



Salt Lake County Office Market

Stalled Real Estate Decisions in Wake of Cloudy Horizon Led to Stagnant Market Movement

A lack of construction deliveries, new construction and overall tenant movement left the Salt Lake office market relatively stagnant quarter over quarter as companies waited to see how changes in inflation and rate hikes would affect the overall economy. Office occupancy increased by 146,849 square feet, heavily concentrated in Downtown Salt Lake City, West Salt Lake and International Center submarkets. Both local and national companies were attracted to Downtown Salt Lake City as new Class A product delivered, driving positive net absorption for the submarket. Lack of construction and a heavier concentration of tech companies in the southern part of the valley pushed suburban occupancy to contract as numerous tech companies cut jobs and/or office footprints. Overall direct vacancy decreased by 30 basis points quarter over quarter but is up 200 basis points from the fourth quarter of 2021, influenced in part by companies contracting in size or renewing in smaller footprints.

Leasing activity stabilized in the fourth quarter of 2022, but largely due to numerous larger renewals occurring throughout the county. Larger tenants such as Snell & Wilmer, Kimley-Horn, Raytheon Applied Signal Technology and Waterford Research Institute all renewed at current locations. Downtown Salt Lake City welcomed Diversified Insurance and Mayer Brown at new locations, while Irvine Office Park 1 signed with Galen Health Institute as a new tenant within the Draper Tech Corridor submarket.

Current Conditions

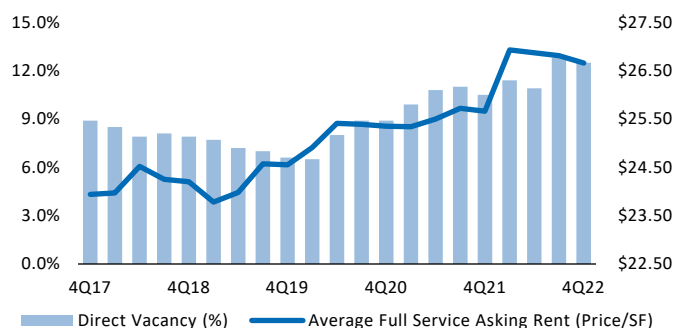
- Direct vacancy decreased from 12.8% in the third quarter of 2022 to 12.5% in the fourth quarter of 2022, but is still markedly higher than the 10.5% experienced in the fourth quarter of 2021.
- Office development has slowed significantly throughout 2022, with few new projects breaking ground and deliveries slowing as the construction pipeline emptied.
- Net absorption ended in the positive, with some larger vacancies taken off market. Overall market availability remained unchanged, but shadow vacancy is expected to increase into the first half of 2023.

Market Summary

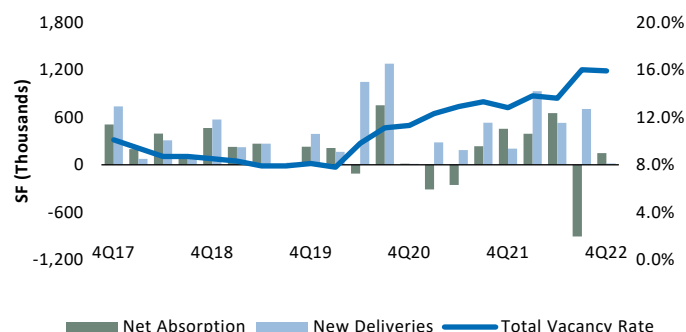
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Direct Vacancy Rate	12.5%	12.8%	10.5%	↔
Sublet Vacancy Rate	3.4%	3.2%	2.3%	↑
Quarterly Net Absorption (SF)	146,849	(905,292)	453,861	↓
Average Asking Rent/SF	\$26.66	\$26.81	\$25.66	↔
Under Construction (SF)	458,971	415,051	1,740,119	↓
Deliveries (SF)	14,655	703,605	202,124	↑

Market Analysis

ASKING RENT AND DIRECT VACANCY RATE



NET ABSORPTION SF, DELIVERED SF AND TOTAL VACANCY RATE



RESEARCH Q4 2022

Clearlink Technologies took on a large portion of the Pluralsight Headquarters sublease at 134,014 square feet while putting close to the same square footage up for sublease in the International Center submarket, illustrating a trend of flight-to-quality as tenants look to upgrade space as a tool in a challenging labor market.

