

1Q24

Greater Salt Lake Office Market

Overviews for Salt Lake, Davis, Weber and Utah Counties and the Tech Corridor Region



NEWMARK

Market Observations

Economy

- The Wasatch Front labor market remained strong, with a 2.9% unemployment rate in February 2024. This was lower than the U.S. average of 4.2%.
- Mining/logging/construction led other industries in job gains over the past 12 months, while information and financial activities had the most losses.
- Office-using employment remains higher than prepandemic levels, but job growth is leveling out across the Wasatch Front. The Ogden-Clearfield and Salt Lake City MSAs had the largest overall job gains. The Provo-Orem MSA experienced the highest levels of contractions following layoffs from tech users.

Major Transactions

- New direct leases dominated the Northern Wasatch Front office market while subleases and lease renewals were prevalent in Salt Lake and Utah Counties.
- Tenants continued to look outside of Downtown Salt Lake City and ventured into other pockets of Salt Lake County that house quality Class A product at lower rental rates.
- Office sales were limited to owner-user property or condo sales throughout the last 12 months with most investment sales concentrated in the medical segment.
- Private entities and owner-users were the most active buyers in recent months.

Leasing Market Fundamentals

- Positive net absorption occurred across all regions of the Wasatch Front, with the Provo-Orem and Ogden-Clearfield MSAs seeing the largest occupancy gains.
- Under-construction space has trended down sharply since 2019, when a record high 3.7 MSF for the Wasatch Front was underway. Hybrid work models and rising sublet availability are factors.
- Davis and Weber Counties are seeing growth in rents, construction and occupancy, buoyed by activity around Hill Air Force Base and traditional office users that do not want hybrid work models.
- Softening market conditions are strongest in the Tech Corridor, based on ongoing volatility amid its namesake occupiers and their preference for hybrid work models.

Outlook

- Uncertainty reigns in the macroeconomic outlook. Occupiers and investors alike will approach deals with greater caution, which will impact leasing and sales activity.
- Market vacancy will increase further as lease expirations occur and tenants continue the trend of renewing and/or leasing at smaller footprints. Sublet vacancy is expected to slowly transition to direct vacancy as expirations approach and lowered demand keeps space on the market for longer than the historical average.
- Ever-softening leasing conditions in the quarters ahead will pressure landlords to offer more free rent and concessions. This is especially true for sub-trophy buildings.

1. Economy
2. Market Fundamentals:
 - Salt Lake City
 - Davis and Weber Counties
 - Utah County
 - Tech Corridor
3. Utah Capital Markets Overview

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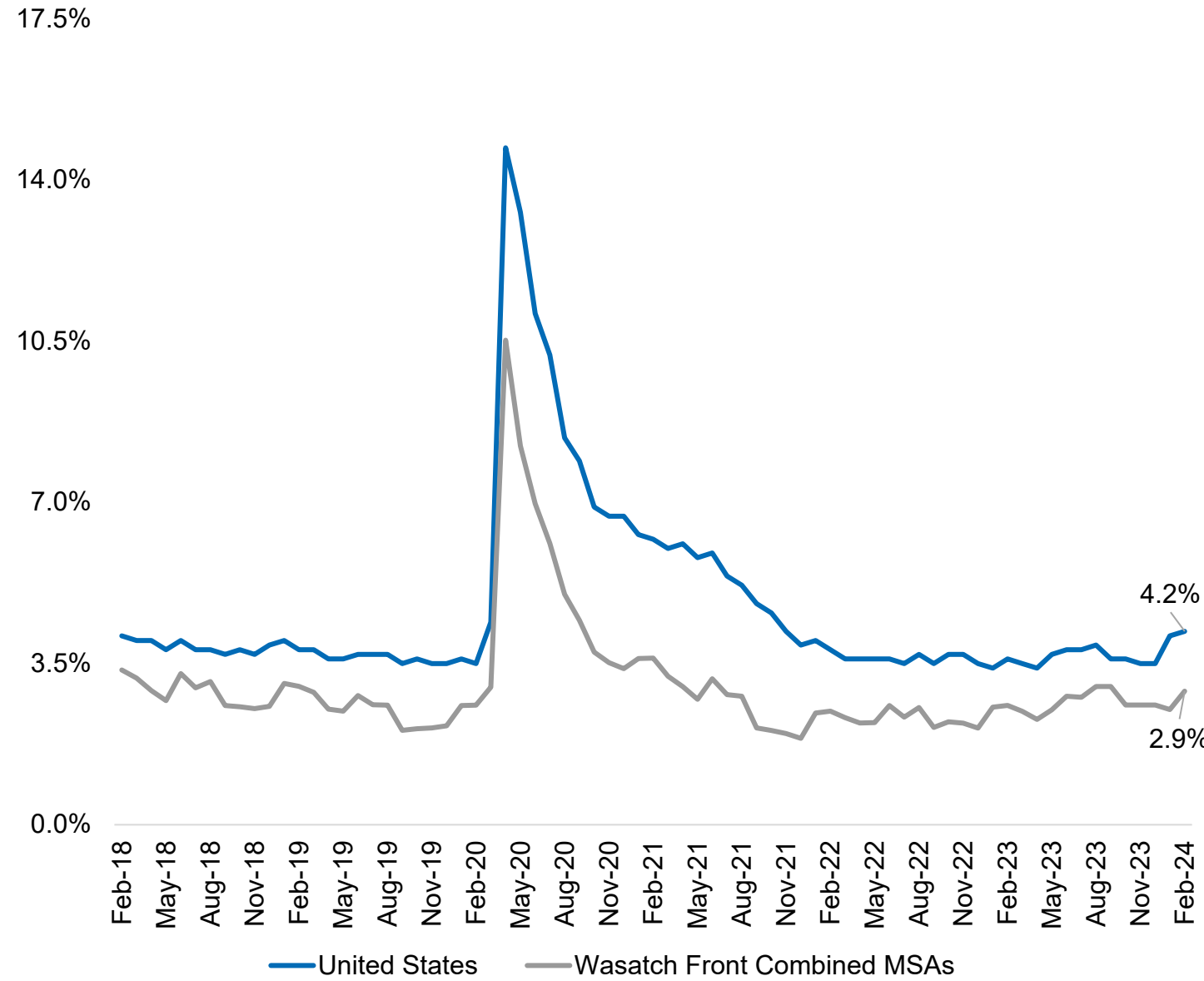
Economy



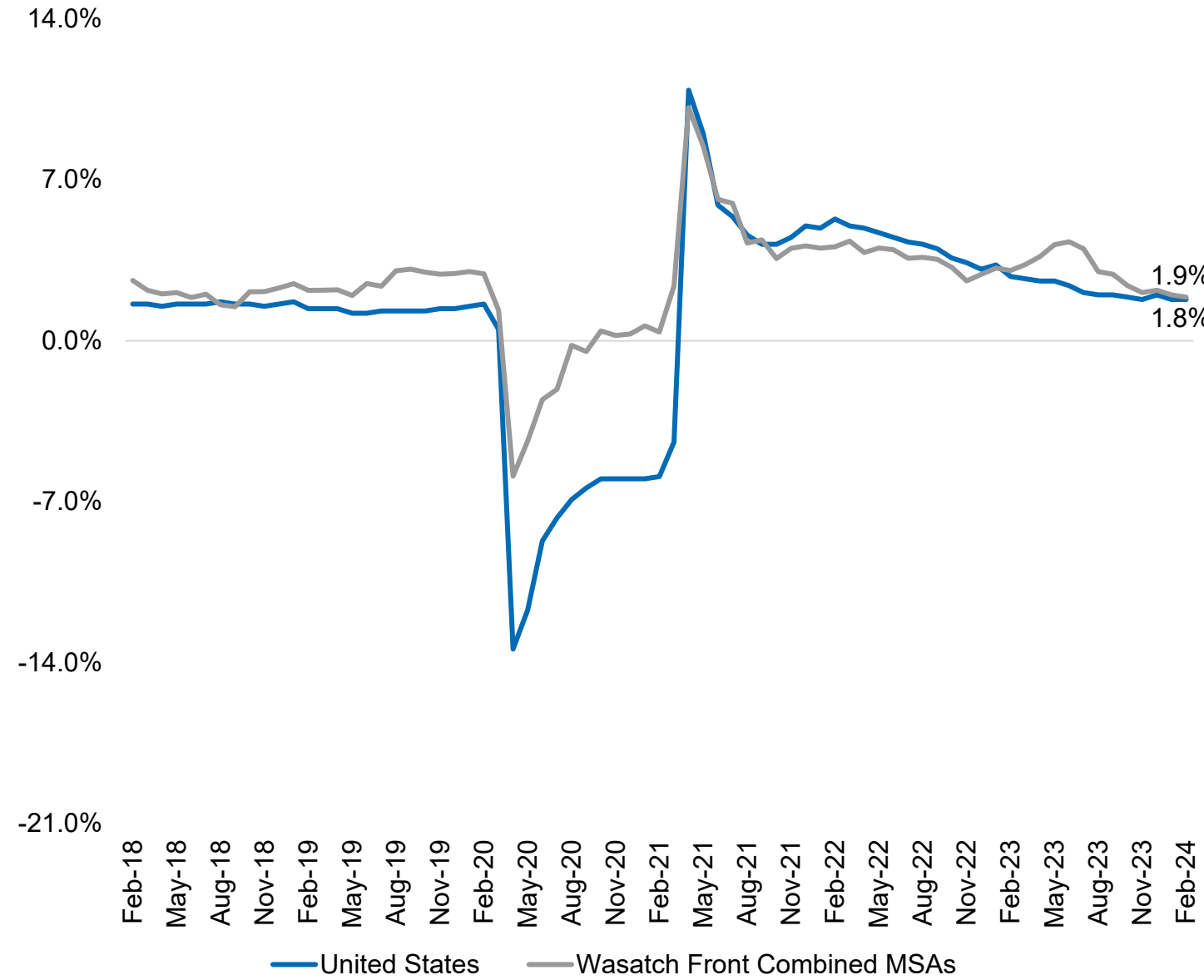
Wasatch Front Labor Market Returns to Pre-Pandemic Trends

Local unemployment has historically remained significantly lower than the national average and has mirrored pre-pandemic rates for two years despite recent economic uncertainty. At the end of February 2024, Wasatch Front unemployment was 130 basis points lower than the national rate. Overall local job growth continues but has slowed and nearly matches the national average, with 1.9% in annual gains relative to 1.8% growth for the U.S.

Unemployment Rate, Not Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

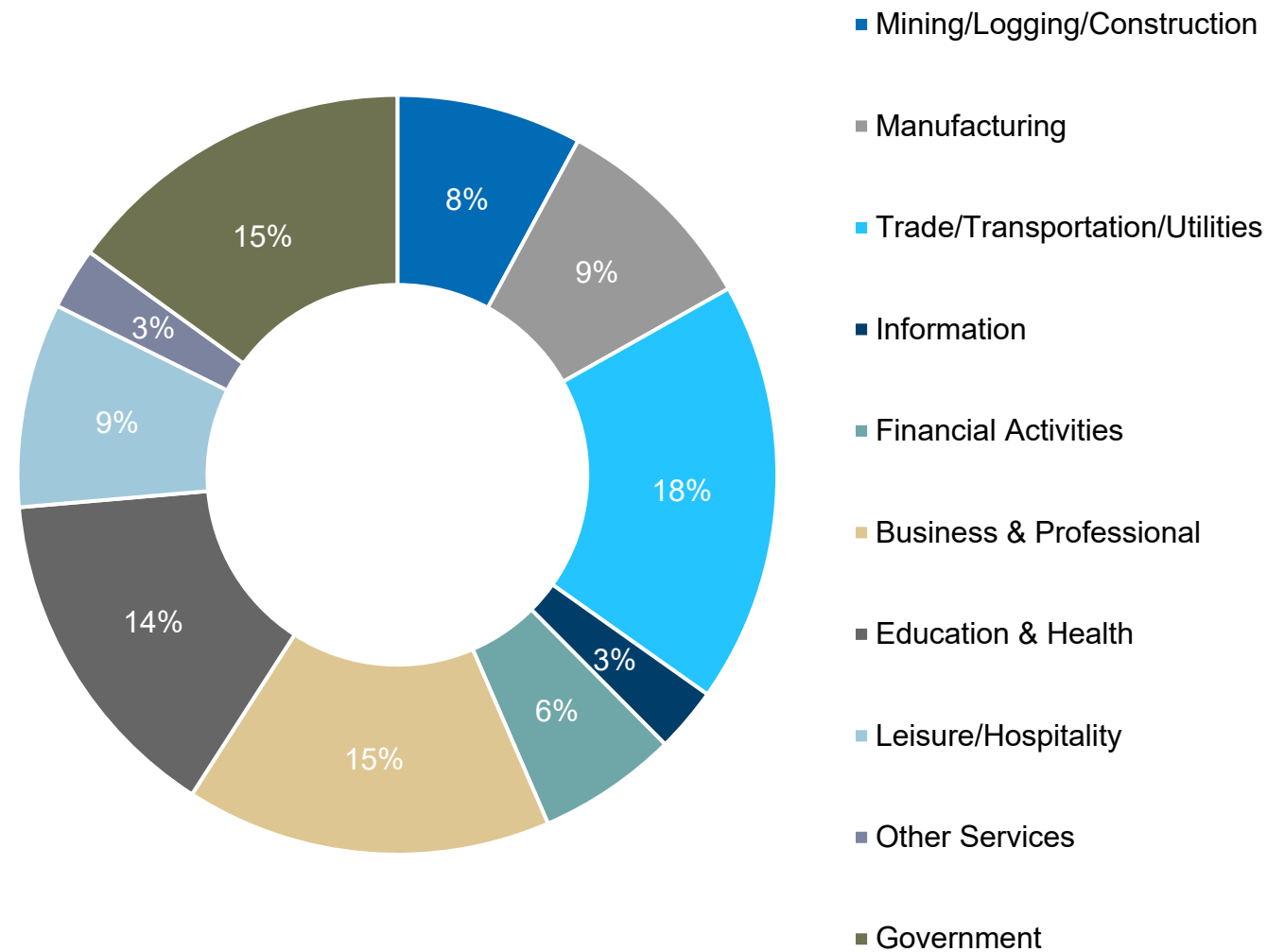


Source: U.S. Bureau of Labor Statistics
 *Wasatch Front Combined MSAs include: Salt Lake City MSA, Provo-Orem MSA and Ogden-Clearfield MSA

