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Reflections on Affordability in Utah's Housing Market

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A companion piece to "Housing Affordability: What Are Best Practices and Why Are They Important?", Gardner Policy Institute, University of Utah, November 2020.

For nearly 50 years, Utah's housing market has been the center of my professional career. In 1972, I was hired as a graduate assistant at the University of Utah's Bureau of Economic and Business Research (BEBR). Thayne Robson, the director, wanted me to help with BEBR's construction database. Housing was already an interest of mine. I had just finished a research paper on national housing trends. The opportunity to learn about local trends proved to be the beginning of my long journey with Utah's housing market and the issue of affordability.

Two Concepts of Affordability

- *Affordable Housing Versus Housing Affordability*—I need to begin with an important but often overlooked distinction between two key phrases: affordable housing and housing affordability. Affordable housing refers to a specific type of housing, generally government-assisted rental housing, targeted for very low– to extremely low–income households. Housing affordability is a much broader term and refers to the general level of housing prices relative to the general level of household incomes. The term does not refer to any particular type of housing.
- *Complementary Concepts*—The two concepts are not mutually exclusive or in conflict but are complementary; however, they generally have different root causes that require different policy solutions. Simply put, affordable housing is first and foremost an income problem (e.g., low wages), while housing affordability is a policy problem (e.g., land use regulations).

Reflections on Affordable Housing

- *Affordable Housing, an Ever-Present Issue*—The shortage of affordable housing for very low–income households has been a persistent issue in Utah's urban areas for 50 years.[1] There's a segment of the population, probably 10% of all households, that are always in housing crisis, regardless of economic conditions. Although all very low–income households qualify for federal housing assistance, the programs lack sufficient funding to cover all those who qualify.
- *Nonprofits and Local Government Committed to Affordable Housing*—As an issue, affordable housing has a much longer history than housing affordability. In my experience, the one constant has been the tireless commitment of a cadre of local government and nonprofit organizations to the cause of affordable housing. Public housing authorities; the housing offices of the state, Salt Lake County, and Salt Lake City; the Utah Housing Coalition; Utah Housing Corporation; NeighborWorks Salt Lake and Provo; Crossroads Urban Center; Community Development Corporation of Utah; Olene Walker Housing Loan Fund; League of Cities and Towns; Envision Utah; The Road Home; Community Action Program; Habitat for Humanity; and Utah Non-Profit Housing Corporation are some of the most active advocates and developers of affordable housing. They deserve a shout-out. I've had the good fortune to work with all of these organizations. Their dedication has been an inspiration.
- *The Frayed Safety Net*—Through the efforts and support of these organizations, housing assistance is currently provided to 50,000 very low–income households in Utah, with nearly 30,000 Low-Income Housing Tax Credit units and 12,000 Section 8 Housing Choice Vouchers. Nevertheless, there are still over 50,000 very low–income renter households in Utah without any housing assistance. These households face a daily housing crisis.
- *Measuring Affordable Housing Success*—The affordable housing crisis is too vast for the market to solve. Government programs, public-private partnerships, and the development of tax credit units can mitigate but not subdue. I worked for three years on a program to end homelessness. We were not successful. The problem was too vast, but we did mitigate the crisis for some. The same is true for the affordable housing crisis. Without large-scale intervention by the federal government, success on affordable housing will be measured by mitigation and incremental progress in reducing the number of severely cost-burdened households.

Reflections on Housing Affordability

- *Rapid Growth, Higher Prices, and Declining Housing Affordability*—It takes a sharp rise in prices for housing affordability to become an issue. Since 1970, Utah has had four such episodes; 1977–1979, 1994–1997, 2005–2007, and 2014–2020. Two of these episodes, 1977–1979 and 2004–2007, did not lead to concerns about housing affordability. In both cases, the run-up in prices was a result of speculative and inflationary markets, which set off severe recessions and declines in housing prices; thus, housing affordability was not an issue. In contrast, the acceleration in prices in 1994–1997 and 2014–2020 was due to extraordinary demographic and economic growth and excellent market fundamentals. In both of these episodes, rising prices led to legislation aimed at improving housing affordability: in 1996, H.B. 295; in 2019, S.B. 34; and in 2020, S.B. 39. As long as Utah remains a high-growth state, which is very likely, housing affordability will be an issue.

