

Salt Lake County Real Estate Conditions and Forecast, 2016-2017

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Summary

Salt Lake County's residential market had its best year since 2006. Superb fundamentals - strong job growth, increased net in-migration, low mortgage rates and solid wage gains - supported increased levels of sales activity and pushed up single-family and condominium prices to all-time highs. Prices in inflation-adjusted dollars are above pre-recession levels and have fully recovered from the Great Recession. This research brief was commissioned in partnership with the Salt Lake Board of Realtors. The following summary of statistical highlights captures the strength of the 2016 market:

- 13,600 single-family sales, an increase of 1.3 percent
- \$4.5 billion in single-family sales, an increase of 10 percent
- 4,300 condominiums, town homes and twin home sales, an increase of 12 percent
- \$927 million in condominiums, town homes and twin home sales, an increase of 20 percent
- \$295,000 median sales price for a single family home, an increase of 8.1 percent
- \$203,000 median sales price for condominiums, town homes and twin homes, an increase of 7 percent
- \$325 million in residential real estate commissions, an increase of 11 percent
- 13 days for median cumulative days on market (CDOM), a record low CDOM for single-family homes

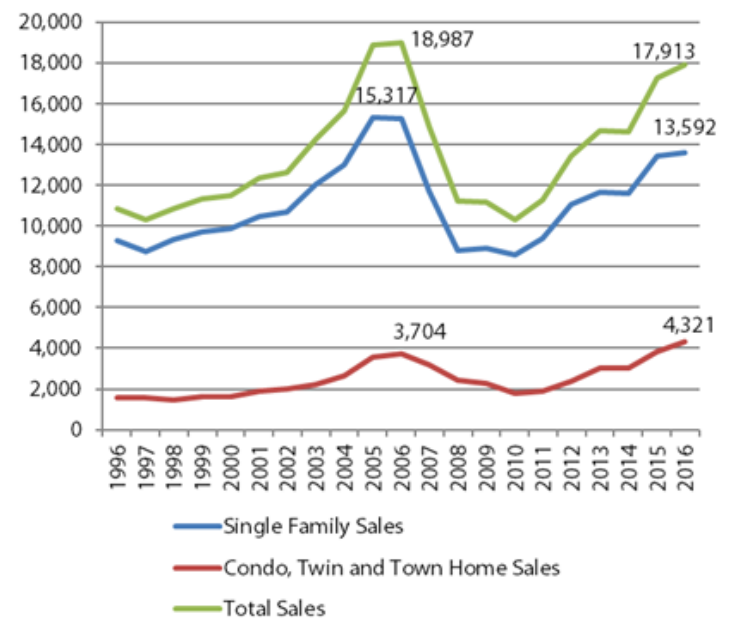
Home Sales

In 2016, existing single-family homes sales totaled 13,600 units, the highest level in 10 years and the third-highest in the county's history. This was exceeded only by the pre-recession years of 2006 and 2007 (see Figure 1). The strong demand for housing was not limited to single-family homes.

The sale of multifamily units (condominiums, town homes and twin homes) set an all-time record of 4,300 units and accounted for 24 percent of all residential sales, the highest share ever. Over the past 20 years, multifamily sales have averaged 18 percent of residential sales.

Residential sales, as usual, were concentrated in Salt Lake City. The city accounts for 21 percent of all households in the county but captured 25 percent of all single-family sales as well as multifamily sales. In this case, the disproportionate share of sales in Salt Lake City highlights the locational advantages of the city regarding proximity to employment, transportation and community amenities. Other cities with a significant number of home sales were West Jordan, West Valley, South Jordan and Sandy. These four cities, along with Salt Lake City, accounted for about 60 percent of all homes and condominiums sold in the county (see Table 1).

Figure 1
Number of Single-Family, Multifamily, and Total Sales in Salt Lake County



Source: Wasatch Front Regional Multiple Listing Service.

