MARKET REPORT

Multifamily

Salt Lake City Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

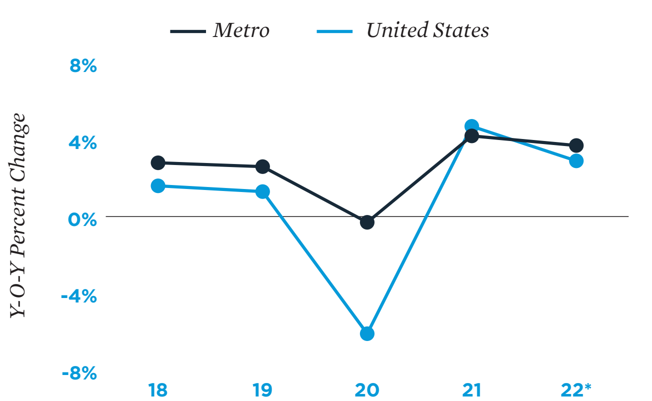
3Q/22

Record Construction Alleviates Historically Tight Rental Conditions in Salt Lake City

Elevated development to make up for recent lows. Inventory growth hit a six-year low in 2020, as the health crisis and resulting supply chain issues impacted the construction industry. Since then, development has picked back up amid robust in-migration and household creation trends, increasing supply by 3.4 percent in 2021 and a projected 3.7 percent this year. Over 2,500 units have been added to the metro in the first six months of 2022, the most over an opening half since 2017. Elevated completions for the remainder of the year will grow the inventory pool by the most number of units since at least 2000. The new supply will help meet high demand for Class A rentals, which is supported by an increasing labor force and home prices. At 3.3 percent in June, Salt Lake City has one of the tightest Class A vacancy rates of any major metro.

Record demand starting to cool off. Following sub-2 percent vacancy in the first quarter, new supply will lead to a rise in vacancy to 3.3 percent by the end of the year, a rate still well below the trailing 10-year average of 4.1 percent. As vacancy creeps up, the pace of rent growth will pull back slightly from its recent historic clip. Nevertheless, an all-time low unemployment rate will prompt firms to hire from other cities, adding to the overall renter pool. This should create demand for mid- and high-tier space, especially near office hubs downtown and along I-15, driving up effective rents. As rates continue to climb, albeit slower, interest in lower-cost housing options will also support Class B and C renting in areas like Provo and Lehi.

Employment Trends



** Forecast*

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

Multifamily 2022 Outlook

50,000 JOBS
will be created

EMPLOYMENT:

Salt Lake City's employment base is projected to grow 3.7 percent by the end of 2022. Hiring in the trade, transportation and utility sector will lead gains, followed by professional and business services, combining for roughly 35 percent of the labor force.

5,160 UNITS
will be completed

CONSTRUCTION:

A record number of units are scheduled to be completed by year-end, growing inventory by 3.7 percent. Over 1,100 units are set to finish in the Downtown Salt Lake City-University submarket during the second half of the year, the most of any submarket.

110 BASIS POINT
increase in vacancy

VACANCY:

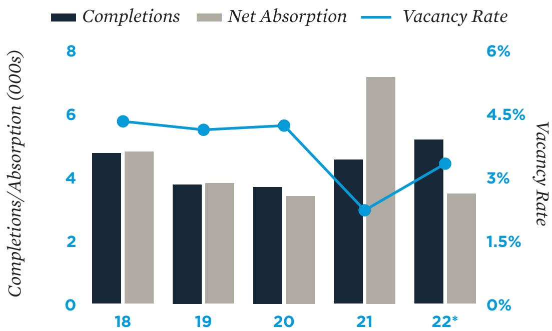
About 3,400 units will be absorbed on net by the end of 2022, however, vacancy will rise. With completions set for an all-time high, vacancy will loosen to 3.3 percent by the end of the year, bringing a seven-quarter high.

11.8% INCREASE
in effective rent

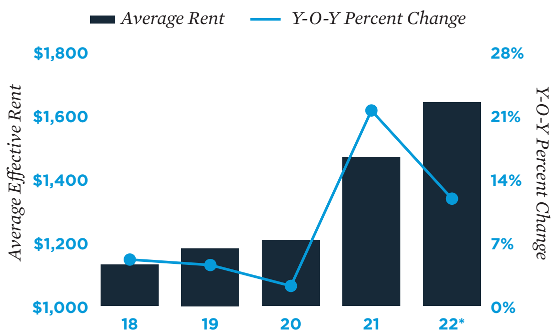
RENT:

Double-digit effective rental growth will continue for the remainder of the year, bringing monthly rates to $1,640 on average. With vacancy climbing, rent growth will slow relative to 2021's historic 21.5 percent hike.

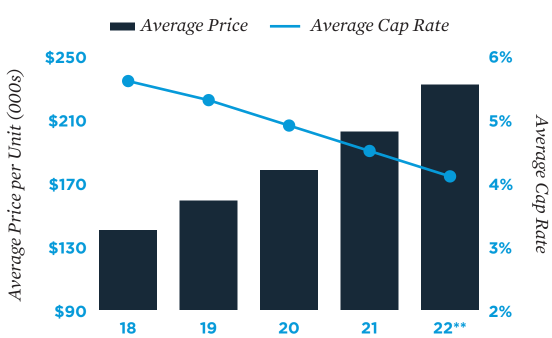
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

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

IPA Multifamily
John Sebree
Senior Vice President, Director
Tel: (312) 327-5400 | jsebree@ipausa.com

IPA Multifamily Research
Greg Willett
First Vice President
Tel: (972) 755-5200 | gwillett@ipausa.com

Price: $250

2Q 2022 - 12-Month Period

CONSTRUCTION

4,723 units completed

- Multifamily inventory expanded by 3.4 percent over the past 12 months ending in June, marking the most completions recorded annually since the fourth quarter of 2018.
- Deliveries in the Downtown Salt Lake City-University submarket reached an all-time high in the second quarter, as over 600 units opened.

VACANCY

10 basis point increase in vacancy Y-O-Y

- Vacancy increased year-over-year for the first time in 15 months as it jumped to 2.8 percent in the second quarter, up 60 basis points from the start of the year.
- Class A vacancy inched up 10 basis points year-over-year to 3.3 percent in June, while the Class B rate rose 40 basis points to 3.1 percent.

RENT

20.0% increase in the average effective rent Y-O-Y

- An expanding labor force and strengthening household incomes drove demand over the previous 12 months ending in June as metro rents surpassed $1,550 per month, growing 20 percent.
- Class B apartments experienced the largest effective rent hikes across the class spectrum, averaging 23.2 percent year-over-year.

Investment Highlights

- Transaction volume held consistent over the previous 12 months ending in June compared to the same period in 2021, while higher prices and a market shift favoring more institutional-quality sales contributed to a 30 percent advance in dollar volume. Heightened renter demand, consistent population growth and record-low unemployment will continue to drive investor interest.
- Multifamily deals are occurring across all classes. With increased development in recent years, newer Class A and B buildings have changed ownership more so than in the year prior. In the recent 12-month period ending in June, Class A buildings accounted for roughly 10 percent of all deals compared to 3.5 percent the year before. Meanwhile, Class B assets increased from 17 percent to 27 percent of all transactions in the same time frame.
- Institutions continue to expand their Salt Lake City portfolios as strong economic growth bodes well for future renter demand. Luxury tier vacancy below 3 percent in Provo and Orem-Lehi generate investor demand in the Class A space. Institutions concentrating on the mid-tier segment may favor Downtown Salt Lake City-University and South Salt Lake-Murray-Park City, where Class B rents grew more than 25 percent during the past year.