

Salt Lake City Office Market MarketView



Q4 2012

CBRE Global Research and Consulting



GOOD NEWS VS. BAD NEWS: Q4 ROUNDS OUT A YEAR OF SLOW PROGRESS

Quick Stats

Q4 2012	CURRENT	YoY	QoQ
Vacancy	15.8%	↑	↓
Average Asking Lease Rates (FSG)	\$19.70	↑	↓
Net Absorption (SF)	170,695	↑	↑
Under Construction (SF)	122,200	↓	↓

* The arrows are trend indicators over the specified time period and do not represent a positive or negative value. (e.g., absorption could be negative, but still represent a positive trend over a specified period.)

* Ticker disclaimer: All employment statistics are derived from most recent BLS data available for the Salt Lake metro area. Arrows are year-over-year trend indicators.

Hot Topics

- Positive Absorption
- Vacancy Decreases Slightly
- Average Asking Rates Edge Down



Salt Lake's office market experienced some improvement during 2012. However, improvement was mostly concentrated in suburban submarkets. As expected, the downtown office market experienced some deterioration, particularly in Class B properties. Challenges in the downtown market were primarily the result of large tenants using space more efficiently, and the FBI moving into its new suburban offices.

For the most part, underlying trends for the downtown submarkets are positive as the local economy continues to perform well. The central business district in particular will experience renewed activity, bolstered by the new City Creek Center development.

Although job creation in office-using sectors was healthy over the last 12 months, net absorption did not reach 2011 levels; this can be largely attributed to space efficiency trends. As companies hire workers or maintain staffing levels, new leases are signed with less square footage. Consequently, work spaces are denser, and space is utilized more efficiently.

Job growth in office-using sectors remains positive and at healthy levels in the Salt Lake market. According to the most

recent data available from the Bureau of Labor Statistics (BLS), in the 12 month period ending in November 2012, financial services employment expanded by 3.1%; professional and business services employment expanded by 6.7% over the same period.

Looking ahead, job growth in office-using sectors is expected to remain healthy. As such, absorption is expected to remain positive in 2013. With a limited amount of new construction taking place, the market-wide vacancy rate can be expected to slowly decline. Lease rates will remain somewhat stable on a market-wide basis, with increases expected in high-demand areas.

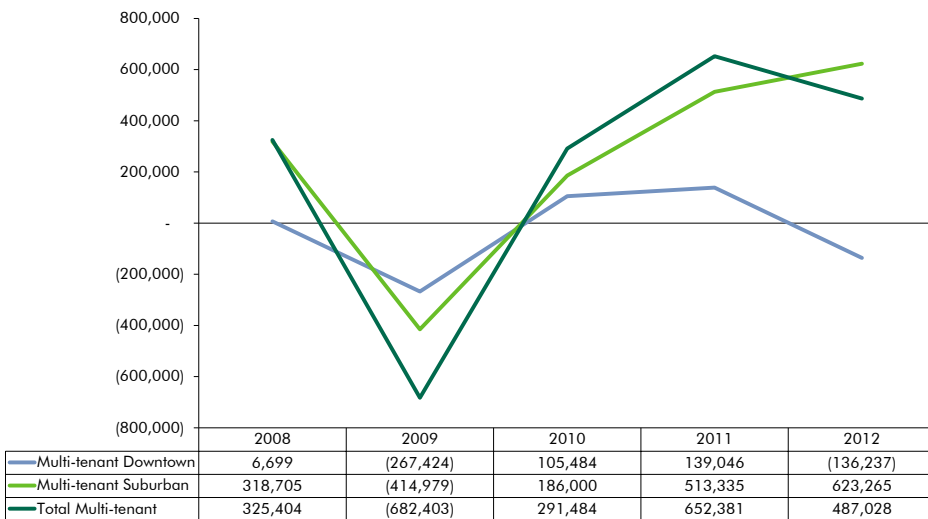
Many risks to the economy in 2013 will be a variation of those faced in 2012 and maintain the potential to adversely affect Salt Lake's office market. One theme that will continue in the new year is the idea that policymakers are in the economic driver's seat. At the present time, current challenges require substantive policy responses. Without appropriate policy responses, conditions will continue to deteriorate and ultimately affect the Salt Lake metro area's economy.