Table 1
Residential Sales by City, 2016

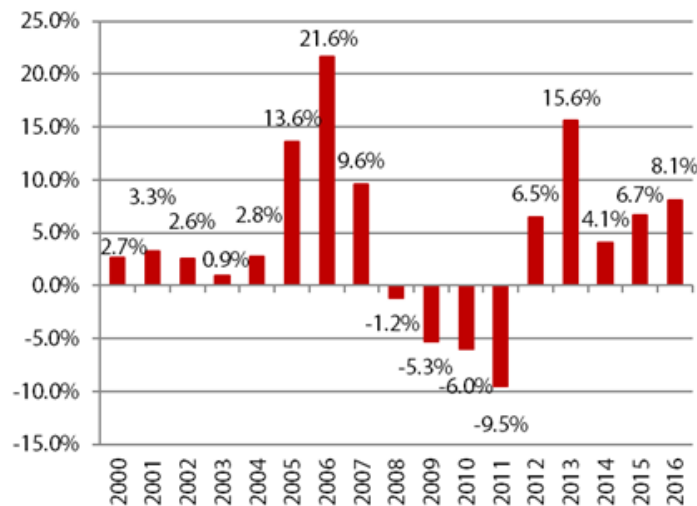
	Single-Family	Multifamily	Total Sales	Share
Salt Lake City	3,406	1,121	4,527	25.3%
West Jordan	1,572	361	1,933	10.8%
West Valley	1,308	314	1,622	9.1%
South Jordan	1,097	407	1,504	8.4%
Sandy	1,269	173	1,442	8.1%
Unincorporated Salt Lake	905	80	985	5.5%
Herriman	695	248	943	5.3%
Taylorsville	654	156	810	4.5%
Draper	519	254	773	4.3%
Riverton	574	157	731	4.1%
Murray	362	324	686	3.8%
Holladay	333	207	540	3.0%
Midvale	261	271	532	3.0%
Cottonwood Heights	395	83	478	2.7%
Bluffdale	134	120	254	1.4%
South Salt Lake	108	45	153	0.9%
Salt Lake County	13,592	4,321	17,913	100.0%

Source: Wasatch Front Regional Multiple Listing Service.

Housing Prices

Housing price increases have picked up momentum over the past three years. After an extraordinary increase of 15.6 percent in 2013, it looked as though prices might settle to the 3 to 4 percent range, but in the past two years, substantial increases have been recorded (see Figure 2). The 8 percent increase in 2016 is particularly noteworthy because it drove the median sales price of a single-family home to \$295,000, slightly above the previous record high of \$290,000 in 2007 (when adjusted for inflation).

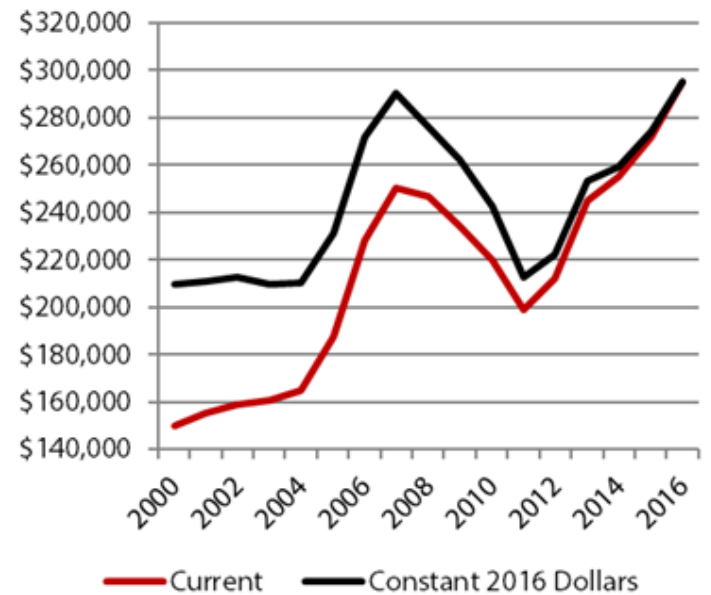
Figure 2
Percent Change in Median Sales Price of Single-Family Home in Salt Lake County



Source: Wasatch Front Regional Multiple Listing Service.

