

Some observations on the Housing Market in Spokane & Kootenai Counties

Presentation to the Spokane-Kootenai County Real Estate Forum

February 28, 2024




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About the Institute

inside.ewu.edu

 **Institute for Public Policy and Economic Analysis**
Eastern Washington University

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The Institute for Public Policy and Economic Analysis

About Us

The Institute for Public Policy and Economic Analysis is a research institute for applied regional research that provides easily accessible community indicator data. The Institute publishes seven [community trend sites](#) for nine Washington counties, all of which cover a variety of factors like economic vitality, health, housing, and more. The Institute's work is aimed to promote data-based decision making and provide readily available and extensive data for communities across Washington state.

Our History

The Institute for Public Policy and Economic Analysis was created in 2002 as a pilot project administered by Eastern Washington University, until it was fully established as an integral part of the University in 2005. Headed by executive director Dr. Patrick Jones, the Institute has been a vital research institute producing community research projects for 20 years. The Institute is supported by a broad coalition of community sponsors across Washington state, and proudly constructs its community trends websites based on community-based feedback processes.

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About the Institute



Spokane Trends



People



Culture & Recreation



Economic Vitality



Education



Environment



Health



Housing



Public Safety



Transportation



Our Home

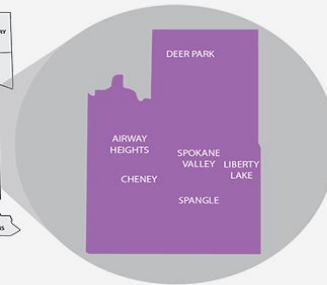
Spokane County and environs form the 99th largest MSA by population, but combines the best of both a large and small city environment. A large, rushing river runs through the County, with lakes and mountains within a half an hour drive. The community is home for four universities, a diversifying economy, significant...

[Read More](#)

Blog

Throughout the year, each of the approximately 190 indicators on the Indicators website are updated within a few weeks of new data becoming available. But, which ones and when? Our blog webpage answers this providing a list of recently updated indicators. Sign up for email alerts [here](#).

[Our Blog](#)



About Us

Featured Trend

About the Institute



OUR VITALS

Measuring progress toward our desired future – Washington’s Vitals provide the most current data that can be used at the state and community level to track progress.

FILTER BY REGION:

Spokane County

SPOKANE COUNTY FUTURECAST



Manufacturing



Talent



Business Environment



Infrastructure & Connectivity



Entrepreneurship & Innovation



Place & Community

● Negative Trend ● Neutral ● Positive Trend



Civilian Labor Force Participation Rate

59.2% ↓

VIEW DETAIL →

Current Available Data Through December 2022
Vitals Updated February 2023



Net Jobs Created

-2.6% ↓

Annual Change, Same Quarter Previous Year.

VIEW DETAIL →

Current Available Data Through December 2022
Vitals Updated August 2023



Median Household Income

\$70.4K ↑

VIEW DETAIL →

Current Available Data Through December 2022
Vitals Updated January 2024



Unemployment Rate

4.2% ↓

VIEW DETAIL →

Current Available Data Through December 2023
Vitals Updated February 2024



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Today's focus

Not a formal forecast

- Institute generally doesn't forecast
- Area already receives one from Dr. Grant Forsyth
- The disruption of "normal" patterns since the start of the pandemic has made forecasting a risky proposition
- Consider recent (2023) model accuracy by the panel of Wall Street Journal forecasters



Today's focus

Misses from 2023 from the WSJ panel of on national economic measures

January 2023 forecast vs. actual
(average or December)

- Real GDP: 0.2% vs. 2.5% (1st estimate)
- Unemployment rate: 4.7% vs. 3.7%
- 10 year Treasury: 3.5% vs. 3.9%
- CPI: 3.1% vs. 3.4%
- Sources: [BEA](#), [BLS](#), [FRED](#), [BLS](#)

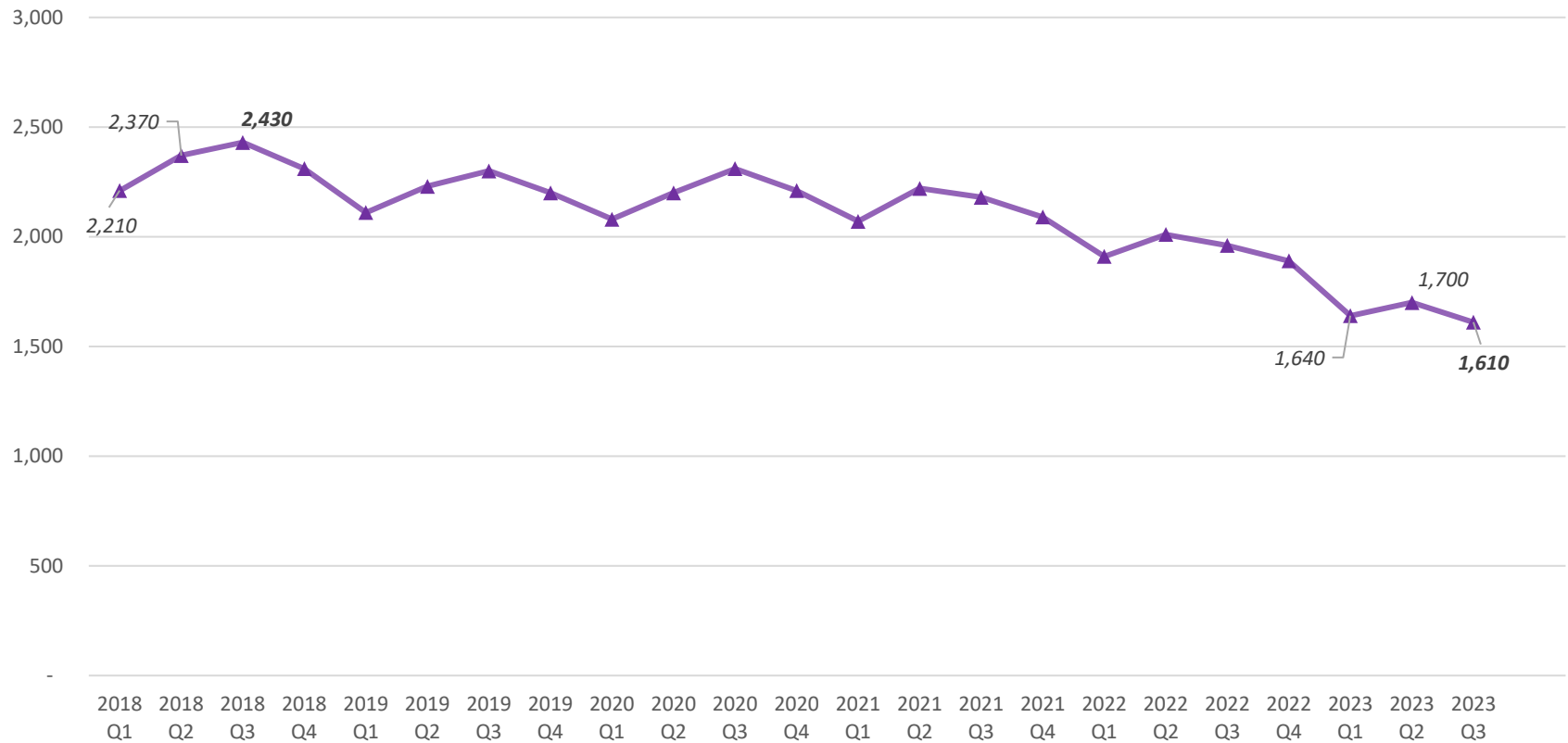


Today's focus: housing prices

What you see in Spokane

[Spokane Trends](#) (from WA Center for Real Estate Research)

