Yardi® Matrix

Salt Lake City's Growth Streak

Multifamily Report Summer 2017

Housing Shortage Pushes Rents Higher

Diversified Economy Bolsters Employment

New Development Targets Urban Core

Market Analysis

Summer 2017

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Demand Outpaces Insufficient Supply

Driven by robust population growth and low unemployment, Utah's largest city is rapidly expanding, generating healthy housing demand. Salt Lake City continues to appeal to major employers such as Amazon, UPS and big-brand companies based along the Wasatch Front, due to the region's good connectivity, infrastructure and solid demographics.

Employment gains have been consistent, with the addition of more than 43,600 jobs year-over-year through March, most of them in the trade, transportation and utilities sector. Furthermore, prominent projects such as Austin Okland Aviation's $740 million expansion of Salt Lake City International Airport and Amazon's new 800,000-square-foot fulfillment facility are expected to boost the metro's business infrastructure and add construction jobs. Also in the works is Biomerics' 230,000-square-foot headquarters in the International Center, west of Salt Lake City International Airport. Proximity to major employers and education hubs explains investors' interest in Salt Lake City–Downtown and Orem, two of the fastest-growing submarkets.

Salt Lake City's residential market is in the midst of a boom, as strong demand and economic prosperity drive rents and transaction volume higher. Developers have aggressively increased the construction pipeline and expect new supply to be absorbed quickly, as population and household growth continue.

Recent Salt Lake City Transactions

Rockledge at Quarry Bend

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

The Vue

City: Salt Lake City–Central City
Buyer: De Anza Properties
Purchase Price: $75 MM
Price per Unit: $355,450

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
Buyer: Maxx Properties
Purchase Price: $48 MM
Price per Unit: $116,505

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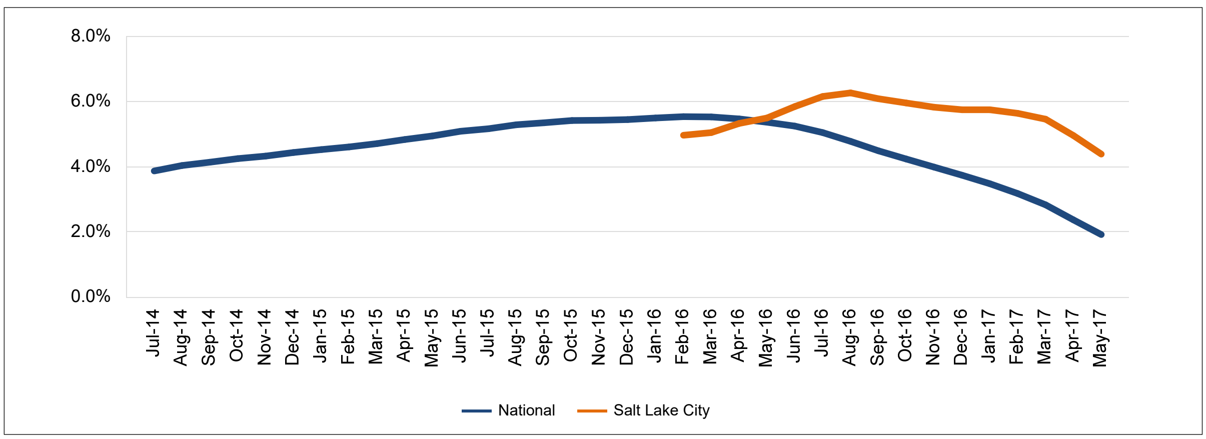
On the cover: Photo by walencienne/iStockphoto.com

