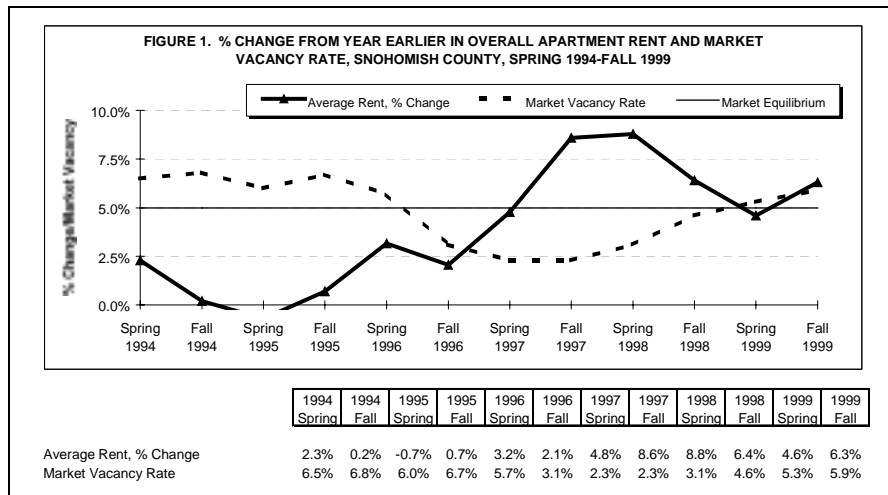


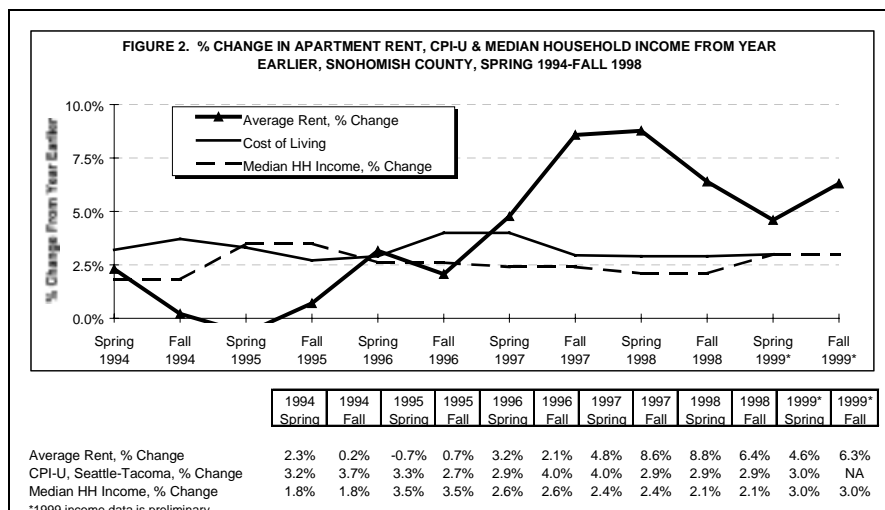
Rental Housing Market: Price Report and Affordability Analysis

Between Spring 1998 and Spring 1999, increases in the countywide vacancy rate led to moderating rent price increases.

The overall vacancy rate in Snohomish County reached its lowest level this decade, 2.3%, in 1997. Since then, vacancies have increased every six months to 5.9% in Fall 1999. While vacancies rose, rents continued to increase, but at slower rates than the highs reached in late 1997 and early 1998. Annual percent change in average rent went from 8.8% in Spring 1998 to 6.4% in Fall 1998 and to 4.6% in Spring 1999.



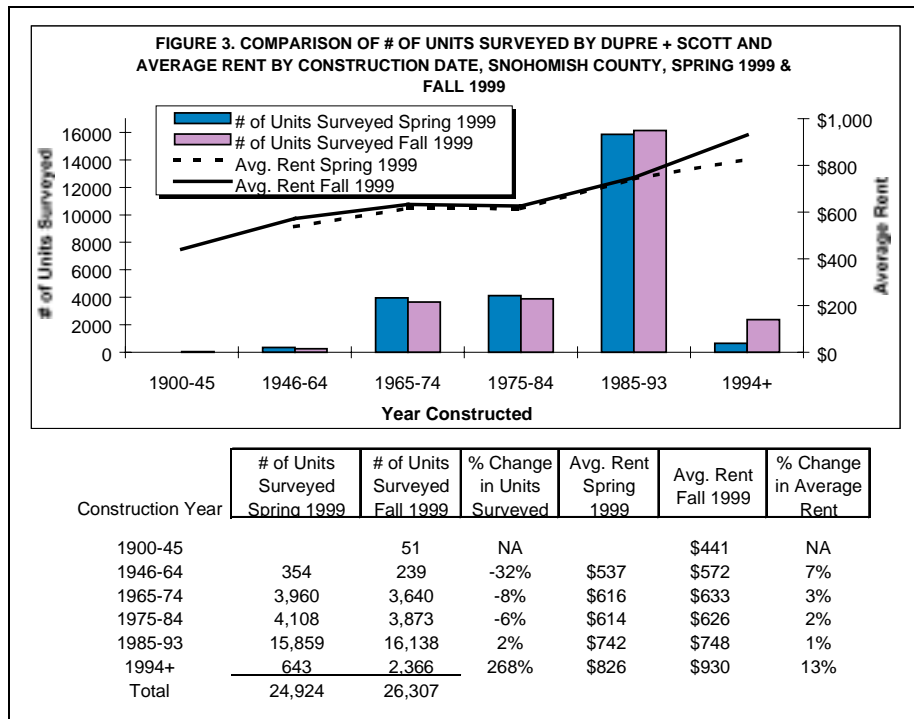
Since 1994, the cost of living (CPI-U for the Seattle area) and annual increases in county median household income have remained at relatively similar levels, both fluctuating between 2% and 4%. In contrast, the annual rate of rent price increase rose more than three times as fast as income and over twice as fast as the cost of living during 1998. Annual percent change in income and cost of living were both at 3.0% in early 1999 while the rate of rent increase dipped to its lowest level in three years, 4.6%. By Fall 1999 annual rent increase returned to more than twice the rate of income growth.



