

# Salt Lake City

Office Q3 2023



	YoY Chg	12-Mo. Forecast
<b>23.1%</b> Vacancy Rate	▲	▼
<b>-432K</b> Net Absorption, SF	▲	▲
<b>\$25.88</b> Asking Rent, PSF	▲	▲

(Overall, All Property Classes)

## ECONOMIC INDICATORS Q3 2023

	YoY Chg	12-Mo. Forecast
<b>830.6K</b> Salt Lake City Employment	▲	▲
<b>2.5%</b> Salt Lake City Unemployment Rate	▲	▲
<b>3.7%</b> U.S. Unemployment Rate	▲	▲

U.S. unemployment rate for Q3 2023 is average of July (3.5%) and August (3.8%)

## ECONOMIC OVERVIEW

Nonfarm employment grew by 21,500 jobs or +2.7% year-over-year (YOY) from August 2022 through August 2023. During the same time, the monthly unemployment rate increased 10 basis points (bps) to 2.5% and is currently 120 basis points (bps) lower than the U.S. unemployment rate of 3.7%.<sup>1</sup> Of the 12 employment sectors, 11 are expected to grow at a combined rate of 2.9% in 2023, notably the education and health services sector is forecasted to rise 6.1% and the service-producing sector is forecasted to grow 3.2%. The Salt Lake City economy of \$95.4 billion as measured by 2022 gross regional product is forecasted to climb 3.5% in 2023 and 2.6% in 2024, below its 10-year average of 3.6%.<sup>2</sup>

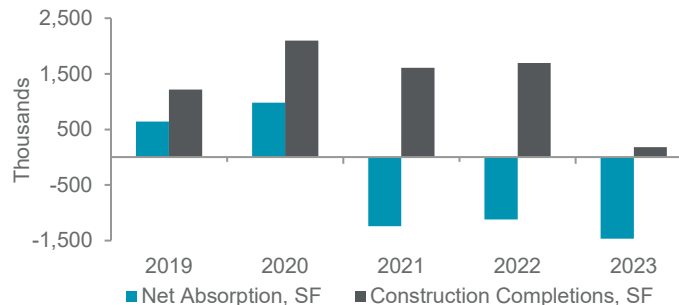
## SUPPLY AND DEMAND

The overall vacancy rate, including sublease, increased 110 bps quarter-over-quarter (QOQ) and increased 460 bps YOY from 18.5% to 23.1% in Q3 2023, but is anticipated to remain flat for the remainder of the year. A total of 113 new vacant spaces came on the market in Q3 2023, totaling approximately 1,050,000 million square feet (msf). This includes 706,000 square feet (sf) of direct space and 344,000 sf of sublease space. As of Q3 2023, sublease vacancy stands at 6.3% or 3.4 msf compared to 4.0% (2.2 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.

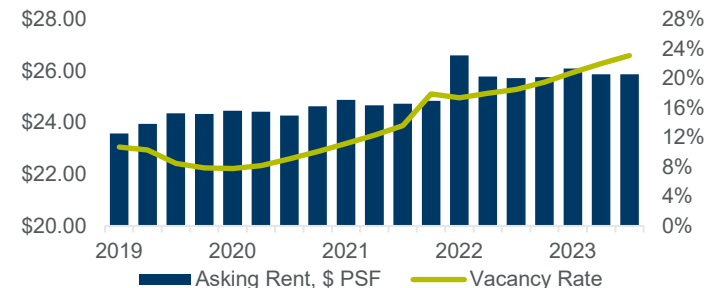
Tenants recorded positive absorption in Q3 2023 in the Periphery, North East, and Utah County North submarkets, however; it was outweighed by the space returned in all other submarkets, netting -432,179 sf. Large new vacancies this quarter include 88,000-sf of direct space at 10975 S. Sterling View Dr., located in the South East submarket, Parkway Centre C, with a 70,000-sf sublease, in the North West submarket, and Minuteman Office Park 1, containing 54,000 sf direct space, in the South East submarket. These are all attributing to the overall negative net absorption for the quarter, however; absorption is anticipated to see an improvement by year-end.

