MARKET REPORT

Retail

Salt Lake City Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

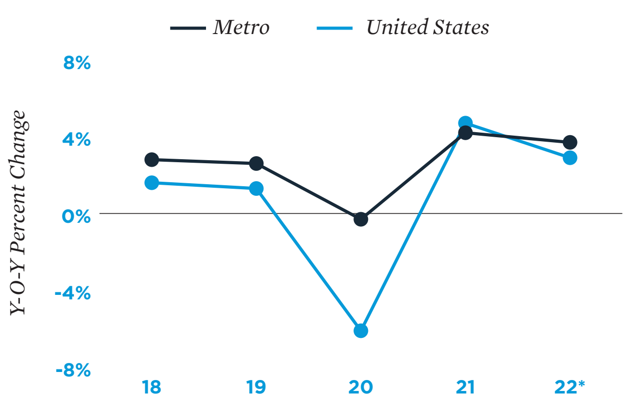
3Q/22

Economic Expansion Supports Retail Real Estate; Supply Shortage Affects Northern Counties

Strong economic growth bolsters retail demand. Salt Lake City has established itself as one of the nation's fastest-growing markets, placing within the top 10 for population expansion and household income growth, and claiming the second-lowest unemployment rate as of July. This economic development is attributed in no small part to the metro's rapidly-growing tech sector, with highly-skilled labor being brought in from nearby major markets. Recent robust growth has bolstered consumer activity, with sales jumping 16.6 percent over the previous four quarters ending in June. With a strengthening local economy and heightened consumer spending, the outlook for Salt Lake City retail assets is very positive.

Rapidly tightening conditions in Davis-Weber Counties. Construction in the northern counties of Davis and Weber has slowed as of late, adding a bit more than 33,000 square feet to the market over the previous four quarters ending in June. Additions here fell 50 percent from the previous yearlong period, generating tight conditions in this locale. Strong absorption beginning in early 2021 pushed this submarket's availability to its lowest point since year-end 2019 at 4.8 percent, while the average asking rent advanced 12.5 percent year-over-year. Single-tenant properties led vacancy compression in this submarket, with availability falling 150 basis points, compared to a 120-basis-point decline in the multi-tenant segment. As tenant demand in the northern counties remains strong, so will historically tight conditions amid mild new supply.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook

50,000 JOBS
will be created

EMPLOYMENT:

Unemployment increased to 2.0 percent in the second quarter, as the labor market slackened slightly. Nevertheless, supported by strong growth in the business and professional service sector, employment will expand 3.7 percent by year-end.

650,000 SQ. FT.
will be completed

CONSTRUCTION:

Completions for the year will more than double that of 2021, as eased construction bottlenecks help inch additions toward pre-pandemic levels. Continued strong demand drove this growth, with inventory set to expand by 0.6 percent year-over-year.

20 BASIS POINT
decrease in vacancy

VACANCY:

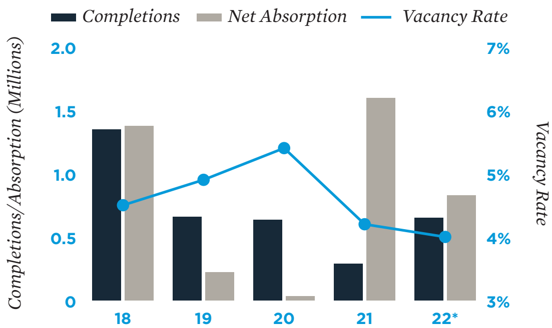
Following triple-digit annual vacancy compression experienced in the first half of 2022, availability will ease in the second half of the year. Dropping to 4.0 percent by year-end, the rate will sit 90 basis points off its 2019 mark.

9.4% INCREASE
in asking rent

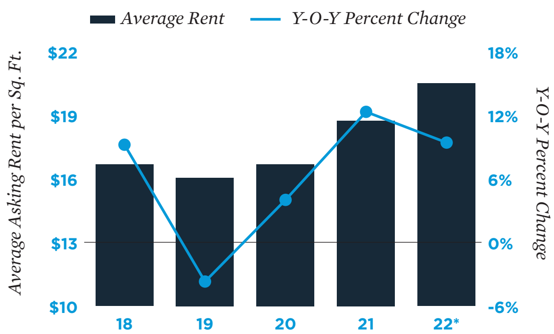
RENT:

Heightened rent growth will continue during the second half of the year, however, at a slower pace. Following an annual rate expansion of 12.3 percent in 2021, the average asking rate will increase yet again to $20.50 per square foot.

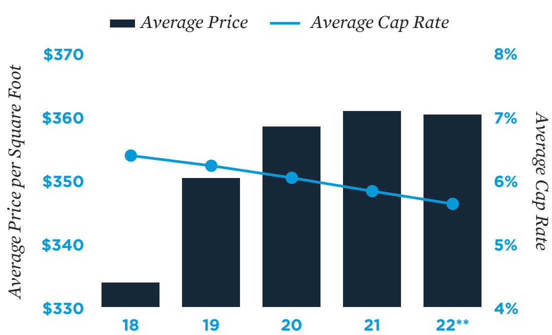
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

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Price: $250

2Q 2022 - 12-Month Period

CONSTRUCTION

320,000 sq. ft. completed

- Additions during the trailing four quarters ending in June declined over 20 percent from the same period a year prior, growing inventory 0.3 percent.
- The South Valley submarket accounted for the majority of completed space over the last year, adding more than 165,000 square feet, increasing total inventory by 1.0 percent.

VACANCY

130 basis point decrease in vacancy Y-O-Y

- Available retail space continued to decline in the past yearlong period as vacancy dropped in every quarter, ultimately falling to 3.6 percent.
- Although the South Valley accounted for the majority of inventory additions in the past year, high multi-tenant demand in this locale continued, dropping vacancy 400 basis points to less than half a percent.

RENT

14.1% increase in the average asking rent Y-O-Y

- Asking rent growth escalated from the previous four quarters, with the year-over-year change exceeding 12 percent in each of the last three periods, reaching $19.47 per square foot on average.
- Single-tenant rent growth led the market, jumping 14.9 percent year-over-year in the second quarter compared to 11.3 percent in multi-tenant space.

Investment Highlights

- With a flourishing economy backed by strong in-migration and positive household income growth, Salt Lake City continues to bode well as a retail investment market. The average price per square foot rose by 0.2 percent to $360, while the average cap rate measured at 5.6 percent, a 30-basis-point decline over the previous yearlong period ending in June. Increased trades in the above-$10 million price tranche caused sales volume to jump over 50 percent, despite a 5 percent drop in total exchanges.
- As more businesses and employees migrate to the metro, multi-tenant fundamentals continue to strengthen. These properties saw a 23 percent increase in transaction velocity during the trailing year ended in June, while experiencing a 4 percent jump in the average price per square foot.
- Significant out-of-state investment continued over the year, as roughly 30 percent of all deals were conducted with non-local buyers. Furthermore, transactions in Salt Lake City proper had roughly 40 percent out-of-state buyers. Comparatively, the Provo and Ogden regions both had less than a one-fourth share. As Salt Lake City continues to assert itself among the fastest-growing cities in the country, along with heightened economic expansion, out-of-state investment will accelerate.

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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