

# ...And Housing for All

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## Renting in Utah: Unaffordable for Many

Housing issues have been at the forefront of Americans' minds for over 3 years now and while a number of attempts at all levels of government to improve the health of the housing market, low income people and renters in particular continue to struggle to remain in their current homes or find an adequate and affordable place to live.

As the housing crisis evolves into one of the worst economic recessions in recent history, economic hardship is being felt by a wide swath of the population. However, the majority of the initiatives aimed at stabilizing the housing market over the past few years have focused almost exclusively on the needs of homeowners and on encouraging people to buy homes, rather than on providing incentives for people to rent or on making rental units more affordable. With so much of the nation's attention still focused on the housing market and on alleviating these hardships, it is critical that people understand the persistent affordable housing crisis facing low income renters. Indeed, a crisis that has only

## Looking Back: 2010 Highlights

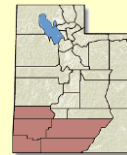
2010 may have been a turning point for the struggling Utah housing market. Factors such as a stabilization of home sales prices and a decrease in foreclosure suggest that the worst may be over.

Home prices have fallen steadily for the past couple of years, but there are faint signs that they are on the rebound. According to the Salt

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worsened in the current recession.

According to local housing advocates, about 40% of Utah renters are unable to afford a two-bedroom apartment at fair market rent. In Utah, the estimated average wage is \$11.55 per hour and the fair market rent for a two-bedroom apartment is \$768. Effectively this means that workers earning that wage have to work 51 hours per week to afford a two-bedroom apartment. Naturally, the problem becomes compounded for an individual who makes less than the average wage. For example, a minimum-wage worker earning \$7.25 per hour must work 81 hours per week to afford a two-bedroom unit.

Families are finding it more and more difficult to

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## Glimmers of Hope

Record low mortgage rates. Affordable, stable home prices. Reduction in inventory. Speaking in terms of housing, there are definitely things to look forward to in 2011, but demand will still not be high enough to generate more than a small boost in Utah home sales.

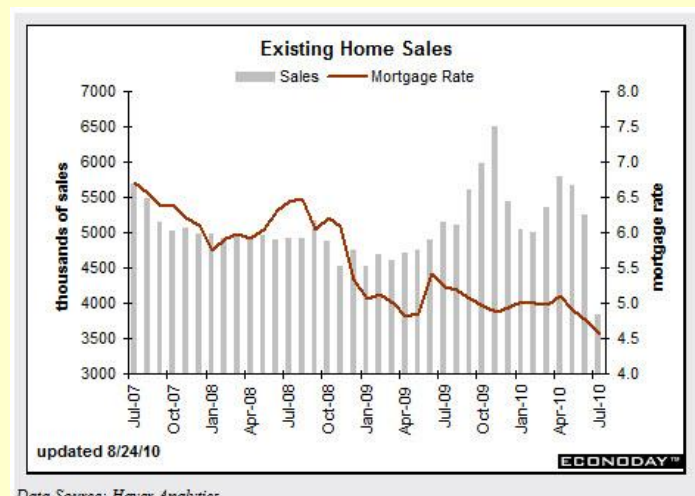
According to a recent report by Freddie Mac, the average interest rate for a 30-year fixed loan recently hit a historic low of 4.17%, the lowest rate since 1951. And the forecast is that interest rates will remain low in the months ahead. Lerron Little, Utah Association of Realtors states, "They are predicting 4.5 percent for the first quarter of 2011, possibly reaching 5 percent this time next year. These all-time low interest rates are a huge boost for our market. Some of the concerns with the economy have muted that boost a little bit, but those lower rates have increased buyer purchasing power."

Jim Wood, director of the Bureau of Economics and Business Research at the University of Utah, acknowledges that low interest rates will help improve the market, but he believes the impact will be minimal. "We're not going to have a breakout year next year (2011), even with interest rates as low as they are."

In addition to low interest rates, there is more good news: home prices have stopped falling, and have even started to climb. "For both existing and new construction, prices have really been hurt by foreclosures," says Wood. "If you look at the second quarter of 2010 for existing real estate, versus the first quarter, the second quarter showed some stabilization of the median sales price, that's a good sign." However, according to the Utah Board of Realtors, the median sales price of Utah homes has declined 6.3% from August 2009 (\$209,000) to August 2010 (\$195,786).

