

Residential and Nonresidential Construction

Overview

The value of permit authorized new construction reached \$6.4 billion in 2005, an all-time high. This represents a remarkable 25.0% increase over the 2004 level \$5.1 billion. Residential construction reached a record in new construction activity (\$4.5 billion), and in the number of new dwelling units receiving building permits (26,800 units). Single-family homes dominated new residential construction as low mortgage rates, high rates of net in-migration and favorable demographics drove demand for new single-family homes to the record level of 20,000 units.

Permit-authorized nonresidential construction increased by 10.1% to \$1.2 billion, this strong growth was response to employment expansion. The nonresidential sector did not have any mega projects in 2005, but rather a large number of mid-size projects of \$10 to \$20 million, the largest of which was the \$24 million Kraftmaid manufacturing plant in West Jordan.

2005 Summary

Residential Sector. The number of new residential units receiving building permits increased by 26,800 units, or 10.3%, in 2005. The value of residential construction increased from \$3.6 billion in 2004 to \$4.5 billion in 2005, or an astonishing 26.7%. The disproportionate rise in value was due to rising costs of construction materials, as well as low interest rates. Low rates allowed homebuyers to qualify for higher priced homes and induced homebuilders to build more expensive homes.

The residential sector is divided into two broad categories: single-family and multifamily units. The number of single-family units increased 12.8%, or 2,300 units, to 20,000 units, the highest year on record. In 2005 new detached single-family units outnumbered multifamily units by about 3.3 to one. The number of multifamily units increased only 2.5%, or 150 units. A third but small category of building type is manufactured homes/cabins, which had 800 new units in 2005, up 11.7% compared to 2004.

Prior to 2005, single-family construction had surpassed the 17,000 unit mark only twice; in 1977 and 2004. On both occasions the demographics of the baby boom generation were central to record breaking housing demand. In 1977 it was the baby boomers themselves forming households and buying homes that sparked record levels of activity. In 2004 and 2005, the children of the baby boomers (echo boomers), began to form new households and helped drive the demand for single-family housing to record levels.

In 2005, new home construction was highly concentrated in Utah. Nearly 50% of all new home construction was located in Salt Lake, Utah and Washington counties. Salt Lake County had 4,600 new single-family homes, followed by Utah (4,000) and Washington (3,000) counties. St. George led all cities in new home construction, issuing building permits for nearly 1,100 new detached single-family homes. The city of Lehi issued over 800 permits for new homes, and South Jordan, West Jordan and Herriman all issued over 700 permits.

From 1998 to 2004 Utah had the lowest rate of price appreciation of existing homes in the nation. However, the most recent data published by the Office of Federal Housing Enterprise Oversight show that the sales price of existing homes in Utah rose 11.4% from the third quarter of 2004 through third quarter of 2005. Utah ranked 22nd among all states in price appreciation in 2005, and was still below the national average of 12.0%. Prices of existing homes in Utah appreciated 24.7% from 2000 to 2005, ranking the state 44th in the nation.

Multifamily units include apartments, condominiums, town homes and twin homes. The number of building permits issued for new multifamily units totaled 6,000 in 2005, and for the third year in a row, the number of new condominiums exceeded the number of new rental units. In 2005, condominiums accounted for 52% of multifamily units, apartments captured 32% and town homes 16%. Two out of three new condominiums built in 2005 were located in Salt Lake, Utah or Washington counties.

In 2004, only 2,000 new apartment units were added to the rental inventory in the state, representing a 1.2% increase in the rental inventory. Nearly half of these new rental units were low income tax credit units targeted for moderate to low income renter households.

The very modest level of new apartment construction reflects the rather weak market conditions that persisted in the rental market in 2003 and 2004. These weak market conditions were not due to over building but primarily to low mortgage rates which have made it easier for renters to qualify for homeownership. The loss of renters to homeownership led to higher vacancy rates and downward pressure on rental rates. However, market conditions appeared to improve in 2005 as vacancy rates dropped to 6% or 7%, and rental rates increased by about 3%. The apartment market should improve in 2006.

Nonresidential Construction. In 2005, The value of new nonresidential permit authorized construction in Utah was \$1.2 billion, 10.1% higher than in 2004. The largest project in 2005 was the \$24 million Kitchenmaid manufacturing plant in West Jordan. Although the sector was characterized by an unusual number of midsize projects, the level of activity accelerated in the last half of 2005. Due to the number of proposed projects, nonresidential construction should be very strong in 2006 and 2007.

