

2Q24

# Greater Salt Lake Office Market

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



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# Market Observations

## Economy

- The Wasatch Front labor market remained strong, with a 3.1% unemployment rate in May 2024. This was lower than the U.S. average of 3.7%.
- All BLS super-sectors recorded job gains over the last 12 months, except for information (where tech companies are generally grouped).
- Office-using employment remains higher than pre-pandemic 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 or condo purchases 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

- Tenant occupancy across all regions of the Wasatch Front remained even, with negative absorption in the Provo-Orem MSA counterbalanced by almost equal positive absorption between the Salt Lake City and Ogden-Clearfield MSAs.
- 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 have office-first work models.
- Softening market conditions are strongest in the Tech Corridor, based on ongoing volatility amid its namesake occupiers and their preference for telework.

## 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

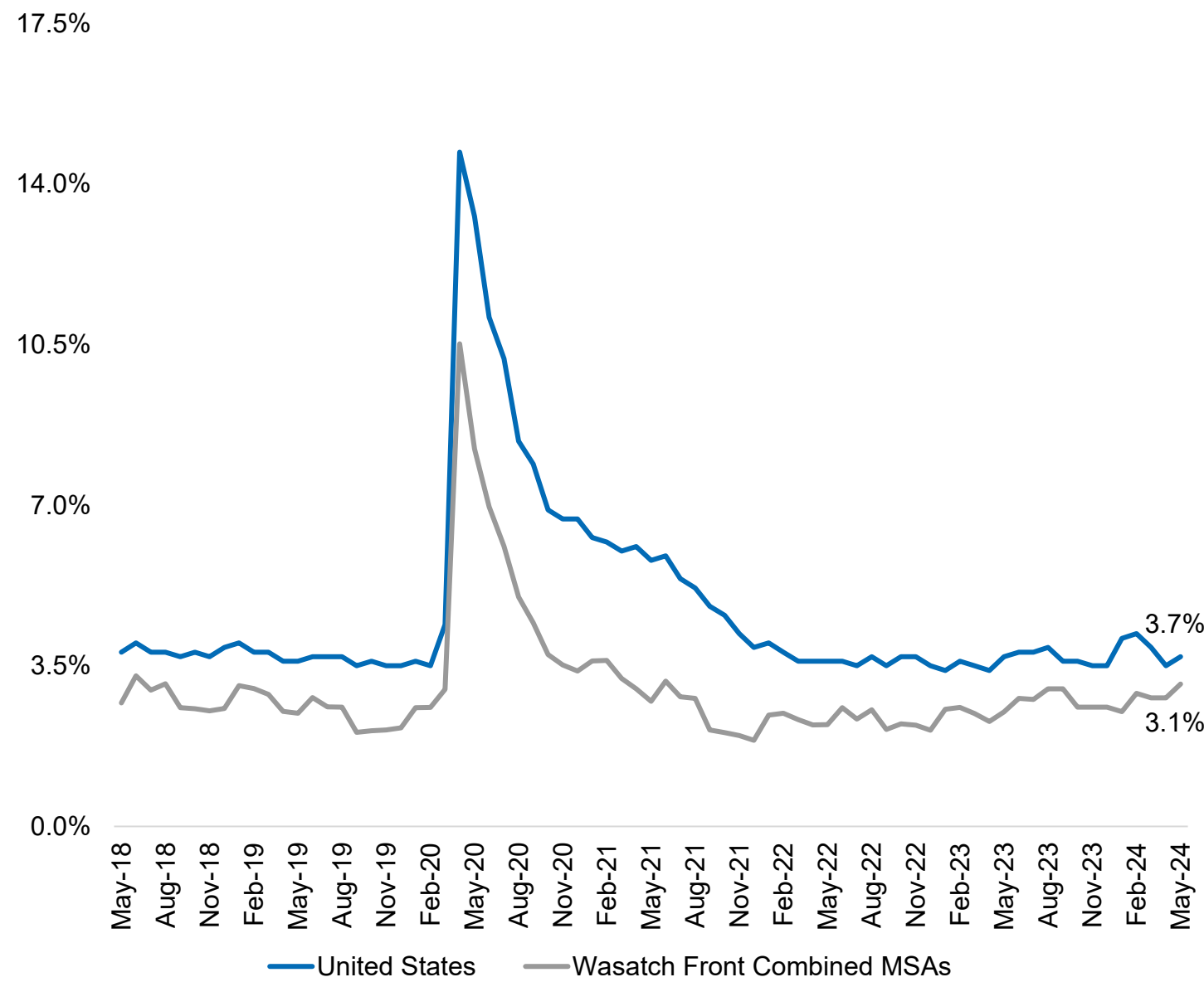




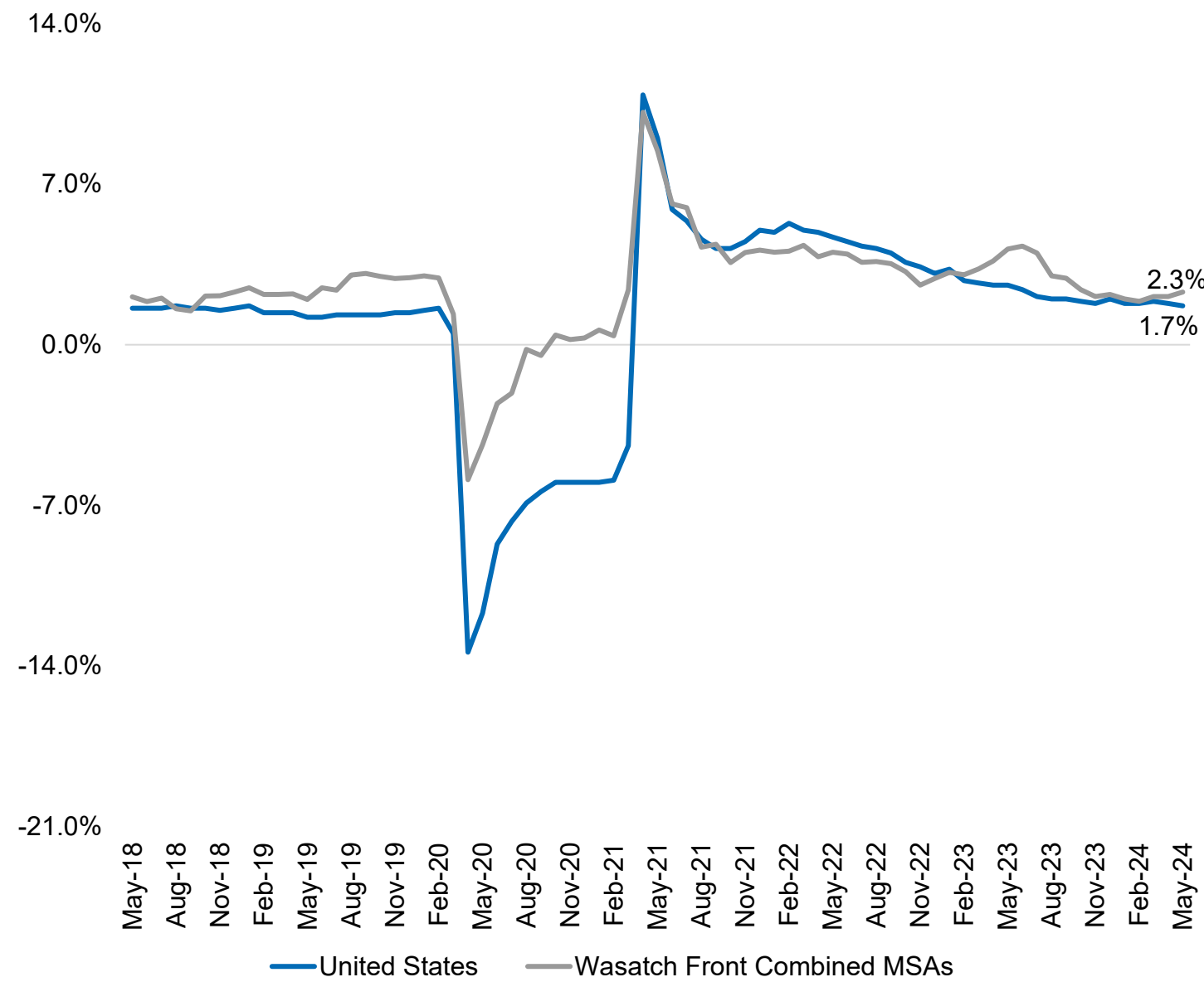
# Wasatch Front Labor Market Outperforming National Trends

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 May 2024, Wasatch Front unemployment was 60 basis points lower than the national rate. Overall local job growth continues, with 2.3% in annual gains relative to 1.7% growth for the U.S.

Unemployment Rate, Not Seasonally Adjusted



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

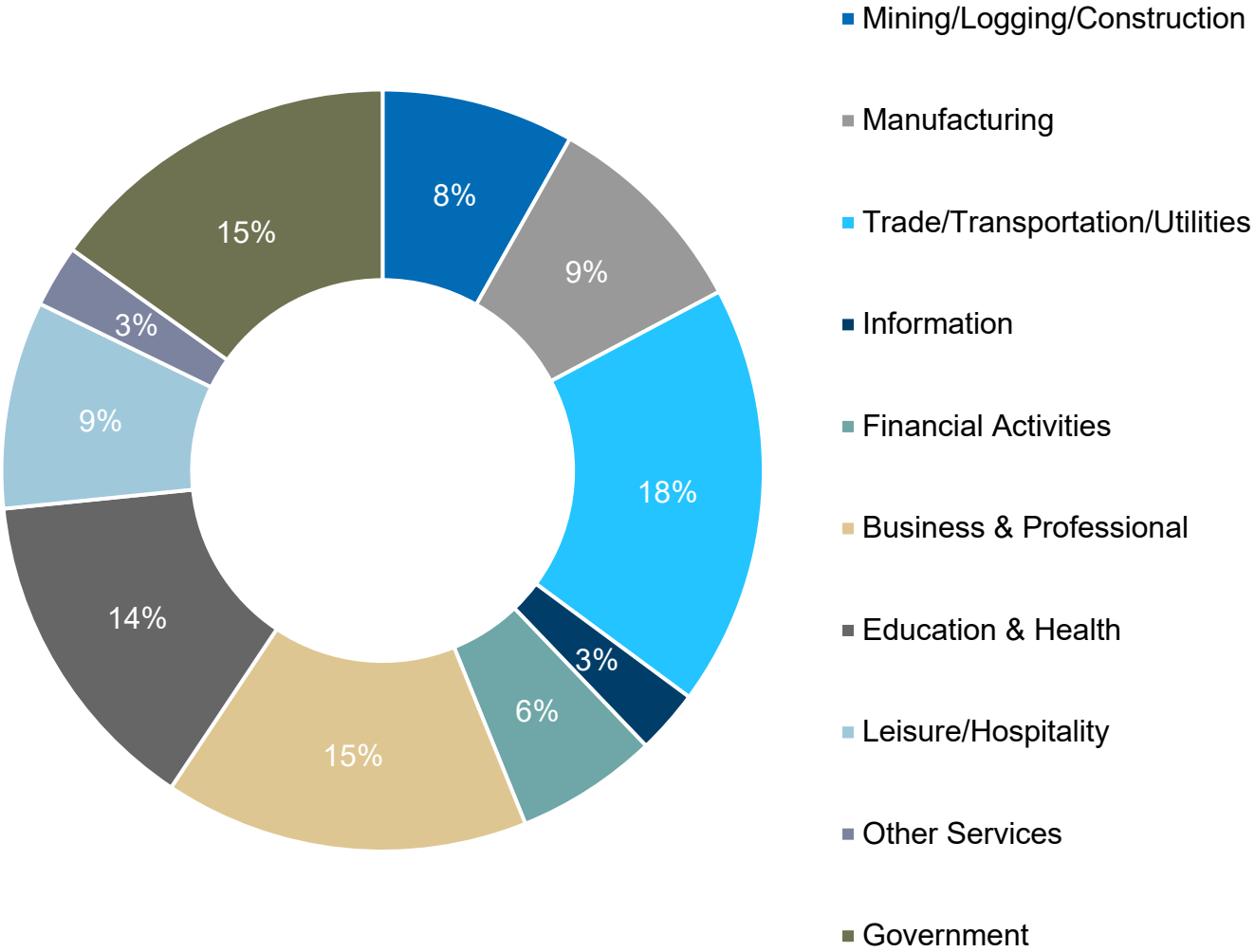


Source: U.S. Bureau of Labor Statistics  
\*Wasatch Front Combined MSAs include: Salt Lake City MSA, Provo-Orem MSA and Ogden-Clearfield MSA