The Salt Lake Board of Realtors cautions against overambitious expectations. According to Dave Anderton, "I think what you'll see in 2011 is continued pressure on pricing because of short sales and foreclosures. One out of four sales (in Salt Lake County) is a short sale. That's really driving the median price, even in more desirable areas." Another factor contributing to the price rebound may be the reduced number of homes for sale. "As of August, the number of active listings was down 4 percent from last year. As inventory comes down, it means stabilization in home prices. Nationally, home prices have stabilized. This indicates to us that it's happened or is about to happen in Utah" states Anderton.

But even with the reduced inventory, as well as 19,000 new jobs created in the state over the last 12 months, Wood predicts that demand for housing in Utah will remain weak. According to the 2010 Census, there were only about 10,000 new households created in Utah over the last year, which Wood says is low. "People are doubling up, or moving back in with family or friends, which has reduced demand for housing. I think next year will be very much like the last few years. And with the demographic numbers that we're looking at now, there's just not the demand out there, unfortunately."



## Home Buying gets tougher

Home ownership may be falling out of reach for more Americans as lenders toughen their standards for FHA-insured loans beyond what the agency itself requires.

Mortgage lenders including Wells Fargo and Bank of America (the two largest) have raised the minimum credit score on FHA-insured loans that they will buy to 640 from 620. FICO, which created the formula for the ratings, states that about 6.3 million people fall within that range.

When the big companies change their standards and rules it has a huge, compounding effect on the market as a whole. For example, Quicken Loans, the nation's ninth largest lender, has ended most of its FHA lending to borrowers with scores below 640 because of the new rules.

FHA loans are used in about a fifth of U.S. home purchases. Naturally, the higher hurdles for FHA loans add to challenges for a housing market already struggling with record low sales and surging foreclosures.

Ron Phipps, president of the National Association of Realtors states, "While lax lending fueled the bust that led the U.S. into recession, the new requirements will stifle the real estate recovery needed to revive the economy. We've gone from silly to stupid. People who should be getting credit can't get it."

FICO scores range from 300 to 850. The grades are based on data such as whether borrowers have missed debt payments, balances on their credit cards relative to borrowing limits, and the length of their credit history, meaning consumers who have never fallen delinquent can have lower scores. The FHA, which previously didn't have minimums for FICO scores, began in October 2010 to require grades of at least 500, and more than 580 for loans with down payments of as little as

3.5 percent. Borrowers with scores between those levels must put 10 percent down.

According to David Stevens, FICO commissioner, "Requiring a 640 credit score excludes as much as about 15 percent of FHA borrowers. Minorities and borrowers in communities hardest hit by the recession are most likely to lose based on FICO scores. We are restricting opportunity and access for those who can least afford it. We need to find a better way to provide access to these families who are being cut out simply because lenders are putting arbitrary overlays on top of our requirements."

About 9.8 percent of U.S. home mortgages were delinquent at the end of the second quarter (2010), with an additional 4.6 percent in the foreclosure process, according to the Mortgage Bankers Association. According to a recent FHA report to Congress, FHA lending to the riskiest borrowers has declined in the past two years. Only 3.8 percent of FHA loans had scores below 620 or no score in the quarter ended September 2010, down from a peak of 50.4 percent in the period through Dec. 31, 2008. A score below 620 was typically considered subprime before the credit crisis, meaning the borrower had a bad or limited credit history.

Restricting access to credit threatens to slow a rebound even as reduced home prices and interest rates near record lows, said Stevens, the FHA commissioner. "This has a broad potential impact to the economic recovery in total. We're not asking for lenders to be reckless. In fact, we believe we have prudent policies for the market. But we do believe that lenders need to put more work into making certain that they provide accessibility for families who can qualify for a mortgage."

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rent. They are increasingly losing jobs or finding themselves unemployed longer than we've seen in the past.

Since long before the current national economic crisis, low income renters have faced a large array of housing challenges. According to *Out of Reach 2010*, "Extremely low income (ELI) renter households (those earning 30% or less of their area's median family income) continue to be the only income group facing an absolute shortage of affordable housing units, with only 6.1 million units affordable to 9.2 million ELI renters."

