

Salt Lake County Office Market

Salt Lake Office Market Makes Strides Forward in Recovery from COVID-19's Economic Impact

After a sluggish third quarter, the Salt Lake County office market saw increased activity in the fourth quarter of 2020, bringing life to a market that has been stale since the onset of the pandemic. A brief uptick in unemployment in September increased trepidation for a short time, but it continued to trend downward throughout the rest of 2020, while always staying well below the national average. Many office users are holding steady, keeping most of their employees working remotely, giving them time to create a solid plan as far as when to fully reopen their offices and determine what the workplace will look like in the future.

As the year has gone on, some of the large companies that were hesitant about making any kind of decision regarding lease terms and space made the decision to renew in their current locations. It is interesting to note that most renewed at the same square footage or only contracted by a small amount. These included: E*Trade Financial in South Towne Corporate Center 2; Workday in City Centre; and FirstSource Transaction Services in Pacific Landing A. Nutraceutical Corporation subleased the Perfectly Posh sublease in 222 South Main Street in Downtown Salt Lake City, while also signing a direct lease to extend its term, committing to the space until 2028. Actual lease rates

Current Conditions

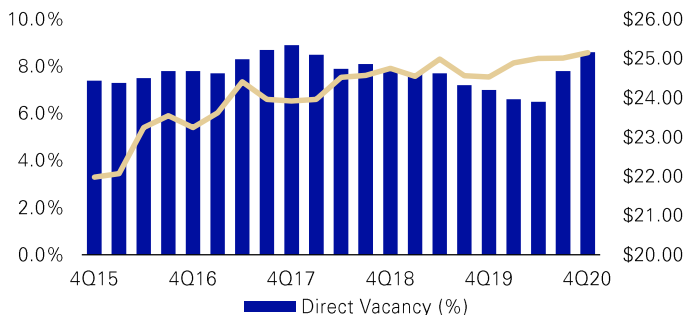
- Sublease vacancy increased by 23 basis points from third-quarter 2020 to fourth-quarter 2020 and saw an overall rise of 113 basis points from the onset of COVID-19.
- After a record high amount of delivered square feet in third-quarter 2020, the fourth quarter saw no deliveries as construction slowed and pushed deliveries into 2021.
- Leasing picked back up from third-quarter 2020, increasing by 75.5%; however, fourth-quarter 2020 remained the second lowest quarter in leasing activity since 2014.

Market Summary

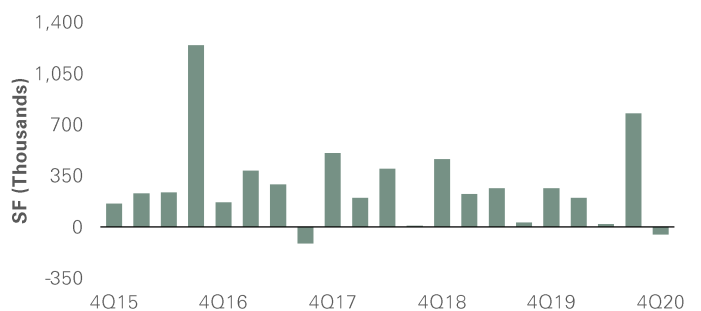
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Direct Vacancy Rate	8.7%	8.6%	6.6%	↑
Quarterly Net Absorption (SF)	(51,184)	777,515	264,929	↓
Average Actual Rent/SF	\$26.73	\$28.65	\$22.89	↓
Under Construction (SF)	2,147,610	2,139,907	3,245,852	↓
Deliveries (SF)	0 SF	1,704,791	388,781	↑

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



RESEARCH Q4 2020

dipped slightly due to the amount of lease renewals in the quarter; however, asking lease rates are holding steady, increasing 2.5% year-over-year. Overall, leasing square footage increased by 75.5% in fourth-quarter 2020, compared with the previous quarter. While still one of the lowest transacting quarters in recent years, it bodes well for future quarters as the overall economy makes steps in recovery from the pandemic's impact.

Subleases continued to rise, climbing from 2.7% for third-quarter 2020 to 3.2% in fourth-quarter 2020. Fewer subleases hit the market in the fourth quarter, but those that did were larger in size. Smaller tenants were quick to put up space earlier in the year, while larger tenants are now beginning to release space back to the market as they determine space needs. A promising highlight is that, of all the new sublet space that has hit the market in 2020, 15.0% has already leased to new tenants.

New construction is sparse, with no new deliveries for the fourth quarter. Compared to a record-breaking third-quarter 2020, with over 1.7 million square feet entering the market, the lack of new product, as well as a lack of leasing, pushed net absorption into the negative for fourth-quarter 2020, coming in at negative 51,184 square feet. Overall, for all of 2020, the county came in close to a million square feet of positive absorption. Pre-leased deliveries such as the Pluralsight Headquarters in Draper and the L3 building in Salt Lake City were pivotal in pushing that net absorption into the positive.