With respect to housing prices, the past 16 years have been the most volatile in the county's history. This volatility is on full display in Figure 3, which measures price increased in current and constant (inflation-adjusted) dollars. Using the inflation-adjusted prices, the median sales price of a home increased by 38 percent during the three-year housing boom (2004-2007), followed by a 28 percent decline during the Great Recession (2008-2011) and then a 39 percent increase in the five years of recovery through 2016. In the non-inflation-adjusted prices, the five-year recovery measures a strong 48 percent increase: \$199,000 in 2011, to \$295,000 in 2016.

Figure 3
Current and Constant Median Sales Price for an Existing Single-Family Home in Salt Lake County



Source: Wasatch Front Regional Multiple Listing Service.

In 2016, the median sales price of a single-family home increased in all 15 cities in Salt Lake County (see Table 2). Cities with moderately-priced housing were some of the leaders in price increases in 2016. West Valley and South Salt Lake both had double-digit price increases and the west side of Salt Lake City (west of Main Street) also reported double-digit increases. The strength of prices in these cities indicates a heightened demand for homes priced below \$250,000.

Table 2
Change in Median Sales Price of Single-Family Home by City

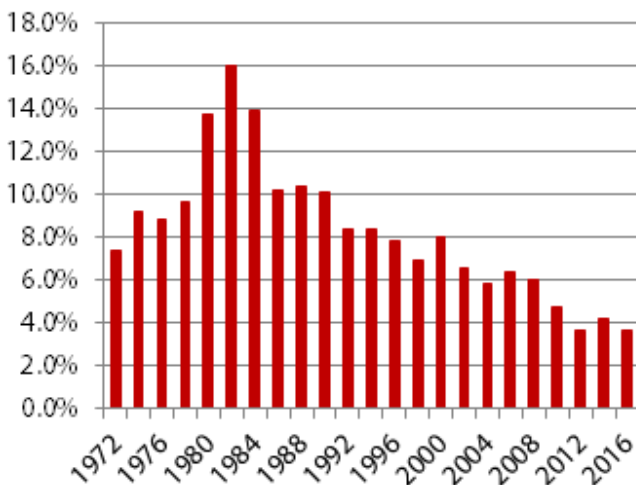
	2015	2016	% Change
Bluffdale	\$400,000	\$459,450	14.9%
Cottonwood Heights	\$338,850	\$380,000	12.1%
Draper	\$421,000	\$445,000	5.7%
Herriman	\$317,000	\$340,900	7.5%
Holladay	\$380,500	\$440,000	15.6%
Midvale	\$226,950	\$245,000	8.0%
Murray	\$259,000	\$277,000	6.9%
Riverton	\$308,000	\$329,000	6.8%
Salt Lake City	\$275,000	\$296,000	7.6%
West Side*	\$179,250	\$203,000	13.2%
East Side*	\$301,750	\$322,000	6.7%
Sandy	\$295,000	\$322,500	9.3%
South Jordan	\$357,400	\$389,900	9.1%
South Salt Lake	\$190,000	\$215,000	13.2%
Taylorsville	\$219,900	\$237,000	7.8%
West Jordan	\$249,000	\$272,250	9.3%
West Valley	\$199,475	\$219,450	10.0%
Salt Lake County	\$272,900	\$295,000	8.1%

*West side is west of Main Street, east side is east of Main Street in Salt Lake City.

Source: Wasatch Front Regional Multiple Listing Service.

Housing Bubble or Price Recovery? - The sizeable increases in prices over the last five years raises the question of whether a housing price bubble is building. A 48 percent increase in five years is extraordinary, but this increase must be set in the context of the four years of declining housing prices. For 16 consecutive quarters, housing prices declined in Salt Lake County, a unique period in Salt Lake County's real estate history as there had never been more than four quarters of declining prices. The return of prices to pre-recession levels should not be confused with a housing bubble.

