

What's Keeping Utah's Real Estate Market Hot in the Time of COVID?

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The recent global health pandemic has shaken the foundation of our everyday lives and likely forced cultural shifts that will stay with us for a long time. Every part of the economy has been impacted to different degrees. While the economy fell into a record recession and experienced all-time high unemployment, Utah's construction industry set a record for the first six months of the year.

The recent release of the Ivory-Boyer Second Quarter Construction Report, which measures Utah's construction activity through the first six months of the year, shows that overall permitted construction value slightly increased over last year. While both residential and nonresidential construction value decreased slightly, the 19.0% increase in additions, alterations, and repairs made sure construction value for the first two quarters of 2020 remained nearly identical to 2019. Total permitted residential units also remained similar to 2019, with 13,792 units between January and June of 2020. Apartment activity decreased by 25.8%, but single-family units increased by 9.6%, and condos, townhomes, and duplexes increased by 17.5%. While the decrease in apartment permits can be attributed to the impacts of the public health crisis, with a shift toward more space for both social distancing and work-from-home purposes, it is important to note that the number of dwelling units approved through the middle of 2020 ranks as the highest on record.

Table 1: Mid-Year (January–June) Construction Highlights

(All values compared with mid-year 2019, in billion dollars)

	Value	Change
Total Construction Value	\$4.82	0.4%
Residential Construction	\$2.90	-0.5%
Nonresidential Construction	\$1.10	-8.0%
Additions, Alterations, and Repairs	\$0.81	19.0%
Total Dwelling Units Permitted	13,792	1.0%
Single-Family	6,422	9.6%
Apartment	3,585	-25.8%
Condo, Townhome, Duplex	3,175	17.5%

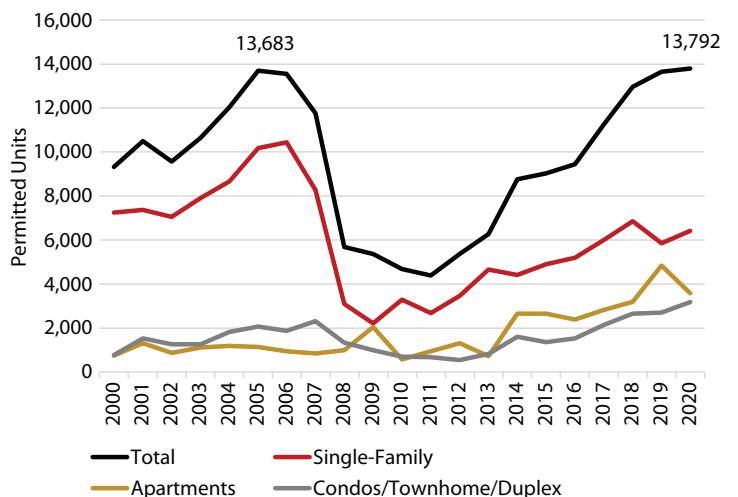
Source: Ivory-Boyer Construction Database

Residential Construction

Former Utah Governor Mike Leavitt once said, "Nobody looks good in a pandemic"—except for the housing market, which set a record for the first six months of the year by permitting 13,792 units, edging out the previous record set in 2005 (see Figure 1). There were 6,422 single-family permits, an increase of 9.6% from last year, and condominiums/townhomes/duplexes permitted units increased 17.5%, adding 3,175 units. Three major areas are keeping the housing market strong.

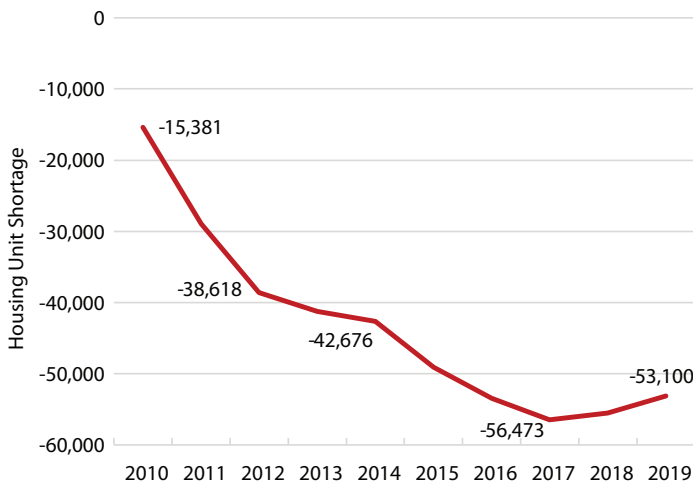
- Pent-up demand:** Utah's housing shortage has led to a tight housing market over the last decade and continues to drive up housing prices. The shortage of 53,100 units as of 2019 has put homeownership out of reach for many young households (see Figure 2).
- Record low resale inventory:** As the home-buying season kicks off in the spring, the number of for-sale homes typically increases (see Figure 3). But as the number of COVID-19 cases grew, the hesitation of existing homeowners to put their properties on the market led to

