

# MARKET REPORT

Office  
Salt Lake City Metro Area

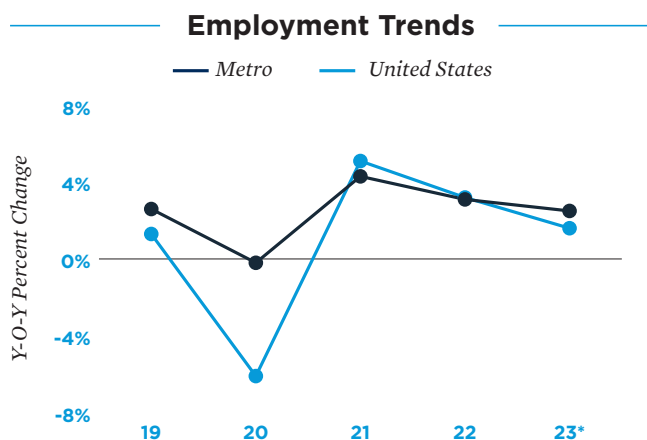
IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

4Q/23

## Residential Popularity Aids Office Usage in Northern Suburbs; Some CBD Stabilization Realized

**Davis-Weber Counties continues to impress.** Among Salt Lake City submarkets with at least 2 million square feet of stock, the Davis-Weber Counties area held the tightest office vacancy rate at 7.8 percent in June — nearly 600 basis points below the marketwide rate and 80 basis points under its 2019 measure. This notable improvement coincides with substantial residential popularity here. Between the end of 2019 and midyear 2023, the number of local occupied apartment units grew by more than 13.5 percent. Companies expanding and relocating operations here benefit from proximity to this increasing apartment renter base and a lower average asking office rent than the Downtown and marketwide averages.

**Downtown demand trends improving.** Leasing activity across the Salt Lake City CBD has considerably picked up as of late. Last year, tenants absorbed a net of 716,000 square feet of office space, the submarket's largest annual total since 2016. Floor plans have continued to be taken off the market in the first half of this year, allowing vacancy to compress 130 basis points over the 12-month interval ended in June. During this yearlong period, notable move-ins by Foley & Lardner, Sinclair Oil Corporation and Pacific Premier Bank accounted for a total of 100,000 square feet. Looking forward, a number of larger commitments are anticipated to enhance the CBD's near-term outlook, headlined by the Williams Companies 49,000-square-foot move-in.



\* Forecast

Sources: BLS; CoStar Group, Inc.

## Office 2023 Outlook



**35,000  
JOBS**

*will be created*

### EMPLOYMENT:

Through August, employers within traditionally office-using industries added a net of 2,200 roles. This pace is expected to accelerate by year-end, helping the segment increase its overall base by 1.7 percent in 2023.



**950,000  
SQ. FT.**

*will be completed*

### CONSTRUCTION:

Deliveries this year will expand metro office stock by 0.9 percent, the smallest pace of growth noted since at least 2008. A 150,000-square-foot completion in Lindon highlights 2023's construction activity.



**80  
BASIS POINT**

*increase in vacancy*

### VACANCY:

Vacancy climbs by less than half of 2022's jump this year. Nevertheless, the metrowide figure rises to a record-high 14.0 percent by year-end. This will stand 230 basis points above the metro's long-term average.



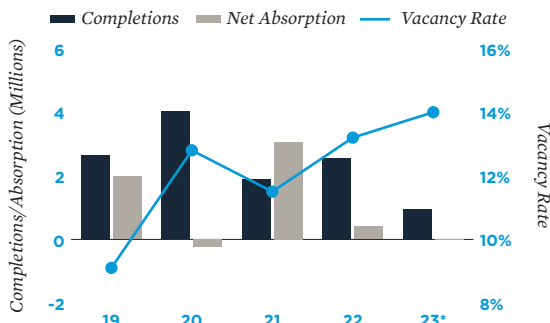
**0.7%  
INCREASE**

*in asking rent*

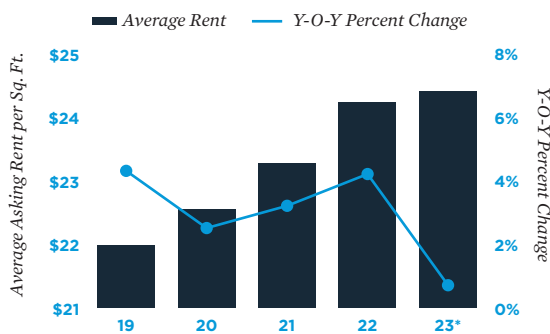
### RENT:

Elevated vacancy calls for some local operators to reduce rents, taming the pace of overall growth. The moderate lift will increase Salt Lake City's average asking rent to \$24.40 per square foot by year-end.

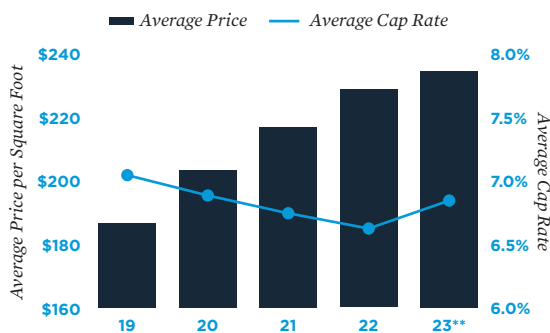
### Supply and Demand



### Rent Trends



### Sales Trends



\* Forecast \*\* Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

## 2Q 2023 - 12-Month Period



### CONSTRUCTION

**1,120,000 sq. ft. completed**

- The 55,700 square feet of space completed in the second quarter of 2023 was the metro's smallest three-month addition noted since 2010. This resulted in total stock expanding by a modest 1 percent over the past year.
- Utah County welcomed more than 70 percent of all new space delivered over the year ended in June, increasing its local inventory by 3.7 percent.



### VACANCY

**120 basis point increase in vacancy Y-O-Y**

- The CBD's 130-basis-point year-over-year vacancy reduction was the most substantial improvement among all Salt Lake City submarkets. Now at 14.6 percent, the rate is within 220 basis points of its historical average.
- Class B/C vacancy ebbed 10 basis points to 10.6 percent marketwide, which is 60 basis points below the segment's long-term average.



### RENT

**2.1% increase in the average asking rent Y-O-Y**

- Robust tenant demand in Davis-Weber Counties prompted a 10.6 percent rent growth rate in 2023, the largest gain among metro submarkets.
- The metro's average asking rent rose to \$24.32 per square foot in the second quarter. Overall gains were bolstered by growth within the Class B/C segment, where the mean lifted 2.8 percent over the year ended in June.

## Investment Highlights

- Tight lending practices constrained transactions over the 12-month span ended in June to just under 50 percent of the prior annual period. Preliminary third quarter data suggests that this ebbed pace of investment activity will hold in the near-term. Some financing stability, amid a September hold to the Federal Funds rate, should improve this dynamic in the long-run.
- Despite the added difficulty and cost of securing financing, some investors are still willing to overcome these hurdles, given their confidence in the long-term performance prospects of offices in the South Valley and Utah County. These areas accounted for more than half of all trades year-to-date through August. Properties changing ownership here were well-leased and had an average holding period of 7.5 years. Over this time frame, the metro's average price per square foot appreciated by roughly 30 percent.
- Medical office assets were also major targets by those active in the market, making up 30 percent of deals through the first eight months of 2023. At midyear, segment vacancy was 140 basis points below its historical mean, while the market's notable population growth trends should continue to aid demand for healthcare-centric facilities moving forward.

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