

2022

HOUSING FORECAST

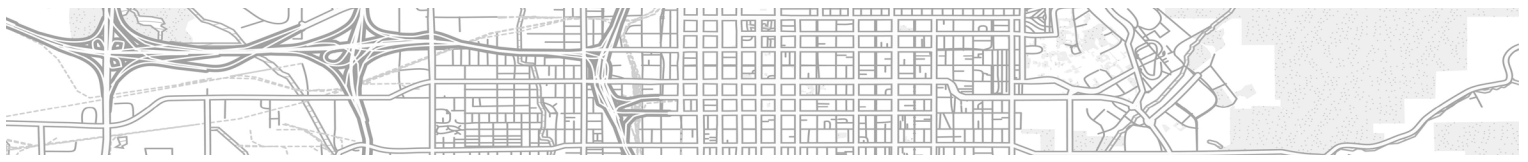
EXECUTIVE REPORT

SALT LAKE
BOARD OF
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“The 2021 Utah housing market will be long remembered for its record-breaking price increases. Statewide, housing prices increased by 27%, shattering the 43-year-old record of 20.1% set in 1978.”



Rising Housing Prices: Two Sides of a Coin

The income required to buy the median-priced home in Salt Lake County has increased from \$58,100 in 2015 to \$101,400 in 2021.

By James Wood

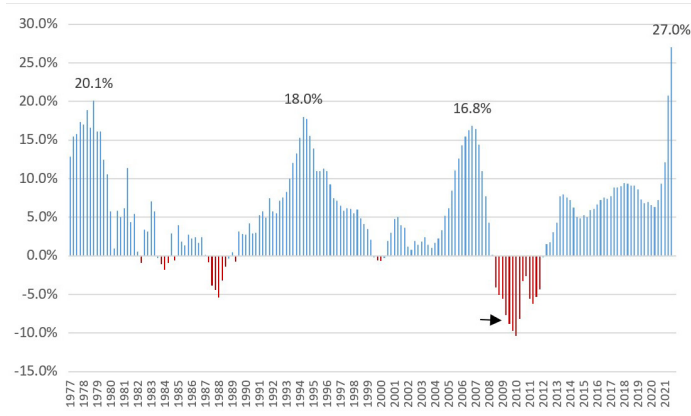
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I. Utah Housing Prices, Prone to Rapid Acceleration

The 2021 Utah housing market will be long remembered for its record-breaking price increases. Statewide, housing prices increased by 27%, shattering the 43-year-old record of 20.1% set in 1978, Figure 1. Record price increases were not confined to Wasatch Front counties; nearly every county in the state saw record increases. Twenty-four of Utah’s 29 counties had double-digit gains. Undoubtedly, the year is bound to become a historical reference point, much like the Great Recession—a point in time when housing prices went seriously awry. For the Great Recession, it’s the historic plunge in prices, 15 consecutive quarters of price declines, whereas for 2021, it’s the historic price increase during the COVID-19 pandemic.

As the data show in Figure 1, Utah is subject to a rapid acceleration in housing prices. In 1994 and again in 2006, the state led the country in housing price increases, and in 1978 was near the top state. In 2021, Utah ranked second behind Idaho.

Figure 1
Year-over Quarterly Percent Increase in Housing Price Index, Utah
(all transactions)



Source: Federal Housing Finance Agency

Not surprisingly, housing price increases in the Salt Lake Metropolitan Area (Salt Lake and Tooele counties), also rank among the highest of all major metropolitan areas. The Federal Housing Finance Agency tracks prices in the 100 largest metropolitan areas in the country. From 1991 to the third quarter of 2021 prices in the Salt Lake Metropolitan Area have increased by 601.9%, second behind Austin (614.5%) and ahead of third ranked Boise (587%), Table 1. Over the past five years, Salt Lake Metropolitan Area, also ranks second with an increase in prices of 84.6%.

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The National Association of Realtors’ data provides quarterly estimates of the median-priced home for 183 metropolitan areas. In 2007 Q1, Salt Lake ranked 53rd among all the metropolitan areas, but by 2021 Q3, due to the rapid acceleration of prices, Salt Lake now ranks 24th Table 2. Housing prices in the Salt Lake Metropolitan Area are higher than 87% of all major metropolitan areas.

