

## MARKETBEAT

# Salt Lake City

Office Q3 2019



### SALT LAKE CITY OFFICE

#### Economic Indicators

	Q3 18	Q3 19	12-Month Forecast
Salt Lake City Employment	737.9K	751.4K	▲
Salt Lake City Unemployment	3.1%	2.8%	▲
U.S. Unemployment	3.8%	3.7%	▲

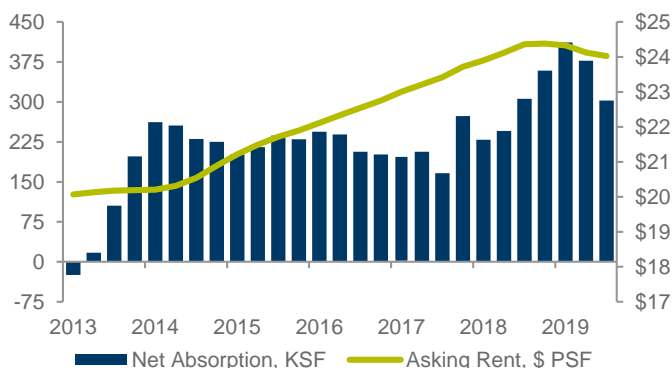
#### Market Indicators (Overall, All Classes)

	Q3 18	Q3 19	12-Month Forecast
Vacancy	13.5%	11.2%	▲
YTD Net Absorption (sf)	487K	216K	▲
Under Construction (sf)	1.1M	2.8M	▼
Average Asking Rent*	\$24.66	\$24.24	■

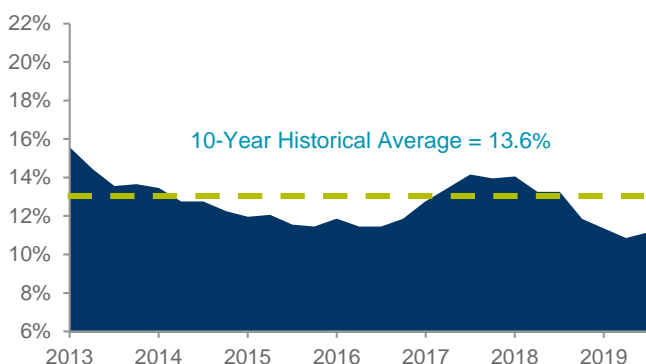
\*Rental rates reflect full service gross asking \$psf/year \*\*Tables do not reflect nationally reported numbers

#### Overall Net Absorption/Overall Asking Rent

##### 4-QTR TRAILING AVERAGE



#### Overall Vacancy



### Economy

The Salt Lake City economy continued to outperform the national economy across multiple key economic indicators through Q3 2019. The Salt Lake City unemployment rate remained one of the lowest in the country at 2.8%, 90 basis points (bps) below the national average of 3.7%. Job growth also remained steady as Salt Lake City added 13,500 new jobs since Q3 2018, a growth rate of 1.8% and 45 bps above the national job growth rate of 1.3%. Salt Lake City's Gross Regional Product (GRP) grew on par with the national GDP at 2.2%, with the state of Utah recording total GRP growth of 4.2%, ranked 4<sup>th</sup> best in the country. Low unemployment combined with positive job and GRP growth, spur an economy that is primed for continued economic prosperity into 2020.

### Market Overview

Over the past 2 years, the Salt Lake City office market has reported record absorption numbers, closing out both 2017 and 2018 with over 1 million square feet (msf) of annual net absorption, a mark that has only been achieved three times in the history of the market. Following these 2 years of extraordinary expansion, the Salt Lake City office market saw a slight slowdown in Q3 2019, reporting quarterly net absorption of -108,500 square feet (sf), dropping our year-to-date total net absorption to 215,900 sf, down 56% year-over-year.

One trend negatively impacting Salt Lake City's office absorption is the increase in sublease vacancy throughout the valley. Sublease vacancy in the market closed out Q3 2019 at 1.87%, up 40 bps from Q3 2018. This movement is due in part to the increase in CoWorking space available in the market. CoWorking companies, such as WeWork, offer amenity rich, modern work spaces with extremely flexible lease terms that are attractive to growing companies that are not yet ready to commit to a long-term lease. As a result, tenants that are looking for short-term space options are preferring CoWorking space over traditional sublease space. Consequently, traditional sublessors are having to become more flexible, offering increased concessions and tenant improvements to backfill their sublease vacancies and compete in the market.

