Northmarq

MARKET INSIGHTS

Modest improvements posted at outset of 2024

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	12,937
UNITS DELIVERED (YTD)	1,965

MARKET FUNDAMENTALS

VACANCY RATE	6.1%
YEAR-OVER-YEAR CHANGE	+60bps
ASKING RENTS	$1,547
YEAR-OVER-YEAR CHANGE	-1.3%

TRANSACTION ACTIVITY (YTD)

MEDIAN SALES PRICE PER UNIT	$242,500

Salt Lake County Multifamily
1Q 2024

HIGHLIGHTS

- The Salt Lake City multifamily market posted healthy operational performance during the first quarter, with a vibrant employment market supporting renter demand. New apartment construction remains elevated, which will create some supply-side pressures.
- Vacancy ticked lower by 10 basis points in the first quarter, with the rate reaching 6.1 percent. Year over year, vacancy has risen 60 basis points.
- Rents inched up 0.4 percent to $1,541 at the start of 2024. Despite the recent uptick, current rents are down 1.3 percent from levels posted one year ago.
- Investors continued to acquire multifamily properties in Salt Lake City during the first few months of the year, with properties consisting of 25 units or fewer accounting for more than half of the total transactions to close to this point in 2024.

SALT LAKE COUNTY MULTIFAMILY MARKET OVERVIEW

Multifamily property fundamentals in Salt Lake City posted signs of modest improvement during the first quarter. Rents inched higher and vacancies ticked lower at the start of 2024, after both metrics finished 2023 in weaker positions than at the beginning of the year. Renter demand for units remains elevated, buoyed by a local employment market that is among the strongest in the country. Employers in Salt Lake City have expanded payrolls at an average rate of more than 2.5 percent per year for the past decade, adding nearly 200,000 net new jobs in that time. The current pace of growth is only slightly slower than the region's long-term trend and is expected to be sustained throughout the remainder of this year.

While property performance metrics began 2024 on a bit of an upswing, local investment activity got off to a slower start to the year than in 2023. Properties continued to trade, but sales velocity lagged levels from recent periods. While the number of properties that have sold to this point is down from earlier periods, many other trends that were recorded in 2023 have carried over to this year. The bulk of the transactions that have closed year to date have involved properties with fewer than 25 units and deal sizes have mostly been below $15 million. While cap rates vary based on the transaction, the current range appears to have settled between 5 percent and 5.5 percent, after the market average reached 5.1 percent in 2023.

EMPLOYMENT

- Employers in Salt Lake City continue to expand payrolls, with gains occurring across both the public and private sectors. During the 12-month period ending in the first quarter, area employment rose by 2.1 percent with the addition of 16,800 net new jobs.
- Year over year, the local government sector has expanded by nearly 5 percent with the addition of more than 5,000 net new jobs. The leading source for employment growth in the private sector was healthcare, with 5,200 jobs added, a 5.5 percent growth rate.
- The National Hockey League is relocating a franchise to Salt Lake City in time for the 2024-2025 regular season, beginning in October. The new team will initially play its home games at the Delta Center. The move is expected to generate hundreds of new jobs and an economic boost in retail and tourism spending.
- **FORECAST:** Employment growth in 2024 should closely track prior-year levels. Approximately 18,000 net new jobs are expected to be created this year, a 2.2 percent addition to local payrolls.

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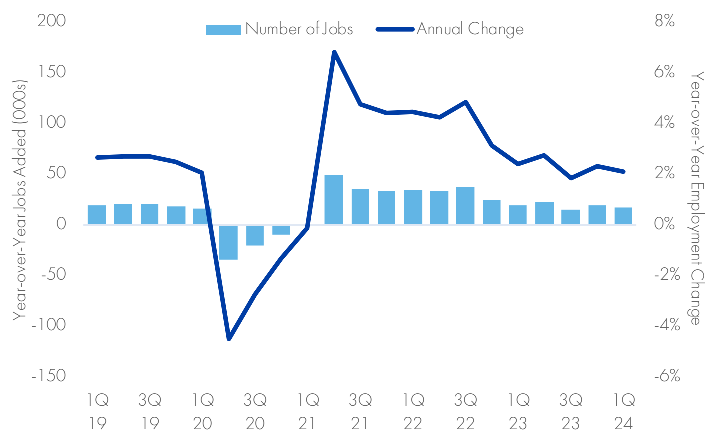
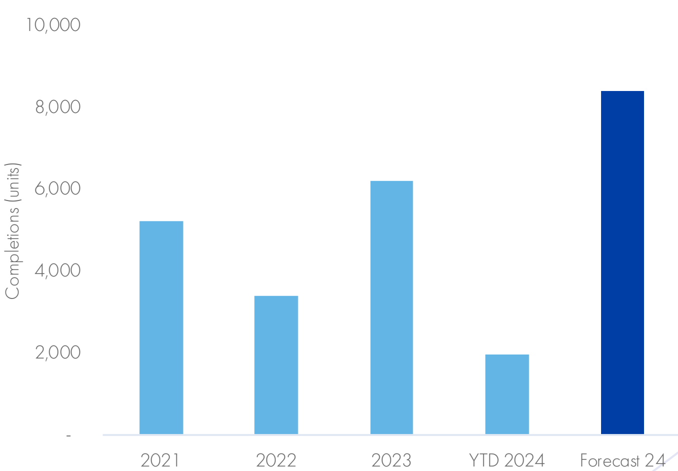
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Multifamily permitting levels slowed considerably during the first quarter.

