

# Salt Lake City

Office Q2 2021



YoY Chg    12-Mo. Forecast

**17.4%**

Vacancy Rate



**-612K**

Net Absorption, SF



**\$23.99**

Asking Rent, PSF



(Overall, All Property Classes)

## ECONOMIC INDICATORS Q2 2021

YoY Chg    12-Mo. Forecast

**760.3K**

Salt Lake City Employment



**2.8%**

Salt Lake City Unemployment Rate



**5.9%**

U.S. Unemployment Rate



Source: BLS, Moody's Analytics

## ECONOMIC OVERVIEW

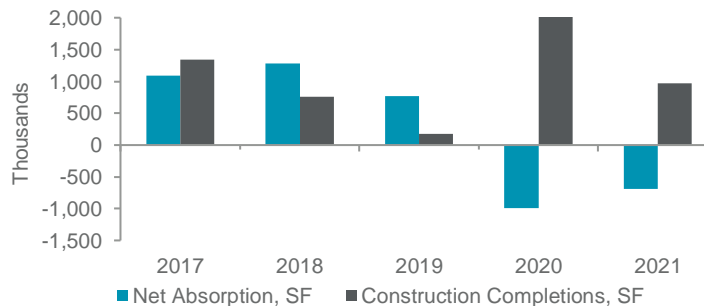
The Salt Lake City employment market over the last 13 months has recovered all (+68,000 jobs) of the 65,500 jobs lost during the beginning of pandemic between March and April of 2020. Nonfarm employment grew by 50,300 or +7.1% year-over-year (YOY) between May 2020 through May 2021, with the leisure and hospitality sector accounting for 13,000 jobs added, and professional and business services accounting for 9,000 jobs added. During the same time, the monthly unemployment rate decreased from 8.5% last year to 2.8% and is currently 130 basis points (bps) below than the 30-year monthly average of 4.1% and in line with the Q2 2021 quarterly average of 2.8%.<sup>1</sup> All employment sectors are expected to grow at a combined rate of 4.9% in 2021 and 5.0% in 2022, while office-using sector is forecasted to grow 5.5% in 2021 and 4.6% in 2022. Salt Lake City's economy of \$82.9 billion as measured by 2020 gross regional product is forecasted to grow 8.1% in 2021 and 6.5% in 2022, above its 10-year average of 2.8%.<sup>2</sup>

## SUPPLY AND DEMAND

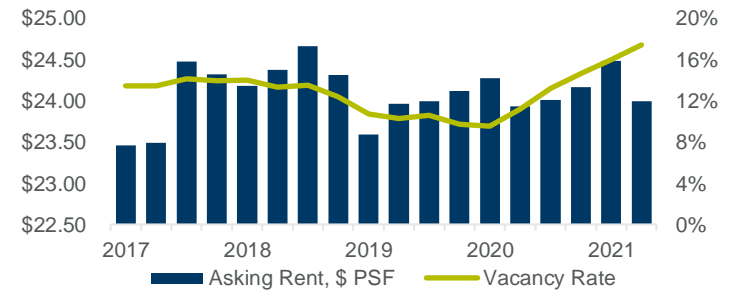
The overall vacancy rate, including sublease, increased 140 bps quarter-over-quarter (QOQ) and 620 bps YOY to 17.4% in Q2 2021. Class A vacancy increased 690 bps from 8.7% to 15.6% YOY, while Class B vacancy increased 700 bps from 14.4% to 21.4%. Vacancies have risen as tenants look to shrink their physical footprints to mitigate costs and risk as well as to keep their employees safe and healthy during the pandemic. Tenants returned 611,729 square feet (sf) in Q2 2021, driven largely by 607,986 sf returned in Class B product. Tenants returned space to all submarkets except for the North East and South West, recording 103,170 sf and 46,634 sf of gains, respectively. As of Q2 2021, sublease vacancy stands at 2.9% or 1.6 million square feet (msf) compared to 1.9% (1.0 msf) a year ago. As large companies seek to decentralize from major metros, Salt Lake City is uniquely positioned to fill the void for office space with a combination of projects in the construction pipeline and available sublease space with attractive pricing.

