

# MARKETBEAT OFFICE SNAPSHOT

## SALT LAKE CITY, UTAH

A Cushman & Wakefield Alliance Research Publication

Q2 2013



### ECONOMIC OVERVIEW

Increasing employment drove the U.S. economy forward and produced a stronger office market as a result. The current U.S. unemployment rate of 7.6% resulted from an added average of approximately 170,000 jobs per month each month for 2013. Although the U.S. economy is improving, the overall Utah market showed even greater improvement. With a current unemployment rate of just 4.6%, Utah's labor force grew at a rate of 2.6% per year, a full percentage point (pp) above the U.S. average. All sectors have added jobs over the last year with the exception of Government.

### VACANCY

Across the market, the direct vacancy rate dropped by 1.8 pps year-over-year to end at 13.1%, 1.7 pps of which occurred during 2013. Class A buildings continued to lead the charge into the improving economy registering a direct vacancy rate of 9.0% while class B and C buildings have rates of 14.4% and 17.7% respectively.

### ABSORPTION

Strong absorption with large takedowns dominated Q2 13. Two major transactions in the Central East accounted for 288,609 square feet (sf) of positive absorption; Instructure at Old Mill Corporate Centre IV and General Dynamics at the former Discover Card building.

The overall year-to-date absorption of 773,506 sf has already exceeded the ten full-year average for Salt Lake County. The suburban markets continued to rebound dramatically, registering just over 600,000 sf of year-to-date positive absorption. Not to be left behind, the Central Business District (CBD) continued its momentum from the end of 2012. Neumont University accounted for 44,700 sf of this positive absorption due to the relocation of their existing campus to downtown.

### RATES

Full service average asking lease rates dipped by 2.6% from year-end 2012 as higher end space leased while the remaining lower-end spaces suppressed asking rates. The resulting decrease is more mathematical than an indication that rates are actually decreasing. In fact, concessions are becoming less and less frequent in lease transactions, so effective rents increased in most areas.

### CONSTRUCTION

Five new office buildings were completed so far in 2013, bringing a total of 303,657 sf to the market, of which 77% was leased upon completion. An additional 538,861 sf is currently under construction

with 194,861 sf of that space expected to be completed by year-end 2013.

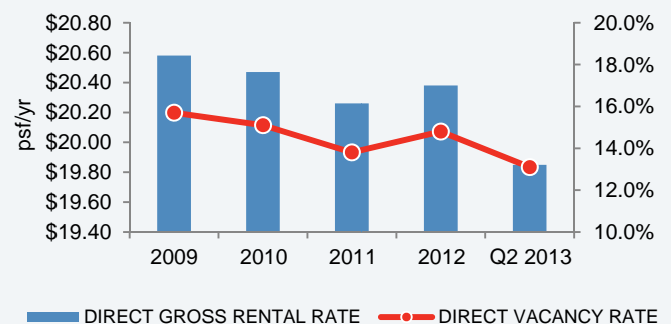
### OUTLOOK

Vacancy rates should continue their downward trend as absorption continues to outpace new construction. The relocation of Neumont University along with companies such as Venafi, Workday and VRx to the CBD highlights a trend of a tech companies considering downtown as a viable option due to its increasing amenities, public transportation and a vibrant nightlife. Concessions are also expected to continue to decline and landlords will hold firm on their asking rents especially in higher quality assets where demand is strongest.

