

3Q24

# Greater Salt Lake Office Market

Overviews for Salt Lake, Davis, Weber and Utah Counties and the Tech Corridor Region



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# Market Observations

## Economy

- The Wasatch Front labor market remained strong, with a 3.8% unemployment rate in August 2024. This was lower than the U.S. average of 4.4%.
- All BLS super-sectors recorded job gains over the last 12 months, except for information and financial activities (where tech companies are generally grouped) and trade/transportation/utilities.
- Office-using employment remains higher than pre-pandemic levels, but job growth is leveling out across the Wasatch Front. The Ogden-Clearfield and Salt Lake City MSAs had the largest overall job gains. The Provo-Orem MSA experienced the highest levels of contractions following layoffs from tech users.

## Major Transactions

- New direct leases dominated the Northern Wasatch Front office market while subleases and lease renewals were prevalent in Salt Lake and Utah Counties.
- Redevelopment plays of office product continue to occur. Canyons School District acquired the 192,000 SF eBay building with adaptive reuse plans for a new school.
- For-sale office listings and trades have increased in recent quarters as troubled loans come due. Private entities and owner-users were the most active buyers in recent months.

## Leasing Market Fundamentals

- Tenant occupancy contracted by 336,384 SF in total across all regions of the Wasatch Front, with Salt Lake City MSA and Provo-Orem MSAs experiencing the highest occupancy losses.
- Under-construction space has trended down sharply since 2019, when a record high 3.7 MSF for the Wasatch Front was underway. The Wasatch Front office construction pipeline now holds just over 400,000 SF at quarter-end. Hybrid work models and rising sublet availability are factors.
- Softening market conditions are strongest in the Tech Corridor, based on ongoing volatility amid its namesake occupiers and their preference for telework.

## Outlook

- Uncertainty reigns in the macroeconomic outlook. Occupiers and investors alike will approach deals with greater caution, which will impact leasing and sales activity.
- Market vacancy will increase further as lease expirations occur and tenants continue the trend of renewing and/or leasing at smaller footprints. Sublet vacancy is expected to slowly transition to direct vacancy as expirations approach and lowered demand keeps space on the market for longer than the historical average.
- Ever-softening leasing conditions in the quarters ahead will pressure landlords to offer more free rent and concessions. This is especially true for sub-trophy buildings.

1. Economy
2. Market Fundamentals:
  - Salt Lake City
  - Davis and Weber Counties
  - Utah County
  - Tech Corridor
3. Utah Capital Markets Overview

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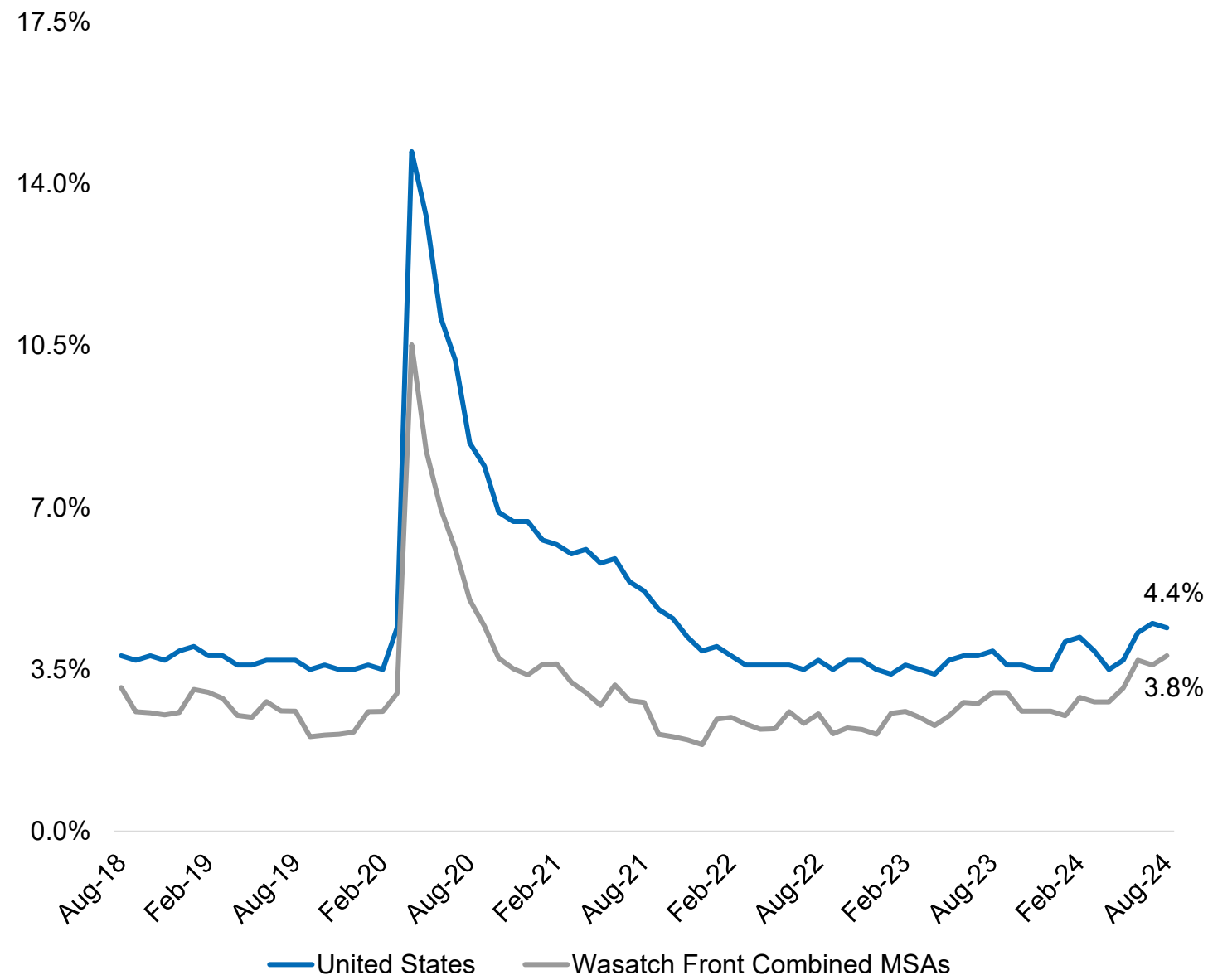
# Economy



