

MARKETBEAT OFFICE SNAPSHOT



SALT LAKE CITY COUNTY

A Cushman & Wakefield Alliance Research Publication

Q2 2012



PHOTO BY RICHARD GREEN

ECONOMIC OVERVIEW

Utah continues to experience one of the highest job growth rates in the nation at 3%. All sectors of the economy, with the exception of leisure and hospitality, added new jobs to the market in the prior 12 months. Professional and business services led the way in job creation, followed by manufacturing. The construction industry showed signs of regaining its strength, adding nearly 3,300 jobs from May 2011 to May 2012.

Utah's top economic performance is often attributed to the state's business friendly government and highly educated workforce. With accolades such as: "Best State for Business and Careers" by *Forbes Magazine* in 2011 and 2010; "Best Business Climate" by *Business Facilities Magazine* in 2011; and #1 for Expected Economic Recovery and Economic Outlook for the past five years by the American Legislative Exchange Council, Utah is at the forefront of the economic recovery.

ABSORPTION

Absorption continued its path downward in the second quarter of 2012, showing a negative year-to-date absorption of 243,657 square feet (sf). The downtown market fared the worst, with negative 301,981 sf of absorption thus far in 2012. This is predominantly due to tenants vacating big blocks of space and relocating to build-to-suits. The suburban market showed 58,324 sf of positive absorption, with its Central East submarket showing a positive 96,910 sf due to several expanding and relocating tenants. Despite the red ink, we expect the market will finish the year in positive territory, based upon anticipated expansion and incoming occupants before year end.

VACANCY

The overall direct combined vacancy rate for all property types in the Salt Lake City Metro Office Market stands at 14.86%, an increase of more than one percentage point from year-end 2011. The increase in vacancy is largely a result of more than 500,000 sf of existing product being vacated in the Central Business District

(CBD) market since the beginning of the year. The vacancy in the downtown submarket is largely driven by prominent users opting to move to newer, more efficient build-to-suits in the same area. In contrast, suburban vacancy saw more than a full percentage point drop in vacancy from 14.19% to 13.15% during the same period. The reasons often stated for the increased office demand in the suburban submarket are: shorter commute times for employees, more abundant and free parking, and less expensive lease rates.

LEASE RATES

Direct Full Service rental rates for the overall Metro Office Market increased from \$19.44 per square foot (psf) last quarter to \$19.87 psf at mid-year. This 2.2% increase is primarily attributable to the increase in class A vacancy and slight decrease in class B and C properties, as the reported lease rates are weighted based upon vacant space. Overall class A rental rates average \$25.83 psf, class B averages \$19.76 psf and class C averages \$14.88 psf.

NEW CONSTRUCTION

The Salt Lake market will add 883,000 sf of new space in 2012, which is currently 66% pre-leased. Two buildings were delivered mid-year, and five more buildings will be ready for occupants in the third and fourth quarters, for a total of seven new buildings. Two are located in downtown Salt Lake City and five are located in the suburbs. Due to the lack of large blocks of vacant space, particularly in the southern part of the Salt Lake Valley, many larger tenants are contemplating build-to-suit locations to meet their current and future growth needs.

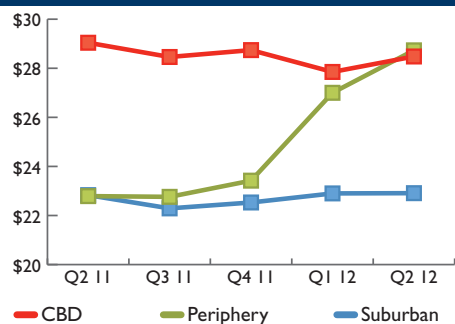
OUTLOOK

As market fundamentals continue to strengthen, expect Utah's growth rate to outpace the national average. The CBD has several large vacancies that will be an attractive option for tenants looking to take advantage of the revitalization of downtown. Expect the Suburban submarket to continue to add positive absorption to the overall market as tenants look to tap into a larger employment base in Salt Lake and Utah counties.

STATS ON THE GO

| | CURRENT | CHANGE SINCE: | |
|------------------------|-------------|---------------|---------|
| | | Q1 2012 | Q2 2011 |
| Direct Office Vacancy | 14.86% | ▲ | ▼ |
| Sublease Vacancy | 0.99% | ▲ | ▼ |
| Average Lease Rate | \$19.87 PSF | ▲ | ▼ |
| Completed Construction | 100,000 SF | ▼ | ▼ |

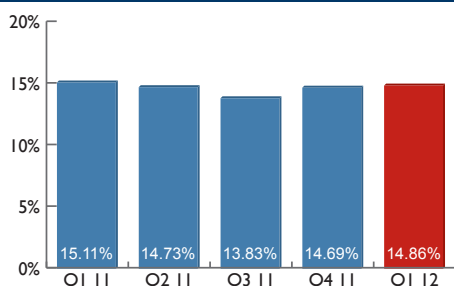
LEASE RATES BY SUB-MARKET



CLASS A QUOTED RENTS *

| | Q2 2011 | Q3 2011 | Q4 2011 | Q1 2012 | Q2 2012 |
|-----------|---------|---------|---------|---------|---------|
| CBD | \$29.04 | \$28.46 | \$28.74 | \$27.85 | \$28.48 |
| Periphery | \$22.79 | \$22.76 | \$23.42 | \$27.00 | \$28.73 |
| Suburban | \$22.83 | \$22.29 | \$22.53 | \$22.90 | \$22.91 |

