

Salt Lake County Office Market

Salt Lake Office Market Slows in Anticipation for the Return to the Workplace

The Salt Lake County office market started to experience some of the lagging effects of COVID-19's impact during the first quarter of 2021. The Salt Lake Metro overall has rebounded very quickly with unemployment already below 4% (3.6% at end of February 2021), more businesses open with safety measures in place and nearly 25% of the state's population vaccinated. Despite all that good news, forward traction for office transactions has slowed. Large blocks of space that would have likely leased quickly before becoming vacant are now taking longer to fill as companies decide how to move forward with office plans. Many office users are still having employees working remote through first-quarter 2021 with plans to bring them back to the office sometime in 2021. Due to the delay in bringing employees back, that is also delaying many companies from looking to move or expand footprints.

For another quarter, renewals and short-term leases remained a popular option, making up 30.9% of the lease transactions. Surprisingly, 18.2% of the deals that occurred in first-quarter 2021 were sublease deals, three of which were in the top five transactions. Quotient Technology subleased 25,610 square feet from sPower at 60Park, McGee Operations took 25,000 square feet from Divvy at 136 Center 2 and Selene Finance subleased 19,927 square feet at RiverPark Corporate Center 14 from AutoPoint. Quality Class A sublease space is a hot commodity and is the

Current Conditions

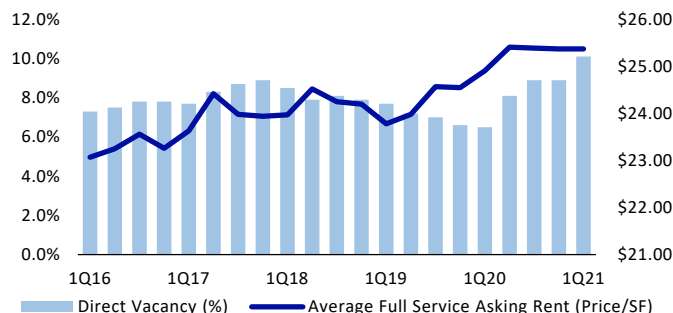
- Sublease availability decreased by 29 basis points from fourth-quarter 2020 to first-quarter 2021, the first time sublease numbers have lowered since the onset of COVID-19.
- Deliveries for the quarter remained modest with 255,996 square feet added to the inventory base, with an additional 2.4 million square feet underway by quarter-end.
- Leasing slowed from fourth-quarter 2020, decreasing by 28.3%; however, first-quarter 2021 leasing activity remained higher than the pandemic low experienced in third-quarter 2020.

Market Summary

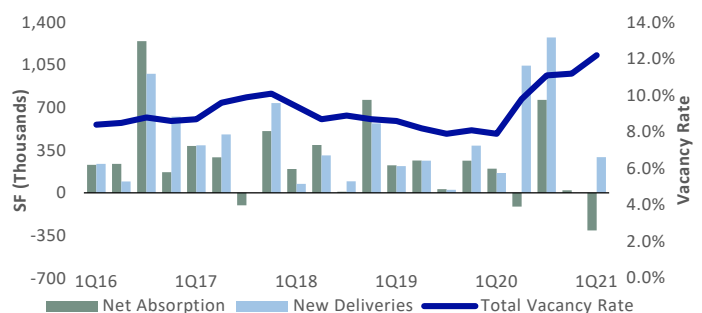
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Direct Vacancy Rate	10.0%	8.9%	6.5%	↑
Quarterly Net Absorption (SF)	(307,863)	22,092	199,351	↑
Average Asking Rent/SF	\$25.37	\$25.37	\$24.91	↓
Under Construction (SF)	2,431,233	2,716,247	3,733,532	↓
Deliveries (SF)	255,996	0	163,200	↑

Market Analysis

ASKING RENT AND DIRECT VACANCY RATE



NET ABSORPTION SF, DELIVERED SF AND TOTAL VACANCY RATE



RESEARCH Q1 2021

quickest to fill, some even occurring off market. Overall sublease availability decreased by 29 basis points from fourth-quarter 2020 to first-quarter 2021, either through transactions or by companies deciding to keep the space after all. Asking lease rates have fluctuated in recent years, but jumped from \$23.78/SF in first-quarter 2019 up to \$25.41/SF in second-quarter 2020, the quickest increase in just over a year and the highest the Metro has experienced so far in the office market. Since that time, rates have remained steady and close to that watermark, coming in at \$25.37/SF for first-quarter 2021. While still one of the lowest transacting quarters in recent years, leasing remained above third-quarter 2020's transaction low.

