

# MARKETBEAT OFFICE SNAPSHOT

## SALT LAKE CITY, UTAH

A Cushman & Wakefield Alliance Research Publication

Q1 2015



### ECONOMIC OVERVIEW

The U.S. economy continued to add jobs at a high rate as job growth expanded by 2.4% over the last year, pushing the unemployment rate to just 5.5%. Even with stronger employment numbers, wage pressure remained moderate, mainly occurring in specialized jobs.

Utah continued to outpace the overall economy, adding jobs at a rate of 4.2%, with employment gains occurring in nine out of ten categories. With this job growth, the unemployment rate remained at 3.4%, which has caused job shortages in specific industries and occupations. For 2015, Utah is expected to see job growth of 2.8%, which would result in 37,200 new jobs.

Utah's technology sector continued to flourish and ranked number 10 in the country in total Venture Capital (VC) dollars from 2012-2014. This influx of VC dollars pushed the level of advanced industry employment in several Utah metropolitan areas. Provo-Orem, Ogden-Clearfield and Salt Lake City were ranked numbers 12, 14 and 15, respectively, by the Brookings Institution for Advanced Industry Employment.

### MARKET OVERVIEW

Technology firms and the inflow of VC funding cited above continued to be a major driver for the amount and location of office expansion. Health Catalyst, a healthcare data warehousing company based out of Cottonwood Heights, recently raised \$70 million through the VC ranks and other companies such as Insidesales.com, Lendio and Cotopaxi have also been successful in pursuing VC funding increasing their need to find additional office space.

With nearly 2 million square feet (msf) under construction, including tenant-owned buildings, the rate of expansion and speculative development is just barely staying ahead of demand. This level of development is necessary as large blocks of high quality space in desirable locations are sparse. The majority of new development is taking place either in Salt Lake City's Central Business District (CBD) or between 7200 South and Lehi, Utah, the two most sought-after locations for technology firms.

### OUTLOOK

Utah continues to be one of the fastest growing economies in the nation. Office leasing demonstrates the growth as well or better than any other segment of the Utah economy. Although Q1 15 was relatively quiet in terms of absorption, a high level of activity is

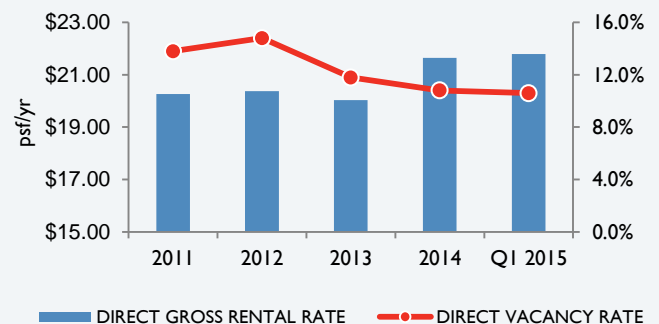
underway and will push absorption rates up during 2015 and into 2016.

As the market tightens for class A space and well located assets, upward pressure on rental rates is expected while lease incentives continue to dry up. Class B rates and central valley locations will report a more moderate rate of increase while class C product will remain flat.

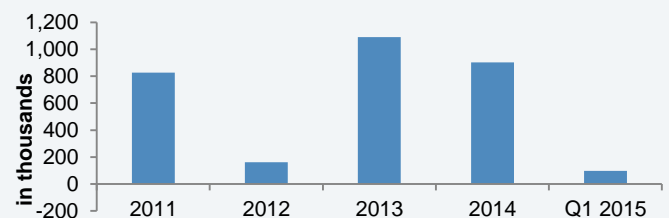
### STATS ON THE GO

|                                | Q1 2014 | Q1 2015 | Y-O-Y CHANGE | 12 MONTH FORECAST |
|--------------------------------|---------|---------|--------------|-------------------|
| Overall Vacancy                | 13.4%   | 11.9%   | -1.5 pp      | ▼                 |
| Direct Asking Rents (psf/yr)   | \$21.31 | \$21.80 | 2.3%         | ▲                 |
| YTD Direct Net Absorption (sf) | 145,179 | 97,152  | -33.1%       | ▲                 |

### DIRECT RENTAL VS. VACANCY RATES



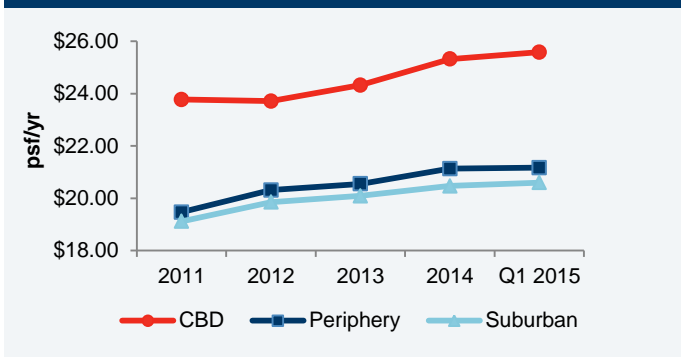
### DIRECT NET ABSORPTION



### DIRECT LEASE RATES

- Average asking lease rates are up 2.3% year-over-year.
- Average asking lease rates for class A office product in the CBD exceeded all other submarkets at \$30.77 per square foot.
- As vacancy rates continue to decline in class A product, average asking rental rates are expected to increase throughout 2015.
- Lease rates for class B product are expected to report moderate increases while class C product remains flat.

