Utah FOUNDATION RESEARCH BRIEF

Seeing Through the Bubble: An Overview of Utah's Housing Situation

July 2, 2008

The state of the housing market in Utah has been and continues to be a topic of concern for Utah residents. Housing issues, such as "bubbles," home value depreciation, and housing affordability affect nearly everyone, whether or not they are current homeowners. This research brief reviews the current status of Utah's housing situation, including trends in homeownership, prices, sales, affordability, and some of the impacts the housing market has on the economy.

Homeownership Trends

Utah has always had high levels of homeownership and retains the distinction of being the only state in the country never to have had home ownership rates fall below 60%.[1] According to 2006 Census data, 72% of Utahns own homes, with the ownership rates among different age groups and ethnicities as follows:

Figure 1: Homeownership Rates by Race, Ethnicity, and Age, 2006

	Utah	U.S.
Overall	**72.0%**	**68.8%**
Race/Ethnicity		
White alone	73.6%	72.6%
Black alone	43.0%	47.9%
American Indian and Alaskan Native alone	52.9%	58.2%
Asian alone	60.2%	60.8%
Native Hawaiian and Other Pacific Islander alone	58.3%	60.8%
Some other race alone	53.1%	N/A
Two or more races	68.6%	59.9%
White alone, non-Hispanic	74.8%	75.8%
Hispanic	52.2%	49.7%
Age of Householder		
Under 25	23.1%	24.8%
25 to 44	66.0%	58.8%
45 to 64	84.0%	78.6%
65 and over	86.4%	80.9%

Source: U.S. Census Bureau, American Community Survey 2006.

When comparing Utah to the United States, Utah has higher levels of homeownership overall and has a higher rate of ownership than the national average among Whites, Hispanics, and those of two or more races. Moreover, Utah has a higher rate of ownership than the nation among every age group except among those under 25.

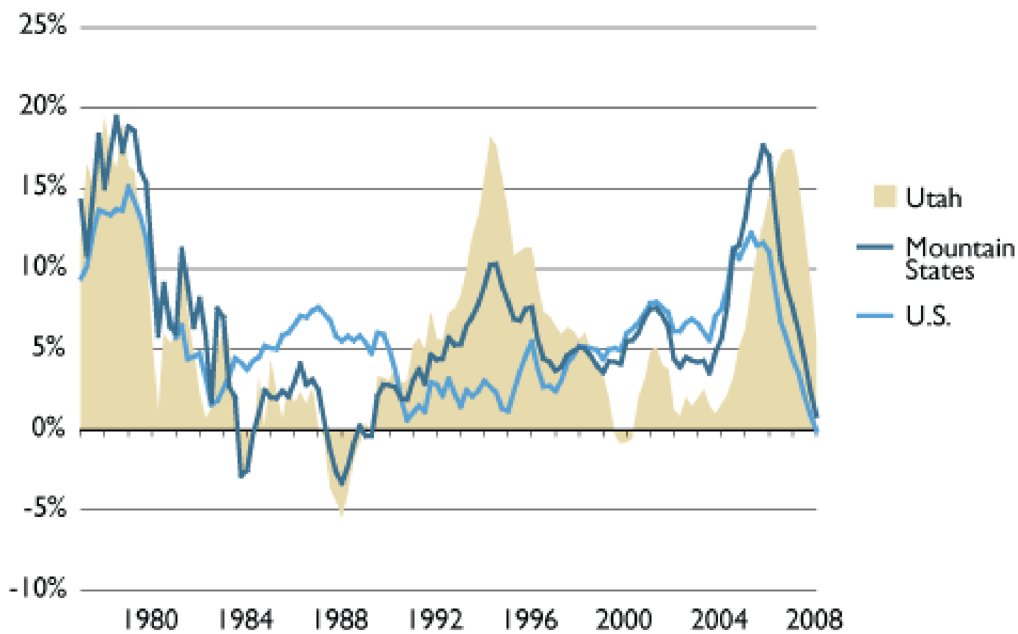
According to 2006 Census information, the homeowner vacancy rate in Utah was 1.4% and the rental vacancy rate was 6.2%, with an overall rate of 9.7%. During the first quarter of 2008 (Q1 2008), the U.S. homeowner vacancy rate was 2.9% nationwide and 3.2% in the West. The rental vacancy rates were 10.1% in the U.S. and 7.0% in the West.[2]