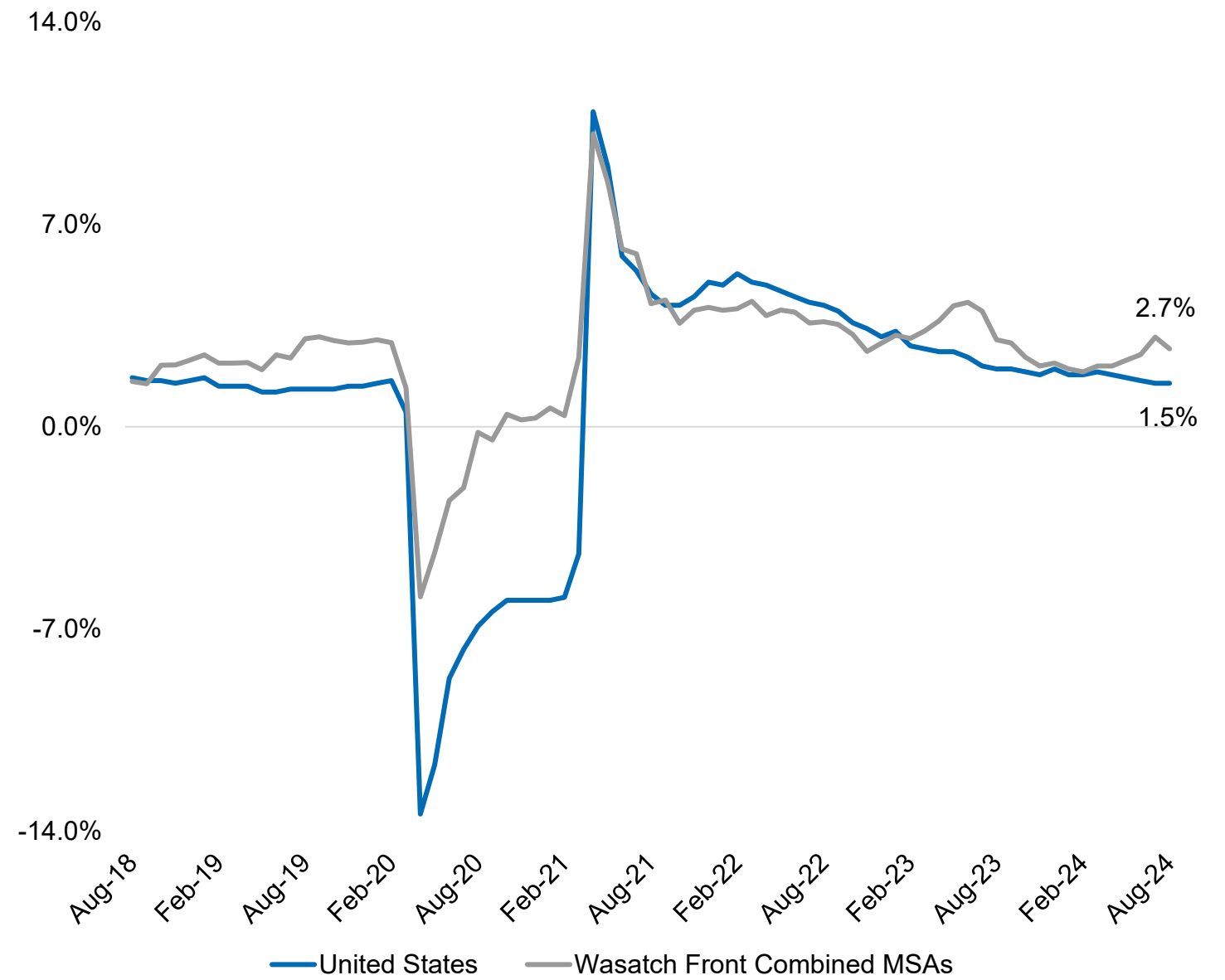
# Wasatch Front Labor Market Outperforming National Trends

