

MARKETBEAT OFFICE SNAPSHOT

SALT LAKE CITY, UTAH

A Cushman & Wakefield Alliance Research Publication

Q3 2013



ECONOMIC OVERVIEW

Even with second quarter GDP raised to 2.5% from the previous estimate of 1.7%, the second part of 2013 is expected to come in below earlier estimates and economists surveyed by the Federal Reserve Bank of Philadelphia decreased their forecasted rate of 2.0% for the year to 1.5%. U.S. unemployment continued to fall to the current rate of 7.3%, but concerns abound as many of these jobs are lower paying and there is still a large number of people working part-time that would prefer full-time employment.

Despite some concerns with the overall U.S. economy, Utah continued to perform well with an unemployment rate of just 4.7%. Trade, Transportation and Utilities led all categories with 10,500 new jobs added over the past year while Information jobs had the highest percentage growth at 12.0%.

VACANCY

Vacancy rates continued to trend downward at a healthy rate. The 102 Tower in the Central Business District (CBD) is undergoing renovations and is currently not available for lease. This removes 210,781 square feet (sf) of vacant product from the market, which accounts for a 0.6 percentage point (pp) of the 2.8 pps decrease in the direct vacancy rate to 12.0%.

ABSORPTION

Absorption continued to track well above its ten-year average of around 700,000 sf with year-to-date absorption at 983,104 sf, the highest level of positive absorption since 2007, the majority of which occurred in class A and B products with a very small amount in class C. Although large expansions such as Sutter Physician Service's 99,000 sf continued to play a large part in the occupancy gains, an increased amount of expansion came from smaller and mid-size companies. Smaller space in the 1,000 to 3,000-sf range is becoming very competitive.

RATES

Although direct full service average asking lease rates dipped by 1.7% from Q3 12 to \$20.05 per square foot per year (psf/yr), this was mainly attributable to higher-end space leasing, while lower-end space remained available. Furthermore, the trend of fewer concessions continued as free rent became less of a negotiable part of lease transactions, resulting in landlords achieving higher effective rents.

CONSTRUCTION

The Airport Technology Park Building X, comprised of 85,158 sf in the Northwest submarket completed in Q3 13. Approximately 50%

of this building was pre-leased to Level 3. This brings the number of newly constructed "for-lease" buildings to six with 388,815 sf. Additionally build-to-own buildings have been completed for FLSmidth and eBay adding another 320,000 sf of new construction.

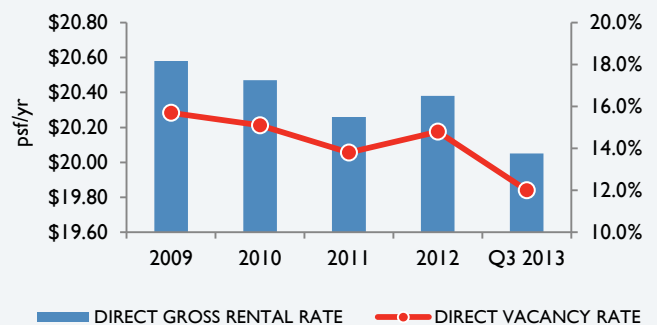
OUTLOOK

Positive absorption will continue through Q4 13 setting 2013 up to come close to a record-setting year. This absorption will continue to outpace new construction which will put downward pressure on vacancy rates. Concessions will continue to be phased out with free rent disappearing in many cases while tenant improvement allowances will continue to shrink as landlords obtain the upper hand.

