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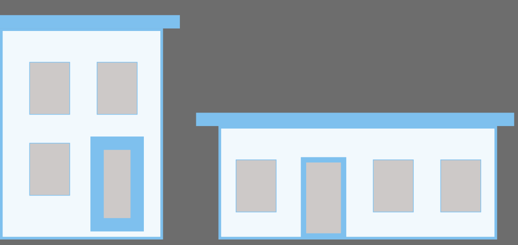

A Guide to Expanding Options for Utah Homebuyers and Renters

MIDDLE HOUSING STUDY PART I: THE SCOPE OF THE CHALLENGE

NOVEMBER 2021

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The Utah Foundation's mission is to produce objective, thorough and well-reasoned research and analysis that promotes the effective use of public resources, a thriving economy, a well-prepared workforce and a high quality of life for Utahns. The Utah Foundation seeks to help decision-makers and citizens understand and address complex issues. The Utah Foundation also offers constructive guidance to improve governmental policies, programs and structures.

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INTRODUCTION

"Missing Middle Housing" is a term that encompasses a variety of multi-unit housing buildings that are house-scale, facilitate neighborhood walkability, accommodate changing demographics and preferences, and are available to people with a range of incomes. Middle housing offers the potential to increase the supply of housing, but in a way that is not objectionable to most neighbors and with a standard of design that can improve upon the neighborhoods. There are obstacles to increasing this type of housing, though they are not insurmountable.

This guide is the Utah Foundation's second report looking at how Utah can continue to grow while improving quality of life and maintaining local fiscal health. The Utah Foundation's 2019 report *Building a Better Beehive: Land Use Decision Making, Fiscal Sustainability and Quality of Life in Utah* identified five categories of strategies to confront the challenges of growth, including:

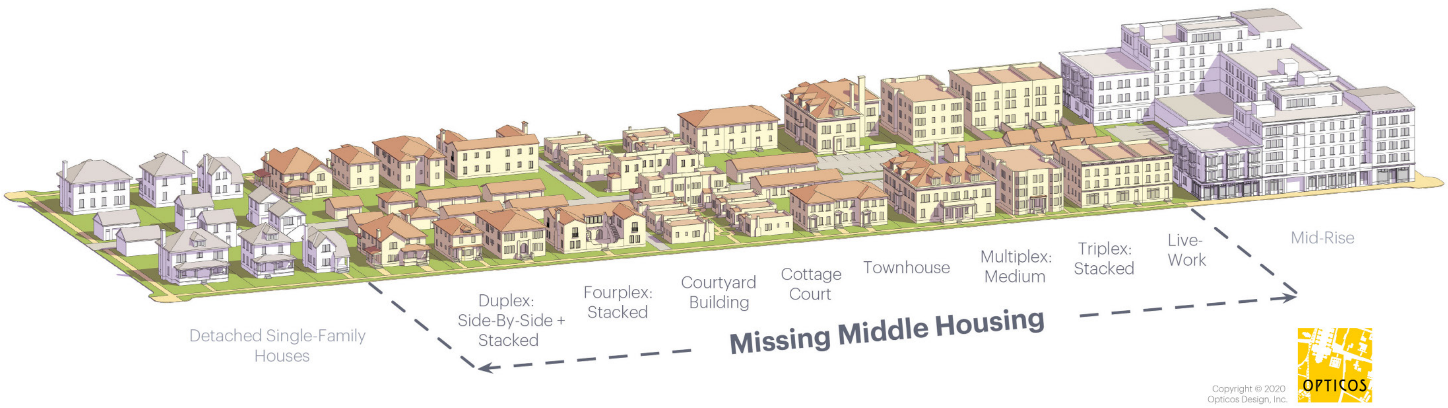
- Promoting efficient land use.
- Preserving and improving community character.
- Avoiding undue taxpayer subsidy of new growth.

If done well, the development of middle housing could encompass these three strategies, while helping with the enormity of the housing affordability challenge that Utah is currently experiencing. An exploration of middle housing is just one of many solutions that could help alleviate Utah's housing crunch, but one that should not be ignored.