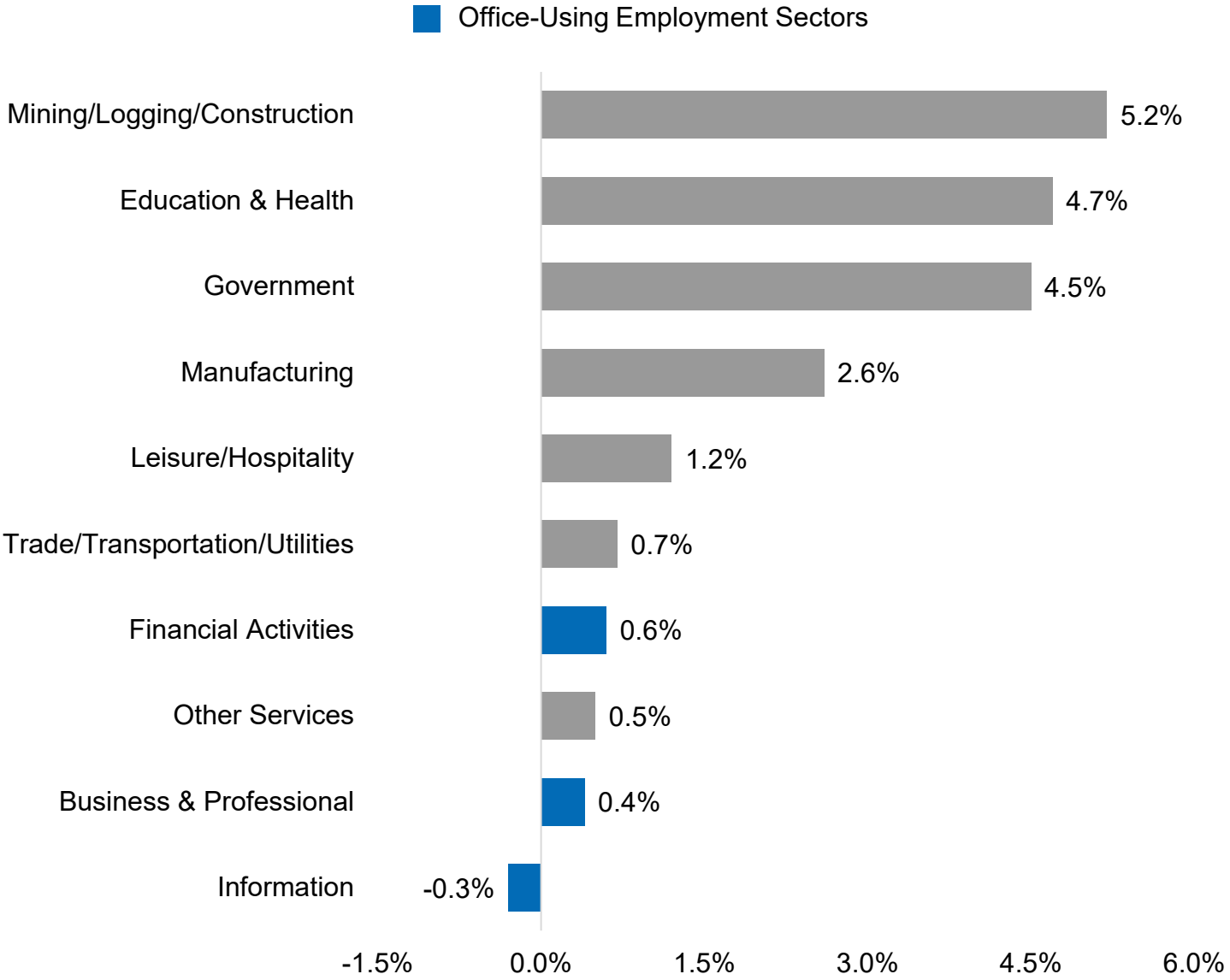
# Job Growth Positive for Almost All Sectors Along Wasatch Front

Year-over-year gains in the mining/logging/construction (+5.2%), education and health (+4.7%) and government (+4.5%) industries buoyed up job growth for the Greater Salt Lake region. Information (-0.3%) was the only industry that contracted over the last 12 months.

Wasatch Front Employment by Industry, May 2024



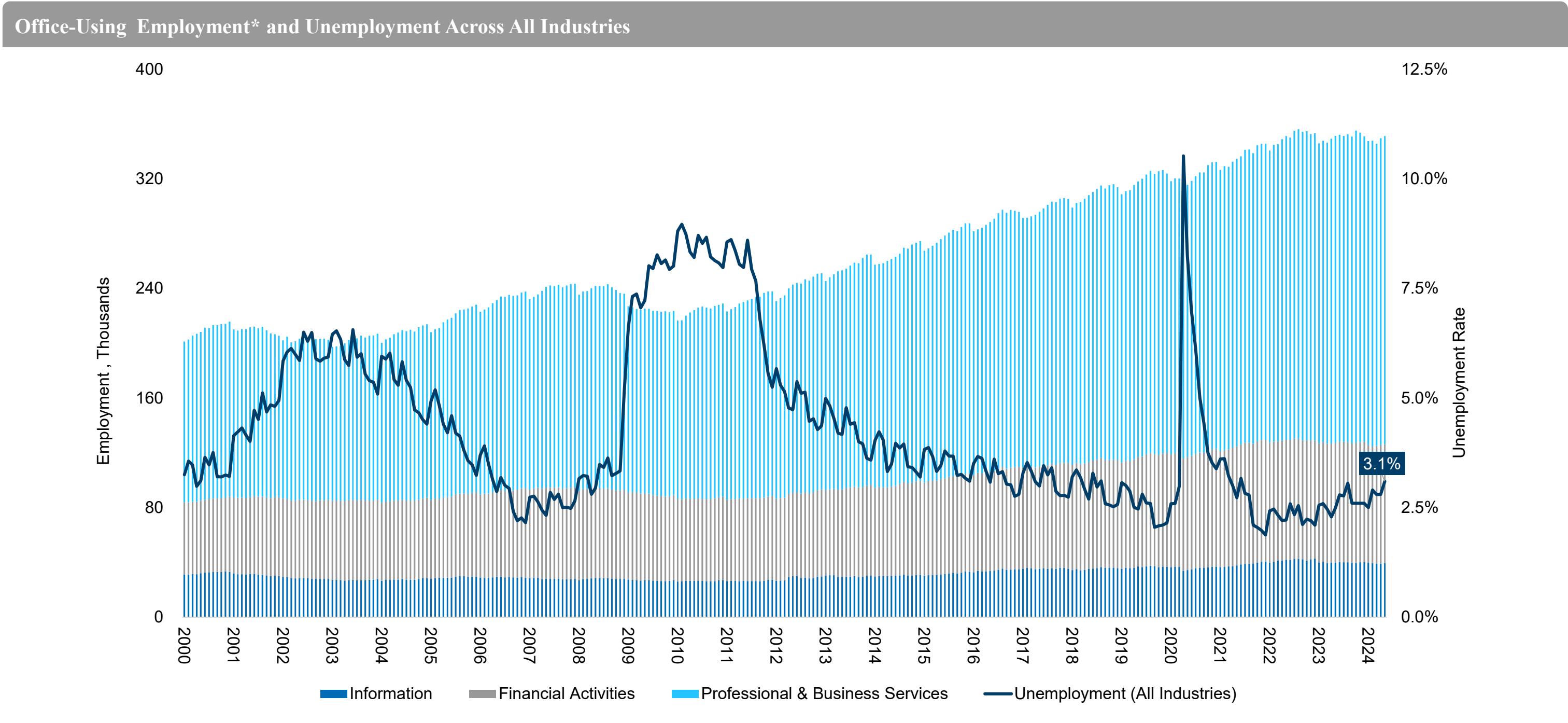
Wasatch Front Employment Growth by Industry, 12-Month % Change, May 2024



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 Despite Uptick in Unemployment

Bucking the national trend, Wasatch Front office-using employment only saw a small dip at the start of the pandemic and has maintained equilibrium since mid-2022. Unemployment at the national and local level both saw an increase in May 2024, but office-using employment remained the same along the Wasatch Front.



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



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# Utah County Employment Struggles Compared to Rest of Wasatch Front



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# Salt Lake City Market Fundamentals





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## Salt Lake County Office Submarket Map and High-Level Statistics – 2Q24



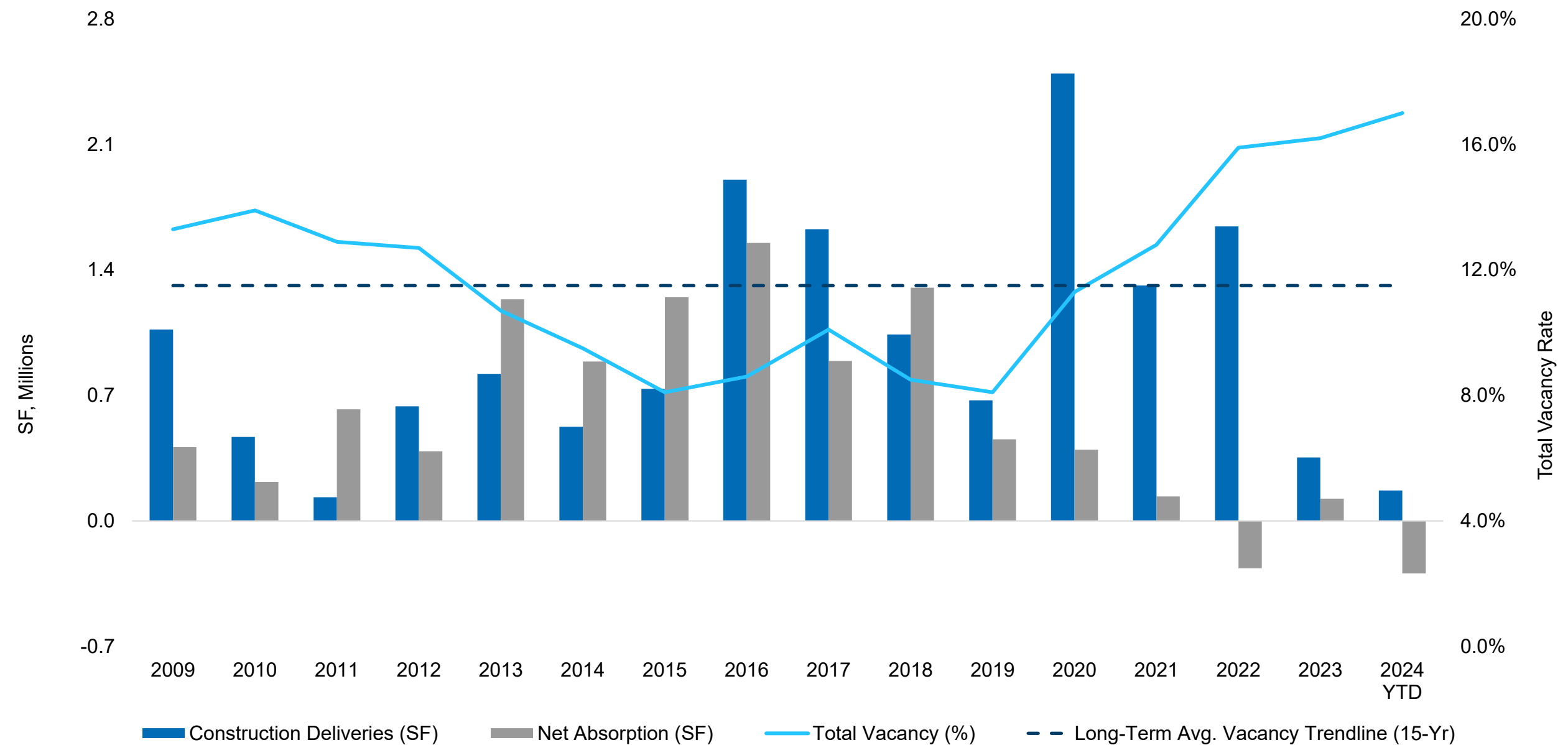
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# Overall Vacancy Remains Elevated; Large Moveouts Lead to Tenant Contraction

Total vacancy (17.0%) increased 80 basis points since the end of 2023 as tenants contracted in size or fully vacated space throughout the valley. 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 amid tenant contractions.

