

# Residential and Nonresidential Construction

## Overview

In 2001, the value of permit authorized construction in Utah was \$3.9 billion, within 1% of the all-time high set in 1999. The near record valuation is due, in part, to the continued strength of the residential sector, which in 2001 produced nearly 19,000 new units valued at \$2.25 billion. The surprising strength of the residential sector is due in large part to favorable mortgage rates—the 30 year conventional mortgage rate has been below 7% for most of the year. A notable feature of the residential sector in 2001 is the rebound in multifamily construction activity. Since 1998 there has been a steady decline in the number of new multifamily units, however, this year there has been an abrupt reversal. The number of new multifamily units is up over 30% in 2001, driven primarily by a surge in new condominium construction.

Nonresidential construction has not fared as well. Valuation dropped nearly 20% to about \$1 billion, which was the lowest level of nonresidential construction in five years. The sector began the year with exceptional first quarter strength but in subsequent quarters became weaker and weaker. The lack of any large multi-million dollar projects in 2000 has hurt nonresidential construction. The largest project statewide was the new Salt Lake City Public Library with a valuation of \$60 million.

## 2001 Summary

**Residential Sector.** Despite a slowdown in both economic and demographic growth residential construction in Utah has held up surprisingly well. Demand for new owner-occupied units (single-family homes, twin homes, town homes and condominiums) was clearly supported by mortgage rates that were below 7% for most of the year. These historically favorable rates pushed the value of residential construction over \$2.2 billion for only the second time in Utah history.

The residential sector is comprised of two major categories: single-family and multifamily dwelling units. In 2001 new single-family units outnumbered multifamily units by about 3 to 1. The number of new single-family homes receiving building permits in 2001 was just over 13,000 units. Multifamily units totaled 4,800 units followed by mobile homes/cabins with 800 units.

Residential construction is highly concentrated in the state, with a few communities capturing most of the new construction activity. About half of all new residential construction in 2001 was located in either Salt Lake or Utah counties. At the county level, an important shift is underway in single-family construction—Salt Lake County is being seriously challenged for its perennial role as leader in new home construction. Historically, the level of single-family construction in Salt Lake County has consistently been two to three times greater than the second ranked county, which has almost always been Utah County. However, in the past few years Utah County began to close the gap and in 2001 fell just short of overtaking Salt Lake County.

The surge in single-family activity in Utah County is due, in part, to the incorporation of two new cities—Saratoga Springs and Eagle Mountain. Master planned communities with hundreds of new homes were approved in both cities. In the last couple of years these two new communities have accounted for about 25% of all single-family activity in Utah County. Statewide, cities that were leaders in new home construction were: St. George, Syracuse, Draper, Riverton, West Jordan and West Valley.

The multifamily category had an impressive turnaround in 2001. The number of multifamily units was up 30% over the previous year. Multifamily units include three types of housing: duplex/twin homes, apartments and condominiums. Both condominiums and apartments have had gains during the last year, however, new condominium construction has been most impressive. Condominium construction, with more than 2,000 units, was almost double what it was in 2000. Nearly three-quarters of all condominium activity in 2001 was in Salt Lake, Utah and Summit counties.

The largest condominium project was the 155-units Gateway Condominiums, which is part of the housing component of the \$300 million Gateway project in downtown Salt Lake City. Several of the other condominium projects in Salt Lake and Utah are targeted for the first-time home buyer market while condominium projects in Summit County are for the second-home, recreation market.

There are about 205,000 rental units in the state of Utah. In 2001 less than 2,500 new units were added to the inventory—an increase of only 1.2%. These data make clear that new apartment construction in relative terms is very modest. Certainly at this point, there are no signs that new apartment construction threatens any of the local apartment markets. In most rental markets along the Wasatch Front vacancy rates are below 5.5%. The modest levels of new apartment construction and the declining vacancy rates is almost certain to lead to increases in rental rates next year. Unfortunately, higher rental rates will coincide with a weaker economy leaving many renters with less discretionary income.

**Nonresidential Sector.** Nonresidential valuation is down nearly 20% this year. The drop in valuation is somewhat deceptive since 2000 was the second highest year ever. Nevertheless, there are signs of fatigue in the nonresidential sector and a reversal seems unlikely since there are no large permit-authorized projects getting underway. In fact, many large projects are winding down: Gateway (\$300 million), Grand Hotel (\$180 million) and several large projects induced by the 2002 Winter Olympics.

