

IVORY-BOYER REAL ESTATE CENTER

DAVID ECCLES SCHOOL OF BUSINESS | THE UNIVERSITY OF UTAH

UTAH'S HOUSING MARKET 2018

The Year in Charts

By James Wood



DAVID ECCLES SCHOOL OF BUSINESS

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The Year in Charts:

The Year in Charts summarizes the performance of Utah's housing market in 2018. The following 25 charts provide a record of current conditions, show long-term trends, and highlight important changes underway in the home building and real estate markets. The charts are divided into two major groups: (1) Residential Construction and (2) Residential Real Estate Sales.

By almost any measure, 2018 was another exceptional year for Utah's home building and real estate industries. Sales of new and existing homes were brisk, apartment and condominium construction was at an all-time high, and the demand for rental units remained exceptionally strong. Builders, realtors, and landlords benefit– ted from strong housing demand; however, for households trying to buy or rent, conditions were not so upbeat. Both home prices and rental rates increased significantly in 2018, adding to several past years of escalating prices, which produced heightened concerns about deteriorating housing affordability.

I Residential Construction

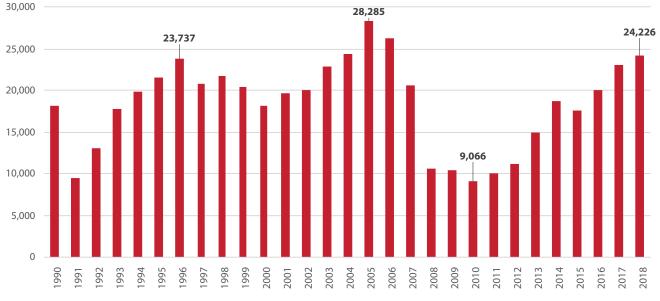


Chart 1: Number of Residential Building Permits Issued in Utah

Source: Ivory-Boyer Construction Database, Kem C. Gardner Policy Institute.

Residential Construction, Best Year Since 2006

The number of residential building permits issued in Utah in 2018 was the highest in 12 years and marked the eighth year of gradual increases. Home building's recovery from the Great Recession has been long and almost leisurely. The period from 2010 to 2018 represents the slowest recovery of any Utah housing cycle dating back to the 1940s. As we shall see in later charts, this unusually slow recovery contributed to Utah's current housing shortage. A number of factors caused the slow recovery, but none more critical than the rapidly rising prices of new homes. High prices have affected housing preferences, shaped patterns of new residential development, and generated a move to high density housing. In 2018, solid demographic and economic growth supported increased levels of building activity, distinguished by a bubble free market, in sharp contrast to the 2004-2006 period. Forecasts suggest a modest slowdown is likely in the near future. While 2018, with 24,226 new dwelling units, may not be the peak of this cycle it is very likely within a year of the peak.

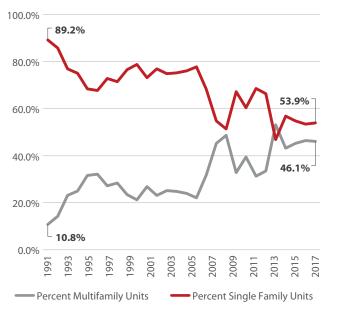
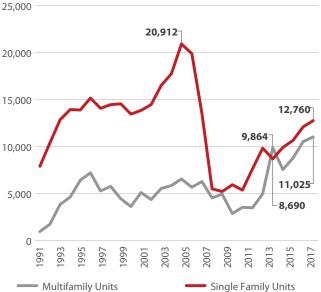


Chart 2: Single-Family and Multifamily Permits as Percent of Total Building Permits Issued in Utah

Chart 3: Building Permits Issued for Single-Family and Multifamily Units in Utah



Source: Ivory-Boyer Construction Database, Kem C. Gardner Policy Institute.

