

2010

SALT LAKE HOUSING FORECAST



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STILL A BUYER'S MARKET

HOME SALES AND PRICES IN SALT LAKE COUNTY: TRENDS AND OUTLOOK

- A study by James Wood
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Salt Lake County's real estate industry has been through two very difficult years. These troubled times pose two important questions: (1) how do present conditions compare to the past and (2) what is the outlook for real estate sales and prices in 2010? This article addresses these questions by reviewing historical data and examining current economic and demographic conditions that affect real estate sales and prices. This examination of past and present conditions helps shape the outlook for 2010.

SALES TRENDS SINGLE-FAMILY HOMES

In 2006 listed homes sales hit an all-time high of 15,300 in Salt Lake County *Figure 1*. The value of these homes was \$4.1 billion in sales generating about \$250 million in real estate commissions. This peak was reached after eight years of increasing sales. The duration of the expansion was unusual. In fact, historical data show that this eight-year period of increasing sales is the longest expansion for the county's real estate industry on record—collection of sales data began in 1953.

While the current cycle had the longest continuous period of expansion, in terms of percent gain it ranks second to the 1970s cycle. The 1970s four-year expansion registered a 113 percent gain with sales increasing from 4,700 homes to 10,000 homes. In the current cycle sales increased by 78 percent, 8,600 homes to 15,300 homes over an eight-year period.

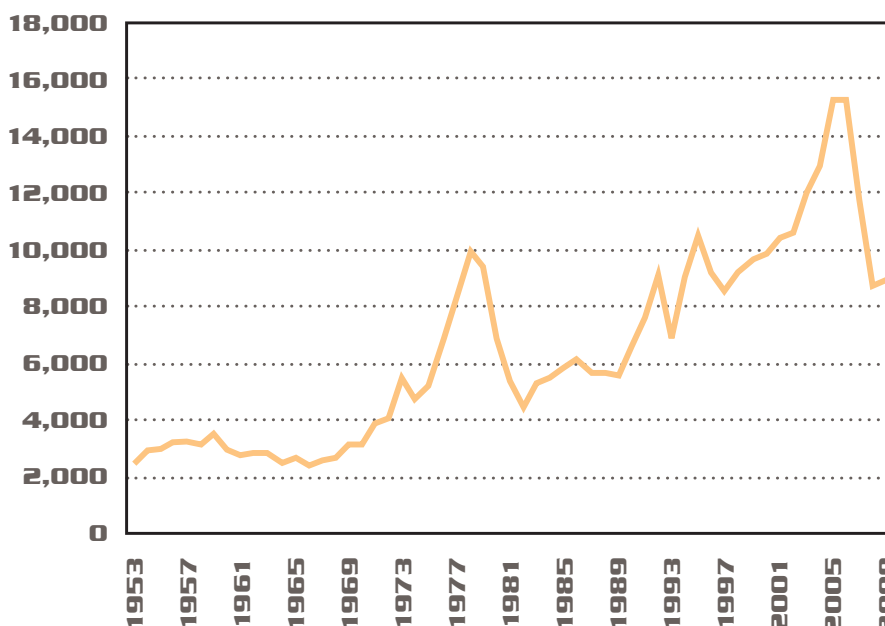


Figure 1
Listed Homes Sales in Salt Lake County

Source: Wasatch Front Regional Multiple Listing Service.

The most distinctive feature of the current cycle is the swiftness of the decline. In two years home sales dropped 42 percent, falling from 15,300 homes in 2006 to 8,800 homes in 2008. The total value of sales in 2008 was \$2.3 billion, which generated about \$138 million in commissions. Real estate commissions from home sales in Salt Lake County have dropped 45 percent in two years. But the magnitude of this decline ranks second again to the 1970s cycle. Over the four-year downturn of the 1970s cycle homes sales in the county dropped 55 percent.

The sales trend line for the combined four Wasatch Front counties mirrors the Salt Lake County trend line in *Figure 1*. On average about 52 percent of all home sales in the four-county region occur in Salt Lake County. At the peak in 2006 total home sales for the Wasatch Front reached 30,300 homes. By 2008 sales had dropped to 18,350 homes, a 40 percent decline; in 2009 home sales in the Wasatch Front rose slightly to 19,000 units.

