

# Salt Lake City

Office Q1 2021

	YoY Chg	12-Mo. Forecast
<b>16.6%</b> Vacancy Rate	▲	▼
<b>-206K</b> Net Absorption, SF	▼	▲
<b>\$24.12</b> Asking Rent, PSF	▲	▲

(Overall, All Property Classes)

## ECONOMIC INDICATORS Q1 2021

	YoY Chg	12-Mo. Forecast
<b>753.1K</b> Salt Lake City Employment	▼	▲
<b>3.2%</b> Salt Lake City Unemployment Rate	▲	▼
<b>6.0%</b> U.S. Unemployment Rate	▲	▼

Source: BLS, Moody's Analytics

## ECONOMIC OVERVIEW

The Salt Lake City employment market has been affected by COVID-19 stay-at-home orders, resulting in loss of 7,300 jobs or -1.0% year-over-year (YOY) through February 2021. The leisure and hospitality sector lost, 8,100 (-12.3% YOY) yet has been adding jobs back for nine consecutive months. Professional and business services recorded gains of 1,200 jobs (+0.9% YOY). During the same time, the monthly unemployment rate increased from 2.7% last year to 3.6% and is currently 50 basis points (bps) below the 30-year monthly average of 4.1% yet 40 bps above the Q1 2021 quarterly average of 3.2%.<sup>1</sup> All employment sectors are expected to grow at a combined rate of 4.1% in 2021 and 5.1% in 2022, while office-using sector is forecasted to grow 1.0% in 2021 and 1.3% in 2022. Salt Lake City's economy of \$87.9 billion as measured by gross regional product is forecasted to grow 6.3% in 2021 and 7.1% in 2022, above its 10-year average of 2.8%.<sup>2</sup>

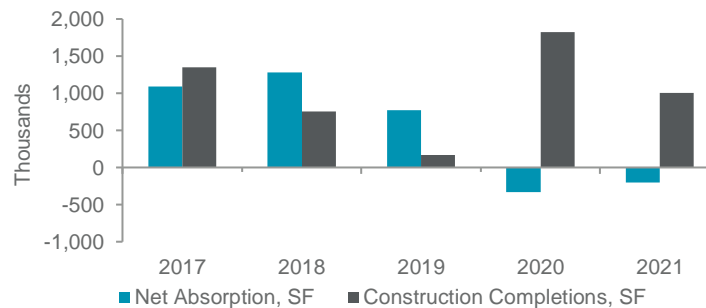
## SUPPLY AND DEMAND

The overall vacancy rate, including sublease, increased 190 bps quarter-over-quarter (QOQ) and 720 bps YOY to 16.6% during Q1 2021. Class A vacancy increased 830 bps from 7.3% to 15.6% YOY, while Class B vacancy increased 740 bps from 11.9% to 19.3%. Vacancies are on the rise as tenants look to shrink their physical footprints to mitigate costs and risk as well as to keep their employees safe and healthy during the pandemic. Tenants returned 206,002 square feet (sf) in Q1 2021, driven largely by 371,430 sf returned in Class B product. Tenants returned space to all submarkets except for the Utah County North and North East, recording 243,488 sf and 82,636 sf of gains, respectively. In both submarkets, the largest occupancy gains were recorded in new projects upon completion.

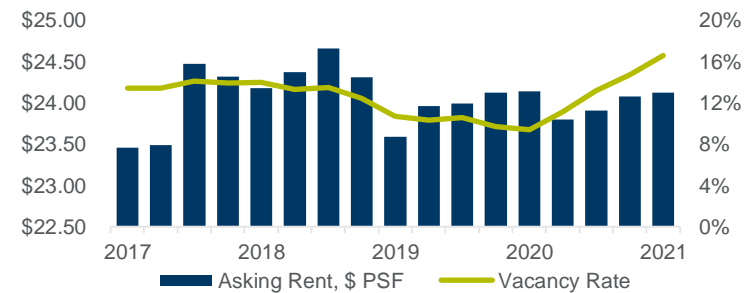
Leasing activity accelerated QOQ in Q1 2021 at 664,220 sf (57 deals), including renewals, compared to 516,211 sf (67 deals) in Q4 2020 yet was lower compared to 1.3 msf (135 deals) in Q1 2020. In Q1 2021, Class A leasing accounted for 520,532 sf leased (78%), followed by Class B at 123,979 sf (19%) and Class C at 19,709 sf (3.0%). Three submarkets combined accounted for 497,399 sf or 75% of total space leased in Q1 2021: Utah County North (34%), Central East (30%) and South East (11%).

