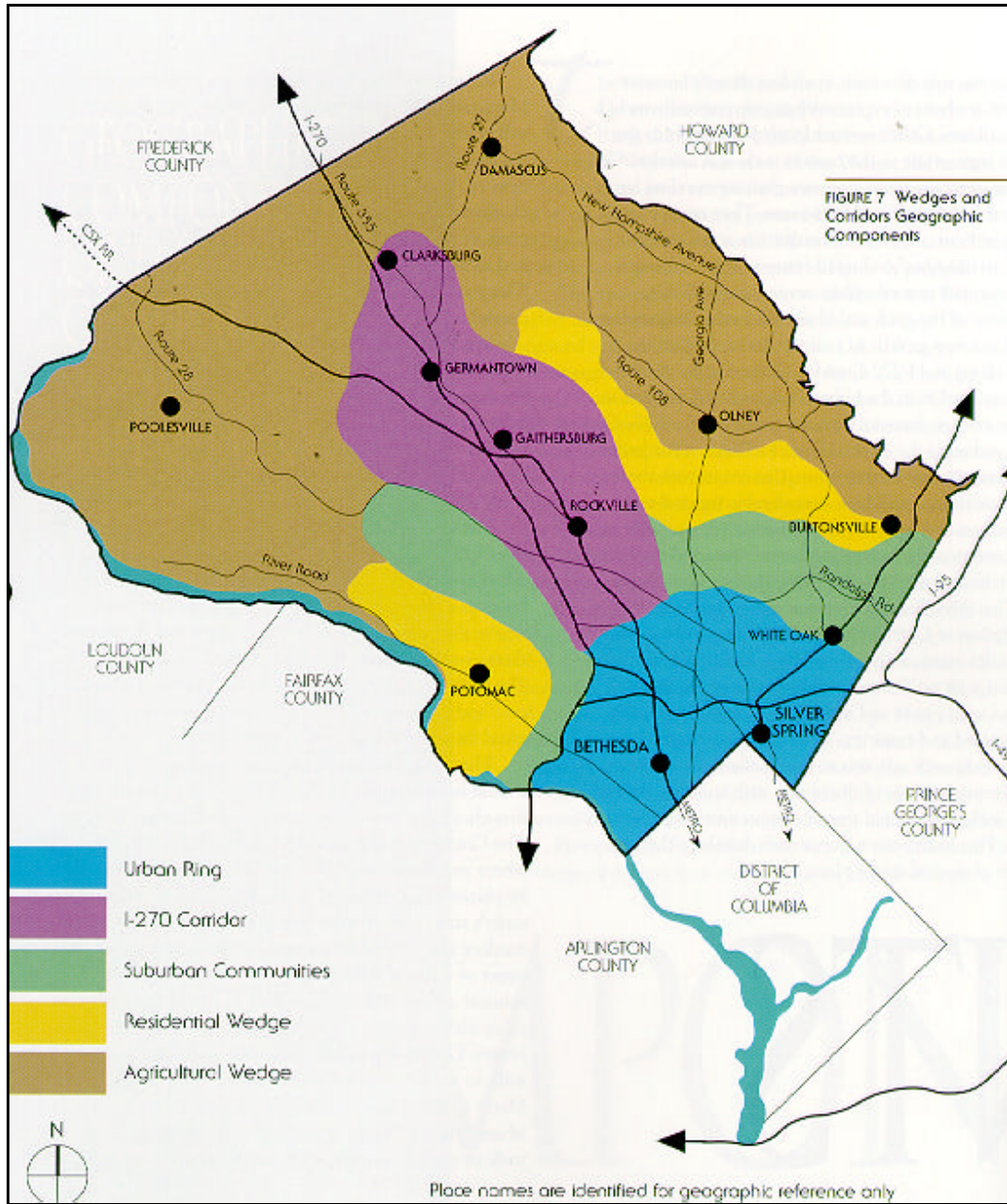


Montgomery County's Affordable Housing Supply

For-Sale Housing

Montgomery County is known as an expensive place to live. Local housing prices substantiate this image. With a predominantly white collar, professional work force and many dual income households, many households have relatively high incomes supporting high housing prices. Consequently, County households at or below the median income have comparatively limited housing choices. In addition, there are undoubtedly lower income households with members working in the County who would like to live in the County closer to their jobs. Their incomes and needs are hard to measure. Wage data for incommuters are only available from the decennial Census and are currently very dated. Appropriate housing appears particularly difficult to obtain for many lower paid employees who provide vital government services or hold jobs in the County's restaurants, hospitals, stores, and high tech companies.

