Yardi® Matrix

Salt Lake City Steps Up

Multifamily Report Summer 2019

Per-Unit Prices Inflate

Employment Gains Drive Demand

Rent Growth Steady Despite Record Deliveries

Yardi® Matrix

Market Analysis
Summer 2019

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Utah's Capital Continues to Gain Steam

Despite recent inventory expansion, which brought 20,000 units online since 2015, the metro's multifamily market continues to be strong, backed by job and population gains. However, only 745 units were delivered during the first five months of 2019, keeping rent growth and occupancy above averages.

Salt Lake City ranked among the top metros in job creation, with the addition of 34,100 positions across most sectors, for a 2.6% expansion. Leisure and hospitality led growth with 7,300 jobs. Utah's ski resorts attracted a record 5.1 million visitors during the last winter season, many of them choosing to fly in through Salt Lake City International Airport, which is undergoing a $3.6 billion redevelopment. Furthermore, the Federal Aviation Administration also awarded roughly $19 million in infrastructure grants for three other airports in Utah. Tourism is expected to be impacted by the closing of the Salt Lake Temple and the Temple Square until 2024—which draw as many as 5 million visitors annually—due to major renovations.

Meeting demand for temporary jobs in the hospitality sector presented some difficulties, not only from a general labor shortage perspective but also because of the limited living and co-living options in the resort area. More than 7,900 units were underway in the metro as of May, but because of high demand, we expect rents to increase by 4.6% in 2019.

Recent Salt Lake City Transactions

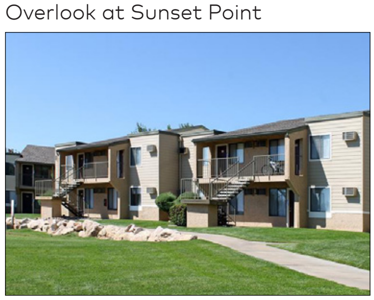
Fairstone at Riverview

City: Taylorsville, Utah
Buyer: Kennedy Wilson
Purchase Price: $81 MM
Price per Unit: $177,973

Herriman Towne Center

City: Herriman, Utah
Buyer: Millburn & Co.
Purchase Price: $49 MM
Price per Unit: $160,362

Overlook at Sunset Point



City: Layton, Utah
Buyer: Capital Real Estate
Purchase Price: $38 MM
Price per Unit: $88,744

Timbergate

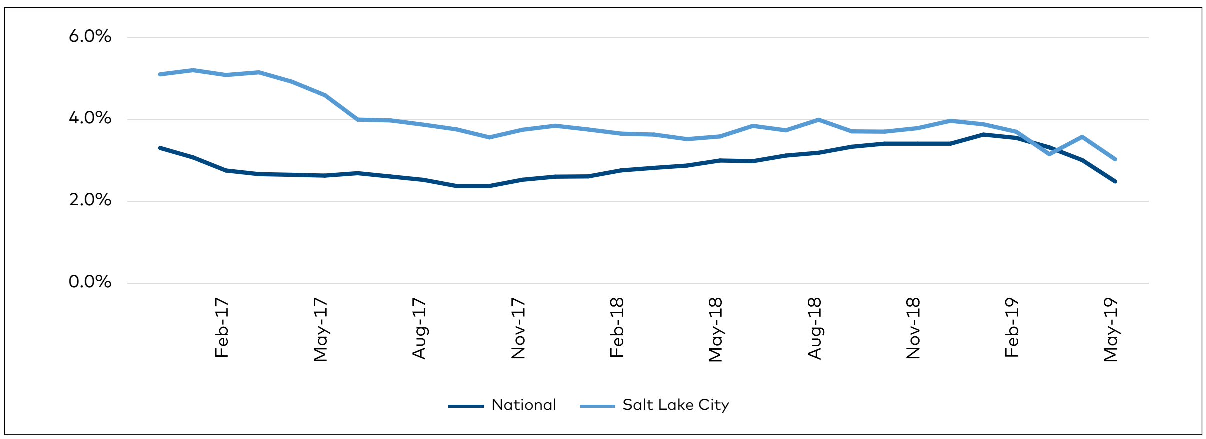
City: Herriman, Utah
Buyer: ColRich Multifamily
Purchase Price: $37 MM
Price per Unit: $128,038