Home Price Appreciation

To measure price appreciation, the Office of Federal Housing Enterprise Oversight (OFHEO) established the House Price Index (HPI).[3] The first quarter 2008 HPI statewide index value for Utah was 391.48, meaning that a Utah home today is worth 291.48% more than it was in 1980. Utah had the second-highest appreciation rate of any state in Q1 2008, at 5.58%. While Utah has shown consistently good numbers during the national housing slowdown, not all regions in Utah are currently performing well. St. George, which experienced astronomical appreciation during Utah's peak appreciation years, is suffering similar to nearby Las Vegas, although the price decline in St. George (-3.65%) is not nearly as steep as in Las Vegas (-12.0%). Nevada, which has the second-worst appreciation rate nationwide, had a first quarter appreciation rate of -10.30% in 2008. The average appreciation rate in the nation was -0.2% for Q1 2008.

Utah's homes have seen cyclical changes in appreciation over the past thirty years. Appreciation patterns have not always been in line with the United States, as the Figure 2 demonstrates:

Figure 2: Home Price Appreciation, Utah and U.S., Annual Change by Quarter 1977-2008



Source: Office of Federal Housing Enterprise Oversight.

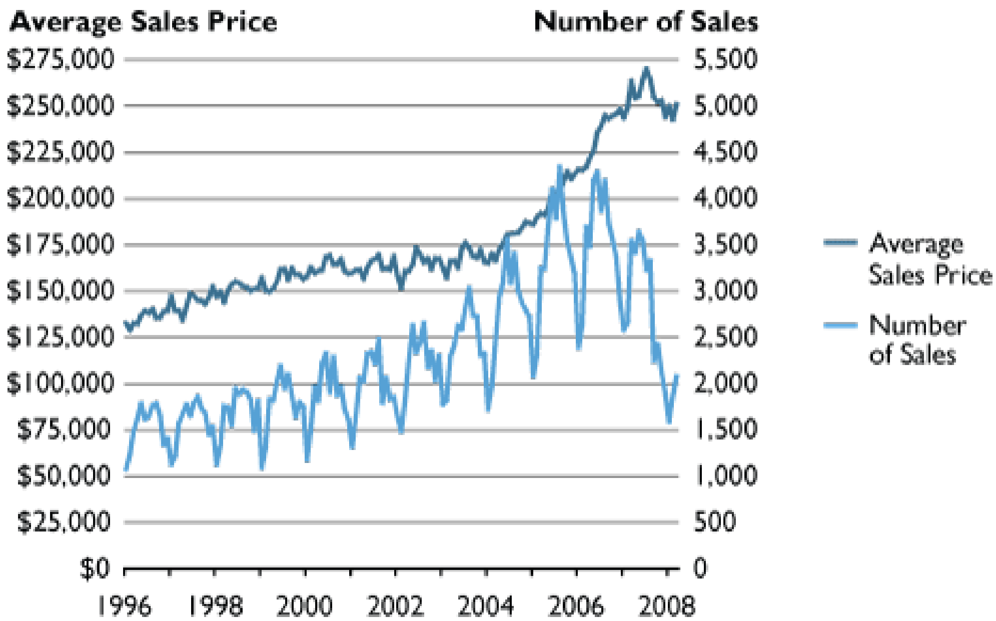
After seeing modest increases in the early part of this decade, Utah's homes appreciated rapidly beginning at the end of 2004. Home price appreciation hit its peak during Q4 2006 and Q1 2007. Since then, homes have continued to appreciate, but not at the peak rates seen between 2005 and the end of 2007. In the 1980s and 1990s, Utah seemed to be on a home price appreciation cycle that was opposite the national trend. The state now appears to be following the national trend but lagging a year or two behind.