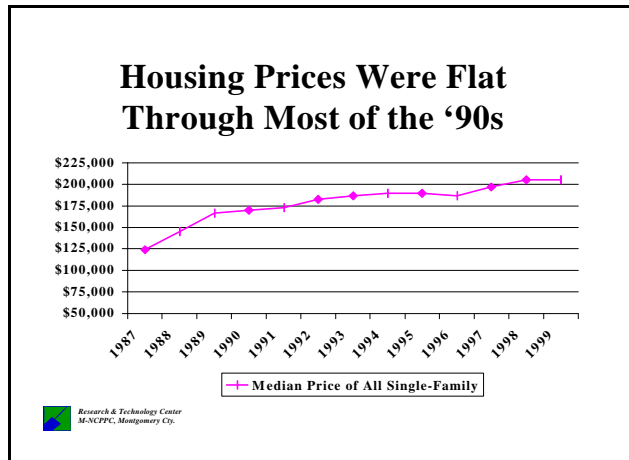
Montgomery County's General Plan



The measures of housing affordability that follow present a comparatively favorable picture for lower income buyers. Recent signs of growing pressure in the housing market are cause for concern, however. Sufficient data is not yet available for 2000, but mortgage interest rates have risen substantially. In rental housing, rising rents and very low vacancy rates imply a more negative market for lower and moderate income households in the immediate future than in the recent past. If so, Montgomery County will need to increase its efforts to provide affordable housing if it wishes to house its lower income households and workers.

Housing Prices

One measure of housing affordability is the relationship of housing costs to income. Table 1 presents median housing prices by housing type from 1987 through 1999. It includes the percentage change in the cost of living for the period and the amount and percentage change in the median household income. The table shows that increases in housing prices slowed during the 1990s and, in fact, declined for some housing types in some years. The median price for all single-family housing¹ increased only 20.6 percent between 1990 and 1999, while median household income increased 26.3 percent and the Washington, D.C. Consumer Price Index (CPI-U) increased 23.8 percent.



The unusual slowdown in housing price appreciation reflects Montgomery County's prolonged recession. Private sector County jobs decreased by 4.3 percent, more than 16,000 jobs, between March 1990 and March 1992 and increased only 1.4 percent from 1992 to 1995. 1996 registered another loss of 1,300 private sector jobs. Although the region experienced a major decrease in federal jobs, total federal jobs in the County increased slightly during the early years of the recession, probably due to agency consolidations. Overall, local federal employment decreased gradually during the decade, from a high of 46,400 in 1991 to 38,700 in early 1999. By 1997, the County returned to steady job growth in both the public and private sectors but at a slower rate than that experienced in the 1980s.

¹Unless otherwise noted, single-family housing refers to both detached units and townhouses, throughout this report.

Table 1

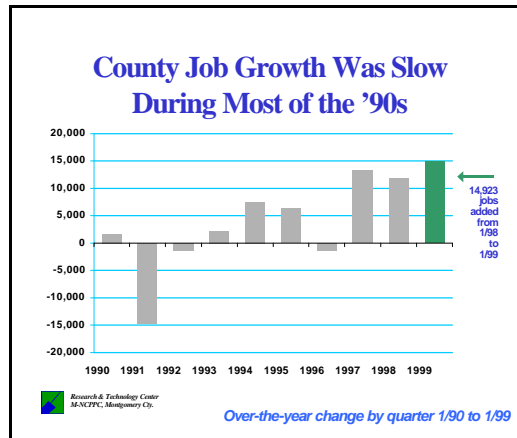
**Median Sales Price in Montgomery County
By Type of Housing Unit
1987-1999**