Historically, new office product has helped rental growth but with little new office product breaking ground or delivering, the stagnation of larger blocks of space sitting on market is starting to push asking lease rates downwards, despite inflation increasing costs to both landlords and tenants. Although Downtown demands the highest rates compared to suburban submarkets, it is currently experiencing higher tenant activity from both small and large users; therefore, it's holding steady in terms of both asking and achieved rental rates.

Smaller office leases continue to be the trend, with more leases signing below 10,000 square feet post-COVID-19 than before. Lease terms for both direct new leases and renewals have shortened, with direct new leases over 10,000 square feet experiencing the largest decline in term length from an average of 79.1 months to 67.5 months. The decrease in larger leases is felt throughout the county with over 130 larger blocks of space over 20,000 square feet sitting idle as office users pivot to reduce office footprints.

Leasing Transaction Trends

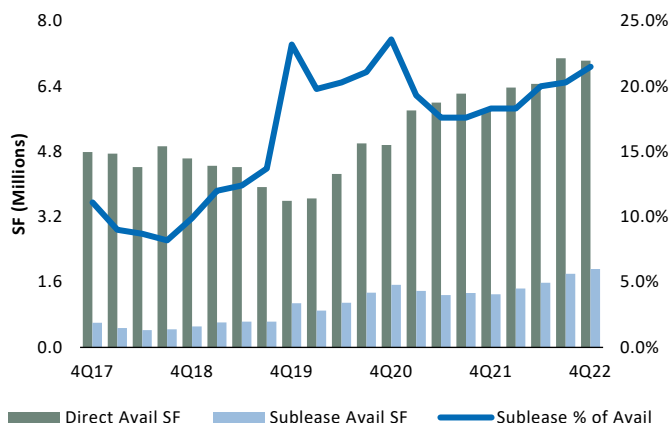
	Direct Leases		Renewals		Subleases	
	2019	2022	2019	2022	2019	2022
9,999 SF or Lower # of Leases:	246	256	41	49	18	16
Average Month Term:	44.06	41.74	42.07	35.15	30.39	34.75
Average SF:	3,000	3,305	4,135	4,199	4,880	5,363
Median SF:	2,538	2,727	3,323	3,698	4,482	5,176
10,000+ SF # of Leases:	53	53	25	27	11	14
Average Month Term:	79.12	67.53	42.60	47.67	35.18	36.43
Average SF:	25,533	21,234	30,311	25,846	24,042	24,032
Median SF:	18,495	15,249	19,369	22,422	20,420	13,155

Select Q4 2022 Lease Transactions

Tenant	Submarket	Building	Type	Square Feet
Clearlink Technologies	Draper Tech Corridor	Pluralsight Headquarters	Sublease	134,014
Snell & Wilmer	Central Business District	Gateway Tower West	Renewal	48,954
Raytheon Applied Signal Technology	Central Salt Lake	1128 W. 2400 S.	Renewal	46,699
Kimley-Horn and Associates	Central Business District	Ken Garff Tower	Renewal	40,597
Diversified Insurance	Central Business District	95 State at City Creek	Direct New	35,871
Mayer Brown	Central Business District	One Utah Center	Direct New	35,586
Galen Health Institute	Draper Tech Corridor	Irvine Office Park 1	Direct New	34,278

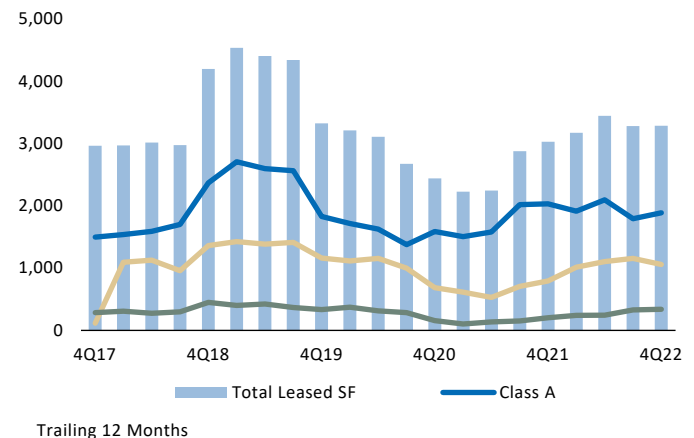
Availability Overview

SUBLEASE AND DIRECT AVAILABLE SF AND SUBLEASE AS % OF AVAILABILITY



Leased Square Feet

SQUARE FEET, THOUSANDS



Notable Buildings Under Construction

Building	Submarket	Development Type	Estimated Delivery	Square Feet
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	Q2 2023	95,000

