

**YARDI**<sup>®</sup> Matrix

# Salt Lake's Mountainous Rise

Multifamily Winter Report 2017

**Expanding Population Competes for Supply**

**STEM Pipeline Lures Investors**

**City Combats Housing Crisis Amid Rising Prices**

## Market Analysis

Winter 2017

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## Solid Fundamentals Rule in Salt Lake City

Utah's largest city is in the midst of a boom—driven by robust employment and population growth—that is producing healthy demand for housing. Once known as a sleepy mountain town, Salt Lake City is beginning to attract major employers, including Goldman Sachs, due to its low costs and appealing lifestyle.

Many iconic companies have set up home bases in the metro, drawn to the pipeline of science, technology, engineering and math (STEM) workers feeding in from local universities and the favorable costs of doing business. Salt Lake's robust technology sector, concentrated in the "Silicon Slopes," has contributed to strong growth over the past year. Other segments that have been expanding employment include trade and transportation, education and health care, and finance and business services.

Multifamily fundamentals are strong, due to a combination of solid demand and low inventory that has produced low vacancy rates. Developers are stepping into the breach and delivering a large amount of new supply, with most units absorbed by in-migration. Rent growth is starting to create concerns about affordability, and the city government recently passed a five-year plan to address the situation. Despite the concerns about supply and affordability, Yardi Matrix forecasts that rents will increase by a robust 6.0% in 2017.

## Recent Salt Lake City Transactions

Rockledge at Quarry Bend



City: Sandy, Utah  
Buyer: ColRich Group  
Purchase Price: \$94 MM  
Price per Unit: \$225,690

Sandalwood



City: West Valley City, Utah  
Buyer: ColRich Group  
Purchase Price: \$53 MM  
Price per Unit: \$189,511

Mission Meadowbrook



City: South Salt Lake City, Utah  
Buyer: Maxx Properties  
Purchase Price: \$48 MM  
Price per Unit: \$116,505

Eagles Landing



City: Salt Lake City, Utah  
Buyer: QVT Mount Auburn Capital  
Purchase Price: \$30 MM  
Price per Unit: \$80,247

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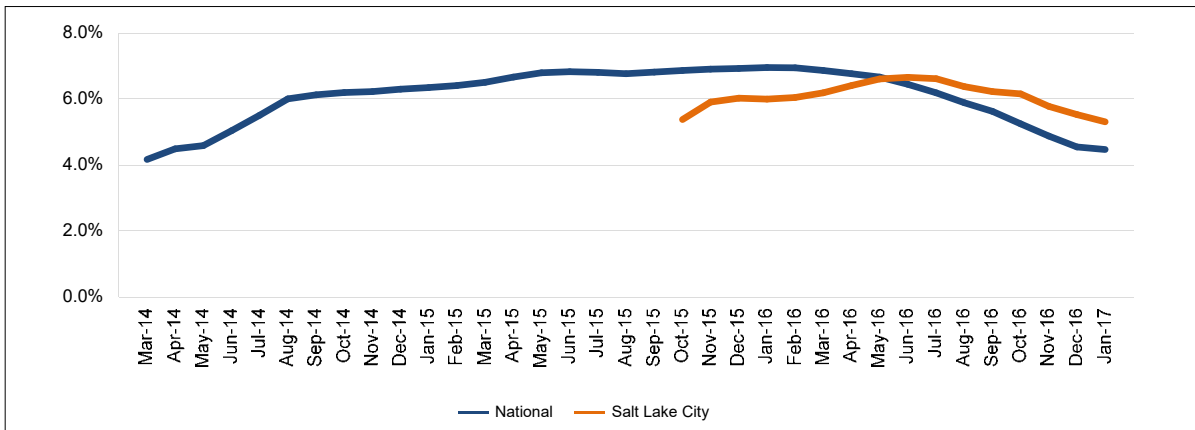
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## Rent Trends