Housing type	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
New SF Detached													
Median Price	\$180,840	\$230,900	\$287,000	\$318,090	\$309,035	\$309,863	\$319,840	\$319,500	\$343,783	\$312,500	\$343,295	\$361,742	\$364,195
Percent Increase	8.6%	27.7%	24.3%	10.8%	-2.8%	0.3%	3.2%	-0.1%	7.6%	-9.1%	9.9%	5.4%	0.7%
Existing SF Detached													
Median Price	\$140,000	\$173,000	\$200,000	\$207,000	\$208,000	\$217,000	\$217,000	\$220,000	\$220,700	\$225,000	\$230,000	\$235,000	\$243,000
Percent Increase	9.9%	23.6%	15.6%	3.5%	0.5%	4.3%	0.0%	1.4%	0.3%	1.9%	2.2%	2.2%	3.4%
New SF Attached													
Median Price	\$105,350	\$118,990	\$145,450	\$158,325	\$146,000	\$185,735	\$180,890	\$180,300	\$199,605	\$169,900	\$174,000	\$218,622	\$212,217
Percent Increase	13.0%	12.9%	22.2%	8.9%	-7.8%	27.2%	-2.6%	-0.3%	10.7%	-14.9%	2.4%	25.6%	-2.9%
Existing SF Attached													
Median Price	\$86,000	\$102,000	\$118,000	\$126,000	\$128,000	\$128,500	\$130,000	\$131,000	\$130,000	\$132,000	\$134,900	\$137,000	\$139,000
Percent Increase	2.6%	18.6%	15.7%	6.8%	1.6%	0.4%	1.2%	0.8%	-0.8%	1.5%	2.2%	1.6%	1.5%
All Single Family													
Median Price	\$124,000	\$145,000	\$166,500	\$170,000	\$172,900	\$182,500	\$187,000	\$190,000	\$189,500	\$187,000	\$197,000	\$205,000	\$205,000
Percent Increase	7.83%	16.94%	14.83%	2.10%	1.71%	5.55%	2.5%	1.6%	-0.3%	-1.3%	5.3%	4.1%	0.0%
CPI Percent Increase	3.6	4.	5.8	5.9	4.1	2.5	3.2	9	2.0	2.8	1.8	1.3	2.1
Median Income	\$48,917	\$51,693	\$54,089	\$56,720	\$58,501	\$60,441	\$59,085	\$60,886	\$62,738	\$66,085	\$66,299	\$69,979	\$71,614
Percent Increase	5.1%	5.7%	4.6%	4.9%	3.1%	3.3%	-2.2%	3.0%	3.0%	5.3%	0.3%	5.6%	2.3%

* Does not include the newly annexed portion of Takoma Park

Source: Montgomery County Planning Department, Research and Technology Center
Compiled from data provided by the State Department of Assessment and Taxation, 5/00.

Although Montgomery County did not experience aggregate federal job losses during the depth of the recession, it shared in the recession in the region that was driven by the highly unusual major federal job cuts. This experience is historically unprecedented, and its recurrence is considered unlikely. The national response to the decline in federal jobs and resulting reduction in services was so negative that federal leaders are not expected to repeat the exercise soon.



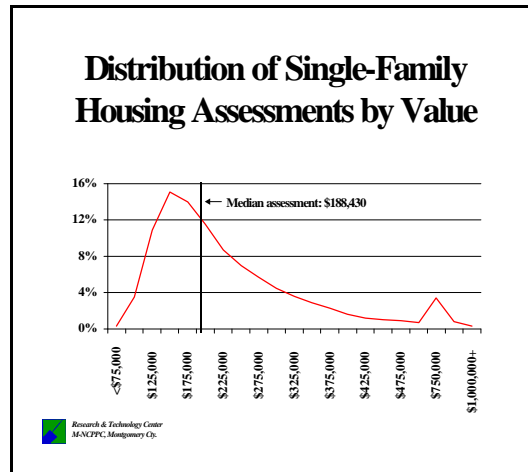
The housing market was deeply affected by the recession job losses. Demand all but disappeared; sellers, especially those who had bought in the late 1980s, found themselves selling at a loss or retaining a house they did not want as a rental property. Housing prices have generally risen since, but at a much slower pace than the double digit growth of 1988 and 1989. While sellers suffered during the '90s, buyers, if their jobs were not affected by the recession, were able to benefit from the increased affordability of County housing.

