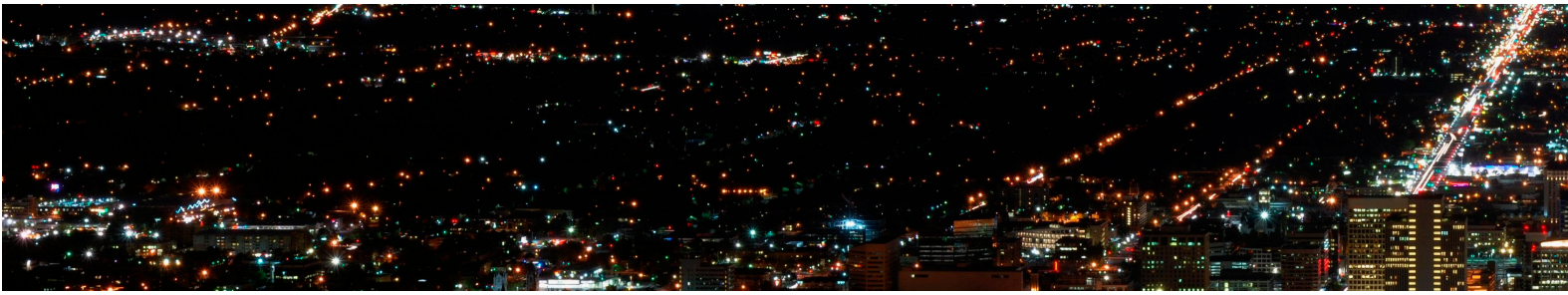


2019

Salt Lake
Housing Forecast





Exceptional Market Fundamentals

Home prices and sales continue strong upward trend; gains in 2015 driven by state's job growth

By James Wood

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Commissioned by the Salt Lake Board of Realtors®*

By any measure 2015 was a “very good year” for Salt Lake County’s residential real estate market. The year saw significant increases in the number and value of homes sold, home prices and sales commissions. The strength of the market was somewhat surprising given the rather average performance of 2014. The gains achieved in 2015 were driven primarily by exceptional market fundamentals; strong job growth, improving income and wages, solid demographic growth and, of course, very favorable mortgage rates.

A 2015 summary of the county’s sales statistics show:

- \$4.1 billion in home sales, an increase of 22 percent.
- 3,800 condominium, town home and twin home sales, an increase of 26 percent.
- \$774 million in condominium, town home and twin home sales, an increase of 36 percent.
- \$292 million in residential real estate commissions, an increase of 24 percent.
- A \$272,000 median sales price for a single family home, an increase of 6.7 percent.
- A \$189,000 median sales price for condominiums, town homes and twin homes, an increase of 8 percent.

2015 Ranks as Third Best Year in Home Sales

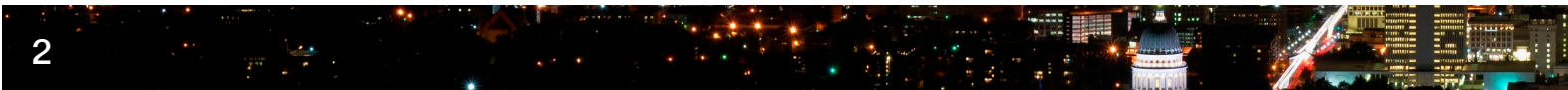
In 2015, existing single-family home sales totaled 13,300 units, the highest level in nine years and the third highest in the county’s history; exceeded only by the pre-recession years of 2005 and 2006 Figure 1. The strong demand for housing was not limited to single-family homes. The sale of multifamily units (condominiums, town homes and twin homes) set an all-time record of 3,800 units and accounted for 22 percent of all residential sales; the highest share ever Table 1. Over the past 20 years multifamily sales have averaged 18 percent of residential sales.

