MARKET REPORT

Multifamily

Salt Lake City Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

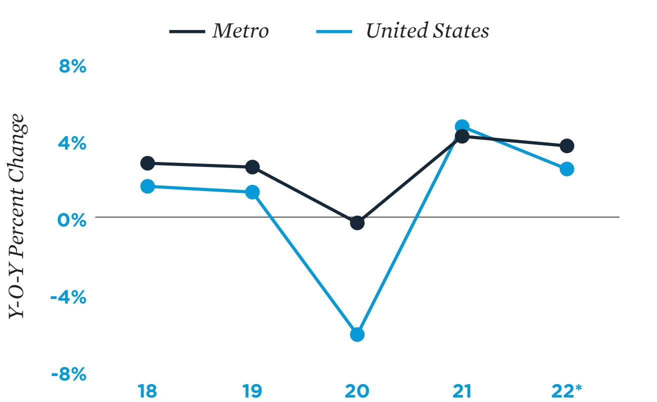
2Q/22

Consistent Influx of New Residents Coincides with Record Supply Wave

Labor market strength stokes rental leasing. The Salt Lake City metro entered 2022 with the lowest unemployment rate among major U.S. markets at 2.2 percent. The minimal volume of available labor suggests the market's sizable number of finance and tech firms will increasingly hire from outside the area when filling skilled positions this year. This recruitment will drive relocations to the metro, supporting an annual rate of population growth on par with the prior five-year average of 37,000 residents. An influx of high-earning professionals bodes well for luxury rental demand, as the metro enters a period of record supply additions. Populace expansion will also lift resident demand for medical care and necessity retail, bolstering hiring in the health services and retail trade, transportation and utilities sectors, job segments historically comprised of Class B and C renters.

Demand tested in CBD. Responding to strong demand for Class A units, developers are slated to finalize a host of new rentals in the coming quarters. While projects are located across the Wasatch Front, one-third of the estimated 7,600 units set for completion in 2022 are in Downtown Salt Lake-University. These rentals appear warranted, as the submarket notched the largest vacancy compression among submarkets over the past 12 months ending in March. Still, a double-digit increase to the area's rental stock over a 12-month span will place upward pressure on availability, potentially increasing concessions usage.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.; RealPage, Inc.

Multifamily 2022 Outlook

50,000 JOBS
will be created

EMPLOYMENT:

One of the nation's most insulated job markets during the pandemic, Salt Lake City records a 3.7 percent rate of employment growth in 2022. This gain pushes the metro's total job count 100,000 positions beyond the year-end 2019 mark.

7,600 UNITS
will be completed

CONSTRUCTION:

The metro records the third-largest inventory increase among major U.S. markets this year, as developers expand local rental stock by 5.4 percent. Projects in Utah and Weber counties account for one-fourth of this year's supply additions.

40 BASIS POINT
increase in vacancy

VACANCY:

A record volume of unit deliveries places upward pressure on vacancy this year, despite renters absorbing more than 6,800 units. This combination equates to unit availability reaching 2.6 percent, a rate 160 basis points below the trailing 10-year average.

9.0% INCREASE
in effective rent

RENT:

A second consecutive year of sub-3 percent vacancy supports noteworthy rent growth; however, the annual rate of increase trails last year's 21.5 percent surge. At $1,597 per month, the metro's year-end effective rate is comparable to the Las Vegas average.

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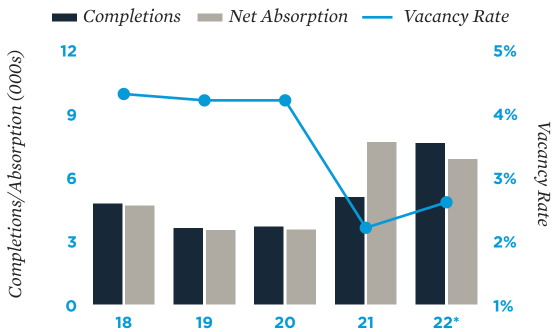
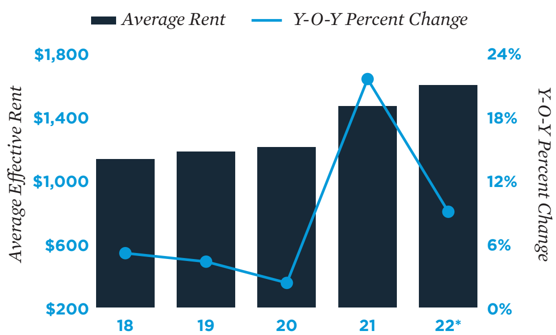
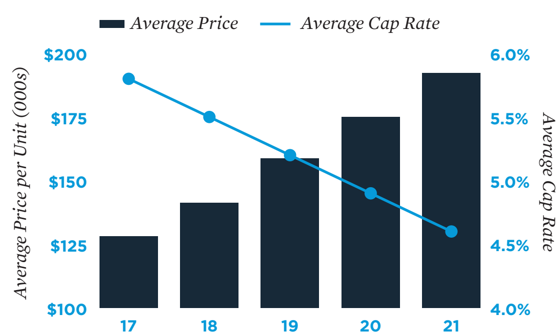
Supply and Demand



Rent Trends



Sales Trends



** Forecast*

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Price: $250

1Q 2022 - 12-Month Period

CONSTRUCTION

4,744 units completed

- Driven by a higher proportion of suburban deliveries, developers increased rental inventory by 3.5 percent during the four quarters ending in March, eclipsing the prior yearlong's expansion of 2.8 percent.
- Salt Lake County is home to more than half of the projects currently underway in the metro, with these properties averaging 160 units.

VACANCY

170 basis point decrease in vacancy Y-O-Y

- Triple-digit vacancy compression over the past 12 months was supported by renters absorbing nearly 2,700 units during the second quarter of 2021. Entering April of this year, availability sat at 2.0 percent.
- Across all submarkets, vacancy rests below 3 percent. Conditions are tightest in Provo, where apartment availability is a scant 0.6 percent.

RENT

21.8% increase in the average effective rent Y-O-Y

- Tight conditions lifted the average effective rent to $1,500 per month in March, with six of nine submarkets recording 20 percent-plus gains.
- During the past 12 months, effective rent growth was most pronounced in the Class B sector, where a 24.9 percent spike occurred. This boost narrowed the gap between average Class A and B rents to $185 per month.

Investment Highlights

- A strong economy and unwavering population gains are bolstering the performance of Salt Lake-area rental properties, attracting more investors to the Wasatch Front. During 2021, deal flow remained historically elevated, with a mix of local buyers and out-of-state investors vying for listings. The competitive bidding environment that transpired lifted the market's average price point 10 percent to $192,300 per unit. A sixth consecutive year of strong price growth lowered the mean cap rate to 4.6 percent.
- Class C transactions have accounted for two-thirds of all sales activity over the past 12 months, with Downtown Salt Lake City, Provo and Ogden top spots for deal flow. Encouraged by the apartment tier's historically low vacancy rate, private investors are acquiring sub-20-unit properties in these locales, often for less than $200,000 per unit.
- Institutional buyers targeting newer built Class A properties are active in suburban cities and Downtown Salt Lake, where pricing for luxury assets can surpass $400,000 per unit. Based on the size of the metro's development pipeline, these opportunities should continue to present themselves, as merchant builders unload newly stablized properties and recently completed projects in lease up.