Rent Trends

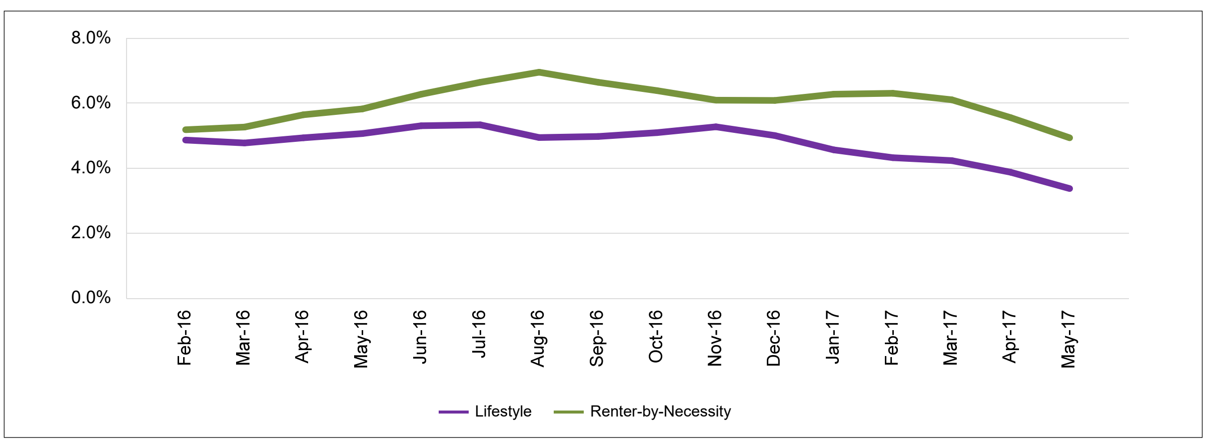
- Although rents rose 4.4% year-over-year through May, considerably faster than the 1.5% national rate, the overarching trend mirrors the national pattern of deceleration. At its peak in June 2016, rent growth reached 6.4%. Despite the outsize growth, the $1,058 average rent still lags the $1,316 national average.
- Demand is high due to significant job gains in nearly every sector, while the metro's quality of life and cost of living continue to drive population growth. Solid demand and unprecedented in-migration are fueling a strong absorption of new supply. The occupancy rate for stabilized properties as of April was 96.8%, unchanged from the beginning of 2017. Rent growth was led by the working-class Renter-by-Necessity segment, which increased 4.9% to an average of $989 as of May. Lifestyle rents increased by 3.4% to $1,217.
- Rent growth was highest in Tooele (7.8%) and West Valley City (5.8%), where increasing demand and very limited recent completions have driven rents upward. However, Salt Lake City–Central City ($1,304), Park City ($1,278) and Salt Lake City–Downtown ($1,272) reported the highest rents. Proximity to high-paying jobs and access to retail, cultural and dining options explain the allure of Salt Lake City's urban core, but convenient public transit and high rent growth have encouraged some residents to relocate to more affordable suburbs. With demand strong, we expect rents to grow by 5.0% in 2017.

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)

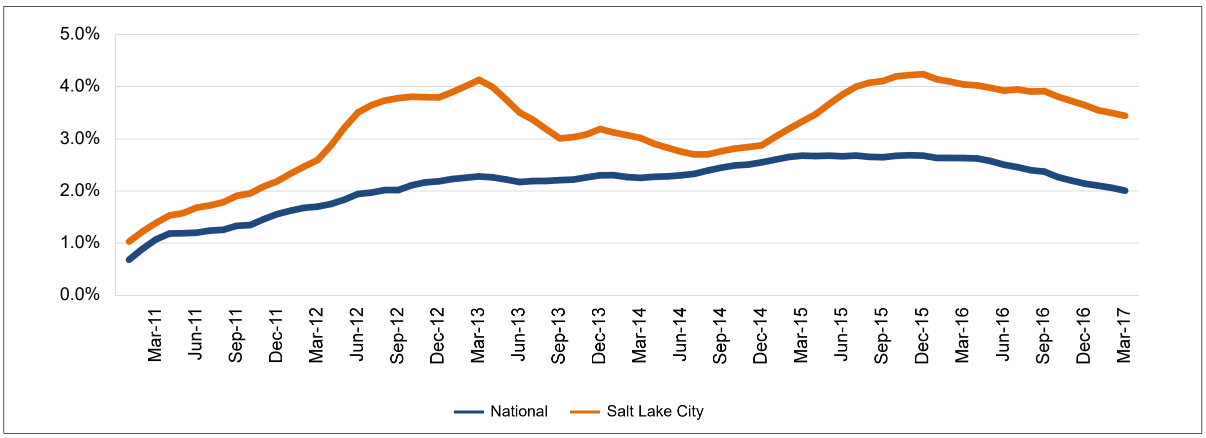


Source: YardiMatrix

Economic Snapshot

- Salt Lake City added 43,600 jobs year-over-year through March. The combination of low unemployment and relatively high incomes have made the Salt Lake City economy one of the fastest-growing in the nation.
- Employment growth was largest in the trade, transportation and utilities sector (8,700 jobs), while the professional and business services (7,500) and the education and health services (6,600) sectors were also active. The construction sector gained roughly 2,600 jobs, and will likely see an additional boost with a number of large projects breaking ground. Biomerics, a medical device manufacturer specializing in cardiovascular products, is building a new 230,000-square-foot headquarters in the International Center, west of Salt Lake City International Airport. Austin Okland Aviation won the bid for a $740 million project that will yield 30 new gates at the airport. Also underway is UPS's new $275 million regional operations hub. Online retail giant Amazon is planning to build a $200 million fulfillment facility in the northwest quadrant that will add 800,000 square feet of logistics space.
- As the economy benefits from the expansion of technology companies, startups and high-end manufacturing firms, the need for office space is growing. More than 1 million square feet of office inventory was under construction in the metro in the first quarter of this year.