Local unemployment has historically remained significantly lower than the national average and has mirrored pre-pandemic rates for two years despite recent economic uncertainty. At the end of August 2024, Wasatch Front unemployment was 60 basis points lower than the national rate. Overall local job growth continues, with 2.7% in annual gains relative to 1.5% growth for the U.S.

Unemployment Rate, Not Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change



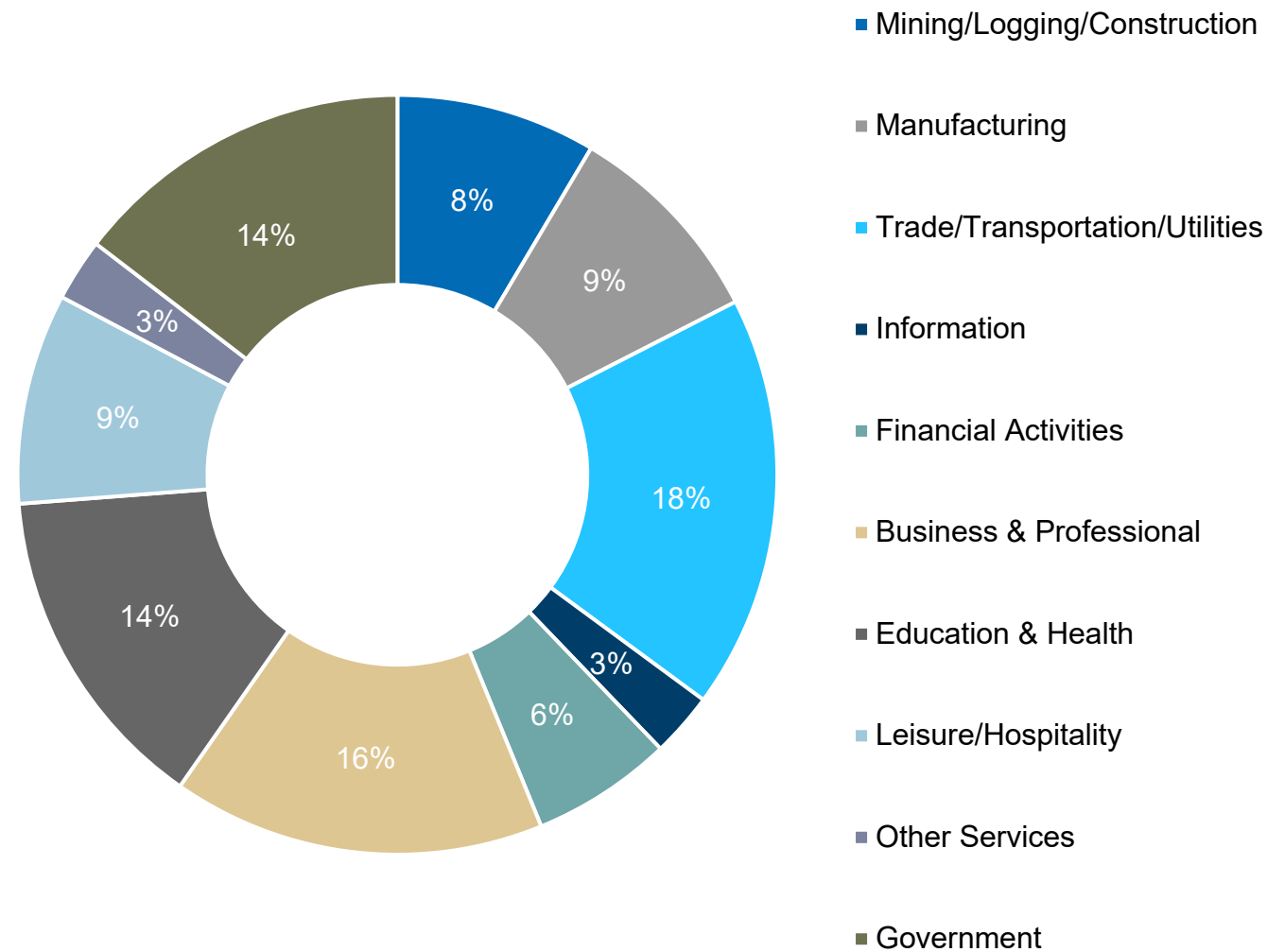
Source: U.S. Bureau of Labor Statistics