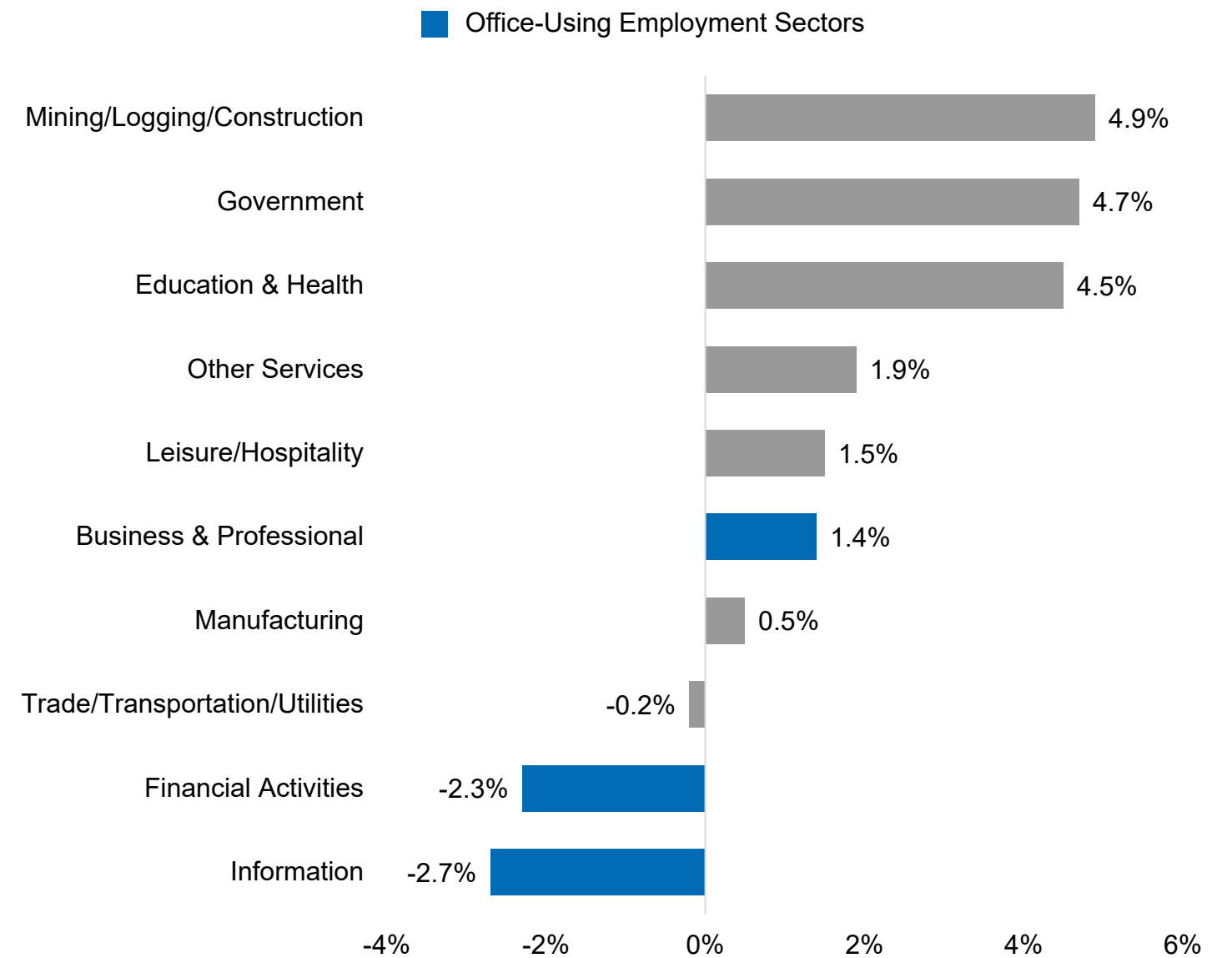
Job Growth Outside of Office-Using Sectors Strong Along Wasatch Front

Year-over-year gains in the mining/logging/construction (+4.9%), government (+4.7%) and education/health (+4.5%) industries buoyed up job growth for the Greater Salt Lake region despite losses among the information (-2.7%) and financial activities (-2.3%) industries. The office sector continues to feel the aftereffects of inflation and the pandemic.

Wasatch Front Employment by Industry, February 2024



Wasatch Front Employment Growth by Industry, 12-Month % Change, February 2024



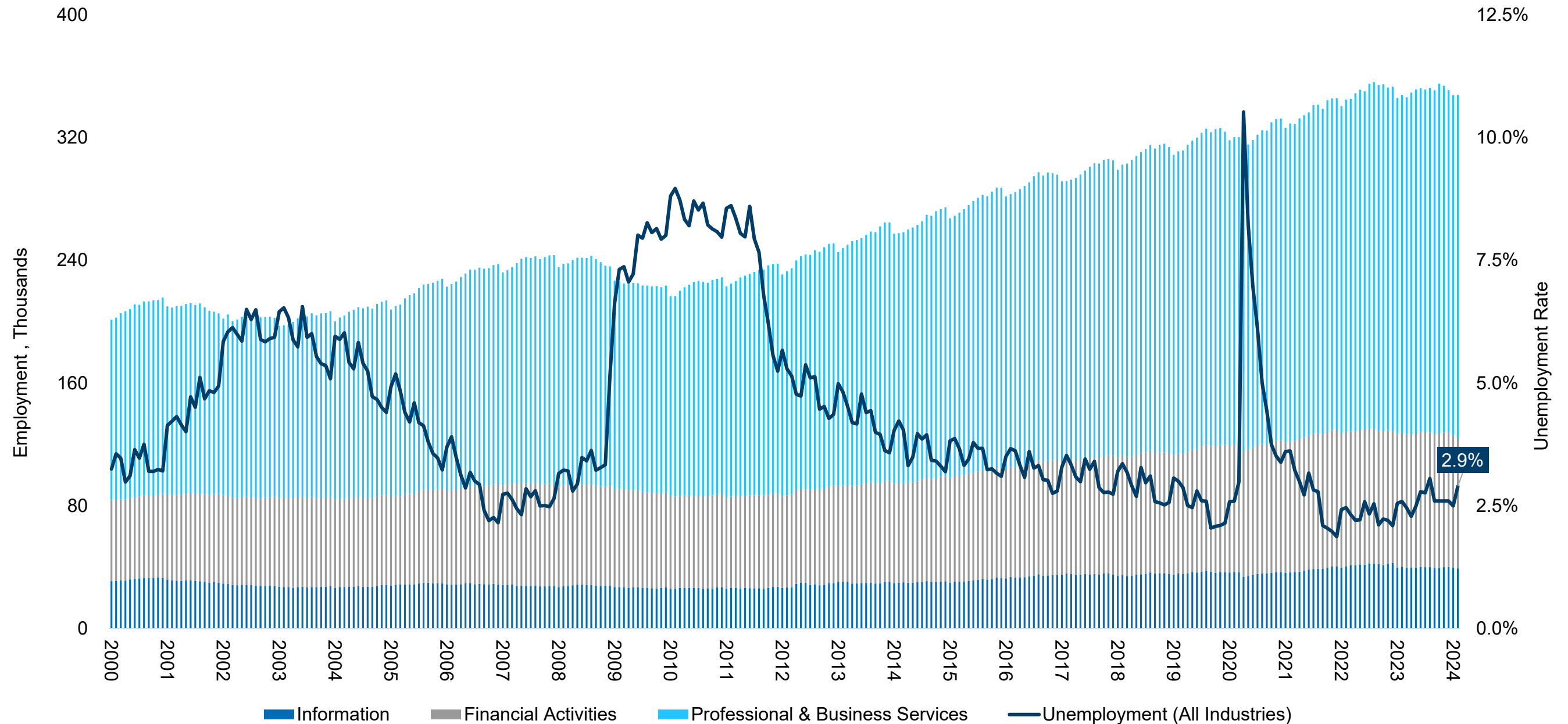
Source: U.S. Bureau of Labor Statistics

*Wasatch Front Combined MSAs include: Salt Lake City MSA, Provo-Orem MSA and Ogden-Clearfield MSA

Overall Office-Using Employment Sits at Equilibrium

Bucking the national trend, Wasatch Front office-using jobs only saw a small dip at the start of the pandemic and have currently found an equilibrium since mid-2022. Job growth for professional and business services has seen the most growth, while information and financial activities vary monthly due to company expansions and layoffs.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics
 Wasatch Front Combined MSAs include: Salt Lake City MSA, Provo-Orem MSA and Ogden-Clearfield MSA
 Note: February 2024 data is preliminary.
 *Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

Utah County Employment Struggles Compared to Rest of Wasatch Front

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Population Has Increased Almost Three Times Over the Past Five Decades

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Salt Lake City Market Fundamentals



Salt Lake County Office Submarket Map and High-Level Statistics – 1Q24

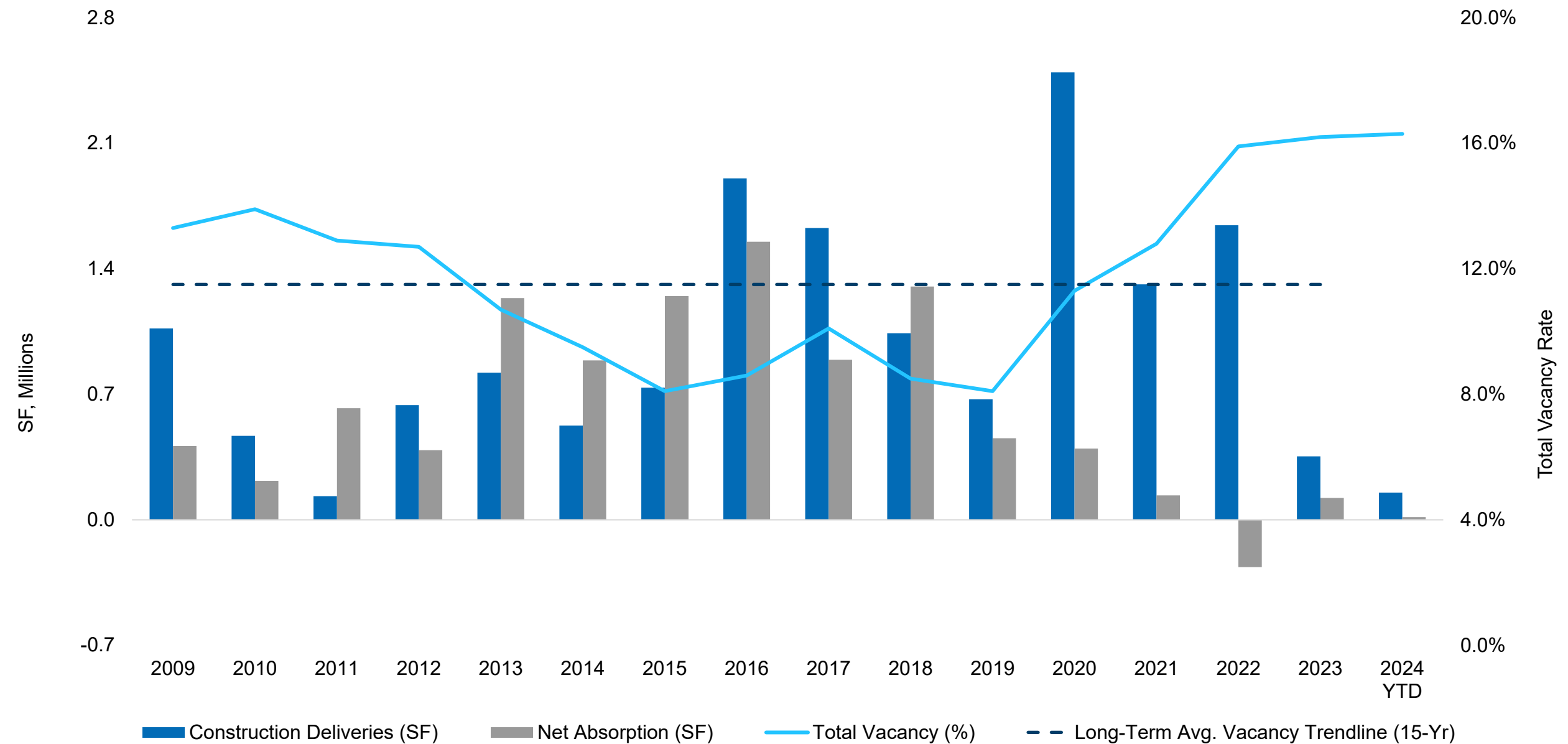


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Overall Vacancy Stabilized Since 2022; Small Absorption Gains in 1Q24

