

SALT LAKE COUNTY

Office Market

The Salt Lake Metropolitan area recorded an unemployment rate of 2.4%, tying it for the lowest rate among metro areas with more than one million residents. Job growth has also been significant at 3.7%, outpacing the national average. Employment growth within the financial activities and professional and business services sectors was especially strong with respective rates of 7.1% and 5.4%. This trend is reflected in the remarkable level of office development currently underway.

Market Trends

Salt Lake City's office market finished out the year with considerable momentum. 111 Main finally reached completion during Q4, headlining nearly 1.2 million square-foot (MSF) of Class A office space that was delivered throughout 2016. Absorption reported its strongest quarter since Q3 2015 and pushed the annual total to more than 800,000 square feet (SF). As expected, however, the rush of new inventory did lead to an increase in overall vacancy, primarily within the Central Business District (CBD) and Southeast submarket where nearly 90% of the new construction occurred.

Utah...named *CNBC's* "Top State for Business in 2016."

Market Indicators

	Current	Change Since	
		Q4 15	Q2 16
Direct Office Vacancy	10.0%	▼	▲
Sublease Vacancy	2.2%	▲	▲
Average Asking Lease Rate (PSF)	\$23.34	▲	▲
Completed For Lease Construction (SF)	1,185,328	▲	▲

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

Asking rates continued to climb and have risen 4.3% market-wide compared to Q4 2015. The Central West submarket, which has seen its Class A inventory double during the past 18 months, led all submarkets in rental increases with a 14.3% jump year-over-year. The CBD followed with a 5.4% escalation in asking rent, due both to the completion of 111 Main and to a renewed demand for Class B office space near downtown.

New Construction

Roughly 1.2 MSF of construction reached completion during 2016, marking the first time since 2008 that the market surpassed 1 MSF. Despite significant projects moving from under development to occupancy, the pipeline for under construction projects has actually grown 13% year-over-year to 1.8 MSF. The trend of new spec development continuously replacing completed spec buildings demonstrates a strong and stable demand within the market. In fact, the overall inventory has grown by 4 MSF, or 13%, over the past five years alone while vacancy dropped more than 2.0 PPS.

Office Market Overview - 2016

CBD***	Direct Office Space*				
	Total SF	Vacant SF	Absorption SF	Vacancy	Rents PSF**
Class A	4,099,891	414,323	312,734	10.1%	\$31.93
Class B	2,924,124	227,345	173,092	7.8%	\$23.71
Class C	948,012	289,000	(67,517)	30.5%	\$17.71
Overall	7,972,027	930,668	418,309	11.7%	\$27.22
Periphery					
Class A	1,175,993	100,511	(47,601)	8.5%	\$26.08
Class B	1,544,600	193,629	20,493	12.5%	\$21.47
Class C	686,088	43,219	38,409	6.3%	\$16.64
Overall	3,406,681	337,359	11,301	9.9%	\$22.09
Suburban					
Class A	9,378,608	821,988	513,217	8.8%	\$27.20
Class B	9,380,252	590,247	(13,921)	6.3%	\$21.10
Class C	5,144,157	861,737	(118,261)	16.8%	\$15.20
Overall	23,903,017	2,273,972	381,035	9.5%	\$22.22
Total Market	35,281,725	3,541,999	810,645	10.0%	\$23.34

Sublease	
Available SF	Vacancy
45,490	1.1%
79,757	2.7%
34,945	3.7%
160,192	2.0%
66,736	5.7%
20,872	1.4%
0	0.0%
87,608	2.6%
218,716	2.3%
267,320	2.8%
46,085	0.9%
532,121	2.2%
779,921	2.2%

* Sublease space is not included in these figures. ** Weighted full service asking lease rates. *** Central Business District - Salt Lake City, Utah.

2016 Year-End Market Review

Salt Lake's Suburban submarkets continue to perform well with average asking rates rising 3.9% year-over-year and positive absorption of 381,000 SF. In particular, the Southeast submarket reported 391,000 SF of absorption in Class A properties, largely due to 620,000 SF of added inventory.