Leasing activity decelerated QOQ in Q2 2021 at 554,639 sf (48 deals), excluding renewals, compared to 704,397 sf (84 deals) in Q1 2021, while also down compared to 967,048 sf (92 deals) in Q2 2020. This activity will boost future absorption as tenants occupy their space later in 2021. In Q2 2021, Class A leasing accounted for 362,065 sf leased (65%), followed by Class B at 187,721 sf (34%) and Class C at 4,853 sf (1%). Three submarkets combined accounted for 424,693 sf or 77% of total space leased in Q2 2021: Utah County North (42%), South East (21%) and South West (14%). 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 8.8% of total employment concentrated in the technology sector compared to 5.3% nationwide.

## SPACE DEMAND / DELIVERIES



## OVERALL VACANCY / ASKING RENT



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Tech tenants relocating and expanding in the region are Weave, L3 Technologies, Domo and Adobe. Adobe doubled their size in their current 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.

## PRICING

With an increase in vacancy over the last year, overall average asking rent for all classes dipped modestly Q2 2021, decreasing 2.0% QOQ, though rising 0.3% YOY. Average rent for Class A decreased 1.2% YOY to \$27.92 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

Nearly one million square feet of new inventory across nine projects were delivered during the first half of 2021, highlighted by several Class A projects in the 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. Utah Valley Tower, a five-story, 150,000-sf building located at 1050 S. 4850 W. was fully leased by Domo upon completion. Myriad Building VI, a 124,841-sf building located at 330 Wakara Way in the North East submarket delivered during the second quarter, fully leased by Myriad Genetics. Combined, newly completed projects accounted for 687,947 sf of occupancy gains.

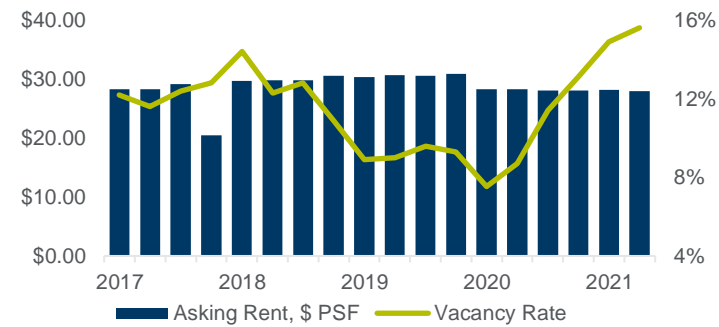
Salt Lake City's development pipeline remains active at 2.7 msf currently under construction across 15 projects, with 45% already pre-leased. The majority or 80% of inventory is speculative (SPEC) with the remaining 20% build-to-suit (BTS). The 95 State @ City Creek, a state-of-the-art 25-story tower and the largest SPEC project currently under construction, located in the CBD submarket is expected to deliver during 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.

Sources: <sup>1</sup>www.bls.gov <sup>2</sup>GDP as of 2020. Moody's Analytics economy.com 6/2021

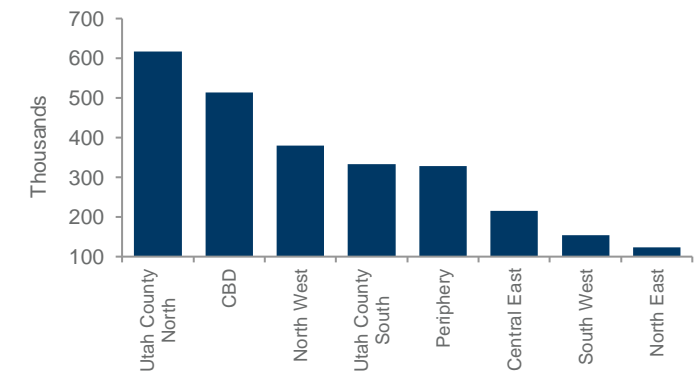
## OUTLOOK

- 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.
- 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.

