

Construction

Overview

The value of new permit authorized construction reached an all-time high of \$7.6 billion in 2006, an increase of 15% over \$6.6 billion in 2005. Residential construction led the way with a record \$5.1 billion in new construction activity. The number of new dwelling units receiving building permits totaled 27,000, which includes new homes, apartments, condominiums, manufactured units, and cabins. In 2006, the number of residential units receiving permits declined by 4.5% from the record setting year of 2005 when 28,285 new dwelling units received building permits. Single-family homes continue to dominate new residential construction as low mortgage rates and high rates of net in-migration and employment drove demand for new single-family homes to the second highest level ever—20,500 units.

Permit-authorized nonresidential construction experienced a very strong year with a 30% increase in value of new construction. In 2006, nonresidential construction reached \$1.6 billion compared to \$1.2 billion in 2005. Nonresidential construction activity is increasing in response to employment expansion and population growth. In 2006 the nonresidential sector began to benefit from a number of very large nonresidential projects proposed over the next few years, most notably the \$1.5 billion investment by The Church of Jesus Christ of Latter-day Saints in Salt Lake City's Central Business District.

2006 Summary

Residential Sector. The number of new residential units receiving building permits declined slightly, dropping from 28,285 units in 2005 to 27,000 in 2006, a decline of 4.5%. Despite the drop in new construction activity, the value of residential construction continued to increase due to rising cost of construction materials, escalating land prices, and low interest rates. Low rates have allowed homebuyers to qualify for higher priced homes and induced homebuilders to build more expensive homes. The value of residential construction rose from \$4.7 billion in 2005 to \$5.1 billion in 2006.

The residential sector is divided into two broad categories: single-family and multifamily units. The single-family sector experienced little change in the number of new units receiving permits in 2006; however, activity in the multifamily sector declined by over 10%. The number of single-family units was 20,500 units compared to only 5,700 multifamily units. In 2006, new detached single-family units outnumbered multifamily units by about 3.6 to 1. A third but small category of building type is manufactured homes/cabins, which had 800 new units in 2006, very comparable to the number in 2005.

New home construction is highly concentrated in Utah, with a few communities capturing most of the new construction activity. Nearly 60% of all new home construction in 2006

was located in Salt Lake, Utah, and Washington counties. Salt Lake County had 4,800 new single-family homes in 2006, Utah County had 5,600 and Washington County 1,800. Particularly noteworthy is Utah County's performance, which led all counties, including Salt Lake, in new home construction. This is the first year that Salt Lake County has not finished first in home building activity. Utah County's remarkable level of activity was driven by the cities of Lehi and Eagle Mountain. Lehi led all cities with 1,800 building permits for new homes. Eagle Mountain ranked third among all cities in new home construction with 800 building permits. In 2005, St. George led all cities in new home building with 1,100 units, but in 2006, new home construction declined more than 40%. Even with 600 units, St. George still ranked sixth among all cities.

The number of building permits issued for new multifamily units totaled 5,700 in 2006. Multifamily units include apartments, condominiums, town homes, and twin homes. For the fourth year in a row, the number of new condominiums exceeded the number of new rental units. In 2006 condominiums accounted for 55% of multifamily units, apartments captured 30%, and town homes 14%. Of the new condominiums in 2006, 70% were located in Salt Lake, Utah, or Washington counties.

In 2006, only 1,700 new apartment units were added to the rental inventory in the state. These new units amount to an increase of less than 1% of the rental inventory. More than 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 have persisted in the rental market for the last few years. These weak market conditions are not due to over building but are due primarily to low mortgage rates, which have made it easier for renters to qualify for homeownership. The loss of renters to homeownership has led to higher vacancy rates and downward pressure on rental rates. However, market conditions have improved significantly in the past 18 months as vacancy rates have dropped to the 5% to 6% range and rental rates have increased by about 3%. The apartment market should continue to improve in 2007.

Nonresidential Construction. The value of new, nonresidential permit, authorized construction in Utah in 2006 was \$1.6 billion, 31% higher than the level of activity in 2005. In real terms, the value of nonresidential construction is approaching the record levels of the pre-Olympic years of 1997 through 1999. The largest project in 2006 was The Church of Jesus Christ of Latter-day Saints Church History Library in downtown Salt Lake City with a permit value of \$65 million. In 2006, the nonresidential sector was characterized

by an unusual number of midsize projects; however, there are several mega-projects planned for 2007. The largest is the \$1.5 billion City Creek Center, a construction and renovation project in Salt Lake City's Central Business District proposed by Property Reserve, Inc., which will begin in 2006 and continue through 2011. Given the number of proposed projects, non-residential construction should be very strong the next few years.

New nonresidential construction activity for commercial buildings is much improved over 2005 as the economic expansion has brought higher occupancy rates. Construction of new industrial buildings is up 33% over 2005 while office construction is up 47% and retail construction activity is up sharply at 81% over 2005.

