
2Q23

Utah County Industrial Market Overview



NEWMARK

Market Observations

Economy

- Provo-Orem’s labor market remains strong, with a 2.4% 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, industrial and single-family development. Trade/transportation/utilities experienced slight negative growth as many industrial occupiers right-size space needs.

Major Transactions

- A confidential tenant inked a lease for the entire 247,078-SF, soon-to-be completed Holbrook Industrial Park 4.
- The garage door supplier/installer, Overhead Door Company of Utah Valley, is expanding to support new commercial and single-family home construction.
- Most leases in the quarter were direct leases in new construction due to lack of supply in the market.

Leasing Market Fundamentals

- Net absorption is normalizing and more in line with the pre-pandemic years of 2017 to 2019.
- The emergence of the trade/transportation/utilities sector continues.
- Vacancy increased to 3.3% as deliveries modestly outpaced net absorption. The 5.6-MSF construction pipeline remains elevated. Construction deliveries are historically high, while new speculative development construction starts are sharply decelerating.
- Achieved average first-year lease rates continue to experience strong growth, with the overall rate up 23.7% from 2022 to the first half of 2023.
- Other occupancy costs are rising alongside rent. Operating expenses are up 100% since 2018 and the 4.00% annual lease escalation is more prevalent.

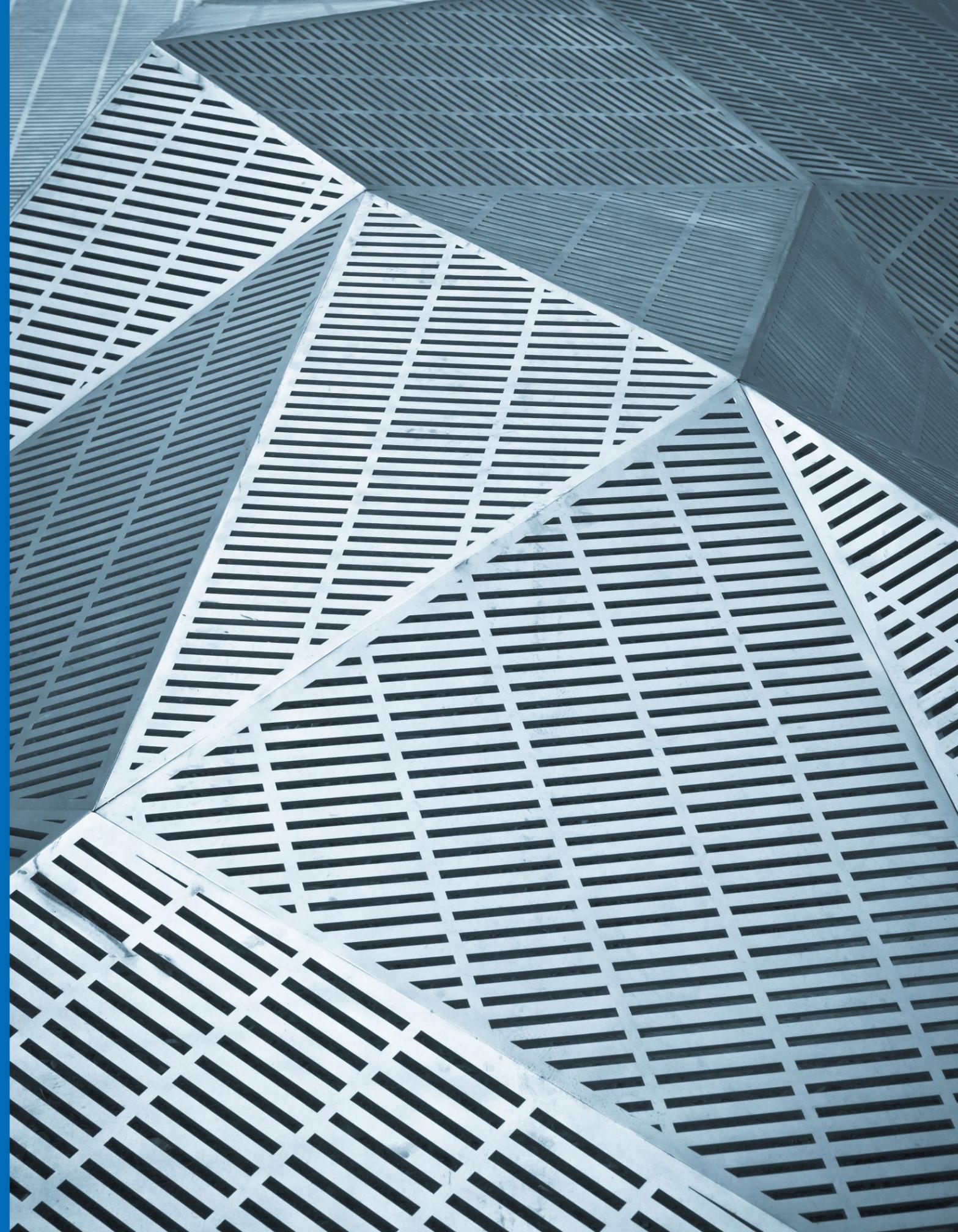
Outlook

- 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 this year.
- Aggressive asking rent growth appears to be cooling after two consecutive years of 10%-plus increases. Landlords are leveraging concessions and tenant improvements to maintain strong taking rent growth.

