

Highlights

- The Great Recession brought a serious contraction in new residential construction in Utah. The magnitude of the decline was consistent with past cycles, however the recovery has been the slowest of any post–World War II housing cycle. Four years beyond the trough residential construction has recovered to only 55 percent of its pre-recession peak. A typical recovery would be near 80 percent of the previous peak.
- The Great Recession produced billions of dollars in equity losses for Utah homeowners, four years of falling housing prices, record levels of foreclosures and underwater mortgages, the weakest job market since the Depression primarily attributable to the loss of 40,000 construction jobs, and historically low interest rates. All these features are unique to the housing contraction sparked by the Great Recession.
- Utah’s real estate industry has fared better than the homebuilding industry. Existing home sales in the four Wasatch Front counties have recovered to 80 percent of the pre-recession peak, and the median sales price of a home has fully recovered. In 2007 the median sales price of a single-family home in the Wasatch Front was \$234,325 compared with \$235,000 through the second quarter of 2014.
- Rising prices have restored much of the lost homeowner equity and significantly reduced the number of underwater mortgages in Utah. In 2010 Utah ranked 11th among all states in the share of mortgage loans with negative equity, a total of 93,475 loans. By the first quarter of 2014 the state’s ranking had dropped to 38th, with a total of 29,480 underwater loans.
- In the first quarter of 2010 the share of mortgages in foreclosure in Utah hit an all-time high of 3.3 percent, 14,900 mortgage loans. An improving economy has produced a steady decline in foreclosures over the past four years. By the first quarter of 2014 the share of mortgages in foreclosure had dropped to 1.18 percent of all mortgage loans, a total of 4,970 loans. Historically the share of loans in foreclosure has been 1 percent. The threat of foreclose to Utah homeowners and housing prices has returned to a normal level.
- Despite the recovery in housing prices, the greatly diminished impact of underwater loans and foreclosures, and strong job growth, the demand for housing is surprisingly subdued. Both new home construction and sales of existing single-family homes are down in 2014. Demand appears to be constrained by price resistance of homebuyers for both new and existing homes as well as lower-than-expected increases in new household formations.

The Great Recession: Utah’s Home Building and Real Estate Sectors

James A. Wood, Director

It’s been nearly seven years since the Great Recession triggered a \$25 billion loss in equity for Utah homeowners and the worst years for the local home building industry since World War II. The housing sector was intimately connected to the Great Recession as both cause and effect. The effect of the Great Recession on Utah’s residential sector is the focus of this article, beginning with a comparison of the most recent housing cycle to past cycles followed by a discussion of the housing collapse and the eventual recovery of Utah’s residential construction and real estate sectors.

Residential Construction

Housing Cycles in Utah 1972 to 2014

There have been five housing cycles in Utah since the early 1970s (Figure 1). Each of these cycles has its own distinctive characteristics but none is more distinctive than the current cycle, the Great Recession cycle. A cycle, for this analysis, is measured from peak to peak.

Cycle I (1972 to 1977)

This five-year cycle included a very short two-year contraction followed by a record-setting surge in new residential construction. The upswing in this cycle reflects the strong rate of household formation and subsequent need for housing units created by the Baby Boom generation. This demographic feature, combined with a very strong local economy, created an unprecedented housing boom. In the peak year of 1977 the number of housing units receiving building permits totaled 23,380, a record that would stand for 19 years. This cycle also marks the first occasion when condominium development played any sort of role in the residential market. In 1973–1974 condominium construction accounted for 10 percent of all new housing units. But despite favorable demographics and high rates of job growth, homebuilder optimism and speculation outpaced the fundamentals, resulting in a steep decline for housing.

Cycle II (1977 to 1984)

A near free fall in housing begins Cycle II as overbuilding, combined with the 1981–1982 recession, devastated the homebuilding industry. Residential permits fell for five consecutive years, from 23,280 permits to 7,671 permits. At the time, the five-year 67 percent decline in housing activity was the longest and deepest decline in Utah's post-war history. Not only was the housing market contending with speculative excess but also with double-digit interest rates. In 1981 and 1982 mortgage rates averaged 16 percent. In October 1981 mortgage rates peaked at 18.45 percent. It's very likely that a substantial share of the 5,400 homes built in 1981 were self-financed. The high interest rates were engineered by the Federal Reserve to quash inflation that had reached 15 percent due primarily to rising energy prices. The early 1980s recession has been dubbed the Volker Recession, after Paul Volker, chairman of the Federal Reserve at the time.

The recovery from the five-year slide was swift and short. Permits for new residential units nearly doubled in the first year of the recovery, jumping from 7,671 units at the trough in 1982 to 14,664 units in 1983. The following year residential permits continued to climb with a 28 percent increase, but this recovery was in a sense artificial. It was pushed by pending changes in the tax code (1986) regarding depreciation on investment property. Consequently, 1984 and 1985 are the only two years in Utah's homebuilding history when more apartments were built than single-family homes. The all-time high in apartment construction was 1984, when 11,327 units received building permits. In that same year only 7,496 single-family homes received permits.

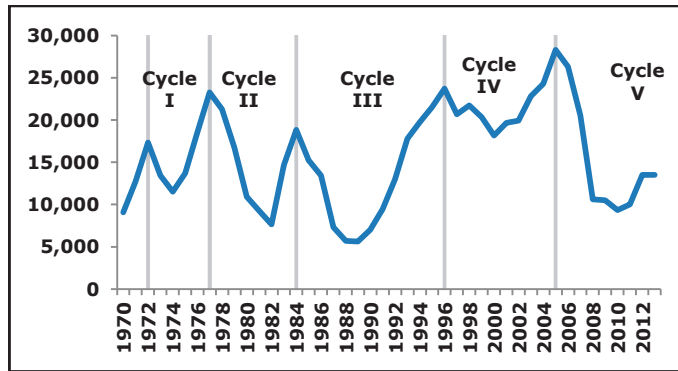
Cycle III (1984 to 1996)

This cycle is unique in its length, 12 years from peak to peak. The contraction from 1984 to 1989 includes the aftermath of the apartment binge. Permits for rental housing came to a near halt. In 1988 only 400 new apartment units received permits statewide. Without any support from the apartment market and continued high mortgage rates, total residential permits plummeted by 70 percent, exceeding the 67 percent contraction of Cycle II. Mortgage rates were in double digits from 1984 through 1990.

The upswing of this cycle ran for seven years as permits issued rose from 5,632 units to 23,737 units, an all-time high. Part of the strength in the expansion was the return of apartment development combined with new condominiums. Multifamily permits accounted for 20 to 30 percent of all residential permits issued during most the 1990s. The expansion in this cycle was

the beginning of relatively high rates of residential activity with little volatility that extended well into Cycle IV. For the housing market this was a period of moderation, a ten-year period when residential permits fluctuated in a narrow range of a few thousand units: 18,000 to 22,000 units.

Figure 1
Housing Cycles in Utah



Source: Bureau of Economic and Business Research Construction Database.

Cycle IV (1996 to 2005)

This cycle's distinctive characteristic is the absence of any significant downturn. The trough is only 23 percent below the peak. This is particularly noteworthy given the recession of 2001, which resulted in no job growth in the state over a three-year period (2001–2003). Despite the terrible labor market conditions, residential development was unfazed as new residential construction maintained a level of 20,000

new units annually. Part of the unusual strength of this cycle can be attributed to the second home market, particularly in Washington County, and the steady decline in mortgage rates. Mortgage rates dropped under 7 percent, which at the time signaled cheap money and brought buyers into the market. Some of these buyers were looking for second homes located in the scenic surroundings and warm winters of Washington County. In 2004 and 2005 about one-in-six residential units built in Utah was located in Washington County. The peak year for Washington County was 2005, with 3,800 new residential units, an excessive level of building in a county of only 45,000 households. This level of residential activity represents at least 2,000 second home units, an unsustainable level. While Washington County was a favored location for second homes, southern Salt Lake County and northern Utah County became the hot spots for new single-family development, particularly the communities of West Jordan, South Jordan, Riverton, Herriman, Lehi, Eagle Mountain, and Saratoga Springs.