REALTORS® and home builders vie each year for home buyers. In a typical year there are two existing homes sold for every new home built in Salt Lake County. The home buyer market has been shared between REALTORS® and home builders on a roughly two-thirds to one-third basis. However, in recent years this historic ratio has been altered significantly as the home building industry has been much harder hit than the real estate industry. In 2009 only 900 new single-family homes were built in Salt Lake County—the lowest level since the war years of the 1940s—while about 9,100 existing single-family homes were sold. In 2009 new homes accounted for the smallest share of home buyer activity on record. Consequently in the current market, existing homes make up a disproportionately large share of the “for sale” inventory available for would-be home buyers, which should work to the advantage of real estate industry in 2010.

SALES OUTLOOK

Preliminary sales data indicate that listed single-family home sales in Salt Lake County should be around 9,100 in 2009, up 3 percent. Could this slight up-tick signal that 2008 was the bottom of the downturn and the rebound is underway? If in fact that’s the case the contraction was short-lived, only two years but vicious in its magnitude. In two years the number of homes sold declined by 6,500 units pushing sales activity back down to 8,800 units, the level from which the record long expansion began in 1997.

“In 2009 only 900 new single-family homes were built in Salt Lake County - the lowest level since the war years of the 1940s - while about 9,100 existing single-family homes were sold.”

Any rebound must fight significant headwinds produced by weakened economic and demographic conditions. But there are some favorable conditions as well. Mortgage rates will continue to hover around the 5 percent mark in 2010. Low rates provide a powerful incentive for home buyers particularly when combined with more affordable prices and the \$8,000 federal tax credit for first-time home buyers and the \$6,500 tax credit for repeat home buyers. The level of mortgage rates, home prices and government assistance are all very favorable factors for home buyers but some of the glow from these factors is dimmed by stricter lending guidelines and the termination of the federal tax credit program on April 30, 2010.

Housing demand relies on household growth. Internal household growth (marriages, divorces, unmarried children leaving home, excluding net in-migration) will create 20,000 households statewide in both 2009 and 2010. Meanwhile the inventory of housing units is increasing at only 10,000 units, thus creating a potential demand deficit of 10,000 units. In 2009 this imbalance helped absorb the unsold new homes and reduce the inventory of “for sale” existing homes. In 2010, household growth will begin to materialize into pent-up demand but will not be fully realized because of the large number of households doubling-up, i.e. two or more households living together in a single housing unit.

The doubling-up of households is a direct result of the loss of 60,000 Utah jobs in 2009—the worst job market since the Depression. A loss of another 20,000 jobs is projected for 2010. These weak labor market conditions present the greatest threat to the rebound in real estate sales. Job losses or even slow job growth shrink the demand for housing by reducing net in-migration—a direct source of new housing demand—forcing households to double-up and creating uncertainty for potential home buyers.

There are countervailing forces affecting the demand for housing. Can low mortgage rates trump job losses? It appears that the favorable factors present in the market have stopped the slide in sales but those factors are not yet strong enough to offset the affects of a slowly thawing credit market and a struggling job market. Consequently home sales in Salt Lake County will show some slight improvement over the 9,100 in 2009 but it is unlikely sales will exceed 10,000 homes in 2010.

HOME SALES REBOUNDING

By Dave Anderton
Salt Lake REALTOR®

Home sales in Salt Lake County are finally surpassing levels on a year-over-year basis. For all but one month in 2008, monthly home sales showed double-digit declines. That all started to change in the summer of 2009 as June and July home sales rebounded by 7 percent and 6 percent respectively. Then, as the deadline for the federal home buyer tax credit neared, home sales skyrocketed. In October, home sales were up 25 percent on a year-over-year basis. In November they climbed by more than 77 percent. In addition, November's sales were up 15 percent compared to sales in November 2007. Congress has since extended the tax credit to April 30. According to economist James Wood, home sales in 2009 were up 3 percent compared to 2008. The uptick in home sales last year will be amplified through 2010 with annual sales rising by about 10 percent compared to 2009. Increased sales also are being driven by investors who are worried over spiking federal deficits, according to Jeff Thredgold, economic consultant to Zions Bank. “Vocal critics of the Federal Reserve and the Obama Administration argue that the current mix of monetary and fiscal policy is prone to disaster, i.e. rampant inflation,” Thredgold said. “The inflation wary suggest that the ownership of gold, other commodities, and real estate are the best places to keep one's financial assets.”