In Fall 1999, annual percent change in rent increased after steadily declining for a year while the county vacancy rate continued its upward trend established in 1998.

Generally as vacancy rates increase, especially beyond the 5% equilibrium level, the market eases and a lower level of rent price increase is expected due to increased options for tenants. However, in September 1999 both rent prices and vacancy rates increased from a year earlier at a faster pace than just six months before.

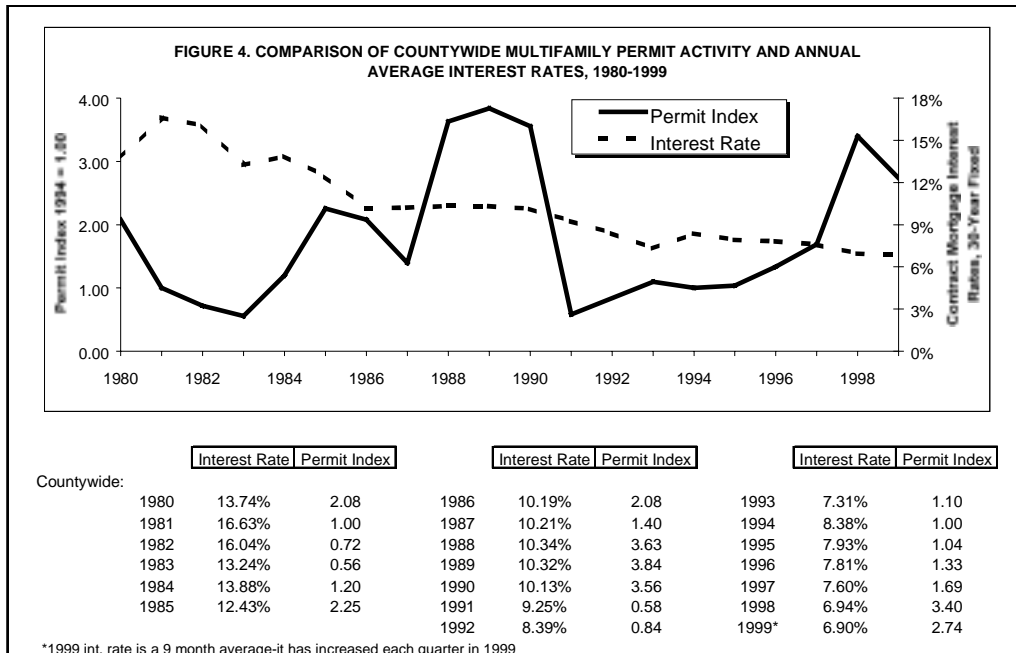
It appears that changes in the distribution of units surveyed by Dupre + Scott Apartment Advisors (source of all rent price information) contributed to the higher than expected rate of rent increase. The number of newly constructed units reported on in the Dupre + Scott apartment survey jumped by 268% between Spring 1999 and Fall 1999 (the result of a construction boom discussed below). Over the same period, rents of these units rose by 13%, the highest percentage of all construction periods. New units tend to be larger units with more bedrooms and other amenities.¹ These are characteristics that generally lead to higher rental rates. The large increase in new units, along with typically higher than average rents, most likely caused the rate of rent increase seen in Fall 1999.



