



SANDY

October 9, 2018

LANDMARK STUDY

- Noticing the looming housing affordability crisis, the Salt Lake Chamber commissioned a report through the Kem C. Gardner Policy Institute.

Gardner Business Review
 May 2018
 Applied economic analysis by the David Eccles School of Business

What Rapidly Rising Prices Mean for Housing Affordability
 By James Wood, Dejan Eskic, and D.J. Berway

Since 2010, Utah has led the country in employment and demographic growth. This growth has produced exceptionally strong demand for housing, which in turn has put upward pressure on housing prices. A housing shortage has ensued, with the supply of new homes and existing "for sale" homes falling short of demand. Sellers, renters in all income groups, those households with the median income and particularly low income households (disproportionately hurt by higher housing prices. For these households, higher housing prices can lead to a severe housing burden — paying more than 50 percent of their income for housing — a situation faced by one in eight households in Utah. Market and demographic conditions are primarily responsible for driving up housing prices, however, public policies at all levels can help to temper price increases and the impact of higher prices.

Key findings include the following:

- **Price appreciation trends** - Over the past 26 years, home prices have risen 57 percent. If that rate of increase continued, the median price of a home in the Provo-Orem metropolitan area would be \$1.3 million by 2035. Over the past 26 years of 3.32 percent, the median price of a home in Utah would be \$483,000 in 2035.
- **Housing affordability** - Housing affordability in Utah is threatened due to the gap between the real rate of increase in housing prices of 3.32 percent and the real rate of increase in household income of 1.5 percent. Consequently, many households face high levels of housing burden.
- **Housing and affordability** - The challenge of housing affordability is closely linked to household income. As the median income, high household income, and housing affordability are closely linked to economic well-being and prevent

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 Kem C. Gardner Policy Institute and the David Eccles School of Business

What Rapidly Rising Prices Mean for Housing Affordability

ANALYSIS IN BRIEF

Since 2010, Utah has led the country in employment and demographic growth. This growth has produced exceptionally strong demand for housing, which in turn has put upward pressure on housing prices. A housing shortage has ensued, with the supply of new homes and existing "for sale" homes falling short of demand. Sellers, renters in all income groups, those households with the median income and particularly low income households (disproportionately hurt by higher housing prices. For these households, higher housing prices can lead to a severe housing burden — paying more than 50 percent of their income for housing — a situation faced by one in eight households in Utah. Market and demographic conditions are primarily responsible for driving up housing prices, however, public policies at all levels can help to temper price increases and the impact of higher prices.

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Kem C. Gardner POLICY INSTITUTE
 THE UNIVERSITY OF UTAH

**Figure 1
 Percent Change in Housing Price Index by State -
 Purchase Only, 1991 to third quarter 2017**

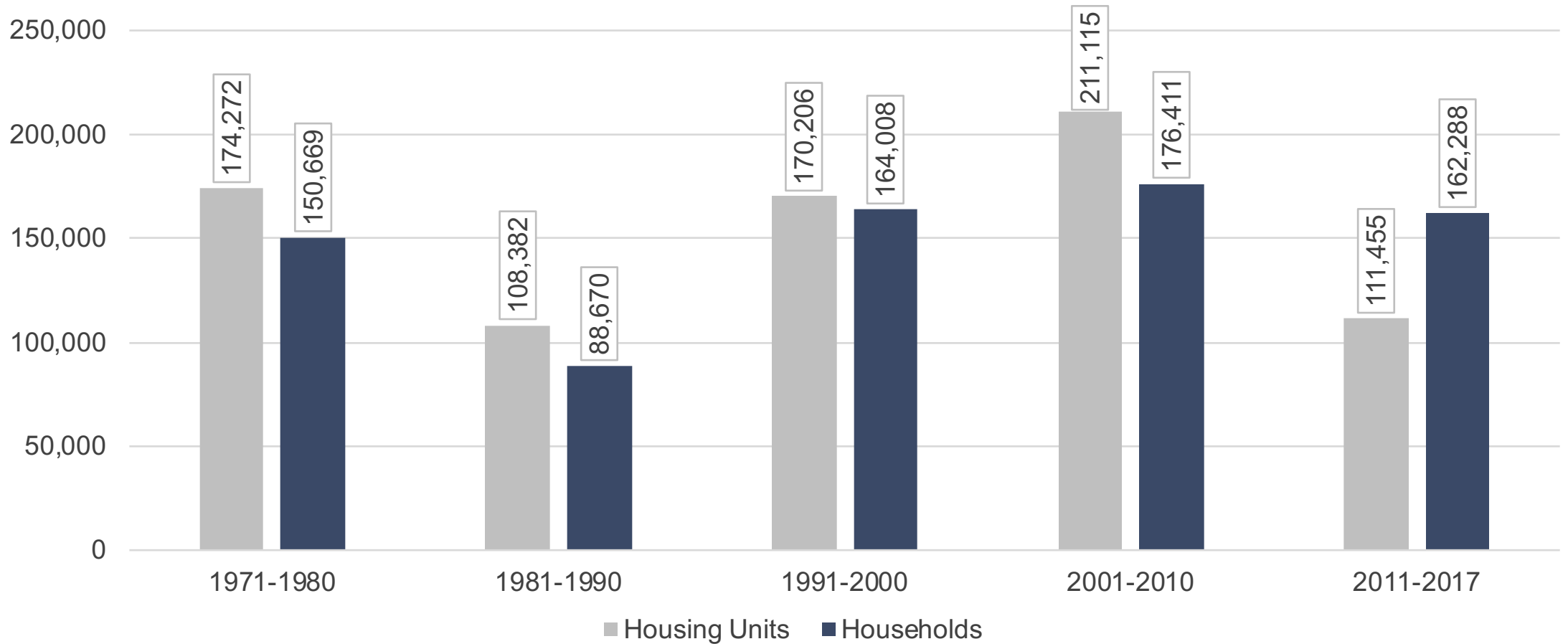
Connecticut	71.2
Ohio	68.8
Indiana	62.2
Delaware	56.2
Illinois	50.0
Mississippi	41.2
Arkansas	31.2
West Virginia	15.1
Michigan	14.0
West Virginia	13.0
Florida	12.7
Minnesota	12.5
Georgia	12.7
North Carolina	12.5
Kentucky	12.5
South Carolina	12.5
New York	12.1
New Jersey	12.1
New Mexico	12.1
Oklahoma	12.1
Iowa	12.1
New Hampshire	12.1
Alaska	12.1
Maryland	12.1
Wisconsin	12.1
Nebraska	12.1
Utah	12.1
Tennessee	12.1
Virginia	12.1
Hawaii	12.1
Alabama	12.1
California	12.1
Montana	12.1
Massachusetts	12.1
Louisiana	12.1
Texas	12.1
South Dakota	12.1
Idaho	12.1
Arizona	12.1
North Dakota	12.1
Wyoming	12.1
Washington	12.1
Utah	12.1
Montana	12.1
Oregon	12.1
Colorado	12.1

