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Affordable Housing in Utah
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Introduction

Home ownership is becoming increasingly difficult for Utah families. While the median income for Utah is almost $58,000, to purchase an average priced home (currently over $245,000 excluding Park City), a Utah family must make almost $80,000 per year. In his remarks at the Utah Intergovernmental Roundtable recently, Governor Huntsman said three years ago no one mentioned housing, but now everywhere he goes, people are sharing their concerns. The concerns even extend to areas that most would not expect.

Housing Cycles in Utah

According to James Wood of the Bureau of Economic and Business Research (BEBR) at the University of Utah, there have been four housing cycles in Utah since the 1970s, with 1977 seeing a decrease of as much as 73% in residential construction permits issued.[i] Currently, the market is on the way down.

James Wood rests the blame for the current market volatility on the high rise in housing prices in recent years. In addition, the mortgage market practice of subprime lending resulted in many middle-class buyers becoming too heavily burdened; this situation has worsened as interest rates have increased. The current volatility in comparison to the 1970’s reveals a unique difference. In the 1970s there was an energy boom and a housing boom. Now, although Utah’s current economic expansion started in 2005, there has been no corresponding housing boom. In fact, data indicates that we are currently experiencing the opposite.

The Decline in Utah’s Housing Market
A range of indicators shows the impact of the decline in Utah’s housing market.

- The number of single family building permits issued has decreased. In January-August 2007, Salt Lake County applications were down by 1226 compared to the previous period in 2006, and in September 2007, Salt Lake County permits issued were down by 62.6% from the same period in 2006. As the following table indicates, other counties in Utah are experiencing similar patterns.

<table>
<thead>
<tr>
<th>Counties</th>
<th>September 2006</th>
<th>September 2007</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salt Lake</td>
<td>348</td>
<td>130</td>
<td>-62.6%</td>
</tr>
<tr>
<td>Utah</td>
<td>172</td>
<td>68</td>
<td>-60.5%</td>
</tr>
<tr>
<td>Weber</td>
<td>417</td>
<td>124</td>
<td>-70.3%</td>
</tr>
<tr>
<td>Davis</td>
<td>105</td>
<td>34</td>
<td>-67.3%</td>
</tr>
<tr>
<td>Washington</td>
<td>129</td>
<td>82</td>
<td>-36.4%</td>
</tr>
<tr>
<td>Total</td>
<td>1,171</td>
<td>438</td>
<td>-62.6%</td>
</tr>
</tbody>
</table>

Source: Data from Construction Monitor, presented by James Wood, Bureau of Economic and Business Research, University of Utah

- Unoccupied new homes in Utah in the second quarter of 2007 were up 134% compared with the same period in 2006. Some large builders had no sales from the beginning of September to mid-October. This has led to builders giving concessions to entice sales and clear homes off the books.

- Sales of existing homes in September 2007 were 46.9% less than in September 2006.

Housing affordability does not just affect those who are purchasing homes; it extends into the rental market and, as a result, impacts a large share of the population. According to James Wood, there are approximately 225,000 rental units in the state, and until recently, this number has increased by less than one percent per year. Given Utah’s population growth (both natural and in-migration), this growth rate is not sufficient to meet the increasing demand. As a result, rents increased from 1997 to 2005 by approximately 6%. However, this is an area that is growing. In January through August 2007 the number of construction permits issued for new apartment units for eight large Utah counties was up by 31.3% for the same period of 2006.[ii]

At the Utah Intergovernmental Roundtable Summit on affordable housing, Bill Erickson, Executive Director of the Utah Housing Corporation provided an example of affordability.[iii] The present average Salt Lake County rent for a two bedroom apartment is $776/month. Using the definition of “affordable housing” that people should not spend more than 30% of their income on housing, this means that a renter would need to work full-time earning $14.73/hour. The average hourly wage for renters in Utah is $9.92 per hour.

The outcome of the affordability issue in the housing market is that sales of cheaper condominiums and town homes have increased greatly and this is a trend that is expected to continue. The data shows that in 2000, around 1100 permits were issued for condominiums and town homes. Contrast this with the figures for this year: by the third quarter of 2007, over 4000 permits have been issued. It is estimated that in time condominiums and town homes will occupy approximately 20% of the housing market.
Despite the increase in condominiums and town homes, the opportunities available for home ownership have declined, especially for moderate, low and very low income households. While Utah's economy is in a strong expansion period, affordable housing remains a key issue for economic development. If workers cannot afford housing, they cannot afford to work in a community. This means that developing solutions will be important for continued economic growth.