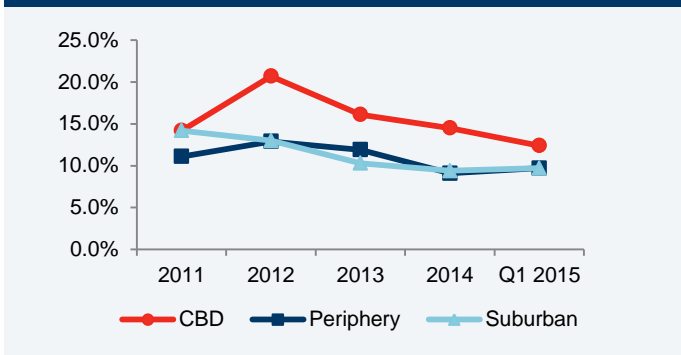
### DIRECT RENTAL RATES



### DIRECT VACANCY RATES

- The overall vacancy rate declined by 1.5 percentage points (pps) year-over-year and 0.3 pps since year-end 2014.
- The Southeast market and CBD showed the largest year-over-year drops in direct vacancy, decreasing by 4.3 pps and 2.4 pps, respectively.
- Class A, B and C direct vacancy rates were 7.2%, 10.4% and 17.1%, respectively.
- The Northwest market recorded vacancy increase by 1.5 pps, largely due to a few large users reducing their labor force.

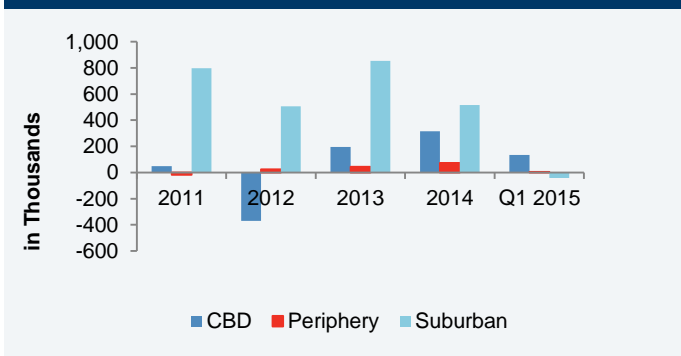
### DIRECT VACANCY RATES



### YEAR-TO-DATE ABSORPTION

- The CBD led all submarkets with 134,008 square feet (sf) of positive absorption.
- Class A space outperformed all other classes, absorbing 92,965 sf year-to-date; class B space absorbed 49,986 sf, while class C space gave back 45,799 sf.
- Although Q1 absorption was lighter than the past several quarters, activity is expected to rise through the remainder of the year.

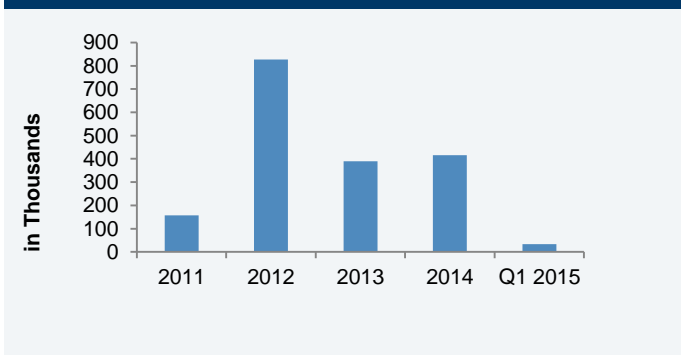
### YEAR-TO-DATE DIRECT NET ABSORPTION



### CONSTRUCTION

- There is currently 1.3 msf of for-lease product under construction in Salt Lake County with another 270,000 sf under construction by owner-occupant Overstock.
- There is an additional 368,500 sf of product under construction in North Utah County, all within the City of Lehi.
- Over 56% of space in Salt Lake County that is expected to be completed in 2015 has been pre-leased
- Phase 2 of The Interchange at South Valley consists of 34,400 sf and was completed Q1 15. It is fully occupied by Crest Financial.

