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Moving Utahns Toward Homeownership

Benefits, Rates, Affordability, and Obstacles

MOVING UTAHNS TOWARD HOMEOWNERSHIP

BENEFITS, RATES, AFFORDABILITY, AND OBSTACLES

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About the Utah Foundation

Since 1945, leaders, legislators, and community members have relied upon the **illuminating, independent, and nonpartisan public-policy research** produced by the Utah Foundation to support informed decision-making on topics that matter most. As a 501(c)3 with broad community support and a 60-member board, the Utah Foundation exists to empower **civic engagement as the foundation for enhanced quality of life for Utahns**.

Research Report 818

INTRODUCTION

The American Dream is deeply embedded in the identity and ethos of the United States. At its core is the belief that anyone – regardless of their background – can achieve success, upward mobility, and a better life through hard work, determination, and opportunity. Homeownership is both a symbol of achieving the American Dream and a way it is achieved.

The present housing crisis in the United States, and Utah specifically, is often discussed as a result of pandemic-related increases in demand, simultaneous supply chain constraints, and more recent increases in interest rates. However, even well before the pandemic, home prices were rising at rates in excess of the broader rate of inflation.[1]

This is the first of two Utah Foundation reports exploring homeownership. This report starts by highlighting the various positive social and economic impacts of homeownership, rates of homeownership over time, and indicators of affordability. It then investigates what is making homes unaffordable and the role of high prices in lowering ownership rates. It continues by considering the potential role of interest rate changes on homeownership and the construction of housing inventory. Finally, this report acknowledges that homeownership may not necessarily be preferable to renting in every circumstance. The second report in this series explores policy options to increase homeownership rates.

The political implications of the above issues are clear. Policymakers are increasingly focused on housing as it has become a significant issue for voters in the local, state, and national elections of 2024 and beyond. These homeownership reports serve both as background for voters and a menu of options from which politicians might consider to address the problems being faced.

HIGHLIGHTS OF THIS REPORT

- Recent household incomes were only about 20% higher than in 1985, while home prices had increased by 90% – adjusting for inflation.
- Housing affordability is at historical lows.
- The origins of Utah's housing cost crisis predate the pandemic.
- Homeownership is associated with increased wealth and improved educational outcomes.
- Compared to older generations, millennials saw the largest decrease in housing affordability during peak household formation years.
- A shortage of housing construction and inventory, along with older Americans staying in their homes for longer periods, likely puts upward pressure on home prices.
- While there are certainly advantages to homeownership, it is important to recognize the drawbacks.

1 Jared Bernstein, Ernie Tedeschi, and Sarah Robinson, 2021, "Housing Prices and Inflation", https://www.whitehouse.gov/cea/written-materials/2021/09/09/housing-prices-and-inflation/. and Peter Miller, 2024, "Mortgage Rates Chart: Historical and Current Rate Trends", https://themortgagereports.com/61853/30-year-mortgage-rates-chart#loan-purpose. and Anytime Estimate, 2022, "Home Prices vs. Inflation: Why Millennials Can't Afford Homes (2022 Data)," https://anytimeestimate.com/research/housing-prices-vs-inflation/.

WHY FOCUS ON HOMEOWNERSHIP?

Homeownership provides households with financial flexibility. Home equity can be leveraged to meet emergency needs, start a business, or pay for post-secondary education. This reality increases equity holders' maneuverability in the economy thus enhancing their ability to take advantage of opportunities and also avoid financial catastrophes. In addition to this financial flexibility, homeownership is positively related to wealth and educational outcomes.

Wealth. Homeownership represents a historically important key to wealth building in the United States. In 2013, it was shown that each year of homeownership is associated with a $9,500 increase in average net household wealth.[2] Further, between 2012 and 2022, the value of a median-priced home in the U.S. increased by $190,000, or a gain of $19,000 per year on average.[3] This increase is even more pronounced in Utah, where the median home price nearly doubled between 2017 and 2022.[4] Accordingly, it comes as little surprise that a typical U.S. homeowner's net worth is roughly 40 times higher than that of a typical renter.[5]

Indeed, home equity composes the largest proportion of wealth (34.5%) for U.S. households across all age groups.[6] Home equity, on average, represents the largest or second largest source of household wealth within each age group.[7] In terms of median wealth, home equity is far and away the most important wealth component for most U.S. households. While ″other real estate″ and ″rental property″ rival or even exceed the median value of home equity, these owners represent a very small proportion of the population (8% and 7%, respectively) relative to the larger portion of households with "home equity" from primary residences (62%). (See Figure 1 on page 3.)

Education. Homeownership also correlates with an improvement in educational outcomes. For instance, homeownership correlates with higher standardized test scores in mathematics and reading.[8]

In addition, adolescents from low-income, home-owned households are 13 percentage points more likely to graduate high school than their counterparts from low-income, rental households. Conversely, adolescents from higher-income, home-owned households are not more likely to graduate high school than their counterparts in higher-income, rental households.[9] Overall, high school graduation rates and post-secondary completion rates

2 C.E. Herbert, D.T. McCue, and R. Sanchez-Moyano, 2013, "Is Homeownership Still an Effective Means of Building Wealth for Low-Income and Minority Households? (Was It Ever?)", https://www.jchs.harvard.edu/sites/default/files/hbtl-06.pdf.

3 National Association of Realtors Research Group, 2023, https://cdn.nar.realtor//sites/default/files/documents/2023-04-wealth-gains-by-income-and-racial-ethnic-group-04-18-2023.pdf.

4 St. Louis Federal Reserve, 2023, https://fred.stlouisfed.org/series/UTSTHPI.

5 Leslie Cook, 2023, "Here's Who Benefited Most from Homeownership Over the Past 10 Years", https://money.com/build-wealth-owning-a-home study/.

6 J.P. Thompson and G.A. Suarez, 2017, "Updating the Racial Wealth Gap", Board of Governors of the Federal Reserve System, https://www.federalreserve.gov/econres/feds/files/2015076r1pap.pdf. and J. Eggleston and R. Munk, "Net Worth of Households: 2016", https://www.census.gov/content/dam/Census/library/publications/2019/demo/p70br-166.pdf.

7 Federal Reserve Board, 2022, "Survey of Consumer Finances", https://www.census.gov/content/dam/Census/library/publications/2023/demo/p70br-183.pdf.

8 D. Haurin, T. Parcel, and R. Haurin, 2000, "The Impact of Homeownership on Child Outcomes." https://www.jchs.harvard.edu/sites/default/files/liho01-14.pdf.

9 J.M. Harkness and S.J. Newman, 2003, "Effects of Homeownership on Children: The Role of Neighborhood Characteristics and Family Income", https://ssrn.com/abstract=790744.

Home equity as a share of household wealth is consistently high.

Figure 1: Asset Ownership Rates for Households and Median Values of Assets Holdings, 2021

	Median values (2021 dollars)	Percent holding asset
Household wealth	$166,900	
Rental property	200,000	7%
Home equity	174,000	62%
Other real estate	100,000	8%
Retirement accounts	79,900	60%
Stocks and mutual funds	32,000	27%
Other asset holdings	20,000	25%
Vehicles	15,400	82%
Assets at financial institutions	10,000	96%
Business assets	8,001	15%
Bonds	$3,000	8%

Source: Federal Reserve Board.

