Yardi® Matrix

Salt Lake City's Viable Growth

Multifamily Report Summer 2018

Developers Target Upscale Segment

Rent Growth Outpaces Nation

Per-Unit Prices Inflate

Market Analysis

Summer 2018

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Increasing Migration Sustains Demand

An influx of young professionals continues to boost multifamily development along the Wasatch Front. Salt Lake City's growing population and solid employment gains are attracting investors and developers alike.

Up 2.7% year-over-year, job growth occurred across almost all sectors. Salt Lake City added 36,300 positions in the 12 months ending in April, with trade, transportation and utilities leading the way. The sector added 9,400 jobs, followed by professional and business services, and construction, which added a combined 12,500 jobs. Apart from the $3.6 billion airport renovation project and the $690 million prison relocation that are both well underway, roughly $450 million is being invested in Interstate 15, a highway considered to be essential for the development of the state's Silicon Slopes technology corridor. The project is part of the Utah Department of Transportation's $1.5 billion 2018 plan to improve the metro's infrastructure. Although a host of major infrastructure projects are set to rise across the SLC metro, a limited labor availability and rising housing costs could turn into headwinds for the rental market.

Salt Lake City's downtown remains vibrant with development activity. As of June, roughly 8,600 units were under construction across the metro. We expect rents to increase by 4.9% in 2018, as demand continues to improve.

Recent Salt Lake City Transactions

Santa Fe

City: Salt Lake City
Buyer: Kennedy Wilson
Purchase Price: $80 MM
Price per Unit: $161,585

Avida

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

Pinnacle Fort Union

City: Cottonwood Heights, Utah
Buyer: Buchanan Street Partners
Purchase Price: $32 MM
Price per Unit: $198,438

Creekview

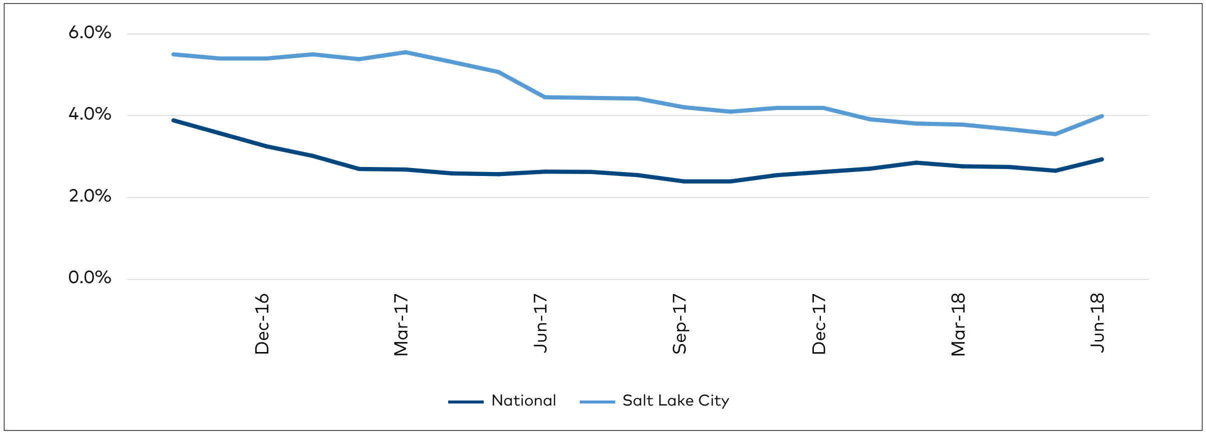
City: Midvale, Utah
Buyer: Kennedy Wilson
Purchase Price: $13 MM
Price per Unit: $147,727