In addition to the recession, another factor moderating housing prices is the aging of a significant portion of the County's housing stock. Large numbers of units, built in the 1940s and 1950s to house workers after World War II, are now 40, 50 years old or older. Many are much smaller than the typical house today and lack the multiple bathrooms and other amenities the market expects. Most have been well-maintained, but those that have not and those whose owners cannot easily afford to replace major systems as they wear out, are often in need of significant renovation and rehabilitation. Many of these units have not appreciated compared to other County housing. On the one hand, this situation generates housing units affordable to households that would otherwise be priced out of the single-family market. On the other hand, the units may need significant investment to meet today's standards. DHCA is working closely with some of the most impacted communities to revitalize their neighborhoods and houses. This revitalization is essential for the County's economic and social health.

Residential Assessments

Based on current assessments, the median value of all single-family houses in Montgomery County, detached and attached, is \$188,430. This median is lower than the median sales price.

There are a number of reasons for the difference between the median price of houses sold and the median assessed value of single-family houses. Residential properties are reassessed every three years. The one-third that were reassessed in 1997 reflect the declining prices in the three years before that. All of the current reassessments came at the end of a relatively depressed period in the market which would tend to dampen increases in assessments. In addition, based on years of observation, assessments generally are near or below the sales value of the property. It is not unusual for high end properties to sell for one-and-one-half times their assessments or even more. The major check on inaccurate assessments is a challenge by the property owner. Not surprisingly, owners protest high assessments but rarely challenge low ones.



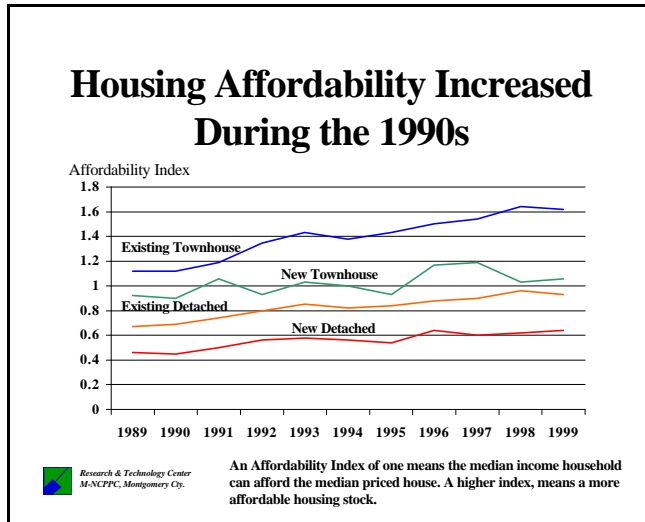
Even so, only 4 percent of the properties had assessed valuations below \$100,000 and about 15 percent, or about 27,900 units, below \$125,000. The largest price category, when the data are distributed in \$25,000 increments, is between \$125,000 and \$149,999. This interval is accessible to moderate income households but rarely to low income households. These units appear to be primarily townhouses. Theoretically, a household with an income of \$35,000 to \$40,000 could afford a \$125,000 house, but they would need a very clean credit record and savings for settlement costs or a lot of assistance.

Affordability Index

One measure of the ability of a typical household to afford a home is the Affordability Index. This Index calculates the relative cost of housing, including mortgage principal, interest, taxes, and insurance, on a base of 100. At 100, the median income household should be able to qualify to buy the median priced house, based on typical lending industry standards. The lower the Index, the less affordable the median priced home is to the median income buyer. The Index does not account for settlement costs and down payments. These up-front costs can be substantial. For example, a buyer may need more than \$20,000 in cash to cover settlement costs, including a 10 percent down payment, on a \$150,000 house. Such costs present a major hurdle for many first time buyers.

