

ApartmentResearch

M A R K E T U P D A T E

Marcus & Millichap

Salt Lake City Metro Area

Fourth Quarter 2009

DESPITE JOB CUTS, LOCAL ECONOMY HEALTHIER THAN NATION

Employment levels in the Salt Lake City metro are beginning to show signs of stabilization, which eventually will help to strengthen renter demand. The rate of job cuts during the third quarter slowed from the pace recorded in the first six months of the year. Additionally, the local unemployment rate was 6 percent in August, 370 basis points below the national average. As a result, vacancy in the third quarter was relatively in line with the metro's long-term average. Occupancy levels in submarkets near the downtown area remain especially tight. In the West Valley City submarket, for instance, a high concentration of blue-collar workers has supported stronger demand for lower-tier units. This trend, combined with area owners' elevated concession offerings, have fueled the metro's largest year-over-year vacancy improvement. Nonetheless, operating conditions marketwide are expected to weaken further in the coming months as employment contraction persists and new inventory spikes. Oversupply issues, however, will be concentrated in the West Jordan submarket, where builders have aggressively pursued developments in recent years and where the bulk of the metro's completions in 2009 are located.

Fewer quality listings and tightened lending requirements continue to temper deal flow in the Salt Lake City apartment market. Given the conservative financing landscape, active investors have focused on assets offered for under \$3 million; 86 percent of properties sold during the past six months were below this amount, compared with 53 percent in the preceding six-month stretch. The addition of new supply this year, coupled with waning renter demand, will increase caution among buyers, potentially easing sales activity for oversupplied areas to the southwest. Downtown, a dense population and massive construction projects like the City Creek Center, meanwhile, will likely attract buyers with long-term hold strategies. Across the market, cap rate averages are forecast to trend higher in the coming months as conditions weaken but should begin to stabilize in the low- to mid-8 percent range as economic conditions steady.

2009 ANNUAL APARTMENT FORECAST



Employment: In 2009, employers in Salt Lake City are forecast to shed 32,000 positions, a 5 percent reduction to payrolls. Last year, 6,400 workers were let go.



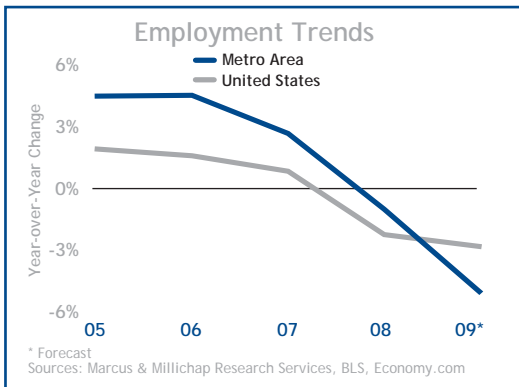
Construction: Builders are on pace to deliver 1,230 units this year, expanding inventory by 1.6 percent. In 2008, approximately 370 units came online. During the past five years, apartment developers have completed an annual average of 330 rental units.



Vacancy: Heightened construction activity and weaker demand will drive up vacancy in 2009. Vacancy is expected to reach 6.5 percent this year, 150 basis points higher than the rate at year-end 2008. Last year, vacancy increased 70 basis points.

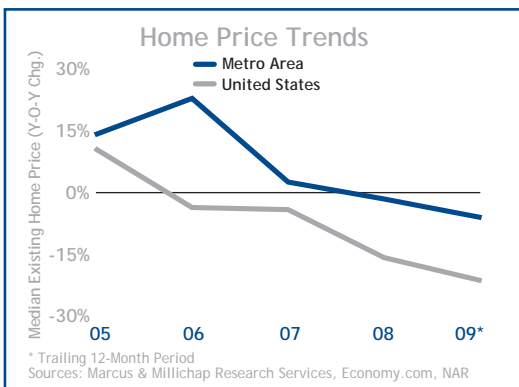


Rents: Asking rents are forecast to decrease 1.6 percent this year to \$740 per month, following a 3.9 percent gain in 2008. Effective rents are expected to decline 4 percent to \$679 per month, one year after rising 2.6 percent.