The six states with a price increase over nine percent are all western states. The state-to-state comparisons have looked at rates of increase rather than absolute housing values. A comparison of home values adds another dimension to our analysis. The home value data come from U.S. Census Bureau's American Community Survey, which publishes the median value

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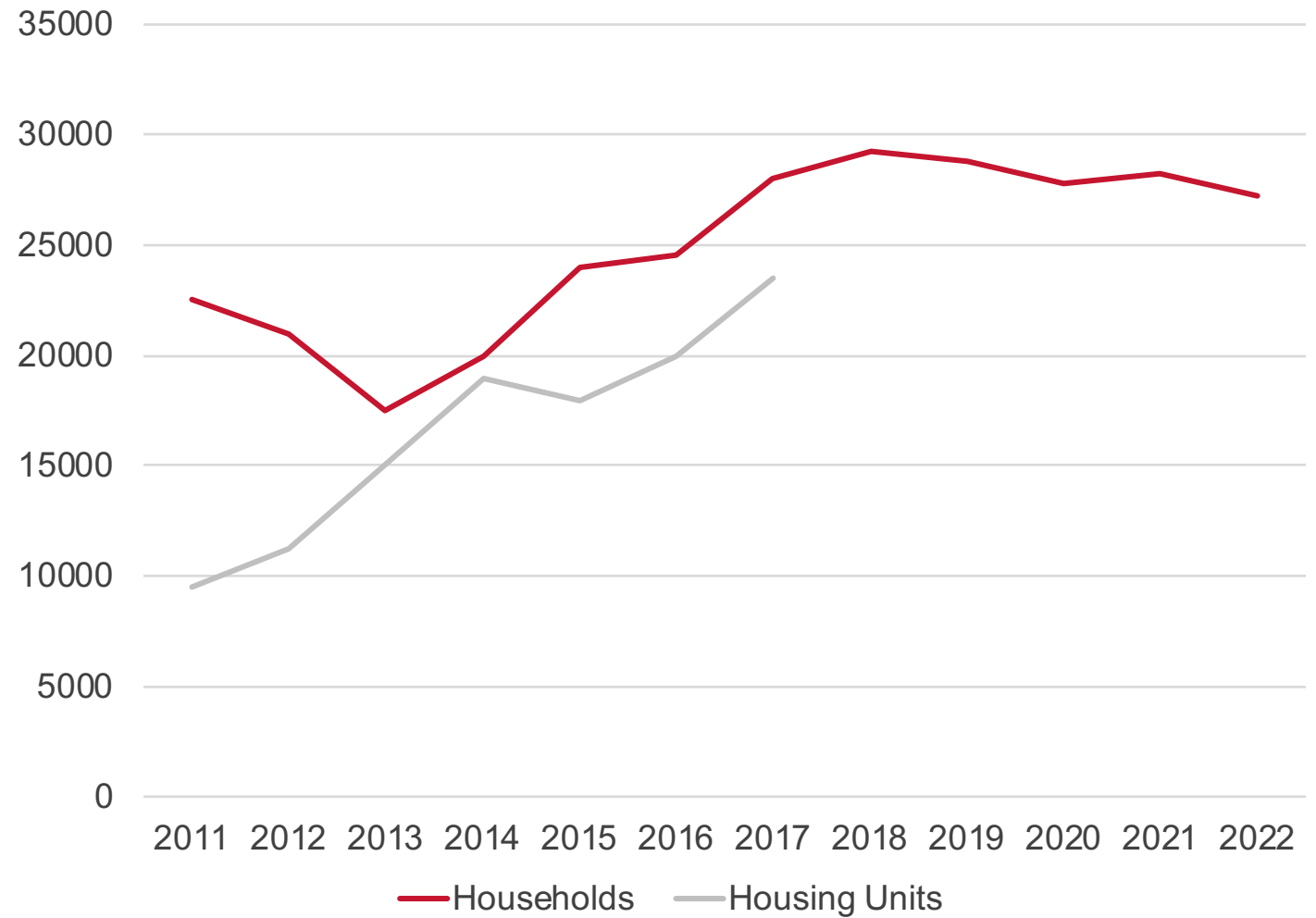
- Natalie Gochnour describes it as a landmark study on housing affordability.
- To the best of our knowledge, this is the only study of its kind in the nation that proactively addresses the housing affordability issue before a crisis hits like we see today in San Francisco, San Jose and Seattle.