Since the Index is based on current County median household income, it can only measure the ability of households already in the County to afford the County's housing. The

incomes of those who might like to move to the County but have not are not known. Because Montgomery County incomes are among the highest in the nation, many households wishing to move to the County for job opportunities and other reasons may find the housing even less affordable than current residents do. The Affordability Index tends to be most favorable for existing townhouses and least favorable for new single-family detached housing. Throughout most of the 1990s, the index for existing townhouses has been above one, meaning that more than half of County households can afford the median existing townhouse.



The Index indicates that households at or below the median income for Montgomery County are shut out of almost all new single-family housing, except through special programs, such as the MPDU program. The 1999 Index for new single-family detached housing, for example, was a very low 0.64. Those households with incomes near the median have comparatively more choices among the supply of existing housing units. Almost half of the County’s households can afford them.

During the decade, interest rates decreased significantly; the 30-year mortgage effective rate fell from 10.5 percent in 1989 to 7.5 percent in 1999. With lower interest rates and almost flat housing prices during the recession, the median new single-family detached house was more nearly affordable to the median income household in 1999 than in 1989, but still too costly for this household to buy. In 1989, the Montgomery County Housing Affordability Index for new single-family detached housing was at its lowest point at .46. By 1999, the Index had risen to .64, a slightly more affordable level.

Distribution of Sales by Price Category

Tables 2A and 2B present the distribution of sales prices by price category for single-family housing sold in Montgomery County from 1994 through 1998. All sales are reported in 1998 dollars. (Reminder: Throughout this report, single-family housing refers to both townhouses and detached units, unless otherwise noted.)

As part of the single-family housing stock, MPDUs are included in the tables and probably compose almost all of the sales below \$110,000. Because MPDUs are not identifiable

as such in the County's records of housing sales, the precise share of sales that are MPDUs is not available. MPDUs almost certainly comprise all **new** housing sales under \$110,000 but only part of the lower priced sales of existing housing, particularly existing townhouses.

Table 2A

All Single-Family Housing Unit Sales by Price Category in 1998 Dollars
 Montgomery County
 1994-1998

SALES PRICE (1)	New Single-Family					Existing Single-Family					All Single-Family				
	1994	1995	1996	1997	1998	1994	1995	1996	1997	1998	1994	1995	1996	1997	1998
<\$70,000	10	7	33	9	0	3	23	36	29	14	13	30	69	38	14
\$70,000 to \$79,999	20	19	48	3	0	21	12	35	44	69	41	31	83	47	69
\$80,000 to \$89,999	75	63	58	24	6	81	143	163	111	144	156	206	221	135	150
\$90,000 to \$99,999	65	10	49	64	17	203	168	255	194	233	268	178	304	258	250
\$100,000 to \$109,999	73	0	28	33	10	192	172	320	316	340	265	172	348	349	350
\$110,000 to \$119,999	31	1	31	8	5	340	317	460	419	507	371	318	491	427	512
\$120,000 to \$129,999	14	2	14	14	7	494	453	673	523	631	508	455	687	537	638
\$130,000 to \$139,999	4	3	46	55	10	620	557	671	539	615	624	560	717	594	625
\$140,000 to \$149,999	38	17	41	32	26	619	518	654	580	692	657	535	695	612	718
\$150,000 to \$159,999	63	20	49	58	35	581	543	678	555	679	644	563	727	613	714
\$160,000 to \$169,999	32	34	44	55	34	523	523	565	570	636	555	557	609	625	670
\$170,000 to \$179,999	25	19	56	60	40	567	341	478	451	587	592	360	534	511	627
\$180,000 to \$199,999	144	98	94	57	73	987	719	859	769	938	1,131	817	953	826	1,011
\$200,000 to \$224,999	122	85	118	112	112	768	631	883	740	880	890	716	1,001	852	992
\$225,000 to \$249,999	91	110	127	139	163	774	530	715	674	770	865	640	842	813	933
\$250,000 to \$275,999	130	94	189	141	154	543	447	633	569	643	673	541	822	710	797
\$275,000 to \$299,999	189	171	173	113	134	506	409	494	454	604	695	580	667	567	738
\$300,000 to \$349,999	249	165	247	187	210	720	588	650	687	870	969	753	897	874	1,080
\$350,000 to \$399,999	190	156	107	139	163	498	363	436	429	559	688	519	543	568	722
\$400,000 to \$499,999	195	140	118	174	252	528	382	439	414	529	723	522	557	588	781
\$500,000 to \$749,999	168	159	135	139	178	354	286	339	374	537	522	445	474	513	715
\$750,000 to \$999,999	42	46	22	24	27	115	76	75	93	112	157	122	97	117	139
>\$1,000,000	8	7	8	2	6	51	39	36	38	52	59	46	44	40	58
TOTAL SALES:	1,978	1,426	1,835	1,642	1,662	10,088	8,240	10,547	9,572	11,641	12,066	9,666	12,382	11,214	13,303