Leasing by tech tenants continues to drive positive absorption. Salt Lake City has established itself as one of the top 10 tech markets in the U.S. with 8.3% of total employment concentrated in the technology sector compared to 5.3% nationwide. Among tech tenants relocating and expanding in the region are eBay, Weave, Overstock.com, Qualtrics, L3 Technologies and Adobe. Adobe's expansion into it's second Utah campus in Lehi, nearly doubling its local workforce, headlines the list of recent tech growth in the area. Since then, other firms have followed suit including Weave, who completed construction on their 180,000-sf building during the first quarter.

## SPACE DEMAND / DELIVERIES



## OVERALL VACANCY / ASKING RENT



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## PRICING

Despite an increase in vacancy over the last year, overall average asking rent for all classes have held firm during Q1 2021, increasing 0.2% QOQ, while dipping only 0.1% YOY. Average rent for Class A decreased 1.2% YOY as the vacancy rate has significantly increased for Class A product over the last four quarters. However, while landlords face increased exposure due to a softening market, tenant preference for well located, amenity-rich Class A product should drive rents upward as new product delivers and conditions stabilize.

## DELIVERIES AND FUTURE INVENTORY

Over 1.0 msf of new inventory across nine projects was delivered during Q1 2021, highlighted by several Class A projects in Utah County North submarket, with significant pre-leasing including the Lehi Block Building, located at 1331 W. Powell Way. The 180,000-sf building was fully occupied by Weave upon completion. Weave's move represents a nearly 140,000 expansion in the market, contributing significantly to Q1 2021 absorption. Utah Valley Tower, a five-story, 150,000-sf building located at 1050 S. 4850 W. was fully leased by Domo upon completion. Combined, newly completed projects accounted for 563,106 sf of occupancy gains.

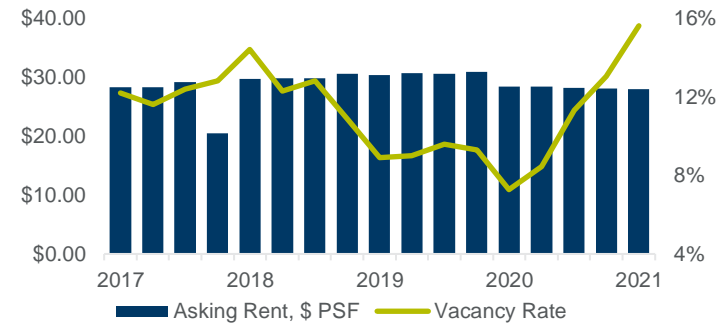
Salt Lake City's development pipeline remains active at 2.7 msf currently under construction across 16 projects, with 42% already pre-leased. Over 2.1 msf across 13 projects are expected to be delivered during 2021. The majority or 81% of inventory is speculative (SPEC) with the remaining 19% build-to-suit (BTS). The 95 State @ City Creek, a state-of-the-art 25-story tower and the largest SPEC project currently under construction, located in the CBD submarket is expected to be delivered during the Q3 2021. Along with 515,000 sf of office space, the highly amenitized trophy building is connected directly to City Creek Center through a renovated and expanded pedestrian tunnel. The Myriad Building VI, a 125,000-sf BTS building located at 330 Wakara Way in the North East submarket, is 100% leased by Myriad Genetics and set to deliver in Q2 2021. Upon completions, these transactions will translate into positive absorption.

Sources: <sup>1</sup>[www.bls.gov](http://www.bls.gov) <sup>2</sup> GDP as of 2020. Moody's Analytics economy.com 3/2021