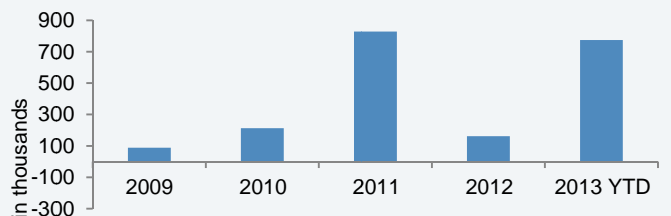
### STATS ON THE GO

	Q2 2012	Q2 2013	Y-O-Y CHANGE	12 MONTH FORECAST
Direct Vacancy	14.9%	13.1%	-1.8pp	▼
Direct Asking Rents (psf/yr)	\$19.87	\$19.85	-0.1%	▲
YTD Net Absorption (sf)	447,593	773,506	72.8%	▲

### DIRECT RENTAL VS. VACANCY RATES



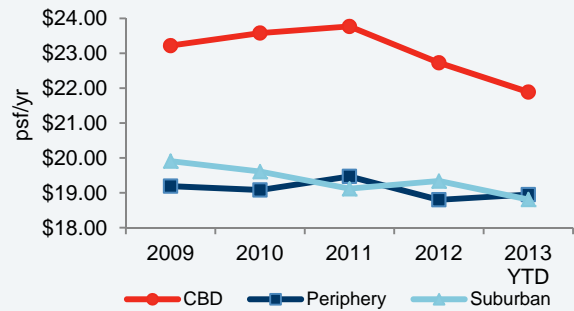
### NET ABSORPTION



## DIRECT RENTAL RATES

- Average asking rental rates across the market have dropped slightly on a year-over-year basis and more noticeably since year-end 2012 as the best properties in each class leased space
- Concessions decreased across the market so effective rental rates increased even while average asking rental rates have decreased slightly
- The Northeast class A market, largely made up of the University of Utah's Research Park, has the highest average asking rent at \$29.15, spread between two recently-constructed buildings

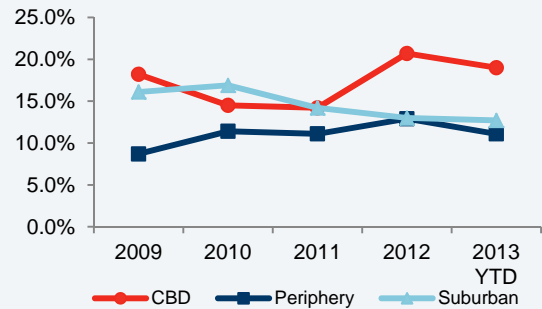
## DIRECT RENTAL RATES



## DIRECT VACANCY RATES

- Vacancy rates on average dropped by 1.8 pps across the entire Salt Lake market on a year-over-year basis
- Class A vacancy rates decreased by 1.4 pps on a year-over-year basis
- The Southeast submarket increased by 2.8 pps primarily due to eBay relocating from a leased building to an owner-user building which is no longer tracked in this study
- The Northwest submarket vacancy greatly decreased by 6.7 pps to 7.8% on a year-over-year basis

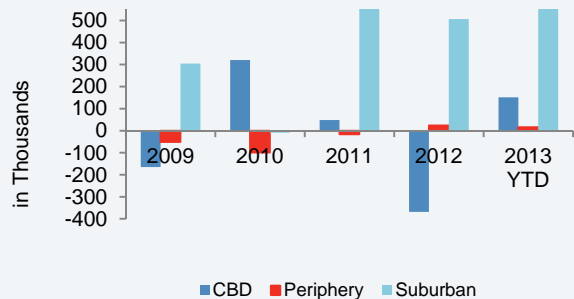
## DIRECT VACANCY RATES



## YEAR-TO-DATE NET ABSORPTION

- Mid-year 2013 net absorption of 773,506 sf has already exceeded the ten-year average of 635,364 sf
- The Central East led all submarkets with Q213 absorption of 288,609 sf, largely due to Instructure (167,203 sf) and General Dynamics (127,421sf). General Dynamics took an additional 80,000 sf at the City Bank building in Layton
- Although total class A space represents only 38% of the total market, class A absorption represents 64% of the total absorption showing significant leasing momentum in class A space