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)

		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
40	Trade, Transportation and Utilities	239	18.8%	8,700	3.8%
60	Professional and Business Services	192	15.1%	7,500	4.1%
65	Education and Health Services	175	13.8%	6,600	3.9%
70	Leisure and Hospitality	110	8.6%	5,300	5.1%
90	Government	209	16.4%	5,200	2.6%
30	Manufacturing	121	9.5%	4,400	3.8%
15	Mining, Logging and Construction	81	6.4%	2,600	3.3%
80	Other Services	35	2.8%	1,300	3.8%
55	Financial Activities	74	5.8%	1,000	1.4%
50	Information	35	2.8%	1,000	3.0%

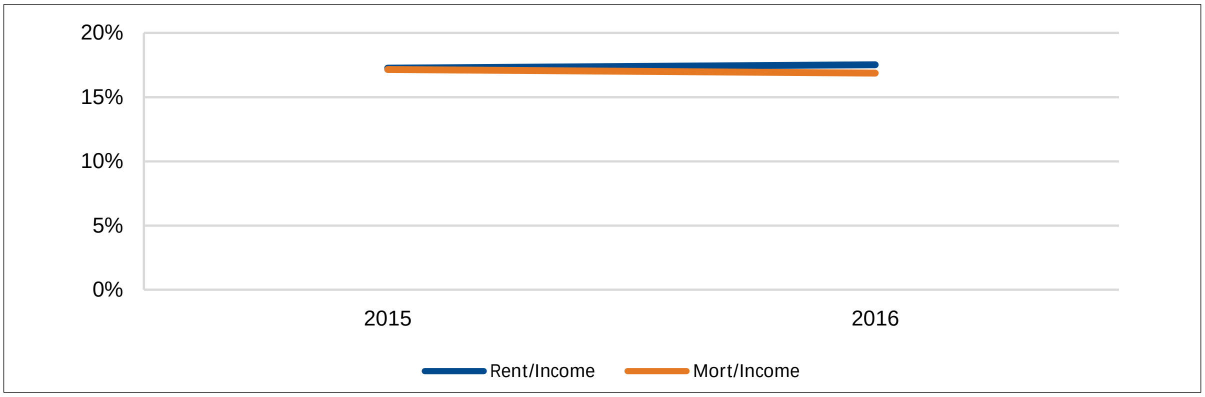
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

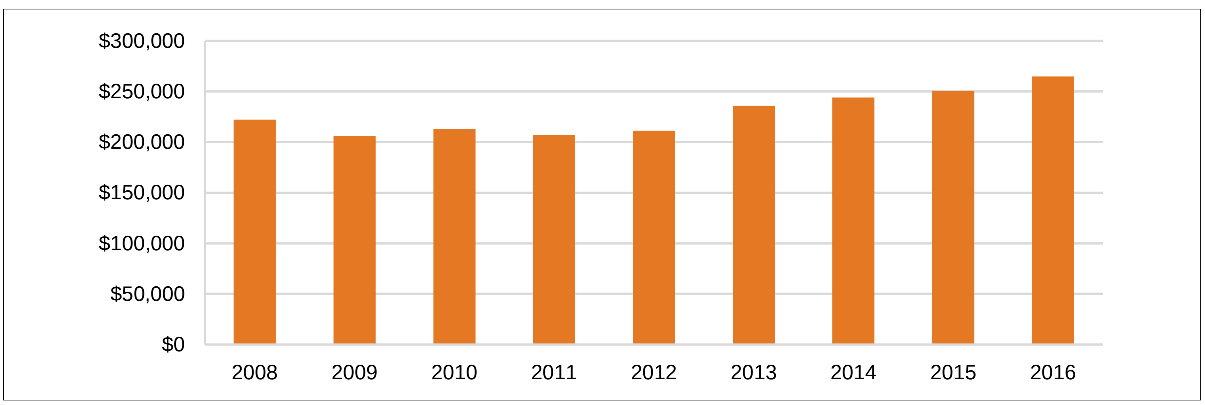
- Home prices in Salt Lake City have continued to increase during the cycle, amidst strong population growth coupled with a tight market. With demand at record levels, builders are struggling to keep up the pace of construction, while keeping prices under control. The median home value hit $264,947 in 2016, a new cycle high, representing a 5.7% year-over-year increase.
- While housing costs have increased in recent years, both homeownership and renting remain affordable. The average mortgage equated to 17% of the area's median income, making ownership slightly less expensive than renting, which accounted for 18% of the median income.

