



Policy Development & Research

Analysis of the Logan, Utah Housing Market

As of January 1, 2005



ECONOMIC RESEARCH

Foreword

This analysis has been prepared for the assistance and guidance of the U.S. Department of Housing and Urban Development (HUD) in its operations. The factual information, findings, and conclusions may be useful also to builders, mortgagees, and others concerned with local housing market conditions and trends. The analysis does not purport to make determinations regarding the acceptability of mortgage insurance proposals that may be under consideration by the Department.

The factual framework for this analysis follows the guidelines developed by HUD's Economic and Market Analysis Division. The analysis and findings are as thorough and current as possible based on information available on the "as-of" date from local and national sources. As such, findings or conclusions may be modified by subsequent developments. HUD wishes to express its appreciation to those industry sources and state and local government officials who provided data and information on local economic and housing market conditions.

This analysis takes into consideration changes in the economic, demographic, and housing inventory characteristics of the market area during three periods: from 1990 to 2000, from 2000 to the as-of date of the analysis—January 1, 2005 (the Current date), and from the Current date to a Forecast date—January 1, 2008. In the analysis, 1990 and 2000 refer to the dates of the decennial census—April 1 unless specified otherwise. This analysis presents counts and estimates of employment, population, households, and housing inventory as of the 1990 Census, 2000 Census, Current date, and Forecast date. For purposes of this analysis, the forecast period is 36 months.

The prospective demand expressed in the analysis should not be construed as a forecast of building activity; rather, it presents the prospective housing production that would maintain a reasonable balance in the demand-supply relationship given the market's condition on the as-of date of the analysis. This analysis was prepared by George H. Antoine, Economist in the Denver HUD Office, based on fieldwork conducted in September 2004. Questions regarding the findings and conclusions of the analysis may be addressed to Mr. Antoine at 303-672-5289 and george_h_antoine@hud.gov.

Housing Market Area

The Logan, Utah Housing Market Area (HMA) is defined as Cache County. Located 60 miles northeast of Salt Lake City, the HMA borders Idaho and Wyoming. Logan is the central city of the HMA and the location of the leading employer, Utah State University (USU). The HMA is the economic center for northeast Utah, southwest Wyoming, and southeast Idaho. Adjacent to the city of Logan are the towns of Smithfield, Hyde Park, North Logan, Providence, Millville, and Nibley.

Summary

The rate of growth in the economy of the Logan HMA has begun to accelerate after a slowdown in employment growth that started in 2000 when manufacturing jobs declined due to plant layoffs and closures. Employment growth in the HMA increased over the past 2 years and is expected to stabilize at 3 percent during the forecast period.

Population growth in the HMA has been fairly steady. Net natural increase (resident births minus resident deaths) and a constant net in-migration of families have kept the population growing at a strong rate of 2.2 percent a year since 2000. The population of the Logan HMA is estimated to be 101,500 as of January 1, 2005.

The relatively strong economic and population growth has created an active but balanced market for sales housing since 2000. The average price for an existing single-family home has increased by 4 percent annually in the past 5 years. Low interest rates, while helping to support the strong sales market, have contributed to a softening in the rental market, as have a large number of new units entering the market. Lack of demand and rising vacancies have prompted move-in specials and some rent concessions.

With a growing economy, anticipated population growth should average 2.5 percent a year over the next 3 years. This growth is expected to add 2,440 households to the HMA over the forecast period. Demand for additional housing during the 3-year period is estimated to be 1,650 units of sales housing and 340 units of rental housing.

Economy of the Area

The Logan economy has been based historically in agriculture and education. USU has been a stabilizing factor for the economy of the HMA. Since 1994, enrollment at the university has increased by nearly 20 percent. The fall 2004 enrollment was 16,130 students. About 2,700 full-time, year-round faculty and staff work at the university, and another 3,000 part-time students and contract workers are employed during the academic year. The university's annual budget is \$434.6 million. More than \$140 million of the budget comes in the form of research grants and contracts. This places the university among the top research universities in the country in terms of grants and contracts on a per capita basis. Researchers at the College of Education and Human Services and the

Space Dynamics Laboratory were the leading grant recipients for the university during the past year.

Food processing, light manufacturing, and high technology that has developed as a result of activities at USU make up a significant part of the economy. Growth in these sectors, in turn, has resulted in increased employment in retail and service establishments. The leading private-sector businesses in the HMA employing more than 500 workers are ICON Health & Fitness, Miller's Blue Ribbon Beef, Convergys Corporation, Logan Regional Hospital, Schreiber Foods, Moore Business Forms, Hyclone Laboratories, and Pepperidge Farm. Government employment, including the university, accounts for nearly 24 percent of nonfarm employment, while manufacturing accounts for about 18 percent.

