

# House Poor

**With little land and lots of lookers, the hunt for homes is staying hot**

By [William Dietrich](#) | Photographed by Benjamin Benschneider



Getting into a home can be tough, not just financially but in finding a key that works to a \$190,000 Capitol Hill condo. Windermere agent Kevin Gaspari calls while client Kevin Moser waits, in their quest for something close, affordable and decent.

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KEVIN MOSER works at Weyerhaeuser headquarters but wants to buy where he already rents: on First Hill or Capitol Hill.

"Federal Way is boring," the 25-year-old says. "Seattle is where I want to live."

He also wants a one-bedroom condominium, with parking, for \$150,000 to \$200,000.

Back in prehistoric times — say, the year 2000 — this would have been eminently reasonable. But the recent housing-price spike has made this quest so difficult that Windermere real-estate agent Kevin Gaspari pumps his arms in celebration when Moser allows he could go as high as \$220,000.

The reason is soon apparent. First stop is a dark and dated 1931 building with "Rosemary's Baby" ambience in which the sleepy occupant tells us to come back later. We don't. Second is a brighter \$160,000 condo across from a park, but it has just 530 square feet, or \$302 per square foot for a 1980s decor with a living room the size of a walk-in closet. Next comes a ground-floor unit facing an alley, then a basement unit that, Moser observes, "feels like a cave" with sagging walls and floors.

We're up to \$208,000, or more than I got for my three-bedroom, two-bath suburban rambler, on a quarter acre, just seven years ago. I need oxygen.



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Gaspari, left, coaches Moser to use both imagination and critical judgment in evaluating a starter-level condominium on Capitol Hill.

The first place with real charm is an 1899 Capitol Hill bed and breakfast being converted to condominiums, but now we're at \$390 a square foot — \$238,000 — which buys you new appliances, a granite countertop, 10-foot ceilings and nice moldings. Even then, the unit is on a busy street, lacks its own washer and dryer, and "is too much like a hotel," Moser concludes.

Realtor and client are undaunted, beginning to forge that love-hate relationship every client has with every agent. But Moser's quest for centrality, economy and quality — in sum, the starter-home dream of half the twenty-somethings this side of North Bend — is tougher than a scavenger hunt for the Holy Grail. Heck, the swankiest view units in Belltown can hit \$1,000 a square foot, meaning you could swap a walk-in closet there for a Mercedes.

Yes, things haven't been this financially wacky since the dot-com enthusiasms of — oh my, was it just five years ago? And recession-hammered Seattle is a placid market compared to California, Las Vegas, Miami, New York and New England. We're just beginning to see "flipping" here, or investors who buy for the sole intention of reselling for a profit a few months later.

"So what?" some of you are thinking. You who are established homeowners — happy with refinanced 5 percent mortgages and purring like fat cats over your escalation of equity — probably haven't felt this good since before your 401(k)s tanked in 2001.

Just wait until you try swapping your house for another, however. And while it's always been hard to get into a house, it's getting harder, according to the latest King County affordable-housing study. In 1989, only 18 percent of residents were paying more than the government calculates they can reasonably afford for housing. By 2002, it was a third of all households, and two-thirds of lower-income households. Established double-income professionals are doing fine, but young, the working class and single-earner families are being stretched like Silly Putty.

## Housing market snapshot

Fourth quarter 2004 for four Washington counties

	Home resales		Building permits (units)		Median price		Affordability index**	First-time affordability
	# of	% change*	# of	% change*	\$ amount	% change*		
King	11,920	9.2%	2,583	47.1%	\$331,100	10.8%	97.8	53.9
Kitsap	1,190	7.9	286	-15.9	215,000	16.2	128.4	76.9
Pierce	7,990	10.8	1,465	50.6	210,000	15.9	128.4	74.9
Snohomish	4,330	15.5	1,675	30.8	259,000	10.2	118.0	70.9