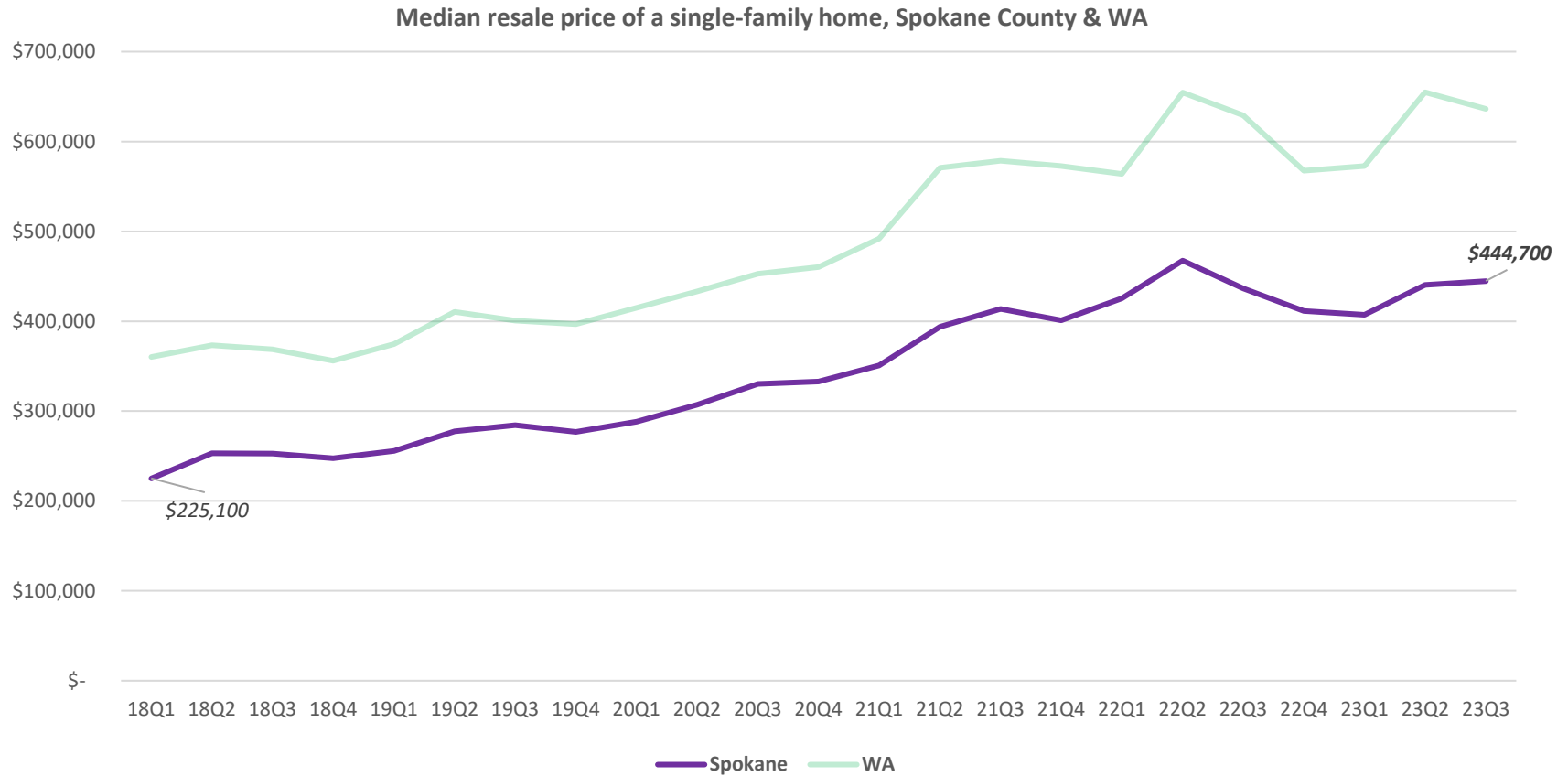
Quarterly sales of existing homes, in Spokane County



Today's focus

What the consumer sees in Spokane

[Spokane Trends](#) (from WA Center for Real Estate Research)