On the cover: Photo by Andrey Krav/iStockphoto.com

Rent Trends

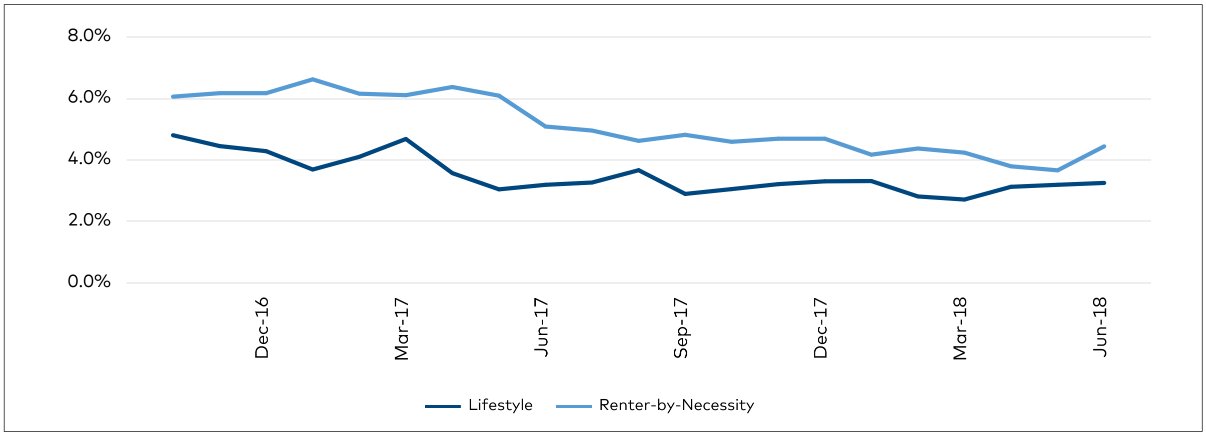
- Salt Lake City rents rose 4.0% in the 12 months ending in June, 110 basis points above the national rate. Strong tenant demand coming from an increasing population has kept rent growth above U.S. levels. However, the average rent of $1,147 is still $258 below the national figure, meaning that the metro proves appealing to highly skilled professionals coming in from major coastal markets.
- In the year ending in June, rent growth was led by assets in the Renter-by-Necessity segment, with rents up 4.5% to $1,057. Rates for Lifestyle assets increased 3.3% to $1,300 over the same period.
- Companies such as University Health Systems, Goldman Sachs and Fidelity, as well as other firms in the financial activities and education and health services sectors drove employment growth, bringing many renters to expensive downtown submarkets. Salt Lake City–Downtown ($1,365) and Salt Lake City–Central City ($1,342) saw the highest rents, due, in part, to their proximity to high-paying jobs. However, Magna and West Valley City saw the largest year-over-year increases—at 8.4% and 6.8%.
- The occupancy rate in stabilized properties was 95.6% as of May, down 90 basis points over the prior 12 months, but still at some of the highest levels among major U.S. metros. We expect rents to rise 4.9% this year.

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)