On the cover: Photo by f11photo/iStockphoto.com

Rent Trends

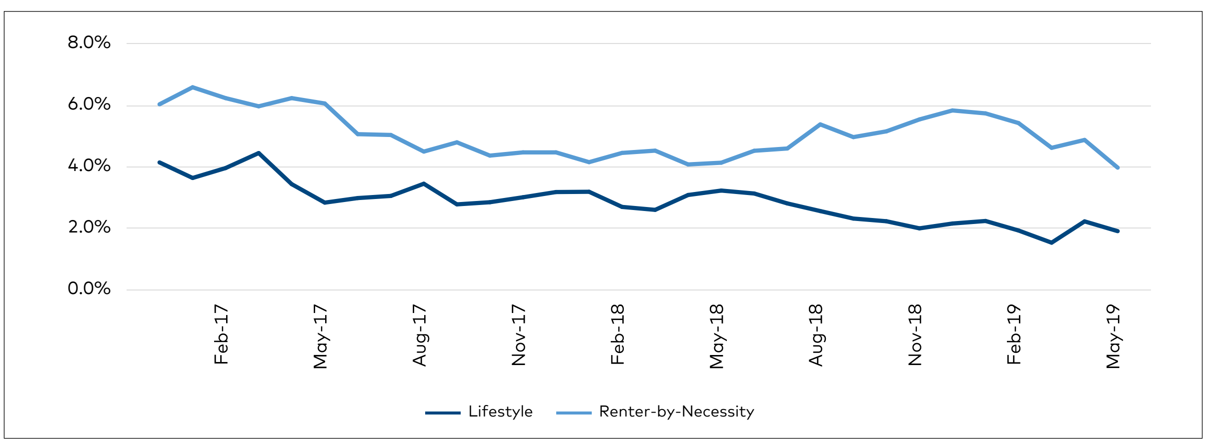
- Rents in Salt Lake City were up 3.0% year-over-year through May, 50 basis points above the U.S. growth rate. At $1,190, the average rent is significantly below the $1,442 national figure, as the market remains a relatively affordable alternative to other western markets such as Denver and Seattle.
- The working-class Renter-by-Necessity segment continued to lead growth, with the average rent up 4.0% to $1,099. Lifestyle rents increased by only 1.9% to $1,335. Boosted by prolonged demographic and economic expansion, demand is bound to remain strong, particularly for workforce housing, as 40 out of 46 multifamily projects under construction in the metro are in the Lifestyle segment.
- Although rents grew at the fastest rates in western submarkets such as Salt Lake City–West Salt Lake (7.8%) and Tooele (7.3%), core urban areas near public transit remained the most expensive—Salt Lake City–Downtown ($1,424) and Salt Lake City–Central City ($1,365). Eastern submarkets such as Provo ($1,409) and Park City ($1,305) also saw high rents due, in part, to their proximity to high-paying jobs.
- With employment and population gains propping up housing demand, the average occupancy rate in stabilized properties was 95.8% as of April, 90 basis points higher than the national level. Yardi Matrix expects rents to rise 4.6% 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

