



# Salt Lake County Office Market

## Small Users Surpass Pre-COVID-19 Activity; Downtown Experiences Office-to-Multifamily Conversions

Office occupancy through Salt Lake County increased by 536,623 square feet quarter-over-quarter and is up over 900,000 square feet for the first half of 2022. Deliveries in Downtown Salt Lake City, Research Park and Central Valley heavily contributed to increased occupancy in those submarkets as build-to-suit projects such as Zions Bank’s new headquarters in Midvale and Myriad Genetics’s project in Research Park complete. Direct vacancy decreased by 40 basis points quarter-over-quarter; however, overall total availability increased by 40 basis points as landlords and users put occupied space out to market, either in anticipation of upcoming lease expirations to avoid larger blocks of space sitting empty for long periods of time or as subleases from users not fully utilizing footprints and looking to offset some costs at the same time.

With the delivery of new Class A buildings in Downtown Salt Lake City in the first quarter of 2022, average asking rates saw a marked increase at the beginning of the year which have carried through into the second quarter of 2022. Rental rates did not rise by the same margins quarter-over-quarter but held steady or increased both Downtown as well as in the suburban portions of the county, with the average asking rate in the second quarter of 2022 sitting at \$26.97/SF, up 5.8% year-over-year. Due to inflation and interest rate hikes affecting landlords in the form of increased CAM charges, construction and repair costs, rental rates are expected to rise for the near future. On the other side of the table, some

### Current Conditions

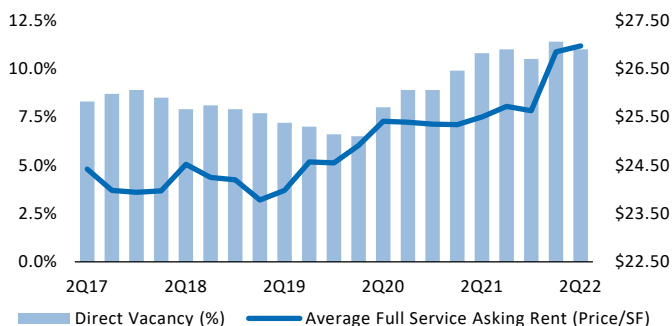
- Direct vacancy decreased from 11.4% in the first quarter of 2022 to 11.0% in the second quarter of 2022. Sublet availability increased, with larger subleases concentrated in the southern portion of the county.
- Deliveries for the quarter totaled 527,605 square feet with the completion of Myriad Genetics’s build-to-suit project in Research Park and Zions Bank’s new headquarters in Midvale. New office starts remain dampened compared to pre-COVID-19 activity.
- Net absorption remained in the positive, largely influenced by absorption occurring in new deliveries. Overall leasing activity has held steady for the past three quarters, with Class B product seeing steady leasing gains as tenants feel pressure from rising lease rates.

### Market Summary

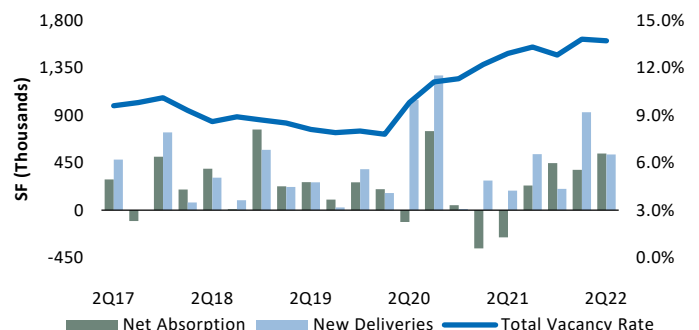
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Direct Vacancy Rate	11.0%	11.4%	10.8%	↔
Quarterly Net Absorption (SF)	536,623	382,022	(256,236)	↓
Average Asking Rent/SF	\$26.97	\$26.85	\$25.50	↑
Under Construction (SF)	563,233	937,286	2,453,351	↓
Deliveries (SF)	527,605	927,833	185,120	↑

### Market Analysis

ASKING RENT AND DIRECT VACANCY RATE



NET ABSORPTION SF, DELIVERED SF AND TOTAL VACANCY RATE



RESEARCH Q2 2022

tenants are feeling the inflation squeeze, as well, and moving to lower-class product or renewing with smaller footprints. This new dynamic pushes the rental landscape into a more balanced sphere where both the landlord and the tenant have a more even footing in lease negotiations.