Housing demand was also boosted by Utah's unique population age structure. While the 25–34 age group was declining nationally, in Utah it was expanding. The formation of young households helped to create demand for entry-level homes in Lehi and Eagle Mountain, while aging Baby Boomers pushed demand for move-up homes in Herriman, South Jordan, Sandy and Draper. During the 1990s the number of persons in the 45–54 age group increased substantially in Utah, which was reflected in the strong move-up market of the early 2000s. The second home market, Utah's favorable age structure and relatively low mortgage rates combined to set a new all-time high of 28,285 residential building permits in 2005.

Cycle V (2005 to present)

This cycle began with a reasonable 7 percent retreat in new construction activity in the first year of the downturn (2006) followed by a 20 percent decline the next year—and then the

bottom fell out of Utah's housing market. In 2008 permit activity dropped by 50 percent and became mired for four years at around 10,000 units. The trough of the cycle was established in 2010 at 9,066 units for all types of residential construction (single-family homes, apartments and condominiums), the lowest level in 20 years.

Single-family construction hit bottom in 2009 at 5,200 units, tied with 1989 for the lowest level of home building in 45 years. Single-family home building fell 75 percent in the Great Recession. From peak to trough total residential permits dropped by 68 percent, very close to the magnitude of decline in Cycle II and Cycle III; and the duration of the decline was five years, the same as Cycle II and Cycle III.

What distinguishes this cycle from the others is the prolonged period of very sluggish levels of new construction and the timid recovery.

Typically, four years after the trough construction has recovered to about 80 percent of the pre-recession peak. In Cycle V, four years from the trough the recovery is only about 50 percent of the pre-recession peak, despite historically low mortgage rates. Since 2010 mortgage rates have been below 5 percent in every month with the exception of January 2010, and in 2012 and 2013 rates averaged less than 4 percent.

The recovery has been hindered by a set of distinctive characteristics: (1) a record number of foreclosures; in none of the previous cycles have foreclosures been a factor; (2) the 6 percent decline in jobs over the two-year period 2009–2010,

	State	Percent
1	North Dakota	230.9%
2	District of Columbia	141.9%
3	South Dakota	93.1%
4	Montana	81.0%
5	Oklahoma	73.3%
6	Nebraska	72.0%
7	Texas	70.0%
8	Iowa	64.7%
9	Louisiana	64.1%
10	New Jersey	63.1%
11	Wyoming	62.1%
12	Delaware	61.1%
13	Massachusetts	61.0%
14	Washington	60.0%
15	Colorado	59.0%
16	Maryland	56.2%
17	New York	55.5%
18	Kansas	55.4%
19	Utah	55.1%
20	Virginia	51.5%
21	North Carolina	50.7%
22	Pennsylvania	50.1%
23	Tennessee	49.9%
24	Connecticut	49.4%
25	Vermont	48.0%
26	Indiana	47.5%
27	Oregon	47.0%
28	Minnesota	46.1%
29	US	45.5%
30	Kentucky	44.6%
31	South Carolina	44.0%
32	West Virginia	43.2%
33	Missouri	40.9%
34	Mississippi	40.8%
35	Idaho	40.6%
36	Arkansas	39.4%
37	Hawaii	39.3%
38	California	39.1%
39	Wisconsin	39.0%
40	Ohio	38.6%
41	Alaska	37.6%
42	Maine	36.6%
43	Alabama	36.2%
44	New Mexico	34.8%
45	New Hampshire	34.6%
46	Michigan	33.9%
47	Georgia	33.2%
48	Rhode Island	32.8%
49	Florida	30.7%
50	Arizona	26.0%
51	Nevada	23.9%
52	Illinois	22.6%

Source: U.S. Census Bureau.

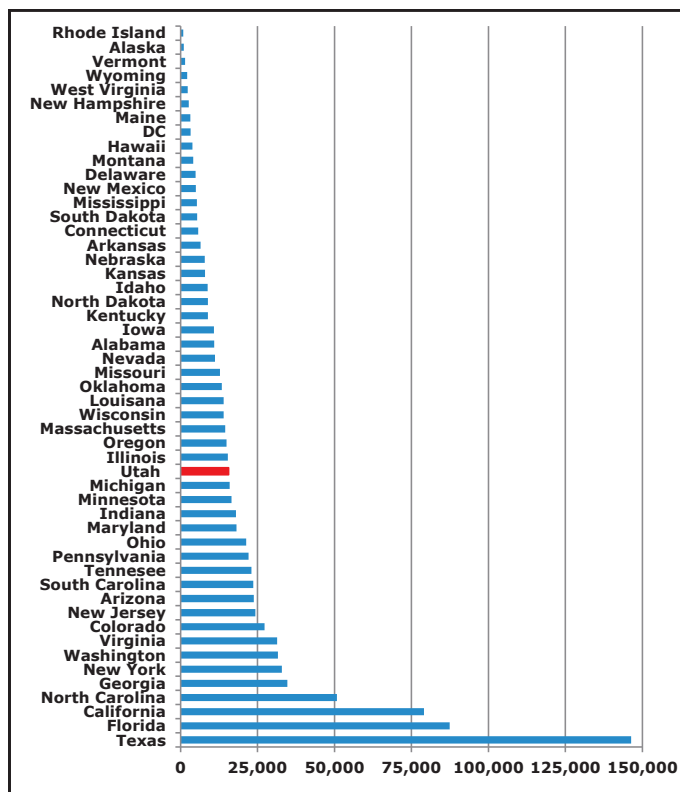
totaling a loss of 70,000 jobs, created the weakest labor market since the Great Depression; (3) four consecutive years (2008–2011) of unprecedented falling housing prices that, depending on the measure, led to as much as a 21 percent decline in the value a home—the most important source of wealth for most households; and (4) the doubling-up of households as job losses and foreclosures forced thousands of households to move in with family or friends, sharply reducing the demand for housing units.

A comparison of Utah's housing recovery shows that the local market is doing a little better than the nation. Residential construction data from the U.S. Census Bureau shows that from the peak of 2005 through 2013 the housing market nationally has recovered to only 45 percent of its pre-recession peak, whereas Utah has recovered to 55 percent of the peak (Table 1).

Current Housing Market Conditions

Residential Construction – In 2013 15,000 permits were issued for residential units in Utah, a 34 percent increase over 2012. In absolute terms Utah's residential building recovery surpasses many states that are much larger than Utah (Figure 2). States

**Figure 2
Building Permits Issued for Single-Family Homes in
2013**



Source: U.S. Census Bureau.

such as Massachusetts, Illinois, Wisconsin, and Oregon had fewer residential building permits issued in 2013 than Utah. Among western states ranked behind California, Washington, Colorado and Arizona. The scale of home building

in Texas was spectacular in 2013. The state led the country with 147,000 permits for new units, followed by Florida at a distant second with 86,750 permits.

Home Building – So far 2014 has been a confusing year for home builders. Single-family permits statewide are down 14 percent through July and nearly 20 percent in Salt Lake County. Washington County is down 21 percent.

