Yardi® Matrix

Watch The Wasatch Front

Multifamily Report Winter 2019

Demand Continues to Outpace Supply

Investment Activity Poised for Record Year

Job Growth Stays Well Above National Average

Market Analysis

Winter 2019

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Utah's Capital Prepped for More Growth

Backed by a strong economy and rapidly expanding population, Salt Lake City's multifamily market continues to gain steam. Record-high deliveries over the past three years have not slowed down construction, with 2018 poised to mark a new cycle high. Demand is still outpacing supply, and at 96.0%, occupancy in stabilized properties remains above the national average.

Employment growth continues to be strong, with gains across most sectors. Salt Lake City added 38,800 jobs year-over-year through September, a 3.1% uptick. Trade, transportation and utilities led growth by far, with the addition of 11,600 jobs. The $3.6 billion Salt Lake City International Airport redesign is underway, with the opening of its first phase scheduled for 2020. Utah Transit Authority also broke ground on its new bus operation, maintenance and administration facility. Moreover, an $87 million bond that the metro's residents approved by vote in the November midterm elections will be used to repair Salt Lake City's aging road network.

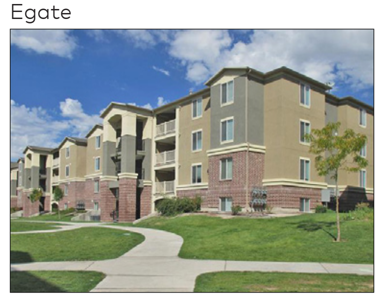
Core areas have been undergoing a rejuvenation process over the past few years, keeping rents and demand for new multifamily product high. Approximately 8,200 units were underway across the metro as of October, with most of the new developments dedicated to the Lifestyle segment.

Recent Salt Lake City Transactions

Cobble Creek Apartment Homes

City: Salt Lake City
Buyer: Maxx Properties
Purchase Price: $55 MM
Price per Unit: $152,701

Egate



City: West Valley City, Utah
Buyer: Nathan J. Fredrick
Purchase Price: $49 MM
Price per Unit: $160,362

Country Lake

City: Salt Lake City
Buyer: TruAmerica Multifamily
Purchase Price: $46 MM
Price per Unit: $179,921

Rosegate Draper

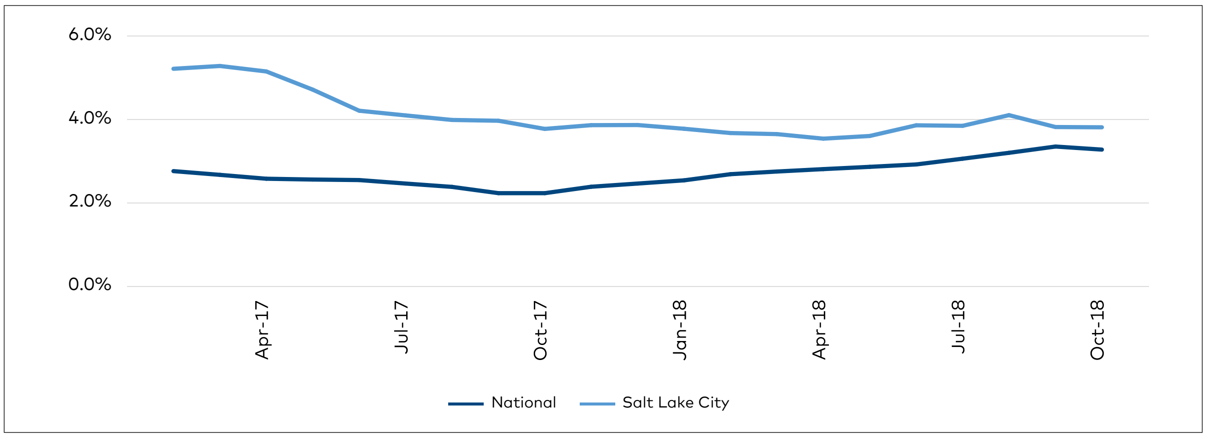
City: Draper, Utah
Buyer: Kennedy Wilson
Purchase Price: $51 MM
Price per Unit: $185,379