Source: Montgomery County Planning Department, Research and Technology Center
 Sales/Transactions Automated Report, Maryland State Department of Assessment and Taxation, 4/00.

Table 2B

All Single-Family Housing Unit Sales by Price Category in 1998 Dollars
 Percent Distribution
 Montgomery County, 1994-1998

New Single-Family						Existing Single-Family					All Single-Family				
SALES PRICE (1)	1994	1995	1996	1997	1998	1994	1995	1996	1997	1998	1994	1995	1996	1997	1998
<\$70,000	0.5%	0.5%	1.8%	0.5%	0.0%	0.0%	0.3%	0.3%	0.3%	0.1%	0.1%	0.3%	0.6%	0.3%	0.1%
\$70,000 to \$79,999	1.0%	1.3%	2.6%	0.2%	0.0%	0.2%	0.1%	0.3%	0.5%	0.6%	0.3%	0.3%	0.7%	0.4%	0.5%
\$80,000 to \$89,999	3.8%	4.4%	3.2%	1.5%	0.4%	0.8%	1.7%	1.5%	1.2%	1.2%	1.3%	2.1%	1.8%	1.2%	1.1%
\$90,000 to \$99,999	3.3%	0.7%	2.7%	3.9%	1.0%	2.0%	2.0%	2.4%	2.0%	2.0%	2.2%	1.8%	2.5%	2.3%	1.9%
\$100,000 to \$109,999	3.7%	0.0%	1.5%	2.0%	0.6%	1.9%	2.1%	3.0%	3.3%	2.9%	2.2%	1.8%	2.8%	3.1%	2.6%
\$110,000 to \$119,999	1.6%	0.1%	1.7%	0.5%	0.3%	3.4%	3.8%	4.4%	4.4%	4.4%	3.1%	3.3%	4.0%	3.8%	3.8%
\$120,000 to \$129,999	0.7%	0.1%	0.8%	0.9%	0.4%	4.9%	5.5%	6.4%	5.5%	5.4%	4.2%	4.7%	5.5%	4.8%	4.8%
\$130,000 to \$139,999	0.2%	0.2%	2.5%	3.3%	0.6%	6.1%	6.8%	6.4%	5.6%	5.3%	5.2%	5.8%	5.8%	5.3%	4.7%
\$140,000 to \$149,999	1.9%	1.2%	2.2%	1.9%	1.6%	6.1%	6.3%	6.2%	6.1%	5.9%	5.4%	5.5%	5.6%	5.5%	5.4%
\$150,000 to \$159,999	3.2%	1.4%	2.7%	3.5%	2.1%	5.8%	6.6%	6.4%	5.8%	5.8%	5.3%	5.8%	5.9%	5.5%	5.4%