The OFHEO HPI attempts to measure changes in prices for all homes, whether they are sold or not. Other data generated by REALTORS show prices for homes that sold, and these data show some declines in prices during the past year. According to calculations by Equity Real Estate, the statewide overall average sales price of Utah homes sold in March 2008 was $251,034, down from $263,684 in March 2007 and down from the peak level of $270,260 in July 2007.[4]

That company's calculations of the price per square foot for residential properties show steady increases since 1995, with rapid increases starting in 2004 and continuing into mid-2007 with a peak of $118 per square foot in July 2007. Since then, the price per square foot has been falling, reaching $111 in March 2008.

Although home prices have only recently shown softening in these aggregate statistics, the data on sales show that Utah's housing market peaked, in terms of sales activity, in 2005 and 2006, as shown in Figure 3. The figure also shows how home affordability has changed significantly in the past four years. From the mid-1990s until 2004, Utah's average home price ranged from around $130,000 to $170,000. From 2004 to 2007, average home prices increased by about $100,000—an increase of more than 50% in three years.

Figure 3: Average Sales Price and Number of Units Sold in Utah, 1996-2008



Source: Wasatch Front Regional Multiple Listing Service and realestatehomesUtah.com.

Growth in Multi-Family Home Construction

The size of new homes being built continued to increase between 1995-2008, as has the cost per square foot. [5] As a result, first-time homebuyers with limited budgets currently have few single-family home options within their price range. Sellers of lower-priced homes have not had to lower prices in order to close a deal, due to limited supply of homes in the first-time buyer price range. As a result, buyers in this market have turned to other options, including townhomes, condos, and other types of multi-family units that have remained within their price range.

Data from the U.S. Census Bureau show that the overall number of building permits granted for new housing units in Utah has decreased significantly, by -48.5%, comparing January-April 2008 (the latest figures available) to January-April 2007.The number of permits for 1-unit (single family) homes granted for those same time periods decreased by 59.4%.However, permits given for units in structures containing 5 or more units are increasing dramatically.

Figure 4: Utah Housing Units Authorized by Building Permits (January - April 2005-2008)

	Total	1 Unit	2 Units	3-4 Units	5 or More Units
2005	8,497	7,273	68	197	959
2006	7,982	7,178	98	188	518
2007	7,249	6,311	102	147	689
2008	3,733	2,556	24	129	1,024
Percent Change 2007-08	-48.50%	-59.50%	-76.47%	-12.24%	48.62%

Source: Census.

While multi-family builders are not seeing the same sharp declines in permits as their single-family counterparts, Utah continues to have a higher percentage of single-family homes than the national average; about 70% of homes in Utah are single-family homes, while nationally the figure is about 63%.[6] However, with the significant rise in home prices in recent years, the proportion of multi-family homes is likely to grow, especially as they represent a more affordable option for young Utah first-home buyers.