Throughout 2020, the Salt Lake office market has demonstrated its resilience and how its diversified economy has helped it become one of the fastest to bounce back and move forward from COVID-19's economic effect.

Select Lease Transactions

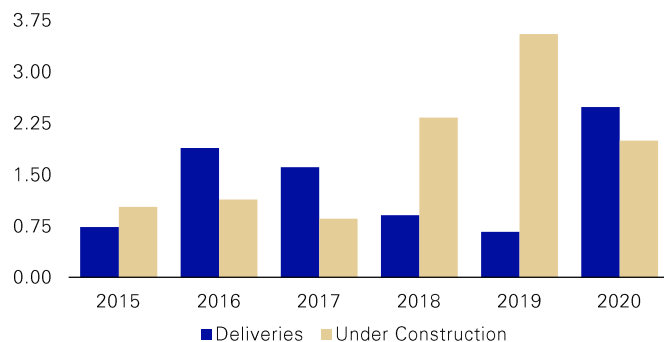
Tenant	Market	Building	Type	Square Feet
E*Trade Financial	Southtowne	South Towne Corporate Center 2	Renewal	84,619
Workday	Central Business District	City Centre	Renewal	76,311
Nutraceutical Corporation	Central Business District	222 South Main Street	Sublease	31,192
FirstSource Transaction Services	Lake Park	Pacific Landing A	Renewal	19,498
First American Title Insurance Company	Central Business District	Parkside Tower	Renewal	16,608

Select Sale Transactions

Buyer	Market	Building	Type	Square Feet
Mortenson	Central Business District	The 324	Investment	224,000
Community Controls	Lake Park	Waterton Place 2	Owner-User	51,420
Ryan Littlefield	Central Salt Lake	1533 South Main Street	Owner-User	15,975
Woolley Insurance	Central Salt Lake	5784 South 900 East	Condo	3,840
346 Bungalow	Central Salt Lake	346 East 900 South	Owner-User	3,103

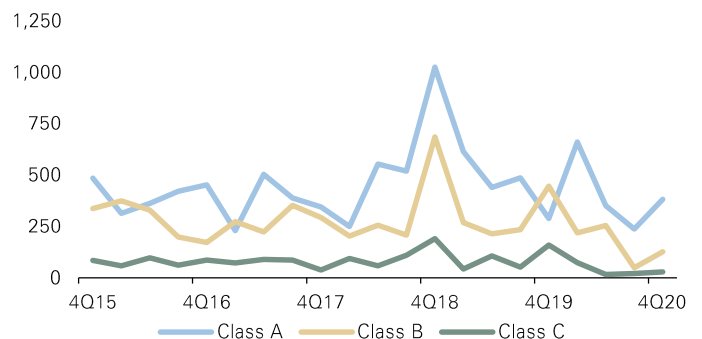
Construction and Deliveries

SQUARE FEET, MILLIONS



Leased Square Feet

SQUARE FEET, THOUSANDS



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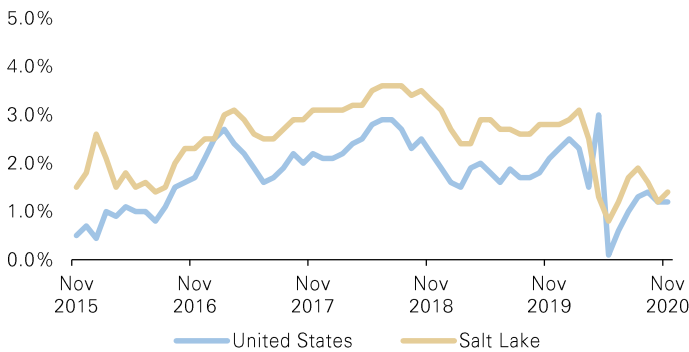
Submarket Statistics								
	Under Construction (SF)	Direct Vacancy Rate	Sublease Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
CBD	436,250	9.9%	3.3%	(49,813)	(96,368)	\$29.99	\$25.56	\$26.24
Periphery	433,933	10.3%	0.5%	(7,236)	(32,923)	\$31.00	\$21.68	\$22.03
Downtown Total	870,183	10.0%	2.9%	(57,049)	(129,291)	\$30.04	\$24.51	\$25.48
Cottonwood	-	13.9%	3.7%	(81,785)	(52,593)	\$32.42	-	\$32.36
Central Salt Lake	150,000	10.4%	7.2%	(2,087)	(46,656)	\$23.00	\$22.58	\$21.17
Central Valley	-	6.7%	4.0%	(22,783)	13,544	\$26.90	\$20.80	\$20.11
Draper Tech Corridor	7,703	6.2%	4.8%	25,979	802,364	\$27.22	\$19.63	\$26.93
East Sandy/Draper	27,200	11.8%	-	9,856	194	-	\$21.72	\$19.82
Fort Union	-	9.7%	2.3%	(3,224)	6,048	\$25.61	\$22.12	\$23.42
International Center	-	7.7%	2.1%	(27,972)	329,501	-	\$20.83	\$20.27
Lake Park	220,101	12.4%	1.7%	-	5,165	\$26.93	\$20.16	\$26.32
Millcreek/Holladay	-	7.0%	0.8%	4,614	2,048	-	\$20.10	\$16.97
Research Park	200,000	1.2%	1.4%	(1,831)	(1,515)	-	\$23.84	\$20.78
Sugarhouse	-	10.6%	0.5%	(12,766)	17,033	\$28.88	\$18.83	\$24.39
Southwest	285,494	18.6%	10.1%	-	22,966	\$26.96	\$25.00	\$25.54
Southtowne	74,000	7.1%	4.3%	112,278	(7,309)	\$25.90	\$25.82	\$25.62
West Salt Lake	-	2.5%	-	5,586	(15,509)	-	\$19.68	\$19.68
Suburban Total	1,277,427	8.2%	3.4%	5,865	1,075,281	\$28.33	\$21.90	\$25.01
Market	2,147,610	8.7%	3.2%	(51,184)	945,990	\$28.62	\$22.89	\$25.15