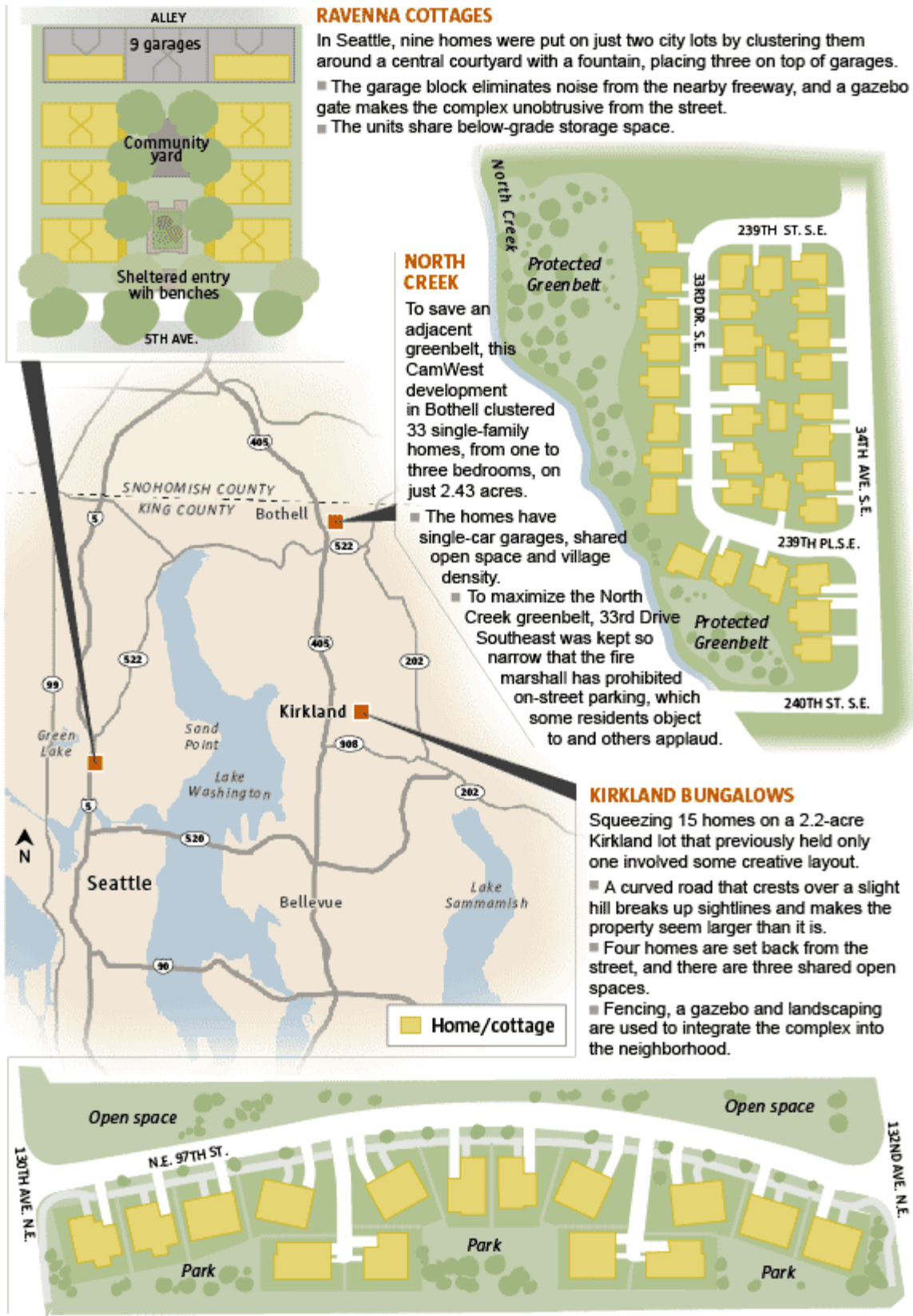
\*From a year ago

Source: Washington State Center for Real Estate Research

\*\*Below 100 is less affordable, above 100 is more affordable

# On precious land, developers get creative

As land becomes less available and more expensive, developers have looked for creative ways to use it. The goal is to attract home buyers by keeping costs down while still appealing to their sense of style and community.



Sources: Cam West, Ravenna Cottages

In 2004, the average first-time King County buyer could afford a \$186,600 home, the county calculates. Yet only 15 percent of homes in the entire county sold for that or less: The median cost for a starter was a whopping \$106,400 more than what first-timers could realistically afford.

