

2Q23

# Salt Lake City Industrial Market Overview



NEWMARK



# Market Observations

## Economy

- Salt Lake City’s labor market remains strong, with a 2.5% unemployment rate in May 2023. This is lower than the U.S. average of 3.7%.
- Leisure/hospitality led local employment sectors in job gains over past 12 months. Shifts in consumer spending from goods to services is one factor.
- The construction sector experienced the largest growth for the industrial-occupying employment sectors, expanding by 8.3% from 12 months ago. This was fueled largely by multifamily and industrial development. Trade/transportation/utilities experienced slight negative growth as many industrial occupiers right-size space needs.

## Major Transactions

- Specialized Bicycle Components is expanding its footprint in the market after signing a lease at SLC Global Logistics Center 6 for 588,380 SF, which was the largest lease of the quarter.
- A confidential tenant inked a lease for the entire 309,409-SF, recently completed Copper Crossing V.
- Two third-party logistics companies were among the top leases of the quarter, with one downsizing and the other renewing in a fast-changing economic environment.

## Leasing Market Fundamentals

- Net absorption in the first half of 2023 measured 2.6 MSF, down over 35% from 2022 on an annualized basis and more in line with the net absorption experienced during the pre-pandemic years of 2017 to 2019.
- The 9.7-MSF construction pipeline trended downward for the third consecutive quarter; construction deliveries are historically high, while new construction starts are sharply decelerating.
- Vacancy increased to 3.3% as deliveries modestly outpaced net absorption. Asking rent growth was flat from the fourth quarter of 2022 to the second quarter of 2023, down 1.3% from \$10.17/SF to \$10.04/SF.

## Outlook

- The macroeconomic outlook remains cloudy, but leasing activity continues, albeit at a clip resembling pre-pandemic levels.
- Vacancy is likely to increase over the next few quarters amid strong construction deliveries and waning demand. Supply is anticipated to exceed demand by over 2.0 MSF this year.
- Aggressive asking rent growth appears to be cooling after two consecutive years of 20%-plus increases. Landlords are leveraging concessions and tenant improvements to maintain strong taking rent growth.