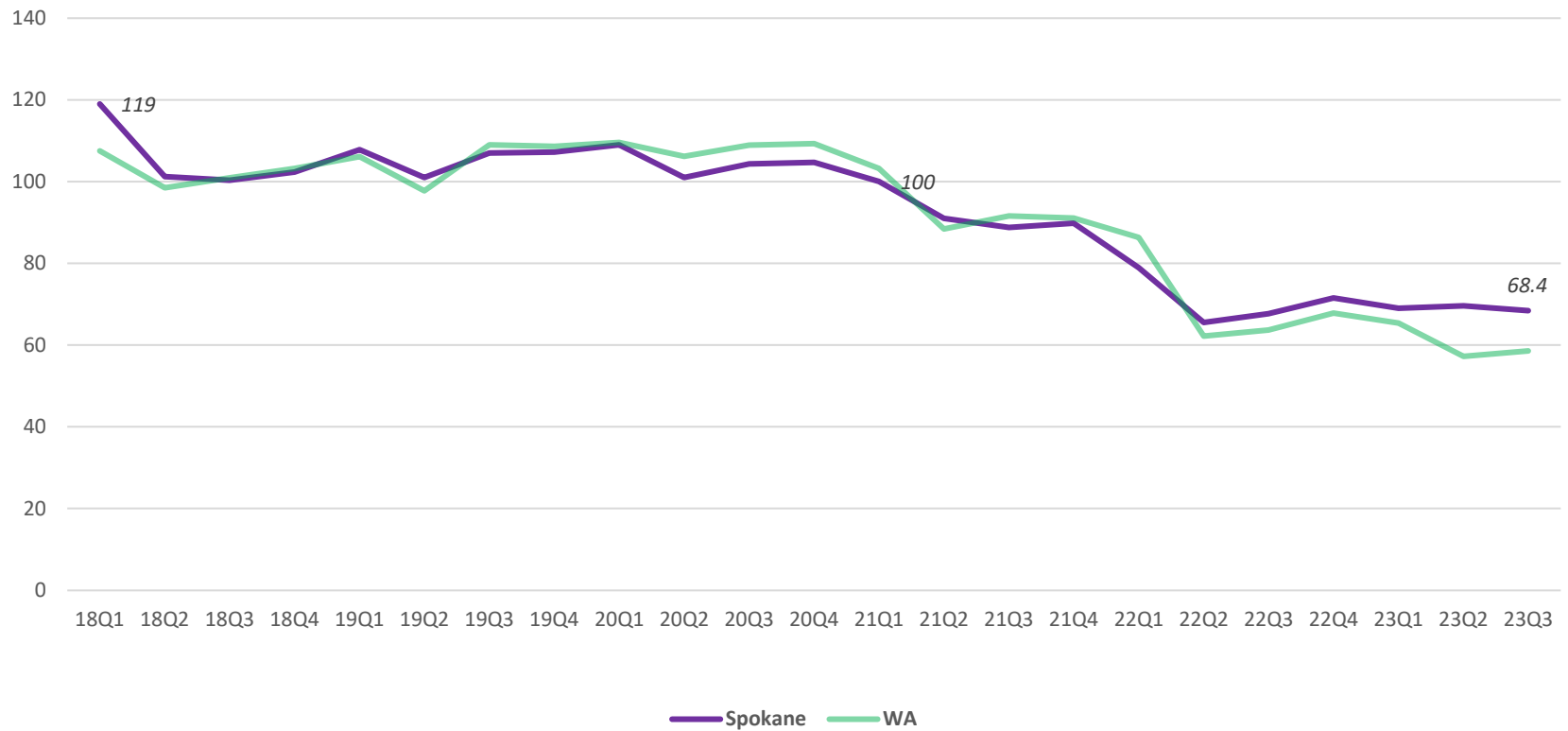


Today's focus

What the Spokane consumer feels

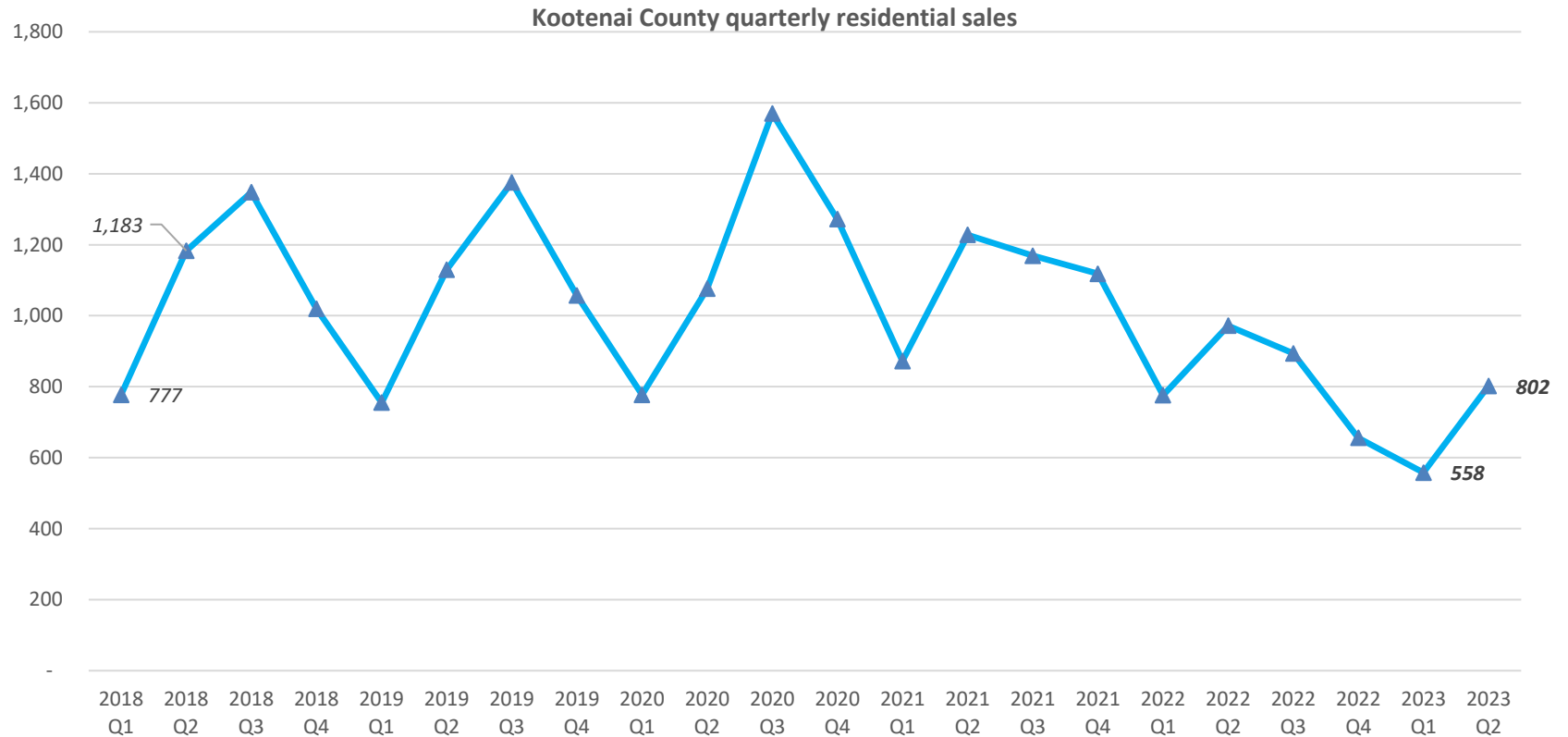
[Spokane Trends](#) (from WA Center for Real Estate Research)