On the cover: Photo by Joecho-16/iStockphoto.com

Rent Trends

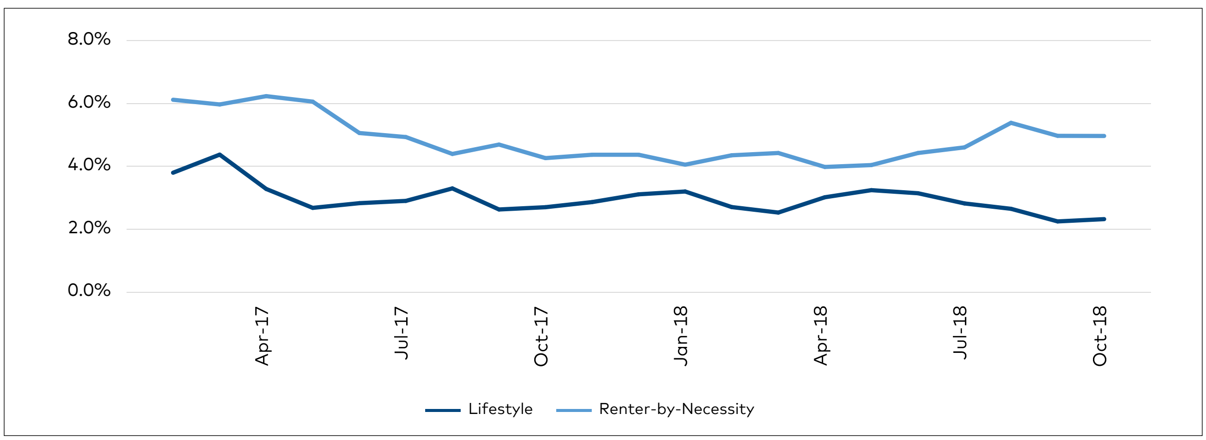
- Rents in Salt Lake City rose 3.8% year-over-year as of October, 50 basis points above the U.S. rate. The average rent of $1,172 remains well below the $1,420 national figure. The metro's multifamily market is among the hottest in the nation, as strong population and job gains prop up demand.
- Working-class Renter-by-Necessity rents led growth with a 5.0% increase, to $1,078. With the bulk of new supply geared toward high-income renters, the gap between segments has remained significant, with rents in the upscale asset class only increasing by 2.3%, to $1,324.
- Magna (10.5%) was the only submarket with a double-digit rent growth. Rent spikes were also significant in northern submarkets such as Park City (7.5%), Layton (6.4%) and North Salt Lake/Bountiful (6.3%). Core areas close to the public transit system are still the most expensive: In Salt Lake City–Downtown the average rent was $1,394, while Salt Lake City–Central City commanded $1,339.
- Demand for rental units is anticipated to stay high, particularly in the urban core, as new residents are drawn by the metro's strong economy. The occupancy rate in stabilized properties was 96.0% as of September, 60 basis points above the national rate.

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)