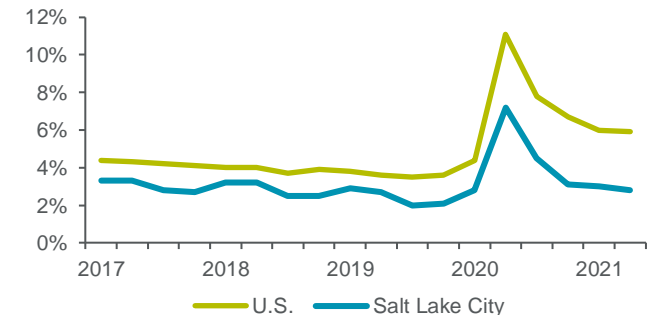
## OVERALL VACANCY / ASKING RENT – CLASS A



## 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	8,484,515	291,912	1,449,401	20.5%	-160,719	-316,578	68,353	515,000	\$27.04	\$30.81
Periphery	3,446,310	75,453	609,185	19.9%	-44,410	-104,201	36,354	329,300	\$25.30	\$32.53
North East	3,588,196	30,894	296,549	9.1%	103,170	185,806	41,468	0	\$26.71	\$34.16
North West	4,175,850	155,952	674,987	19.9%	-159,597	-195,765	51,932	504,410	\$20.82	\$26.61
Central East	8,203,615	105,920	1,084,946	14.5%	-90,969	-202,920	177,120	216,000	\$23.72	\$31.99
Central West	1,840,389	178,065	338,931	28.1%	-20,384	-55,674	27,844	0	\$22.02	\$27.81
South East	8,320,536	253,940	742,229	12.0%	-71,305	-113,660	228,266	0	\$24.73	\$26.99
South West	2,055,131	112,705	441,809	27.0%	46,634	43,626	103,524	154,274	\$26.44	\$26.33
Utah County North	8,407,770	344,072	1,164,003	17.9%	-50,143	251,121	483,482	617,165	\$23.67	\$25.67
Utah County South	6,942,858	81,307	1,204,433	18.5%	-164,006	-178,880	40,693	334,000	\$20.27	\$20.39
Class A	25,017,324	820,694	2,948,253	15.1%	69,663	330,247	765,852	2,637,149	\$27.92	\$27.92
Class B	23,171,413	745,827	4,205,364	21.4%	-607,986	-930,453	449,143	33,000	\$22.39	
Class C	7,276,433	63,699	852,856	12.6%	-73,406	-86,919	44,041	0	\$18.54	
<b>TOTAL Market</b>	<b>55,465,170</b>	<b>1,630,220</b>	<b>8,006,473</b>	<b>17.4%</b>	<b>-611,729</b>	<b>-687,125</b>	<b>1,259,036</b>	<b>2,670,149</b>	<b>\$23.99</b>	<b>\$27.92</b>

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

## KEY LEASE TRANSACTIONS Q2 2021

PROPERTY	SUBMARKET	TENANT	SF	TYPE
Thanksgiving Station V	Utah County North	Xyngular Corporation	47,512	New Lease
Grove Tower	Utah County North	Pura Scents, Inc.	32,798	New Lease
Towers at South Towne I	South East	Steward Health	25,272	Renewal
Wadsworth Business Park B	South East	TaxBit	23,000	Sublease

## KEY SALES TRANSACTIONS Q2 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
Jordan Valley Tech I	South East	Boyer Freeway Park LLC / TCA SLC, LLC	113,432	\$13.2M / \$116
Jordan Gateway Corporate Center A	South East	Nicholas Nash / Mark Brinkerhoff	72,825	N/A / N/A