MARKET STATISTICS

Submarket	Building SF	Total Availability SF	YTD Absorption	Total Vacancy %	Avg Lease Rate (FSG)	Under Construction (SF)*
CBD/Periphery	3,497,952	706,599	(23,798)	16.8%	\$16.60	
Central Business District	7,096,041	1,577,038	(112,439)	19.8%	\$22.11	
Airport/International Ctr	1,439,225	150,089	183,682	7.4%	\$16.55	
Central Valley	2,044,009	469,498	68,956	19.3%	\$17.62	
Central Valley East	2,468,077	621,748	(1,387)	23.0%	\$15.78	
Cottonwood	2,087,730	276,045	16,726	18.2%	\$26.39	
Draper	1,711,405	405,910	96,699	14.9%	\$20.29	
Foothill Corridor	243,356	43,377	(8,653)	13.7%	\$18.25	
Interchange	701,693	58,375	8,150	8.1%	\$10.98	
Research Park	1,130,364	20,162	16,625	0.1%	\$21.99	122,200
Sandy South Towne	4,191,498	639,825	62,809	10.5%	\$20.61	
Southwest Valley	180,000	0	0	0.0%	\$23.50	
Sugarhouse	472,744	38,769	3,717	8.2%	\$18.32	
Union Park District	2,084,960	351,181	70,689	14.7%	\$18.66	
West Valley Lake Park	1,837,290	483,244	105,252	20.0%	\$17.29	
Totals	31,186,344	5,754,761	487,028	15.8%	\$19.70	122,200

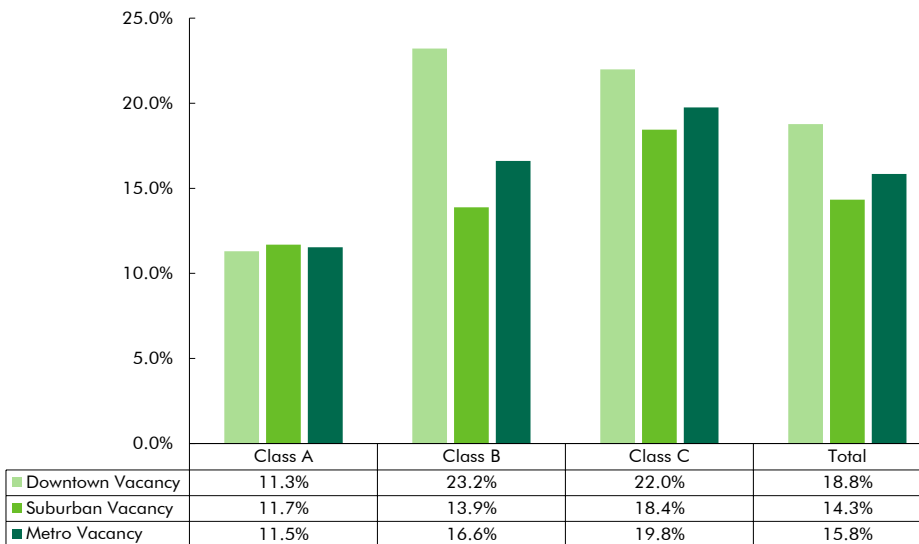
* Multi-tenant over 20,000 SF

Chart 1: Absorption



Net absorption was positive in the fourth quarter at 170,695 SF. Absorption was bolstered by the FBI moving into its new 163,040 SF field office, representing an increase of 70,000 SF for the bureau. All classes in the suburban office market experienced positive absorption for the year. Only Class A properties in the downtown market experienced positive absorption during 2012, largely due to Questar occupying its new headquarters. Barring the realization of worst case scenarios in the macro-economic environment, net absorption for the Salt Lake office market is expected to remain positive in 2013.

Chart 2: Vacancy



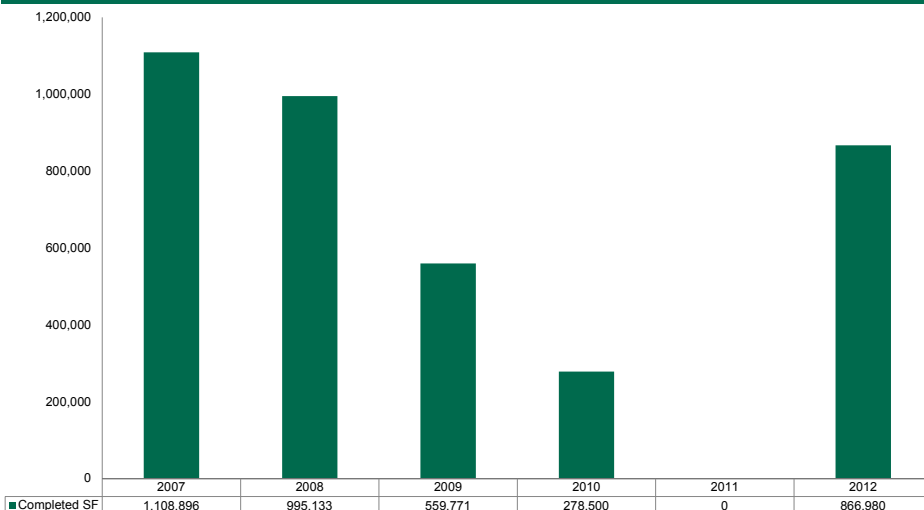
On a market-wide basis, the vacancy rate in Salt Lake's office market decreased slightly, falling to 15.8% from 15.9% at the end of the third quarter. The decline in vacancy was driven by positive absorption. Looking ahead, demand subdued by space efficiency trends and an uncertain macro-economic environment will not allow significant improvement in the vacancy rate during the first half of 2013. However, a slower rate of new construction in the coming year will aid the market as existing supply is absorbed.