Tenants leased 626,801 sf of new space in Q3 2023, combined across 99 deals. Including renewals, there were a total of 129 deals, totaling 923,932 sf. Out of those, 79%, are below 10,000 sf with an average deal size of 3,500 sf, as the demand for smaller spec suites increases. Large transactions have slowed, as executives reset their real estate strategy. In Q3 2023, market activity was highest in South East (138,843 sf or 22%), followed by Central East (20%) and Utah County North (19%). Class A leasing accounts for the highest share of new leasing (387,896 sf or 62%), followed by Class B (30%) and Class C (8%) 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 Pattern, Inc., expanding and renewing 91,000-sf of space at Innovation Pointe III, Mountain West Pipeline signed a 48,500-sf direct lease at 650 S. Main, Forcepoint Federal renewed their 23,000-sf space at Cottonwood Corporate Center 8, and Lifewave signed a 26,000-sf lease for the top floor at the newly constructed Minuteman VI. Willis Towers Watson signed and occupied 26,000-sf of sublease space at 38 E. Scenic Pointe. Other notable tenants occupying this quarter include ProofPoint, taking just over 26,000 sf Minuteman VI and PassiveLogic, occupying a 22,000-sf sublease at Millrock Park East.

## RATES

The overall average asking rent for all classes increased \$0.15 or 0.6% YOY per square foot (psf) to \$25.88 psf on an annual full-service basis. However, the overall average asking rent for Class A decreased 2.4% YOY to \$28.81 psf. Direct deals are transacting at an average rate of \$24.13 psf on a full-service basis. Sublease deals are transacting at an average rate of \$21.73 psf in Q3 2023, a decreased of \$1.05 psf from Q2 2023. Sublease rates and concession packages are anticipated to become more competitive with the large amount of inventory available, bringing rates down. Sublease vacancies account for 6.3% of the total vacancy in the market, highlighted by the Utah County North and South East submarkets, where 10% of the inventory is currently vacant sublease space. Technology companies that had previously anticipated growth, are now having to readjust and downsize their current footprint.

## INVENTORY

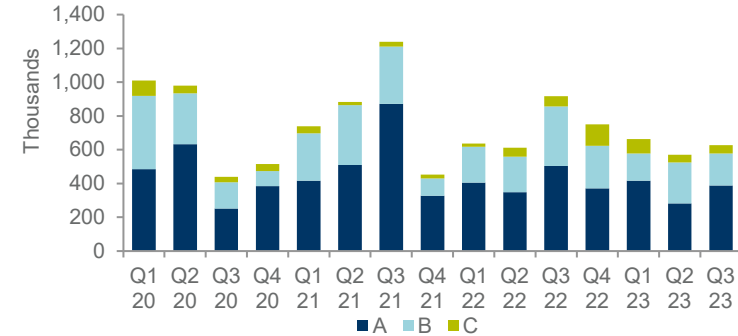
One building delivered in Q3 2023, Minuteman VI, located at 13893 S. Minuteman Dr., with 126,000 sf, 51% of which was pre-leased, located in the South East submarket. The office construction pipeline is slowing significantly, mostly due to tightening lending conditions, with 436,715 sf, speculative (SPEC), currently under construction across six projects, and only 29% pre-leased.

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. Additional buildings include: American Plaza 1, 220 S. 200 E., 675 E. 500 S., 1095 E. 2100 S., and South Temple Tower.

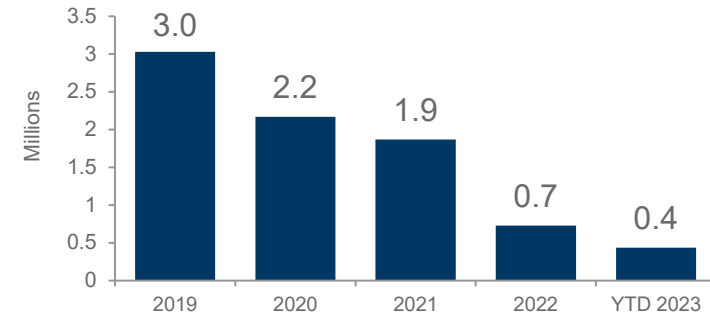
## OUTLOOK / TRENDS

- Salt Lake City's office market fundamentals continued to soften in the third quarter of 2023. Tenants are signing shorter lease terms and seeking smaller spaces as they redefine their occupancy needs. 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 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.

