Policy Brief
February 2023

Kem C. Gardner
POLICY INSTITUTE
THE UNIVERSITY OF UTAH
DAVID ECCLES SCHOOL OF BUSINESS

Housing Prices and Affordability

By: James A. Wood, Ivory-Boyer Senior Fellow

In 2022, higher home prices and a doubling of the mortgage rate combined to erode housing affordability. Thus, homeownership has become more difficult for many of Utah's 333,000 renter households. However, for the 770,000 homeowners, rising prices in 2022 added over $50 billion in increased equity (wealth). Current homeowners can comfortably weather the affordability threat, aware that higher prices add to their wealth. But for renters and future generations of homeowners, declining affordability thwarts housing and wealth opportunities.

A Sharp Increase in Interest Rates

In the wake of the pandemic's historically low mortgage rates, 30-year conventional mortgage rates reached their highest level in 20 years (see Figure 26.1). The pandemic led to a historic level of federal fiscal stimulus ($5.2 trillion) and disrupted global supply chains. Both led to accelerating inflation rates. From June 2021 to June 2022, the inflation rate increased from 5.3% to 9.0%.

In response to rapidly rising prices, the Federal Reserve raised the federal funds rate seven times from March to December, an increase of four percentage points. Interest rate increases are an often-used tool by the Federal Reserve to manage monetary policy. However, the Federal Reserve's tightening (including for mortgages) and aggressive rate increases since early 2022 caused the most abrupt and sharpest nine-month increase in mortgage rates in over fifty years. The 30-year mortgage rate average doubled from 3.5% in January 2022 to over 7.0% by late October and early November 2022. However, rates have since dropped to about 6.3% as of mid-December 2022.

Housing Price Increases Slow Down in 2022

Utah has a long history of volatile but generally increasing housing prices (see Figure 26.2). Typically, the rate of increase accelerates over several quarters, establishing a peak followed by a period of slower increases.

In the price cycles of the 1990s and 2000s, Utah led the country in housing price increases for a few quarters. Year-over prices seldom decline. However, declines have occurred, most notably during the Great Recession when year-over prices fell for 15 consecutive quarters. The current cycle growth rate peaked in the second quarter of 2021 with a year-over percentage increase of 28.3%. Only Idaho, with a 37% increase in the second quarter of 2021, exceeded Utah's year-over percentage gain. Price increases continue decelerating, slowing to a 10.7% year-over increase in the third quarter of 2022. Monthly year-over price data from UtahRealEstate.com show that since March 2022, the rate of price increases in Utah decelerated for eight consecutive months, although still slightly growing overall statewide (see Table 26.1).

High Mortgage Payment Hinders Homeownership

The rapid increase in interest rates makes homeownership more difficult for many would-be homeowners. Potential homeowners face steep financial challenges without trade-up equity from an existing home. Comparing the mortgage payment required to purchase the median-priced home in October 2021 to October 2022 best illustrates this challenge. Over 12 months, the median sales price of a single-family home in the four Wasatch Front counties rose from $522,000 to $550,000. During the same period, the 30-year mortgage interest rate increased from 3.07% to 6.90%. Driven primarily by higher interest rates, the monthly mortgage payment increased from $2,921 to $4,276, a 46% increase in a single year. Given these assumptions, the 46% increase would apply to homes at all price levels, above or below the median price.

Using the standard rule that a mortgage payment should not exceed 28% of gross income, the income required to finance the median price home jumps from $125,185 in 2021 to $183,257 in 2022.

Affordability Worsens for Renters

Compounding the affordability challenge, over the past five years, the median income of renters grew by 19% (U.S. Census Bureau) while rents in the Wasatch Front counties increased at roughly double that rate (see Table 26.3). That is, Wasatch Front rental rates grew twice as fast as renters' income. In the past year alone, rental rates in Salt Lake County increased by 9.4% and 11.6% in Weber County, with somewhat more moderate, but still high, increases in Davis County (7.3%) and Utah County (7.1%).

In the past two years, many renters received some temporary financial assistance from the Emergency Rental Assistance Program (ERAP). ERAP provided $385 million in federal assistance for Utah renter households. Authorized by the Consolidated Appropriations Act of 2021 and expanded by the American Rescue Plan Act of 2021, the assistance helps tenants unable to pay their rent or utilities due to circumstances related to the COVID-19 pandemic.