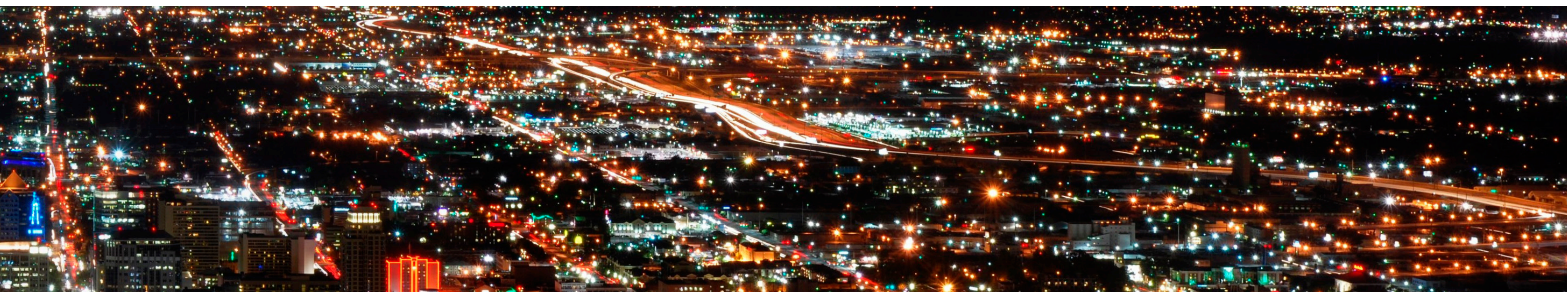
Table 1
Real Estate Sales by Type in Salt Lake County

	Single Family Sales	Condo, Twin and Town Home Sales	Total Sales	Condo, Twin and Town Homes as Percent of Total Sales
1996	9,299	1,576	10,875	14.4%
1997	8,750	1,570	10,320	15.2%
1998	9,343	1,487	10,830	13.7%
1999	9,719	1,604	11,323	14.2%
2000	9,871	1,642	11,513	14.3%
2001	10,488	1,892	12,380	15.3%
2002	10,672	1,979	12,651	15.6%
2003	12,058	2,209	14,267	15.5%
2004	12,995	2,657	15,652	17.0%
2005	15,317	3,554	18,871	18.8%
2006	15,283	3,704	18,987	19.5%
2007	11,713	3,180	14,893	21.4%
2008	8,794	2,419	11,213	21.6%
2009	8,904	2,264	11,168	20.3%
2010	8,567	1,765	10,332	17.1%
2011	9,420	1,889	11,309	16.7%
2012	11,062	2,363	13,425	17.6%
2013	11,686	3,012	14,698	20.5%
2014	11,600	3,035	14,635	20.7%
2015	13,293	3,826	17,119	22.3%

Source: UtahRealEstate.com

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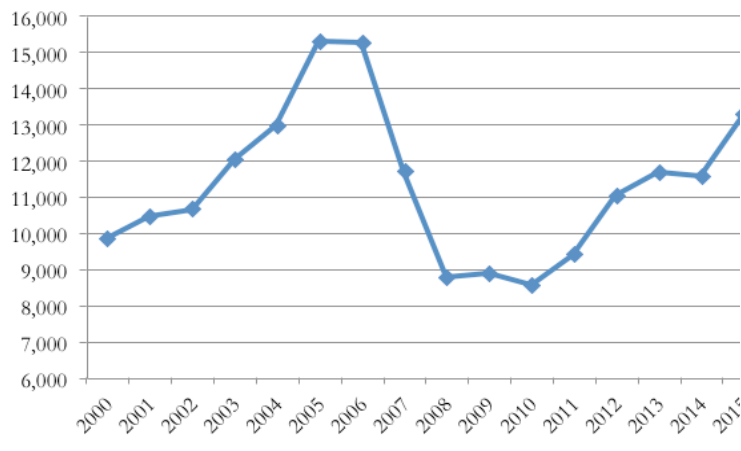


Salt Lake City Leads Other Cities in the Sales of Single-Family and Multifamily Homes

Residential sales, as usual, were concentrated in Salt Lake City. The city accounts for 21 percent of all households in the county but captured 27 percent of residential sales. In this case the disproportionate share of sales in Salt Lake City highlights the locational advantages of the city regarding proximity to employment, transportation and community amenities. Other cities with a significant number of homes sales were West Jordan, Sandy, West Valley and South Jordan. These four cities along with Salt Lake City accounted for two-thirds of all homes sold in the county Table 2. Salt Lake City was also the leading city in multifamily sales with 28 percent of all condominium, town home, and twin home sales. The second tier cities for multifamily sales were South Jordan, Midvale, Murray, and West Jordan; each had just over three hundred multifamily sales in 2015.