The guide is separated into four parts. This part examines Utah's housing problem and introduces middle housing as one means of addressing it. The subsequent parts detail middle housing and where it is located in the state; explain Utahns' housing preferences; and look at obstacles and opportunities to increase the availability of middle housing.

KEY FINDINGS OF THIS REPORT

- More than 80% of Utahns feel that home prices and rents are too high. Indeed, the cost of housing in Utah has been skyrocketing – with a year-over-year appreciation of 29% at September 2021.
- From 2010 to 2021, an inflation-adjusted mortgage payment with 10% down on a median-priced Utah home increased by $469 from $1,131 to $1,600.
- Over time, the cost of lower-priced homes has increased more than higher-priced ones, so the attainability of homeownership with affordable mortgages has disappeared for some Utahns.
- Most respondents to the recent Utah Foundation development-preference survey do not think they could afford the homes they currently own if they wanted to purchase them today.
- Nearly 90% of survey respondents are worried about housing costs, but even more are worried about young Utahns' costs.
- Rents in Utah have increased dramatically during the past 20 years, and especially in just the last two years; for example, Davis County and Utah County rents increased more than 50% from January 2019 to July 2021.
- Utah's rapid population growth is projected to continue. While the younger population is expected to shrink in percentage terms, the number of young households is expected to grow in sheer numbers – suggesting a need for lower-cost, entry-level housing options.
- The increases in home prices and rents are due in part to Utah's 45,000 housing-unit shortfall – the difference between new households and new residential dwellings since the Great Recession.
- Middle housing is a possible answer in terms of prices. For instance, in Salt Lake County, the August 2021 median (or middle) sale price of townhomes was $390,000, while for single-family homes, the median sale price was $546,450.



Missing Middle Housing term created by Daniel Parolek/Image © Opticos Design, Inc./For more info visit www.missingmiddlehousing.com.

METHODOLOGY

To help inform this study, the Utah Foundation developed a survey. We sought respondents from a sample of Utahns provided by Y2 Analytics as well as respondents reached through several community partners, for a total of 651 complete responses during September 2021. The report also includes findings from previous Utah Foundation, Envision Utah, and other local and national surveys. The Utah Foundation analyzed data collected by the Wasatch Front Regional Council (WFRC) and others for this report. Additionally, Salt Lake County Regional Development analyzed WFRC data and the current zoning of all of the counties' cities for this report. The Utah Foundation also used data from the *Salt Lake Tribune* housing price database and the Ivory-Boyer Construction Database.

In addition, the Utah Foundation relied on numerous conversations with local officials, builders, Utah legislators, bankers, real estate agents, representatives from organizations such as Envision Utah, the League of Cities and Towns, and WFRC, among others.

THE HOUSING PROBLEM

Previous Utah Foundation survey work has revealed that housing affordability is a top concern.[1] As part of our 2018 Quality of Life Index, *affordable housing* had the lowest rating of 20 aspects of community quality of life. In addition, it was one of three aspects that declined in performance between 2015 and 2018. *Affordable housing* had the largest decline, driving the decrease in the Index that year. (The Utah Foundation will conduct a new Quality of Life survey in 2022.)

The Utah Foundation delved into housing affordability with several additional survey questions in 2018.[2] When asked whether they felt their personal housing costs were affordable, only 12% of respondents said no. However, in Salt Lake County, that number was 20%.

The issue seems to have increased in importance over the next couple years. As part of the 2020 Utah Priorities Project, the Utah Foundation administered an open-ended survey to understand the most important issues facing Utah. About 9% of respondents identified housing affordability as one of the two most important issues; it was the 5th most common response.[3] In an early 2020 follow-up survey, the Utah Foundation found that *housing affordability* was the second most important issue (though a few months into the pandemic, the ranking for the concern of *housing affordability* fell behind pandemic-related issues).