\*Wasatch Front Combined MSAs include: Salt Lake City MSA, Provo-Orem MSA and Ogden-Clearfield MSA

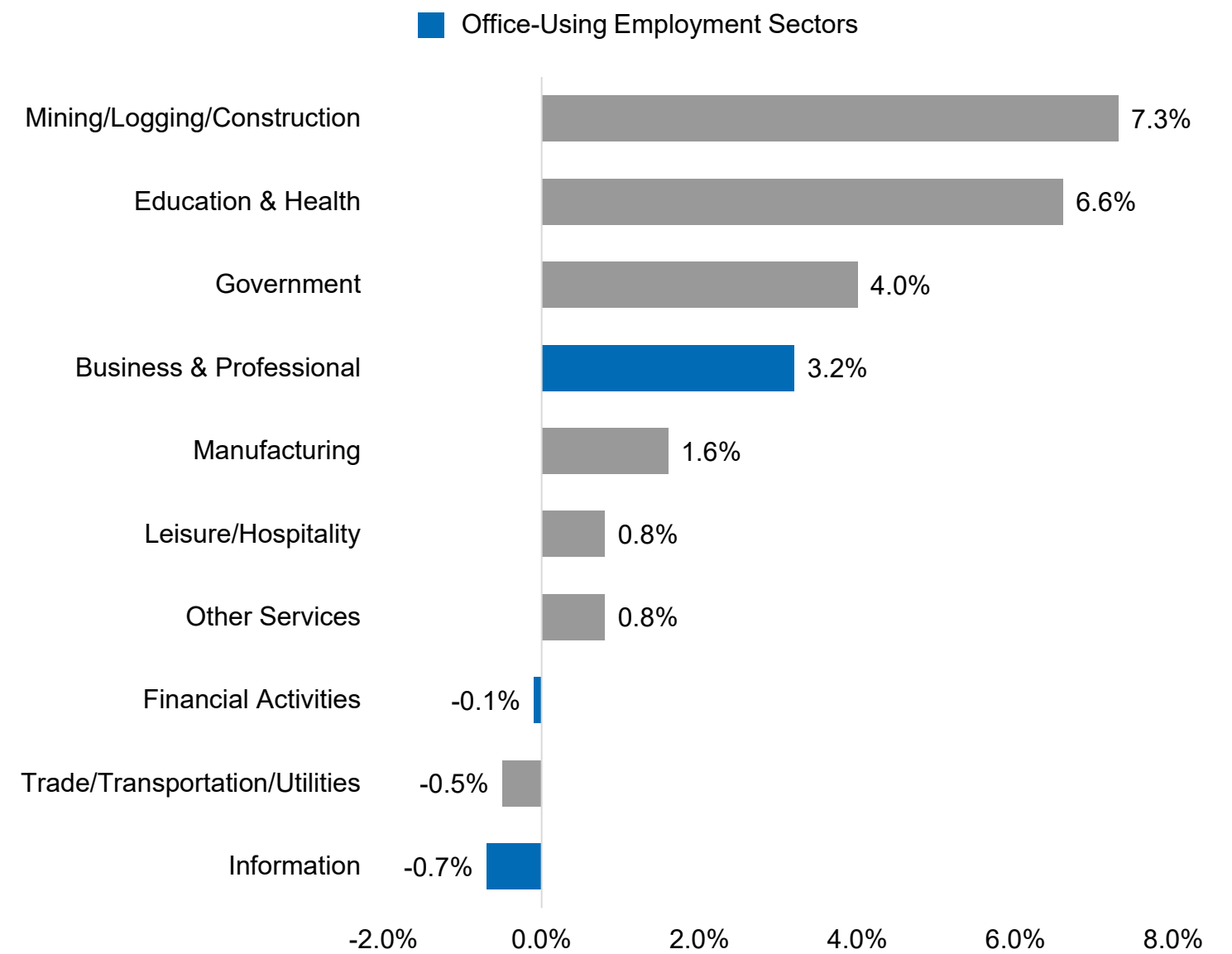
# Job Growth Positive for Almost All Sectors Along Wasatch Front

Year-over-year gains in the mining/logging/construction (+7.3%), education and health (+6.6%) and government (+4.0%) industries buoyed up job growth for the Greater Salt Lake region. Information (-0.7%), trade/transportation/utilities (-0.5%) and financial activities (-0.1%) all saw small contractions over the last 12 months.

