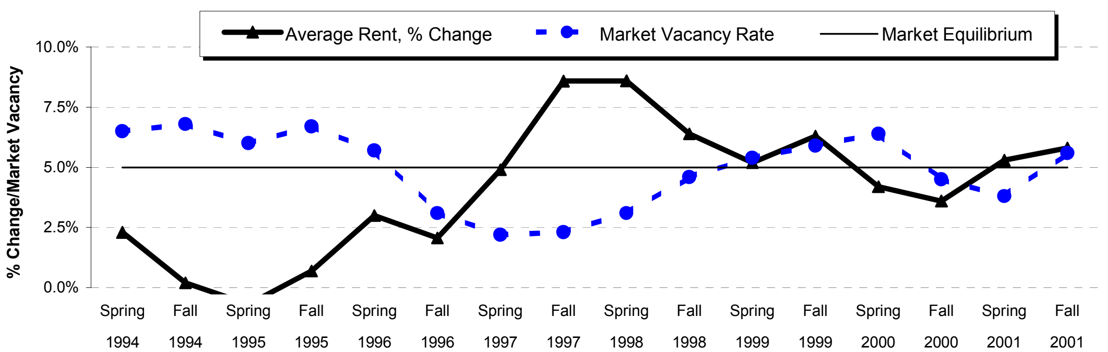
## Rental Housing Market: Price Report and Affordability Analysis

### Fall 2001 average vacancy and the annual rate of rent increase were up from a year ago.

According to Fall 2001 data, the countywide vacancy rate for apartment properties with 20 or more units was 5.6%. This was up from 3.8% six months earlier and from 4.5% a year ago. Newly constructed rental units coming onto the market, low mortgage interest rates and a weakening economy are all likely contributing to the recent rise in vacancies. In response to rising vacancies, the use of rent incentives has increased. In Snohomish County, 36.6% of 20+ unit rental properties were offering some type of incentive to attract tenants (i.e. one month of free rent, etc.).[1] This was the highest percentage of incentive use in the last five years and compares to 18.8% of properties offering incentives six months earlier.

FIGURE 44. % CHANGE FROM YEAR EARLIER IN OVERALL 20+ UNIT APARTMENT RENT & MARKET VACANCY RATE, SNOHOMISH COUNTY, SPRING 1994-FALL 2001




| | 1994 Spring | 1994 Fall | 1995 Spring | 1995 Fall | 1996 Spring | 1996 Fall | 1997 Spring | 1997 Fall | 1998 Spring | 1998 Fall | 1999 Spring | 1999 Fall | 2000 Spring | 2000 Fall | 2001 Spring | 2001 Fall |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Average County Rent | $573 | $578 | $569 | $582 | $586 | $594 | $615 | $645 | $668 | $686 | $703 | $729 | $733 | $755 | $772 | $799 |
| Average Rent, % Change | 2.3% | 0.2% | -0.7% | 0.7% | 3.0% | 2.1% | 4.9% | 8.6% | 8.6% | 6.4% | 5.2% | 6.3% | 4.2% | 3.6% | 5.3% | 5.8% |
| Market Vacancy Rate | 6.5% | 6.8% | 6.0% | 6.7% | 5.7% | 3.1% | 2.2% | 2.3% | 3.1% | 4.6% | 5.4% | 5.9% | 6.4% | 4.5% | 3.8% | 5.6% |

Countywide, Fall 2001 rent prices increased by 5.8% from a year earlier. That was the highest rate of rent price increase since Fall 1999. Some of this increase may be due to the fact that many newly constructed units are on the market in the county (more than twice as many units built after 1994 are included in the 2001 rental data compared to the 1999 data set). These units tend to have higher rents than older units. In addition, 66% of county units in 20+ unit properties pass water/sewer charges onto tenants.[2] That means tenants' cost burden may be greater than rent levels indicate. Although, the use of rent incentives mentioned above may be helping to moderate the effects of some of the increases in rent and utility charges.