Program requirements insulate the 35,000 renter households living in Low-Income Housing Tax Credit units from rising rents. About one in eight renters in Utah live in affordable tax credit units. Rents in these units fall at least 10% below market rents, and tax credit requirements preserve unit affordability for 50 years. In the next two years, the inventory of tax credit units will increase by nearly 10% when the 3,000 units currently under construction are completed.

In addition to the tax credit program, federal Section 8 Housing Choice Vouchers provide rental assistance to about 12,000 renter households. Unfortunately, the number of renters who qualify for tax credit units and Section 8 Vouchers far exceeds the number of available units and vouchers. Consequently, in 2022 at least 50,000 Utah renter households are very low-income renters (≤50% Area Median Income[AMI]) and pay at least 50% of their income for housing and utilities. These households receive no rental assistance and live in market-rate rental units. Nearly 40,000 of these households are extremely low-income households (≤30% AMI) and pay at least 50% of their income for rent and utilities.

2023 Outlook

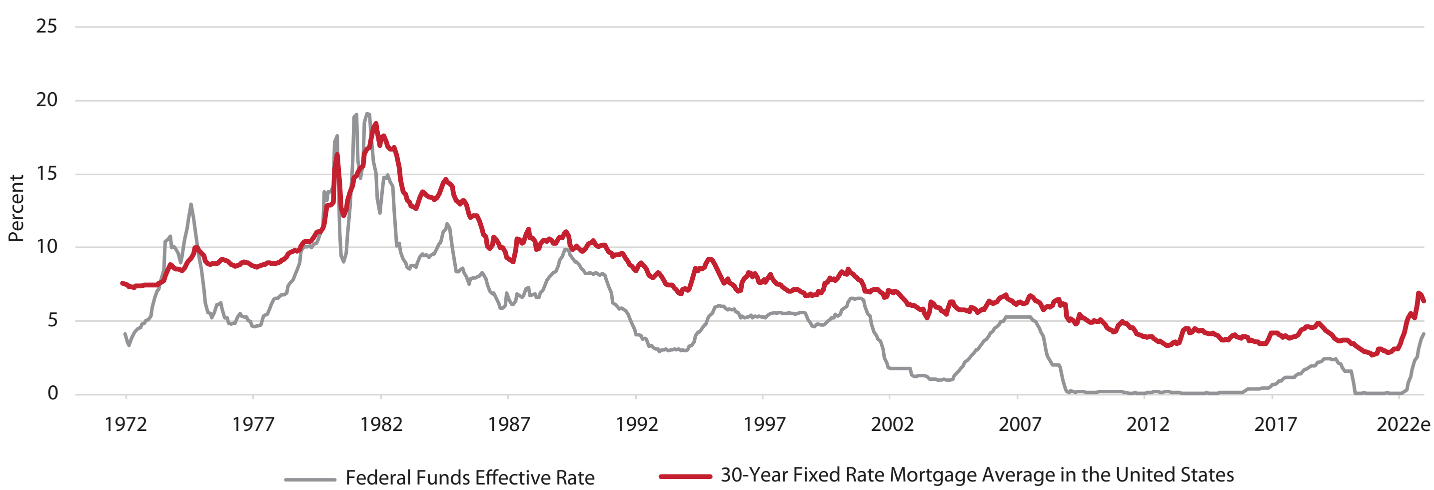
Housing prices in Utah nearly doubled in the past five years, growing much faster than incomes and overall inflation. A correction is due in 2023. In a best-case scenario, declines occur in the first and second quarters, but over four quarters, prices finish at about the 2022 level. But a year-over price decline is possible given the extraordinary 42% increase in prices from the fourth quarter of 2020 through the second quarter of 2022. Absent a serious recession and substantial job losses, the estimated worst-case scenario is a one-year price decline of 10% followed by stable prices in 2024.

In addition to a price correction, 2023 will likely feature a decline in existing home sales, builder discounts on new homes, continued upward pressure on rents, and additional state legislation addressing housing, including housing assistance for renters and potential homeowners. Finally, 2023 brings a respite from price increases, but with interest rates likely to remain above 6%, the housing market will see only marginal improvement in affordability.