The level of home building is down in every major county (Table 2). It's not clear why demand for new housing units has faded. Fundamentals are good: jobs are increasing, net in-migration is increasing, foreclosures are not a problem, and the share of underwater homes has dropped significantly.

Home building data show the weakness began in April. For the first three months of 2014 it looked like this year would improve on 2013. Since April however, all four months have been below 2013 levels and in three of the four months below 2012 levels. Most troubling is the July 2014 number of 629 permits, which is only about half the July 2013 number and well below even 2011 (Figure 3).

The production levels of the top ten home builders in 2013 are also all down in 2014 (Table 3). The average 2014 decline for the top ten firms is 26.5

percent. Ivory Homes, the largest home builder in the state, is down nearly 20 percent while production at DR Horton, the second-ranked firm, is down 44 percent.

In 2013 the average unit value for a home from the top ten builders was \$231,045 a 7 percent increase over 2013. The average unit value represents the building permit value not the market value. Building permit value does not include land, architectural, engineering, and landscaping costs. The building

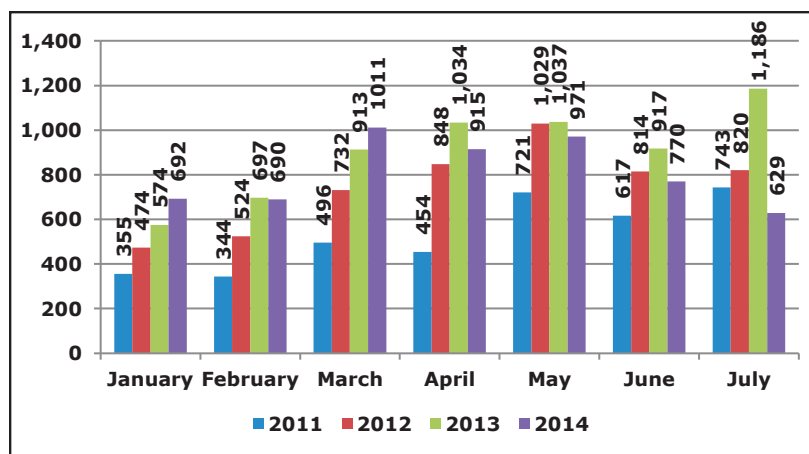
County	Through July 2013	Through July 2014	Percent Change
State	6,412	5,507	-14.1%
Salt Lake	1,932	1,551	-19.7%
Utah	1,527	1,420	-7.0%
Davis	752	643	-14.5%
Weber	284	281	-1.1%
Washington	994	784	-21.1%

Source: Construction Monitor.

permit cost is generally about two-thirds of the value of the home. Therefore the average new home from a top-ten builder is probably priced around \$350,000. A 7 percent increase in the price, combined with the 75-basis-point upturn in mortgage rates since spring of 2013, has pushed up the monthly payments on the average new home by 18 percent in the past year. Home buyer price resistance is undoubtedly one of

the contributing factors to the sluggish new home market. Another contributing factor may be the reduced loan limits for FHA loans. For example, in Salt Lake County the FHA loan limit was dropped from \$729,750 to \$300,150 January 1, 2014. How much damage this change has done to new home demand is difficult to sort out. The mortgage market is in transition. In the last few years the share of conventional

**Figure 3
Building Permits Issued for Single-Family Homes in Utah**



**Table 3
Top Ten Home Builders in 2013 Compared with 2014
Performance
(January to July)**

Builder	2013	2014	Change
Ivory Homes*	452	364	-19.5%
DR Horton	298	168	-43.6%
Edge Homes	285	281	-1.4%
Henry Walker Homes*	195	147	-24.6%
Holmes Homes	171	93	-45.6%
Castle Creek Homes	142	59	-58.5%
Salisbury Homes	119	84	-29.4%
Perry Homes	108	100	-7.4%
Candlelight Homes	105	86	-18.1%
McArthur Homes	103	72	-30.1%
Total	1,978	1,454	-26.5%
Average Value/Unit	\$215,739	\$231,045	7.1%

*includes southwestern division.
Source: Construction Monitor.

loans has increased substantially due to the high cost of mortgage insurance required for FHA loans. Also, some changes in conventional mortgage requirements have made conventional mortgages more attractive.

Apartment Market Conditions – While home builders struggle with the subdued demand for new housing the rental market is thriving. The growth rate in rental housing exceeds that of owner-occupied housing. From 2000 to 2010 the average

annual growth rate for renter-occupied units statewide was 2.65 percent compared with 2.11 percent for owner-occupied units. Of the major counties in the state, Salt Lake had the slowest growth in renter-occupied units at 2.06 percent, while Washington County led with a growth rate of 5.77 percent (Table 4). At an annual growth rate of 2.65 the number of renters statewide would increase by over 7,000 households in 2014. The inventory of renter-occupied housing units in Utah in 2014 is approximately 280,000 units.

**Table 4
Renter-Occupied Housing in Utah and Selected Counties**

County	2000	2010	Change	AAGR*
State	199,734	259,555	59,821	2.65%
Davis	16,006	20,474	4,468	2.49%
Salt Lake	91,544	112,203	20,659	2.06%
Utah	33,151	44,549	11,398	2.99%
Washington	7,811	13,691	5,880	5.77%
Weber County	16,508	21,619	5,111	2.73%

*AAGR: average annual growth rate.
Source: U.S. Census Bureau.

The lowest rental vacancy rate in years is evidence of the demand for rental housing in Salt Lake County. A survey of the local market is conducted annually in July by Cushman Wakefield Commerce, a local commercial brokerage firm. The survey includes 16,000 apartment units in 80 randomly selected apartment projects. The apartment vacancy rate in the county has declined steadily from 7.2 percent in 2009 to only 3.0 percent in 2014 (Table 5). But these favorable conditions are not limited to Salt Lake County. Recently surveyed rental markets from Vernal to Cedar City to Orem and Brigham City all indicate strong demand statewide for rental housing.

The demand for apartment units has pushed rental rates up since 2010. In Salt Lake County the composite rental rate for all types of units has jumped by 20 percent since 2010, increasing from \$720 to \$865 a month (Table 6). The typical three-bedroom apartment in a new project (built since 2000) with more than 100 units is \$1,125. New apartment projects are generally priced well beyond the means of the average renter.

**Table 5
Apartment
Vacancy Rates in
Salt Lake County**

Year	Vacancy Rate
2002	5.4%
2003	7.6%
2004	7.2%
2005	6.1%
2006	4.0%
2007	3.2%
2008	4.6%
2009	7.2%
2010	5.7%
2011	5.2%
2012	3.8%
2013	3.9%
2014	3.0%

Source: Cushman Wakefield, CRG.

**Table 6
Overall Rental Rates in
Salt Lake County**
(Composite of studio, one-, two- and three-bedroom units)

Year	Nominal Rates	Real Rates
2002	\$638	\$844
2003	\$613	\$794
2004	\$596	\$750
2005	\$624	\$761
2006	\$652	\$763
2007	\$728	\$833
2008	\$793	\$859
2009	\$740	\$819
2010	\$720	\$787
2011	\$754	\$795
2012	\$814	\$847
2013	\$850	\$867
2014	\$865	\$865

Source: Cushman Wakefield, CRG.