Those households that can't or are unwilling to devote such a large percentage of their income towards housing costs may decide to move in with family members or friends, or live in substandard housing. Recent HUD data shows a 25% increase from 2005 to 2009 in the percentage of movers who joined an existing household or "doubled up."

Additionally, a recent study by the Pew Research Center showed that the number of "multi-

generational" family households, or households containing at least two adult generations, increased by 33% between 1980 and 2008.

The foreclosure crisis has had a dramatic effect on the housing market. Rental demand continues to surge as more and more people are either forced out of ownership due to foreclosure or choose to rent rather than own in light of the tightening credit market and now obvious risks involved with homeownership.

As a result of the swelling ranks of unemployed and households who have been foreclosed upon or evicted from their homes, there will be a large number of households searching for an affordable place to live. While some may point to recent spikes in rental vacancies or reports of declining rents as an indicator that there is no longer a need to create more affordable housing, statistics show that the need remains. Simply put, the current economic conditions make it harder than ever for households to find decent, stable housing at the wages they earn.

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Lake Board of Realtors, "The peak (in sales price) was summer of 2007. For the third quarter of 2010, prices were going back up, so we may have finally hit the bottom."

According to Jim Wood, director of the Bureau of Economic and Business Research, foreclosures in the state have most likely peaked, which may have contributed to the recent increase in median home sales prices. "In first quarter of 2010 we had 14,900 foreclosed mortgages in the process statewide. We came down slightly in the second quarter to about 14,600- that's the first decline we've had in 10 quarters. But because there are still so many, foreclosures will continue to put pressure on home sales prices."



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Interestingly, according to the Utah Board of Realtors, closed sales of Utah homes have increased 5.4%. In August 2009, 18,126 home sales were closed; while in August 2010, 19,099 home sales closings occurred. It is hard to speculate as to the specific reason why home sales increased; however, a combination of historically low interest rates, reduction in home price, and home inventory reduction are likely contributors.

Experts do see some positivity in the future. Jim Wood states, "The market is really fragile. For single-family new construction, we've come up a little this year, but we're coming from extremely low levels. Next year (2011) is probably going to be more of the same. There will probably be some modest improvement in existing home sales next year."

Lerron Little, who owns CapStone Real Estate which specializes in new construction sales, remains hopeful. "I think there's been a little bit

of a bubble of buyers waiting to purchase, and that bubble exists for new construction as well. I believe the optimism is out there and that we'll see some of those buyers hopping back into the market next year."

Jim Wood shares in Mr. Little's opinion as well. "Because of inventory, prices, and interest rates, it's a terrific time to buy a home if you can qualify. As soon as people see that prices have stabilized or gone up, then they'll decide that it's time to look. I think we're getting close to that point."

**It's a great time  
to buy or sell a home.**



## New Affordable Rent-to-Own Housing in Enoch

Utah Housing Corporation and the Cedar City Housing Authority recently hosted an open house for five new affordable CROWN (CRedit-to-OWN) homes in Enoch. These homes will help five lower-income households realize the dream of homeownership as they build equity with their low monthly rent payments.

The four-bedroom CROWN homes will rent for \$650 per month. To participate in the CROWN program, households may not earn more than 57 percent of the area median income for Iron County (\$32,210 for a family of four).

The CROWN program seeks to bring homeownership within the reach of low-income households while helping local governments to

revitalize neighborhoods. Utah Housing Corporation (UHC) finances the construction of the homes. CROWN homes are decidedly more affordable than similar housing offered for rent. UHC crafts CROWN guidelines to target those possessing the long-term commitment to homeownership. Selected tenants begin paying affordable monthly payments that build equity in the home. After the 15-year rental period expires, residents have the opportunity to buy the home for a price far below the market value.

The CROWN program is made possible by Federal and State of Utah Low-Income Housing Tax Credits awarded by the UHC. American Express is the equity investor; in brief, equity funding is used to lower the project's debt which

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in turn allows the owner to charge lower rents.

“The Cedar City Housing Authority appreciates the CROWN program because it gives families the opportunity of home ownership without a large rent burden. It is great to see eligible families earn credit for the years they occupy the homes and realize the dream of homeownership. We are excited to get this project rented up and look forward to working with the new homeowners and UHC,” said Heidi Miller, Executive Director, Cedar City Housing Authority.



Existing CROWN housing located in southern Utah.

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