All-buyer affordability ratio for Spokane County & WA



Today's focus

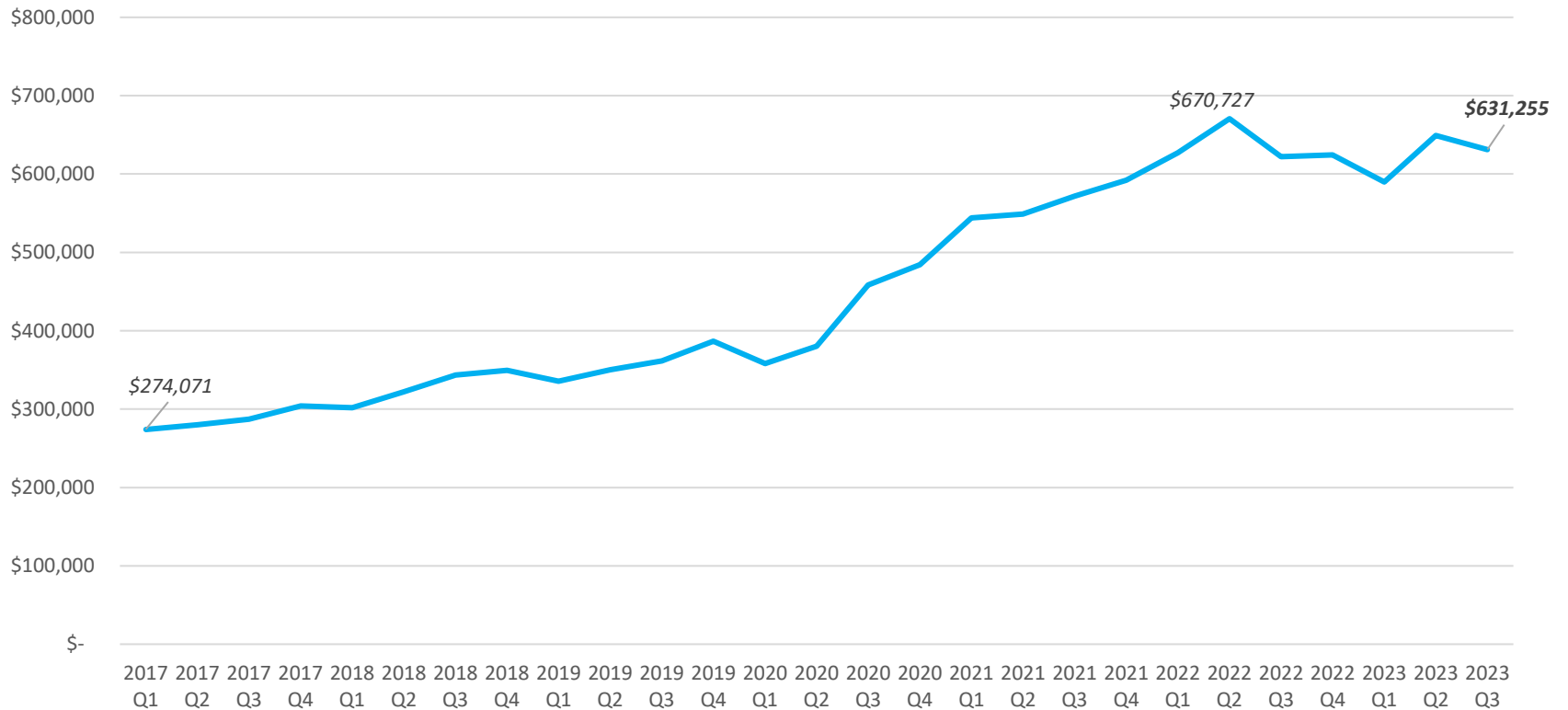
What you see in Kootenai County



Today's focus

What the Kootenai County consumer sees

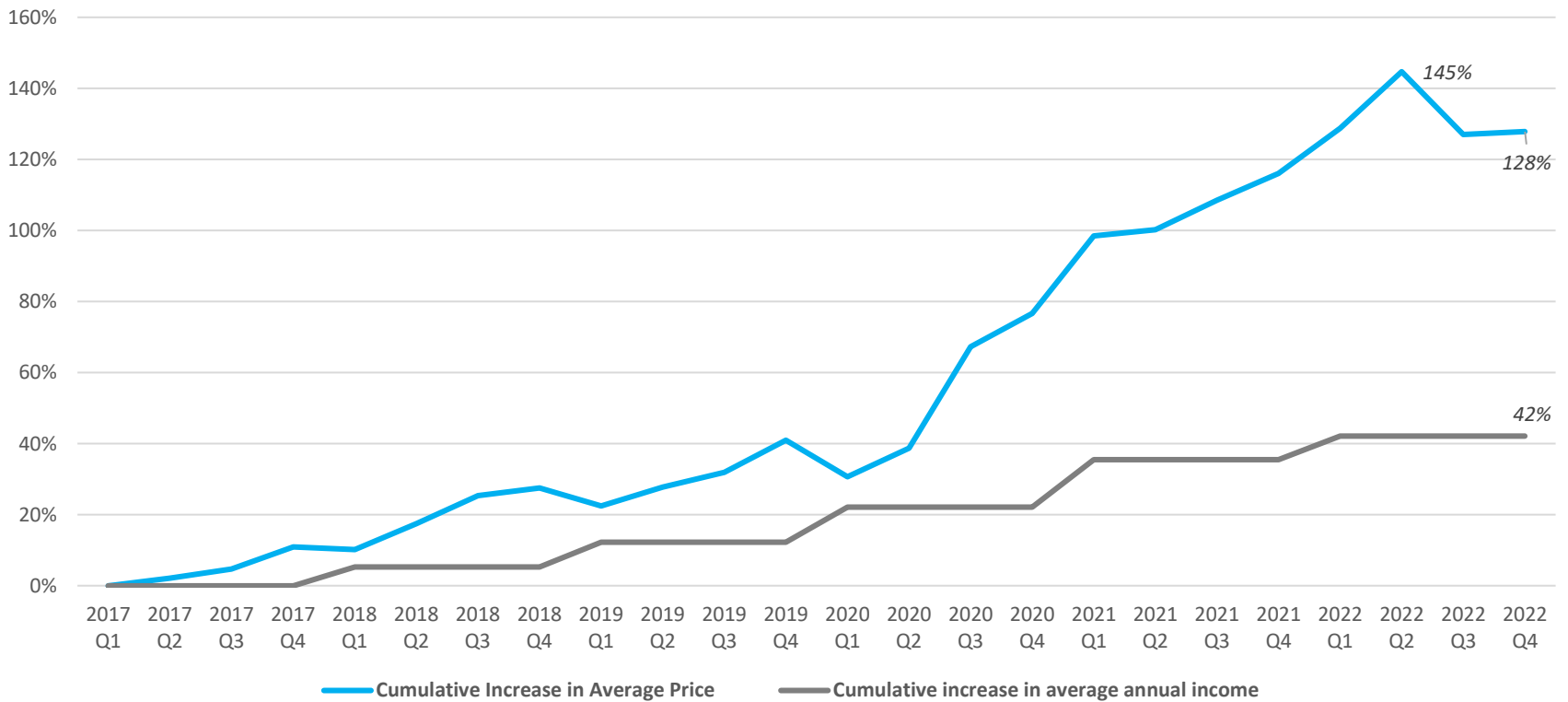
Weighted average, quarterly single-family sales price in Kootenai County, areas 1-7: 2017-2023



Today's focus

What the Kootenai County consumer feels

Cumulative increase in average Kootenai County house prices vs County average personal income
(Areas 1-7)

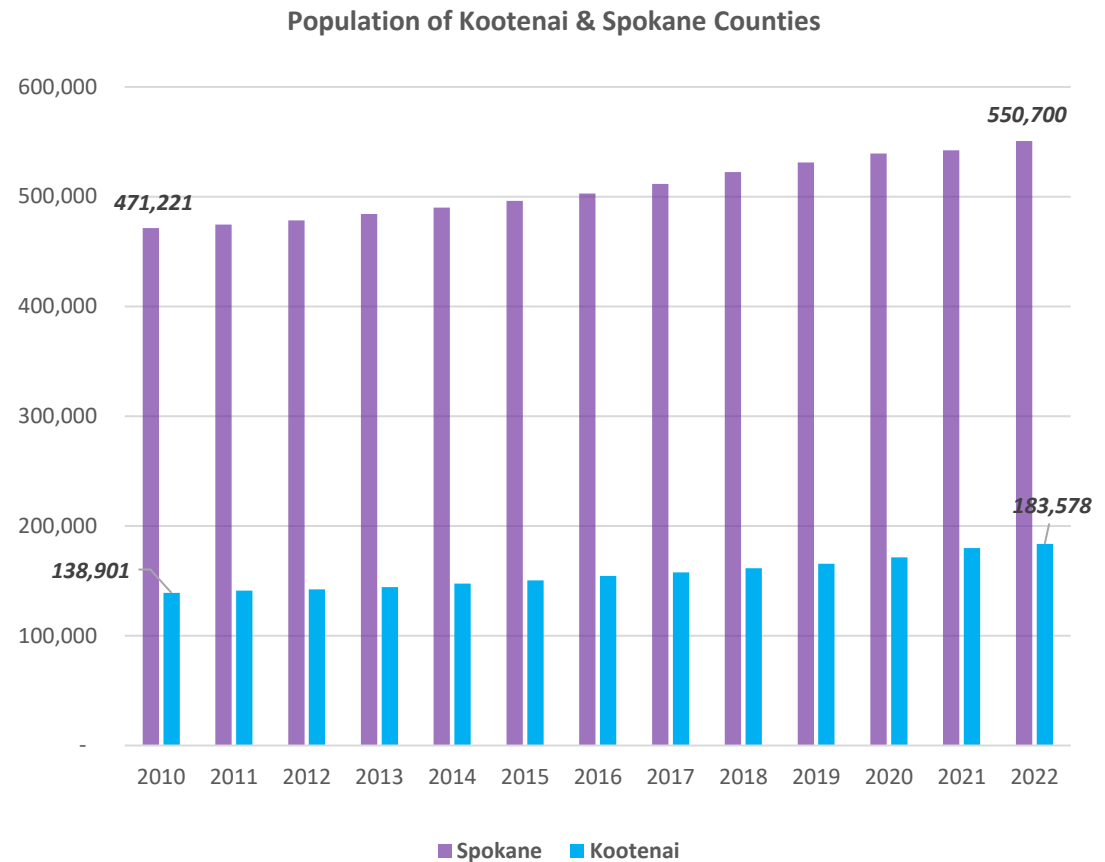


How did we get here?

Population growth has been strong

[U.S. Bureau of Economic Analysis](#)

- Spokane: gain of ~80,000 since 2010
- Kootenai: gain of ~45,000 since 2010
- Combined population, with Stevens County (WA), puts the 3 counties as 68th largest combined MSA
- (2010 – 74th largest)



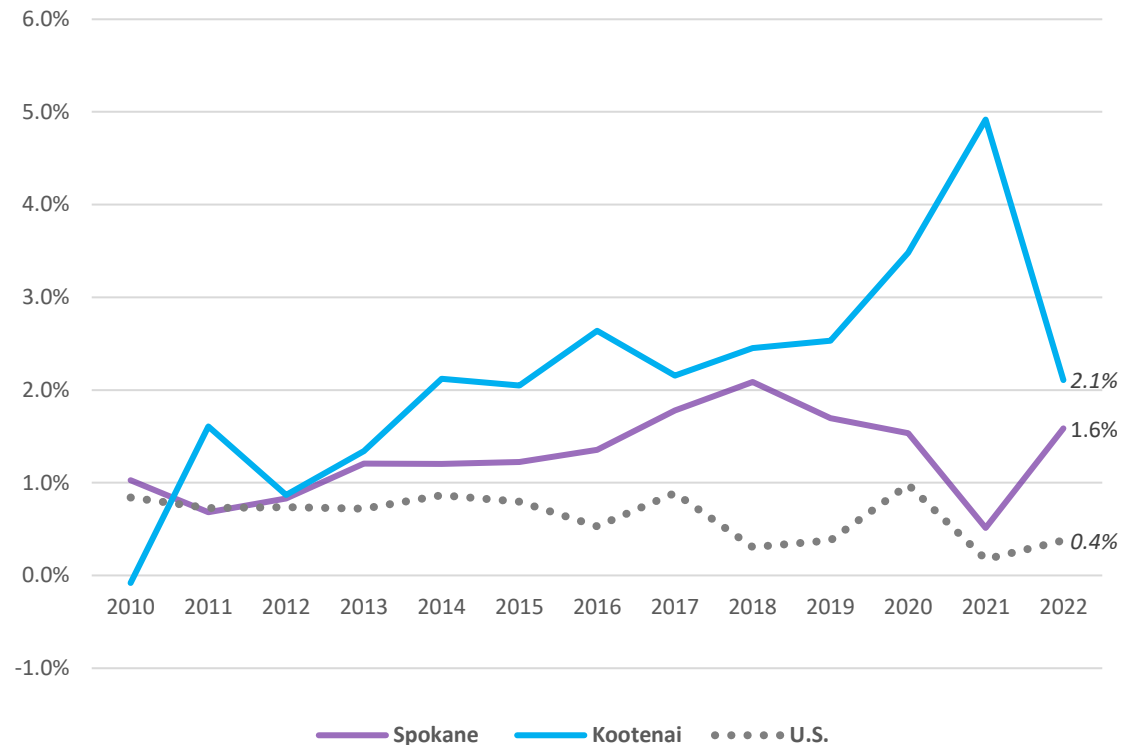
How did we get here?