Figure 1
Number of Single Family Home Sales in Salt Lake County

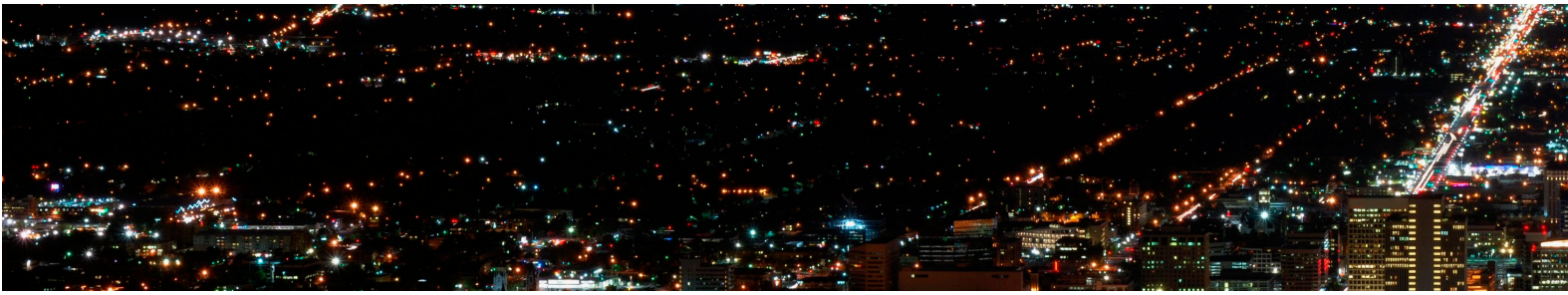


Source: UtahRealEstate.com

	Sales	% Share
Salt Lake City	3,626	27.28%
West Jordan	1,446	10.88%
Sandy	1,380	10.38%
West Valley	1,236	9.30%
South Jordan	1,006	7.57%
Unincorporated Salt Lake	716	5.39%
Herriman	704	5.30%
Taylorsville	588	4.42%
Draper	524	3.94%
Riverton	492	3.70%
Cottonwood Heights	396	2.98%
Murray	394	2.96%
Holladay	296	2.23%
Midvale	268	2.02%
Bluffdale	118	0.89%
South Salt Lake	103	0.77%
Salt Lake County	13,293	100.00%

Source: UtahRealEstate.com





Housing Demand Soars; Days on the Market for Listings Drops Dramatically Over the Past Year

An important indicator of housing demand is the measure of cumulative days on market (CDOM) of “for sale” homes. At the depths of the Great Recession (2009) the median cumulative days on market for a single-family home swelled to 81 days. But as the demand for housing slowly recovered the CDOM steadily declined. By 2015, the median CDOM had dropped to 21 days for single-family homes and 29 days for multifamily units. In both cases, it was the lowest CDOM since 2006. The very low median cumulative days on market data provide a clear-cut sign of a strong seller’s market particularly for moderately priced homes. For a home priced in the second quintile of homes sold (\$200,000 to \$250,000) the median CDOM was only 14 days. In contrast for homes priced in the top 5 percent (over \$600,000) the median CDOM was 67 days.

Housing price increases accelerated in 2015 as the median sales price of a home increased 6.7 percent to \$272,000 and the strong demand for moderately priced housing pushed the median sales price of multifamily units up 8 percent to \$189,000 Table 4. While 2015’s price increases were not as notable as some years the increases represent solid, sustainable gains. The average annual growth rates for housing prices in Salt Lake County are 4 percent for single-family homes and 3.8 percent for multifamily units. These growth rates, however, are not adjusted for inflation. Adjusting for inflation makes a huge difference in calculating the average annual growth rate. For example, the inflation adjusted (constant dollars) annual growth rate in single-family prices from 2000 to 2015 is 1.8 percent compared to the non-adjusted (current dollars) growth rate of four percent. It’s fair to say that housing prices in Salt Lake County increase at about 1.8 percent annually in constant or inflation adjusted dollars. Using constant dollars is a much more accurate measure of housing price performance over the long-term.

