

Multifamily Metro Outlook:

Salt Lake City - Q4 2023

Overview:

- Ongoing elevated interest rates are slowing job creation in finance and fintech which are two of the most important economic drivers in Salt Lake. However, the economy will get some lift from life sciences and state government employment, through expansion at the University of Utah, in 2024. Moody's Analytics reports that medical technology is bolstered by some of Utah's biggest life sciences firms—ARUP Laboratories, Merit Medical, Edwards Lifesciences and Recursion Pharmaceuticals, which is reportedly doubling the size of its headquarters. However, this will not be enough to offset onslaught of new supply.
- Metro-wide, the average vacancy rate rose by 1.6 percentage points in 2023 and the average rent fell by 0.20 percentage points. This reflects the fact that Salt Lake City is undergoing one of the largest additions to inventory in the country with apartment inventory projected to grow by over 11% over the next two years.

Market Strengths:

- Salt Lake City has strong demographic drivers due both to natural population growth supported by a high birth rate and an influx of new residents relocating from expensive West Coast cities. It is also one of the youngest metros in the U.S. providing strong support for rentals. The prime renter cohort (20-34) represents 23.9% of the population compared to just 20.0% for the U.S.
- The metro's business friendly environment, well educated workforce and the fact that the cost of business is almost 10% below the national average makes Salt Lake an attractive destination for businesses relocating from Silicon Valley. These factors sustain a concentrated number of high-wage jobs in tech and knowledge-based industries. In addition, activities such as world class skiing, hiking and cultural amenities like the Sundance Film Festival make the metro attractive to relocating workers.
- Salt Lake is a regional financial hub and technology related jobs make up 9.6% of the economy, about 4.1 percentage points higher than the national average. According to Moody's analytics, in addition to fintech, the metro has a strong life sciences technical sector. Medical technology businesses, which include medical devices manufacturing and pharmaceuticals, are growing here and should remain in high demand thanks to an aging population.
- The \$4.1 billion Salt Lake International Airport (SLC) expansion continued despite the pandemic. The second phase is expected to open in 2024. Once complete, the airport will be able to support 34 million visitors per year.
- Salt Lake City is home to the state capital which provides state jobs, including those at the University of Utah.

Market Weaknesses:

- Three of the top 10 employers are in the financial services sector, including Zions Bank, Wells Fargo and Discover, and about 7% of the Goldman Sachs' workforce is here. Ongoing high interest rates may impact this job source.
- The median home price was about \$551,000 as of Q4 2023 according to the National Association of Realtors. As a result, families are starting to leave Salt Lake for places like St. George and Logan in search of cheaper housing.
- Salt Lake City is located along the Wasatch fault line and is in an earthquake zone. In addition, the air quality in the valley can be affected by both pollution and California wildfires and can be extremely poor during the winter months. Also, a recent study noted that climate change is evaporating the Great Salt Lake which may lead to the release of toxic substances long-term.

Development:

- The pace of development is accelerating with an estimated 12,500 units underway as of Q4 2023, more than double the 5,600 underway as of Q4 2021. This represents a 11% increase in inventory making Salt Lake among the top metros with apartments underway. About three-quarters of the new apartments will be added to just three submarkets: Downtown, West Valley/Airport, and South Salt Lake/Murray. In addition, there is a mismatch between the new supply delivered which consists primarily of expensive Class A units and the need for additional affordable units across the Salt Lake metro.

Multifamily Outlook:

- An elevated amount of new supply is meeting slowing job growth. Given ongoing job and population growth, Salt Lake will need additional supply, but timing of deliveries will be important. Salt Lake has been able to absorb the new supply, but the average vacancy rate has now risen above the historic average. With a slowing economy, additional new supply may overwhelm and there will likely be volatility in rents.

Economic Outlook:

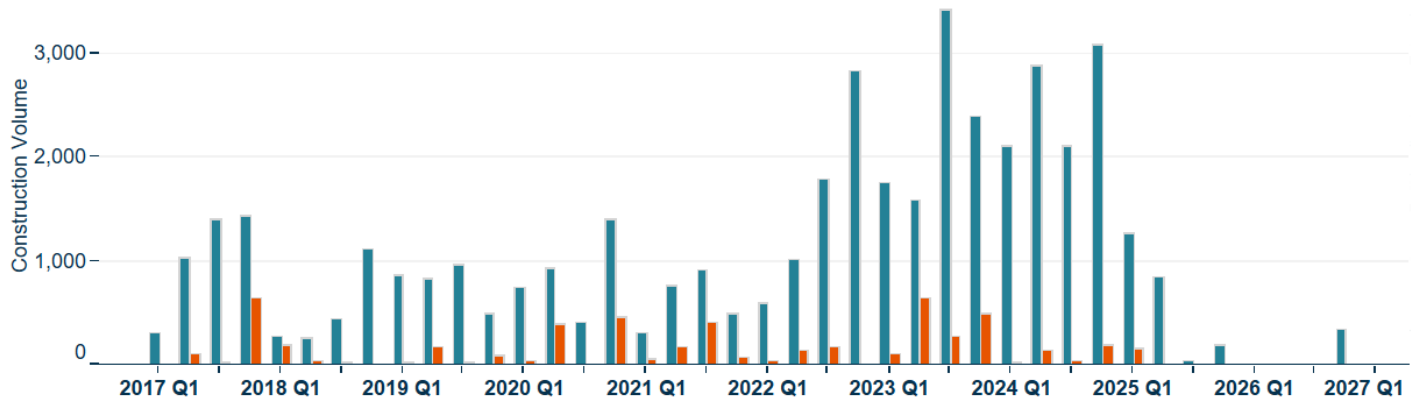
- Salt Lake's job base is larger now than pre-pandemic and Salt Lake's economy is expected to remain one of the best performing economies in the country. Longer-term, Salt Lake City will continue to expand due to its pro-business policies, high share of knowledge-based industries producing high wage jobs and strong demographic trends.