- *H.B. 295, Symbolic or Consequential*—I remember participating in a task force that developed recommendations for what became H.B. 295. In retrospect, our recommendations were not well defined nor strong enough, but we were affordability neophytes. With the passage of H.B. 295, housing affordability was, for the first time, officially recognized as a statewide issue. The law, however, turned out to be more symbolic than consequential. H.B. 295, unfortunately, did not include any penalties for noncompliance; nevertheless, it did raise the awareness of housing affordability as an issue. The law required all communities and counties to have a housing element as part of their general plan. It required each jurisdiction to complete and periodically update an affordable housing needs assessment.

- *H.B. 295 and Outcomes*—Over the years, I've worked on many needs assessments for cities and counties. I really can't say if those needs assessments improved housing affordability or added any affordable units. A city's submission of a needs assessment fulfilled a state requirement, but outcomes, in terms of units added, were never systematically measured. In the end, H.B. 295's impact on housing affordability was likely negligible.

- *Affordability Becomes a Greater Threat*—In May 2018, I coauthored a *Gardner Business Review* article titled, "What Rapidly Rising Prices Mean for Housing Affordability."[2] The article warned that Utah's rapid increase in housing prices was a threat to low-income and middle-income families. Furthermore, in time, housing prices could hurt the Utah economy, making it more difficult to attract talent and more likely to lose talent. Consequently, the recent increase in prices poses a much broader threat to Utah households and the Utah economy than the 1994–1997 price episode.

- *Measuring Housing Affordability Success*—The success of housing affordability policies can be a challenge to measure. For instance, a change in a zoning ordinance may take years to generate meaningful metrics, or the cost savings from streamlining the approval process can be exasperatingly indeterminate. Over time, housing affordability success will be measured by policy changes and initiatives to promote higher-density housing, reduce the number of severely cost burdened households, and the preservation of existing affordable housing.

Major Impediment to Affordability: Nimbyism

- *Formidable Opposition*—Progress on affordability confronts two powerful forces: market conditions, driven by high growth and low interest rates, and Nimbyism (not in my backyard). The former boosts housing demand while the latter impedes housing supply. The combined effect exacerbates the housing shortage, producing higher prices.

- *A Point of Entry*—Labor, land, and material costs are beyond the control of local authorities; however, land use regulations provide a powerful point of entry for local communities to interrupt the rise in housing prices. Higher density housing, for both single-family and multifamily development, is the most effective policy tool, a safety valve to the upward pressure on prices. But local opposition often prevents or weakens higher-density development.

- *The Power of Delay*—Neighborhood participation in local government has many virtues but also carries risks for housing affordability. Land use politics provides neighbors significant power to delay change and protect the status quo. The project approval process can be captured by a small group of well-meaning neighbors to slow down or stop development. They think of themselves as community-minded, but they are often unrepresentative, both demographically and attitudinally, of the broader community. Their wishes may ignore the more wide-ranging housing needs of the community.

- *Asymmetry of Support*—Opponents of new development almost always live within close proximity of the proposed project. They are convinced the new development will diminish their property values and their wealth. Consequently, they have a strong motivation to make their opposition heard. The proponents, the project's potential beneficiaries, very likely live outside the jurisdiction and are probably unaware of the development. They have little or no motivation to show up at planning commission meetings to speak in favor of the project.

- *Cognitive Dissonance*—A survey by the Salt Lake Chamber in 2018 showed that Utah families considered housing affordability the number one local issue, ahead of education, transportation, and air quality. Yet, I would guess that many of the respondents most worried about housing affordability would likely oppose high-density development in their neighborhood. These conflicting attitudes, this cognitive dissonance of, again, well-meaning, community-involved residents, has hurt housing affordability in Utah's urban areas.

Perilous Price Territory

- *Some Sobering Statistics*—The 2014–2020 period represents the most prolonged period of price increase in Utah's housing history. Even the COVID-19 pandemic has had little impact on prices, which are up 10% in 2020 alone. The monthly payment on the median-priced home in Utah has increased 43% in the past five years, from $1,574 in the third quarter of 2015 to $2,249 in the third quarter of 2020. Without the drop in interest rates, the monthly mortgage would be $215 higher.[3] An income of $90,000 would be needed to finance the median-price home in 2020, compared with only $62,960 in 2015.[4] Why such a huge increase? Because Utah housing prices have been increasing twice as fast as household income.