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

- Salt Lake City grew by 18,686 residents in 2016, a 1.6% uptick, more than double the 0.7% national rate.
- The metro's population has risen 5.5% since 2012.

Salt Lake City vs. National Population

	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Salt Lake City Metro	1,124,334	1,141,510	1,152,988	1,167,501	1,186,187

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

Supply

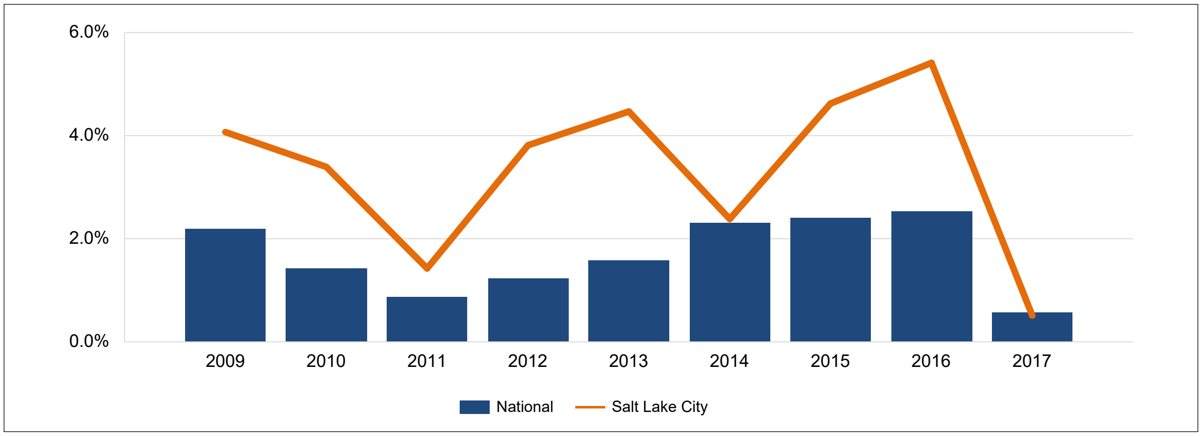
- Although only 444 units were completed during the first five months of 2017, the second half should be busy, as some 8,300 units were under construction as of May. Yardi Matrix forecasts 4,700 units will come online during the year, roughly on par with 2016's cycle high of 4,679 units, a 5.4% increase in total stock. Demand is robust, so the new units should get filled without much trouble.

- Most apartment communities being built will be priced in the upper mid-range, so the inventory of workforce and affordable rentals is limited. Issues with labor supply and rising material costs have impacted the construction industry, leading to increased overall development costs.

- Inventory growth is occurring mainly in popular submarkets such as Salt Lake City–Downtown (2,189 units) and Orem (1,276), but South Salt Lake and Sandy also feed the pipeline with more than 1,000 units under construction. However, the metro's rapid growth has led to a housing shortage, and even though developers have ramped up construction, additional apartment supply is needed.

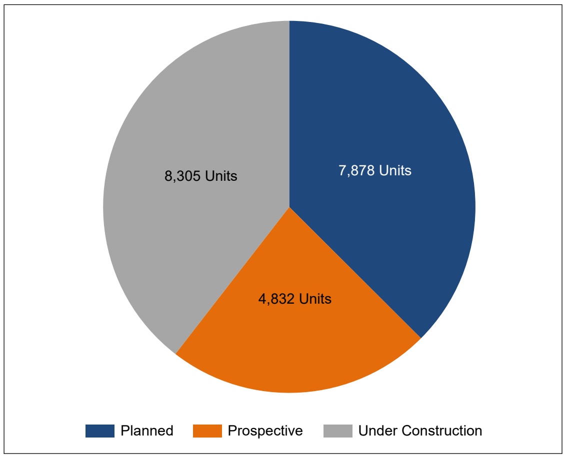
- The largest project is SALT Development's 493-unit 4th West in downtown Salt Lake City. The $100 million development will feature resort-like amenities in close proximity to the Utah state capitol and public transit.