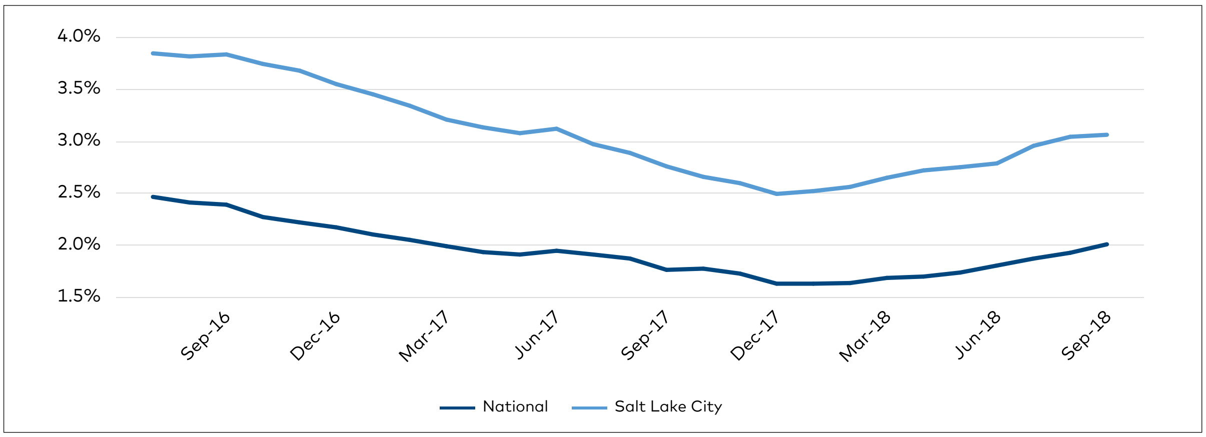


Source: YardiMatrix

Economic Snapshot

- Salt Lake City added 38,800 jobs in the year ending in September, up 3.1% year-over-year and 110 basis points above the U.S. figure. The city's competitive business climate and constant population growth are sustaining development, making it one of the best-performing metros in the country.
- With 11,600 new jobs, trade, transportation and utilities led growth. Leisure and hospitality added 6,700 positions as the metro's ski resorts officially enter the winter season. With expanded snowmaking capabilities, Utah's slopes saw more than 4 million visitors last year, an economic impact of $1.3 billion, according to the Utah Ski & Snowboard Association. Tourists are flying to Utah through its overcrowded airport that is undergoing a $3.6 billion reconstruction to accommodate growth. Roughly 1,300 workers are on-site each day. Moreover, with two-thirds of the city's roads in poor condition, Salt Lake City residents approved an $87 million bond dedicated to the metro's street infrastructure. Competition for top talent is also heating up, with Facebook, Amazon and Goldman Sachs expanding in the area.
- The Midvale submarket is likely to boost the metro's economic activity, as approximately 350 acres of formerly contaminated land will be repurposed. The master plan calls for a 1 million-square-foot mixed-use development, with office space, park, data center, commercial and residential components.

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	252	18.9%	11,600	4.8%
70	Leisure and Hospitality	118	8.9%	6,700	6.0%
65	Education and Health Services	183	13.7%	5,300	3.0%
30	Manufacturing	125	9.4%	4,300	3.6%
15	Mining, Logging and Construction	94	7.1%	4,200	4.7%
90	Government	211	15.9%	3,800	1.8%
60	Professional and Business Services	199	15.0%	2,100	1.1%
55	Financial Activities	79	5.9%	1,800	2.3%
50	Information	35	2.6%	-500	-1.4%
80	Other Services	34	2.6%	-500	-1.4%

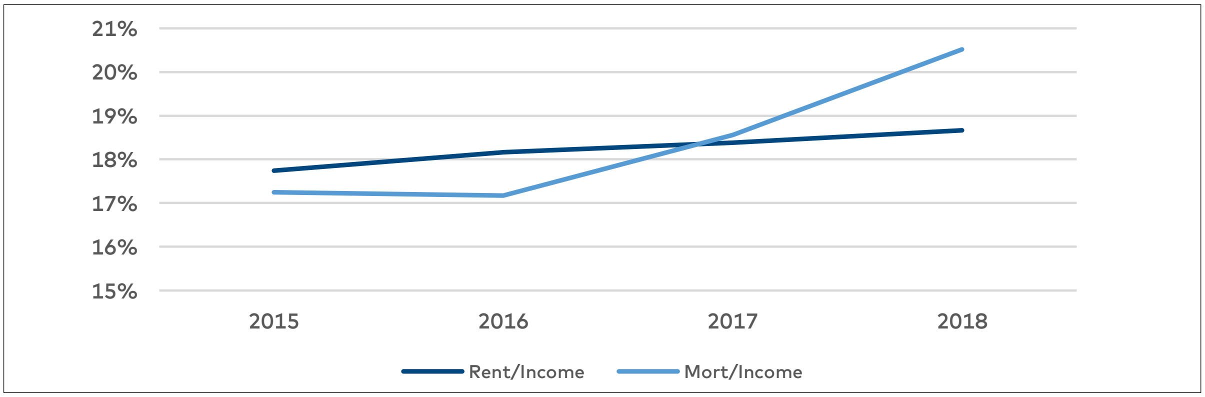
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

