



Salt Lake County Office Market

Return to Office Hints at Strong Return in Office Activity

After a sluggish first quarter of 2021, the Salt Lake County office market started to see some renewed activity in the office sector during second-quarter 2021. The Salt Lake Metro overall has rebounded quickly, with the lowest unemployment rate in the nation (2.8% at end of May 2021), mask mandates lifted and nearly 50% of the state’s population vaccinated with 37.5% fully inoculated against COVID-19. Office users are bringing back employees previously working remotely, with some coming back to the office full-time while others implement a hybrid model between the workplace and home. The metro and the nation overall are keeping a close eye on how the increasingly popular hybrid model will affect company and employee performance in the long run.

In a welcome change of pace, 71.9% of all lease transactions were direct new leases in second-quarter 2021, compared to 54.8% in first-quarter 2021. Renewals remained a strong option for many tenants but decreased in overall number of transactions quarter to quarter by 15.0%, with overall leasing transaction square feet up by 8.5% for the same timeframe. Some of the larger new direct deals that occurred throughout the quarter include: Stoel Rives taking 48,384 square feet at 95 State at City Creek; Steward Health leasing 25,272 square feet in Towers at

Current Conditions

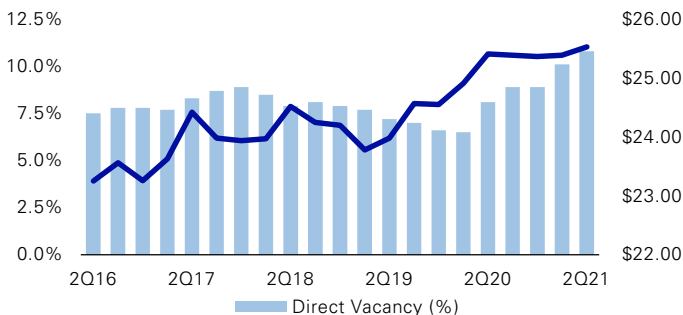
- Direct vacancy increased from 10.0% in first-quarter 2021 to 10.8% in second-quarter 2021, with sublease vacancy lowering by 40 basis points from quarter to quarter.
- Deliveries for the quarter remained modest with 287,053 square feet added to the inventory base, with an additional 2.4 million square feet underway by quarter-end.
- Leasing increased by 8.5% between first-quarter 2021 and second-quarter 2021, with increased lease transaction square footage occurring across all class types.

Market Summary

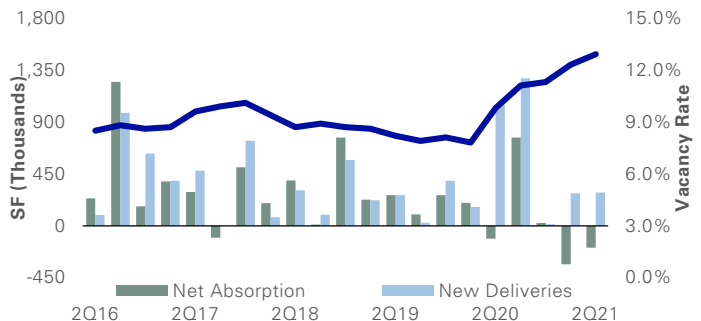
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Direct Vacancy Rate	10.8%	10.0%	8.1%	↔
Quarterly Net Absorption (SF)	(189,399)	(334,381)	(111,374)	↑
Average Asking Rent/SF	\$25.53	\$25.39	\$25.41	↑
Under Construction (SF)	2,418,813	2,603,933	3,558,792	↓
Deliveries (SF)	287,053	281,758	1,044,663	↑

Market Analysis

in Wadsworth Business Park B. The overall number of leases



NET ABSORPTION SF, DELIVERED SF AND TOTAL VACANCY RATE



RESEARCH Q2 2021

increased by 31.5% from first-quarter 2021 to second-quarter 2021, indicating that more companies are willing to execute deals and make decisions on workplace space needs that many companies spent the past few quarters delaying.

For the second quarter in a row, the percentage of sublease availability that is a part of over total availability dropped, moving from 23.6% at the end of 2020 to 17.7% at midyear 2021. This is due partly to some subleases moving to direct availability and completed deals, but nearly 20% of the sublease square footage added to the market since the beginning of the pandemic has been removed from market due to companies deciding to keep the space. While some employees may not come back in a full in-office capacity, space for them is still needed when they do arrive in the office; additionally, despite the high hopes of the pandemic soon ending, high-density seating is being reevaluated as companies look to create preventative measures with some form of increased square footage per person as a general characteristic of those plans to encourage social distancing.

