Research Brief
October 2016

Kem C. Gardner
POLICY INSTITUTE
THE UNIVERSITY OF UTAH

Salt Lake City's Downtown Rental Market: Past, Present, and Future

Authored by: James Wood | Ivory-Boyer Senior Fellow | Kem C. Gardner Policy Institute

Highlights

- In 2010, after 100 years of development, the number of downtown rental units in Salt Lake City totaled 5,200. By 2020, that number is expected to double to 10,000 units and the downtown population will grow to 20,000, about the same population as Payson or Brigham City, in an area of 1.65 square miles.
- Since 1910, the downtown rental market has seen several apartment development booms but the size of the current boom is unprecedented. Nearly 1,900 units have been completed in the past four years. The current vacancy rate of these units is less than two percent. New downtown apartments have the highest rents in the state; the average rent for a studio unit is $1,000, $1,100 for a one-bedroom unit, and $1,450 for a two-bedroom, two-bath unit.
- The magnitude of the current boom combined with very high rental rates seems like a recipe for an overbuilt market. However, as of October 2016, there are no signs of a distressed market; vacancy rates are low, rental rates are increasing, and absorption rates are strong. Demand for downtown rentals is supported by a unique set of locational and demographic advantages.
- Over the next three to four years, vacancy rates will increase as an additional 3,000 units are completed. The doubling of the rental inventory by 2020 could dampen market conditions and investment opportunities and bring the current boom to a close.

Background

The development of rental housing in downtown Salt Lake City has always been prone to periods of intense activity followed by years of inactivity. Downtown, for the purposes of this research brief, includes the area from approximately 700 East to 700 West and from 400 South to North Temple.[i] A look back at apartment development in this area shows that prior to the early 20th century, housing in downtown was limited to detached single-family units. Tenement and row housing, common features in some downtown markets, were never part of the housing patterns of Salt Lake City. The first multifamily rental units in downtown were completed around 1910. Over the next few years, some notable apartment communities were developed along South Temple and North Temple, including the Kensington, Buckingham, Hillcrest, and Eagle Gate Apartments. By 1920, the downtown rental inventory had reached about 1,000 units.

Following a six-year break, development resumed in 1926. Over the next four years, several new apartment projects were completed. Most were small apartment communities, less than 35 units, and by 1930 the rental inventory had increased to around 1,400 units.

This pre-Depression apartment boom was followed by a long, quiet 50-year interlude with no new large apartment developments in downtown. During these years, the rental inventory slowly increased through the conversion of some owner-occupied units, to renter-occupied housing units and the development of small scale rental housing.

By the late 1970s, the downtown housing market captured the interest of developers as home building in the suburbs was threatened by serious overbuilding. Up to this time, downtown multifamily housing had been exclusively rental housing. A new concept of owner occupied multifamily housing (condominiums), however, was about to be tested by the 337-unit American Towers condominium project, which at the time was by far the largest housing development in downtown's history. American Towers, along with several other condominium projects developed at about the same time, had very mixed success; in some cases, absorption took several years. In sharp contrast, the apartments developed during this period were well received by the market. Some 600 new rental units were developed. Half of the new units were developed by Zions Securities (now Property Reserve Inc.), the commercial real estate division of the Church of Jesus Christ of Latter-day Saints. By 1985, this period of apartment development had ended.

It took almost 15 years before developers in the late 1990s returned to the downtown market. When they did, both condominium and apartment development took off. Condominium development was concentrated in remodeling and rehabilitation of existing buildings rather than new construction while apartment development included three very large rental projects: Northgate Apartments at Gateway (340 units); Brigham Apartments (337 units); and the Palladio Apartments (250 units). This building boom, which extended into the 2000s, and was stimulated by the 2002 Olympic Winter Games, pushed the downtown rental inventory to 5,200 units by the 2010 Census. It had taken roughly 100 years and four periods of concentrated apartment development for the downtown rental inventory to reach 5,200 units. In addition to the rental units, there were almost 900 owner-occupied units downtown by 2010. The 2010 Census reported a total downtown population of 10,703. The average household size was small at 1.75 persons and rental housing accounted for 85 percent of occupied housing units (see Table 1).

Since the 2010 Census, almost 4,000 new units in large downtown apartment projects have been added to the inventory; 1,864 completed units and 1,991 under construction units (see Tables 2 and 3). In addition, there are another 1,179 units proposed that will be built over the next two to three years. The total number of completed, under construction, and proposed downtown units is 5,044, just 165 units shy of doubling the downtown rental inventory in ten years. A note on the proposed projects: they are almost certain to be developed. All the developers are first rate and have local development experience.

