BEBR

Utah Economic and Business Review

Bureau of Economic and Business Research
University of Utah

November/December 2005
Volume 65 Numbers 11 & 12

Highlights

- Utah home builders should have another exceptional year in 2006. There is a good possibility that the number and value of new residential units will exceed the 28,300 units and $4.6 billion in valuation achieved in 2005.
- The market fundamentals for home building are extremely strong. There are no signs of serious over-building, mortgage rates are expected to average around 6.5 percent and net in-migration and employment are both projected to be near record levels.
- In relative terms the 28,300 new residential units built in 2005 represents 3.1 percent of the existing housing inventory in Utah. Over the past 35 years new residential construction has averaged 2.8 percent of the inventory annually. These data show that when placed in the context of a growing housing inventory the number of new housing units built in 2005 was not all that extraordinary. In fact, in 12 of the past 35 years new housing as a percent of the existing housing inventory was above 3.1 percent.
- The most rapidly growing age group in Utah over the next few years is the 30 to 40 year old cohort. A high percent of this group are homeowners with increasing equity in their homes and rising incomes which will allow them to move up to new homes. This group comprises an important market segment for Utah home builders.
- Utah's unique demographics—a disproportionate share of young households—provide an additional boost to the demand for housing. Between 2001 and 2003 the Utah economy had virtually no job growth but over those three years Utah home builders built 62,500 new homes. The market was able to absorb this high number of units, during a period of no job growth, because of the unique age structure of the population.
- One of the most distinctive features of the current housing cycle has been the affordability of both rental units and homes. Stable housing prices have played a significant role stimulating the demand for new homes. Although the price of new and existing homes have had double-digit increases in the past year, rising prices should not impede housing demand in 2006.

Utah's Home Building Boom

James A. Wood, Director

Once again new residential construction in Utah surpassed all forecasts. Last year new records were set for the value of residential construction, total number of residential units as well as the number of single-family homes and condominiums. Since 2000, almost 133,000 new residential units have been built in Utah. Remarkably, one out of every six homes in the state has been built in the past six years. Given the extraordinary level of recent activity, this article examines: (1) the historical context of the present boom, (2) the sources of demand underlying the boom and (3) the prospects for residential construction in 2006.

Recent Residential Construction

Residential building permits were issued for 28,285 dwelling units in Utah in 2005. The construction value for these units was $4.7 billion. These are spectacular numbers breaking the previous records for number of units and value by 16 percent and 31 percent, respectively. This performance is a result of the convergence of a number of factors: high rates of job growth, net in-migration, population age structure, low interest rates and stable housing prices.

The record-shattering performance however, is part of a long-term trend of sustained high levels of residential construction. Since 1995 the average number of units authorized annually for new residential units in Utah is 22,000. Despite this recent history no one predicted the jump to 28,300 units last year, particularly after the record-setting year of 2004. Residential construction has now reached new territory breaking out of the

Table 1
Number of Residential Building Permits Issued
By Type of Unit in Utah
Bold = High   Shade = Low