1. Economy
2. Leasing Market Fundamentals

2Q23

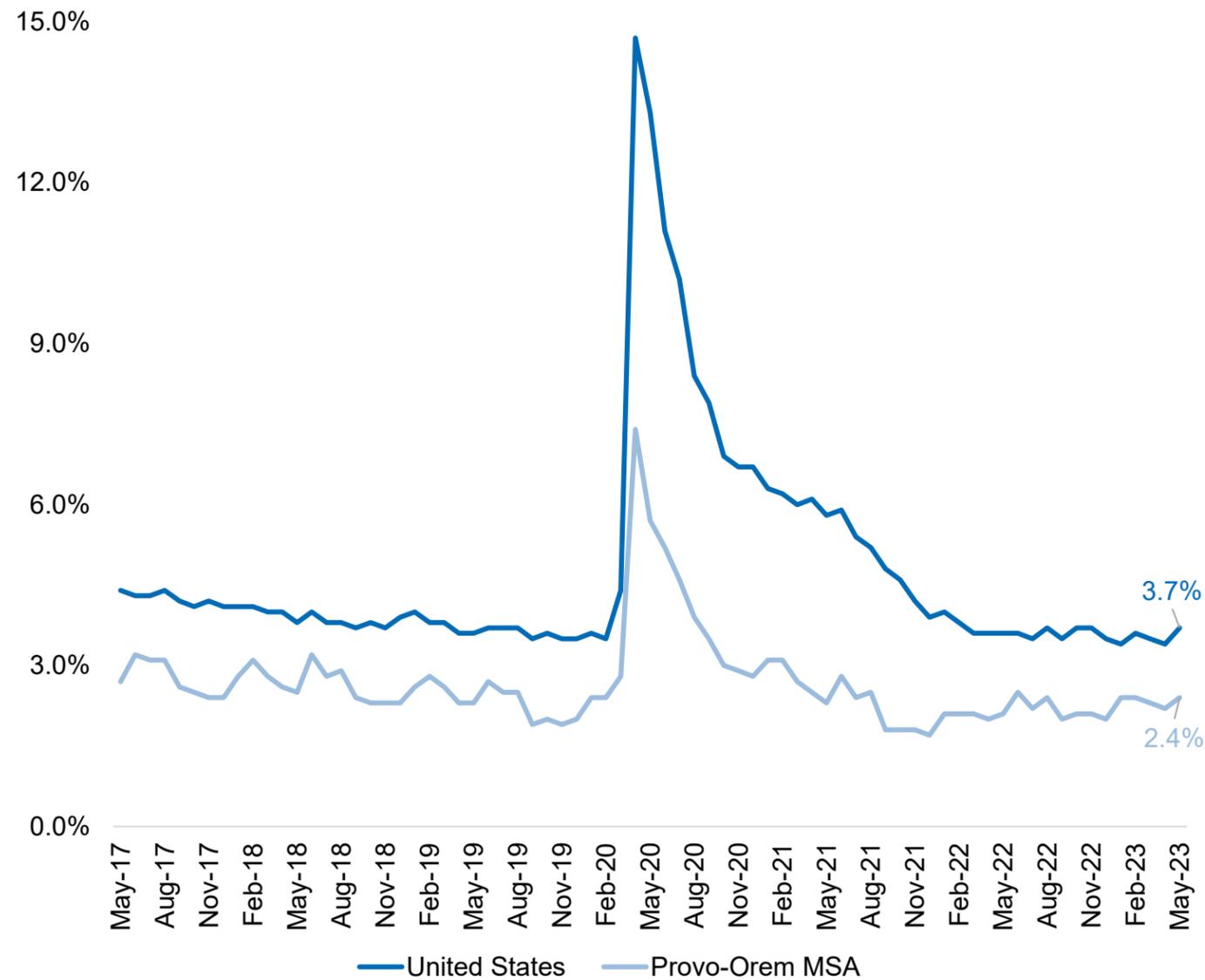
Economy



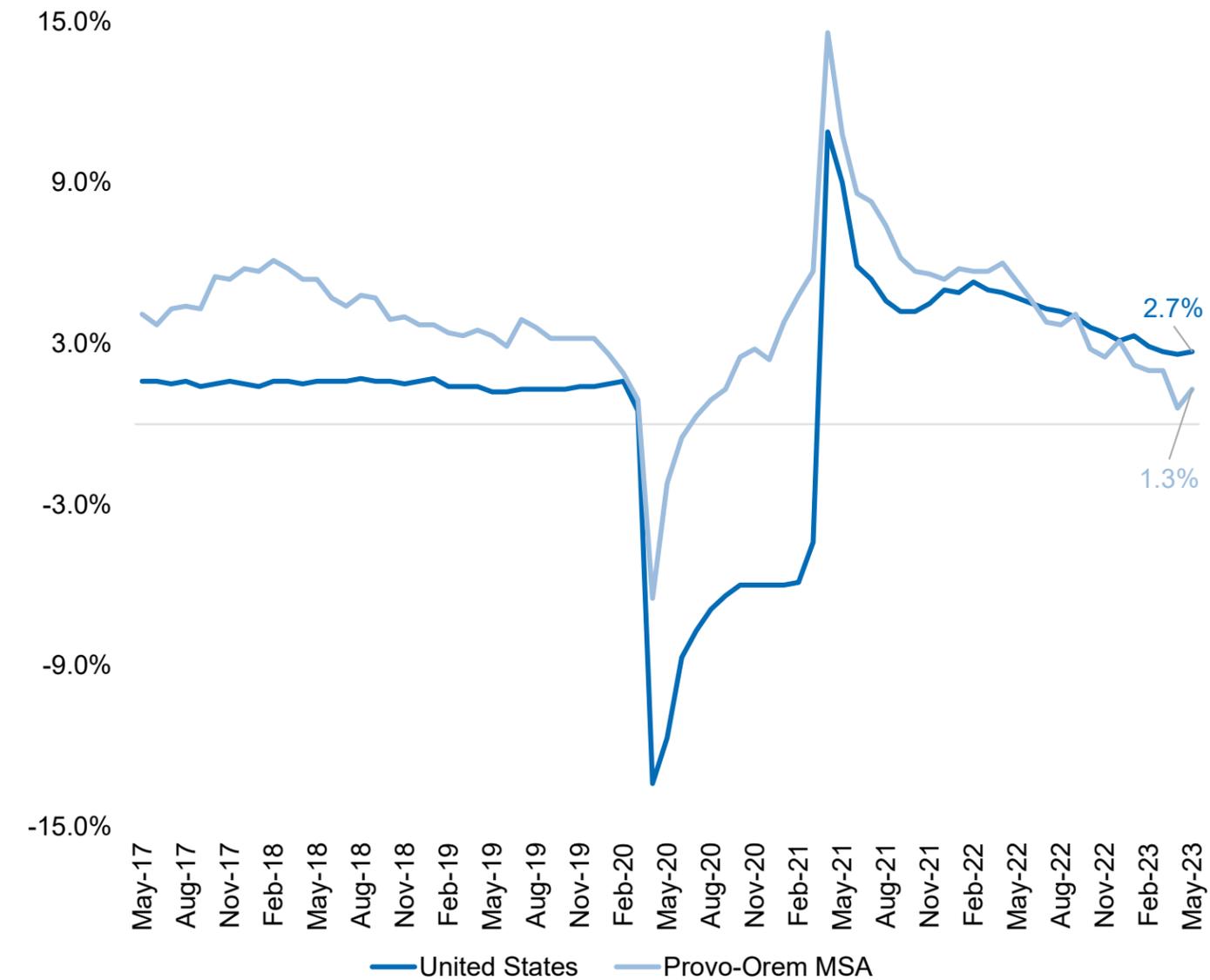
Provo-Orem Metro Area Labor Market Outperforms the Nation

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, Provo-Orem unemployment was 130 basis points lower than the national rate. Local job growth (1.3%) is trending below the national average as tech-heavy Utah County assesses a slowing economy and increased cost to access capital due to interest rate hikes.