New construction starts remain low, but completions came in at 255,996 square feet. Smaller office parks such as South Jordan Professional Office Park and Draper Cove completed a portion of the project, while larger ones such as Soleil Technology Park by Wasatch or 106 Exchange by Thrive also brought larger Class A developments to completion. After 2020's high of 2.5 million square feet of new office

inventory came to the market, 2021 is expected to slow down as developers watch to see how the market handles the influx of space from 2020 in projects such as the completed Fairbourne Station in West Valley City or Irvine Office 1 in Draper. These developments and those under construction are leasing at a slower rate than back in 2016 through 2019 but are attractive to large credit tenants looking to leave coastal cities and have Salt Lake City on lists of potential markets to move or grow.

The office workplace will likely look different than pre-pandemic, with the key topic being flexibility. After a year of telework, many employees like the idea of flexibility in work between home and the office. Management wants people in the office for fostering company culture and identity. Tenants are pushing for flexibility in lease terms compared to the traditional office lease. Landlords would like a stable rent roll that is safe from too much risk. The coming quarters will be instrumental in seeing how each is able to adapt and move forward in the post-COVID-19 landscape.

Select Lease Transactions

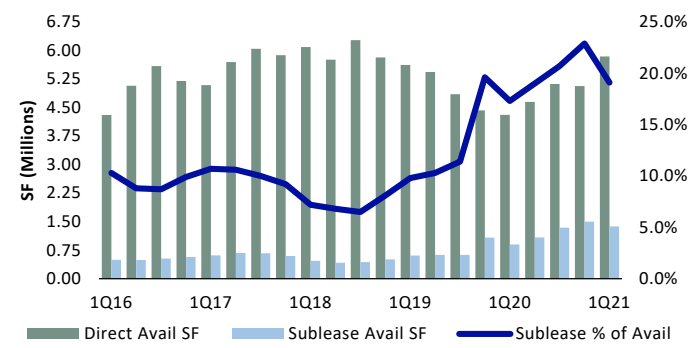
Tenant	Market	Building	Type	Square Feet
Extra Space Storage	Cottonwood	Cottonwood Corporate Center 9	Renewal/Expansion	91,947
Quotient Technology	Sugarhouse	60Park	Sublease	25,610
McGee Operations	Draper Tech Corridor	136 Center 2	Sublease	25,000
Selene Finance	Southtowne	RiverPark Corporate Center 14	Sublease	19,927
SSA Containers	Southtowne	Lone Peak Center 3	Renewal	19,799

Select Sale Transactions

Buyer	Market	Building	Type	Square Feet
Kennedy Wilson	Lake Park	Parkway Center	Investment	247,000
Community Control	Lake Park	Waterton Place 1	Investment	39,615
Olympus Real Estate & Development	Sugarhouse	1521 East 3900 South	Owner-User	23,376
Osea Investments	Sugarhouse	3761 South 700 East	Investment	13,384
Urban Alfandre	Periphery	754 South 200 West	Investment	7,260