Table 1
Percent Change in Housing Prices in Major Metropolitan Areas (100 Metropolitan Areas)

SALT LAKE METROPOLITAN AREA	PERCENT CHANGE	RANK 100 METRO AREAS	US CHANGE
1991 to 2021 3Q	601.9%	2 nd to Austin	246.9%
Last 5 years	84.6%	2 nd to Boise	51.9%
3Q 2020 to 3Q 2021	28.1%	6 th	18.5%

Source: Federal Housing Finance Agency.

Table 2
Median Home Price in Salt Lake Metropolitan Area Compared to Other Metropolitan Areas (183 Metropolitan Areas)

SALT LAKE METROPOLITAN AREA	MEDIAN SALES PRICE	RANK	US MEDIAN PRICE	COMPARED TO US MEDIAN
First Quarter 2007	\$206,900	53 rd	\$212,300	97.5%
Third Quarter 2021	\$500,000	24 th	\$363,700	137.5%

Source: National Association of Realtors®



II. Housing Prices and the Windfall of Wealth

Wealth in a capitalist economy is created by innovation (creating new products) and learning (a deepening human capital). That is, in most cases. Owning real estate in a high-growth market is an obvious exception to this textbook theory of wealth creation. In 2021 Utah's 700,000 homeowners realized an increase in the home equity (wealth) of at least \$82 billion, Table 3. Wealth was created not by developing a new product or learning a new skill but rather by simply paying the monthly mortgage. In contrast, the 300,000 renter households in Utah had no increase in wealth and faced double-digit increases in rents.

Table 3
Windfall of Wealth: Increase in Value of

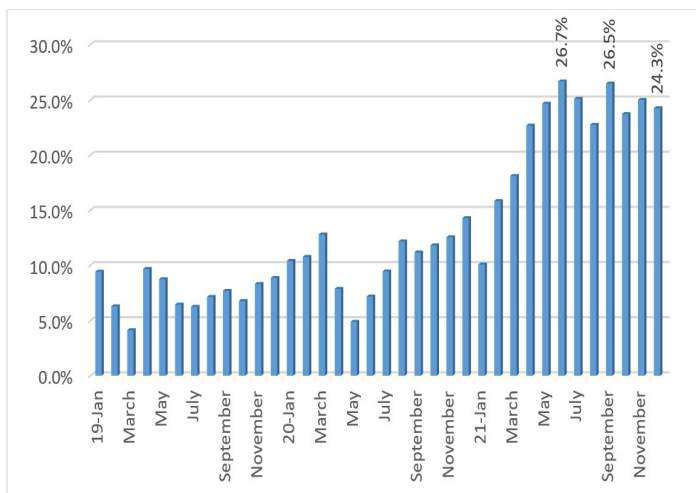
YEAR	AVERAGE PRICE	TOTAL VALUE OF OWNER-OCCUPIED UNITS (BILLION)
2020	\$438,792	\$307.2
2021	\$556,146	\$389.3
Increase	26.90%	\$82.1

Source: Derived from UtahRealEstate.com data.

III. Is the Increase in Housing Prices Slowing Down?

There's no sign yet, of a slowdown. For the past nine months, prices have consistently increased at over 20%, when compared to the same month a year early. In December, prices were up 24.3%, just slightly below the largest gain of 26.7% in June, Figure 2.

Figure 2
Year-over Monthly Percent Change in Median Sales Price, Salt Lake County
(Year-over Monthly Increase)



Source: UtahRealEstate.com

IV. Does Utah Have a Housing Bubble?

In the aftermath of the Great Recession, housing prices fell by 15.6%. This is the only instance in the past 75 years of housing history when price declines lasted more than a few consecutive quarters. There were two single-year declines during the 1950s, a single-year decline in the 1960s, and a few consecutive quarters in 1983 and 1987–1988. But the rare occurrence of falling prices over an extended period (2008–2011), the bursting of Utah's only housing bubble, set the stage for a long period of price acceleration. Certainly, the first few years of the current acceleration were a recouping of falling prices during the Great Recession and its aftermath.