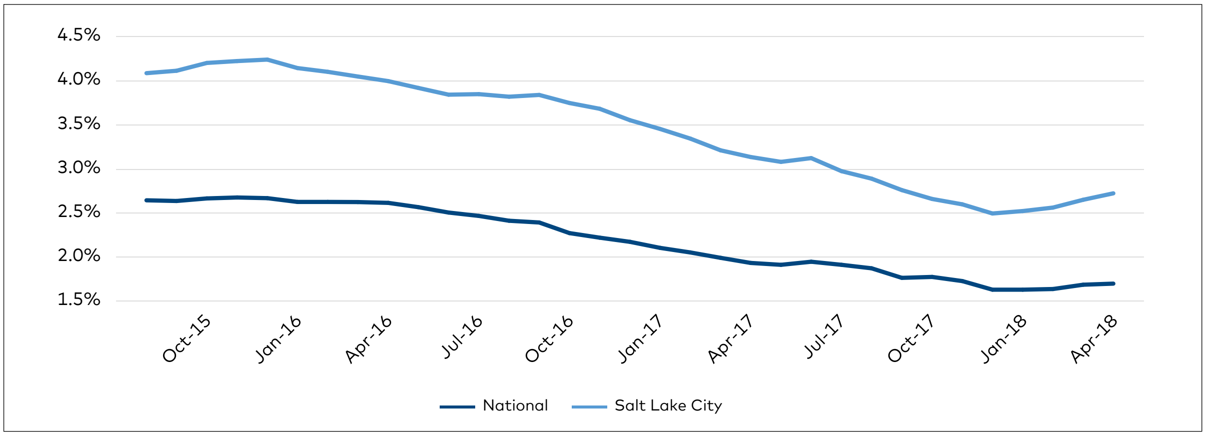


Source: YardiMatrix

Economic Snapshot

- The metro added 36,300 jobs in the year ending in April, a 2.7% uptick. The rate is 100 basis points above the national average, making Salt Lake City one of the most competitive cities in the country.
- Trade, transportation and utilities spearheaded job growth in the metro, having added 9,400 jobs year-over-year through April. Professional and business services and mining, logging and construction added a combined 12,500 jobs. Four Foods Group has acquired 5 acres of land in Valley Grove, part of a 62-acre master-planned, $300 million development by St. John Properties in Pleasant Grove City, Utah. The company will use the parcel to build a new corporate headquarters, as well as a restaurant cluster. Moreover, the 80-mile swath from Provo to Ogden has established itself as a thriving technology hub, with large companies such as Adobe or Snap, constantly expanding and creating new positions. The greater Salt Lake area has been operating at near full employment since 2017. The side effect is the scarcity of talent for new or growing businesses in the area.
- Expanding tech companies have bolstered demand for high-end office space, especially in Silicon Slopes, an area that's in very high demand. According to Yardi Matrix, there were roughly 1.5 million square feet of office space underway in the metro as of July, all in nine Class A properties.

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	246	18.8%	9,400	4.0%
60	Professional and Business Services	198	15.1%	7,200	3.8%
15	Mining, Logging and Construction	89	6.8%	5,300	6.4%
70	Leisure and Hospitality	115	8.8%	5,200	4.7%
65	Education and Health Services	180	13.7%	3,000	1.7%
30	Manufacturing	123	9.4%	3,000	2.5%
90	Government	214	16.3%	2,700	1.3%
55	Financial Activities	77	5.9%	1,100	1.4%
50	Information	36	2.7%	200	0.6%
80	Other Services	34	2.6%	-800	-2.3%

Sources: YardiMatrix, Bureau of Labor Statistics

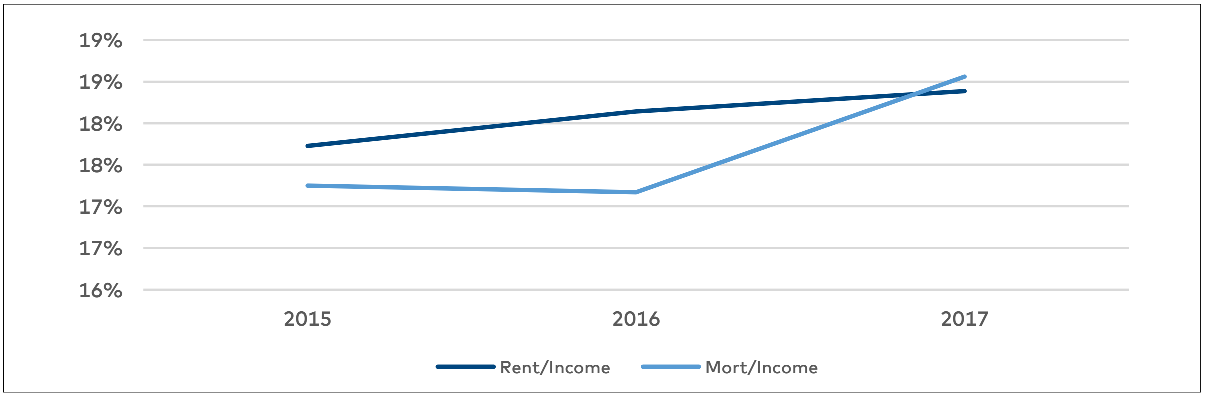
Demographics

Affordability

- The median home price in Salt Lake City continued its surge, up 39.3% since 2011, at $287,936 in 2017. Renting has become slightly more affordable than owning, with the average rent accounting for 18% of the area's median income, while homeownership comprised 19%.

