King County price point of \$312,400 for a 2005 Affordable Home Price.

<sup>‡</sup> Spokane County uses an alternative model specification including the addition of dummy variables representing Property Age and condition—see previous portion of result.

Based upon the WCRER model's value projections, most counties lost 20 percent or more of their affordable homes from 1995. As expected, King County showed a

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particularly large loss with a 68.6 percent retention rate for 1990 and a 40.9 percent rate for 1995. Snohomish only had a 61.7 percent retention rate for 1995 and Pierce had a rate of 79.2 percent. Retention of affordable homes was somewhat higher from 1990, generally in the 80 percent plus range (with the exception of King County). Some counties maintained very high retention rates (over 90 percent) for both 1990 and 1995, notably Spokane, Clark, and Thurston.

These retention rates are even worse when placed into the context of affordable home being a small proportion of the market. A 90 percent retention rate for 1990 affordable housing would seem to be fairly impressive; however, if the same county only had 10 affordable homes sold in 1990 (so nine of those remained affordable in 2005) out of a market with 3,000 sales, then the 90 percent retention rate would not seem as impressive. This effect is shown in Table 2 below.

**TABLE 2. FINAL RESULTS (% OF AFFORDABLE HOMES OUT OF TOTAL)**

COUNTY	1990 Retained Affordable (%)	2005 Affordable As Percent of Total Sales	Weighted Effect (%)	1995 Retained Affordable (%)	2005 Affordable As Percent of Total Sales	Weighted Effect (%)
Skagit	81.3	56.8	46.2	81.9	56.8	46.5
Snohomish	87.3	56.1	49.0	61.7	56.1	34.6
King	68.6	34.6	23.7	40.9	34.6	14.2
Pierce	81.9	64.2	52.6	79.2	64.2	50.8
Thurston	n/a	n/a	n/a	94.2	76.1	71.7
Kitsap	88.7	61.5	54.6	77.8	61.5	47.8
Clark	91.9	68.1	62.6	90.8	68.1	61.8
Spokane <sup>‡</sup>	96.1	82.2	79.0	95.7	82.2	78.7

For 1990 affordable homes, this weighted effect shows a low of 23.7 percent for King County—with almost 69 percent affordable homes retained, but affordable homes comprising just 35 percent of the market. Spokane County fared the best with affordable homes comprising almost 80 percent of the hypothetical market. 1995 projections show similar trends with King and Snohomish counties showing low market participation rates of around 14 and 35 percent, respectively. Again, Clark and Spokane counties had the highest rates at 62 and 79 percent, respectively.

The Act was clear in its intention to encourage access to affordable housing for all economic segments. The previous data reflected all home buyers, being derived from WCRER’s Housing Affordability Index—a measure which admittedly is most representative for repeat buyers. It is therefore appropriate to focus on retention of housing affordable to first-time buyers.

The numbers for first-time buyers are even lower than those for affordable homes, given the stricter financial constraints placed on these buyers. This is reflected in Table 3 below.

**TABLE 3. FIRST-TIME BUYERS (FTB) AFFORDABLE HOME SALES AS A PERCENTAGE OF TOTAL HOMES \$1 MILLION OR UNDER**

COUNTY	1990 Total	1990 FTB Affordable	Percent of Total	1995 Total	1995 FTB Affordable	Percent of Total	2005 Total	2005 FTB Affordable	Percent of Total
Skagit	207	23	11.1%	327	21	6.4%	1,944	200	10.3%
Snohomish	1,281	61	4.8%	1,867	92	4.9%	10,560	427	4.0%
King <sup>†</sup>	3,935	182	4.6%	6,294	248	3.9%	29,075	429	1.5%
Pierce	1,772	198	11.2%	2,443	283	11.6%	14,251	1,241	8.7%
Thurston	n/a	n/a	n/a	3,809	53	1.4%	3,809	462	12.1%
Kitsap	562	60	10.7%	836	78	9.3%	3,687	464	12.6%
Clark	675	125	18.5%	1,253	89	7.1%	7,964	800	10.0%
Spokane	1,380	333	24.1%	1,720	243	14.1%	7,247	2,782	38.4%

<sup>†</sup> For King County home sales of up to \$2,000,000 were included

**TABLE 4. HOMES REMAINING AFFORDABLE FOR FIRST-TIME BUYERS (FTBS) FROM 1990 AND 1995. LISTED BY COUNTY AND YEAR**

County	Year	First-Time Buyer—Affordable Home		2005 Projection		
		Maximum Price	Number of sales	Maximum Price	Number Remaining Affordable	Percent Remaining Affordable
Skagit	1990	53,300	23	146,400	10	43.5
	1995	74,100	21		5	23.8
Snohomish	1990	69,200	61	179,900	35	57.4
	1995	95,800	92		3	3.3
King	1990	67,800	182	174,300	14	7.7
	1995	92,100	248		9	3.6
Pierce	1990	57,000	198	155,000	41	20.7
	1995	79,000	283		65	23.0
Thurston	1995	80,900	53	163,800	33	62.3
Kitsap	1990	60,100	60	162,800	15	25.0
	1995	83,800	78		19	24.4
Clark	1990	59,700	125	164,100	35	28.0
	1995	83,800	89		42	47.2
Spokane	1990	48,100	333	127,200	262	78.7
	1995	66,300	243		227	93.4