The total vacancy rate has remained within 40 basis points upwards or downwards since the end of 2022, indicating stabilization of space entering and leaving the market. Construction deliveries are slowing, with very little new starts occurring, limited to build-to-suit or owner-occupied developments. The market's move to turn off new speculative supply has aided in keeping vacancy stabilized in recent quarters in attempts to avoid a glut of large blocks of space entering the market and sitting vacant.

Historical Construction Deliveries, Net Absorption, and Vacancy

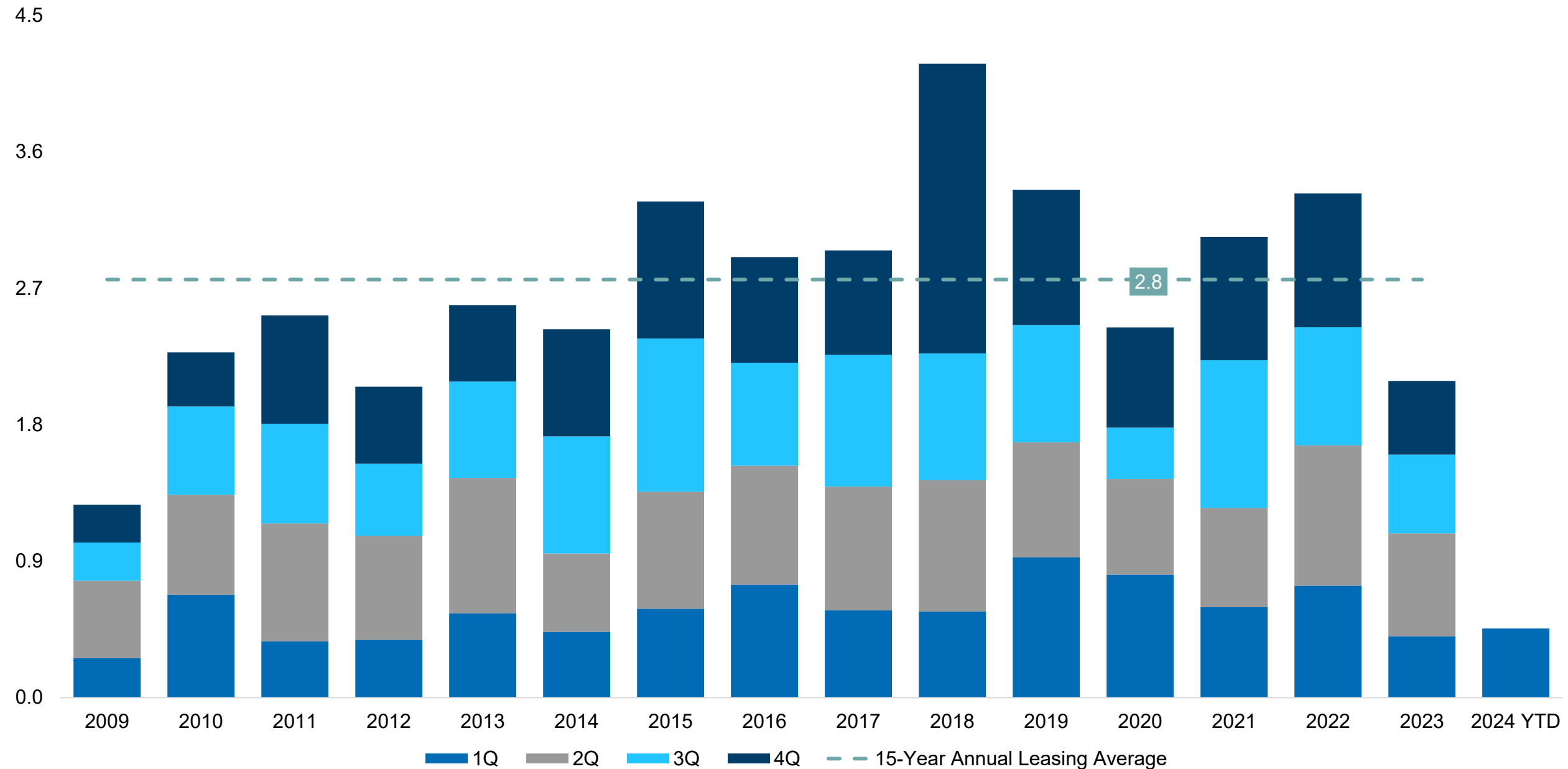


Source: Newmark Research

Leasing Activity Dampened for Another Quarter

Leasing activity in the first quarter of 2024 was up 12.8% compared to the first quarter of 2023. However, leasing remains just over 20% lower than the first quarter average over the past 15 years. Ongoing space reductions, a cloudy economic outlook and the higher cost of capital are all factors. The number of deals occurring are near the same rate as prepandemic levels, but the overall average transaction size is smaller as tenants take less space in renewals or downsize as hybrid work models are adopted.

Total Leasing Activity (MSF)

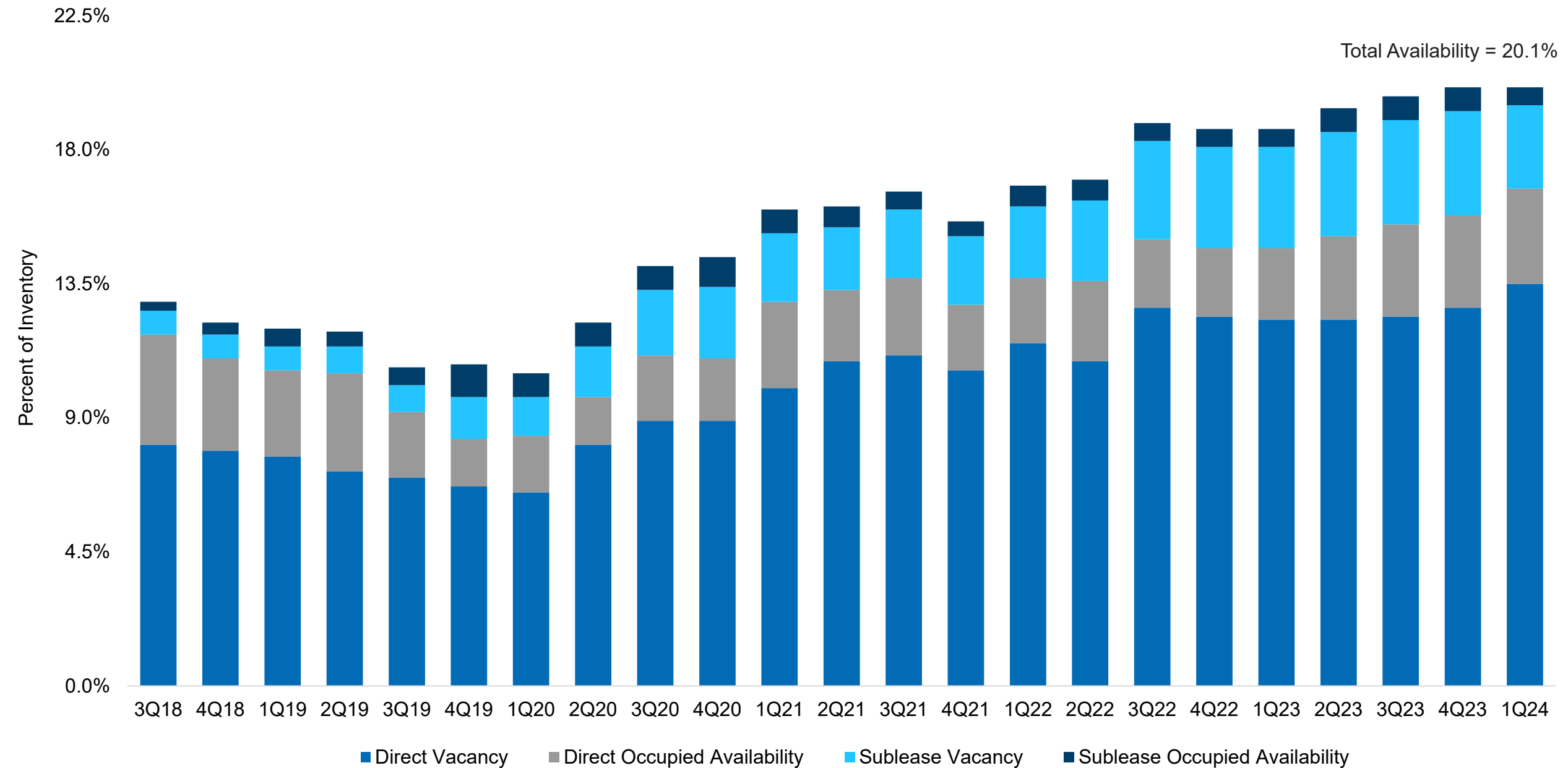


Source: Newmark Research

Availability Unchanged, Shift From Sublet to Direct Starting

Tenants are generally using less space, which has led to upticks in sublease and direct availability since the onset of the pandemic. Sublease availability sits at 3.4%, 60 basis points higher than the five-year average of 2.8%. Numerous upcoming lease expirations in 2024 and 2025, coupled with the overall trend of smaller renewal or relocation footprints, may contribute to vacancy increases, especially for direct space as current subleases on the market expire.