Year	Single-Family	Apartments	Duplexes	Condominiums**	Cabins/Manufactured Homes***	Total	Percent Change
1970	5,962	3,108				9,070	
1971	6,768	6,009				12,777	40.9%
1972	8,807	7,603	910			17,320	35.6%
1973	7,546	5,344	560			13,450	-22.3%
1974	8,284	2,699	518			11,501	-14.5%
1975	10,912	2,142	658			13,712	19.2%
1976	13,546	4,047	1,028			18,621	35.8%
1977	17,424	4,178	**1,678**			23,280	25.0%
1978	15,618	4,290	1,356			21,264	-8.7%
1979	12,570	3,437	742			16,749	-21.2%
1980	7,760	2,407	734			10,901	-34.9%
1981	5,413	3,146	694			9,253	-15.1%
1982	4,767	2,360	544			7,671	-17.1%
1983	8,806	5,228	630			14,664	**91.2%**
1984	7,496	**10,583**	744			18,823	28.4%
1985	7,403	7,364	480			15,247	-19.0%
1986	8,512	4,516	416			13,444	-11.8%
1987	6,530	605	164			7,299	-45.7%
1988	5,297	324	94			5,715	-21.7%
1989	5,179	345	108			5,632	-1.5%
1990	6,099	770	140			7,009	24.4%
1991	7,911	812	146		572	9,441	34.7%
1992	10,375	1,154	290	278	904	13,001	37.7%
1993	12,929	2,934	370	561	1,010	17,804	36.9%
1994	13,947	3,159	530	957	1,154	19,747	10.9%
1995	13,904	4,513	820	1,092	1,229	21,558	9.2%
1996	15,139	5,326	708	1,156	1,408	23,737	10.1%
1997	14,079	3,356	636	1,273	1,343	20,687	-12.8%
1998	14,476	3,766	646	1,350	**1,505**	21,743	5.1%
1999	14,561	2,668	612	1,163	1,346	20,350	-6.4%
2000	13,463	2,012	504	1,113	1,062	18,154	-10.8%
2001	13,851	2,498	492	2,099	735	19,675	8.4%
2002	14,466	1,750	456	1,943	926	19,541	-0.7%
2003	16,515	2,066	512	2,977	766	22,836	16.9%
2004	17,724	2,233	708	2,912	716	24,293	6.4%
2005	**20,912**	2,236	938	**3,388**	811	**28,285**	16.5%

*Between 1970 and 1972 the apartment category includes duplexes and condominiums. Between 1973 and 1991 apartment category includes condominiums.
**Condominiums are separate category from 1992 to present.
***Cabins and manufactured homes separate category from 1991.

18,000 to 24,000 unit range in which it has been operating for the past 10 years.

How does the 2005 performance stack up historically? The time series data included in Tables 1 through 3 allow for comparisons annually since 1970 for units, value and new construction as a percent of existing inventory. Measured in absolute terms the 28,300 new units in 2005 is impressive, but when viewed in relative terms the year loses some of its luster. Since 1970 there have been 12 years when the percentage gains in the

Table 2
New of Residential Construction as Percent of Residential Inventory
Bold = High Shade = Low

Year	Total Housing Units	New Residential Construction as Percent of Inventory
1970	326,485	2.8%
1971	340,912	3.7%
1972	359,882	4.8%
1973	374,982	3.6%
1974	388,133	3.0%
1975	403,495	3.4%
1976	423,766	4.4%
1977	448,696	**5.2%**
1978	471,610	4.5%
1979	490,009	3.4%
1980	500,910	2.2%
1981	510,163	1.8%
1982	517,834	1.5%
1983	532,498	2.8%
1984	551,321	3.4%
1985	566,568	2.7%
1986	580,012	2.3%
1987	587,311	1.2%
1988	593,026	1.0%
1989	598,658	0.9%
1990	604,857	1.2%
1991	613,758	1.5%
1992	626,219	2.1%
1993	643,483	2.8%
1994	662,690	3.0%
1995	683,708	3.2%
1996	706,905	3.4%
1997	727,052	2.8%
1998	748,255	2.9%
1999	768,065	2.6%
2000	786,219	2.3%
2001	805,894	2.4%
2002	825,435	2.4%
2003	848,271	2.7%
2004	872,564	2.8%
2005	900,864	3.1%

Source: U.S. Burau of the Census and Bureau of Economic and Business Research, University of Utah.

number of units have been greater than in 2005 and 10 years when the percentage gains in value (constant 2005 dollars) have been higher. In summary, 2005 was a superb year when measured in absolute terms but less impressive when measured in relative terms.

A third measure, new residential construction as a percent of the existing inventory provides another perspective on relative levels of activity. The 28,300 new units in 2005 represent 3.1 percent of the total residential inventory. Historically this percentage has averaged 2.8 percent. There have been 12 years when new residential construction has exceeded 3.1 percent of the total inventory. This measure strongly suggests that the level of activity in 2005 was not all that unusual, and when combined with other comparisons of relative change raises the likelihood that residential construction may not have peaked in 2005.