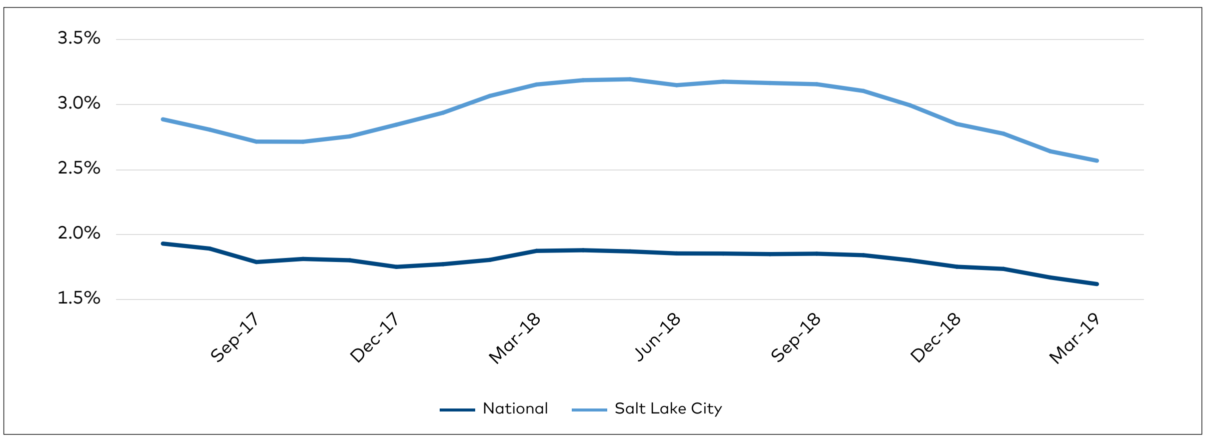
Economic Snapshot

- Salt Lake City gained 34,100 jobs in the 12 months ending in March, a 2.6% increase. Despite the fact that employment gains in the Wasatch Front have been slowly decreasing since March 2018, job growth is still 100 basis points above the U.S. figure, backed by positive demographics and an attractive business environment.

- Leisure and hospitality led growth, with the addition of 7,300 jobs, followed by trade, transportation and utilities, which gained 6,800 positions. Due to the large amount of snowfall, Utah's ski resorts ended the 2018-2019 season with a new record: More than 5.1 million visitors, with many tourists flying in through Salt Lake City International Airport, which is undergoing a $3.6 billion reconstruction. Near the airport, the recently created Inland Port Authority is set to give developers access to 11,000 acres of land inside a designated Opportunity Zone near major freeways and rail routes.

- With office-using employment constantly on the rise in the metro, a slew of skyscrapers are in different stages of construction and bound to dramatically change the city's skyline. Furthermore, expanding tech companies are also bolstering demand for office space. Utah's Podium broke ground on a new $20 million headquarters, which is slated to accommodate an additional 800 employees. The state's lower tax rates, coupled with financial business incentives, will likely continue to encourage expansions.

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	%
70	Leisure and Hospitality	119	8.9%	7,300	6.5%
40	Trade, Transportation and Utilities	248	18.5%	6,800	2.8%
65	Education and Health Services	187	14.0%	4,300	2.4%
30	Manufacturing	126	9.4%	3,700	3.0%
55	Financial Activities	83	6.2%	3,400	4.3%
60	Professional and Business Services	201	15.0%	3,100	1.6%
90	Government	214	16.0%	3,000	1.4%
15	Mining, Logging and Construction	91	6.8%	1,300	1.5%
50	Information	36	2.7%	1,200	3.4%
80	Other Services	35	2.6%	-	0.0%

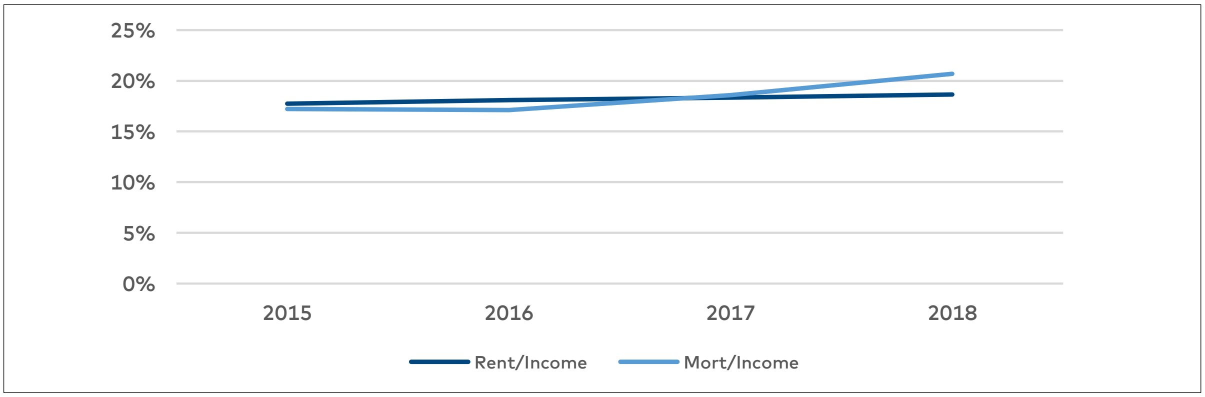
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