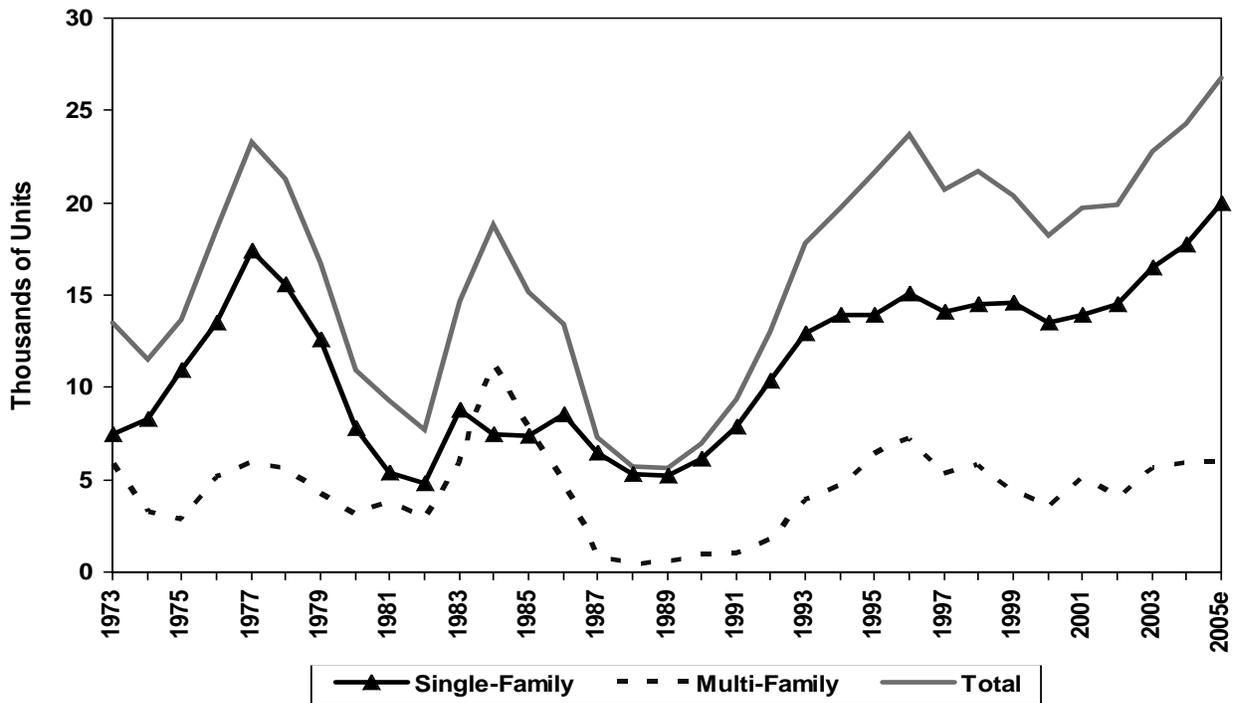
New nonresidential construction activity for commercial buildings improved over 2005 as the economic expansion brought higher occupancy rates. Construction of new industrial buildings increased 100% over 2004, while office construction increased 28%, and hotel construction rose 110%. Retail construction activity decreased slightly in 2005.

Conclusion

Total construction value in Utah in 2005 was \$6.4 billion, which included \$4.5 billion in residential construction, \$1.2 billion in nonresidential construction and \$700 million in additions, alterations and repairs. New residential construction activity set an all-time record for valuation and new units. Higher valuation was driven by rising materials cost and low mortgage rates, which allowed homebuyers to purchase higher priced homes.

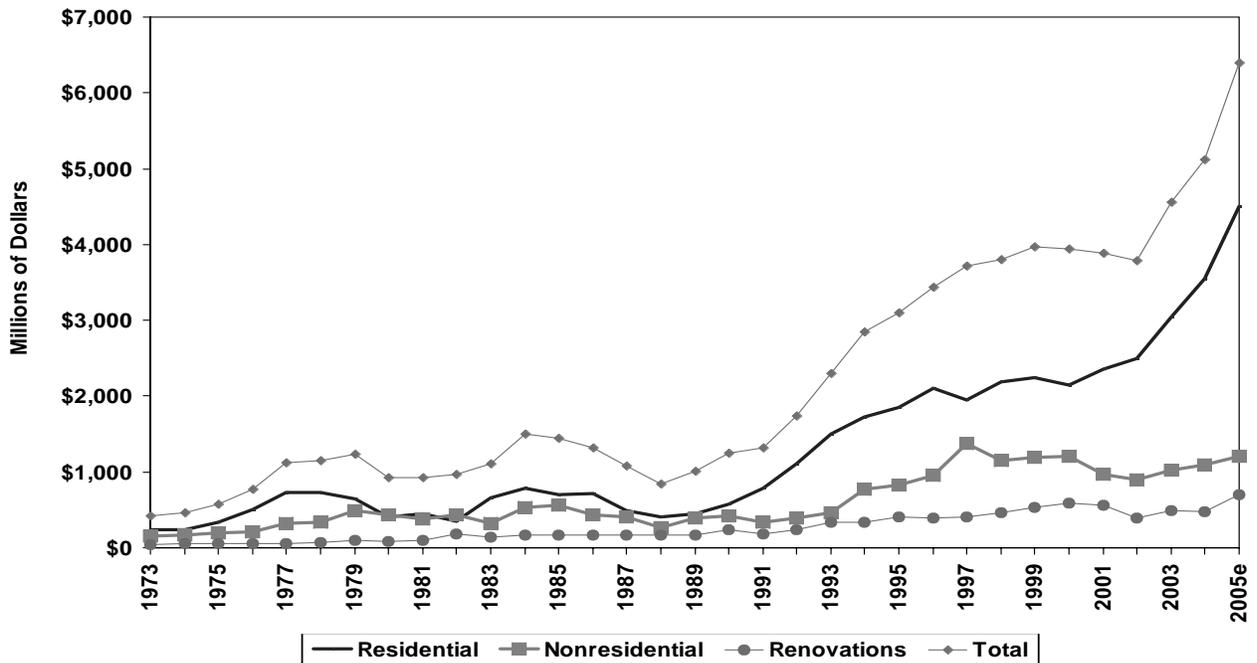
Multifamily units accounted for about one out of every three new dwelling units and condominiums represented half of all multifamily units. Condominiums totaled 3,000 units, apartments 2,000 units, and town homes 1,000 units. Nonresidential construction in 2005 rose to \$1.2 billion, an increase of 10.1% over 2004. Higher levels of construction activity were due to improving market fundamentals, such as employment and demographic growth, which should support even higher levels of activity in 2006 and beyond.