About Housing Affordability

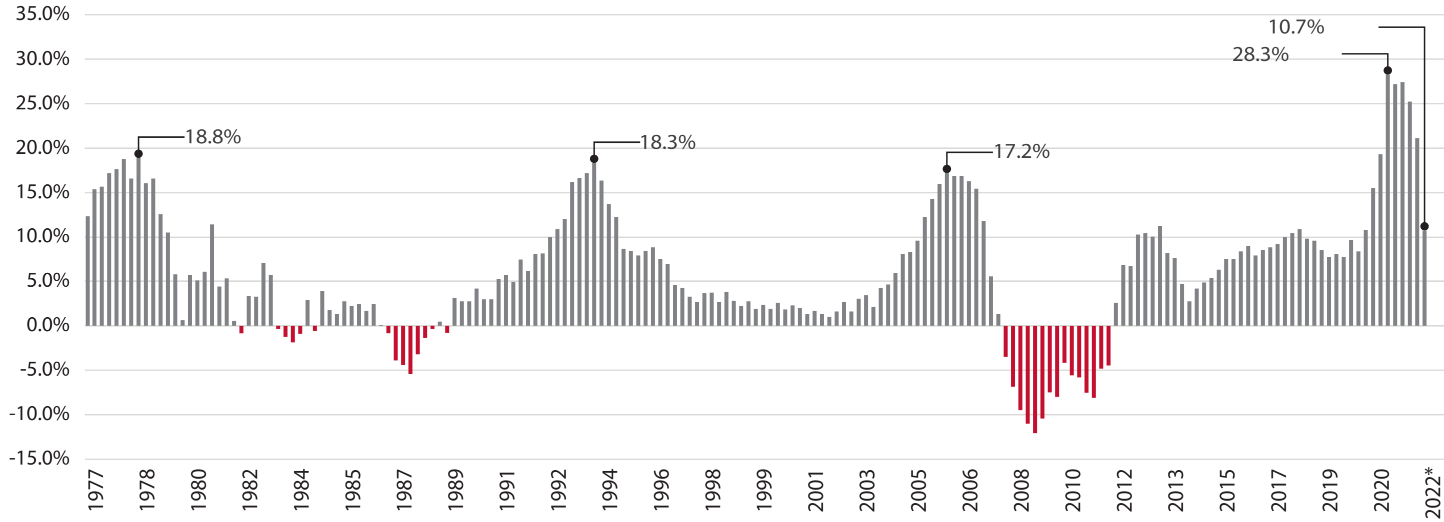
Two concepts of affordability: affordable housing versus housing affordability. Affordable housing refers to a specific type of housing, generally government-assisted rental housing targeted for very low to extremely low-income households. Housing affordability is a much broader term and refers to the general level of housing prices relative to the general level of household incomes. The term does not refer to any particular type of housing. The two concepts are not mutually exclusive or in conflict but are complementary with affordable housing being a subset of housing affordability.

Figure 1: 30-Year Conventional Fixed Rate Mortgage and Effective Federal Funds Interest Rates, 1972–2022e



Note: e=estimate
Source: Freddie Mac (FHLMC)

Figure 2: Year-Over Quarterly Nominal Increase in Housing Price Index, 1977–2022*



Note: * Data through Q3 2022
Source: Federal Housing Finance Agency

Table 1: Year-over Monthly Percent Increase in the Median Home Sales Price in Utah (single-family, condominium, twin home, and townhouse), 2022

2022	Year Over % Change
January	27.6%
February	28.2%
March	29.0%
April	24.4%
May	23.8%
June	17.8%

2022	Year Over % Change
July	11.6%
August	8.9%
September	6.5%
October	6.4%
November	3.2%

Source: UtahRealEstate.com

Table 2: Mortgage Payment for Median Price Single-Family Home in Wasatch Front Counties, October 2021 – October 2022

Category	October 2021	October 2022
Median sales price of single-family home	$522,000	$550,000
5% down payment	$26,100	$27,500
Amount to finance	$495,900	$522,500
Interest rate	3.07%	6.90%
Monthly Payments		
Principal and interest payment	$2,104	$3,421
Private mortgage insurance 1% of the loan	$413	$435
Home Insurance	$100	$100
Property tax @0.007% of home value	$304	$320
Total mortgage payment	$2,921	$4,276

Source: Kem C. Gardner Policy Institute, Freddie Mac (FHLMC), UtahRealEstate.com

Table 3: Average Rent in Wasatch Front Counties, 2018-2022

	2018	2021	2022	2018-2022	2021-2022
Davis	$1,060	$1,369	$1,469	38.6%	7.3%
Salt Lake	$1,153	$1,484	$1,623	40.8%	9.4%
Utah	$1,138	$1,432	$1,534	34.8%	7.1%
Weber	$864	$1,265	$1,412	63.4%	11.6%

Note: Composite average for all types of units.
Source: CBRE, The Greater Salt Lake Area Multifamily Market.