High Density Multifamily Housing Hits Record Level

Prior to 2008, single-family homes averaged 70 to 75 percent of new residential construction, but since the Great Recession their share has dropped substantially. Most recently, in 2018, only 54 percent of all new residential units were single-family homes while 46 percent were multifamily units; either condominiums, town homes, or apartment units. Building permits were

issued for 11,025 multifamily units in 2018, the highest number on record. The shift to multifamily has been most pronounced since 2014 as new home prices have forced many households to pursue more affordable multifamily housing alternatives. Consequently, over the past few years, more high density housing has been built in Utah than in any time in the state's housing history.

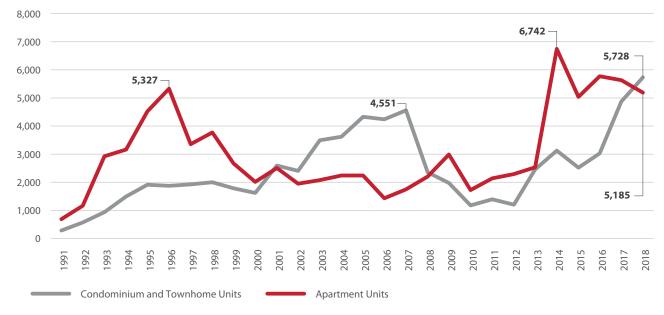


Chart 4: Building Permits Issued for Condominium and Townhome and Apartment Units in Utah

Source: Ivory-Boyer Construction Database, Kem C. Gardner Policy Institute.

Condominium/Townhome Construction at All-Time High

The multifamily housing boom is driven by high levels of both condominium/townhome and apartment construction. What distinguishes 2018 from past years is the record number of condominium units. In 2018, permits were issued for 5,728 condominium/townhome units, an all-time high. For the first time in ten years the number of permits issued for condominium/townhome units was higher than apartment units. While the apartment boom has been underway for five years the surge in condominium/townhome development has occurred in just the past two years. The number of condominium/townhome units increased by 89 percent, from 3,000 units in 2016 to over 5,700 units in 2018. Nearly one in four new residential units statewide was a condominium/townhome unit in 2018. The demand is expected to remain very strong for these affordable homeownership units, likely pushing the number of new condominium/townhome units above 6,000 units in 2019.

Chart 5: Top Five Cities by Residential Building Permits Issued, 2018

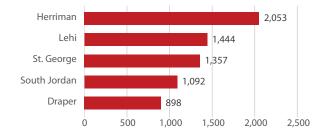
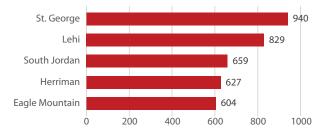


Chart 6: Top Five Cities by Permits Issued for Single-Family Units, 2018



Source: Ivory-Boyer Construction Database, Kem C. Gardner Policy Institute.

Chart 7: Top Five Cities by Building Permits Issued for Condominium and Townhome Units, 2018

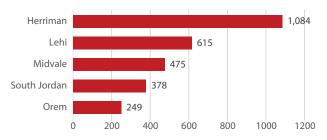
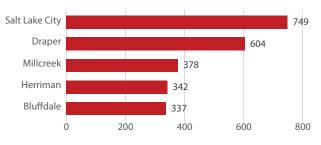


Chart 8: Top Five Cities by Building Permits Issued for Apartment Units, 2018



Top Ranked Cities: Herriman, St. George, and Salt Lake City Are Leaders in Residential Construction

For the second consecutive year, Herriman led all Utah cities in residential construction activity. The city issued 2,053 residential building permits in 2018. Herriman was far and away the leader in condominium/townhome permits with a total of 1,084 units, which carried the city to the number one ranking. The leader in single-family construction in 2018 was St. George with 940 units, the sixth consecutive year St. George has held the number one spot. A fair share of St George's single-family activity is supported by the second home market. St. George, Lehi,

and South Jordan have been locked into the top three spots in single-family construction for the past eight years. The perennial leader in apartment development is Salt Lake City, which has been the leader for five consecutive years in apartment construction. In 2018, Salt Lake City issued building permits for 749 apartment units. Of the 28,000 new apartment units developed statewide since 2014, one out of four units—6,661 units—have been located in Salt Lake City.