Asking lease rates increased from \$25.39/SF in first-quarter 2021 to \$25.53/SF in second-quarter 2021, the first noticeable increase since second-quarter 2020 as rates held steady around \$25.40/SF from midyear 2020 through the beginning of 2021. It is overall

remaining bullish on rates while being willing to attract or keep tenants through other means, such as free rent or tenant improvements.

New construction remained tepid with another 287,053 square feet delivered in second-quarter 2021, only up 1.8% from the previous quarter and down 72.5% from second-quarter 2020. New deliveries included South City 1 and The Exchange 2, with 88.0% of overall total delivered square feet filled at occupancy. The rising construction costs felt across the nation during the early spring of 2021 hindered any new construction starts during second-quarter 2021 and is expected to push out estimated completion on a handful of larger projects by a quarter or two. Of the 2.4 million square feet currently under construction, 49.1% is pre-leased.

The coming quarters will be instrumental in seeing how the office market is able to adapt and move forward in the post-COVID-19 landscape. The evolving office space needs for companies as plans to bring employees back into the office in some capacity will go into effect. The necessary compromise on flexibility throughout the past year during the pandemic that existed between tenants and landlords, as well as management and employees, will be tested as the overall economy recovers from

Select Lease Transactions

Over-year, asking

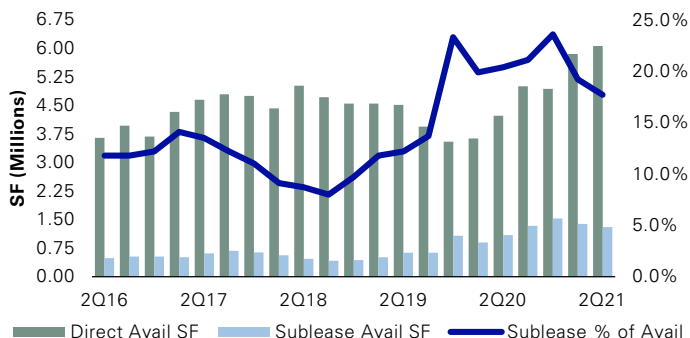
Tenant	Market	Building	Type	Square Feet
Stoel Rives	Central Business District	95 State at City Creek	Direct New	48,384
Bennett Tueller Johnson and Deere	Cottonwood	Millrock West	Renewal	27,579
Case rates did not see a significant drop. Landlords are	Southtowne	Towers at Southtowne 1	Direct New	25,272
TaxBit	Draper Tech Corridor	Wadsworth Business Park B	Direct New	23,000
Aumni	Cottonwood	Cornerstone 2	Sublease	21,147

Select Sale Transactions

Buyer	Market	Building	Type	Square Feet
Michael Jones	Central Valley	View at 72 – CHG Campus	Investment	286,072
Bear Brothers Capital	Southtowne	Danbury Park Portfolio	Investment	123,134
Trinity Capital Advisors	Southtowne	Jordan Valley Tech Center 1	Investment	105,057
Davis County Co-Op Society	Central Valley	Sorenson 1	Investment	58,848
Te Lun Tao	Central Salt Lake	Metro Business Park D	Investment	30,389