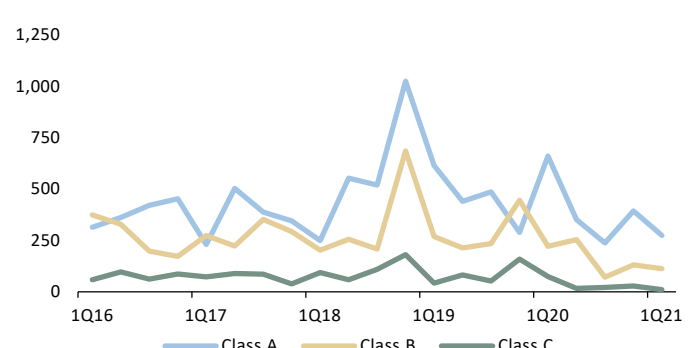
Availability Overview

SUBLEASE V DIRECT AVAIL SF AND SUBLEASE AS % OF AVAILABILITY



Leased Square Feet

SQUARE FEET, THOUSANDS



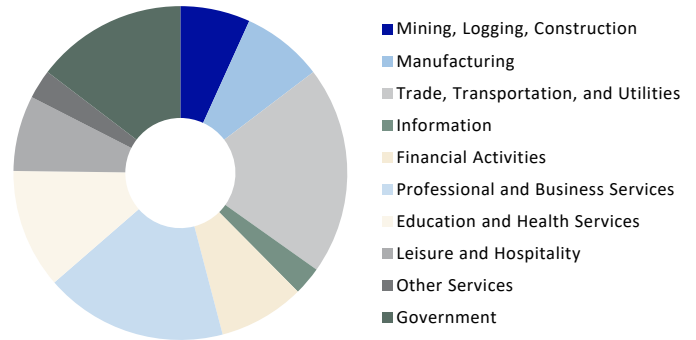
Submarket Statistics								
	Under Construction (SF)	Direct Vacancy Rate	Sublease Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
CBD	536,250	12.9%	2.1%	(156,297)	(156,297)	\$30.85	\$25.75	\$27.24
Periphery	433,933	12.8%	0.4%	(53,280)	(53,280)	\$31.00	\$21.62	\$21.96
Downtown Total	970,183	12.9%	1.9%	(209,577)	(209,577)	\$30.88	\$24.40	\$26.26
Cottonwood	-	9.9%	3.4%	(16,787)	(16,787)	\$32.23	-	\$32.23
Central Salt Lake	150,000	8.0%	2.9%	43,872	43,872	\$23.00	\$24.25	\$21.71
Central Valley	582,605	7.1%	4.1%	4,116	4,116	\$25.77	\$21.04	\$20.58
Draper Tech Corridor	42,823	7.7%	2.2%	(61,936)	(61,936)	\$27.08	\$22.40	\$26.92
East Sandy/Draper	37,600	14.7%	-	(10,485)	(10,485)	-	\$21.62	\$20.22
Fort Union	-	10.8%	1.1%	5,991	5,991	\$25.98	\$22.10	\$23.93
International Center	-	7.4%	0.9%	9,701	9,701	-	\$20.63	\$20.13
Lake Park	124,410	21.1%	1.1%	(114,428)	(114,428)	\$25.44	\$20.15	\$25.15
Millcreek/Holladay	-	6.2%	0.8%	2,392	2,392	-	\$20.37	\$17.64
Research Park	200,000	2.3%	1.4%	(11,470)	(11,470)	-	\$24.29	\$22.61
Sugarhouse	7,444	11.6%	0.5%	2,050	2,050	\$36.45	\$20.61	\$24.90
Southwest	316,168	18.6%	-	-	-	\$24.96	\$25.00	\$25.54
Southtowne	-	7.5%	4.4%	50,378	50,378	\$25.91	\$25.07	\$25.57
West Salt Lake	-	2.7%	-	(1,680)	(1,680)	-	\$19.41	\$19.41
Suburban Total	1,461,050	9.0%	2.5%	(98,286)	(98,286)	\$27.44	\$22.12	\$24.88
Market	2,431,233	10.0%	2.3%	(307,863)	(307,863)	\$28.26	\$23.02	\$25.37

Economic Overview

The unemployment rate for the Salt Lake City Metro has historically stayed below the national average by a full 1.0% to 2.0% for the past decade. Despite the unemployment rate increasing dramatically due to COVID-19 back in April 2020, Salt Lake City has continued to stay below the national average throughout 2020 and into 2021 by a significant amount, coming in at 3.6% in February 2021, compared to the national rate of 6.2%. Job growth has bounced back well, with a total net increase of 61,190 jobs added back to the market since April 2020, with financial activities, professional and business services and trade, transportation and utilities seeing the highest job growth year-over-year. Of the 61,190 jobs added back to the market, 30.1% were office jobs. As more of the population is vaccinated and offices open and bring employees back to the office, office-using sectors are expected to see more growth in 2021 to help them get back to pre-pandemic employment levels.

Employment by Industry

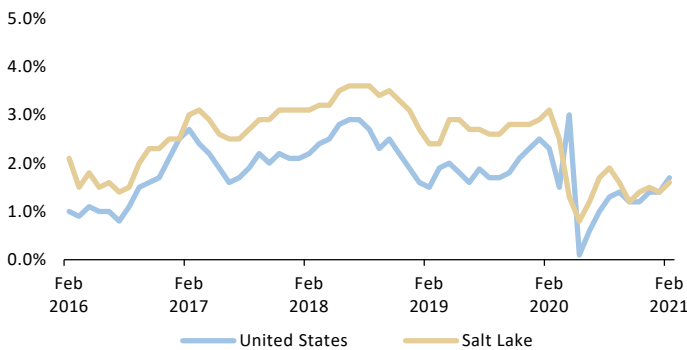
Salt Lake, 2020 Annual Average



Source: U.S. Bureau of Labor Statistics

Consumer Price Index (CPI)