UTAH HOUSING UNIT VS. UTAH HOUSEHOLD GROWTH



Source: U.S. Census Bureau and Ivory-Boyer Construction Database

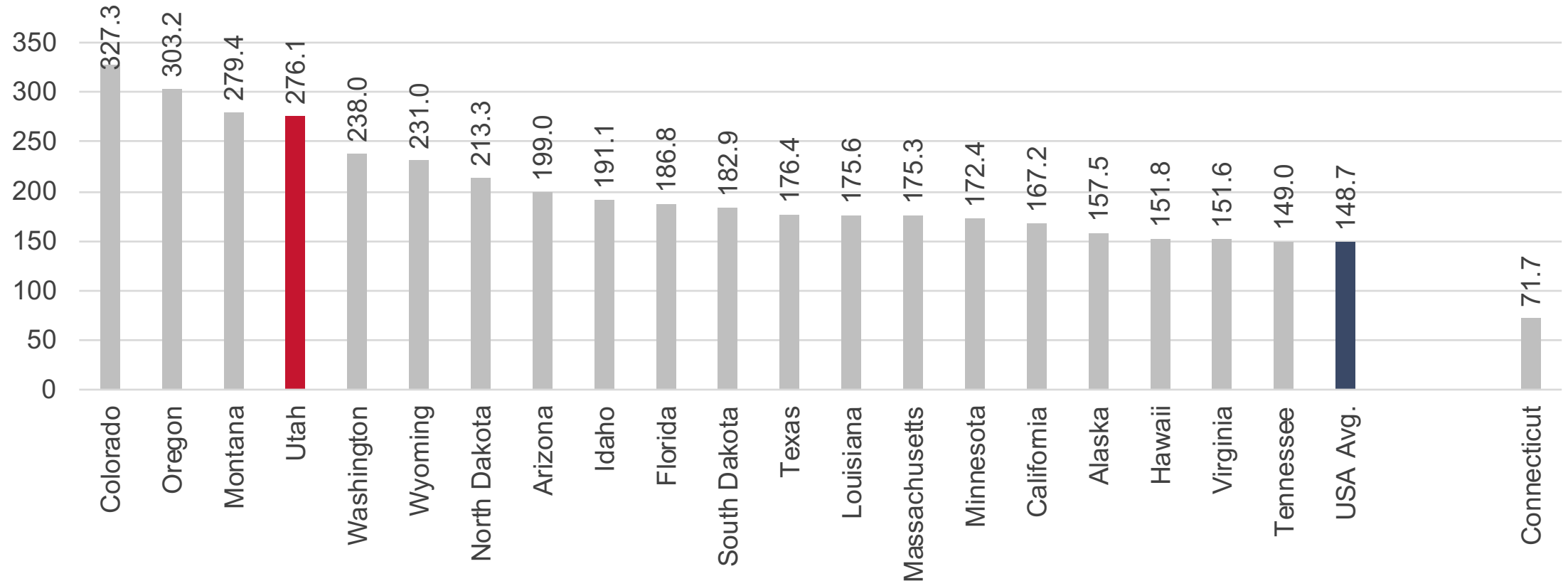
PROJECTED INCREASE IN HOUSEHOLDS IN UTAH 2017-2022



Source: Kem C. Gardner Policy Institute

HOUSING PRICE INDEX % CHANGE

1991 – 3Q 2017



Source: Federal Housing Finance Agency

- Based on this growth rate, the value of a \$125,000 home in Utah in 1991 has increased to \$347,000 by 2017, but at the national growth rate that same home has increased to only \$184,000 by 2017.

SALES PRICE OF A SINGLE FAMILY HOME

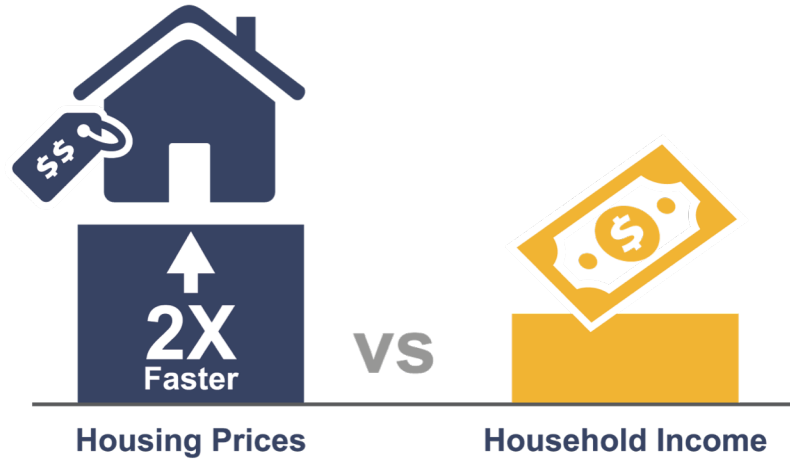
Median Sales Price: Percent Change 1991 – 2017

Rank	Metro Area	1991 1 st Qtr.	2017 4 th Qtr.	Percent Change	AAGR
1	Boulder, Colorado	\$95,000	\$484,000	410%	5.6%
2	Greeley Colorado	\$66,000	\$324,000	391%	5.4%
3	San Francisco, California	\$265,000	\$1,257,000	374%	5.2%
4	Fort Collins, Colorado	\$78,000	\$361,000	363%	5.1%
5	Portland, Oregon	\$80,000	\$364,000	355%	5.0%
6	San Jose, California	\$220,000	\$945,000	330%	4.7%
7	Salt Lake City, Utah	\$76,000	\$307,000	304%	4.4%
8	Reno, Nevada	\$103,500	\$415,000	301%	4.3%
9	Colorado Springs, Colorado	\$70,000	\$275,000	293%	4.2%
10	Seattle, Washington	\$130,000	\$501,000	285%	4.1%
11	Eugene, Oregon	\$67,000	\$255,000	281%	4.0%
12	Provo-Orem, Utah	\$80,000	\$302,000	278%	4.0%

*111 metropolitan areas.

Source: National Home Builders Association

PRICED OUT



Utahns are Cost Burdened

- Part of our growth and prosperity in this state is due to the fact that so many Utahns want to stay here, close to their families and in the communities they love. The way things are going, that simply won't be possible for many. *They'll be priced out.*
- This affects every industry and every profession.
- A first year teacher in Nebo School District can afford 1% of the housing market. In ten years, the same teacher can afford 16% of the housing market.

- One in eight Utah homeowners below the median income are severely cost burdened, paying 50% or more of their income on housing.
- One in five Utah renters below the median income are severely cost burdened.
- In the next several years, the typical Utah family will spend nearly 50% of its income on housing if current trends persist.

WHAT'S DRIVING UP HOUSING COSTS?