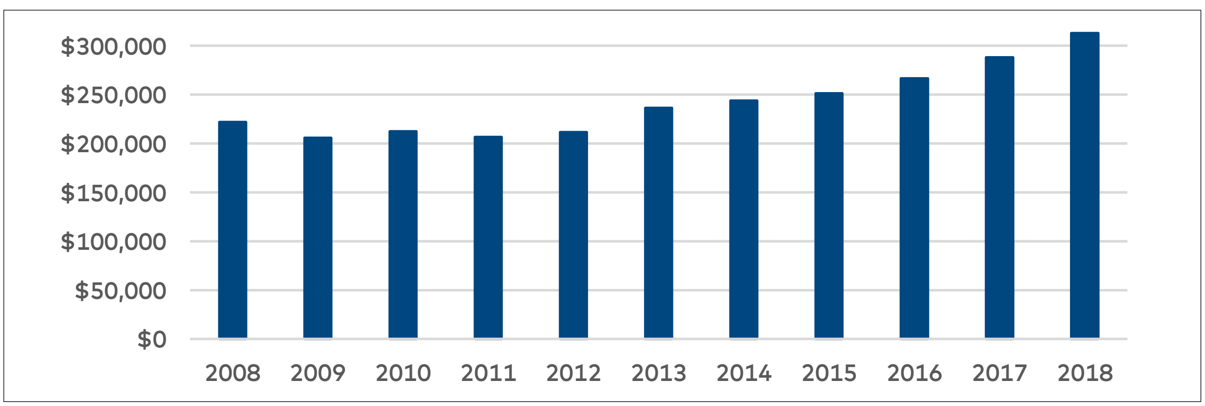
- Salt Lake City's median home value crossed $310,000 in 2018, a new cycle peak, up 40.9% compared to a decade ago, with renting being slightly more affordable than owning. The $1,172 average rent accounted for 19% of the area's median income, while the average mortgage payment comprised 21%.
- Although affordable when compared to other western markets, Salt Lake City is on the verge of a systemic housing crisis. According to its five-year housing plan—Growing SLC—there is a 7,467-unit deficit for residents making $20,000 per year or less. Moreover, rising prices for building materials, combined with labor and land shortages along the Wasatch Front, are hampering development.

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

- The metro's population expanded in 2017 two times faster than the national growth rate of 0.7%.
- Between 2010 and 2017, Salt Lake City added 111,645 residents, marking a 10.2% demographic growth.

Salt Lake City vs. National Population

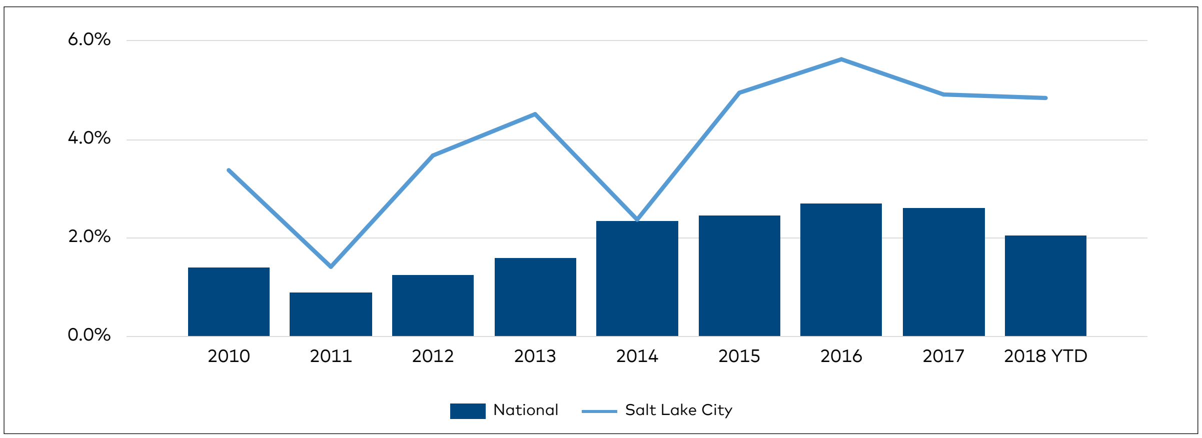
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Salt Lake City Metro	1,141,470	1,152,719	1,167,013	1,185,978	1,203,105