Conclusion and 2007 Outlook

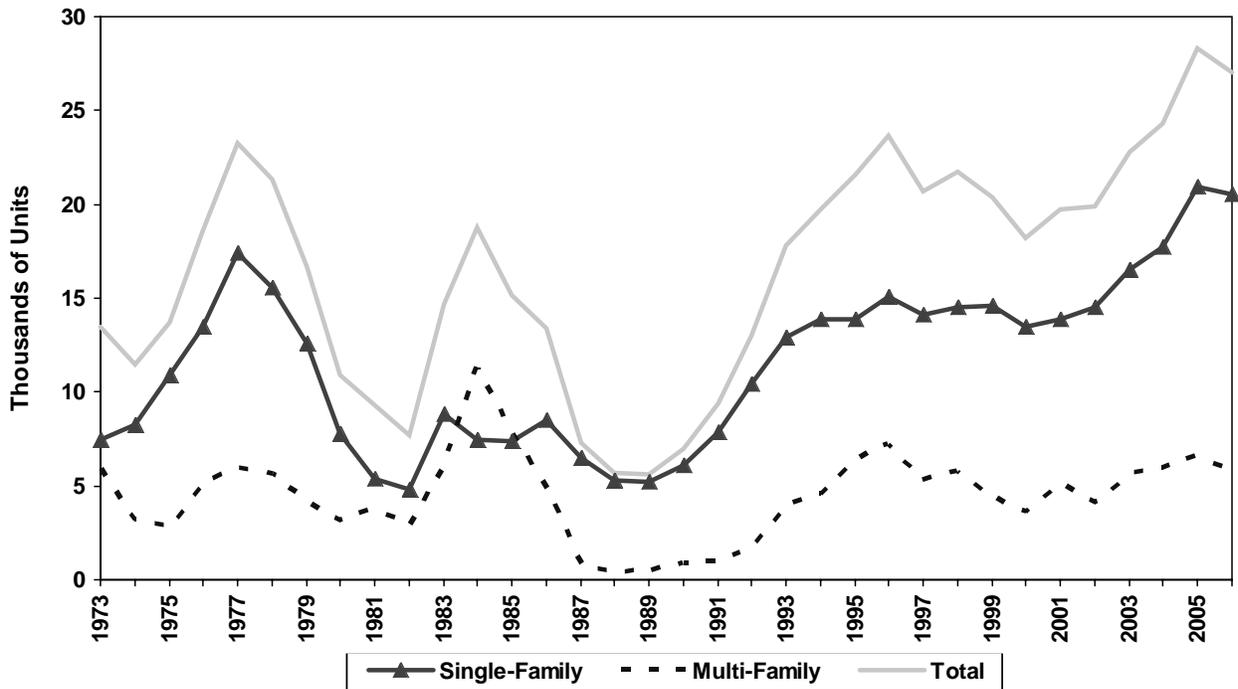
Total construction value in Utah was \$7.6 billion in 2006, which included \$5.1 billion in residential construction, \$1.6 billion in nonresidential construction, and \$900 million in additions, alterations and repairs. The value of new residential construction activity set an all-time record. Higher valuation was driven by rising material, land and wage costs and low mortgage rates.

From 1998 to 2004, Utah ranked last in price appreciation of existing homes. However, over the past two years housing prices have risen dramatically. The most recent data published by the Office of Federal Housing Enterprise Oversight show that the sales price of existing homes in Utah rose 17.4% from the third quarter of 2005 through third quarter of 2006. Utah ranks second among all states in price appreciation in the past year, which is well above the national average.

Multi-family units accounted for less than one out of every three new dwelling units and condominiums represented 55% of all multi-family units. Condominiums totaled 3,100 units apartments totaled 1,700 units, and town homes totaled 800 units.

