

MARKETBEAT

Salt Lake City

Office Q1 2017



SALT LAKE CITY OFFICE

Economic Indicators

	Q1 16	Q1 17	12-Month Forecast
Salt Lake Employment	687k	713k	▲
Salt Lake Unemployment	3.1%	2.9%	■
U.S. Unemployment	4.9%	4.8%	■

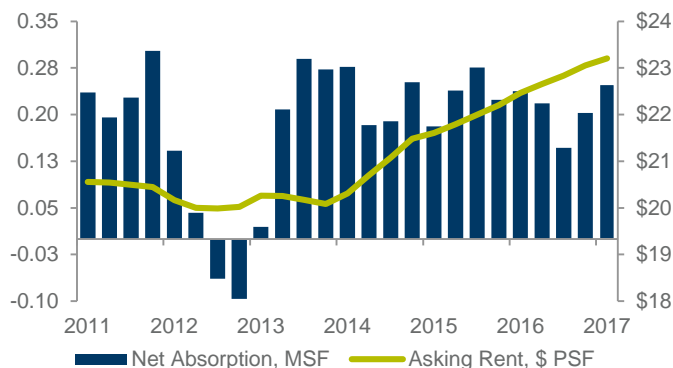
Market Indicators (Overall, All Classes)

	Q1 16	Q1 17	12-Month Forecast
Vacancy	11.8%	12.7%	■
Net Absorption (sf)	51k	237k	▲
Under Construction (sf)	1.6M	1.5M	■
Average Asking Rent*	\$22.85	\$23.46	▲

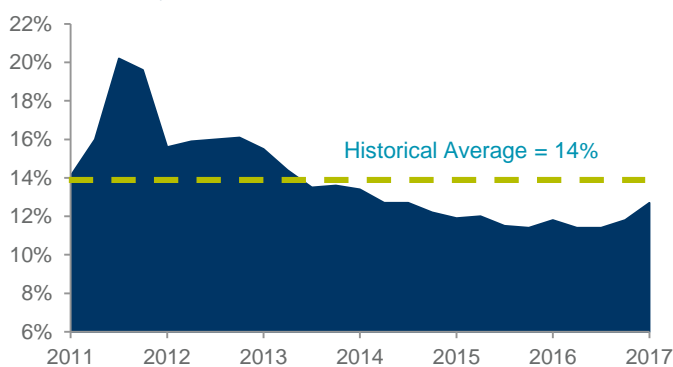
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

Salt Lake City's unemployment rate continued to fall, settling well below the national average to 2.9%. Job growth remained strong as roughly 26,000 jobs were added within the Salt Lake metropolitan area alone. Specifically, the growth rate within the professional and business services sector was 4.1% year-over-year, or one full percentage point above the overall job growth rate. Lastly, consumer confidence in Utah reached over 123 points during March, a new all-time high for the state.

Market Overview

Q1 activity was promising with net absorption reaching 237,000 square feet (SF) – more than four times the absorption activity recorded during Q1 2016. Asking rates continued to rise steadily as well, reaching \$23.46 PSF FS. In contrast, overall vacancy jumped from 11.8% to 12.7% year-over-year, a substantial increase that fails to fully reflect the strength of Salt Lake's office market.

Regarding the jump in vacancy, it is important to note that nearly 270,000 SF of vacant space was added to the market during Q1 2017; however, no portion of that space was reflected as negative absorption. In one instance, a downtown office building that had previously been classified as owner-user sold to an investor during Q1 and recently reached the leasing market at half-occupancy, which added around 185,000 SF of available space to the Central Business District. In addition, more than 84,000 SF of previous retail space at The Gateway is being redeveloped into creative office space, demonstrating confidence in the market.

On the construction front, two Class A office properties reached completion during Q1: Sandy Commerce Park at 9500 South and Vista Station 8 in Draper. These completions leave just under 1.5 million square feet (MSF) of ongoing office construction, 1.1 MSF of which is scheduled to finish during 2017.

Outlook

Salt Lake's office market remains in healthy condition though demand and activity have been easing from recent, near-historic highs. Asking rates are likely to rise gradually throughout the year though the rate of increase has already tapered slightly. Absorption is outperforming 2016 to-date with sizeable activity set to occur early next quarter when CHG occupies their new 281,000 SF building in Midvale. Their move, however, will leave a large vacancy in the Central East submarket. Annual construction completions are scheduled to reach their highest total since 2007, yet overall pre-leasing – which is currently around 40% – has been lower than anticipated. It is expected that overall vacancy will remain near its current level with the potential for temporary bumps due to partially vacant construction deliveries.

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SUBMARKET	TOTAL BLDGS	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*	OVERALL AVERAGE ASKING RENT (CLASS A)*
CBD	57	8,370,215	154,357	1,128,315	15.3%	(28,226)	0	\$27.17	\$31.93
Periphery	46	3,431,720	100,846	443,342	15.9%	(22,273)	0	\$22.33	\$26.31
Northeast	55	3,242,772	30,062	270,166	9.3%	28,175	0	\$22.10	\$28.16
Northwest	68	4,414,183	11,149	507,751	11.8%	(4,131)	0	\$18.38	\$21.42
Central East	133	7,498,793	171,901	667,695	11.2%	(41,934)	318,484	\$23.01	\$32.23
Central West	23	1,301,150	29,284	193,244	14.9%	95,294	281,663	\$21.28	\$24.28
Southeast	93	5,929,949	318,508	500,057	13.8%	204,119	844,917	\$23.80	\$26.06
Southwest	18	1,654,990	11,487	24,189	2.2%	6,316	0	\$24.99	\$25.53
SALT LAKE CITY TOTALS	493	35,843,772	827,594	3,734,759	12.7%	237,340	1,455,064	\$23.46	\$28.27
Utah County North**	116	5,628,450	208,863	543,963	13.4%	110,533	346,890	\$23.36	\$25.47

*Rental rates reflect gross asking \$psf/year

**Utah County North is not included in total stats by submarket or by class

CLASS	TOTAL BLDGS	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	1Q 2016 AVERAGE ASKING RENT*	1Q 2017 AVERAGE ASKING RENT*
Class A	100	14,656,624	426,672	1,114,473	10.5%	364,391	1,420,570	\$28.00	\$28.27
Class B	226	14,676,261	330,378	1,525,075	12.6%	(124,473)	42,494	\$21.39	\$22.06
Class C	167	6,510,887	70,544	1,095,211	17.9%	(2,578)	0	\$15.60	\$15.57

Key Lease Transactions Q1 2017

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
250 East 200 South	154,813	CenturyLink	Lease	CBD
One Utah Center	69,110	Stoel Rives, LLP	Renewal	CBD
Sorenson 7	29,284	ICOT Hearing Systems	Sublease	Central West
Minuteman Office Park 4	22,646	Dealer Socket, Inc.	Sublease	Southeast

Key Sales Transactions Q1 2017

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
250 East 200 South	365,139	CenturyLink/Unico	Confidential	CBD
205 East 200 South	305,786	CenturyLink/Unico	Confidential	CBD

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