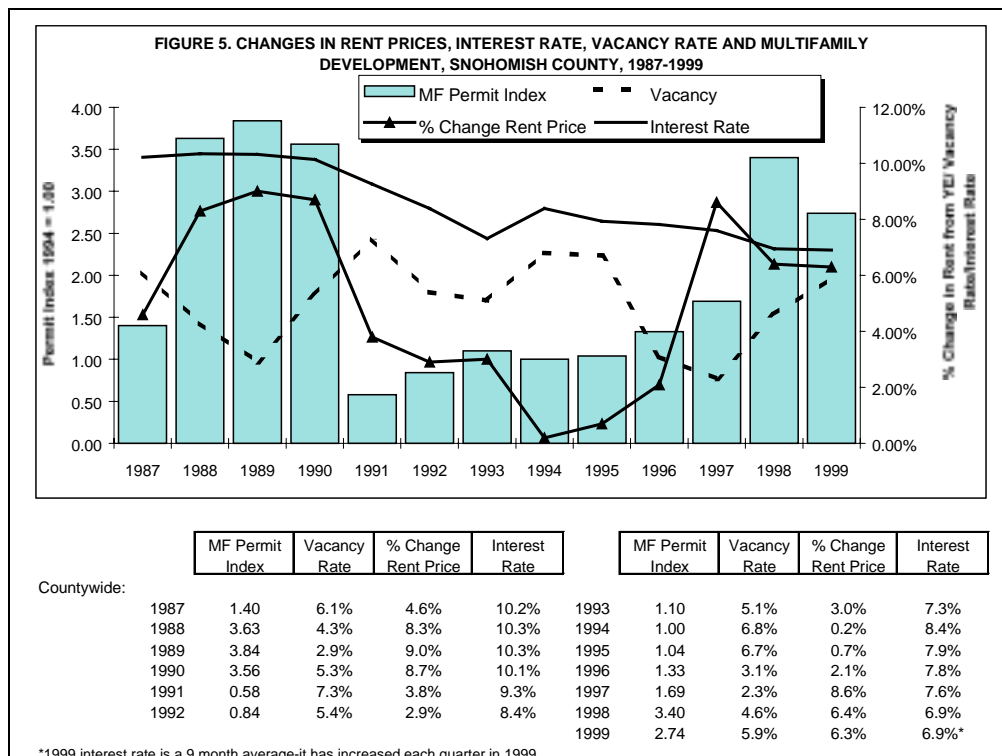
The number of multifamily units authorized by building permits more than doubled between 1997 and 1998, impacting both vacancy rates and rent price increase.

The countywide multifamily permit index (1994 = 1.00) went from 1.69 in 1997 to 3.40 in 1998 and the 1999 permit index is estimated to be 2.74. A total of 4,220 multifamily units were authorized in 1998 and an estimated 3,397 more will be approved by 1999 year end. This compares to 2,093 in 1997 and 1,655 in 1996.

¹ Dupre + Scott Apartment Advisors Inc., The Apartment Vacancy Report, Fall 1997, Volume 15, Number 2, p. 8-9.



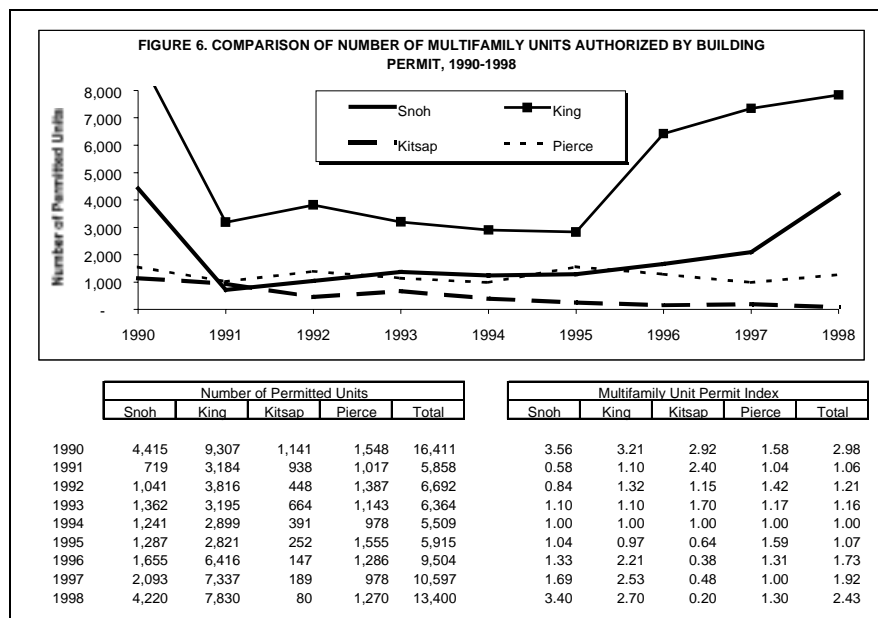
The recent increase in permitted units is a delayed response to the decrease in vacancies that occurred between 1995 and 1997. During that period interest rates remained relatively low, attracting many renters to the homeowner market and leaving developers uncertain about future apartment demand. During other periods of high permit activity in the mid 1980's and the late 1980's/early 1990's interest rates were in the 10% to 13% range making home ownership less affordable than in recent times. The new supply of multifamily units, along with historically low interest rates, has led to a rise in the overall county vacancy rate.