1. Economy
2. Leasing Market Fundamentals



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# Economy

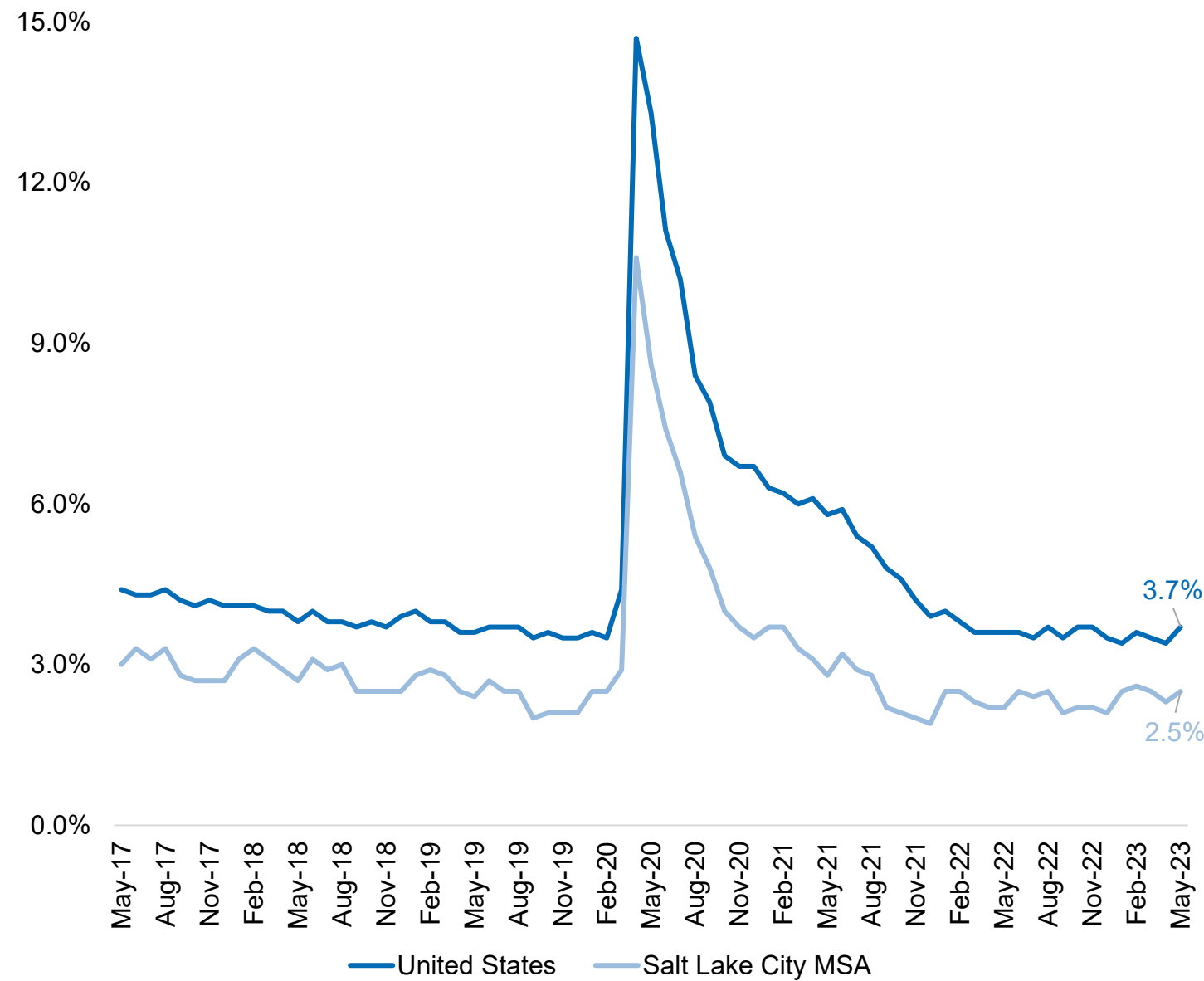




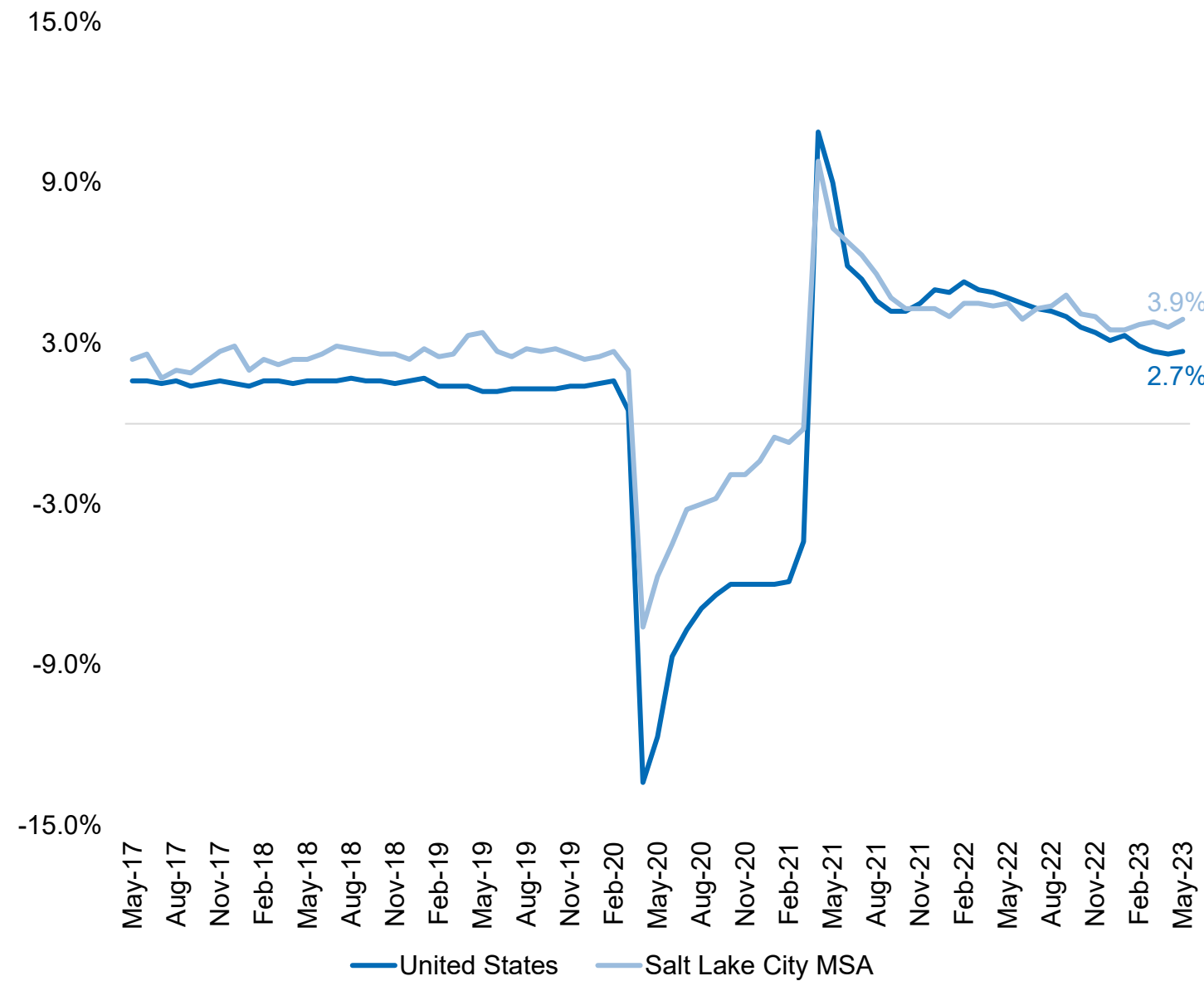
# Salt Lake Metro Labor Market Outperforms the Nation

Local unemployment has historically remained significantly lower than the national average, a trend that holds true pre- and post-pandemic. At the end of May 2023, Salt Lake unemployment was 120 basis points lower than the national rate. Local job growth across all sectors also exceeds the national average, with 3.9% in annual gains relative to 2.7% growth for the U.S.