Availability Breakdown



Source: Newmark Research

Sublease Availability Concentrated Heavily to the Southern Submarkets

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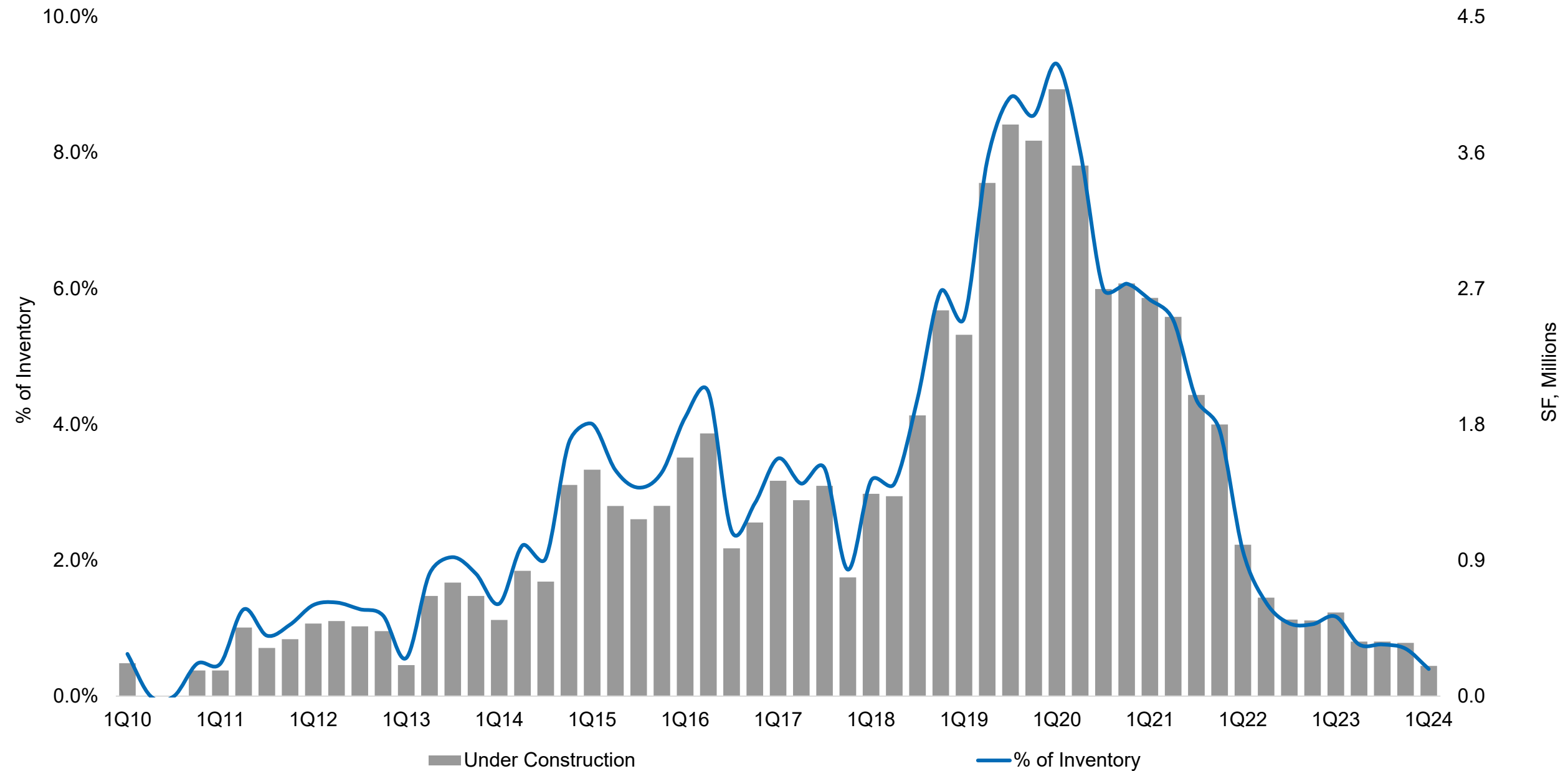
Upcoming Sublet and Direct LEDs a Concern Among Lowered Leasing Activity

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Office Construction at Lowest Levels Since 2010

Under-construction activity climbed to a record high in 2020 and has been trending down since. Today's new construction starts largely consist of built-to-suit or owner-occupied projects as speculative builders turn to better-performing product types, such as industrial and multifamily, for now. Office deliveries for the Metro totaled 152,090 SF in the first quarter of 2024 with only 200,888 SF underway at quarter-end, further illustrating measured office growth within the Metro.

Office Under Construction and % of Inventory

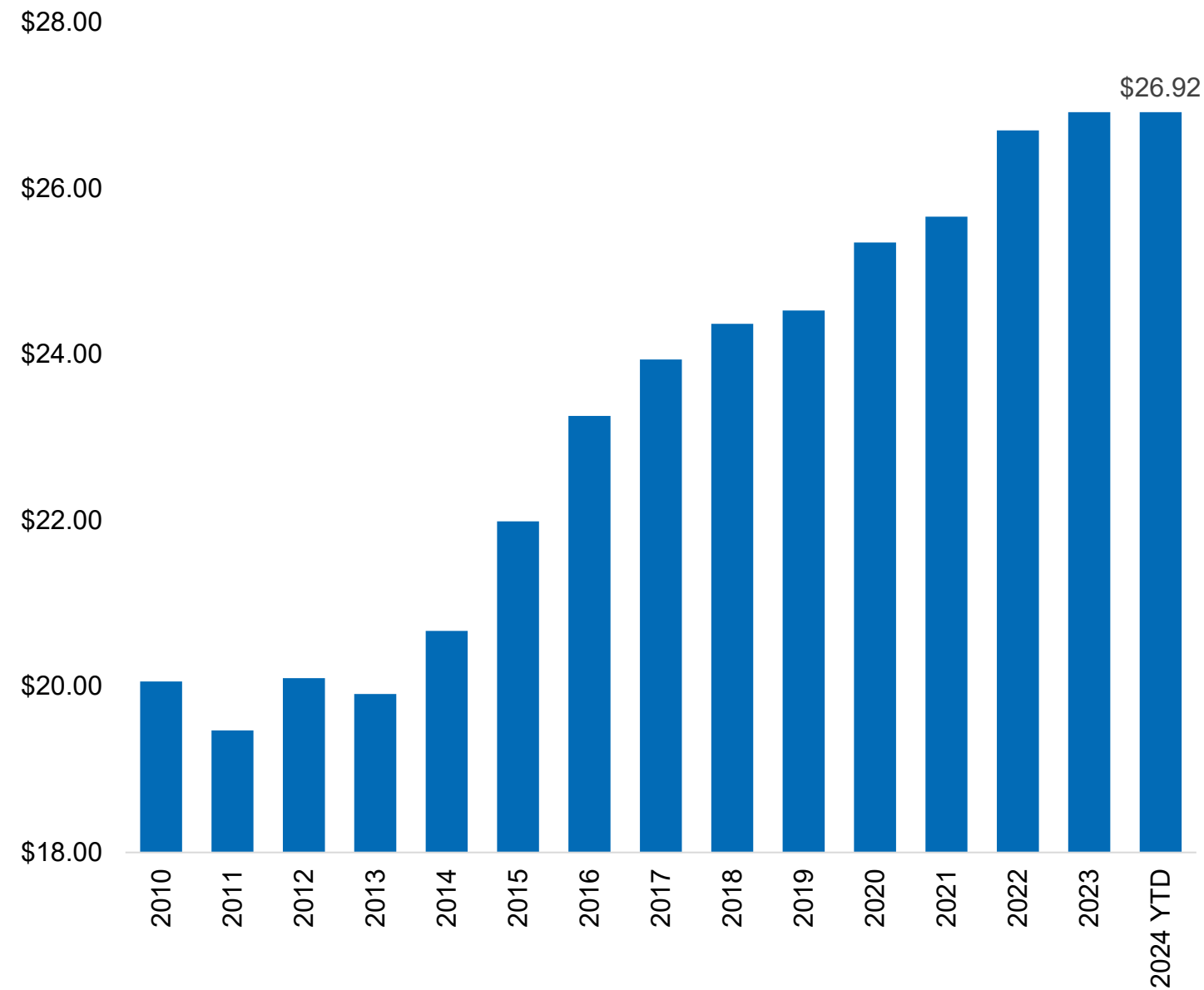


Source: Newmark Research

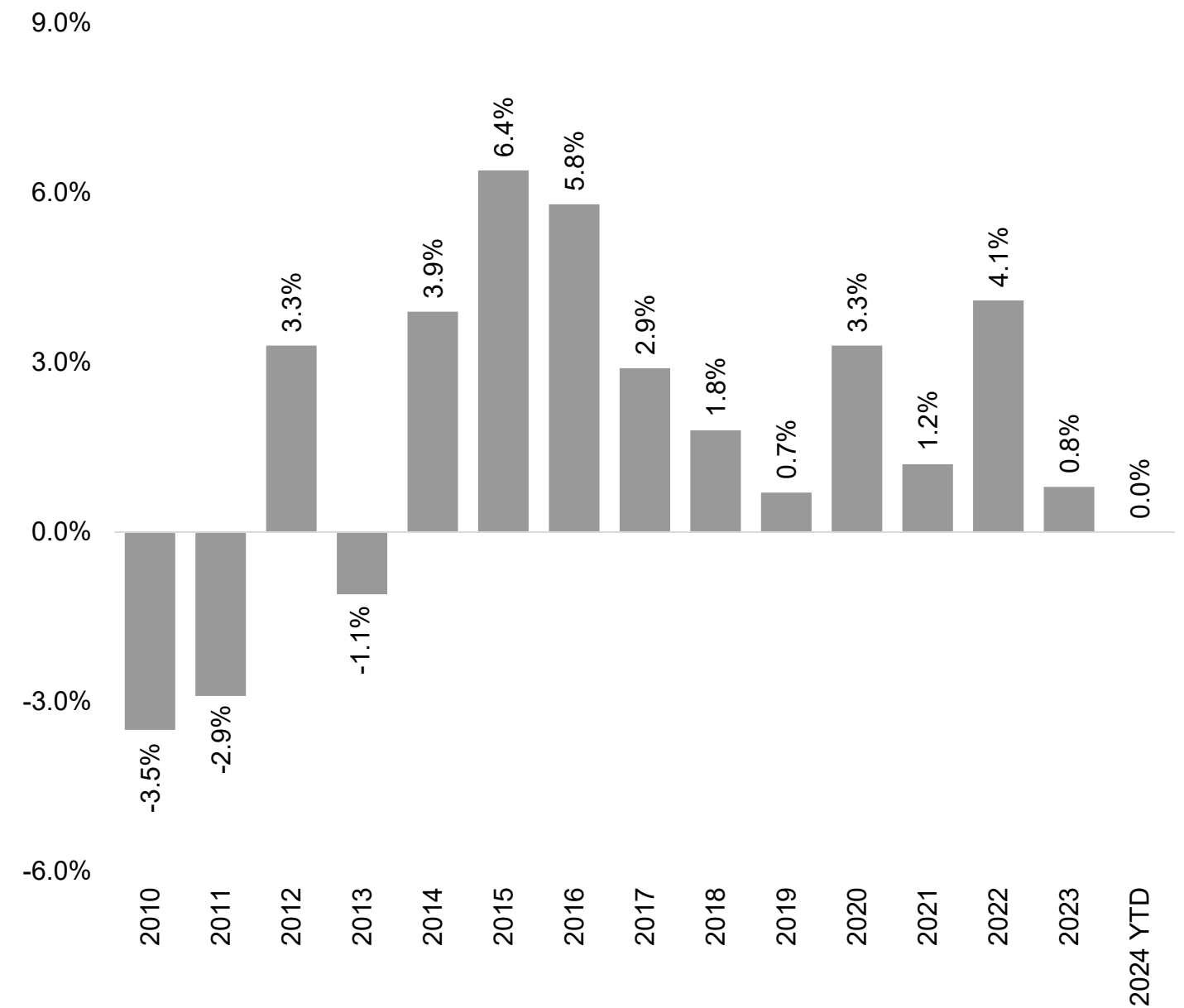
Average Asking Rents Unchanged as Availability Remains the Same

As availability stayed at 20.1% quarter-over-quarter, asking rates also remained unchanged. Despite rising availability in recent years, overall asking rates have increased and have slowed to half in velocity at the beginning of 2024. Fewer office deliveries (with high asking rents), paired with more spaces becoming officially vacated throughout 2024, rent growth will continue to stagnate in the coming quarters.