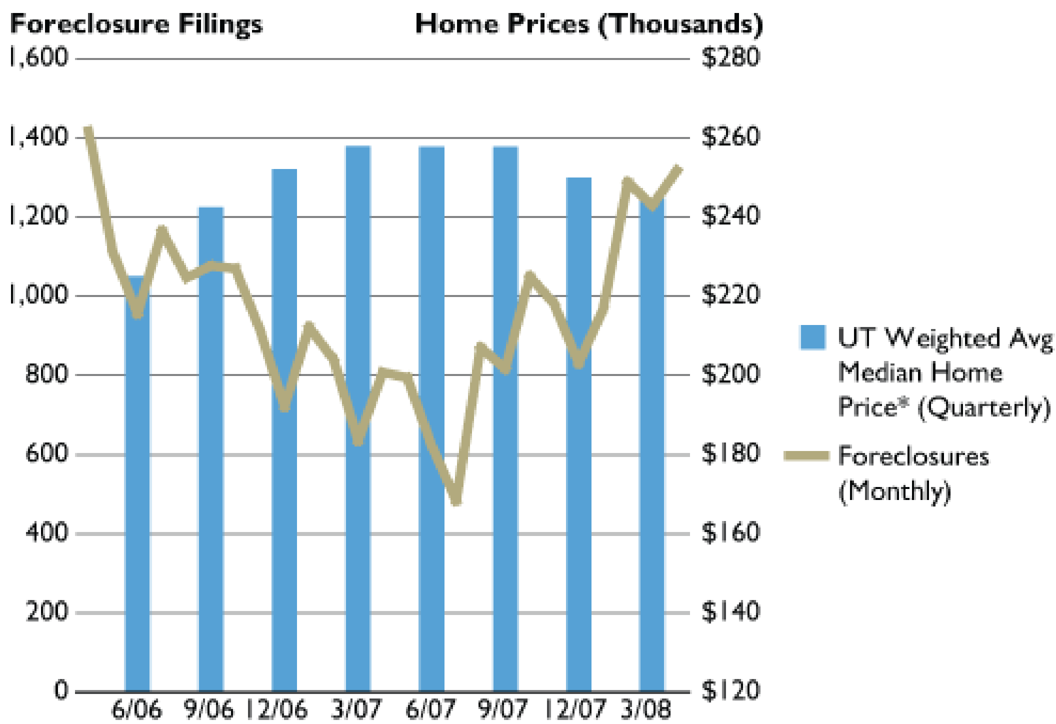
Foreclosure Rates

According to the April 2008 report released by RealtyTrac, nationwide foreclosures increased 4% between March and April 2008, and the rate of foreclosure increased 65% between April 2007 and April 2008.[7] As of

April 2008, Utah had the 16th-highest rate of foreclosures in the nation, with 1 in 684 households receiving foreclosure notices that month. This was a 7.2% increase from the month before, and a 63.1% increase from April 2007. The highest rate of foreclosures was in Nevada, with 1 in 146 households receiving foreclosure notices in that month. Nationwide, the average was 1 in 519 households.

Figure 5 shows that Utah's foreclosure filings were declining while median home prices were increasing, and since home prices began to level out and decline after mid-2007, foreclosures have been increasing.

Figure 5: Utah Median Home Prices and Foreclosure Filings



* Weighted average of median home prices in Salt Lake, Provo-Orem, Ogden-Clearfield, and St. George Metro Statistical Areas.
Sources: RealtyTrac and National Association of Home Builders.

Affordability

There are many different measures of housing affordability. In general, financial experts recommend that no more than 28% of a household's monthly income go towards monthly housing expenditures, and that total debt-to-income ratio should be no more than 36%. Because a number of variables affect what a person's mortgage payment will be—the home price, the amount of the down payment, the interest rate, and the length of the loan—an effective index of housing affordability will take all of these factors into consideration, as well as the person's income. The simpler ratio of a person's income in relation to the price of a home fails to give a picture of affordability that is as accurate.

The National Association of Home Builders' (NAHB) Housing Opportunity Index (HOI) measures and ranks the housing affordability of 223 Metropolitan Statistical Areas (MSA) and Metropolitan Divisions (MD). The HOI determines the portion of homes sold in a given area that would have been affordable to a family earning the local median income. The HOI assumes that a 10% down payment is made on a 30-year fixed-rate loan. The HOI measure also considers mortgage interest rates by using the weighted-average of all fixed- and adjustable-rate mortgages for that quarter. Of the 223 ranked MSAs and MDs, four are in Utah:

Figure 6: Housing Opportunity Index, First Quarter of 2008

Metro Area	Housing Opportunity Index*	Median Family Income (Thousands)	Median Sales Price (Thousands)	Price-to-Income Ratio	Affordability Rank U.S. (Out of 223)	Affordability Rank Western Region (Out of 68)
Ogden-Clearfield	61.2	65.0	215	3.3:1	112	10
Salt Lake City	46.5	65.3	256	3.9:1	160	24
Provo-Orem	44.4	60.0	246	4.1:1	166	27
St. George	31.5	51.5	252	4.9:1	197	48