Unemployment Rate, Seasonally Adjusted



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

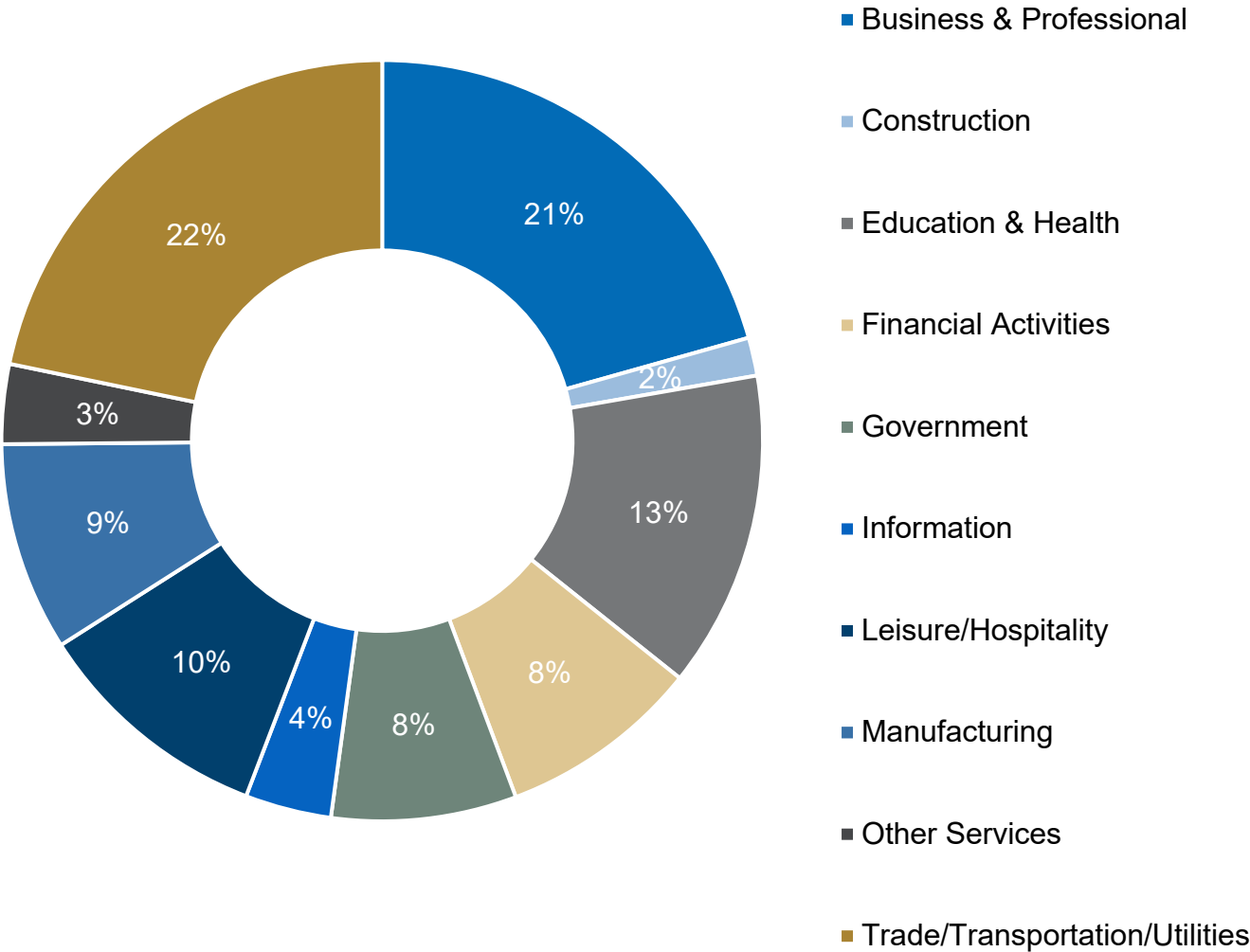


Source: U.S. Bureau of Labor Statistics, Salt Lake City MSA

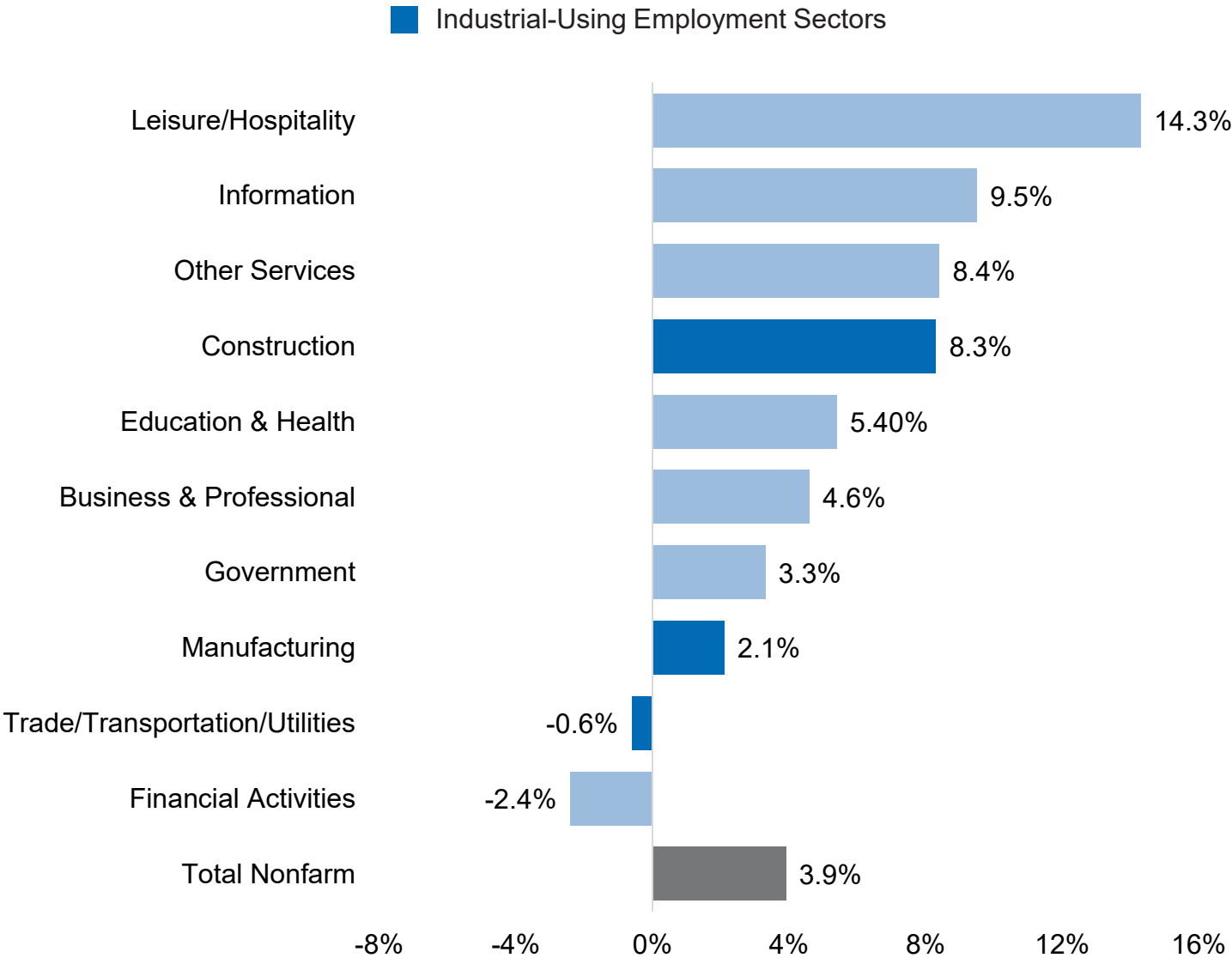
# Most Sectors Experiencing Continued Strong Growth, Led by Leisure/Hospitality

Accretive to the leisure/hospitality growth were two new Downtown Salt Lake City hotels delivering in the last year adding 995 rooms, and the Outdoor Retailer trade show returning to Salt Lake City in 2023 after a five-year stint in Denver. Construction was the strongest industrial-using sector, propelled by multifamily and industrial development, which is likely to wane in the near-term due to the difficult financing environment.