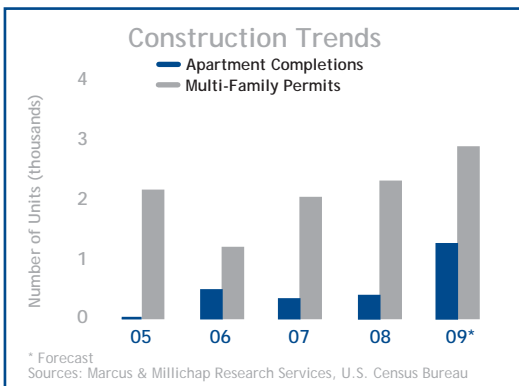
ECONOMY

- ◆ According to preliminary data, local employment retreated 4.7 percent during the 12 months ending in the third quarter with the elimination of 30,800 positions, after employers added 2,700 workers in the prior year. Since the start of 2009, 24,700 jobs have been cut.
- ◆ Some of the metro's employment sectors continue to expand, albeit at a more modest rate than in previous quarters. Approximately 1,100 new hires have been made in the government segment over the past year, after 3,200 positions were generated in the previous 12-month stretch. Also, the education and health services industry has created 1,800 jobs in the last year; 2,800 workers were added a year ago.
- ◆ As of the third quarter, Salt Lake City's construction trade has posted the largest net loss over the past year, as an estimated 8,600 jobs have been cut, thinning this sector by 21.3 percent.
- ◆ **Outlook:** In 2009, employers in Salt Lake City are forecast to shed 32,000 positions, a 5 percent reduction. Last year, 6,400 workers were let go.



HOUSING AND DEMOGRAPHICS

- ◆ Weakness in the local economy has resulted in a drop-off in single-family permitting activity. Over the past year, single-family builders have pulled permits for roughly 1,470 units, down 31 percent from the previous 12 months. Multi-family permit issuance, on the other hand, has increased 57 percent to 2,830 units.
- ◆ The median price of a single-family home in Salt Lake City was estimated at \$155,500 in the third quarter, a year-over-year decrease of 6 percent. The median household income declined nearly 14 percent in that time and is \$7,100 less than the minimum amount required to qualify for a median-priced residence.
- ◆ During the third quarter, the average Class A asking rent was \$284 per month less than the monthly mortgage obligation for a median-priced home, using traditional financing.
- ◆ **Outlook:** Falling household incomes and ongoing layoffs will help to sustain a considerable pool of renters in the Salt Lake City apartment market.

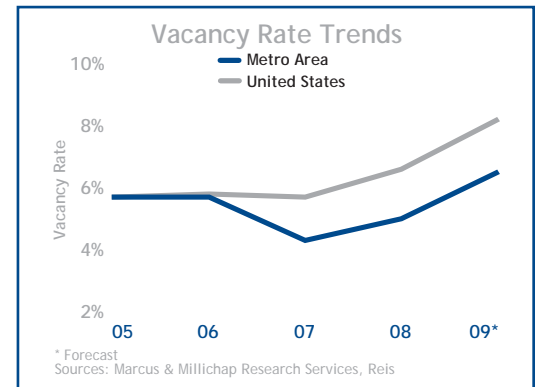


CONSTRUCTION

- ◆ The local apartment inventory has increased 1.7 percent, or by 1,285 units, year over year. In the previous 12-month period, builders delivered roughly 370 units, expanding inventory by a mere 0.5 percent.
- ◆ At present, approximately 560 apartment units are under way in the Salt Lake City market, while another 3,200 units are in planning.
- ◆ The second quarter delivery of the 276-unit Settlers Landing in the Weber County submarket was the metro's largest completion year to date. The project expanded the area's inventory by roughly 5 percent.
- ◆ **Outlook:** Builders are on pace to deliver 1,230 units this year, increasing stock by 1.6 percent. In 2008, approximately 370 units came online. During the past five years, apartment developers have brought online an annual average of 330 rental units.

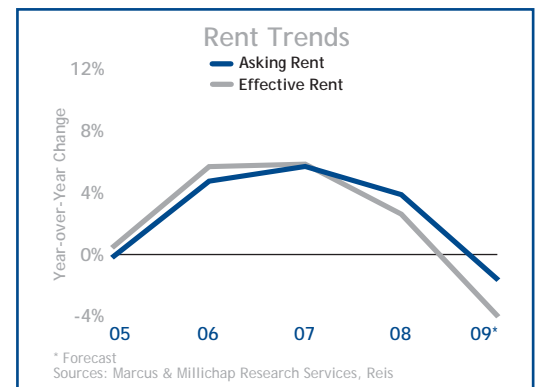
VACANCY

- ◆ Over the past 12 months, the apartment vacancy rate in Salt Lake City has jumped 110 basis points to 6.1 percent, due in part to robust supply growth.
- ◆ Aggressive Class A stock additions have expanded the metro's top-tier inventory by 4.5 percent during the last year, pushing up the vacancy rate in this segment 190 basis points to 6.7 percent.
- ◆ The Class B/C sector has posted steadier results, as lower-tier vacancy rose 70 basis points year over year to 5.8 percent in the third quarter.
- ◆ **Outlook:** Heightened construction activity and weaker demand will drive up vacancy in 2009. Vacancy is expected to reach 6.5 percent this year, 150 basis points higher than the rate at year-end 2008. Last year, vacancy increased 70 basis points.