Unemployment Rate, Seasonally Adjusted



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

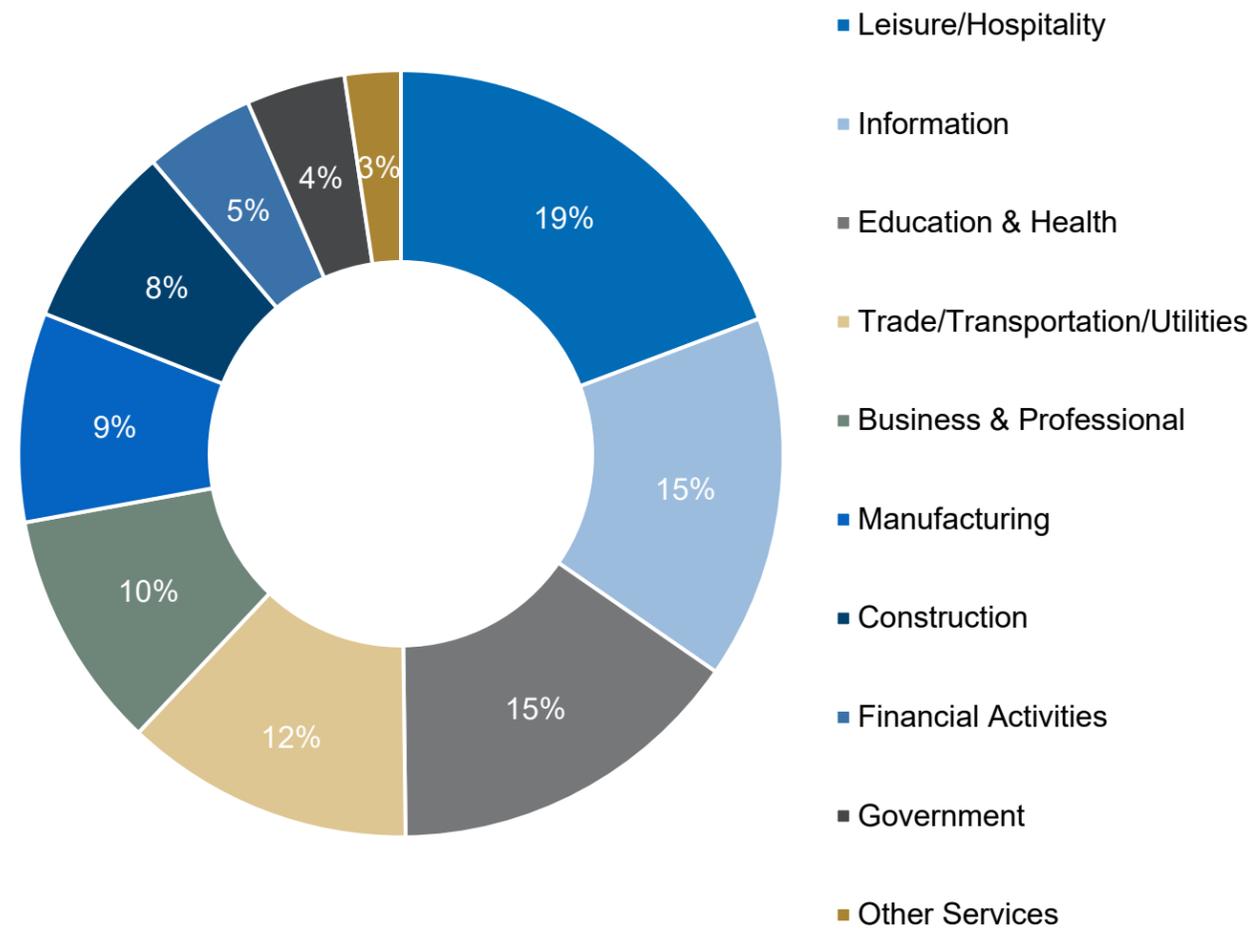


Source: U.S. Bureau of Labor Statistics, Provo-Orem MSA

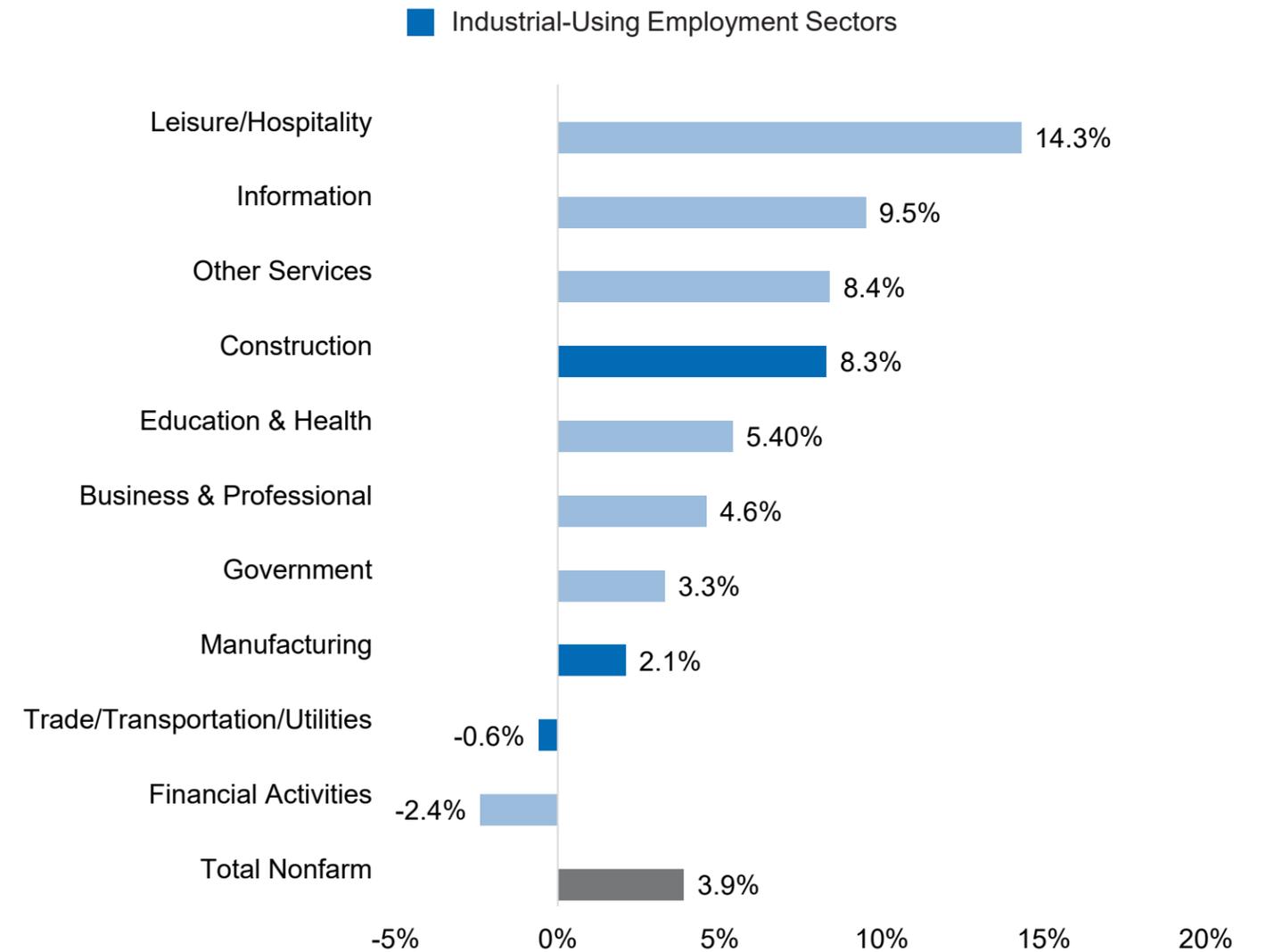
Most Sectors Experiencing Continued Strong Growth, Led by Leisure/Hospitality

Leisure/hospitality led all other industries in annual job growth as the sector continues to backfill early pandemic losses and capitalize on the shift in consumer spending from goods to services. Construction was the strongest industrial-using sector, propelled by multifamily, industrial and single-family housing 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