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

Supply

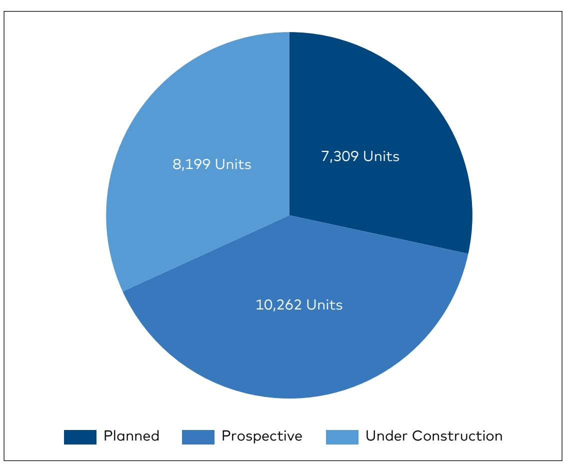
- Some 4,670 units came online in the first 10 months of 2018, accounting for 4.8% of total stock, more than double the national average. By year's end, total completions are likely to surpass 2016's cycle high of 4,909 units. Although deliveries across the metro were elevated for the better part of the cycle, demand remains at historic levels, keeping occupancy in stabilized properties at 96.0%.
- Salt Lake City had roughly 8,200 units under construction as of October, with another 17,500 in the planning and permitting stages. About 90% of the properties underway are targeting the Lifestyle segment, which will likely put more pressure on rents for workforce units going forward.
- Core submarkets such as Salt Lake City–Downtown (1,725 units) and South Salt Lake (1,233 units) dominated construction activity as of October. The two submarkets accounted for one-third of the total pipeline. The metro's positive demographic trends and fast-paced job creation continue to spur demand for multifamily product. The largest project underway was The Vine, a 468-unit community in Orem targeting high-income renters. Utah-based R2R Ventures is developing the property, which is slated for completion by spring 2019.

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



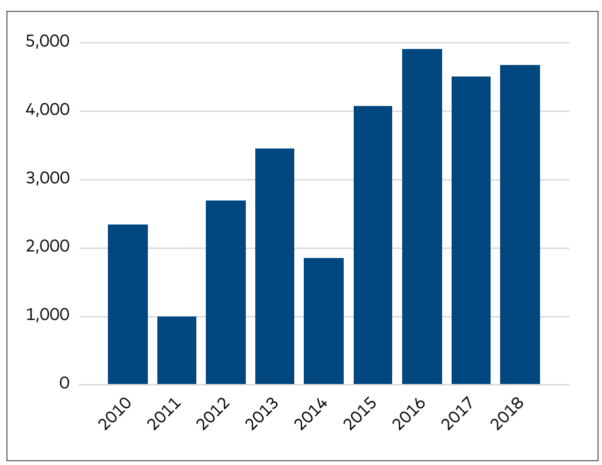
Source: YardiMatrix

Development Pipeline (as of October 2018)



Source: YardiMatrix

Salt Lake City Completions (as of October 2018)