Notable Buildings Delivered in 2022

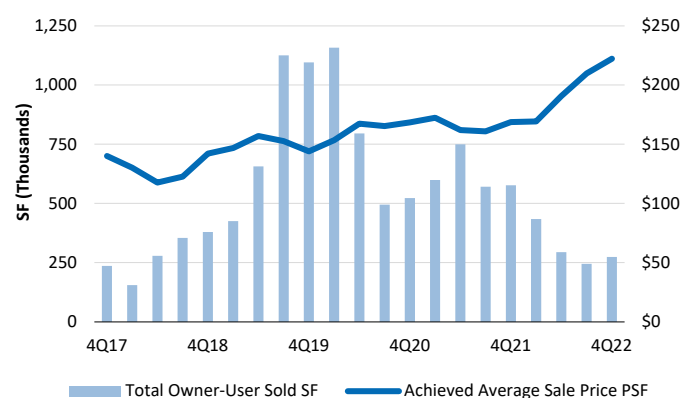
Building	Submarket	Development Type	Quarter Delivered	Square Feet
95 State at City Creek	Central Business District	Speculative	Q1 2022	589,945
Zions Bank Midvale Campus	Central Valley	Build-to-Suit	Q2 2022	402,605
650 South Main Street	Periphery	Speculative	Q1 2022	332,000
Mountain View Village Office 1 & 2	Southwest	Speculative	Q3 2022	176,000
Myriad Genetics 6	Research Park	Build-to-Suit	Q2 2022	125,000

Select 2022 Sale Transactions

Buyer	Submarket	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
Asana Partners	Central Business District	Ford Motor Building	Investment	84,450
Confidential	Fort Union	7050 S. Union Park Ave.	Investment	70,102
Confidential	Central Business District	77 West	Investment	63,044
Sentinel Plaza	Central Salt Lake	Metro Business Park E	Investment	30,633