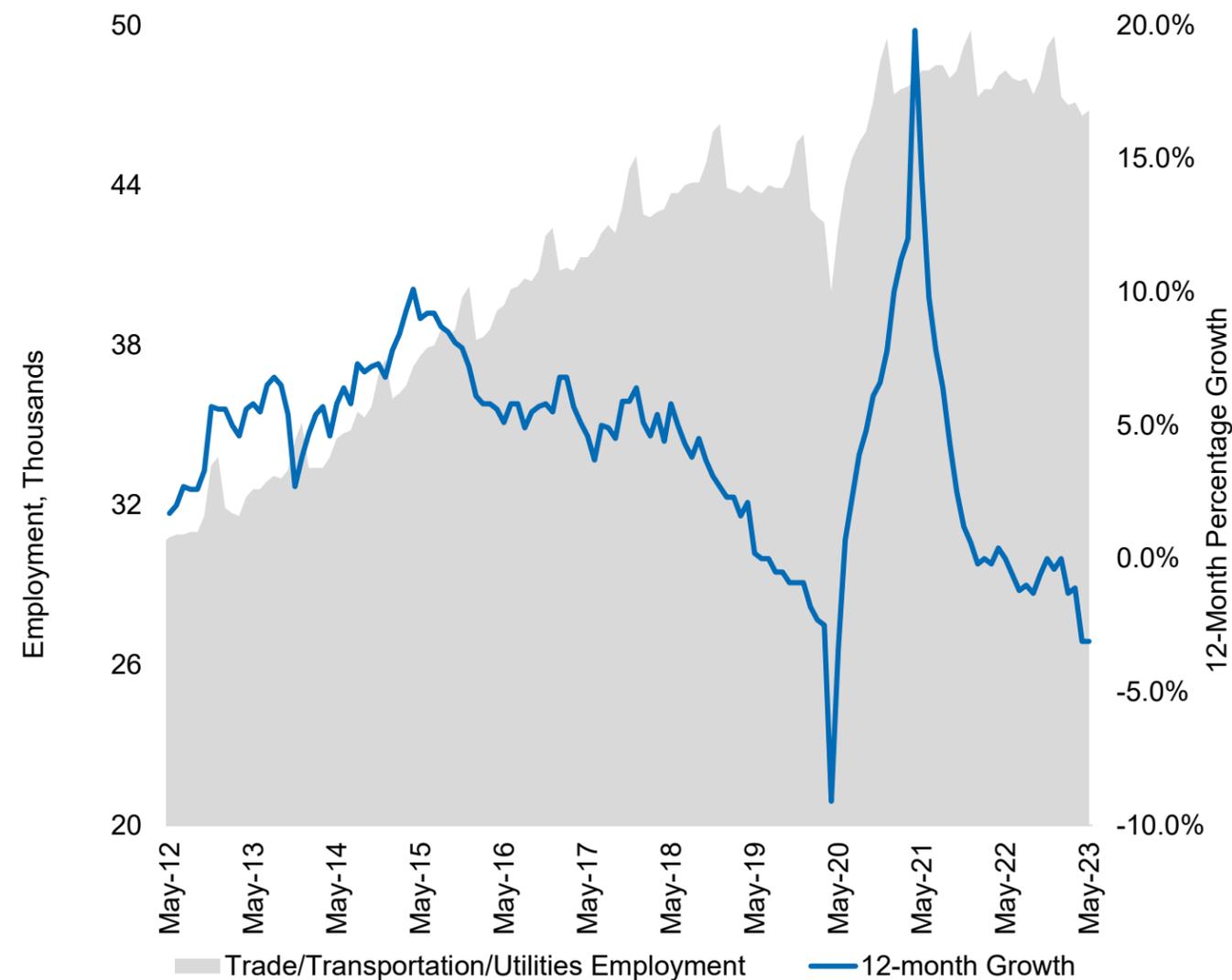


Source: U.S. Bureau of Labor Statistics, Provo-Orem MSA

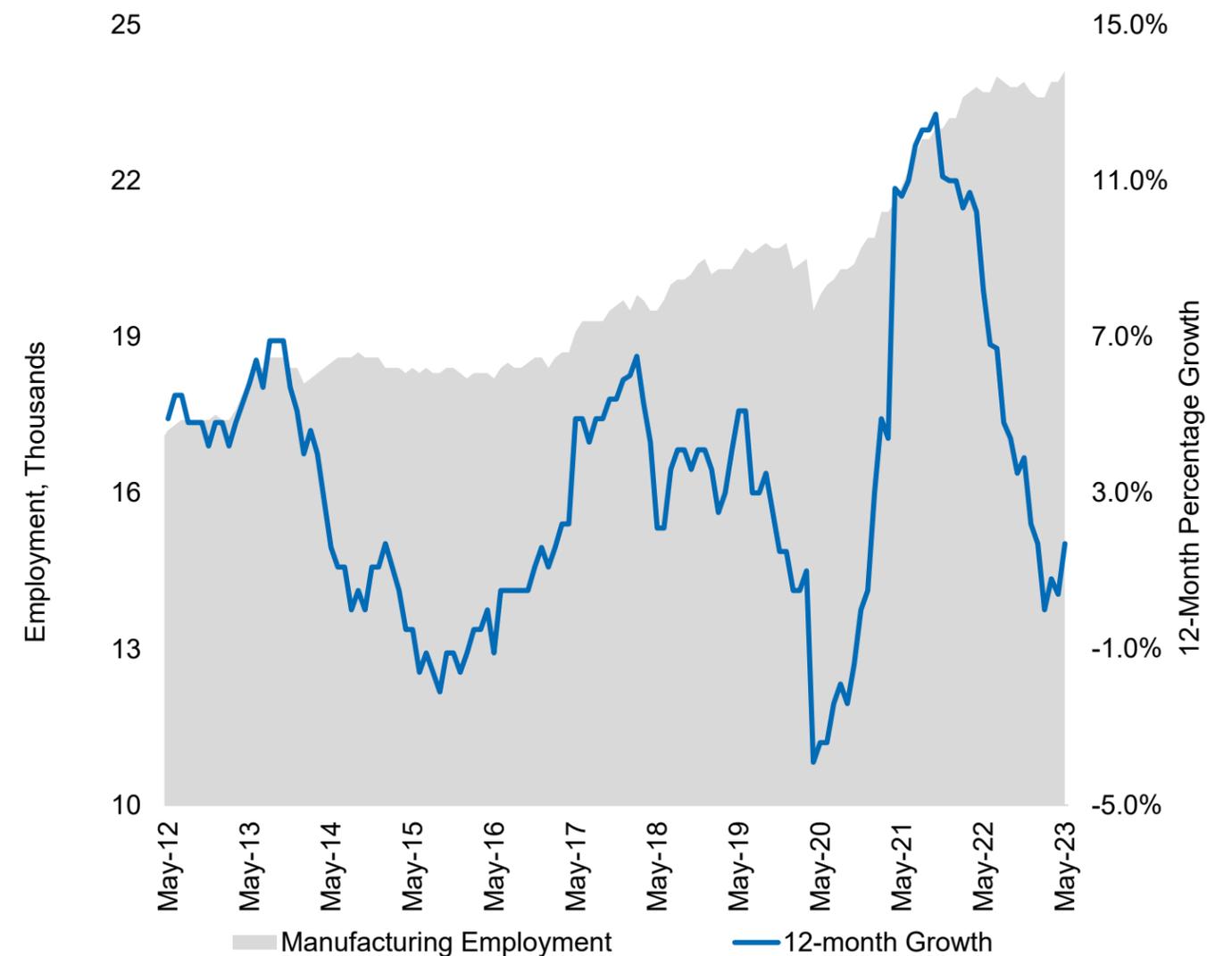
Industrial Employment Strong but Not Immune to Softening Conditions

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 is slowing (1.7%), which is below the 10-year average of 3.6%. The announcement of Texas Instruments' landmark \$11-billion investment to expand in Lehi, is expected to create 800 additional jobs.