Employment by Industry, May 2023



Employment Growth by Industry, 12-Month % Change, May 2023

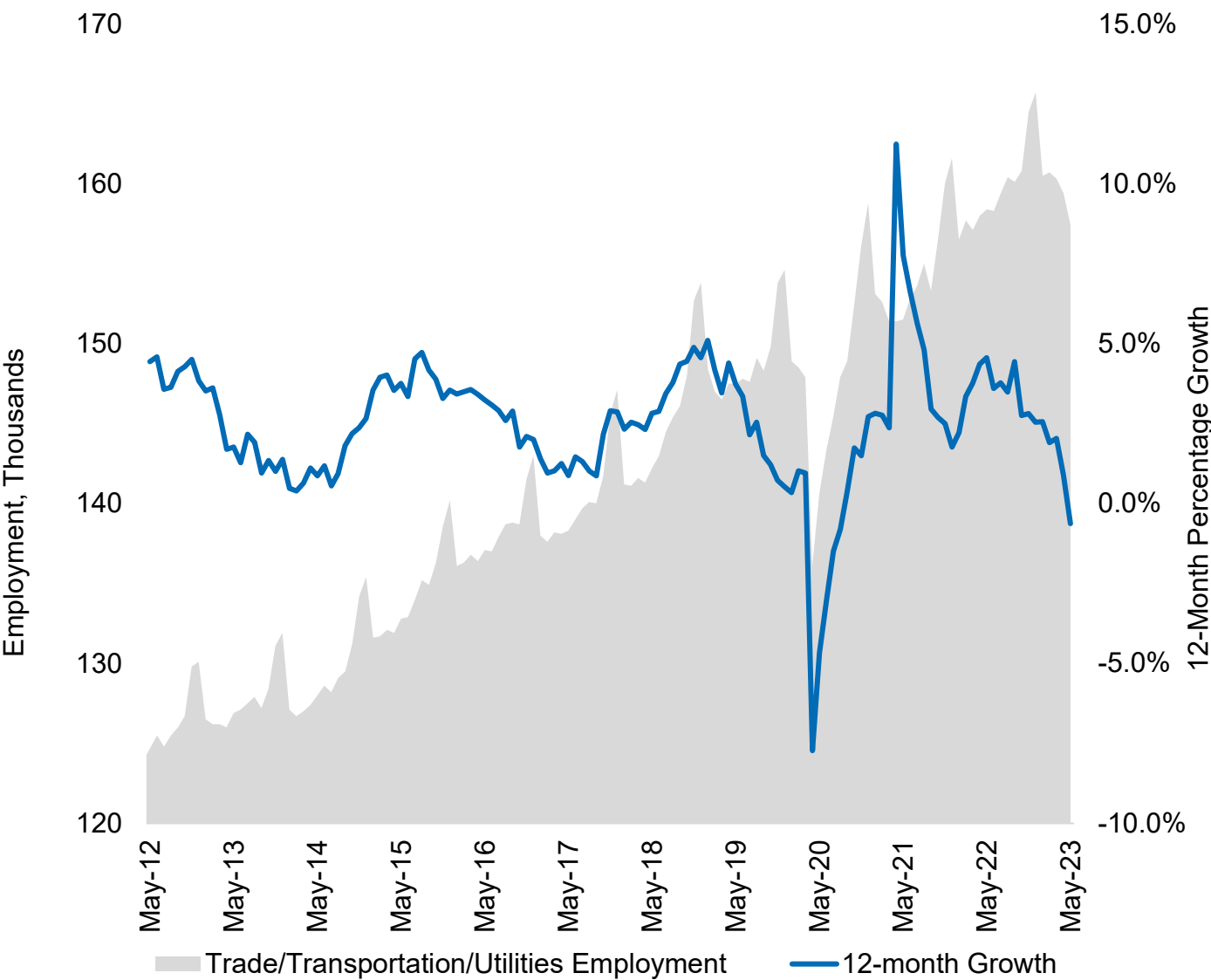


Source: U.S. Bureau of Labor Statistics, Salt Lake City MSA

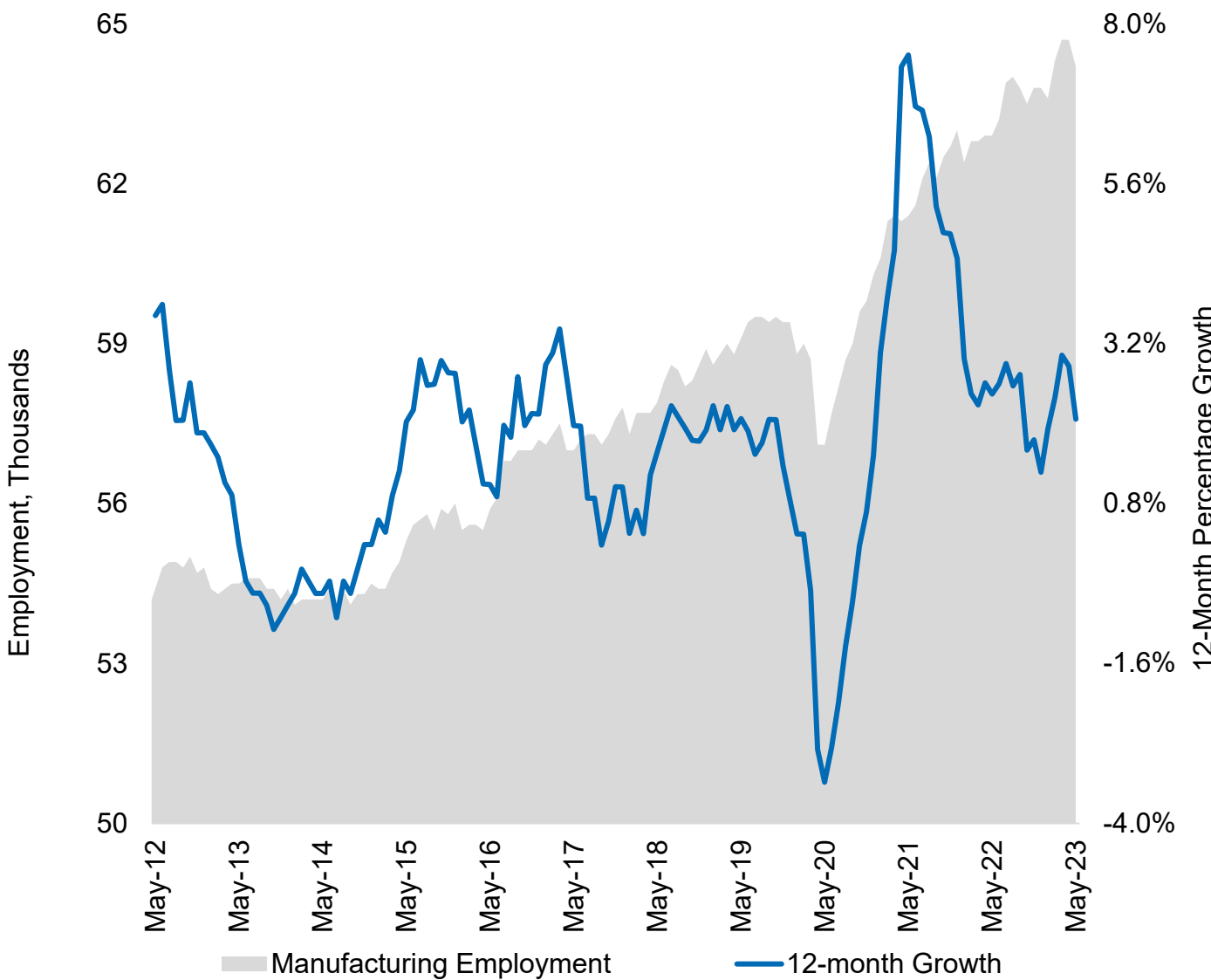
# Industrial Employment Strong but Not Immune to Softening Conditions

After a robust three years of job growth, the trade/transportation/utilities employment sector is right-sizing amid a shift in consumer demand for goods. Manufacturing job growth remains strong at 2.1%, 50 basis points above the 10-year average. Texas Instruments announced a landmark \$11-billion investment to expand in Lehi, which is expected to create 800 additional jobs.

Trade/Transportation/Utilities Employment and 12-Month Growth Rate



Manufacturing Employment and 12-Month Growth Rate



Source: U.S. Bureau of Labor Statistics, Salt Lake City MSA



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# Leasing Market Fundamentals

