Utah Foundation Research Brief

Utah's Housing Market: Have We Hit Bottom Yet?

December 16, 2009

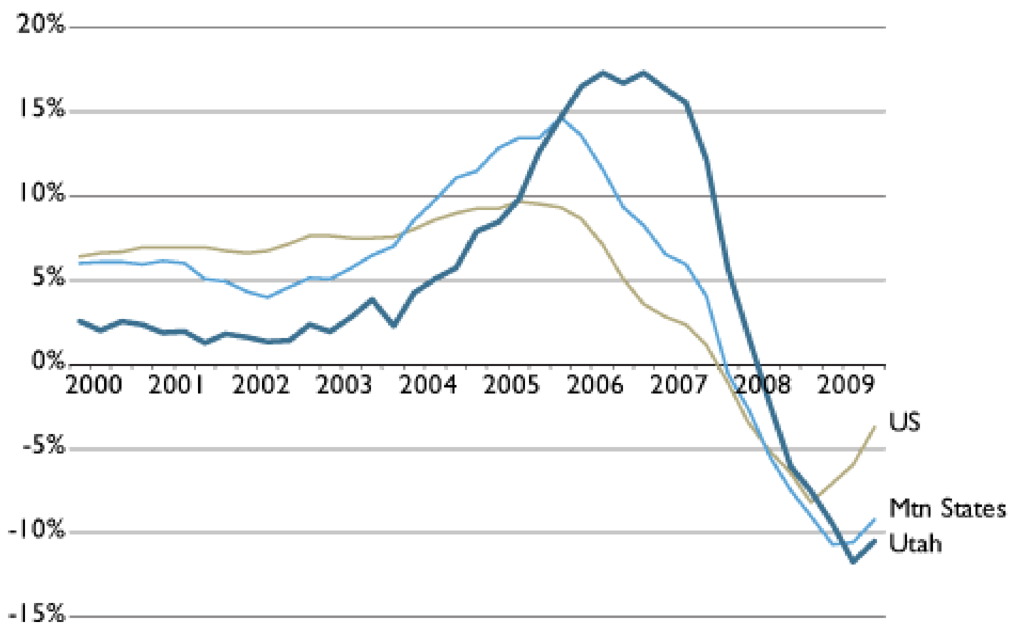
This fall, the national economy started to show signs of recovery from the recession. Ben Bernanke, the chairman of the Federal Reserve, stated on September 15th that the recession is "very likely over" and that a recovery is probably underway.[1] More recently, on November 24th, the Standard & Poor's/Case-Shiller September home price index was released which showed housing prices in a composite index of 20 major cities were up for the fifth month in a row.[2] However, past experience shows that the Utah economy, and particularly the housing market, does not always follow national trends.[3] This has certainly been the case over the last decade or so, during which time Utah's housing market has lagged behind the rest of the nation in both its appreciation and depreciation.[4] This report examines the possibility that Utah's housing recovery might continue this trend, remaining several months or even years behind the rest of the nation, which appears to be improving.

This report will investigate Utah's current housing market and map its course over the last decade. It will include comparisons with other mountain states as well as with the nation as a whole.[5] In addition, regional comparisons will be made at the local level to determine how specific geographical areas have been affected differently by the recession. Finally, it will examine which portions of Utah's housing market are showing signs of recovery, and which continue to struggle.

Utah in Comparison to National and Regional Markets

In July 2008, Utah Foundation published a research brief on Utah's then-current housing situation, exploring the trends of the housing market. The findings, among other things, were that in Q1 2008, Utah's home appreciation was still increasing, albeit slowly, and that in comparison to other states, Utah ranked *second* with an appreciation rate of 5.6%.[6] Since that time, however, Utah has seen a significant decline in home values. Beginning in Q2 2008, Utah's market began to depreciate, and has continued to decline since. By the end of Q3 2009, Utah's depreciation rate was -10.5% and ranked *48th* in the nation.[7]

Figure 1: Home Price Appreciation, U.S., Mountain States, and Utah Annual Change by Quarter, 2000 to 2009