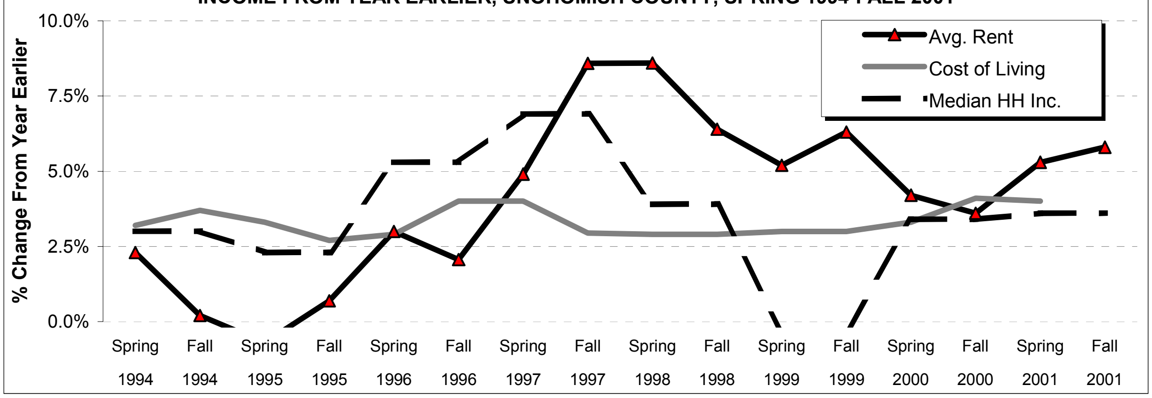
Both the rate of rent price increase and the county vacancy rate are now over 5%. Generally, if vacancies rise over 5% rent price increase tends to moderate. While the data does not depict this trend yet, it is likely that if vacancies continue to rise, we will see the rate of rent increase decline in the next few periods and the use of incentives may increase even further. Recent trends in the use of rent incentives seem to point moderating rent prices already.

[1] Dupre + Scott Apartment Advisors, Inc., *The Apartment Vacancy Report*, Fall 2001, Volume 19, No. 2, p. 96.
[2] Dupre + Scott Apartment Advisors, Inc., *The Apartment Vacancy Report*, Fall 2001, Volume 19, No. 2, p. 27.

**Rent prices are again increasing at a faster pace than income and the local cost of living indicator.**

Starting in Fall 1997, countywide annual increase in average rent exceeded increases in median household income and the cost of living indicator for the Seattle-Everett area. In 2000, the gap between the rates of increase for these three indicators became much smaller as the rates converged around 3.5%-4.0%. However, as of Spring 2001, the annual increase in average rent price was again increasing notably faster than both the increase in median household income and the local cost of living indicator.

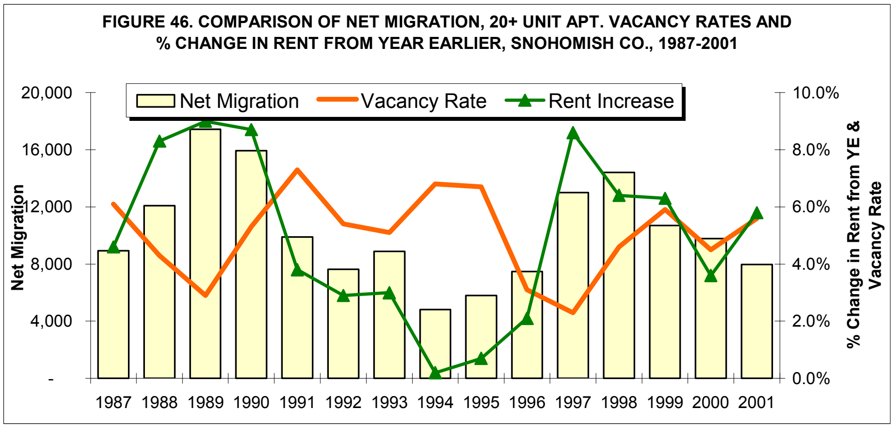
**FIGURE 45. % CHANGE IN 20+ UNIT APARTMENT RENT, CPI-U AND MEDIAN HOUSEHOLD INCOME FROM YEAR EARLIER, SNOHOMISH COUNTY, SPRING 1994-FALL 2001**