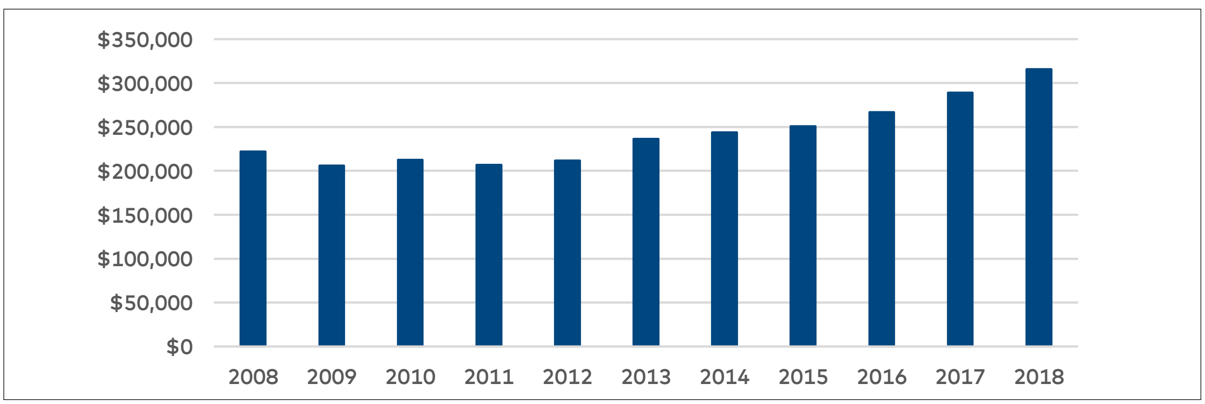
- Median home prices in Salt Lake City hit $315,661 in 2018, up 9.3% year-over-year and 42.2% above the 2008 trough. At $1,335, the average rent accounted for 19% of the area's median income, while the average mortgage payment rose to a 21% share.
- Strong demographic trends are influencing the state's relative affordability. Despite Utah's below-average rent-burden rates, soaring prices over the past few years have intensified issues related to worsening housing affordability. Salt Lake City's five-year housing plan signaled that the city is 7,500 units short for residents making at-or-below $20,000 per year.

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 rose 1.4% in 2017, double the national rate (0.7%).
- Salt Lake City added 111,645 residents between 2010 and 2017, with in-migration having played a significant role.

Salt Lake City vs. National Population

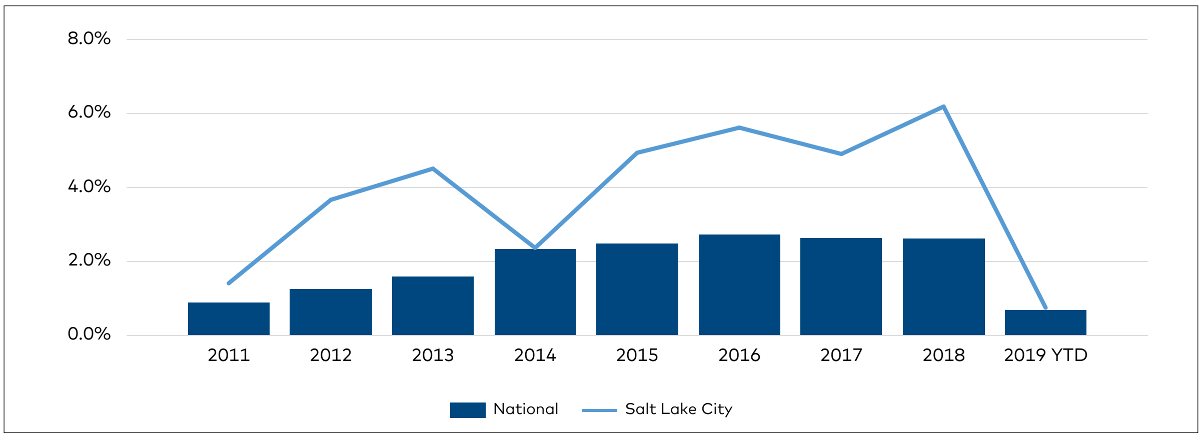
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Salt Lake City Metro	1,141,470	1,152,719	1,167,013	1,185,978	1,203,105