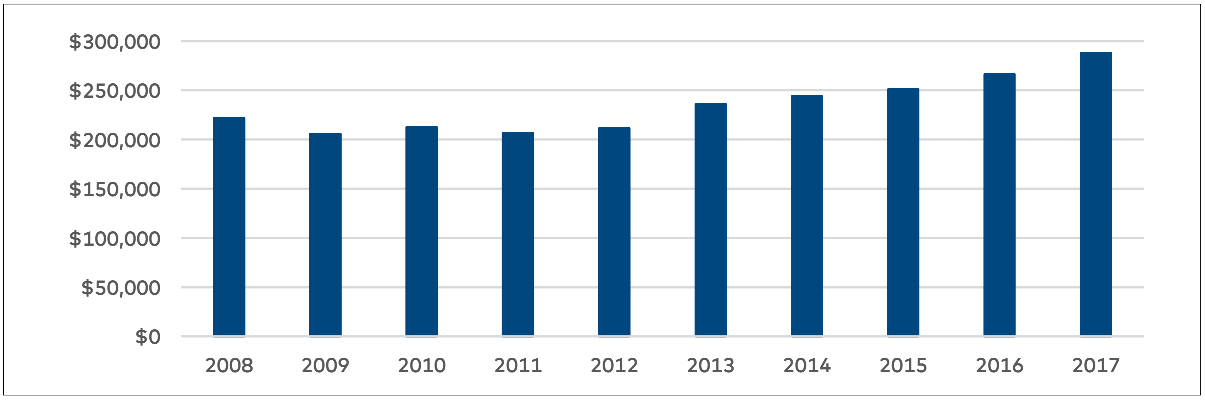
- Millennials who migrated into the city in search of an urban lifestyle are facing challenges in Salt Lake City when trying to find a home. The unprecedented building boom is not enough to sustain the city's growing housing demand. Moreover, density restrictions, prohibitions on different types of housing and other obstacles to development also contribute to the housing shortage.

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 roughly 17,000 residents in 2017 and almost 62,000 over the past five years.
- The metro's population expanded by 1.4% last year, which is double the national rate (0.7%).

Salt Lake City vs. National Population

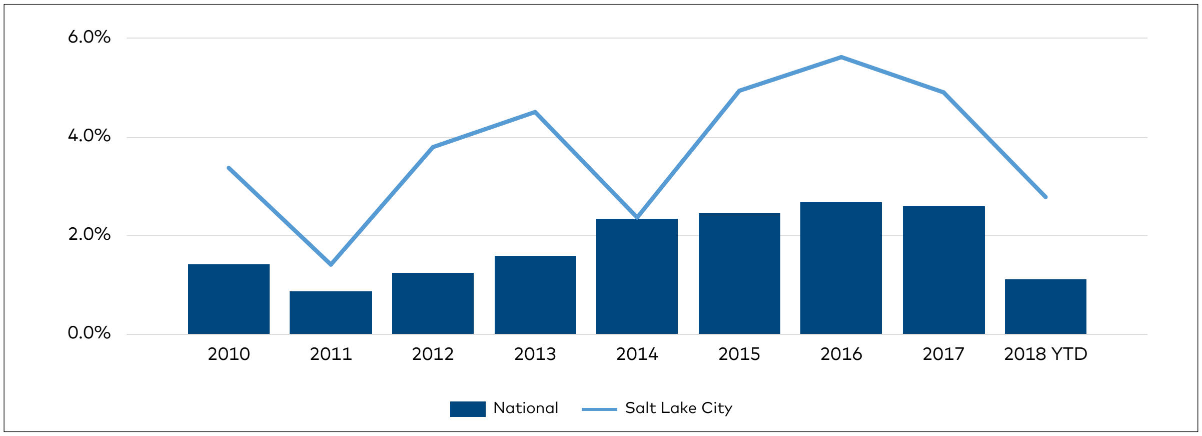
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Salt Lake City Metro	1,141,470	1,152,719	1,167,013	1,185,978	1,203,105

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

Supply

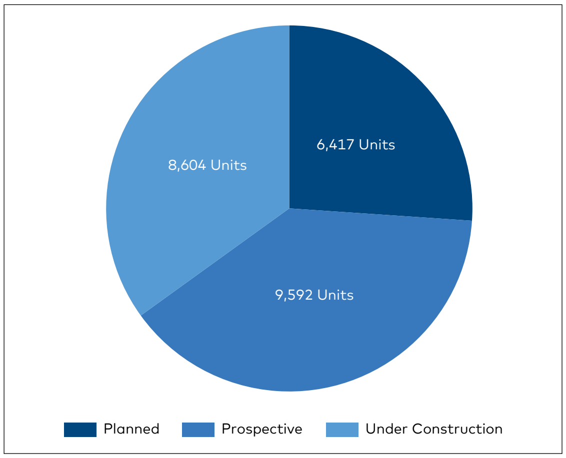
- More than 2,600 units were completed in the first six months of 2018 in Salt Lake City, accounting for 2.8% of total stock, 170 basis points above the U.S. rate. Although the metro added new units at a faster rate than national figures for the better part of the cycle, demand is still outpacing supply. Yardi Matrix forecasts that more than 5,100 units will be delivered this year.
- The metro's growing population is fueling demand for new apartments. As of June, roughly 8,600 units were under construction, while another 16,000 were in the planning and permitting stages. More than 85% of the projects underway are geared toward high-income renters, which is likely to aggravate affordability issues and put more pressure on working-class households.
- Salt Lake City–Downtown is the most active submarket, with almost 1,400 units under construction as of June, followed by South Salt Lake, with 1,169 units underway. However, the largest property in the works is Affinity 56, a two-phase project in Jordan. Utah-based Uinta Land Company is developing the 531-unit luxury property. Preleasing at the property was already at 30% in July, with the completion of the first phase anticipated for the end of 2019.