PRICE TRENDS

Historically housing prices in Utah have a tendency for rapid price increases followed by extended periods of stable prices. Since 1980 Utah has had more than one occasion when it has led the country in price appreciation but in subsequent years ranked last in appreciation. Utah's housing price volatility of course is smoothed out over time. A longer run view shows very respectable annual increases in home prices. Over the past generation (1980-2009) home prices have increased annually at about 4.5 percent *Table 1*. And it doesn't seem to matter much whether prices are measured at the state, region or county level or measured by index, median or average price. In all cases, the long-term average growth rate for home prices in Utah is somewhere between 4.2 percent and 4.9 percent annually.

Table 1

Long-Term Housing Price Change in Utah, Salt Lake Metropolitan Area and Salt Lake County									
		Average Annual Growth Rate for Period							
	Area	1980	1990	2000	2009	1980-1990	1990-2000	2000-2009	1980-2009
FHFA (Price Index)	Statewide	100.0	118.3	246.3	340.9	1.7%	7.6%	3.7%	4.3%
National Association of Realtors (Median Price)	Salt Lake Metro Area	\$65,800	\$69,400	\$141,500	\$218,900	0.9%	7.4%	5.0%	4.2%
Salt Lake County (Average Price)	Salt Lake County	\$67,949	\$84,276	\$177,146	\$269,015	2.2%	7.7%	4.8%	4.9%

Source: Federal Housing Finance Agency, National Association of Realtors and Wasatch Front Regional Multiple Listing Service.

While housing prices in Utah may accelerate or languish they do not often decline. Over the past 55 years price declines of more than one percent occurred in only eight years in Salt Lake County. Whereas price increases of more than 10 percent occurred in 16 years. The worst price decline was in 1958 when housing prices fell 11.3 percent. The second worst was 2009 when prices fell 6.9 percent. In terms of price appreciation, 2006 was the peak year with an increase of 19.9 percent. While housing prices in the current decade are certainly the most volatile in three decades they do not compare to the price volatility of the 1950s and 1960s *Figure 2*.

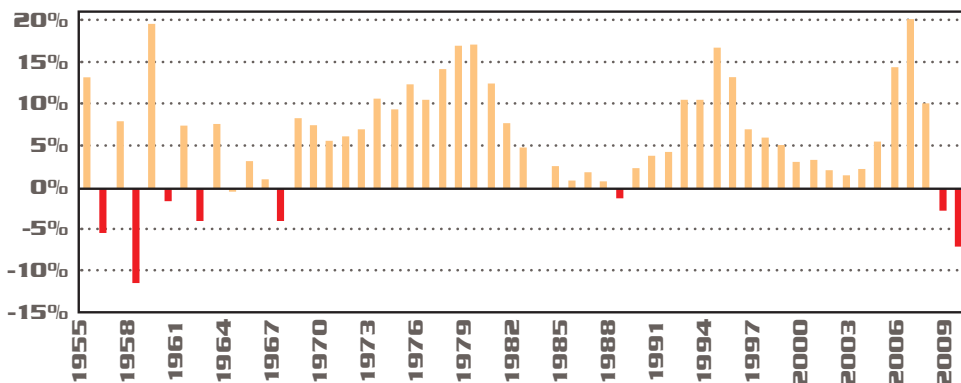


Figure 2
Percent Change in Average Sales Price of Homes in Salt Lake County

Source: Wasatch Front Regional Multiple Listing Service.

How far have housing prices fallen in the current contraction? A look at data from the three sources of price information—Wasatch Front Regional Multiple Listing Service, National Association of REALTORS® and the Federal Housing Finance Agency—show that from peak quarter to the 3rd quarter of 2009 housing prices have fallen about 11 percent *Table 2*. The price changes are measured quarterly rather than monthly for two reasons: (1) National Association of REALTORS® and Federal Housing Finance Agency publish only quarterly data and (2) quarterly reports from the Wasatch Front Regional Multiple Listing Service include more sold transactions than monthly reports thereby improving the reliability of the price data.