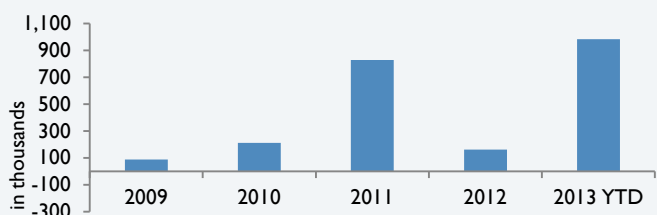
STATS ON THE GO

	Q3 2012	Q3 2013	Y-O-Y CHANGE	12 MONTH FORECAST
Direct Vacancy	14.8%	12.0%	-2.8pp	▼
Direct Asking Rents (psf/yr)	\$20.39	\$20.05	-1.7%	▲
YTD Net Absorption (sf)	(79,776)	983,104	NA	▲

DIRECT RENTAL VS. VACANCY RATES



NET ABSORPTION



DIRECT RENTAL RATES

- Average asking rental rates are based on the average asking rent across the market and are weighted based on the vacancy in a particular building
- As higher-end space has leased up, average asking rental rates have decreased; this is not an indication of weakness in the office market but rather a mathematical nuance of how this rate is calculated
- Concessions continued to decline with net effective rental rates increasing as the market becomes more of a Landlord's market
- The Northeast submarket has seen the most dramatic increase in rental rates in all property classes over the past year

DIRECT VACANCY RATES

- Vacancy rates on average dropped by 2.8 pps across the entire Salt Lake market on a year-over-year basis
- The 102 Tower, located in the CBD, was removed from the study as it undergoes renovations; the removal of this 100% vacant building reduced the overall vacancy rate by a 0.6 pp
- The Central West's year-over-year decrease of 7.7 pps was the result of space leased up across all property classes and not attributable to any single large transaction

The Northeast submarket has increased by 2.3 pps with the addition of two new buildings comprising of 123,000 sf

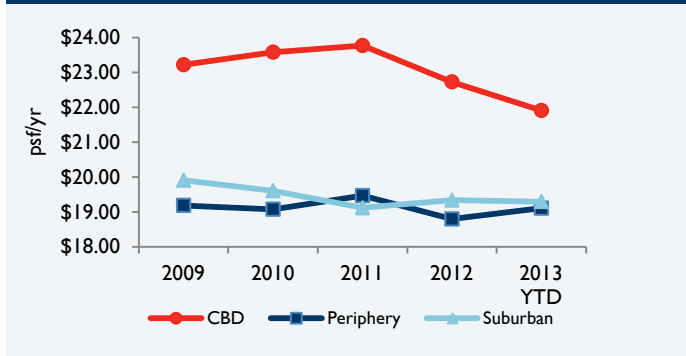
YEAR-TO-DATE NET ABSORPTION

- Absorption of 983,104 sf through Q3 13 has already exceeded full year absorption in all but two of the last ten years and remains on track to achieve the second highest level in Utah history
- Higher quality assets continued to dominate absorption with class A and B space accounting for 95% of this absorption, while class A alone accounts for 56% of the total absorption in the market
- The Northwest submarket absorbed 70,533 sf during Q3 13 as L-3 took 42,579 sf in the newly constructed Airport Technology Park Building X

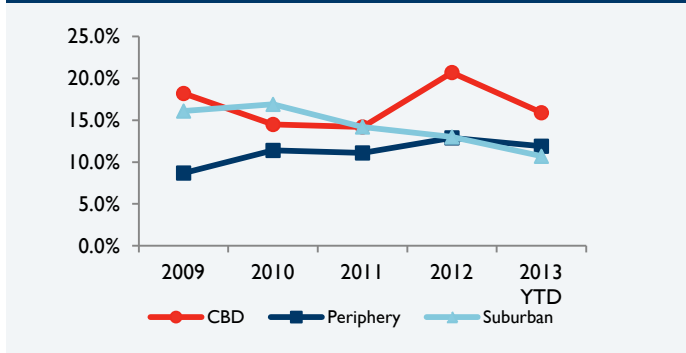
CONSTRUCTION COMPLETIONS

- Airport Technology Park Building X, comprised of 85,158 sf, was the only newly constructed building during Q3 13
- Currently there are 487,000 sf under construction, of which 32% are pre-leased
- Minuteman IV, in the Southeast submarket and Wilmington Gardens, in the Northeast submarket, are both being built on a speculative basis with no pre-leasing commitments
- FLSmidth and eBay each had new buildings completed for a total of 320,000 sf that are not included in our study as they are owner-user buildings