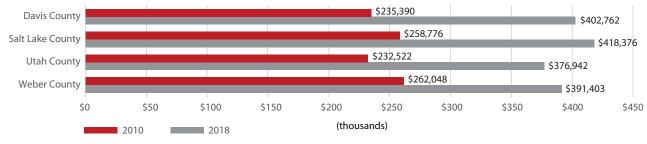
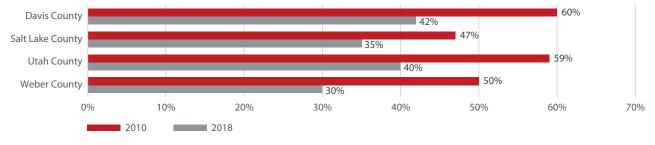


Chart 9: Median Sales Price of New Single-Family Home in Wasatch Front Counties

Source: Metrostudy.

Chart 10: Percent of Households Able to Afford Median Priced New Single-Family Home in Wasatch Front Counties



Source: Metrostudy and Kem C. Gardner Policy Institute.

New Homes Affordable to Fewer Households

The median sales price of a new home in Salt Lake County in 2018 was \$418,376 up 61 percent from the median price in 2010. Three other Wasatch Front counties have had similar rates of increase; in Weber County the median price is up 50 percent, in Utah County 62 percent, and in Davis County 71 percent. The rapid rise in new home costs, due primarily to higher land, labor, and material costs, has reduced the size of the potential buyer's market and damaged housing affordability. For example, 60 percent of the households in Davis County were able to afford the median priced new home in 2010, but that share dropped to only 42 percent by 2018. Affordability was hurt most in Weber County where the share of households able to afford the median priced home dropped from 50 percent in 2010 to 30 percent in 2018.

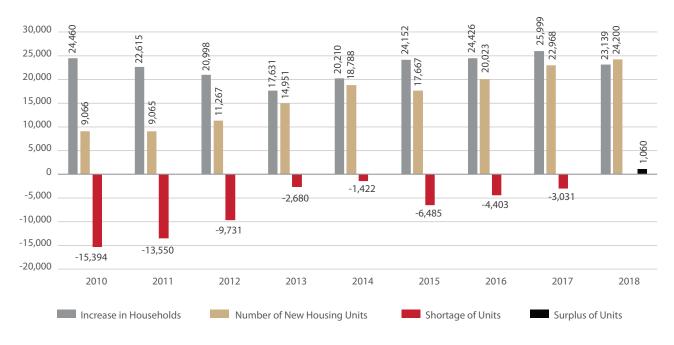


Chart 11: Utah's Housing Shortage Measured by Annual Increase in Households and Housing Units

Source: Ivory-Boyer Construction Database and Kem C. Gardner Policy Institute.

Housing Shortage Persists, but Eased in 2018

From 1970 to 2010 the number of new housing units outnumbered the increase in households by about 12 percent. This surplus of dwelling units was absorbed by the second home market and changes in vacancy rates; however, this historic relationship was upended by the Great Recession. Since 2010, new households have outnumbered new housing units by over 40,000 households. Construction of new homes has not keep pace with household growth resulting in a housing shortage accompanied by rapidly rising home prices and rents, low vacancy rates, multiple offers on for sale homes, and the doubling-up of households. Almost 11 percent of the population in households are relatives or nonrelatives in doubled-up situations. A total of 333,000 doubled-up persons. In 2018, the first sign of some relief for these doubled-up households emerged. The number of new housing units outnumbered new households by about 1,000 units. Although the housing shortage will persist for some time, the gap between units and households has been closing over the past few years and finally turned positive in 2018.