A rising trend seen across the country is conversions from one product type into another, such as retail malls or office buildings converting into industrial use. In Downtown Salt Lake City, the demand for multi-family product continues to increase, despite a record number of units under construction, with vacancy in multi-family consistently below 5%. In the past, developers would purchase older buildings to demolish and then rebuild new multi-family product in its place. Although that is still occurring, some developers have moved to purchasing office buildings in strategic locations that are promising for multi-family conversion. One noteworthy example is the purchase of South Temple Tower by Hines, converting a 216,937-square-foot-office building into a luxury multi-family tower with 255 units. Although it is uncertain how many more developers may choose this route to bring new life to already-existing structures, it is an indicator that the Metro is making strides as an emerging market to take place in trends normally seen in only some of the largest metros across the country.

A handful of larger leases were signed throughout the Metro, with a healthy mix of new direct leases, subleases, renewals and expansions. As the office realm continues its forward movement after the pause created by COVID-19 and the new landscape regarding in-person and remote work, smaller users have returned to pre-pandemic leasing trends. The number of larger users seeking space is reduced with both average and median square footage leased, and these users are signing shorter term leases.

Lease Transaction Trends Pre- and Post-COVID-19

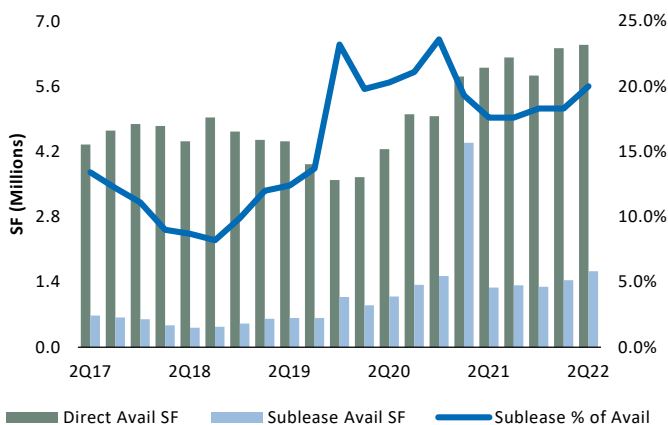
	2 Years Before COVID-19 (3Q18-2Q20)	2 Years After COVID-19 (3Q20-2Q22)	% Change
9,999 SF or Lower # of Leases	606	627	3.5%
Average Term	44.29	40.16	-9.3%
Average SF:	3,340 SF	3,433 SF	2.8%
Median SF:	2,820 SF	2,874 SF	1.9%
10,000+ SF # of Leases	165	135	-18.2%
Average Month Term:	61.95	58.05	-6.3%
Average SF:	34,205 SF	24,788 SF	-27.5%
Median SF:	19,474 SF	17,932 SF	-7.9%

Select Q2 2022 Lease Transactions

Tenant	Market	Building	Type	Square Feet
Perfect Day	Central Business District	The Gateway	Direct New	58,764
NexHealth	Draper Tech Corridor	Vista Station 4	Sublease	35,721
Orbis Education Services	Southtowne	South Towne Corporate Center 1	Direct New	26,853
Arena Communications	Sugarhouse	60Park	Expansion	25,510
Clean Energy Association	Draper Tech Corridor	Minuteman 4	Direct New	22,903
Byram Healthcare	Sugarhouse	Plaza 4500 A	Renewal	22,422