| | 1994 Spring | 1994 Fall | 1995 Spring | 1995 Fall | 1996 Spring | 1996 Fall | 1997 Spring | 1997 Fall | 1998 Spring | 1998 Fall | 1999 Spring | 1999 Fall | 2000 Spring | 2000 Fall | 2001 Spring | 2001 Fall |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Avg. Rent | 2.3% | 0.2% | -0.7% | 0.7% | 3.0% | 2.1% | 4.9% | 8.6% | 8.6% | 6.4% | 5.2% | 6.3% | 4.2% | 3.6% | 5.3% | 5.8% |
| CPI-U | 3.2% | 3.7% | 3.3% | 2.7% | 2.9% | 4.0% | 4.0% | 2.9% | 2.9% | 2.9% | 3.0% | 3.0% | 3.3% | 4.1% | 4.0% | NA |
| Median HH Inc. | 3.0% | 3.0% | 2.3% | 2.3% | 5.3% | 5.3% | 6.9% | 6.9% | 3.9% | 3.9% | -0.3% | -0.3% | 3.4% | 3.4% | 3.6% | 3.6% |

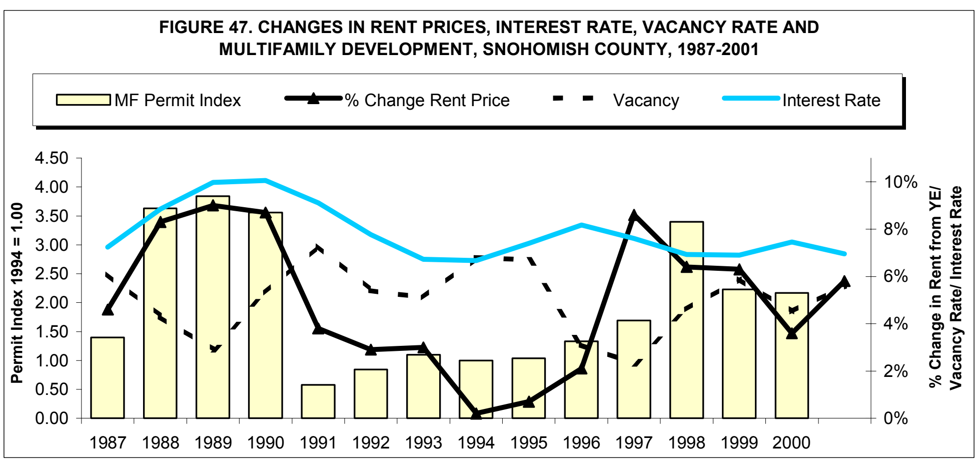
**Various factors suggest that vacancies will climb further which should put downward pressure on the rate of rent price increase based on past trends.**

Net migration to Snohomish County over the last ten years peaked in 1998. Since 1999, net migration has continued to decrease each year although levels remained relatively high compared with periods in the early and mid 1990s. Migration to the area is likely to remain down from levels seen a few years ago due to worsening economic conditions. Looking at the relationship between net migration, rent price increase and vacancy rates in the late 1980s/early 1990s, it appears likely that the rate of rent increase will decline if vacancies remain over 5% and migration continues to slow.




| Countywide: | Net Migration | Vacancy Rate | % Change Rent | | Net Migration | Vacancy Rate | % Change Rent |
|---|---|---|---|---|---|---|---|
| 1987 | 8,931 | 6.1% | 4.6% | 1994 | 4,823 | 6.8% | 0.2% |
| 1988 | 12,069 | 4.3% | 8.3% | 1995 | 5,791 | 6.7% | 0.7% |
| 1989 | 17,435 | 2.9% | 9.0% | 1996 | 7,474 | 3.1% | 2.1% |
| 1990 | 15,935 | 5.3% | 8.7% | 1997 | 13,005 | 2.3% | 8.6% |
| 1991 | 9,890 | 7.3% | 3.8% | 1998 | 14,407 | 4.6% | 6.4% |
| 1992 | 7,630 | 5.4% | 2.9% | 1999 | 10,687 | 5.9% | 6.3% |
| 1993 | 8,883 | 5.1% | 3.0% | 2000 | 9,784 | 4.5% | 3.6% |
| | | | | 2001 | 7,968 | 5.6% | 5.8% |