Buoyed by growth at USU and the manufacturing sector, the economy of the HMA expanded at a rapid rate during the 1990s. Total resident employment grew at a rate of 3.6 percent annually, and nonfarm employment increased by 4.0 percent. Much of the growth occurred during the first half of the decade when the rate of expansion at the university was at its highest, and existing manufacturing firms, such as ICON and Schreiber, built up their workforces. Beginning in 2000, economic growth slowed. Area service and construction businesses responded by reducing their rates of expansion, while some manufacturers recorded small losses or closed plants. The opening of "big box" retailers, such as Wal-Mart, The Home Depot, and Lowe's, during the early 2000s helped offset some of the manufacturing losses. Nonfarm employment has continued to grow since 2000, averaging nearly 2 percent a year. The trends in employment are presented in Tables 1, 2, and 3.

By 2004, the local economy began to return to its pre-2000 rate of growth. Because of the secondary impacts of university-related expenditures and an increase in construction activity, total employment in 2004 was up 4.4 percent from 2003. Nonfarm employment posted a 4.2-percent increase for the 12 months ending October 2004 compared with the same period a year earlier. The average unemployment rate of 3.7 percent in 2004 was a slight improvement from the previous year.

Although enrollment at USU is not expected to grow until the 2006–07 academic years, the university expects additional infrastructure upgrades and contract awards that will bolster expenditures over the next 3 years. Expansions by local companies engaged in food processing and high-technology manufacturing will continue to lead employment growth. Nonfarm employment growth is expected to increase at a rate of approximately 3 percent a year during the forecast period. Much of the job gain is forecast to be in the construction, manufacturing, trade, health care, and business services sectors.

The city of Logan has designated six redevelopment areas in the city that will promote mixed-use commercial and housing developments. The most ambitious of these areas is the downtown redevelopment, which includes the construction of a large conference center. Construction of a new passenger airport should begin in the next few years bringing, for the first time, direct airline service to the area. These developments are expected to enhance the desirability of the HMA.

Household Incomes

HUD's Economic and Market Analysis Division estimates the median family income in the Logan HMA is \$49,950 in 2005, a 2.3-percent annual rate of increase since the 2000 Census.

Population

The population of the Logan HMA is estimated to be 101,500 as of January 1, 2005, an average annual increase of about 2,130, or 2.2 percent a year, since 2000. From 1990 to 2000, the population grew by 2,120, or 2.7 percent, annually. The net natural increase in population accounted for 70 percent of the gain, while in-migration made up the remainder.

Students at USU currently account for approximately 16 percent of the population of the HMA. During the 1990s, student enrollment grew by more than 4,000. Because of budget concerns, since 2000, the university has attempted to stabilize enrollment levels by increasing admissions standards and tuition. According to the university admissions office, enrollment is expected to begin to increase in the 2006–07 academic year, and significant increases are expected by 2009–10. Students have been factored significantly in the local housing market. Approximately 2,500 students reside in dormitories and residence halls. The remaining 13,600 students reside in housing units in the private market, typically in the rental market.

Based on the level of economic growth forecast, increases in the volume of in-migration and the net natural change are expected during the forecast period. As of January 1, 2008, the population of the HMA is forecast to be 109,200, or an average annual increase of 2,570. The trends in population from 1990 through the Forecast date are presented in Table 4.

Households

The trend in growth in the number of households in the Logan HMA parallels population changes in the HMA since 1990. Currently, the HMA has an estimated 30,640 households, an average gain of 650 households a year since 2000. The average annual increase is essentially unchanged from the level recorded from 1990 to 2000.

Approximately 13,600 USU students, or 85 percent of the student body, currently live off campus and are a major component of the demand for rental housing in the HMA. They account for approximately 5,000 student households, representing about 50 percent of the total renter households in the HMA. Student households are not expected to be a major factor in household growth or demand for additional rental housing during the forecast period, because enrollment is not projected to increase significantly until the 2009–10 academic year. Housing needs resulting from some net gains in enrollment before that time are expected to be met by the construction of a 500-bed, on-campus living/learning center scheduled for completion by the 2006–07 academic year.

As with population growth, the level of household growth is expected to increase slightly during the forecast period because of the stronger economy. The number of households is expected to increase by an average of 810 a year, or a rate of 2.6 percent annually. Table 4 presents trends in households from 1990 through the Forecast date.

