Yardi® Matrix

Prosperity Rules In Salt Lake City

Multifamily Report Fall 2017

Rent Gap Gradually Widens

Construction Sector Gets a Boost

Investment Activity Tapers

Market Analysis

Fall 2017

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Demand Breaks Records in Utah's Capital

Salt Lake City's multifamily market continues to be one of the strongest in the country. Thanks to solid employment gains that are producing high demand across asset classes, the city remains attractive to investors and developers alike.

Two job sectors alone—professional and business services, along with education and health services—have added more than 16,000 positions year-over-year through July. The metro's education sector is likely to remain a reliable job source, due in part to Pluralsight, a Utah-based online training provider, which announced its 10-year plan to make 2,400 new hires. Despite the U.S.'s construction labor shortage, this sector has also gained traction in Salt Lake City. About 2,000 workers are slated to join the city's $3 billion airport redevelopment project. Westport Capital Partners is working on a mixed-use project that includes a 170,000-square-foot University of Utah health center. Moreover, the U.S. Department of Defense's effort to upgrade nuclear weapons has led Sunset Ridge Development to break ground on a 75,000-square-foot Aerospace Research Park at Hill Air Force Base.

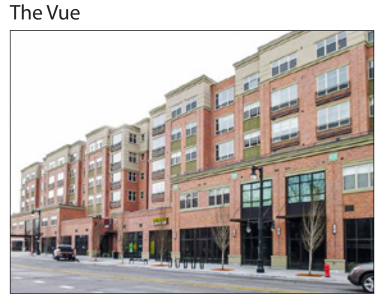
The total multifamily pipeline consists of roughly 18,800 units in different stages of development. With occupancy at 96.5% as of August and more than three quarters of the pipline geared toward high-income residents, rents should continue to increase, but at a slower rate. These fundamentals have led Yardi Matrix to project 4.6% rent growth by year-end.

Recent Salt Lake City Transactions

Rockledge at Quarry Bend

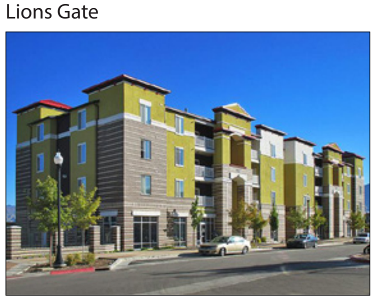
City: Sandy, Utah
Buyer: ColRich Group
Purchase Price: $94 MM
Price per Unit: $225,690

The Vue



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

Lions Gate



City: Murray, Utah
Buyer: Timberlane
Purchase Price: $67 MM
Price per Unit: $168,125

Stillwater

City: Murray, Utah
Buyer: Starwood Capital Group
Purchase Price: $55 MM
Price per Unit: $120,000

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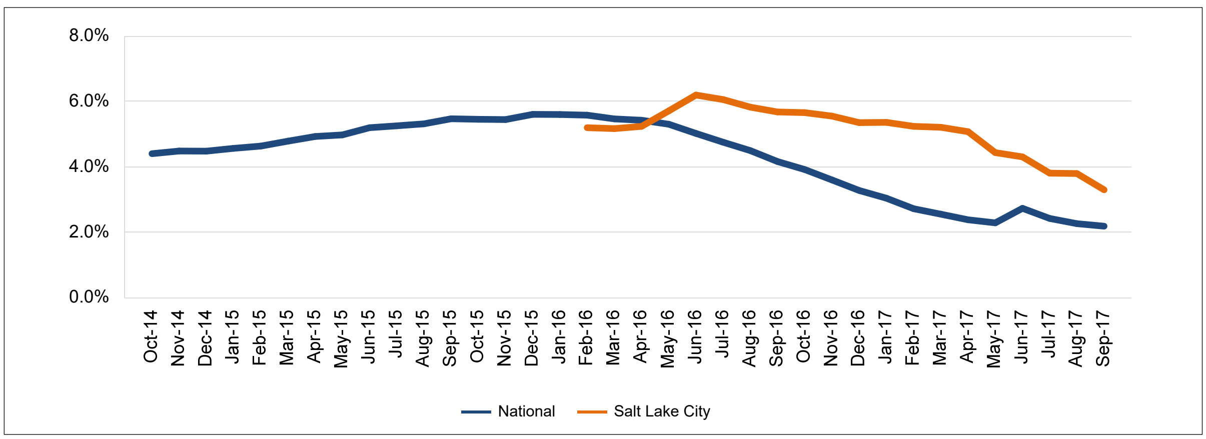
On the cover: Photo by Davel5957/iStockphoto.com