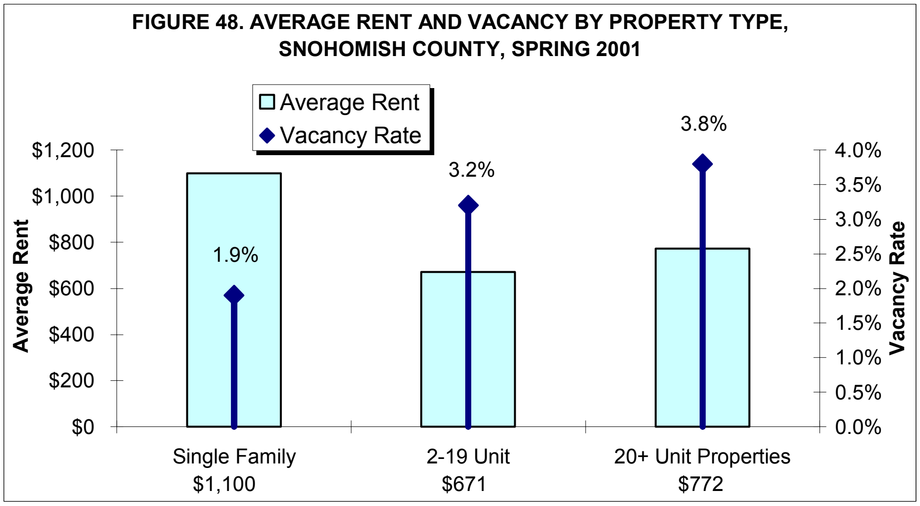
Permitting of multi-family units has dropped since 1998. However, the number of units permitted since then is still relatively high compared to most of the last decade. The new units being added to the market will further increase the local supply of rental housing at a time when net migration to the area is down. Fall 2001 data already shows an increase in the vacancy rate and it is likely that if that trend continues we will see a decline in the rate of rent increase in the future.




| Countywide: | | MF Permit Index | Vacancy Rate | % Change Rent Price | Interest Rate | | MF Permit Index | Vacancy Rate | % Change Rent Price | Interest Rate |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1987 | 1.40 | 6.1% | 4.6% | 7.24% | 1994 | 1.00 | 6.8% | 0.2% | 6.67% |
| | 1988 | 3.63 | 4.3% | 8.3% | 8.85% | 1995 | 1.04 | 6.7% | 0.7% | 7.40% |
| | 1989 | 3.84 | 2.9% | 9.0% | 9.97% | 1996 | 1.33 | 3.1% | 2.1% | 8.17% |
| | 1990 | 3.56 | 5.3% | 8.7% | 10.06% | 1997 | 1.69 | 2.3% | 8.6% | 7.60% |
| | 1991 | 0.58 | 7.3% | 3.8% | 9.11% | 1998 | 3.40 | 4.6% | 6.4% | 6.93% |
| | 1992 | 0.84 | 5.4% | 2.9% | 7.76% | 1999 | 2.23 | 5.9% | 6.3% | 6.90% |
| | 1993 | 1.10 | 5.1% | 3.0% | 6.72% | 2000 | 2.17 | 4.5% | 3.6% | 7.49% |
| | | | | | | 2001 | NA | 5.6% | 5.8% | 6.95*% |

* Average through 3rd Quarter of 2001

**Single family homes rent for more than other property types and at the same time have the lowest vacancy rate.**




| Apartment Property Types | Single Family | 2-19 Unit | 20+ Unit Properties |
|---|---|---|---|
| Average Rent | $1,100 | $671 | $772 |
| Vacancy Rate | 1.9% | 3.2% | 3.8% |
| Average Age | 1965 | 1969 | 1984 |

Average Spring 2001 rent for a single family home was over $300 more than units in properties with 20+ units and over $400 more than apartments in 2-19 unit properties. Typically, single family homes rent for a premium due to the amenities associated with them. Interestingly, the overall vacancy rate for single family homes was low compared to other property types indicating high demand for these units despite higher rent prices.

**Variation in rent prices exists throughout the county due to many factors.**

As of Spring 2001, countywide average rent was $772 for units in properties with 20+ units. Of the incorporated and unincorporated areas with more than fifteen total units surveyed[3] the City of Bothell had the highest average rent at $1,084 and the City of Marysville had the lowest average rent of $681. Rent in the City of Mountlake Terrace, $786, closely matched the countywide average. Differences in average rent can be the result of factors such as location, amenities offered, age of units, square footage and bedroom composition of the units. For example, the average year built of units surveyed in Bothell was 1997 compared to an average year built of 1989 in Marysville. Since, holding other factors equal, newer units typically rent for more than older units this may help explain some of the difference in rent levels between the two cities.