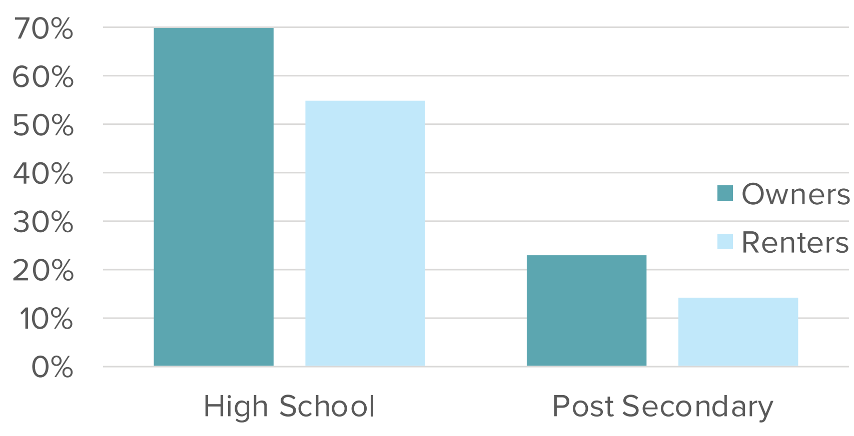
are higher for children growing up in owned homes compared with children in rented housing.[10] (See Figure 2.)

It is, however, important to note that, while these studies find homeownership correlates with educational outcomes, they do not claim homeownership causes improved educational outcomes and attainment.

That said, if homeownership truly does improve educational results in a causal way, it would constitute what might be termed a positive intergenerational cycle. Parental homeownership in this situation would seem to contribute to the educational attainment of

Children of renters exhibit lower levels of educational attainment.

Figure 2: U.S. Children's Educational Attainment by Homeownership

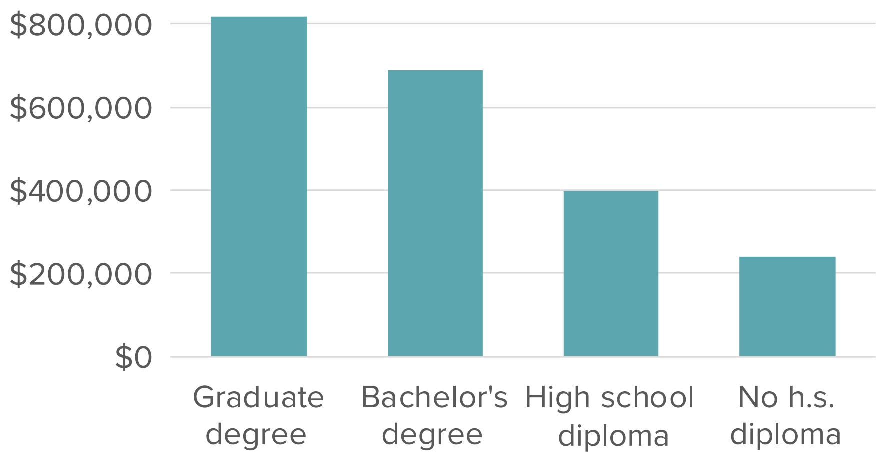


Source: IZA World of Labor.

10 Steven Whelen, 2017, "Does Homeownership Affect Educational Outcomes", https://wol.iza.org/articles/does-homeownership-affect-education-outcomes/long.

There exists a potential homeownership/ income/ education correlation.

Figure 3: Median Housing-Buying Power and Homeownership Rate of Millennials in 2020 by Educational Attainment, 2021



Source: First American Title Insurance Company.

children, thus increasing children's future income and ultimately their capacity for homeownership.[11] (See Figure 3.) This phenomenon plausibly also decreases the social costs associated with an intergenerational reliance on government-funded social safety nets.

Likely as a function of several factors being influenced by home equity, one study also found that during the 2000s, every $10,000 increase in family housing wealth increased the likelihood of a child attending college by 0.7% on average. The impact was more substantial when considering only lower-income households, which experienced a 5.7% increase in the likelihood of a child's college enrollment for every additional $10,000 in housing wealth.[12]

11 Odeta Kushi, 2021, "Does Greater Educational Achievement Increase the Likelihood of Homeownership?", https://blog.firstam.com/economics/does-greater-educational-achievement-increase-the-likelihood-of-homeownership.

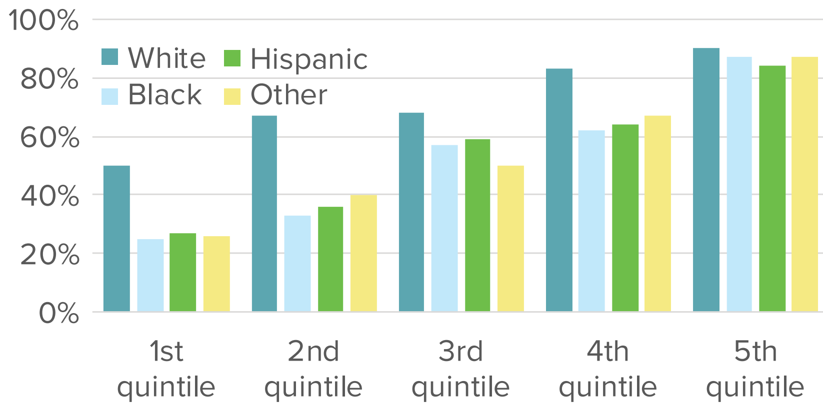
12 M.F. Lovenheim, 2011, "The Effect of Liquid Housing Wealth on College Enrollment.", https://www.jstor.org/stable/10.1086/660775.

Societal Equity. There also exist dramatic differences in household wealth across racial lines in the United States.[13] These differences parallel homeownership rates, with white ownership rates at 72% and Hispanic/Latino and Black ownership rates at 51% and 43%, respectively.[14] These disparities persist even as income increases.[15] (See Figure 4.)

Utah also exhibits lower homeownership rates for various populations of color. For example, between 2015 and 2019, the homeownership gap between white and Black Utahns was ranked the 7th worst in the country, with a difference of 44%.[16] Utah's white/Hispanic homeownership gap was about 22%.

Income does not eliminate homeownership gaps.

Figure 4: Homeownership Rates by Income Quintile and Race, 2021



Source: Federal Reserve Bank of Cleveland.

Since populations of color generally exhibit lower rates of homeownership, lower levels of educational attainment, and lower incomes, it is likely that policies tailored to these communities will provide the greatest benefits for every dollar spent implementing them.[17]

HISTORICAL BARRIERS TO HOMEOWNERSHIP

It has been argued that modern neighborhood planning has its roots in the socioeconomic, racial, and environmental segregation of the early to mid-20th century.[18] Prior to the Fair Housing Act of 1968, populations of color often found it difficult or impossible to acquire financing for homes in areas generally populated by higher-income white families. Banks also considered people of color, those with lower incomes, and the residential areas housing them as riskier from a lending perspective, therefore broadly restricting access to financing for these groups. This is a phenomenon called "redlining." The difficulties accessing finance, therefore, generally concentrated these communities in "less desirable areas." These areas also tended to be industrial, so residents were subject to higher levels of pollution than higher-income, white populations in more desirable areas.[19]

13 Habitat for Humanity, 2020, "Outcomes Associated with Homeownership", https://www.habitat.org/our-work/impact/research-series-outcomes-associated-with-homeownership.