Housing Prices

More than eight out of 10 Utahns feel that home prices and rents are too high. The cost of housing in Utah has been skyrocketing.[4] One analysis found that the state has the "hottest housing market" in the nation based on several factors – with an emphasis on appreciation.[5] Utah home prices increased by 15.4% in 2020 and even further in 2021 – with a year-over-year appreciation of 29.0% at September 2021 – though price increases now appear to be easing.[6]

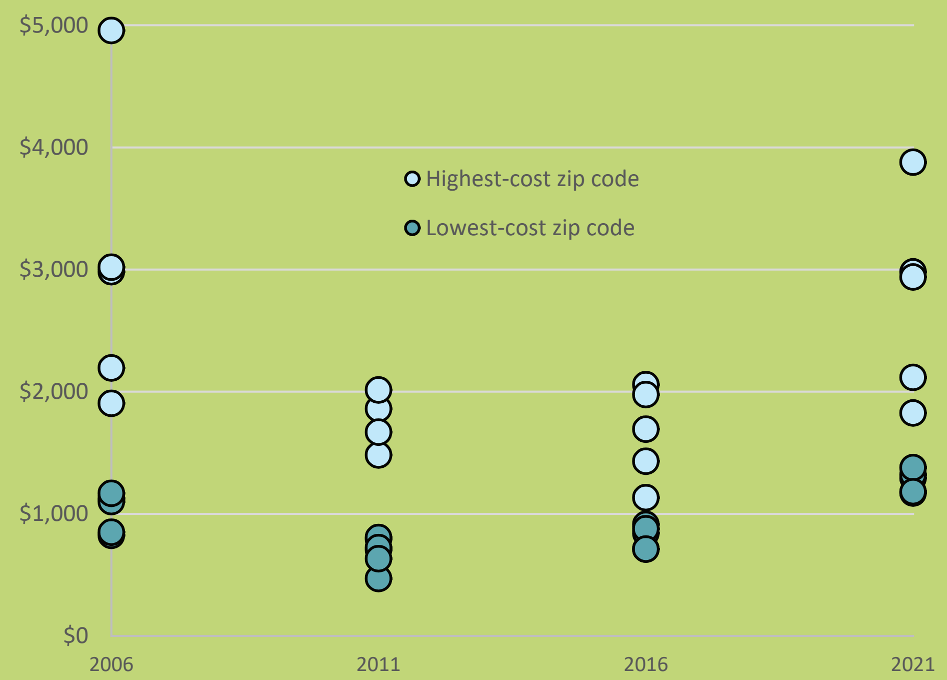
In Salt Lake City, for instance, housing costs have increased by 5.7% annually since 1996.[7] Nationally, housing has increased only 3.7% annually over the period.

One factor influencing these increasing prices is record low interest rates.[8] In May 2020, the average 30-year fixed mortgage rate broke previous records and has since continued to fall. Some suggest that this is driving up home prices by driving down homeowner monthly payments.[9]

But even accounting for lower mortgage costs and inflation, housing prices are still increasing. A recent analysis from James Wood found that with a decrease in mortgage rates from 3.95% to 2.95% between 2015 and 2020, a Salt Lake City mortgage payment on a median-priced home increased from $1,743 to $2,416.[10]

Mortgage payments in less expensive zip codes have increased since 2006, so low mortgage payments are disappearing.

Figure 1: Median Monthly Mortgage in the Highest and Lowest Cost Zip Codes for Davis, Salt Lake, Tooele, Utah and Weber Counties (inflation adjusted)



Source: Salt Lake Tribune housing database. Utah Foundation calculations.