Historical Construction Deliveries, Net Absorption, and Vacancy

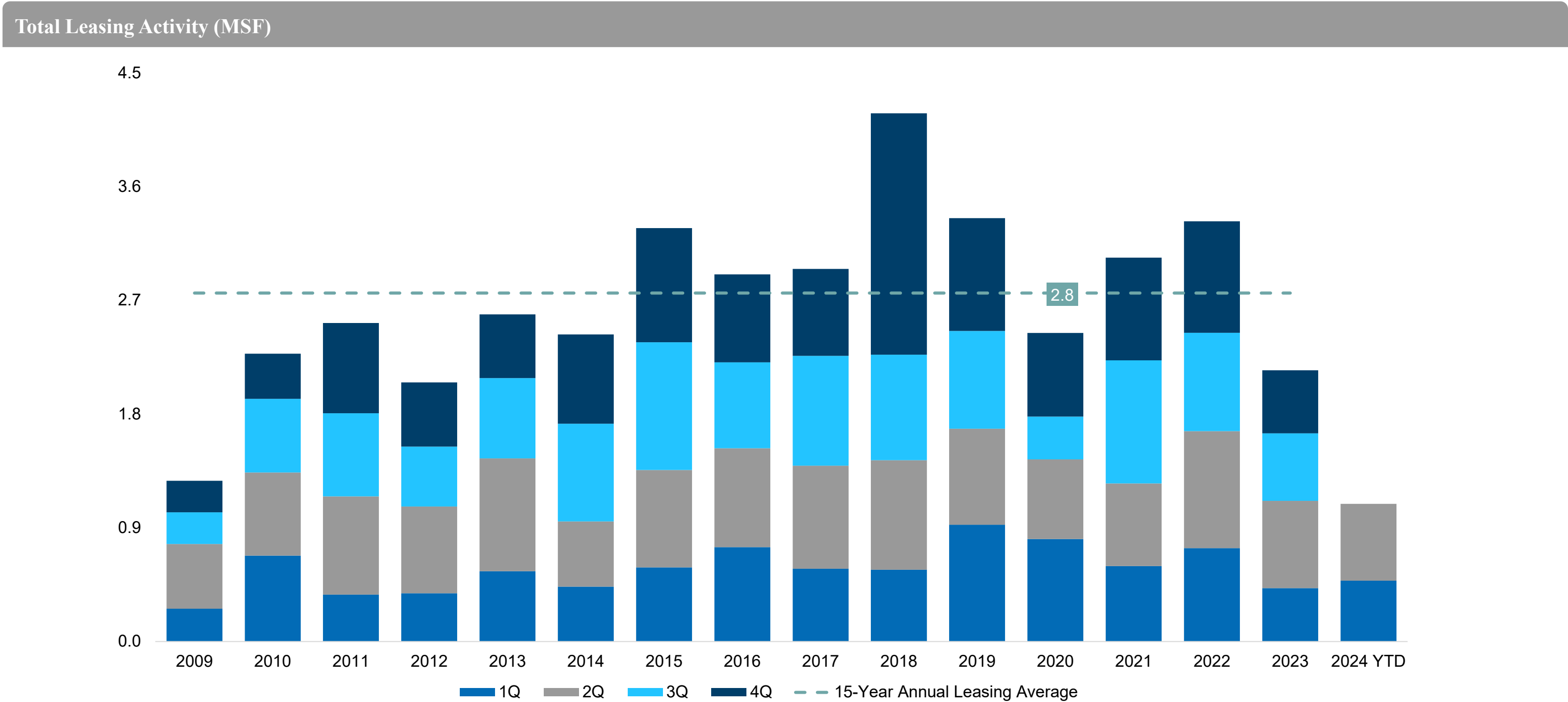


Source: Newmark Research



# Leasing Activity on Par with 2023 Transaction Volume

Leasing activity in the first half of 2024 was consistent with the same period in 2023, indicating tenant and landlord trends have stabilized in recent quarters. On a square footage basis, current leasing activity is on par with 2011-2014. Today’s number of leases signed is reminiscent of pre-pandemic levels, while the average transaction size is smaller as tenants take less space amid hybrid work models.

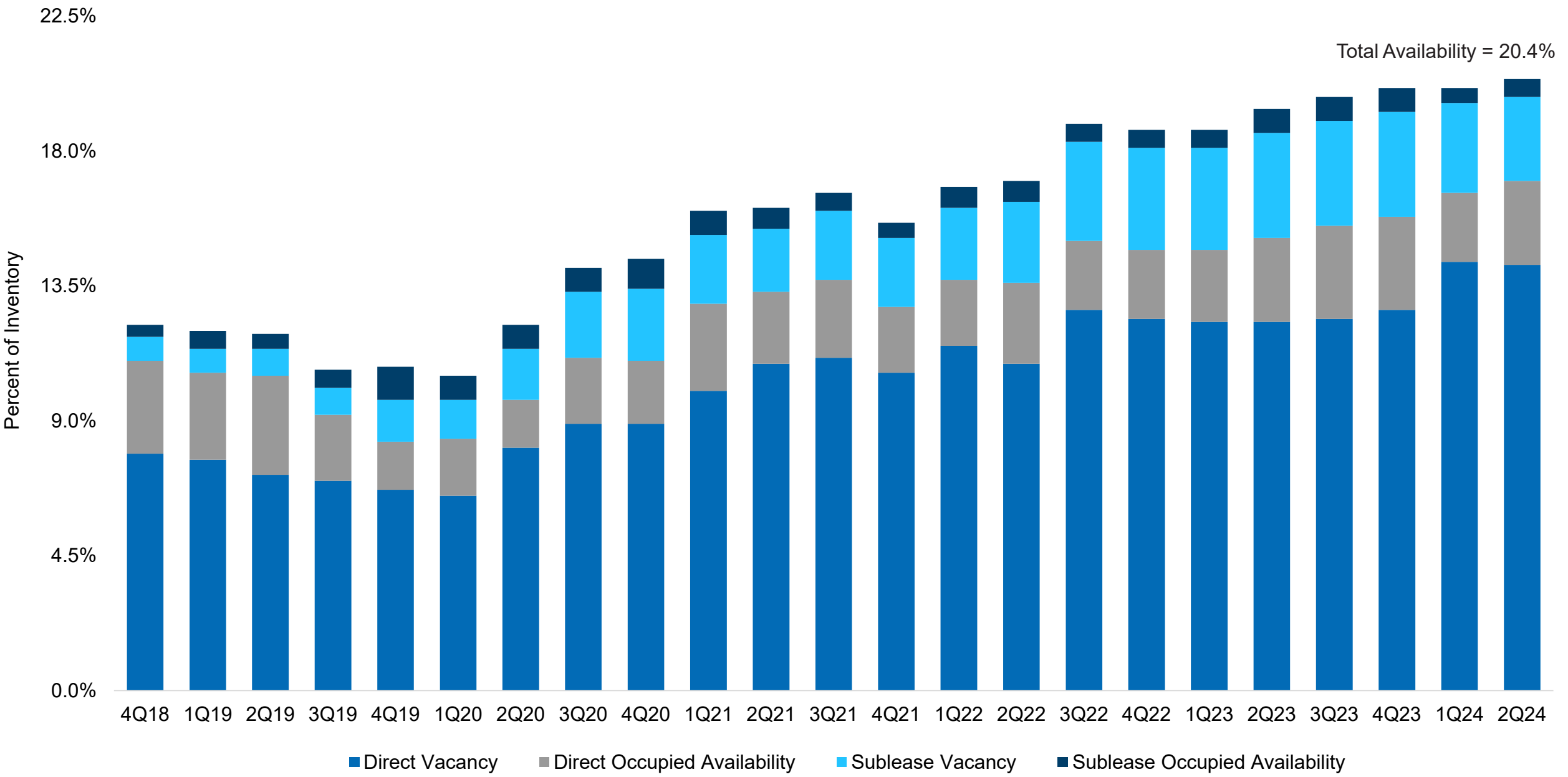


Source: Newmark Research

# Shift From Sublet to Direct Clear in First Half of 2024

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 2.8%, 30 basis points higher than the five-year average of 3.1%, indicating that the shift from sublet to direct availability has begun as leases expire and are returned to landlords. Numerous upcoming lease expirations in 2024 and 2025, coupled with the overall trend of smaller renewal or relocation footprints, will cause this trend to persist in the next few quarters.

Availability Breakdown



Source: Newmark Research



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## Sublease Availability Concentrated Heavily in the Southern Submarkets



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## Upcoming Sublet and Direct LEDs a Concern Among Lowered Leasing Activity

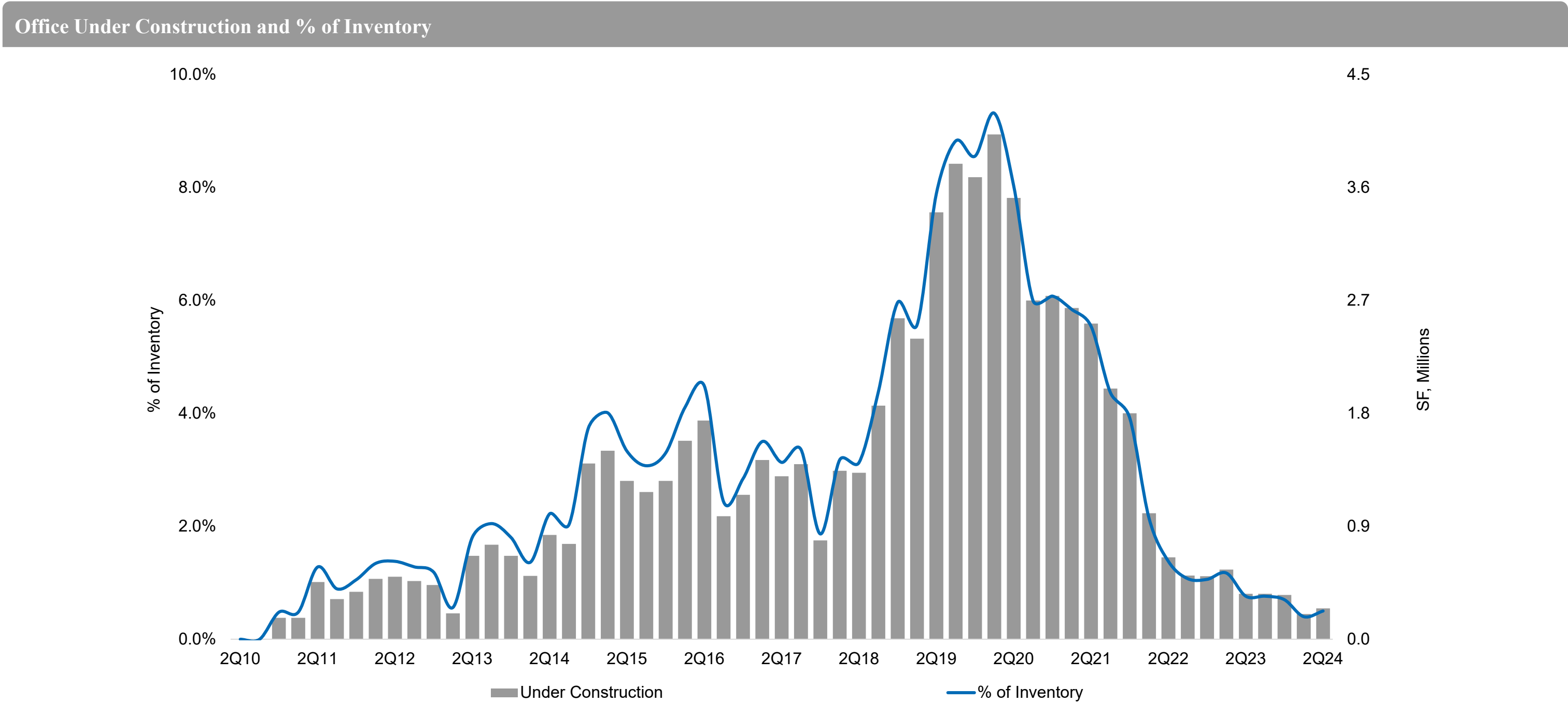


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# Office Construction at Lowest Levels Since 2010

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 169,780 SF in the first half of 2024 with only 245,200 SF underway at mid-year, further illustrating measured office growth within the Metro.