14 National Association of Realtors, 2022, "Snapshot of Race and Home Buying in America", https://www.nar.realtor/sites/default/files/documents/2022-snapshot-of-race-and-home-buying-in-the-us-03-03-2022.pdf.

15 Federal Reserve Bank of Cleveland, 2021, "Evaluating Homeownership as a Solution to Wealth Inequality", https://www.clevelandfed.org/publications/economic-commentary/2021/ec-202122-evaluating-homeownership-as-the-solution-to-wealth-inequality.

16 Alexander Hermann, 2023, "In Nearly Every State, People of Color are Less Likely to Own Homes Compared to White Households", https://www.jchs.harvard.edu/blog/nearly-every-state-people-color-are-less-likely-own-homes-compared-white-households.

17 Federal Reserve Bank of Cleveland, 2021, "Evaluating Homeownership as a Solution to Wealth Inequality", https://www.clevelandfed.org/publications/economic-commentary/2021/ec-202122-evaluating-homeownership-as-the-solution-to-wealth-inequality.

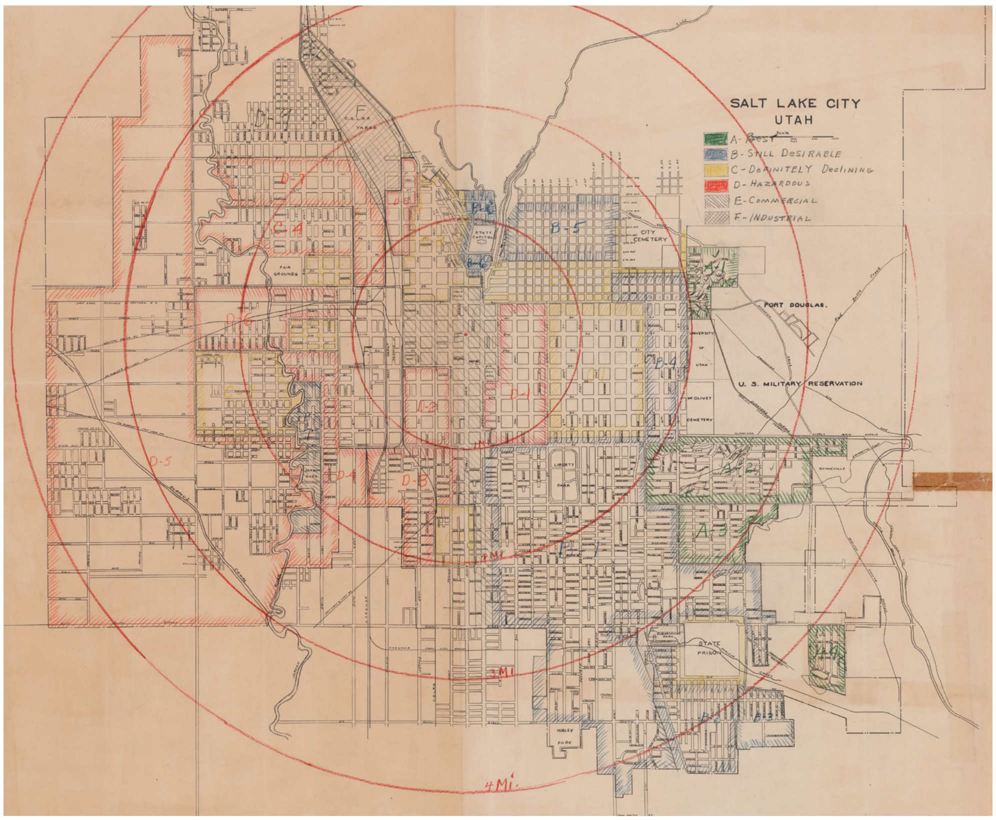
18 Goeff Kabaservice, 2023, "How Elites use Zoning and NIMBYism to Keep the Working Class Out", https://www.niskanencenter.org/how-elites-use-zoning-and-nimbyism-to-keep-the-working-class-out-with-richard-kahlenberg/. and New York Times, 2023, "The 'New' Redlining is Deciding Who Lives in Your Neighborhood", https://www.nytimes.com/2021/04/19/opinion/biden-zoning-social-justice.html.

19 Darryl Fears, 2022, "Redlining Means 45 Million Americans are Breathing Dirtier Air, 50 Years After it Ended", https://www.washingtonpost.com/climate-environment/2022/03/09/redlining-pollution-environmental-justice/.

Similarly, current and historical municipal zoning policies also appear to concentrate density, or what are otherwise often perceived as less desirable housing options, in what one might consider less desirable neighborhoods.[20] This allows the residents of more desirable areas to accumulate more wealth via home value appreciation. With this wealth, of course, ultimately comes greater political influence and the ability to further concentrate density and affordable housing in other less desirable areas of major cities across the state and country.[21] Consequently, these less desirable areas appreciate in value to a lesser degree than others with more restrictive zoning. Of course, this is not to say that these areas with lower housing values cannot appreciate dramatically with gentrification driven by extremely high prices nearby.

Many Utah communities are possibly still experiencing the consequences of redlining.

Figure 5: Home Owners' Loan Corporation Act map of Salt Lake City, 1933-39



Source: National Archives.

Note: This map is part of the Home Owner's Loan Corporation's records. HOLC made loans in areas described as "redlined." That said, the Federal Housing Administration and other redlining maps that were ultimately destroyed from the same time period likely resembled this map.

When looking at Salt Lake City, the vast majority of historically-defined "definitely declining" and "hazardous" areas are on the West Side. Conversely, only a single "still desirable" area is on the West Side, and just a pair of areas denoted "definitely declining" appear to the east.[22]

What continues into the 21st century is the reality that more affordable homes – by virtue of square footage, lot size, setbacks, and density – are still sometimes concentrated in areas previously defined as "less desirable" in historical maps. With various exclusionary zoning policies, communities are possibly still tacitly redlining those with lower incomes – often populations of color – and discouraging their wealth-building efforts relative to those who can afford homes in "desirable" areas.[23]

20 Jonathan T. Rothwell and Douglas S. Massey, 2010, "Density Zoning and Class Segregation in U.S. Metropolitan Areas", https://www.ncbi.nlm.nih.gov/pmc/articles/PMC3632084/.

21 Daniel Hertz, 2015, "Homevoters v. the Growth Machine", https://cityobservatory.org/homevoters-v-the-growth-machine/.

22 Dr. Mariya Shcheglovitova, Emma Jones, Catherine Aviles, and Brad Westwood, 2019,"Redlining, Housing Segregation, and Environmental Pollution in the Pioneer Park Neighborhood (and Beyond)", https://community.utah.gov/redlining-housing-segregation-and-environmental-pollution-in-the-pioneer-park-neighborhood-and-beyond/.

23 Cecilia Rouse, Jared Bernstein, Helen Knudsen, and Jeffery Zhang, 2021, "Exclusionary Zoning, It's Effect on Racial Discrimination in the Housing Market", https://www.whitehouse.gov/cea/written-materials/2021/06/17/exclusionary-zoning-its-effect-on-racial-discrimination-in-the-housing-market/. and Leigh Frank, 2015, "The Link Between Land Use Restriction and Growing Inequality," https://www.urban.org/urban-wire/link-between-land-use-restriction-and-growing-inequality.