- Housing Shortage
- Construction & Labor Costs
- Local Zoning Ordinances & Nimbyism
- Land Costs & Topography of Wasatch Front Counties
- Demographic & Economic Growth

HOUSING SHORTAGE



4 HOUSEHOLDS : 3 HOUSING UNITS

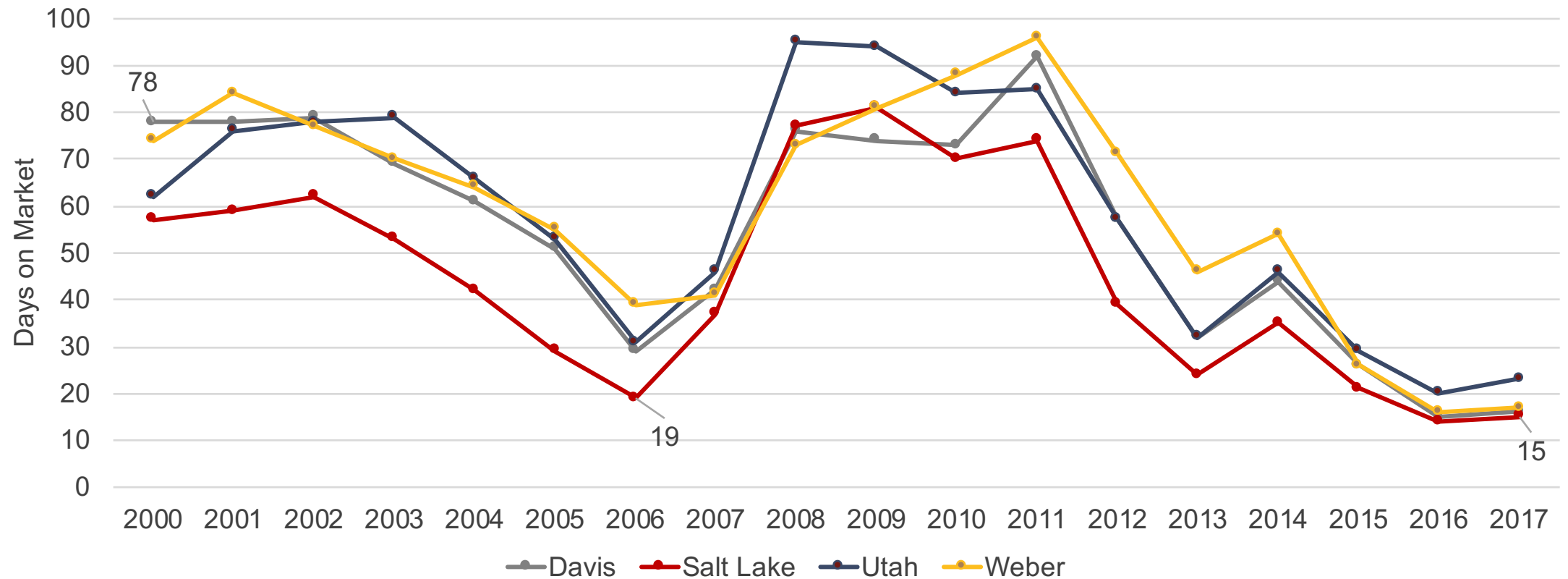
Since 2010



- Since 2010, Utah has added four new households for every three new housing units.
- All three housing markets are strained:
 - Existing homes
 - New construction
 - Rentals and apartments