Office Average Asking Rent, \$/SF/Year, FS



Year-over-Year Asking Rent Growth Rate

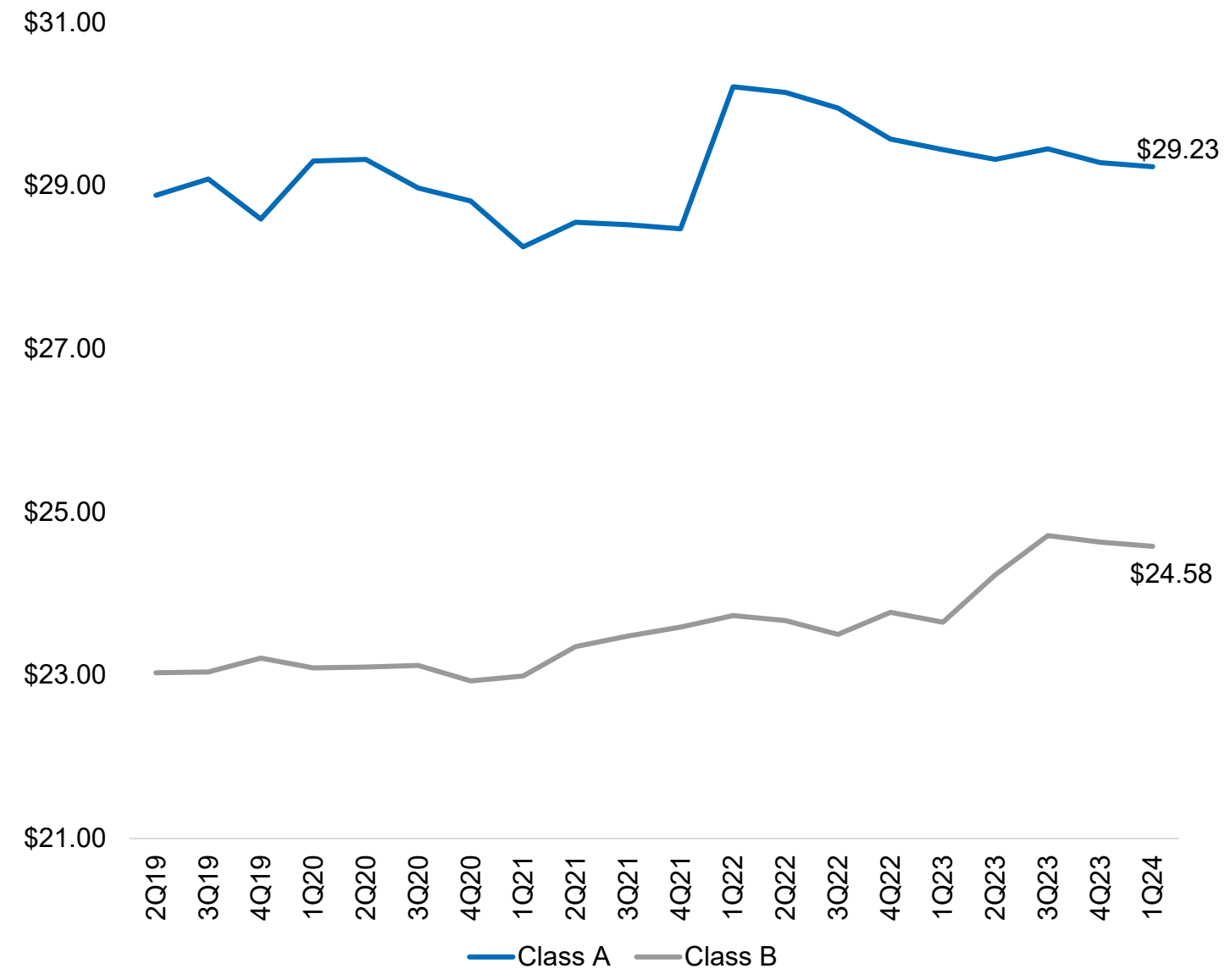


Source: Newmark Research

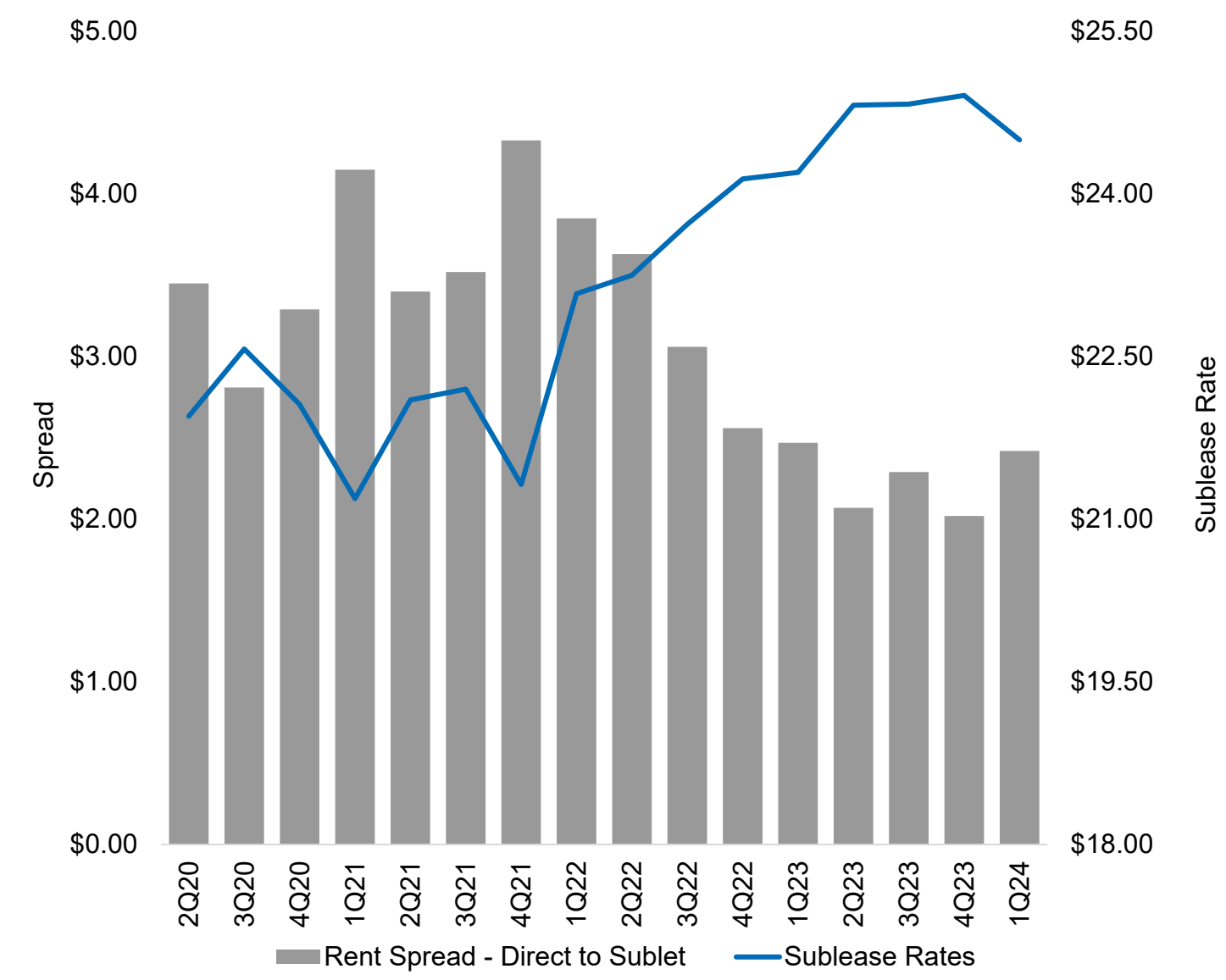
Expected Rate Delta Widening Between Direct and Sublet Came to Fruition

The rent delta between direct and sublet space has narrowed in recent quarters, averaging near \$2.21/SF for the last year. The expected rent spread widening did occur during the first quarter of 2024; expired sublease space reentered the market at higher direct asking rates while sublessors pushed rates lower in attempts to offload costs. The friction between sublessors and lessors portends rate spread stabilization as both work to attract users in a market experiencing higher vacancy and lowered demand for large blocks of space.

Class A and Class B Asking Rents



Sublease Asking Rates



Source: Newmark Research

Sublease Space Attracted Users in 1Q24 Around the Metro

Subleases and renewals propelled overall leasing activity at the start of 2024. Larger blocks of space are still struggling to find tenants, with most deals signed this quarter being 10,000 SF or less. These smaller deals accounted for 82.9% of all transactions within the Metro.

Notable 1Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Canopy Tax	SoJo Station 1	Southtowne	Sublease	31,441
<i>Canopy Tax took 31,441 SF of the InMoment sublease in SoJo Station.</i>				
MetTel, Inc	US Bank Downtown Office	Central Business District	Sublease	29,378
<i>Quickbase subleased 29,378 SF to MetTel, Inc in Downtown Salt Lake City.</i>				
Teleperformance USA	Ninigret X	Lake Park	Lease Renewal/Downsize	27,629
<i>Formerly the sole tenant, Teleperformance USA renewed only 27,629 SF of the 96,120 SF and placed the remaining portion up for sublease.</i>				
Geneo United	Salt Lake Hardware	Periphery	Sublease	22,918
<i>Geneo took the Insulet sublease on the third floor of the Salt Lake Hardware building.</i>				
Aumni, Inc	Cornerstone 2	Cottonwood	Lease Renewal	21,147
<i>Dakota Pacific's Cornerstone 2 retained Aumni, Inc as a tenant in a lease renewal; Aumni retained current office footprint.</i>				



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Davis and Weber Counties Market Fundamentals



Davis and Weber Counties Office Map and High-Level Statistics – 1Q24

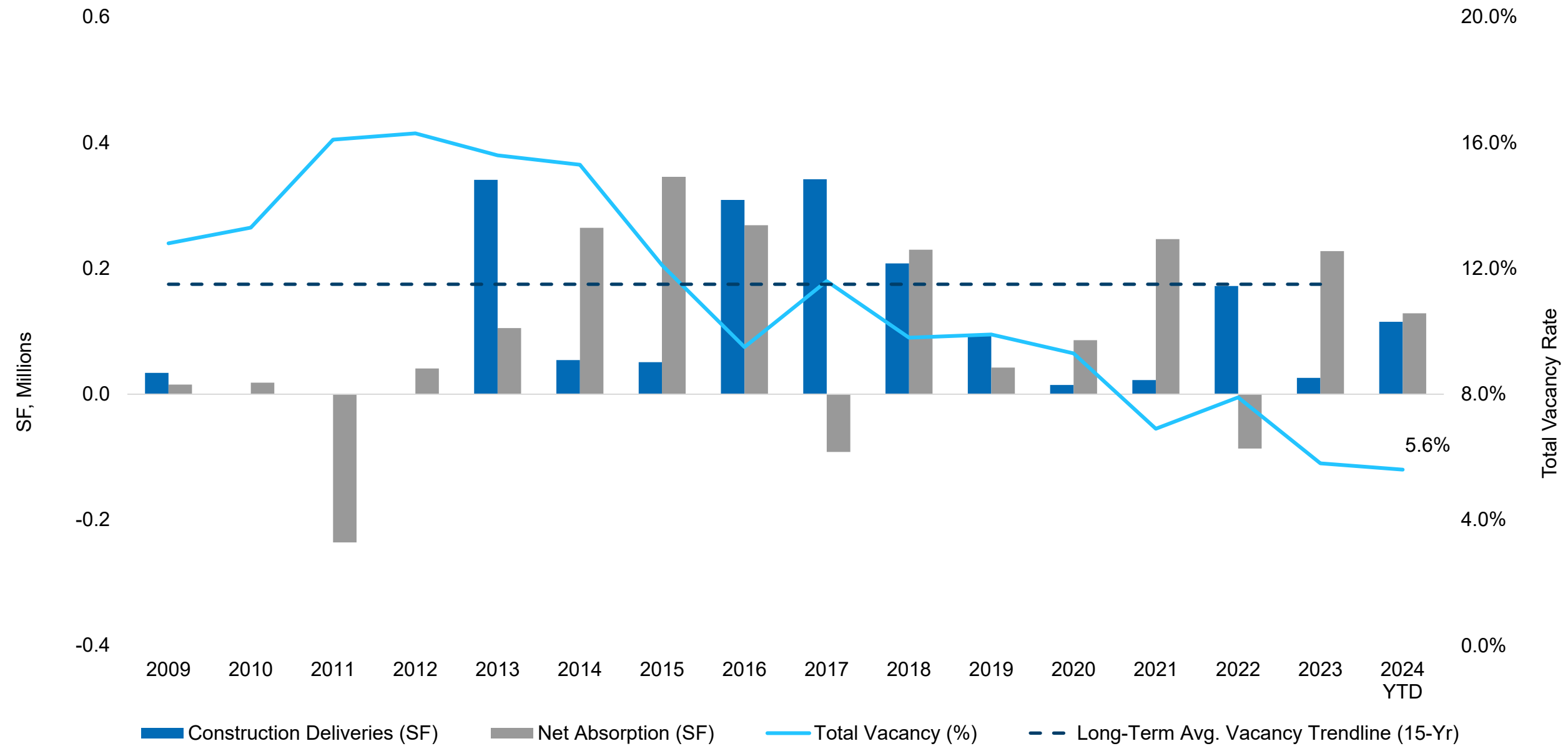


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Office Vacancy in Davis and Weber Counties Lowest Across the Wasatch Front

Total vacancy is down 230 basis points since 2022 and sits well below the 15-year average of 11.5%. Strong employment from Hill Air Force Base, coupled with moderate office development, are key factors. While lowered vacancy is welcome, it has pushed some tenants to look elsewhere due to a lack of available Class A product. Recent office development announcements illustrate the desire to build and expand within the market and will bring much-needed trophy space.