Of course, it is simultaneously possible that this tacit redlining co-exists with the reality that other things encourage density aside from the desire to segregate incomes or the absence of resident power and wealth. For instance, density can become more organically concentrated by the presence of transportation centers or the simple availability of larger lots upon which to build.

HOMEOWNERSHIP RATES OVER TIME

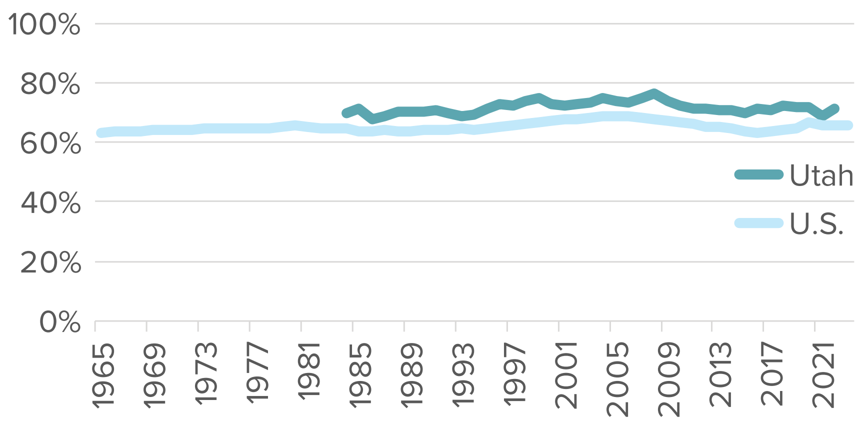
Homeownership peaked in the U.S. around 2006, likely due in part to loose mortgage lending standards, and then declined with the subsequent financial crisis. Ownership rates did not dramatically recover in the years preceding the pandemic when interest rates were very low, and home prices had fallen to – or even slightly below – the long-established trend between 1965 and 2007.[24]

Similarly, Utah's homeownership rates peaked in 2008. Ownership rates in Utah from 2012 to 2022 have remained near the long-term average. Despite the recent jump in Utah housing prices, ownership rates are commendably high relative to the nation, consistently around five percentage points above the national rate. (See Figure 6.)

The homeownership rate in Salt Lake County between 2018 and 2022 fell between the state and the nation at 67%. By contrast, Salt Lake City exhibits a very low homeownership rate – 47%.[25] Given the current local trend of constructing apartments rather than ownable housing – particularly in the city – it seems possible that these rates could decline in the future.[26]

Utah exhibits enviable rates of homeownership.

Figure 6: U.S and Utah Homeownership Rates, 1965-2023



Source: St. Louis Federal Reserve.

Related to ownership rates are household formation rates. The number of U.S. households increased by just 10.1 million from 2010 to 2020 (9% growth), fewer than in any decade between 1950 and 2010.[27] At least some portion of this is likely due to housing costs, which could delay household formation.

24 St. Louis Federal Reserve, 2023, https://fred.stlouisfed.org/series/MSPUS.

25 United States Census, 2022, https://www.census.gov/quickfacts/fact/table/saltlakecountyutah,saltlakecitycityutah,US/PST045222.

26 Kim Bojorquez, 2023, "Salt Lake City's New Construction has Skyrocketed", https://www.axios.com/local/salt-lake-city/2023/09/12/salt-lake-city-new-apartment-construction-skyrocketed.

27 Richard Frey, Jeffrey Passel, and D'vera Cohn. 2021, "U.S. Household Growth over the Last Decade was the Lowest Ever Recorded", https://www.pewresearch.org/short-reads/2021/10/12/u-s-household-growth-over-last-decade-was-the-lowest-ever-recorded/.

Homeownership Abroad

Homeownership in the United States is a major source of wealth accumulation. It is potentially a partial substitute for social safety nets – or government programs designed to provide assistance to vulnerable populations – that are more readily available elsewhere in the world.

A great deal of home equity in the United States ultimately covers retirement and healthcare costs.[28] This can be facilitated by, among other things, the sale, reverse mortgage, or rental of a former primary residence in exchange for a smaller home. This "downsizing" seems a relatively common feature of Americans' aging when it, for example, does not seem to characterize European culture on average.[29]

Highlighting a reduced need to ultimately "downsize," northern Europeans own homes at much lower rates than those in the U.S.[30] In addition to the increased prevalence of social housing in northern Europe, individuals and families in countries such as Switzerland, Germany, Austria, France, or Sweden do not generally have to rely upon home equity to fund their retirement or necessary health care later in life. There also appears to exist a high degree of broad faith in government in northern Europe that may preclude the need for homeownership as insurance against economic or social upheaval. Interestingly, the same is not true in southern or eastern Europe, where homeownership is much more common. Perhaps in countries such as Greece, Italy, Cyprus, or Serbia, the higher rates of homeownership reflect a general lack of faith that southern Europeans exhibit in their governments and financial institutions.[31]

28 Harriet Edleson, 2019, How to Cope with Downsizing Your Home", https://www.aarp.org/retirement/planning-for-retirement/info-2019/coping-with-downsizing/. and Joan Costa and Cristina Vilaplana Prieto, 2023, "Housing in Old Age and the Effect of a Health Shock", https://cepr.org/voxeu/columns/housing-old-age-and-effect-health-shock. and Syed Naqvi, 2023, "The Pros and Cons of Downsizing for Seniors", https://www.retirebetter.ca/blog/the-pros-and-cons-of-downsizing-for-seniors.

29 Viola Angelini, Agar Brugiavini, and Guglielmo Weber, 2010, "Does Downsizing of Housing Equity Alleviate Financial Distress in Old Age?", https://www.mpisoc.mpg.de/fileadmin/user_upload/data/MEA/max-planck-institut-mea-DP-No-217-10-Does-Downsizing-of-Housing-Equity-Alleviate-Financial-Distress-in-Old-Age.pdf.

30 Trading Economics, 2022, https://tradingeconomics.com/country-list/home-ownership-rate?continent=europe.

31 Pachalis Arvanitides, Athina Economou, and Christos Kollias, 2020, "What Explains the EU North-South Gap in Institutional Trust: Socioeconomic Conditions or Behavioral Differences? A Case Study", https://www.tandfonline.com/doi/full/10.1080/23745118.2020.1815381.

AFFORDABILITY

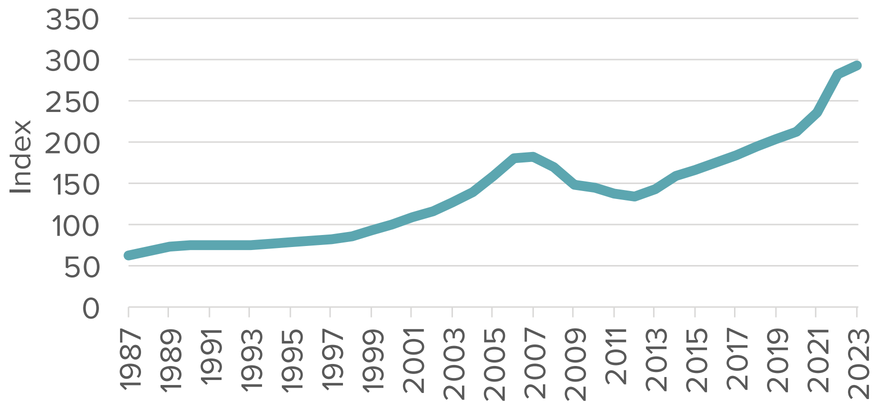
Prices. Following the home prices decrease during the Great Recession, prices increased steadily until 2020, and then spiked through 2022. Housing prices in 2023 continued to rise despite elevated interest rates. (See Figure 7.) Given its evident strength under interest rate pressure, the current home price situation may not be a speculative bubble nor vulnerable to self-correction. Rather, the current situation may be the new long-term reality for prospective home buyers.[32]