### CONSTRUCTION COMPLETIONS



| SUBMARKET         | INVENTORY         | OVERALL VACANCY RATE | DIRECT VACANCY RATE | UNDER CONSTRUCTION | YTD CONSTRUCTION COMPLETIONS | YTD DIRECT NET ABSORPTION | YTD OVERALL NET ABSORPTION | OVERALL WTD. AVG ALL CLASSES GROSS RENTAL RATE | OVERALL WTD. AVG. CLASS A GROSS RENTAL RATE |
|-------------------|-------------------|----------------------|---------------------|--------------------|------------------------------|---------------------------|----------------------------|--|---|
| CBD               | 7,552,045         | 14.9%                | 13.8%               | 440,452            | 0                            | 134,008                   | 131,820                    | \$25.58  | \$30.77                                     |
| Periphery         | 3,434,199         | 10.7%                | 9.7%                | 0                  | 0                            | 5,804                     | 23,306                     | \$21.17  | \$24.95                                     |
| Downtown          | 10,986,244        | 13.6%                | 12.5%               | 440,452            | 0                            | 139,812                   | 155,126                    | \$24.20  | \$29.39                                     |
| Northeast         | 3,319,942         | 8.4%                 | 7.9%                | 71,044             | 0                            | 31,017                    | 108,222                    | \$20.29  | \$25.94                                     |
| Northwest         | 4,316,672         | 11.7%                | 10.1%               | 0                  | 0                            | (85,915)                  | (120,915)                  | \$17.60  | \$21.17                                     |
| Central East      | 7,322,472         | 12.8%                | 11.7%               | 172,000            | 0                            | (18,104)                  | (12,454)                   | \$21.82  | \$30.97                                     |
| Central West      | 981,175           | 18.6%                | 17.3%               | 186,749            | 0                            | 14,947                    | 1,910                      | \$18.59  | \$20.61                                     |
| Southeast         | 4,540,763         | 9.8%                 | 7.6%                | 465,158            | 34,400                       | 29,577                    | 15,139                     | \$21.42  | \$24.17                                     |
| Southwest         | 1,470,990         | 5.7%                 | 4.2%                | 400,000            | 0                            | (14,182)                  | (22,086)                   | \$22.80  | \$23.16                                     |
| Suburban          | 21,952,014        | 11.1%                | 9.7%                | 1,294,951          | 34,400                       | (42,660)                  | (30,184)                   | \$20.60  | \$25.43                                     |
| <b>TOTALS</b>     | <b>32,938,258</b> | <b>11.9%</b>         | <b>10.6%</b>        | <b>1,735,403</b>   | <b>34,400</b>                | <b>97,152</b>             | <b>124,942</b>             | <b>\$21.80</b>                                 | <b>\$26.98</b>                              |
| Utah County North | 3,802,849         | 6.5%                 | 6.1%                | 368,500            | 0                            | 183,407                   | 183,047                    | \$21.31  | \$22.98                                     |

## MARKET HIGHLIGHTS

| Significant Q1 2015 Lease Transactions       | SUBMARKET         | TENANT                | BUILDING CLASS         | SQUARE FEET |
|--|-------------------|-----------------------|------------------------|-------------|
| Traverse Mountain Office Complex             | Utah County North | Ancestry.com          | A                      | 135,000     |
| PMI  | Utah County North | Young Living          | A                      | 39,554      |
| Wilmington Office                            | North East        | Traeger               | B                      | 30,563      |
| Vivint Building                              | Utah County North | SolutionReach         | A                      | 25,000      |
| Significant Q1 2015 Sale Transactions        | SUBMARKET         | BUYER                 | PURCHASE PRICE / \$PSF | SQUARE FEET |
| International Plaza                          | Northwest         | IP Investors          | \$17,888,200 / \$139   | 128,709     |
| Sorenson 9                                   | Central West      | Felton Properties Inc | \$15,140,000 / \$152   | 99,404      |
| Jordan Gateway I & II                        | Southeast         | JGW Investors         | Confidential           | 90,817      |
| Significant Q1 2015 Construction Completions | SUBMARKET         | MAJOR TENANT          | COMPLETION DATE        | SQUARE FEET |
| Interchange at So Valley-Phase 2             | South East        | Crest Financial       | Q1 2015                | 34,400      |
| Significant Projects Under Construction      | SUBMARKET         | MAJOR TENANT          | COMPLETION DATE        | SQUARE FEET |
| 111 Main                                     | CBD               | Speculative           | Q2 2016                | 440,452     |
| Cornerstone I                                | Central East      | Speculative           | Q2 2015                | 172,000     |
| Draper Pointe III                            | South West        | Progressive           | Q3 2015                | 150,000     |
| Draper Pointe I                              | South West        | StorageCraft          | Q2 2015                | 125,000     |
| Draper Pointe II                             | South West        | 1-800-Contacts        | Q3 2015                | 125,000     |