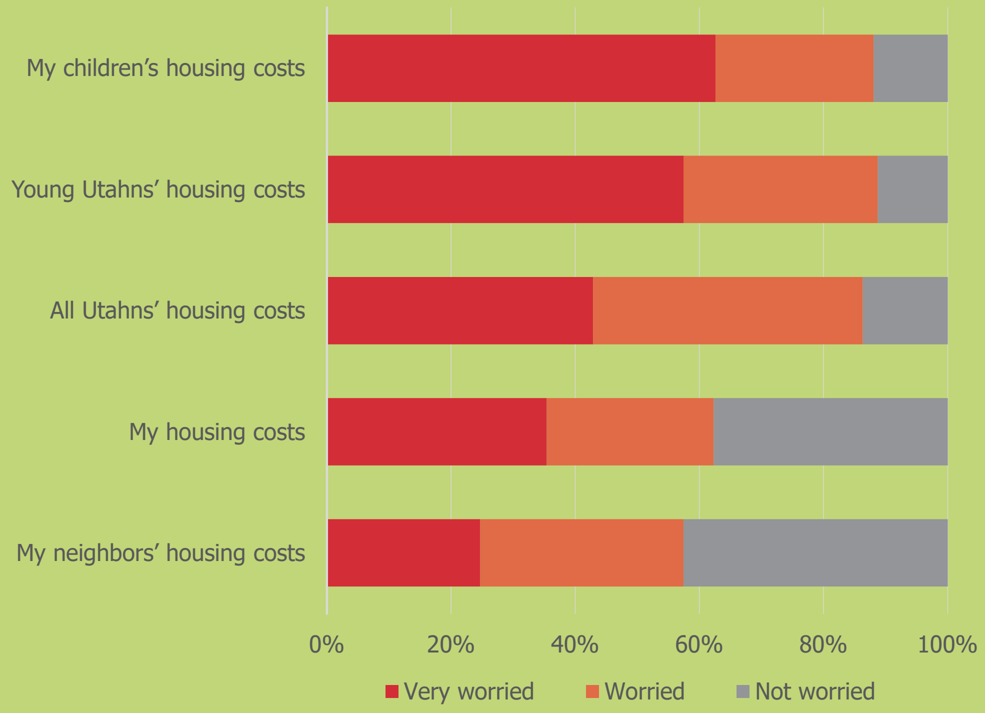
Increasing incomes provide some solace. Utah leads the nation in the increase in personal income growth since the beginning of the Great Recession (3.4%).[11] And the increase in median income helps cover the increase in mortgage costs for some Utahns.

From 2010 to 2021, an inflation-adjusted mortgage payment with a 10% down payment on a median-priced Utah home increased by $469 from $1,131 to $1,600 (after dipping below $1,000 during 2011 and 2012).[12] Inflation-adjusted monthly household income increased by $772, from $5,823 in 2010 to $6,595 in 2019. The Utah Foundation's analysis shows that mortgage payments were fairly even among Utah's six largest counties – though lowest, along with incomes, in Cache County.[13]

The Utah Foundation further analyzed mortgages by looking at the most and least expensive zip codes every five years since the super-heated housing market in 2006. The Utah Foundation used a 10% down payment for its mortgage-payment calculations, based upon the average down payment for homebuyers nationally since 2010.[14] Looking at the highest-cost zip codes, Figure 1 shows that the situation in 2021 is not so bad compared to 2006 – with mortgage payments somewhat comparable over the two periods across five counties.[15] In fact, that nearly $5,000 per month inflation-adjusted mortgage in Alpine's 84004 zip code dropped to under $3,000 by 2021. Of course, housing prices and mortgage payments were much less expensive in the years following the Great Recession. In fact, inflation-adjusted mortgage payments of under $1,000 per month could be found in each of these five counties, even reaching below $500 per month in Salt Lake City's 84104 zip code in 2011. But those lowest-cost zip codes have doubled in price over the past 10 years. That same 84104 mortgage payment of $470 in 2011 has increased to $1,170 in 2021 – an increase of an inflation-adjusted 149%. Accordingly, the attainability of homeownership with affordable mortgages has disappeared for some Utahns.

Utahns are worried about housing costs for themselves, their children and all Utahns.

Figure 2: Question: "Please rate the following in terms of your concern. Worried about..."



Source: Utah Foundation development-preference survey.

Increases in housing prices may leave some concerned about future housing. Most Utahns do not think that they could now afford the homes they are currently own; only 37% of respondents in the Utah Foundation development-preference survey think that they could.[16] And most Utahns think that now is a bad time to buy a new home.[17] At a recent event, one prominent Salt Lake developer suggested that living in the city may never become affordable again.[18]

Most of the Utah Foundation's survey respondents are worried about housing costs.[19] Nearly nine-in-ten Utahns are worried housing costs, though survey respondents are more likely to be "very worried" about *young* Utahns. About 35% are very worried about their own costs, while 63% are very worried about their children's costs. (See Figure 2.)

Housing Availability and the Gap

Nationally, the homeowner vacancy rate is at an all-time low. Utah's rate is the lowest in the nation at 0.2%, driven down in part by the Salt Lake City metro area's fourth-lowest in the nation rate at under 0.05%.[20] (And in terms of rental units, CBRE reports very low vacancy rates at under 4.5% for the four counties along the Wasatch Front, and as low as 3.5% in Utah County.[21])

These low vacancy rates can stem from low monthly supply, which is determined by the number of houses being listed, how long they remain on the market and the number of buyers.