During the late 1980's it took three years of sustained multifamily development before rent price increases dropped. In 1999, annual rent price increase has fluctuated, most recently going up. Past trends indicate that ultimately the burst in permit activity should spur a sustained decline in the rate of rent price increase.

Further downward pressure on rates of rent price increase expected in the future.

Increased construction of multifamily units has occurred throughout the Puget Sound region including King and Pierce counties. In fact, Dupre + Scott believe 1999 will be the "biggest construction year since 1991."² Their latest forecast indicates 6,400 multifamily units will open in the Puget Sound region (King, Pierce and Snohomish counties) in 1999.³ That compares to a reported 3,363 units opened in 1998.⁴ 1998 was also considered a boom construction year, illustrated by increases in the number of permitted units shown in Figure 6.



But Dupre + Scott caution that "our economy has slowed. We need about half of the new units scheduled to open this year, next year, and the next."⁵ The possible oversupply of units will most likely keep vacancies on the rise and put downward pressure on rent price increases. An indication that it is becoming harder to fill apartment units is the increased use of rent incentives (i.e. one month free, etc.) in Snohomish County. As of Fall 1999 the number of properties offering incentives was up to 27% from 14.2% in Fall 1998 and 6.2% in Fall 1997.⁶

It is also useful to compare the relationships of vacancy rates, rent price increases and net migration. Snohomish County has had a considerable amount of net migration in the late

² Dupre + Scott Apartment Advisors Inc., The Apartment Vacancy Bulletin, April 1999, Volume 17, Number 1, p. 4.

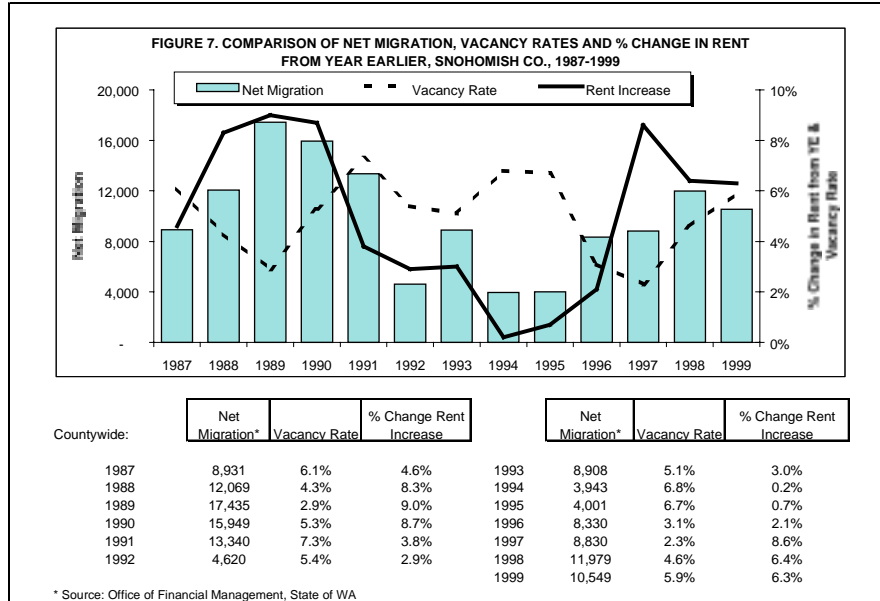
³ Dupre + Scott Apartment Advisors Inc., The Apartment Vacancy Bulletin, October 1999, Volume 17, Number 2, p. 4.

⁴ Dupre + Scott Apartment Advisors Inc., The Apartment Vacancy Bulletin, April 1999, Volume 17, Number 1, p. 4.

⁵ Dupre + Scott Apartment Advisors Inc., The Apartment Vacancy Bulletin, October 1999, Volume 17, Number 2, p. 4.

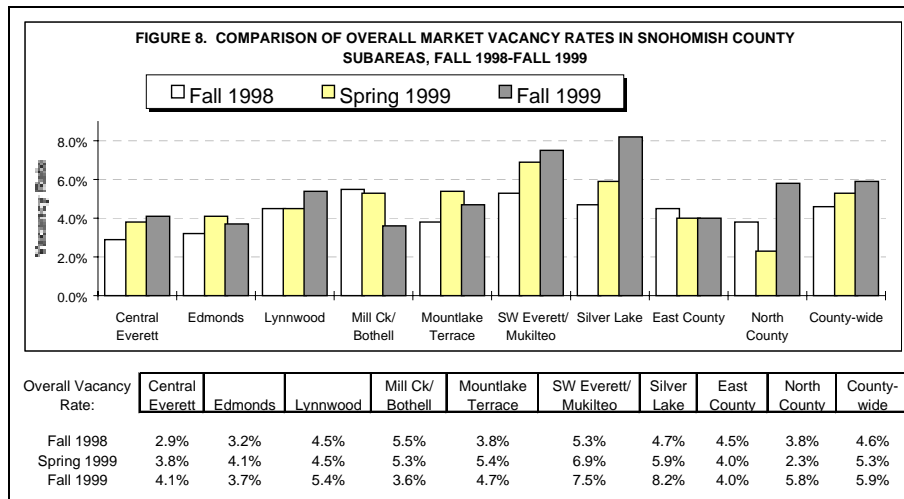
⁶ Dupre + Scott Apartment Advisors, Inc., The Apartment Vacancy Report, Fall 1999, Volume 17, Number 2, p. 95.