Rent Trends

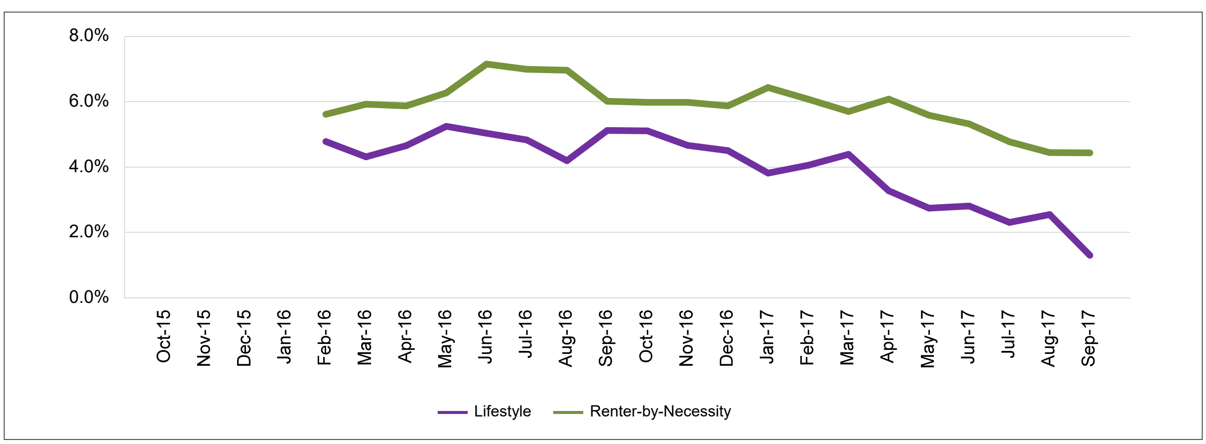
- Rents in Salt Lake City grew 3.3% year-over-year through September, 110 basis points above the national rate. Rents are responding to an influx of new residents, with net in-migration nearly double the rate it was in 2016. However, at $1,095 as of September, Salt Lake City's average overall rent still considerably lags the $1,354 U.S. average, making it a fairly affordable option for new residents.
- Rents in the working-class Renter-by-Necessity segment saw the highest gains, up 4.4% to an average of $1,013 as of September. The gap between asset classes is widening, mirroring the national trend of differentiated rent growth. Gains in the Lifestyle segment have been decelerating since October 2016. Because most deliveries have been concentrated in the luxury segment, rents in this upscale asset class rose by only 1.3% in September, reaching $1,248.
- Rent growth was highest in Millcreek (8.8%) and Tooele (8.3%). However, the highest rents are still in traditionally more expensive submarkets such as Salt Lake City–Central City ($1,336) and Salt Lake City–Downtown ($1,295). Strong demand and absorption are keeping up with supply, and therefore, rental rates are still on an upward trajectory. The rise in apartment rents will most likely deepen affordability issues for many residents. Yardi Matrix expects 4.6% rent growth by year's end.