\$160,000 to \$169,999	1.6%	2.4%	2.4%	3.3%	2.0%	5.2%	6.3%	5.4%	6.0%	5.5%	4.6%	5.8%	4.9%	5.6%	5.0%
\$170,000 to \$179,999	1.3%	1.3%	3.1%	3.7%	2.4%	5.6%	4.1%	4.5%	4.7%	5.0%	4.9%	3.7%	4.3%	4.6%	4.7%
\$180,000 to \$199,999	7.3%	6.9%	5.1%	3.5%	4.4%	9.8%	8.7%	8.1%	8.0%	8.1%	9.4%	8.5%	7.7%	7.4%	7.6%
\$200,000 to \$224,999	6.2%	6.0%	6.4%	6.8%	6.7%	7.6%	7.7%	8.4%	7.7%	7.6%	7.4%	7.4%	8.1%	7.6%	7.5%
\$225,000 to \$249,999	4.6%	7.7%	6.9%	8.5%	9.8%	7.7%	6.4%	6.8%	7.0%	6.6%	7.2%	6.6%	6.8%	7.2%	7.0%
\$250,000 to \$275,999	6.6%	6.6%	10.3%	8.6%	9.3%	5.4%	5.4%	6.0%	5.9%	5.5%	5.6%	5.6%	6.6%	6.3%	6.0%
\$275,000 to \$299,999	9.6%	12.0%	9.4%	6.9%	8.1%	5.0%	5.0%	4.7%	4.7%	5.2%	5.8%	6.0%	5.4%	5.1%	5.5%
\$300,000 to \$349,999	12.6%	11.6%	13.5%	11.4%	12.6%	7.1%	7.1%	6.2%	7.2%	7.5%	8.0%	7.8%	7.2%	7.8%	8.1%
\$350,000 to \$399,999	9.6%	10.9%	5.8%	8.5%	9.8%	4.9%	4.4%	4.1%	4.5%	4.8%	5.7%	5.4%	4.4%	5.1%	5.4%
\$400,000 to \$499,999	9.9%	9.8%	6.4%	10.6%	15.2%	5.2%	4.6%	4.2%	4.3%	4.5%	6.0%	5.4%	4.5%	5.2%	5.9%
\$500,000 to \$749,999	8.5%	11.2%	7.4%	8.5%	10.7%	3.5%	3.5%	3.2%	3.9%	4.6%	4.3%	4.6%	3.8%	4.6%	5.4%
\$750,000 to \$999,999	2.1%	3.2%	1.2%	1.5%	1.6%	1.1%	0.9%	0.7%	1.0%	1.0%	1.3%	1.3%	0.8%	1.0%	1.0%
>\$1,000,000	0.4%	0.5%	0.4%	0.1%	0.4%	0.5%	0.5%	0.3%	0.4%	0.4%	0.5%	0.5%	0.4%	0.4%	0.4%
TOTAL SALES:	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Montgomery County Planning Department, Research and Technology Center

