

# Salt Lake City, Utah

Multifamily Housing Update

April 2011

## EXECUTIVE SUMMARY

The Salt Lake City economy continued to steadily improve in the first quarter. Year-over-year payroll job trends turned positive in 3Q10 (+3,500 jobs) and accelerated to 5,900 (1.0%) net new jobs in 4Q10 and 8,600 (1.4%) new jobs in 1Q11. Recent improvement was partially attributable to hiring among financial service firms. After shedding a monthly y-o-y average of 2,000 workers in 2010, sector headcounts advanced 1,000 y-o-y in the first quarter. Faster manufacturing job growth also contributed as y-o-y hiring accelerated from 400 jobs in 4Q10 to 1,200 in 1Q11.

Results from the Manpower Employment Outlook Survey suggest that job trends will continue to progress in the second quarter. In the December survey, 13% of respondents reported plans to add workers as compared to 11% that planned to contract. In March, the percent of firms that expect to add staffs increased to 18% and the share that planned to cut payrolls plunged to only 5%. Furthermore, only the obscure “other services” sector reported an overwhelming dour outlook for 2Q11.

**RED CAPITAL Research (RCR)** are optimistic that Salt Lake City employers will create 16,000 (2.6%) jobs this year, the largest annual gain since 2007. Moreover, our econometric model expects growth to accelerate to 19,700 (3.2%) in 2012. Economy.com are more optimistic about 2012 job trends (+23,290) but foresee a smaller advance (+10,030 jobs) in 2011.

Foreclosure activity weighed down home price trends in Salt Lake City. RealtyTrac.com estimate a 3.72% 2010 foreclosure rate, ranking 34<sup>th</sup> highest among the 206 markets tracked by the source. As a result, both the National Association of

Realtors and the FHFA home price index reported y-o-y home price declines in the fourth quarter. The former was down -4.1% and the latter fell -2.0% over-the-year.

Apartment developers were active last year as supply exceeded 500 units for the third consecutive period in 4Q10. As a result, occupancy among Class-A rentals plunged 110 basis points sequentially from 93.0% in 3Q10 to 91.9% in 4Q10. By contrast, steady tenant demand and no additional supply in the Class B/C segment produced a 50 basis point sequential occupancy improvement to 94.2%.

Effective rent trends improved in the fourth quarter as concessions declined. Property managers trimmed the size of the average concession package from 7.6% of asking rent in 4Q10 to 6.2%. Consequently, 4Q10 effective rent (\$701) was up 1.3% from the 4Q09 comparison, despite a -0.3% drop in asking rent. Asking rent declines were particularly severe among Class B/C assets, falling -0.7% y-o-y to \$684. By comparison, Class-A asking rent decreased only -0.1% to \$883.

The Reis *First Glance* report suggests that market fundamentals improved in the first quarter. Metro average occupancy increased 60 basis points to 94.0% due to positive net absorption of about 455 units. Additionally, asking rent growth accelerated from 0.2% sequentially in 4Q10 to 0.6% in 1Q11.

Investor interest in Salt Lake City apartment assets was limited over the past year. Real Capital Analytics were aware of only three investor-grade transactions totaling \$21.3 million in sales volume. The source calculates an average price per unit of \$61,383 and Integra Realty Resources estimates an average cap rate of 7.0%.

## SNAP SHOT

	Y-o-y change	Projected 2011
Vacancy (6.6% - 4Q10)	↓ 60bps	↓ 60bps
Effective Rents (\$701 - 4Q10)	↑ 1.3%	↑ 2.9%
Cap Rate (N/A - 4Q10)	↔ N/A	↓
Employment (615.3m - 4Q10)	↑ 5.9m	↑ 16m

## KEY POINTS

- The metro vacancy rate increased 10 basis points sequentially to 6.6% as supply (596 units) outpaced demand (513 units) during the fourth quarter. Still, the vacancy rate was down 60 basis points year-over-year owing to robust apartment demand in the first nine months of the year.
- The pace of year-over-year effective rent growth surged from 0.1% in 3Q10 to 1.3% in 4Q10. The latter represented the strongest gain since 4Q08 (2.6%).
- Preliminary Reis data reveal that vacancy plunged 60 basis points and asking rent rose 0.6% sequentially in 1Q11.
- According to the National Association of Realtors, the median price of a single-family MSA home decreased -4.1% year-over-year from \$207,800 in 4Q09 to \$199,200 in 4Q10.
- Real Capital Analytics note that three transactions involving properties priced at or above \$5 million in the twelve-month period ended in January. Sales volume totaled \$21.3 million and the average price per unit was \$61,383.



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