# SALT LAKE COUNTY

## Medical Office Market

The trend toward more healthcare services offered in one building, close to a high population continues, resulting in expanded ambulatory care centers and several large healthcare providers vying for land and space across the Wasatch Front.

### Market Trends

Strong leasing activity and absorption pushed the medical office market through 2015, as positive absorption of 135,264 square feet (sf) was realized. The majority of this absorption occurred in on-campus buildings where demand was strongest. Despite strong positive absorption, the overall vacancy rate ticked upward by 0.2 percentage points (pps) as inventory grew. Lease rates remained stable, showing a slight upward trend of 0.5% from mid-year 2015.

Two new buildings were added to the inventory in 2015. The Lone Peak Specialty Center, comprising 80,000 sf was completed in the first half of 2015. The class A, on-campus building had strong pre-leasing activity and is currently 71.8% leased. The former Doxie-Hatch building underwent substantial renovations and was completed as Evergreen Office Plaza adjacent to St. Marks Hospital campus. This class A, off-campus building is still vacant but attracting a lot of interest for both lease and sale.

Expansion of hospitals and ambulatory care centers remained strong through 2015, and expected to continue moving forward, driven by an increased demand for acute care closer to where people live. Several of the dominant players in the Utah healthcare market are making aggressive moves to acquire land throughout the Wasatch Front, to stay ahead of population growth. The University of Utah signed a lease at 102 Tower in Salt Lake City for one of their administrative groups. Although the space is not being use for clinical or medical use, the expansion is still significant. The University of Utah Health Sciences also has a 150,000 sf ambulatory care center under construction at Station Park in Farmington, Utah.

Intermountain Health Care (IHC) also has several expansions underway. The grand opening of the Outpatient Services Center at the Riverton Hospital is scheduled for February 24, 2016. The 120,000 sf, 4-story expansion will add services such as rheumatology, senior services, and podiatry. The addition will also serve as a new location with expanded services for Primary Children's Rehabilitation Center, currently located in Sandy. The Orthopedic Specialty Hospital (TOSH), located in Murray, will also put the finishing touches on a new medical office building in March of 2016. The 4-story, 80,000 sf building will be fully occupied by IHC employees. Utah Valley Hospital, located in Provo, also continued forward with its expansion and replacement project. The massive $430 million project is expected to be completed in 2018.

### Stats on the Go

| | Current | Q2 15 |
|---|---|---|
| Overall Vacancy | 12.9% | ▲ |
| Overall Weighted Average Asking Rents (psf/yr) NNN | $15.21 | ▲ |

*Arrows are indicators, and do not represent a positive or negative value.*

### Market Forecast

Both population growth and an aging population will continue to push demand along the Wasatch Front for medical care services. Ambulatory care centers are leading this charge and will continue to aggressively pursue market share in under-served areas. Population growth areas, such as North Utah County, and South Salt Lake County, will be the primary beneficiaries of the expansion, although expansion will continue in other established areas as well.

While ambulatory care centers appear to be the strongest mover, well located medical office buildings will continue to perform well. On-campus settings will lead the charge as lease rates remain strong with some upward movement, while vacancy rates hover below 10.0%. However, traditional off-campus properties offer more challenges, as several of these buildings are dated and poorly located. Older class C buildings or class B buildings in poor locations will see the biggest challenges, as the shift toward ambulatory care centers continues.

Utah Valley Hospital, located in Provo, also continued forward with its expansion and replacement project. The massive

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| | | Vacancy | | | | |
|---|---|---|---|---|---|---|
| | | Inventory | | Direct Vacancy | | |
| | | No. of Buildings | Existing SF | SF | Rate | Average Asking Lease Rate |
| On Campus | Class A | 5 | 542,535 | 20,352 | 3.8% | $20.34 |
| | Class B | 7 | 375,649 | 33,570 | 8.9% | $15.65 |
| | Class C | 5 | 229,233 | 33,440 | 14.6% | $13.91 |
| | **Total** | **17** | **1,147,417** | **87,362** | **7.6%** | **$17.52** |
| Off Campus | Class A | 3 | 233,974 | 98,471 | 42.1% | $14.78 |
| | Class B | 24 | 989,216 | 115,818 | 11.7% | $14.37 |
| | Class C | 8 | 301,520 | 42,903 | 14.2% | $9.48 |
| | **Total** | **35** | **1,524,710** | **257,192** | **16.9%** | **$13.46** |
| Salt Lake Total | Class A | 8 | 776,509 | 118,823 | 15.3% | $18.66 |
| | Class B | 31 | 1,364,865 | 149,388 | 10.9% | $14.72 |
| | Class C | 13 | 530,753 | 76,343 | 14.4% | $11.40 |
| | **Total** | **52** | **2,672,127** | **344,554** | **12.9%** | **$15.21** |