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)

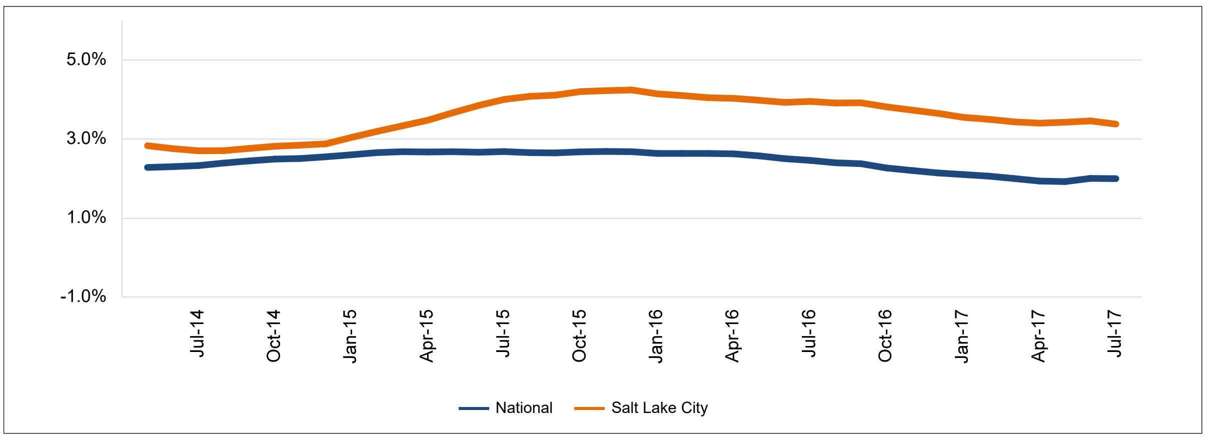


Source: YardiMatrix

Economic Snapshot

- Salt Lake City added 35,900 jobs year-over-year through July, a robust 3.4% increase and 140 basis points above the national average. Due to a combination of low unemployment and rising incomes, Salt Lake City continues to be one of the most competitive metros in the nation.
- Employment growth was strongest in professional and business services, as well as in education and health services, with each sector adding 8,200 jobs in the 12 months ending in July. The education sector will probably continue to expand, as online education company Pluralsight plans to add approximately 2,400 jobs in the next 10 years. Trade, transportation and construction also contributed a combined 11,800 jobs. Unlike the national trend, the construction sector in Salt Lake City will probably see an additional boost from some large projects that are underway. Roughly 700 workers have been hired so far for the $3 billion redesign of Salt Lake City International Airport, the state's largest public project. Park Avenue, Westport Capital Partners' $150 million development, is one of the biggest mixed-use projects under construction in the heart of the metro.
- Software solutions provider MasterControl relocated its headquarters to a 154,000-square-foot LEED Gold building in the Old Mill Corporate Center in Cottonwood Heights. Quality new space is the most sought after, and strong tenant demand should drive a continued rise in office rental rates through year's end.

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	%
60	Professional and Business Services	201	15.8%	8,200	4.3%
65	Education and Health Services	171	13.4%	8,200	5.0%
40	Trade, Transportation and Utilities	240	18.9%	6,000	2.6%
15	Mining, Logging and Construction	90	7.1%	5,800	6.9%
90	Government	193	15.2%	2,400	1.3%
30	Manufacturing	121	9.5%	2,300	1.9%
70	Leisure and Hospitality	112	8.8%	2,300	2.1%
80	Other Services	37	2.9%	1,400	4.0%
55	Financial Activities	76	6.0%	700	0.9%
50	Information	34	2.7%	-1,400	-4.0%