Salt Lake City vs. National Completions as a Percentage of Total Stock (as of June 2018)



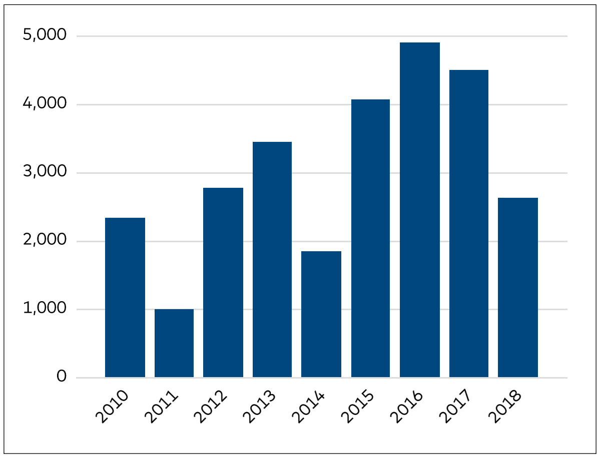
Source: YardiMatrix

Development Pipeline (as of June 2018)



Source: YardiMatrix

Salt Lake City Completions (as of June 2018)

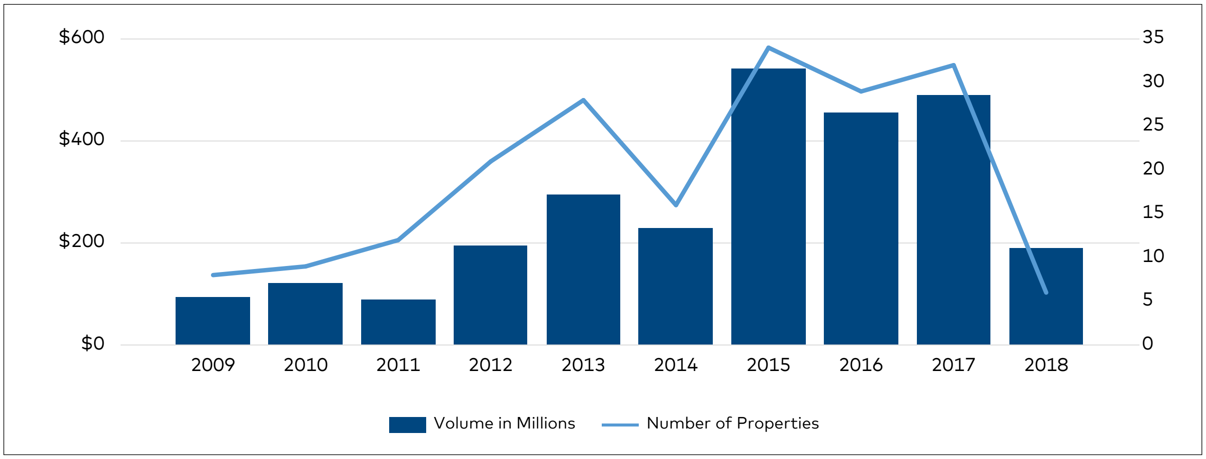


Source: YardiMatrix

Transactions

- Investment slowed in Salt Lake City, with only $190 million in multifamily properties trading in the first two quarters of 2018 and $444 million in the 12 months ending in June.
- Per-unit prices continued their climb, reaching $179,953 through the year's first half, a new cycle peak. Salt Lake City's per-unit price is now 133% higher than the 2010 value. Builders are having trouble keeping up with demand, which has fueled the rise of home prices above the $150,760 national figure.
- Sales activity was strongest in the metro's core submarkets, such as Sandy ($80 million), Murray ($67 million) and South Jordan/ Herriman ($66 million). The majority of the assets that traded were in the Renter-by-Necessity segment, with the largest transaction being Kennedy Wilson's $79.5 million purchase of Santa Fe, a 492-unit, partially affordable asset in Sandy.