Local growth has been far faster than in the U.S.

[U.S. Bureau of Economic Analysis](#)

- 2022: local multiples to U.S.
 - Spokane: 4X
 - Kootenai: 5X+
- Since 2010, average local multiples to U.S.
 - Spokane: 2X+
 - Kootenai: 3X+
- Kootenai County – a big “winner” during pandemic years 2020 & 2021

Annual population growth rate of Kootenai & Spokane Counties, w/ U.S.



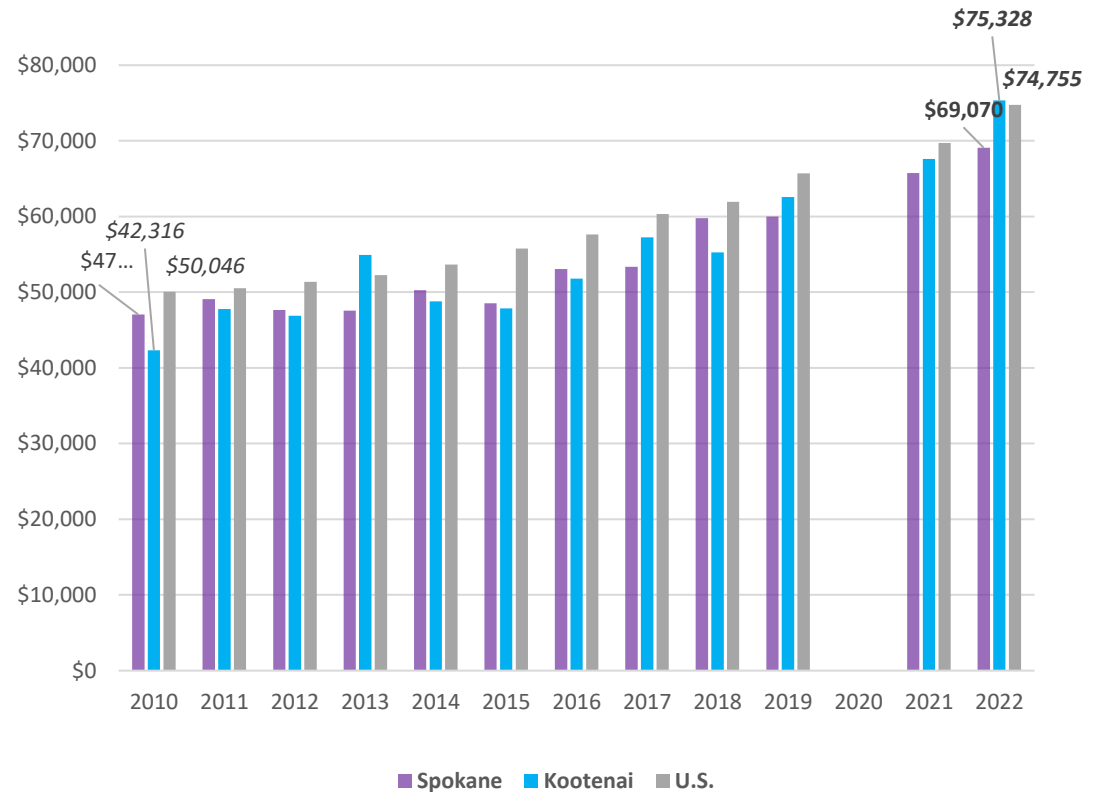
How did we get here?

Incomes have also grown faster here

- Average growth rate of Median Household Income (MHI) since 2010 in U.S. = 3.7%
 - Spokane: 4%
 - Kootenai County: 6%
- Kootenai County's MHI now slightly > in U.S.
- *Note: no Census estimates for 2020*

[American Community Survey](#)

Median household income, Spokane & Kootenai Counties, with U.S.

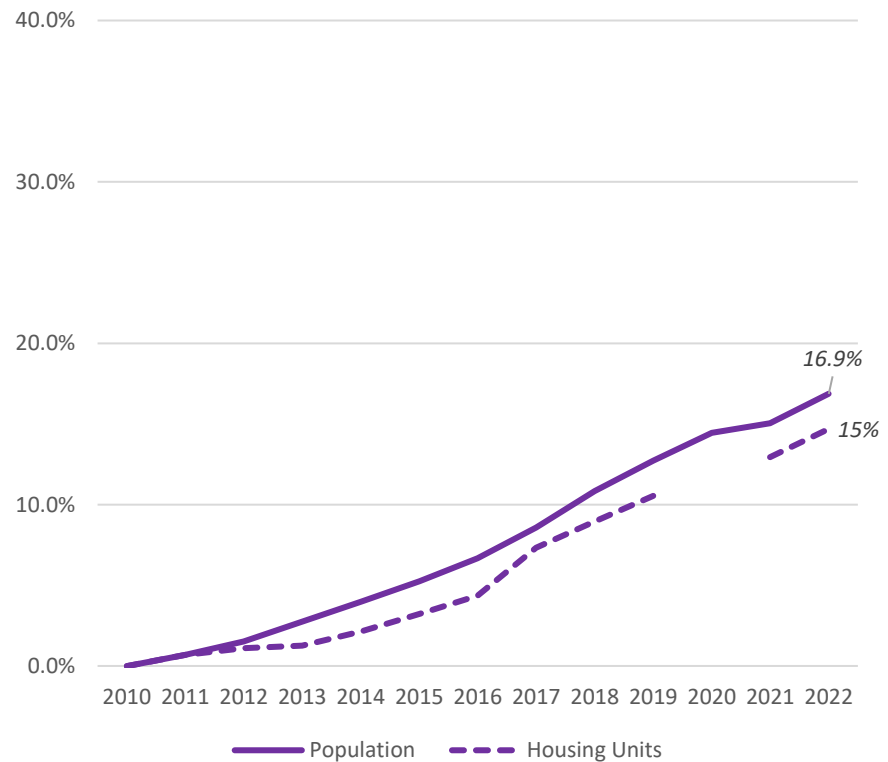


How did we get here?

Housing supply simply hasn't kept up- Spokane

- By 2022, a cumulative gap between population and total housing unit growth of nearly **2%**
- *If* Spokane housing had grown as fast as population, the County would have an additional 4,400 units now
- *Note: no housing estimates from Census in 2020*

Spokane County cumulative growth of population & total housing units, 2010-2022

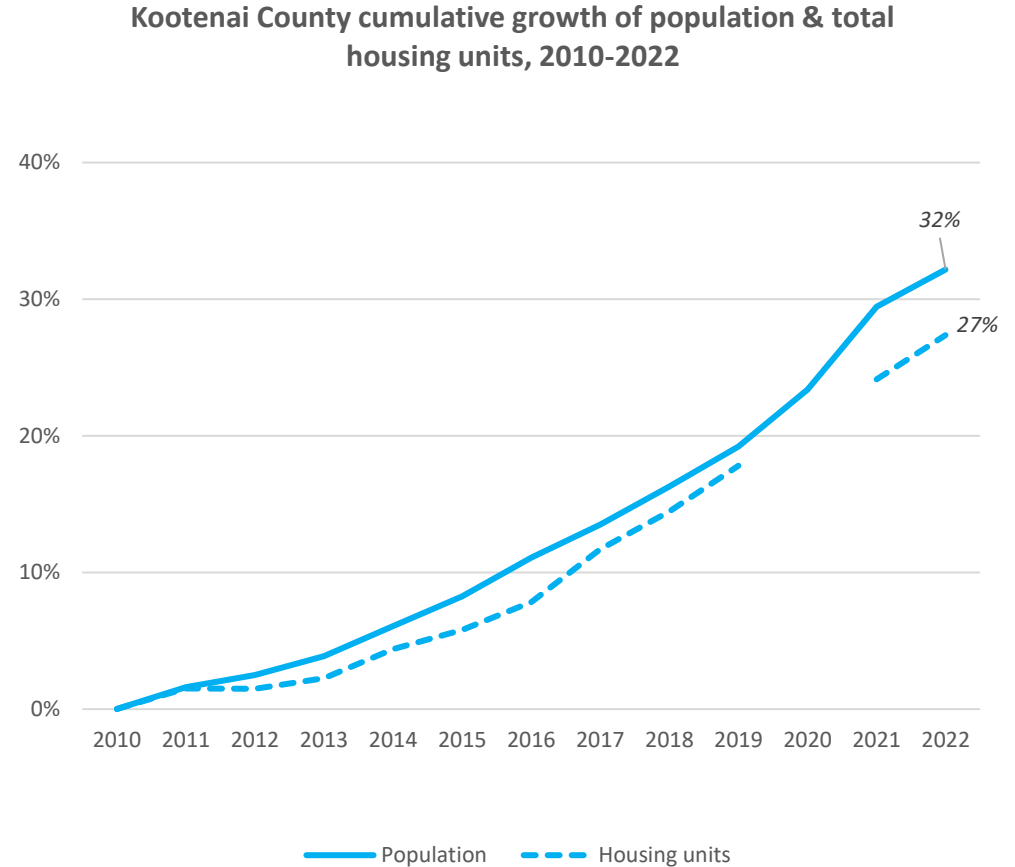


[American Community Survey](#)

How did we get here?