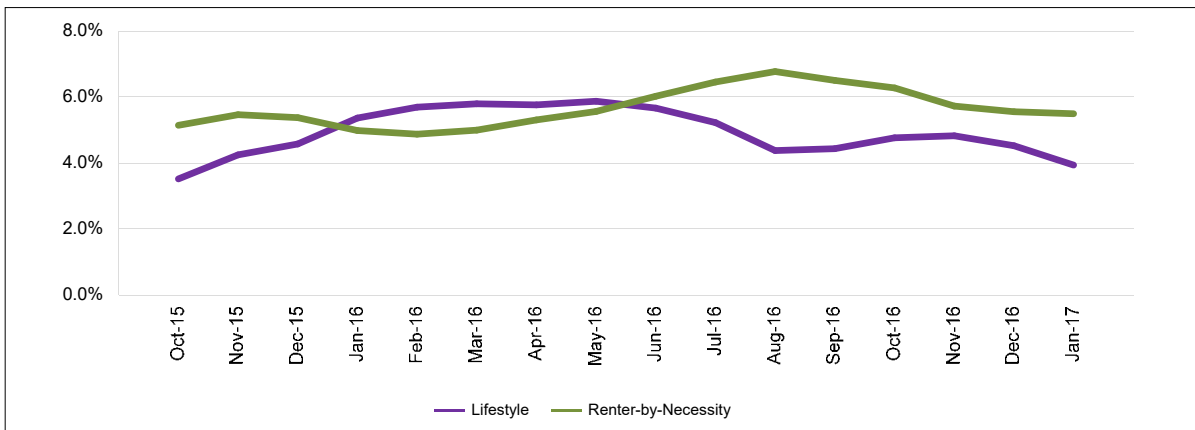
- Rents in Salt Lake City grew by 5.3% year-over-year through January, which surpasses the 4.5% national growth rate. Reaching \$933, rents lagged the \$1,315 U.S. average considerably. The strong job market, relatively affordable cost of living and high quality of life have produced unprecedented net in-migration and demand for housing. As a result, the occupancy rate for stabilized apartment properties has risen to 96.3%.
- The working-class Renter-by-Necessity segment saw the highest increase in rents, which rose 5.5% to an average \$969. The higher-end Lifestyle rents also increased, by 3.9% to \$1,204. Rent growth was highest in the city's core submarkets, primarily Salt Lake City–West Salt Lake (12.1%), Magna (8.5%), Salt Lake City–Northwest (8.5%) and West Valley City (7.6%). Salt Lake City–West Salt Lake was the only submarket that experienced two-digit rent growth, from \$804 to \$901. Salt Lake City–Central City (\$1,246) and Park City (\$1,240) reported the highest rents.
- Downtown Salt Lake's success is driven by its proximity to a concentration of high-paying jobs, as well as access to restaurants, retail and cultural amenities. However, the continued appreciation of rents, a supply shortage and a convenient public transportation system have led some renters to relocate from downtown to more affordable options in the suburbs.