A review of nonresidential construction by type of use shows that for the three major categories of use—industrial, office and retail—this year's performance for each is below the five-year average. Public buildings, another major category is higher than the five-year average due to the new \$60 million Salt Lake City Public Library. One sector that continues to experience a high level of activity is "big box" retailers. In 2001, nine "big box" facilities received building permits: Costco, Sam's Club, Lowes (2), Home Depot (2), and Wal-Mart (3). These nine new buildings, combined with the 10 "big boxes" receiving permits in 2000, make a total of 19 "big box" retail facilities under construction statewide.

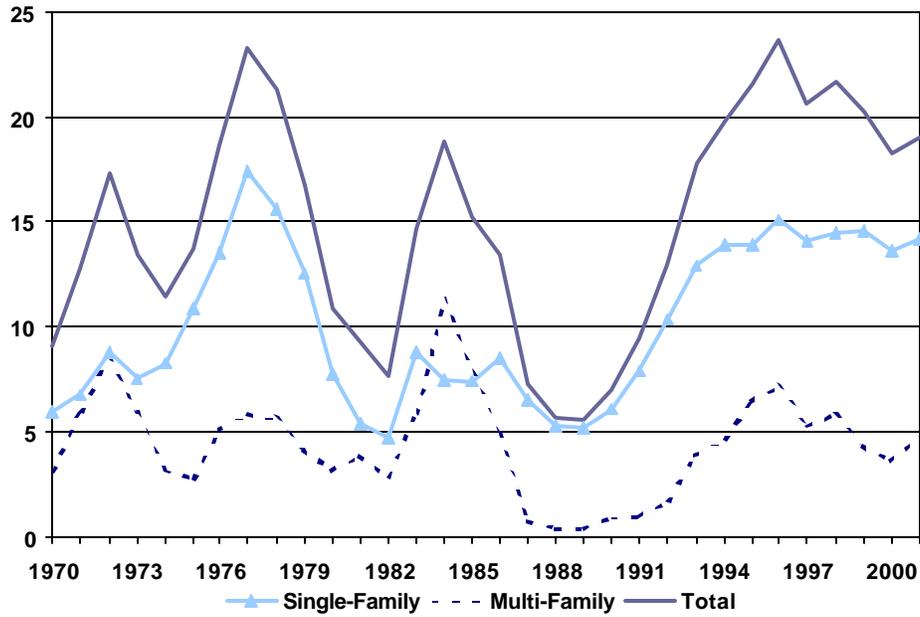
The expansion and contraction of nonresidential construction activity reflects changes in economic conditions that, in turn, influence public and private investment decisions. Nonresidential construction represents investments in fixed assets such as office buildings, retail malls, manufacturing facilities, hospitals and churches. In Utah, during the 1990s, investments in nonresidential buildings and structures experienced an unprecedented expansion, peaking in 1997 at over \$1.3 billion. The causes for this remarkable expansion can be traced to six factors: (1) employment growth, (2) population growth, (3) national economic expansions, (4) low interest rates (5) low vacancy rates and

(6) preparation for the 2002 Winter Olympics. With the exception of interest rates, these factors are all weaker in 2001 than they were a year ago, which explains the 20% decline in nonresidential activity.