The tables show little change in the number and percentage of total housing sales under \$100,000 between 1994 and 1998, in constant dollars. Almost 500 units were sold in this price range in both years. Their share of all sales was just under 4 percent. Such sales had been 20 percent of all sales in 1988. Between 1994 and 1998, sales between \$100,000 and \$150,000 also remained steady at just over 20 percent. Sales of single-family housing priced over \$180,000, the maximum for most moderate income households, were also stable at about 60 percent of the total during the five-year period. This stable distribution of housing prices is another indication of the flat housing market during the 1990s.

As the median prices and Affordability Index indicate, townhouses are the most affordable single-family housing option. In 1998, 38.3 percent of all townhouses sold were priced below \$130,000, including 10.5 percent below \$100,000. These sales represented 1,677 and 461 units respectively. Detached houses present a rather different picture. There were almost literally no sales of new detached homes below \$150,000 in 1998, and only 11.7 percent or 908 existing detached units in that price range. Thirty-eight percent of new single-family detached units cost \$400,000 or more.

Condominiums

Multi-family condominiums are a small part of the County's housing stock, but an important affordable housing resource. About 10 percent of the County's housing stock is composed of condos. Among for sale options, condos are frequently the least expensive housing choice. The 1999 median price for existing condos was \$97,500.

In some parts of the County, the median price was even lower for a large number of sales. For example, Germantown had 296 sales with a median price of \$84,500. This price requires an income of approximately \$28,000 to be affordable. Kemp Mill had 41 sales with a median price of \$61,000. Not all condos are affordable, however. Some, particularly in down-County high-rise buildings, are among the most expensive housing in the County. Many units in the newest building of the Somerset complex have sold for more than \$1,000,000.

Numerous households in the lower income ranges could afford the monthly mortgage payments for an apartment condo. However, they still may not be able to afford to buy a unit. Households with incomes in the \$20,000 to \$30,000 range have so many demands on their incomes just to provide the basic necessities of life that it can be very difficult for them to accumulate the savings for even a modest down payment and closing costs. In addition, the carrying costs on the mortgage are not the entire monthly cost of the unit. Monthly condo fees can raise the monthly cost substantially. In addition, condo apartments tend to sell slowly and often do not experience the degree of price appreciation that is common for single-family housing. These factors may make it difficult for owners to sell a unit quickly and profitably should they need to.

The 1997 Census Update Survey (conducted by the Department of Park and Planning) provides an indication of the total monthly cost of owning a condo. In 1997, the average payment

for owners in garden apartments was \$801, compared to an average of \$712 for garden apartment renters, and \$871 for high-rise owners, compared to \$818 for high-rise renters. These ownership costs are high for a low income household. The high-rise cost may be slightly skewed by the high costs of luxury down-County complexes. Nonetheless, these prices are \$50 to \$90 more per month than the average cost for renters in the same types of buildings.

Because of the unique financial demands of owning a multi-family condo, two types of lower income households seem especially likely to buy them. One group is composed of the single or widowed elderly. This group often has some financial resources for a down payment beyond their regular income – an inheritance or another house or apartment to sell. They may also receive help with the monthly payments and/or the closing costs from adult children. The other group is entry level workers who receive some help from their families or have some savings from living with their parents or in a group home for the first few years of work.

Other Homeownership Options

There are a variety of programs to help households afford to buy housing. The State of Maryland and Montgomery County through HOC offer a number of reduced rate mortgage programs. These generally have income restrictions and an upper limit on the price of the home that can be purchased. Some loans are available only to first time home buyers or to buyers who have not owned for a number of years. Others are restricted to targeted areas of the County. Rockville and the County also participate in closing cost assistance programs. These generally take the form of very low cost loans to cover part of closing costs. (Rockville's is interest free.) Other programs of note are: 1) turnkey programs that permit households to rent low cost housing with an option to buy, 2) HOC's Homeownership Program that allows residents of HOC owned properties to purchase new homes at affordable prices, and 3) the "Live Near Your Work" program that provides a grant to Silver Spring/Takoma Park workers who buy a house near their jobs.

Findings

The results of the various measures of affordability offer several messages:

- The unprecedented recession in Montgomery County and the aging of the housing stock dampened housing prices during the 1990s so that, on the whole, housing became more affordable. The improvement in the Affordability Index has been good news for many buyers. It is also good news for employers who depend on a nearby work force.
- The median price for single-family housing grew less than the Consumer Price Index or median household income in the 1990s. Even so, the actual number of houses available to lower-income households, those with incomes below \$50,000 remained limited. For example, fewer than 500 single-family houses of any type sold below \$100,000 in 1998, out of a total of 13,303 sales. Another 862 units sold between \$100,000 and 120,000. Combined, these sales represent 10 percent of all housing sales. In contrast, 23.6 percent of households had incomes at or below \$40,000 in 1996, the amount needed to afford the

most expensive unit in the lower price range. The gap between potential buyers and available low-cost units needs to be filled by additional programs to make ownership housing affordable or by an adequate supply of rental housing.

- The gap between the prices of townhouses and single-family detached houses has widened. The median townhouse price was 61.4 percent of the median existing detached house price in 1987. By 1998, it had declined to 57.2 percent of the price for a detached house. Increasingly expensive detached housing may cause young households and lower salaried workers who want a detached house to move out of the County to find one they can afford.
- After the last decade's comparatively favorable housing market for lower income households and workers, there are signs of increasing price pressure. If true, a tighter market will greatly increase the difficulty of finding suitable housing for those at in the lower income ranges.