

UTAH'S Economy

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

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THE RECOVERY IN HOME BUILDING, SALES AND PRICES

After five years of the worst housing market since the Great Depression, home building is finally recovering. In 2012 residential building permits (single family and multifamily) were up 34 percent, *Table 1*. In Salt Lake County the number of permits was up 27 percent, Utah County 34 percent and Davis County nearly 80 percent. Detached single-family permit activity was even stronger with a 42 percent increase statewide, *Table 2*. Home builders are very optimistic about the spring and summer markets. In three major counties; Davis, Utah and Washington single-family building activity was up more than 50 percent in 2012.

Table 1 Building Permits Issued for All Residential Construction

	2011	2012	Percent Change
Davis	1,234	2,219	79.8%
Salt Lake	3,543	4,504	27.1%
Utah	2,355	3,161	34.2%
Weber	351	471	34.2%
Washington	793	1,251	57.8%
State	10,023	13,462	34.3%

Source: Utah Construction Monitor

Table 2 Building Permits Issued for Single Family Homes

	2011	2012	Percent Change
Davis	849	1,341	58.0%
Salt Lake	1,919	2,725	42.0%
Utah	1,411	2,211	56.7%
Weber	338	380	12.4%
Washington	742	1,176	58.5%
State	6,454	9,214	42.8%

Source: Utah Construction Monitor

While the gains over the past year are impressive, the home building industry is coming off a very low base. Compared to peak year activity, home building is about halfway back with the nearly 13,500 units in 2012; granted those peak years were clearly too high and not sustainable, *Table 3*. More sustainable and healthy levels statewide are probably around 20,000 units, and in that case the industry is about two-thirds of the way back.

Existing Home Sales and Prices

Existing homes sales in Wasatch Front Counties were up 15 percent in 2012 to 21,752 single family sales, *Table 4*. This is 92 percent of the peak year of

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Table 3 Residential Permits Issued in 2012 as Percent of Peak Year Building Permits

	2012 Permits	Permits in Peak Year	2013 as % of Peak Yr	Peak Year
Davis	2,219	3,179	69.8%	2004
Salt Lake	4,504	7,746	58.1%	2005
Utah	3,161	6,902	45.8%	2006
Weber	471	1,255	37.5%	2006
Washington	1,251	2,860	43.7%	2005
State	13,462	28,285	47.6%	2005

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

Table 4 Sales of Existing Single Family Homes

	2011	2012	Percent Change
Davis County	2,742	3,318	21.0%
Salt Lake County	9,453	11,038	16.8%
Utah County	4,422	4,699	6.3%
Weber County	2,271	2,697	18.8%
Total	18,888	21,752	15.2%

Source: Wasatch Front Regional MLS

Table 5 Median Sales Price of Existing Single Family Homes

	2011	2012	Percent Change
Davis County	\$194,800	\$200,000	2.7%
Salt Lake County	\$199,000	\$212,000	6.5%
Utah County	\$193,000	\$201,000	4.1%
Weber County	\$140,000	\$146,900	4.9%
Total	\$189,000	\$199,500	5.6%

Source: Wasatch Front Regional MLS

2006 when sales were 23,640; quite a contrast to the experience of home builders who are still 50 percent below peak year. Median sales price for homes in all four counties are higher, indicating that housing prices hit bottom in 2012. The median sales price for the combined four counties was up 5.6 percent, *Table 5*. Prices in Salt Lake County were strongest, gaining 6.5 percent. The median sales price in the county in 2012 was \$212,000.

Another measure of housing prices is the Federal Housing Finance Agency's price index. This index shows an increase in Utah of nearly 12 percent in prices from fourth quarter 2011 to fourth quarter 2012. Arizona leads all states with a 22 percent increase. The combined U.S. price index increased nearly 6 percent, about half the rate for Utah. Utah ranks sixth among all states in fourth quarter housing price increases, *Figure 1*.

Improving housing prices are increasing the equity position of homeowners. The number of underwater (negative equity) and near negative equity mortgages in Utah has dropped from 26 percent of 480,000 mortgages to 23 percent. Utah did rank eleventh in negative equity but in the fourth quarter of 2012 the state dropped to twenty-first. This is good news. With the increases in housing prices the number of underwater homes is bound to decrease rapidly in 2013. Improving home prices and equity will allow more homeowners to consider moving-up to another home thus creating additional demand for housing.