1990's, surpassed in the last decade only by the large period of migration from 1988 to 1991. At the tail end of the earlier period an increase in vacancies occurred at the same time as a surge in net migration, as has happened recently. At the same time, in the early 1990's, the rate of rent price increase was declining. Based on past trends, Fall 1999 is most likely a transition period which will be followed by rent price moderation.



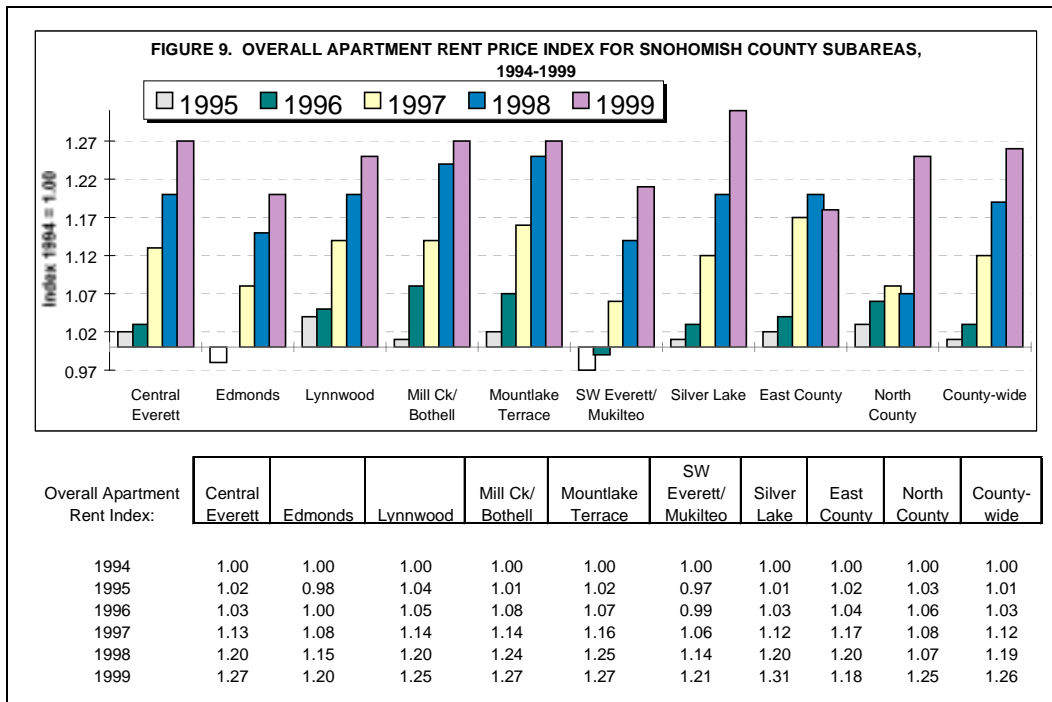
In Fall 1999, 7 of the 9 county subareas had higher vacancy rates than a year earlier indicating the market had begun to ease in most areas of the county.

As of Fall 1999 all county subareas (as defined by Dupre + Scott) had vacancy rates over 3% and seven had higher rates than reported a year earlier. The countywide vacancy rate was 5.9% up from 4.6% in Fall 1998. The Mill Creek/Bothell and East County subareas both experienced a decrease in vacancy rates since Fall 1998, indicating a further tightening of these markets in contrast to countywide trends. Silver Lake and SW Everett/Mukilteo had the highest vacancy rates in the county, 8.2% and 7.5% respectively.