Historical Construction Deliveries, Net Absorption, and Vacancy

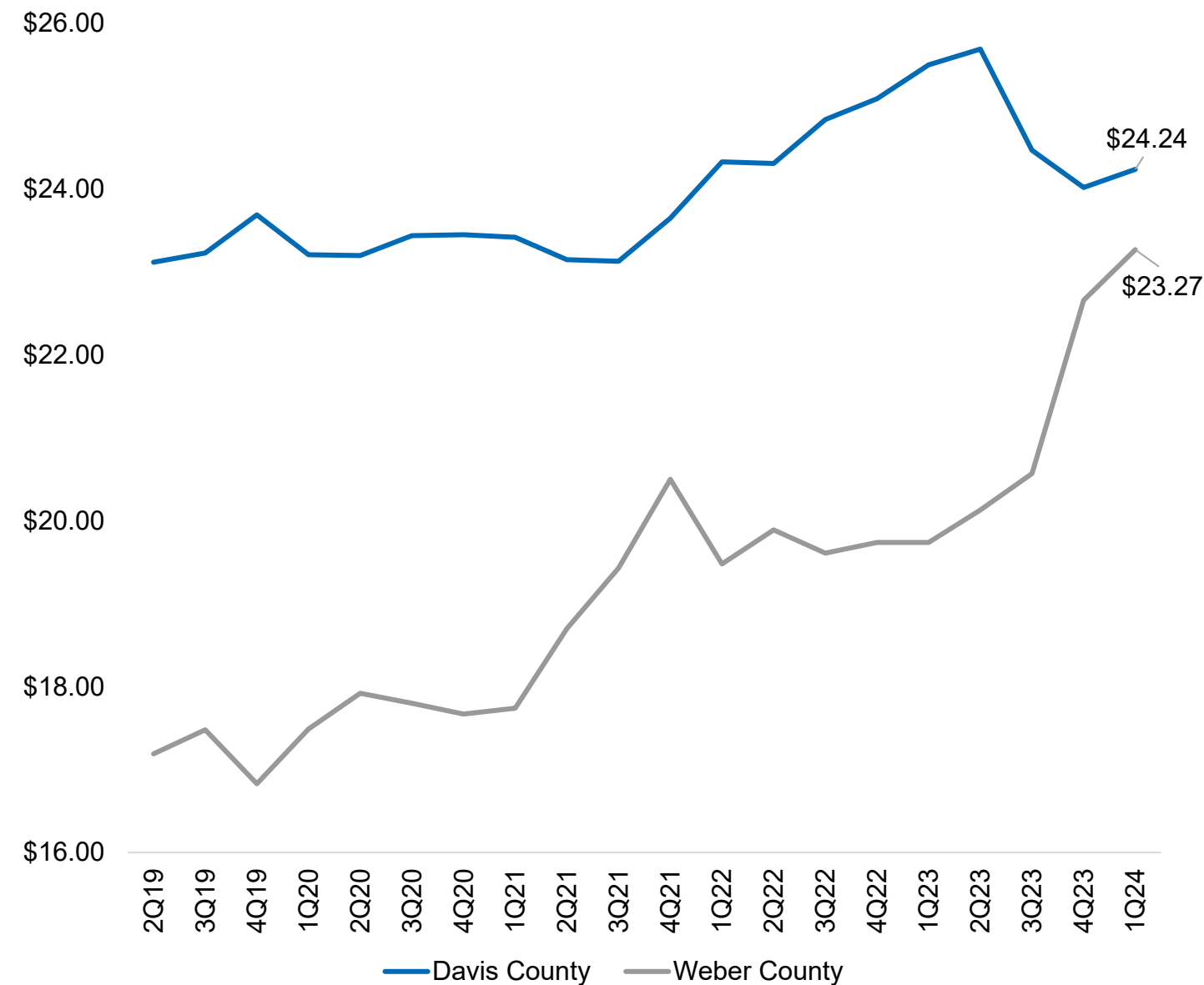


Source: Newmark Research

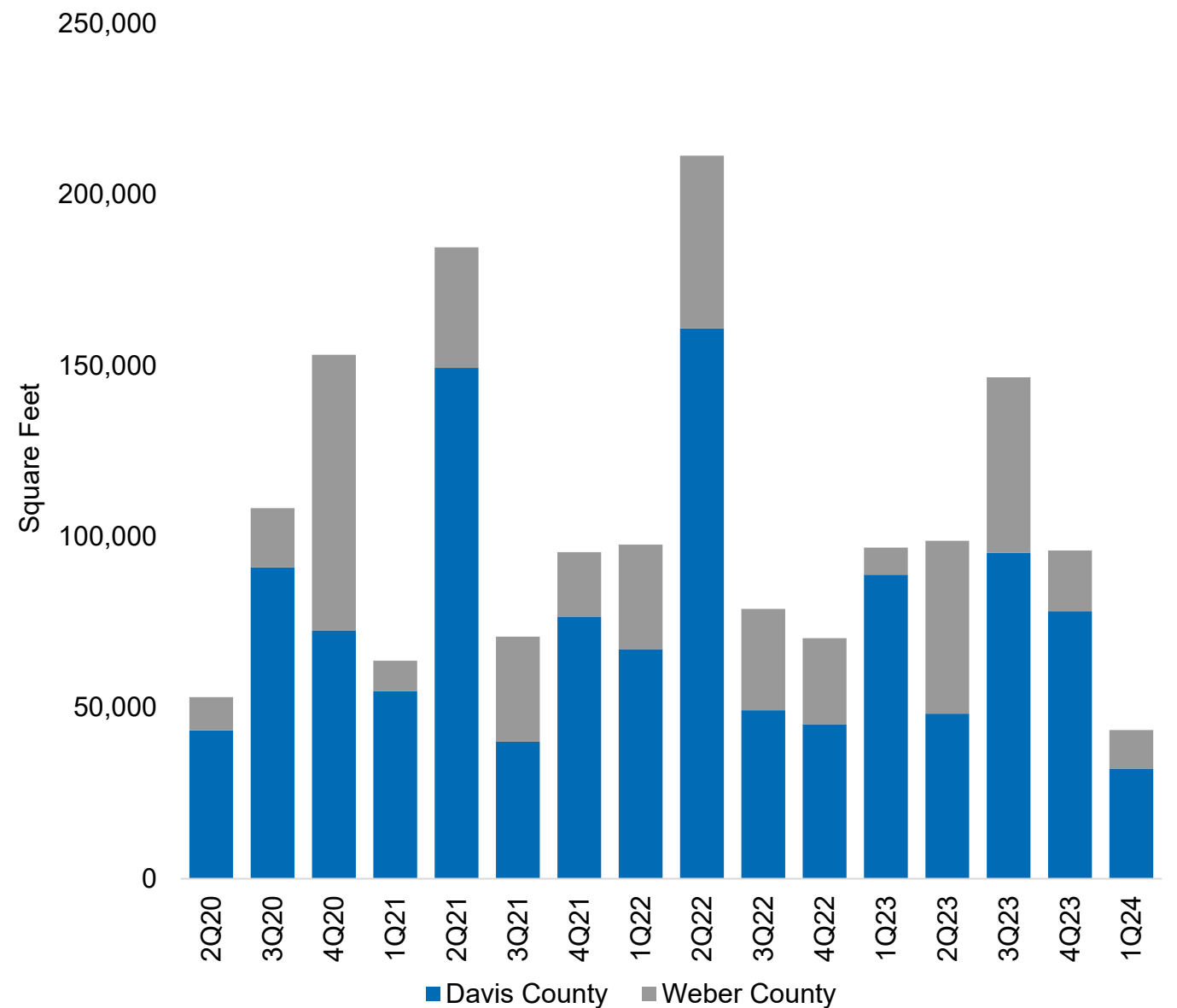
Davis and Weber Asking Rate Gap Closes

Fewer Class A options in Davis County compared with Weber County closed the asking rate gap between the two counties in recent quarters. Combined leasing activity of both counties was down in the first quarter of 2024, the lowest the region has seen since the pandemic's onset. This is largely attributed to few larger blocks of space available on the market for tenants to move and is expected to bounce back with upcoming deliveries.

Davis and Weber Counties Asking Rents



Total Leasing Activity



Source: Newmark Research

New Leases Take the Forefront

Tenants made strong moves to sign new leases throughout Davis and Weber Counties in the last 12 months, a testament to the strong fundamentals the office market has in attracting users to the northern portion of the Wasatch Front.

Notable Lease Transactions – Last 12 Months

Tenant	Building(s)	City	Type	Square Feet
Confidential	1640 E. Highway 193	Layton	Direct Lease	43,599
<i>A confidential tenant signed a lease to occupy the Layton Grandview office development and the project should break ground soon.</i>				
Confidential	Iomega Building 6	Roy	Direct Lease	36,130
<i>A confidential tenant leased the entire building.</i>				
VirnetX	Station Park E	Farmington	Direct Lease	28,970
<i>Cybersecurity company, VirnetX, took the second floor of the mixed-use development.</i>				
Eagle Gate College	Layton Hills Office Park	Layton	Direct Lease	14,493
<i>Layton Hills Office Park welcomed Eagle Gate College into two of the buildings for a total of 14,493 SF.</i>				
Sandridge Constructors	Riverdale Freeway Park Office	Riverdale	Direct Lease	13,040
<i>Construction company, Sandridge Constructors, signed a lease for the entire building (13,040 SF) in Riverdale.</i>				

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Utah County Market Fundamentals



Utah County Office Map and High-Level Statistics – 1Q24

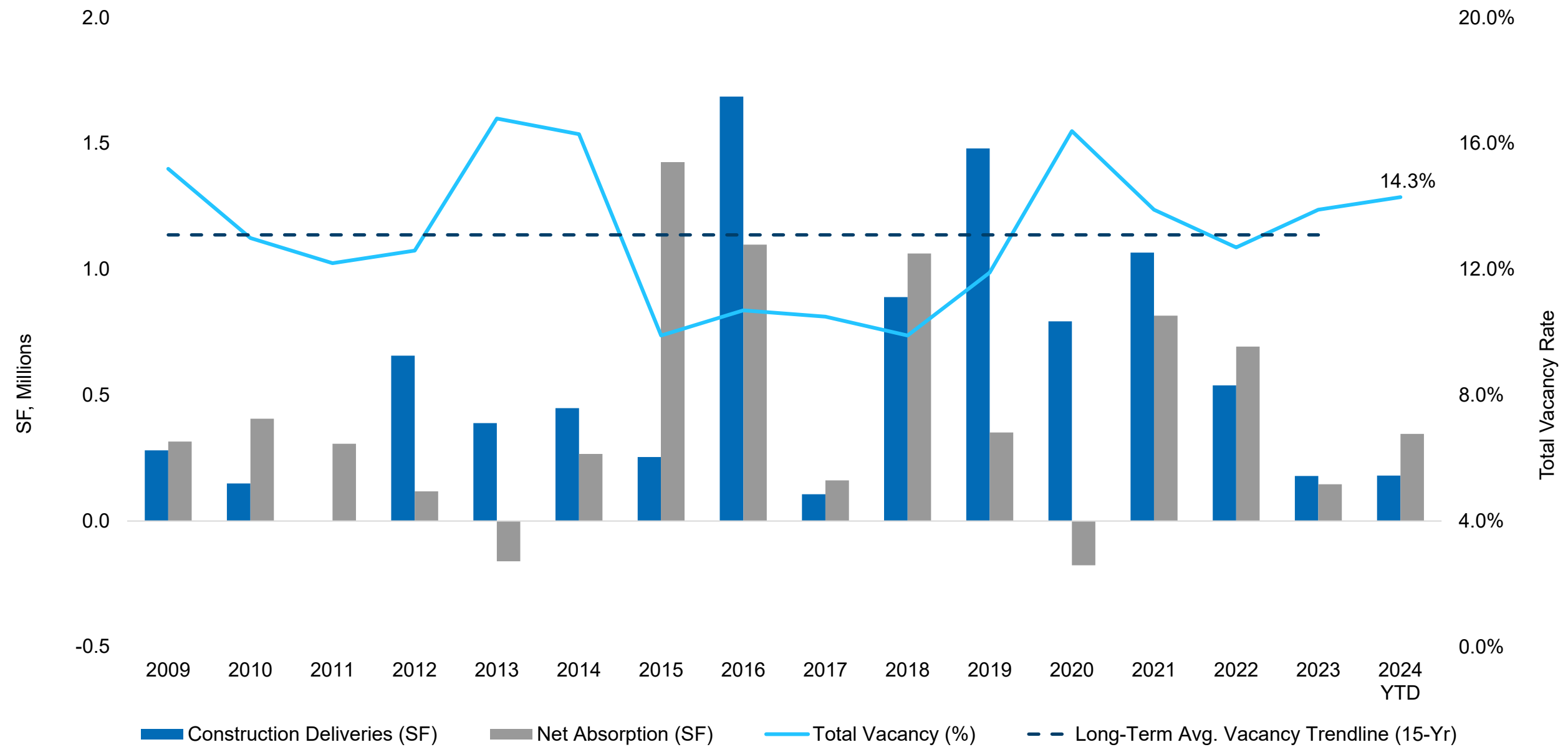


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Net Absorption Outpaces Construction Deliveries at Start of 2024

With construction deliveries in the first quarter of 2024 already higher than all of 2023, both net absorption and total vacancy experienced increases due to partial occupancy at delivery. The gradual rise in vacancy continues to be heavily affected by large blocks of both direct and sublet space in the northern portion of the county. With no new construction starts, vacancy gains will moderate in the coming quarters with a shift from sublet to direct vacancy expected as sublease expiration dates approach.