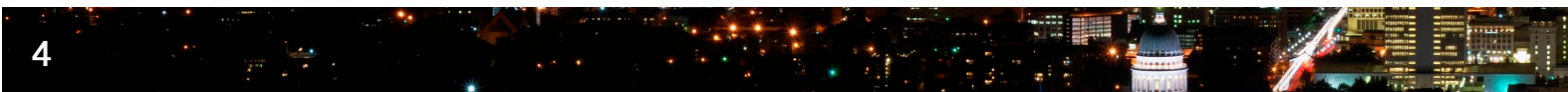
Table 3 shows both constant and current median sales prices for single-family homes in Salt Lake County from 2000 to 2015. Over this period housing prices have been extremely volatile. Using the inflation adjusted prices (constant 2015 dollars) the median sales price of a home increased by 38 percent during the housing boom, followed by a 27 percent decline during the Great Recession and then

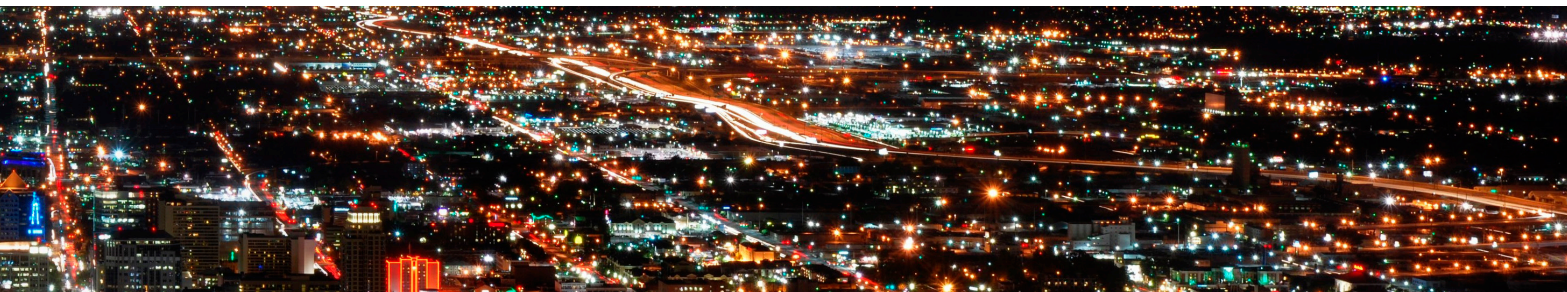
a 29 percent increase in the four years of recovery. But even after four years of price recovery the median sales price of a single-family home still remains about 5 percent below the inflation adjusted peak price of \$287,750. It appears the market will need at least one more year to break the previous inflation adjusted price peak. In 2015, the median sales price of a single-family home increased in 14 of the 15 cities in Salt Lake County; a much stronger performance than 2014 when five cities had prices declines Table 5. Cities with moderately priced housing were leaders in price increases in 2015. Four of the five cities with double-digit increases are moderately priced housing markets; Murray, Taylorsville, West Valley, and South Salt Lake. The strength of prices in these cities indicates heightened demand for homes priced below \$250,000.

The Number of Homeowners with Negative Equity Has Now Dropped to 4 Percent of All Mortgages

The recent increase in housing prices benefitted those homeowners with underwater mortgages. In 2010, 21 percent of all home mortgages in Utah (80,000 homeowners) had negative equity, i.e. their mortgage debt exceeded the price of their home. Consequently, these underwater homeowners were locked into their current home, they could not move-up. This loss of much of the move-up market severely reduced the demand for housing and resulted in downward pressure on housing prices. But this condition has been reversed with the recent gains in housing prices. The number of homeowners with negative equity has now dropped to about 4 percent of all home mortgages or 15,000 households. Hence, in 2015 the move-up market was back supporting higher levels of sales, which put upward pressure on prices.

Another beneficial aspect of the improving market conditions and one that bodes well for housing prices in 2016 is the huge reduction in the sale of distressed homes (short sales or foreclosed properties). For five years the “fire sale” prices of distressed homes dragged down overall housing prices. In 2011, one-third of all homes sold in Salt Lake County were distressed properties and it’s no coincidence that 2011 was the year of the largest decline in prices; 9.5 percent. The near elimination of short sales and REO sales by 2015 was a contributing factor in the acceleration of price increases in 2015.