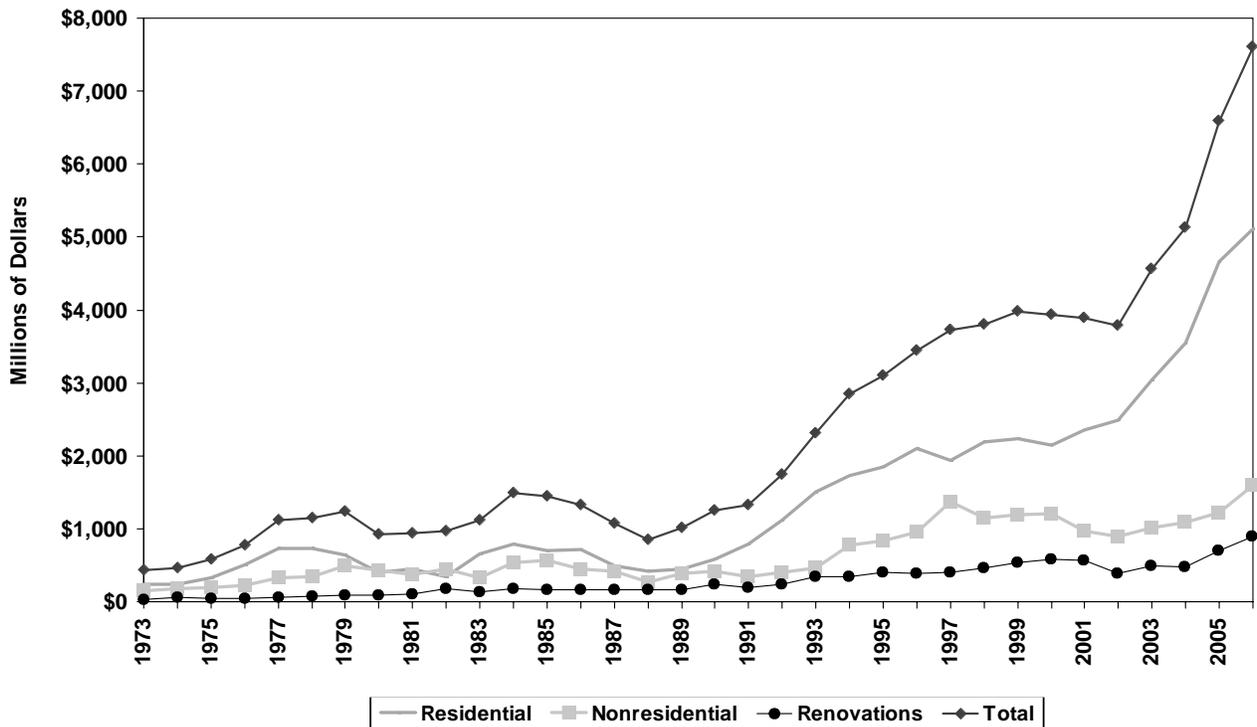
Nonresidential construction in 2006 rose to \$1.6 billion an increase of 31% over 2005. Higher levels of construction activity are due to improving market fundamentals--employment and demographic growth--which should support even higher levels of activity in 2007 and beyond.

Figure 63
Residential Construction Activity



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

Figure 64
Value of New Construction



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

Table 81
Residential and Nonresidential Construction Activity

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
2005	20,912	6,562	811	28,285	4,662.6	1,217.8	707.6	6,558.0
2006e	20,500	5,700	800	27,000	5,100.0	1,600.0	900.0	7,600.0

r = revised

e = estimate

na = not available

Source: University of Utah, David Eccles School of Business, Bureau of Economic and Business Research, November 2006

Table 82
Summary of Construction Activity

Type of Construction	2004	2005	2006e	% Change 2005-2006
Total Construction Value	\$5.1 billion	\$6.6 billion	\$7.6 billion	15.1%
Residential Value	\$3.5 billion	\$4.7 billion	\$5.1 billion	9.4%
Total Dwelling Units	24,293 units	28,285 units	27,000 units	-4.5%
Single Family Units	17,724 units	20,912 units	20,500 units	-2.0%
Multifamily Units	5,853 units	6,562 units	5,700 units	-13.1%
Mobile Homes/Cabins	766 units	811 units	800 units	-1.4%
Nonresidential Value	\$1.01 billion	\$1.2 billion	\$1.6 billion	31.4%
Additions, Alterations and Repairs	\$497 million	\$710 million	\$900 million	27.2%

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

Table 83
Average Rates for 30-year Mortgages in Utah

Year	Mortgage Rates	Year	Mortgage Rates
1968	7.03%	1988	10.33%
1969	7.82%	1989	10.32%
1970	8.35%	1990	10.13%
1971	7.55%	1991	9.25%
1972	7.38%	1992	8.40%
1973	8.04%	1993	7.33%
1974	9.19%	1994	8.36%
1975	9.04%	1995	7.95%
1976	8.86%	1996	7.81%
1977	8.84%	1997	7.60%
1978	9.63%	1998	6.95%
1979	11.19%	1999	7.43%
1980	13.77%	2000	8.06%
1981	16.63%	2001	6.97%
1982	16.09%	2002	6.54%
1983	13.23%	2003	5.80%
1984	13.87%	2004	5.84%
1985	12.42%	2005	5.87%
1986	10.18%	2006e	6.49%
1987	10.19%		

e = estimate

Source: Freddie Mac

Table 84
Housing Prices for Utah: 1980 to Third Quarter 2005

Year	Index	Year-Over Percent Change	Year	Index	Year-Over Percent Change
1980	102.6		1994	174.5	16.8%
1981	110.4	7.6%	1995	194.6	11.5%
1982	112.8	2.1%	1996	211.5	8.7%
1983	115.2	2.2%	1997	224.5	6.1%
1984	114.4	-0.7%	1998	235.9	5.1%
1985	117.7	2.9%	1999	238.3	1.0%
1986	119.9	1.9%	2000	240.4	0.9%
1987	117.5	-2.0%	2001	251.2	4.5%
1988	114.0	-3.0%	2002	254.9	1.5%
1989	115.7	1.5%	2003	259.4	1.8%
1990	119.5	3.3%	2004	267.6	3.2%
1991	126.4	5.8%	2005	295.5	10.4%
1992	134.8	6.6%	2006e	340.4	15.2%
1993	149.5	10.9%			

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