Residential Construction Cycles and Volatility

Utah's residential construction sector is currently in the fourth cycle since 1970. Construction cycles are measured from peak to peak, as shown in Chart 1. The timing of the three completed cycles and the current cycle, whose end-peak is yet to be determined (TBD) are:

Cycle 1:	1972 to 1977	(5 years)
Cycle 2:	1977 to 1984	(7 years)
Cycle 3:	1984 to 1996	(12 years)
Cycle 4:	1996 to TBD	(at least 10 years)

The current construction cycle began in 1996 when new residential construction reached a record high of 23,700 units and established the beginning peak for this cycle. In 2000 the cycle's trough was established at 18,150. From peak to trough the decline for the current cycle was only 23 percent. Compare this

Table3
Change in the Value of Residential Construction in Utah
(2005 Dollars)
Bold = High   Shade = Low

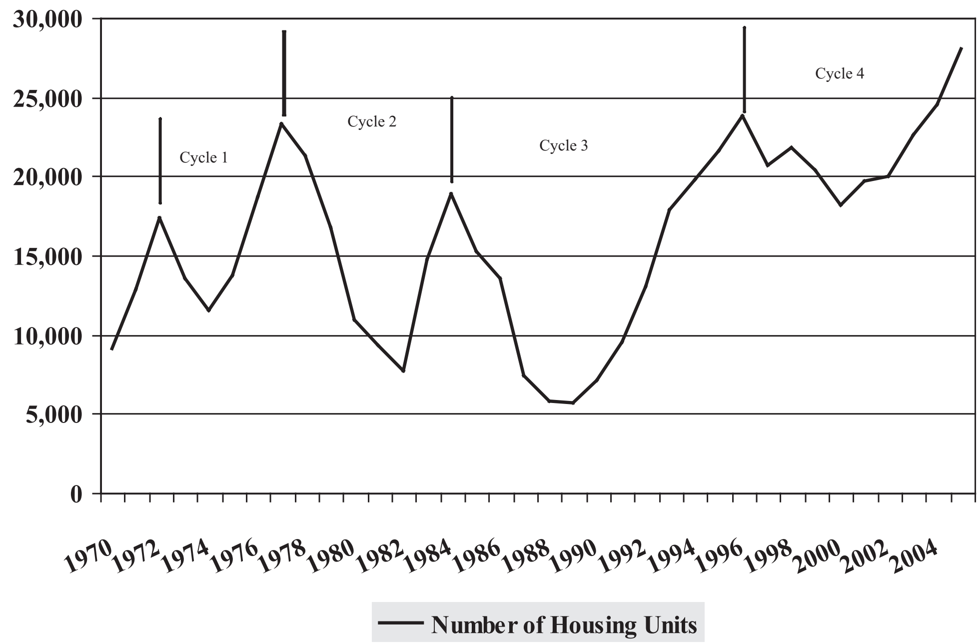
Year	Value of Residential Construction	Percent Change	Absolute Change
1970	$650.3		
1971	$880.3	35.4%	$230.0
1972	$1,202.0	36.5%	$321.7
1973	$1,059.7	-11.8%	-$142.4
1974	$897.8	-15.3%	-$161.9
1975	$1,197.2	33.4%	$299.4
1976	$1,799.6	50.3%	$602.4
1977	$2,497.5	38.8%	$697.9
1978	$2,370.6	-5.1%	-$126.9
1979	$1,882.3	-20.6%	-$488.4
1980	$1,072.3	-43.0%	-$809.9
1981	$1,075.5	0.3%	$3.2
1982	$766.9	-28.7%	-$308.6
1983	$1,379.1	**79.8%**	$612.2
1984	$1,566.8	13.6%	$187.8
1985	$1,353.9	-13.6%	-$213.0
1986	$1,336.0	-1.3%	-$17.9
1987	$894.4	-33.1%	-$441.6
1988	$718.7	-19.6%	-$175.6
1989	$753.7	4.9%	$35.0
1990	$942.0	25.0%	$188.3
1991	$1,266.0	34.4%	$323.9
1992	$1,774.3	40.2%	$508.4
1993	$2,344.9	32.2%	$570.6
1994	$2,617.1	11.6%	$272.1
1995	$2,702.7	3.3%	$85.7
1996	$2,988.0	10.6%	$285.2
1997	$2,654.3	-11.2%	-$333.7
1998	$2,858.5	7.7%	$204.2
1999	$2,815.2	-1.5%	-$43.3
2000	$2,578.9	-8.4%	-$236.3
2001	$2,751.9	6.7%	$172.9
2002	$2,885.4	4.9%	$133.5
2003	$3,517.3	21.9%	$632.0
2004	$3,888.9	10.6%	$371.5
2005	$4,660.0	19.8%	**$771.1**