CUMULATIVE DAYS ON MARKET

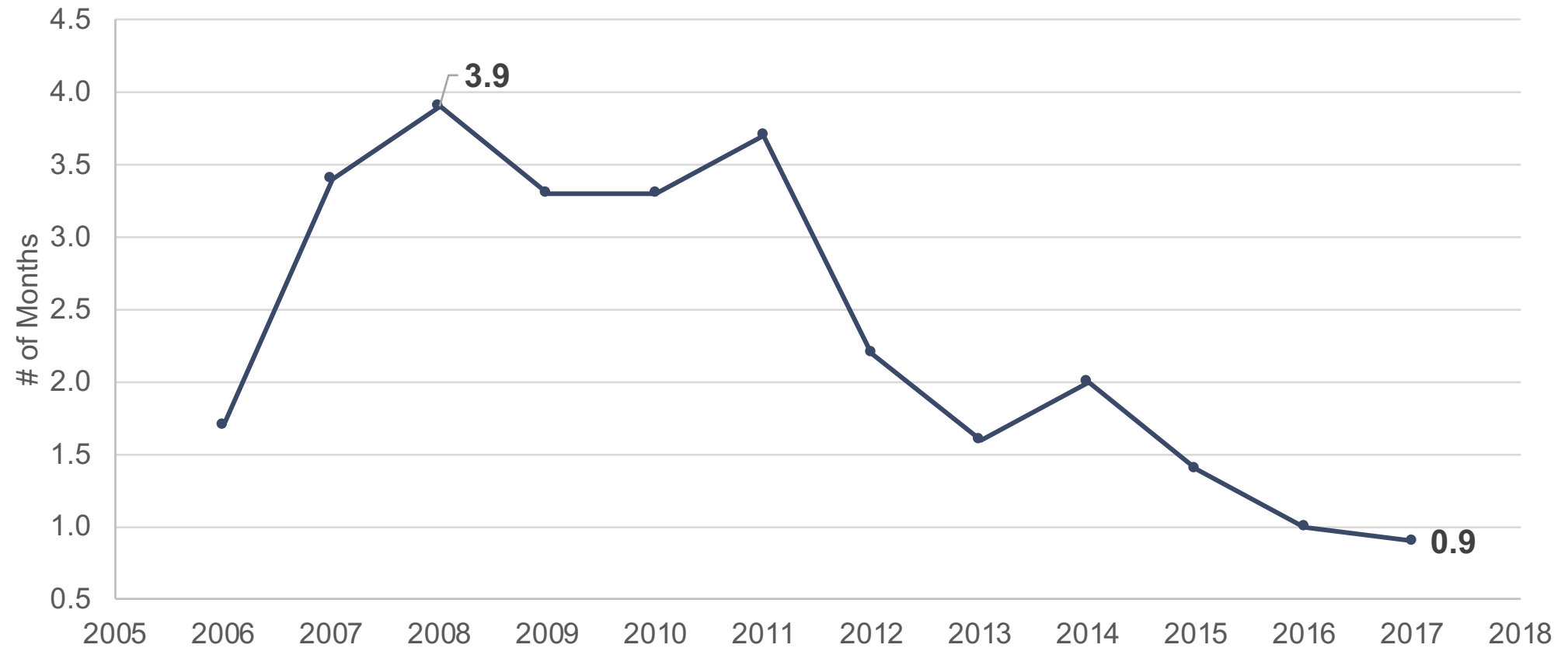
Existing Single Family Homes



Source: UtahRealEstate.com

NUMBER OF MONTHS SUPPLY

Finished Vacant Inventory of New Homes in Utah



Source: Metrostudy Utah Database

APARTMENTS

Vacancy Rate and New Apartment Units in Wasatch Front Counties

Year	Davis County		Salt Lake County		Utah County		Weber County	
	Vacancy Rate	New Apartment Units	Vacancy Rate	New Apartment Units	Vacancy Rate	New Apartment Units	Vacancy Rate	New Apartment Units
2005	9.70%	107	6.10%	1,302	8.70%	474	9.20%	6
2006	7.40%	52	4.00%	338	7.10%	560	6.50%	106
2007	5.70%	275	3.20%	898	3.80%	320	6.30%	31
2008	4.60%	73	4.60%	1,521	3.60%	76	7.00%	193
2009	5.90%	108	7.20%	2,442	5.70%	87	9.00%	0
2010	8.00%	4	5.70%	541	7.00%	274	6.90%	36
2011	5.10%	538	5.20%	488	5.50%	579	6.70%	0
2012	5.80%	712	3.80%	538	5.00%	431	6.10%	55
2013	6.60%	251	3.90%	1,605	3.20%	415	7.00%	18
2014	4.60%	394	3.00%	3,326	4.40%	2,318	4.90%	311
2015	4.50%	198	2.70%	2,918	3.60%	1,315	4.00%	384
2016	4.50%	327	2.90%	4,461	3.40%	435	3.50%	235
2017	4.00%	477	2.60%	2,306	4.20%	1,654	2.40%	163

Source: Equimark and CBRE

CONSTRUCTION & LABOR COST



CHANGE IN CONSTRUCTION JOBS AND WAGES, 2007-2016

State of Utah	2007	2016	% diff. 2007-2017
Construction Jobs	104,613	92,756	-11%
Construction as % of total state employment	8.40%	6.50%	
Construction of Buildings	22,153	19,133	-14%
Heavy and Civil Engineering Construction	12,398	10,194	-18%
Specialty Trade Contractors	70,062	63,430	-9%
Average Construction Monthly Wage	\$3,138	\$3,956	26%

Source: Utah Department of Workforce Services



- Construction and labor cost is driving up housing costs.
- Construction demand is increasing.
- Labor force is constrained.
- Labor demographics are changing.
 - Before 2010, one in five immigrants in Utah worked in the construction industry. Currently, only 2% of Utah's foreign-born population is in construction.

HARD CONSTRUCTION COST DRIVERS

Percent Change 2007-2017

DRYWALL

15%

CABINETRY

40%

ROOFING

70%

SIDING

148%

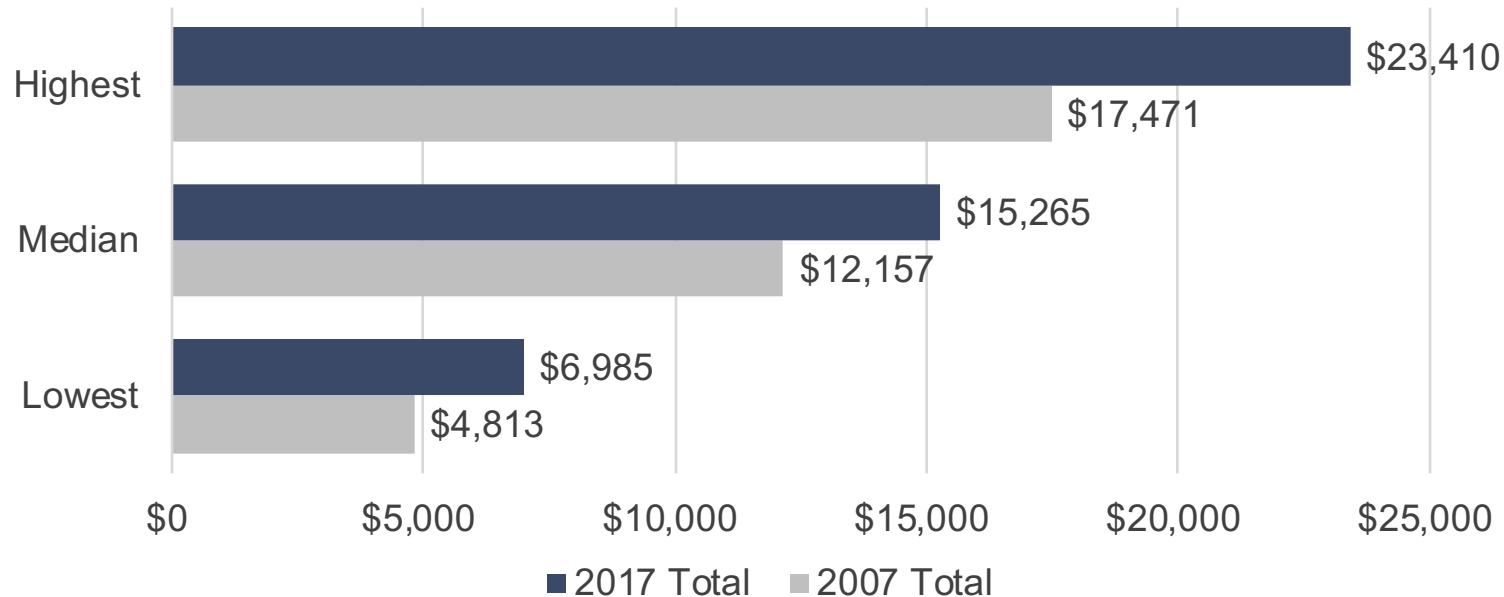
LUMBER

60%

Source: Ivory Homes

PERMIT AND IMPACT FEE

Percent Change 2007 – 2017



Source: Kem C. Gardner Policy Institute

- Increasing of permit fees are reflective of CPI and raw material cost increasing, and at the high end are still less than 10% of the overall home cost.