Table 4 shows retention percentages ranged from around three percent to over ninety percent. Spokane County shows a respectable retention rate of almost 79 percent of the 1990 housing affordable to first-time buyers; and actually improving to just over 93 percent remaining affordable from 1995. The other extreme was demonstrated by King and Snohomish Counties, with King County retaining 7.7 percent from 1990 and 3.6 percent from 1995. Snohomish County had a retention rate of 57 percent for 1990 homes, but this rate plummeted to 3.3 percent for 1995 homes. Thurston County retained just over 63 percent of homes from 1995, and Clark had rates of 28 percent for 1990 and 47 percent for 1995. The remainder of the counties were generally in the 20 to 30 percent range for retention rates.

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These percentages (from Table 4 above) should be viewed with caution, given the very low numbers of actual sales recorded. Notice that the projected number of homes considered affordable for first-time buyers was in the double or even single digits (with the exception of Spokane County). The actual sales numbers were also in double-digits for many of the counties, as well. These small numbers make the retention rate very sensitive to changes. For example, Skagit County in 1995 had 21 homes considered affordable for first-time buyers, so a one home decrease in the 2005 projection will cause the retention rate to decrease by around 4.7 percent. These low numbers of sales makes retention of homes in this category even more important, and loss of even a single affordable home is significant.

Table 5 illustrates the effect of using the number of affordable homes as a percentage of total home sales to adjust the percentage of homes remaining affordable. Due to the very low number of homes considered affordable for first-time buyers, the combined measure shows very low net percentages.

**TABLE 5. RETENTION OF FTB AFFORDABLE HOMES  
WEIGHTED BY PERCENTAGE OF TOTAL SALES**

COUNTY	1990 Retained Affordable	2005 Percent of Total Sales	Adjusted Percent	1995 Retained Affordable	2005 Percent of Total Sales	Adjusted Percent
Skagit	43.5%	11.1%	4.8%	23.8%	6.4%	1.5%
Snohomish	57.4%	4.8%	2.8%	3.3%	4.9%	0.2%
King	7.7%	4.6%	0.4%	3.6%	3.9%	0.1%
Pierce	20.7%	11.2%	2.3%	23.0%	11.6%	2.7%
Kitsap	25.0%	10.7%	2.7%	24.4%	9.3%	2.3%
Clark	28.0%	18.5%	5.2%	47.2%	7.1%	3.4%
Spokane	78.7%	24.1%	19.0%	93.4%	14.1%	13.2%

King County displays extremely low adjusted values under 0.5 percent. For 1990, the remaining counties in the Puget Sound region all have adjusted retention values under five percent, with Clark County (Vancouver, WA) at just over five percent. Spokane County was significantly higher with an adjusted rate of 19 percent.

The net retention rates for 1995 were lower for all counties. King and Snohomish had very low rates of 0.1 and 0.2 percent, respectively. The remaining counties ranged from 1.5 percent (Skagit) to 3.4 percent (Clark), with Spokane again having a noticeably higher rate of 13.2 percent.

Topography, demographic factors, and measures such as months supply of homes on the market suggest the Central Puget Sound area probably possesses the least amount of buildable land; whereas, Spokane possesses the most buildable lands. If so, this implies that those counties with more land available for development and/or the less active real estate markets showed the highest retention of affordable housing. Unfortunately, it is not possible to separate the two factors. The less active markets also tend to have more buildable lands; moreover, the amount of buildable land is impacted by how “tightly” the Urban Growth Boundaries were drawn. Six Western Washington counties have all self-reported an adequate supply of buildable lands<sup>1</sup>. This is in contrast to anecdotal evidence that Clark County’s UGB contains a

<sup>1</sup> Clark, King, Kitsap, Pierce, Snohomish, and Thurston as required under the Buildable Lands Program which was amended to the GMA in May 1997. Reported by Growth Management Services program of CTED in [Buildable Lands Program, 2002 Evaluation Report, A summary of findings](http://www.cted.wa.gov/site/420/default.aspx). Accessed from <<http://www.cted.wa.gov/site/420/default.aspx>>

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large amount of land available for development<sup>2</sup>; whereas, King has much more rigid UGB's. This remains an area for further research, which may be aided by 2007 reevaluation of buildable lands program by CTED for these six Western Washington counties.

In brief, it appears that Washington has much to do to tackle the problem of affordable housing. Recent legislative and executive initiatives appear to be addressing the problem. First, was passage of a bill [HB 2984—2005-06] in the last legislative session that empowers local governments to create incentive programs that will foster the development of affordable housing. Second, in July 2006 the Governor requested that the Affordable Housing Advisory Board (AHAB) create a task force on the GMA and affordable housing. The task force was to examine the allocation of infrastructure costs for new housing versus the community at large; and also to examine various funding sources and regulatory mechanisms to insure an adequate supply of affordable housing. It remains to be seen how these policies will impact the problem.

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<sup>2</sup> See page 9 of League of Women Voters of Washington (LWVWA), 2001. *The Growth Management Act of Washington State: Successes and Challenges*.