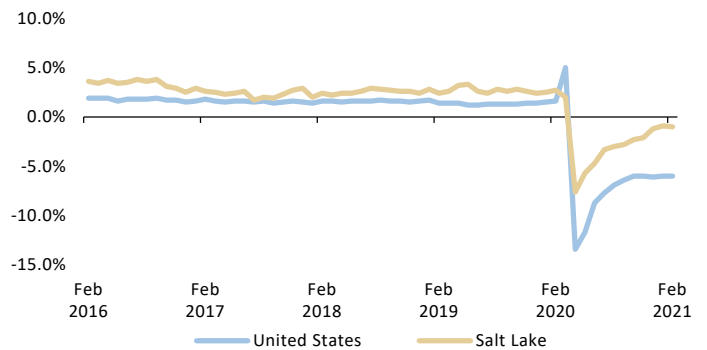
ALL ITEMS, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

Payroll Employment

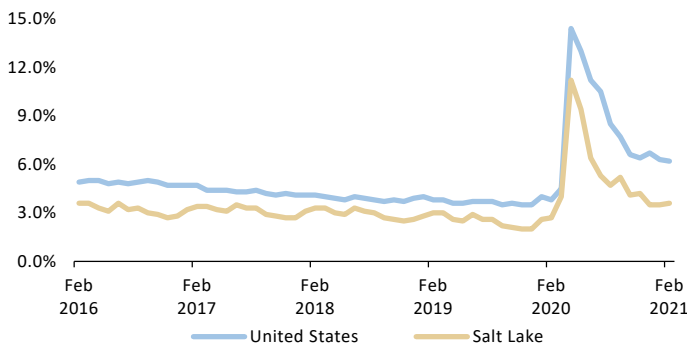
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

Unemployment Rate

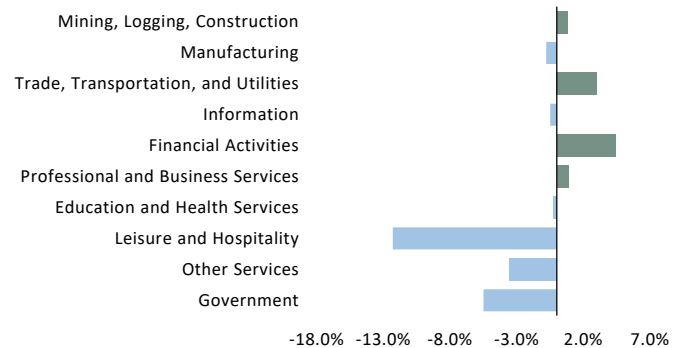
NOT SEASONALLY ADJUSTED



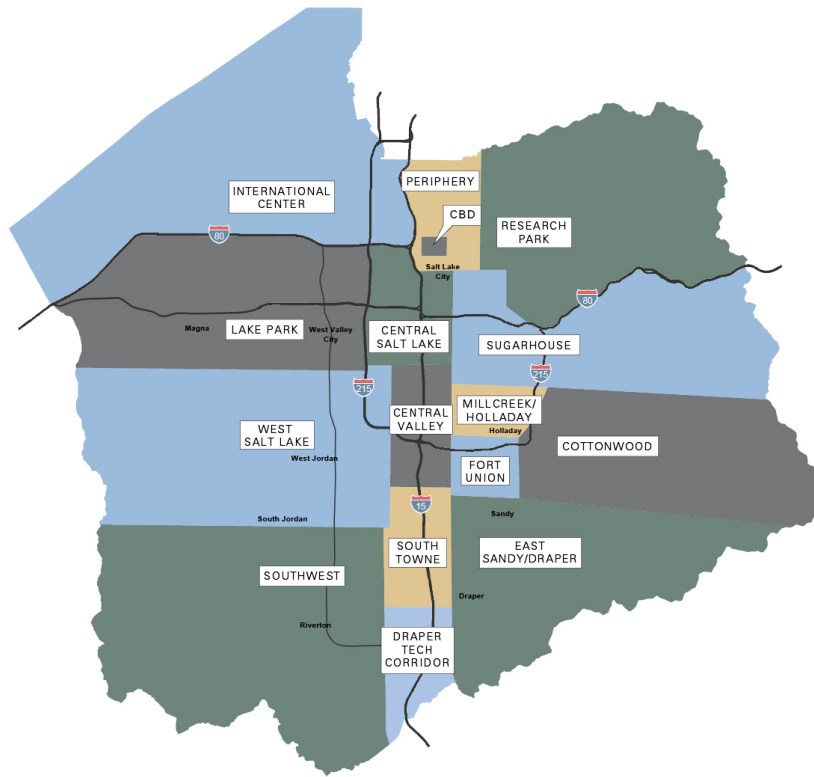
Source: U.S. Bureau of Labor Statistics

Employment Growth by Industry

SALT LAKE, FEBRUARY 2021, 12-MONTH % CHANGE, NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics



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