Source: Bureau of Economic and Business Research, University of Utah.

modest decline with the two previous cycles. In the 1977 to 1984 cycle the peak-to-trough decline was 67 percent and in the 1984 to 1996 cycle it was 70 percent. A comparable decline in the current cycle would have driven new housing down to 7,000 units in 2000 rather than the 18,150 that occurred. Gratefully, the state is experiencing a much improved environment for home builders.

While the residential construction sector is still subject to cyclical behavior, that behavior has moderated noticeably in the past 20 years. Due to the reduced volatility the downturn in the current cycle (1996 to 2000) did not result in the sort of painful reduction in the number of residential contractors (new home builders and remodelers) that has been experienced in past cycles. Between 1980 and 1988 the number of residential contractors in Utah declined from 1,400 to only 800 establishments. In response to the housing boom of the mid-1990s the number increased to 1,900 by the peak year of 1996. Although construction activity declined by 25 percent over the next four years the number of contractors continued to expand. By 2002 the number of residential contractors had increased to 2,500, undoubtedly this growth encouraged by the continued high level of new home activity. In 2005 the number of residential contractors remains at about 2,500 as reported by the Utah Department of Workforce Services. These establishments are distinguished by a high concentration of small firms. According to the Census Bureau's 2002 Economic Census of Construction in Utah approximately 60 percent of residential contractors have four or fewer employees and over 80 percent have 10 or fewer employees.

Chart 1
Residential Construction Cycles in Utah
1970 - 2005



Demand for New Residential Units

The current cycle is distinguished by the heavy concentration of detached single-family units, which account for over 70 percent of all new units. Not surprisingly, the number of single-family homes hit an all-time high in 2005 of 20,912 units. It took a generation for the single-family record of 17, 424 units set in 1977 to be broken. On that previous occasion the single-family record was set with the help of large numbers of household formations by baby boomers. The demographic conditions that were so favorable then are present now, but this time it is the children of the baby boomers (the echo boom) who are forming new households and driving demand for new single-family homes. And, of course, this demand has been facilitated immeasurably by extremely low mortgage rates.

Condominium, twin home and town home developments—all owner-occupied units—have also prospered in this favorable demographic and economic environment. The number of condominiums receiving permits in the past four years has exceeded the number of apartment units. In 2005 new condominiums units totaled 3,388 units or a 12 percent share of all new residential construction. This share is about double the historic average for condominiums.

Once again the demand for housing units, in this case condominiums, is a reflection of favorable demographics. Demographics underlie the growing demand for condominiums as second homes whether in Salt Lake City's Central Business District or in a resort/retirement community like St. George. Condominium development in Summit County and Washington County currently accounts for about 25 percent of all new units. Condominium developers report that a sizeable number of their buyers are financially secure baby boomers and in some cases boomers looking to downsize. Demand for condominiums should grow as the population cohort of 60 to 74 years old increases by about 12,000 per year over the next 10 years, according the Governor's Office of Planning and Budget. The total population of the 60 to 74 year age group in Utah increases from 199,000 in 2006 to 326,000 in 2016.