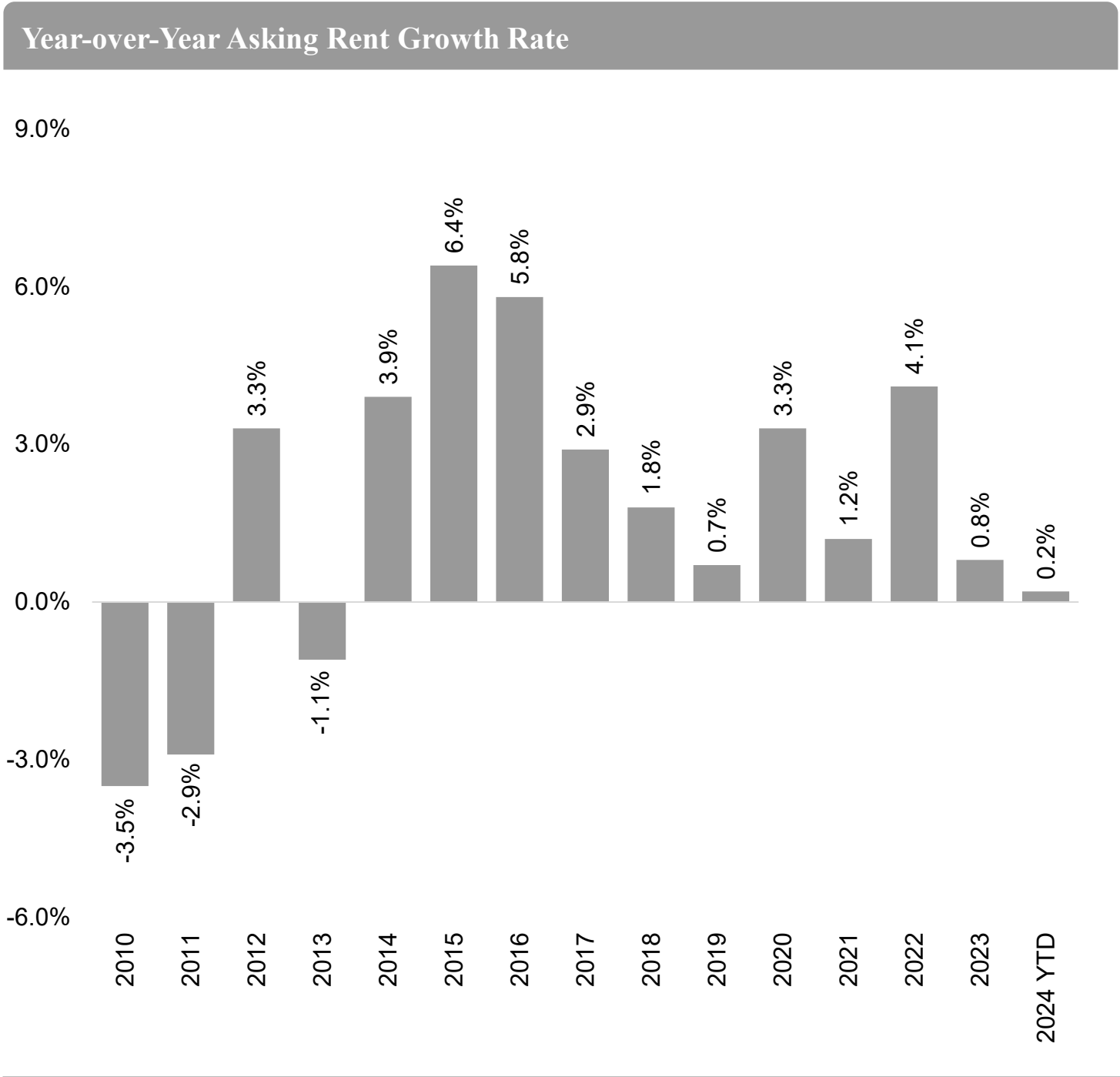
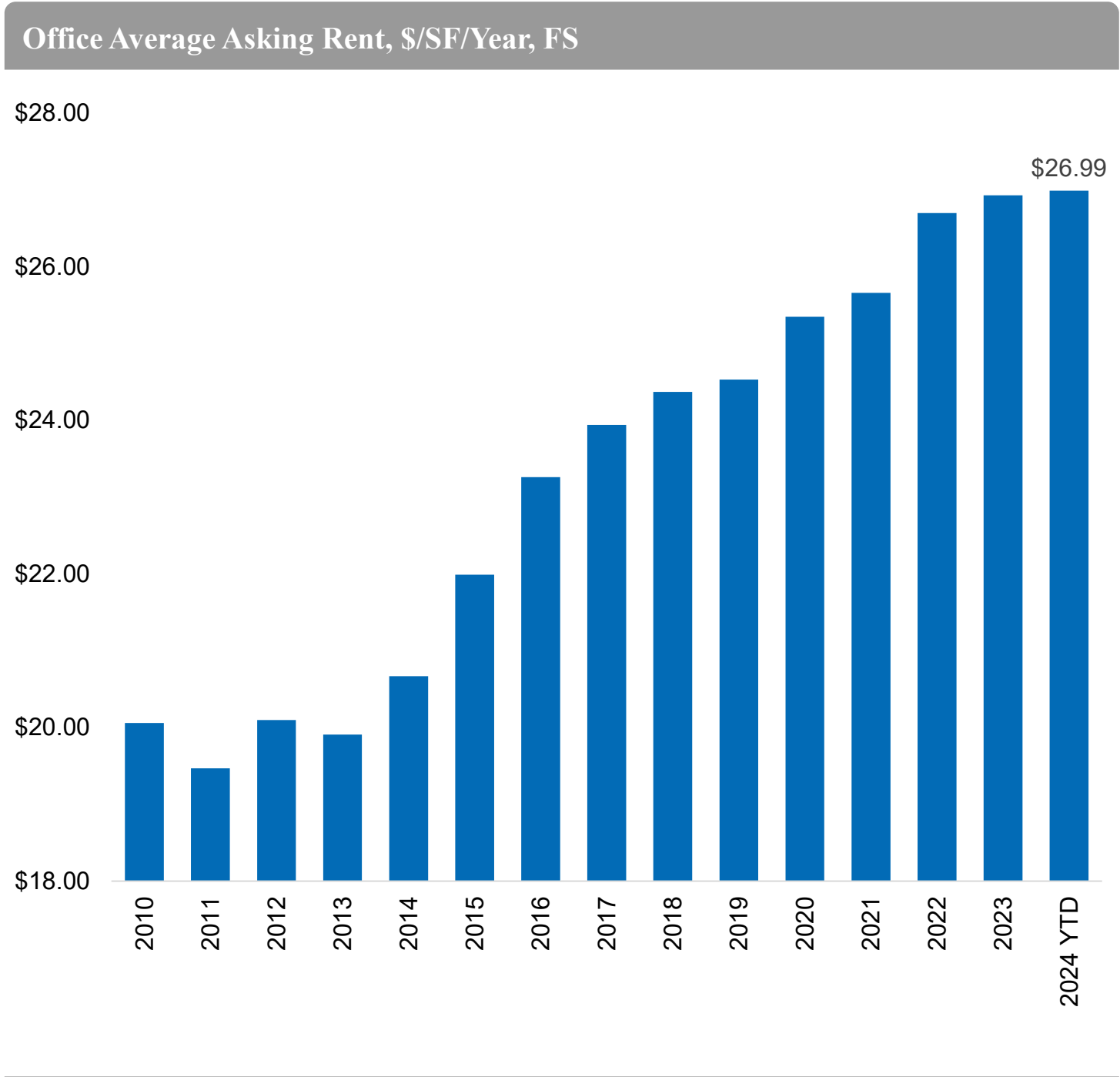


Source: Newmark Research



# Average Asking Rents See Little Change Since 2022

Despite rising availability in recent years, overall asking rates have experienced positive rate growth but has slowed in velocity since 2022. Fewer office deliveries (with high asking rents), paired with more spaces becoming officially vacated throughout 2024, will lead to stagnant rent growth in the coming quarters.