Economic Overview

The unemployment rate for the Salt Lake City metro has historically stayed below the national average by a full 1.0% to 2.0% for the past decade. Despite the unemployment rate increasing dramatically due to COVID-19 back in April 2020, Salt Lake City has continued to stay below the national average throughout 2020 by a significant amount. The diversification of Salt Lake City's economy is one of the main reasons it has been able to handle the pandemic's effect on the economy better than many other metropolitan areas. Job growth has bounced back well, with half of the main job sectors seeing positive year-over-year change. Information, financial activities, professional and business services, education and health services and leisure and hospitality have still not experienced positive job growth in 2020, heavily influenced by many companies making the decision to keep the majority of white-collar employees working from home and will likely see positive growth once the vaccine is more widely distributed.

Consumer Price Index (CPI)

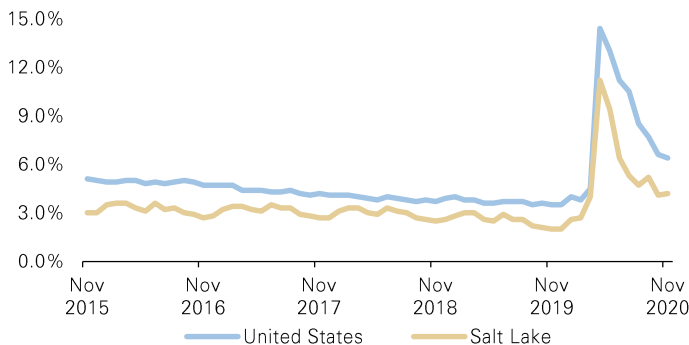
ALL ITEMS, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

Unemployment Rate

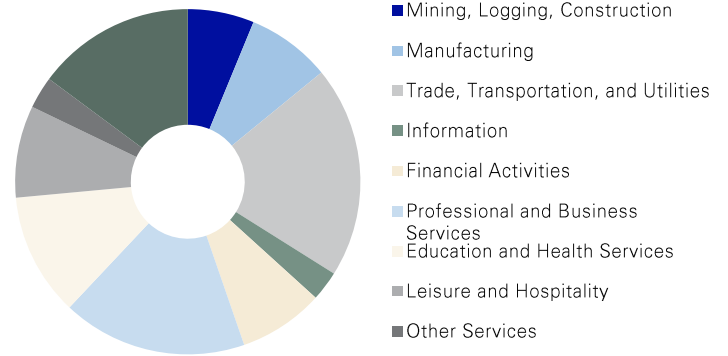
NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