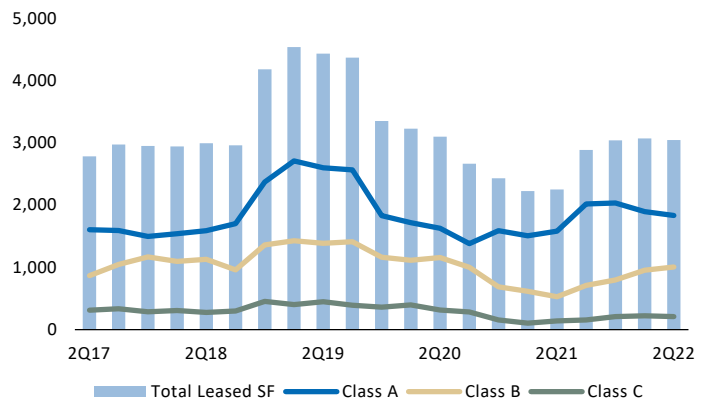
Availability Overview

SUBLEASE V DIRECT AVAILABLE SF AND SUBLEASE AS % OF AVAILABILITY



Leased Square Feet

SQUARE FEET, THOUSANDS



\*Trailing 12 Months

### Notable Buildings Under Construction

Building	Market	Development Type	Estimated Delivery	Square Feet
Mountain View Village Office 2	Southwest	Speculative	Q3 2022	131,590
Baltic Pointe	Draper Tech Corridor	Speculative	Q3 2023	130,000
Minuteman 6	Draper Tech Corridor	Speculative	Q2 2023	125,000
Traegar Pellet Grills Headquarters	Periphery	Build-to-Suit	Q4 2022	95,000

### Notable Buildings Recently Delivered

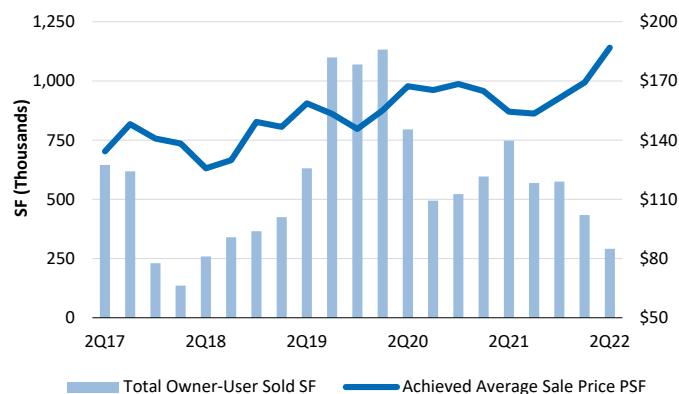
Building	Market	Development Type	Quarter Delivered	Square Feet
95 State at City Creek	Central Business District	Speculative	Q1 2022	589,945
Zions Bank Midvale Campus	Central Valley	Build-to-Suit	Q2 2022	402,605
650 South Main Street	Periphery	Speculative	Q1 2022	332,000
ARUP Laboratories Building	Research Park	Build-to-Suit	Q3 2021	200,000
53 <sup>rd</sup> Center 2	Central Valley	Speculative	Q4 2021	180,000
Myriad Genetics 6	Research Park	Build-to-Suit	Q2 2022	125,000

### Select 1<sup>st</sup> Half 2022 Sale Transactions

Buyer	Market	Building	Type	Square Feet
Hines	Central Business District	South Temple Tower	Conversion	216,937
Montecito Medical Real Estate	Lake Park	Granger Medical Clinic	Investment	94,834
Confidential	Fort Union	7050 S. Union Park Ave.	Investment	70,102
Triple M Holdings	Central Valley	5450 S. Green St.	Investment	25,422
Work Horse Properties	Central Business District	Thomas Building	Conversion	20,084
Steward Holdings Group	Southwest	Stokes Professional Building	Investment	14,278