[3] Dupre + Scott Apartment Advisors, Inc., annual Spring survey of 20+ unit apartment properties.

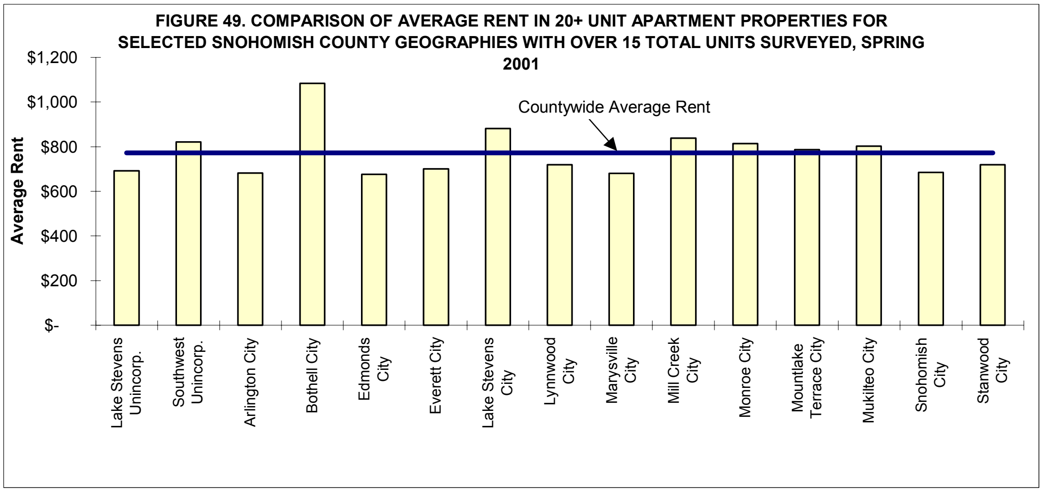



**FIGURE 49. COMPARISON OF AVERAGE RENT IN 20+ UNIT APARTMENT PROPERTIES FOR SELECTED SNOHOMISH COUNTY GEOGRAPHIES WITH OVER 15 TOTAL UNITS SURVEYED, SPRING 2001**

| Average Rent 20+ Unit Properties | Lake Stevens Unincorp. | Southwest Unincorp. | Arlington City | Bothell City | Edmonds City | Everett City | Lake Stevens City | Lynnwood City |
|---|---|---|---|---|---|---|---|---|
| Spring 2001 | $692 | $820 | $682 | $1,084 | $676 | $701 | $881 | $719 |
| # of Units Surveyed | 59 | 9,322 | 146 | 910 | 1,599 | 7,624 | 52 | 2,743 |

| Average Rent 20+ Unit Properties | Marysville City | Mill Creek City | Monroe City | Mountlake Terrace City | Mukilteo City | Snohomish City | Stanwood City | Countywide |
|---|---|---|---|---|---|---|---|---|
| Spring 2001 | $681 | $838 | $814 | $786 | $802 | $685 | $719 | $772 |
| # of Units Surveyed | 358 | 1,118 | 282 | 2,002 | 1,735 | 24 | 231 | 28,205 |

**New rental affordability data indicates that 99% of county rental units are affordable to low & moderate income households.**

In the past, we have relied on a rent/income ratio to gauge affordability of rental housing in the county. The ratio provides a way to track how rent costs affect low-income households (earning 50% of county median income and considered to be more representative of typical renter households). As a general rule, if a household spends more than 30% of their income on rent, spending on other essential items such as health care or food has to be cut back. The 2001