Salt Lake City Sales Volume and Number of Properties Sold (as of June 2018)



Source: YardiMatrix

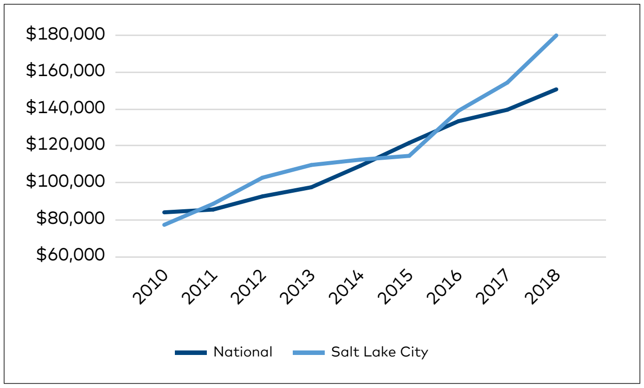
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Sandy	80
Murray	67
South Jordan/Herriman	66
West Jordan	50
Midvale	45
Salt Lake City–Central City	36
North Salt Lake/Bountiful	33
South Salt Lake	21

Source: YardiMatrix

[1] From July 2017 to June 2018

Salt Lake City vs. National Sales Price per Unit



Source: YardiMatrix

News in The Metro

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MULTI-HOUSING **NEWS**

Affordable M-U Project Coming To South SLC

Columbus Community Center is building a 200,000-square-foot property designed for people with disabilities, which will be known as The Hub of Opportunity.

Alpha Wave Expands in Utah

The company acquired the 94-unit Park Station Apartments, located in the Salt Lake City submarket of Midvale. Alpha Wave Investors plans $1.5 million in capital improvements, which will include adding a fitness center, a pool and a new leasing office.

29th Street Capital Buys First SLC-Area Asset

The company plans to invest approximately $10,000 per residence to update Twin Trees Apartments' 43 units and enhance the property's exterior.

CPP Buys 2 Affordable Properties in Utah

The assets, totaling 98 units, traded for $14.3 million. The firm succeeded in fully integrating the communities into the Section 8 housing program.

Salt Lake City-Area Community Changes Hands for $32M

Buchanan Street Partners has acquired the 160-unit Pinnacle Fort Union property as a value-add investment. Berkadia's Managing Director James Wadsworth represented the seller and the buyer.

Olympus Property Buys SLC Community

Situated in one of Utah's fastest-growing submarkets, Crossing at Daybreak, features a mix of one-, two- and three-bedroom units. The property will be rebranded.

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Top 10 Largest Multifamily Deals in Salt Lake City

MHN MULTI-HOUSING **NEWS**

data by Yardi® Matrix

By Timea Papp

As one of the best-performing metros in the country, Salt Lake City has a booming multifamily sector. According to Yardi Matrix, with total transaction volume amounting to more than $444 million in the 12 months ending in June, Utah's largest city is the scene of accelerated investment activity.

Following are the most significant deals closed in the metro year-to-date, based on Yardi Matrix data, highlighting a trend of elevated investor interest in Salt Lake City's most established submarkets.

