

Analysis of Building Permit Data and Housing Prices for Frederick County, Maryland

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Overview

The most recent issue of Blueprint Maryland: The State's Housing Economy in Review, (April-May 2005, Volume 2, Issue 4, available at: <http://www.dhcd.state.md.us>) provides a comparison of the U.S. housing cycle and the performance of the state of Maryland. The analysis compares the ratio of state and county residential building permits to the number of new households entering the state/county. In theory, if the new home units built do not exceed the number of new households in an area, then the supply and demand in the housing markets are kept roughly in line and the price pressures from imbalances in the supply of homes and demand are lessened. This is a reasonable rule-of-thumb for the state to use, although at times it can have limitations. For example, permits do not always lead to housing starts and completions, depending on conditions in the market. Thus, it is a basic "rule of thumb" guide to keeping the market in balance.

An analysis compares two cyclical periods: 1995-1999 and 2000-2004 discussing housing market conditions, economic growth, and the growth of households and permits. In the first cycle, the growth of new households in Maryland was slower than new permits, yielding a ratio of 1.3. In the second cycle the ratio was 1.5. The surrounding states also experienced an increase in households relative to permits in the second period: West Virginia, Pennsylvania, Delaware, and Virginia obtained permit-to-new household ratios of 8.3, 4.1, 1.9, and 1.9, respectively. The high ratios in West Virginia and Pennsylvania go far in explaining the affordability of large homes with amenities in the counties adjacent to Maryland. New home supply was very robust.

Maryland tended to build at a slightly higher rate in the second period, but not nearly to the ratios that occurred in the neighboring states. To some extent this helps explain the double-digit rates of house price appreciation in Maryland's resale market. Clearly overbuilding may be a problem if large subdivision 'ghost-towns' are constructed leading to vandalism and other crimes. And, new home communities must have appropriate infrastructure (roads, sewers, schools, etc.) and planning in the types of units provided. But they do provide an essential

safety-valve for pricing in the housing market and allow areas to attract new workers and industries. Development of new housing can also give localities an opportunity to 'set-aside' homes for low-to-moderate income families that need to live in the area and otherwise could not afford to purchase the existing housing stock. These families can more easily purchase lower priced units away from the central towns/cities and special financing programs can be more easily provided for these units than for the purchase of existing housing sold by private individuals.

The Housing Market in Frederick County

The 'Blueprint' analysis for the two periods also provides data on the permit-to-new household ratio for Frederick County. In the first period (1995-1999), new households totaled 6,247 and 9,646 permits were issued, resulting in a ratio of 1.5. For the second period (2000-2004), the ratio declined to 1.2, below the ratio for the state as a whole (1.5). For the close-by West Virginia counties of Berkley and Jefferson, their second period ratio was 1.8 and it was 1.3 in York County, Pennsylvania. The same ratio averaged 2.2 in counties surrounding the Washington-Baltimore Consolidated Metropolitan Statistical Area.

By these comparisons, the Frederick County ratio was not at all excessive. Clearly, developers and builders want to build in good markets, taking their signals from the resale market. As would be expected the Frederick County ratio seems to have been brought closely in line with the number of new households moving into the county. Next door, Montgomery County had a virtually exact 1.0 ratio, but is likely the least affordable county in the state. On the other side, Washington County's ratio was a robust 2.3 and had stayed at that level since the mid-1990's.

This spring, Montgomery County was criticized in the Washington Post for controlling new housing development to minimize the costs of building additional infrastructure in the county. Its own public service workers, teachers, firemen/police, and lower-paid service workers can no longer afford to live in the county and must move to Frederick or Washington County, or to West Virginia. Automobile commuting times have risen in the entire Washington, D.C. metro area and this imposes other economic and social costs on workers. Montgomery County's strategy of limiting local growth to minimize infrastructure budget impacts has created an expensive stock of existing housing fit only for the well-to-do.

As with the rest of the state, the Frederick County housing market has been very robust over the past few years. The table, below, documents the increases in the prices of homes (primarily existing) traded through the Metropolitan Regional Information Service, Inc. The data show annual sales and

average and median prices for 1999 – 2004. The most recent price data for May 2005 are also included.

Frederick County Resale Market Data

<u>Years</u>	<u>Total Units</u>	<u>Average Price</u>	<u>Annual % Change</u>	<u>Median Price</u>	<u>Annual % Change</u>
5/2005	n.a.	\$348,919	20.7%	\$289,025	26.1%
2004	4,807	\$283,502	20.3%	\$250,125	22.0%
2003	4,470	\$235,677	14.1%	\$205,000	12.9%
2002	4,069	\$206,540	13.1%	\$181,500	13.4%
2001	3,807	\$182,576	6.8%	\$160,000	8.1%
2000	3,191	\$170,891	6.1%	\$148,000	3.1%
1999	2,887	\$161,104	6.0%	\$143,500	5.7%

Source: MRIS and Maryland Association of Realtors.

Frederick County and State Projections

The Maryland Department of Housing and Community Development's Office of Research develops projections for the demand and supply of new housing by county jurisdictions. For the period 2005 to 2015, they have projected the annual average growth in new households and housing permits. For the state, they project annual increases in households of 23,338 compared to 27,243 permits. This yields a ratio of 1.167 statewide, a figure slightly lower than that in the two periods previously discussed.

For Frederick County the projected ratio is 1.161 --very close to the projected state average,, and well within historical ranges for the state. Of course, things will change over the decade and they are simply projections at this time. However, the history of the county and the state suggest that there has not been a tendency to over-build, if anything it has been the opposite. The price statistics above suggest the county has experienced rates of resale price increases similar to Montgomery County and is increasingly becoming unaffordable to many households. The historical statistics in no way indicate that Frederick County housing is becoming over-built.

Reviewing the projected ratios across neighboring counties, Frederick County has a very modest ratio compared to its Maryland neighbors. Montgomery's ratio is only 0.967 and Howard's is even more parsimonious at

0.887. Both counties are not expected to build new units to accommodate the anticipated influx of new households. On the other end, Washington County will build more than twice as many with a ratio of 2.354; but, Carroll's projected ratio is a conservative 1.711. In conclusion, the 1.161 ratio for Frederick County, if anything seems too low, given the housing needs of low and moderate income households. Accordingly, Frederick County should possibly consider attracting more new development, especially if adjacent counties anticipate building fewer units than the number of new households moving to the area.