Kem C. Gardner
POLICY INSTITUTE
THE UNIVERSITY OF UTAH

DAVID ECCLES SCHOOL OF BUSINESS

Partners in the Community

The following individuals and entities help support the research mission of the Kem C. Gardner Policy Institute.

Legacy Partners

The Gardner Company
Christian and Marie Gardner Family
Intermountain Healthcare
Clark and Christine Ivory Foundation
KSL and Deseret News
Larry H. & Gail Miller Family Foundation
Mountain America Credit Union
Salt Lake City Corporation
Salt Lake County
University of Utah Health
Utah Governor's Office of Economic Opportunity
WCF Insurance
Zions Bank

Executive Partners

Mark and Karen Bouchard
The Boyer Company
Clyde Companies
Salt Lake Chamber

Sustaining Partners

Dominion Energy
Staker Parson Materials and Construction
Wells Fargo

Kem C. Gardner Policy Institute Advisory Board

Conveners
Michael O. Leavitt
Mitt Romney

Board
Scott Anderson, Co-Chair
Gail Miller, Co-Chair
Doug Anderson
Deborah Bayle
Roger Boyer
Michelle Camacho
Wilford Clyde
Sophia M. DiCaro
Cameron Diehl
Lisa Eccles
Spencer P. Eccles
Christian Gardner
Kem C. Gardner
Kimberly Gardner
Natalie Gochnour
Brandy Grace
Rachel Hayes
Clark Ivory
Mike S. Leavitt
Derek Miller
Ann Millner
Sterling Nielsen
Jason Perry
Ray Pickup
Gary B. Porter
Taylor Randall
Jill Remington Love
Brad Rencher
Josh Romney
Charles W. Sorenson
James Lee Sorenson
Vicki Varela

Ex Officio *(invited)*
Governor Spencer Cox
Speaker Brad Wilson
Senate President Stuart Adams
Representative Brian King
Senator Karen Mayne
Mayor Jenny Wilson
Mayor Erin Mendenhall

Kem C. Gardner Policy Institute Staff and Advisors

Leadership Team
Natalie Gochnour, Associate Dean and Director
Jennifer Robinson, Chief of Staff
Mallory Bateman, Director of Demographic Research
Phil Dean, Chief Economist and Senior Research Fellow
Shelley Kruger, Accounting and Finance Manager
Colleen Larson, Administrative Manager
Nate Lloyd, Director of Economic Research
Dianne Meppen, Director of Community Research
Laura Summers, Director of Industry Research
Nicholas Thiriot, Communications Director
James A. Wood, Ivory-Boyer Senior Fellow

Staff
Eric Albers, Public Policy Analyst
Samantha Ball, Senior Research Associate
Max Becker, Public Policy Analyst
Andrea Thomas Brandley, Senior Education Analyst
Kara Ann Byrne, Senior Research Associate
Mike Christensen, Scholar-in-Residence
Nate Christensen, Research Economist
Dejan Eskic, Senior Research Fellow and Scholar
Enas Farag, Research Assistant
Emily Harris, Senior Demographer
Michael T. Hogue, Senior Research Statistician
Mike Hollingshaus, Senior Demographer
Thomas Holst, Senior Energy Analyst
Jennifer Leaver, Senior Tourism Analyst
Levi Pace, Senior Research Economist
Praopan Pratoomchat, Senior Research Economist
Heidi Prior, Public Policy Analyst
Natalie Roney, Research Economist
Shannon Simonsen, Research Coordinator
Paul Springer, Senior Graphic Designer

Faculty Advisors
Matt Burbank, College of Social and Behavioral Science
Elena Patel, David Eccles School of Business
Nathan Seegert, David Eccles School of Business

Senior Advisors
Jonathan Ball, Office of the Legislative Fiscal Analyst
Silvia Castro, Suazo Business Center
Gary Cornia, Marriott School of Business
Wes Curtis, Community-at-Large
John C. Downen, Camoin Associates
Dan Griffiths, Community-at-Large
Emma Houston, University of Utah
Beth Jarosz, Population Reference Bureau
Darin Mellott, CBRE
Pamela S. Perlich, University of Utah
Chris Redgrave, Community-at-Large
Wesley Smith, Northbound Strategy
Juliette Tennert, Community-at-Large