### Salt Lake City vs. National Rent Growth (Sequential 3-Month, Year-Over-Year)



Source: YardiMatrix

### Salt Lake City Rent Growth by Asset Class (Sequential 3-Month, Year-Over-Year)

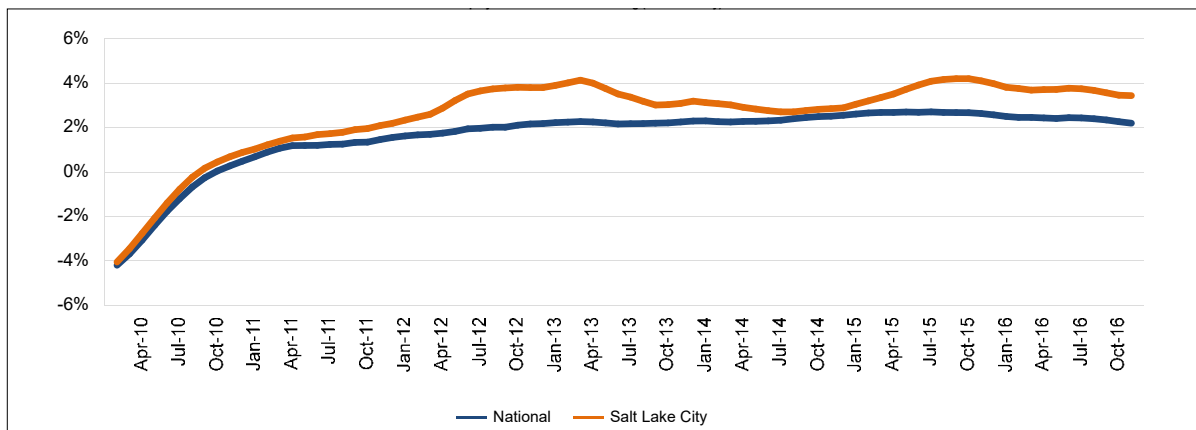


Source: YardiMatrix

## Economic Snapshot

- Salt Lake City added 43,000 new jobs year-over-year through November, up 3.4%, topping the 2.2% national average. Salt Lake is one of the best-performing metros in the nation, and virtually every sector is expanding.
- Growth was led by professional and business services (9,700). Although Salt Lake City does not have a tradition of white-collar industries, the office sector is growing rapidly. One example is Goldman Sachs, which has transferred employees in more than a dozen divisions to Salt Lake in recent years to cut costs. Some 1.1 million square feet of Class A office space was delivered in 2016; 111 Main, a 440,000-square-foot office tower built by the Latter Day Saints Church-owned City Creek Reserve Inc., was quickly 80% leased.
- Lower operating costs and the pool of young engineering talent from the University of Utah, Utah State and Brigham Young lure many tech and software companies to Salt Lake City.
- The education and health services sector saw one of the largest proportional growth rates, at 13.8% or 8,600 jobs. This upward trend should continue, since big-brand companies based in the Wasatch Front area are prone to hiring local graduates. The trade and transportation sector added 7,400 jobs—representing a 19.1% uptick—thanks in part to the \$2.9 billion expansion project underway at the airport.

### Salt Lake City vs. National Employment Growth (Year-Over-Year)



Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

### Salt Lake City Employment Growth by Sector (Year-Over-Year)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
60	Professional and Business Services	196	15.4%	9,700	5.2%
65	Education and Health Services	175	13.8%	8,600	5.2%
40	Trade, Transportation and Utilities	242	19.1%	7,400	3.2%
55	Financial Activities	79	6.2%	4,800	6.5%
90	Government	206	16.2%	3,300	1.6%
15	Mining, Logging and Construction	82	6.5%	3,000	3.8%
70	Leisure and Hospitality	105	8.3%	2,900	2.9%
30	Manufacturing	119	9.4%	2,700	2.3%
50	Information	33	2.6%	400	1.2%
80	Other Services	33	2.6%	0	0.0%

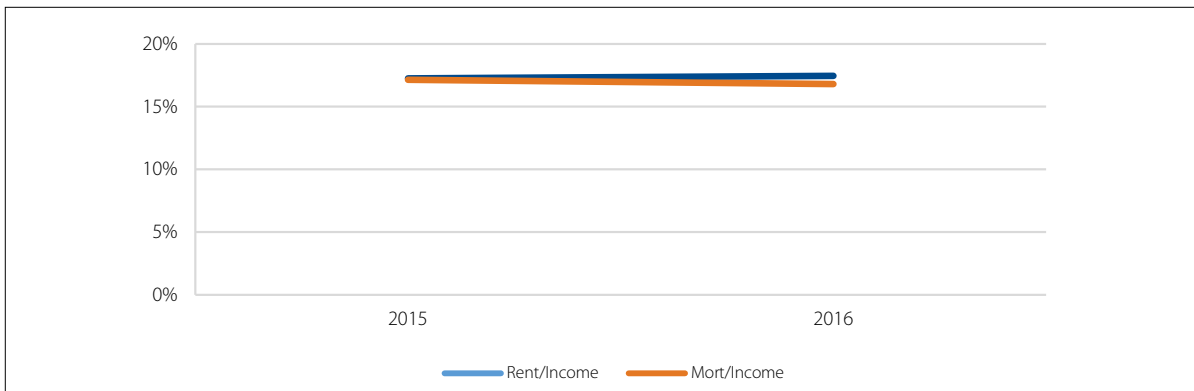
Sources: YardiMatrix, Bureau of Labor Statistics