While the demand for owner-occupied units has been extremely strong the renter market has suffered. In 2005 only 2,200 new rental units received building permits. With a rental inventory of about 220,000 units statewide these additional units represent about 1 percent of the existing rental inventory. Such a small increase in the inventory would usually be the exception but in the past five years it has been the rule. Every year since 2000 the number of new rental units as a percent of the existing inventory has been below 1 percent. Despite the meager additions to the inventory vacancy rates climbed during the period to double-digit levels in Salt Lake County and for the metropolitan area the Census Bureau reported vacancy rates rising to 9.6 percent in 2004.

Alarmingly these weak market conditions and the low level of apartment construction have occurred during a period of very favorable apartment demographics—an increasing number of young households 25 to 34 years old. The population cohort of 25 to 34 years increased by 110,000 between 2000 and 2005, usually very favorable demographic conditions for the rental market. However, this demographic advantage has been completely overwhelmed by two other factors: (1) 50-year low mortgage rates and (2) stable housing prices. These two conditions have allowed renters to become home owners and severely eroded the demand for rental units.

In the past two years one other factor has also come into play to further discourage new apartment construction; the rapidly rising costs of construction materials. While construction costs have increased, rental rates—due to the weak market conditions—have declined. This rental rate situation has hurt the income potential of apartment communities resulting in a profit squeeze that has made it difficult to get proposed projects to "pencil." Consequently, few non-subsidized rental properties have been developed in the past few years. Therefore, a sizeable share of the approximately 2,000 new rental units built annually in recent years have been low-income tax credit units or deep subsidy rent-assisted units. These subsidized units receive assistance through programs administered by the Utah Housing Corporation, HUD or the U.S. Department of Agriculture's Department of Rural Development.

Table 4
Nonagricultural Employment Change in Utah

Year	Change in Nonagricultural Employment	Housing Units
1995	48,260	21,558
1996	46,297	23,737
1997	39,816	20,687
1998	29,416	21,743
1999	25,018	20,350
2000	26,381	18,154
2001	6,806	19,675
2002	-7,939	19,941
2003	385	22,836
2004	30,197	24,293
2005	45,277	28,285
2006	49,500	Unknown

Source: Utah Department of Workforce Services and Bureau of Economic and Business Research, University of Utah.

The Employment Conundrum and the Role of Demographics and Housing Prices

Economists cite employment growth as one of the most important long-term determinants of housing demand and a look at historical trends in Utah confirms this association. For example, when new home construction set records in 1977 and 1978 employment growth in Utah was also establishing a new record. In 1978 nonagricultural employment in Utah increased by 7.5 percent, which is still the largest one-year employment gain in Utah's post-World

War II history. The prior year residential construction set a record for new dwelling units of 23,280, a record that stood for 19 years.

In the current housing cycle, however, the relationship between employment and housing demand seems less direct. During the three-year recession in Utah (2001-2003) employment actually declined by 750 jobs but during this period new residential construction averaged 20,800 units annually. A total of 62,500 new units were built during a period when there was no employment growth—surprising numbers to say the least, Table 4. In 2002 and 2003 this disconnect between employment and residential construction raised concerns about whether contractors were over-building the market. Memories of the badly over-built markets of the 1980s were invoked. Happily no over-building occurred. But how was the market able to absorb 62,500 homes without any job growth?

There were three powerful factors at work to facilitate the absorption of large numbers of housing units without job growth. One factor was not unique to Utah—low mortgage rates—but the other two were; Utah's population age structure and Utah's stable housing prices.