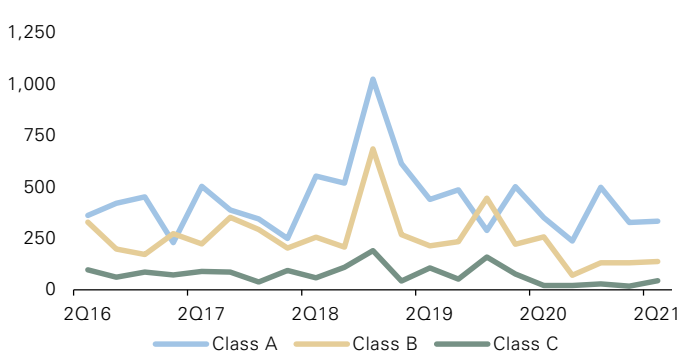
Availability Overview

SUBLEASE V DIRECT AVAILABLE SF AND SUBLEASE AS % OF AVAILABILITY



Leased Square Feet

SQUARE FEET, THOUSANDS



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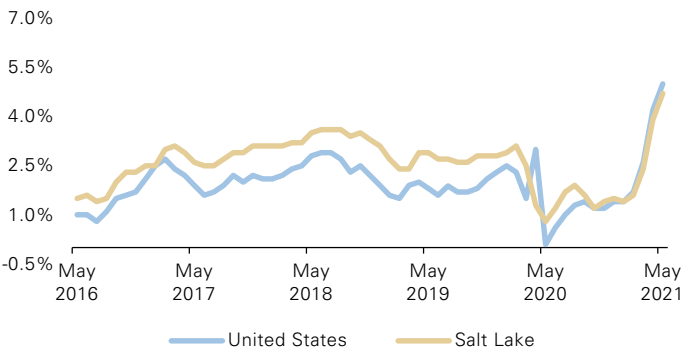
Submarket Statistics								
	Under Construction (SF)	Direct Vacancy Rate	Sublease Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
CBD	536,250	13.8%	2.3%	(117,441)	(272,063)	\$31.09	\$25.73	\$27.32
Periphery	433,933	13.6%	0.4%	(16,172)	(69,452)	\$31.50	\$22.79	\$22.78
Downtown Total	970,183	13.7%	2.0%	(133,613)	(341,515)	\$31.10	\$24.55	\$26.46
Cottonwood	-	14.2%	2.1%	(96,444)	(110,856)	\$32.88	-	\$32.80
Central Salt Lake	-	8.2%	1.9%	130,707	174,579	\$28.47	\$23.92	\$22.52
Central Valley	582,605	7.0%	3.7%	4,732	8,848	\$25.77	\$21.32	\$20.91
Draper Tech Corridor	29,003	9.0%	1.6%	(32,497)	(94,433)	\$27.16	\$17.84	\$25.96
East Sandy/Draper	37,600	10.1%	-	16,103	5,618	-	\$21.11	\$21.11
Fort Union	-	13.8%	0.4%	(20,552)	(50,281)	\$26.53	\$21.95	\$24.64
International Center	-	7.4%	2.3%	-	9,701	-	\$20.63	\$20.13
Lake Park	150,810	22.9%	1.4%	(40,540)	(154,968)	\$25.44	\$20.15	\$25.15
Millcreek/Holladay	-	6.5%	-	(2,517)	(125)	-	\$20.65	\$18.02
Research Park	325,000	2.3%	1.4%	-	(11,470)	-	\$24.29	\$22.61
Sugarhouse	7,444	10.3%	0.5%	23,396	25,446	\$38.30	\$20.71	\$24.27
Southwest	316,168	18.6%	-	(10)	(10)	\$26.06	\$25.00	\$25.69
Southtowne	-	8.0%	3.2%	(39,366)	16,164	\$26.08	\$27.20	\$26.31
West Salt Lake	-	2.6%	-	1,202	(478)	-	\$19.41	\$19.41
Suburban Total	1,448,630	9.6%	2.1%	(55,786)	(182,265)	\$27.77	\$22.64	\$25.09
Market	2,418,813	10.8%	2.1%	(189,399)	(523,780)	\$28.57	\$23.32	\$25.53

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 2.8% in May 2021, compared to the national rate of 5.8%, coming in 300 basis points lower than the national rate and is the lowest in the nation for large metros. Job growth has bounced back well, with a total net increase of 68,000 jobs added back to the market since April 2020 with positive job growth year over year across all industry sectors. Of the 68,000 jobs added back to the market, nearly 25% were office jobs. With just over half of the metro fully vaccinated, mask mandates lifted, and more employees returning to work, the Salt Lake metro now faces the struggle of finding employees for positions due to the low unemployment rate. Some openings are staying open longer as companies work hard to find candidates. As companies compete for quality candidates, the office sectors are expected to see an

Consumer Price Index (CPI)

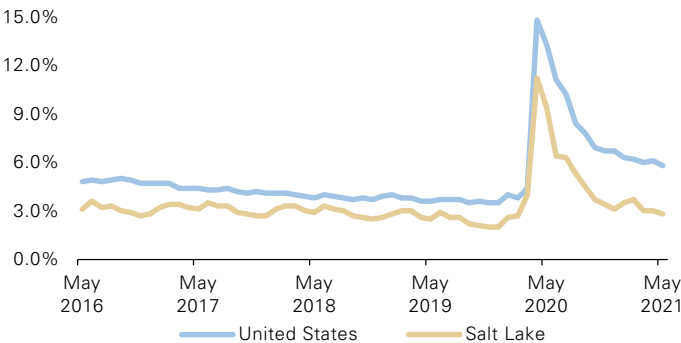
ALL ITEMS, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