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



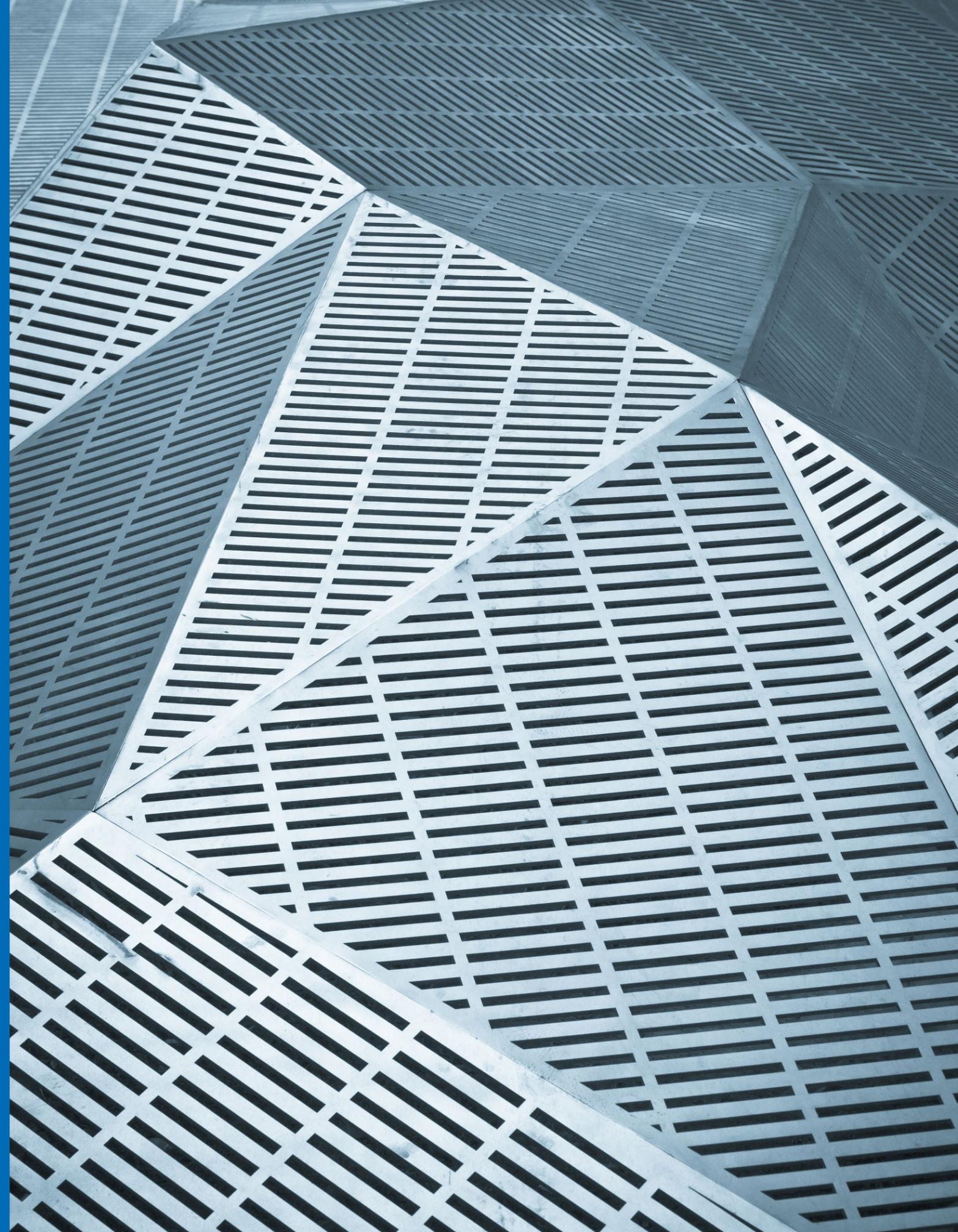
Manufacturing Employment and 12-Month Growth Rate



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

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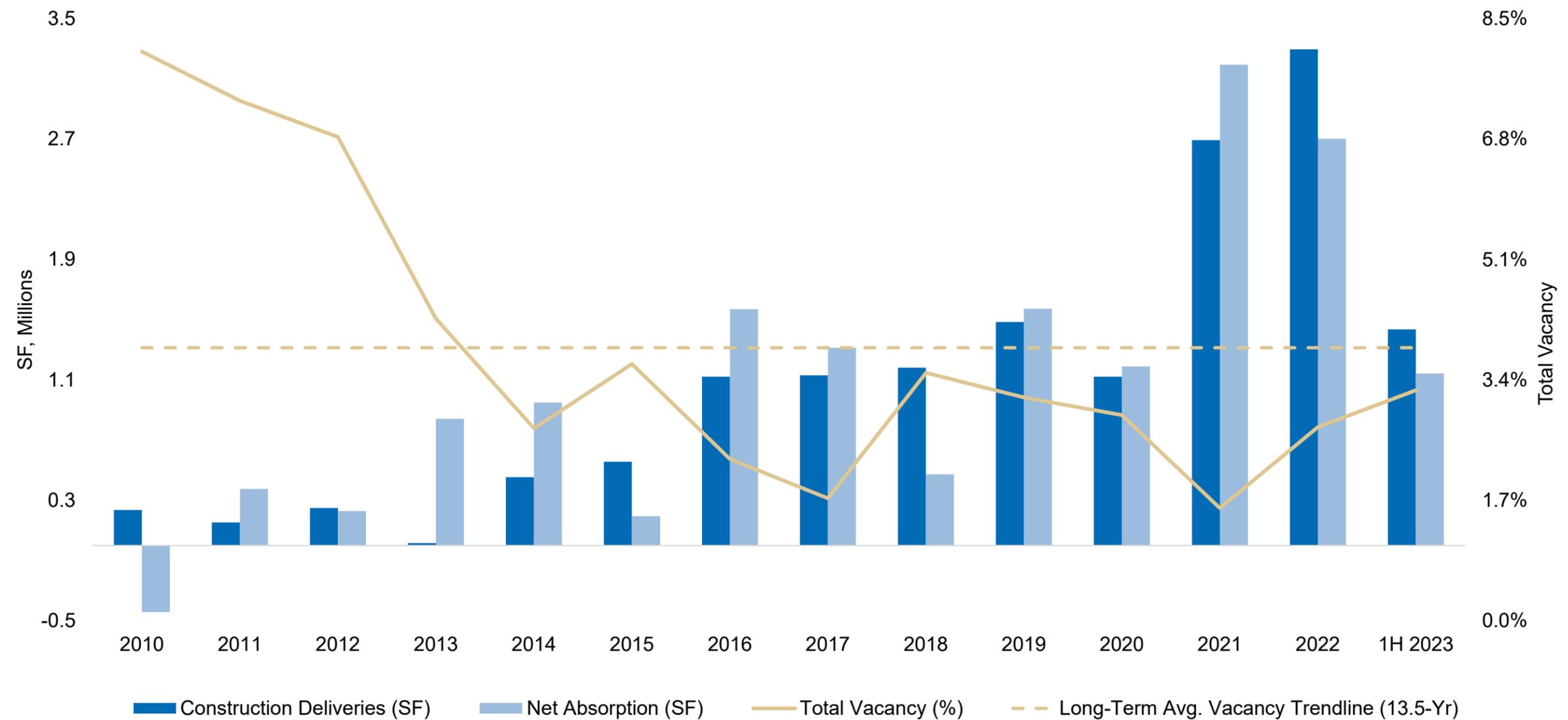
Leasing Market Fundamentals



Vacancy Rises as Construction Deliveries Outpace Net Absorption

Vacancy increased to 3.3% in the second quarter of 2023, up from 1.6% in the fourth quarter of 2022, but still below the 13.5-year average of 4.1%. 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

