Multifamily Metro Outlook: Salt Lake City Spring 2019

Overview

Salt Lake City has one of the healthiest economies in the nation. While job growth is slowing, this is largely due to the fact that unemployment is a low 3.1 percent and it is difficult to find workers. Even so, Salt Lake City is expected to outperform both the region and the nation over the next couple of years. Just over 17 percent of jobs are well-paying white-collar jobs, compared to 14 percent nationwide, and this sector continues to grow. As a result, the elevated amount of new supply being delivered should continue to be absorbed.

Since the 2002 Olympics, Salt Lake has worked to solidify its image as a lifestyle city providing world-class skiing, hiking, and cultural amenities like the Sundance Film Festival. Salt Lake City has strong demographic drivers due both to natural population growth supported by high birth rates and an influx of new residents relocating for jobs. As a result, it is the youngest major metro in the U.S., providing strong support for rentals. The prime renter cohort (20-34) represents 23.4 percent of the population compared to just a 20.6 percent nationwide and will grow at over six times the national rate through 2023.

The metro's business-friendly environment, well educated workforce, and low cost of business (approximately 12 percent below the national average) makes Salt Lake City the low-cost alternative to more expensive cities on the West Coast. Salt Lake is a regional financial hub, and technology related jobs make up 8.2 percent of the economy compared 4.8 percent nationally. According to Moody's Analytics, medical technology, which includes medical devices and pharmaceuticals, is growing and should remain in high demand thanks to an aging population.

Salt Lake City does have some drawbacks, however. It is located along the Wasatch fault line and is therefore in an earthquake zone. In addition, due to pollution, the air quality in the valley can be extremely poor during the winter months which may cause some residents to leave.

Development

Salt Lake City is experiencing unprecedented levels of development. Since 2012, approximately 15,200 new apartment units completed, representing a 20 percent increase in inventory. While new supply temporarily slowed in 2018 with about 1,600 units delivered, an additional 3,700 units are underway. Many developments are transit-oriented, and built near the TRAX light rail line.

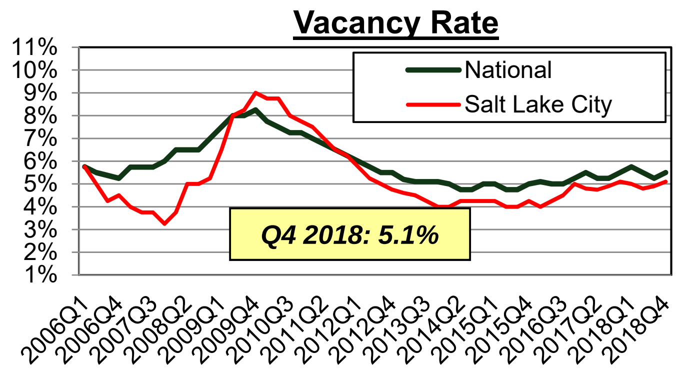
About half of the new supply continues to be delivered to the downtown area, leading to some easing here. According to REIS, the vacancy rate here is 11.7 percent and about a month of free rent must be offered to entice renters.

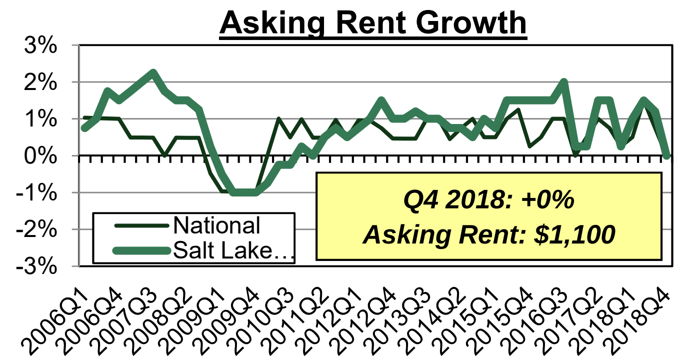
Outlook

After several years of strong performance, Salt Lake City's apartment market is likely to soften somewhat over the next couple of years as completions outpace net absorption slightly. However, the 20,000 new jobs projected to come online in 2019 and 2020 should ensure that vacancies will rise only modestly. Rent growth will likely continue to slow but remain in the 1.5-2.5 percent range in 2019/2020.

