

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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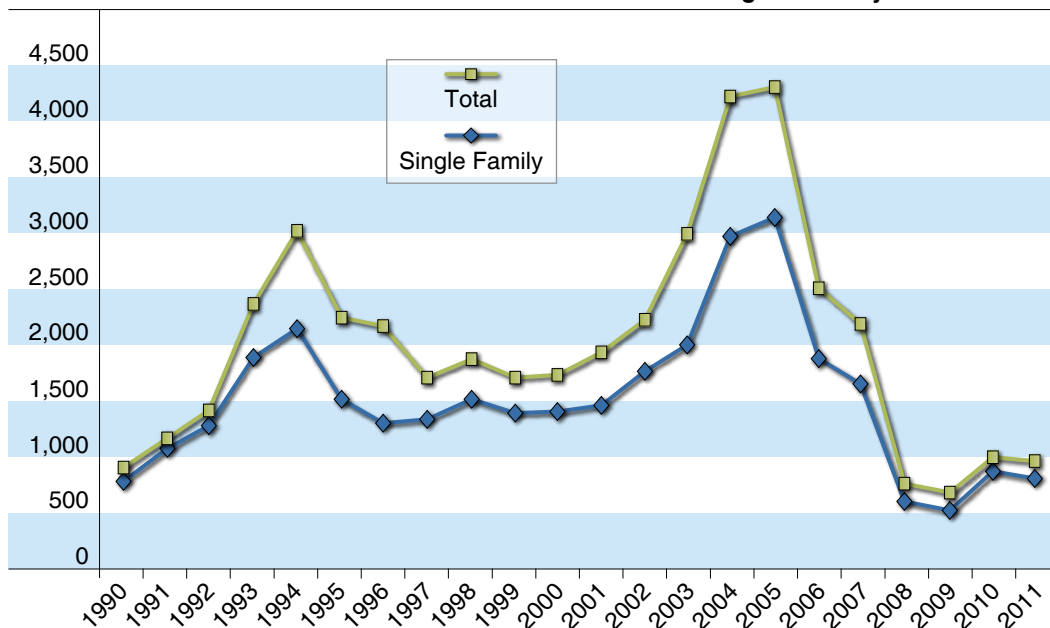
WASHINGTON COUNTY'S HOUSING BUBBLE

No other county in Utah experienced a housing bubble quite like Washington County. In fact for most counties the housing crash was due primarily to loss of demand rather than a supply bubble. But not in Washington County where “irrational exuberance” and speculation led to a very serious housing bubble that continues to negatively affect the local real estate market.

From 2003 through 2006 the number of housing units in Washington County grew by one-third, increasing from 39,000 units to 52,000 units, an annual growth rate of 7 percent. This boom drove construction employment up by 207 percent. By 2006, one out of every six jobs in the county was in the construction sector. Both home building and construction employment were increasing in Washington County at more than double the statewide average.

Washington County is prone to a volatile housing market—note the boom of the mid-1990s—but, nothing in the county's history approaches the level of excess of the 2003-2006 period, *Chart 1*.

Chart 1 Permits Issued for Residential Construction in Washington County



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

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In 2003 the median sales price of a home in the county was \$155,000. By 2006 it had risen to \$287,000, a spectacular and of course unsustainable increase, *Table 1*. The 85 percent increase in three years was well ahead of condominium prices, which increased a mere 60 percent in the same period.

Table 1 Median Sales Price of Homes and Condominiums in Washington County

	Single Family	Condominiums
2002	\$142,500	\$105,000
2003	\$155,000	\$114,200
2004	\$180,500	\$113,900
2005	\$254,900	\$149,900
2006	\$287,000	\$184,000
2007	\$274,900	\$169,000
2008	\$240,000	\$150,000
2009	\$210,000	\$128,000
2010	\$188,500	\$104,000
2011	\$175,000	\$93,500

Source: Washington County Board of Realtors.

Wasatch Front Counties' housing prices were also rising rapidly, but in comparison to Washington County, Wasatch Front prices were moving at a tepid pace. From 2003 through 2006 the median sales price of a home in the four Wasatch Front Counties increased by 36 percent, up from \$153,000 in 2003 to \$208,200 in 2006.