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

Supply

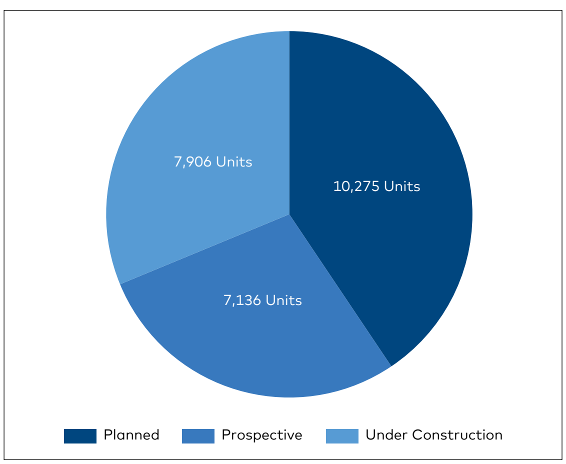
- Developers had 7,906 units underway in the metro as of May, with some 6,200 units set to be completed this year. This would mark a new cycle record, but considering the skilled labor shortage and rising price of construction materials, some projects might be delayed.
- During the first five months of the year, 745 units came online, accounting for 0.8% of total stock, 10 basis points above the national average. The bulk of deliveries targeted the Lifestyle segment, putting additional pressure on working-class households. In a recent report, University of Utah researchers found that incoming supply of rental units will be absorbed quickly, with new construction slowly decelerating in the foreseeable future.
- Core submarkets such as Salt Lake City–Downtown (1,422 units) and South Salt Lake (1,064 units) led construction activity as of May. The two submarkets accounted for almost one-third of the total pipeline. Developers had 14 projects underway here, half of which are located in designated Opportunity Zones. R2R Ventures' 468-unit The Vine in Orem ranked as one of the largest developments under construction, with 40% of the property preleased as of May.

Salt Lake City vs. National Completions as a Percentage of Total Stock (as of May 2019)



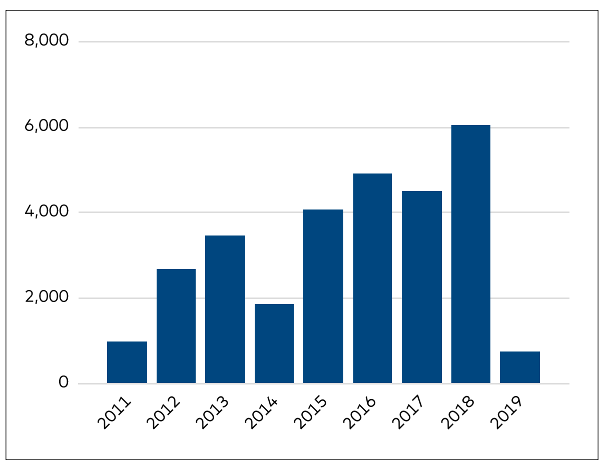
Source: YardiMatrix

Development Pipeline (as of May 2019)



Source: YardiMatrix

Salt Lake City Completions (as of May 2019)