### Owner-User Sale Overview

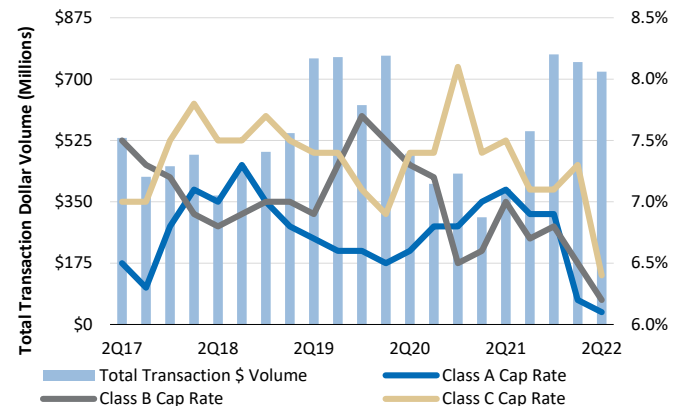
OWNER-USER SOLD SF & ACHIEVED AVERAGE OWNER USER SALE PRICE PSF



\*Trailing 12 Months

### Utah Office Investment Sale Overview

TRANSACTION DOLLAR VOLUME & PRICE-WEIGHTED AVERAGE CAP RATES



\*Trailing 12 Months

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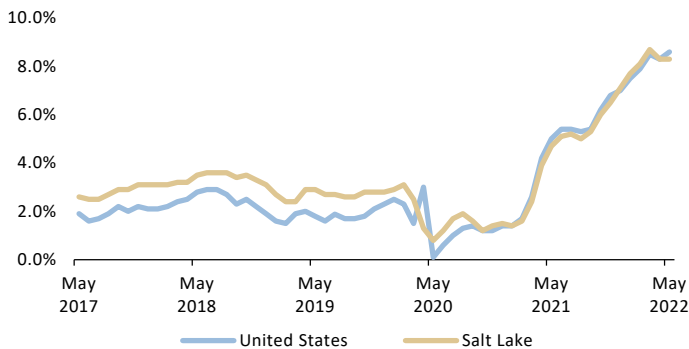
Submarket Statistics									
	Under Construction (SF)	Direct Vacancy Rate	Sublease Vacancy Rate	Total Availability Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
CBD	-	15.0%	2.0%	21.9%	139,358	437,127	\$33.66	\$26.46	\$29.70
Periphery	95,000	14.9%	0.1%	17.8%	42,056	175,332	\$38.34	\$22.55	\$31.23
<b>Downtown Total</b>	<b>95,000</b>	<b>15.0%</b>	<b>1.7%</b>	<b>21.2%</b>	<b>181,414</b>	<b>612,459</b>	<b>\$34.24</b>	<b>\$25.53</b>	<b>\$29.97</b>
Cottonwood	-	16.7	1.1%	19.4%	(41,102)	1,319	\$32.57	-	\$32.57
Central Salt Lake	-	10.3%	12.1%	23.7%	(2,225)	(888)	\$28.05	\$22.16	\$22.63
Central Valley	-	4.8%	2.9%	9.7%	413,272	447,582	\$24.04	\$21.34	\$20.53
Draper Tech Corridor	255,000	4.4%	11.2%	19.0%	4,451	(65,570)	\$27.42	\$19.38	\$26.09
East Sandy/Draper	7,793	4.4%	-	11.1%	(2,135)	6,548	-	\$19.76	\$19.76
Fort Union	-	15.4%	1.4%	19.5%	24,583	(888)	\$27.36	\$22.45	\$25.05
International Center	-	7.8%	1.3%	10.6%	-	-	-	\$20.19	\$19.92
Lake Park	-	23.1%	1.1%	25.3%	-	17,400	\$25.35	\$21.09	\$25.00
Millcreek/Holladay	-	6.0%	-	7.4%	(4,572)	(29,771)	-	\$20.09	\$17.08
Research Park	-	7.1%	-	13.8%	(19,293)	(18,073)	-	\$24.62	\$23.76
Sugarhouse	-	8.5%	-	13.2%	(6,464)	46,383	\$30.70	\$20.04	\$22.99
Southwest	176,000	12.9%	-	19.4%	25,681	34,906	\$26.50	-	\$26.50
Southtowne	29,440	8.6%	1.7%	15.5%	(13,916)	(87,817)	\$26.12	\$25.78	\$25.79
West Salt Lake	-	4.9%	-	4.9%	(23,081)	(23,081)	-	\$20.61	\$20.61
<b>Suburban Total</b>	<b>468,233</b>	<b>9.3%</b>	<b>3.2%</b>	<b>15.6%</b>	<b>355,209</b>	<b>306,186</b>	<b>\$27.72</b>	<b>\$22.56</b>	<b>\$24.97</b>
<b>Salt Lake County Market</b>	<b>563,233</b>	<b>11.0%</b>	<b>2.7%</b>	<b>17.2%</b>	<b>536,623</b>	<b>918,645</b>	<b>\$30.29</b>	<b>\$23.69</b>	<b>\$26.97</b>