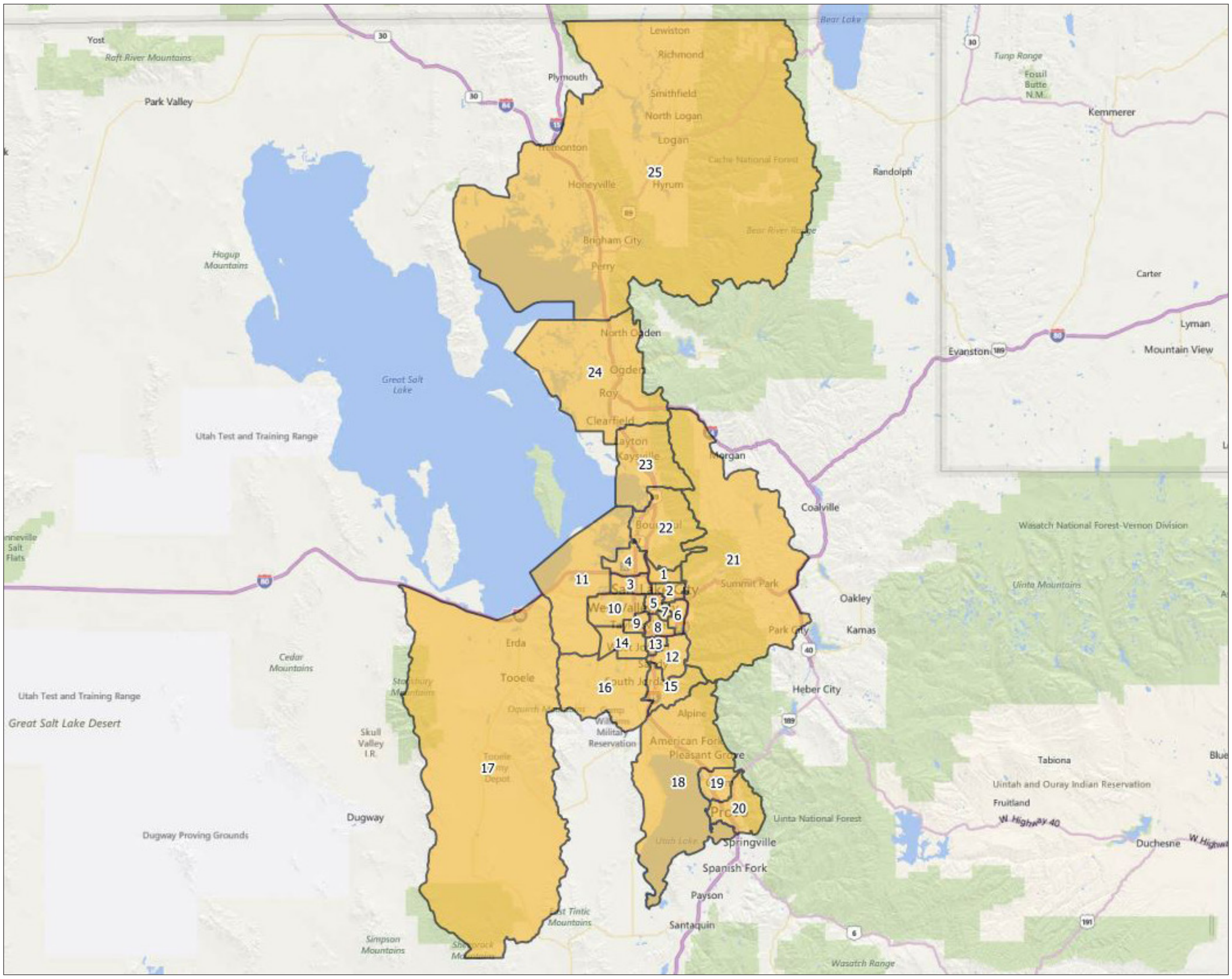
Property Name	City	Seller	Buyer	Unit Count	Total Sale Price (MM)
Santa Fe	Salt Lake City	DiNapoli Capital Partners	Kennedy Wilson	492	79,500,000
Olympus at Daybreak	South Jordan	TruAmerica Multifamily	Olympus Property	315	65,600,000
Dry Creek at East Village	Sandy	Security National Real Estate	DiNapoli Capital Partners	282	49,690,000
Seasons at Pebble Creek	Salt Lake City	Hamilton Zanze & Company	DiNapoli Capital Partners	300	43,290,000
Pinnacle Fort Union	Cottonwood Heights	RK Properties	Buchanan Street Partners	160	31,750,000
Fox Creek	Layton	Hamilton Zanze & Co.	D&D Construction	186	20,280,000
Clover Creek	Salt Lake City	Eric Schifferli	Aukum Group	186	19,470,000
Creekview	Midvale	DiNapoli Capital Partners	Kennedy Wilson	88	13,000,000
City Garden	Ogden	Chad Salmon	Lowe Property Group	61	8,180,000
Windsor Park	Salt Lake City	Foam Street Investments	Financial Attunement	60	6,690,000

Santa Fe

The biggest transaction on our list was Kennedy Wilson's $79.5 million—or $161,585 per unit—purchase of Santa Fe, which is also the largest community to have traded in Salt Lake City year-to-date. DiNapoli Capital Partners sold the 492-unit property in January in a portfolio sale alongside Creekview Apartments. Kennedy Wilson secured $59.1 million in acquisition financing, originated by Fannie Mae.

Image courtesy of Yardi® Matrix

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
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.

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