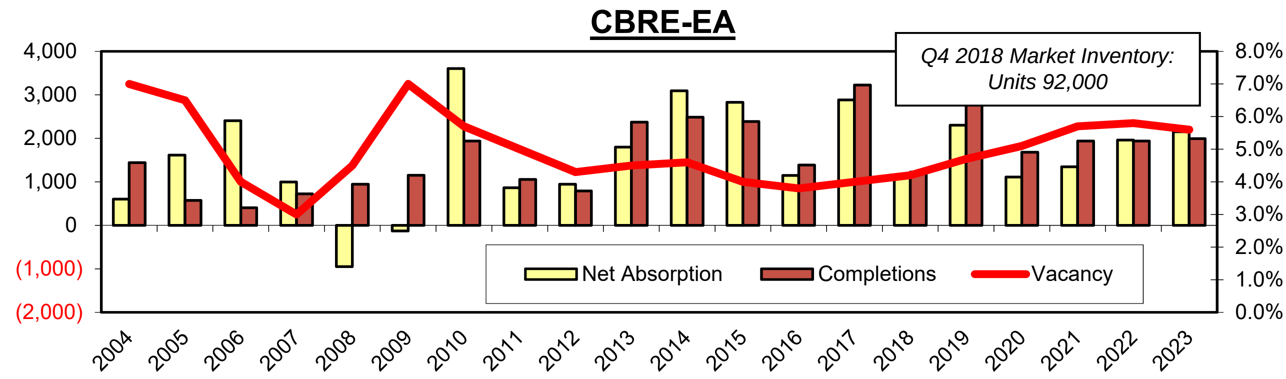
Long-term, Salt Lake City will continue to expand due to its pro-business policies, knowledge-based industries producing high wage jobs, and strong demographic trends. However, Salt Lake City is not immune to national recessions and may experience some volatility short-term should a recession materialize.

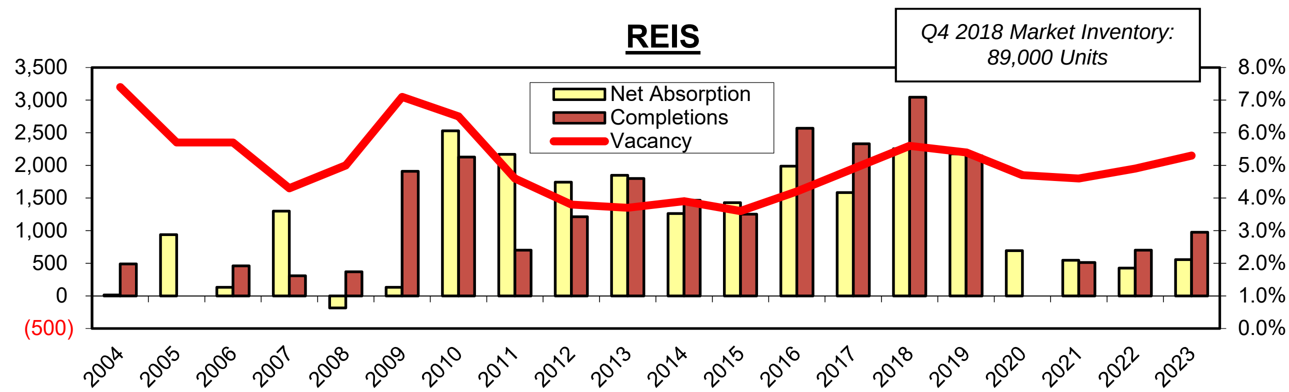
Vacancy and Rent Composite Estimates





Source: Fannie Mae Multifamily and Economics Research


CBRE-EA
Q4 2018 Market Inventory:
Units 92,000
4,000
3,000
2,000
1,000
0
(1,000)
(2,000)
8.0%
7.0%
6.0%
5.0%
4.0%
3.0%
2.0%
1.0%
0.0%
Net Absorption
Completions
Vacancy
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023