LOCAL ZONING ORDINANCES & NIMBYISM



BALANCE OF HOUSING TYPES

- Zoning ordinances determine:
 - Density
 - Spatial distribution of housing types (renter versus owner)
 - Construction material standards
 - As well as, regulatory requirements that can increase housing prices and cause developmental delays
- There needs to be a balance between housing types to make sure we aren't pricing people out.
- Cities must continue to implement smarter growth policies to ensure their residents are able to afford the quality of life they want them to enjoy.
- Local opposition, also known as NIMBYism (not in my backyard) has driven up costs and constrained supply, particularly for affordable high density rental housing.
- A lot of cities have found good ways to mitigate this problem. We need to work together to find other ways to expand these efforts throughout the state.

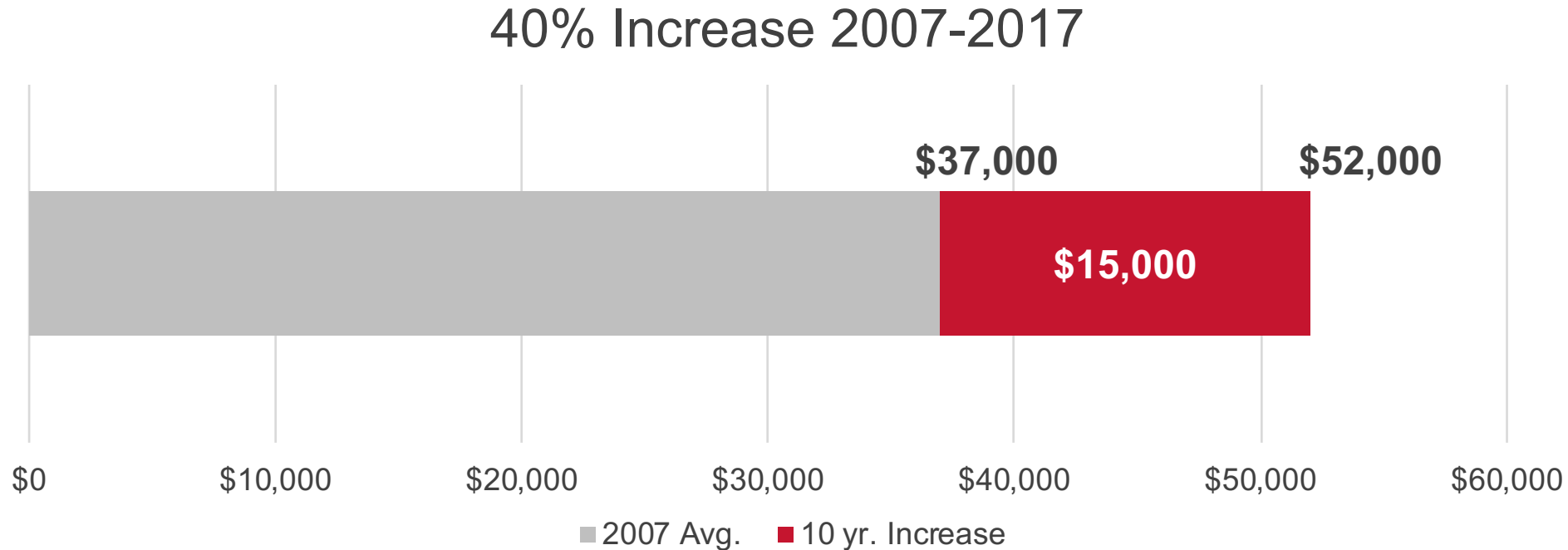


LAND COSTS & TOPOGRAPHY



LAND IMPROVEMENT COST CHANGE, 2007-2017

The best land is not saved for last.



Source: Kem C. Gardner Policy Institute

WE CAN ONLY GROW SO FAR

- There are physical constraints on developable land due to topography.
- We have the mountains to our east and the lake to our west, we can only grow so far.
- There is insufficient land in metro areas close to jobs.
- Building only single-family homes will require more infrastructure and more travel time for homeowners.