Table 5
Change in Population by Age Group in Utah
2000 to 2005

Age	Change 2000-2005	Percent Change 2000-2005
0-4	37,788	17.8%
5-9	25,492	13.2%
10-14	7,389	3.8%
15-19	-19,416	-9.1%
20-24	-5,814	-2.5%
25-29	69,424	38.3%
30-34	40,252	26.7%
35-39	7,353	4.9%
40-44	5,866	3.9%
45-49	20,104	15.1%
50-54	26,969	25.0%
55-59	28,127	34.9%
60-64	17,369	27.6%
65-69	7,634	14.2%
70-74	2,837	5.9%
75-79	2,352	5.9%
80-84	3,981	14.5%
85+	4,666	21.2%

Source: Utah Department of Workforce Services and Bureau of Economic and Business Research, University of Utah.

Age Structure of Utah's Population

Between 2000 and 2005 there was a tremendous increase in Utah in the number of individuals in the 25 to 29 and the 30 to 34 year age groups. These two age categories are prime home-buying cohorts and they recorded the highest absolute gains in population change, Table 5. Between 2000 and 2005 the 25 to 29 year group increased by 69,424 individuals and the 30 to 34 year group increased by 40,252. The percentage change for each group was 38.3 percent and 26.7 percent, respectively. Nationally the percentage change for the 25 to 29 year group was only 2.5 percent and for the 30 to 34 year group the population actually declined by 3.4 percent. Utah's strong demographic growth in prime home-buying age groups undoubtedly helped to offset the loss of housing demand due to a stagnant job market.

Stable housing prices also helped to stimulate demand for new home construction during the slack employment period. From 1999 to 2004 Utah ranked last among all states in price appreciation as measured by the Office of Federal Housing Enterprise Oversight of the U.S. Department of Housing and Urban Development. Stable prices enabled young Utah households to become homeowners. Consequently, by 2004 the share of households that were homeowners in Utah hit an all-time high of 74.9 percent. But not all was well with the housing market. While home

Table 6
Median Price for New Homes and Building Lots
And Median Lot Size for Selected Counties

Category and County	2003	2004	2005
Median Closing Price for New Detached Single-Famiy*			
Davis County	$175,000	$186,000	$203,200
Salt Lake County	$186,000	$200,000	$223,300
Utah	$170,375	$191,650	$196,900
Washington			$306,400
Weber		$222,200	$233,500
Median Price for New Home Lot*			
Davis County	$63,250	$70,000	$80,650
Salt Lake County	$73,550	$75,500	$86,000
Utah	$67,050	$69,750	$76,160
Washington			$140,000
Weber		$222,200	$233,525
Median Lot Size of New Homes (sq.ft.)			
Davis County	9,000	9,800	10,600
Salt Lake County	8,900	7,515	9,040
Utah	8,340	8,100	7,500
Washington			10,100
Weber		11,850	12,900

*Median calculated on fourth quarter activity.
Source: NewReach.

building boomed and homeownership increased, apartment vacancies rose as renters exchanged apartments for homes. The rental vacancy rate in the Salt Lake-Ogden Metropolitan area increased steadily over the 2000 to 2004 period as reported by U.S. Census Bureau.

Year	Vacancy Rate
2000	6.5%
2001	7.0%
2002	7.4%
2003	9.4%
2004	9.6%

Owners of rental property were the losers in this market. With rising vacancy rates rent increases were met with stiff market resistance. In fact landlords saw rents decline and move-in specials escalate with the growing competition for renters. These market conditions are reflected in the average overall rental rate in Salt Lake County. In 2000 that rate was $637 and in 2005 it was $636.

Renters also benefited, even though they may have missed the chance for homeownership, their consolation came from declining rental rates. Housing affordability for both renters and new homeowners is one of the most distinctive and important features of the Utah housing market between 2000 and 2004. Of course on the flip side existing homeowners experienced little in the way of equity increases in their homes during the period.

Utah's demographics and housing prices made possible remarkable levels of new residential construction activity in the face of a struggling job market. Comparatively the level of new housing construction has been extraordinary. From 2000 to 2005 the housing inventory in Utah increased from 768,600 units to 896,000 units, a 16.3 percent increase in the inventory in the past six years. Bureau of the Census data show that only four other states have managed higher relative rates of inventory increase: Nevada (28.4%), Arizona (19.5%), Georgia (17.7%) and Florida (16.7%). Utah homebuilders, homebuyers and the Utah economy have been the beneficiaries of this housing boom.