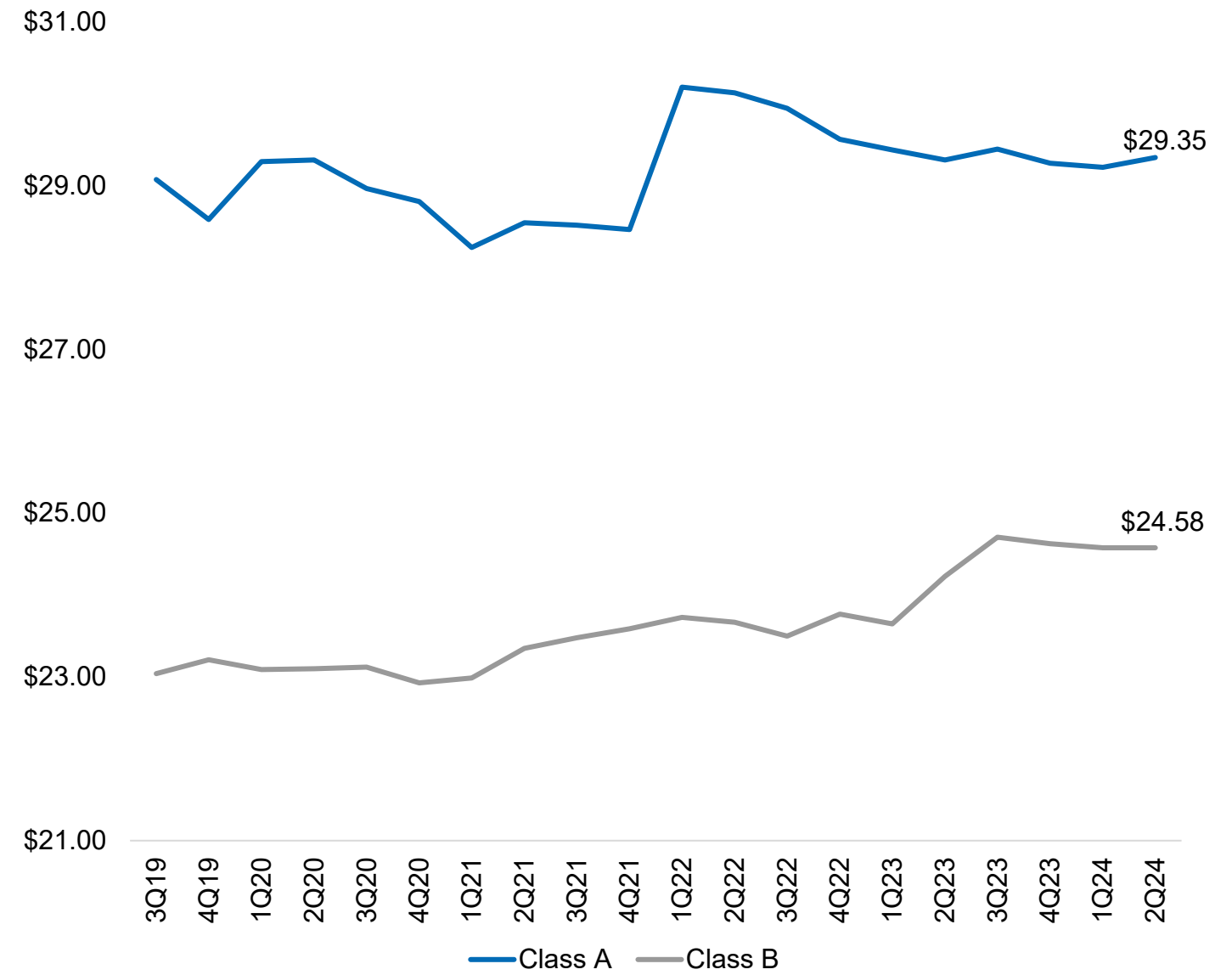
Source: Newmark Research



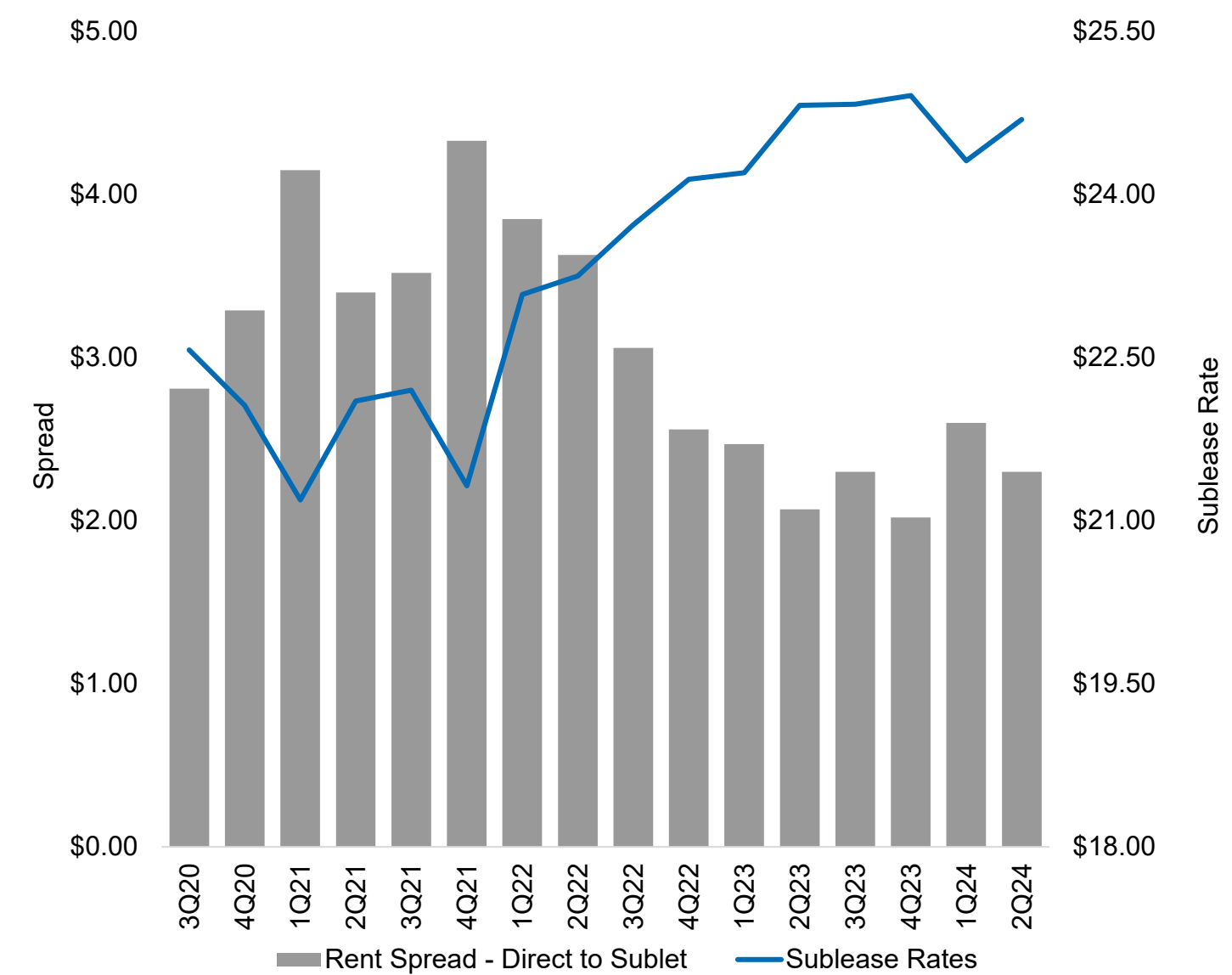
# Expected Rate Delta Widening Between Direct and Sublet Came to Fruition

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 half 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 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 being 10,000 SF or less. These smaller deals accounted for 83.9% of all transactions within the Metro in the first half of 2024.

Notable 2024 YTD Lease Transactions				
Tenant	Building(s)	Submarket	Type	Square Feet
BambooHR	Pluralsight Headquarters	Draper Tech Corridor	Sublease	61,615
BambooHR took the remaining portion of Pluarlsight’s sublease on the first and second floors during the second quarter of 2024.				
Woodside Homes	Six Gateway	Central Business District	Lease Renewal	41,102
Six Gateway retained Woodside Homes for another lease term, totaling 41,102 SF.				
Canopy Tax	SoJo Station 1	Southtowne	Sublease	31,441
Canopy Tax took 31,441 SF of the InMoment sublease is SoJo Station.				
MetTel, Inc	US Bank Downtown Office	Central Business District	Sublease	29,378
Quickbase subleased 29,378 SF to MetTel, Inc in Downtown Salt Lake City.				
Teleperformance USA	Ninigret X	Lake Park	Lease Renewal/Downsize	27,629
Formerly the building’s sole tenant, Teleperformance USA renewed only 27,629 SF of the 96,120 SF and placed the remaining portion up for sublease.				

Source: Newmark Research





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# Davis and Weber Counties Market Fundamentals





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## Davis and Weber Counties Office Map and High-Level Statistics – 2Q24



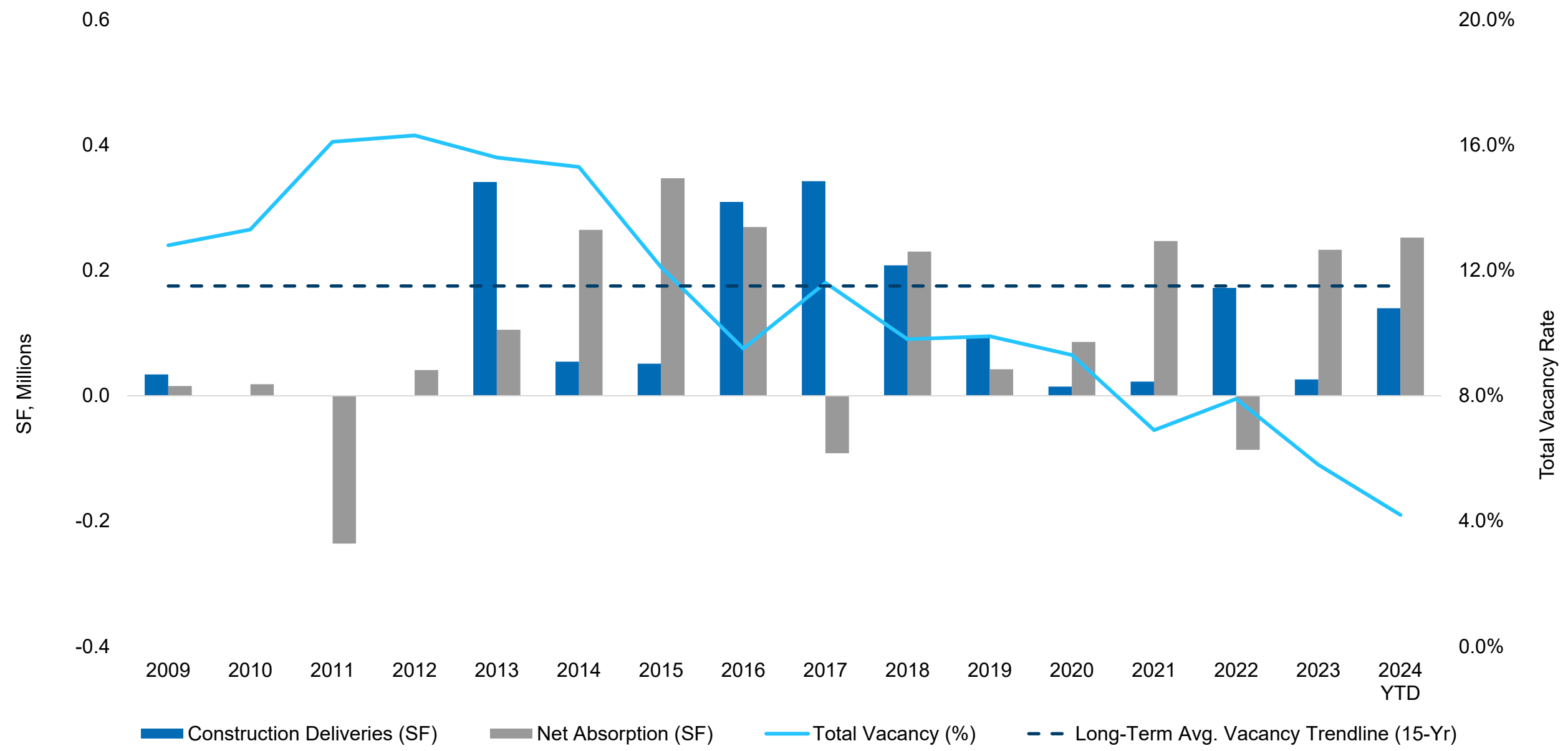
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# Office Vacancy in Davis and Weber Counties Lowest Across the Wasatch Front

Total vacancy in the second quarter of 2024 hit a new record low, dipping to 3.7% 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