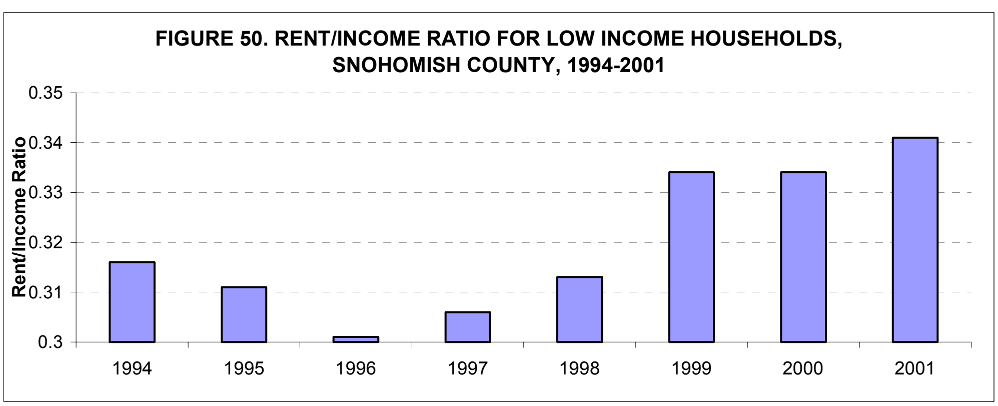


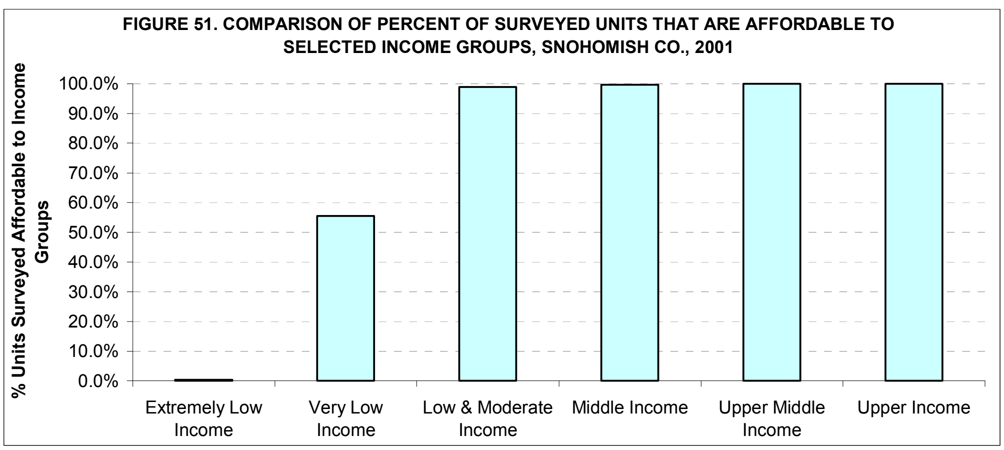

**FIGURE 50. RENT/INCOME RATIO FOR LOW INCOME HOUSEHOLDS, SNOHOMISH COUNTY, 1994-2001**

| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|---|---|
| Rent/Income Ratio at 50% of County Median Income | 0.316 | 0.311 | 0.301 | 0.306 | 0.313 | 0.334 | 0.334 | 0.341 |

countywide rent/income ratio is 0.341, indicating that a low income household spent over 34% of their income to rent the average priced unit in the county. Looking at the ratio over the last eight years, rental affordability has been deteriorating since 1997.

This year, for the first time, we are able to analyze rental affordability for various income groups (i.e. extremely low, very low, low/moderate, etc.) by Growth Management Act geographies (i.e. cities, unincorporated UGAs, rural county). The Snohomish County Rental Housing Study, prepared by Dupre + Scott (August 2001), provided this new data based on Spring 2001 rental data for all property types (single family, 2-19 and 20+ unit rental properties). A unit is considered to be affordable if the rent does not constitute more than 30% of a household's median income.[4]

Countywide, 98.9% of 2001 rental units were affordable to households earning up to 95% of county median household income and 55.5% of those units were affordable to households earning up to 54% of median household income. There were virtually no surveyed market units affordable to extremely low income households, earning less than 30% of median income. However, the rental units reported on in the Growth Monitoring Report do not include any assisted rental (subsidized) housing units.