## Demographics

### Affordability

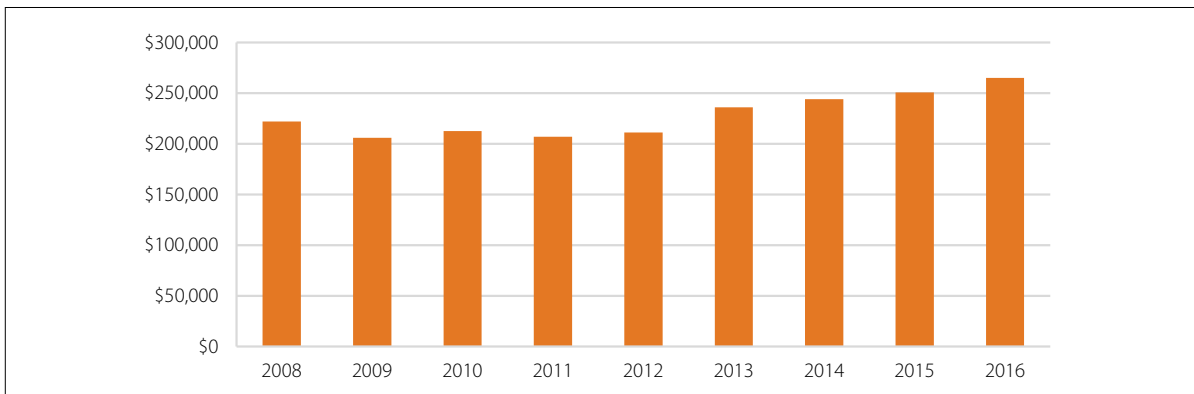
- Home prices in Salt Lake City have increased steadily since 2011. The median home value hit \$264,879, a new cycle high, up 28% from the 2011 trough. The average mortgage accounts for 17% of the area's median income. Rents have also been on an upswing in most submarkets, resulting in a \$933 average.
- With the city on the verge of a systemic housing crisis, the local government passed Growing SLC, a five-year construction plan meant to alleviate Salt Lake City's affordable housing shortage. The Community Land Trust will be used as a mechanism to preserve affordable housing.

### Salt Lake City Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

### Salt Lake City Median Home Price



Source: Moody's Analytics

### Population

- In 2015, Salt Lake City grew by 15,800 residents. The 1.4% increase is nearly double the 0.8% national rate.
- For five consecutive years, the metro's growth rate has surpassed the nation's.

### Salt Lake City vs. National Population

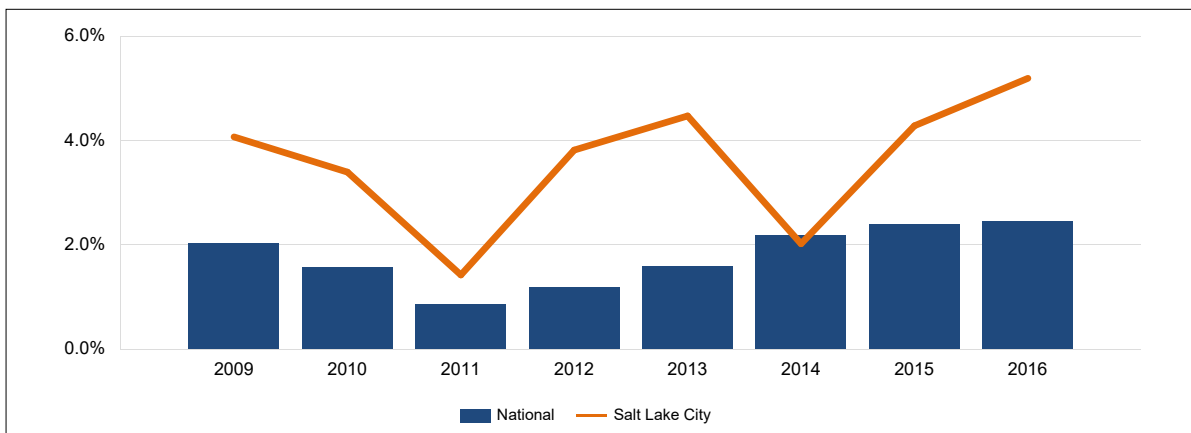
	2011	2012	2013	2014	2015
National	311,718,857	314,102,623	316,427,395	318,907,401	321,418,820
Salt Lake City Metropolitan Statistical Area	1,107,958	1,124,609	1,141,905	1,154,513	1,170,266