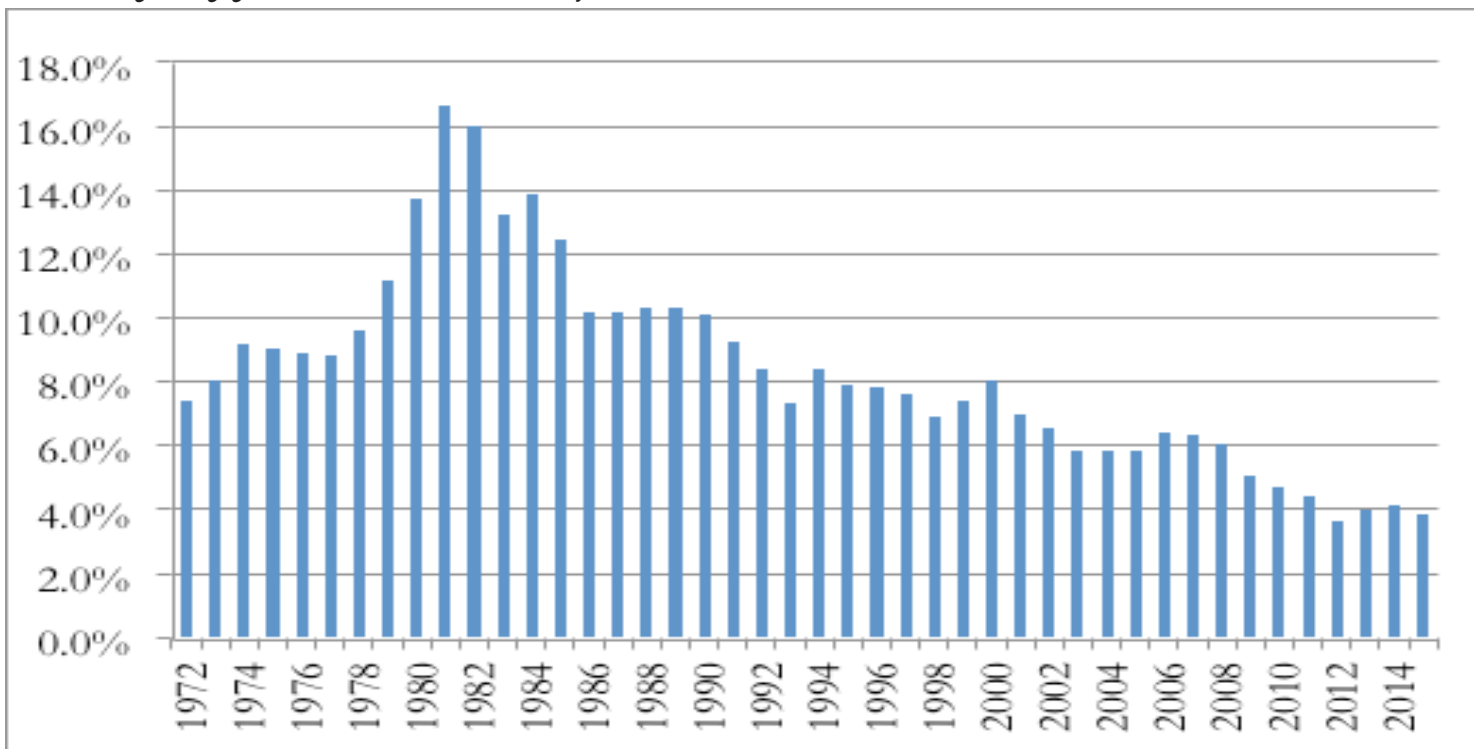
Despite Rebound, Home Prices Are Not Overvalued

For those who can qualify, housing is still relatively affordable in Salt Lake County. According to the U.S. Census Bureau, the median household income in Salt Lake County in 2014 was \$62,672. Assuming a household with median income devotes 30 percent of their income to a mortgage payment (including taxes and insurance) that household could carry a mortgage of about \$290,000. In 2015, 56 percent of single-family homes sold in the county were priced under \$290,000 for a housing opportunity index of 53. An opportunity index number below 50 indicates less affordability; above 50 indicates more affordability. Overall, the local housing market, despite the rebound in prices, is not overvalued. There is still room for moderate increases provided mortgage rate increases are incremental and gradual. Mortgage rate forecasts from a number of organizations show a consensus 2016 forecast of rates moving between 4 and 5 percent with a firm ceiling at 5 percent. In 2016, homebuyers will continue to enjoy some of the lowest mortgage rates in the past 45 years Figure 2.