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



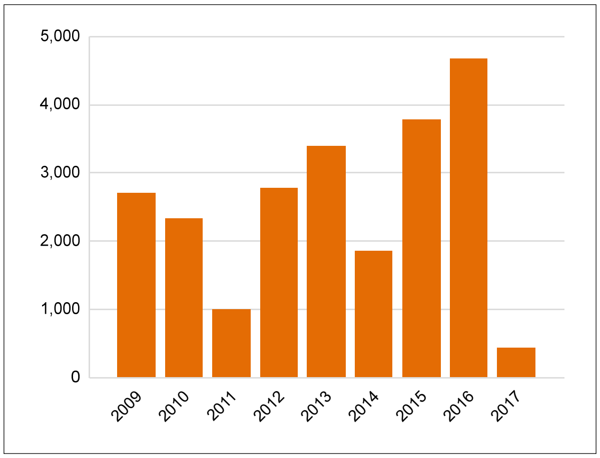
Source: YardiMatrix

Development Pipeline (as of May 2017)



Source: YardiMatrix

Salt Lake City Completions (as of May 2017)

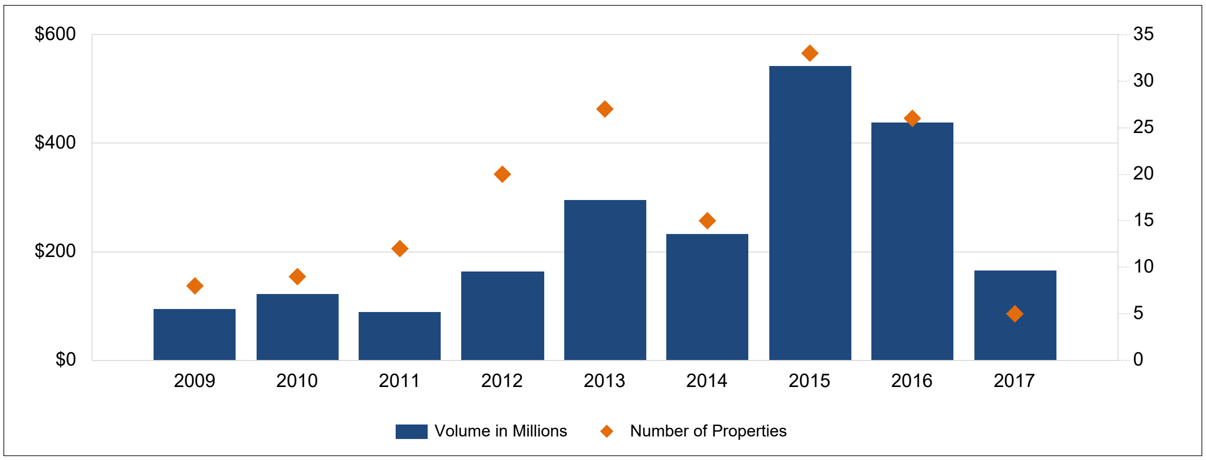


Source: YardiMatrix

Transactions

- As of May, $165 million worth of multifamily sales have been completed year-over-year. Last year, $438 million in assets changed hands, the second-highest transaction volume in the current cycle.
- The average price per unit was $203,588 in the first months of 2017. Per-unit prices have been rising, as the majority of transactions have been for high-end assets.
- Sales were concentrated on Lifestyle assets located in urban core submarkets. Investors focus on these assets due to their proximity to employment, transportation and community amenities, with the highest transaction activity occurring in South Salt Lake, Sandy, Salt Lake City–Central City and West Valley City. The largest investment year-over-year through May was ColRich Group's acquisition of Rockledge at Quarry Bend. The newly built, 416-unit asset traded for $94 million, or $225,690 per unit.

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



Source: YardiMatrix

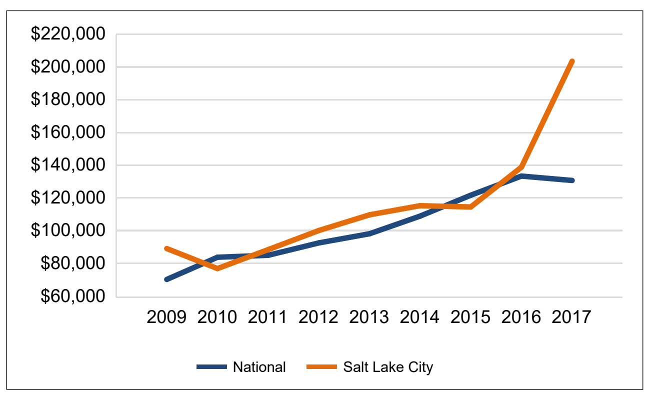
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
South Salt Lake	115
Sandy	94
Salt Lake City–Central City	75
West Valley City	59
Provo	48
Salt Lake City–Downtown	37
Ogden/Clearfield	31
Salt Lake City–West Salt Lake	30