By 2020, the number of renter households in downtown Salt Lake City will exceed 10,000. Add the 425 condominiums at City Creek to the existing owner occupied inventory and the downtown housing market will have close to 11,700 occupied dwelling units. The downtown population will increase from 10,700 in 2010 to over 20,000 by 2020, equivalent to the population about the size of Payson or Brigham City in just 1.65 miles of downtown Salt Lake City.

Table 1
Population and Housing in Downtown Salt Lake City

	2010	2020 forecast
Population	10,703	20,500
Households	6,097	11,695
Average Household Size (persons)	1.75	1.75
Owner Occupied Units	888	1,500
Renter Occupied Units	5,209	10,195
Total Occupied units	6,097	11,695
Percent of Renter Households	85%	87%

Source: U.S. Census for 2010 and forecast, Kem C. Gardner Policy Institute, University of Utah

Is the Downtown Rental Market Overbuilt?

The size of the current apartment boom is unprecedented. In just 10 years, nearly as many apartment units will be developed downtown as were developed in the previous 100 years. The boom, however, has brought much higher rental rates. The 15 apartment projects completed since 2011 have the following average rents: studio $1,000, one bedroom $1,100, two-bedroom two-bath $1,450. There are no-three bedroom units in the recently completed projects. The rents do not include the charges for a media package, sewer, water, trash, or parking fees, which could easily add another $150 to $200 to the base rent.

The historic magnitude of the current boom, combined with very high rental rates, seems like a ready-made recipe for an overbuilt market. The top-end rental rates are equivalent to the mortgage payment on the median priced home ($290,000) in Salt Lake County; surprisingly, the vacancy rate in the 15 new projects (1,864 units) is less than two percent. Furthermore, the absorption rates of some of the projects under construction indicate demand is still strong in the third quarter of 2016.

The market will be seriously tested in the next two years with the completion of the under construction projects and the addition of the proposed projects. Probably the most interesting test case will be the nearly 1,000 units under construction by Salt Development north of Gateway: Hardware Villages' 470 units and 4th West Apartments' 498 units. These two projects will have the highest quality and the highest priced units in the state. Rents will be over two dollars a square foot, or $2,000 per month for a typical two-bedroom unit. Using the typical housing cost to income ratio of 30 percent, the renter of a $2,000 apartment would need at least $80,000 in income to afford a unit at Hardware Village. According to the 2015 American Community Survey, 22,500 renters in Salt Lake County have incomes of at least $80,000, or 20 percent of all renters. The renter pool certainly looks deep enough in terms of income to support the development of high-priced rental units, but of course the key question is preference and suitability. How many of these high income renters want or can (family size considerations) live in a two-bedroom two-bath unit in downtown Salt Lake?

Every renter faces three primary considerations in their decision to rent: cost, configuration (size, bedrooms, space), and location. The cost of renting downtown, at least in the newer projects, excludes about 80 percent of the renters in Salt Lake County. The configuration of downtown rental units is a bit friendlier to renter households. Sixty percent of all renter households in Salt Lake County are one and two-person households. These smaller households are a deep market and well matched for configurations of studio, one, and two bedroom units.

Another factor affecting market depth and related to configuration is the relatively rapid growth of "nonfamily renter households", or unrelated roommates. This household type—no children present—does not have the configuration concerns of a family household. A two-bedroom two-bath apartment is suitable. Since 2000, the number of households with individuals that are "nonfamily, not living alone and with the householder 18 to 34 years" has increased annually at a six percent growth rate in Salt Lake City, an increase of 3,000 households. For roommates who are single, young professionals, and working downtown, the cost of housing can be shared, making downtown living much less financially intimidating.

One more favorable demographic trend is the increase in net in-migration. From 2009 to 2014, net in-migration statewide never exceeded 11,000 individuals, but in 2015, it jumped to 21,300 and is projected to average 32,000 over the next four years. Conservatively, at least one-third of these in-migrants will locate in Salt Lake County, and some will be attracted to the downtown rental market, due to the nearness of employment and life style considerations boosting demand for downtown rentals.

Location is probably the greatest and most obvious advantage of downtown living. Proximity to public transportation, restaurants, shopping opportunities, cultural amenities, nightlife, and walking distance to 75,000 jobs makes for a unique rental market. Salt Lake City's Central Business District is the largest concentrated job market in the state. Four out of five employees in downtown work in office settings at jobs with an average pay of $52,000. This proximity to a large base of job opportunities with above average pay is integral to the success of downtown rental housing.