Sources: U.S. Census, Moody's Analytics

## Supply

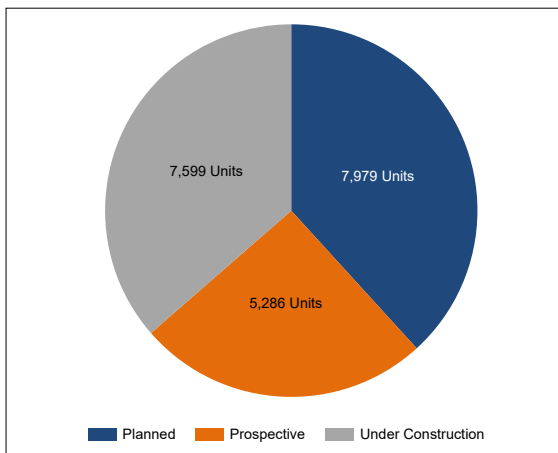
- Multifamily stock increased by almost 4,500 units, a 5.2% expansion and more than double the national growth rate. Despite the supply increase, which marked a cycle high, brisk population growth helps fuel demand, keeping occupancy high.
- The development pipeline consists of almost 21,000 units, a third of which are underway. Occupancy will likely rise due to Salt Lake's healthy job market and increased household creation in the renting segment. Home sales and prices in almost every submarket are on an upward trajectory, contributing to historically low vacancy rates.
- Most of the development is occurring in popular submarkets such as Salt Lake City–Downtown (1,862 units) and Orem (1,276 units), but Sandy and South Salt Lake will also feed the pipeline with more than 1,000 units each. Proximity to major employers such as eBay, Oracle and Goldman Sachs—in addition to education hubs—explains investors' interest in these submarkets.
- The 493-unit 4th West in downtown Salt Lake City, as well as the 476-unit Aston at University Place and the 468-unit Vine, both in Orem, are among the largest projects under construction in 2017.

