

UTAH'S Economy

A monthly report produced for COMMERCE REAL ESTATE SOLUTIONS by Jim Wood, Bureau of Economic and Business Research University of Utah

ISSUE 95 OCTOBER 2012

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UTAH'S HOUSING RECOVERY

Finally, Utah's longest home building contraction appears to have run its course. For seven consecutive years the number of new residential units built in Utah declined; falling from a high of 28,300 units in 2005 to a low of 8,600 units in 2011. Prior to this downturn the weakest period for the home building industry was the five-year contraction from 1978 through 1982. Housing cycles seem as inevitable as the seasons leaving only questions of duration and amplitude. The last severe housing bust in the 1980s was followed with a seven year expansion running from 1989 through 1996. During these years the number of residential building permits nearly tripled.

So far the recovery from the recent contraction looks promising. Single family home construction is up nearly 40 percent through the third quarter and will likely finish at about 7,500 units in 2012 compared to 5,400 last year. In comparison to other states Utah's home building recovery ranks as one of the strongest in the country, *Table 1*. Utah is sixth among all states in the relative increase of new home construction.

Table 1 Change in Single Family Permits
(September 2011 to September 2012)

	Percent Change
Idaho	60.8%
Arizona	57.7%
Nevada	54.9%
North Dakota	45.6%
Oklahoma	44.8%
Utah	38.7%
Colorado	34.9%
Michigan	31.7%
Minnesota	31.6%
Arkansas	29.4%

Source: U.S. Census Bureau



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While a 40 percent increase in residential permits makes a great headline, it should be noted that the industry is coming back from a very low base. Single family construction has been stuck at around 5,000 units for the past four years, a level comparable to housing downturns in the 1950s. While the expected 7,500 new homes in 2012 represents a significant increase, this number of new homes would rank as the lowest level since 1990 if the last few years are excluded from the comparison. We are headed in the right direction and it is no surprise that cities with the highest levels of activity are those that led in the last expansion. Over the past 12 months two cities in Utah have issued over five hundred permits for new single family homes; South Jordan and Lehi, *Table 2*. It is encouraging that Washington County seems to be recovering. St. George with 479 single family permits ranks third and Washington City with 215 permits ranks sixth among all Utah cities in single family permit activity.

Table 2 Cities Ranked by Single Family Activity (August 2011 to August 2012)

South Jordan	512
Lehi	512
St. George	479
Herriman	359
Saratoga Springs	284
Washington	215
Layton	214
West Jordan	213

Source: Bureau of Economic and Business Research, University of Utah

The recovery should accelerate in 2013 as mortgage rates are expected to remain below 4 percent. Most forecasts predict that by 2014 rates will range between 4 and 5 percent. Few forecasts show rates much above 5 percent.

Another positive development is the improvement in housing prices. The third quarter median sales price for homes sold in the four Wasatch Front Counties



was up 8.7 percent in the past year. In Salt Lake County the median sales price was up 10 percent. The rebound in prices is much stronger than expected and is due in part to the historically low interest rates boosting housing demand. The median sales price of an existing home in Salt Lake County in the third quarter was \$217,000, in the Wasatch Front Counties \$205,000.

Housing prices have also improved due to the decline in distressed properties. The number of foreclosed and short sale properties in the Wasatch Front Counties has dropped from 28 percent of all homes sold in the first quarter of 2012 to 22 percent in the third quarter. Utah County has seen the largest drop in distressed property sales. In the first quarter of the year 41 percent of all homes sold were either REO or short sales. That percentage has dropped to 25 percent in the third quarter.

As the share of “fire sale” properties declines, the median sales prices for all properties increases, which in turn gives a psychological boost to buyers and sellers. New buyers enter the market to take advantage of low prices and to beat the increase in prices. Also,

increasing prices give buyers confidence that they are getting an appreciating asset. More and more sellers will be coaxed back into the market as rising prices improve their position. A scarcity of sellers and real estate listings has been a problem over the last few quarters contributing to higher prices.

The prices of newly built homes are also increasing, due not only to rising demand but also rising costs. Land prices have increased significantly in the past year and anecdotes from major home builders describe the land market as “frenzied and chaotic.” The reported labor shortages for specialty trades (framers, plumbers, etc.) are also pushing prices of new homes higher.

Rising prices, at this point in the cycle, are a strong indicator of an improving housing market and a favorable development for home builders, the real estate industry and the local economy and signals the participation of the home building industry in Utah's economic recovery.