The number of houses being listed was actually above average in 2020.[22] However, days on the market reached an all-time low for single-family homes at a median rate of 12 days – tied with condominiums and townhomes.[23] During the past year, days on the market decreased even further. Between September 2020 and 2021, the median days-on-market for single-family homes in Salt Lake County was six days, with a range of between five to 12 days each month. The median days on market for condos and townhouses in Salt Lake County was seven days, with a range of between five to eight days each month.[24]

While there is an uptick in homes listed, they are not staying on the market long because there are simply not enough homes to accommodate demand. This is driven in part by growth.

Nationally, the homeowner vacancy rate is at an all-time low. And Utah's vacancy rate is the lowest in the nation at 0.2%.

Utah saw the largest population growth percentage in the nation between 2010 and 2020: 18.4% compared to the national rate of 7.4%.[25] (See Figure 3.)

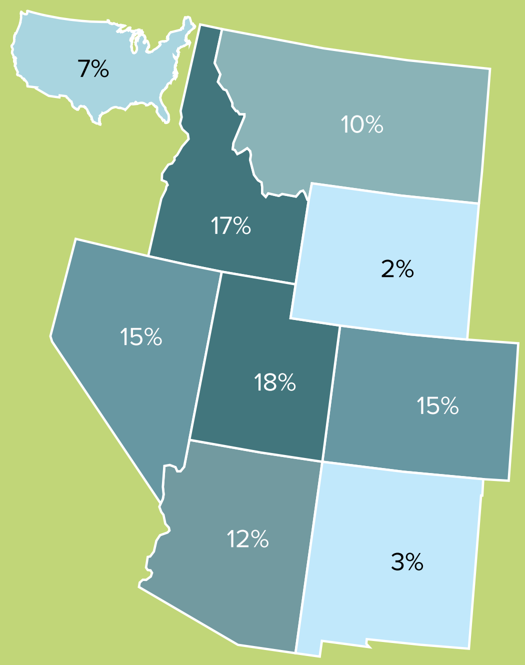
Utah's population growth is projected to continue, increasing from approximately 3 million in 2015 to 5.8 million in 2065. This represents an increase of 2.8 million people and an annual average increase of 1.3%.[26] While the younger population is expected to shrink in terms of its percentage of those 2.8 million new Utahns, the number of young households is expected grow in sheer numbers – suggesting a need for lower-cost, entry-level housing options.

Certain areas of the state will far exceed Utah's overall rate. Washington County was at a population of about 138,000 in 2010 and moved past 180,000 by 2020.[27] And it is expected to have largest growth rate of Utah counties through 2065 – 229% to 509,000.[28] Wasatch County's population increased by 48%, the state's largest county-level rate.[29] And southwestern Salt Lake County and northwestern Utah County saw swelling of populations in communities like Herriman, Bluffdale, Eagle Mountain and Saratoga Springs, with more than a doubling of growth.[30]

During the past 10 years, this growth has exacerbated a housing shortfall from a decrease in production caused by the Great Recession. While production has picked up, the demand on housing has been far higher than the added supply, resulting in a continued housing gap. The gap between the number of new households and new homes in Utah over the decade is 44,500 units.[31] (See Figure 4.)

Population growth is a major factor in home price escalation – and Utah tops the list.