DEVELOPMENT TRENDS



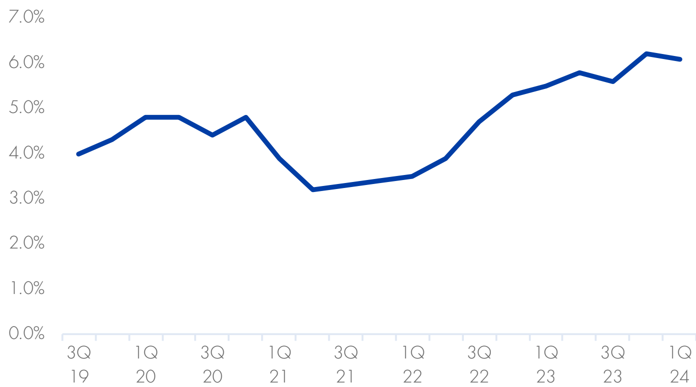
Sources: Northmarq, CoStar

DEVELOPMENT & PERMITTING

- Developers delivered projects totaling 1,965 units during the first quarter, nearly doubling the completions total from the same period in 2023. Deliveries have averaged approximately 3,900 units per year since 2015, but the pace accelerated to more than 6,200 units in 2023.
- Supply growth is poised to remain elevated for the next few years, as developers have moved projects into the pipeline in response to renter demand for housing. Projects totaling more than 12,900 units were under construction at the end of the first quarter.
- Multifamily permitting levels slowed considerably during the first quarter. Developers pulled permits for approximately 600 units in the first few months of 2024, down 59 percent from average levels since 2021. Multifamily permitting at the start of this year was down nearly 70 percent from the first quarter of 2023.
- **FORECAST:** Deliveries are forecast to peak in 2024, highlighted by the completion of a handful of high-rise towers in Downtown Salt Lake City. Completions are on pace to reach nearly 8,400 units this year, up 35 percent from the 2023 total.

Vacancy dipped 10 basis points during the first quarter.

VACANCY TRENDS



Sources: Northmarq, CoStar, Yardi

VACANCY

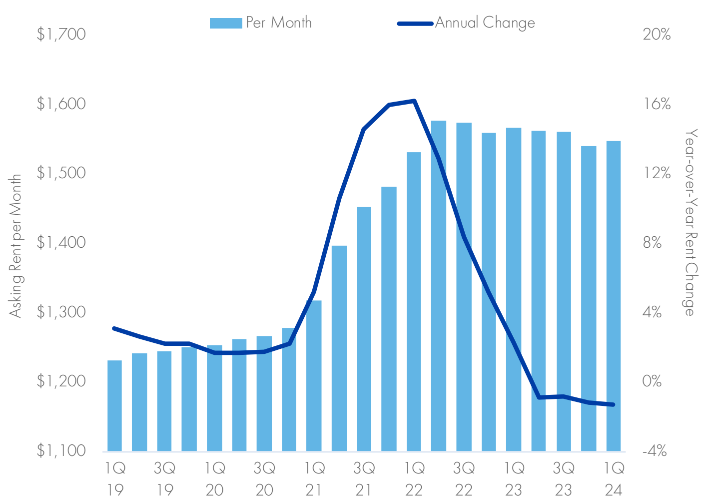
- Vacancy dipped 10 basis points during the first quarter, reaching 6.1 percent. The current rate is approximately 150 basis points higher than the region's five-year average.
- The current vacancy rate is 60 basis points higher than one year ago. The rate has trended higher since reaching a bottom in 2021 in the low-3 percent range.
- With supply growth elevated in recent years, vacancy has been increasing among newer assets. Vacancy in properties built since 2015 ended the first quarter at 5.9 percent, 80 basis points higher than one year earlier.
- **FORECAST:** Vacancy is forecast to rise 60 basis points in 2024, ending the year at 6.8 percent. This would mark the third consecutive year of vacancy increases, although this year's likely rise will be more modest than in either 2022 or 2023.