Housing supply simply hasn't kept up - Kootenai

- By 2022, a cumulative gap between population and total housing unit growth of **5%**
- *If* Kootenai housing had grown as fast as population, the County would have an additional 3,000 units now
- *Note: no housing estimates from Census in 2020*



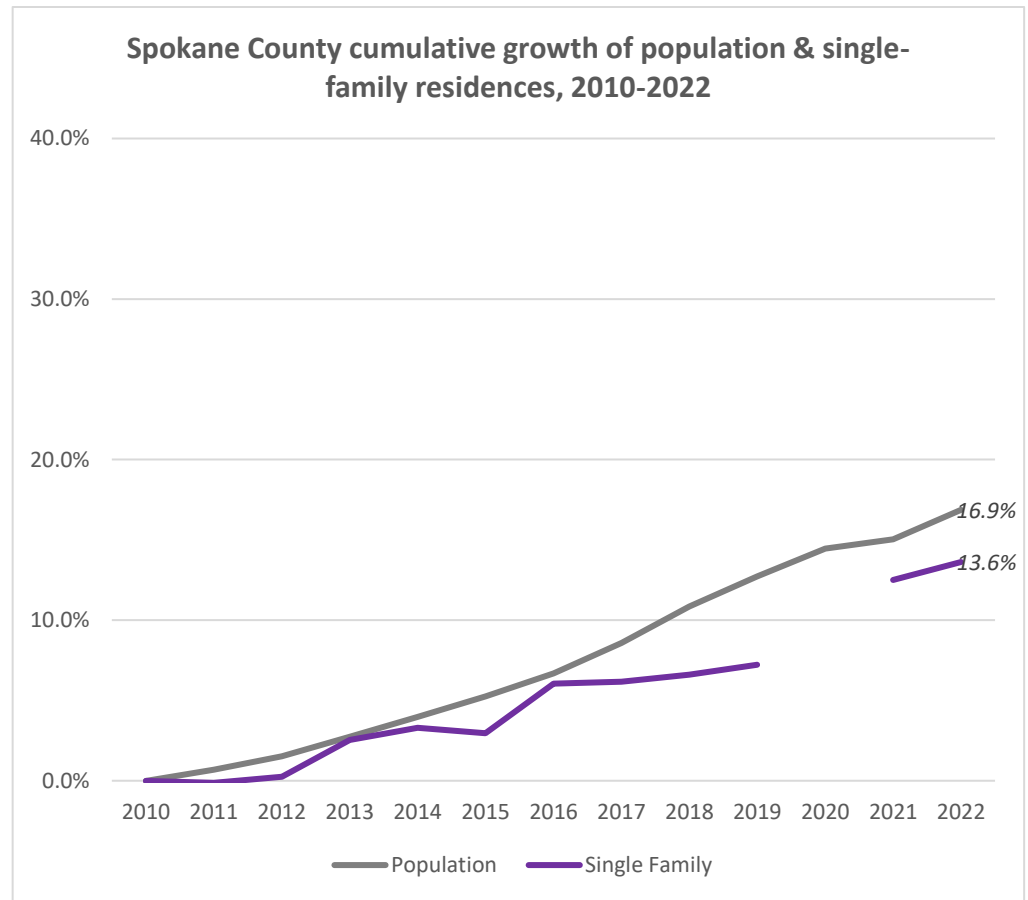
[American Community Survey](#)

How did we get here?

Spokane's housing growth in single-family lags

- By 2022, a cumulative gap between population and single-family residence growth of over **3%**
- *If* Spokane single-residence stock had grown as fast as population, the County would have an additional 5,550 units now
- Reverse true for multi-family: its stock has grown far *faster* than population

[American Community Survey](#)

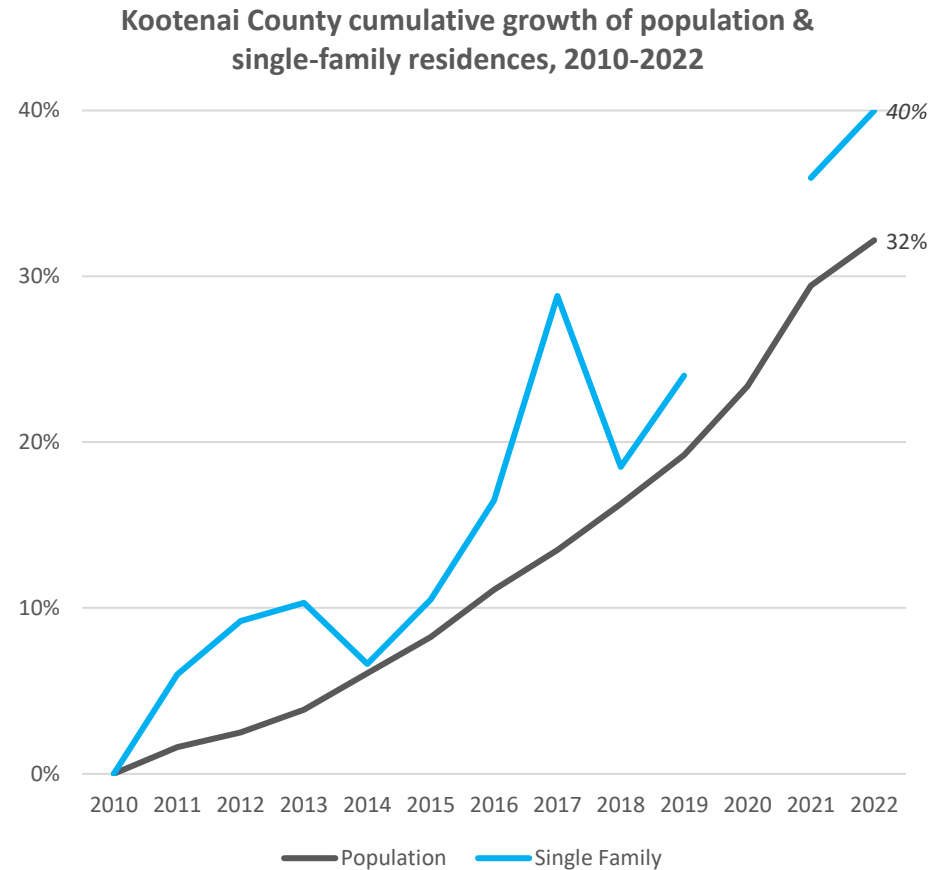


How did we get here?

Kootenai's housing growth in single-family leads

- By 2022, a cumulative gap between single-family residence & population growth of **8%**
- *If Kootenai's single-residence stock had grown as fast as population, the County would have an 3,500 units fewer now.*
- Census estimates include "lake" areas. Likely some effect
- Reverse true for multi-family: its stock has grown slower than population -- by 9%

[American Community Survey](#)



A modest proposal

Aim to return to affordability index (HAI) of ~100

- In Spokane – Q1 of 2021 HAI = 100
 - Median resale price: \$351,000
 - MHI: \$65,700
 - Or a ratio of price/income: 5.3
- In Kootenai – no data from WRERC
 - The most recent quarter, however, where price/income was ~5.5: Q1 2018
 - Price (areas 1-7) \$302,000
- Possible to regain a balance?



How to return to affordability?