Gaspari tells two stories. One is about the recent Seattle home on the market for \$425,000 that got 10 offers and sold for \$464,000. Then the new buyer was transferred. He sold the same home two months later for \$507,000. The other is a California couple, Glenn and Diane Szerlong, who bought their aged two-bedroom, one-bath Santa Cruz cottage on a 6,000-square-foot lot for \$360,000 and sold it two years later for \$545,000.

"The house earned more in two years than my wife and I combined," says Glenn, who (perhaps symbolically) is moving from a salmon statistician's job to one in a bank's mortgage division. "It's not quite as frenzied up here. Seattle is a little undervalued."

Maybe he's right. Not only are comparable homes here less expensive than in Chicago, Boston, London and Geneva, they're even cheaper than in Cairo and Beijing, according to a transfer calculator at [Realtor.com](http://Realtor.com). The escalation in housing prices is a worldwide phenomenon, driven by population growth: China's prices jumped 14.4 percent in 2004.

The good news is that thanks to the recent low interest rates, two out of three Americans own (well, are buying) their own homes, the highest percentage in our nation's history. The weird news, when you think about it, is that other third still shut out. Why is owning your own shelter so hard, a lifetime's task? Why must we employ millions of people as agents, brokers, lenders and inspectors, just to make the process work?

As far as I can recall, John Wayne, James Bond and Indiana Jones got by just fine without a mortgage.

Gen Y's Spiderman, however, has to live with his aunt and uncle.

As with your ever-receding retirement benefits, our system does keep the peasantry in harness. And as a banker would point out, it allows you to live in a far better home than you could initially save up for.

So cheer up. Consider the ad for the Queen Anne Hill Cape Cod for \$27,500. Or the Puget Sound view home with pool on half an acre for \$75,000. Or the Mercer Island waterfront estate with six bedrooms, four baths and tennis court for \$200,000.

Oh, wait. Those were Seattle Times classified ads in 1975.

WHAT A DIFFERENCE 30 years make! Back then, The Times calculated that land prices east of Lake Washington averaged \$3,084 an acre. Today, try a hundred times that. Developer Eric Campbell of CamWest cited one Eastside couple who recently sold their home on a half-acre for \$600,000. The home is being torn down; that's the value of the land for subdividing.

And land, or the lack of it, is at the heart of rising housing costs, as illustrated by the nation's top-tier prices in Honolulu and Manhattan. Prices in San Francisco proper are about double what we pay.

Real-estate consultant Suzanne Britsch, of Real Vision Research, estimated a basic no-view, ready-to-build lot in King County costs \$200,000 to \$250,000 today. And prices zoom so

quickly as one approaches downtown that she predicts Seattle is evolving into San Francisco: an increasingly dense city of singles and empty nesters in-filled with condos, cottages and townhouses. Many couples will rotate out to the suburbs to raise a family not because of race but because of housing prices. When the kids are grown, some will move back in.

As prices rise, demographic patterns are changing. Asians and blacks are dispersing to the suburbs rather than clustering in the ever-more-expensive and gentrified Central Area and Chinatown International District, and whites are returning to give close-in neighborhoods such as Cascade Park and Columbia City a second wind. White Center is becoming an attractive starter-home address. Light rail, the monorail and the streetcar should accelerate this process: Prepare for a boom in Rainier Valley.

One reason housing costs so much is that cities have traditionally zoned to require large, single-family lots, and costly land necessitates an expensive house. Banks won't let builders put a \$100,000 house on a \$250,000 lot because the house becomes essentially worthless. The next buyer isn't going to pay that much for land and live in a dinky house; he'll knock it down to rebuild. At the very least the house must equal the value of the land, and preferably be two or three times as expensive. (A few decades ago, the typical ratio was 5 to 1.) This means the median price of a new, detached, single-family house in King County — the classic family dream house — is approaching \$600,000.

As a result, new detached "starter homes" don't exist in King County anymore. Builders have gone to Pierce County, where land values are still about half, or Snohomish County, where they're about 25 percent less than King County. And prices in those counties are rising so rapidly that the next waves of detached starter-home developments, Britsch said, are going out to Thurston, Lewis and Skagit counties.



