

Salt Lake City



Office Q2 2023

	YoY Chg	12-Mo. Forecast
22.5% Vacancy Rate	▲	▼
-687K Net Absorption, SF	▼	▲
\$25.84 Asking Rent, PSF	▼	▲

(Overall, All Property Classes)

ECONOMIC INDICATORS Q2 2023

	YoY Chg	12-Mo. Forecast
828.7K Salt Lake City Employment	▲	▲
2.3% Salt Lake City Unemployment Rate	▲	▲
3.6% U.S. Unemployment Rate	▬	▲

Source: BLS, Moody's Analytics

U.S. unemployment rate for Q2 2023 is average of April (3.4%) and May (3.7%)

ECONOMIC OVERVIEW

Nonfarm employment grew by 31,700 jobs or +3.6% year-over-year (YOY) from May 2022 through May 2023, with the service-producing sector leading with 25,097 jobs added, while the office-using sector added 6,910 jobs YOY. During the same time, the monthly unemployment rate increased from 2.2% to 2.3% YOY and is currently 130 basis points (bps) lower than the U.S. unemployment rate of 3.6%.¹ Eleven of the twelve employment sectors are expected to grow at a rate of 3.0% in 2023, notably the professional & business services sector is forecasted to grow 3.6% and the service-producing sector 2.9%. Salt Lake City's economy of \$95.4 billion as measured by 2022 gross regional product is forecasted to grow 3.5% in 2023 and 2.8% in 2024, below the 10-year average of 3.6%.²

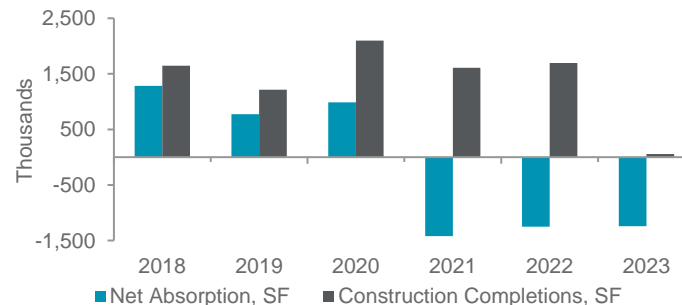
SUPPLY AND DEMAND

The overall vacancy rate, including sublease, increased 130 bps quarter-over-quarter (QOQ) and increased 470 bps YOY from 17.8% to 22.5% in Q2 2023. A total of 113 new vacant spaces came on the market in Q2 2023, totaling approximately 1,350,000 million square feet (msf). This includes 690,000 square feet (sf) of direct space and 660,000 sf of sublease space. As of Q2 2023, sublease vacancy stands at 6.4% or 3.4 msf compared to 4.1% (2.3 msf) a year ago. Subleases had a significant impact on the overall negative absorption with tenants looking to downsize as they are taking a more cautious look at their real estate needs. The difficulty of getting employees to return to the office is causing tenants to struggle with making long-term decisions. Landlords are aiding tenants in their efforts by creating additional building amenities and upgrading common areas to create a more desirable work environment.

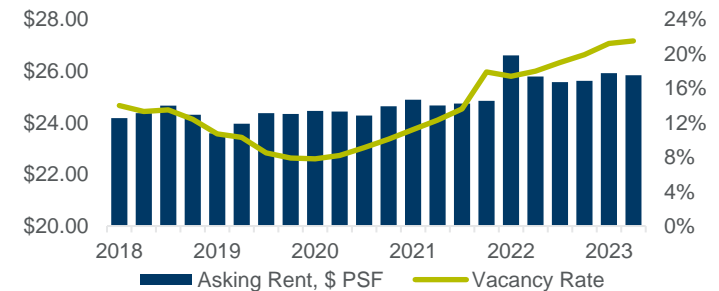
Tenants recorded positive absorption in Q2 2023 in the Periphery and Central East submarkets, however; it was outweighed by the space returned in all other submarkets, netting -687,066 sf. Other notable large vacancies this quarter include a 125,000-sf sublease at Myriad Campus VI, located in the North East submarket, 382 West Park Circle, with 111,000 sf, in the Utah County South submarket, and the One Airport Tech building (L-3), containing 88,000 sf, in the North West submarket. These are all contributing to the overall negative net absorption for the quarter.

