MARKETBEAT

Medical Office Q4 2018

Salt Lake City

SALT LAKE CITY MEDICAL OFFICE

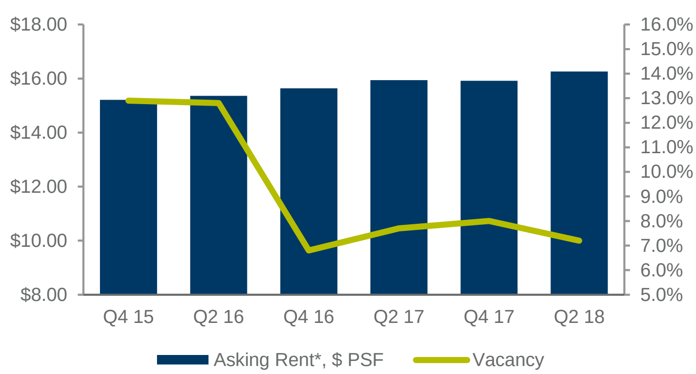
Economic Indicators

	Q4 17	Q4 18	12-Month Forecast
Salt Lake Employment	728k	739k	▲
Salt Lake Unemployment	3.1%	3.1%	▬
U.S. Unemployment	4.1%	3.7%	▼

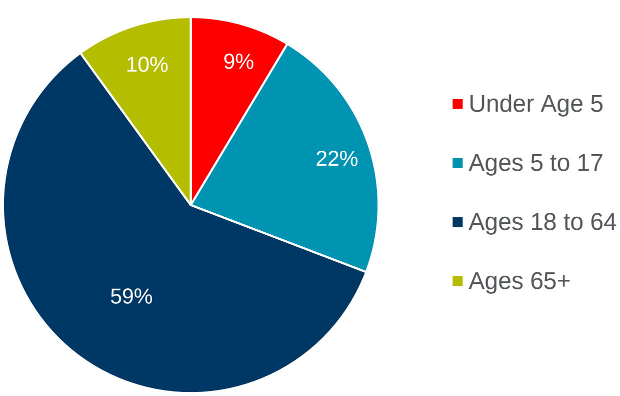
Market Indicators (All Classes, Overall)

	Q4 17	Q4 18	12-Month Forecast
Overall Vacancy	8.0%	7.9%	▲
Net Absorption	(8k)	(18k)	▲
Average Asking Rent*	$15.92	$16.20	▲

Vacancy/Asking Rent*



Utah Population Breakdown



Economy

Salt Lake City continues to display strong economic stability through 2018. The city has established itself as a prime target for companies looking to expand or take advantage of its young and educated workforce. 23.7% of Salt Lake City's population is between the ages of 20-34, compared to the national average of 20.8%. Likewise, 43.0% of Salt Lake City's population has a college degree. The national average is 40.2%.

Unemployment has remained consistently low throughout 2018, and ended the quarter at 3.1%, compared to the national rate of 3.7%. Total non-farm employment within Salt Lake County is 739,400 – up 2.3% from last year. This employment growth in Utah's labor market continues to be one of the strongest nationwide.

Market Overview

Salt Lake City's medical office market has remained healthy, with vacancy and absorption staying consistent from last year. At 7.9%, medical office vacancy remains below office vacancy, which is at 12.4% for Q4. With vacancy being low, we see a rise in asking rents due to tenants not having as many prospective lease options.

Lease rates continued to climb slowly throughout 2018, reaching an overall market average of $16.20 NNN, up from $15.92 NNN at year end 2017. As medical facilities continue to convert to newer, higher quality product, lease rates are steadily climbing, in both on-campus and off-campus product.

Large, single occupier facilities continue to drive development throughout the greater Salt Lake City market. These new developments include the University of Utah's 163,000 sf ambulatory care center (ACC) in Sugar House. This facility not only boasts primary and urgent care, but other specialty services and equipment. The '80 Park' project is scheduled to be completed in late-2019. Another significant project coming online by late 2019 or early 2020 is the 90,000 sf multi-specialty Granger Medical Clinic at Fairbourne Station in West Valley City.

The expansion and renovation of existing facilities continues to pace forward. Dubbed the 'Transformation Project', the University of Utah's new $50 million Rehabilitation Hospital and the renovation of the existing on-campus Medical School shows the confidence that healthcare providers have in Utah's thriving medical industry.

The trend of micro-hospitals is evolving throughout the U.S., with an estimated 60 properties across the country (none in Utah), the majority being new builds sited on strategically located parcels. This number is expected to see significant growth, particularly in states were a certification of need is not required.

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Micro-hospitals, also referred to as neighborhood hospitals, populate urban and suburban markets and will serve patients who require short-term stays (generally no more than two days). Micro-hospitals are viewed as traditional, acute-care hospitals that will meet the accreditation requirements of such hospitals. They help anchor additional healthcare services in the communities where they are located.

Both locally and nationally, strong demand for medical office product is anticipated to continue for the foreseeable future. Interest in medical office product remains strong, particularly in investment grade medical office buildings.

Outlook

- The Utah medical office market continues to offer stability and solid tenancy for investors.
- Lease Rates and Occupancy are anticipated to remain strong for the foreseeable future.
- Pent-up demand for investment grade medical buildings in the Utah market remains.

`		NUMBER OF BUILDINGS	EXISTING (SF)	VACANT (SF)	VACANCY RATE	AVERAGE ASKING RENT * (ALL CLASSES)
ON CAMPUS	Class A	6	567,591	38,259	6.7%	$22.68
	Class B	8	441,054	48,096	10.9%	$17.03
	Class C	4	198,876	12,971	6.5%	$17.56
SUBTOTAL		18	1,207,521	99,326	8.2%	$18.26
OFF CAMPUS	Class A	2	126,319	0	0.0%	$17.80
	Class B	23	909,417	78,851	8.7%	$15.56
	Class C	8	301,520	18,265	6.1%	$7.52
SUBTOTAL		33	1,337, 256	97,116	7.3%	$14.05
SALT LAKE TOTAL	Class A	8	693,910	28,149	4.1%	$20.54
	Class B	31	1,350,471	111,448	8.3%	$15.88
	Class C	12	500,396	42,706	8.5%	$12.86
TOTAL		51	2,544,777	196,442	7.7%	$16.18

*All rates given as a triple net rate.

*Removing a low rental rate, Class C building, from the study has resulted in an up-tick in lease rates for Class C product.

Statistical Methodology:

Cushman & Wakefield tracks all properties in the market; however, only buildings meeting the following criteria are included in this report:

- Greater than 20,000 square feet
- Tenancy of greater than 50% committed to medical office use (this does not include medical administrative offices)
- Third party owned buildings

About Cushman & Wakefield

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