Figure 4
Annual Mortgage Rate for 30-year Mortgage



Source: Freddie Mac

The price recovery has been aided and abetted by the historically long stretch of low mortgage rates, a necessary condition for the recovery (see Figure 4). Other factors, however, were at play as well. From 2010 to 2016, according to the U.S. Bureau of Labor Statistics, Utah was the third fastest growing state in terms of population change, surpassed by only North Dakota and Texas. Utah has also consistently been in the top five states in employment growth over the same period.

A housing bubble also carries some special characteristics that currently are not present in the Salt Lake County and Utah housing markets. Housing bubbles are preceded by rapid increases in debt. Prior to the Great Recession, household debt in Utah increased by 35 percent in three years as reported by the Federal Reserve Bank of New York. Much of this increase was driven by mortgage refinancing, second mortgages and home equity lines of credit. Currently, there are no signs of a build-up in debt in Utah. Household debt (mortgage debt, auto loans, credit cards, student loans and home equity lines of credit) levels have returned, with considerable pain for many households, to sustainable pre-recession levels.

A housing bubble is also characterized by lack of affordability. Housing affordability is measured by the Wells Fargo National Association of Home Builders housing opportunity index. A housing opportunity index number of 50 or above denotes an affordable market. In the Salt Lake Metropolitan Area in 2007, the housing opportunity index was 30, which meant that the median income household was able to afford only 30 percent of the homes sold in the county. Hence, the Wells Fargo housing opportunity index stood at 30. Certainly, this was a sign that housing prices had become untethered from normal economic relationships, housing prices and household income. Currently, the housing opportunity index for the Salt Lake Metropolitan Area is 70, meaning the median income household could afford 70 percent of the homes sold in the county in 2016, a sign of an affordable housing market.

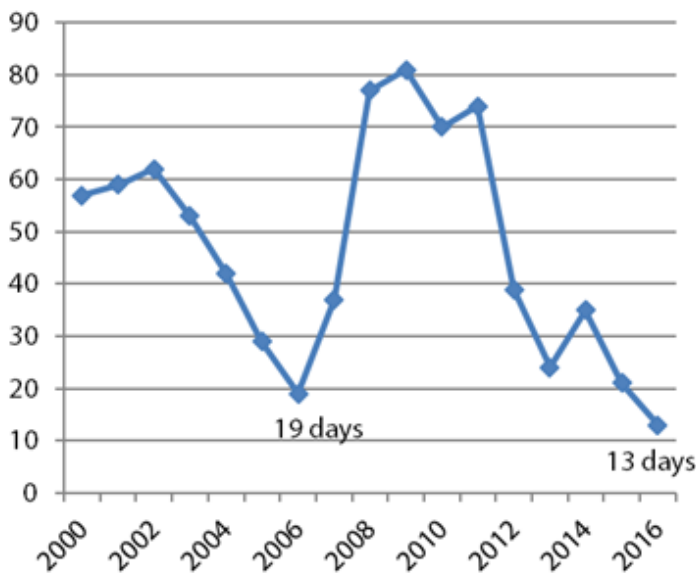
Price Pressures into 2017 - Utah's rapid demographic growth has created what appears to be a housing shortage. For the first time in 40 years, the increase in households in Utah exceeds the number of new housing units. Consequently, all segments of the housing market report very strong demand and insufficient supply. Take the apartment market for instance. Apartment vacancy rates are at the lowest level in decades despite the historic apartment boom. The boom has added 20,000 units statewide since 2012, a 7 percent increase in the rental inventory, but the rental market remains extremely tight. The Salt Lake County apartment market has the lowest vacancy rates in over 20 years.