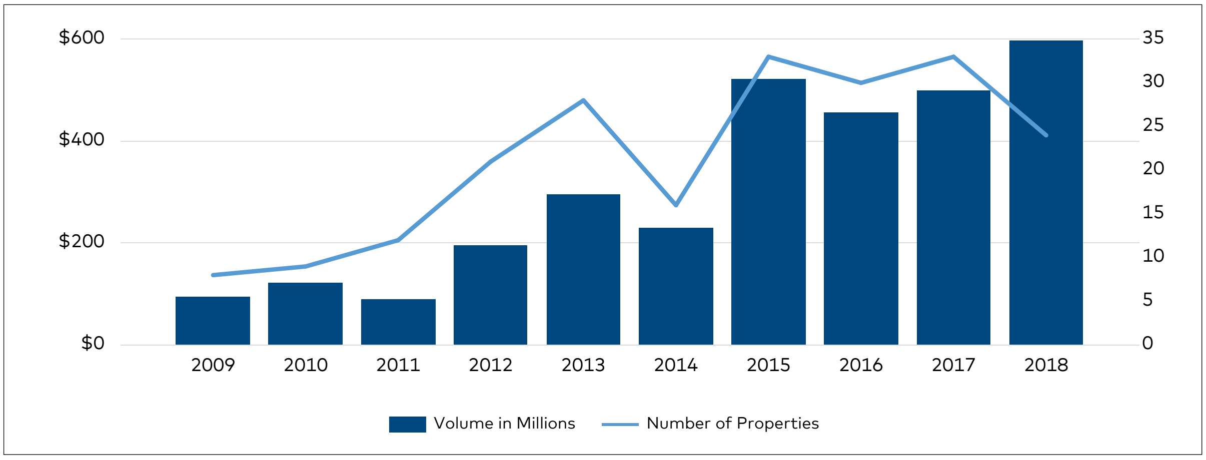
Source: YardiMatrix

Transactions

- Salt Lake City investment sales are heading toward a banner year, with $598 million in multifamily assets changing hands year-to-date through October. The figure has already surpassed other transaction totals recorded this cycle. At $153,773 as of October, the average price per unit is roughly on par with the national level. Appetite for assets in the Renter-by-Necessity segment was up, with most of the properties that traded year-over-year through October offering value-add opportunities. This has been an ongoing trend in the past seven years in Salt Lake City, where buyers mainly eye working-class communities that are close to employment and transportation options.

- Core submarkets such as Sandy ($129 million) and South Jordan/Herriman ($66 million) continued to attract most investors. Kennedy Wilson has been one of the most active players in the market, with the California-based firm paying almost $145 million for three Salt Lake City-area properties.

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



Source: YardiMatrix

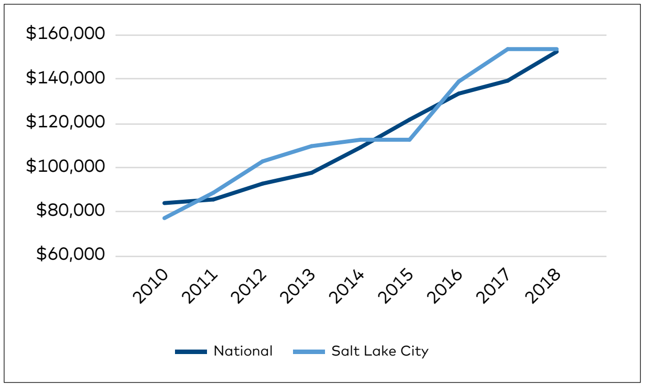
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Sandy	129
South Jordan/Herriman	66
Midvale	57
West Valley City	57
Holladay	55
Draper	51
Millcreek	46
Salt Lake City–West Salt Lake	43

Source: YardiMatrix

[1] From November 2017 to October 2018

Salt Lake City vs. National Sales Price per Unit



Source: YardiMatrix

News in The Metro

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Work Begins On Partially Affordable SLC Community

Millcreek Station will encompass 70 units. Of those, 56 will target households with incomes ranging from 25 to 50% of the area's median income.