RENTS

- Rents inched higher in the first quarter, ticking up 0.4 percent to $1,541 per month. This marked the first quarterly rent increase since the first quarter of last year. Area rents peaked in the second quarter of 2022 and have since inched down 1.9 percent.
- Year over year, rents have dipped 1.3 percent. Historically, rent growth in Salt Lake City has averaged approximately 3.3 percent per year, but surges in 2021 and 2022 pushed average rents up by more than $275 per month.
- Rents in Downtown Salt Lake City ended the first quarter at $1,807 per month, 1 percent lower than levels from one year earlier. Rents in the Downtown area reached $2.41 per square foot, per month at the start of this year, slightly higher than the year-end 2023 figure. There are several high-rise apartment towers under construction in Downtown Salt Lake City that are expected to deliver in 2024 or 2025, which will push overall rents in the submarket higher.
- **FORECAST:** After inching lower in 2023, rents should regain momentum this year as more expensive units come online and economic growth supports demand. Average rents are forecast to advance 1.2 percent, ending the year at $1,560 per month.

Year over year, rents have dipped 1.3 percent.

RENT TRENDS



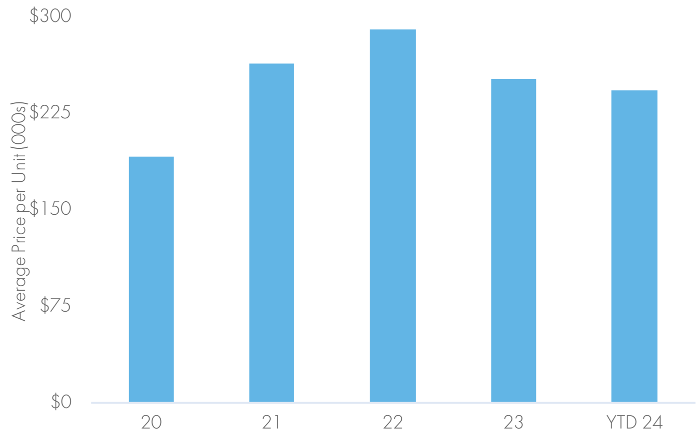
Sources: Northmarq, CoStar, Yardi

MULTIFAMILY SALES

- Sales activity in the Salt Lake City region got off to a slower start to 2024. Transaction counts in the first quarter were down 30 percent from levels recorded one year earlier. Sales velocity in 2023 occurred at a fairly steady pace, with a similar number of transactions closing in each quarter, despite a very volatile interest rate environment.
- Prices have dipped slightly to this point in 2024. The average price in sales that closed during the first quarter was $242,500 per unit, 4 percent lower than in 2023. Area per-unit pricing levels peaked in 2022 at approximately $290,000 per unit.
- Cap rates averaged between 5 percent and 5.5 percent in the first quarter, up from 5.1 percent in 2023. Current cap rates reflect the increase in interest rates across the broader economy; area cap rates dipped to a low of 3.75 percent in 2022.

Cap rates averaged between 5 percent and 5.5 percent in the first quarter.

INVESTMENT TRENDS



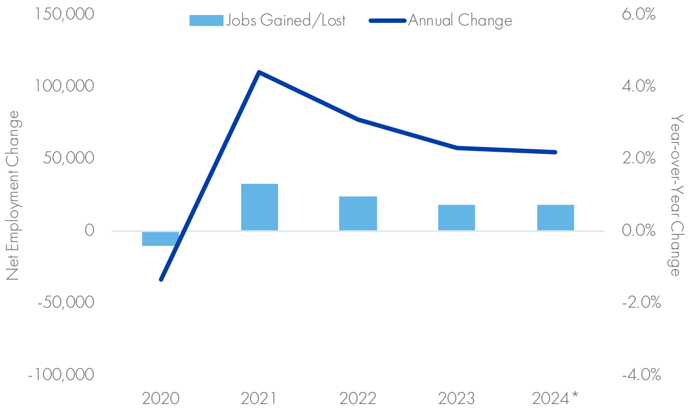
Sources: Northmarq, CoStar, Real Capital Analytics