Table 2

Change in Housing Prices from Peak Quarter to 3rd Quarter 2009					
	Area	Peak Value	Peak Quarter	3rd Quarter 2009	% Change Peak Qtr. to 3rd Qtr. 2009
FHFA (Price Index)	Statewide	385.09	1st Quarter 2008	340.85	-11.5%
National Association of Realtors (Median Price)	Salt Lake Metropolitan Area	\$246,600	3rd Quarter 2007	\$218,900	-11.2%
Wasatch Front Regional Multiple Listing Service (Median Price)	Salt Lake County	\$254,900	3rd Quarter 2007	\$230,000	-9.8%

Source: Federal Housing Finance Agency, National Association of Realtors and Wasatch Front Regional Multiple Listing Service.

Home sales data, of course, include only sold transactions. During housing busts many would-be sellers opt to take their homes off the market rather than accept big price markdowns. In a classic housing price decline, this phenomenon creates strong price persistence and sticky downward prices. Typically housing price “bubbles” do not implode, but rather prices deflate slowly in real terms, over several years. But in the current contraction prices have imploded in many urban areas particularly in Arizona, California, Florida and Nevada where enormous levels of foreclosures and overbuilding have devastated prices.

So far, housing prices trends in Utah and Salt Lake County are closer to the typical case with the median sales price drifting down over a two-year period by 11 percent rather than imploding and losing 30-40 percent. Home prices in Salt Lake County have fallen back to the 2005 third quarter level whereas nationally home prices in the Case-Shiller index are at third quarter 2003 level.

The 11 percent decline in the median sales price in Salt Lake County likely understates the potential loss in value that many homeowners would have to absorb if they were forced to sell. Fortunately, the large majority of homeowners in Utah are not pushed into the declining market. But in a forced sale situation, depending on location and price, the potential price markdown would be substantially more than the 11 percent decline in median sales price.

Housing prices have been declining for several quarters in Salt Lake County *Table 3*. Whether prices are measured from the previous quarter or year-over (same quarter previous year) there has been a five- to six-quarter downward trend. Notably, there is no indication from the price trends that the downward pressure is easing. And it's important to note, at least to this point, the duration of price weakness in Utah is shorter than at the national level. The S&P/Case Shiller index declined for 12 quarters before registering gains in the second and third quarters of 2009 and the Federal Housing Finance Agency's national index has fallen for eight consecutive quarters.

Table 3

Quarterly Change in Median Sales Price - Salt Lake County			
Year - Qtr.	Med. Sales Price	% Change from Prev. Year	% Change from Prev. Qtr.
2007 - Q1	\$241,900	20.3%	1.9%
2007 - Q2	\$254,900	15.9%	5.4%
2007 - Q3	\$254,900	6.2%	0.0%
2007 - Q4	\$240,000	1.1%	-5.8%
2008 - Q1	\$243,300	0.6%	1.4%
2008 - Q2	\$249,900	-2.0%	2.7%
2008 - Q3	\$244,950	-3.9%	-2.0%
2008 - Q4	\$240,000	0.0%	-2.0%
2009 - Q1	\$240,000	-1.4%	0.0%
2009 - Q2	\$235,000	-6.0%	-2.1%
2009 - Q3	\$230,000	-6.1%	-2.1%

Source: Wasatch Front Regional Multiple Listing Service.

PRICE OUTLOOK

The median sales price of a home in Salt Lake County increased by 62 percent from the first quarter of 2004 to the third quarter of 2007. Historically, a period of rapid price increase for housing in Salt Lake County is followed by a period of sluggish price performance. Since the peak, home prices have retreated only 11 percent and the duration of decline—six quarters—has been relatively short compared to the national contraction. Historical experience suggests housing prices in Salt Lake County will remain under downward pressure in 2010.

Foreclosures present a growing threat to any rebound in home prices and could force prices lower. The number of foreclosures in Utah continues to increase. By the third quarter of 2009 three percent or 13,200 of the 440,000 mortgages in Utah were in foreclosure. A majority of these foreclosed homes will end-up back on the market at distressed prices competing with new and existing “for sale” homes.

Finally, the U.S. and much of the world have experienced the worst financial crisis since the Great Depression. This crisis has shaken financial markets and severely damaged asset values. In the aftermath of a financial crisis real estate values generally take several years to rebound. Although home values in Utah and Salt Lake County have not been as badly hurt as in many large urban areas local housing prices will continue their drift downward, falling another 3-5 percent in 2010. This will bring the decline in median sales price of homes in Salt Lake County to 15 percent through 2010. By then the price declines should be over, replaced by stable to slightly improving prices in 2011.



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