REIS
Q4 2018 Market Inventory:
89,000 Units
3,500
3,000
2,500
2,000
1,500
1,000
500
0
(500)
8.0%
7.0%
6.0%
5.0%
4.0%
3.0%
2.0%
1.0%
0.0%
Net Absorption
Completions
Vacancy
2004
2005
2006
2007
2008
2009
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2011
2012
2013
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2015
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2017
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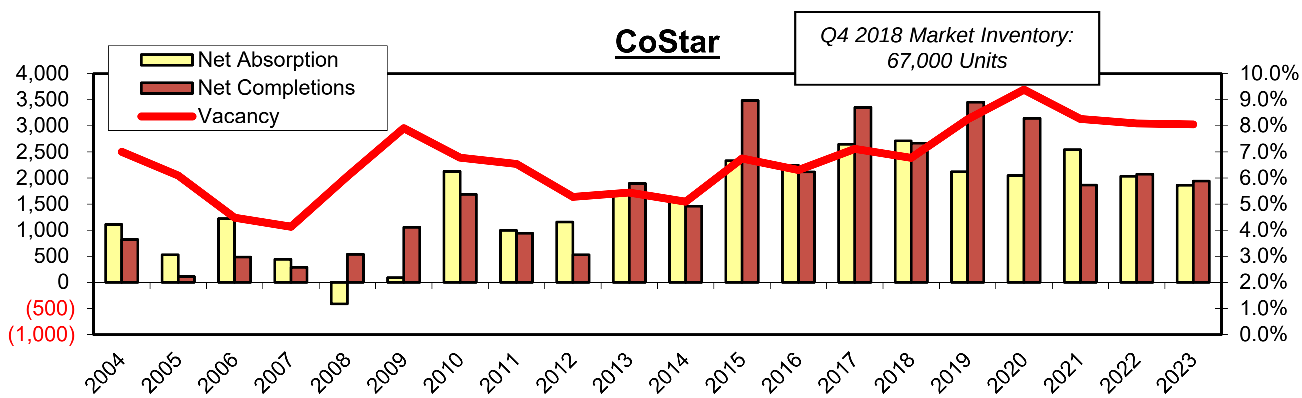
2019
2020
2021
2022
2023