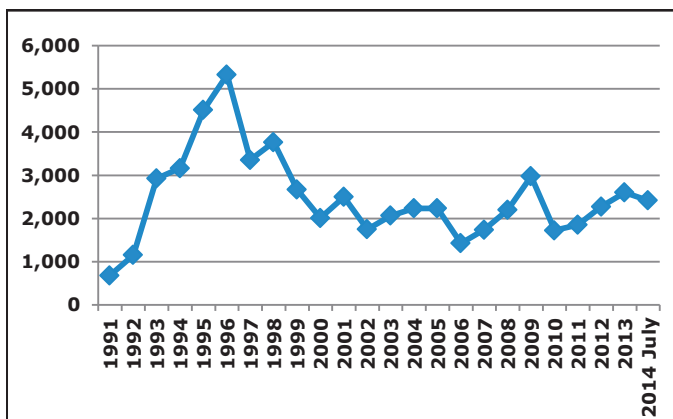
The downtown Salt Lake and Sugarhouse submarkets have seen large increases in rental rates with the introduction of several new high-rise apartment projects built in the last few years. Rents for a two-bedroom apartment in these new projects range from \$1,300 to \$1,800 a month and can approach \$2.00 per square foot. These rental rates are high enough, if a household

opted for homeownership, to finance a mortgage for a \$250,000 home, the median price of a home in Salt Lake County.

Despite the demand for rental units, the number of traditional apartment units built in the last several years has been well below the levels of the 1990s (Figure 4). In 2013 only 2,700 new apartment units received building permits statewide. With an inventory of 280,000 units, that's an increase of less than 1 percent of the inventory.

Probably the most significant constraint to the new supply of traditional apartment units is NIMBYism and local zoning

**Figure 4
Number of Building Permits Issued for Apartments in Utah**



Source: Bureau of Economic and Business Research Construction Database, Construction Monitor.

ordinances. Because developing new apartment projects has become so difficult, much of the need for additional rental units in recent years has been met by a “shadow market” of single-family homes, condominiums, twin homes, and town homes. A comparison of new construction to the changes in the number of renters is revealing. For example, from 2000 to 2010 the number of new apartment units built statewide was 21,137, but the number of renter households increased over the same period by nearly 60,000. These numbers show that new apartment construction met only about one-third of the increased demand for rental units. The remaining two-thirds was met by “for rent” homes and condominiums (Table 7). In Salt Lake City 75 percent of the increased demand was met by new apartments, but in St. George only 31 percent was.

The “shadow market” grew significantly during the housing bust. When the bubble burst many condominiums and homes were added to the rental inventory as developers had trouble finding buyers and home foreclosures reached record levels. These unsold and foreclosed units, originally meant for homeownership, found their way into the rental inventory and helped accommodate the growing demand for rentals. But this source of supply is pretty much exhausted. The inventory of foreclosed properties has dropped by nearly 70 percent and troubled condominium projects have been absorbed. Consequently, higher levels of apartment construction are

Table 7
Selected Cities: Comparison of New Apartment Construction to Increase in Renter Households, 2000–2010

City	New Apt. Construction	Increase in Renter Households	Difference Col (2) & (3)	Demand Met by New Construction
Salt Lake City	2,658	3,571	913	74.4%
West Jordan	2,195	3,406	1,211	64.4%
St. George	1,050	3,386	2,336	31.0%
Provo	818	1,588	770	51.5%
Orem	767	1,998	1,231	38.4%
Riverton	648	1,048	400	61.8%
Logan	567	1,308	741	43.3%
Draper	526	1,428	902	36.8%
North Salt Lake	509	562	53	90.6%
Cedar City	509	1,592	1,083	32.0%
State	21,137	59,821	38,684	35.3%

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

necessary to meet the growing demand for rental units. Adding 2,000 to 3,000 units statewide via new construction is insufficient. The market will need at least 4,000 new units annually to avoid persistently low vacancy rates and diminished rental housing opportunities for Utah's growing renter population. The market is on pace to produce about 4,000 units in 2014. Through July nearly 2,500 new apartment units have received building permits. Major projects have received permits for development in Springville, Sandy, West Valley City, Midvale, Lehi, and Vineyard.

In 2010 30 percent of Utah's households were renters and 70 percent owners. Since 1960 the share of renters and owners has changed very little (Table 8). The highest share of renters was in 1990, with renters accounting for 31.9 percent of occupied units. In 2010 renter households in Salt Lake had the largest share of occupied units among major counties with a 32.7 percent share. Utah County was close behind with 31.7 percent due to the large number of off-campus student housing units to accommodate BYU and UVU students. The strong demand for rental housing will increase the share of renter-occupied units over the next few years, however it is very unlikely the 34.7 percent share reported in 1950 will be exceeded.

Table 8
Owner- and Renter-Occupied Units in Utah and Selected Counties

State/County	Renter-Occupied	Owner-Occupied	Total Occupied	Renter Share	Owner Share
State					
1950	65,225	122,600	187,825	34.7%	65.3%
1960	68,173	173,359	241,532	28.2%	71.8%
1970	91,364	206,570	297,934	30.7%	69.3%
1980	131,431	317,172	448,603	29.3%	70.7%
1990	171,263	366,010	537,273	31.9%	68.1%
2000	199,734	501,547	701,281	28.5%	71.5%
2010	259,555	618,137	877,692	29.6%	70.4%
Salt Lake					
1950	29,861	48,516	78,377	38.1%	61.9%
1960	34,324	66,453	100,777	34.1%	65.9%
1970	46,328	88,598	134,926	34.3%	65.7%
1980	64,392	137,350	201,742	31.9%	68.1%
1990	83,914	156,766	240,680	34.9%	65.1%
2000	91,544	203,597	295,141	31.0%	69.0%
2010	112,203	230,419	342,622	32.7%	67.3%
Utah					
1950	5,648	14,946	20,594	27.4%	72.6%
1960	6,118	17,515	23,633	25.9%	74.1%
1970	11,360	23,113	34,473	33.0%	67.0%
1980	20,403	38,112	58,515	34.9%	65.1%
1990	26,165	44,003	70,168	37.3%	62.7%
2000	33,151	66,786	99,937	33.2%	66.8%
2010	44,549	96,053	140,602	31.7%	68.3%
Davis					
1950	2,698	5,239	7,937	34.0%	66.0%
1960	3,587	11,821	15,408	23.3%	76.7%
1970	5,398	18,361	23,759	22.7%	77.3%
1980	8,899	31,095	39,994	22.3%	77.7%
1990	13,887	39,711	53,598	25.9%	74.1%
2000	16,006	55,195	71,201	22.5%	77.5%
2010	20,474	73,071	93,545	21.9%	78.1%
Weber					
1950	9,644	13,930	23,574	40.9%	59.1%
1960	8,520	19,609	28,129	30.3%	69.7%
1970	11,342	25,926	37,268	30.4%	69.6%
1980	13,781	33,862	47,643	28.9%	71.1%
1990	15,619	37,634	53,253	29.3%	70.7%
2000	16,508	49,190	65,698	25.1%	74.9%
2010	13,691	32,643	46,334	29.5%	70.5%
Washington					
1950	672	1,864	2,536	26.5%	73.5%
1960	658	2,135	2,793	23.6%	76.4%
1970	1,020	2,814	3,834	26.6%	73.4%
1980	1,806	5,995	7,801	23.2%	76.8%
1990	4,451	10,805	15,256	29.2%	70.8%
2000	7,811	22,128	29,939	26.1%	73.9%
2010	21,619	57,129	78,748	27.5%	72.5%

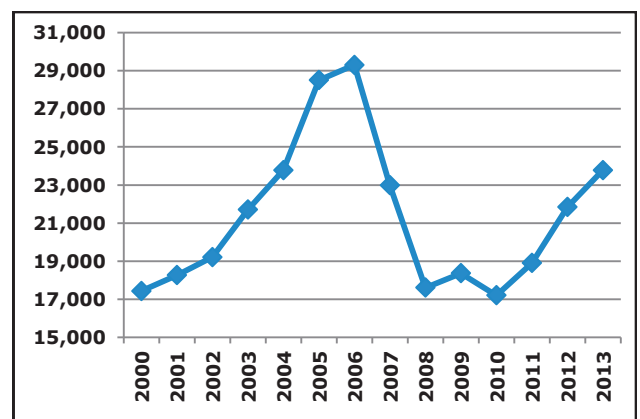
Source: U.S. Census Bureau, Detailed Housing Characteristics.