Historical Construction Deliveries, Net Absorption, and Vacancy

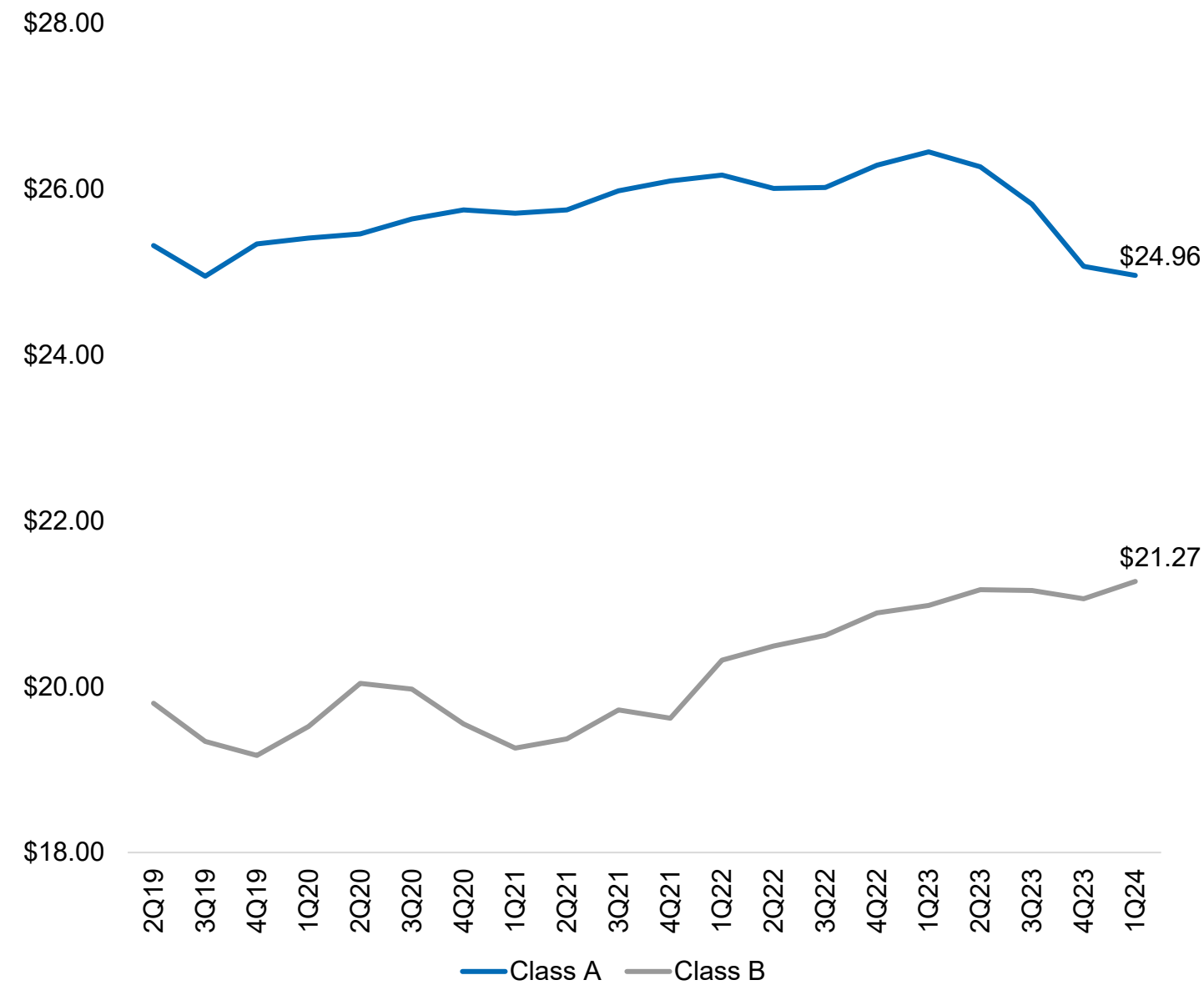


Source: Newmark Research

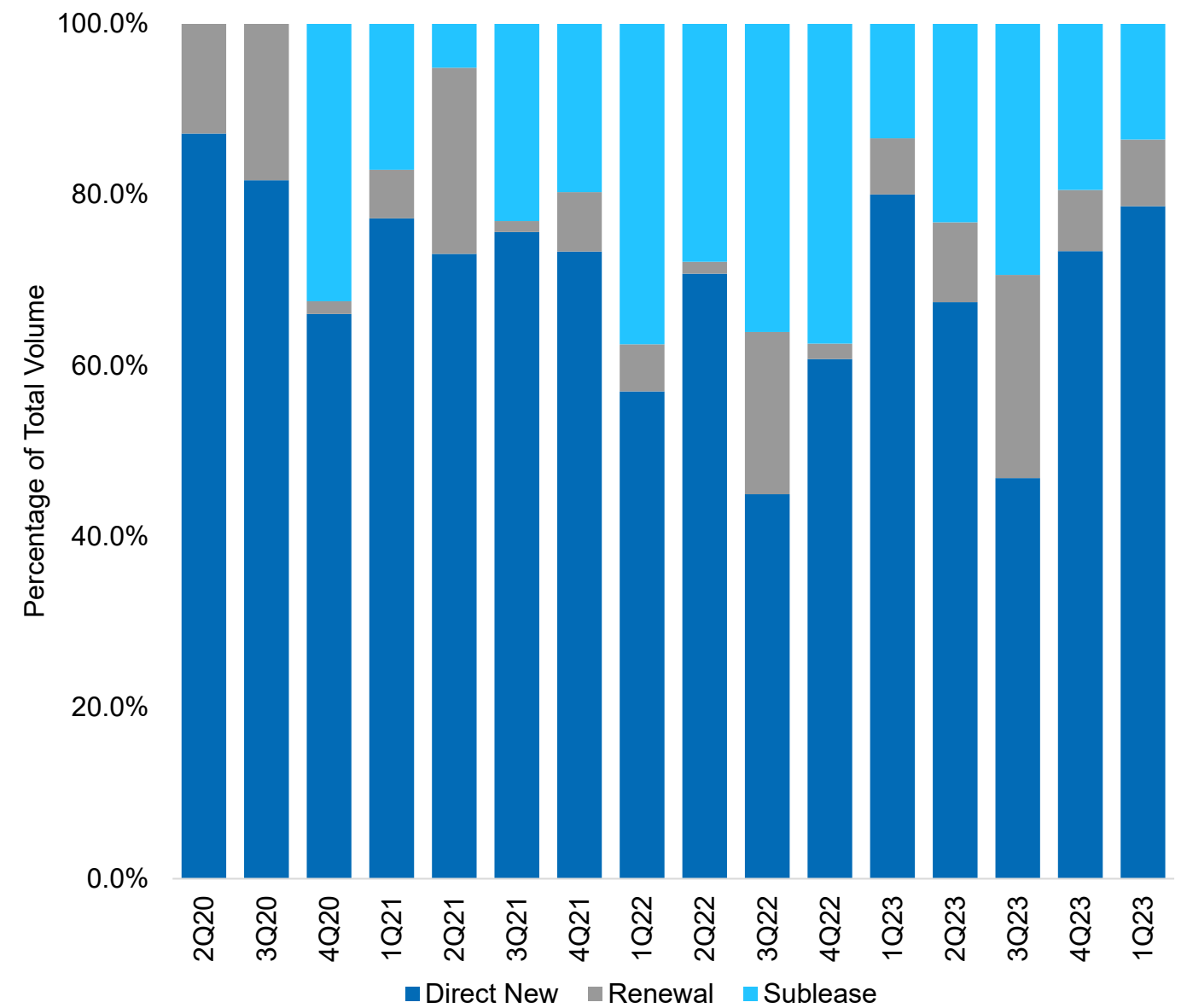
Asking Rents Lower; Overall Transaction Volume Dampened

Despite high construction in recent years, average asking rates have not increased significantly. Much of this is from landlords of existing product willing to lower rents to vie for business. Direct asking rents are now trending down as more space comes online and remains on market longer than the historical average. Leasing activity is still dampened compared to 2021 and 2022, with leasing volume down 24.1% year-over-year.

Class A and Class B Asking Rents



Transaction Leasing Volume Overview



Source: Newmark Research

Leasing in Northern Utah County Dominates Transaction Activity

Despite being hit heavily with increased vacancy in both direct and sublet space, the northern portion of the county remains very active. Large transactions are more frequently found in sublease transactions that are quick plug-and-play options with lower rates compared to direct.

Notable Lease Transactions – Last 12 Months

Tenant	Building(s)	City	Type	Square Feet
Pattern Inc	Innovation Pointe 3	Lehi	Sublease/Expansion	90,890
<i>In two separate deals, Pattern took 60,928 SF and then added an additional 29,962 SF for a total footprint of 90,890 SF.</i>				
Foundever	University Place	Orem	Renewal	63,247
<i>University Place kept Foundever as a large tenant in for another term for a total of 63,247 SF.</i>				
Smith Health	Lehi Block 1	Lehi	Sublease	30,965
<i>Smith Health, a pharmacy benefits manager company, took over a portion of the Weave sublease at Lehi Block.</i>				
Gabb Wireless	Thanksgiving Station 3	Lehi	Direct New	30,344
<i>Utah-based company, Gabb Wireless, leased the fifth floor of Thanksgiving Station 3 in Lehi.</i>				
Human Interest	Mountain Tech Center 2	Lindon	Sublease	26,850
<i>Global Payments subleased the second floor to Human Interest, a California-based financial software company.</i>				

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Tech Corridor Market Fundamentals



Tech Corridor Office Map and High-Level Statistics – 1Q24

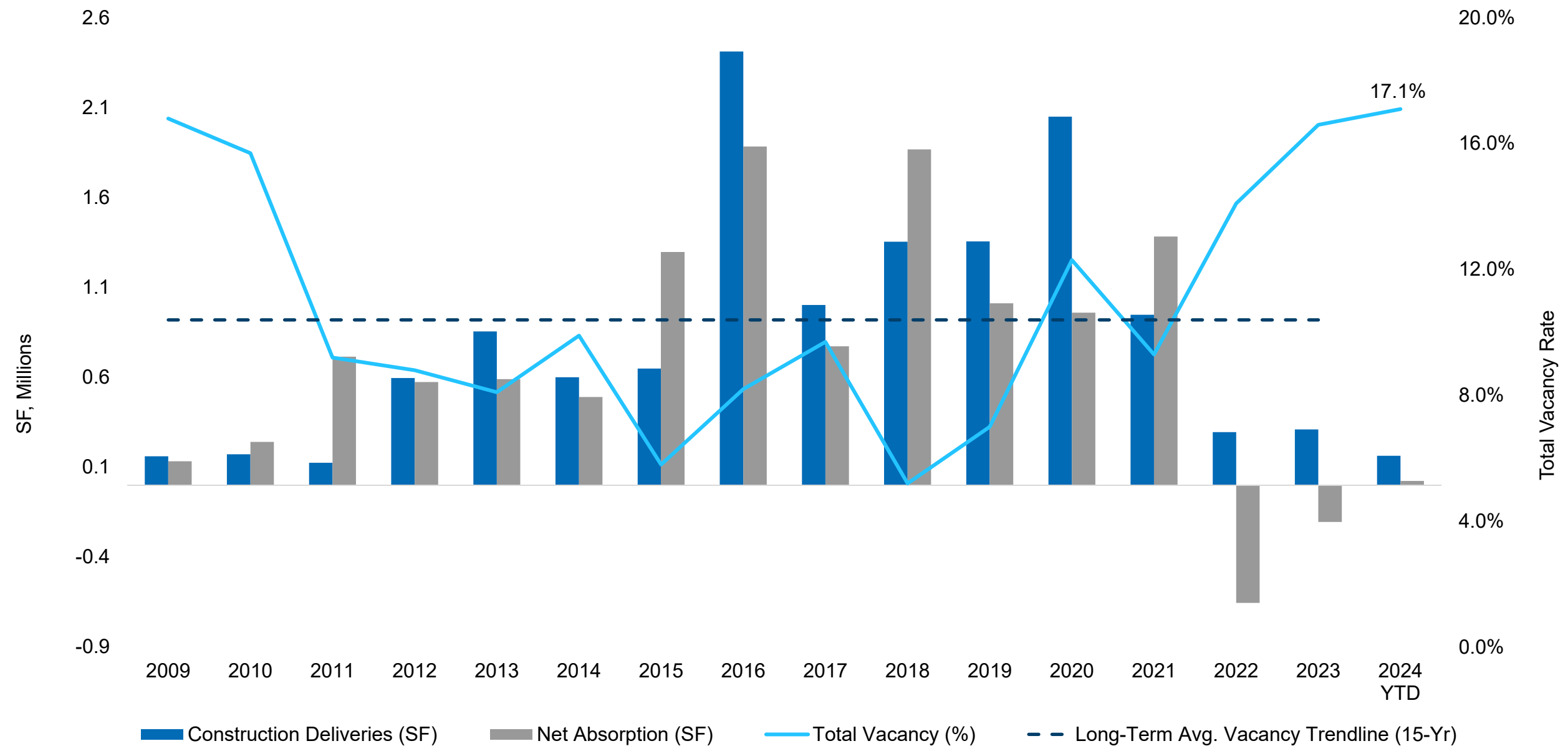


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Sublease Vacancy Lower than Direct Vacancy for First Time in Over a Year

After almost a year of sublease vacancy outpacing direct vacancy, direct vacancy surpassed sublease vacancy once again in the first quarter of 2024. Contributing factors include sublease deals closing as tenants are attracted to plug-and-play options with lowered rents as well as sublease vacancy switching to direct as LEDs occurred. Tenants absorbed 23,192 SF in the first quarter with 164,268 SF delivered within the region and no new construction starts as developers wait to see how space is absorbed and its impact on rents.