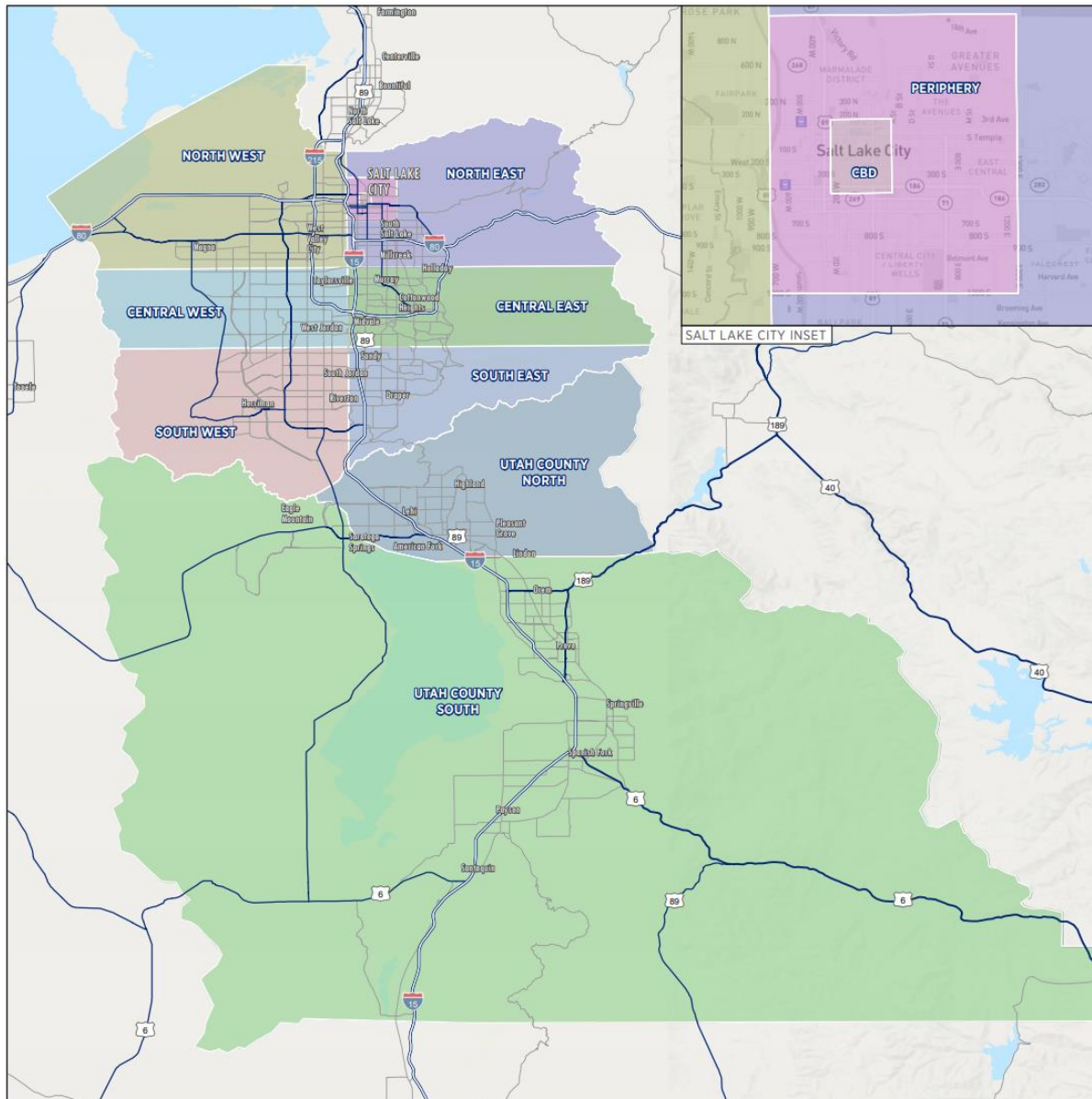
## KEY CONSTRUCTION COMPLETIONS YTD 2021

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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