Will the doubling of the downtown rental inventory in 10 years lead to an overbuilt market? First, a little context may help. In 2015, the Salt Lake County rental market had about 126,000 occupied rental units, only 7,000 of these units were located downtown; not quite six percent of the county's rental inventory. Countywide the vacancy rate is about three percent while downtown the rate is less than two percent. Rental rates for one and two-bedroom units in newer downtown projects are 30 percent higher than similar units in the suburban market. Two thousand of the 6,700 apartment units presently under construction countywide are in the downtown market, and 1,200 of the 7,300 apartment units proposed countywide are downtown.

The recent surge in downtown apartment development is part of a larger apartment boom, a boom that extends throughout Salt Lake County. The downtown market will face some competition from the large number of under construction and proposed units in the county's suburban areas as well as the several hundred units on the periphery of the downtown market, but the fundamental advantages of a downtown location and favorable demographic trends will effectively offset much of the competitive headwinds. Employment opportunities will continue to grow with development of new office, retail, and commercial space. One example is the completion of downtown's newest office building (462,000 square feet) at 111 South Main, which should increase office employment by as much as 1,000 jobs over the next few years. Demographically, the increase in non-related households (roommates), higher levels of net in-migration, as well as the growing number of individuals in the prime age group for renting (18-34 years), bodes well for the apartment market in general. Nearly half of all renters in Salt Lake County are between 18-34 years old and this age group is expected to grow by five percent from 2015 to 2020, an increase of 17,000 individuals.[ii]

The previous four periods of apartment development have typically increased the rental inventory by at least 50 percent. But no previous expansion compares in relative or absolute terms to the present boom. In the two most recent expansions (early 1980s and early 2000s), new apartment developments were very successful and overbuilding was not an issue. In the current expansion, as noted, a total of 5,000 units will be added to the market. So far, 2,000 units have been completed and quickly absorbed by the market and the vacancy rate is at a low of two percent.

As the remaining 3,000 units reach the market over the next four years, the vacancy rate downtown will increase. But how much will vacancy rates increase? Even if only 85 percent (2,550 units) of the remaining new units were rapidly absorbed, the vacancy rate in the downtown market would still be under seven percent.

Rental rates are likely more vulnerable to the building boom than occupancy rates. As vacancy rates increase to more normal and healthier levels, developers and owners will be less aggressive with their rental rate increases and may offer concessions to new renters such as reduced deposit and/or reduced rent.

A snapshot of the downtown apartment market in October 2016 does not show an overbuilt market; rental rates are increasing, vacancy rates are very low, and absorption of new units is strong. Over the next three to four years, vacancy rates will increase as an additional 3,000 units are completed but the market will not be destabilized nor suffer double-digit vacancy rates or falling rents. But a doubling of the rental inventory in roughly 10 years will likely dampen market conditions and investment opportunities. By 2020, the current boom will very likely recede and take its place as the fifth period of downtown rental market expansion since 1910.

Table 2
Apartment Projects Developed in Downtown Salt Lake City (2011-2015)

Apartment Community	Year Built	Number of Units
Seasons at City Creek	2011	176
City Creek Landing	2011	111
Eastside Apartments	2011	180
Rendon Terrace (tax credit)	2011	70
Wasatch Advantage	2012	160
Citifront II	2012	91
644 City Station	2012	132
The Lotus	2012	84
Cityscape	2013	122
Liberty Gateway	2013	160
Newhouse	2015	61
Encore	2015	220
Seasons at Library Square	2015	119
Seasons on the Boulevard	2015	92
North Sixth (tax credit)	2015	86
Total		1,864