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Weyerhaeuser spin-off Quadrant Homes aims to meet the market demand for affordability and space with high-efficiency building techniques and a pricing system that lets buyers know exactly what they're getting for their money.

For example, Quadrant Homes, the "more-home, less-money" company, is planning a 1,000-home subdivision in east Mount Vernon and expects some buyers to commute as far as King County. As a rough rule of thumb, president Peter Orser says, each mile north or south of Interstate 90 lowers housing costs by \$2,000. In other words, a comparable home 50 miles north or south of I-90 costs \$100,000 less than one in Bellevue.

"The American dream is to own a piece of dirt," says Orser. "You cannot turn your shoulder to single-family demand or they will just travel out of both ends of the footprint to Thurston or Skagit County."

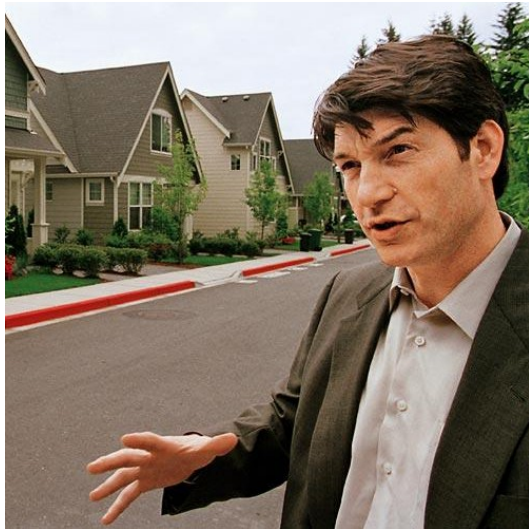
And within the metro core, Orser's figure may be low. Developer Campbell said just a mile or two closer to Microsoft or downtown, or across the line to a better school district, can add \$20,000 to \$50,000 to a home's cost.

WHAT ELSE IS driving up the cost of housing? Let us count the ways.

Population growth is the fundamental reason. Washington grew by about 73 percent the past 30 years, or 2.6 million people, and is expected to gain that number again in the next 25 years. King County alone gained nearly 750,000 people. Couple that pressure with the desire to buy when interest rates are low — and the reluctance to sell because it means giving up a mortgage refinanced when rates were at the bottom — and you have supply-and-demand on steroids.

Gaspari went to a presentation for Vulcan's 2200 condominiums at Westlake Avenue and Denny Way (they range from about \$300,000 for a studio to \$2 million) and said speculators combined with would-be homeowners created a land-rush atmosphere.

By mid-May, Vulcan had sold 86 percent of the units in a building barely started, and is planning a steady rate of condo construction in South Lake Union for the next two decades. "Buyers come in saying our children are gone, the dog is dead, and we're tired of mowing the lawn," noted marketing manager Alison Jeffries.



CamWest developer Eric Campbell saw the Growth Management Act, which seeks to concentrate growth in existing urban areas, as an opportunity and has had great success building quality homes on a very small footprint.

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The Growth Management Act, with its goal of concentrating growth in urban areas to save farms and forests, also has some effect. Glenn Crellin, director of the Washington Center for Real Estate Research in Pullman, said a study in Clark County suggested the law increased land prices there 10 to 15 percent. Even without the law, Puget Sound basin prices would be high because developable land is constricted between mountains and water.

Ordinary inflation weighs in, of course, with overall consumer prices up about 2 ½ times since 1975. Wages are up about three times. Housing, however, is up about 10 times.

About a quarter of that increase is because homes are bigger and nicer now: Average square footage in a detached, single-family house has almost doubled since the 1950s. Try marketing a new family home today with just one bathroom, or suggesting that siblings share a bedroom.

Britsch is on a board promoting close-in, low-cost housing and found that suggesting the floor plans of yesteryear to young American families (immigrants aren't as picky) is like selling igloos in the desert. People would rather commute.

Another factor is that a combination of rising wages and low mortgage rates has made home ownership more affordable than at any time since the 1960s, temporarily taking the sting out of higher prices. Remember when interest rates peaked at nearly 18 percent in 1981 and hovered around 13 percent for several years? Comparatively, a 5 percent loan buys either twice the house or half the payment.