The Washington County housing market has more in common with the southern California, Arizona and Nevada markets than the Wasatch Front market; both on the upside and downside. The median sales price of homes is now in the sixth year of decline in Washington County. The median price has fallen to \$175,000, a decline of 39 percent, not as bad as Las Vegas' 60 percent decline but close to the price declines in Phoenix and many southern California cities. Wasatch Front Counties' prices are down about 25 percent since the peak of 2007.

The housing crash has been devastating for the home building industry in Washington County. Residential construction fell 84 percent in four years. In past two years there has been a slight uptick but the level of activity is still near 20-year lows. While home builders continue to suffer residential real estate agents have fared much better. Residential sales in 2011 were down only 25 percent from the peak in 2005 and homes sales have been increasing over the past three years, *Table 2* and *Chart 2*. This has not been the experience of real estate agents in the Wasatch Front Counties. Sales have just begun to pick up in the past 12 months. Undoubtedly sales activity in Washington County reflects "bargain basement" prices. Discounted prices are attracting buyers to the market. While demand is increasing, as demonstrated by higher levels of sales, prices continue to decline; an indication of just how fragile the market is.

Table 2 Sales of Existing Residential Units in Washington County

	Single Family	Condos	Total
2002	1,610	553	2,163
2003	2,018	687	2,705
2004	2,985	967	3,952
2005	3,266	968	4,234
2006	2,518	676	3,194
2007	1,906	591	2,497
2008	1,508	387	1,895
2009	2,112	480	2,592
2010	2,371	551	2,922
2011	2,642	518	3,160

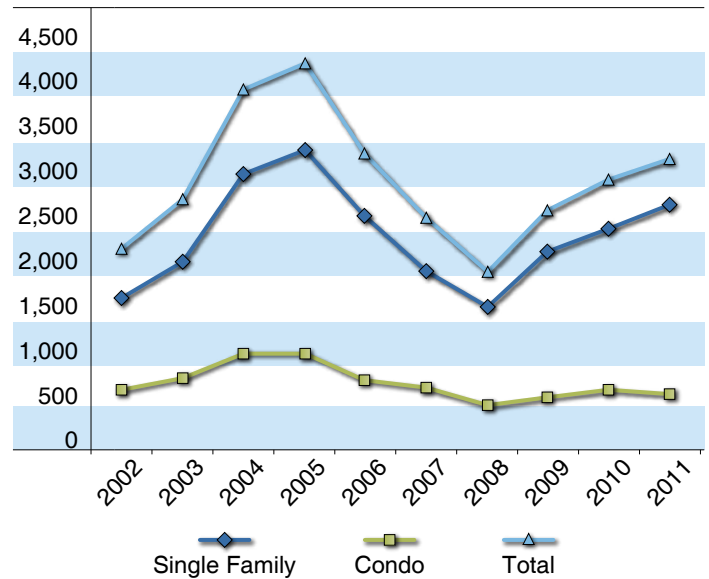
Source: Washington County Board of Realtors.

The recovery in Washington County will lag the statewide recovery. The housing bubble has left the county with a weaker economy. The unemployment rate in the county is 7.6 percent compared to 5.8 percent statewide and job growth over the past year was 1.3 percent compared to 2.3 percent statewide. Construction employment has fallen to the level of

the late-1990s. Over 5,000 construction workers in Washington County lost their jobs in the Great Recession. In a labor market of 45,000 jobs that is a significant hit.

Although home building and housings prices are still weak and employment growth has not caught up with the rest of the state, Washington County's long-term fundamentals are very favorable. In not too many years the county will again be a top performing market. The advantages of weather, landscape, I-15, Intermountain Healthcare, a new airport, Dixie State College and particularly demographic trends—retiring baby boomers—will bring above average rates of growth in the future to the county. But the stunning growth rates of the boom; 10 percent employment growth, 6 percent population growth and a 46 percent increase in housing prices in a single year will probably never be broken.

Chart 2 Sales of Existing Residential Units in Washington County



Source: Washington County Board of Realtors