Boom	2004	2007	% Chg.
Current Dollars	\$165,000	\$250,000	+52%
Constant 2015 Dollars	\$208,412	\$287,747	+38%
Contraction	2007	2011	% Chg.
Current Dollars	\$250,000	\$199,000	-20%
Constant 2015 Dollars	\$287,747	\$211,122	-27%
Recovery	2011	2015	% Chg.
Current Dollars	\$199,000	\$272,000	+37%
Constant 2015 Dollars	\$211,122	\$272,000	+29%

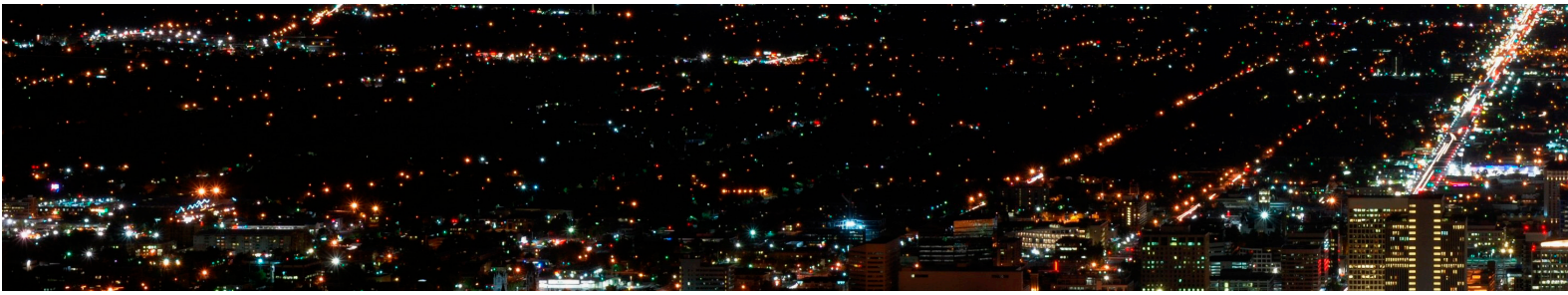
Source: UtahRealEstate.com

Figure 2
Annual Average Mortgage Interest Rates in Salt Lake County



Source: Freddie Mac





Predictions for 2016: Total Residential Home Sales to Rise 11%; Single-Family Prices to Rise 5-7%

Local market fundamentals and conditions will be favorable for the real estate market in 2016. Job growth is expected to slow slightly but this will be offset by higher rates of net-migration and improving wage rates due to a tight labor market. There are no signs of a bubble; both sales and prices are at sustainable levels. The market and particularly prices are now largely free of the harmful effects of foreclosures, short sales, and underwater mortgages, which held back demand and prices. And there is no indication of waning demand as demonstrated by the extremely low “days on market” data. On the supply side the inventory of existing home listings shows demand outpacing supply and there’s little concern about competing unsold inventory from home builders; their inventories are very low as well. All these positive local conditions will be supported by a very healthy statewide economy in 2016.

But beyond Utah’s borders, both nationally and internationally, there are some potential dangers. Most prominent is the slowdown in the Chinese economy and the possible unraveling of their debt bubble. China’s problems have contributed in part to the recent selloffs in stock markets internationally. Declining oil prices have also negatively affected financial markets and put fiscal and political pressure on oil producing countries; Brazil, Saudi Arabia, Russia, and Nigeria. These worrisome international conditions have raised talk by some of a slowdown in the U.S. economy and perhaps a recession. The U.S. economy is now in its 77th month of expansion, a little long in the tooth as expansions go. The average post World War II expansion is 62 months, just over five years. The longest U.S. expansion was 120 months (1991-2001). It’s important to note however, that recent expansions have been getting longer due to structural shifts in the economy (more service oriented) and technological advances in inventory management.