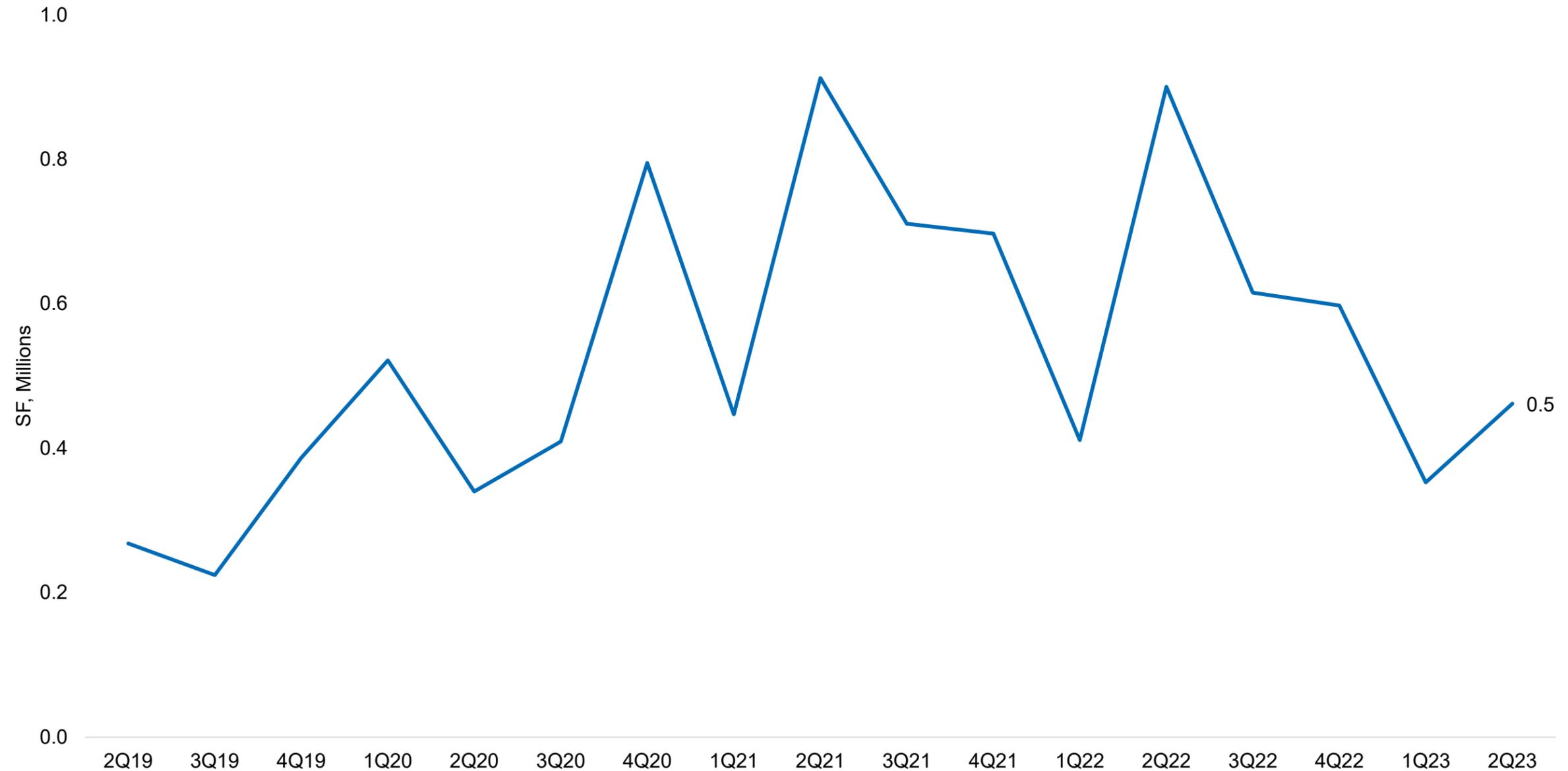


Source: Newmark Research

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 0.5 MSF of leasing activity, which is just shy of the 0.6 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.

Total Leasing Activity (SF)

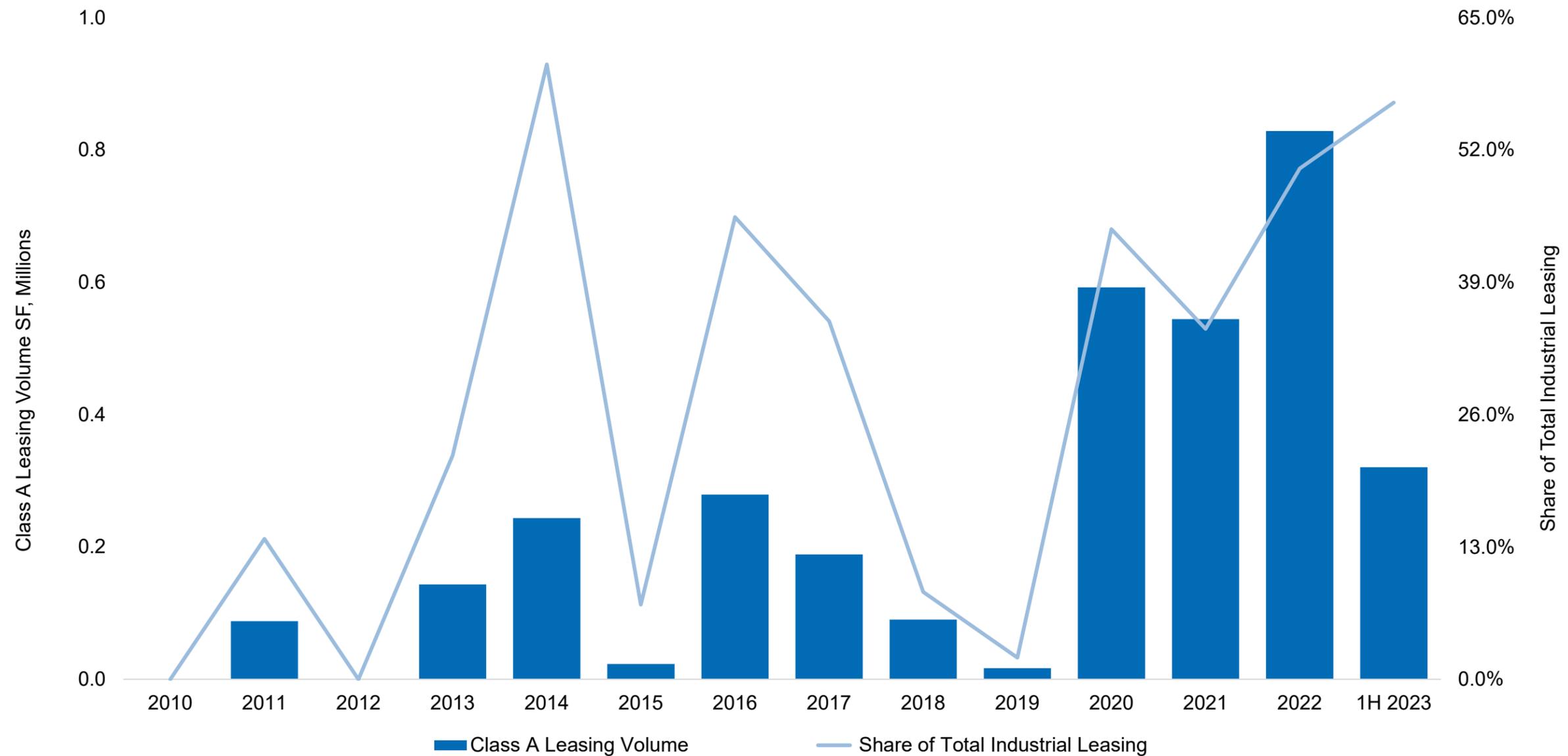


Source: Newmark Research
Note: Lease renewals are excluded.

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.