Figure 1: Permits Issued for Residential Units in Utah, January–June 2000–2020



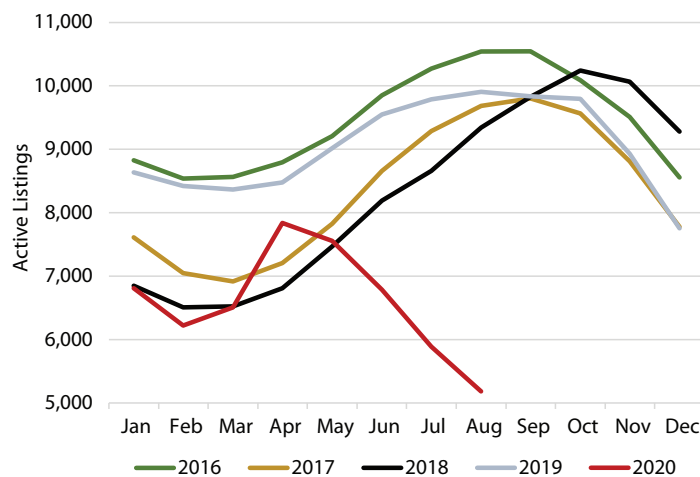
Source: Ivory-Boyer Construction Database

Figure 2: Annual Cumulative Change in Utah's Housing Shortage, 2010–2019



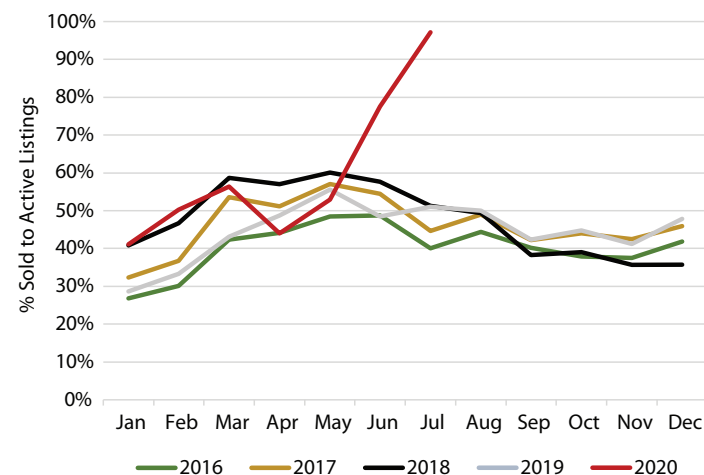
Source: Kem C. Gardner Policy Institute

Figure 3: Average Number of Active Residential Listings per Day in Utah, 2016–2020



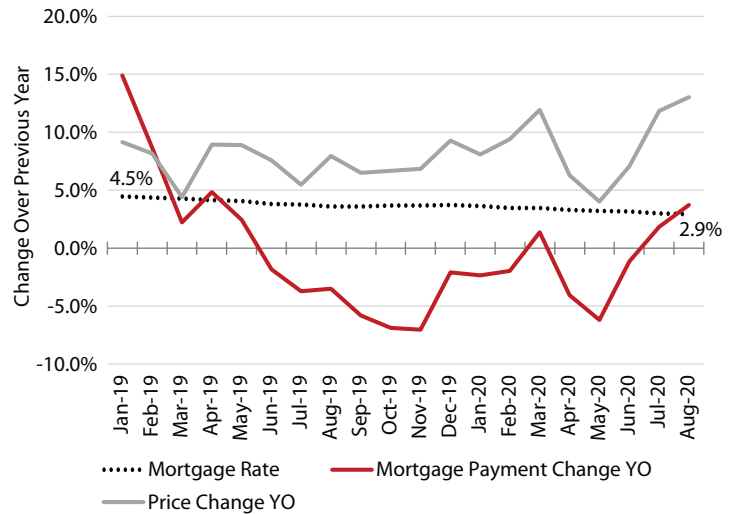
Source: UtahRealEstate.com

Figure 4: Sold-to-Active Listing Ratio by Month, Utah, 2016–2020



Source: Kem C. Gardner Policy Institute analysis of UtahRealEstate.com data

Figure 5: Year-Over Change in Median Sold Price and Median Monthly Payment of a Single-Family Home, Utah, January 2019–August 2020



Note: Mortgage payment assumes a 30-year term and does not assume primary mortgage insurance and taxes.
Source: Kem C. Gardner Policy Institute analysis of UtahRealEstate.com data, FreddieMac

record low inventory. The average number of listings between May and August of 2020 is down 31.0% when compared with the average listings for May through August between 2016 and 2019. This decline in supply, in combination with the housing shortage, has made the housing market more competitive. This is illustrated by the increase in the ratio of sold homes to average daily listings (see Figure 4). The decline in existing for-sale inventory has led buyers to shop for new-build construction.