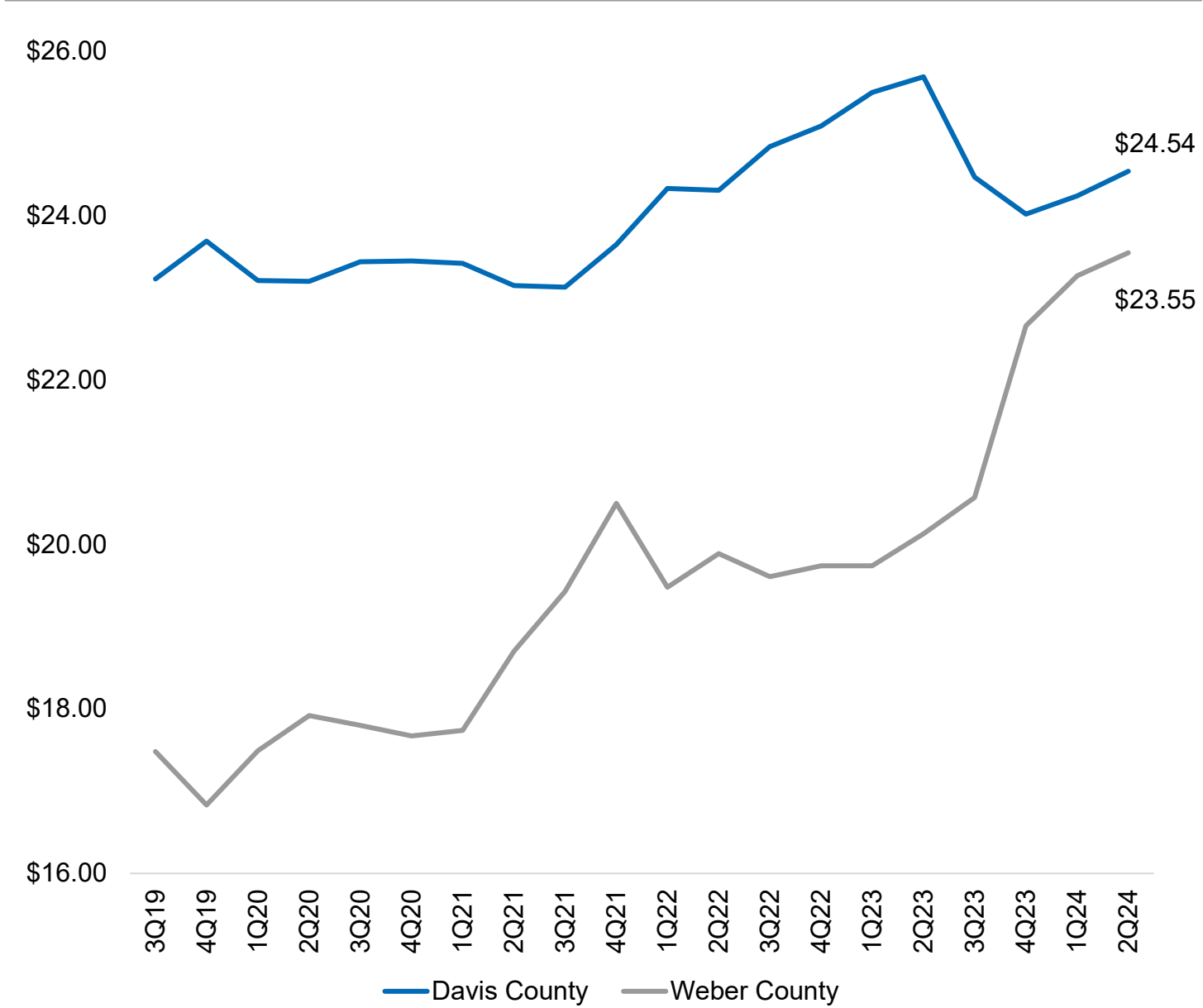


Source: Newmark Research

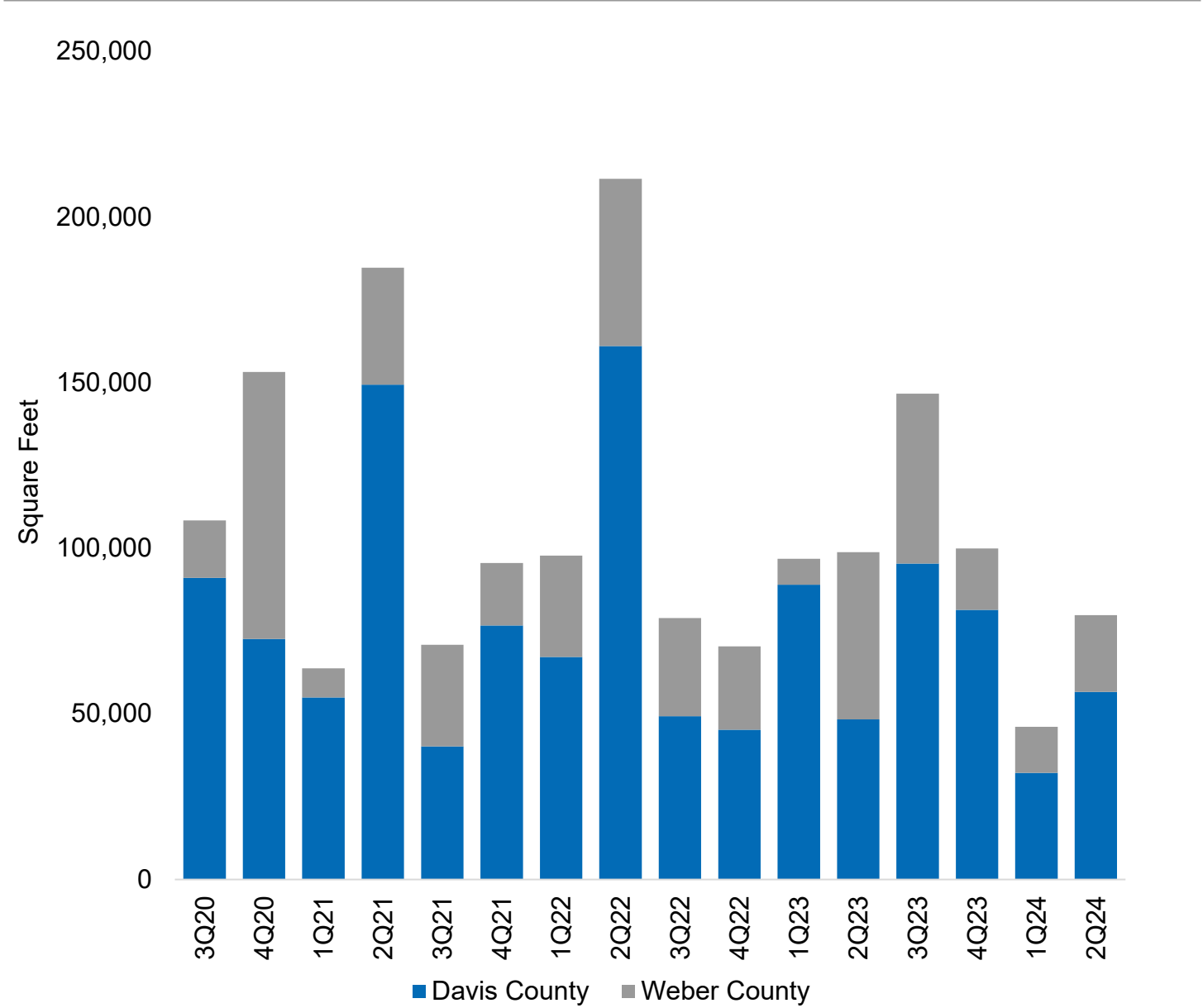
# Davis and Weber Asking Rate Gap Closes

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 increased in the second quarter of 2024, a welcome change to the dampened activity experienced at the beginning of the year.

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 Transactions – Last 12 Months				
Tenant	Building(s)	City	Type	Square Feet
Confidential	1640 E. Highway 193	Layton	Direct Lease	43,599
A confidential tenant signed a lease to occupy the Layton Grandview office development and the project should break ground soon.				
Confidential	Iomega Building 6	Roy	Direct Lease	36,130
A confidential tenant leased the entire building.				
VirnetX	Station Park E	Farmington	Direct Lease	28,970
Cybersecurity company, VirnetX, took the second floor of the mixed-use development.				
HDR Engineering	Centerville Legacy Crossing 1	Centerville	Lease Renewal	16,256
HDR Engineering committed to another term in Legacy Crossing.				
Eagle Gate College	Layton Hills Office Park	Layton	Direct Lease	14,493
Layton Hills Office Park welcomed Eagle Gate College into two of the buildings for a total of 14,493 SF.				

Source: Newmark Research



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# Utah County Market Fundamentals





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## Utah County Office Map and High-Level Statistics – 2Q24



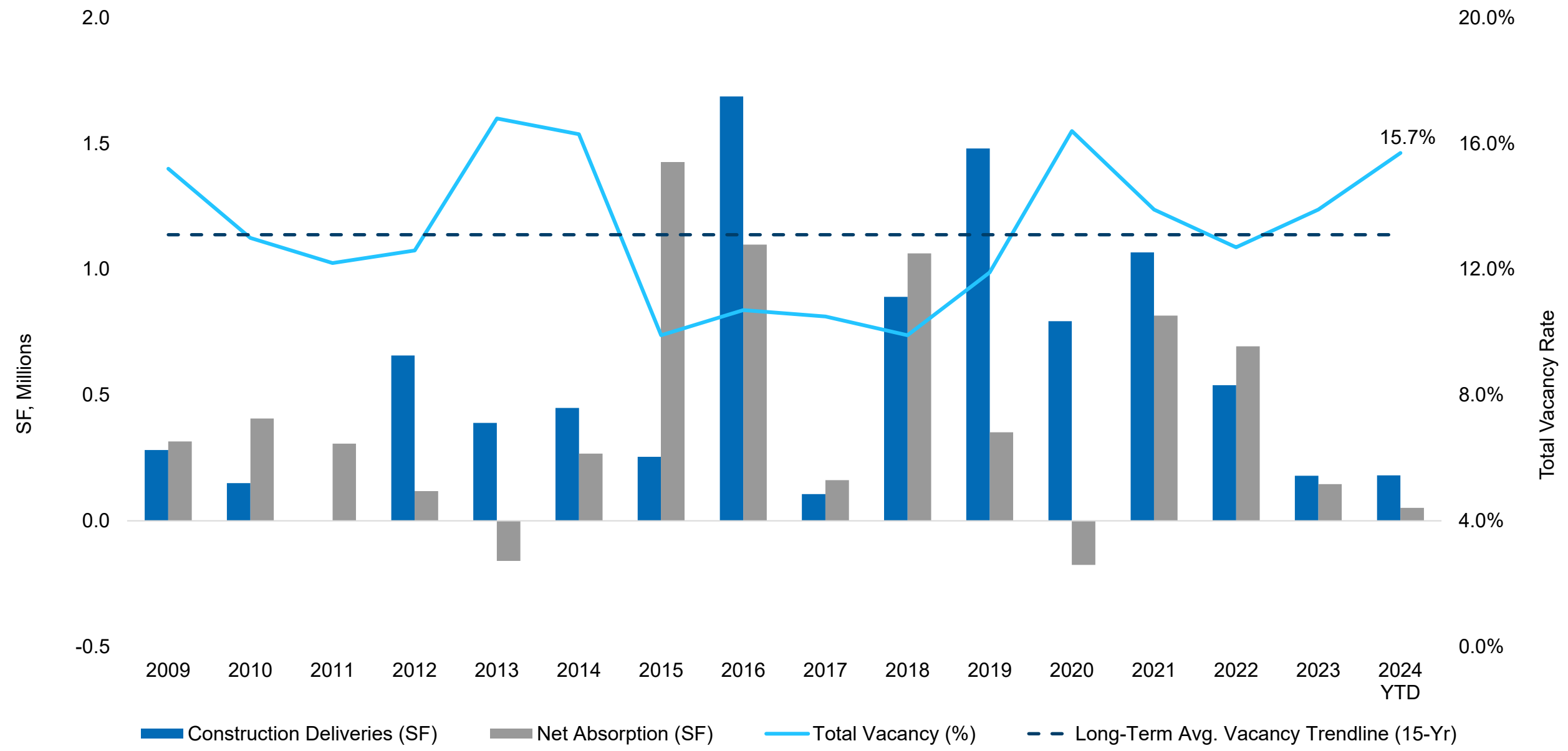
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# Tenant Contraction and Official Moveouts Impact Net Absorption and Vacancy

With no new construction deliveries in the second quarter of 2024, coupled with tenants contracting or vacating, total vacancy increased while overall net absorption dropped in the first half of the year. 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, total vacancy gains will moderate in the coming quarter.