Sources: YardiMatrix, Bureau of Labor Statistics

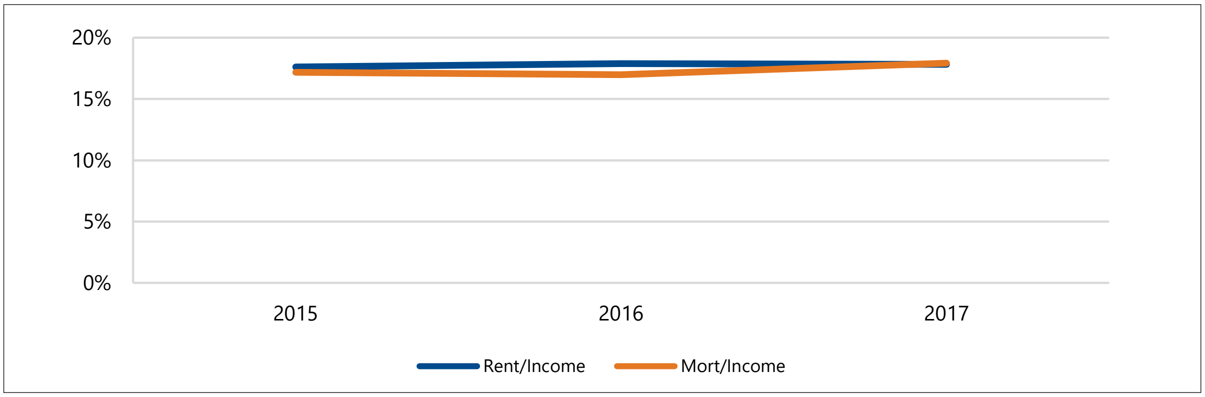
Demographics

Affordability

- During the last six years, home prices in Salt Lake City have been constantly increasing, pushed by rapid employment growth in high-paying sectors and accelerated population growth. The median home value hit $283,326 this year, a new cycle high, up 37% from the 2011 trough. The rising prices are primarily attributed to a strong demand for existing properties and low inventory expansion.

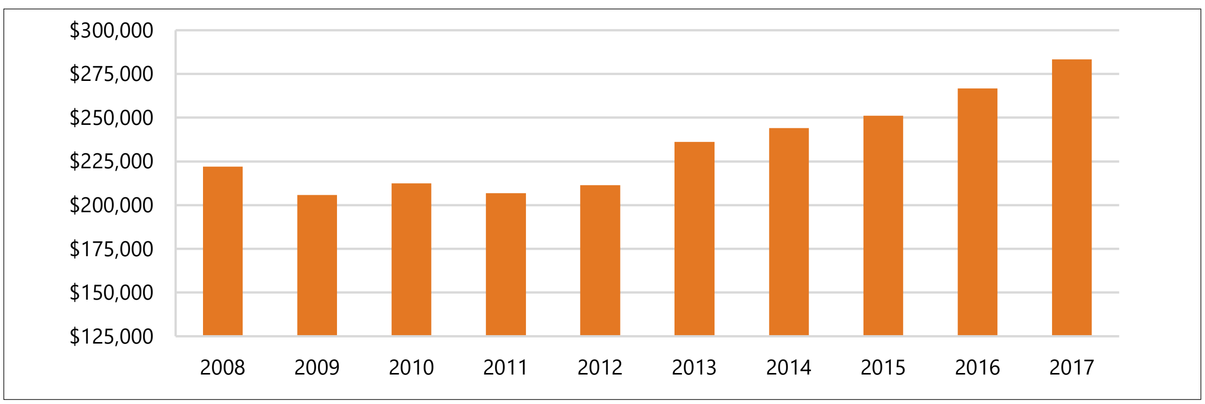
- Owning is roughly as expensive as renting, with both comprising 18% of the area's median income. Home affordability is now a growing issue along the Wasatch Front, as an estimated 7,500 affordable rental units are needed to meet demand. Despite its woes, the metro still ranks among the most affordable cities in the West.

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 added 18,686 residents in 2016. The 1.6% uptick is more than double the national rate (0.7%).

- For the past six years, the metro's population growth has constantly surpassed the national rate.