Residential Real Estate Market

Home Sales and Prices

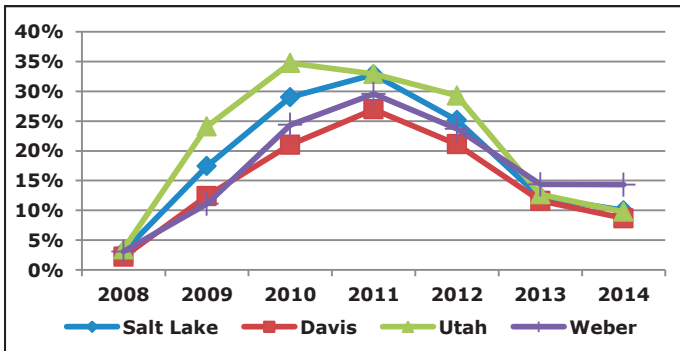
Real estate agents in the Wasatch Front counties fared much better than home builders during the Great Recession. Sales of single-family homes fell 41 percent from the peak in 2006 of 29,300 to the trough in 2010 of 17,200 (Figure 5). This decline was considerably less than the 68 percent decline in new residential permits. The recovery for real estate agents has been stronger. Home sales in the Wasatch Front counties

Figure 5
Sales of Single-Family Homes – Wasatch Front



Source: Wasatch Front Regional Multiple Listing Service.

Figure 6
Short Sales and REO Sales as Percent of Total Home Sales



Source: Wasatch Front Regional Multiple Listing Service.

Table 9
Short Sales and REO Sales as Share of Total Single-Family Home Sales in Salt Lake County

Year	Short Sales	REO Sales	Total Distressed Sales	Total SF Home Sales	Distressed as Share of Total Sales
2008	103	156	259	8,517	3.0%
2009	1,117	436	1,553	8,904	17.4%
2010	1,210	1,276	2,486	8,570	29.0%
2011	1,382	1,721	3,103	9,456	32.8%
2012	1,616	1,167	2,783	11,063	25.2%
2013	1,005	431	1,436	11,765	12.2%
2014*	374	341	715	7,154	10.0%

*Through second quarter of 2014.

Source: Wasatch Front Regional Multiple Listing Service.

Table 10
Short Sales and REO Sales as Share of Total Single-Family Home Sales in Davis County

Year	Short Sales	REO Sales	Total Distressed Sales	Total SF Home Sales	Distressed as Share of Total Sales
2008	22	44	66	3,012	2.2%
2009	266	103	369	2,979	12.4%
2010	310	242	552	2,625	21.0%
2011	367	372	739	2,742	27.0%
2012	394	308	702	3,325	21.1%
2013	300	148	448	3,865	11.6%
2014*	120	92	212	2,448	8.7%

*Through second quarter of 2014.

Source: Wasatch Front Regional Multiple Listing Service.

Table 11
Short Sales and REO Sales as Share of Total Single-Family Home Sales in Utah County

Year	Short Sales	REO Sales	Total Distressed Sales	Total SF Home Sales	Distressed as Share of Total Sales
2008	55	64	119	3,442	3.5%
2009	663	317	980	4,069	24.1%
2010	756	589	1,345	3,872	34.7%
2011	589	867	1,456	4,427	32.9%
2012	805	587	1,392	4,753	29.3%
2013	461	205	666	5,250	12.7%
2014*	160	166	326	3,341	9.8%

*Through second quarter of 2014.

Source: Wasatch Front Regional Multiple Listing Service.

Table 12
Short Sales and REO Sales as Share of Total Single-Family Home Sales in Weber County

Year	Short Sales	REO Sales	Total Distressed Sales	Total SF Home Sales	Distressed as Share of Total Sales
2008	21	60	81	2,634	3.1%
2009	182	85	267	2,405	11.1%
2010	211	310	521	2,139	24.4%
2011	254	417	671	2,271	29.5%
2012	289	350	639	2,698	23.7%
2013	223	193	416	2,894	14.4%
2014*	118	160	278	1,942	14.3%

*Through second quarter of 2014.

Source: Wasatch Front Regional Multiple Listing Service.

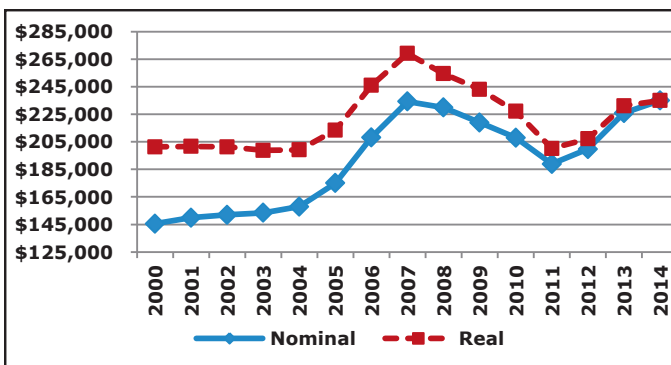
totalled 23,775 in 2013, 80 percent of the pre-recession peak, whereas home builders are barely above a 50 percent recovery.

Perversely, realtors were aided in a way by falling prices, which along with declining mortgage rates eventually brought willing buyers into the existing home market—home buyers as well as investors—establishing a floor for sales. In contrast, falling home prices were very damaging to new home sales. Home builders simply could not compete with the distressed prices of for-sale existing homes.

By 2011 one-third of all single-family homes sold in the Wasatch Front counties were either short sale homes or real estate owned (REO) homes, i.e. owned by a financial institution due to foreclosure. Salt Lake and Utah counties had higher levels of distressed sales than Davis and Weber counties (Figure 6 and Tables 9–12). Distressed sales through the second quarter of 2014 had dropped significantly to around 10 percent of sales, a very positive development for the home builder.

Price Declines – The housing bubble bankrolled a 33 percent run-up in housing prices in two years. The median sales price of a home in the four Wasatch Front counties in 2005 was \$175,000. By 2007 the median sales price had reached \$234,000 (Figure 7). Over the next four years housing prices declined by 19 percent as measured by the Wasatch Front Regional Multiple Listing Service. Another measure of housing prices in Utah is the

Figure 7
Median Sales Price of Existing Single-Family Homes – Wasatch Front



Source: Wasatch Front Regional Multiple Listing Service.

Federal Housing Finance Agency (FHFA), which shows a 21 percent decline in its housing price index for Utah from 2007 to 2011.

Utah was far from the hardest-hit state in terms of housing price decline. Thirteen states had greater declines in the FHFA housing price index than Utah as measured from the first quarter of 2007 through the first quarter of 2012 (Table 13). Utah's 21 percent decline was quite comparable to the U.S. decline of 19.4 percent.