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



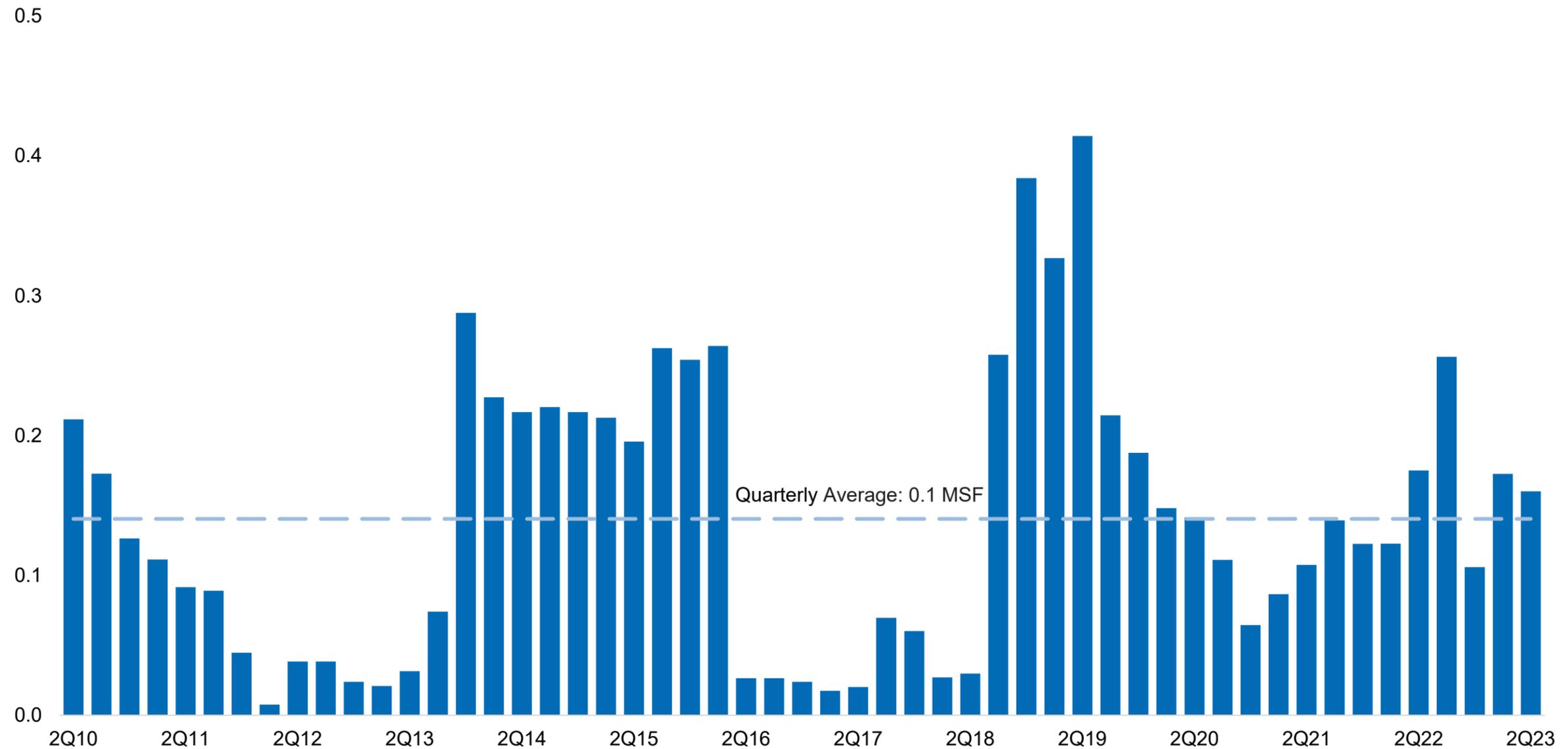
Source: Newmark Research

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 is just above the historical quarterly average of 0.1 MSF in the second quarter of 2023 and has been sporadic over the last few quarters after reaching a recent low of 64,507 SF in the fourth quarter of 2020.

Available Industrial Sublease Volume (MSF)

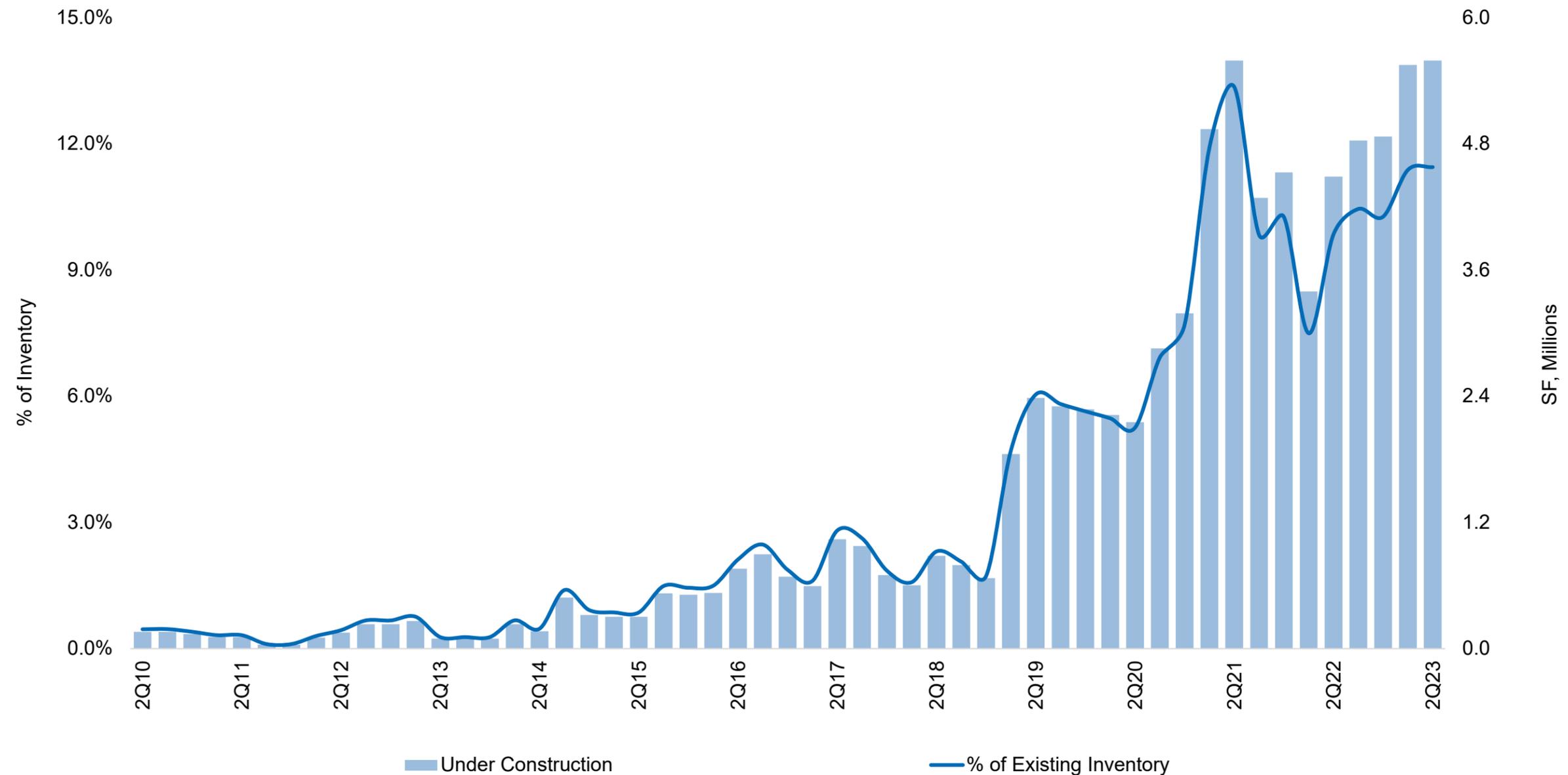


Source: Newmark Research

Industrial Supply Pipeline Remains at Elevated Levels

Of the 5.6 MSF under construction, the fourth building at the Facebook Data Campus accounts for 2.0 MSF and 35.8% of the total pipeline. Also, Texas Instruments is likely to kick off construction of their newest 2.4-MSF fabrication facility. Increasing vacancy and difficulty in sourcing construction debt are acting as deterrents to new speculative development construction starts, and some developers are choosing to exit land positions.