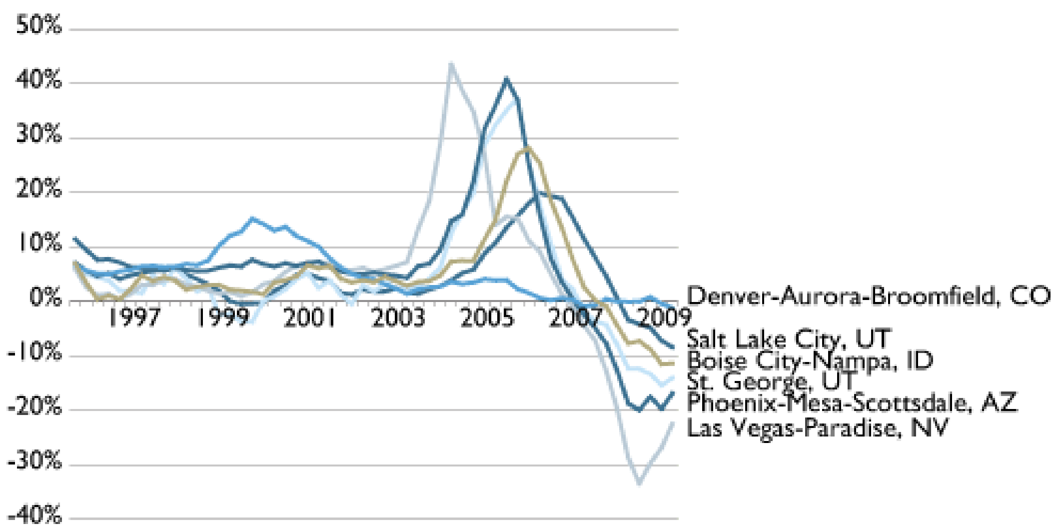
Source: Federal Housing Finance Agency.

Figure 1 compares home price appreciation between the U.S., mountain states, and Utah. Two points are apparent from Figure 1. The first is Utah's high appreciation rate between 2006 and 2008. As a state, Utah peaked at 17.3%, which is 2.6 percentage points higher than the mountain states' average peak of 14.7%, and 7.8 percentage points higher than the national average peak of 9.5%. And, while it is too soon to say whether or not Utah has "hit bottom," it is clear that Utah's *depreciation* rate also surpassed the national and mountain states' average arriving at -11.7% in Q2 of 2009.

The second trend highlighted in Figure 1 is the propensity of Utah's housing market to lag behind the U.S. and other mountain states. The U.S. housing market peaked during Q2 and Q3 of 2005 and the mountain states region in Q4 of the same year. Utah's housing market on the other hand, did not peak until peak until Q4 of *2007*, over two years later.[8] Moreover, when looking at trends in the last two years, it is clear that the U.S. and mountain region markets have begun to turn around much sooner than Utah. This lag makes it difficult to predict the future of Utah's housing market, even while national level data shows signs of recovery.

Another example of Utah's lag in housing values can be seen by comparing Salt Lake City to similar cities within the mountain states region. In Figure 2, this trend is seen clearly. It is also worth noting that Phoenix, Las Vegas, and St. George are beginning to show signs of improvement, while Salt Lake City and Denver continue to decline.

Figure 2: Home Price Appreciation by City, Mountain States
Annual Change by Quarter 1996-2009



Source: Federal Housing Finance Agency.

Why the Sharp Decline?

The obvious anomaly among Utah's major cities is St. George, whose appreciation rate mirrored Southwestern cities such as Phoenix, AZ and Las Vegas, NV during the middle of the decade (see Figure 2). At its peak in Q1 2006, St. George had an appreciation rate of 37.3%. Perhaps not surprisingly however, this plummeted to -15.4% by Q2 of 2009. This type of sharp decline after a boom period has been a common occurrence in the last several years, particularly in Western and Southwestern U.S. cities.