One reason prices are improving is the decline in foreclosures. Foreclosure filings in Utah have dropped to lowest level since fourth quarter 2008. Foreclosure filings peaked in the first quarter of 2010 at 14,900. The number of mortgages in the foreclosure inventory totals 7,900 or 1.88 percent of all mortgages. The historic rate of foreclosure from 1979 to pre-Great Recession 2007 was 1 percent. At this normal rate the number of foreclosures in Utah would be acceptable at about 4,200, slightly less than half the current number. Foreclosures need to drop to less than 5,000. It will probably be another 18 months to get to an acceptable foreclosure inventory of 5,000 loans.

One last note on home prices in Utah. The state has a history of above average increases in housing prices. The Federal Housing Finance Agency's price index shows that over the past 21 years housing prices in Utah have increased by 165 percent. In only four states and Washington D.C. have housing prices outperformed Utah, *Figure 2*. In inflation adjusted dollars (real dollars), homeowners in Utah realize about a 2 percent real increase in home values annually

whereas nationally inflation adjusted home prices are close to zero, i.e. increases in housing prices are nearly identical to the rate of inflation. Ignoring inflation (nominal dollars), housing prices in Utah over the past 21 years, despite the price collapse of 2008-2011, have increased at 4.75 percent annually compared to

3.1 percent nationally. At these rates of increase a \$200,000 home in Utah in 10 years would appreciate to \$318,000 compared to \$271,500 using the average national growth rate. That's a difference of nearly \$50,000 in additional equity for the Utah homeowner.

Figure 1 Twelve Month Percent Increase in FHFA Index - 4th Quarter

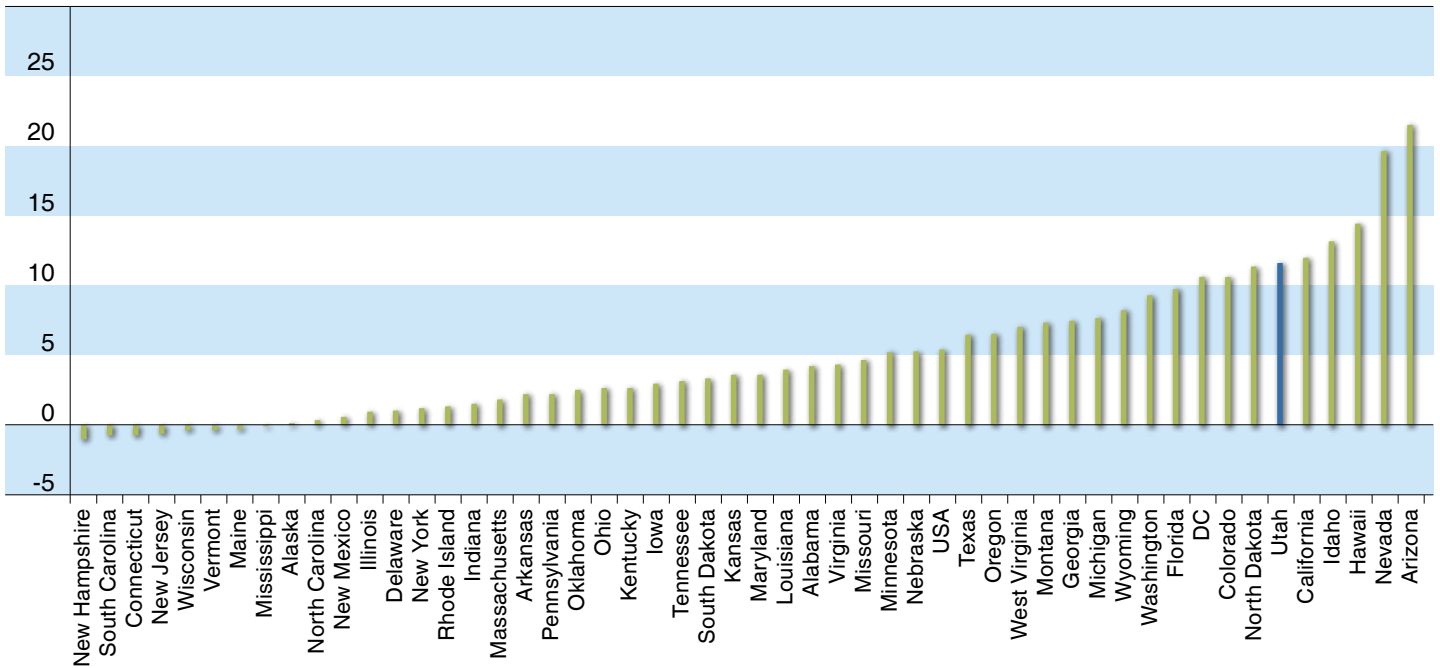


Figure 2 Price Increase in FHFA Price Index 1991-2012 (not inflation adjusted)