In the new home market, home builders have virtually no unsold inventory and are producing at full capacity. Builders face three serious supply bottlenecks: labor shortage, high land prices and municipal zoning, fees and regulations. Builders

would be hard-pressed to ramp-up much beyond current levels of construction.

Conditions in the existing home market agree with the other signs of a housing shortage. For example, an important indicator of housing demand is median Cumulative Days on Market (CDOM) of “for sale” homes. In the worst year of the Great Recession (2009), the median cumulative days on market climbed to 81 days (see Figure 5). But as the demand for housing slowly recovered, the CDOM steadily declined as well. By 2016, the median CDOM had dropped to its lowest level ever of 13 days. The extremely low CDOM in 2016 is a very strong indicator for continued upward pressure on prices in 2017.

Figure 5
Median Cumulative Days on Market for Homes and Multifamily Units in Salt Lake County



Source: Wasatch Front Regional Multiple Listing Service.

Some price pressure would be relieved by an increase in listings. After five years of equity-building price increases, home owners should be more motivated to enter the market and move-up. The equity position of Utah home owners has improved markedly in the past few years. In 2010, Utah ranked among the top ten states in underwater mortgages. Twenty-one percent of all home mortgages in Utah (80,000 homeowners) had negative equity. Consequently, these underwater homeowners were locked into their current home and could not move-up. The situation has now reversed. The number of homeowners with negative equity by the third quarter of 2016 has dropped to about two percent of home owners and Utah ranks sixth-lowest among all states in underwater mortgages.

Outlook for 2017

President Trump’s victory brings some uncertainty to the housing market in 2017. How will his policies impact interest

rates? Will Fannie Mae and Freddie Mac be privatized? Will the rollback of Dodd Frank improve credit availability? Will tax reform affect homeownership? Despite all this noise and uncertainty at the national level, the Salt Lake County real estate market will have another very good year in 2017.

Mortgage rates will tick-up - The Fed has signaled that more short-term interest rate hikes will come in 2017 and most forecasts have mortgage rates increasing to around 4.5 percent by year-end. The likelihood of tax cuts and more defense and infrastructure spending will put some upward pressure on interest rates but the mortgage rate will remain quite favorable. The small increase in rates rather than deter potential homebuyers may spark interest “to get in before rates move even higher”.

Affordability will decline - Although wages are expected to increase by three percent in 2017, this will not be enough to counter higher home prices and higher interest rates. How much declining affordability will hurt demand is uncertain, but it will not be enough to change the upward direction of home sales and prices, particularly given the increased housing demand from high rates of net in-migration in 2017.

More millennials will move to homeownership - Millennials in Utah have a greater share of the population than any other state. Seventeen percent of the population in Salt Lake County is in the 25 to 34-year age group. Nationally, almost 14 percent of the population falls into this age group, which is considered to be the prime age group for home buying. But in Salt Lake County, as elsewhere, today’s millennials are more likely to rent than own. In 2015, only 43 percent of millennial households were homeowners; in 2005, it was 53 percent. Some housing economists predict there will be a trend back to homeownership for this age group as the rental market becomes less attractive due to higher rents and low vacancy rates.

Supply will improve some - The scarcity of listings, a defining feature of the 2016 market, will continue into 2017, but should improve some as more homeowners enter the market, cashing-in on some of their increased home equity.

Strong price and sales increases but not double-digit - Another year of housing price increases will be supported by very favorable fundamentals: low interest rates and solid demographic, job and wage growth. These fundamentals, combined with the exceptionally strong demand, as well-evidenced by the record low “cumulative days on market”, will push the median sales price of a single-family home to the \$310,000 to \$315,000 price range, a 5 to 7 percent increase. Home sales will see a slightly lower increase with single-family sales, increasing to around 14,000 homes, or a gain of 3 to 5 percent. Condominium prices and sales will be even stronger, both increasing from 6 to 8 percent. Finally, residential sales will total \$6 billion, up 9 percent and residential real estate commission will hit \$360 million, an 11 percent increase.



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