Factors that Impact Housing Affordability

Homebuilders face two main challenges that are increasing their costs and ultimately the price of housing. First, the scarcity of ready-to-develop land pushes up the price; in Utah County, for example, only about 15% of the land remains to be developed. This land is harder to develop and therefore more costly. The increased costs result in higher housing prices.

Second, the length of time that it takes to get raw land entitled and ready for sale raises the cost. Getting building permits is a time-consuming process because applications must go through several departments to obtain all the necessary approvals. This can slow the construction process and result in money being committed but not resulting in a financial return. This can have a great financial impact, especially for smaller builders.

Zoning also plays a large part in the affordable housing issue. Most neighborhoods reject the idea of more affordable, high density housing, with a “not in my back yard” attitude. However, there are some areas where a mix of single family homes and high density affordable housing has been successful; for example the Avenues area in Salt Lake City. There have also been some successful ventures in Salt Lake City where apartments have been integrated with commercial uses, such as the Gateway development. Additionally, a recent development of workforce housing on 200 West between 700 and 900 South in Salt Lake City has been a big success.

City councils complain that they are often caught between the developers and the neighborhood on zoning issues. While no neighborhoods are likely to request high density housing, City councilors may be able to get more leverage by taking the discussion outside of highly-charged
The Housing Dilemma

Given the factors outlined above, housing is becoming too expensive for many in the workforce; this affects teachers, nurses, firefighters, mechanics, law enforcement officers and public servants. These functions are at the heart of society and communities need these workers. If these families and ones in similar income brackets can’t afford to live in our communities, they can’t afford to work here either. Affordable housing is also an issue for more vulnerable populations including: the elderly, individuals with disabilities, new families, single moms, and the homeless. Clearly, this is not a homogeneous group but a population with a range of needs, and the range of responses has to meet the range of needs.

Sources of Support and Assistance

A number of agencies have responded to the needs for affordable housing. Some examples follow:

- Utah Housing Corporation is an independent public corporation that receives no money from the state. It uses entrepreneurial approaches to obtain money with most projects funded via bonding. Major programs include single family financial assistance via low interest rates and down payment and closing costs. For multi-family units, assistance is provided with low interest rates to help with equity and debt; these are financed with bonds and tax shelters. Their website is at www.utahhousingcorp.org

- Utah Work Force Housing Initiative (UWFHI) has the goal to create public and private partnerships to plan and construct affordable housing. UWFHI is a broad-based partnership to help support city housing planning processes, and economic and essential workforce housing development across Utah. The initiative will provide training, technical assistance, statistical software and analysis that will support local community planning efforts. The project partners include the State of Utah, Utah League of Cities & Towns, Envision Utah and Utah industrial and community banks including, in part, Morgan Stanley Bank and Bank of American Fork. Further information can be found at www.utahhousing.org

- Artspace, a nonprofit developer, creates affordable live and work space for artists, cultural organizations, non-profits and others to revitalize and promote stable, vibrant and safe communities. Artspace's mixed-use projects incorporate affordable housing, cultural amenities, and commercial spaces. These projects are catalysts for revitalizing the neighborhood and spurring further development. Their most recent project, Artspace City Center, redeveloped an existing building to create 22,500 square feet of office space and 18 units of artist live/work loft space. Artspace creates affordable homeownership using new market tax credits. A wide range of partners support their efforts including banks, foundations and individuals. For more details see www.artspaceutah.org

Summary

In the words of Lee Carter, Senior Vice President of Zions Bank, the housing market has been moving at 90 mph for the last five years. It is like musical chairs: “The music stopped. Who’s left holding the bag?” Any slow down is going to feel frustrating, but for those left holding the bag, it could be a lot worse than just frustrating. A course correction could result in a more balanced market, but creative solutions are needed to help relieve the problem. This will help all buyers and renters by stabilizing prices and encouraging responsible and effective lending practices.