II Residential Real Estate Market

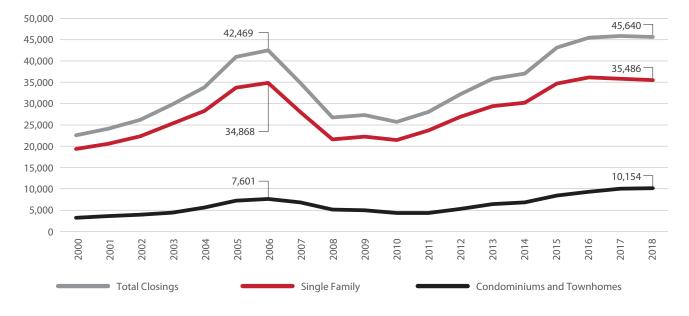


Chart 12: Sales of Single-Family Homes and Condominium/Townhome Units in Utah

Source: UtahRealEstate.com

Sales of Existing Homes at Record Levels, 2016-2018

Real estate sales statewide have been at record levels for the past three years, averaging about 45,000 sales annually. In 2018, single-family sales totaled 35,486 homes, the third highest year on record, while condominium/townhome sales hit an all-time record of 10,154 units. The strength of condominium/townhomes sales parallels the record level of construction of condominium/townhomes discussed above. In both cases, condominium/townhome sales and new construction, are driven by buyers in search of affordable homeownership options. This buyer's rush to "get in" has produced three exceptional years for real estate agents and brokers.

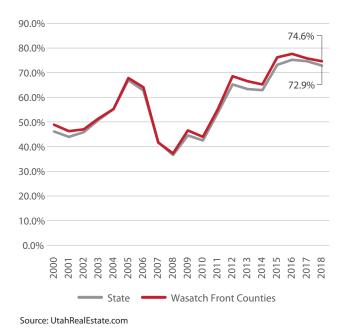
Chart 13: Number of Listings of Residential Units in **Utah and Wasatch Front Counties**

(includes single-family, condominiums/townhomes)

90,000 83,464 80,000 70,000 62,612 60,000 50,000 69,906 49,636 40,000 30,000 — Wasatch Front Counties State Source: UtahRealEstate.com

Chart 14: Residential Sales as a Percent of Total Listings in Utah and Wasatch Front Counties

(includes single-family, condominiums/townhomes)



Demand for Existing Homes Outstrips Listings

The number of residential listings statewide has steadily increased over the past six years, reaching 62,600 in 2018, the fourth highest year on record. Only the three atypical years (2006-2008) leading up to the Great Recession had more listings than 2018. The four Wasatch Front counties accounted for 80 percent of statewide listings in 2018. Realtors, almost universally, complain of a scarcity of listings, but the data show relatively high levels of listings in recent years. The difference between the data and the

anecdotes is explained by the unusually high demand for housing. The shortage of listings combined with strong demand results in a very high percentage of sold listings. Over the past four years more than 70 percent of residential listings have been sold, far above the historic average of 55 percent. In 2018, 72.9 percent of residential listings were sold statewide and in the Wasatch Front counties 74.6 percent were sold.

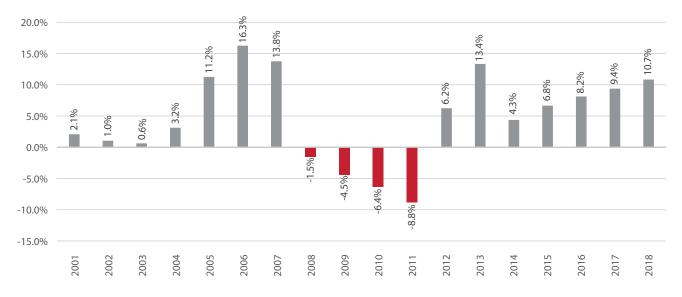


Chart 15: Percent Increase in the Median Sales Price of a Single-Family Home in Utah