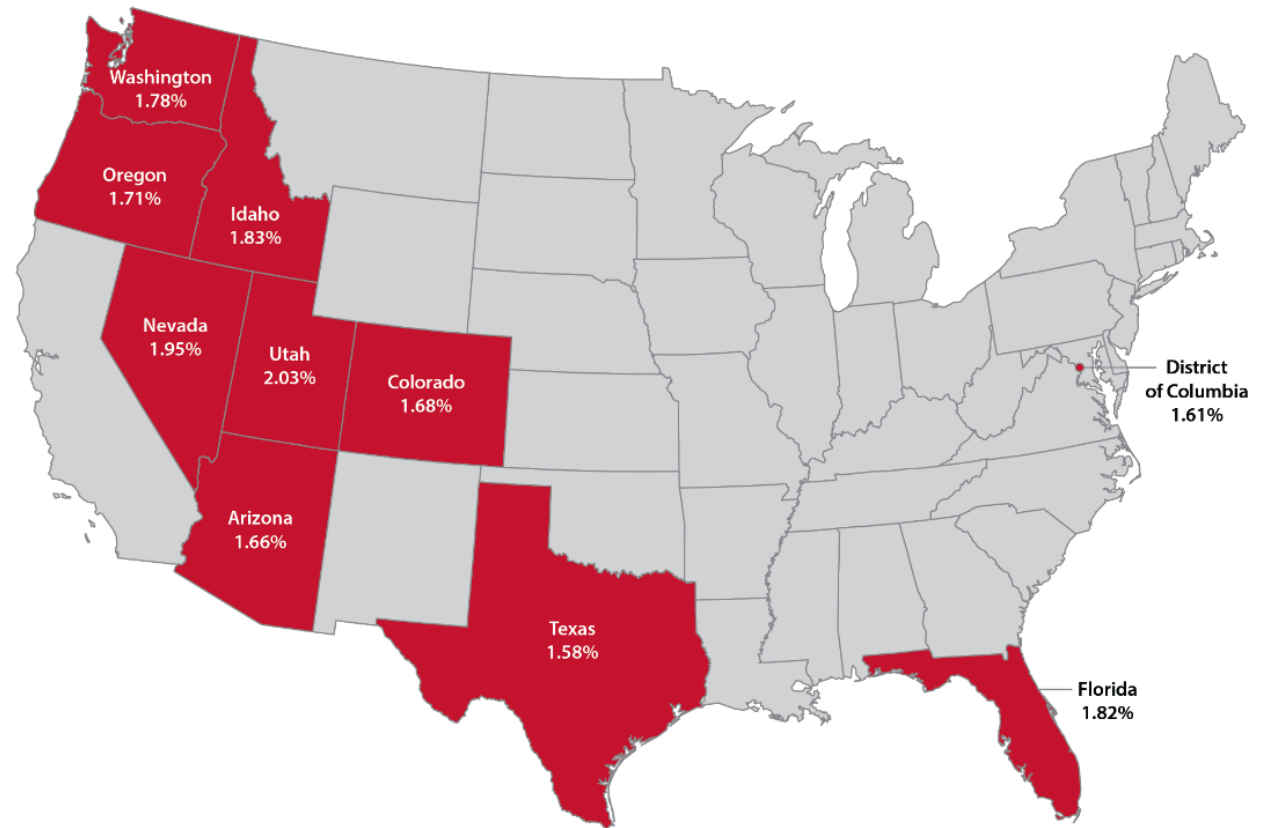


DEMOGRAPHIC & ECONOMIC GROWTH



POPULATION GROWTH: TOP TEN STATES

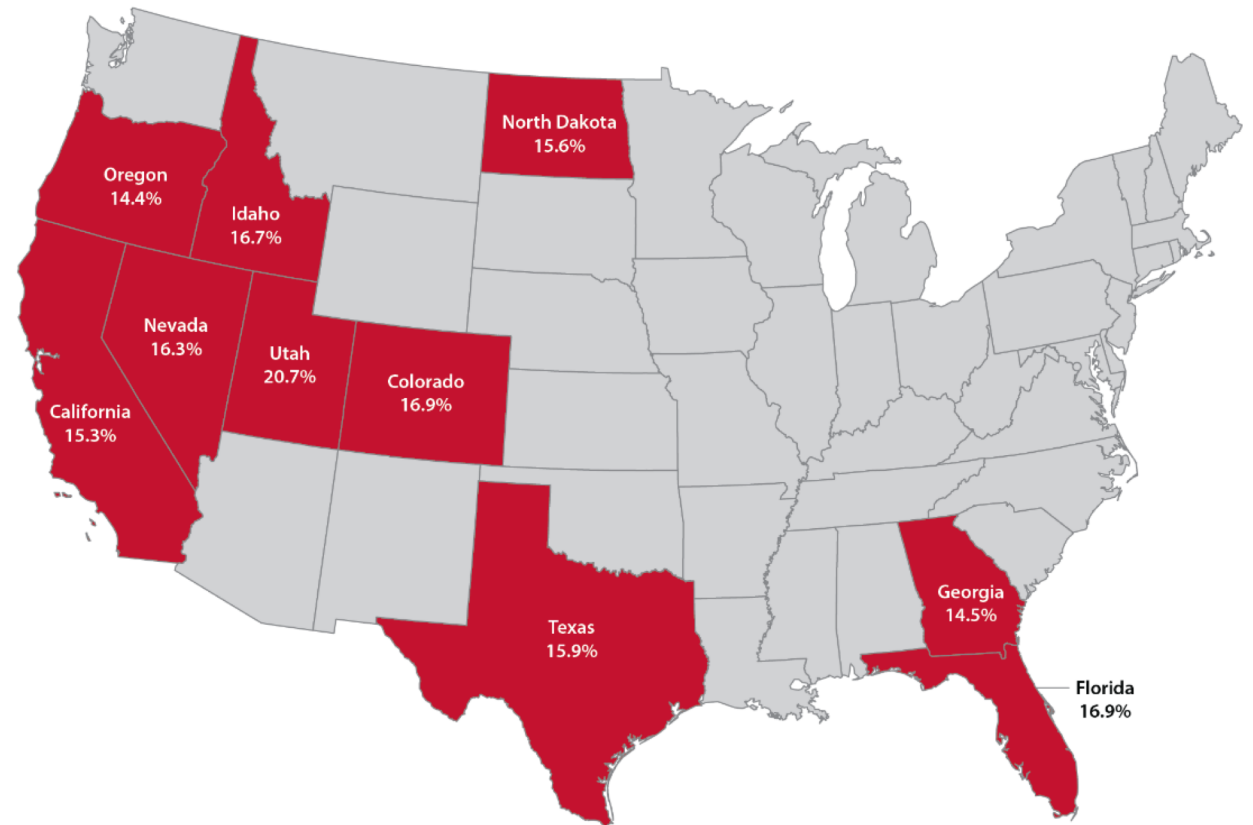
*Annual Average Rate of
Change 2010-2016*



Source: U.S. Census Bureau

JOB GROWTH: TOP TEN STATES

Percent Change 2010-2016



Source: U.S. Census Bureau

UNCHECKED HOUSING PRICES

By 2044, Utah Housing Prices could be Equivalent to Today's San Francisco Prices



WHAT NOW?





- After commissioning the study and seeing the report, the Salt Lake Chamber launched the Housing GAP Coalition in May.
- The Coalition is poised to address the challenges associated with housing affordability to ensure the American Dream is kept alive for all Utahns.
- This can be done by providing access to a variety of housing types for all income groups.
- As a business community, we've had great success when we've worked together to address other issues like transportation and education.
- In a similar fashion, we've organized this Housing GAP Coalition to proactively address housing affordability before it becomes a crisis.
- We are bringing together the state's brightest minds from business, academia and government to tackle this very real threat to our long-term economic prosperity.