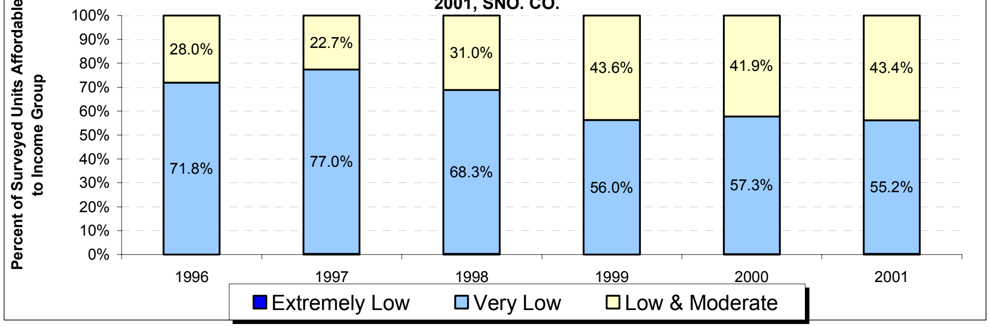



| Countywide-2001 | Extremely Low Income | Very Low Income | Low & Moderate Income | Middle Income | Upper Middle Income | Upper Income |
|---|---|---|---|---|---|---|
| % of Median HH Income | 0-30% | 31-54% | 55-95% | 96-120% | 121-175% | >175% |
| % of Affordable Surveyed Units | 0.3% | 55.5% | 98.9% | 99.7% | 100.0% | 100% |

This affordability data over time depicts a shift in the proportion of rental units affordable to very low and low/moderate income groups. In 1996, almost 72% of surveyed units were affordable to very low income households while another 28% of units were affordable to low/moderate income households. By 2001, the percentage of units affordable to these income groups was more evenly divided. This indicates that while there is still a high percentage of units affordable to households earning up to 95% of median income, a smaller proportion of these units is now affordable to very low income households earning up to 54% of median income.

[4] Income figures are based on the State Office of Financial Management median household income series by county (figures published September 2000). The 2001 income estimate is based on past trends of the OFM series.

**FIGURE 52. DISTRIBUTION OF RENTAL HOUSING AFFORDABILITY BY INCOME GROUP, 1996-2001, SNO. CO.**

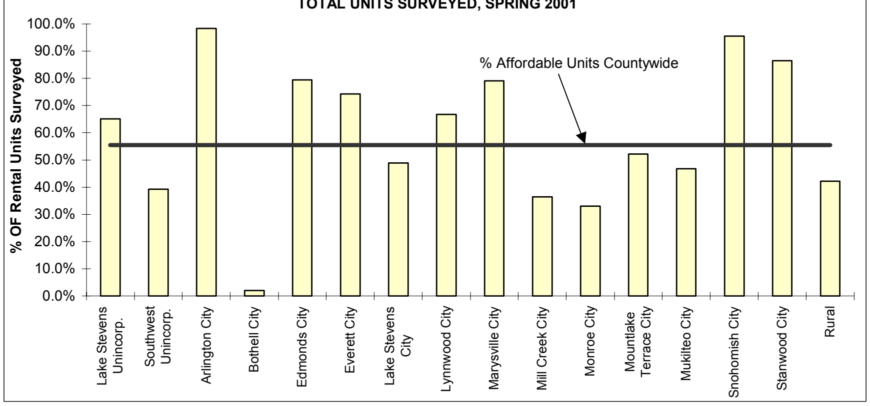



| Percent of Surveyed Rental Units Affordable to Income Groups, Countywide | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|
| **Extremely Low Income** (0-30% of median HH income) | 0.0% | 0.2% | 0.3% | 0.0% | 0.1% | 0.3% |
| **Very Low Income** (31-54% of median HH income) | 71.8% | 77.0% | 68.3% | 56.0% | 57.3% | 55.2% |
| **Low & Moderate Income** (55-95% of median HH income) | 28.0% | 22.7% | 31.0% | 43.6% | 41.9% | 43.4% |
| **Total % of Units Affordable to HHs earning up to 95% of median HH Income** | 99.8% | 99.9% | 99.6% | 99.6% | 99.3% | 98.9% |

Source: *Snohomish County Rental Housing Study*, August 2001, Dupre + Scott Apartment Advisors, Inc.

Looking at smaller geographies within the county, there is quite a bit of variation in the percent of surveyed units affordable to very low income households (earning up to 54% of median income). Based on Spring 2001 data, the percent of units affordable to very low income households ranges from 2% of surveyed units in the City of Bothell to 98.4% of units in the City of Arlington.