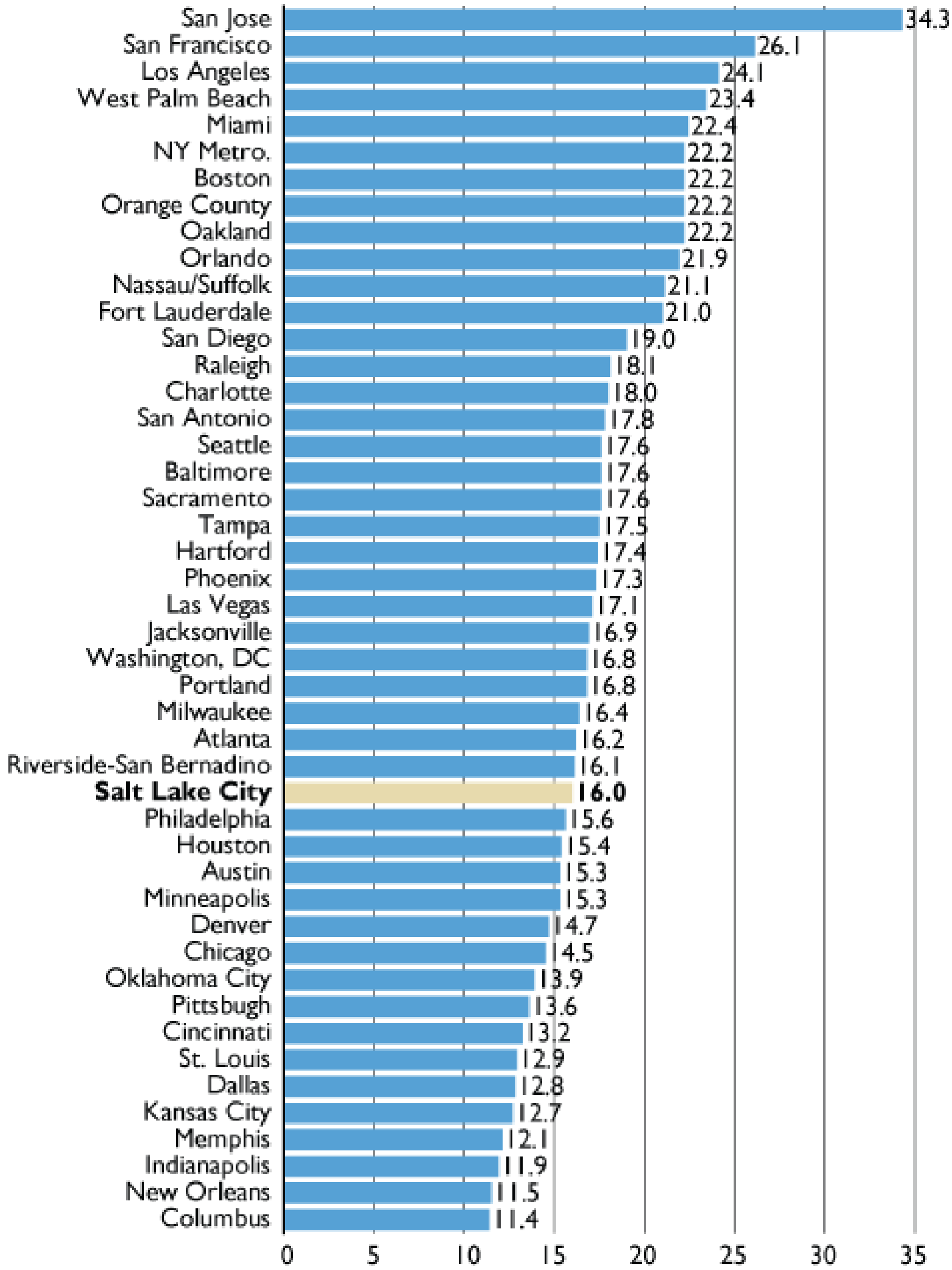
* Share of homes sold that quarter that would be affordable for median income in that metro area.
Source: National Association of Home Builders.

