SALT LAKE COUNTY

Retail Market

Nationally, economic indicators were up across the board. GDP growth hit 3.5% during 2016, which was its highest mark in two years. In addition, consumer spending reached an all-time high while continuing to grow at a healthy rate of 2.9%. Retail sales have been promising as well, finishing the year with a growth rate of 4.0%.

Locally, Salt Lake County's retail trade industry added just under 1,000 jobs during 2016 and encompasses the second largest workforce after healthcare. Overall, Utah's population remains among the fastest growing in the U.S.

Market Indicators

		Change Since	
	Current	Q4 15	Q2 16
Retail Vacancy	5.4%	▼	▼
Average Asking Lease Rate (PSF)	$20.86	▲	▲
Completed Construction (SF)	423,776	▲	▲

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

New construction surpassed

400,000 SF

year-to-date, a 22% increase over 2015.

Market Trends

Salt Lake's retail vacancy rate dropped 40 basis points year-over-year, settling at 5.4%. Meanwhile, the average asking rate continued to climb, reaching $20.86 per square foot (PSF), NNN. Additionally, the market experienced positive absorption of just over 220,000 square feet (SF) during 2016.

Newly completed retail space continued to command a significant premium in rent over second-generation space. That premium ranges from 37% to 75% among non-mall property types with Anchorless Strip Centers experiencing the largest difference. This is indicative of consumer preference for newer retail developments over existing space. Though this gap occurs in all space types, larger second-generation retail centers generally have an advantage over smaller centers as they offer a greater variety of centrally-located retail options as well as anchor tenants - often grocers - that attract customers on a consistent basis. Vacancy rates reinforced this point with larger centers experiencing more stability and lower overall vacancy rates than their smaller counterparts.

On the development front, construction deliveries jumped more than 20% year-over-year, exceeding 400,000 SF in total. Growth within the Southwest and Central West submarkets led the way, comprising more than 80% of completed construction. Currently, the record level of ongoing construction projects throughout the Wasatch Front is outpacing supply, leaving several sizable retail projects temporarily on hold. Once the market adjusts, retail construction is expected to see a notable increase..

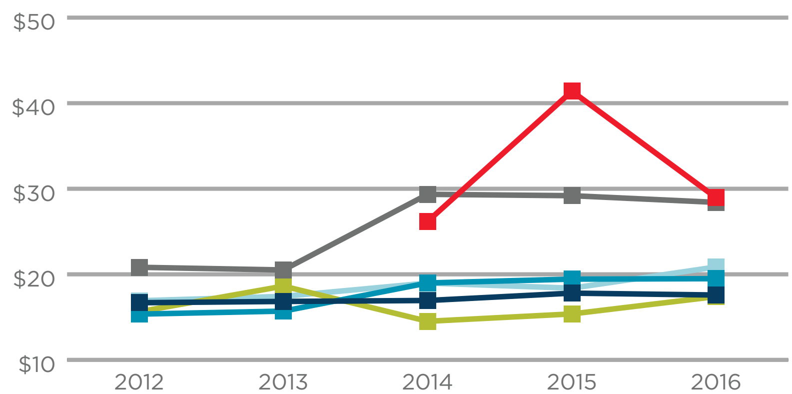
Retail Market Overview – 2016

Retail Sector	Market SF	Vacant SF	Vacancy	New Construction SF	Absorption SF
Northeast	5,679,828	400,085	7.0%	15,917	(41,534)
Central East	6,266,157	419,258	6.7%	-	101,188
Southeast	9,936,792	303,244	3.1%	55,700	7,223
Northwest	892,089	4,258	0.5%	-	6,765
Central West	770,617	61,014	9.9%	140,367	122,930
Southwest	9,580,958	257,599	2.7%	211,792	33,187
Total by Sector	**33,126,441**	**296,953**	**5.4%**	**423,776**	**229,759**
Retail Type					
Regional Mall	3,978,316	289,063	7.3%	6,000	12,426
Regional Center	6,969,112	280,548	4.0%	-	75,763
Community Center	16,401,633	804,157	4.9%	264,744	60,028
Neighborhood Center	8,041,053	429,801	5.3%	55,261	43,811
Anchorless Center	4,780,815	351,492	7.4%	97,771	37,731
Total by Type	**40,170,929**	**2,155,061**	**5.4%**	**423,776**	**229,759**

Refers only to shopping center or multi-tenant developments over 10,000 square feet.
Absorption includes regional malls.