Industrial Under Construction and % of Existing Inventory

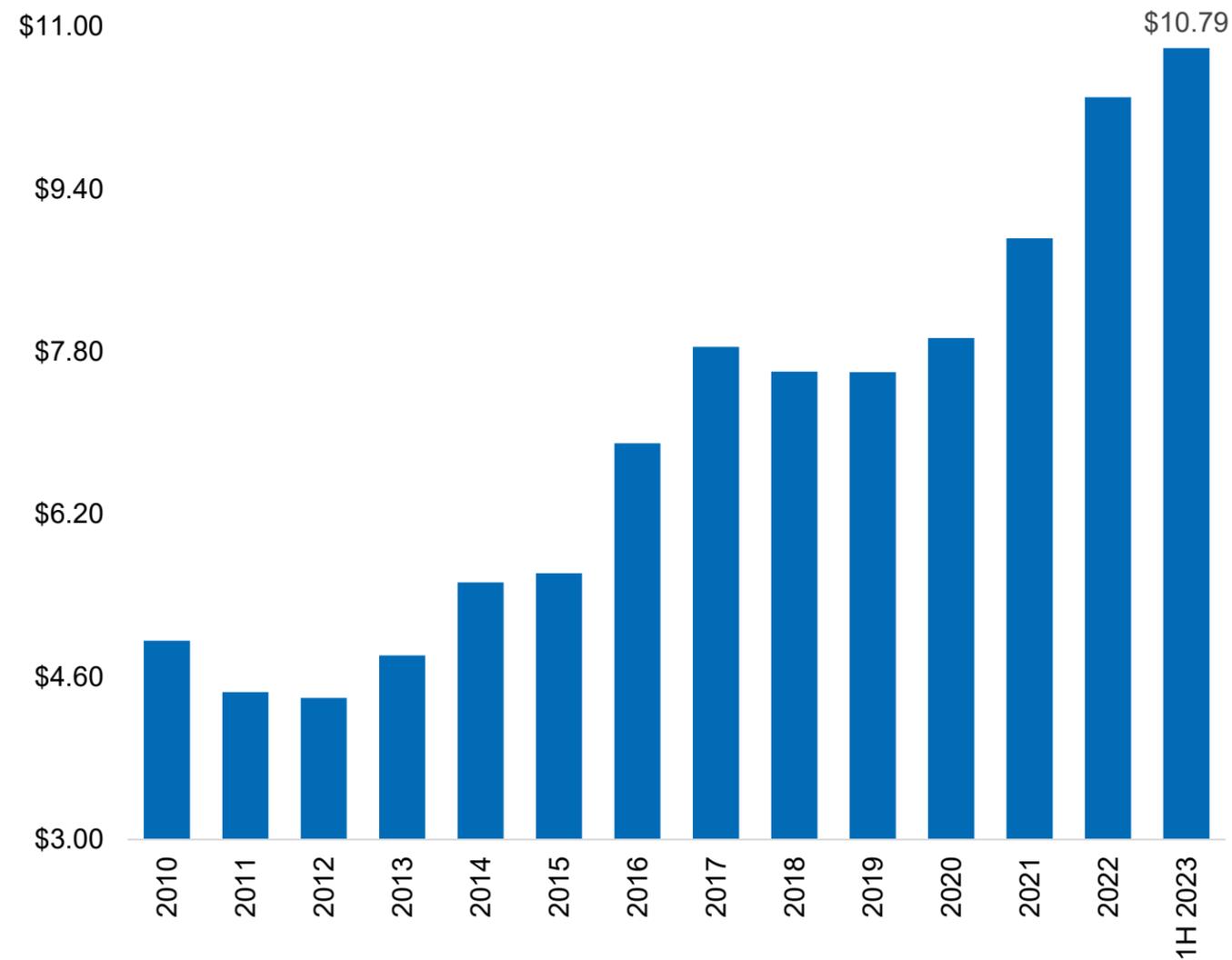


Source: Newmark Research

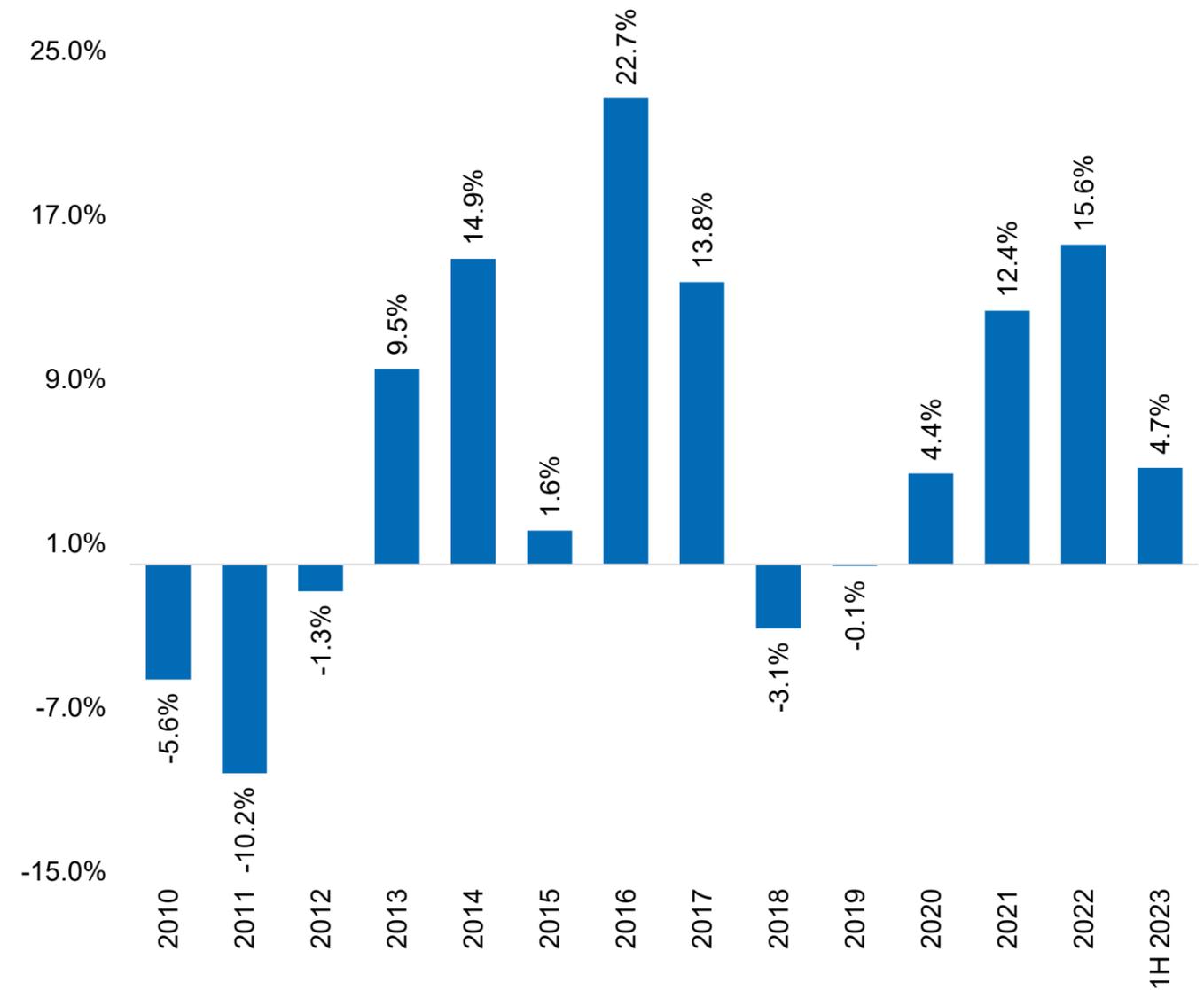
Industrial Asking Rent Growth Appears to Be Slowing

Industrial average asking rents increased by 4.7% from 2022 to the first half of 2023 after two consecutive years of growth above 10%. The slowing rent growth 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 most of the activity in the second quarter of 2023. Restricted supply over the last few years forced prospective tenants to new construction to find space. The top leases in the second quarter of 2023 were in buildings either under construction or built since 2020.

Select Lease Transactions

Tenant	Building	Submarket	Lease Type	Square Feet
Confidential	Holbrook Industrial Park 4	Utah County North	Direct New	247,078
<i>A confidential tenant leased the entire soon-to-be delivered 247,078-square-foot building.</i>				
Overhead Door Company of Utah Valley	Call Commercial Center 1	Orem	Direct New	42,980
<i>The garage door supplier/installer is expanding to support new commercial and single-family home construction.</i>				
Utah Basketball Academy	Call Commercial Center 1	Orem	Direct New	32,360
<i>Utah Basketball Academy signed a lease in one of the fastest-growing, young counties in the U.S.</i>				
Cade Builder Services	Lewis Landing A	Utah County North	Direct New	29,484
<i>The tenant signed a lease for about one-third of the under-construction building in Lehi.</i>				
Forge Fabrication	American Fork Business Park 2	Utah County North	Direct New	16,799
<i>The sign-maker catering to corporate events is moving to a new location in American Fork.</i>				

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