Salt Lake City vs. National Population

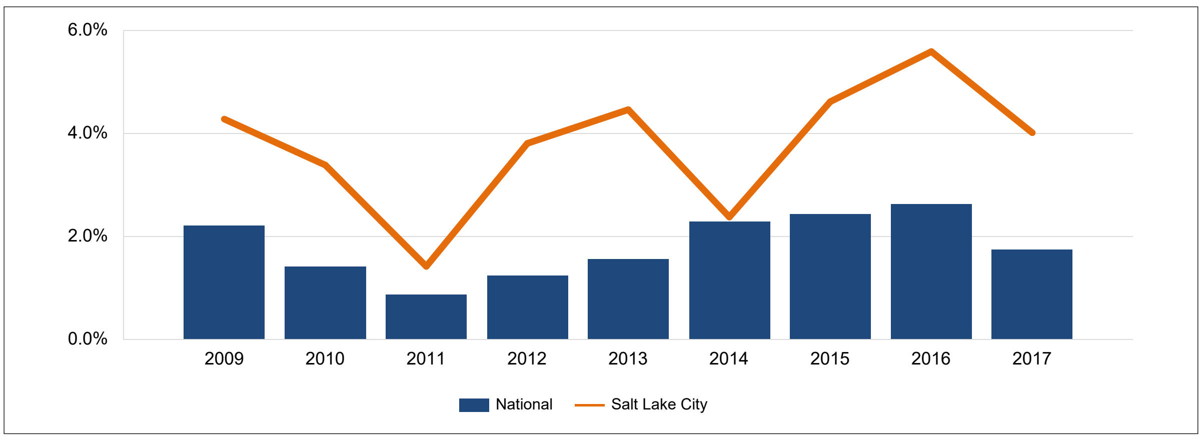
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Salt Lake City Metro	1,124,334	1,141,510	1,152,988	1,167,501	1,186,187

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

Supply

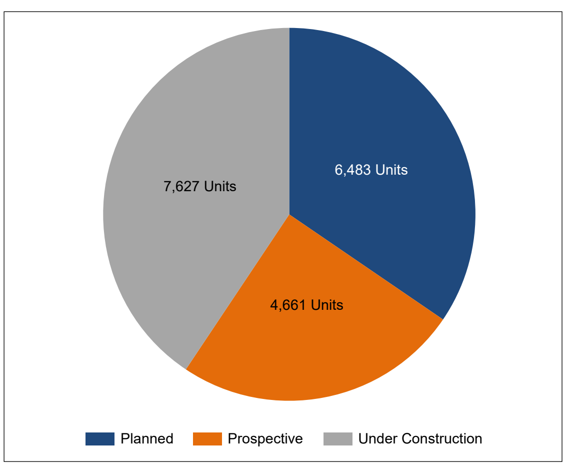
- Roughly 3,600 units—4.0% of available stock—came online during the year's first eight months. Multifamily development in Salt Lake City is striving to keep up with demand as labor shortages continue. The metro's robust economy, strong net in-migration and continued household creations are driving the need for units.
- With 7,627 units underway and an overall pipeline of 18,771 units, development activity is high. More than three quarters of the units being built cater to high-income residents, pointing to a deepening of the metro's nascent affordability issue.
- Development is mostly concentrated in popular submarkets such as Salt Lake City–Downtown and South Salt Lake, but activity is also high in Orem and Sandy, two of the metro's other urban areas, where 1,700 units are underway. Demand is so elevated that there are no signs of overbuilding, even at current levels, as the overall occupancy rate in stabilized properties continues to be above the 96.0% mark.
- Woodbury Corp.'s 476-unit The Aston at University Place is the largest development in Salt Lake City. Built in Orem, the community will join another large project in the same submarket—The Vine—a 468-unit asset built by R2R Ventures. Both communities target high-income renters.

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



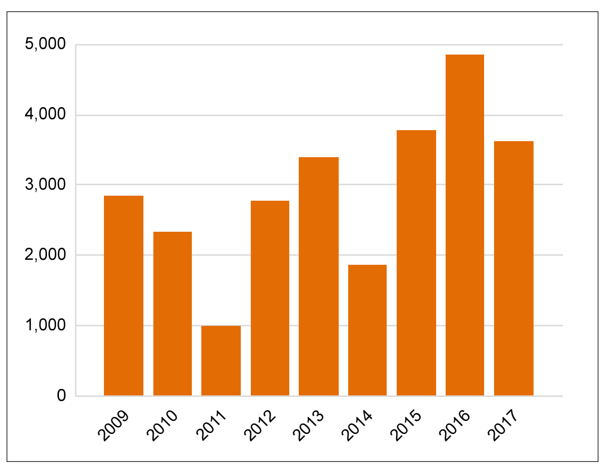
Source: YardiMatrix

Development Pipeline (as of September 2017)