LOOKING AHEAD

Multifamily development trends will be mixed in 2024. After fairly steady supply growth until recently, the Salt Lake City market is on pace to record a cyclical high in deliveries this year. Beyond 2024, the construction pipeline thins significantly, and this trend will likely remain in place for the next few years, particularly with permitting activity showing signs of a sharp decline. In the near term, operating performance measurements will likely remain near current ranges, and the increased competition on the supply side may limit rent growth. Longer term, the outlook brightens, fueled by a local economic growth profile that is among the strongest in the country.

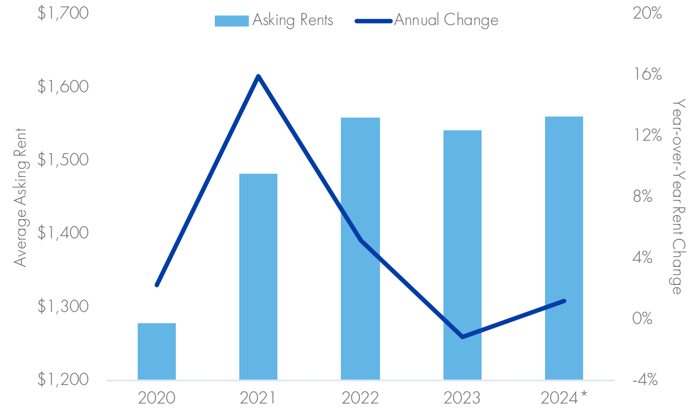
The outlook for the Salt Lake City investment market should be boosted by the health of the local economy in 2024 and in the coming years. Investment activity continues, albeit at a slower pace, and cap rates have risen in line with bond yields and will likely settle in around 5.5 percent through the remainder of this year. Salt Lake City's continued ability to attract new businesses will spur investment, and the growing inventory of institutional-grade properties coming online will present acquisition opportunities. While prices have moved down from peak levels, investors seeking deeply discounted distressed properties will likely find few opportunities.

EMPLOYMENT FORECAST



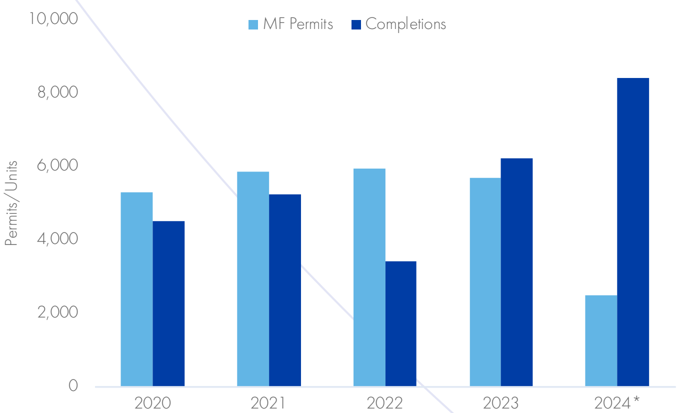
** Year End Forecast*
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



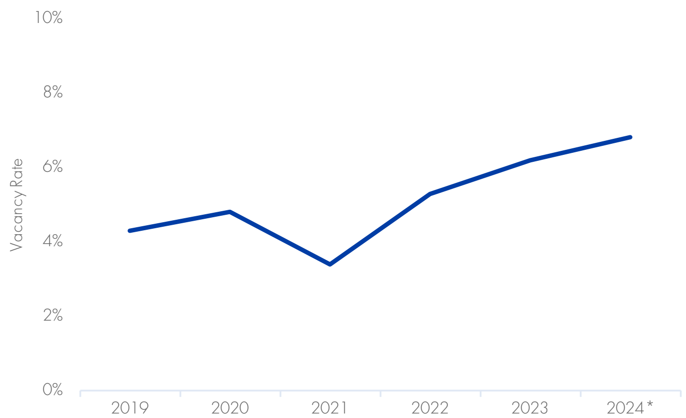
** Year End Forecast*
Sources: Northmarq, Apartment Insights

CONSTRUCTION & PERMITTING FORECAST



** Year End Forecast*
Sources: Northmarq, CoStar, Census Bureau

VACANCY FORECAST



** Year End Forecast*
Sources: Northmarq, Apartment Insights

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ABOUT NORTHMARQ

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