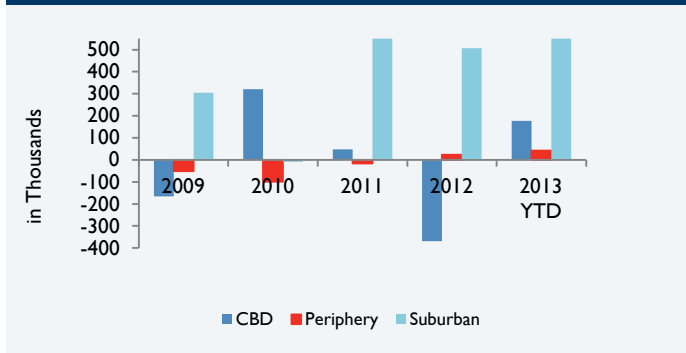
DIRECT RENTAL RATES



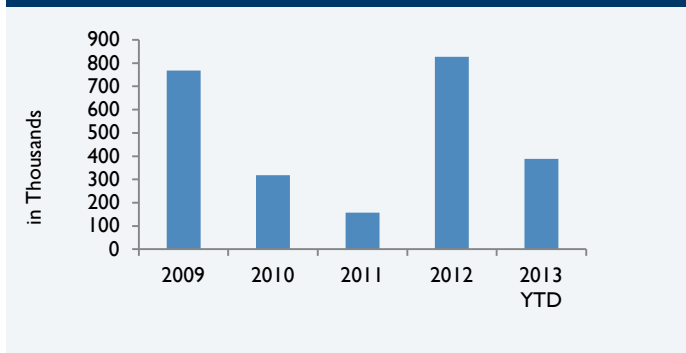
DIRECT VACANCY RATES



YEAR-TO-DATE NET ABSORPTION



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	7,249,510	16.9%	15.9%	177,353	144,000	0	177,353	\$21.91	\$28.12
Periphery	3,543,616	13.4%	11.9%	42,573	0	0	42,573	\$19.11	\$26.10
Downtown	10,793,126	15.8%	14.6%	219,926	144,000	0	219,926	\$21.16	\$27.93
Northeast	3,370,672	10.6%	8.1%	90,913	71,000	156,000	90,913	\$19.18	\$28.98
Northwest	4,206,612	11.5%	8.0%	185,477	0	172,815	185,477	\$16.28	\$22.84
Central East	7,363,711	14.4%	13.7%	282,174	0	0	282,174	\$19.56	\$28.48
Central West	981,704	18.3%	17.9%	66,169	0	0	66,169	\$17.47	\$21.00
Southeast	4,308,479	11.0%	10.4%	139,965	200,000	60,000	139,965	\$21.20	\$23.38
Southwest	1,432,571	9.6%	5.1%	(1,520)	72,000	0	(1,520)	\$22.83	\$23.15
Suburban	21,663,749	12.4%	10.7%	763,178	343,000	388,815	763,178	\$19.30	\$24.79
TOTALS	32,456,875	13.6%	12.0%	983,104	487,000	388,815	983,104	\$20.05	\$26.17

MARKET HIGHLIGHTS

Significant Q3 2013 Lease Transactions	SUBMARKET	TENANT	BUILDING CLASS	SQUARE FEET
Riverpark 7	Southwest	OOCL	A	48,770
Draper Business Park 6	Southeast	American Institute of Medical Dental	C	36,771
The Legacy @ Lake Park I	Northwest	Evault	A	35,232
Significant Q3 2013 Sale Transactions	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
Gateway Center	Periphery	Hines	Confidential	449,029
South Temple Tower	CBD	MSB SLC Opportunity Fund	\$27,000,000 / \$124	216,937
Wasatch Corp Center I6	Southeast	Security National Capital	\$12,500,000 / \$158	79,113
Significant Q3 2013 Construction Completions	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET
Airport Technology Park Building X	Northwest	L-3	Q3 2013	85,158
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