### Salt Lake City vs. National Completions as a Percentage of Total Stock (as of January 2017)



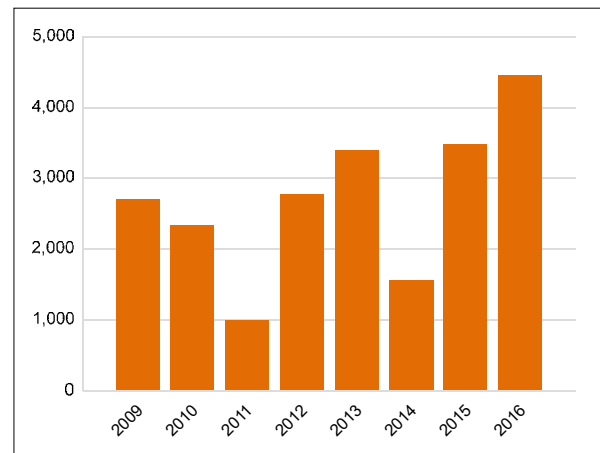
Source: YardiMatrix

### Development Pipeline (as of January 2017)



Source: YardiMatrix

### Salt Lake City Completions (as of January 2017)

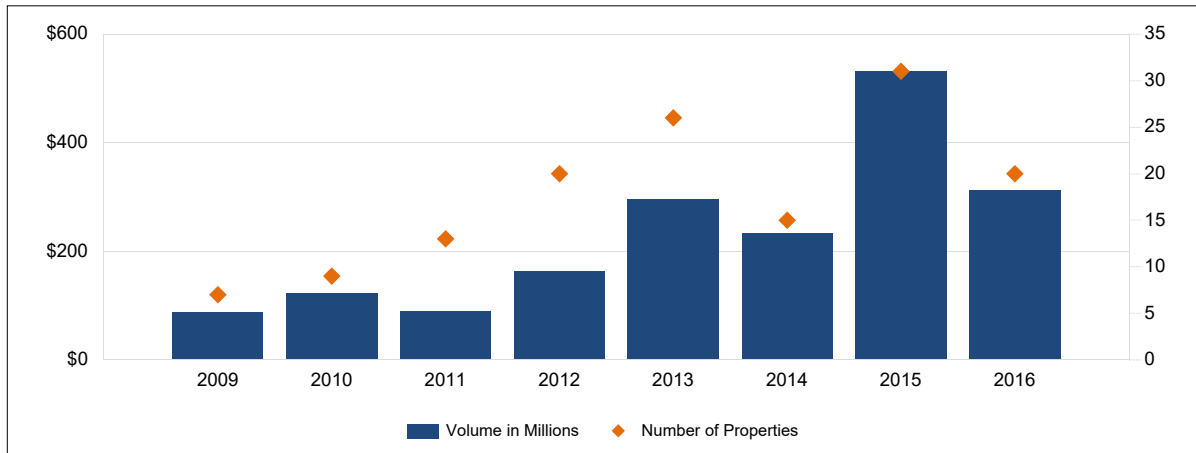


Source: YardiMatrix

## Transactions

- Last year, the total transaction volume in Salt Lake City was \$284 million, slightly more than half 2015's cycle high of \$540 million. Although the metro has enormous growth potential, it remains relatively small for many institutional-level investors.
- The average price per unit decreased 6.2%, reaching \$111,534, far below the \$135,000 national average. Yardi Matrix data shows that submarkets located on the outer ring of the metro appeal most to investors. The highest activity occurred in Sandy, South Salt Lake, West Valley City and Salt Lake City–West Salt Lake.
- Topping 2016 transaction activity was ColRich Group's purchase of Rockledge at Quarry Bend for \$94 million, or \$225,690 per unit. The 416-unit Sandy community was previously owned by locally based Miller Development.

### Salt Lake City Sales Volume and Number of Properties Sold (as of January 2017)



Source: YardiMatrix

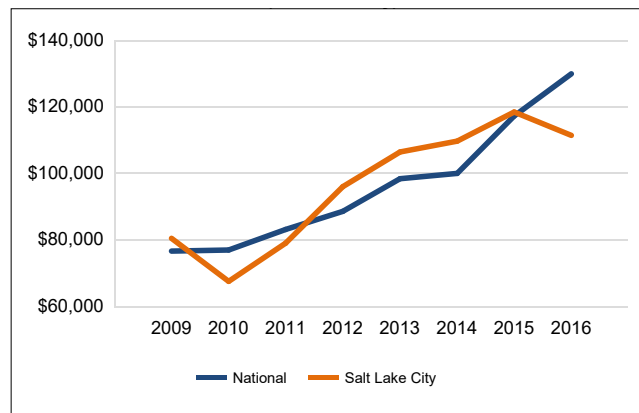
### Top Submarkets for Transaction Volume<sup>1</sup>

Submarket	Volume (\$MM)
Sandy	94
South Salt Lake	61
West Valley City	59
Salt Lake City–West Salt Lake	30
Salt Lake City–Northwest	20
Provo	13
Holladay	11
Midvale	4

