



UTAH'S RENTAL MARKET IN TRANSITION

A higher percentage of Utahns are homeowners now than at any time in recent history. In 2008, the Census Bureau estimated that 76.2 percent of all Utah households were homeowners. Utah ranks second among all states in homeownership, tied with Delaware and behind West Virginia at 77.8 percent. Nationally the homeownership rate is 67.8 percent. Typically Utah's homeownership rate is about six percent higher than the national average, but in 2008 the difference grew to 8.4 percent,

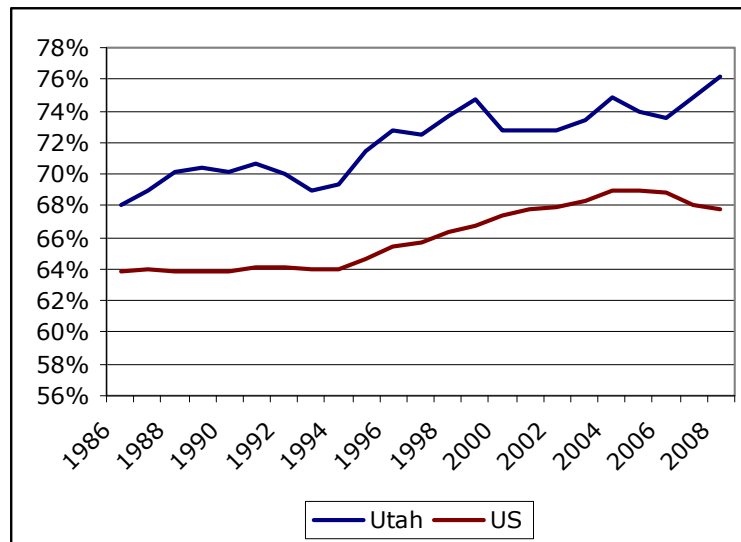
Figure 1.

Despite the recent gains in homeownership, rental housing remains a crucial component of the housing market. A recent study from the University of

Utah's Metropolitan Research Center shows the share of renters is expected to grow steadily over the next 10 years. Nationally, 32.6 percent of all households in 2009 are renters, but by 2020 that share is expected to grow to 36.5 percent. Arthur C. Nelson, director of the university's Metropolitan Research Center, predicts that "we'll have far more renters in the future." Over 50 percent of the 30.3 million housing units added nationally from 2005 to 2020 will be rentals, Nelson predicts.

In 2009, new apartment construction is the only bright spot for Utah's struggling residential construction sector. The number of apartment units under construction is up 97 percent, to nearly

Figure 1
Homeownership Rates in Utah and U.S.



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2,000 units, through the first six months of the year. Apartment units account for 37 percent of all new residential construction so far in 2009, and it's nearly certain that this year will report the highest level of apartment construction in Utah since the 3,800 units in 1998.

The surge in new rental units is a break from the recent past. Since 2000, the number of new apartment units built in Utah has averaged about 2,000 units annually, *Figure 2*. Over this period apartment construction has accounted for only nine percent of new residential units. In contrast, apartment construction in the mid-1980s represented up to half of all new residential construction. The peak period for apartment construction in Utah was 1984 and 1985 when impending changes in tax treatment of rental property created financial incentives for the development of new rental units. In this two-year period nearly 18,000 new rental units were added to the inventory.