Relative to the national case, Utah's home price increases did slow during 2022 and turned negative in early 2023. That said, the most recent data shows Utah's home price index ticking upward again toward levels higher than those seen in late 2021 and early 2022.[33]

This seems to be the trend across all home types and is a factor in the broader context of housing affordability. For example, condo and town home prices have started to increase at a faster rate than single-family homes (or decrease at a slower rate) due to the shortage of moderately priced housing in the United States.[34] This shortage is likely brought about by the profit margins available in the more high-end or luxury housing markets, as these are more likely profitable to developers in an environment of land scarcity and higher labor and materials costs.[35]

The Case-Schiller index shows spiking home prices from 2020 to 2023.

Figure 7: Case-Schiller U.S. Home Price Index, 1987-2023



Source: St. Louis Federal Reserve.

32 Robin Rothstein and Natalie Campisi, 2023, "Will the Housing Market Crash in 2024? Experts Give 5-Year Predictions", https://www.forbes.com/advisor/mortgages/real-estate/will-housing-market-crash/.

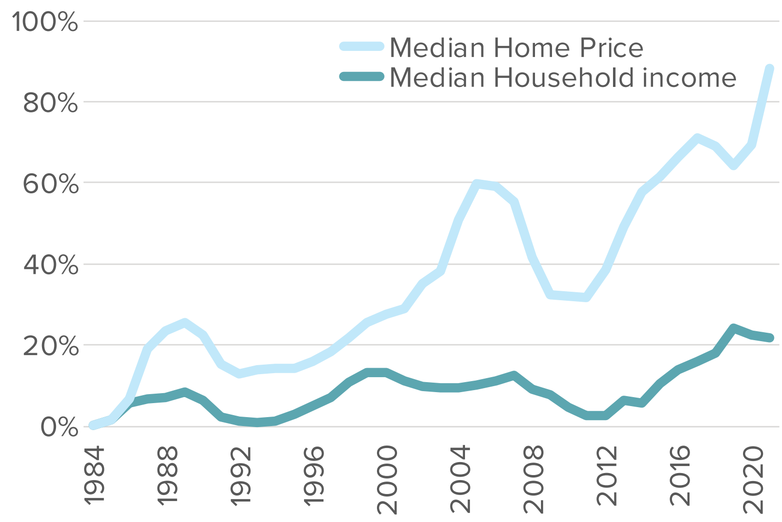
33 St. Louis Federal Reserve, 2023, "All Transactions House Price Index for Utah", https://fred.stlouisfed.org/series/UTSTHPI.

34 Sami Sparber, 2023, "Salt Lake Buyers Turn to Condos over Single-Family Homes", https://www.axios.com/local/salt-lake-city/2023/08/10/salt-lake-city-homebuyer-utah-condo-single-family-home. and Vance Cariaga, 2022, "Condo Values Have Fared Better than Single-Family Homes – Where Have Prices Fallen the Most?", https://www.gobankingrates.com/investing/real-estate/condo-values-fared-better-than-single-family-homes-where-have-prices-fallen-most/.

35 Daniel Herriges, 2018, "Why are Developers Only Building Luxury Housing?", https://www.strongtowns.org/journal/2018/7/25/why-are-developers-only-building-luxury-housing. and Realtor Magazine, 2021, "Who's Behind Increasing Demand for Luxury Homes?", https://www.nar.realtor/magazine/real-estate-news/who-s-behind-increasing-demand-for-luxury-homes.

New home prices have increased much faster than incomes.

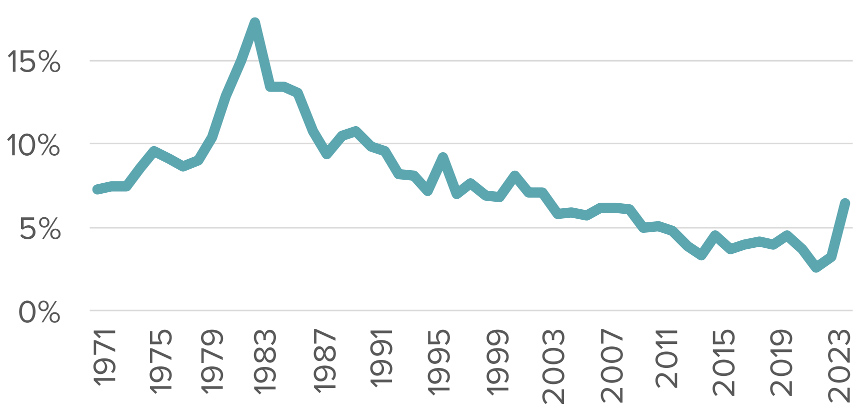
Figure 8: Median Home Prices and Median Incomes, Inflation-Adjusted, 1985-2022



Source: Investopedia.

Interest rates are elevated only relative to the last two decades.

Figure 9: Nationwide 30-Year Mortgage Rates, 1971-2023



Source: St. Louis Federal Reserve.

Prices and Wages. Home prices are generally rising faster than wages in the United States – and have been for a long time.[36] New home price increases in the United States have outstripped median income increases since the 1980s. (See Figure 8.) Household incomes in 2021 were only about 20% higher than in 1985, while home prices had increased by 90% – adjusting for inflation.

This national price and wage mismatch is widespread, historically urban, and pre-dates the pandemic.[37] More specifically, the ratio of median home prices to median household income currently defines Salt Lake City as the 14th least affordable metro area in the United States.[38] The ratios in New York City, Portland, Denver, Las Vegas, Orlando, and Sacramento are comparable. Not surprisingly, central and southern California cities dominate the top five locales on this list.

Interest rates. Interest rate increases in 2022 and 2023 have made homes less affordable. However, it is important to note that, in historical terms, 2023 and 2024 rates are not particularly high. (See Figure 9.)

That said, given that the vast majority of homeowners now enjoy a mortgage interest rate substantially lower than the current market rate, they will almost certainly be more reluctant to abandon the rates on their current mortgages.[39] Even if current rates are understood to be historically moderate, their level relative to the rates of outstanding mortgages likely constricts the housing supply. Certainly, in a high-rate and high-price environment, owners are more likely to tolerate their current conditions until the housing environment improves for them as sellers. Given the general trend in rents, some may even simply rent out an owned property after having

36 Adrian Nesta, 2023, "Millennial Homeownership Still Lagging Behind Previous Generations", "https://www.investopedia.com/millennial-homeownership-still-lagging-behind-previous-generations-7510642.

37 Steffen Wetzstein, 2017, "The Global Urban Housing Affordability Crisis", https://www.jstor.org/stable/26428376.

38 Katie McKellar, 2023, "Home Prices vs. Income: Salt Lake City Ranks 14th Among Nation's 'Least Affordable' Metros", https://www.deseret.com/utah/2023/11/9/23954196/housing-market-home-prices-salt-lake-city-most-expensive-least-affordable.