Employment by Industry

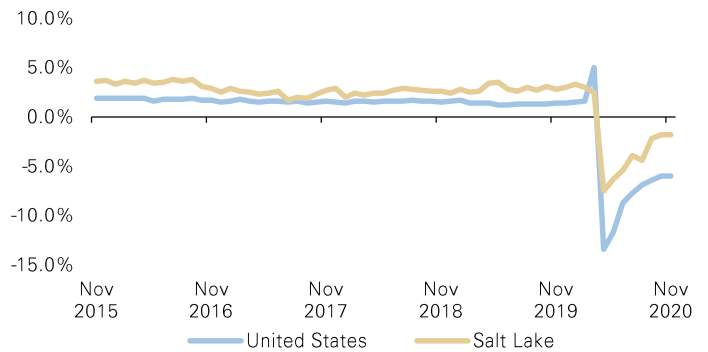
SALT LAKE, 2019 ANNUAL AVERAGE



Source: U.S. Bureau of Labor Statistics

Payroll Employment

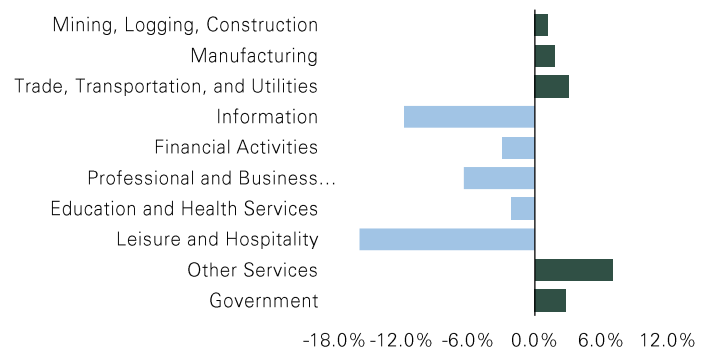
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



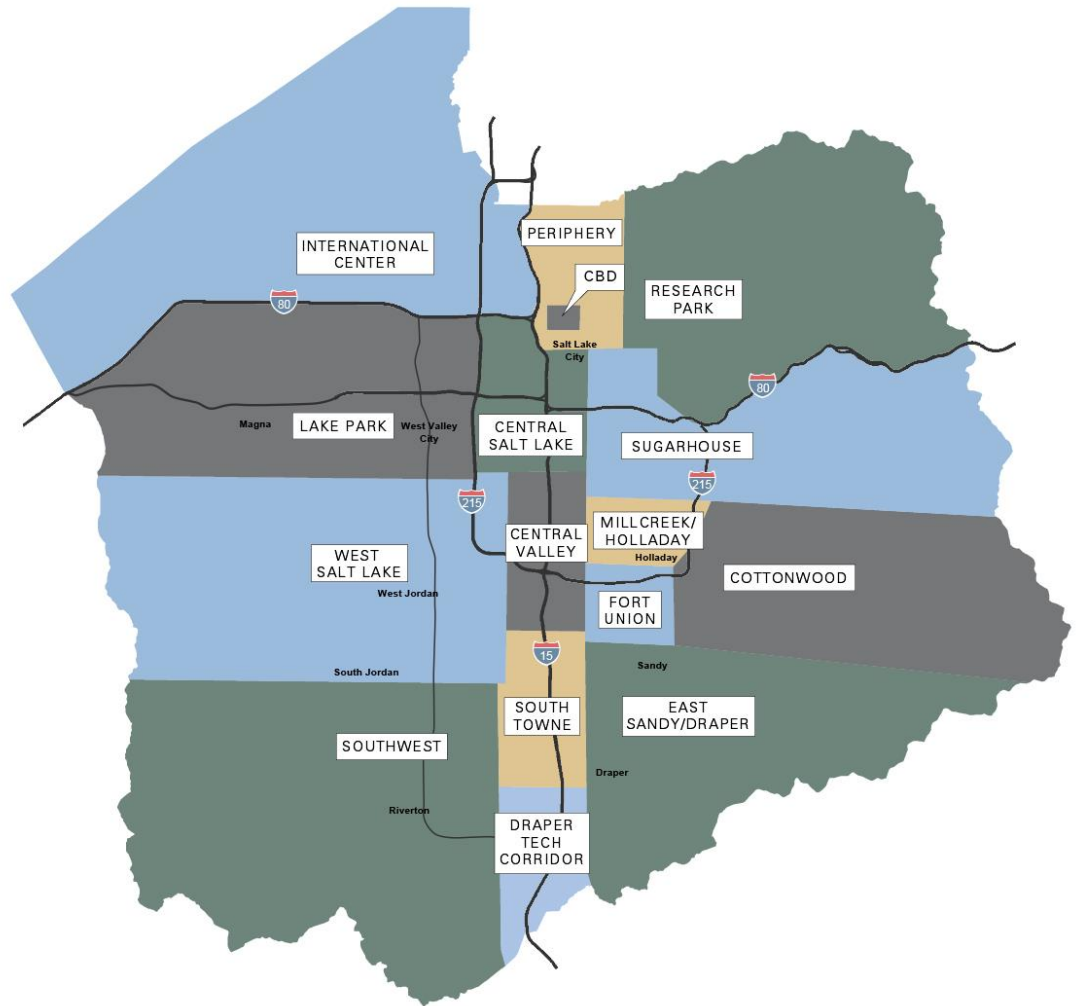
Source: U.S. Bureau of Labor Statistics

Employment Growth by Industry

SALT LAKE, NOVEMBER 2020, 12-MONTH % CHANGE, NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics



Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at ngkf.com/research.

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