Wasatch Front Employment by Industry, August 2024



Wasatch Front Employment Growth by Industry, 12-Month % Change, August 2024



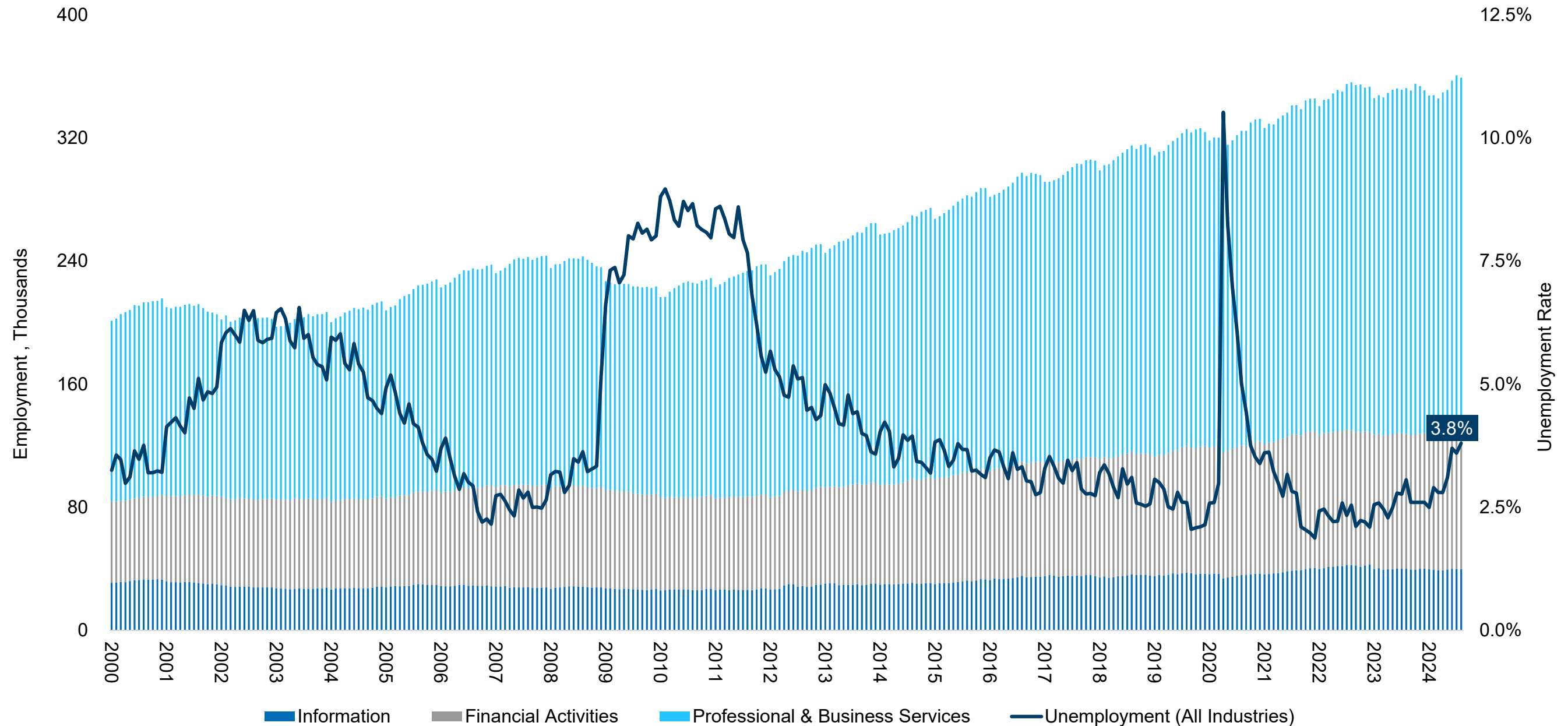
Source: U.S. Bureau of Labor Statistics

\*Wasatch Front Combined MSAs include: Salt Lake City MSA, Provo-Orem MSA and Ogden-Clearfield MSA

# Overall Office-Using Employment Sits at Equilibrium Despite Uptick in Unemployment

Bucking the national trend, Wasatch Front office-using employment only saw a small dip at the start of the pandemic and has maintained equilibrium since mid-2022. Unemployment at the national and local level both saw an increase in August 2024, but office-using employment managed to increase by 2.3% in the last quarter.