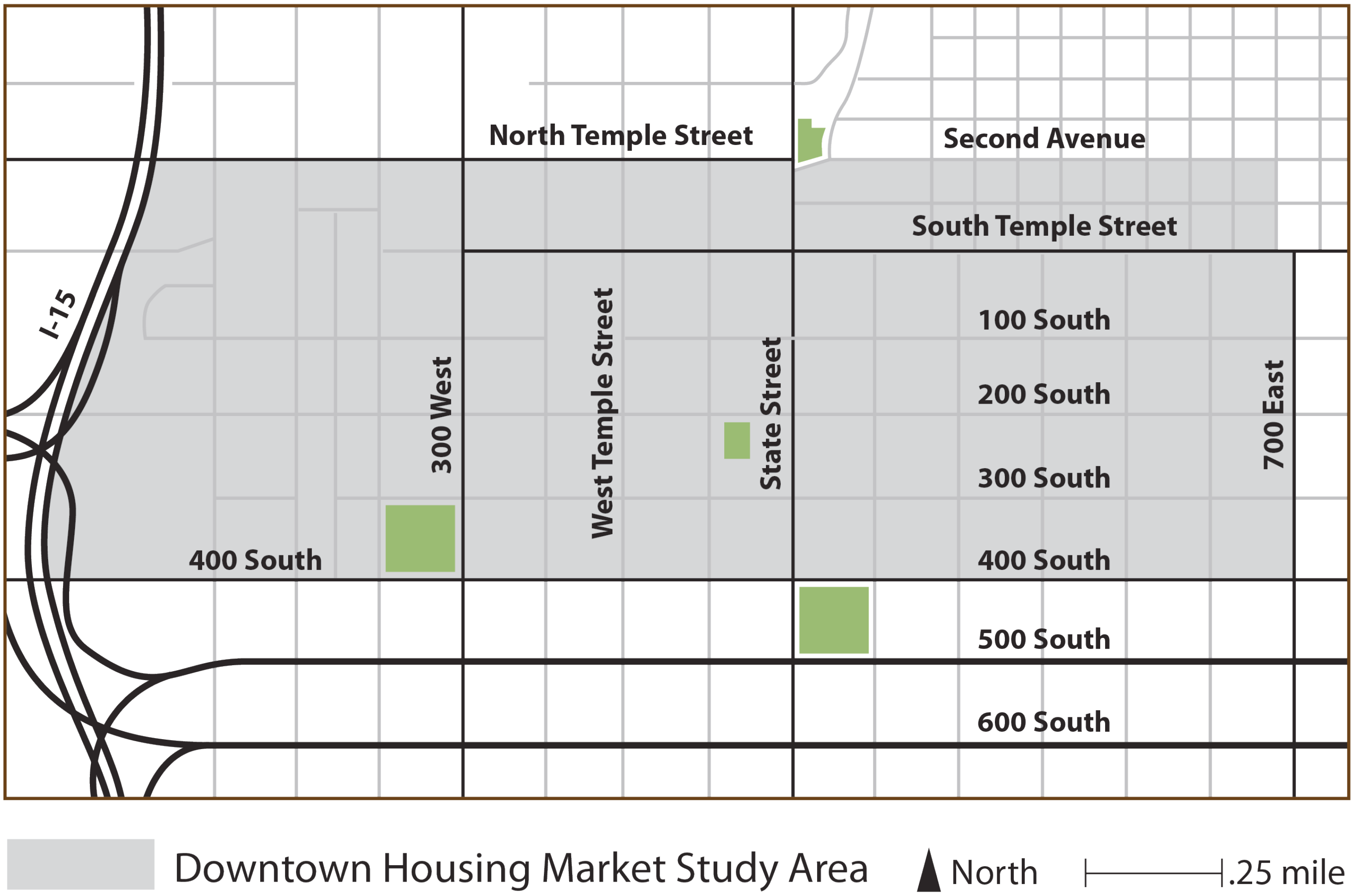
Source: Ivory-Boyer Construction Database, Kem C. Gardner Policy Institute

Table 3
Apartment Projects Under Construction in Downtown Salt Lake City, 2015

Apartment Community	Units
Fourth West Apartments	498
Hardware Village	470
Liberty Crest	177
360 Apartments	151
Alta Gateway	264
The Bonneville	158
616 Apartments	273
Total	1,991

Source: Ivory-Boyer Construction Database, Kem C. Gardner Policy Institute

Figure 1: Map of Downtown Housing Market Study Area



Endnotes

i. As defined in this research brief, downtown Salt Lake City includes approximately the area from 700 East to 700 West, 400 South to North Temple (see Figure 1). This area includes census tracts 1019, 1021, 1025, part of 1140, part of 1011.01, and part of 1011.2.

ii. The projected increase in the 18-34 year age group for Salt Lake County was estimated from statewide population projections published by the Kem C. Gardner Policy Institute. In both the 2000 and 2010 Census, the number of individuals in the 18-34 year age group in Salt Lake County was 37 percent of the statewide count of individuals in that age group. This 37 percent share was applied to the 2020 statewide population projections by age to derive the number of 18-34 year old individuals in Salt Lake County in 2020.

Kem C. Gardner
POLICY INSTITUTE
THE UNIVERSITY OF UTAH

ADVISORY BOARD

STAFF AND FACULTY ADVISORS

Kem C. Gardner Policy Institute | 411 East South Temple Street, Salt Lake City, Utah 84111 | 801-585-5618 | gardner.utah.edu