Historical Construction Deliveries, Net Absorption, and Vacancy



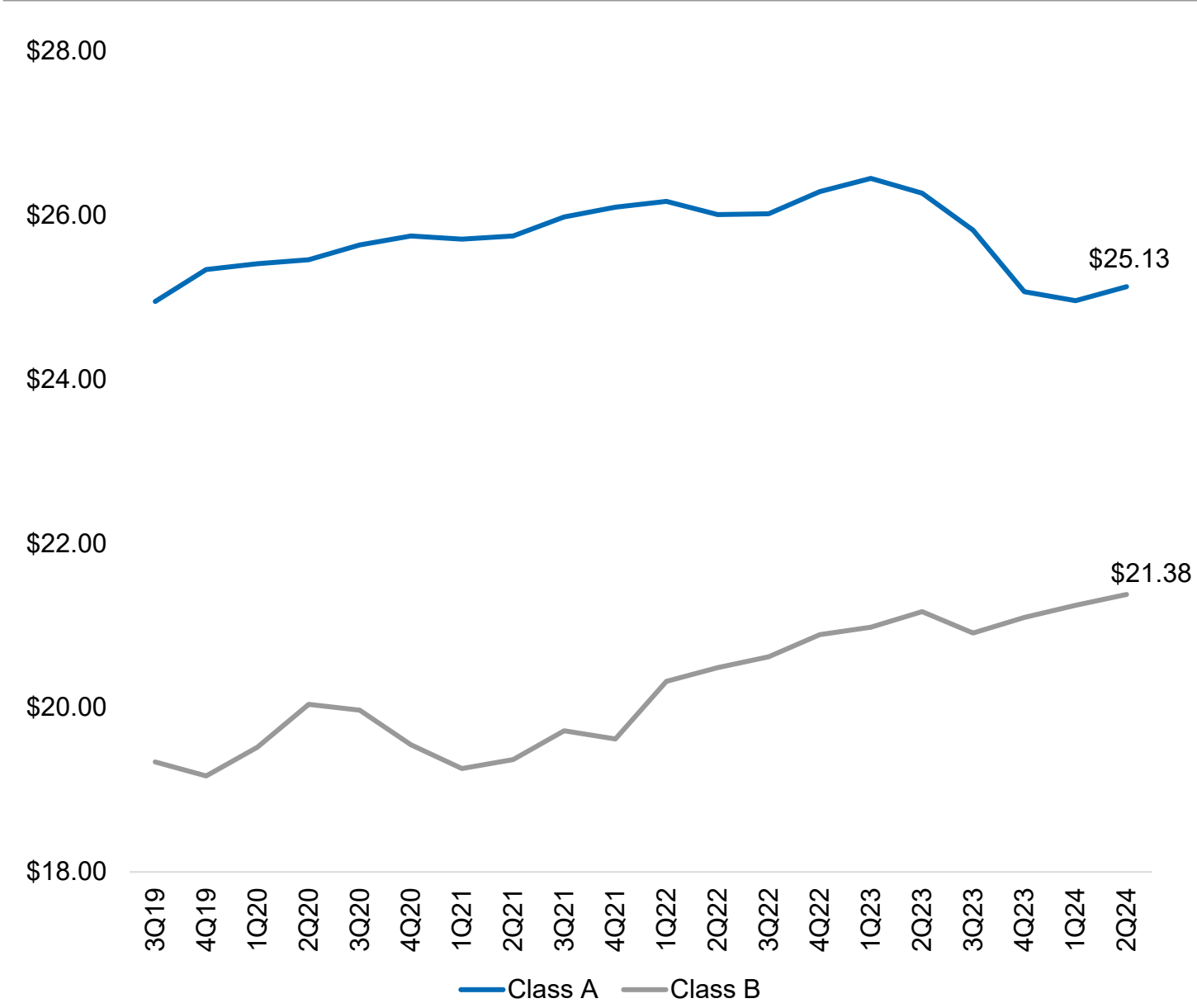
Source: Newmark Research



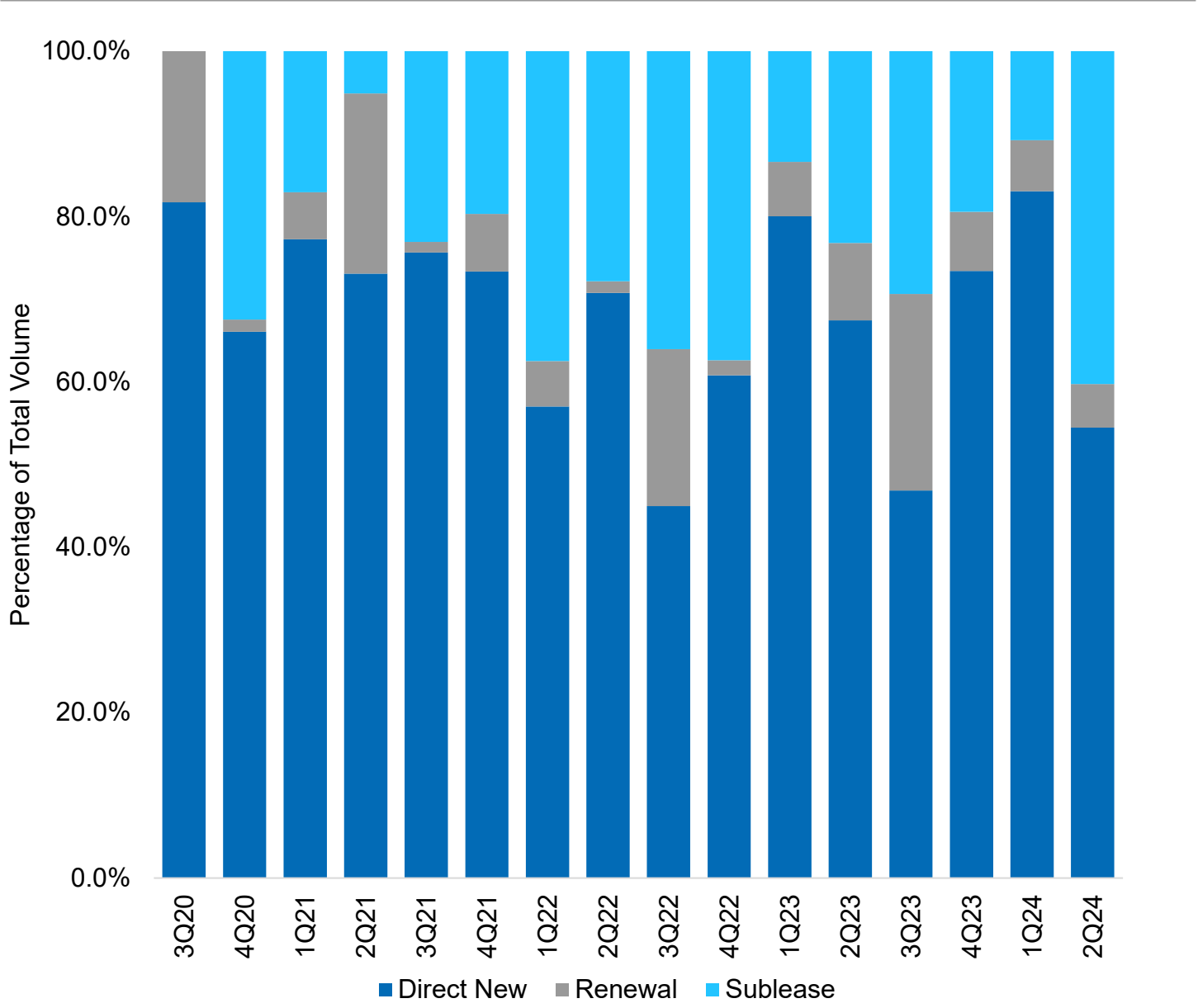
# Asking Rents Dampened; YOY Overall Transaction Volume Up Marginally

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 remained relatively flat in the first half of the year as space remains on market longer than the historical norm. Leasing activity is up slightly; 7.2% YOY, with sublease deals comprising a large portion of overall transaction volume in recent years as price-conscious tenants take advantage of lower rents relative to direct offerings.

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
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.				
Foundever	University Place	Orem	Renewal	63,247
University Place kept Foundever as a large tenant in for another term for a total of 63,247 SF.				
Gabb Wireless	Thanksgiving Station 3	Lehi	Direct New	30,344
Utah-based company, Gabb Wireless, leased the fifth floor of Thanksgiving Station 3 in Lehi.				
Human Interest	Mountain Tech Center 2	Lindon	Sublease	26,850
Global Payments subleased the second floor to Human Interest, a California-based financial software company.				
Perkcity	Traverse Mountain 3 & 4	Lehi	Sublease	25,090
Perkcity subleased 25,090 SF within the Traverse Mountain office park.				

Source: Newmark Research



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# Tech Corridor Market Fundamentals





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## Tech Corridor Office Map and High-Level Statistics – 2Q24



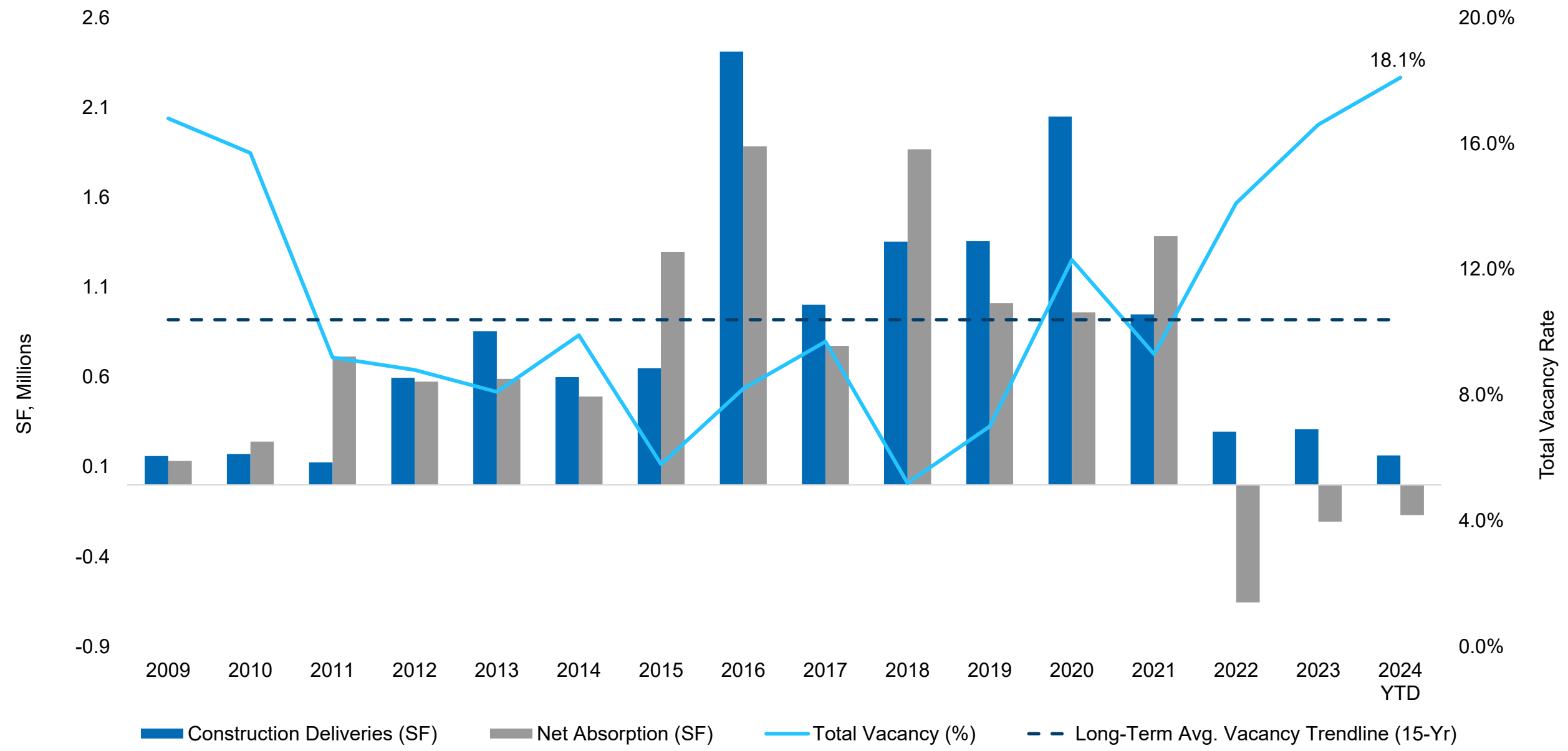
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# Vacancy Almost Evenly Split Between Direct and Sublet Space

Tenants returned 167,671 SF back to the market even as 164,268 SF entered the market through construction deliveries. No new construction starts or deliveries in the second quarter continue to illustrate that developers continue to wait to see how space is absorbed and its impact on rents.