Historical Construction Deliveries, Net Absorption, and Vacancy

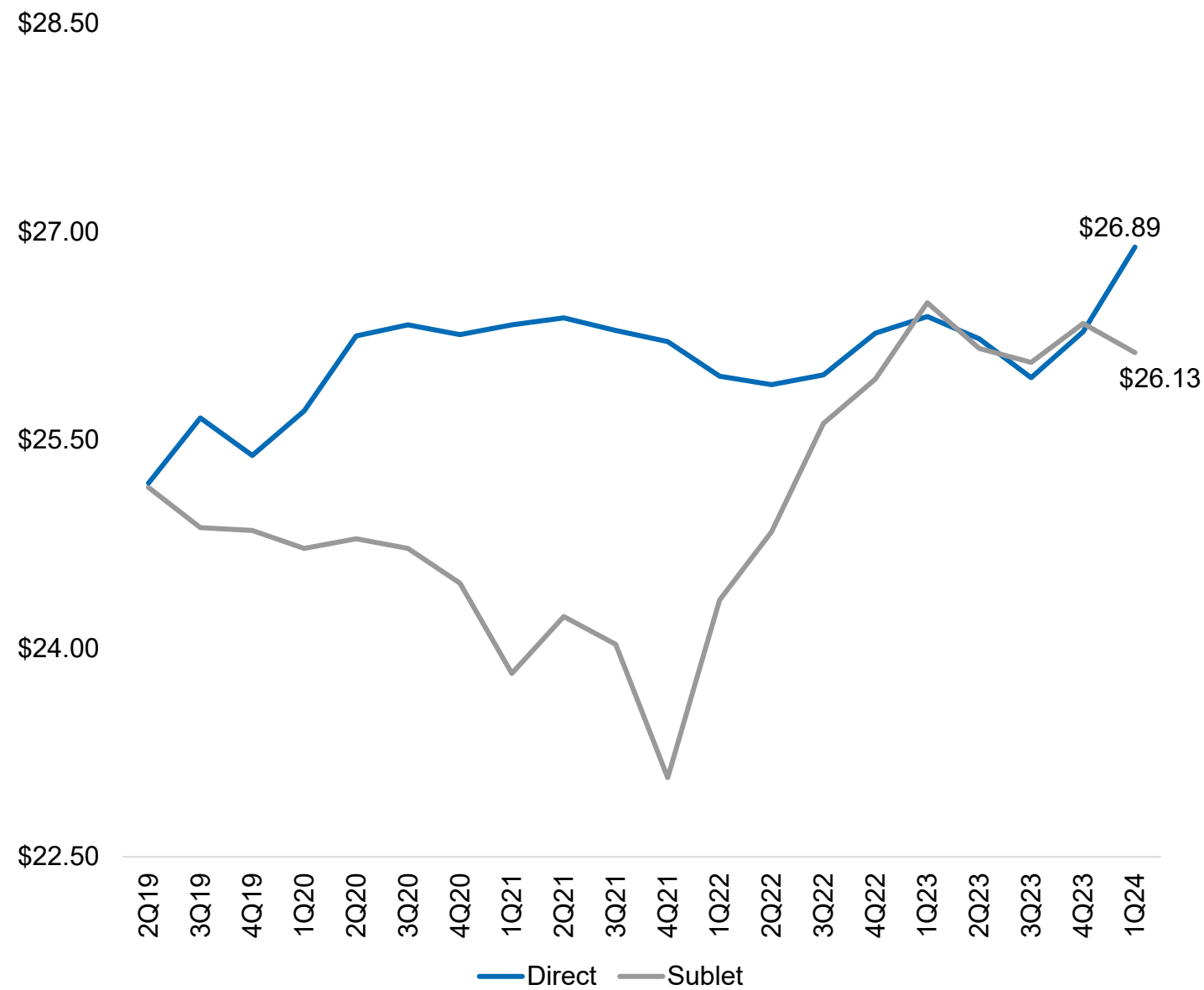


Source: Newmark Research

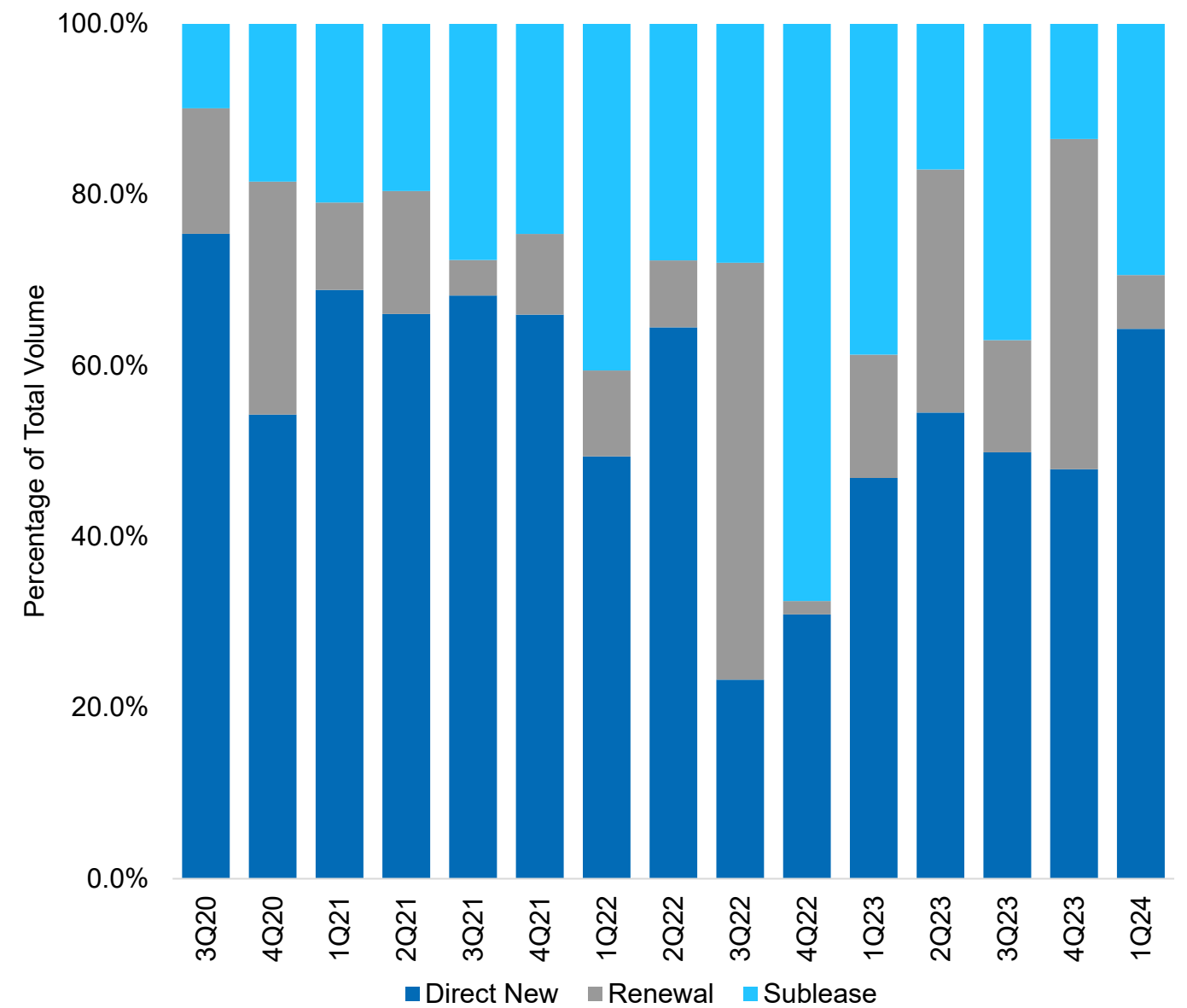
Sublessors Become Bullish in Competition for Tenants by Lowering Rates

Sublease asking rents paralleled direct asking rents in 2023. Now, as space sits on the market and LEDs approach, many sublessors have turned to lowering rates to attract users over direct options. Square footage transactional volume was down 27.9% year-over-year as smaller deals (relative to prepandemic averages) close. Home to more tech companies than other areas of the Wasatch Front, the region is susceptible to more space givebacks as tech occupiers downsize due to remote work and/or cost-cutting moves.

Direct and Sublet Asking Rents



Transaction Leasing Volume Overview



Source: Newmark Research

Tech Corridor Transactions

The top deals of the region illustrate a diversity in transaction types that have occurred in the last 12 months.

Notable Transactions – Last 12 Months

Tenant/Buyer	Building(s)	City	Type	Square Feet
Alturas Capital Partners	Sandy Commerce Park	Sandy	Investment Sale	120,958
<i>Idaho-based investment company, Alturas Capital Partners, purchased Sandy Commerce Park from Nuveen.</i>				
Pattern Inc	Innovation Pointe 3	Lehi	Sublease/Expansion	90,890
<i>In two separate deals throughout the year, Pattern took 60,928 SF and then added an additional 29,962 SF for a total footprint of 90,890 SF.</i>				
Holiday Oil Company	Lone Peak Center	Draper	Property Sale	84,285
<i>Holiday Oil purchased the entire building and will occupy the 2nd floor.</i>				
TruHearing	Vista Station 4	Draper	Renewal	48,053
<i>The tenant signed a short-term renewal.</i>				
Canopy Tax	SoJo Station 1	South Jordan	Sublease	31,441
<i>Canopy Tax took 31,441 SF of the InMoment sublease is SoJo Station.</i>				

1Q24

Utah Capital Markets Overview



Price-Weighted Average Cap Rates Up Across All Product Types

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Private and User Buyers Are Active



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Utah Capital Markets Transactions

Overall sales activity has been slow over the last year, with fewer sale-offerings and closings compared to previous years. The Fed's anticipated interest rate cuts throughout 2024 will likely increase property sales volume. That, as well as more distressed or bank-owned assets entering the market.

Select Transactions – Last 12 Months

Building(s)	City	Type	Closing Quarter	Square Feet
I-215 Logistics Center Buildings C & D	Salt Lake City	Industrial	Q4 2023	478,239
<i>Hamilton Partners sold buildings C & D in the I-215 Logistics Center in a portfolio sale totaling 478,239 SF.</i>				
Brennan Raceway Commerce Center Buildings A & B	West Valley City	Industrial	Q2 2023	397,894
<i>Westcore purchased Buildings A & B in a forward sale for a total of 397,894 SF.</i>				
Sandy Commerce Park	Sandy	Office	Q4 2023	120,958
<i>Idaho-based investment company, Alturas Capital Partners, purchased Sandy Commerce Park from Nuveen.</i>				
Highbury Centre	West Valley City	Retail	Q3 2023	119,366
<i>X Development purchased Highbury Centre in West Valley City from the Gardner Company.</i>				
Park Station Apartments	Midvale	Multifamily	Q2 2023	83,370
<i>Peak Capital Partners purchased the 96-Unit multifamily development from California-based investors, Benedict Canyon Equities.</i>				

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