As evidenced by these figures, Utah's affordability indices rank somewhat low compared with the rest of the nation but generally in the middle of western metropolitan areas. However, there are other factors affecting affordability, including the property tax rate in a given area. In the western United States, property tax rates tend to be lower, whereas in the East, rates tend to be higher. These rates should be factored into monthly housing costs, in addition to mortgage payments, maintenance, and utilities.

The current price-to-income ratios in the different Utah MSAs range from 4.9:1 in St. George to 3.3:1 in Ogden-Clearfield (see Figure 6). During Q1 2008, this translated to only 31.5% of homes sold in St. George being affordable for a family earning the median income, and only 61.2% being affordable in Ogden. As a comparison, the most affordable MSA nationwide was Kokomo, ID, where 95.3% of homes were affordable. The least affordable area was Los Angeles, CA, with only 10.5% of homes sold being affordable.

Another measure of housing affordability is the price-to-rent ratio of Utah homes. The price-to-rent ratio compares the median sales price of a standard, single-family home with the rent generation potential for the same house, similar to the price-to-earnings ratio in the stock market. The ratio is calculated by dividing house prices by their annual rent-equivalents. The lower the ratio, the more affordable housing is. High ratios indicate a housing bubble. Utah has the 17th-lowest ratio, portraying Utah's housing affordability as more favorable when compared to other measures.

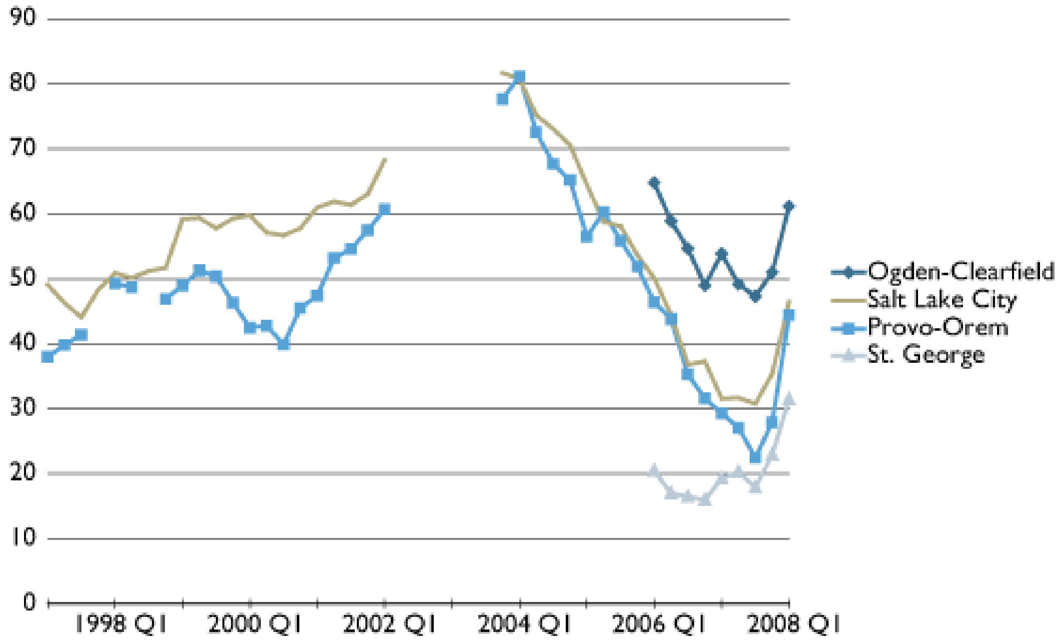
Figure 7: Price-to-Rent Ratios of Metropolitan Statistical Areas, First Quarter of 2008



Source: Moody's Economy.com

Nevertheless, the general picture of Utah's housing affordability indicates that there is a lack of affordable housing for those earning the median income. Since 2004, housing became decreasingly affordable, as indicated by a downward trend in the HOI, which hit a low in Q3 2007, before beginning to increase (becoming more affordable).