Unemployment Rate

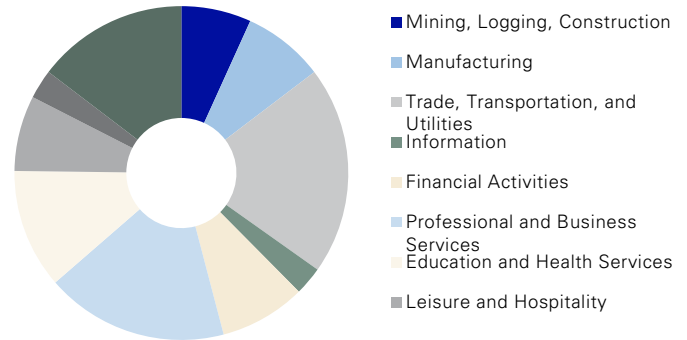
NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

Employment by Industry

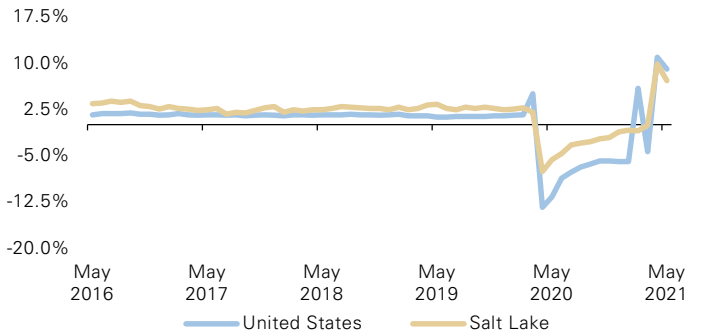
SALT LAKE, 2020 ANNUAL AVERAGE



Source: U.S. Bureau of Labor Statistics

Payroll Employment

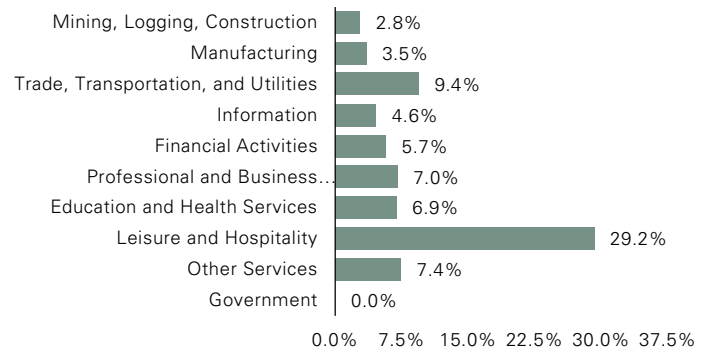
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



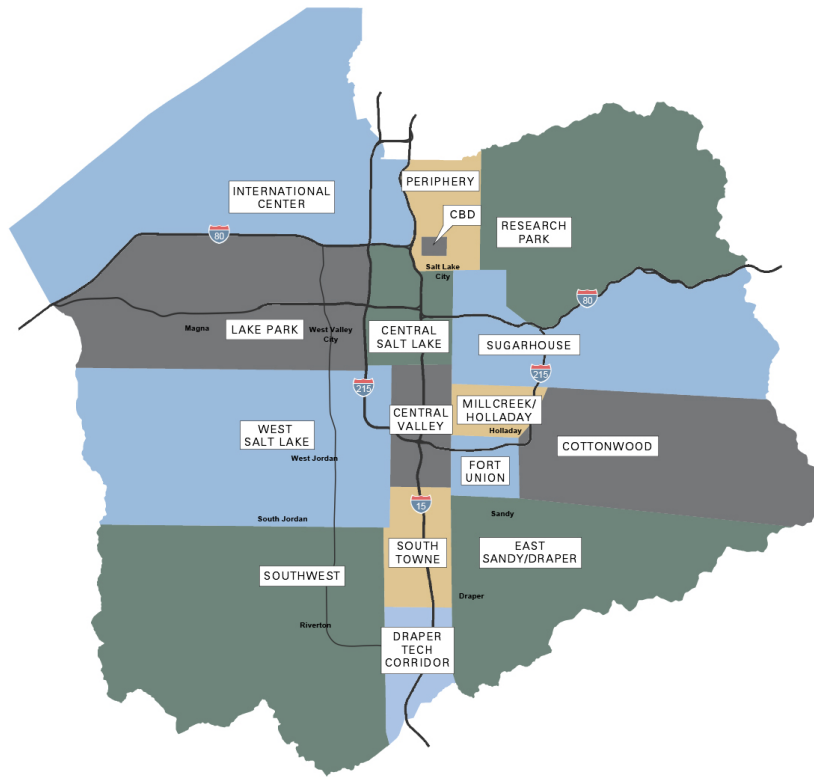
Source: U.S. Bureau of Labor Statistics

Employment Growth by Industry

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



Source: U.S. Bureau of Labor Statistics



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