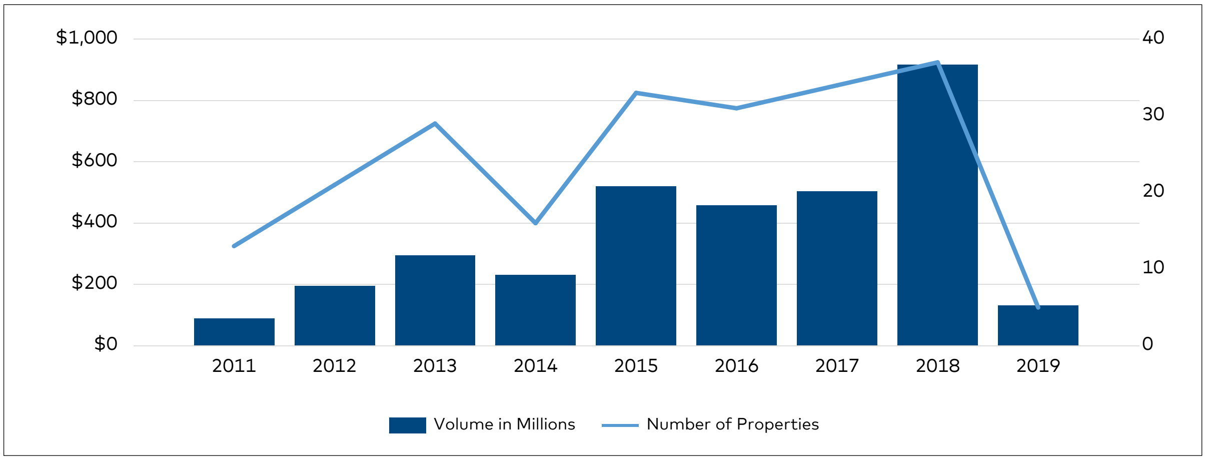


Source: YardiMatrix

Transactions

- Following last year's cycle peak of $919 million in traded assets, Salt Lake City investment sales decelerated in 2019. Only five properties changed ownership during the first five months of the year, for a total of $132 million. However, investor appetite for Renter-by-Necessity assets that offer value-add opportunities is still relatively high, as it has been over the past seven years.
- At $155,530, per-unit prices were at a cycle high in 2018, surpassing the national figure by $2,000. With deal distribution heavily favoring RBN assets, the prices tumbled by $34,000 in 2019.
- Core submarkets such as Sandy ($101 million) and Taylorsville ($87 million) attracted the most capital. Kennedy Wilson was one of the most active players in the market, with the company accounting for a quarter of the $702 million total transaction volume in the 12 months ending in May.

Salt Lake City Sales Volume and Number of Properties Sold (as of May 2019)



Source: YardiMatrix

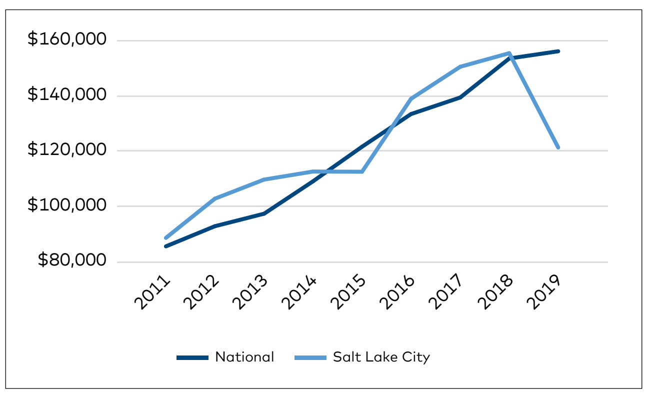
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Sandy	101
Taylorsville	87
South Jordan/Herriman	86
Millcreek	83
Holladay	55
Draper	51
West Valley City	49
Salt Lake City–Downtown	44

Source: YardiMatrix

[1] From June 2018 to May 2019

Salt Lake City vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

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MHN MULTI-HOUSING **NEWS**

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Next Wave Buys Nevada, Utah Communities

The company expanded its portfolio with two properties in Las Vegas and West Valley City: The 98-unit Harlow Apartments and the 90-unit Aspen Village Apartments.