39 Erin Bendig, 2023, "The Magic Mortgage Rate Number to tip the Housing Market", https://www.kiplinger.com/personal-finance/the-magic-mortgage-rate-number-to-tip-the-housing-market.

purchased a new one if forced to relocate due to personal or professional circumstances.

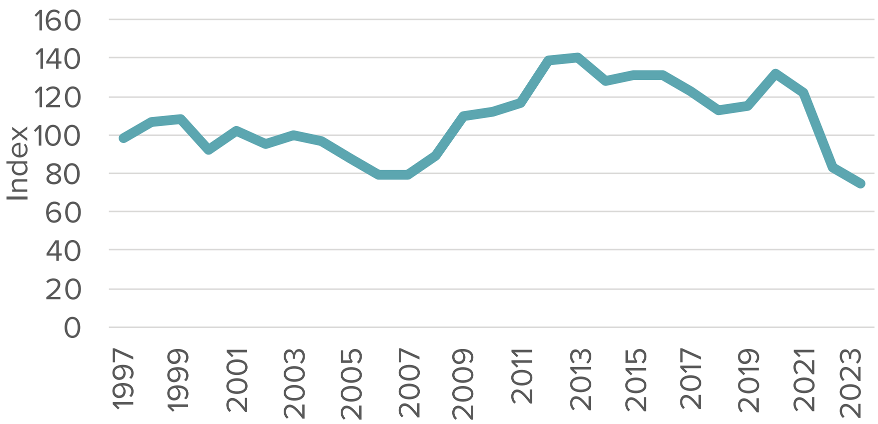
Indices of Affordability. Indexes of housing affordability are primarily related to prices and interest rates. These indices show that for the non-home-owning population at large, such as younger Americans and longer-term renters, the recent prospects of becoming a first-time homeowner have declined rather dramatically. The Goldman Sachs Home Affordability Index reached its lowest point in decades in 2023. (See Figure 10.)

In Utah, fewer than 12% (roughly 6,600 of 55,000) of homes sold in 2022 were deemed affordable to those earning their area median income.[40] (See Figure 11.) Similarly, residents of Utah in 2022 earning the median income of $89,200 could only afford a mortgage payment of $2,230 without monthly housing costs exceeding 30% of their income.[41] This equals a mortgage amount of $270,000.[42] The median sale price of a Utah home peaked in that year at $574,000.[43] Absent effective and targeted policy in the housing sphere, one result of the ongoing and perhaps worsening wage/price disparity is possibly a further extension of the current housing affordability crisis.

This represents a combination of dramatically rising prices over a relatively short time and currently elevated interest rates. Despite the expected drag that interest rates have on the

Housing affordability has sharply fallen since 2020.

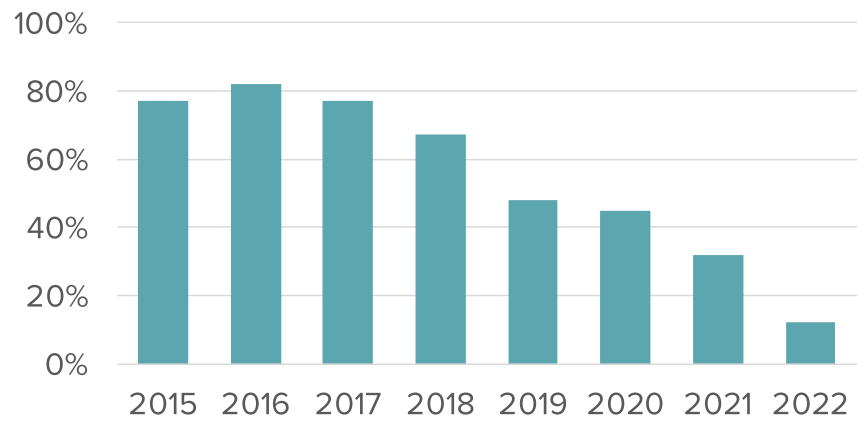
Figure 10: Goldman Sachs U.S. Home Affordability Index, 1997-2023



Source: Goldman Sachs.

Home affordability in Utah has been declining for those earning the typical income.

Figure 11: Percentage of Utah Home Sales Affordable to those Earning the Area Median Income, 2015-2022



Source: Perpetual Housing Fund.

40 Perpetual Housing Fund, 2023, “Housing that Funds Your Future”, https://www.perpetualhousing.org/.

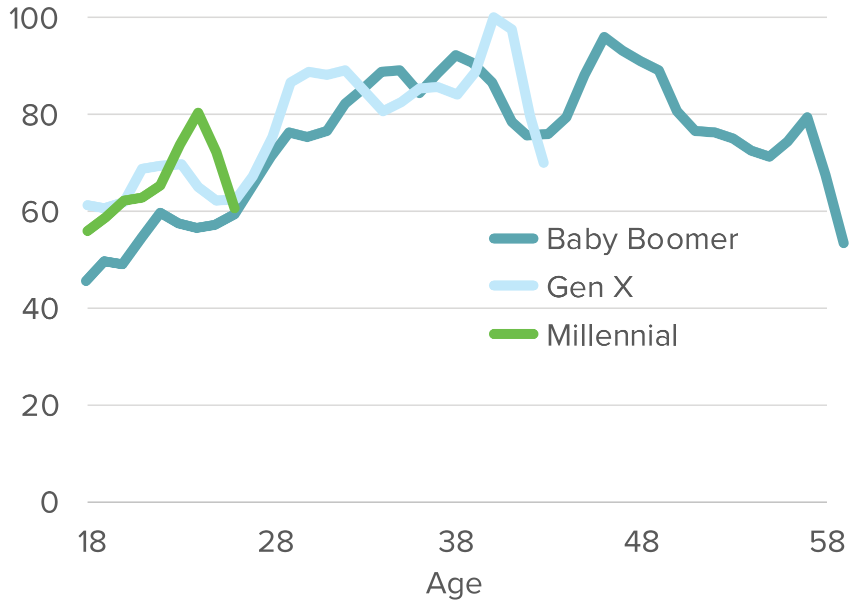
41 U.S. Census Bureau, 2022, “American Community Survey”, https://data.census.gov/table/ACSST1Y2022.S1901?g=040XX00US49. and U.S. Department of Housing and Urban Development, 2024, “Glossary of Terms to Affordable Housing”, https://archives.hud.gov/local/nv/goodstories/2006-04-06glos.cfm.

42 Utah Foundation calculations. This assumes an 8% fixed-rate 30-year mortgage, the necessity of $900 in insurance paid per year, and $1.740 in taxes paid annually at Utah’s average property tax rate and assuming a property value of $300,000. However, given a down payment of only 10%, required private mortgage insurance of roughly $100 per month (for just over 9 years) pushes the monthly payment on this hypothetical home about $70 per month over the required $2,230 to maintain affordability. See: NerdWallett, PMI Calculator: How Much is Mortgage Insurance, https://www.nerdwallet.com/article/mortgages/pmi-calculator, and Policy Genius, Best homeowners insurance in Utah (2024), https://www.policygenius.com/homeowners-insurance/utah/.

43 Redfin, 2023, https://www.redfin.com/state/Utah/housing-market.

Millennials saw the largest decrease in affordability in their peak household formation years.