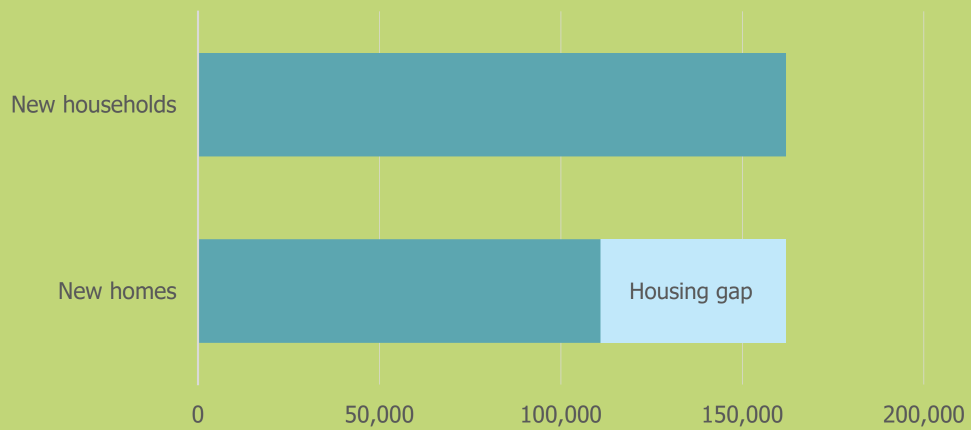
Figure 3: Population Growth from 2010 to 2020



Source: U.S. Census Bureau.

There is a growing gap between the number of new households and homes in Utah.

Figure 4: Utah's Growth in Number of Households and New Homes, 2010-2020



Source: Dejan Eskic, Utah Construction Update.

Utah County is projected to see the largest population increase in the state – and household growth will surpass population growth.

Figure 5: Utah's Additional Households and Population by County, 2015-2065 Projections

	Increase in households	Increase in households	Increase in population
Utah County	382,211	2.3%	1.8%
Salt Lake County	310,170	0.8%	0.6%
Washington County	149,599	2.7%	2.3%
Davis County	101,845	1.0%	0.6%
All other counties	290,827	1.1%	0.8%
State total	1,234,652	1.3%	0.9%

Source: Kem C. Gardner Policy Institute. "All other Utah counties" is a Utah Foundation calculation.

The increase of nearly three million residents by 2065 works out at an additional 1.2 million new households that will need a place to call home. [32] Utah County is expected to see the largest increase in households – well over one-quarter of the total. Growth in Utah, Salt Lake, Washington and Davis counties will demand three-quarters of Utah's needed housing supply by 2065.

While the gap between housing and households grew rapidly during the 2010s, between January and March 2021, there were more housing starts than during any three-month period in the history of the state.[33] There was a 17% increase in residential building permits compared to the previous year. And 2020 was not a low year, with 31,797 permitted units – also a record.

Nationally, 29 states are experiencing a housing shortage.[34] This is true of all of the Mountain States (and all Western states) except Wyoming.

Needless to say, low availability puts upward pressure on housing prices.

A HOUSING SOLUTION

One possible approach to addressing these housing problems is known as "Missing Middle Housing."

Middle housing can help alleviate the pressure on the housing availability issue. Apartment complexes alone cannot close the 45,000-door housing gap, considering the demand for owned homes. And single-family homes cannot close the gap considering costs. Instead, there need to be more options for a wider variety of Utahns. Generally speaking, an increased supply would slow price increases or in some areas might even lower the average price of homes and cost of rents.

Middle housing seeks to cover a range of rental and for-sale price points. Often, middle housing would be more costly than lower-income housing but below single-family market rate housing. The cost of building middle housing is often less per square foot than mid-

ANOTHER HOUSING PROBLEM: RENTAL COSTS

Rents average over $1,000 per month across the state for two-bedroom apartments, up to an average of $1,321 in Summit County. A studio apartment in Salt Lake County comes in at $829 per month, a two-bedroom apartment at $1,204, and a three-bedroom at $1,690. At the municipal level, Salt Lake City has the highest rents in the state, averaging $1,502 for 854 square foot average, or $1.76 per square foot.* And Salt Lake City rents have increased by 78% since the turn of the millennium, though two-thirds of that increase has occurred in the past five years.†

However, between January 2019 and July 2021, rents have increased even more in the next four largest counties. Utah County tops the list with a 66% increase (some of which is due to the increasing demand of higher cost non-student housing in the community), followed by 59% in Davis County, 43% in Washington County and 35% in Weber County, with Salt Lake County trailing at 23%.‡

Looking beyond Utah's borders, the increases in Salt Lake metro rents are among the largest calculated in the U.S., though rents themselves remain just below the middle of the largest 100 metro areas.§ Also, when comparing the Salt Lake metro area's fair market rent over the past five years to other regional metropolitan areas – Boise, Denver, Las Vegas and Phoenix – it falls in the middle of the pack.‖

Sources:

* CBRE, The Greater Salt Lake Area Multifamily Market, The Most Comprehensive Multifamily Report | H1 2020 Review + Outlook, www.uaahq.org/uploads/1/2/6/6/126637856/cbre.pdf.