Increase the HAI by boosting income & lowering housing price growth – 2 scenarios for *Spokane*

- *Optimistic scenario*
 - Assume MHI annual growth moves from 4% (recent average) to 5%
 - Assume housing price in 2025 = *same* price as in Q3 2023
 - 2025 result: price/income ratio = 5.6
- *More realistic scenario (but still a challenge)*
 - Assume MHI annual growth is 5%
 - Assume housing prices increase 2%/yr. (~ Federal Reserve PCE target)
 - 2025 Result: price/income ratio = 5.8
 - 2030 Result: price/income ratio = 5.0



How to return to affordability?

Accelerate income growth & lower housing price growth – 2 similar scenarios for *Kootenai*, but....

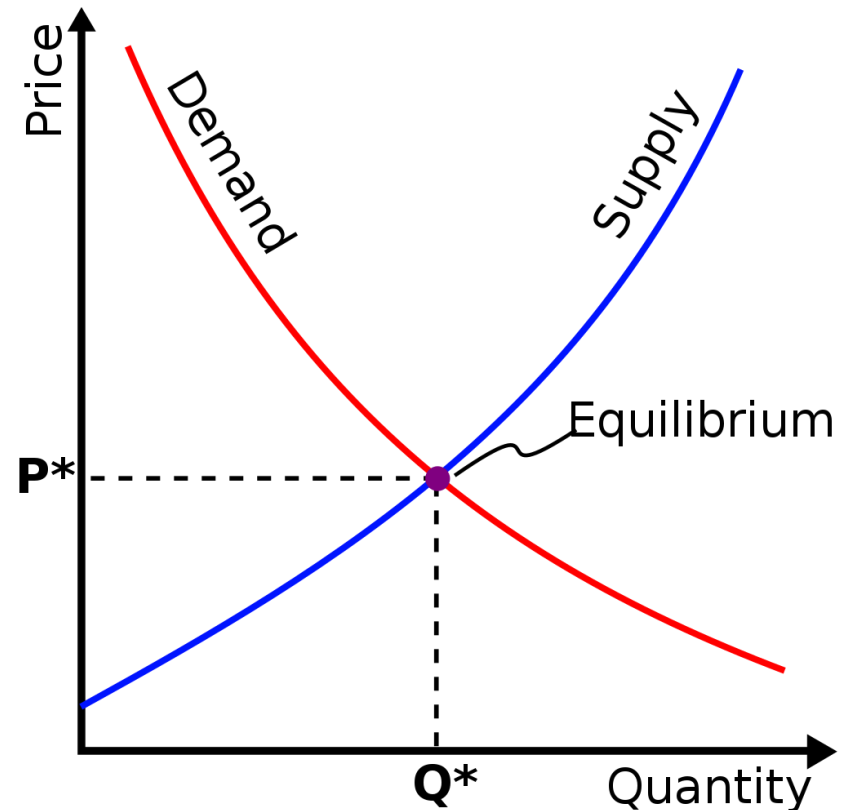
- *Optimistic* scenario
 - Assume MHI annual growth moves from 6% (recent average) to 7%
 - Assume housing price in 2025 = price in Q3 2023
 - 2025 result: price/income ratio = 6.8!
- *More realistic* scenario (but even a greater challenge than in Spokane)
 - Assume MHI annual growth is 7%
 - Assume housing prices increase 2%/yr. (~ Federal Reserve PCE target)
 - 2025 Result: price/income ratio = 7.1!
 - 2030 Result: price/income ratio = 5.6



How to return to affordability?

Returning the HAI to 100 - largely a question of home price

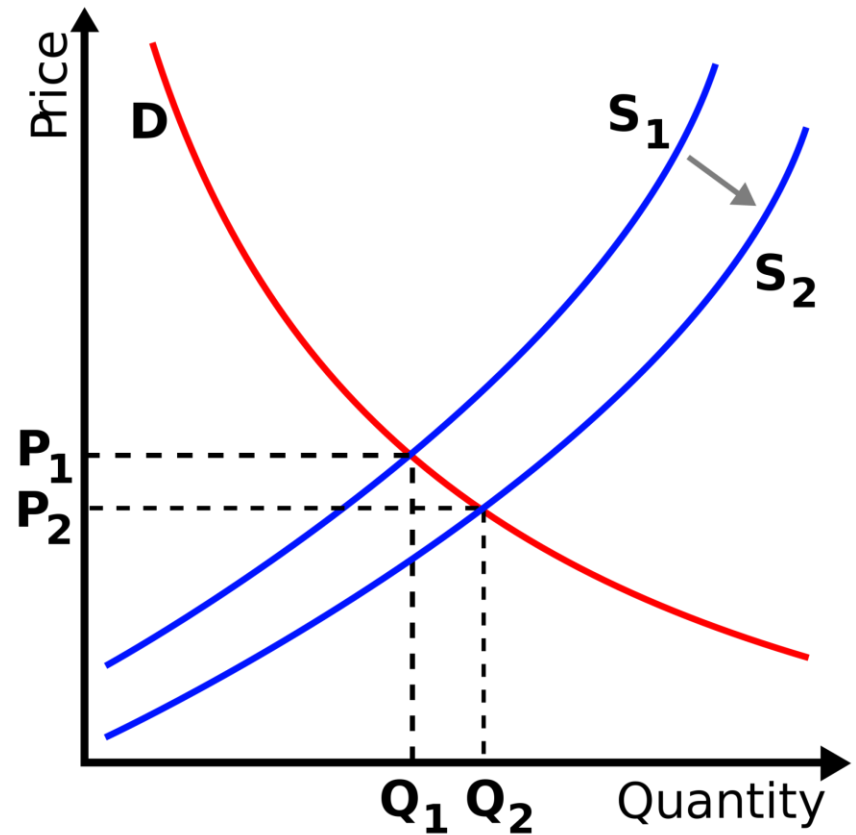
- Incomes rarely depart from trend; more opportunity to affect the affordability ratio thru housing *price*
- Price determined via supply & demand for homes
- Demand, in turn, depends on population, income, mortgage rates & other forces
- Forces behind local *demand* expected to remain strong (despite mortgage rates) & not amenable to local action



How to return to affordability?

The local opportunity to affect home prices lies with increasing *supply*

- If supply increases, price declines, everything else equal
- More realistically, since local demand is likely to grow over time, price won't increase as much as it might have, if supply increases
- Two sources of supply:
 - Existing homes turning over
 - New construction
- Focus briefly on new construction
 - Doesn't appear that boomers are (yet) willing to move



How to return to affordability?

Boost the supply of new single-family residences

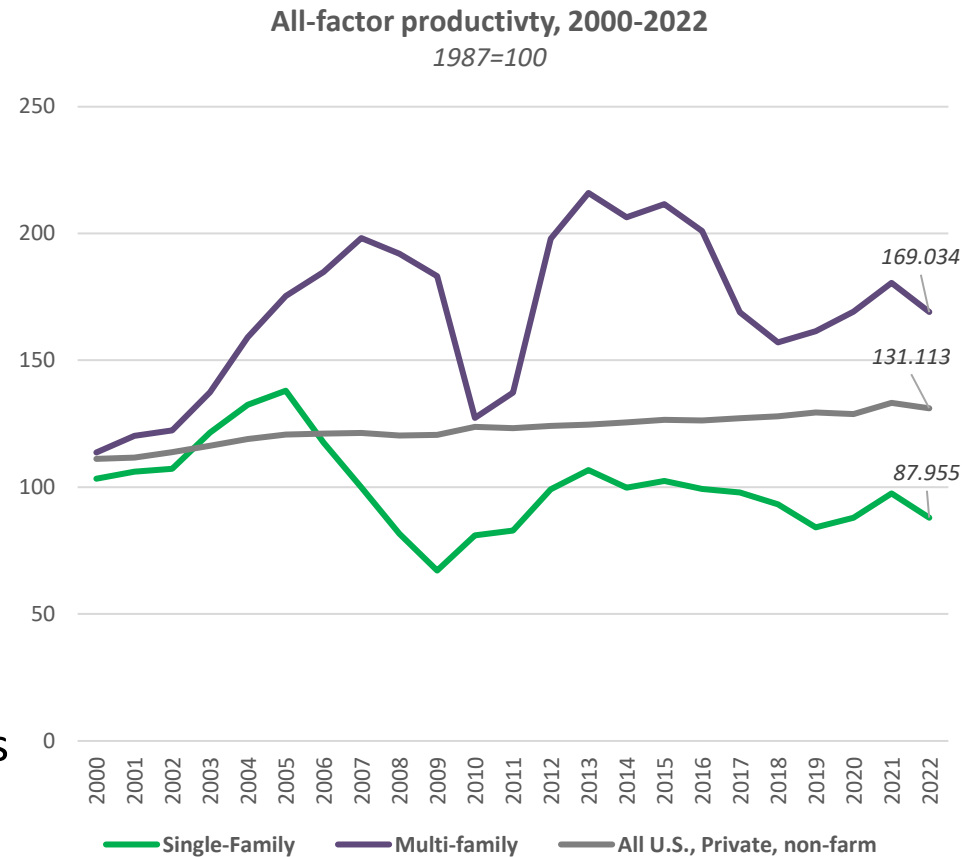
- Consider some key inputs
 - Wages
 - Cost of materials
 - Land acquisition
 - Cost of capital
 - Municipal services fees/Regulations
- Recognize that the pandemic pushed up prices of all inputs dramatically
- Also recognize that some inputs weigh heavily on construction, especially the last two.
- *But...* other sectors deal with costs influenced by public policy: mining, utilities, healthcare, insurance