Salt Lake City Loft Project Breaks Ground

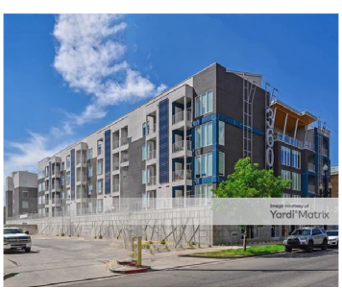
The 195-unit property will include an automated parking structure and will be the first project in Utah to take advantage of the federal Opportunity Zone program.

$124M SLC Project Starts Construction

A joint venture between The Domain Cos. and Giv Development broke ground on The Exchange, a mixed-use property with 412 residential units and more than 14,000 square feet of retail space.

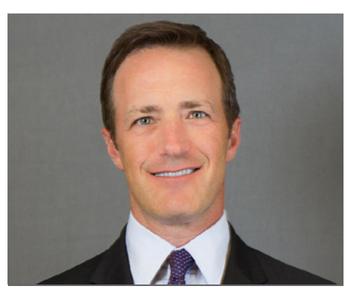
Utah Community Receives $17M Construction Loan

Located in Ogden, with easy access to major employment centers, Moda Vista comprises 79 Class A townhomes. The developer plans to begin preleasing this fall.



Salt Lake Community Changes Hands

Nitya Capital is the new owner of a 151-unit Class B community in the city's downtown, after funding the purchase with more than $27 million in acquisition financing.



Investcorp Acquires $311M Multifamily Portfolio

The properties, totaling 2,876 units, include three communities in Houston, two in Tampa, and one in Salt Lake City.

Taking Advantage of Opportunity Zones: A Lesson From SLC

By Laura Calugar

With rent growth above the U.S. average, Salt Lake City remains a magnet for investors and developers alike, despite cost increases and limited expansion possibilities due to geographic constraints. The advantages associated with federally designated qualified opportunity zones (QOZ) have coaxed businessmen into considering the Wasatch Front an alternative to high-priced western metros.

PEG Cos. Director of Multifamily Matt Hansen discusses Utah's first project built in an opportunity zone and describes how the 195-unit Paperbox fits in the metro's strong multifamily market.

What enticed you into building within a QOZ?

We believe that location is everything. We are often able to detect areas that have major growth potential and "get in" before the real demand sets in and costs rise. That is what happened with many of our qualified opportunity zone projects in Salt Lake City, Provo, Ogden, Rochester and Scottsdale, Utah. Because deals that qualify for the opportunity zone benefits are right in our wheelhouse, we had a strong pipeline of qualifying deals we were working on before the regulations came out and opportunity zones were identified.

Our advice to people looking to take advantage of the generous tax incentives the program offers is to remember that not all QOZ deals are created equal. A deal should stand on its own, independent of tax benefits.

How high do you expect demand to be for Paperbox units?

I will be very surprised if the affordable units aren't completely preleased before the buildings even open. There is incredible demand for affordable housing in the state, particularly along the Wasatch Front. Utah has historically been an affordable place to live, but according to a Gardner Institute report, we're facing a growing "housing gap."