## Office-Using Employment\* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics

Wasatch Front Combined MSAs include: Salt Lake City MSA, Provo-Orem MSA and Ogden-Clearfield MSA

Note: August 2024 data is preliminary.

\*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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# Utah County Employment Struggles Compared to Rest of Wasatch Front

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# Salt Lake City Market Fundamentals



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# Salt Lake County Office Submarket Map and High-Level Statistics – 3Q24

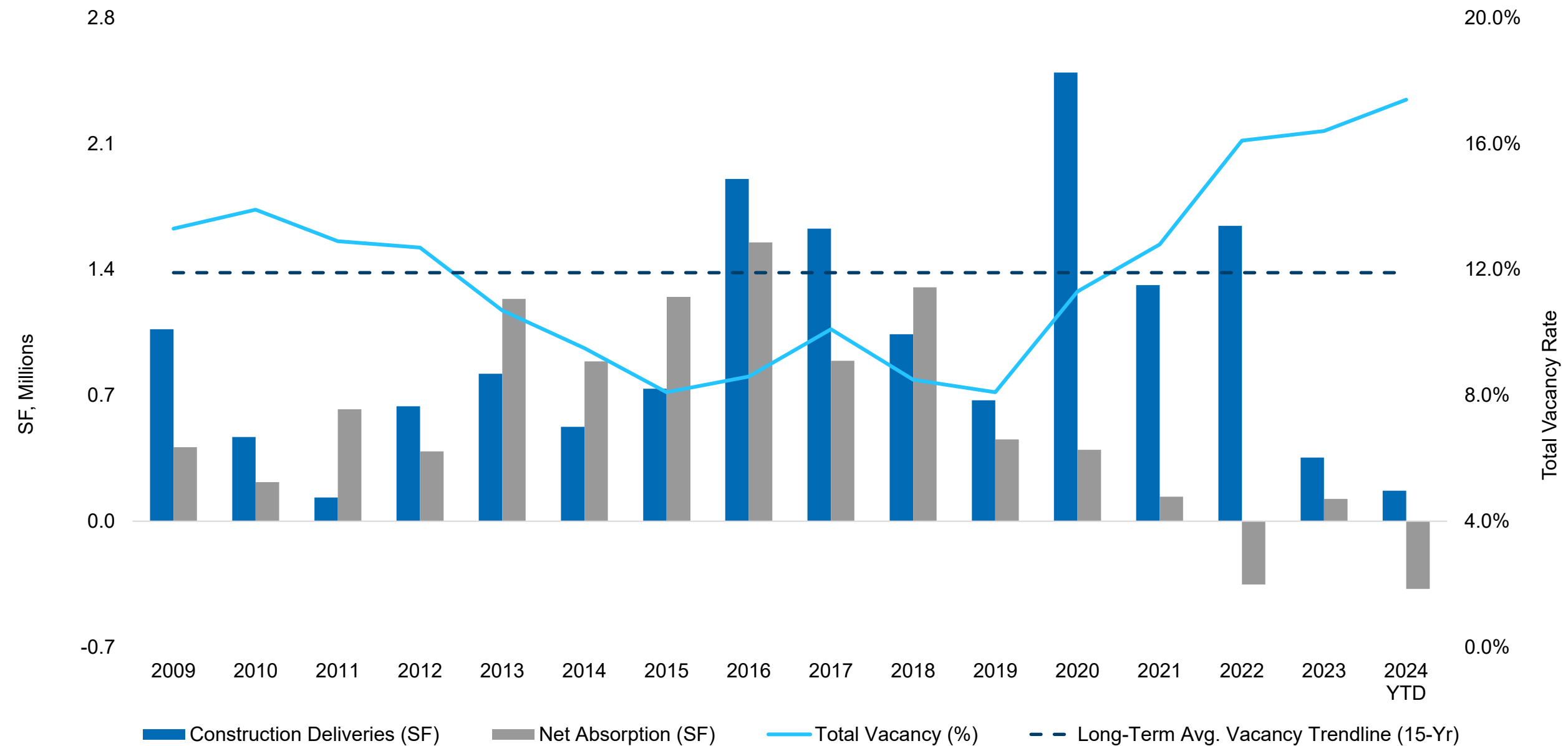


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# Large Moveouts and Redevelopment Plays Lead to Tenant Contraction

Total vacancy (17.4%) increased 100 basis points since the end of 2023 as tenants contracted in size or fully vacated space throughout the valley. Additionally, redevelopment plays, such as the purchase of eBay headquarters by Canyons School District for a new school, or the upcoming reuse of City Centre in downtown Salt Lake City by the University of Utah, have and will change the landscape of the office base in coming quarters. The market's move to turn off new speculative supply has aided in keeping vacancy stabilized in recent quarters amid tenant contractions.