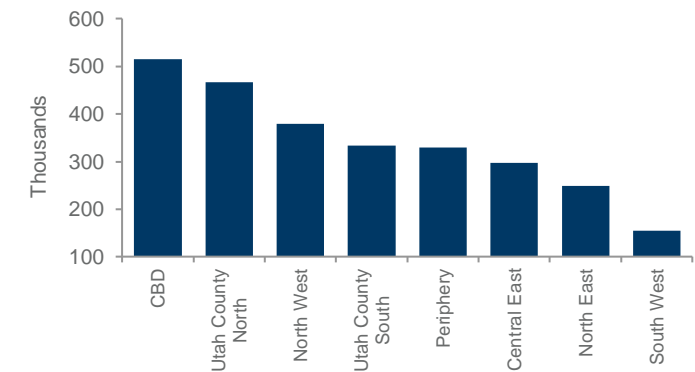
## OUTLOOK

- Salt Lake City's office market fundamentals continued to soften in 2021, as the COVID-19 pandemic limited tenant movement and paused Utah's re-opening plans. Despite significant headwinds, Salt Lake City is uniquely positioned to stabilize as the local economy continues to outperform many of its peer markets.
- Leasing activity ticked up to begin 2021, a trend that is expected to continue as wider distribution of the Covid-19 vaccine allows tenants to begin seeking out new space and increasing occupancy.
- Salt Lake City remains a popular destination for technology companies to relocate or expand, owing to a robust tech-educated millennial population and the relative affordability of office space. Tech firms seeking to mitigate costs as they reassess their office-leasing footprint will continue to target the region, helping to offset slowing in large block leasing among other sectors of the market.

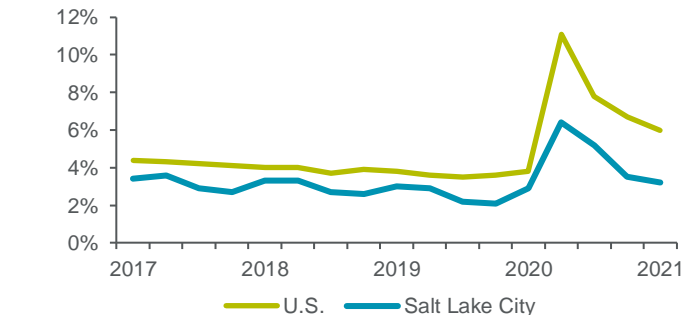
## OVERALL VACANCY / ASKING RENT – CLASS A



## UNDER CONSTRUCTION BY SUBMARKET IN SF



## UNEMPLOYMENT RATE IN COMPARISON





## MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION	YTD OVERALL ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)**	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
CBD	8,664,225	234,876	1,329,795	18.1%	-185,885	-185,885	1,675	515,000	\$26.65	\$31.06
Periphery	3,435,602	91,725	575,391	19.4%	-60,458	-60,458	4,331	329,300	\$25.45	\$32.51
North East	3,461,036	30,894	275,187	8.8%	82,636	82,636	32,711	249,251	\$27.34	\$34.38
North West	4,145,236	161,923	519,525	16.4%	-46,274	-46,274	24,704	380,000	\$21.46	\$26.30
Central East	8,203,392	173,205	1,078,051	15.3%	-137,394	-137,394	91,288	297,018	\$23.71	\$30.63
Central West	1,840,389	169,452	335,358	27.4%	-43,488	-43,488	2,500	0	\$22.13	\$27.81
South East	8,320,536	302,648	662,781	11.6%	-40,745	-40,745	63,752	0	\$24.76	\$27.51
South West	2,055,131	85,267	420,508	24.6%	-3,008	-3,008	28,654	154,274	\$26.34	\$26.14
Utah County North	8,587,770	308,511	1,391,271	19.8%	243,488	243,488	226,643	467,165	\$24.32	\$26.02
Utah County South	7,027,369	75,930	1,045,804	16.0%	-14,874	-14,874	30,276	334,000	\$20.33	\$20.13
Class A	25,156,994	856,359	3,056,198	15.6%	207,224	207,224	374,843	2,693,008	\$27.99	\$27.99
Class B	23,110,419	715,414	3,740,242	19.3%	-371,430	-371,430	111,982	33,000	\$22.36	
Class C	7,473,273	62,658	837,231	12.0%	-41,796	-41,796	19,709	0	\$18.22	
<b>TOTAL Market</b>	<b>55,740,686</b>	<b>1,634,431</b>	<b>7,633,671</b>	<b>16.6%</b>	<b>-206,002</b>	<b>-206,002</b>	<b>506,534</b>	<b>2,726,008</b>	<b>\$24.12</b>	<b>\$27.99</b>

\*Rental rates reflect full service asking \$psf/year. \*\*Renewals not included in leasing statistics.

## KEY LEASE TRANSACTIONS Q1 2021

PROPERTY	SUBMARKET	TENANT	SF	TYPE
1050 S. 4850 W.	Utah County North	Domo	150,000	New Lease
2795 E. Cottonwood Pkwy.	Central East	Extra Space Storage	91,947	Renewal/Expansion*
2290 S. 1300 E.	North East	Quotient Technology Inc.	25,610	Sublease
1885 W. 2100 S.	North West	MyLab, LLC	24,704	New Lease

## KEY SALES TRANSACTIONS Q1 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
Jordan Valley Tech I	South East	Boyer Freeway Park LLC / TCA SLC, LLC	105,600	\$13.2M / \$117
Sorenson 1	Central West	LSREF4 Dual LLC / Sorens Building 960 LLC	56,777	\$6.8.M / \$120