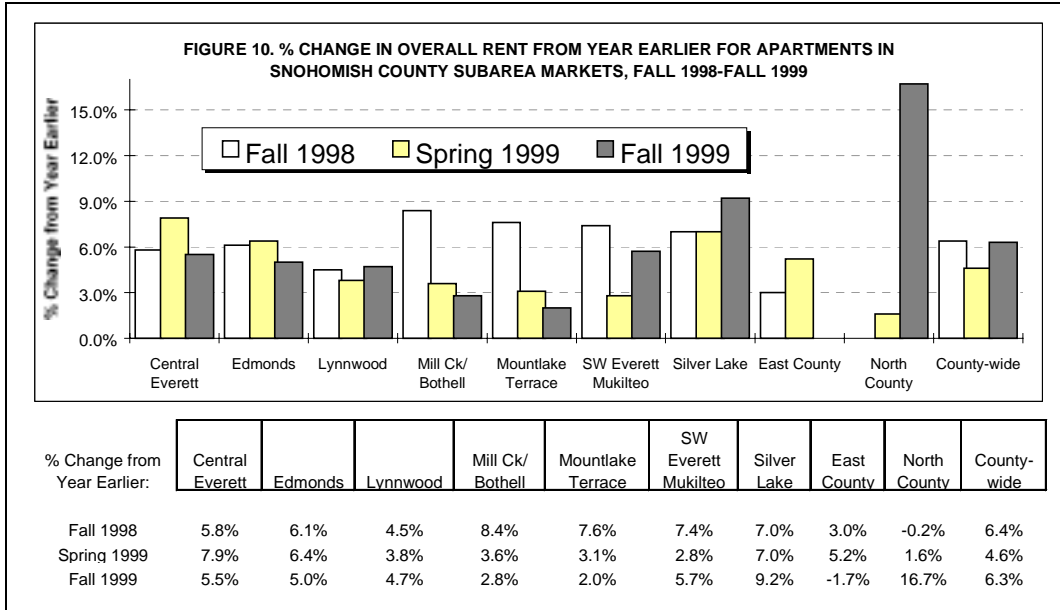


Silver Lake has the highest rate of price increase in the county; however, average rent in the subarea is still within two percent of overall countywide average rent.

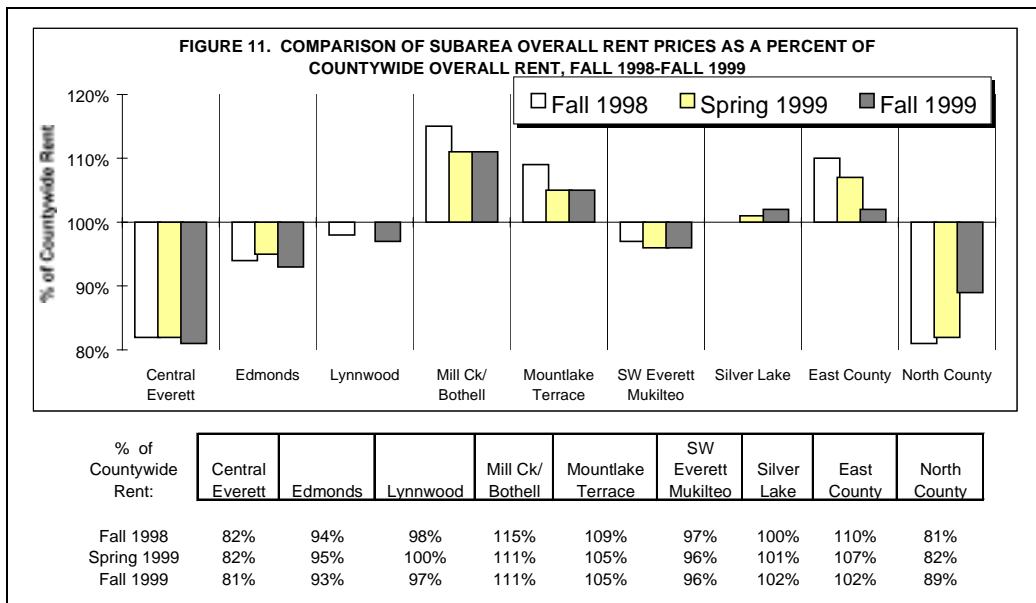
The 1999 countywide rent price index is 1.26 (1994 = 1.00) indicating that rents have increased 26% since 1994 (See Apartment Rent/Income Ratio & Price Index. The East County, Edmonds and SW Everett/Mukilteo subareas have the lowest rates of rent price increase. Since 1995, Silver Lake has had rates of rent increase very similar to overall countywide rates; however, in 1999 it has the highest rate of rent price increase in the county, 1.31. Interestingly, vacancies in the subarea were up as well in 1999. Both trends may be related to a large number of new units opening in the area, which typically rent for higher prices. In Fall 1999, 1,151 units built since 1994 were included in Dupre + Scott survey results. Just a year earlier, no units built during the most recent construction period were reported on in the Silver Lake area. The remaining subareas have rates of increase very similar to the countywide rate.