Figure 65
Utah Residential Construction Activity



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

Figure 66
Value of New Construction



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

Table 70
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
1991r	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	14,466	4,149	926	19,941	2,491.0	897.0	393.0	3,782.0
2003	16,515	5,555	766	22,836	3,046.4	1,017.4	497.0	4,560.8
2004	17,724	5,853	716	24,293	3,552.6	1,089.9	476.0	5,118.5
2005e	20,000	6,000	800	26,800	4,500.0	1,200.0	700.0	6,400.0

r = revised

e = estimate

na = not available

Source: University of Utah, David Eccles School of Business, Bureau of Economic and Business Research, November 2005.

Table 71
Summary of Construction Activity in Utah

Type of Construction	2004	2005e	% Change 2004-2005
Total Construction Value	\$5.1 billion	\$6.4 billion	25.0%
Residential Value	\$3.6 billion	\$4.5 billion	26.7%
Total Dwelling Units	24,293 units	26,800 units	10.3%
Single Family Units	17,724 units	20,000 units	12.8%
Multifamily Units	5,853 units	6,000 units	2.5%
Mobile Homes/Cabins	716 units	800 units	11.7%
Nonresidential Value	\$1.1 billion	\$1.2 billion	10.1%
Additions, Alterations and Repairs	\$476 million	\$700 million	47.1%

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

Table 72
Average Rates for 30-year Conventional Mortgages in Utah

Year	Mortgage Rates	Year	Mortgage Rates
1968	7.03%	1987	10.19%
1969	7.82%	1988	10.33%
1970	8.35%	1989	10.32%
1971	7.55%	1990	10.13%
1972	7.38%	1991	9.25%
1973	8.04%	1992	8.40%
1974	9.19%	1993	7.33%
1975	9.04%	1994	8.36%
1976	8.86%	1995	7.95%
1977	8.84%	1996	7.81%
1978	9.63%	1997	7.60%
1979	11.19%	1998	6.95%
1980	13.77%	1999	7.43%
1981	16.63%	2000	8.06%
1982	16.09%	2001	6.97%
1983	13.23%	2002	6.54%
1984	13.87%	2003	5.80%
1985	12.42%	2004	5.84%
1986	10.18%	2005e	5.83%

e = estimate

Source: Freddie Mac

Table 73
Housing Prices for Utah: 1980 to Third Quarter 2005

Year	Index	Year-Over Percent Change	Year	Index	Year-Over Percent Change
1980	101.2		1993	146.7	10.9%
1981	108.2	6.9%	1994	171.5	16.7%
1982	110.6	2.2%	1995	191.4	11.6%
1983	113.1	2.2%	1996	207.9	8.6%
1984	112.9	-0.1%	1997	220.8	6.2%
1985	115.5	2.3%	1998	232.1	5.1%
1986	117.8	2.0%	1999	234.5	1.0%
1987	115.4	-2.1%	2000	236.8	0.9%
1988	112.0	-2.9%	2001	247.5	4.5%
1989	113.8	1.6%	2002	251.2	1.5%
1990	117.6	3.3%	2003	255.8	1.8%
1991	124.3	5.7%	2004	264.5	3.4%
1992	132.4	6.5%	2005Q3	295.9	11.4%

Source: Office of Federal Housing Enterprise Oversight, Housing Price Index.