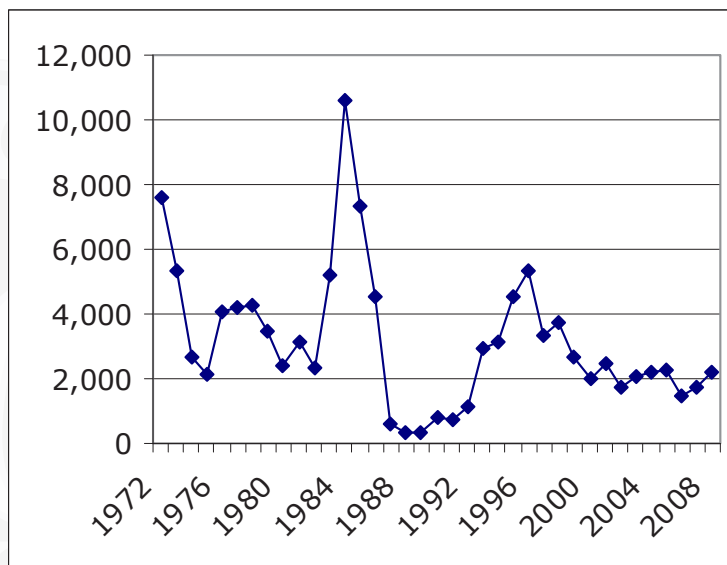
Since 2000, West Jordan City ranks first in new apartment construction with 1,808 units, which

represents 24.6 percent of all new residential construction in the city, *Table 1*. Only in South Ogden has new apartment construction captured more than 30 percent of the residential construction activity. South Ogden issued permits for 306 new apartment units, accounting for 33.0 percent of new residential construction. In most rapidly growing cities apartment construction has been less than 20 percent of new residential construction.

Although any threat of overbuilding in the rental market has been held in check by low levels of new apartment construction, vacancy rates are on the rise. The recession has hurt the rental market. Apartment managers report that job losses are driving-up vacancy and turnover rates. Commerce CRG reported at mid-year a vacancy rate for Salt Lake County of 7.2 percent, a significant increase over the 4.6 percent rate one year earlier.

Traditional apartment projects have been hurt by competition from the rental of condominium, town home, and investor owned single-family units. This last category gained prominence during the housing

Figure 2
Number of Apartment Permits Issued in Utah



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

boom as investors sought to take advantage of rising real estate values. In most cases the condominium and town home units were originally intended as owner occupied units, but buyer interest never materialized, consequently some developers have resorted to renting units to generate revenue. This “shadow rental market” has been particularly troublesome for the traditional rental markets in Washington County and downtown Salt Lake City.

Since 2000, the number of renters in Utah has increased by 19,300 households, however, during the same period only 16,000 new apartment units have been built. In 2008 the number of renter households in Utah was estimated at 214,400, *Table 2*. It appears that nearly 20 percent of the increase in renters since 2000 has been accommodated by the “shadow market” of condominiums, town homes, and single-family homes rather than traditional apartment communities.

Lower levels of net in-migration, combined with the doubling-up and overcrowding of renters, is currently hurting rental demand, however, these conditions are temporary. Over the next 10 years there will be a greater share of renters in Utah’s housing market. In addition, the average number of new rental units added annually will increase from 2,000 units to over 3,000 units as the share of homeowners in Utah trends down from its peak of 76.2 percent established in 2008.

Table 1
Selected Cities Ranked by New Apartment Construction
(Cumulative 2000-2008)

	Apartment Units 2000-2008	Total Residential Units 2000-2008	Apartments as Share of Total
West Jordan	1,808	7,356	24.6%
St. George	1,043	10,717	9.7%
Provo	818	3,626	22.6%
Orem	763	2,931	26.0%
Riverton	644	4,346	14.8%
Logan	564	2,520	22.4%
Uninc. Salt Lake County	546	4,923	11.1%
Draper	519	5,277	9.8%
North Salt Lake	509	2,395	21.3%
Cedar City	506	3,378	15.0%
Ogden	373	2,390	15.6%
South Ogden	306	927	33.0%
Layton	264	3,297	8.0%
Lehi	221	7,548	2.9%
Bluffdale	190	913	20.8%

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

Table 2
Households by Tenure in Utah

	2000	2008	Numeric Change	Percent Change
Households	707,000	900,900	193,900	27.4%
Owner Households	511,900	686,500	174,600	34.1%
Renter Households	195,100	214,400	19,300	9.9%

Source: Governor’s Office of Planning and Budget, Demographic and Economic Analysis.