### Economic Overview

Before the COVID-19 recession, Utah had the highest overall employment growth (33.1%) between the Great Recession and the onset of the pandemic. Although the state was not immune to the disruption that the pandemic caused globally, it was one of the quickest to recover. With Salt Lake City Metro unemployment coming in at 2.2% in May 2022, the Metro is one of the fastest recovering in terms of employment rate. With positive job growth across almost all industries and more employees returning to work, the Salt Lake Metro now faces the struggle of finding employees for open positions. Currently facing a high labor shortage, companies are competing for quality candidates across all industries and will need to work hard to attract and retain talent. With rising inflation costs that match those experienced across the nation, both employers and employees are more mindful than ever about where money is going and watching for ways to cut unnecessary expenses.

### Consumer Price Index (CPI)

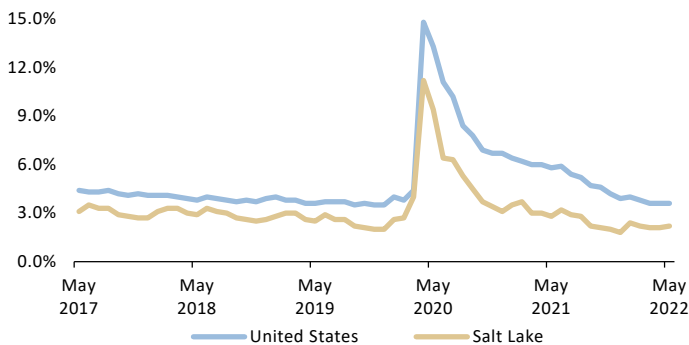
ALL ITEMS, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

### Unemployment Rate

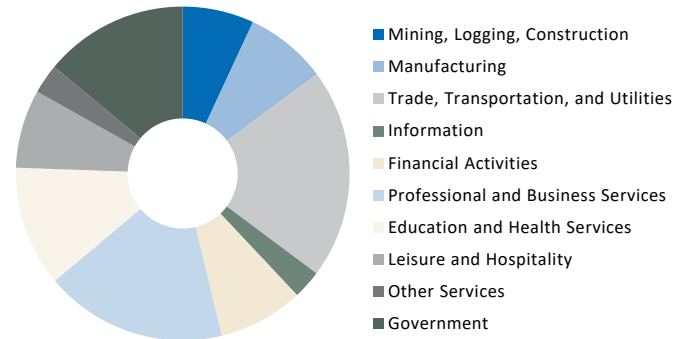
NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