Figure 8: Housing Opportunity Index for Utah Metro Areas



Note: The Housing Opportunity Index is the share of homes sold that quarter that would be affordable for median income in that metro area.
Source: National Association of Home Builders.

Unaffordable housing has resulted in many Utahns currently living in houses more expensive than they may be able to afford in the long term, whether renting or buying. According to the U.S. Census, 31.4% of Utahns were spending 30% or more of their monthly income on housing costs, exceeding the recommended limit of 28%.[8] Broken down, according to those who own and those who rent, 27.2% of owner-occupied households and 42.1% of renter-occupied households are spending more than 30% of their income on monthly housing costs.

Housing Industry Employment

The housing industry encompasses a number of different employment sectors, including construction, real estate (including sales agents, appraisers, and brokers), and lending institutions. In addition to these sectors, other sectors are affected as well. Many industries benefit from home sales, like home furnishing stores, landscaping companies, home improvement stores, interior decorating firms, and furniture stores. As fewer new homes are being built and fewer existing homes are being bought and sold, these industries will also be affected.

The construction industry has already seen the effects of the housing slowdown. According to the most recent data available from the Bureau of Labor Statistics (preliminary data for April 2008), the construction industry has seen an employment decrease of 2.7%, compared with April 2007. Every other employment sector but one has seen job growth, and the average growth for all non-farm employment in Utah was 2.1%.

The Housing Bubble and Potential Risks for the Economy

The housing crisis that is affecting the country is beginning to affect Utah.[9] For example, the credit market in Utah has tightened, as it has in the rest of the country. Subprime loans were a primary contributing factor to the housing crisis, and as expected, industry standards for these types of loans have become stricter.[10] However, even qualified borrowers—those with good credit, sufficient income, and reasonable debt-to-income ratios—are having trouble securing loans for homes, as the industry tightens standards and regulations for all types of loans.[11] Sixty percent of lenders surveyed by the Federal Reserve Board have tightened standards for prime mortgages, and 7 of 9 subprime loan originators tightened standards for those loans as well.[12]

Another side effect of the housing crisis is the number of foreclosures that are expected in the near-future. The Center for Responsible Lending estimated that 2,258,457 homes will be lost to foreclosure in the United States, and these losses will occur mainly in 2008-2009.[13] The spillover-effect from these foreclosures is significant. In the United States, 40,621,895 homes will suffer price declines because of nearby foreclosures, with an average decrease of $8,771 per affected unit.[14] These price declines come as a result of foreclosed properties being sold for far below the market value, creating a glut of cheap homes in area. As homes are devalued—both because of foreclosures and post-bubble price adjustments—property tax assessments decrease as well. The decrease in home values/tax base is projected to be $356 billion.[15]

Utah will suffer significant losses as well, despite its relatively healthy housing industry. In Utah, the number of homes lost to foreclosure is predicted to be 23,286.[16] Nearly one-third of housing units in Utah are expected to suffer price declines. These 310,442 homes will experience declines that are projected to amount to $4,243 per housing unit affected.[17] Overall, the decrease in home values/tax base in Utah is projected to be $1.3 billion.[18]

Whether or not Utah will end up experiencing as severe of a housing downturn as the rest of the country remains to be seen. The economic fundamentals underlying the appreciation of Utah's homes are somewhat different from the rest of the country, including a relatively high growth rate and a lower unemployment rate compared to the rest of the country. Moreover, as indicated earlier, Utah appears to be lagging behind the U.S. in the timing of appreciation and peak sales; because of that lag, Utah home prices did not rise as high as states that clearly have a now-bursting housing bubble.