Source: YardiMatrix

Salt Lake City Completions (as of September 2017)

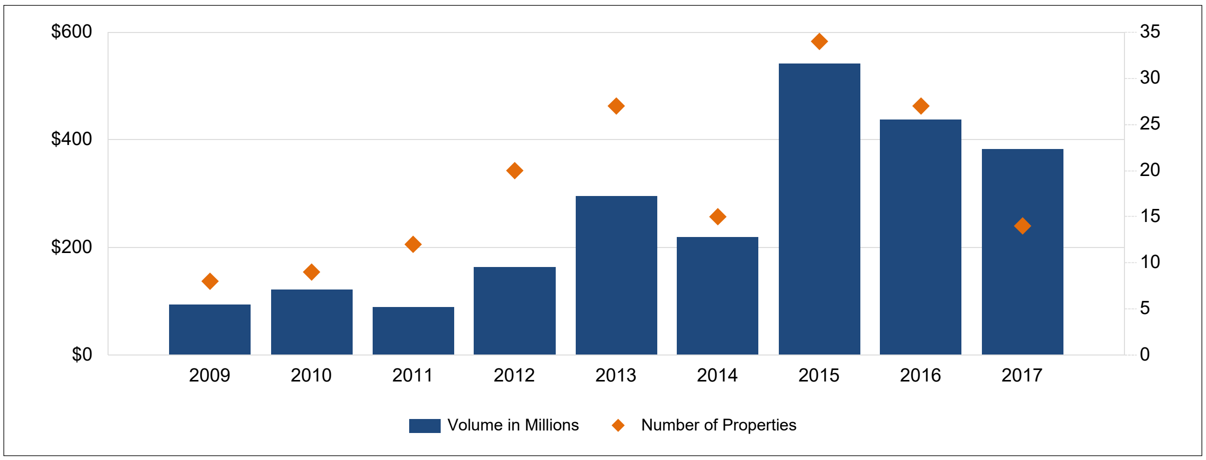


Source: YardiMatrix

Transactions

- Investor activity has tempered in Salt Lake City, in line with the national trend, with $381 million in multifamily assets trading year-to-date through August. Roughly $680 million in properties changed hands in the 12 months ending in August.
- Acquisition yields are at the 5.0% mark for stabilized Class A properties and range from 5.2 to 6.5% for Class B and C assets. The average price per unit was $152,609 year-to-date as of August, marking a new cycle high that is 13.7% above the $134,227 national figure.
- Proximity to major employers and transportation has established Murray and South Salt Lake as areas of interest. ColRich Group's $94 million acquisition of the 416-unit Rockledge at Quarry Bay in Sandy was the largest transaction of the past 12 months.

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



Source: YardiMatrix

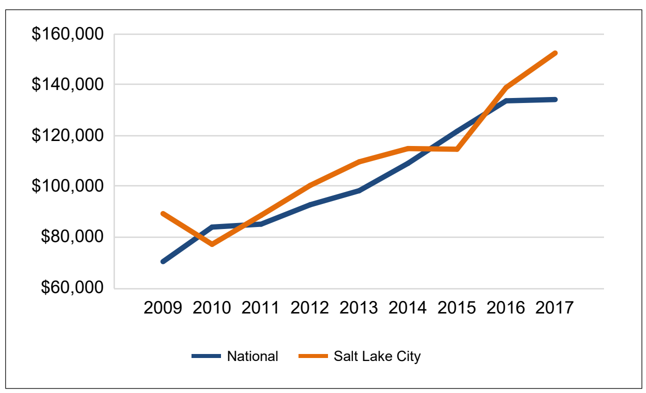
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Murray	159
South Salt Lake	115
Sandy	94
Salt Lake City–Central City	75
Ogden/Clearfield	51
Provo	41
Salt Lake City–Downtown	37
South Jordan/Herriman	29