Source: UtahRealEstate.com

Housing Prices Increases Accelerate

The median sales price of homes and condominiums/ townhomes continued to accelerate in 2018. Price increases for single-family homes have gone from 4.3 percent in 2014 to 10.7 percent in 2018. Condominiums/ townhomes have followed a similar pattern with prices accelerating from a 4.8 percent increase in 2015 to 11.9 percent in 2018. Certainly low mortgage rates have been a major factor facilitating the acceleration of housing prices, along with the state's high rate of demographic and economic growth. These forces have combined to fuel Utah's housing demand and higher housing prices. By 2018, the median sales price of a home statewide was \$321,000 and \$235,000 for a condominium/townhome. The median home price in the Salt Lake Metropolitan Area of \$341,000 ranks 23rd out of 175 metropolitan areas surveyed quarterly by the National Association of Realtors. The Salt Lake Metropolitan area ranked in the top 15 percent of all metropolitan areas in median sales price; considerable higher than some cities in neighboring states; Boise, \$263,800, Phoenix \$272,700, and Las Vegas \$295,100.

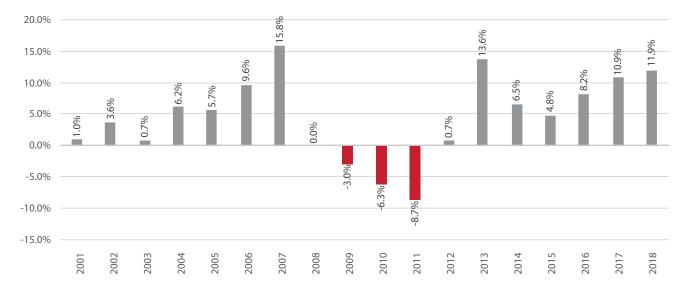
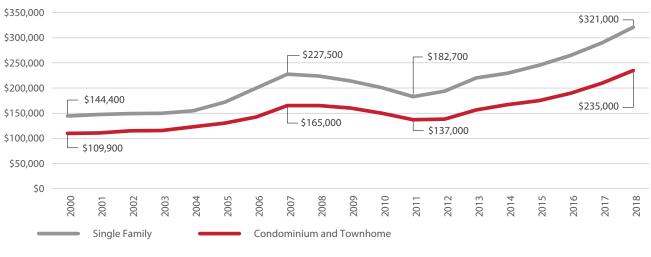


Chart 16: Percent Increase in the Median Sales Price of a Condominiums/Townhome Unit in Utah

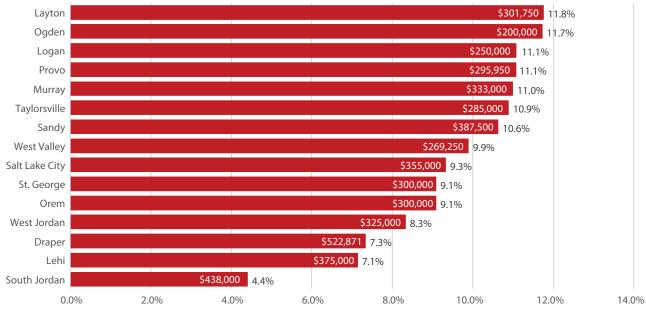
Chart 17: Median Sales Price for Single-Family Home and Condominium/Townhome in Utah



Source: UtahRealEstate.com

Chart 18: Median Sales Price and Percent Increase of a Single-Family Home in 2018

(Fifteen Largest Cities in Utah)



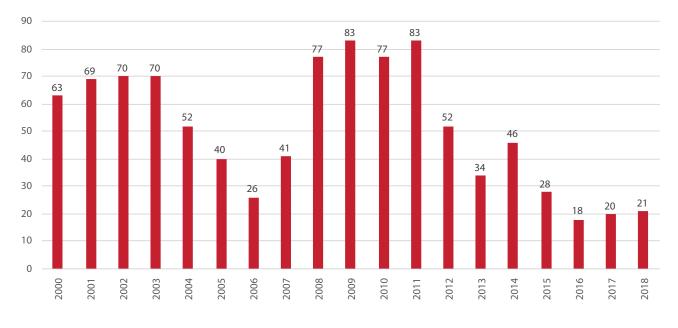
Source: UtahRealEstate.com.