New Home Prices

Unfortunately there is no statewide data source providing information on new home prices. However, NewReach, a Utah real estate consulting firm has collected data over the past few years for selected counties. These data show that the median prices for new homes in Davis, Salt Lake and Utah counties have increased significantly. Salt Lake County had the largest two-year increase at 20 percent, followed by Davis County at 16 percent then Utah County at 15 percent. In 2005 the median price of a new home in Salt Lake County was $223,300. The median price for a building lot was $86,000 and the median size of that lot was about 9,000 square feet (Table 6).

The NewReach data show the recent trend toward less affordability in Utah's housing market. The affordability indicator used is the number of new detached single-family homes that sold for $150,000 or less. In 2003, the number of new homes that sold for less than $150,000 in the three counties of Davis, Salt Lake and Utah was 2,243 units. This represents one-quarter of all new homes sold in 2003 in the three counties. By 2005 this number dropped to 1,049; only one out of every 10 new homes met the affordability criterion two years later (Table 7).

Utah County continues to be the leader in the number of new affordable homes although in the past two years the number sold has declined by almost half; dropping from 954 units in 2003 to 554 units in 2005. Last year, 15 percent of all new homes in Utah County sold for $150,000 or less. Utah County's position is due mainly to high levels of affordable home construction in three cities: Lehi, Saratoga Springs and Eagle Mountain. In sharp contrast, Washington County had virtually no new affordable housing for sale in 2005. Only 24 units or 1.7 percent of all new detached single-family homes sold in Washington County in 2005 were priced at or below $150,000.

These data show that in Utah's metropolitan areas, new detached single-family homes are not within the financial reach of most moderate income families. For them homeownership possibilities lie with the existing housing stock, i.e. buying an older home. Surprisingly, about one out of every four homes sold through the Wasatch Front Regional Multiple Listing Service last year could be considered affordable housing. In the four Wasatch Front counties, 8,100 existing homes sold for less than $140,000 in 2005.

Table 7
Number and Share of New Homes Sold for $150,000 or Less

County	2003		2004		2005	
	Units Sold	% of Total	Units Sold	% of Total	Units Sold	% of Total
Davis County	651	40%	316	185	254	13%
Salt Lake County	638	15%	314	9%	251	6%
Utah County	954	32%	684	25%	544	15%
Washington County	na	na	na	na	24	1.7%
Weber County	na	na	na	na	76	12%

Source: NewReach.

Forecast for 2006

Will residential construction have a third consecutive record-setting year in 2006? The fundamentals are certainly in place.

Interest Rates – Mortgage rates are expected to average around 6.5 percent, a level conducive to high-octane performance. Long-term interest rates remain low despite the Federal Reserve actions on short-term rates. Over the past 18 months the Federal Reserve has raised the federal funds rate 14 times. While the federal funds rate has increased from 1 percent to 4.5 percent there has been no corresponding rise in long-term rates. The liquidity in world capital markets, created in part by the U.S. trade deficit, has contributed to the low interest environment. In 2005 the U.S. trade deficit widened to a record $726 billion driven by strong consumer demand for foreign goods and soaring energy prices. But our trading partners have been willing to invest some of these dollars in long-term U.S. Treasury securities. This demand for government securities helps to hold down interest rates. In short, the world's "savings glut" and the willingness of foreigners to invest in U.S. securities has been to the great benefit of U.S. home builders and buyers. This pattern is expected to continue.

Overbuilding - There is no serious talk of overbuilding or worries about unsold inventory or widespread market speculation. In the past Utah has had damaging speculation in real estate markets—most notably in the late 1970s and mid-1980s. But currently supply and demand appear in balance in most local housing markets. One possible exception is the St. George market where investors and speculators have driven land and home prices up significantly in the past three years. Land prices have tripled since 2001 and housing prices increased by over 30 percent in 2005. These increases are due, in part, to demand created by investors and speculators who recently entered the market. The likely withdrawal of investors, as market conditions become less favorable, could result in a surge of unoccupied homes for sale. This excess capacity should check housing price increases in St. George, at least in the short-term. However, in most housing markets throughout the state the presence of investors appears limited and does not pose a threat to market stability.