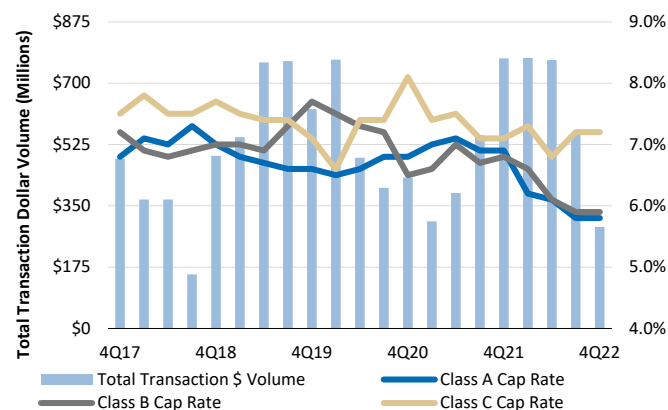
Owner-User Sale Overview

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



Utah Office Investment Sale Overview

TRANSACTION DOLLAR VOLUME & PRICE-WEIGHTED AVERAGE CAP RATES



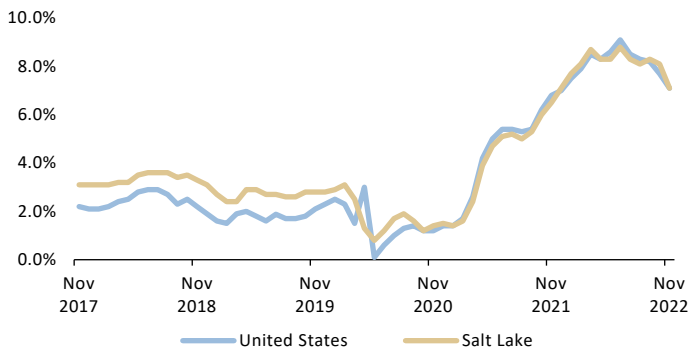
Submarket Statistics									
	Under Construction (SF)	Direct Vacancy Rate	Sublease Vacancy Rate	Total Availability Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
CBD	-	14.8%	2.1%	22.8%	29,888	271,611	\$32.66	\$26.43	\$29.46
Periphery	95,000	20.1%	1.8%	25.1%	28,790	48,734	\$38.50	\$22.94	\$30.60
Downtown Total	95,000	15.8%	2.0%	22.2%	58,678	320,345	\$33.77	\$25.36	\$29.70
Cottonwood	-	13.4%	2.3%	16.3%	15,610	75,537	\$32.08	-	\$31.84
Central Salt Lake	-	10.3%	14.5%	28.2%	1,662	(667)	\$28.05	\$22.09	\$21.80
Central Valley	-	10.2%	2.1%	13.5%	(1,744)	186,314	\$26.43	\$21.88	\$22.15
Draper Tech Corridor	255,000	7.0%	10.6%	21.1%	(57,129)	(168,723)	\$26.25	\$18.98	\$24.81
East Sandy/Draper	7,793	1.8%	-	9.1%	-	7,464	\$24.12	-	\$24.12
Fort Union	-	12.9%	2.5%	17.5%	28,011	25,051	\$27.70	\$23.87	\$26.21
International Center	-	13.0%	5.8%	20.7%	34,734	(156,301)	-	\$23.14	\$19.55
Lake Park	-	23.8%	0.5%	25.4%	-	(1,355)	\$25.41	\$21.09	\$25.07
Millcreek/Holladay	-	8.4%	-	9.5%	832	(54,252)	-	\$20.91	\$17.68
Research Park	-	4.8%	-	10.9%	-	131,440	-	\$24.57	\$24.30
Sugarhouse	-	11.5%	-	12.4%	2,199	1,487	\$30.25	\$20.66	\$23.42
Southwest	-	33.9%	-	38.8%	5,773	40,679	\$28.06	-	\$28.06
Southtowne	39,478	9.3%	3.5%	16.7%	21,837	(139,503)	\$26.28	\$25.46	\$25.67
West Salt Lake	61,700	1.4%	-	1.4%	36,386	16,721	-	\$18.93	\$18.93
Suburban Total	363,971	11.1%	4.0%	17.6%	88,171	(36,118)	\$27.34	\$22.76	\$24.96
Salt Lake County Market	458,971	12.5%	3.4%	18.9%	146,849	284,227	\$29.74	\$23.61	\$26.66

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 2.0% in November 2022, the Salt Lake Metro now faces the struggle of finding employees for open positions. The financial services sector took a 5.0% year-over-year loss in job growth as inflation and recession concerns take the forefront for many employers. Despite those concerns, the Metro overall still faces a high labor shortage and 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)

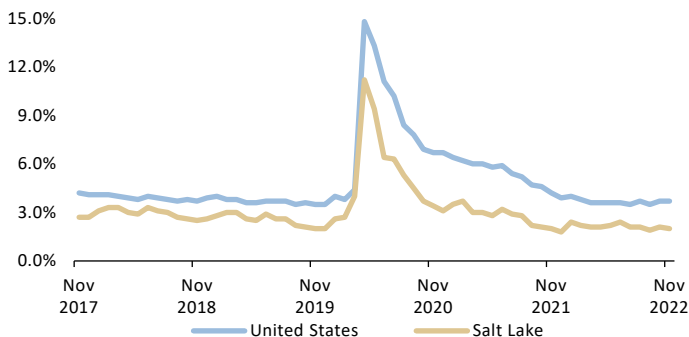
ALL ITEMS, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

Unemployment Rate

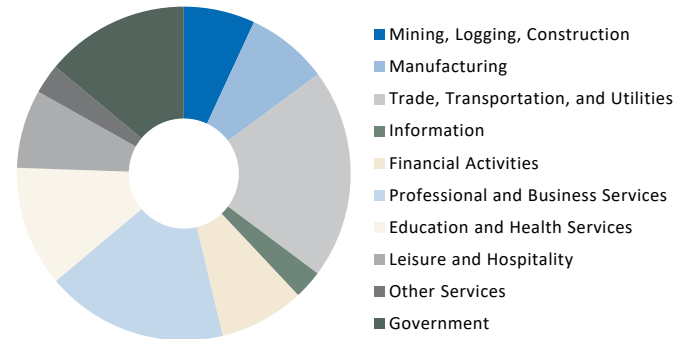
NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