The CBD, which encompasses less than one quarter of Salt Lake's office market, drove more than 50% of the absorption during 2016. Though the majority of this activity is attributable to the completion of 111 Main, Class B office space also played a significant role, contributing more than 173,000 SF of absorbed space. CBD's proximity to an ever-growing list of amenities, as well as public transit, cannot be overstated given the changing workforce.

Another trend during 2016 has been the increase in sublease availability. While the direct vacancy rate of 10.0% has remained unchanged year-over-year, available sublease space jumped 320,000 SF - or roughly 70% - since Q4 2015.

Finally, Utah County North remains an epicenter of commercial development. During 2016 alone, more than 680,000 SF of new office product delivered; almost perfectly matching the 680,000 SF of positive absorption experienced within the submarket. Meanwhile, asking lease rates rose by 5.2% year-over-year and the overall vacancy rate settled at 12.9%.

Market Forecast

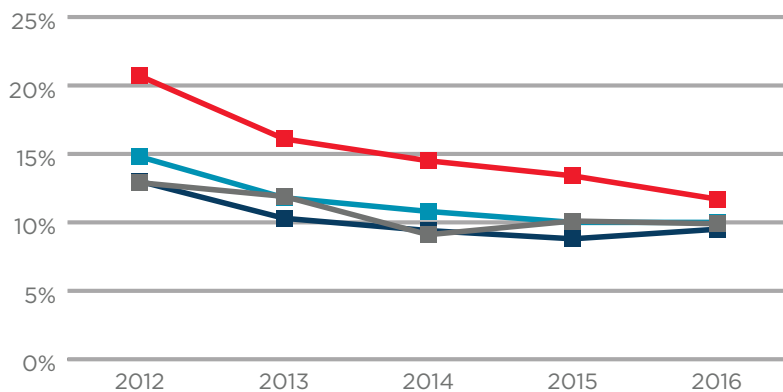
- Average asking rents will continue to rise throughout 2017
- Vacancy is anticipated to decrease within the CBD as tenants occupy pre-leased space at 111 Main
- Suburban markets may see an uptick in vacancy as more than 1.0 MSF is scheduled to deliver in 2017
- Available sublease space will remain near its current level as new construction continues

Suburban Office Market* - By Quadrant							
	Northeast	Northwest	Central East	Central West	Southeast	Southwest	Totals
Direct Vacancy	10.8%	10.8%	8.4%	22.2%	9.0%	0.4%	9.5%
Overall Vacancy	11.7%	12.0%	10.2%	24.4%	13.4%	2.5%	11.7%
Absorption PSF	(82,258)	(14,003)	78,662	31,343	335,155	37,598	381,035
Rents PSF**							
Class A	\$27.69	\$21.42	\$33.81	\$25.52	\$25.69	\$25.53	\$27.20
Class B	\$21.53	\$18.82	\$21.46	\$20.07	\$21.99	\$19.92	\$21.10
Class C	\$15.29	\$15.32	\$14.73	\$15.03	\$16.45	NA	\$15.20
Overall	\$21.84	\$18.11	\$23.27	\$21.82	\$23.42	\$24.99	\$22.22

* Sublease space is not included in these figures. ** Weighted full service asking lease rates.

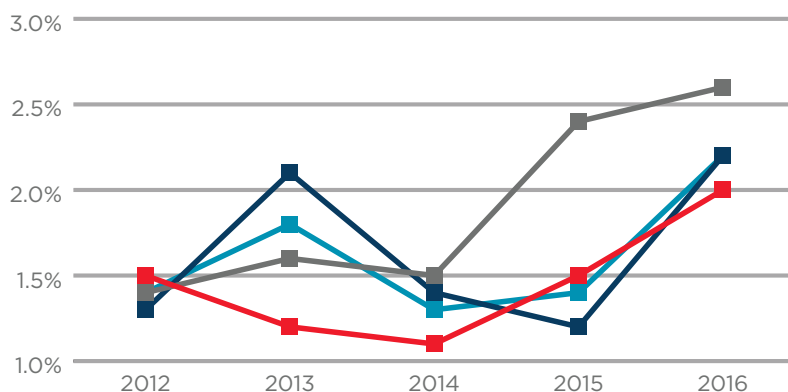
Office Vacancy* by Submarket - Five Year History					
	2012	2013	2014	2015	2016
Central Business District (CBD)	20.7%	16.1%	14.5%	13.4%	11.7%
Periphery	12.9%	11.9%	9.1%	10.1%	9.9%
Suburban	13.0%	10.3%	9.4%	8.8%	9.5%
Overall	14.8%	11.8%	10.8%	10.0%	10.0%