### Conclusion

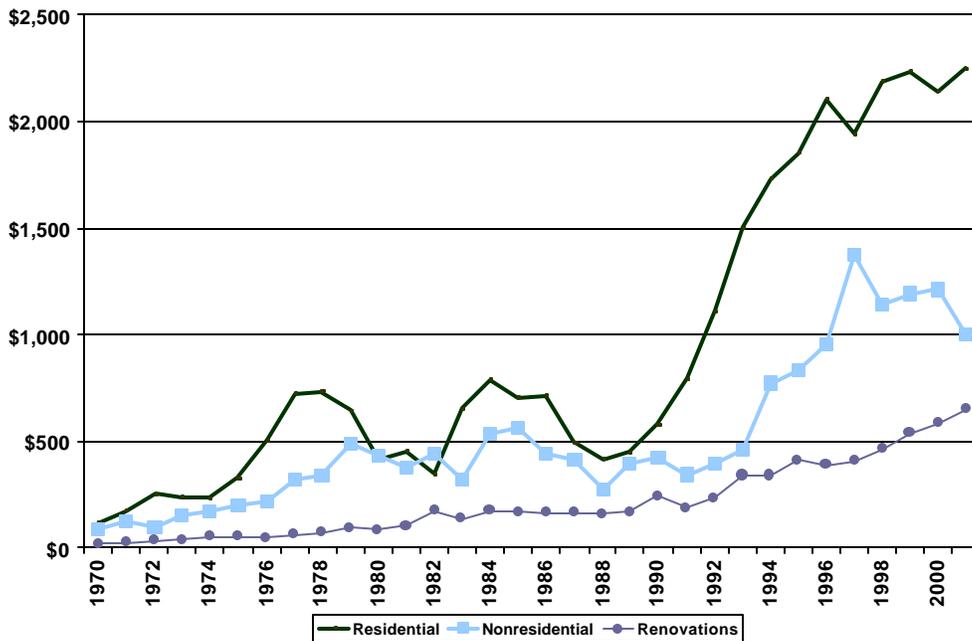
- Total construction valuation in Utah in 2001 was \$3.9 billion, which included \$2.25 billion in residential construction, \$1 billion in nonresidential construction and over \$600 million in additions, alterations and repairs.
- Despite a slowdown in economic and demographic growth, residential construction held up surprisingly well, finishing the year with 19,000 units. Low mortgage rates was the single most important factor contributing to the strength of the residential sector.
- Multifamily units, which rebounded significantly in 2001, accounted for about one out of every four new dwelling units. The number of multifamily units in 2001 totaled 4,800, about 30% higher than last year.
- Much of the renewed strength in the multifamily sector is due to the surge in condominium construction (2,000 new units), which was nearly double the number in 2000.
- The value of nonresidential construction fell 20% as economic and demographic conditions weakened and relatively few large projects developed.

Figure 50  
Utah Residential Construction Activity



Source: University of Utah, David Eccles School of Business, Bureau of Economic and Business Research

Figure 51  
Value of New Construction



Source: University of Utah, David Eccles School of Business, Bureau of Economic and Business Research

**Table 67**  
**Residential and Nonresidential Construction Activity in Utah**

Year	Single-Family Units	Multi-Family Units	Mobile Homes/ Cabins	Total Units	Value of Residential Construction (millions)	Value of Nonresidential Construction (millions)	Value of Add., Alt., and Repairs (millions)	Total Valuation (millions)
1970	5,962	3,108	na	9,070	117.0	87.3	18.0	222.3
1971	6,768	6,009	na	12,777	176.8	121.6	23.9	322.3
1972	8,807	8,513	na	17,320	256.5	99.0	31.8	387.3
1973	7,546	5,904	na	13,450	240.9	150.3	36.3	427.5
1974	8,284	3,217	na	11,501	237.9	174.2	52.3	464.4
1975	10,912	2,800	na	13,712	330.6	196.5	50.0	577.1
1976	13,546	5,075	na	18,621	507.0	216.8	49.4	773.2
1977	17,424	5,856	na	23,280	728.0	327.1	61.7	1,116.8
1978	15,618	5,646	na	21,264	734.0	338.6	70.8	1,143.4
1979	12,570	4,179	na	16,749	645.8	490.3	96.0	1,232.1
1980	7,760	3,141	na	10,901	408.3	430.0	83.7	922.0
1981	5,413	3,840	na	9,253	451.5	378.2	101.6	931.3
1982	4,767	2,904	na	7,671	347.6	440.1	175.7	963.4
1983	8,806	5,858	na	14,664	657.8	321.0	136.3	1,115.1
1984	7,496	11,327	na	18,823	786.7	535.2	172.9	1,494.8
1985	7,403	7,844	na	15,247	706.2	567.7	167.6	1,441.5
1986	8,512	4,932	na	13,444	715.5	439.9	164.1	1,319.5
1987	6,530	755	na	7,305	495.2	413.4	166.4	1,075.0
1988	5,297	418	na	5,715	413.0	272.1	161.5	846.6
1989	5,197	453	na	5,632	447.8	389.6	171.1	1,008.5
1990	6,099	910	na	7,009	579.4	422.9	243.4	1,245.7
1991(r)	7,911	958	572	9,441	791.0	342.6	186.9	1,320.5
1992	10,375	1,722	904	13,001	1,113.6	396.9	234.8	1,745.3
1993	12,929	3,865	1,010	17,804	1,504.4	463.7	337.3	2,305.4
1994	13,947	4,646	1,154	19,747	1,730.1	772.2	341.9	2,844.2
1995	13,904	6,425	1,229	21,558	1,854.6	832.7	409.0	3,096.3
1996	15,139	7,190	1,408	23,737	2,104.5	951.8	386.3	3,442.6
1997	14,079	5,265	1,343	20,687	1,943.5	1,370.9	407.1	3,721.6
1998	14,476	5,762	1,505	21,743	2,188.7	1,148.4	461.3	3,798.4
1999	14,561	4,443	1,346	20,350	2,238.0	1,195.0	537.0	3,971.0
2000	13,463	3,629	1,062	18,154	2,140.1	1,213.0	583.3	3,936.0
2001(e)	13,400	4,800	800	19,000	2,250.0	1,000.0	650.0	3,900.0

