

Residential and Nonresidential Construction

Overview

The construction sector was stronger than expected in 2002. The value of permit-authorized construction (residential, nonresidential and additions, alterations and repairs) in the state was \$3.7 billion, only 4% below \$3.9 billion in 2001. Despite the recession, the value of residential construction reached \$2.4 billion in 2002, an all-time record high. The number of new dwelling units that received building permits was 19,000. The residential sector benefited from low interest rates, which fell from 7% at the start of the year to 6% by midsummer, providing a significant financial incentive for new homebuyers. Lower interest rates did not give support to the nonresidential sector. Nonresidential construction activity fell 7% in 2002 to \$900 million. However, nonresidential valuation finished higher than projected, gaining strength in the latter half of the year.

2002 Summary

Residential Sector. Residential construction seemed unfazed by weak demographic and economic growth in 2002. Demand for new owner-occupied units was supported by mortgage rates that were below 7% for much of the year and actually fell below 6% for a few months. These extraordinarily low rates pushed the value of residential construction to \$2.4 billion, breaking the previous record set in 2001 by \$50 million.

The residential sector is comprised of two major categories: single-family and multifamily dwelling units. In 2002 new single-family units outnumbered multifamily units by about 3 to 1. The number of single-family units was just over 13,500 units, followed by multifamily units at 4,500 units, and mobile homes/cabins at 900.

Residential construction is highly concentrated in the state, with a few communities capturing most of the new construction activity. Nearly half of all new residential construction in 2002 was located in Salt Lake and 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 the 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 has closed the gap, and in 2002 the number of new homes in Utah County was only 10% below Salt Lake County's total.

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. Over the past few years these new communities have accounted for 20% to 25% of all new homes in Utah County. While new home construction in Saratoga Springs and Eagle Mountain has been impressive, in 2002 Lehi led all cities in Utah County in new home construction. Salt Lake County's leader was South Jordan. The statewide leader by a significant margin in new home construction was St. George, which produced almost 50% more new homes than the second ranked city, South Jordan.

New multifamily construction (apartments and condominiums) is down some 15% in 2002. Most of the softness is in new apartment construction. In 2002, less than 10% of all new residential units in Utah were new rental units and for the first-time ever, the number of new condominium units exceeded the number of new rental units. In 2002,

condominiums accounted for over 10% of all new residential units in the state. As was the case with single-family units, condominium construction was highly concentrated in two counties -- Salt Lake and Utah -- which accounted for over 70% of all new condominium activity. Surprisingly, neither of the two recreation/second home counties -- Washington and Summit -- experienced high levels of new condominium construction in 2002.

Low interest rates have enabled households to move from renting to owning. Consequently the demand for rental units has softened and new apartment construction declined. Currently, there are about 207,000 rental units in the state. In 2002, less than 2,000 new units were added to the inventory, an increase of less than 1%. These data make clear that new apartment construction in relative terms is very modest. Certainly at this point, there is little indication that new apartment construction threatens any of the local apartment markets. Vacancy rates have increased slightly in 2002, but there are no signs of significant excess capacity in the rental market.

Nonresidential Sector. Nonresidential valuation was down about 7% in 2002. With the recent completion of Olympic-related projects and Gateway, 2002 was expected to be as much as 20% lower, but this sector has shown increasing strength as the year progressed. Through the first quarter, nonresidential construction was down more than 30%. By the end of the second quarter, the decline had narrowed to 16% and by the end of the third quarter, to 14%. The fourth quarter was particularly strong with \$112 million in new nonresidential construction in October 2002, up 97% over October of 2001.

A review of nonresidential construction by type of use shows that the performance in 2002 for the three major categories of use -- industrial, office and retail -- is below the five-year average. Of these three sectors, the office market is performing closest to its five-year average, followed by retail, then industrial. Two nonresidential sectors that have performed well in 2002 are "hospitals and other institutional buildings" and "schools and other educational buildings". The new IHC hospital in St. George and a new indoor football facility at BYU have been the most significant projects in these two sectors.