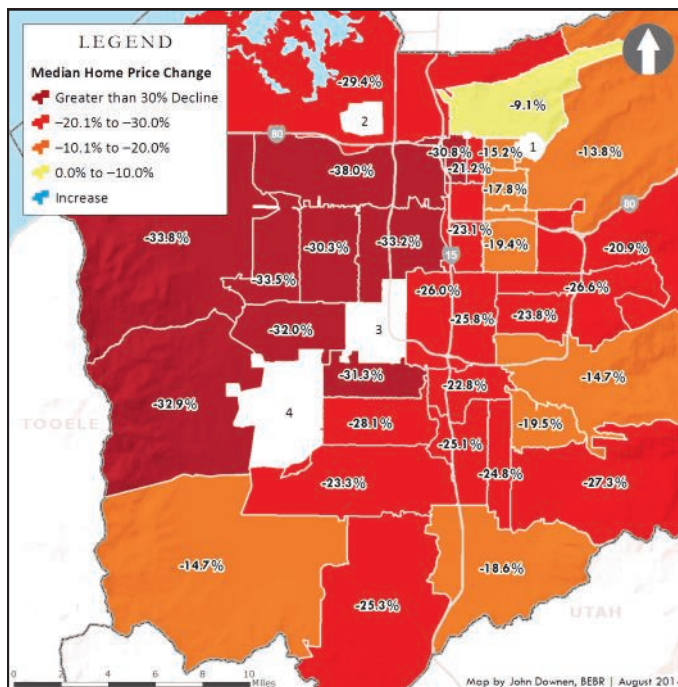
Housing price declines in the Wasatch Front counties, of course, varied from neighborhood to neighborhood; however, price declines in Salt Lake County had a distinguishing characteristic. All of the Zip Codes in Salt Lake County with price declines of more than 30 percent were Zip Codes with relatively low-priced homes (Table 14). The Zip Code with the largest decline—38 percent—had a median sales price in 2007 of \$137,000, the lowest median home price of any of the 40 Zip Codes in the county (Figure 8). In general, in Salt Lake County the lower the value of a home, the greater the price decline during the Great Recession.

Table 13
Selected States Ranked by Decline in Federal Housing Finance Agency's Housing Price Index, First Quarter 2007 Through First Quarter 2012
 (Purchase Only Index)

Rank	State	Decline
1	Nevada	-57.9
2	Arizona	-46.3
3	California	-43.6
4	Florida	-43.4
5	Idaho	-28.2
6	Georgia	-26.8
7	Maryland	-26.5
8	Oregon	-26.2
9	Washington	-26.2
10	Michigan	-25.2
11	Delaware	-22.3
12	Illinois	-21.4
13	Rhode Island	-21.3
14	Utah	-20.9
	U.S.	-19.4

Source: Federal Housing Finance Agency.

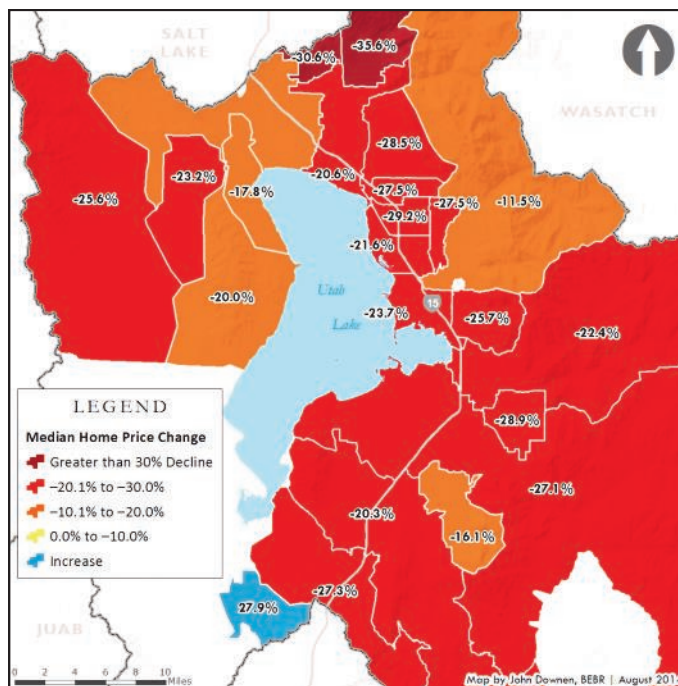
Figure 8
Change in Median Sales Price of Homes by Zip Code – Salt Lake County, 2007–2011



(1) University of Utah, (2) Salt Lake International Airport, (3) Zip Code with new boundaries, (4) Zip Code with new boundaries.

Source: Wasatch Front Regional Multiple Listing Service.

Figure 9
Change in Median Sales Price of Homes by Zip Code – Utah County, 2007–2011



Source: Wasatch Front Regional Multiple Listing Service.

Table 14
Change in Median Sales Price of Homes in Selected Zip Codes
 (Median Sales Price in 2007 Less than \$230,000)

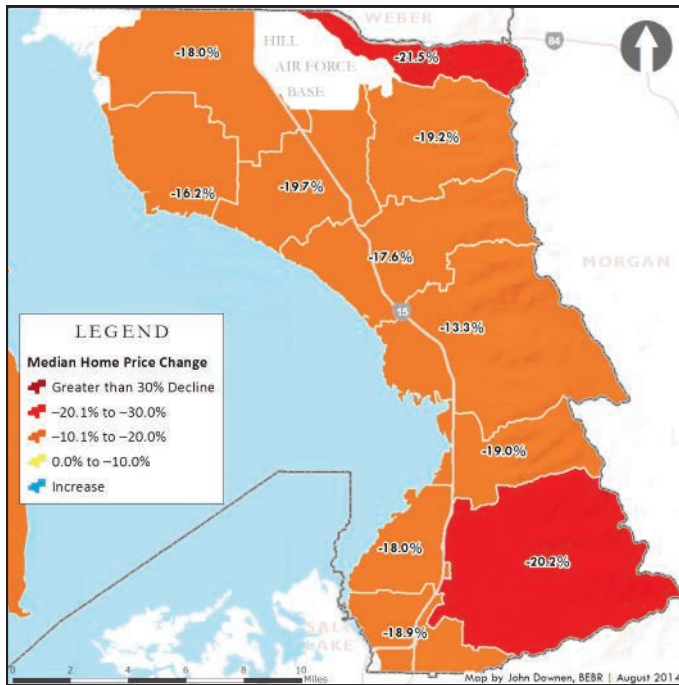
Zip Code	Total Sales	Median 2007	Median 2011	Change
84104	1,014	\$137,000	\$85,000	-38.0%
84044	1,602	\$176,850	\$117,000	-33.8%
84128	1,625	\$219,450	\$146,000	-33.5%
84119	1,424	\$187,000	\$125,000	-33.2%
84006	31	\$175,000	\$117,400	-32.9%
84118	3,808	\$189,000	\$128,500	-32.0%
84084	2,667	\$229,995	\$158,000	-31.3%
84101	48	\$144,500	\$100,000	-30.8%
84120	2,104	\$190,000	\$132,500	-30.3%

Source: Wasatch Front Regional Multiple Listing Service.

For many households in these Zip Codes their home was their biggest asset, their only source of wealth. The collapse in housing prices was devastating to their net worth.

