

MARKET REPORT

Office
Salt Lake City Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

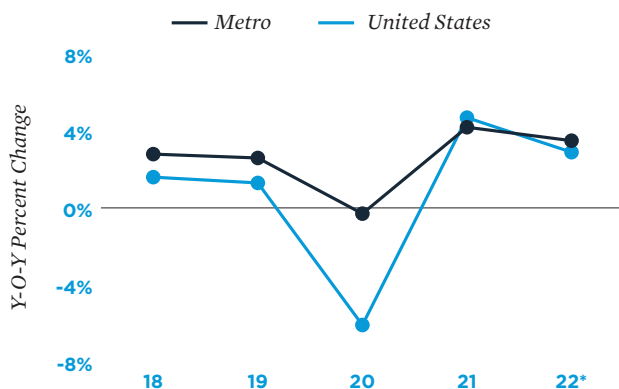
2Q/22

Tenants' Descent on Silicon Slopes Highlights Demand for Quality Space in the Metro

Flight-to-quality supports noteworthy leasing. Strong demand for nationally discounted Class A space has established the Salt Lake City metro as the tightest office market in the Mountain region. During the 12-month period preceding April, tenants absorbed 2.5 million square feet of high-quality space. This leasing velocity lowered sub-sector availability by 280 basis points, the fourth-largest dip in Class A vacancy among major U.S. markets. Locally, tenant demand for upper-tier space has been strongest in the metro's largest suburban submarkets, with Class A vacancy compressing by at least 100 basis points in each area over the past year. Tenants' flight-to-quality is arriving at an opportune time, as a collection of speculative deliveries are slated for the remainder of this year.

Tech growth propels locale into the spotlight. Utah County, the metro's largest submarket by inventory, is a standout area on a national scale. Over the past year, the locale notched a 780-basis-point vacancy reduction, the largest drop in availability among U.S. submarkets with more than 10 million square feet of office stock. Dubbed the Silicon Slopes, the area surrounding Lehi is the driving force behind the submarket's exemplary performance. Already home to Oracle's campus and a compilation of tech startups, the locale is attracting additional firms seeking regionally lower cost office space and proximity to pools of well-educated younger professionals. Conditions here are poised to tighten further in the near term as under construction projects feature 20,000 square feet of available space.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2022 Outlook



**48,000
JOBS**
will be created

EMPLOYMENT:

Nearly all major sectors recorded positive job creation in the first four months of 2022, dropping local unemployment below 2.0 percent. A dearth of available labor will require firms to actively recruit from outside the metro during the remainder of this year.



**2,820,000
SQ. FT.**
will be completed

CONSTRUCTION:

Driven by supply additions in Salt Lake and Utah counties, the metro's office stock expands by 2.7 percent, the fourth-largest annual increase among major U.S. markets. As of May, roughly half of the space slated for 2022 delivery was available for lease.



**70
BASIS POINT**
increase in vacancy

VACANCY:

An influx of deliveries places upward pressure on vacancy, elevating the rate to 12.3 percent. Nevertheless, tenants are expected to absorb nearly 1.8 million square feet of space this year, with Class B/C vacancy poised to hold well below the metrowide average.

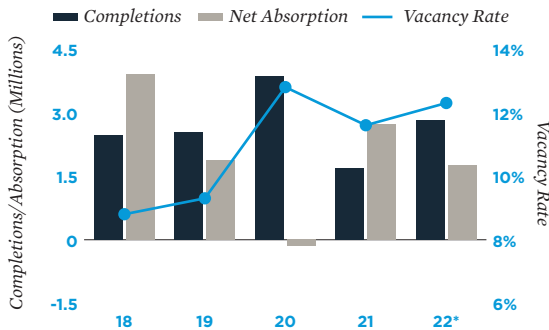


**4.8%
INCREASE**
in asking rent

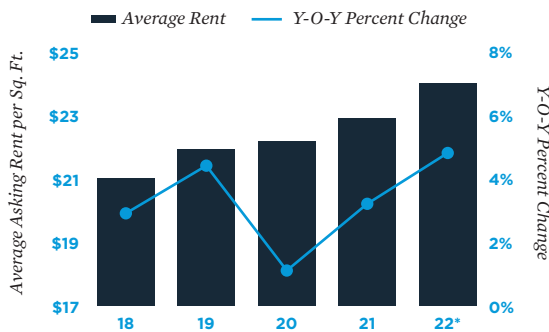
RENT:

High-quality completions and consistent demand for lower cost floor plans push the average asking rent up to \$24.00 per square foot. The margin of increase registered this year represents the largest among major Mountain markets.

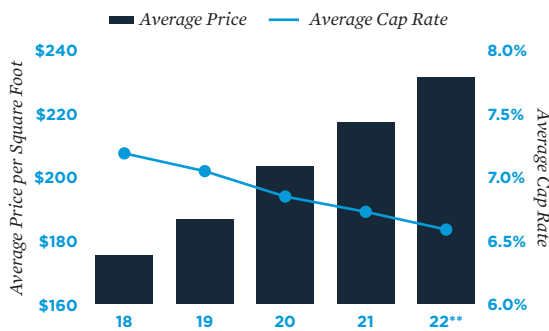
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

1Q 2022 - 12-Month Period



CONSTRUCTION

2,047,000 sq. ft. completed

- Highlighted by the delivery of more than 1.2 million square feet in the first quarter of 2022, the metro's office inventory grew by 2.0 percent over the past 12 months ended in March.
- Entering May, construction was underway on at least 13 projects across the Wasatch Front that each comprised more than 100,000 square feet.



VACANCY

120 basis point decrease in vacancy Y-O-Y

- An increase in suburban office demand over the past year compressed Salt Lake City's overall vacancy rate to 12.0 percent.
- Accounting for 40 percent of the metro's office inventory, Davis-Weber Counties and the South Valley each recorded availability declines of at least 100 basis points.



RENT

5.0% increase in the average asking rent Y-O-Y

- An 8.5 percent rise in the average Class B/C asking rent lifted the metro's overall marketed rate to a mean of \$23.49 per square foot. In contrast, the average Class A asking rent fell nominally over the past year.
- Home to the lowest vacancy among submarkets with more than 10 million square feet of stock, Davis-Weber Counties noted a 17.2 percent rent gain.

Investment Highlights

- The improvement in tenant demand registered across property tiers over the past year has expanded Salt Lake City's buyer pool and increased investor competition for available listings. Recent deal flow reflects this, as during the four-quarter period ended in March, sales activity rose 40 percent on a year-over-year basis, with the metro notching the most closings among tertiary markets. Out-of-state buyer interest is apparent, as these investors accounted for roughly 20 percent of recent trading velocity.
- Sales of Class A and B buildings built during the past 20 years accounted for nearly one-third of recent trades. The increase in higher quality transactions played a role in Salt Lake City's average price point climbing 12 percent over the past year to \$231 per square foot. Still, mean pricing in the metro trails the national average by more than \$50 per square foot. The recent double-digit boost in pricing compressed Salt Lake City's average cap rate 20 basis points to 6.6 percent.
- Standout suburban leasing has investors targeting both Utah and Weber counties, with a focus on Class B properties in Ogden, Orem and Lehi. Here, smaller buildings account for the bulk of trading. However, Lehi also offers investors opportunities to acquire 100,000-square-foot-plus assets.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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