* Sublease space is not included in these figures.



Office Sublease Vacancy by Submarket - Five Year History

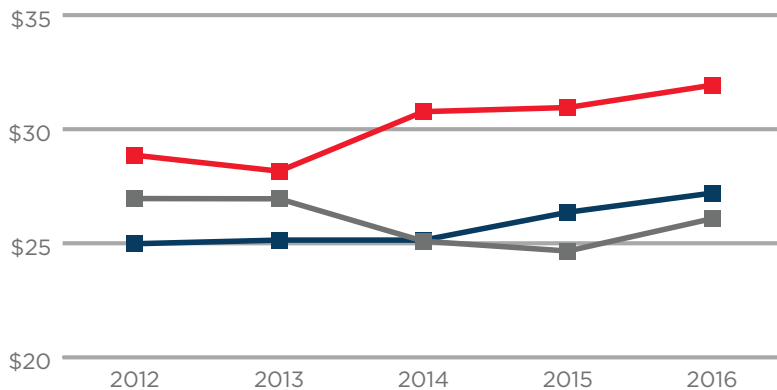
	2012	2013	2014	2015	2016
Central Business District (CBD)	1.5%	1.2%	1.1%	1.5%	2.0%
Periphery	1.4%	1.6%	1.5%	2.4%	2.6%
Suburban	1.3%	2.1%	1.4%	1.2%	2.2%
Overall	1.4%	1.8%	1.3%	1.4%	2.2%



Class A Office Lease Rates by Submarket** - Five Year History

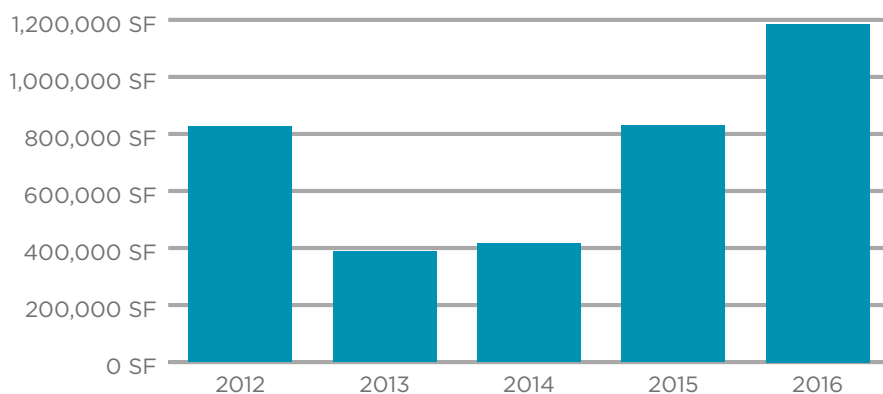
	2012	2013	2014	2015	2016
Central Business District (CBD)	\$28.86	\$28.16	\$30.77	\$30.95	\$31.93
Periphery	\$26.96	\$26.95	\$25.09	\$24.66	\$26.08
Suburban	\$24.98	\$25.14	\$25.14	\$26.36	\$27.20

** Weighted full service asking lease rates.



Office Market Construction - Five Year History

	2012	2013	2014	2015	2016
Square Feet Constructed	827,468	388,815	416,000	830,813	1,185,328



111 Main

finally reached completion during Q4, headlining more than 1.1 million square feet (MSF) of Class A office space that was delivered throughout 2016.