Retail Lease Rates by Type – Five Year History

	2012	2013	2014	2015	2016
Regional Mall	-	-	$26.19	$41.40	$28.95
Regional Center	$20.82	$20.51	$29.35	$29.19	$28.41
Community Center	$16.68	$16.83	$16.94	$17.80	$17.58
Neighborhood Center	$15.35	$15.70	$18.99	$19.44	$19.49
Anchorless Center	$15.63	$18.62	$14.51	$15.37	$17.40
Total by Type	$16.91	$17.42	$18.98	$18.38	$20.86



Retail Market Lease Rates

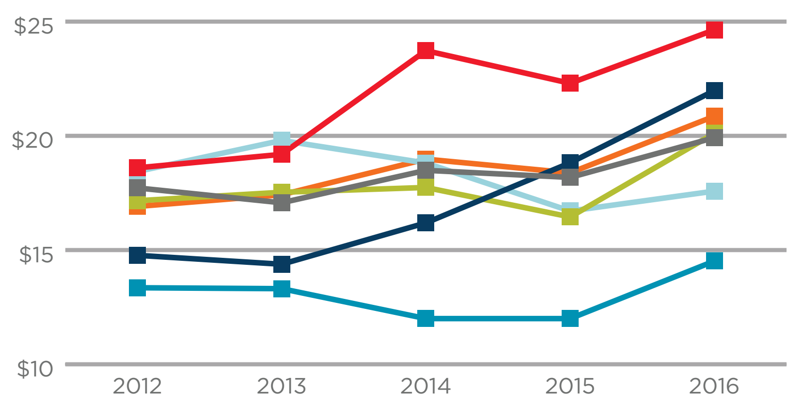
Retail Sector	Lease Rates
Northeast	$24.64
Central East	$19.92
Southeast	$21.98
Northwest	$14.52
Central West	$20.11
Southwest	$17.58
Total by Sector	**$20.86**
Retail Type	
Regional Mall	$28.95
Regional Center	$28.41
Community Center	$17.58
Neighborhood Center	$19.49
Anchorless Center	$17.40
Total by Type	**$20.86**

Due to the challenge of tracking actual signed lease rates with any comparative value, Commerce tracks and reports rates based on a weighted average of the "high asking rate."

Retail Lease Rates by Submarket – Five Year History

	2012	2013	2014	2015	2016
Northeast	$18.60	$19.19	$23.73	$22.30	$24.64
Central East	$17.72	$17.07	$18.49	$18.18	$19.92
Southeast	$14.77	$14.38	$16.19	$18.82	$21.98
Northwest	$13.35	$13.31	$12.00	$12.00	$14.52
Central West	$17.16	$17.53	$17.74	$16.45	$20.11
Southwest	$18.44	$19.80	$18.81	$16.71*	$17.58
Total by Submarket	$16.91	$17.42	$18.98	$18.38	$20.86

** Actual achieved [weighted average] rate based on recent comparables shows $19.59 per square foot. Drop in asking rate as shown likely reflects remaining vacant space being lower quality.*