**FIGURE 53. COMPARISON OF PERCENT OF UNITS SURVEYED AFFORDABLE TO VERY LOW INCOME HOUSEHOLDS IN SELECTED SNOHOMISH COUNTY GEOGRAPHIES WITH OVER 15 TOTAL UNITS SURVEYED, SPRING 2001**



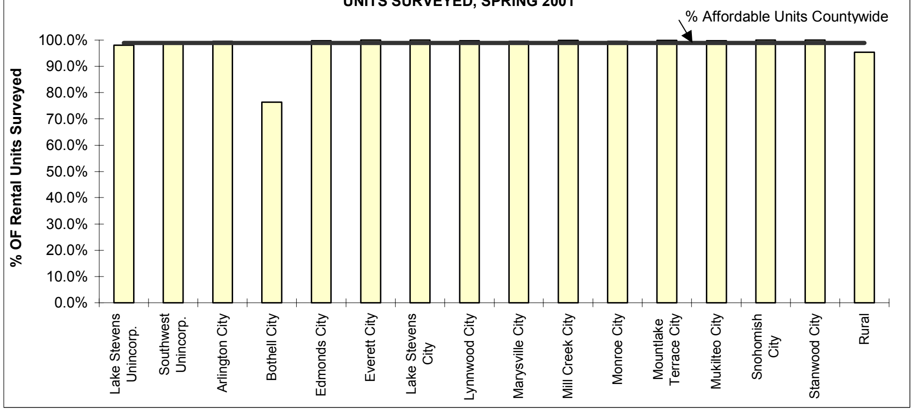

| % of total surveyed units affordable to **very low** income HH | Lake Stevens Uninc. | South-west Uninc. | Arlington City | Bothell City | Edmonds City | Everett City | Lake Stevens City | Lynn-wood City |
|---|---|---|---|---|---|---|---|---|
| 2001 | 65.1% | 39.3% | 98.4% | 2.0% | 79.5% | 74.2% | 48.9% | 66.7% |
| # of Afford. Units Surveyed | 71 | 3,709 | 180 | 19 | 1,394 | 6,036 | 42 | 1,892 |

| % of total surveyed units affordable to **very low** income HH | Marys-ville City | Mill Creek City | Monroe City | Mountlake Terrace City | Mukilteo City | Snoho-mish City | Stanwood City | Rural | County-wide |
|---|---|---|---|---|---|---|---|---|---|
| 2001 | 79.1% | 36.5% | 33.1% | 52.2% | 46.8% | 95.5% | 86.5% | 42.2% | 55.5% |
| # of Afford. Units Surveyed | 383 | 409 | 143 | 1,055 | 819 | 84 | 205 | 27 | 16,493 |

Notes: very low income households earn up to 54% of county median household income

The variation in affordability between subareas of the county virtually disappears when looking at the percent of surveyed units affordable to low and moderate income households (earning up to 95% of county median income). In all but two of the county subareas with over 15 total units surveyed, 98% or more of those units were affordable to low and moderate income households.

FIGURE 54. COMPARISON OF PERCENT OF UNITS SURVEYED AFFORDABLE TO LOW & MODERATE INCOME HOUSEHOLDS IN SELECTED SNOHOMISH COUNTY GEOGRAPHIES WITH OVER 15 TOTAL UNITS SURVEYED, SPRING 2001




| % of total surveyed units affordable to **low & mod** income HH | Lake Stevens Uninc. | South-west Uninc. | Arlington City | Bothell City | Edmonds City | Everett City | Lake Stevens City | Lynn-wood City |
|---|---|---|---|---|---|---|---|---|
| 2001 | 98.1% | 99.1% | 99.5% | 76.4% | 99.8% | 100.0% | 100.0% | 99.8% |
| # of Afford. Units Surveyed | 107 | 9,356 | 182 | 708 | 1,750 | 8,133 | 86 | 2,828 |

| % of total surveyed units affordable to **low & mod** income HH | Marys-ville City | Mill Creek City | Monroe City | Mountlake Terrace City | Mukilteo City | Snoho-mish City | Stan-wood City | Rural | County-wide |
|---|---|---|---|---|---|---|---|---|---|
| 2001 | 99.5% | 99.9% | 99.5% | 99.9% | 99.8% | 100.0% | 100.0% | 95.3% | 98.9% |
| # of Afford. Units Surveyed | 482 | 1,119 | 430 | 2,018 | 1,747 | 88 | 237 | 61 | 29,378 |

Notes: low & moderate income households earn up to 95% of county median household income