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‖ The Utah Foundation, "Significant Statistics | Rents in Salt Lake area expensive from a national perspective, but not among Mountain State peers," March 16, 2021, www.utahfoundation.org/2021/03/rents-in-salt-lake-area-expensive-from-a-national-perspective-but-not-among-mountain-state-peers/.

rise and high-rise condos and apartments because they are stick frame, wood-constructed units, with lower costs for materials and simpler construction parameters.

Middle housing may not have the amenity packages seen in mid-rise to high-rise condos and apartments – such as common rooms, gyms and pools. This can help keep per unit costs down. That said, there are luxury townhomes in Utah that are far above the cost of typical single-family households.

Cost, of course, depends not only on construction costs or amenities but on home size and the price of land. But middle housing focuses on smaller-sized, often attached, homes on smaller lots.

Condos and townhomes sell for less than single-family homes, though not in terms of prices per square foot.

Figure 6: Condos and Townhomes Compared to Single-Family Homes Sold in August 2021, Salt Lake County

Property type	Count	List price	Sale price	Square feet	Price/sq ft	Beds	Baths
Condos and townhomes	457	$379,000	$390,000	1,499	$248	3	3
Single-family homes	1,054	$540,000	$546,450	2,416	$225	4	3
Difference	597	$161,000	$156,450	917	($22)	1	0
Percent difference		42%	40%	61%	-9%		

Source: UtahRealEstate.com. Utah Foundation calculations.

Looking at Salt Lake County in August 2021, there were 457 townhomes and 1,054 single-family units purchased.[35] The median list price of a townhome was $379,000, and the median sale price was $390,000. For single-family homes, the median list price was $540,000, with a median sale price of $546,450. The median single-family home was listed 42% higher and sold for 40% more than townhomes. That said, the single-family homes were 61% larger (with one more bedroom and the same number of bathrooms); accordingly, per square foot, the single-family homes were actually $22 or about 9% less expensive.

It is also important to note that townhomes are more likely to have homeowner association fees than are single-family, detached homes. These fees would increase monthly costs for owners, though they could decrease larger intermittent maintenance expenditures.

While Utah's housing challenges requires a wide range of interventions, middle housing is a key strategy to consider in addressing Utah's housing problem.[36] Subsequent parts in this study will take a closer look at middle housing.

CONCLUSION FOR PART I

Utahns increasingly perceive that they are living through a housing crunch. Most respondents to the recent Utah Foundation development-preference survey do not think they could afford the homes they currently own if they wanted to purchase them today. Nearly 90% of survey respondents are worried about housing costs, but even more are worried about young Utahns' costs.

Without question, those perceptions match an emerging reality. From 2010 to 2021, an inflation-adjusted mortgage payment with 10% down on a median-priced Utah home increased by $469 from $1,131 to $1,600. Over time, the cost of lower-priced homes has increased more than higher-priced ones, meaning that the attainability of entry-level homeownership with affordable mortgages has disappeared for some Utahns.

Meanwhile, rents in Utah have increased dramatically, and especially in just the last two years; for example, Davis County and Utah County rents increased more than 50% from January 2019 to July 2021.

The increases in home prices and rents are due in part to Utah's 45,000 housing-unit shortfall – the difference between new households and new residential dwellings since the Great Recession.

There's little relief in sight. Utah's rapid population growth is projected to continue. While the younger population is expected to shrink in percentage terms, the number of young households is expected grow in sheer numbers – suggesting a need for lower-cost, entry-level housing options.

Middle housing is one of the possible answers to these challenges. Upcoming parts in this study will delve deeply into middle housing and ways to expand its presence in Utah.

Utah home prices increased by 15.4% in 2020 and even further in 2021 – with a year-over-year appreciation of 29.0% at September 2021 – though price increases show signs of easing.

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MIDDLE HOUSING STUDY PART I: THE SCOPE OF THE CHALLENGE

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