Housing Inventory

In response to strong population and household growth, the housing inventory of the Logan HMA grew significantly, from 1990 to 2000, increasing annually by 2.8 percent to 29,035 units. Currently, an estimated 32,690 housing units are in the HMA. Table 5 presents housing inventory, tenure, and vacancy trends from 1990 to the Current date for the HMA.

Because of a weak sales market going into the 1990s, the decade started with a relatively low level of single-family permit activity. Construction increased in 1992 and 1993 and grew quickly because of increased employment and in-migration. Building activity peaked in 1999 when permits were issued for 665 single-family units. During the decade, permits were issued for 4,560 single-family homes. Since 2000, low mortgage interest rates have stimulated the sales market and new home construction. In 2004, a record was set when 849 single-family units were permitted. Because of the lack of availability and high cost of land in the city of Logan, most construction since 1990 has been in nearby communities. The largest share of new home building in the HMA has occurred in the towns of North Logan and Smithville to the north and Providence and Nibley to the south. Approximately 300 single-family homes are under construction as of the Current date. Trends in residential building permit activity from 1990 to January 1, 2005, are presented in Table 6.

Strong economic growth led to an increase in homeownership during the 1990s. In 1990, 62.6 percent of all households in the HMA were owner occupied. By 2000, the homeownership rate increased to 64.6 percent. From 2000 to the Current date, the rate increased to 66.7 percent. Much of the shift in tenure from 2000 to the Current date reflects continued low interest rates and the ability of builders to construct homes at prices to meet the growing demand.

The 1990s also began with a low level of multifamily building permit activity because the earlier weak rental conditions continued into the decade. Since 1990, approximately 75 percent of multifamily construction in the HMA has occurred within the city of Logan.

With the expanding economy and improved rental market, builders added about 1,500 multifamily units from 1993 to 1996, or about 380 units a year. These units accounted for 65 percent of the multifamily units added during the decade and contributed to the softer market conditions of the latter part of the decade. From 1990 through 1999, permits were issued for approximately 2,300 multifamily units. Owner-occupied townhomes and condominiums accounted for about 20 percent of this multifamily production. From 2000 to the Current date, multifamily construction shifted from condominiums and low-income

housing tax credit (LIHTC) apartments to more townhomes and market-rate apartments. An estimated 300 rental units are currently under construction, including two relatively large market-rate apartment projects. Also under construction are university-sponsored, on-campus, and student housing units, condominium rental units, and two- to four-unit market-rate structures.

Housing Vacancy

The sales and rental vacancy rates have increased in the HMA since 2000. The vacancy rate for the sales market increased from 1.8 percent in 2000 to an estimated 2.1 percent as of the Current date. The relatively high vacancy rates in 2000 and the Current date reflect the strong demand for new homes and the builder response of increased production. As a result of increased apartment production and the shift of renters to homeownership, the average rental vacancy rate has increased from 4.4 percent in 2000 to an estimated 7.3 percent as of the Current date.

Sales Market Conditions

Despite a relatively large volume of building, the sales market has been helped by continued low interest rates, which have enabled renters to buy and current owners to move up. According to the Cache County Board of Realtors[®], between 1996 and 2004, the average price of a single-family home increased on average by 5.2 percent a year, and the number of homes sold nearly quadrupled. In 2004, records were set for the average annual price increase and the number of sales. For 2004, the average sales price of an existing home was up 8.7 percent to \$153,500 from the previous year.

Homes priced in the first-time buyer range of between \$100,000 and \$140,000 sell the fastest. Existing homes priced from \$140,000 to \$200,000, most often targeted to move-up buyers, face more competition from new construction, making this market segment very price sensitive. Homes priced above \$200,000 move a little more slowly because of the limited demand and lack of potential buyers who can afford these higher prices.

The bulk of new home construction in the Logan HMA is targeted to the move-up market and priced from \$160,000 to \$200,000. Patio home developments have recently begun to appear, appealing to the growing “empty nester” market. Patio homes are typically priced from \$170,000 to \$200,000.

Townhomes and condominiums have not been a large part of the market historically but are beginning to gain significance as new inventory has entered the market during the past several years. The average sales price in 2004, at \$84,200, was 6.5 percent higher than the price in 2003. As the single-family market strengthened, and its prices climbed out of reach for some households, the lower priced townhome and condominium market became a feasible option. In addition, lower interest rates and higher rents have spurred investor interest in condominium rentals. Parents of students attending USU have begun to purchase condominiums to save housing costs and realize some appreciation. Several

large projects are in the planning pipeline that will make condominiums a more important segment of the sales market.