Tenants leased 539,500 sf of new space in Q2 2023, combined across 90 deals. Including renewals, there were a total of 110 deals, totaling 718,193 sf. Out of those, 99 deals, or 87%, are below 10,000 sf with an average deal size of 3,500 sf. Large transactions remain on pause, as executives reset their real estate strategy. Out of the top twelve deals signed this quarter, almost half of them are renewals. In Q2 2023, market activity was highest in Utah County North (117,566 sf or 21.8%), followed by South East (19.4%) and Periphery (17.5%). Class A leasing accounts for the highest share of new leasing (274,845 sf or 50.9%), followed by Class B (41.6%) and Class C (7.4%) reflecting the flight to quality.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY / ASKING RENT



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SIGNED LEASES / OCCUPIED SPACES

Large leases signed this quarter included Henry Schein One, downsizing and renewing 73,000-sf of space at North Pointe Business Park – Building E, Capita Financial signed a 37,500-sf lease at Highpointe Office Center, (currently under construction), and Human Interest signed a 27,000-sf sublease at Mountain Tech South – Global Payments building. Notable tenants occupying this quarter include Galen Nursing, taking just over 34,000 sf at Irvine Office Park – Building 1, Smith Health, occupying 31,000 sf at Lehi Block, and SoFi taking 30,000 sf at Mountain America Tower.

RATES

The overall average asking rent for all classes increased \$0.16 or 0.6% YOY per square foot (psf) to \$25.84 psf on an annual full-service basis. However, the overall average asking rent for Class A decreased 3.6% YOY to \$28.97 psf. Direct deals are transacting at an average rate of \$24.55 psf on a full-service basis, while sublease deals are transacting at an average rate of \$22.78 psf on a full-service basis in Q2 2023. The sublease rate has decreased by \$1.69 psf from Q1 2023. Sublease rates and concession packages are anticipated to become more competitive with the large amount of inventory available, bringing rates down.

INVENTORY

One building delivered in Q2 2023, Traverse Heights, located at 3600 N. Outlet Parkway, with 56,000 sf, 60% of which was pre-leased, located in the Utah County North submarket.

The office construction pipeline is slowing significantly, partly due to tightening lending conditions, with 648,468 sf currently under construction across eight projects, and only 39% pre-leased. The majority, or 85%, of inventory is speculative (SPEC) with the remaining 15% build-to-suit.

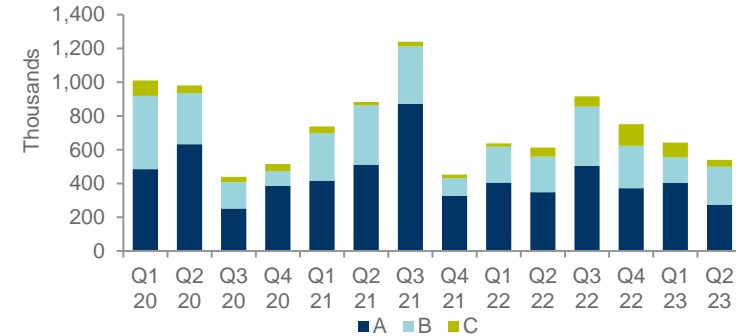
A change of use is a notable trend in the office sector with 451,429 sf in five buildings that have been removed from the market and being repositioned as multi-family product. These include: American Plaza 1, 220 S. 200 E., 675 E. 500 S., 1095 E. 2100 S., and South Temple Tower.

Sources: ¹www.bls.gov ²Moody's Analytics economy.com 5/2023

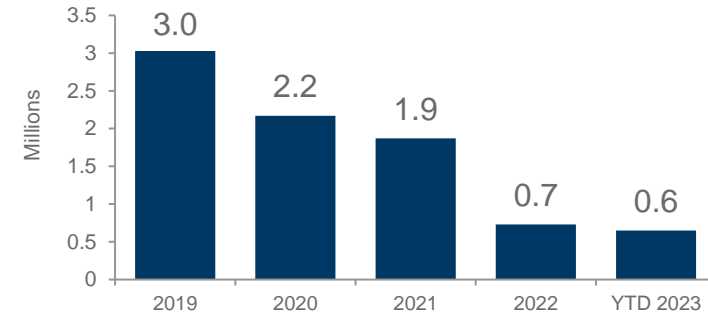
OUTLOOK / TRENDS

- Salt Lake City's office market fundamentals continued to soften in the second quarter of 2023. Tenants are signing shorter lease terms and seeking smaller spaces to re-engage in future market conditions. Employers are still in pursuit of persuading their employees to return to the office. In return, tenants are demanding increased amenities such as conference centers with a large training room, lounge spaces, outside patio area, fitness facilities, to name a few. With tenants in pursuit of smaller, built out spaces, landlords are having to divide full floors into smaller SPEC suites that are ready for occupancy, with the highest activity in the 3-5k range. Additional sublease spaces are expected to remain volatile for the foreseeable future. Leasing activity will most likely remain slow through year-end. New office construction starts are expected to be delayed until market and lending conditions begin to see an improvement. Despite these significant headwinds, Salt Lake City is uniquely positioned to stabilize as the local economy continues to outperform many of its peer markets. With continued positive net in-migration and a general push within the workforce for a well-nourished work-life balance, Salt Lake City remains a highly desirable market for office users and favorable for new businesses.

