MARKET REPORT

RETAIL

Salt Lake City Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

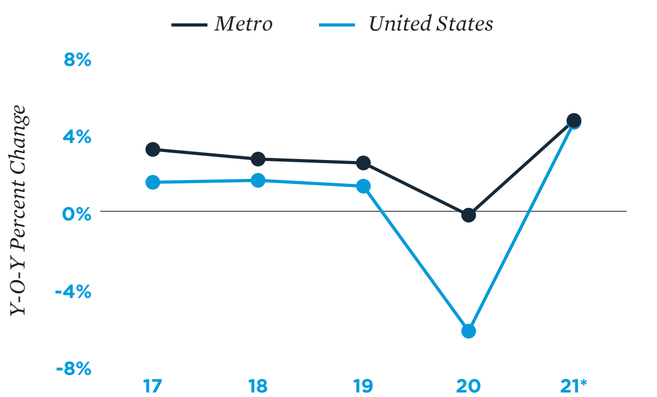
3Q/21

Accelerated Labor Market Recovery Drives Turnaround in Retail Sector

Economic resilience aids retail performance. Less restrictive public health mandates led to fewer business shutdowns, allowing Salt Lake City's economy to rebound faster than all other major markets. A young and educated workforce has also been fueling growth in the metro's tech sector, contributing to total employment exceeding the pre-pandemic level in early 2021. Strong job gains led to an accelerated recovery in the market's retail sector. Net absorption over the first half of 2021 already surpassed last year's total by nearly 600,000 square feet. As a result, vacancy declined 50 basis points in that same span, realigning with the region's pre-pandemic rate. Retail fundamentals should continue to improve in the second half as the metro's employment, population and median income all outpace the national growth rate this year.

Delivery volume set to hit 15-year low. Limited supply additions were a contributing factor to vacancy declining over the past two quarters. Construction activity in the metro has substantially declined relative to past years, and total completions for 2021 will mark a 15-year low for the region. Less than half of Salt Lake City's submarkets gained any new supply in the first six months and only three received over 10,000 square feet of new inventory. The level of pre-leasing is strong as well. As of June this year, over 80 percent of retail space currently under construction already had a tenant in place. Paired with the low overall supply number, limited speculative space further brightens the outlook for vacancy.

Employment Trends



** Forecast*

Sources: BLS; CoStar Group, Inc.

Retail 2021 Outlook

61,000 JOBS
will be created

EMPLOYMENT:

Total employment in the metro will expand by 4.7 percent in 2021, following a 0.2 percent loss last year. As of July the metro's unemployment rate was 2.5 percent, the lowest out of any major U.S. market.

260,000 SQ. FT.
will be completed

CONSTRUCTION:

Deliveries are scheduled to plummet to the lowest level in over a decade, expanding inventory by only 0.2 percent. Completions will fall well below the metro's trailing-five-year average of 1.1 million square feet.

70 BASIS POINT
decrease in vacancy

VACANCY:

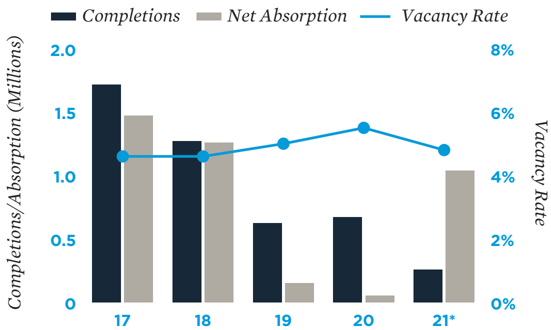
Population and employment gains will increase demand for retail space in the metro, resulting in net absorption nearly quadrupling new supply this year. The metro's vacancy will decline to 4.8 percent in 2021.

4.3% INCREASE
in asking rent

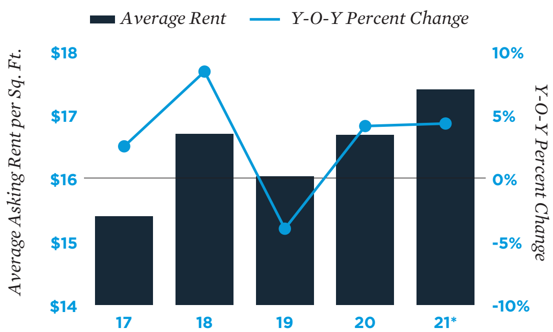
RENT:

Compressing vacancy and limited supply additions will promote rent growth of at least 4 percent for the second straight year. During 2021, the average asking rent will advance to $17.40 per square foot, setting a new high for the metro.

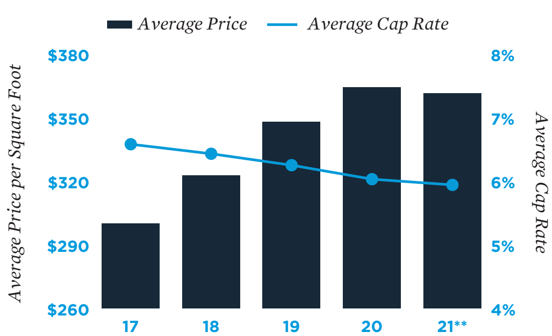
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

Sources: CoStar Group, Inc., Real Capital Analytics

IPA Retail

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Price: $250

2Q21 — 12-Month Period

CONSTRUCTION

264,000 square feet completed

- Inventory expanded by just 0.2 percent over the past 12 months ending in June, following the completion of 750,000 square feet during the prior yearlong span.
- South Valley, Utah County and Davis-Weber Counties received over 75 percent of the metro's new supply.

VACANCY

40 basis point decrease in vacancy Y-O-Y

- Increased demand for retail space coupled with limited supply additions allowed vacancy to stabilize at 5 percent, equal to the metro's pre-pandemic recording.
- The Central Valley submarket posted the largest vacancy decline, falling 260 basis points year over year to 5.9 percent.

RENT

5.2% increase in the average asking rent Y-O-Y

- Led by a 12.1 percent hike in the average multi-tenant asking rent, the overall retail average moved up to $17.03 per square foot in June.
- Davis-Weber Counties, South Valley and Tooele County led all submarkets in rent growth, with their average asking rents all increasing by at least 10 percent over the last four quarters.

Investment Highlights

- An uptick in deals during the second half of 2020 allowed transaction velocity to remain stable over the past four quarters relative to the prior year. Single-tenant assets were in high demand, with 30 percent more properties changing hands on an annual basis. During the same time period, deal flow in multi-tenant assets decreased by 30 percent.
- The average sale price of single-tenant assets remained flat at $430 per square foot while the average cap rate compressed 20 basis points to 5.5 percent. Meanwhile, the multi-tenant sale price declined 2 percent to $248 per square foot and the mean cap rate moderated to 6.7 percent.
- Transactions were spread across the metro with the majority of deals occurring in the Central Business District, Central Valley East and South Valley submarkets. While private investors continue to comprise the largest share of buying activity, Salt Lake City has drawn greater interest from institutions, which accounted for nearly half the dollar volume in the metro over the last 12 months. Institutional investors targeted shopping centers in the CBD most often.