

INVESTMENT FORECAST

OFFICE
Salt Lake City Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2020

Absorption Aligns With Construction Volume; Influx of Out-of-State Investors Drives Pricing

Employment growth continues to warrant sizable supply additions. Home to a well-educated workforce and a regionally lower cost of doing business, the Wasatch Front remains a focal point for expanding corporations. Many of these growing firms concentrate on tech, finance or professional services, which heightened demand for available office space and newly built properties. As a result, the metro vacancy compressed 270 basis points during the four-year span amid the completion of nearly 11 million square feet of space. In 2020, a steady flow of project deliveries is once again lined up, as more than 3 million square feet is finalized, driven by supply additions in Draper and South Jordan. While construction activity remains elevated this year, most of what is slated for completion is well leased. The lack of available, newly developed space coupled with steady hiring velocity by office-using firms will fuel demand for existing floor plans in 2020, translating to a slight adjustment in vacancy for a second consecutive year.

Unwavering tenant demand attracts range of investors, further diversifying the local buyer pool. Salt Lake City represents a distinct office market where company expansions are widespread, yet property values are below most western U.S. metros. These conditions are influencing more private equity and institutional buyers from Mountain and West Coast areas to pursue assets in this market. These investors are most active in Sandy, Draper and other South Valley cities, where pricing for larger Class A properties and well-located Class B offices can exceed \$250 per square foot with minimum returns in the high-5 percent band. While private investors are also active in these locales, those seeking returns in the mid-6 to 8-percent-plus range focus on Salt Lake City's CBD and the eastern portions of the Central Valley. Here smaller Class B and C assets are available for less than \$3 million.

2020 Market Forecast

Employment
up 2.3%



Hiring by traditional office-using firms and hospitality-related organizations support the addition of 30,200 positions this year. In 2019, metro employers grew staffs by 38,900 jobs.

Construction
3.2 million sq. ft.



Delivery volume in 2020 reaches a four-year high, increasing the metro's office stock by 3.2 percent.

Vacancy
up 10 bps



On net absorption of nearly 2.8 million square feet of office space, vacancy reaches 9.1 percent this year. In 2019, an increase of 20 basis points was registered.

Rent
up 3.4%



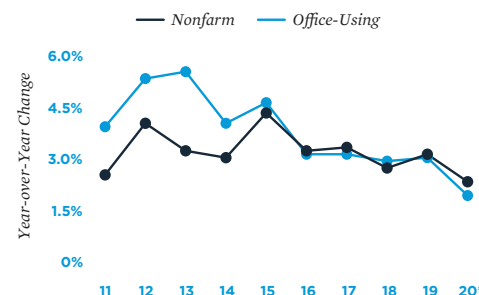
A steady pace of rate growth allows the metro's average asking rent to reach \$22.72 per square foot in 2020.

Investment

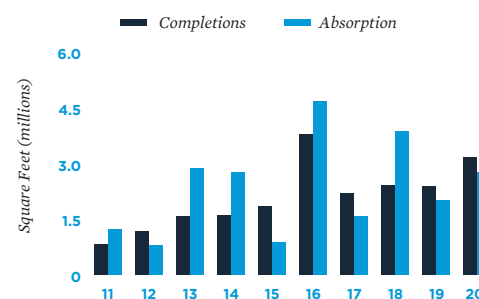


Strong population growth continues to heighten demand for healthcare services. In response, investors comb Sandy and Salt Lake City neighborhoods for Class B medical office properties, most of which trade at below-average pricing.

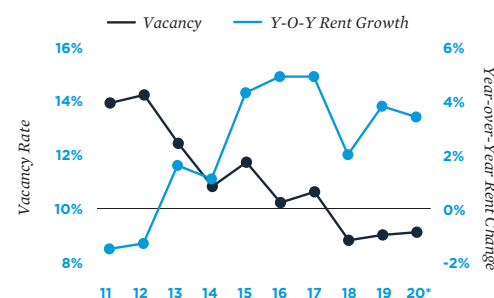
Employment Trends



Office Supply and Demand



Vacancy and Rent Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

Alan Pontius

Senior Vice President | Director
Office and Industrial Properties Division
(415) 963-3000
apontius@ipausa.com

Metro-level employment, vacancy and asking rents are year-end figures and are based on the most up-to-date information available as of December 2020. Asking rent is based on the full-service marketed rental rate. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and office data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guaranty, express or implied may be made as to the accuracy or reliability of the information contained herein. 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.