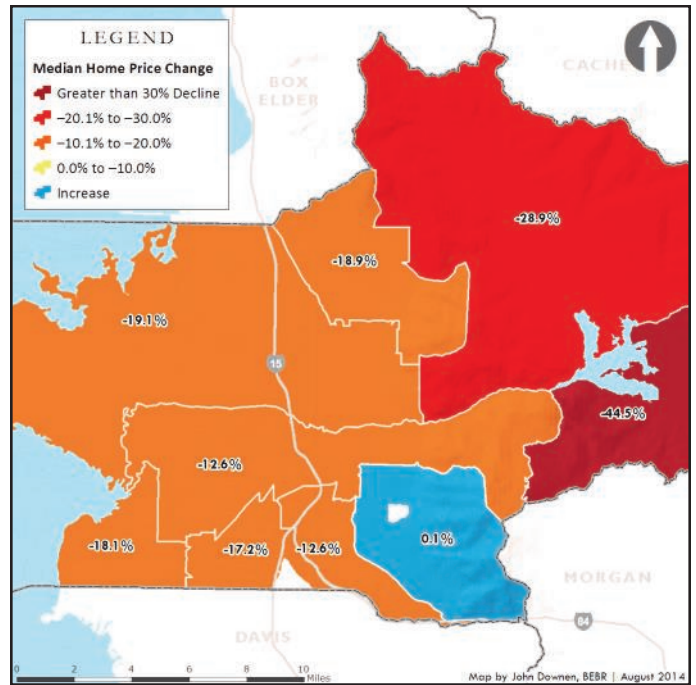
Only two Zip Codes in Utah County had price declines of greater than 30 percent (Figure 9). Both Zip Codes are located in the extreme north end of the county and include the city of Alpine and the Utah County portion of Draper City. Most of the Zip Codes in Utah County had price declines between 20 and 30 percent.

Figure 10
Change in Median Sales Price of Homes by Zip Code –
Davis County, 2007–2011



Source: Wasatch Front Regional Multiple Listing Service.

Figure 11
Change in Median Sales Price of Homes by Zip Code –
Weber County, 2007–2011



Source: Wasatch Front Regional Multiple Listing Service.

Price declines were more moderate in Davis and Weber Counties (Figures 10 and 11). The only Zip Code to have a decline of greater than 30 percent in the median sales price of a home was in the Huntsville/Ogden Valley area. Only 102 homes were sold in the Huntsville/Ogden Valley area over the five-year period, therefore the price data are subject to distortions from falling values of second homes. Price declines across the 11 Zip Codes in Davis County had a much narrower range and were not as severe. No Zip Code had a decline of greater than 22 percent or less than 13 percent; quite a contrast to Salt Lake County.

Price Recovery – After 16 quarters of declines, housing

prices turned positive in the second quarter of 2012 and the price recovery since then has been surprisingly strong. A 6 percent gain in 2012 was followed by a 12 percent increase statewide in 2013. Utah was ranked sixth among all states in housing price increase in 2013 (FHFA index). In Salt Lake County the median sales price increased by 16 percent. By the second quarter of

2014 prices had recovered, in nominal dollars, to their pre-recession levels (Table 15). In Salt Lake County prices were actually above pre-recession levels in nominal dollars. When adjusted for inflation, prices have recovered to about 87 percent of pre-recession levels. Most of the \$25 billion in equity lost by homeowners between 2007 and 2011 has been restored by the recent rise in prices. But for those who lost their homes due to the collapse in prices it will be several more years before their credit is restored.

In 2014 housing prices are still increasing but at a much slower pace. The year-over July numbers show that Utah County has had the strongest increase in prices with a 6.7 percent gain (Table

Table 15
Price Recovery for Single-Family Homes: Nominal and Real Prices

County	2007 Nominal Price	2007 Real Price (2014 Dollars)	2014 Price	Nominal Price % Recovered	Real Price % Recovered
Wasatch Front	\$234,325	\$269,339	\$235,000	100.3%	87.3%
Davis	\$229,000	\$263,218	\$227,700	99.3%	86.4%
Salt Lake	\$250,000	\$287,356	\$255,000	102.0%	88.7%
Utah	\$245,900	\$282,644	\$240,000	97.6%	84.9%
Weber	\$164,900	\$189,540	\$160,000	97.0%	84.4%

Source: Wasatch Front Regional Multiple Listing Service.

Table 16
Median Sales Price of Existing Homes

County	Through July 2013	Through July 2014	Change
State*	\$212,000	\$215,000	1.4%
Salt Lake	\$242,500	\$253,500	4.5%
Utah	\$225,000	\$240,000	6.7%
Davis	\$215,000	\$225,000	4.7%
Weber	\$160,000	\$162,000	1.3%
Washington*	\$216,000	\$204,000	-5.6%

*State and Washington County data from Utah Association of Realtors, through June.
 Source: Wasatch Front Regional MLS and Utah Association of Realtors.

16). In contrast the median sales price in Washington County declined by 5.6 percent.

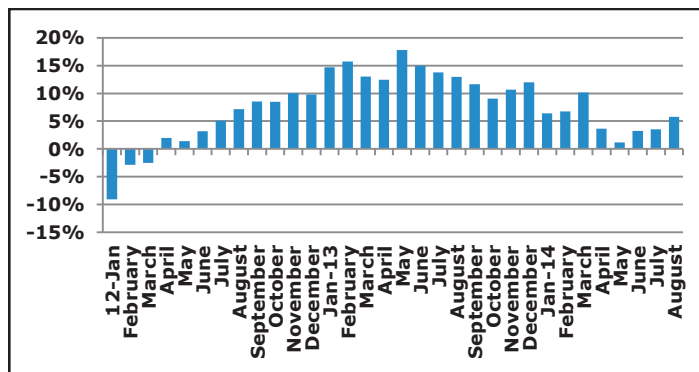
The deceleration in prices is shown in (Figure 12). For most of 2013, year-over price increases were above 10 percent. But by the fourth quarter they had dropped to 10 percent, then fell to less than 10 percent in the first quarter of 2014. In the last five

months year-over price increases have been at or below 5 percent, a sign of price resistance by home buyers.

Real Estate Sales – In 2013 home sales were up 11 percent statewide, but the bump-up in prices, along with higher mortgage rates, has softened sales activity. Statewide, sales through July of 2014 are down 2 percent; however, in Salt Lake and Davis counties sales have fallen by 7 percent (Table 17). Sales have also been hampered by a shrinking inventory in moderate- to low-priced homes. The inventory of listed homes priced under \$200,000 has dropped by 15 percent, while the number of homes listed over \$300,000 has jumped by 24 percent (Table 18).

Foreclosures and Negative Equity Foreclosures peaked in Utah in the second quarter of 2010 when the inventory of mortgages statewide in foreclosure hit 14,900. Since 2010 foreclosures have steadily declined, falling by 67 percent in four years. In the first quarter of 2014 only 1.2 percent of all mortgages in Utah were in foreclosure, 4,970 mortgages (Table 19 and Figure 13). The historic average share of mortgages in foreclosure is 1 percent, measured from 1979 to 2008, just prior to the Great Recession. By the end of 2014, foreclosures in Utah will likely be at or below the historic average.

Figure 12
Price Increase Deceleration: Percent Change in Median Sales Price
(Wasatch Front Counties)



Source: Wasatch Front Regional Multiple Listing Service.

Table 17
Sales of Existing Single-Family Homes

County	Through July 2013	Through July 2014	Percent Change
State*	19,858	19,408	-2.3%
Salt Lake	7,050	6,563	-6.9%
Utah	3,083	2,996	-2.8%
Davis	2,353	2,188	-7.0%
Weber	1,708	1,736	1.6%
Washington*	2,047	1,944	-5.0%

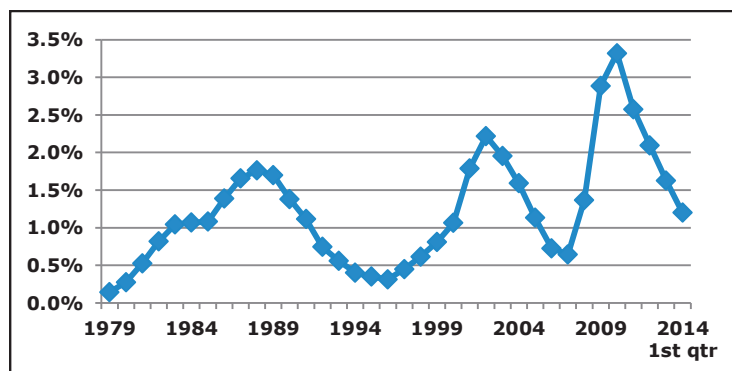
*State and Washington County data from Utah Association of Realtors, through June.
Source: Wasatch Front Regional MLS and Utah Association of Realtors.