Endnotes

[1] Data taken from U.S. Census figures, beginning in 1900. U.S. Census Bureau, Housing and Household Economic Statistics Division. Last Revised December 02, 2004. Available from http://www.census.gov/hhes/www/housing/census/historic/owner.html.

[2] U.S. Census Bureau, "Housing Vacancies and Homeownership (CPS/HVS)." Available from http://www.census.gov/hhes/www/housing/hvs/qtr108/q108tab1.html.

[3] There are two primary house price indices used in the housing industry that are a measure of home appreciation: the Office of Federal Housing Enterprise Oversight (OFHEO) House Price Index (HPI) and the Case-Shiller Index. Each index has its advantages. The OFHEO HPI includes data repeat mortgage transactions obtained through Fannie Mae and Freddie Mac since 1975. While OFHEO's HPI comes from data obtained throughout the country, including all 50 status and nine Census Bureau divisions, Fannie Mae and Freddie Mac loans must conform to government standards, which currently includes a cap at $417,000. The Case-Shiller Index, on the other hand, includes information on the repeat sales of homes regardless of mortgage type. However, the information is only available for 20 regional indices (none of which include Utah) and the nine Census divisions. For this reason, this brief will use the OFHEO data. The HPI uses 1980 as a base line, with a score of 100. Each index number is given in relation to that base number.

[4] Available from:
http://www.realestatehomesutah.com/utah_real_estate_news/home_market_April_2008.html.

[5] Ibid.

[6] Janice Houston, "Part 4: The Affordable Housing Squeeze in Utah," Center for Public Policy & Administration, *Policy Perspectives*, 3:7. Available from http://www.imakenews.com/cppa/e_article000865132.cfm?x=b11,0,w.

[7] RealtyTrac. "Foreclosure Activity Increases 4 Percent in April." Available from http://www.realtytrac.com/ContentManagement/pressrelease.aspx?ChannelID=9&ItemID=4586&accnt=64847.

[8] U.S. Census Bureau, American Community Survey 2006. Available from http://factfinder.census.gov/servlet/ADPTable?_bm=y&-geo_id=04000US49&-qr_name=ACS_2006_EST_G00_DP4&-ds_name=ACS_2006_EST_G00_&-_lang=en&-_sse=on.

[9] The Center for Economic and Policy Research (CEPR) identified ten economic indicators to observe when measuring the health of the housing industry. Their full report is entitled, "2007 Housing Bubble Update: 10 Economic Indicators to Watch," written by Dean Baker. It is available from http://www.cepr.net/documents/publications/housing_indicators_2007_02.pdf.

As the rest of the nation suffers from the bursting of the housing bubble, many speculate as to if or when Utah will face the same problems. Reviewing the statistics for the following ten indicators can help gauge the overall health of the housing industry in Utah: 1) New Home Sales, 2) Existing Home Sales, 3) Mortgage Applications, 4) House Price Index, 5) Vacancy Rates, 6) Consumer Price Index (CPI)—Rental Components, 7) Housing Starts, 😎 Residential Construction, 9) Residential Investment, and 10) Industry Employment. Many of these indicators are discussed in this brief.

[10] The Federal Reserve Board. "The April 2008 Senior Loan Officer Opinion Survey on Bank Lending Practices." Available from http://www.federalreserve.gov/boarddocs/SnloanSurvey/200805/.

[11] Ibid.

[12] Ibid.

[13] Center for Responsible Lending. "The Impact of Court-Supervised Modifications on Subprime Foreclosures: United States." 25 February 2008. Available from http://www.responsiblelending.org/pdfs/us-info-with-fc-starts.pdf.

[14] Ibid.

[15] Ibid.

[16] Center for Responsible Lending. "The Impact of Court-Supervised Modifications on Subprime Foreclosures: Utah." 22 February 2008. Available from http://www.responsiblelending.org/pdfs/utah-state-info-with-fc-starts.pdf.

[17] Ibid.

[18] Ibid.

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