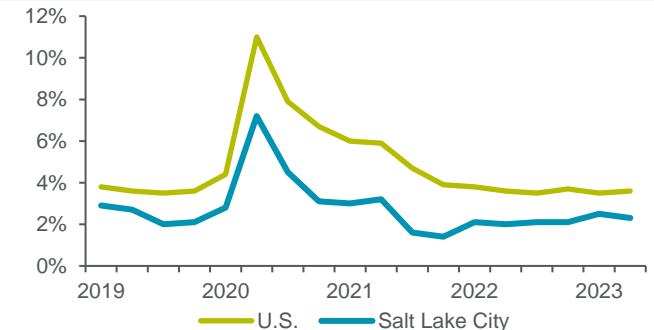
OVERALL NEW LEASING BY CLASS IN SF



UNDER CONSTRUCTION BY YEAR IN SF



UNEMPLOYMENT RATE IN COMPARISON



Salt Lake City

Office Q2 2023

MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	DIRECT VACANT (SF)	SUBLET 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	9,059,826	1,651,854	364,272	22.3%	-13,345	-120,765	130,966	0	\$29.58	\$33.88
Periphery	3,231,645	791,846	44,522	25.9%	6,333	-78,751	123,949	115,000	\$30.35	\$35.90
North East	2,373,584	205,539	213,429	17.7%	-115,559	-140,285	28,382	0	\$26.23	\$34.57
North West	4,328,870	1,005,392	372,158	31.8%	-85,178	-275,490	32,773	0	\$22.16	\$21.76
Central East	7,852,862	1,130,532	178,919	16.7%	-23,149	-1,508	146,415	0	\$25.94	\$33.06
Central West	1,893,820	442,418	79,180	27.5%	15,901	-5,141	60,564	61,700	\$23.27	\$29.70
South East	8,795,201	1,086,389	846,828	22.0%	-113,684	-251,611	248,844	331,000	\$26.57	\$27.31
South West	1,774,112	429,650	44,064	26.7%	-17,656	20,304	63,785	0	\$26.93	\$27.52
Utah County North***	8,956,674	739,013	1,056,879	20.1%	-123,814	-141,307	273,618	140,768	\$24.62	\$26.65
Utah County South***	5,727,859	1,217,543	254,551	25.7%	-216,915	-246,121	72,110	0	\$22.54	\$25.15
MARKET TOTALS	53,994,453	8,700,176	3,454,802	22.5%	-687,066	-1,240,675	1,181,406	648,468	\$25.84	\$28.97
Class A	26,122,834	3,438,142	2,054,853	21.0%	-299,656	-364,825	678,574	427,618	\$28.97	\$28.97
Class B	20,793,678	4,282,290	1,278,919	26.7%	-384,395	-756,569	377,271	220,850	\$23.82	
Class C	7,077,941	979,744	121,030	15.6%	-3,015	-119,281	125,561	0	\$21.42	
MARKET TOTALS	53,994,453	8,700,176	3,454,802	22.5%	-687,066	-1,240,675	1,181,406	648,468	\$25.84	\$28.97

*Rental rates reflect full service asking \$psf/year. **Renewals not included in leasing statistics. ***Due to corrections made to historical statistics, YTD not reflective of submarket activity.