Table 18
Inventory of Listings for Single-Family Homes for Sale by Price – Utah

Price Range	July 2013	July 2014	Change
\$150,000 and Below	3,554	2,886	-18.8%
\$150,001 to \$200,000	3,150	2,817	-10.6%
\$200,001 to \$300,000	4,566	5,015	9.8%
\$300,001 to \$500,000	3,501	4,287	22.5%
\$500,001 to \$750,000	1,117	1,428	27.8%
\$750,001 and Above	1,285	1,530	19.1%

Source: Utah Association of Realtors.

Figure 13
Share of Mortgage Loans in Foreclosure in Utah



Source: Mortgage Bankers Association.

At the national level some commentators believe that foreclosures will spike in 2015 as home equity lines of credit start to feature increased payments when borrowers must pay back principal instead of only interest. Increased payments could force households into foreclosure. Also, interest resets on Home Affordable Modification Program (HAMP) loans will hurt homeowners. Interest relief on these loans was for five years and that relief begins to

run out in 2015. Utah's strong job market should protect the local housing sector from the threat of

changing terms of home equity and HAMP loans and prevent a spike in foreclosures.

Table 19
Inventory of Foreclosures in Utah

Year	Foreclosures
2000	2,966
2001	5,249
2002	6,787
2003	6,346
2004	5,619
2005	4,164
2006	2,847
2007	2,759
2008	5,984
2009	12,565
2010	14,391
2011	11,189
2012	8,909
2013	6,676
2014 Q1	4,970

Source: Mortgage Bankers Association.

By 2010, one-in-five mortgages in Utah was underwater, i.e. negative equity. These homeowners were precluded from moving up to larger homes, hence cutting into an important market segment for the home builder, the move-up market. The record level of homes

underwater severely reduced demand for new homes in Utah during the 2010–2012 period. During these

years Utah ranked 11th among all states in the percent of mortgages with negative equity. But with the recent rise in home prices, the number of negative equity mortgages has fallen substantially to 13.9 percent in the first quarter of 2013 and to 7.0 percent in the first quarter of 2014. Utah's negative equity ranking among all states has dropped to 38th (Table 20). The number of mortgage loans with negative equity

has fallen from 93,475 in 2010 to 29,480 in 2014. The improvement in the equity position of Utah households should help support higher levels of home sales as well as new home construction.

Conclusion

The impact of the Great Recession on Utah's housing industry has diminished but not ended. No other recession has had such widespread cyclical and possibly structural impacts on the local housing market.¹ Billions of dollars in equity losses for homeowners, four years of falling housing prices, record levels of foreclosures and underwater mortgages, the weakest job market

since the Depression primarily attributable to the loss of 40,000 construction jobs, historically low interest rates, and the slowest homebuilding recovery of any recent recession are some of the most notable cyclical impacts. After nearly seven years, the negative cyclical impacts have largely faded as housing prices and Utah's job market have recovered. Nevertheless there is lingering weakness in the demand particularly for owner-occupied housing. Both existing home sales and new home construction are down in 2014

while the rental market prospers with low vacancy rates and rising rental rates. Are structural changes affecting the demand for housing?

One potential structural change involves housing preferences. Is there a long-term shift in preferences from homeownership to renting due to the Great Recession and the plunge in home prices? For Millennials, housing may not seem like such a good investment. Some experts have argued this shift is underway.

The Great Recession certainly affected household headship rates.² It's well documented that many young people postponed forming households due to the very weak job market, thus reducing the age-specific headship rate, which in turn reduced the demand for housing. New household formation is the principal driver of housing demand. Additionally, the age

structure of the Utah population is not quite as favorable for housing as it was several years ago. The share of the population in the 18–39-year-old age group, a prime renter and home-buying age group, is declining as the population ages. Lower levels of immigration, an emerging long-term trend, also affect

the demand for housing. In 2005 international migration was 8,100, considerably higher than the 4,350 in 2013. These demographic trends are primarily long-term structural changes that were made even less favorable for the housing market by the Great Recession.

Another likely structural change affected by the Great Recession is the decline in household income. Since 2007 the median household income in

Utah has fallen by 7 percent when adjusted for inflation. The median household income was \$61,235 in 2007 and \$57,049 in 2012.³ Low incomes lead to lower headship rates, which reduces the demand for housing. Stagnant household income has been a long-term trend in the U.S. since the 1970s, made worse by the Great Recession. Layered on top of declining household income, at least for some young households, is student loan debt. Nationally 39 percent of 25–34-year-olds have student

loan debt, making it more difficult for these individuals to qualify for home ownership.

The subdued demand for housing is best illustrated by measuring the percent of new housing units added to the housing inventory each year. From 1970 to 2014 (forecast) the new residential units added to the inventory have averaged 2.7 percent of the existing housing inventory (Figure 14). But for the past seven years the percentage increase in residential units has been between 1.0 percent and 1.5

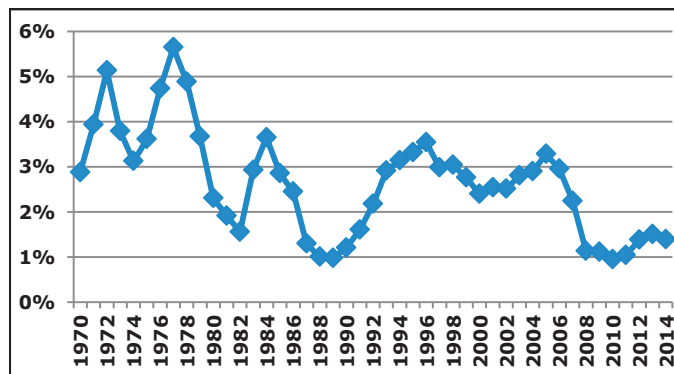
percent of the inventory. If the historic average of 2.7 percent was realized in 2014, the number of new residential units would reach 27,000 compared with the expected 15,000 units at a 1.5 percent growth rate. Historical precedence argues for a move-up toward the average. Most of the economic fundamentals are in place awaiting a return of higher rates of household growth.

Table 20
Mortgages with Negative Equity in Utah and State Ranking
(First Quarter)

Year	Mortgages with Negative Equity	Negative Equity Share	State Ranking
2010	93,475	21.5%	11 th
2011	92,225	21.2%	11 th
2012	91,500	21.2%	11 th
2013	57,225	13.9%	26 th
2014	29,480	7.0%	38 th

Source: CoreLogic.

Figure 14
Share of Housing Inventory Added Annually in Utah
(Historic Average 2.7 Percent)



Source: Bureau of Economic and Business Research.

1. Disentangling cyclical and structural impacts is difficult. Generally, cyclical impacts are attributed primarily to the Great Recession and the impacts decline as the economy recovers, e.g. job loss. Structural impacts, by contrast, are long-term demographic or economic trends that may have been affected by the Great Recession but which continue after the economy recovers.

2. The headship rate is defined as the percentage of all people in an age group who are household heads.

3. U.S. Census Bureau, American Community Survey, Table DP03 Selected Economic Characteristics 2012, 1 year.

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University of Utah
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