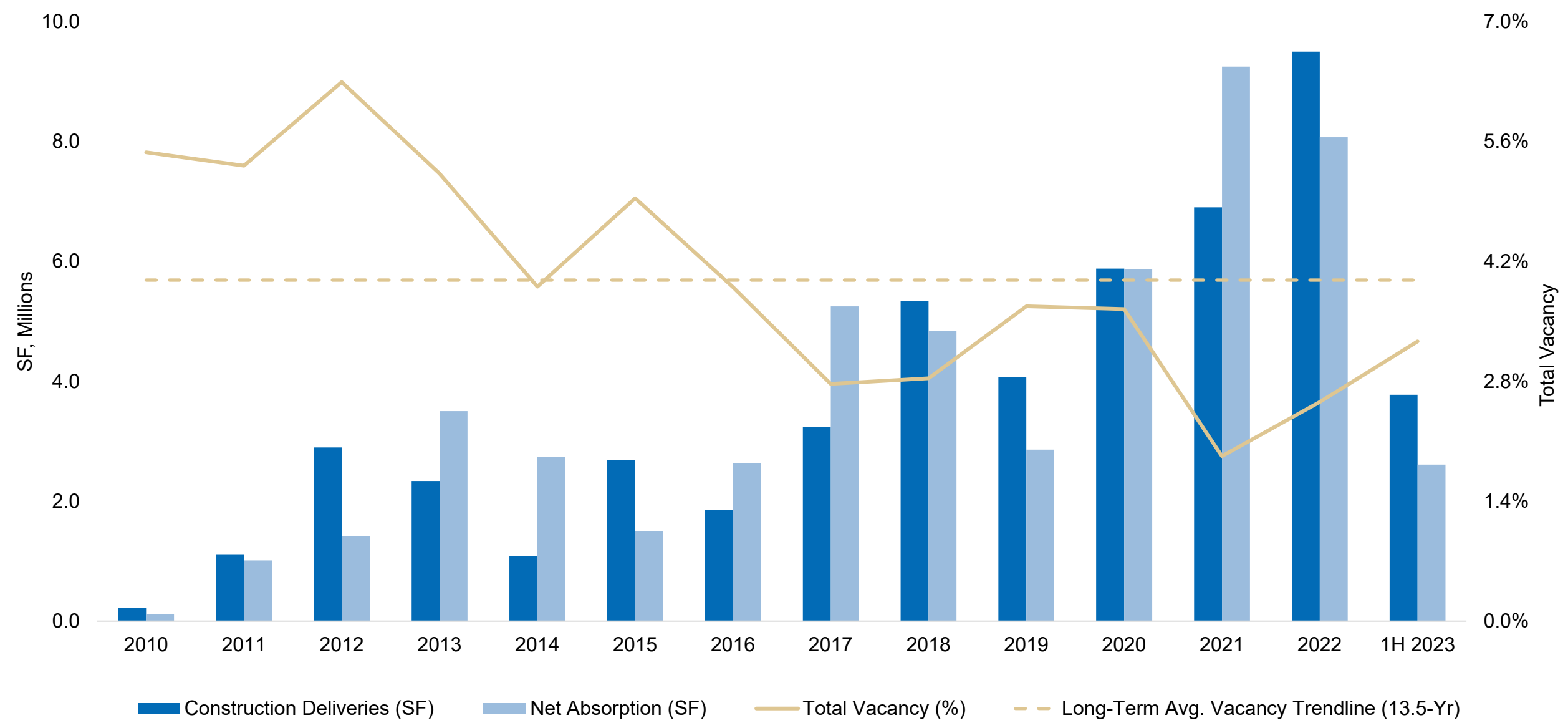




# Vacancy Rises as Construction Deliveries Outpace Net Absorption

Vacancy increased to 3.3% in the second quarter of 2023, up from 2.6% in the fourth quarter of 2022, but still below the 13.5-year average of 4.0%. Vacancy will continue to rise over the next few quarters as elevated levels of new construction deliver and occupiers continue to right-size operations to adapt to changing consumer spending patterns.

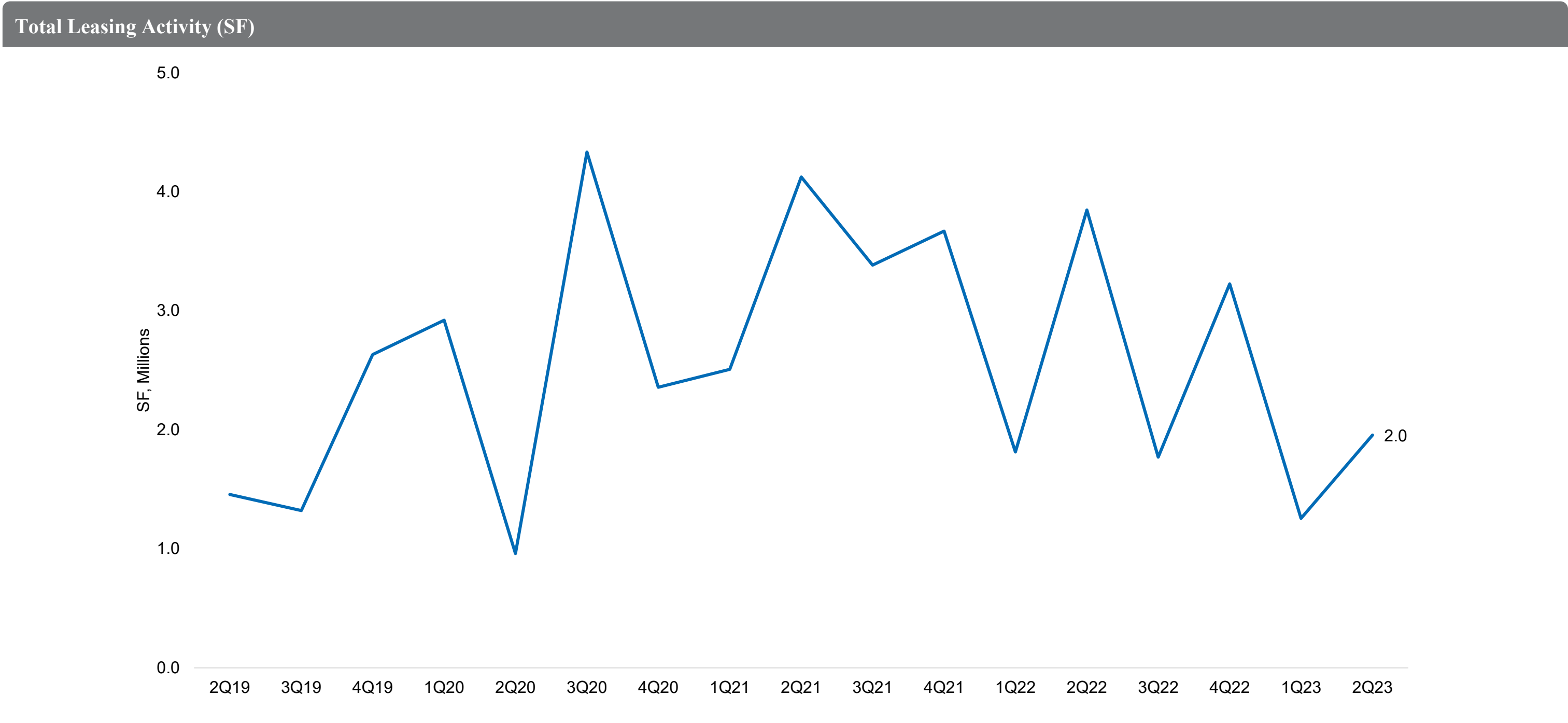
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

# Industrial Leasing Activity Decelerates to Pre-Pandemic Measures

Demand for industrial space remains strong, albeit down from the last few years. In the second quarter of 2023, there were 2.0 MSF of leasing activity, which is just shy of the 2.5 MSF second-quarter five-year average. Leasing activity in flex and incubator, the smaller industrial buildings, remains resilient. While warehouse leasing is still strong in terms of historical trends, these buildings are experiencing the largest decline in activity.