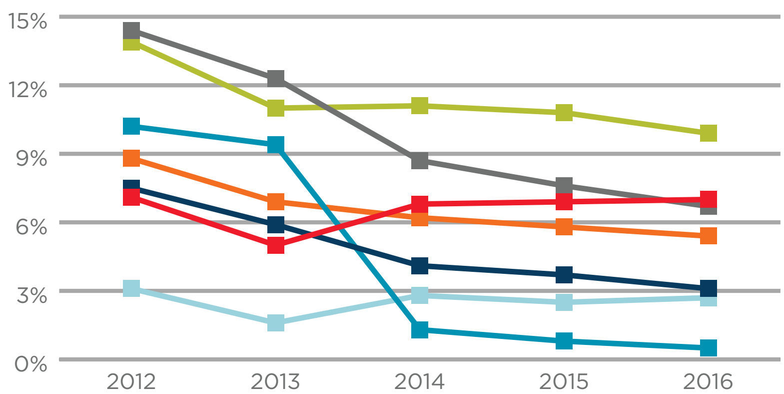


The Central East and Central West submarkets drove more than 220,000 SF of the nearly 230,000 SF of positive absorption experienced throughout 2016. The completion of Topgolf in Midvale and several sizable leases, including Burlington Coat Factory occupying more than 50,000 SF in West Valley City, were major drivers of that activity. On the other hand, Northeast was the only submarket to experience negative net absorption; a fact owed largely to the closure of Toys-R-Us in Sugarhouse. Moving into 2017, the Northeast will continue to report negative absorption with the announced closures of Dick's Sporting Goods at The Gateway as well as Shopko in Sugarhouse.

Along those lines, the closures of several mid-box to big-box chains, such as The Sports Authority, Shopko, Kmart and Sears, have had a significant impact on the local market. These tenants alone vacated more than 150,000 SF during 2016 with additional closures already announced for 2017. Not since this cycle's recovery began have so many box spaces been made available to the market. Although it will dampen absorption activity in the near-term, the increase in available box space not only presents an opportunity, but a litmus test for the market; what retailers and developers decide to do with these spaces will reflect the changing landscape of local commercial development.

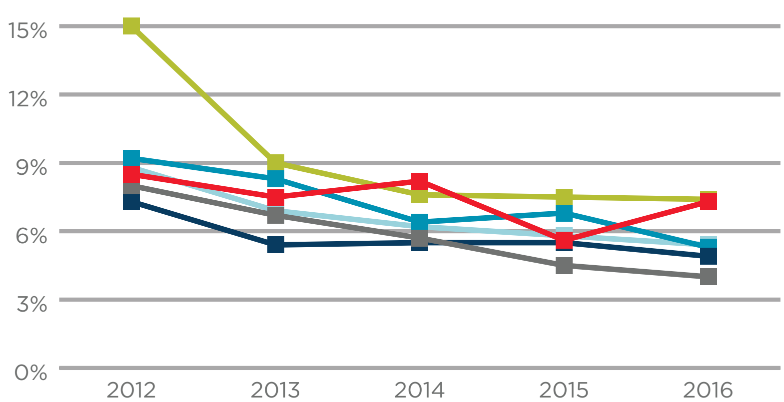
Retail Market Vacancy by Submarket – Five Year History

	2012	2013	2014	2015	2016
Northeast	7.1%	5.0%	6.8%	6.9%	7.0%
Central East	14.4%	12.3%	8.7%	7.6%	6.7%
Southeast	7.5%	5.9%	4.1%	3.7%	3.1%
Northwest	10.2%	9.4%	1.3%	0.8%	0.5%
Central West	13.9%	11.0%	11.1%	10.8%	9.9%
Southwest	3.1%	1.6%	2.8%	2.5%	2.7%
Total by Submarket	8.8%	6.9%	6.2%	5.8%	5.4%



Retail Market Vacancy by Type – Five Year History

	2012	2013	2014	2015	2016
Regional Mall	8.5%	7.5%	8.2%	5.6%	7.3%
Regional Center	8.0%	6.7%	5.7%	4.5%	4.0%
Community Center	7.3%	5.4%	5.5%	5.5%	4.9%
Neighborhood Center	9.2%	8.3%	6.4%	6.8%	5.3%
Anchorless Center	15.0%	9.0%	7.6%	7.5%	7.4%
Total by Type	8.9%	6.9%	6.2%	5.8%	5.4%



Market Forecast

- Local job growth and residential construction will remain among the highest in the nation
- Leasing activity is expected to be strong in 2017 though national closures may hinder absorption
- Grocery anchored centers remain the “gold standard” and will continue to drive future development
- According to the University of Utah, more than 49,000 Utahans will turn 20 years old every year for the next 12 years