CoStar
Q4 2018 Market Inventory:
67,000 Units
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
0
(500)
(1,000)
10.0%
9.0%
8.0%
7.0%
6.0%
5.0%
4.0%
3.0%
2.0%
1.0%
0.0%
Net Absorption
Net Completions
Vacancy
2004
2005
2006
2007
2008
2009
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2011
2012
2013
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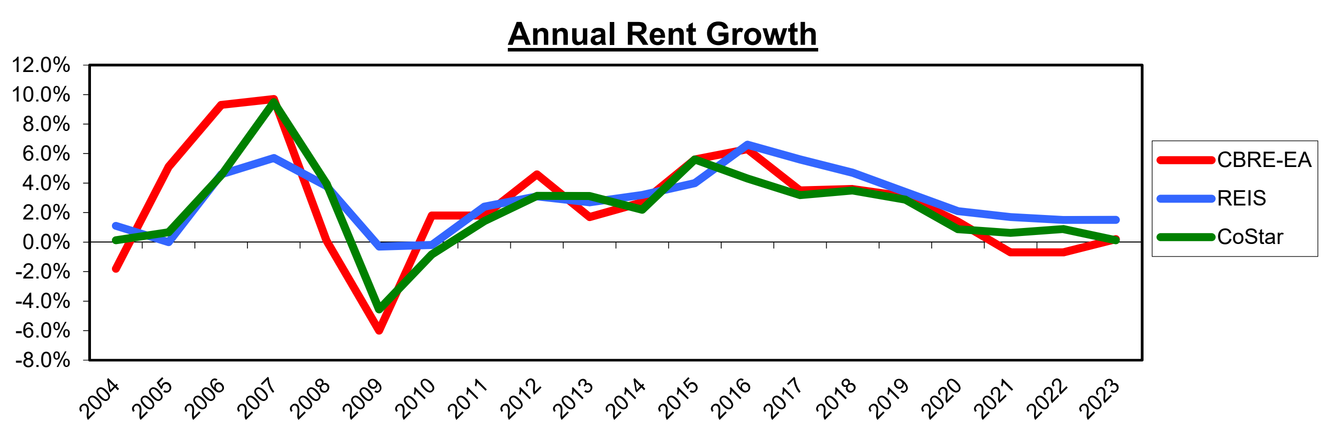
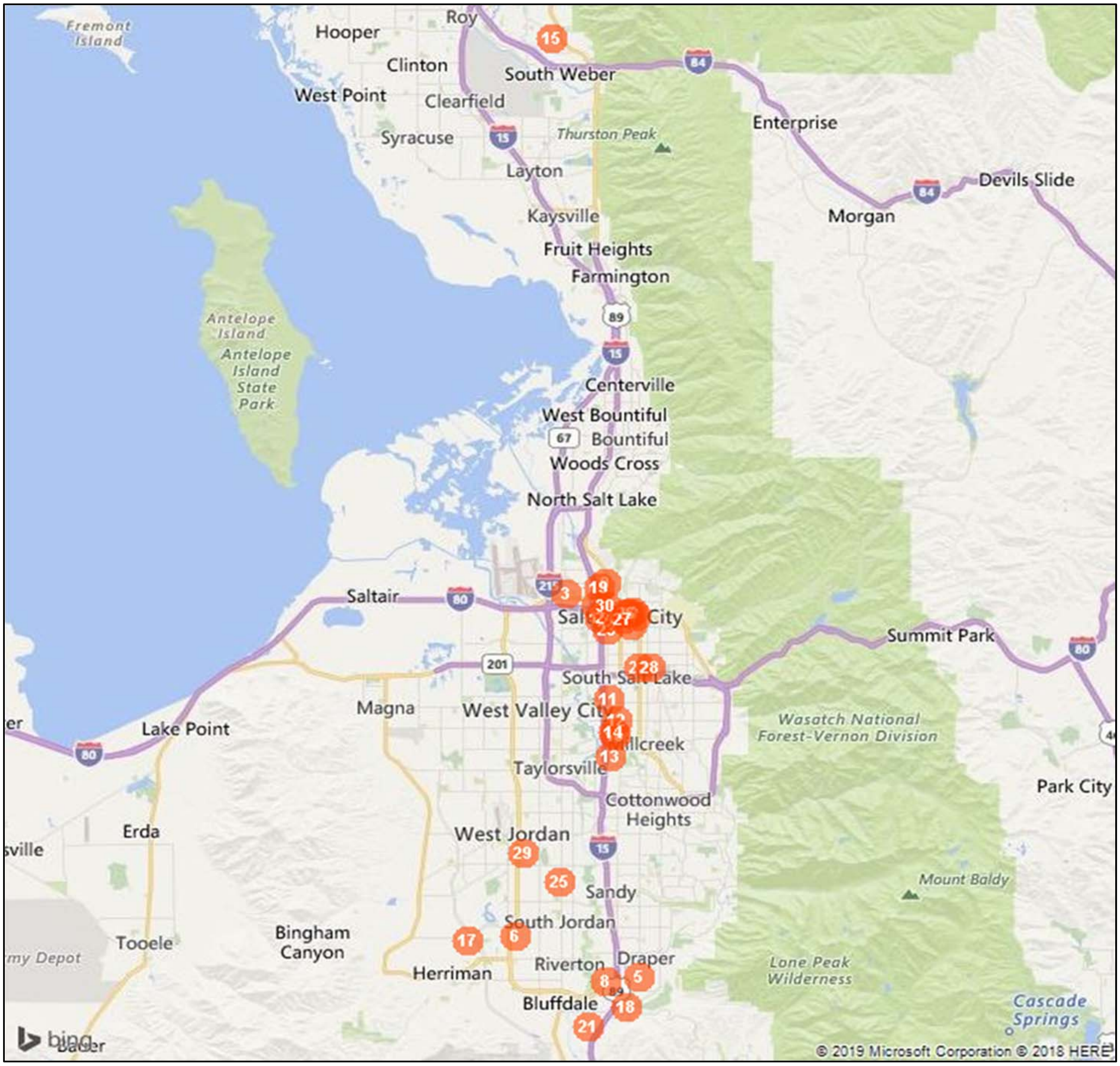
2015
2016
2017
2018
2019
2020
2021
2022
2023


Annual Rent Growth
12.0%
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
-2.0%
-4.0%
-6.0%
-8.0%
CBRE-EA
REIS
CoStar
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023

Construction Bidding/Underway
(30 projects/4,400 Units/4.7 M Sq. Feet)



CBRE-EA Submarket	Number of Projects	Total Sq Ft (000's)	Total Units
Central Salt Lake City	15	1539	1606
Midvale/Sandy	2	493	462
Murray	1	314	293
Northwest Salt Lake/Airport	1	149	146
South Salt Lake/Cottonwood	4	624	473
Weber County	1	15	12
West Jordan	6	1558	1399

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Fannie Mae Multifamily Economics and Market Research

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Sources Used

- AxioMetrics
- CBRE-Econometric Advisors
- Bureau of Labor Statistics
- Census Bureau
- CoStar
- Dodge Data & Analytics SupplyTrack
- Moody’s Analytics
- Real Capital Analytics
- Reis, Inc.