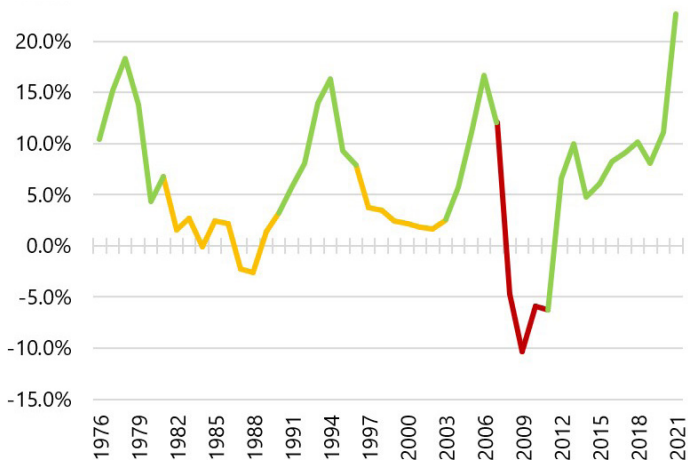
Have the nine years of rising prices created the potential for a housing bubble? Utah's housing past, at least back to World War II, confirms the market has experienced only one housing bubble, despite nation-leading price spikes in 1994 and 2006. Every period of price decline, whether brief or prolonged, from the 1950s to 2008–2011 has been associated with a weak or contracting labor market. From the historical data, it appears that a housing bubble, with its extended price decline, must be associated with a substantial loss in jobs. For Utah to experience a housing bubble in the near term it would require a loss of jobs, an unlikely prospect in the next few years.

Furthermore, Utah's only housing bubble occurred during the first U.S. financial crisis since the Great Depression. Financial crises are much rarer, more serious, and destructive than recessions. The 2008 financial crisis was precipitated, in large part, by loosened banking regulations, reckless lending practices (subprime loans), and risky financial innovations (mortgage-backed securities and collateralized debt obligations), all of which led to a dangerously leveraged global financial market. These conditions were not present in 2021.

By far, the most likely outcome for housing prices in Utah over the next two to three years is a period of price moderation similar to what occurred after price accelerations in the late 1970s and the mid-1990s; see yellow lines in Figure 3. An extended period of price declines created by a bursting bubble is very unlikely.



Figure 3
Percent Change in Housing Prices in Utah (year-over)



V. Homeownership Prospects for Future Generations

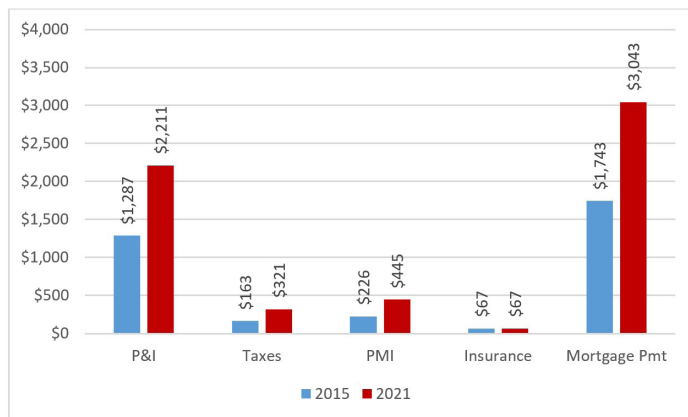
Utah is the only state since 1900 where the homeownership rate has never fallen below 60%. The homeownership rate is the percent of occupied housing units that are owner-occupied. While the relentless rise in housing prices doesn't yet threaten this distinction, homeownership rates for future generations, given the dire trajectory of housing prices, are in jeopardy, as illustrated in Figure 4.

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In the third quarter of 2015, the median sales price of a single-family home was \$280,000. The mortgage payment for this home was \$1,743. By 2021, the home price had increased to \$550,000, and the mortgage payment jumped to \$3,043, a 75% increase in six years, despite the drop in mortgage interest rates from 3.94% to 2.87%. The rising housing costs overwhelm the advantage of lower interest rates.

Assuming a debt-to-income ratio of 36%, the income required to buy the median-priced home increases from \$58,100 in 2015 to \$101,400 in 2021. Consequently, a growing share of renters and first-time buyers are priced out of homeownership, and the demand for rental housing increases. The high cost of homeownership is contributing to the biggest apartment boom in the county's history and an increased share of renter households. In 2020, 34.3% of all occupied housing units in the county were renter households, Table 4.