Affordable Cities See Largest Price Increases

It's no surprise that housing prices are increasing faster in cities with affordable housing. Buyers are chasing housing opportunities in affordable cities, driving up prices and leaving the market slightly less affordable. Of the state's 15 largest cities, those with the median sales price near or below \$300,000 had the greatest price gains. Layton had the biggest jump in prices with an increase of 11.8 percent in 2018. The median sales price was \$301,750. Ogden with a median sales price of \$200,000 was a close second with an 11.7 percent increase. In contrast, high priced markets—Draper, Lehi, and South Jordan—had significantly lower rates of price increases. In South Jordan, one of the highest priced housing markets in the state, prices increased by only 4.4 percent in 2018 to \$438,000.

Chart 19: Cumulative Days on Market for a Single-Family Home in Utah

Average CDOM is 51 days.



Source: UtahRealEstate.com.

Pace of Sales Benefits Sellers, Frustrates Buyers

In 2018, a "for sale" home typically sold within three weeks. The time span between listing and closing is known as the cumulative days on market (CDOM). The CDOM over the past 20 years has averaged 51 days,

more than twice as long as the 21 days in 2018. The CDOM's exceptionally low level in recent years is a strong indicator of a housing shortage.

Chart 20: Monthly Percent Change in Sales and Median Price of Single-Family Homes, Wasatch Front Counties 2018

25.0% 20.0% 12.8% 15.0% 12.3% 10.0% 4.4% 5.0% 0.0% -5.0% 13.2% -10.0% -15.0% March April May lune August January February July September December Octobel Novembei % change in Sales % Change in Median Sales Price

(year over change)

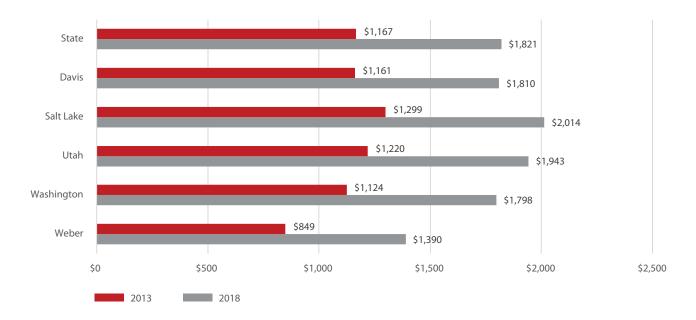
Source: UtahRealEstate.com.

In Second Half of 2018 Sales Slump, but Prices Firm

During the last half of 2018, homes sales and prices nationally softened producing headlines of a housing slump.¹ To be clear, home prices at the national level didn't decline but rather the rate of increase slowed whereas the number of homes sold did decline. How did the Wasatch Front real estate market perform in the last half of the year? A look at the monthly year-over data shows that single-family sales first registered a decline

in August with a 2.3 percent drop, which accelerated to 13.2 percent by December, thus following the national trend. Housing prices, however, didn't show any signs of decelerating in the second half of the year. Counter to the national trend, home prices in the Wasatch Front increased at a consistent double-digit level in five of the last six months of the year.

1. Why the Housing Market is Slumping Despite a Booming Economy, Neil Irwin, New York Times, November 15, 2018. Case-Shiller: Home Price Growth Continues to Lag, Alcynna Lloyd, Housing Wire, December 26, 2018.





Source: UtahRealEstate.com and Kem C. Gardner Policy Institute.