Source: YardiMatrix

<sup>1</sup> From February 2016 to January 2017

### Salt Lake City vs. National Sales Price per Unit




Source: YardiMatrix




# Read All About It!




North Salt Lake Community  
Acquired as Area  
Trends Upwards



Hyatt Place Opens Doors  
In Salt Lake City



Metro Salt Lake City  
Apartments Sell for \$52M



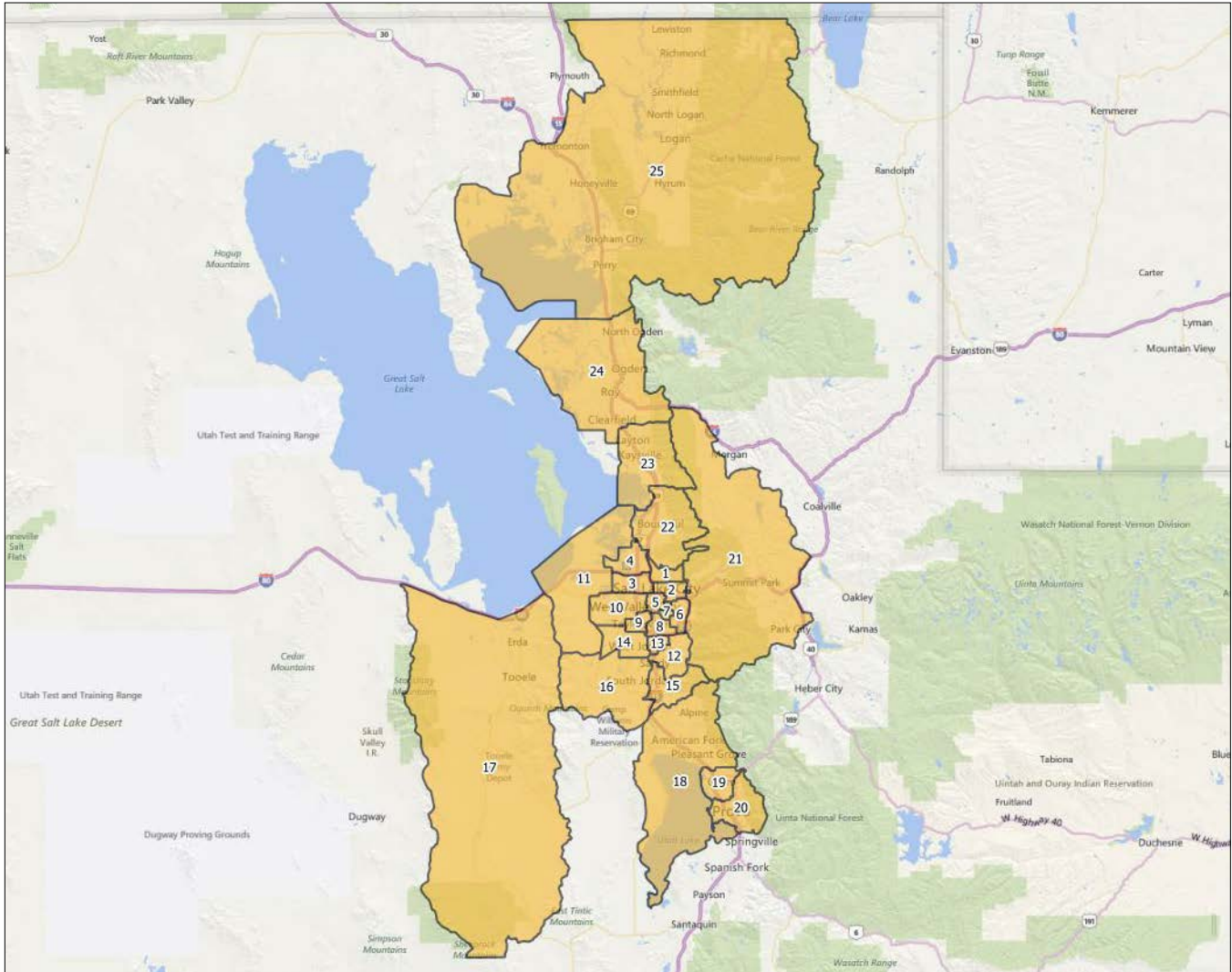
RED Capital Closes \$20M Loan  
For Senior Living Facility  
In Salt Lake City Area

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## Salt Lake City Submarkets



Area #	Submarket
1	Salt Lake City–Downtown
2	Salt Lake City–Central City
3	Salt Lake City–West Salt Lake
4	Salt Lake City–Northwest
5	South Salt Lake
6	Holladay
7	Millcreek
8	Murray
9	Taylorsville
10	West Valley City
11	Magna
12	Sandy
13	Midvale

Area #	Submarket
14	West Jordan
15	Draper
16	South Jordan/Herriman
17	Tooele
18	Pleasant Grove/Lehi
19	Orem
20	Provo
21	Park City
22	North Salt Lake/Bountiful
23	Layton
24	Ogden/Clearfield
25	Logan

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## Definitions

**Lifestyle households (renters by choice)** have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

**Renter-by-Necessity households** span a range. In descending order, household types can be:

- *A young-professional, double-income-no-kids household* with substantial income but without wealth needed to acquire a home or condominium;
- *Students*, who also may span a range of income capability, extending from affluent to barely getting by;
- *Lower-middle-income (“gray-collar”) households*, composed of office workers, policemen, firemen, technical workers, teachers, etc.;
- *Blue-collar households*, which may barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;
- *Subsidized households*, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, may extend to middle-income households in some high-cost markets, such as New York City;
- *Military households*, subject to frequency of relocation.

These differences can weigh heavily in determining a property’s ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

The Yardi® Matrix Context rating is not intended as a final word concerning a property’s status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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