In many cases, the boom and subsequent bust is attributable to the relaxed mortgage lending practices common among major banks during the first half of this decade. Essentially, there was a growing demand from both national and international investors to invest in the U.S. real estate market which was producing incredibly high yields. With this additional pool of lending money, banks began extending mortgages using increasingly lower requirements. Because many people who were previously unable to qualify for loans suddenly began to qualify, the demand for housing shot up. Subsequently, as many of these same individuals were unable to pay their mortgages, banks began to foreclose on properties in increasingly high numbers. As this occurred, banks reverted to stricter lending restrictions and, due to lower revenues and the financial crisis that began late 2007, credit essentially dried up. The end result was much lower demand in the housing market. This combination of low demand from consumers and frequent foreclosures in concentrated markets brought home values steeply down, particularly in those markets where demand had been the highest.[9] While it is too soon to say if the worst is behind us, Figure 2 does indicate improvement in many of the markets that were hit hardest, including St. George.

Housing Trends within Utah

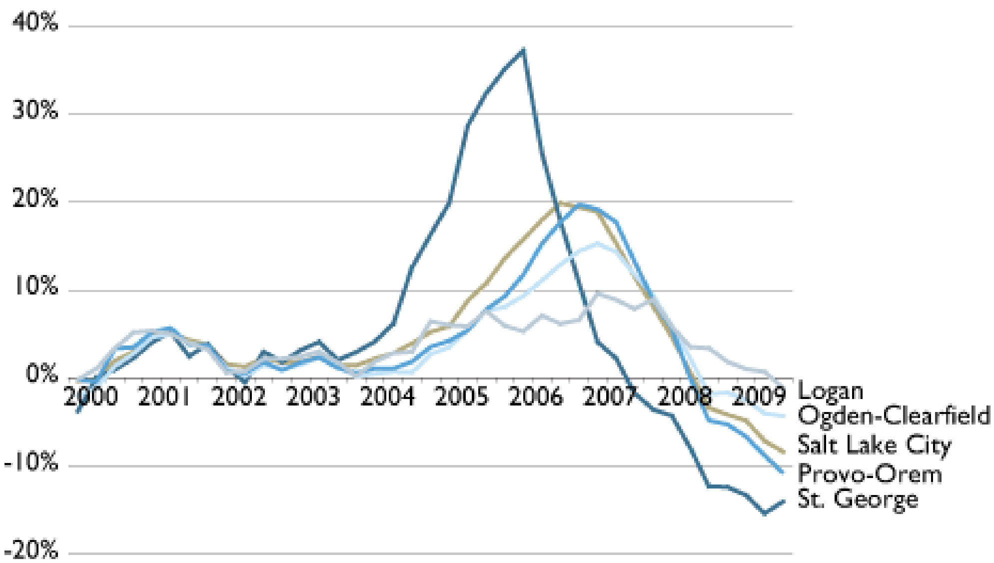
The rapid growth in Utah's housing market, both in terms of value and number of units sold, was not distributed equally among the different regions within the state. Some counties, cities, and even neighborhoods experienced much higher growth rates than others. It is interesting therefore, to examine Utah's housing at the local level to understand how local housing markets were affected differently.

Major Cities

Figure 3 below displays housing appreciation rates for the major cities within Utah. Again, St. George is quite distinct from the others, following a trend influenced by the Phoenix and Las Vegas markets. Concerning Salt Lake City and Provo, similar trends are seen in their appreciation and depreciation, both peaking near 20% and falling to just below -10%. Ogden and Logan, on the other hand, display progressively more stable trends. Several conclusions can be drawn from this. First, it is interesting to note, as was described above, the tendency for markets with the fastest and most drastic increases in appreciation to later experience the most severe depreciation rates. Among Utah cities, there is a strong proportional relationship between the cities that had the highest home appreciation rates and later the steepest depreciation rates.

Second, city size also appears to be related to home appreciation. For those cities along the Wasatch Front, it is evident that as the city increases in size, so does the appreciation rate. Logan, with a population of 47,660 in 2006, experienced the smallest increase in rates, while Ogden, with a population of 78,086 in 2006, displays only slightly higher rate increases.[10] Provo and Salt Lake City, which had respective populations of 113,984 and 178,858 in 2006, continue this trend displaying still higher appreciation rates.