Source: YardiMatrix

[1] From September 2016 to August 2017

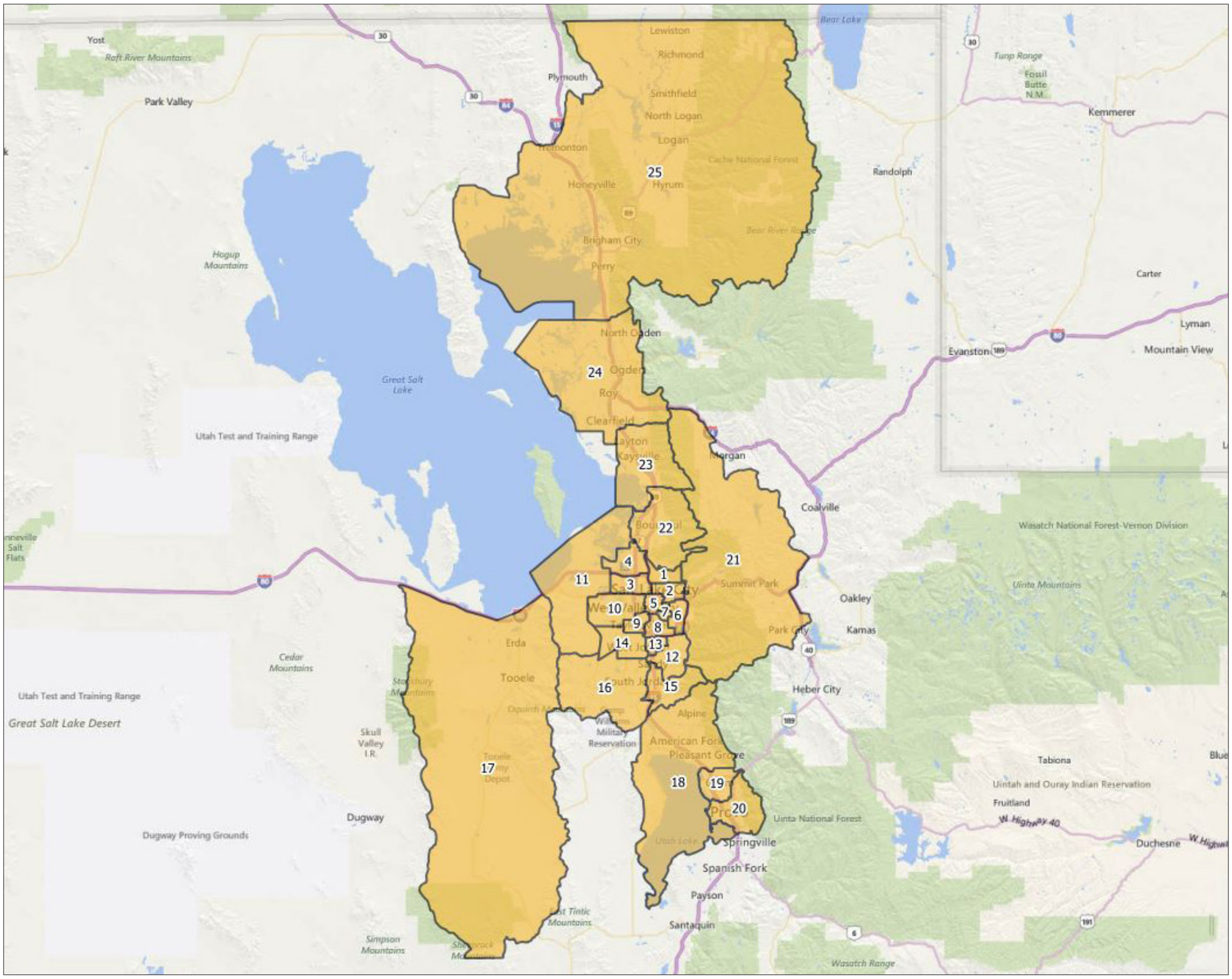
Salt Lake City vs. National Sales Price per Unit



Source: YardiMatrix

Photo by Davel5957/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.