### Employment by Industry

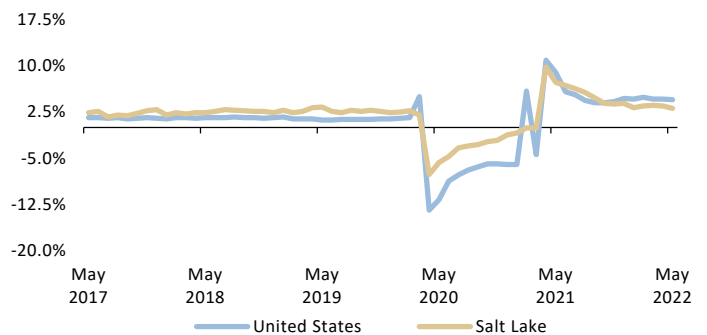
SALT LAKE, 2021 ANNUAL AVERAGE



Source: U.S. Bureau of Labor Statistics

### Payroll Employment

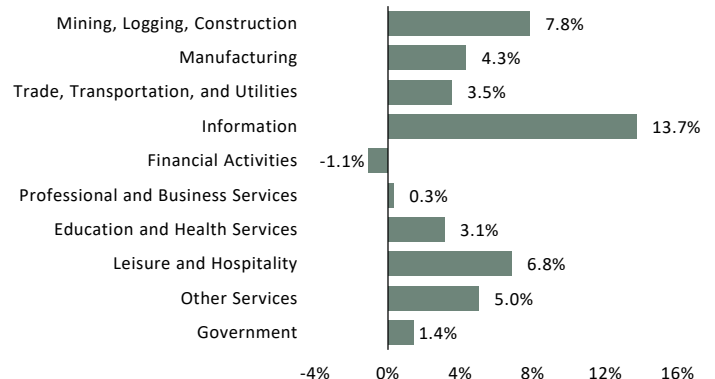
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

### Employment Growth by Industry

SALT LAKE, MAY 2022, 12-MONTH % CHANGE, NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

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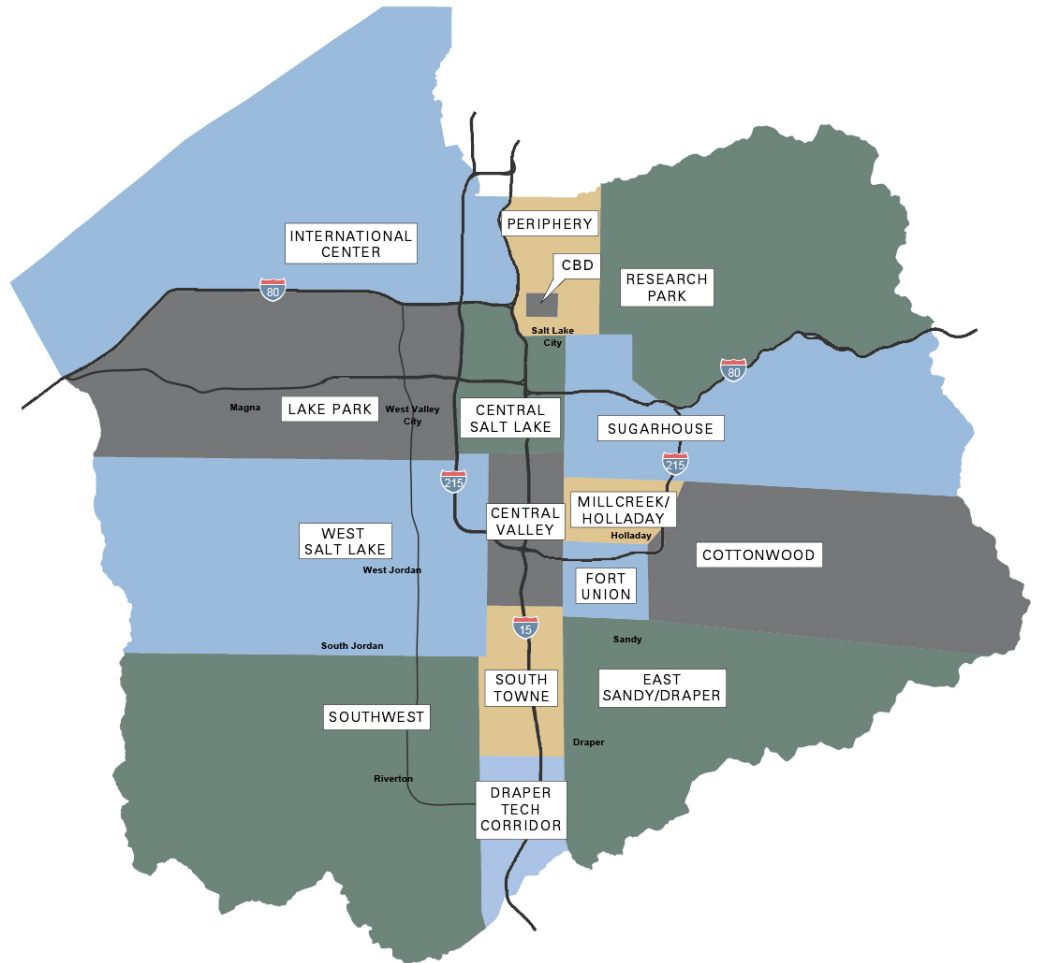
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