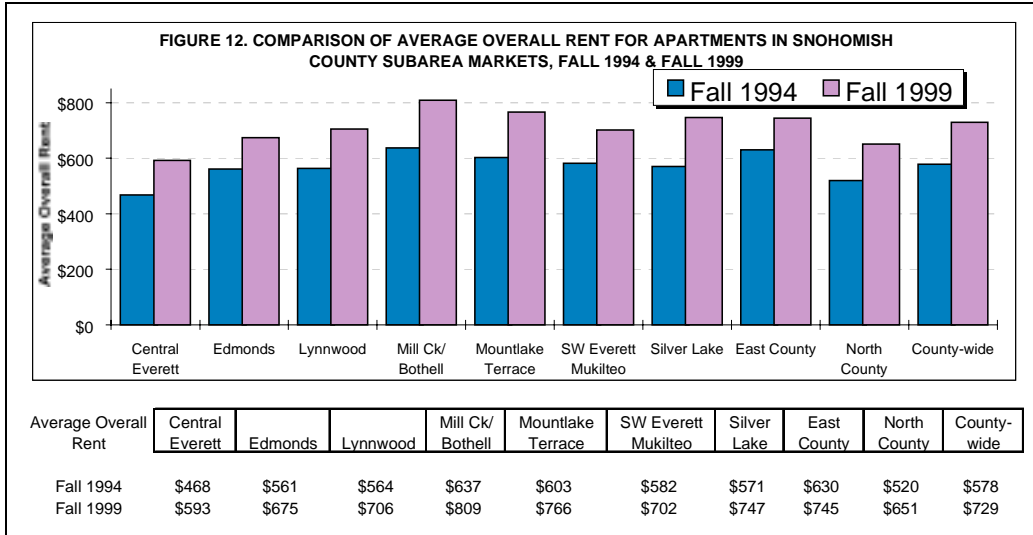


As discussed earlier, the countywide annual rate of rent price increase went from 6.4% in Fall 1998 to 4.6% in Spring 1999 and back up to 6.3% in Fall 1999. The lowest rates of annual rent price increase in Fall 1999 occurred in Mountlake Terrace and Mill Creek/Bothell. East County rental data indicates that rent prices actually decreased by 1.7% from a year earlier. The highest increase in rent, 16.7%, occurred in the North County subarea. This is most likely the result of over 40% fewer units included in the survey results than a year earlier and, of the units reported on in Fall 1999, more were 2 bedroom/2 bathroom and 3 bedroom units which typically rent for higher prices. Rent price data can be found in the Apartment Rent Price Report.



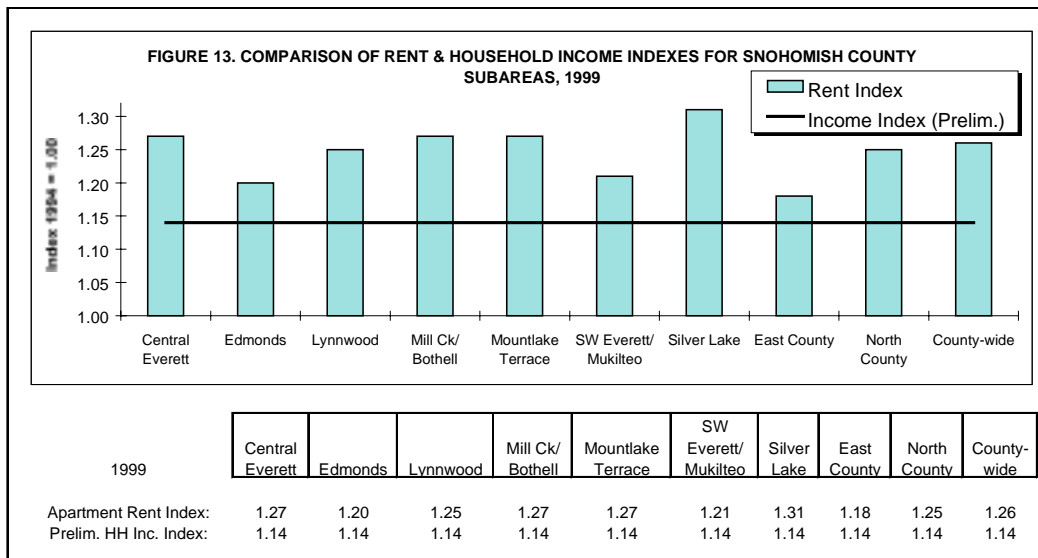
The highest rents in the county compared with countywide average rent are found in Mill Creek/Bothell, Mountlake Terrace, East County and Silver Lake. All of these subareas have had rents that were 100% or more of the countywide average since Fall 1998. East County rents as a percent of countywide average rent decreased from 110% in Fall 1998 to 102% in Fall 1999. Average rent in Silver Lake was equal to countywide rent in Fall 1998. By Fall 1999 Silver Lake rents were 2% higher than overall countywide rent. The most affordable areas in the county remain Central Everett and North County which have had rents between 81% and 89% of average countywide rent since Fall 1998.