Mortgage Payment Jumps as Prices and Interest Rates Increase

For many households, the dream of homeownership is seriously threatened by the rapid rise in home prices. The extent of that threat is shown by a simple example. In 2013, the monthly mortgage payment for the median priced home statewide was \$1,167. Five years later, that mortgage payment had increased by 56 percent to \$1,821. During that same period, household income increased by only 20 percent. For many families, the possibility of homeownership is slipping away in the wake of double-digit housing price increases.

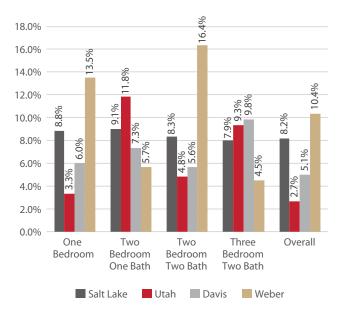
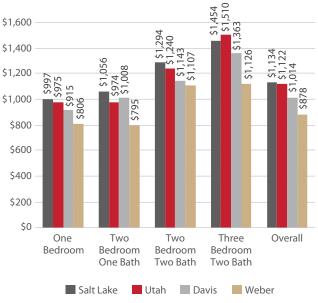


Chart 22: Percent Increase in Rental Rates in Wasatch Front Counties, 2018

Chart 23: Rental Rates by Type of Unit in Wasatch Front Counties, 2018



Source: 2018 Greater Salt Lake Area Multifamily Marker Report, CBRE.

Rising Rents Price Some Out of the Market

Renters also feel price pressure. In 2018, it took an income of \$51,000 to afford the average two bedroom two bath unit in Salt Lake County. That two bedroom unit rents for \$1,294, an increase of \$100 in the last year. While two bedroom rents increased by eight percent renter's income statewide increased a by only one percent. Consequently, the housing affordability crisis is even more dire for renters than homeowners. During past periods of rapidly rising housing prices, in the 1970s and 1990s, affordability was less an issue for renters.

In today's market many households are not only priced out of the ownership market, but also the rental market. This distinguishing characteristic is likely due to the housing shortage, which was not present in past cycles. Rising rents means large numbers of renters face severe housing cost burdens. One in five renter households nearly 60,000 renters—pay at least 50 percent of their income for housing costs. These households have the highest risk of homelessness.

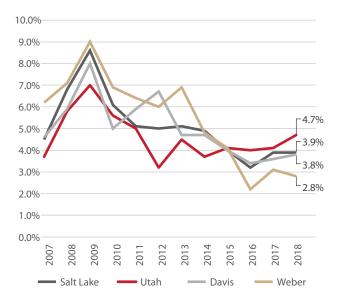
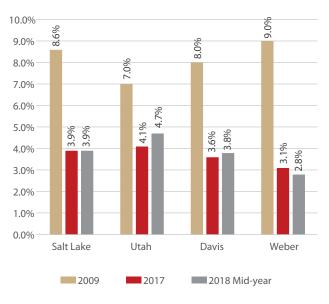


Chart 24: Vacancy Rates in Wasatch Front Counties, 2007-2018*

Table 25: Vacancy Rates in Wasatch Front Countiesfor Selected Years



*vacancy rate for 2018 is mid-year estimate.

Source: CBRE, 2018 First Half, Greater Salt Lake Area Multifamily Market Report.

Low Vacancy Rates Persist for Fifth Year

Since 2014 low vacancy rates have defined the local rental market. For five consecutive years vacancy rates in the Wasatch Front counties have been below five percent. This is the longest period of low rates on record; a consequence of: (1) Utah's housing shortage, (2) a modest shift in preferences from ownership to renting, (3) changing demographics, and (4) the high cost of homeownership. In 2018, vacancy rates were unchanged in most markets with the exception of Utah County where they increased from 4.1 percent to 4.7 percent. Current vacancy rates are only a fraction of their peak levels during the Great Recession. In 2009, vacancies rates were as high as 9.0 percent in Weber County and 8.6 percent in Salt Lake County. In 2018, vacancy rate in Weber and Salt Lake counties were 2.8 percent and 3.9 percent respectively.





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