Multifamily Apartment Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



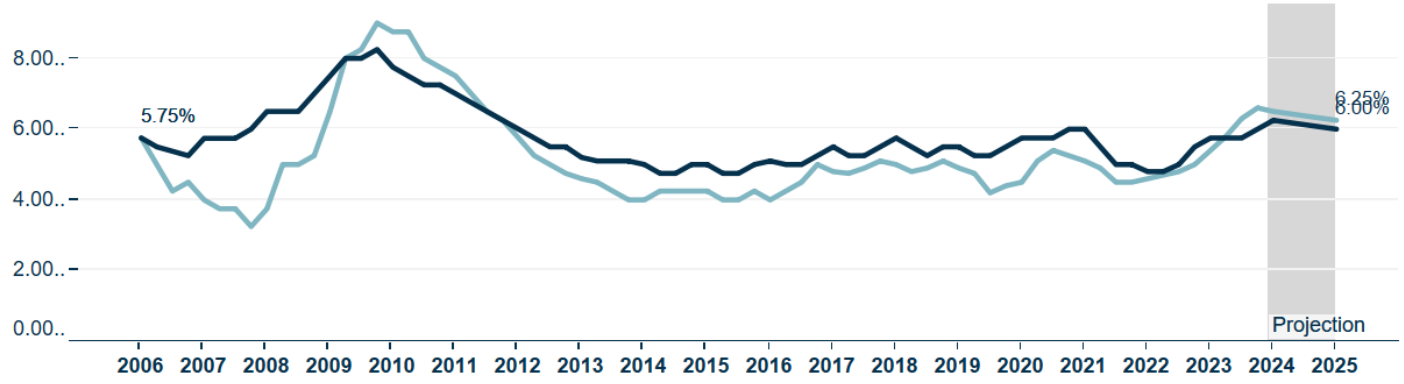
Source: Dodge Data & Analytics SupplyTrack Pipeline