r = revised  
e = estimate  
na = not available

Source: University of Utah, David Eccles School of Business, Bureau of Economic and Business Research, November 2001

Table 68  
Summary of Construction Activity in Utah

Type of Construction	2000	2001(e)	% Change 2000-2001
Total Construction Value	\$3.936 billion	\$3.9 billion	-1.0%
Residential Value	\$2.140 billion	\$2.25 billion	5.1%
Total Dwelling Units	18,154	19,000	4.7%
Single Family Units	13,463	13,400	- - -
Multifamily Units	3,629	4,800	32.3%
Mobile Homes/Cabins	1,062	800	-24.7%
Nonresidential Value	\$1.213 billion	\$1.0 billion	-17.6%
Additions, Alterations, and Repairs	\$583 million	\$650 million	11.4%

Source: University of Utah, David Eccles School of Business, Bureau of Economic and Business Research, November 2001

Table 69  
Average Annual Mortgage Rates for 30-year Conventional Mortgage for Utah

Year	Mortgage Rates	Year	Mortgage Rates
1967	6.52%	1984	13.87%
1968	7.03%	1985	12.42%
1969	7.82%	1986	10.18%
1970	8.35%	1987	10.20%
1971	7.83%	1988	10.34%
1972	7.38%	1989	10.32%
1973	8.04%	1990	10.13%
1974	9.19%	1991	9.25%
1975	9.04%	1992	8.40%
1976	8.86%	1993	7.33%
1977	8.84%	1994	8.35%
1978	9.63%	1995	7.95%
1979	11.19%	1996	7.80%
1980	13.77%	1997	7.60%
1981	16.63%	1998	6.92%
1982	16.08%	1999	7.43%
1983	13.23%	2000	8.06%
		2001(e)	6.90%

e = estimate

Source: Federal Home Mortgage Corporation

**Table 70**  
**Housing Prices for Utah: 1980 to Second Quarter 2001**

Year	Index	Year-Over Percent Change	Year	Index	Year-Over Percent Change
1980	102.0		1993	148.2	10.8
1981	109.1	7.0	1994	173.6	17.1
1982	112.6	3.1	1995	193.9	11.7
1983	114.5	1.7	1996	211.1	8.8
1984	113.9	-0.6	1997	224.5	6.4
1985	116.6	2.4	1998	236.5	5.3
1986	118.9	2.0	1999	240.6	1.7
1987	116.4	-2.1	2000 1Q	241.4	-0.2
1988	113.1	-2.8	2000 2Q	243.4	0.8
1989	114.9	1.5	2000 3Q	247.0	3.5
1990	118.7	3.4	2000 4Q	251.6	4.7
1991	125.5	5.7	2001 1Q	257.0	6.5
1992	133.7	6.5	2001 2Q	258.2	6.1

Source: Office of Federal Housing Enterprise Oversight, Housing Price Index, Washington, D.C., 2001