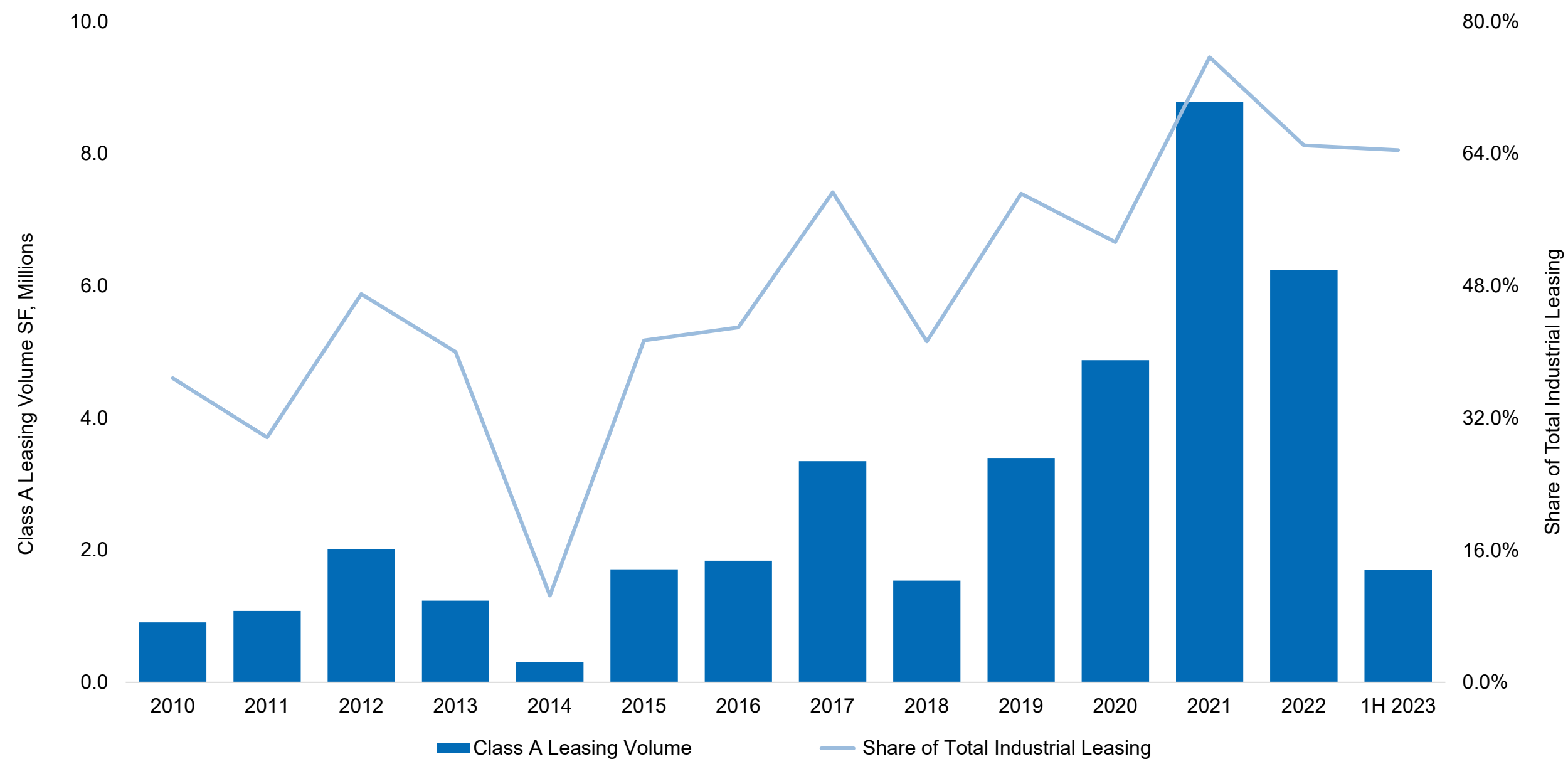
Source: Newmark Research  
Note: Lease renewals are excluded.



# Class A Warehouse Leasing Above Long-Term Average, Down from Recent Highs

Developers raced to build new construction over the last few years as vacancy remained near historic lows and occupier demand for modern warehouse space was elevated. Most of the new construction is considered Class A, largely contributing to the increase in Class A leasing volume. Cost-conscious tenants are more likely to consider Class B and C space in challenging economic environments, which was the case during the Great Financial Crisis, although vacancy was more than 200 basis points higher than now.

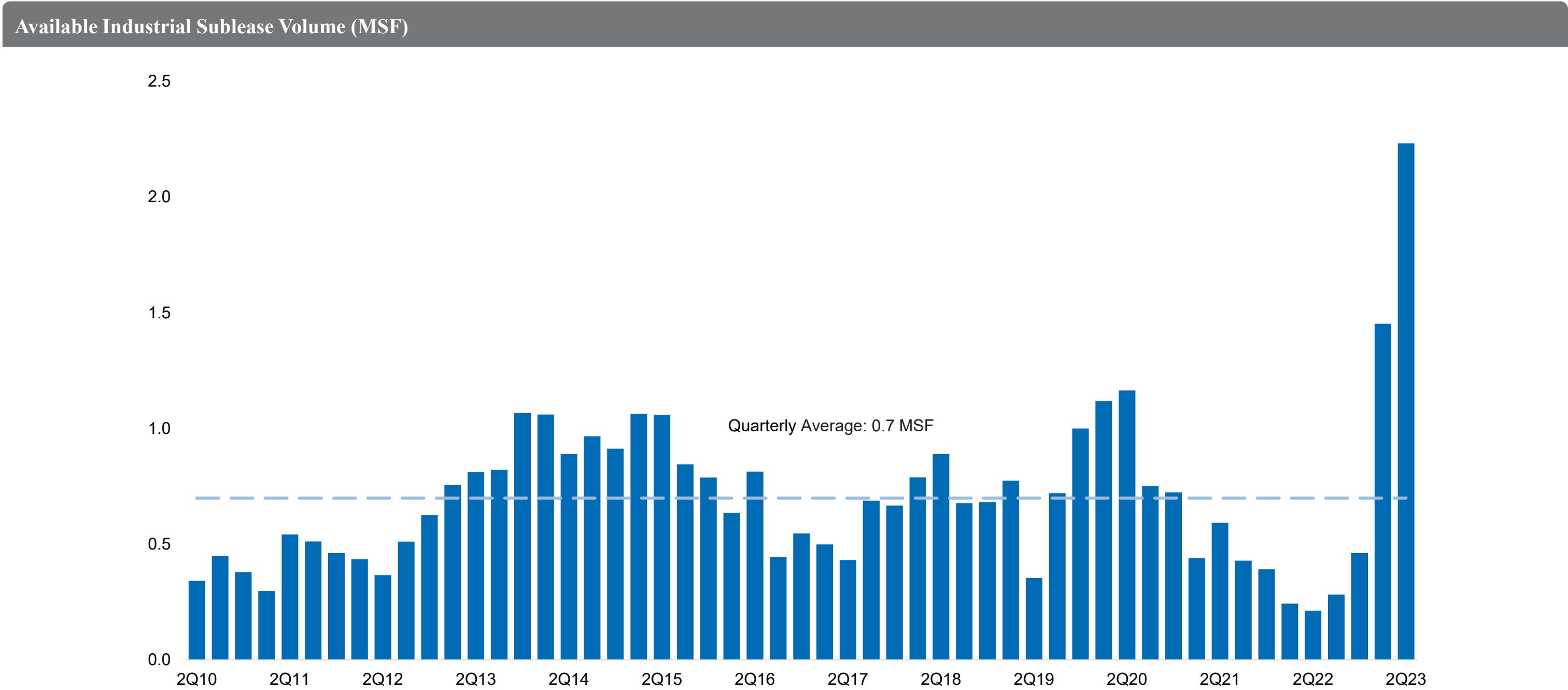
Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume



Source: Newmark Research  
Note: Lease renewals are excluded. Class A warehouse defined as bulk distribution multi-tenant designed buildings  $\geq 70,000$  SF with  $\geq 30,000$  SF minimum divisible increments,  $\geq 32'$  minimum clear height, with ESFR sprinklers, dock high and grade level loading, and striped trailer parking and non-bulk distribution buildings as medium distribution/general purpose/manufacturing buildings  $\geq 100,000$  SF, constructed since 2000 with minimum clear height  $\geq 30'$

# Industrial Sublease Availability Spikes to Historic Levels

Sublease availability rose to 2.2 MSF, reaching a historic high. Over the last four quarters, the percent change quarter over quarter in sublease availability is among the highest since 2010, with the 214.5% jump from the fourth quarter of 2022 to the first quarter of 2023 the largest increase ever observed and grew by an additional 53.7% from the first quarter of 2023 to the second quarter of 2023.