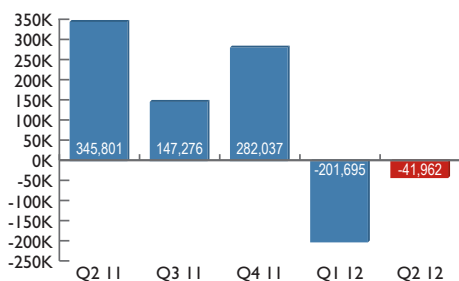
DIRECT MARKET VACANCY



OFFICE MARKET DIRECT VACANCY

| | Q2 2011 | Q3 2011 | Q4 2011 | Q1 2012 | Q2 2012 |
|----------------|---------------|---------------|---------------|---------------|---------------|
| CBD | 15.19% | 14.66% | 14.22% | 18.52% | 21.1% |
| Periphery | 10.56% | 10.86% | 11.05% | 11.6% | 11.8% |
| Suburban | 15.87% | 15.44% | 14.19% | 13.84% | 13.15% |
| Overall | 15.11% | 14.73% | 13.83% | 14.69% | 14.86% |

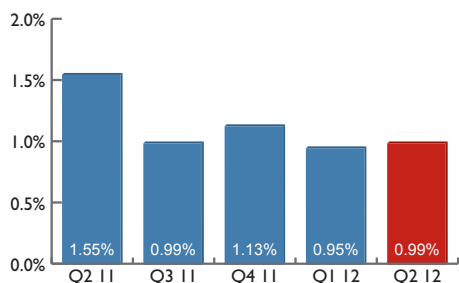
DIRECT MARKET ABSORPTION



OFFICE MARKET DIRECT ABSORPTION (SQUARE FEET) **

| | Q2 2011 | Q3 2011 | Q4 2011 | Q1 2012 | Q2 2012 |
|----------------|----------------|----------------|----------------|-----------------|----------------|
| CBD | -12,873 | 27,374 | 35,430 | -169,449 | -196,521 |
| Periphery | 7,968 | -3,281 | -46,621 | -2,784 | 66,773 |
| Suburban | 348,961 | 123,183 | 293,228 | -29,462 | 87,786 |
| Overall | 345,801 | 147,276 | 282,037 | -201,695 | -41,962 |

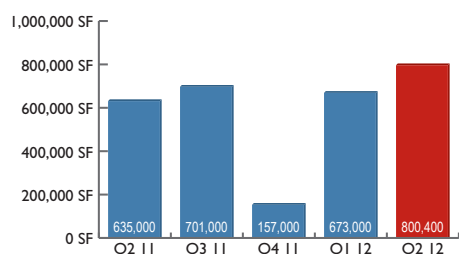
DIRECT MARKET SUBLEASE VACANCY



OFFICE MARKET SUBLEASE VACANCY

| | Q2 2011 | Q3 2011 | Q4 2011 | Q1 2012 | Q2 2012 |
|----------------|--------------|--------------|--------------|--------------|--------------|
| CBD | 1.75% | 1.37% | 1.46% | 0.8% | 1.08% |
| Periphery | 0.89% | 0.37% | 0.46% | 0.62% | 0.25% |
| Suburban | 1.6% | 0.96% | 1.13% | 1.07% | 1.08% |
| Overall | 1.55% | 0.99% | 1.13% | 0.95% | 0.99% |

OFFICE MARKET CONSTRUCTION



Notes:

* Weighted full service asking lease rates.

** Sublease space is not included in these figures.

Disclaimer: The enclosed information, while not guaranteed, has been secured from sources we believe to be reliable.

OFFICE MARKET CONSTRUCTION (SQUARE FEET)

| | Q2 2011 | Q3 2011 | Q4 2011 | Q1 2012 | Q2 2012 |
|----------------|----------------|----------------|----------------|----------------|----------------|
| CBD | 175,000 | 206,000 | 32,000 | 0 | 0 |
| Periphery | 100,000 | 100,000 | 0 | 100,000 | 0 |
| Suburban | 360,000 | 395,000 | 125,000 | 573,000 | 800,400 |
| Overall | 635,000 | 701,000 | 157,000 | 673,000 | 800,400 |

NOTABLE SECOND QUARTER TRANSACTIONS

| PROPERTY | TENANT | SIZE (SF) | CLASS |
|---------------------------|--------------------|-----------|-------|
| View at 72 | Savage Companies | 60,000 | A |
| Franklin Covey Building | L-3 Communications | 58,740 | B |
| Lake Pointe Corp I | E Health | 28,000 | B |
| Bridge Building | FLSmith | 20,382 | B |
| Draper Technology Park 22 | SEO.com | 18,437 | B |