Historical Construction Deliveries, Net Absorption, and Vacancy



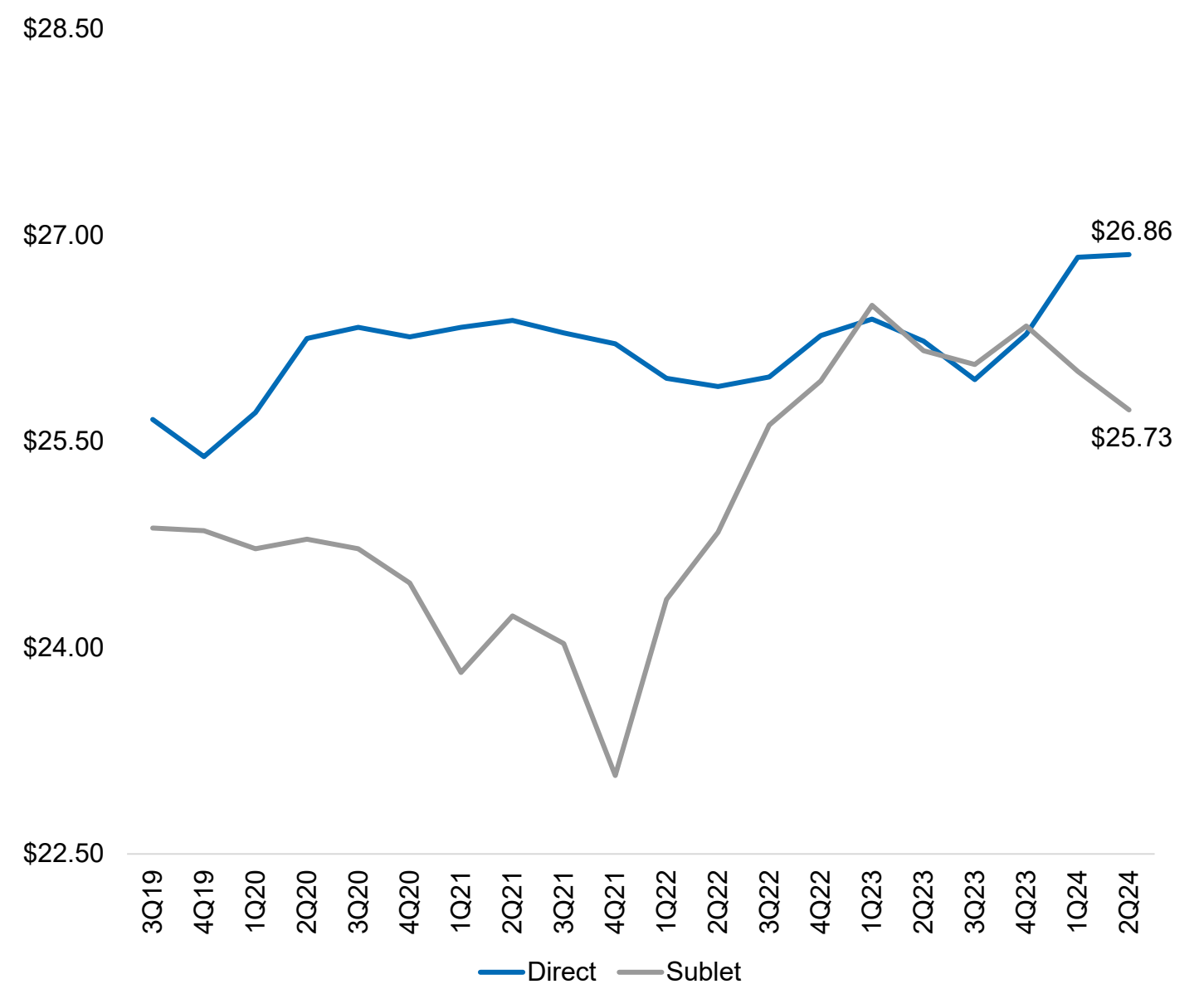
Source: Newmark Research



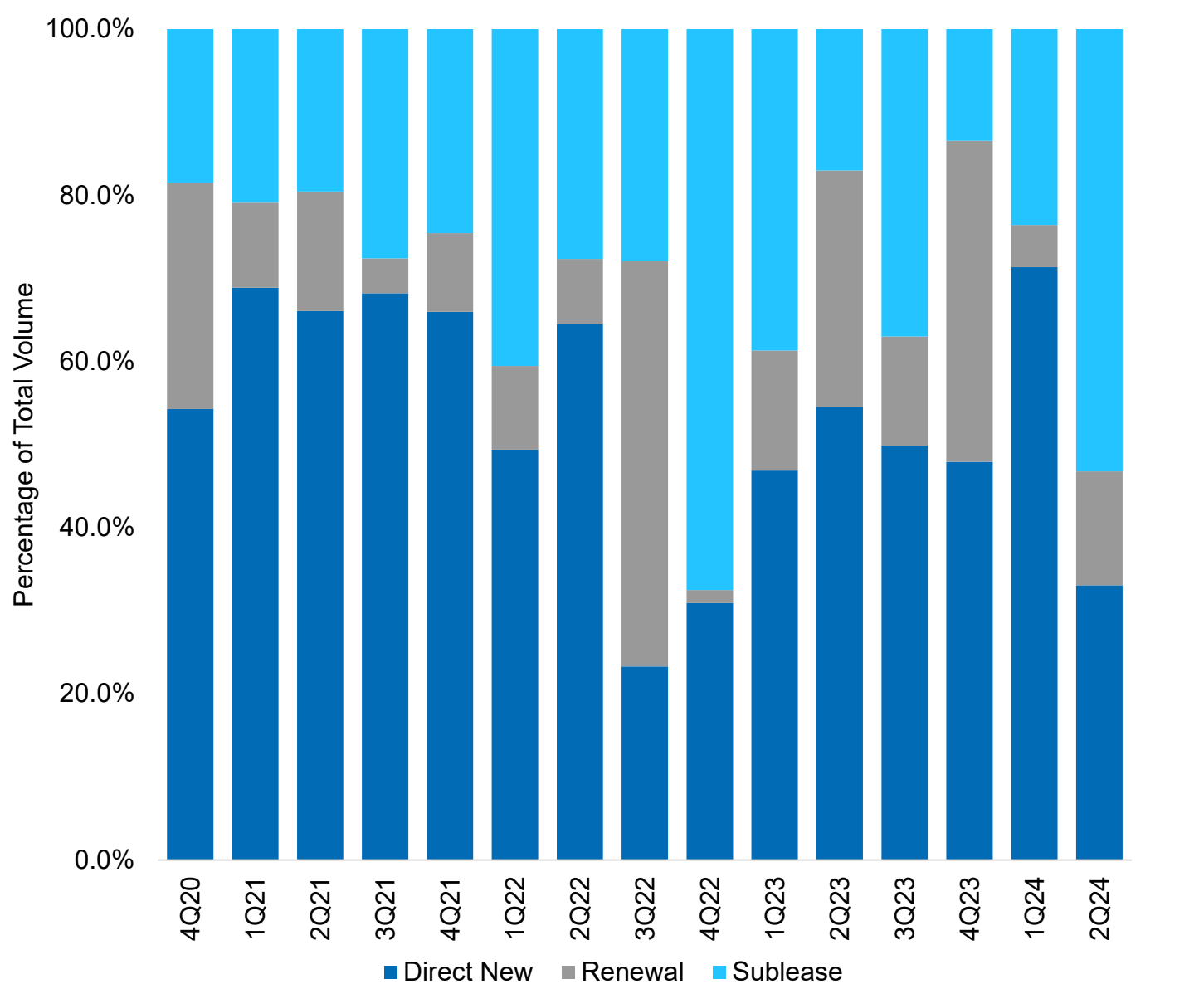
# Sublessors Become Bullish in Competition for Tenants by Lowering Rates

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 4.2% year-over-year as smaller deals (relative to pre-pandemic 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 office user desire to control real estate by purchasing office space to occupy and desire to cut costs where possible by utilizing sublease options that are offered at lower rents.

Notable 2024 YTD Transactions				
Tenant/Buyer	Building(s)	City	Type	Square Feet
Holiday Oil Company	Lone Peak Center	Draper	Property Sale	84,285
Holiday Oil purchased the entire building and will occupy the second floor.				
Journey Team	121 Election Drive	Draper	Property Sale	78,330
Already existing tenant, Journey Team, purchased the 78,330-square-foot-building with plans to expand within the building.				
BambooHR	Pluralsight Headquarters	Draper	Sublease	61,615
BambooHR took the remaining portion of Pluarlsight's sublease on the first and second floors during the second quarter of 2024.				
Canopy Tax	SoJo Station 1	South Jordan	Sublease	31,441
Canopy Tax took 31,441 SF of the InMoment sublease is SoJo Station.				
Proofpoint	Minuteman 6	Draper	Expansion	26,204
Proofpoint expanded an additional 26,204 SF during the second quarter for a total of 52,225 SF in Minuteman 6.				

Source: Newmark Research



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# Utah Capital Markets Overview





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## 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 was slow over the last year, with fewer sale-offerings and closings compared to prior years. The Fed’s future interest rate cuts will likely favor future 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
Hamilton Partners sold buildings C & D in the I-215 Logistics Center in a portfolio sale totaling 478,239 SF.				
Spanish Springs	Spanish Fork	Industrial	Q2 2024	451,497
Exeter purchased the Spanish Springs two-building portfolio for a toral of 451,497 SF.				
Sandy Commerce Park	Sandy	Office	Q4 2023	120,958
Idaho-based investment company, Alturas Capital Partners, purchased Sandy Commerce Park from Nuveen.				
Lake Pointe Corporate Center 2	West Valley City	Office	Q4 2023	91,705
Partially vacant, Lake Pointe Corporate Center 2 was sold at the end of 2023 to 7F Properties.				
Highbury Centre	West Valley City	Retail	Q3 2023	119,366
X Development purchased Highbury Centre in West Valley City from the Gardner Company.				

Source: Newmark Research



For more information:

**Amelia Yates**  
*Research Manager*  
*Salt Lake City, Phoenix, Las Vegas*  
[amelia.yates@nmrk.com](mailto:amelia.yates@nmrk.com)

**Veronika Perea**  
*Research Coordinator*  
*Salt Lake City*  
[veronika.perea@nmrk.com](mailto:veronika.perea@nmrk.com)

**Dain Fedora**  
*Head of Research*  
*Southwest*  
[dain.fedora@nmrk.com](mailto:dain.fedora@nmrk.com)

**Salt Lake City Office**  
376 E. 400 S., Suite 120  
Salt Lake City, UT 84111  
t 801-578-5555

**Clearfield Office**  
1755 E. 1450 S., Suite 100  
Clearfield, UT 84015  
t 801-927-2000

**New York Headquarters**  
125 Park Ave.  
New York, NY 10017  
t 212-372-2000

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