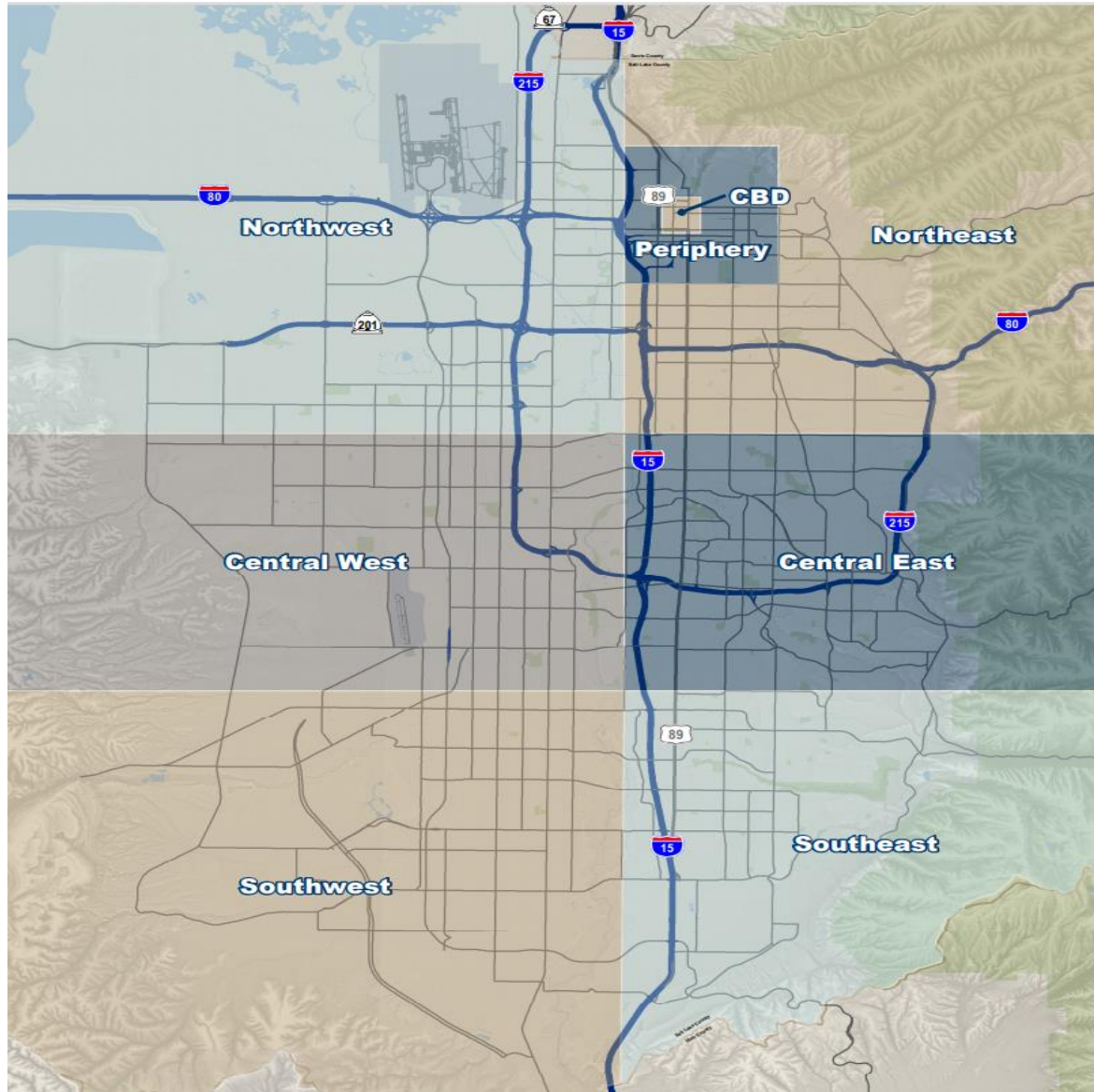
## KEY CONSTRUCTION COMPLETIONS Q1 2021

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER / DEVELOPER
Lehi Block	Utah County North	Weave	180,000	Boyer/Gardner / Boyer/Gardner
Utah Valley Tower	Utah County North	DOMO	150,000	Woodbury Corporation / Woodbury Corporation
South City I	North East	PDQ.com, GBS Benefits	150,000	Dakota Pacific/Gardner Batt / Dakota Pacific

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## OFFICE SUBMARKETS

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