- Historically low mortgage rates:** While annual home price growth stays in positive territory, because of declining mortgage rates the change in monthly payments has not (see Figure 5). In June of 2019, the monthly mortgage payment was \$1,655 for a single-family home with a median sales price of \$355,000 and an interest rate of 3.8%. By June 2020, the median sales price had increased by 7.0% to 380,000, but because the interest rate fell to 3.2%, the mortgage payment shrank by 1.2% to \$1,636 per month. Declining mortgage rates have incentivized buyers to lock in an historically low rate.

The combination of pent-up demand, low for-sale inventory, and low mortgage rates has helped Utah's housing market shake off any serious, adverse effects of COVID-19 thus far.

Commercial Real Estate Construction

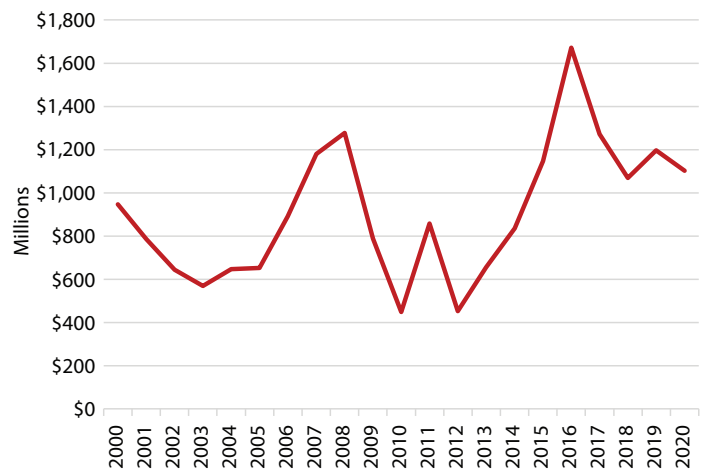
Commercial real estate (CRE) has been the most susceptible to the economic woes of the public health crisis. The diverse property types of CRE are easily impacted by changes in employment and consumer preferences. Cultural shifts in CRE have been occurring for some time. The growth in e-commerce has added exponential demand for warehouse space and pushed more retail activity away from brick-and-mortar stores. The recent pandemic-induced changes in consumer behavior are likely to accelerate this. Overall, Utah's commercial real estate construction value through June 2020 is \$1.1 billion, an 8.0% decrease over last year (see Figure 6). COVID-19 is having both positive and negative impacts on commercial construction.

Utah lost 43,100 jobs, a decrease of 2.8%, between June 2019 and June 2020. Only three industries experienced positive job growth over this period: construction, financial activity, and trade, transportation, and utilities (see Figure 7). This has far-reaching effects on CRE. While industrial activity is trending positive because of warehousing, manufacturing jobs have seen a decline of 1.4%. The industrial, warehouse and manufacturing sector has been the top-performing asset class historically and continues to carry the CRE sector in 2020, adding \$357.7 million in new construction activity (see Table 2). The sector has been supported by continual growth in warehouse space for mostly e-commerce activity.

While the leisure and hospitality sector, which includes restaurants and hotels, experienced severe layoffs and a 20.7% year-over drop in employment in June (see Figure 7), hotel construction activity had a strong six months as several hotel projects were permitted across the state. This activity was worth

Figure 6: Value of Nonresidential Construction, January–June 2000–2020

(Million 2020 dollars)



Note: Commercial construction tends to be volatile from quarter to quarter, with a few significant projects having substantial impacts. Therefore large rates of change are expected.
Source: Ivory-Boyer Construction Database

\$202.5 million, an exponential increase over last year, and included a \$175.8 million convention hotel in Salt Lake City. Without this project, the overall CRE construction value would have decreased 22.7% over last year.

The wholesale and retail trade, transportation, and utilities sector has recouped the jobs lost in early spring, increasing by 0.5% in June 2020 over June 2019. (The retail sector alone was down 7.0% in April from a year earlier, but by June was 1.4% higher than a year ago.) However, major uncertainty remains over future development of brick-and-mortar retail stores.