KEY LEASE TRANSACTIONS Q2 2023

PROPERTY	SUBMARKET	TENANT	SF	TYPE
North Pointe Business Park – Building E	Utah County North	Henry Schein One	72,809	Renewal
Highpointe Office Center	South East	Capita Financial	37,500	New - Direct
Mountain Tech Center South – Global Payments	Utah County North	Human Interest	26,850	New - Sublease
5588 S. Green Street	Central East	Unitek College Utah, dba Eagle Gate College	22,589	Renewal
East Wing Plaza II	North West	HCA / Mountain Division, Inc.	19,497	Renewal

KEY BUILDINGS UNDER CONSTRUCTION

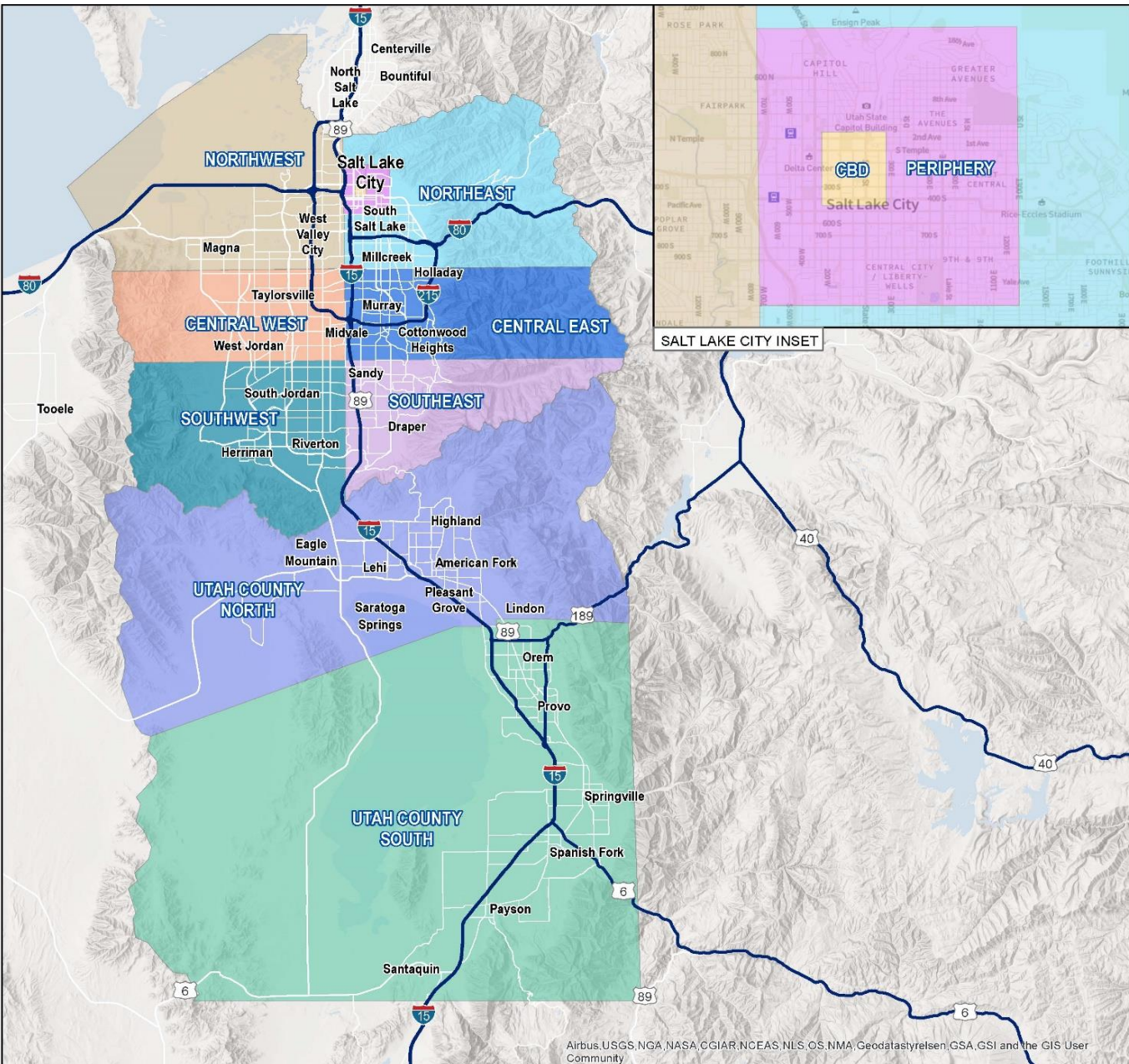
PROPERTY	SUBMARKET	EXPECTED DELIVER DATE	BUILDING SF / AVAILABLE SF	OWNER / DEVELOPER
Valley Grove III – 1333 S. Valley Grove Way	Utah County North	December 2023	140,768 / 140,768	St. John Properties
Baltic Pointe – 14761 S. Future Way	South East	September 2023	130,000 / 80,130	Gardner/Staker
Minuteman Office Plaza – Building VI	South East	September 2023	126,000 / 93,189	LD Bowerman Investments, LLC

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OFFICE SUBMARKETS



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