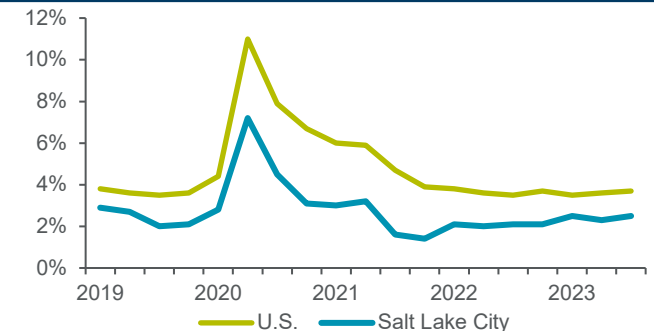
## OVERALL NEW LEASING BY CLASS IN SF



## UNDER CONSTRUCTION BY YEAR IN SF



## UNEMPLOYMENT RATE IN COMPARISON





## 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	1,802,358	315,824	23.4%	-66,237	-200,249	214,538	0	\$29.73	\$33.94
Periphery	2,921,771	686,403	56,880	25.4%	12,493	6,932	188,687	0	\$30.10	\$35.44
North East	2,373,584	190,029	228,897	17.6%	42	-140,243	42,003	0	\$26.09	\$33.16
North West	4,325,033	989,561	431,246	32.9%	-103,226	-378,716	81,186	0	\$22.11	\$21.75
Central East	7,713,679	1,214,448	211,425	18.5%	-155,498	-139,486	282,845	0	\$25.73	\$32.19
Central West	1,893,820	448,085	79,180	27.8%	-15,197	-20,338	70,954	61,700	\$23.63	\$29.29
South East	8,918,206	1,289,508	817,618	23.6%	-88,243	-300,716	387,687	228,500	\$26.62	\$27.63
South West	1,774,112	389,574	67,162	25.7%	-30,080	-9,776	76,305	0	\$27.10	\$26.96
Utah County North***	8,956,674	748,114	923,199	18.7%	48,769	-65,706	404,699	146,515	\$24.86	\$26.80
Utah County South***	5,727,859	1,246,408	251,970	26.2%	-35,002	-281,123	110,483	0	\$22.49	\$24.77
<b>MARKET TOTALS</b>	<b>53,664,564</b>	<b>9,004,488</b>	<b>3,383,401</b>	<b>23.1%</b>	<b>-432,179</b>	<b>-1,529,421</b>	<b>1,859,387</b>	<b>436,715</b>	<b>\$25.88</b>	<b>\$28.81</b>
Class A	25,998,834	3,516,194	2,041,254	21.4%	-2,342	-360,671	1,085,533	330,865	\$28.81	\$28.81
Class B	20,626,972	4,517,788	1,219,480	27.8%	-427,908	-1,047,540	594,378	105,850	\$24.04	
Class C	7,038,758	3,516,194	122,667	15.5%	-1,929	-121,210	179,476	0	\$21.43	
<b>MARKET TOTALS</b>	<b>53,664,564</b>	<b>9,004,488</b>	<b>3,383,401</b>	<b>23.1%</b>	<b>-432,179</b>	<b>-1,529,421</b>	<b>1,859,387</b>	<b>436,715</b>	<b>\$25.88</b>	<b>\$28.81</b>

\*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 Q3 2023

PROPERTY	SUBMARKET	TENANT	SF	TYPE
1441 W. Innovation Way – Innovation Pointe III	Utah County North	Pattern, Inc.	90,890	Renewal / Expansion
650 South Main Street	Periphery	Mountain West Pipeline / Williams Co.	48,555	New - Direct
38 E. Scenic Pointe Dr. - The Pointe Building II	South East	Willis Towers Watson US	26,304	New - Sublease
13893 S. Minuteman Dr. - Minuteman VI	South East	Lifewave	26,123	New - Direct

## KEY SALES TRANSACTIONS Q3 2023

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
515 E. 100 S. – 515 Tower	Periphery	515 East Salt Lake / 515 Tower	159,874	\$24,000,000 / \$150
860 W. Levoy Dr. – Sorenson 6	Central West	Gladstone Commercial / Integra CRE	102,068	\$7,100,000 / \$70
392 E. Winchester Street	Central East	Workers Compensation Fund / Robert S. Bowman	82,146	Undisclosed
Tech Center 2000 – Buildings B & C	South East	GSF Tech Center / Indigo Tech Center	24,257	\$5,800,000 / \$239