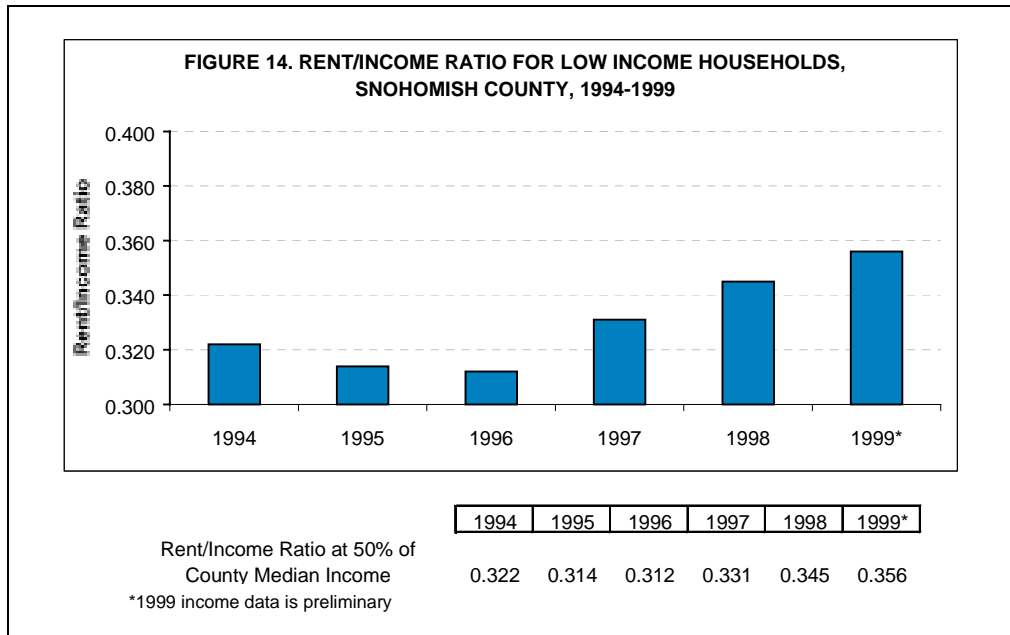
1999 rent prices in Snohomish County have increased faster in all subareas than median household income. In all but one subarea low income households pay over 30% of their income on rent.

Our preliminary 1999 median household income estimate results in an income index of 1.14 (1994 = 1.00), indicating income has grown 14% since 1994. As illustrated in the figure below, rent prices in all county subareas are growing at a faster rate than household income.

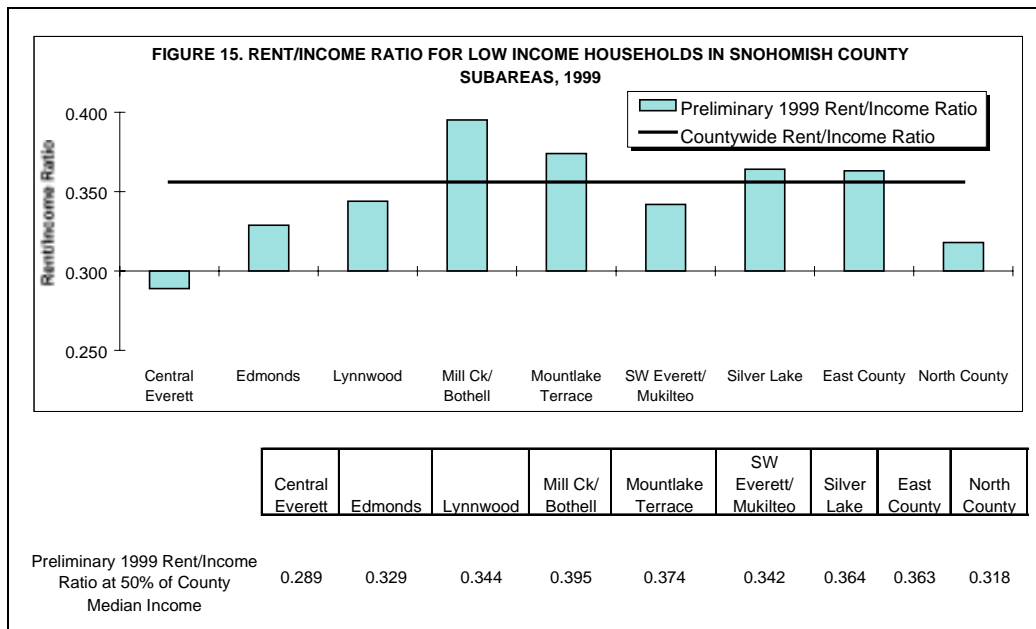


As a general rule, housing expenses that exceed 30% of gross household income per year are considered unaffordable because they cause people to cut back spending on other essential items such as food or health care. The rent/income ratio provides a way to track how rent costs affect low income families (living at 50% of countywide median income-considered more representative of typical renter households). Countywide, the rent/income ratio was 0.322 in 1994. Over the next two years, the ratio declined to a low of 0.312, but in 1997 it rose to 0.331 and in 1999 it is at a high of 0.356 (See Apartment Rent/Income Ratio & Price Index). This

means that households living at 50% of median income pay over 35% of their income on rent. There has been a relative countywide deterioration in rental affordability since 1997.



Only one subarea, Central Everett, has a rent/income ratio under 30%. The highest rent/income ratios are found in Mill Creek/Bothell where households making 50% of median county income pay almost 40% of their income on rent and in Mountlake Terrace where 37% of income goes to housing expenses.



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