POSSIBLE SOLUTIONS

Local Policy Decisions can Help Housing Affordability

ZONING FOR WIDE
VARIETY OF HOUSING
TYPES AND PRICES



EVALUATE COST-
PROHIBITIVE IMPACT
AND PERMIT FEES



SUPPORT MULTI-USE
LAND DEVELOPMENT



POSSIBLE SOLUTIONS

*Transportation and Land Use
Connection (TLC)*



WASATCH FRONT REGIONAL COUNCIL



Photo: Dominic Valente, The Daily Herald

POSSIBLE SOLUTIONS

*Keys to Success program for construction and labor
“Build to Success”*



POSSIBLE SOLUTIONS

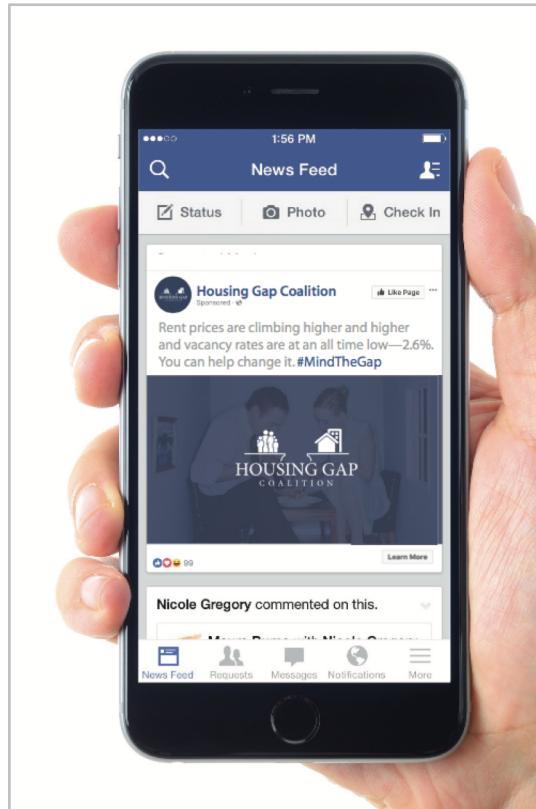
*General public awareness
campaign*



Photo: KSL.com

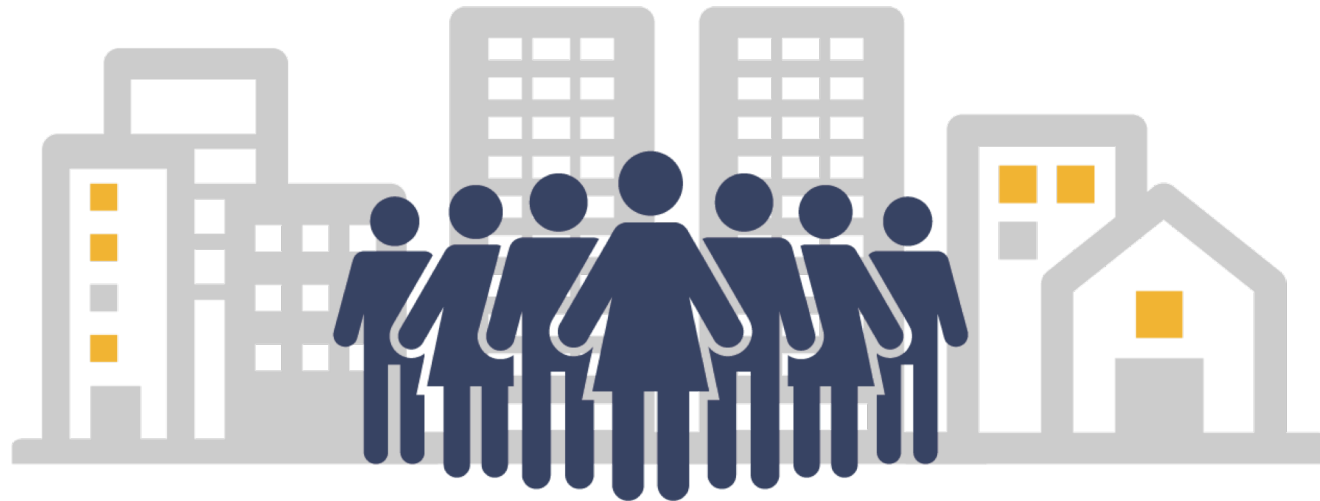
NEXT STEPS

- As a Coalition, we're creating a public awareness campaign and informing the public about the crucial issue of housing affordability.



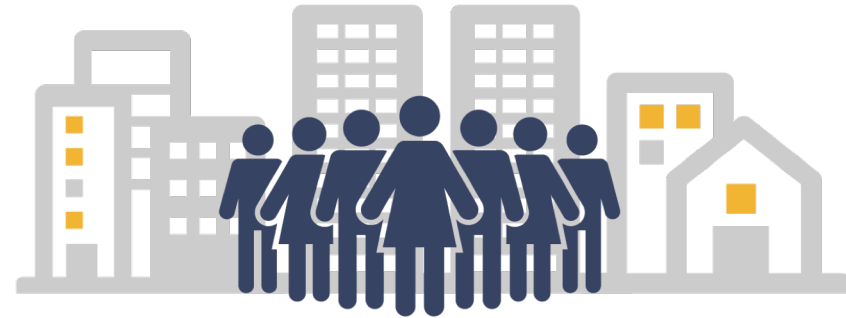
NEXT STEPS

- We are visiting every city council across the Wasatch Front and discuss how we can partner with them to address housing affordability in their area.



CALL TO ACTION & DISCUSSION

- General Plan Overview
 - Moderate Income Housing Plan
- Zoning & Fees Overview
- Sign Support Resolution



FOR MORE INFORMATION OR TO BECOME INVOLVED

For more information or
to read the full report, visit

**[SLChamber.com/Housing
GapCoalition](https://slchamber.com/HousingGapCoalition)**

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