Utah's Continued Momentum in Residential and Commercial Real Estate

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When you consider the rapidly expanding residential and commercial real estate markets in Salt Lake City and its surrounding suburbs, it brings to mind the highly anticipated 26-minute commute from Cleveland to Chicago via the high-speed hyperloop line that is currently in development. It is a thrill to be along for the ride. Despite six months of uncertainty in the midst of a public health crisis and pandemic, the Salt Lake City real estate market continues to show significant strides and increased demand in many sectors, especially in the multi-family residential market.

So, what is driving the exponential growth in the local real estate market? This article outlines several factors that appear to be contributing to this growth.

Business-Friendly. Utah is friendly to business and real estate investment alike. I can point to several policies to get an indication of what makes Utah business-friendly:

1. Comparatively lower real estate property tax rates (i.e., Salt Lake City's rate is 0.012357 as compared to Denver's 2019 tax rate of 0.072116).

2. No transfer or conveyance tax on the transfer of title of real property (as compared to Nevada's rate of $1.30 on each $500 of value, or fraction thereof, imposed on each deed by which any lands are granted, assigned, transferred, or otherwise conveyed in excess of $100.

3. Comparatively lower general recording fees.

4. Salt Lake City's Redevelopment Agency (RDA) and other governmental incentives to develop multi-family and affordable housing, and government's willingness to partner with for-and non-profit housing developers.

5. Zoning and land-use regulations that more and more depart from the separation of “uses” characterized by Euclidian zoning (which designates closely related and compatible uses for each zoning district) to a more progressive mixed-use, dynamic, new urbanism that optimizes residential and commercial utilization while providing for green space.

Growing Population/In-Migration. Propelled by rapid growth in Silicon Slopes and other local centers of innovation, businesses are coming to Utah in droves. I recall attending a title insurance convention in 2008 in Columbus, Ohio, and debating with colleagues the projected real estate preferences of the millennial generation. It is a debate still raging: Where will millennials (born between 1981 and 1996, or 24- to 39-years-old) decide to settle with their families? If recent trends are any indication, millennials may prefer suburban areas. Since March 2020, the residential real estate market has seen a 13 percent increase in home searches in the suburbs, and for every one millennial in the city, there are four moving to the suburbs.

Kenneth T. Holman, president of Overland Group Development in Draper, said “We have seen a shift since COVID-19 has hit, that especially the millennials desire to move to the suburbs to find a home to raise their family.”

The millennial population represents approximately 23 percent of Utah's population. Based on supply and demand alone, it is not surprising that single-family homes, multi-family and clusters are in such short supply. There is also some evidence to suggest that individuals and businesses are leaving larger urban centers and moving to less densely populated communities, which are also more affordable. Salt Lake City will likely see additional in-migration attributable to this trend.

Interest Rates. Historically low interest rates for the popular 30-year mortgage also are helping to fuel growth in the local real estate market. As of Aug. 31, the 30-year fixed rate was 2.91 percent, compared to 3.58 percent for the same time last year. The average 15-year fixed rate is at 2.46 percent, compared to 3.06 percent last year.

Online Land Record Offices. The Salt Lake City Recorder's Office (the governmental entity that stores and retrieves Salt Lake County's land records, (i.e., deeds, easements, mortgages/deeds of trust) provides online/e-recording of land records and has maintained uninterrupted service throughout the COVID-19 pandemic. Keeping the pipeline of land deals moving and recorder office staffed and open has been very important to our success since March 2020.

Increasingly Utilizing Retirement Accounts to Invest in Real Estate. More and more individuals (and professionals providing guidance) are considering self-directed individual retirement accounts (IRAs) to invest in real estate. Simply stated, a self-directed IRA is an IRA (Roth, traditional, SEP, inherited IRA, SIMPLE) where a custodian or administrator of the account allows the IRA to invest into an allowable asset class (i.e., real estate, investments into start-ups that tackle societal issues, peer-to-peer lending, etc.) not allowed within traditional retirement plans. A self-directed IRA can invest in real estate and receive the same tax-deferred (traditional) or tax-free (Roth) treatment. Moreover, capital gains from the sale of real estate within a self-directed IRA are exempt from capital gains tax. Keep in mind, however, there are very specific rules that govern the self-directed IRA, so caution should be taken to carefully understand how to utilize this tool. In addition, millennials increasingly want to direct where their money is invested; “impact investing” has become the coined phrase. For example, an individual may direct their retirement asset to invest in acquiring acreage for an urban farm and restaurant or a ski and skate park, which offers teens a safe and healthy space. A number of lending institutions in Utah offer custodian and management services.

Subleasing. Utah investors see opportunity in using real estate subleasing techniques to keep commercial space stabilized. COVID-19 has driven office workers home and businesses have seen less need for office space. Another common subleasing scenario arises when a business expands at such a fast pace that it outgrows existing lease space. While landlords may not be willing to terminate the lease early, they are willing to permit subleasing. Subleasing enables a primary tenant to capitalize on excess space. While subleasing is common and becoming increasingly popular, drafting sublease agreements can be tricky, especially as subleases tend to involve greater legal risk than a direct lease between a landlord and tenant.

Innovation and Optimism. As a newcomer to the Utah market (having lived in Salt Lake City now for three years), I see striking characteristics among Utahns that set the people here apart from most others: Utahns have an innate desire for success, an ingrained attitude of optimism and an unabashed passion and open-mindedness to be innovative and challenged, and to work collaboratively in partnership to continually improve the quality of life in our region. These characteristics are unique and exciting and should not be ignored as important drivers to the success of the market.

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