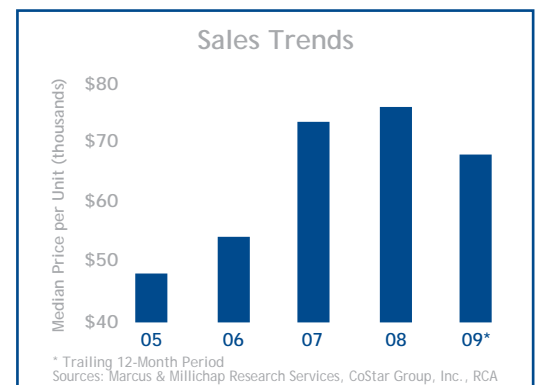
RENTS

- ◆ Since the start of 2009, metrowide asking rents have retreated 0.7 percent to \$747 per month. Effective rents have fallen at a faster clip of 2.8 percent to \$687 per month, as owners have widened concessions to fill recently delivered units.
- ◆ Class A asking rents have slipped 1 percent year to date to \$872 per month, while asking rents in the lower tiers have decreased 0.7 percent to \$693 per month.
- ◆ Rising vacancy rates and the greater use of concessions have pushed down revenues. Over the past 12 months, average revenues in the metro have contracted by 5.1 percent, following a 4.9 percent gain one year earlier.
- ◆ **Outlook:** Asking rents are forecast to decrease 1.6 percent this year to \$740 per month, following a 3.9 percent gain in 2008. Effective rents are expected to decline 4 percent to \$679 per month, one year after rising 2.6 percent.



SALES TRENDS**

- ◆ Sales activity in the Salt Lake City apartment market has decelerated by approximately 33 percent over the last 12 months, driven largely by tightened lending criteria and a lack of quality offerings. Deal flow during the most recent two quarters slowed 20 percent from the previous six-month period.
- ◆ In the past year, the median price of an apartment property in Salt Lake City has decreased roughly 16 percent to \$68,000 per unit.
- ◆ Sellers are adjusting pricing expectations to restore bidding activity. Over the last 12 months, cap rates have averaged in the high-7 percent to low-8 percent range, up approximately 100 basis points from one year ago. Cap rates for Class A units average in the high-7 percent range, while lower-tier assets can trade as high as 9 percent.
- ◆ **Outlook:** The City Creek Center project, Utah's largest mixed-use development ever, continues to capture the interest of apartment investors, as the development is expected to enhance the value of surrounding rental complexes and increase tenant demand nearby. In addition to multi-family units and retail space, City Creek Center will include 1.6 million square feet of office space.



** Data reflect a full 12-month period, calculated on a trailing 12-month basis by quarter.

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CAPITAL MARKETS

By WILLIAM E. HUGHES, SENIOR VICE PRESIDENT, MARCUS & MILLICHAP CAPITAL CORPORATION

- ◆ Compared to other core property sectors, apartments have fared best due to the availability of financing through government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac. Recent modifications to GSE guidelines will impact lender decisions, however, as borrower requirements include more substantial apartment ownership experience.
- ◆ Loan-to-value requirements range from 55 percent to 75 percent. Portfolio lenders are issuing loans at all-in rates of 6.00 percent to 6.75 percent for a five-year term and 6.9 percent to 8.0 percent for a 10-year term. Rates among agency lenders are roughly 150 basis points to 175 basis points lower. The government recently assumed full control of Fannie Mae and Freddie Mac, which may boost confidence in the GSEs, putting downward pressure on rates, but it also creates several near-term uncertainties.
- ◆ Delinquencies will rise further as a wave of maturities approaches; however, at-risk borrowers may find lenders amenable to loan extensions/modifications. Furthermore, Freddie Mac is under way on its second securitization of multi-family debt this year, and the government's TALF program is expected to at least provide a much-needed spark to the traditional CMBS market.

SUBMARKET OVERVIEW

- ◆ Investors may want to track building activity in the West Jordan submarket. The delivery of more than 800 apartment units this year is expected to expand area inventory by 11 percent, driving up vacancy to 8 percent.
- ◆ Vacancy in the Weber County submarket's modest supply of Class A stock has risen 300 basis points year over year to 11.3 percent, fueled by the completion of 350 apartment units. As of the third quarter, Weber County was the only submarket in the metro with Class A vacancy above 10 percent.
- ◆ Buyers seeking stability should consider opportunities in the Midvale/Sandy submarket, where steady renter demand for affordable housing has kept lower-tier vacancy flat at 4.4 percent over the past year, one of Salt Lake City's lowest Class B/C rates.

SUBMARKET VACANCY RANKING

Rank	Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rents	Y-O-Y % Change
1	Northwest Salt Lake/Airport	4.5%	-10	\$603	-5.8%
2	West Valley City	5.0%	-60	\$662	-5.0%
3	Murray	5.1%	130	\$729	-1.8%
4	Central Salt Lake City	5.5%	150	\$733	-5.5%
5	Midvale/Sandy	5.6%	70	\$739	-3.3%
6	Southwest Salt Lake City	6.2%	90	\$637	-6.7%
7	Davis County	6.2%	60	\$668	0.2%
8	West Jordan	7.1%	200	\$753	-5.6%
9	South Salt Lake/Cottonwood	7.3%	210	\$657	-3.9%
10	Weber County	8.1%	220	\$627	-1.3%