287-Unit Project Breaks Ground In South SLC

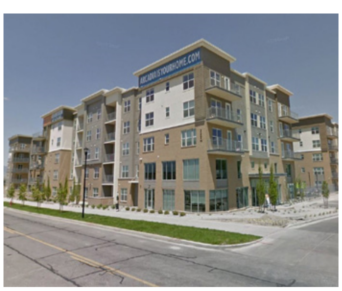
The development will replace four office buildings. Castlewood Development intends to finish work on the new multifamily project in early 2020.

Luxury Senior Living Community Opens In Salt Lake City Area

Buchanan Street Partners has completed the construction of Incline at Anthem, a 298-unit property restricted to adults 55 and over.

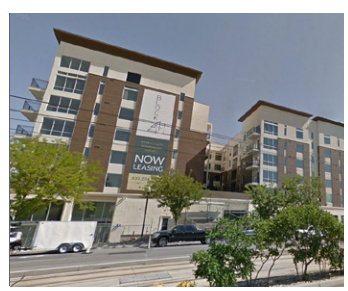
TruAmerica Expands SLC Footprint With $46M Buy

The 253-unit Country Lake in Silicon Slopes is the company's fourth community in the metro. The new owner has plans to renovate the 1973-built property.



211-Unit Affordable Community Opens In Utah

Wasatch Premier Communities wrapped up construction on Arcadia Apartment Homes in Sandy. The Utah Housing Coalition provided part of the financing needed to complete the project.



Luxury Community Opens Doors In Salt Lake City

Wright Development Group's 213-unit property broke ground near the end of 2016, with Washington Federal providing more than $30 million in construction financing.

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TruAmerica Still Bullish on Value-Add Buys

By Alexandra Pacurar

TruAmerica Multifamily is proving that value-add is not a niche play but a preferred investment strategy that offers higher returns and more opportunities. In October, the company—a joint venture between Robert Hart and The Guardian Life Insurance Co. of America—acquired a 253-unit community in Salt Lake City for $45.7 million, growing its footprint in the metro to 1,600 apartments. TruAmerica's portfolio, now made up of about 35,000 units, is worth $7.5 billion, according to a recent statement from the firm. Hart, TruAmerica's president & CEO, offers investment insights.

TruAmerica is a top multifamily investor in all major West Coast markets. What are the current investment trends in the region?

The markets are, for the most part, healthy and still growing. Investor demand for multifamily properties is as strong as it's ever been due to large amounts of aggregated public and private capital seeking durable cash-on-cash returns and long-term, risk-adjusted returns.

The demand for Class B and workforce housing, which targets renters by necessity, continues unabated, as the increase in Class A supply does not directly affect those sectors of the market.

How do you see the evolution of these markets in the years to come?

Demand for rental housing remains strong and will continue to be into the foreseeable future as drivers such as job formation and increases in wage gains continue at a robust pace. This has resulted in the formation of new households, most of which cannot afford to buy,

and therefore, renting remains the primary option. We see this primarily with Gen Zers and Millennials, who are now taking their place in the workforce and are migrating to where the jobs are: Los Angeles, Las Vegas and Salt Lake City, for example.

Any new markets worth looking into?