Historical Context – While the performance of the home building sector in 2006 was spectacular in absolute terms, relative measures are less ebullient and show a "solid year" for new housing. There have been a number of years when the percentage increases in both units and value have exceeded those recorded in 2005. And perhaps most telling is new home construction as a percent of the existing housing inventory. In 2005 the 28,300 units represents 3.1 percent of the housing inventory. Historically, this percentage has been 2.8 percent. In 12 of the last 35 years the percentage has been higher than the 3.1 percent of 2006. In 1977, a year of serious overbuilding, new home construction was 5.2 percent of the existing inventory. When viewed in relative terms the number of new units and valuation of 2006 do not appear quite so extraordinary and one becomes more optimistic about a repeat performance in 2006.

Employment – Employment is a long-term determinant of housing demand. While Utah was able to achieve high rates of new home construction during a period (2001 to 2003) of little or no employment growth that achievement was linked to low mortgage rates, demographics and stable housing prices. These conditions still exist in the Utah housing market but are now augmented by high rates of employment growth. Over the past two years Utah has consistently ranked in the top five states in the percent gain in new jobs. And employment growth is accelerating in Utah. From January through October of 2005 the monthly year-over employment gains registered between 35,000 and 39,000. However, in November the increase jumped to 41,000 and in December to 44,000. These were the two strongest months of the year. Even more surprising was the January number. From January 2005 to January 2006 the number of jobs in Utah increased by 52,700. This is one of the largest monthly gains in Utah's history. This exceptionally strong growth is bound to further stimulate the demand for housing as people migrate to Utah looking for work and needing a place to live.

Net In-Migration – Record levels of home building are always associated with high rates of net in-migration. This is true for all four of Utah's home building booms since 1970, i.e., the booms of 1971-1972, 1976-1978, 1994-1996 and 2004-2005. In 2005 Utah's net in-migration was estimated at 40,650, which is the highest level of net in-migration in the state's history, easily breaking the previous record of 30,100 set in 1994. The 2006 forecast is for 37,000, a level that should keep the Utah housing market revved-up near the 28,000 unit mark.

Population Age Structure - Another favorable demographic feature is Utah's population age structure. Over the next five years the 30 to 40 year age cohort will grow significantly. This age group represents what is known as the move-up market. Members of this group will take advantage of the increasing equity in their existing homes and higher incomes to move up to pricey new homes. Over the next several years, these move-up households will comprise a substantial market for Utah home builders.

Housing Prices – Housing price increases in Utah have lagged behind those for the nation. Even in 2005, the first year since the late 1990s of any measurable price increases in Utah, the state recorded an 11 percent rise in prices, still below the 12 percent for the nation. The median sales price for a home in the Salt Lake Metropolitan area in 2005 was $181,400, well below the national median of $215,900. As recently as 2000 Salt Lake's median price was above the national median and had been for the previous five years. These data demonstrate that current housing prices should not seriously impede the level of housing demand in 2006. Utah can probably absorb at least one more year of double-digit housing price increases without much effect on housing demand.

Conclusion – All of the market indicators for Utah's residential construction sector remain extremely positive in 2006. Favorable mortgage rates, demographics, job growth, housing prices, real estate activity and supply conditions point to another terrific year for Utah home builders. No serious downturn is on the horizon. Such downturns have always been led by a combination of negative developments; rapidly rising interest, high housing prices, net out-migration, etc. None of these conditions are imminent. It would take rapidly rising interest rates or a national calamity to throw Utah's home building into a steep decline. Overall market conditions make for a 50 percent probability that 2006 will be at least as good as 2005. Furthermore, a decline of more than 10 percent in new home building is very unlikely.

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