Source: YardiMatrix

[1] From June 2016 to May 2017

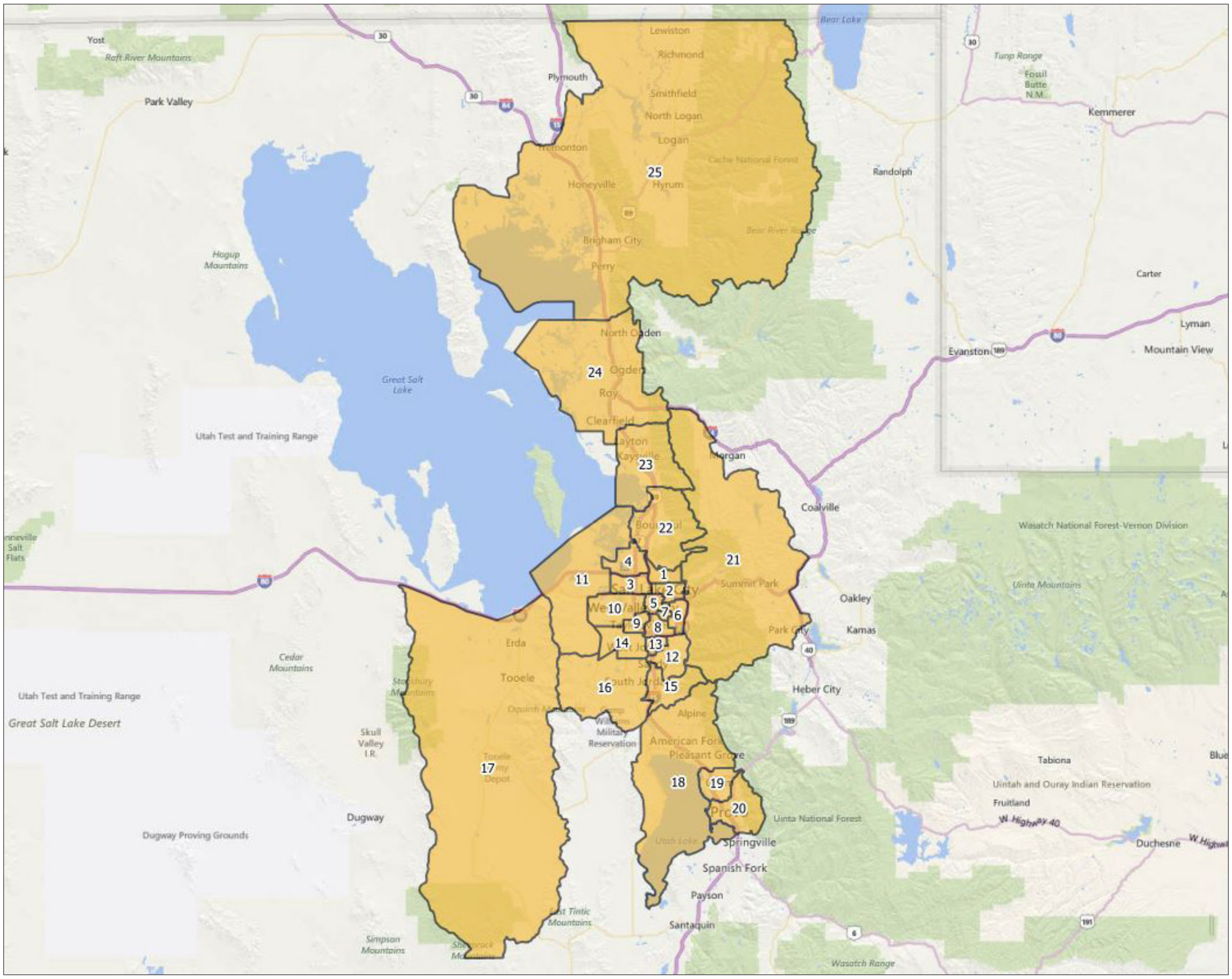
Salt Lake City vs. National Sales Price per Unit



Source: YardiMatrix

Photo by 4x6/iStockphoto.com

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

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.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.