  The National Association of Realtors quarterly price survey shows that the median sales price of a home ($381,900) in the Salt Lake Metropolitan Area ranked 21st out of 181 metropolitan areas in the second quarter of 2020. Housing prices in the Salt Lake Metropolitan Area are higher than 88 percent of all major metropolitan areas.

- *Housing Price-to-Income Multiple*—In my opinion, the Utah housing market has entered perilous price territory. The house price-to-income multiple, a common measure of housing affordability, has reached a multiple of 5.02 in the third quarter of 2020. Five years ago, it was 3.97.[5] A multiple of less than 3.0 is considered very affordable, and a multiple of more than 5.1 is considered "severely unaffordable."[6] Utah's disturbing trend confirms that housing affordability has now become a threat to middle-income households.

Legislative and Civic Intervention

- *Commission on Housing Affordability and Housing Gap Coalition*—While nonprofits and a few local officials had carried the affordability crusade for decades, additional help was needed. With little support from the federal government, fierce neighborhood opposition to high-density housing, and surging prices, conditions called out for state government and civic support. That support arrived in 2018. The Utah State Legislature created the Commission on Housing Affordability, and the Salt Lake Chamber created the Housing Gap Coalition.

- *Incentives and Accountability*—The commission and the coalition were responsible for the passage of the first housing legislation in over 20 years; S.B. 34 in 2019 and S.B. 39 in 2020. These two bills provided, in some cases for the first time, (1) incentives for affordable housing development, (2) local accountability, (3) additional state funding, and (4) a centralized repository of the housing strategies and outcomes for 99 municipalities.

- *Shortage of Funding*—The two bills, however, did not include much in the way of funding for affordable housing. S.B. 34 provided incentives for affordable housing but no funding, which was a serious disappointment given the state's record revenues at the time. S.B. 39 initially approved $10 million in funding for affordable housing, but the June Special Session cut the appropriation to $5 million, with $2.5 million for preservation. In my view, an additional ongoing source of funding for affordable housing and stronger incentives for high-density housing should be the next steps in the state's housing affordability strategy.

- *The Challenge and the Promise*—We have entered a new era, an era of heightened attention and focus on housing affordability. As I emphasized above, we are in the most challenging time; prices have increased by 59% in five years. But we are also in the most promising time. Nonprofits, housing advocates, legislators, and the civic community, for the first time, have all joined the fight to tame prices. This would not have been possible but for the commitment of Senator Jake Anderegg, Representatives Joel Briscoe and Val Potter, the Salt Lake Chamber, and the involvement and financial contributions of Zions Bank, the Clark and Christine Ivory Foundation, Intermountain Healthcare, the Larry H. & Gail Miller Family Foundation, Catholic Community Services, and the Church of Jesus Christ of Latter-day Saints. All have entered the fight for affordability. The housing opportunities, for our children, for the next generation, depend on this collective leadership.

Endnotes

1. Very low-income households include all households with incomes below 50% of the area median income; roughly 25% of all households.
2. "What Rapidly Rising Prices Mean for Housing Affordability," *Gardner Business Review*, James Wood, Dejan Eskic, and D.J. Benway, May 2018.
3. Mortgage payments assume a 3% down payment, taxes at .007% of the value of the home, private mortgage insurance (PMI) at 1% of the value of the home, home insurance of $800 annually, and mortgage interest rate of 3.95% in the third quarter of 2015 and 2.95% in the third quarter of 2020 as reported by Freddie Mac. The increased value of a home substantially increases the cost of PMI and property taxes from 2015 to 2020. Both property taxes and PMI are based on home value.
4. The income estimate assumes that the mortgage payment equals 30% of household income.
5. In 2015 the median sales price of a single-family home in Utah was $250,000, and the median household income was $62,912, a ratio of 3.97. The median sales price of a home in 2020 was $397,916, and the median household income was an estimated $79,190, a multiple of 5.02. I estimated the 2020 median household income by applying the annual five-year growth rate in median household income of 4.5% to the 2019 household income estimate of $75,780 (U.S. Census).
6. Demographia International Housing Affordability Survey.

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