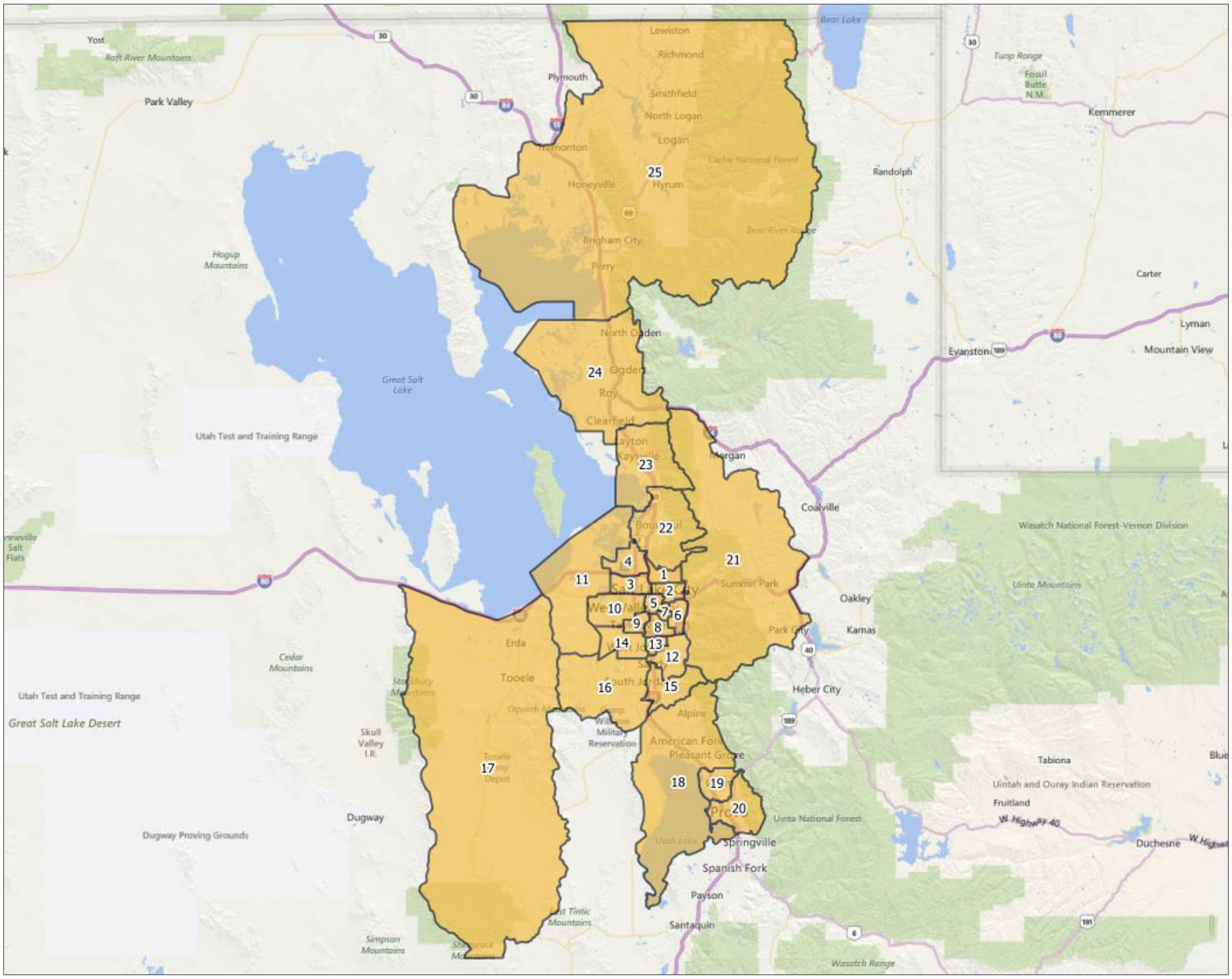
(One) market that has extremely steady growth and rental demand is Salt Lake City. Utah, in general, has experienced several consecutive years of strong job growth and low unemployment. However, supply has not kept up with the demand. Other than recent development in Salt Lake City's southern suburbs, there has been very little multifamily development added to the inventory.

Drawn by the increasing number of job opportunities and Utah's livability factor, the state has become a magnet for Millennials and is the nation's youngest state in terms of median age, with approximately one-third of its population under the age of 32. And as we know, this demographic is more likely to rent than buy a home, especially in and around Salt Lake City.

How is technology changing multifamily investment?

Technology is making us better operators and market makers. The advent of optimization pricing models (and) rental and investment analytic tools gives us a strategic advantage over competitors that do not use this technology. We can increase leasing velocity and stabilize cash flow quicker by using these tools to price apartments more accurately.

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.

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