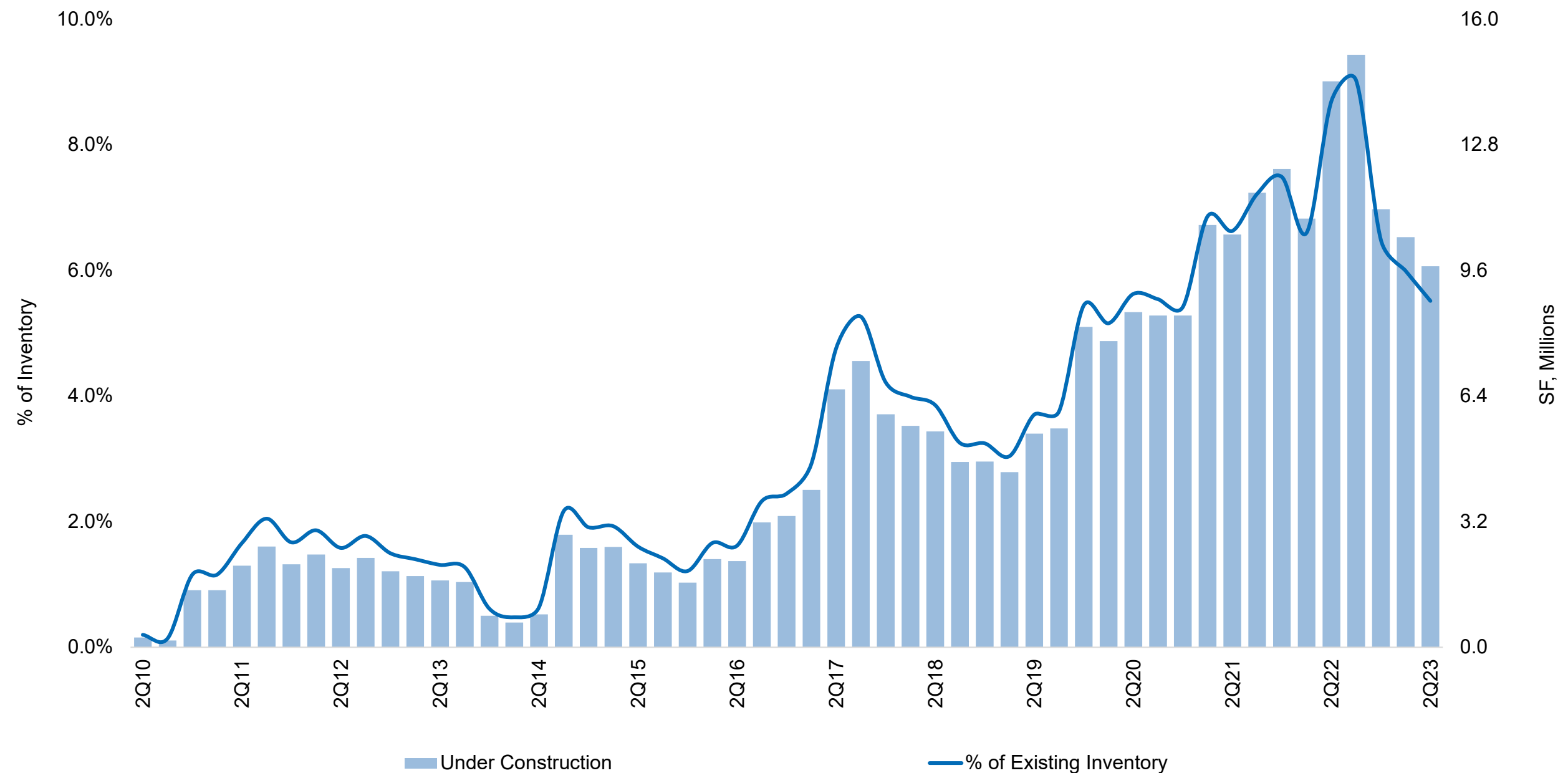
Source: Newmark Research



# Industrial Supply Pipeline Eases as Construction Starts Dwindle

The construction pipeline trended downward for the third consecutive quarter after reaching a high of 15.1 MSF in the third quarter of 2022. Rising vacancy and difficulty in sourcing construction debt are acting as deterrents to new construction starts, and some developers are choosing to exit land positions. This will provide opportunities for owner-users and strategic developers to acquire sought-after industrial land with the possibility of potential supply constraints coming in 2024 and 2025.