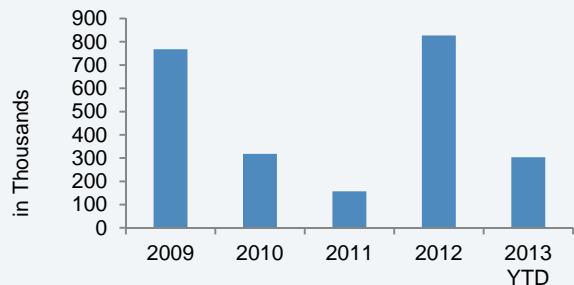
## YEAR-TO-DATE NET ABSORPTION



## CONSTRUCTION COMPLETIONS

- 630 Komax, 505 Wakara and One Airport Tech were all completed in the second quarter representing 210,657 sf and is 76% leased
- Currently there are 538,861 sf under construction which is 32% pre-leased
- Riverpark 7 and Minuteman IV, in the Southwest submarket, are both being built on a speculative basis with no pre-leasing commitments
- The 101 Tower is the first new multi-tenant construction project in the CBD since Q409

## CONSTRUCTION COMPLETIONS



SUBMARKET	INVENTORY	OVERALL VACANCY RATE	DIRECT VACANCY RATE	YTD NET ABSORPTION	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD OVERALL NET ABSORPTION	OVERALL WTD. AVG ALL CLASSES GROSS RENTAL RATE *	DIRECT WTD. AVG. CLASS A GROSS RENTAL RATE *
CBD	7,460,291	20.0%	19.0%	151,698	144,000	0	151,698	\$21.89	\$27.76
Periphery	3,543,616	14.1%	12.7%	15,920	0	0	15,920	\$18.95	\$26.32
<b>Downtown</b>	<b>11,003,907</b>	<b>18.1%</b>	<b>17.0%</b>	<b>167,618</b>	<b>144,000</b>	<b>0</b>	<b>167,618</b>	<b>\$21.18</b>	<b>\$27.64</b>
Northeast	3,370,672	11.4%	8.9%	66,208	0	156,000	66,208	\$18.57	\$29.15
Northwest	4,121,454	9.9%	7.8%	114,944	88,461	87,657	114,944	\$15.09	\$20.19
Central East	7,363,711	14.3%	13.4%	317,687	0	0	317,687	\$19.05	\$28.17
Central West	981,704	19.0%	18.6%	59,047	0	0	59,047	\$17.42	\$21.00
Southeast	4,308,479	12.9%	11.5%	78,112	90,000	60,000	78,112	\$20.59	\$23.48
Southwest	1,432,571	7.9%	7.9%	-30,110	106,400	0	-30,110	\$22.43	\$23.10
Suburban	21,578,591	12.5%	11.1%	605,888	284,861	303,657	605,888	\$18.81	\$24.53
<b>TOTALS</b>	<b>32,582,498</b>	<b>14.4%</b>	<b>13.1%</b>	<b>773,506</b>	<b>428,861</b>	<b>306,657</b>	<b>773,506</b>	<b>\$19.85</b>	<b>\$25.98</b>

## MARKET HIGHLIGHTS

Significant Q2 2013 Lease Transactions	SUBMARKET	TENANT	BUILDING CLASS	SQUARE FEET
Old Mill Corporate Centre IV	Central East	Instructure	A	167,203
Former Discover Card Building	Central East	General Dynamics	B	127,421
Tribune Tower	CBD	Neumont University	B	44,070
Significant Q2 2013 Sale Transactions	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
Merrill Lynch Building	Central East		\$9,725,000/\$146	66,670
Significant Q2 2013 Construction Completions	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET
One Airport Tech	Northwest	L-3	Q2 2013	87,657
630 Komax	Northeast	Blackrock Microsystems	Q2 2013	63,000
505 Wakara	Northeast	Wasatch Advisors	Q2 2013	60,000
Significant Projects Under Construction	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET
101 Tower	CBD	Parr, Brown, Gee & Loveless	Q2 2014	144,000
Minuteman 4	Southeast	Speculative	Q2 2014	110,000
Sandy Park Center II	Southeast	LifeVantage	Q1 2014	90,000