International and national conditions are legitimate concerns but over the next 12 months, barring a cataclysm in China or the Mideast, they will have little impact on the local residential real estate market. Total residential sales will increase from 17,100 in 2015 to 19,000 in 2016 an increase of 11 percent. Sales of single-family homes will be up 10 percent and multifamily sales a little stronger with a 13 percent increase in sales. The median sales price of

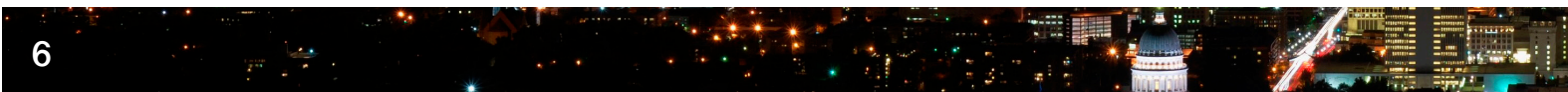
a single-family home will increase in the range of 5 to 7 percent while the increase in the price of multifamily units will be higher at 8 to 10 percent. In 2016, the median sales price of a home will be near \$290,000 and near \$205,000 for a multifamily unit.

The U.S. economy is now in its 77th month of expansion. The average post World War II expansion is 62 months.

Table 4
Price Trends for Single-Family Home Sales in Salt Lake County

	Median Sales Price	Price Increase
2000	\$150,000	2.7%
2001	\$155,000	3.3%
2002	\$159,000	2.6%
2003	\$160,500	0.9%
2004	\$165,000	2.8%
2005	\$187,500	13.6%
2006	\$228,000	21.6%
2007	\$250,000	9.6%
2008	\$247,000	-1.2%
2009	\$233,923	-5.3%
2010	\$220,000	-6.0%
2011	\$199,000	-9.5%
2012	\$212,000	6.5%
2013	\$245,000	15.6%
2014	\$255,000	4.1%
2015	\$272,000	6.7%
AAGR 2000-2015	---	4.0%

Source: UtahRealEstate.com



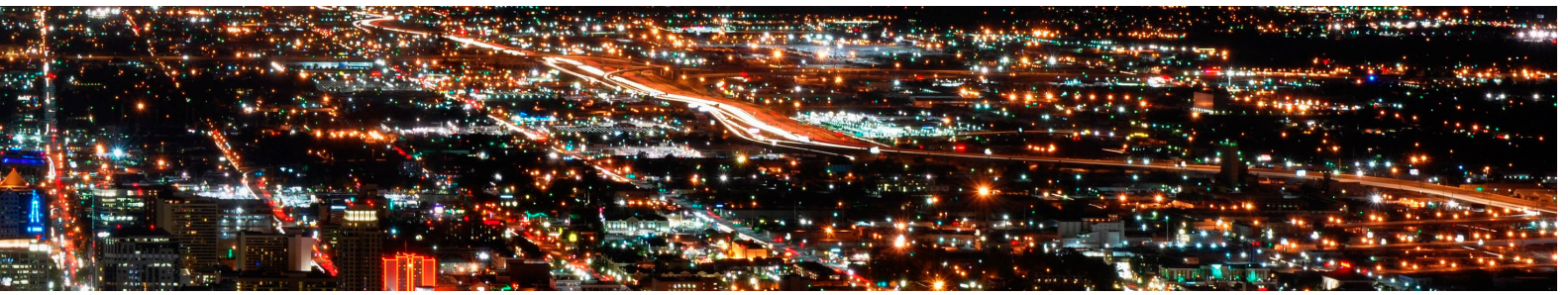


Table 5
Change in Median Sales Price of Single-Family Homes by City

	Median Sales Price 2014	Median Sales Price 2015	% Change in Price 2013-14	% Change in Price 2014-15
Bluffdale	\$392,705	\$400,000	4.3%	1.9%
Cottonwood Heights	\$316,000	\$339,375	-2.8%	7.4%
Draper	\$405,500	\$420,000	2.1%	3.6%
Herriman	\$326,067	\$317,000	9.7%	-2.8%
Holladay	\$372,450	\$379,950	-3.3%	2.0%
Midvale	\$214,600	\$226,950	10.0%	5.8%
Murray	\$228,650	\$259,000	-1.9%	13.3%
Riverton	\$275,750	\$306,590	-1.0%	11.2%
Salt Lake City	\$255,000	\$275,000	6.3%	7.8%
Sandy	\$285,000	\$295,000	3.6%	3.5%
South Jordan	\$349,826	\$357,000	6.7%	2.1%
South Salt Lake	\$172,700	\$190,000	-8.6%	10.0%
Taylorsville	\$196,250	\$218,925	4.0%	11.6%
West Jordan	\$234,000	\$249,000	4.8%	6.4%
West Valley	\$180,000	\$199,225	4.7%	10.7%
Salt Lake County	\$255,000	\$272,000	4.1%	6.7%