Industrial Under Construction and % of Existing Inventory

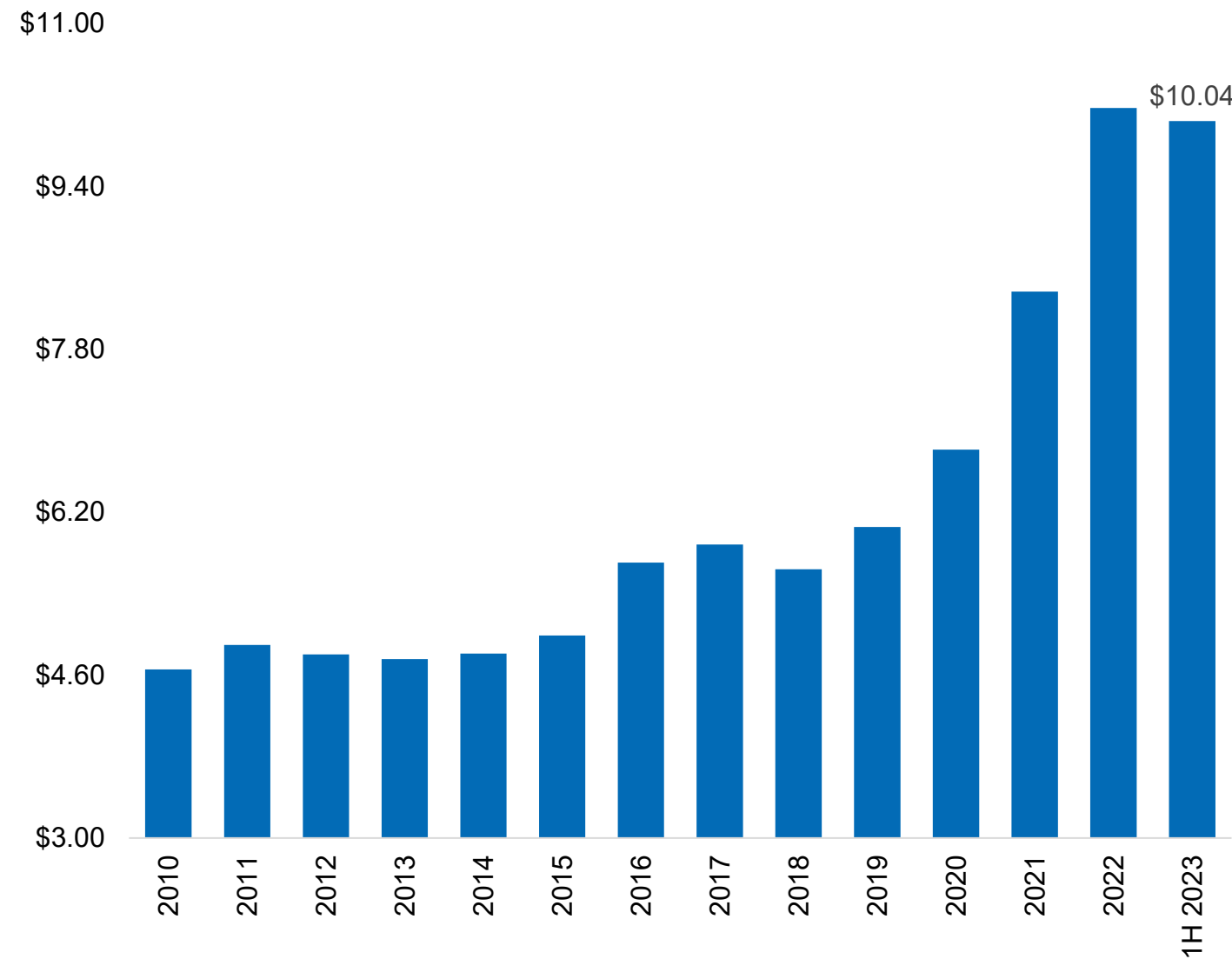


Source: Newmark Research

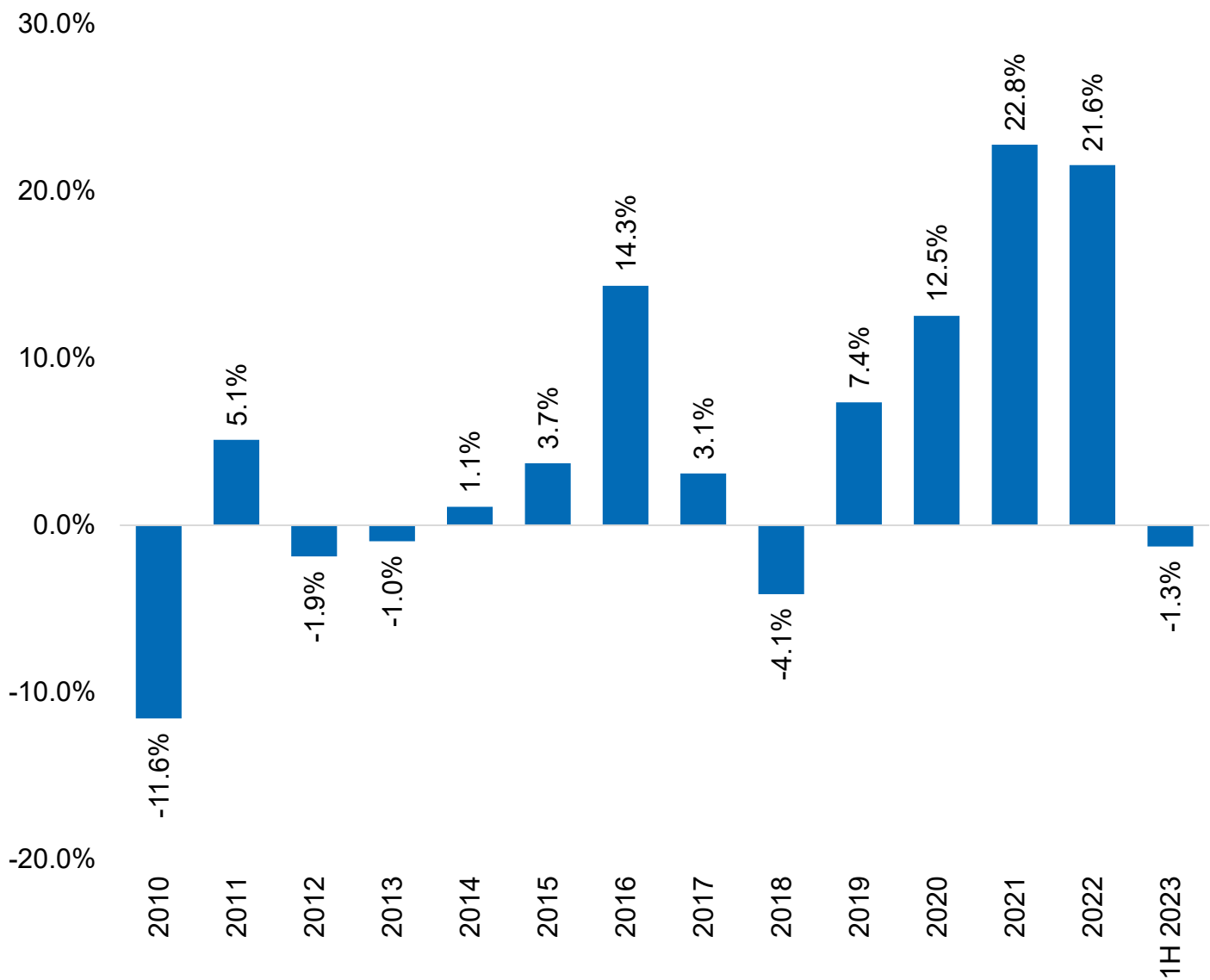
# Industrial Asking Rent Growth Appears to Be Leveling off for Now

Industrial average asking rents decreased by -1.3% from 2022 to the first half of 2023 after two consecutive years of growth above 20%. This trend is likely to continue for the next few quarters with a large construction pipeline delivering supply to the market. Potential supply constraints in 2024 and 2025 will apply upward pressure to rents.

Industrial Average Asking Rent, \$/SF/Year, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research



# Notable 2Q23 Lease Transactions

New direct leases represented 78.6% of the leasing activity for the second quarter of 2023, which is slightly above the 75.8% quarterly average of the last four years. Lease renewals in the quarter were largely concentrated in Class B and Class C space, accounting for 84.9% of leased renewal space, signaling that cost-conscious tenants might be opting to stay in place given current economic conditions. The average lease renewal term was 43.4 months.

Select Lease Transactions				
Tenant	Building	Submarket	Lease Type	Square Feet
Specialized Bicycle Components	SLC Global Logistics Center 6	Airport	Direct New	588,308
A bicycle manufacturer that is adding additional distribution space in the market.				
Confidential	Copper Crossing V	California Avenue	Direct New	309,409
A confidential tenant signed a lease in the recently completed building.				
McLane Global Logistics	SLC Global Logistics Center 7	Airport	Direct New	108,819
The third-party logistics company is downsizing its footprint in the market and moving to a new location as consumer spending for goods wanes.				
Rheem Sales Company	Freeport West – West Valley #1	West Valley	Renewal	90,791
The manufacturer of heating and cooling products renewed their distribution space lease in West Valley City.				
Updike Distribution Logistics	Fleming/Arka Distribution	West Valley	Renewal	79,468
The Phoenix-based distributor and third-party logistics company renewed its lease in South Salt Lake.				

Source: Newmark Research

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