Employment by Industry

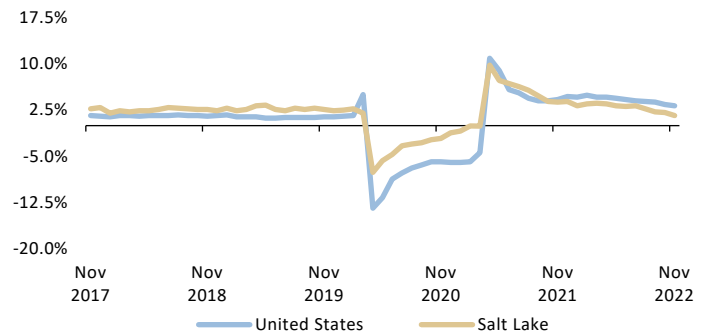
SALT LAKE, 2021 ANNUAL AVERAGE



Source: U.S. Bureau of Labor Statistics

Payroll Employment

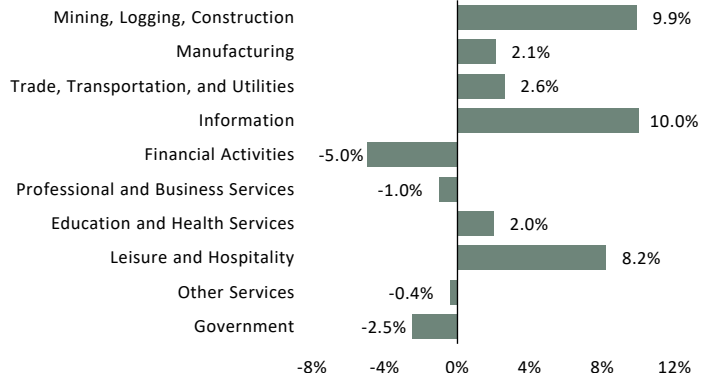
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

Employment Growth by Industry

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



Source: U.S. Bureau of Labor Statistics

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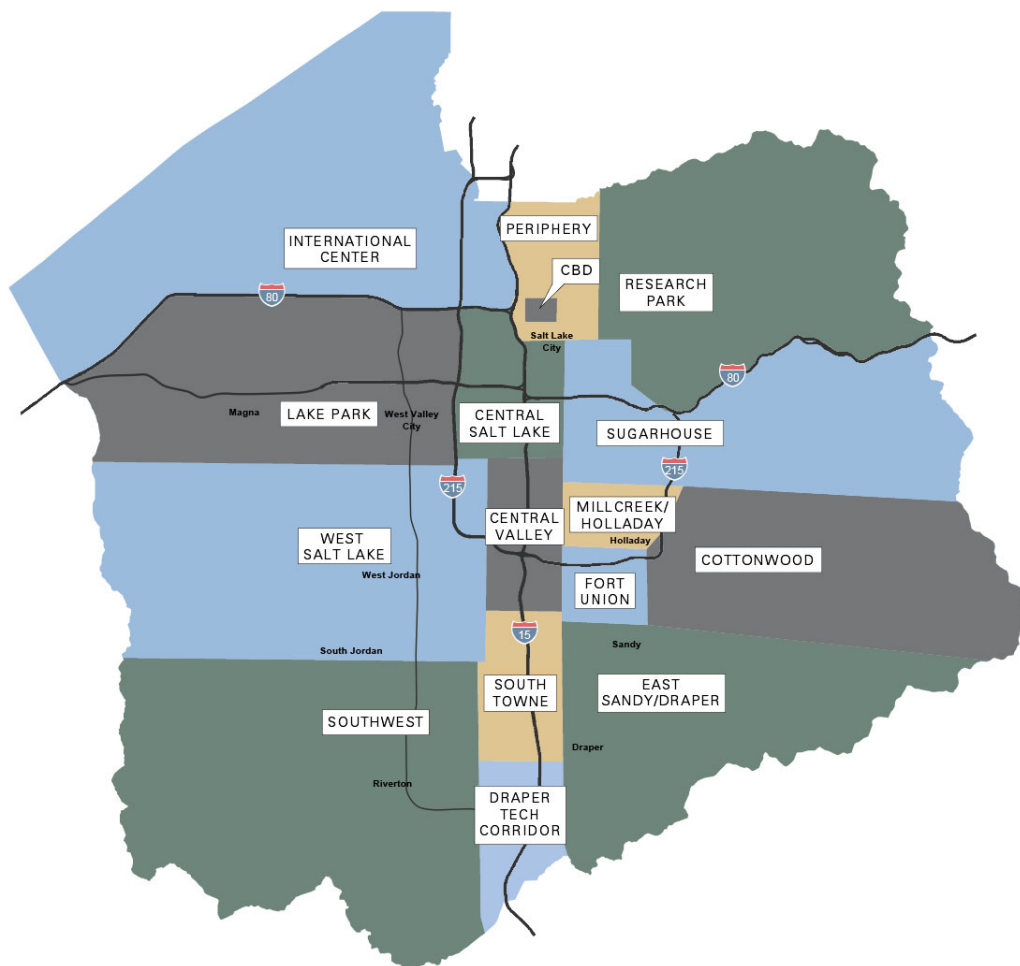
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