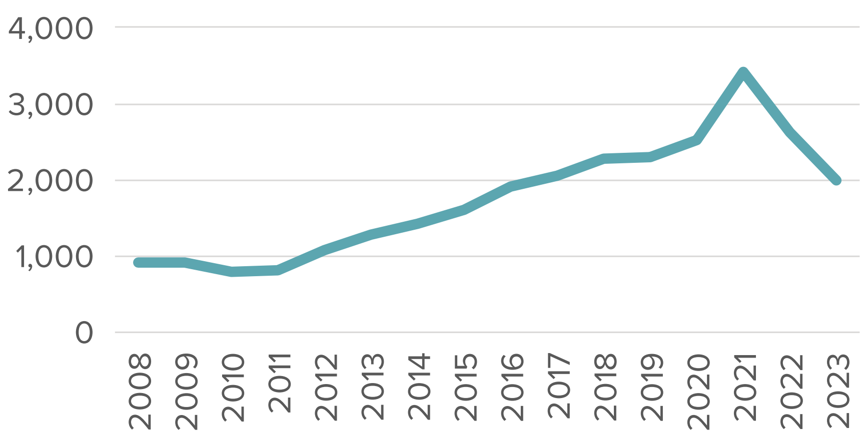
Figure 12: Generational Home Affordability Measured from the Age of 18



Source: Investopedia.

Monthly residential building permits have fallen since 2021 but remain near their long-term average.

Figure 13: Utah Residential Building Permits Issued Monthly, 2008-2023



Source: St. Louis Federal Reserve.

national housing market, prices seem to have remained resilient.

Finally, it is unsurprising that the ongoing housing affordability crisis in the United States has affected younger Americans to a disproportionate degree as they enter their peak household formation years. Relative to other generations, millennials saw the largest decrease in housing affordability in their peak household formation years – around 27 years of age. (See Figure 12.)

Even with a decline in interest rates in the future and the possible increase in inventory as older generations leave large homes, the illustrated trends indicate that millennials may not achieve the level of past generational affordability until 2030 or beyond. A relatively high percentage of these households remaining as renters rather than owners may impact future educational outcomes and wealth building in the United States.

New Home Construction. It seems that at least some of the current affordability issues are a function of prices being inflated by the long-term shortage of construction in the wake of the Great Recession of 2007 to 2009.

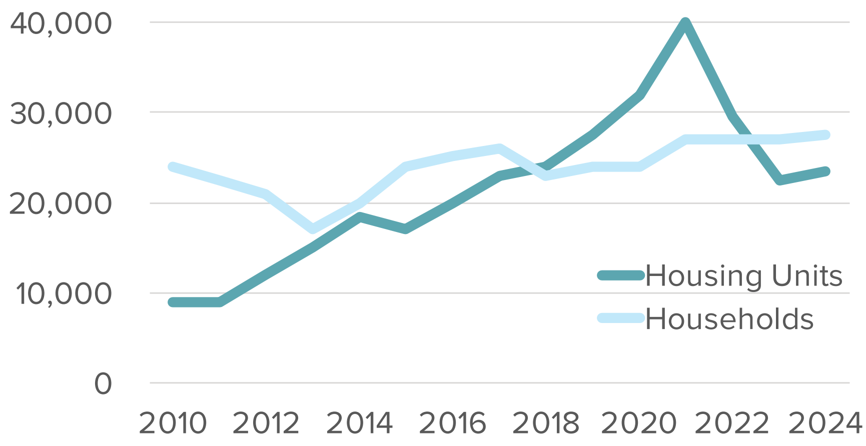
Local unaffordability may also be related to the reality that higher interest rates can lead to a lack of financing opportunities for construction. Not surprisingly, issued building permits have decreased dramatically from their 2021-2022 peak. However, they remain near their 15-year average. (See Figure 13.) That said, current levels of building permits issued may be insufficient due to natural population growth and migration to Utah. Moreover, we should not assume that local under-construction is an entirely recent phenomenon, as household formation in Utah outstripped newly available housing units from at least 2010 to 2017. (See Figure 14.)

More specifically, in Salt Lake City, the total number of building permits remained relatively constant after 2014. However, this is after experiencing a reduction in building permits between 2006 and 2014. This represents the construction of an increasing percentage of apartments relative to all residential housing.[44] The county-wide apartment boom between 2000 and 2021 is concentrated in Salt Lake City and specifically in downtown. Granted, these helped to fill the gap created by declining single-family housing permits but contributed little to "ownable" housing stock. This focus on apartments was also likely due to increased demand for smaller and more affordable units as home prices began to rise in the Utah housing market. Naturally, these multifaceted and interactive issues act to decrease the affordability of ownable housing in any large city. (See Figure 15.)

Unfortunately, elevated interest rates and the possible overbuilding of rental units in Utah have both seemed to stifle building despite constant or even rising demand for housing in the state. It, therefore, seems possible that the increase in housing demand will continue to grow faster than the increase in housing supply in Utah. This is particularly likely to be the case when interest rates decline in the coming years.

Utah's current housing deficit has likely been decades in the making.

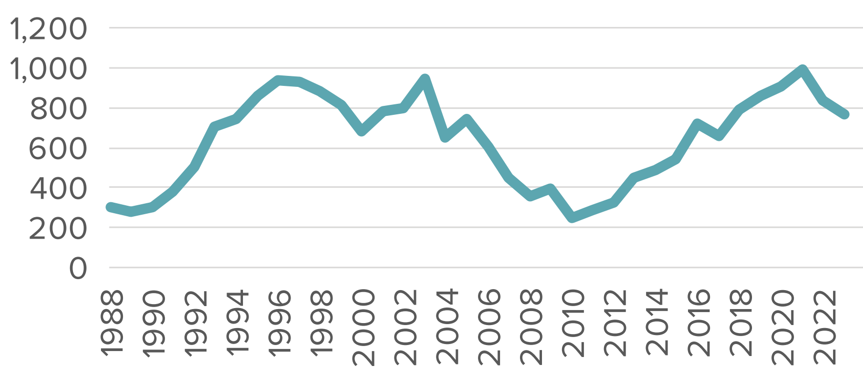
Figure 14: Household Formation and Available Housing, 2010-2024



Source: Kem C. Gardner Policy Institute.

Private housing permits have increased since 2010, but seem to be tapering off.

Figure 15: New Private Housing Unit Building Permits in Salt Lake City Monthly, 1988-2023

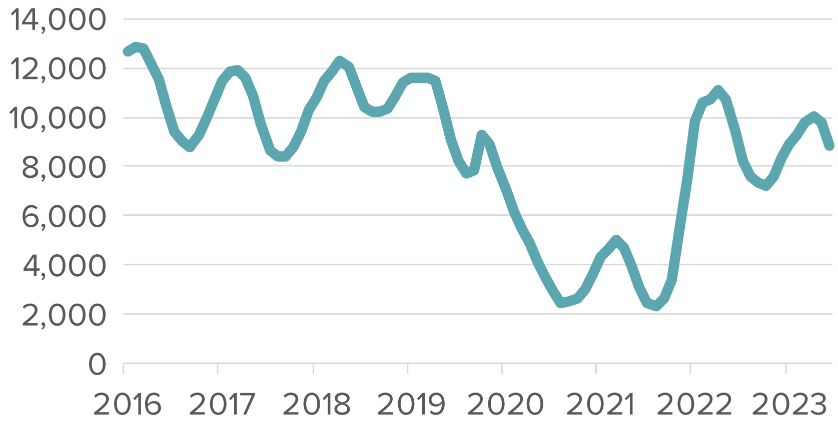


Source: St. Louis Federal Reserve.