Conclusion

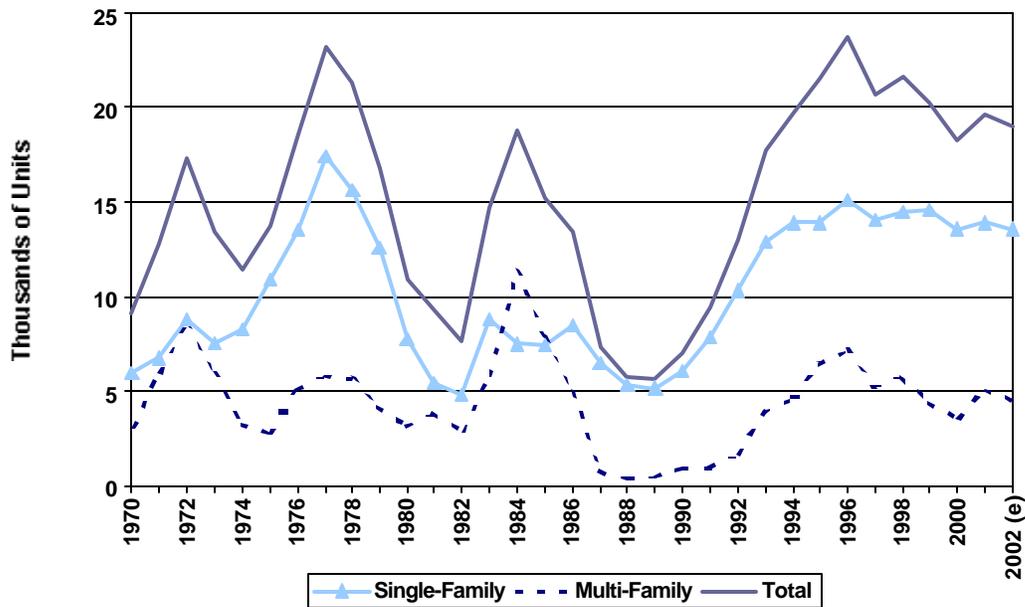
Total construction valuation in Utah in 2002 was \$3.7 billion, which included \$2.4 billion in residential construction, \$900 million in nonresidential construction and \$400 million in additions, alterations and repairs.

Despite a slowdown in economic and demographic growth residential construction held up surprisingly well, finishing the year with 19,000 units. The single most important factor contributing to the strength of the residential sector was low mortgage rates.

Multifamily units accounted for about one out of every five new dwelling units. For the first time there were more new condominiums built than apartments. Rental units accounted for only 10% of all new residential units.

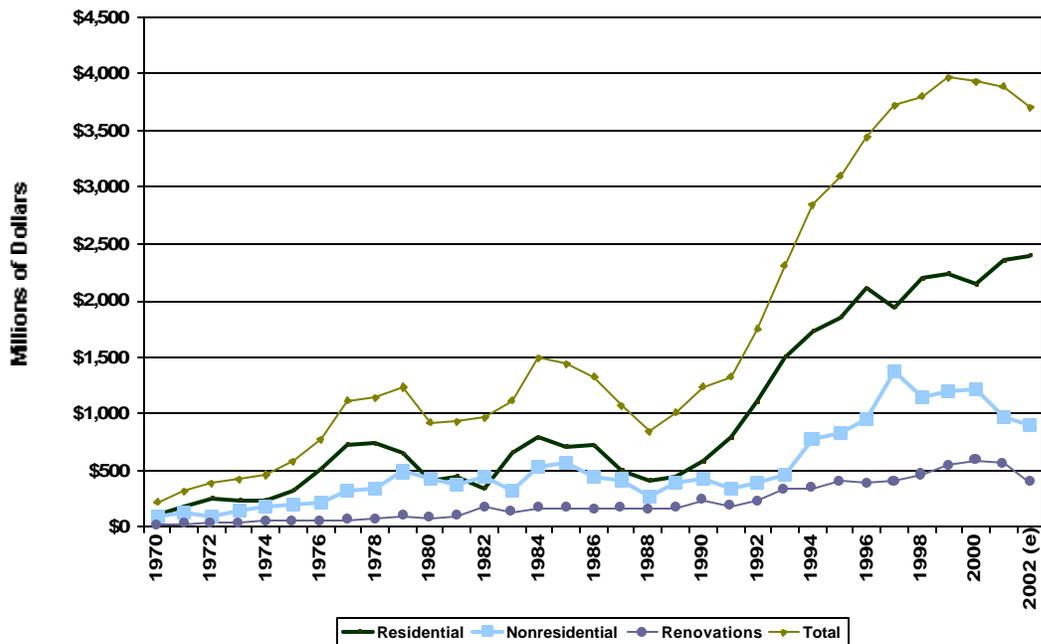
The value of nonresidential construction fell only 7% as institutional buildings, including a new hospital in St. George, gave support to this sector.