Lenders have goosed buyers by getting first-timers into houses with no-down, interest-only, adjustable-rate mortgages. An example is Karla Fredrickson, 44, who had a disastrous credit rating and no job after losing her previous home because of drug addiction. Yet she recently got a 30-year adjustable-rate loan on a two-bedroom, view fixer on Whidbey Island that sold for \$116,000, some \$17,000 more than the asking price.

Fredrickson is admittedly a good long-term bet. She's been clean for 3 ½ years, had 20 percent down from an inheritance, is almost done with a degree, and is planning to marry a home builder.

But riskier buyers, and speculators, are gambling on ever-climbing equity and income to make up for the inevitable rise in monthly payments they are signing up for. Some experts see these loans as time bombs due to mimic the dot-com crash. "I am of the personal opinion that we'll see a record number of foreclosures in the next few years," warns real-estate consultant Matthew Gardner.

Meanwhile, homeowners with equity are moving from elephantine estates to sleek condos. "The demand for large McMansions will diminish," Gardner predicts, because land prices are too high and chic lifestyles are going urban. "People are willing to live in smaller spaces to reduce commute time. New units are being designed as carefully as boats."

Still another factor is voter-passed property-tax lids that lessen the tax cost of rapidly-escalating homes. In figures from the state Department of Revenue spokesman Mike Gowrylow, Referendum 47 (which restricted property-tax increases to the rate of inflation) and I-747 (which holds the overall annual increase to 1 percent) have saved King County taxpayers some \$448 million since 2002. As nice as that might seem, it stokes the fire by making monthly house payments less daunting.

How long can this go on? Quite a while, by national standards. Washington cities didn't even make the Federal Deposit Insurance Corporation's 2004 list of 55 real-estate boom towns, or places where inflation-adjusted prices were up 30 percent or more in three years.

According to data from the National Association of Realtors, between 1999 and 2004, prices in San Diego, Los Angeles, Las Vegas and Miami rose three to four times as fast as in Seattle. Our burg's seemingly torrid 2004 pace of 11.5 percent was dwarfed by the 33 percent rate in Southern California, where median house prices are more than 50 percent higher than ours.

While rising interest rates are beginning to cool these trends, retreats in housing prices are rare, almost never exceed 20 percent and don't persist very long. If it's a risky bet that prices will always soar, you also can't plan on them coming down.

"I've got four daughters," says architect Bill Kreager of Mithun Architects. "My kids can't afford a house in most neighborhoods."

So he and other reformers are trying to do something about it.

KREAGER HAS become a small-house evangelist who has taken his funny slide show, "Honey I Shrunk the Lots," as far afield as Wenatchee and Yakima. He uses a Mr. Rogers approach to wary suburbanites, preaching that attractive housing can be packed 16, 28 or even 37 units to the acre and still escape blandness. And he's got the developments to prove it.

Examples include Pine Street Cottages (the 1991 redevelopment of 10 one-bedroom Central Area cottages), Ravenna Cottages near Green Lake (nine built on the equivalent of a quarter-acre lot around a central courtyard) and the upcoming High Point in West Seattle (1,600 planned homes at 17 to the acre).



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By careful placement and courtyard landscaping, site planner Marcia Gamble Hadley fit nine homes on two city lots to create Ravenna Cottages. The density blends far better with their Seattle neighborhood than traditional condominiums

The nine Ravenna cottages developed by John Kucher of Threshold Housing sold in nine weeks in 2001. The six detached homes in the complex sold for \$290,000 to \$310,000 and have since shot up in value: One was recently back on the market for \$395,000.



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Joan Kelley, a Microsoft employee who lives in Ravenna Cottages, says her two-story detached home offers a combination of privacy, compact quality and community with her neighbors.

"It's much better than a condo," says homeowner Joan Kelley. "It's more community-focused" because of the shared courtyard, and "the construction quality is very high."

In the suburbs, companies such as The Cottage Company or CamWest are similarly clustering homes, often with shared open space or a community greenbelt. The Cottage Company has sold out five developments and is at work on a sixth.

These experiments have similar strategies. Detailing, color and landscaping are used to convey a sense of privacy, quality and uniqueness. The homes typically range from 1,000 to 1,500 square feet and are marketed at empty nesters, childless couples, young families and singles: households that frequently have only one car. Kreager says the classic "Leave It To Beaver" family today constitutes less than a quarter of American households.