Another trend that is directly affecting Salt Lake City's absorption numbers is the slowdown in construction deliveries for 2019 compared to previous years. Salt Lake City delivered just 76,667 sf of new construction in Q3 2019, bringing total year-to-date deliveries to only 170,239 sf, down about 57% from the combined first three quarters in 2018. Over the past 24 months, the Salt Lake Valley has seen over 2.1 msf delivered, with 1.4 msf in 2017 at 63% preleased and 756,000 sf in 2018 at 74% preleased. Although 2019 has been a slow year for construction deliveries, there is currently 2.7 msf of new projects under construction throughout the valley, with 2.3 msf slated to be delivered in 2020. Of that 2.3 msf anticipated to be delivered next year, 47% is preleased. If all properties are delivered on-time, 2020 would be a record year for Salt Lake City in terms of construction deliveries.

### Outlook

- Average Asking Rates will remain flat through the end of the year.
- Direct vacancy will increase as new spec construction is delivered to the market in 2020.
- Landlords of aging class A and B assets will have to drop rates or invest capital in order to compete with newly delivered class A and B assets in 2020.

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SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	DIRECT AVERAGE ASKING RENT (ALL CLASSES)*	DIRECT AVERAGE ASKING RENT (CLASS A)*
<b>CBD</b>	<b>8,439,412</b>	<b>74,121</b>	<b>1,100,924</b>	<b>13.92%</b>	<b>11,359</b>	<b>74,772</b>	<b>497,658</b>	<b>\$27.24</b>	<b>\$32.25</b>
Periphery	3,285,602	42,460	364,056	12.37%	10,060	104,122	530,000	\$23.00	\$29.18
North East	3,201,444	6,026	124,699	4.08%	-7,438	15,493	274,841	\$19.29	\$31.89
North West	4,154,051	37,911	347,680	9.28%	0	-38,971	0	\$18.82	\$23.50
Central East	8,190,022	128,398	950,929	13.18%	-32,522	129,417	0	\$23.77	\$31.92
Central West	1,548,838	71,906	68,528	9.07%	2,043	-24,107	235,274	\$17.65	N/A
South East	7,236,837	176,628	441,627	8.54%	-92,043	3,166	979,337	\$24.81	\$26.98
South West	1,748,562	172,954	129,240	17.28%	0	-47,991	281,000	\$26.54	\$27.00
<b>SALT LAKE CITY TOTALS</b>	<b>37,804,768</b>	<b>710,404</b>	<b>3,527,683</b>	<b>11.21%</b>	<b>-108,541</b>	<b>215,901</b>	<b>2,798,110</b>	<b>\$24.24</b>	<b>\$30.68</b>

	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	DIRECT AVERAGE ASKING RENT*
Class A	14,384,258	460,685	993,296	10.11%	-127,333	-36,477	2,633,596	\$30.68
Class B	17,163,755	228,790	1,742,093	11.48%	47,907	136,192	164,514	\$23.70
Class C	6,256,755	20,929	792,294	13.00%	-29,115	116,186	0	\$17.35

\*Rental rates reflect full service gross asking \$psf/year \*\*YTD Leasing Activity solely based on internal deals and comps received. \*\*\*Tables do not reflect nationally reported numbers

## Key Lease Transactions Q3 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
136 Center I	27,936	NAV	New	South East
Riverpark III	35,265	Pluralsight, LLC	New	South West
Center 53	19,803	The Code Company	New	Central East
9020 S Sandy Pky	18,000	Raytheon Company	New	South East
View 72	16,847	Savage Services Corp	Sublease	Central West

## Key Sales Transactions Q3 2019

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
Union Heights	141,000	WCF Union Heights, LLC / Raddon Brothers Construction	Confidential	South East
Brickyard Tower	92,964	Brickyard Partners, LLC / Sandlot Holdings, LLC	\$148.00	North East
SBR Building	25,524	Shupe Investments / Millcreek City	\$156.72	North East
Cottonwood Medical Plaza	22,107	Cottonwood Medical Plaza, LC / 201 E Medical Plaza, LLC	Confidential	Central East

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