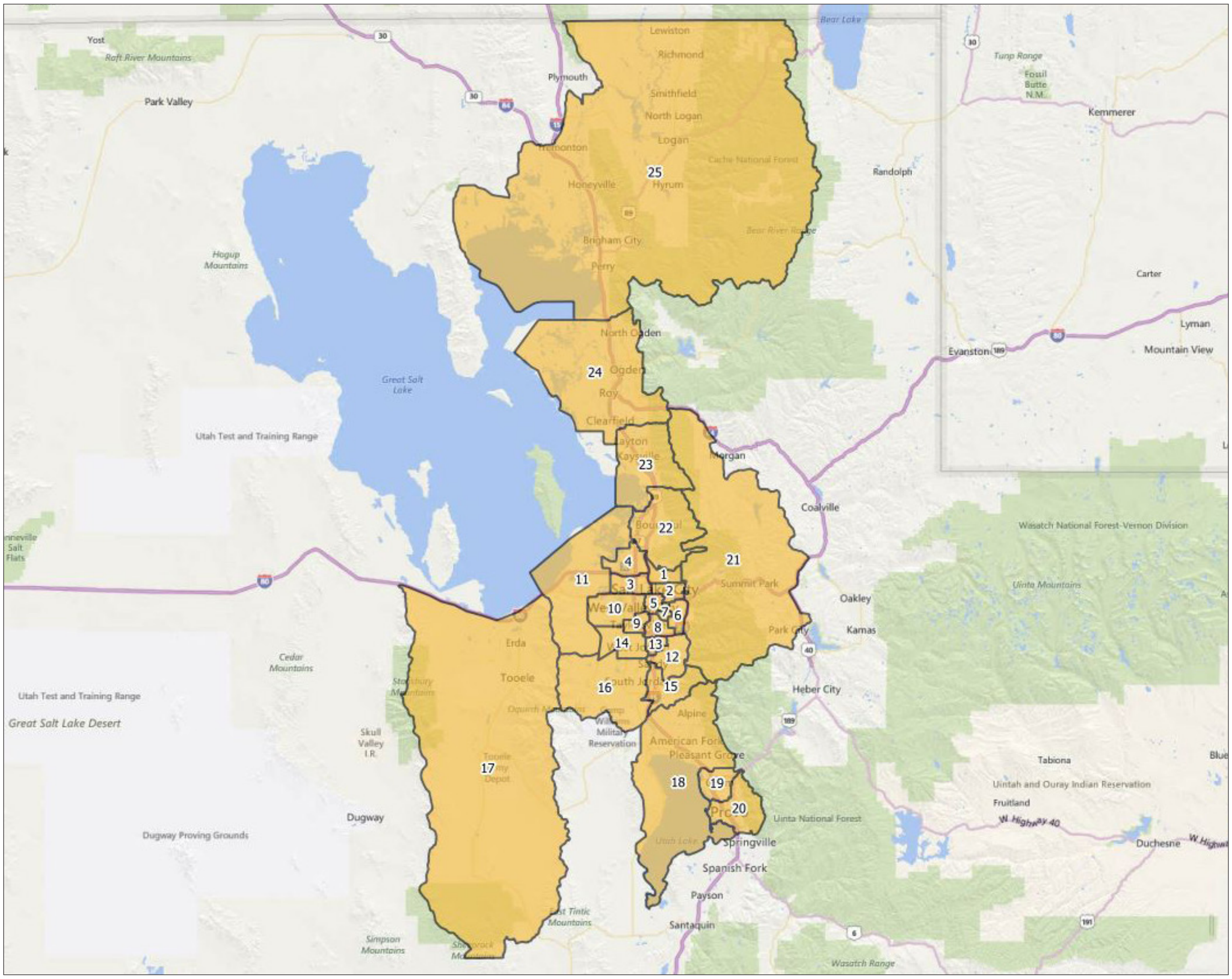
How will this project and other developments underway in the district impact this part of the city?

The central business district recently underwent a multibillion-dollar revitalization and the wave seems to be spreading to the west side of downtown. With the recent renovation of the Vivint Smart Home Arena—home of the Utah Jazz—and major investment in the renovation of the Gateway mall immediately to our west, the area is quickly becoming one of the most desirable urban neighborhoods in the state. Some of the highest-rent multifamily properties in the city have recently opened here. We're optimistic about the diverse mix of affordable, live-work and luxury units that will be available at Paperbox.

How do you anticipate Salt Lake City's multifamily market to evolve?

I think we're going to have to continue to build up rather than out, since the lakes and mountains that surround our city limit our ability to sprawl. Utah is still arguably the most family-oriented state in the union, but the single population is growing, and families are getting smaller. Most people still want to own a home, but demographic and economic forces are delaying homeownership for many people, increasing the renter pool.

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.