Rental Market Conditions

The 1990s began with the aftermath of overbuilding during the 1980s and a weak economy. Rents were at very low levels, making new construction infeasible. By 1993, as the economy improved and student enrollment grew, rents increased dramatically, and the first large-scale apartment construction period began to take hold. Construction during the 1990s was a mix of LIHTC family apartments, student housing, and condominiums. The rental market began to weaken again in the late 1990s as employment growth slowed and student enrollment stabilized. A cutback in construction helped the market return to somewhat balanced conditions by 2000, and the rental market remained in relative balance until 2004.

In 2004, conditions in the rental market weakened because a significant number of renters shifted to homeownership at the same time that a large number of new rental units entered the market. Vacancy rates were higher in this typically balanced market, and rent concessions became noticeable, especially in older developments that cater to single students. With the help of enhanced bus service, new market-rate apartment developments located outside the usual student housing areas near the USU campus have affected occupancy rates in older apartment complexes near campus. Apartment vacancy rates in the HMA typically decline to less than 5 percent by the fall of the year. This decline did not occur in the fall of 2004, however, when the vacancy rate for student rentals stayed above 10 percent.

Recent construction has included more upscale rental projects, which have leased up reasonably well at rents averaging \$600 and \$700, respectively, for two- and three-bedroom units. As of the Current date, a number of similar larger projects are under review by permit offices in the HMA. These new projects will likely begin construction in 2005. The volume of rental units in projects currently under construction and in the planning pipeline is sufficient to keep market conditions very competitive during the forecast period. Developments financed with LIHTC are an integral part of the Logan HMA rental market, and conditions are tighter than in the overall market. Approximately 380 tax credit units for families have been built in the HMA since 1990. Rents are mostly below market rates, although the maximum 60-percent rents are close to the market rate. Because of the low market rents, most of these units are affordable to households earning less than 50 percent of the area median income. As of the Current date, the average vacancy rate in these rent-restricted developments is less than 5 percent. New LIHTC projects generally lease up quickly if the rents are below the 50-percent level.

Forecast Housing Demand

Based on anticipated household growth, replacement needs, and current market conditions, estimates indicate a demand during the 3-year forecast period for

approximately 1,980 new housing units, or an average of 660 units annually. Demand for owner-occupied homes is estimated to total 1,650 units over 3 years, slightly less than the annual rate of absorption for new sales housing since 2000. Most of the demand will be for single-family detached homes. Manufactured homes, townhomes, and condominiums are expected to meet some of the demand.

Demand for additional rental housing during the 3-year forecast period is expected to total 340 units. Much of this demand is expected to occur in the second half of the forecast period. The current market surplus and the approximately 300 rental units under construction can meet demand during the first half of the forecast period adequately. This level of prospective demand will enable the market to return to a balanced condition before the end of the forecast period. Most of the demand will be for affordable market-rate and LIHTC products. Table 7 presents the 3-year gross demand by rent and unit size and includes demand met by units currently under construction.

Table 1
Labor Force and Employment
Logan HMA
1990 to 2004 (Annual Average)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Labor Force	33,188	34,481	36,336	38,360	40,238	41,718	42,031	43,093	44,675	45,153	45,289	46,294	47,706	49,206	51,361
Total Employment	31,851	33,292	34,989	37,139	39,017	40,437	40,769	41,981	43,305	43,955	44,106	44,815	45,797	47,384	49,491
Unemployment	1,337	1,189	1,347	1,221	1,221	1,281	1,262	1,112	1,370	1,198	1,183	1,479	1,909	1,809	1,870
Rate (%)	4.0	3.4	3.7	3.2	3.0	3.1	3.0	2.6	3.1	2.7	2.6	3.2	4.0	3.7	3.6

Source: U.S. Bureau of Labor Statistics

Table 2
Nonfarm Employment, Standard Industrial Classification
Logan HMA
1990 to 2000 (Annual Average)

Employment Sector	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Total Nonfarm Employment	28,179	29,466	30,695	32,543	34,376	36,234	37,374	38,918	40,238	41,171	41,840
Construction & Mining	962	1,091	1,146	1,408	1,627	1,839	1,969	2,028	2,122	2,376	2,358
Manufacturing	8,452	8,820	8,793	9,240	10,213	10,373	10,557	10,811	10,267	10,185	10,513
Communications & Utilities	616	612	703	765	830	1,017	965	955	1,023	1,022	996
Retail & Wholesale Trade	5,017	5,182	5,452	5,929	6,326	7,028	7,081	7,284	7,584	7,819	8,230
Finance, Insurance, & Real Estate	588	608	721	817	846	821	852	866	919	984	922
Services	4,374	4,711	5,274	5,539	5,630	5,927	6,569	7,476	8,530	8,941	8,739
Government	8,171	8,442	8,606	8,845	8,904	9,229	9,381	9,498	9,793	9,844	10,082
Total Change (%) From Previous Year	N/A	4.6	4.2	6.0	5.4	6.6	3.2	3.3	3.4	2.3	1.6

N/A = not applicable.