Figure 56
Utah Residential Construction Activity



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

Figure 57
Value of New Construction



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

Table 66
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	13,851	5,089	735	19,675	2,352.7	970.0	562.8	3,885.4
2002 (e)	13,600	4,500	900	19,000	2,400.0	900.0	400.0	3,700.0

r = revised
e = estimate
na = not available

Source: University of Utah, David Eccles School of Business, Bureau of Economic and Business Research, November 2002.

Table 67
Summary of Construction Activity in Utah

Type of Construction	2001	2002(e)	% Change 2001-2002
Total Construction Value	\$3.88 billion	\$3.70 billion	-4.6%
Residential Value	\$2.35 billion	\$2.40 billion	2.1%
Total Dwelling Units	19,675	19,000	-3.4%
Single Family Units	13,851	13,600	-1.8%
Multifamily Units	5,089	4,500	-11.6%
Mobile Homes/Cabins	735	900	22.4%
Nonresidential Value	\$970.0 million	\$900.0 million	-7.2%
Additions, Alterations, and Repairs	\$562.8 million	\$400 million	-28.9%

Source: University of Utah, David Eccles School of Business, Bureau of Economic and Business Research, November 2002.

Table 68
Average Annual Mortgage Rates for 30-year Conventional Mortgage for Utah

Year	Mortgage Rates	Year	Mortgage Rates
1967	6.52%	1985	12.42%
1968	7.03%	1986	10.18%
1969	7.82%	1987	10.20%
1970	8.35%	1988	10.34%
1971	7.83%	1989	10.32%
1972	7.38%	1990	10.13%
1973	8.04%	1991	9.25%
1974	9.19%	1992	8.40%
1975	9.04%	1993	7.33%
1976	8.86%	1994	8.35%
1977	8.84%	1995	7.95%
1978	9.63%	1996	7.80%
1979	11.19%	1997	7.60%
1980	13.77%	1998	6.92%
1981	16.63%	1999	7.43%
1982	16.08%	2000	8.06%
1983	13.23%	2001	6.97%
1984	13.87%	2002 (e)	6.50%

e = estimate

Source: Federal Home Mortgage Corporation and Freddie Mac

Table 69
Housing Prices for Utah: 1980 to Second Quarter 2002

Year	Index	Year-Over Percent Change	Year	Index	Year-Over Percent Change
1980	102.0		1992	133.7	6.5
1981	109.1	7.0	1993	148.2	10.8
1982	112.6	3.1	1994	173.6	17.1
1983	114.5	1.7	1995	193.9	11.7
1984	113.9	-0.6	1996	211.1	8.8
1985	116.6	2.4	1997	224.5	6.4
1986	118.9	2.0	1998	236.5	5.3
1987	116.4	-2.1	1999	240.6	1.7
1988	113.1	-2.8	2000	240.5	0.0
1989	114.9	1.5	2001	253.2	5.3
1990	118.7	3.4	2002 (2Q)	255.7	1.0
1991	125.5	5.7			

Source: Office of Federal Housing Enterprise Oversight, Housing Price Index, Washington D.C., 2002.