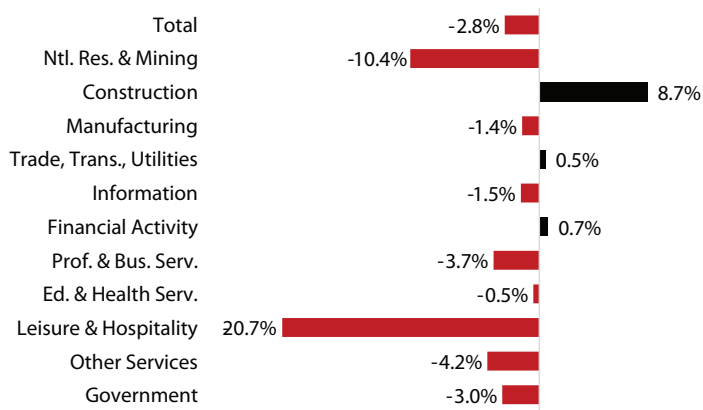
Table 2: Value of Second Quarter Nonresidential Construction by Permit Type

(Million Dollars)

Category	April–June			January–June (YTD)		
	2019	2020	Change	2019	2020	Change
Industrial/Warehouse/Manufacturing	\$100.2	\$188.4	88.0%	\$300.5	\$357.7	19.1%
Hotels & Motels	\$8.0	\$188.7	2258.3%	\$9.0	\$202.5	2146.7%
Office, Bank, Professional	\$129.9	\$17.3	-86.6%	\$333.0	\$163.6	-50.9%
Structures Other Than Buildings	\$62.6	\$54.8	-12.5%	\$107.7	\$112.8	4.7%
Retail, Mercantile, Restaurant	\$80.8	\$16.6	-79.5%	\$92.1	\$61.9	-32.7%
Public Buildings & Projects	\$24.8	\$16.0	-35.4%	\$39.6	\$36.8	-6.9%
Other Nonresidential Buildings	\$12.5	\$7.8	-37.4%	\$24.7	\$34.4	38.9%
Service Station/Repair Garages	\$20.9	\$5.3	-74.7%	\$23.5	\$21.2	-9.8%
School & Educational (Private)	\$1.3	\$16.8	1156.4%	\$1.5	\$17.2	1074.6%
Amusement & Recreation	\$13.2	\$4.4	-66.4%	\$17.8	\$16.6	-7.1%
Churches & Other Religious	\$5.1	\$0.5	-89.4%	\$21.1	\$13.3	-36.9%
Public Utility (Private)	\$4.5	\$9.1	101.8%	\$80.4	\$12.3	-84.7%
Agricultural Bldg. & Sheds	\$11.3	\$7.7	-32.3%	\$14.6	\$11.3	-22.6%
Hospital & Institutional	\$13.2	\$6.8	-48.5%	\$54.2	\$9.4	-82.7%
Parking Structures	\$37.6	\$4.4	-88.2%	\$38.9	\$5.7	-85.4%

Source: Ivory-Boyer Construction Database

Figure 7: Utah Job Change by Industry, June 2019–June 2020



Source: U.S. Bureau of Labor Statistics

The office sector has been impacted by the shift to working from home. Through the mid-year, office construction value is 50.9% below the same time last year. Even more noticeable is the low activity that occurred between April and June, with only \$17.3 million of construction value permitted, the third-lowest second-quarter value on record (see Table 2). The loss of jobs in the information and professional and business services sectors will have negative, short-term impacts on office development.

Conclusion

Utah’s low unemployment rate will help both the housing market and commercial real estate ride out the economic storm caused by COVID-19. While the sudden economic shock did lead to lost opportunity and project cancelation and delays, this also presents the market with options to be innovative. Likely, the worst is over as job losses peaked in April, transitioning us to a gradual “swoosh” recovery. Commercial real estate is likely to go through a major transformation as a result of the public health crisis. Major retailers are closing physical locations, creating an opportunity to redevelop these sites. The acceleration of online shopping has created more demand for industrial warehouse space. Working from home has sparked debates about the future of office demand. While this debate will be settled by time, in the near-term some companies may shut down their satellite offices and have the employees in those markets work from home permanently. Others see their office space needs increasing as they add more space per employee to meet social distancing requirements. The recovery will vary by industry and will depend on adaptation and innovation. The real estate industry has an opportunity to take advantage of the structural and behavioral trends occurring in the market.

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