Chart 3: Lease Rates



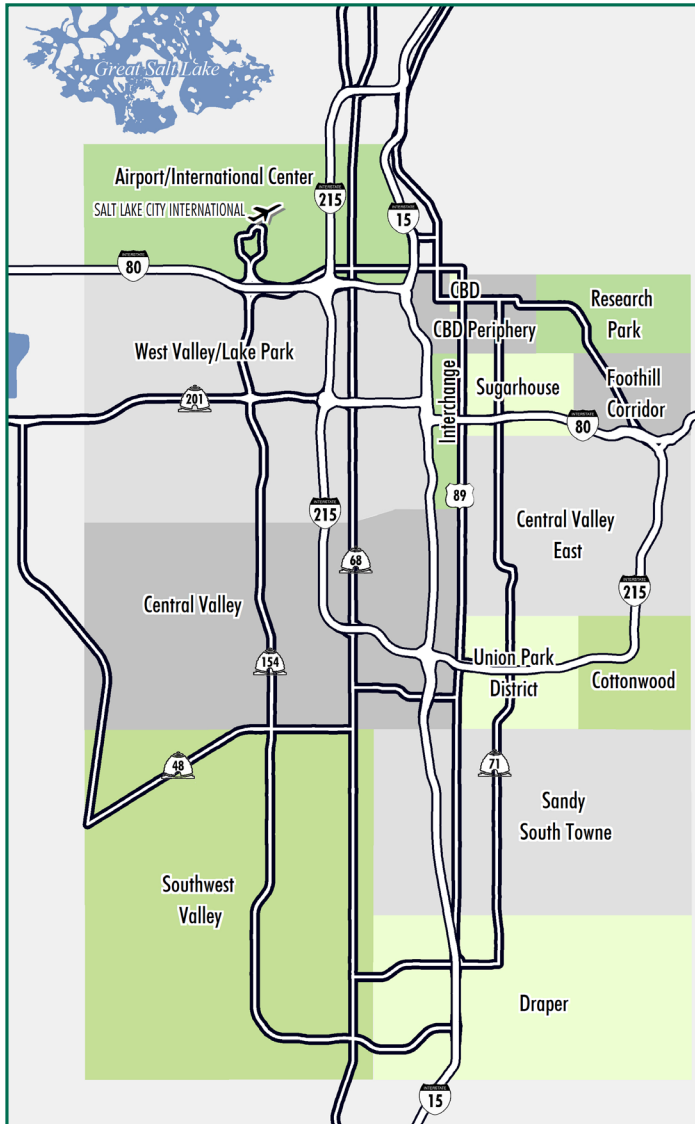
Average asking lease rates decreased on a market-wide basis, falling from \$19.81 at the end of the third quarter to \$19.70. Over the last two quarters, higher lease rates were supported as large blocks of newly constructed space entered the market. However, underlying market trends are somewhat subdued with many submarkets continuing to experience high rates of vacancy. Looking ahead, expected job growth in office-using sectors will continue to fuel demand for office space, but demand will be tempered by uncertainty and trends toward efficiency. As such, market-wide lease rates are expected to remain somewhat stable, with isolated increases in high-demand areas.

Chart 4: Completed Construction



The FBI's new field office near the airport and Building VI at The Pointe in Draper were completed during the fourth quarter. Building VI at The Pointe will add 120,000 SF of Class A space to the Draper submarket base. Meanwhile, the 163,040 SF FBI field office in the airport submarket is entirely occupied by the Bureau. Going into 2013, two buildings in Research Park are the only multi-tenant projects underway in the Salt Lake office market. As such, completed construction during the coming year is not expected to approach 2012 levels. However, a significant amount of construction is taking place in Lehi, just south of the Salt Lake market boundaries, which will undoubtedly have an impact due to its proximity.

SALT LAKE OFFICE MARKET



TOP 5 LEASE TRANSACTIONS

Size (SF)	Tenant	Building	Transaction Type
217,551 SF	Fidelity	Renewal	Gateway IV
126,000 SF	Instructure	New	Old Mill Corporate Ctr IV
57,705 SF	S.L. County D.A.	Renewal	Broadway Centre
49,185 SF	Jones Waldo	Renewal	170 S. Main
30,020	Blue Coat	New	The Pointe VI

CONTACTS

For more information about this Local MarketView, please contact:

SALT LAKE CITY RESEARCH

Stephanie Marthakis
Regional Research Manager
Salt Lake City Research

CBRE
222 South Main Street, 4th Floor
Salt Lake City, Utah 84101

t: 801 869 8085
e: stephanie.marthakis@cbre.com

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