## KEY BUILDINGS UNDER CONSTRUCTION

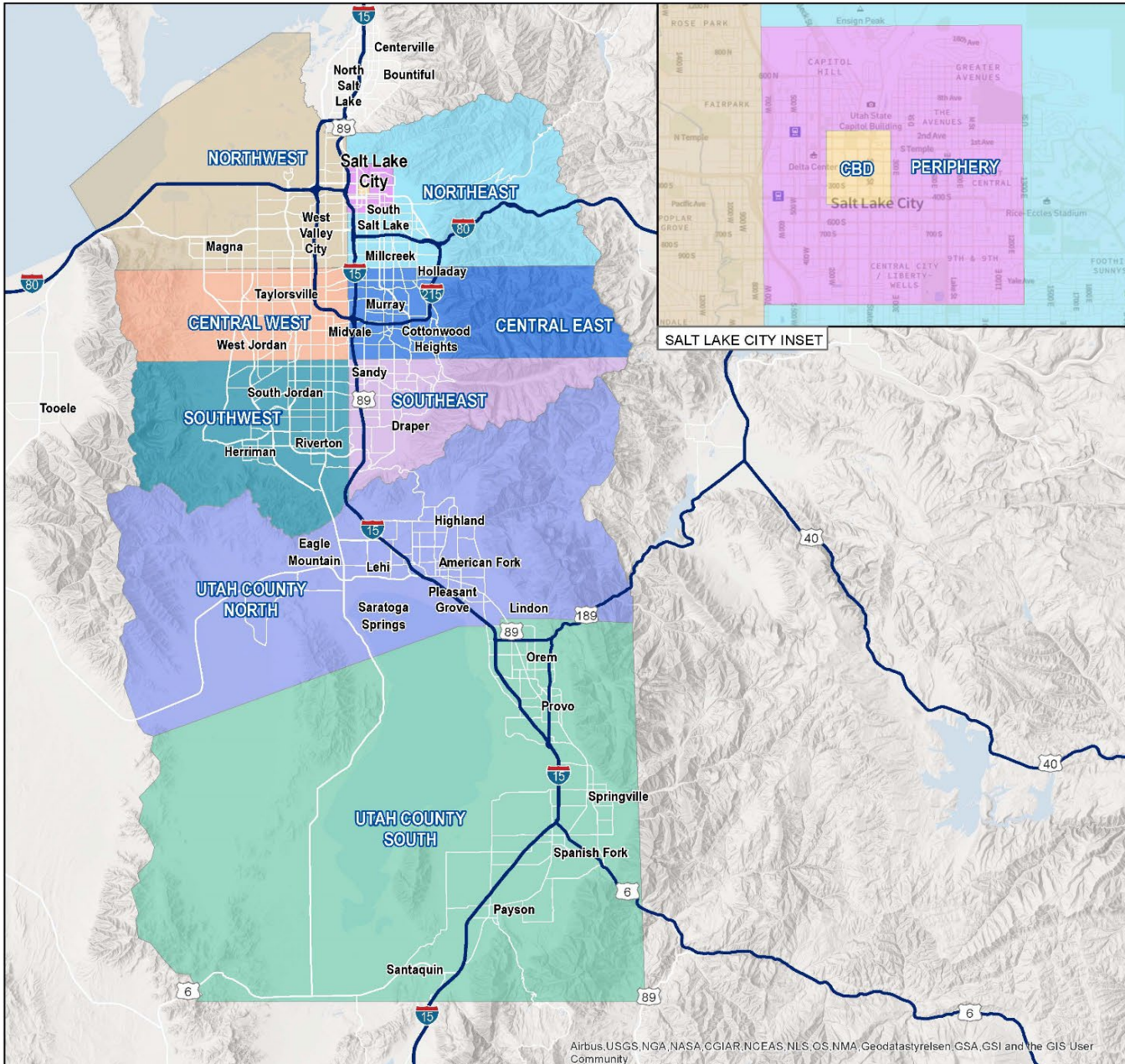
PROPERTY	SUBMARKET	EXPECTED DELIVER DATE	BUILDING SF / AVAILABLE SF	OWNER / DEVELOPER
Valley Grove III – 1333 S. Valley Grove Way	Utah County North	December 2023	146,515 / 146,515	St. John Properties
Baltic Pointe – 14761 S. Future Way	South East	December 2023	130,000 / 80,130	Gardner / Staker
Highpointe Office Center – 14658 S. Bangerter Pkwy.	South East	June 2024	75,000 / 15,800	Thrive Development



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OFFICE SUBMARKETS



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