Historical Construction Deliveries, Net Absorption, and Vacancy

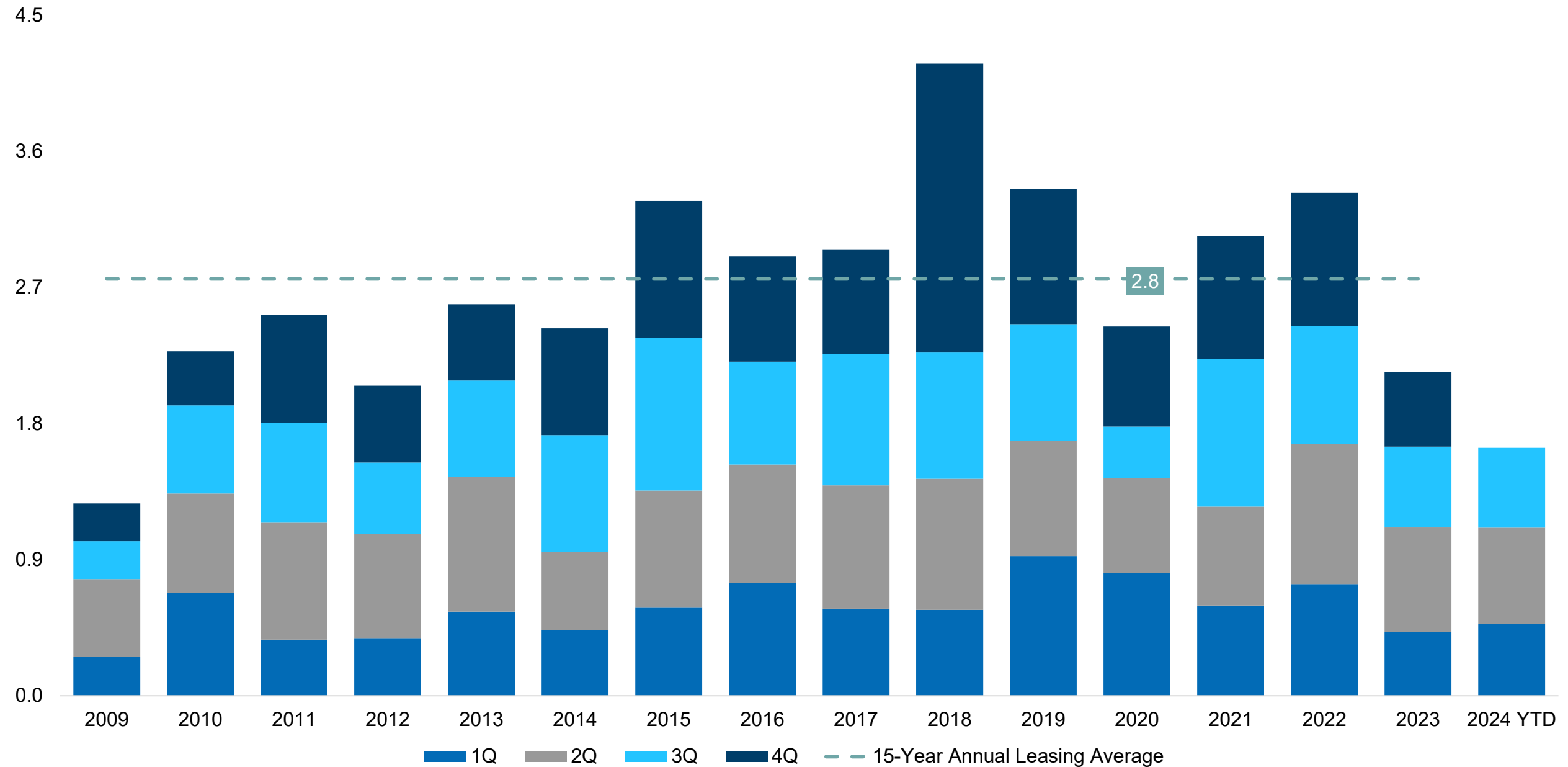


Source: Newmark Research

# Leasing Activity on Par with 2023 Transaction Volume

Leasing activity in the first three quarters of 2024 is consistent with the same period in 2023, indicating tenant and landlord trends have stabilized in recent quarters. On a square footage basis, current leasing activity is on par with 2011-2014. Today's number of leases signed is reminiscent of pre-pandemic levels, while the average transaction size is smaller as tenants take less space amid hybrid work models.