Source: UtahRealEstate.com



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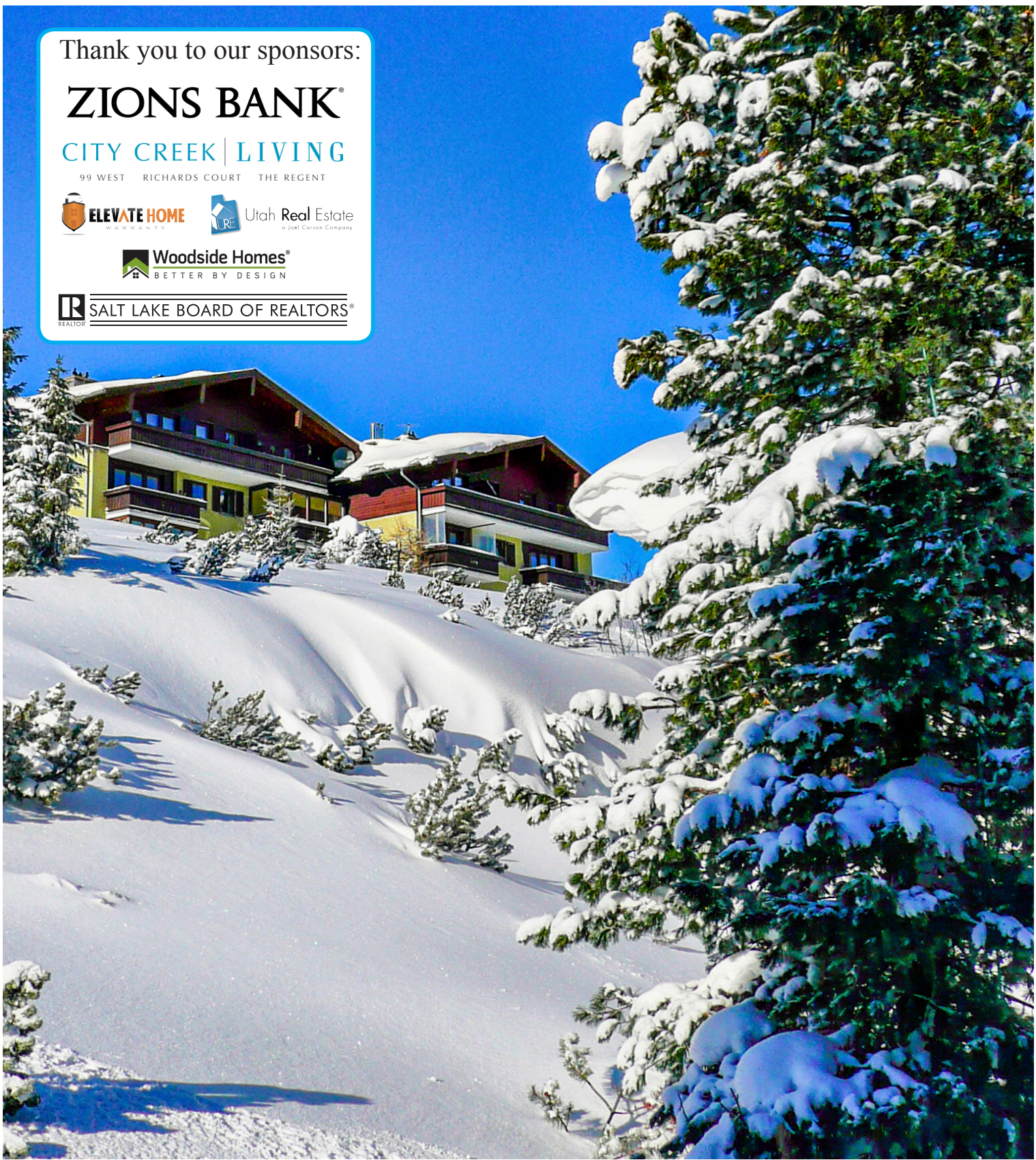
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