UTAH'S ECONOMY

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NEEDED:
MORE APARTMENT CONSTRUCTION

Demand is up but supply is down in Utah's apartment market. Vacancy rates are below 5 percent and rental rates have increased by more than 10 percent in the past two years. These conditions signal a need for more apartment units, however new apartment construction is way off the pace of the last few years. Through October of this year, permits statewide have been issued for only 910 new apartment units, *Table 1*. That's a paltry number considering there are 270,000 renter occupied units in Utah.

No county strays from the statewide pattern. The levels of new apartment construction in both Salt Lake and Utah Counties—highest in the state—are still well below 1 percent of the rental inventory in each county. Washington and Weber County have had no new apartment construction this year. These two counties have rental markets of 14,000 and 22,000 units respectively. The absence of new apartment construction would be understandable if the local markets were badly overbuilt but that is not the case.

Table 1

PERMITS ISSUED FOR APARTMENT UNITS (JANUARY THROUGH OCTOBER)	
COUNTY	UNITS
Cache	125
Davis	51
Salt Lake	327
Utah	332
Washington	0
Weber	0
State	910

Source: Construction Monitor.

The growing need for rental housing is shown in Census data. From 2000 to 2010 the average annual growth rate for renter occupied units was 2.65 percent compared to 2.11 percent for owner occupied units. Of the major counties in the state, Salt Lake had the slowest growth in renter occupied units at 2.06 percent, while Washington County led with a growth rate of 5.77 percent, *Table 2*. At an annual growth rate of 2.65 the number of renters statewide would increase by over 7,000 households in 2013. New apartment construction is far short of meeting this potential demand.

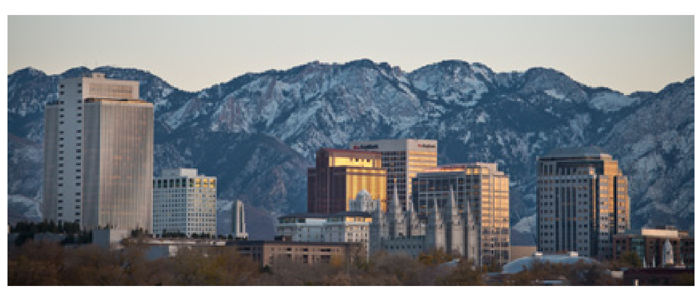
Perpetually, it seems, the rental market faces constraints on new supply. Nimbyism, land prices, and zoning ordinances are often significant barriers preventing new construction. Consequently the Utah rental market has not faced conditions of overbuilding in nearly 30 years. That is not to say there have not been periods of sluggish rental rates and rising vacancy rates. These periods are more closely associated with a weak job market rather than over building. In other words, the problem for the rental market locally is generally shrinking demand rather than the construction of too many new apartment units.

Because developing new apartment projects has become so difficult, much of the need for additional rental units in recent years has been met by a "shadow market" of single-family homes, condominiums, twin homes and town homes. A comparison of new construction to the changes in number of renters is revealing. For example, from 2000 to 2010 the number of new apartment units built statewide was 21,137 but the number of renter households increased over the same period by nearly 60,000. These numbers show that new apartment construction met only about one-third of the increased demand for rental units. The remaining two-thirds was met by "for rent" homes and condominiums, *Table 3*. In Salt Lake City 75 percent of the increased demand was met by new apartments but in St. George only 31 percent.

...there are

270,000

renter-occupied units in Utah.



The "shadow market" grew significantly during the housing bust. When the bubble burst many condominiums and homes were added to the rental inventory as developers had trouble finding buyers and home foreclosures reached record levels. These unsold and foreclosed units, originally meant for homeownership, found their way into the rental inventory and helped accommodate the growing demand for rentals. But this source of supply is pretty much exhausted. The inventory of foreclosed properties has dropped by nearly 70 percent and troubled condominium projects have been absorbed. Consequently higher levels of apartment construction are necessary to meet the growing demand for rental units. Adding a 1,000 or 1,500 units via new construction is insufficient. The market will need at least 3,000 new units annually to avoid persistently low vacancy rates and diminished rental housing opportunities for Utah's growing renter population.

Table 2

RENTER OCCUPIED HOUSING IN UTAH AND SELECTED COUNTIES

	2000	2010	CHANGE	AAGR*
State	199,734	259,555	59,821	2.65
Davis	16,006	20,474	4,468	2.49
Salt Lake	91,544	112,203	20,659	2.06
Utah	33,151	44,549	11,398	2.99
Washington	7,811	13,691	5,880	5.77
Weber County	16,508	21,619	5,111	2.73

**AAGR = average annual growth rate. | Source: U.S. Census Bureau.*

Table 3

SELECTED CITIES: COMPARISON OF NEW APARTMENT CONSTRUCTION TO INCREASE IN RENTERS 2000-2010

	NEW APT. CONSTRUCTION	INCREASE IN RENTERS	DIFFERENCE COL (2) & (3)	DEMAND MET BY NEW CONSTRUCTION
Salt Lake City	2,658	3,571	913	74.4%
West Jordan	2,195	3,406	1,211	64.4%
St. George	1,050	3,386	2,336	31.0%
Provo	818	1,588	770	51.5%
Orem	767	1,998	1,231	38.4%
Riverton	648	1,048	400	61.8%
Logan	567	1,308	741	43.3%
Draper	526	1,428	902	36.8%
North Salt Lake	509	562	53	90.6%
Cedar City	509	1,592	1,083	32.0%
State	21,137	59,821	38,684	35.3%

Source: U.S. Census Bureau and Bureau of Economic and Business Research, University of Utah.

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