Figure 3: Home Price Appreciation by City, Utah
Annual Change by Quarter, 2000-2009

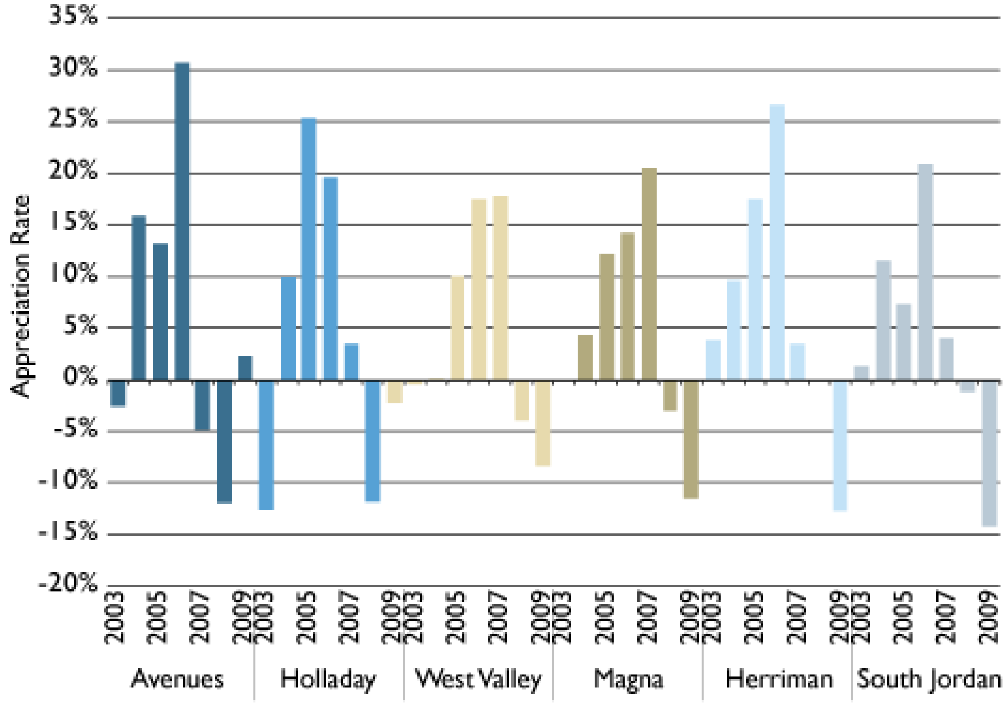


Source: Federal Housing Finance Agency.

Neighborhoods

To understand how various neighborhoods and municipalities in Salt Lake County experienced the housing boom differently, Multiple Listing Service (MLS) data is shown below for sold homes in each area. While the overall trend in most of these areas is similar to the state and regional trends mentioned above, there are some interesting differences. Salt Lake County neighborhoods/municipalities were selected to be representative of surrounding areas in terms of geography, average home size and year built, and whether or not the area is a new housing development or an older, existing neighborhood. Figure 4 shows the home price appreciation rates for six of the selected neighborhoods, based on changes in the median price of single family homes sold each year.

Figure 4: Home Price Appreciation by Salt Lake County Neighborhood
Single-Family Homes, Annual Change 2003-2009*



* 2009 data are YTD as of 11/13/09.
Source: Wasatch Front Regional Multiple Listing Service.

The first detail that is clear from this chart is that Utah's neighborhoods and towns experienced the same fast growth and subsequent decline in home values seen at the state and national level. Perhaps the most interesting comparison, then, can be made in terms of degrees. To begin with, the Avenues experienced an extremely high appreciation rate in the middle of the decade, reaching over 30% in 2006. This spike is representative of other east-side Salt Lake City neighborhoods, although none matched the Avenues in breaking 30% (see Figure 5 below which provides trends from additional neighborhoods). Herriman, a city west of Riverton and representative of newer housing developments, peaked at 26.6% in 2006. Finally, we see that West Valley and Magna experienced rates much closer to the Utah average, peaking at 17.8% and 20.5% respectively.

The second interesting comparison that can be made is the degree to which different neighborhoods/municipalities have begun to show signs of recovery. Figure 5 shows home appreciation rates for ten different areas in Salt Lake County since 2003. They have been placed in order, highest to lowest, in terms of the last column: Percent Change 2009 (Year To Date). It is interesting to note that although the Avenues neighborhood had the highest level of appreciation in 2006, it is the only neighborhood/municipality to demonstrate *positive* appreciation for 2009. Additionally, of the four areas showing the highest rates for 2009, *three* of them are older, east-side neighborhoods. This indicates that the areas most likely to experience the soonest recovery are not suburban developments with newer homes, but rather older neighborhoods on the east side, which are close to downtown. On the other hand, it is hard to predict what is in store for areas such as South Mountain, Herriman, and South Jordan where rates appear to continue to decline.