Source: Utah Department of Workforce Services

Table 3
Nonfarm Employment, North American Industry Classification System
Logan HMA
2001 to October 1, 2004 (Annual Average)

Employment Sector	2001	2002	2003	12 Months Ending Oct. 2003	12 Months Ending Oct. 2004
Total Nonfarm	42,537	43,010	44,236	43,786	45,636
Goods-Producing	10,577	10,140	10,374	10,244	10,797
Construction & Mining	2,260	2,227	2,213	2,185	2,452
Manufacturing	8,317	7,913	8,161	8,059	8,344
Service-Providing	31,960	32,870	33,862	33,539	34,840
Trade, Transportation, & Utilities	6,481	6,394	6,481	6,475	6,600
Information	592	611	629	619	649
Financial Activities	1,006	1,041	1,071	1,062	1,177
Professional & Business Services	6,400	6,511	7,045	6,859	7,214
Educational, Health, & Social Services	3,178	3,556	3,906	3,820	4,109
Leisure & Hospitality	3,112	3,338	3,213	3,220	3,352
Other Services	963	1,046	1,029	1,040	1,012
Government	10,228	10,373	10,488	10,446	10,727
Federal	362	372	381	378	391
State	6,048	6,075	6,105	6,108	6,219
Local	3,818	3,926	4,002	3,962	4,117
Total Change (%) From Previous Year	N/A	1.1	2.9	N/A	4.2

N/A = not applicable.

Notes: Numbers may not add to totals due to rounding.
 Annual data not available for 2004.

Source: Utah Department of Workforce Services

Table 4
Population and Household Trends
Logan HMA
April 1, 1990 to January 1, 2008

	April 1, 1990	April 1, 2000	Current Date	Forecast Date	Average Annual Change					
					1990 to 2000		2000 to Current		Current to Forecast	
					Number	Rate (%)	Number	Rate (%)	Number	Rate (%)
Population										
Logan HMA	70,183	91,391	101,500	109,200	2,120	2.7	2,130	2.2	2,570	2.5
Households										
Logan HMA	21,021	27,543	30,640	33,080	650	2.7	650	2.3	810	2.6

Notes: Rate of change calculated on a compound basis.
Average annual change rounded for comparison purposes.
Sources: 1990 and 2000—U.S. Census Bureau
Current and Forecast:—Estimates by analyst

Table 5
Housing Inventory, Tenure, and Vacancy
Logan HMA
1990, 2000, and Current Date

	Logan HMA		
	1990	2000	Current Date
Total Housing Inventory	22,053	29,035	32,690
Occupied Units	21,021	27,543	30,640
Owners	13,161	17,796	20,430
%	62.6	64.6	66.7
Renters	7,860	9,747	10,210
%	37.4	35.4	33.3
Vacant Units	1,032	1,492	2,050
Available Units	424	766	1,240
For Sale	173	320	440
Rate (%)	1.3	1.8	2.1
For Rent	251	446	800
Rate (%)	3.1	4.4	7.3
Other Vacant	608	726	810

Sources: 1990 and 2000—U.S. Census Bureau
 Current—Estimates by analyst

Table 6
Residential Building Permit Activity
Logan HMA
1990 to January 1, 2005

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Logan HMA															
Total	286	353	578	743	973	883	898	681	767	705	644	798	665	926	1,304
Single-family	202	223	344	425	468	501	580	603	550	665	481	482	588	730	849
Multifamily	84	130	234	318	505	382	318	78	217	40	163	316	77	196	455

Source: U.S. Census Bureau, Building Permits Surveys

Table 7
Estimated Qualitative 3-Year Demand for New Market-Rate Rental Housing
Logan HMA
January 1, 2005 to January 1, 2008

One Bedroom		Two Bedrooms		Three Bedrooms	
Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand
500	150	600	300	700	230
550	130	650	250	750	190
600	120	700	230	800	180
650	110	750	190	850	160
700	90	800	160	900	140
750	70	850	130	950	120
800	50	900	100	1,000	110
900	40	1,000	80	1,100	90
1,000	30	1,100	60	1,200	80
1,100	20	1,200	50	1,300	50
1,200	30	1,300	50	1,400	20
1,300 and higher	10	1,400 and higher	10	1,500 and higher	50

Note: Distributions above are noncumulative.
Source: Estimates by analyst