Figure 4
Monthly Mortgage Payment for Median Priced Home in Salt Lake County, 2015 and 2021*



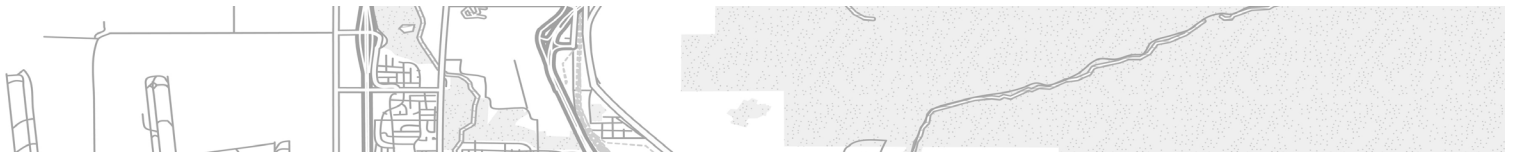
*Mortgage payments assume a 3% down payment, taxes at .007% of the value of the home, private mortgage insurance (PMI) at 1% of the value of the home, home insurance of \$800 annually, and mortgage interest rate of 3.94% in the third quarter of 2015 and 2.87% in the third quarter of 2021 as reported by Freddie Mac. The increased value of a home substantially increases the cost of PMI and property taxes, which are based on home value.

Source: Derived from UtahRealEstate.com data by James Wood.

Table 4
The Share of Owner and Renter Occupied Units in Salt Lake County

CATEGORY	2000	2010	2020
Total Housing Units	311,000	365,000	433,300
Total Occupied	295,150	338,925	424,600
Owner Occupied	203,600	229,450	279,117
Renter Occupied	91,550	109,475	145,480
Percent Share of Renter Households of Occupied Units	31.0%	32.3%	34.3%

Source: U.S. Census Bureau and Kem Gardner Policy Institute.



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VI. High Prices Boost Real Estate Commissions

Since 2015, residential real estate sales in Salt Lake County have been relatively stable, fluctuating within a range of 17,000 to 19,000 annual sales (single-family, condominium, townhome, twin home) Table 5. Although sales have been stable, the growth in commissions has been spectacular, driven primarily by the rising value of homes. In the past six years, the commissions generated by the sale of residential real estate have nearly doubled, increasing from \$246.6 million in 2015 to \$480.8 million in 2021, Table 6.

Table 5
Residential Real Estate Sales in Salt Lake County

YEAR	SALES
2015	17,268
2016	18,013
2017	17,944
2018	18,077
2019	18,010
2020	19,039
2021	17,655

Source: U.S. Census Bureau and Kem Gardner Policy Institute.

Table 6
Residential Real Estate Commission, Salt Lake County

YEAR	COMMISSIONS* (MILLIONS)
2015	\$246.6
2016	\$274.4
2017	\$302.2
2018	\$329.8
2019	\$352.8
2020	\$416.2
2021	\$480.8
Increase 2015-2021	\$234.2

*Assumes average of 5% commission.

Source: Derived from UtahRealEstate.com data.

VII. Forecast for 2022

High prices, likely interest rates increases, listing shortages, and a lower rate of job growth will combine to hold sales in Salt Lake County to around 17,000 units in 2022. Although mortgage rates are expected to rise, the increase will be modest. The average rate for 2022, based on the forecasts of seven organization, is 3.55% Table 7. The price momentum will trend lower, but another year of double-digit increase is likely, count on a 10% to 12% increase, which will produce an additional \$50 million in commissions. And finally, two sides of the price coin; existing homeowners will benefit again from strong price increases, but homeownership for future generations will become less likely, producing greater inequality and diminished wealth for these households.

“The price momentum will trend lower, but another year of double-digit increase is likely.”

Table 7
Mortgage Interest Rate Forecast

ORGANIZATION	RATE
Freddie Mac	3.5%
Mortgage Bankers Association	4.0%
Bankrate	3.5%
National Association of Realtors	3.7%
Corelogic	3.4%
Realtor.com	3.6%
Fannie Mae	3.3%
National Home Builders	3.45%
Average	3.55%

Source: Organization websites.

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