Multifamily Vacancy & Rent Estimates

Vacancy Rates

Salt Lake City | National

Q4 2023 Vacancy Rate:
6.60%

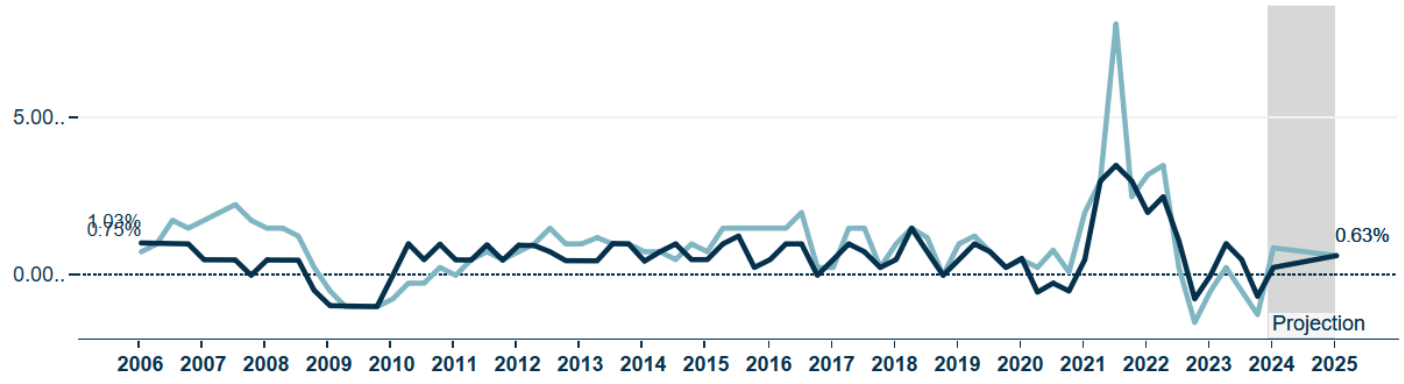


Projection

Asking Rent Growth

Salt Lake City | National

Q4 2023 Asking Rent:
\$1,490

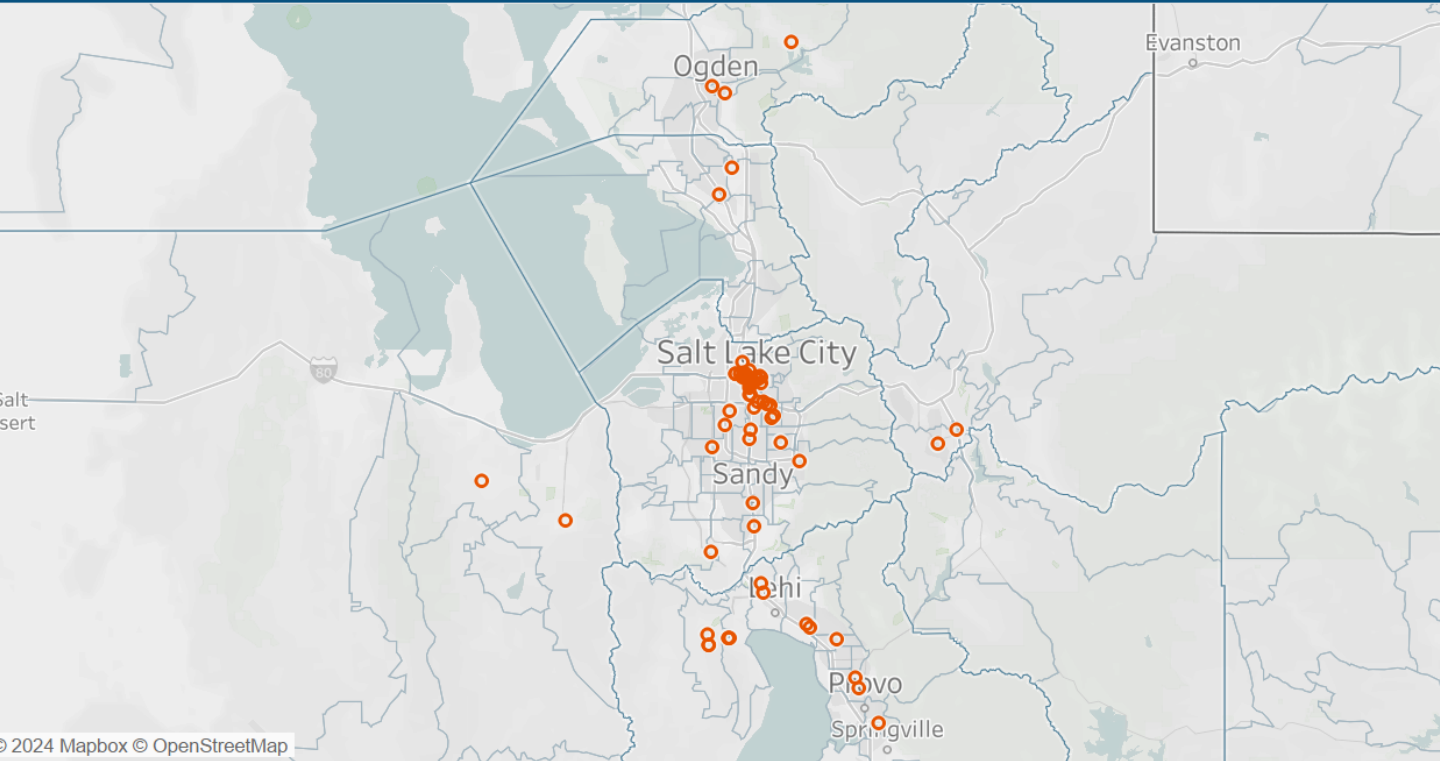


Projection

Source: Fannie Mae Multifamily Economics and Research



Multifamily Construction: Bidding & Underway



<i>MultiHousingSubmarketName</i>	<i>Apartments</i>	<i>Units</i>
Downtown Salt Lake City/University	12	3,179
Layton/Davis County	2	445
Midvale/Sandy/Draper	2	760
NA	14	1,986
Ogden/Weber County	3	358
South Salt Lake/Murray	12	2,582
Southwest Salt Lake City	4	652
Summit Park, UT	2	161
West Valley City/Airport Area	11	2,731
Grand Total	62	12,854

Source: Dodge Data & Analytics SupplyTrack Pipeline



Multifamily: ESR Team

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Multifamily Economics and Market Research Team

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Sources Used

- Moody's Economy.com
- Moody's CRE/REIS
- CoStar
- Real Capital Analytics
- RealPage
- Greenstreet
- Dodge Data and Analytics SupplyTrack Pipeline
- CBRE-Econometric Advisors
- Yardi

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