44 James A. Wood, 2022, "Salt Lake County's Historic Apartment Boom: Past Present and Future", https://d36oiwf74r1rap.cloudfront.net/wp-content/uploads/AptMrkt-Zions-Mar2022.pdf.

Housing inventory in Utah has not recovered to pre-pandemic levels.

Figure 16: Utah Monthly Housing Inventory 2016-2023



Source. St. Louis Federal Reserve.

Home Inventory. Not surprisingly, the new-home construction realities have partially contributed to unusually and persistently low home inventory numbers in Utah over recent years. While inventory has somewhat recovered since the pandemic, it should be noted it has not reached previous peaks. (See Figure 16.)

Insufficient inventory is an indicator of a hot housing market ripe for further price increases. However, it is also a sign that construction is not keeping up with demand in spite of a policy focus on increasing housing supply.

Homeownership and Age. Finally, given the increase in Americans' life expectancy and the increase in employment longevity over the last six decades, it seems likely that fewer long-occupied homes have become available for sale.[45] In fact, the rate of homeownership nationally increases with age until the 75-plus demographic.[46] It, therefore, seems likely that individuals under 40 years of age are facing historically unique and rather severe obstacles to homeownership in terms of supply. In other words, if Americans are living in their homes deep into their 70s, 80s, or even 90s, those homes are not available for younger households. This issue is exacerbated by the fact that the millennial population exceeds that of the baby boomers by roughly 3.65 million people, highlighting a demand-based issue as well.[47]

POTENTIAL DRAWBACKS OF HOMEOWNERSHIP

Despite the discussion herein, it is important to realize that there are also drawbacks to homeownership. Market fluctuations may limit or even decrease net worth. Similarly, in an environment of high mortgage interest rates and often stubbornly high home prices, monthly rental costs (even in the presence of increasingly common "fees" imposed by owners) are generally cheaper than the total monthly costs of owning a home.[48] These total costs may include monthly house payments, taxes, mortgage insurance, house insurance, maintenance, and any possible HOA fees. The significant costs associated with selling and buying homes are also often overlooked as a factor potentially making renting a more attractive option. Renting also

45 Marc Francke and Matthijs Korevaar. 2022, "Baby Booms and Asset Booms: Demographic Change and the Houseing Market", https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3368036.

46 Rocket Homes, 2022, "Homeownership Statistics", https://www.rockethomes.com/blog/housing-market/homeownership-statistics.

47 Veera Korhonen, 2023, "U.S. Population by Generation", https://www.statista.com/statistics/797321/us-population-by-generation/.

48 Paulina Cachero, 2023, "Mortgage Cost Surge Makes is Cheaper to Rent in Tough U.S. Market", https://www.bloomberg.com/news/articles/2023-10-13/should-i-buy-a-house-higher-interest-rates-make-it-cheaper-to-rent.

provides higher levels of flexibility in the event of life events that might require relocation such as health problems in the family, retirement, death, or divorce. Considering these factors, people may prefer to rent rather than own.

Studies have provided mixed results when comparing renting to owning.[49] These studies generally assume that the money renters do not spend on maintenance, mortgage insurance, home insurance, HOA fees, and other costs that owners face is instead saved and invested. Results vary based upon how many years are analyzed, which years are analyzed, which regional markets were explored, and financial measures of comparison. For example, many of those who purchased a Utah home in 2006 or 2007 may have been better off renting. That said, those renters would have certainly missed out on substantial home equity gains in 2021 and 2022.[50]

Many of these studies show that it is possible for renters to outperform homeowners in building wealth. However, it is unclear what share of renters actually follow the assumptions of these studies, setting aside or investing the money they would otherwise be spending on a home purchase and ongoing maintenance. Given this, a mortgage and the higher costs of ownership can be thought of as enforcing savings and the capital accumulation of owners.[51]

CONCLUSION

Homeownership may not be the right choice for everyone, particularly in an environment of high prices and high-interest rates. However, this report facilitates a better understanding of the significance of homeownership. It also serves as context for an accompanying report that explores potential solutions to housing supply and demand shortfalls.

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49 Tabner, Isaac T. (2016). "Buying versus Renting: The Net Present Value of Inflation and Housing Tenure Choices for Individual Households," Social Science Research Network, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2539630;
Rappaport, Jordan. (2010). "The Effectiveness of Homeownership in Building Household Wealth," Federal Reserve Bank of Kansas City, Econometric Reviews, 95(4), 35-65, https://ideas.repec.org/a/fip/fedker/y2010iqivp35-65nv.95no.4.html;
Kaas Leo, Georgi Kocharkov, and Edgar Preugschat. (2016). "Does Homeownership Promote Wealth Accumulation," Social Science Research Network, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2749031;
Beracha, Eli, Alexandre Skiba, and Ken, H. Johnson. (2020). "Housing Ownership Decision Making in the Framework of Household Portfolio Choice," Journal of Real Estate Research, 39(2), 263-289. https://www.tandfonline.com/doi/abs/10.1080/10835547.2017.12091472;
Eli, Beracha., Alexandre, Skiba., Ken, H., Johnson. (2017). "A Revision of the American Dream of Homeownership," Journal of Housing Research, 26(1), 1-25. https://www.tandfonline.com/doi/abs/10.1080/10835547.2017.12092125;
Somerville, C. Tsuriel, Paulina Teller, Michael Farrell, Yosh Kasahara, and Li, Qiang. (2007). Do Renters Miss the boat? Homeownership, Renting, and Wealth Accumulation. 203-217. https://link.springer.com/chapter/10.1057/9780230608917_12;
Beracha, Eli and Ken H. Johnson. (2012). "Lessons from Over 30 Years of Buy versus Rent Decisions: Is the American Dream Always Wise?" Real Estate Economics, 40(2), 217-247. https://onlinelibrary.wiley.com/doi/abs/10.1111/j.1540-6229.2011.00321.x.

50 Kevin L. Matthews, 2023, "I'm a Homeowner and Former Financial Advisor, and I Still Think Most People Would be Better off Renting", https://www.businessinsider.com/personal-finance/why-think-many-people-better-off-renting-2021-11. and Jerusalem Demsas, 2022, "The Homeownership Society Was a Mistake", https://www.theatlantic.com/newsletters/archive/2022/12/homeownership-real-estate-investment-renting/672511/.

51 Linda Stern, 2012, "Buy a House, and Other Forced Savings", https://www.reuters.com/article/us-column-personal-finance/buy-a-house-and-other-forced-savings-idUSTRE81L1X320120222/.

There are household and governmental benefits, such as a link to increased household wealth and improved educational outcomes, and a longer-term reduction of reliance on social safety nets. Despite this potential, homeownership is down. This is due in part to historically low housing affordability that reflects a housing shortage that predates the pandemic. The Great Recession bears some responsibility for declining construction and housing inventory over the last 15 years. There are other factors as well, such as the longevity of previous generations remaining in their homes. These factors contribute to a tight housing market and associated higher home prices.

Given these realities, millennials are possibly delaying household formation as they face an unprecedented level of housing unaffordability. The housing affordability crisis affects more than just millennials; it affects anyone looking to become a first-time homebuyer. Ultimately, high home prices are putting the American Dream out of reach for a growing share of Utahns.

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