How to return to affordability?

Can productivity gains bend the cost curve?

- A long-term challenge: home-building hasn't (yet) experienced the cost-savings that have emerged over time in other sectors
- Measure: *total factor productivity* (tracked by U.S. Bureau of Labor Statistics)
- As productivity increases, average costs should decrease
- Yet... two very different experiences in residential construction types



How to return to affordability?

At least 3 paths seem possible

1. Raise productivity growth in single-family housing
 - Recognize the “uniqueness” of the industry
 - But how can technology help?
 - What can multi-family teach?
2. Allow greater density
 - Launched in WA; Kootenai County?
3. State & local governments offer *incentives*, in addition to federal government programs, for affordable housing
 - Many examples in the U.S.

Macro Matters

US productivity rises at fastest pace in three years in the third quarter

Reuters

November 2, 2023 6:20 AM PDT · Updated 4 months ago



ECONOMY | HOUSING

Facing Housing Shortages, Cities Try Cramming More Units on Lots

Many metro areas change zoning to allow more units per lot or reduce lot size

By Adolfo Flores [Follow](#) and Scott Cabert [Follow](#)

Dec. 24, 2023 9:00 am ET



Austin, Texas, changed its land development code to allow for up to three units on single-family lots. PHOTO: JORDAN VONDERHAAR/BLOOMBERG NEWS



THE SPOKESMAN-REVIEW

Spokane, Washington Est. 1891

Washington Idaho Business Education Health Photos Further Review



NEWS BUSINESS

Desperate for affordable housing, some cities sweeten tax breaks for developers

Feb. 12, 2024 | Updated 10:01 am Feb. 12, 2024 at 7:02 pm



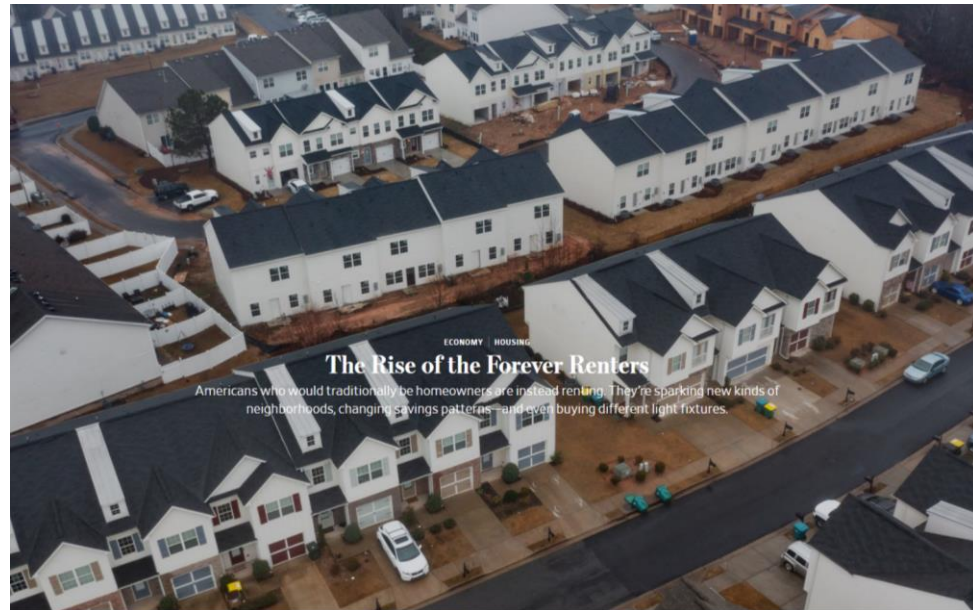
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Possible consequences

Or, renting becomes more prevalent over time

- Young households will not have many options, if affordability doesn't improve
 - Affordability ratios for 1st-time home buyers much worse than for the all-buyer ratios shown
- Might lead to an erosion of the identifying home ownership with being “American”
- Trends has already started, according to the Wall St. Journal, with would-be home owners
 - Households becoming renters by choice



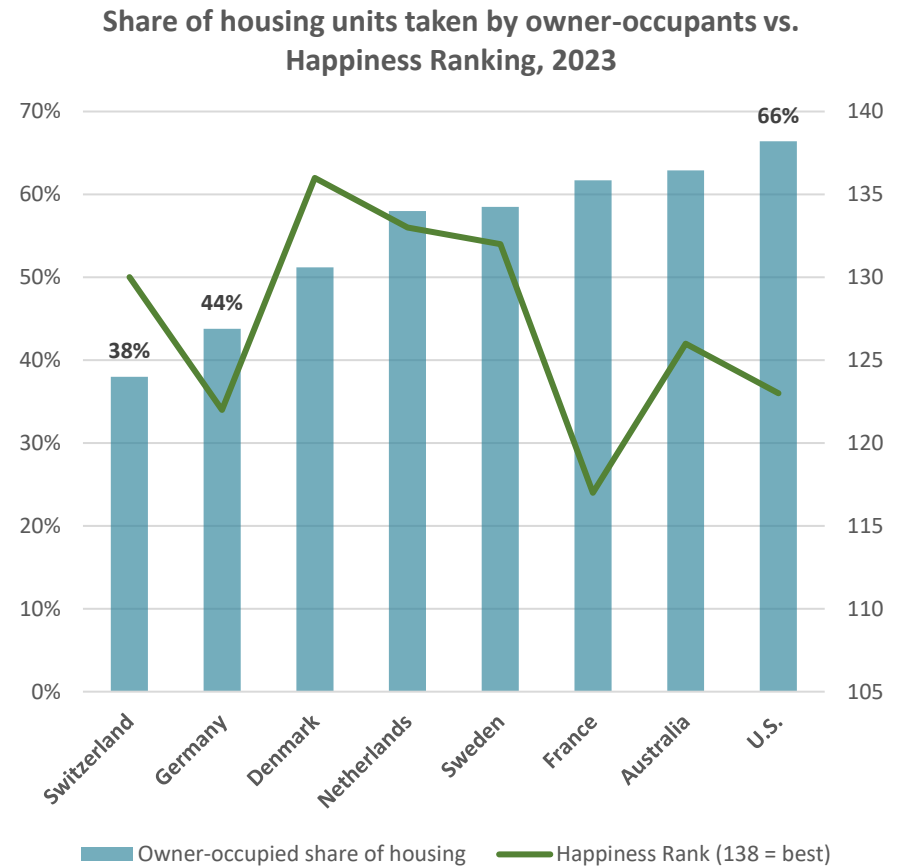
Possible consequences

Long-term renting may not necessarily lead to the shattering of the American dream, however

- Renting is more prevalent than in the U.S. in many advanced economies: Switzerland, Germany, Denmark, Netherlands, Sweden, Australia, among others
- Most of the countries with higher renting rates also show their “Happiness” value places them higher than U.S.
- Might a shift to renting happen here within a generation?

[OECD](#)

[World Population Review](#) (ranking of 138 countries)



THANK YOU

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