Figure 5: Home Price Appreciation by Salt Lake County Neighborhood
Single-Family Homes, Annual Change 2003-2009*

	2003	2004	2005	2006	2007	2008	2009*
Avenues	-2.63%	15.83%	13.15%	30.65%	-4.85%	-11.99%	2.32%
Holladay	-12.59%	9.91%	25.31%	19.61%	3.49%	-11.84%	-2.24%
Riverton	2.54%	5.95%	14.09%	23.18%	10.70%	-7.38%	-2.83%
Sugarhouse	5.69%	9.22%	15.47%	23.90%	6.92%	-6.47%	-3.81%
West Valley	-0.46%	0.04%	10.04%	17.48%	17.80%	-3.99%	-8.42%
Rose Park	-3.58%	1.57%	10.04%	12.09%	19.29%	4.73%	-9.95%
Magna	0.00%	4.33%	12.19%	14.17%	20.45%	-2.98%	-11.48%
South Mountain	13.35%	4.08%	11.15%	16.54%	8.10%	-9.19%	-11.55%
Herriman	3.79%	9.54%	17.44%	26.64%	3.45%	0.00%	-12.67%
South Jordan	1.29%	11.51%	7.34%	20.89%	3.97%	-1.15%	-14.15%

* 2009 data are YTD as of 11/13/09.
Source: Wasatch Front Regional Multiple Listing Service.

What the future holds

The fact that Utah's housing market has had a tendency to lag behind other mountain states and the rest of the nation over the last decade makes it difficult to predict the future. As seen above, there are mixed results from even the most recent data. As a state, Utah's appreciation rate began to show signs of improvement, or at least a lessening of the depreciation rate, beginning very recently in Q3 of this year. However, one quarter's data is much too soon to indicate a trend, and data at the local level, including major cities throughout Utah and even smaller neighborhoods within Salt Lake County, paint a very different picture. In many cases, these areas continue to show a steepening decline.

On a more optimistic note, there are signs that might lead to alternative conclusions. First, if history is any judge, Utah appears to lag only a short time behind similar states (see Figures 1 and 2). If this is the case, then it is possible that Utah will follow suit and begin to bottom out soon. Even cities that experienced huge housing declines, such as Phoenix and Las Vegas, have turned a corner, with lower depreciation rates in recent quarters. This could be an important indicator for Utah. In addition, there are signs of improvement in select local markets. The five highest ranking neighborhoods in Figure 5 all demonstrate a slowing of depreciation rates, and even appreciation in the Avenues. St. George has also experienced a slowdown in price depreciation this year (see Figure 3). Of course, only time will tell what lies in store for the future of Utah's housing market.

Endnotes

[1] Labaton, Stephen. "Fed Chief Says Recession is 'Very Likely Over.'" New York Times. September 16th, 2009. http://www.nytimes.com/2009/09/16/business/economy/16bernanke.html

[2]Standard and Poor's Case-Shiller Home Price Index. http://www.standardandpoors.com/indices/sp-case-shiller-home-price-indices/en/us/?indexId=spusa-cashpidff–p-us—-

[3] Taylor, Sarah. "Seeing Through the Bubble: An Overview of Utah's Housing Situation." Utah Foundation. July, 2008.

[4] Ibid

[5] Mountain States region includes: Montana, Idaho, Wyoming, Nevada, Utah, Colorado, Arizona, New Mexico

[6] Federal Housing Finance Agency http://www.fhfa.gov/Default.aspx?Page=14/

[7] Ibid

[8] Ibid

[9] Bloomberg, Alex & Davidson, Adam. "The Giant Pool of Money" *This American Life*, Chicago Public Radio & NPR. May, 2008. http://www.thisamericanlife.org/Radio_Episode.aspx?sched=1242.

[10] US Census Bureau. http://quickfacts.census.gov/

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