This housing isn't cheap, the final price the equivalent of \$250 to \$450 a square foot, but it's cheaper than a new single-family home with big yard and two-car garage. At the same time, they're designed to fit into single-family neighborhoods far more easily than a hulking condo.

CamWest's Campbell is one of King County's most innovative builders. His new development, called Kirkland Bungalows, is the city's first experiment under a three-year-old ordinance to allow such infill. It puts 14 bungalows, each in the \$450,000 range, on a narrow lot formerly for one home.



Coupling density with a green belt that borders North Creek in Bothell, this CamWest development shows the likely suburban future: 33 carefully detailed homes on 2.43 acres.

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A similar and earlier CamWest experiment in Bothell called North Creek fits 33 "cottage homes" on 2.43 acres. One female buyer, a single professional who works at the University of Washington, said her 1,400-square-foot, two-story home — which she paid \$280,000 for a year and a half ago — is ideal, "kind of a cross between a big single-family house and a condominium."

Another neighbor, 72-year-old Doris Lundgren, says that while she loves the house she is disappointed in the narrow, European-sized street. "There's no place for visitors to park," she says.

"I like not having to look at cars," counters expectant mother Kristen O'Dell, who says visitors can park a block away. She moved with her husband from New Jersey and was delighted by housing prices in Seattle. And, she found squeezing creates instant community: Stand on her porch and within minutes she's waved to half the neighborhood and organized a trail walk.



Dense communities can create fast friendships and a sense of neighborhood. Bothell's Kristen O'Dell leads neighbors on a walk in Bothell's North Creek development.

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Tight housing raises a host of issues, such as neighbor noise, disagreement on common areas, traffic and storm-water runoff. It also creates a host of opportunities for community, greenbelts, architectural harmony and sensible sizing. The Housing Partnership, a Seattle nonprofit, has proposed seven zoning reforms to encourage such experiments.

A more traditional approach to the cost crisis is Weyerhaeuser-born Quadrant Homes, which aims to get families into bigger homes at a smaller square-footage price. Quadrant has built 7,000 homes in 150 neighborhoods since 1969. With vinyl siding, simple styling and lots that in a Mill Creek development called Shaunessy averaged about an eighth of an acre, Quadrant at its most basic can shave \$100 a square foot off the cost of better-detailed, closer-in houses.



A driveway to a single-car garage is finished at Kirkland Bungalows, where 15 homes of approximately 1,500 square feet each are clustered on 2.2 acres and sell for about \$450,000 each.

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Buyers aren't stuck with plainness, however. They can customize the level of finishes, and thus price, by visiting a Bellevue showroom that gives thousands of options across 50 floor plans.

Condominiums remain the most common means of containing costs, but mass tort lawsuits over leaks have caused insurers to yank coverage for builders, slowing down that option. Mobile and modular homes are another solution, but in urban areas don't mesh with soaring land prices.

After shrinking the lot, shrinking the house and cutting back detailing, the quest for affordable housing gets more difficult. There hasn't really been an architectural rethinking of shelter similar to what Buckminster Fuller tried to do (unsuccessfully) with his geodesic domes. People are buying what reminds them of Grandma, not the Jetsons.



David Sarti's house is tucked nearly out of sight into what had been the back yard of the house at left. Ever interested in keeping it simple, Sarti has the car he got from his grandfather, who bought it new in the 1960s.

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So here's a word for all you frustrated home-seekers:

Omak.

Okanogan County is a real-estate-pricing time machine, with the lowest median prices in the state: \$84,000 at the end of 2004, or a little more than a quarter of King Country prices. You recently could get a new, three-bedroom starter there for \$135,000.

And if you want to pay about a third of King Country prices, you can move to Amarillo, Little Rock, or Topeka, to name a few.

But you won't, will you?

Neither did Kevin Moser. He and Gaspari finally found and bought, a Capitol Hill condo, outbidding seven others and paying \$215,000 — \$30,000 over the asking price.

*Bill Dietrich is a Pacific Northwest magazine staff writer. Benjamin Benschneider is a magazine staff photographer.*