Total Leasing Activity (MSF)

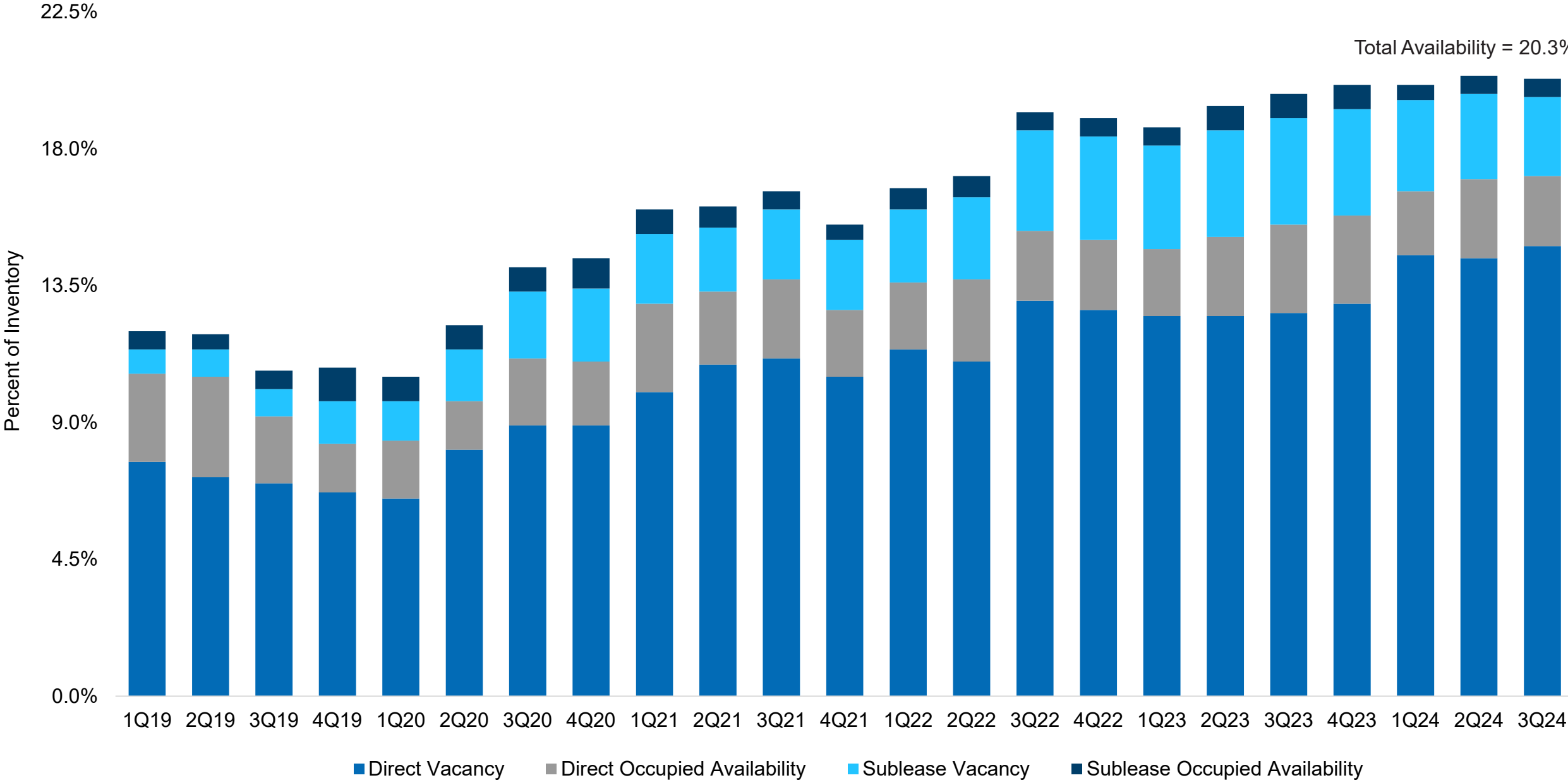


Source: Newmark Research

# Shift From Sublet to Direct Clear Throughout 2024

Tenants are generally using less space, which has led to upticks in sublease and direct availability since the onset of the pandemic. Sublease availability sits at 2.6%, 30 basis points higher than the five-year average of 3.2%, indicating that the shift from sublet to direct availability has begun as leases expire and are returned to landlords. Numerous upcoming lease expirations in 2024 and 2025, coupled with the overall trend of smaller renewal or relocation footprints, will cause this trend to persist in the next few quarters.

## Availability Breakdown



Source: Newmark Research

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## Sublease Availability Concentrated Heavily in the Southern Submarkets



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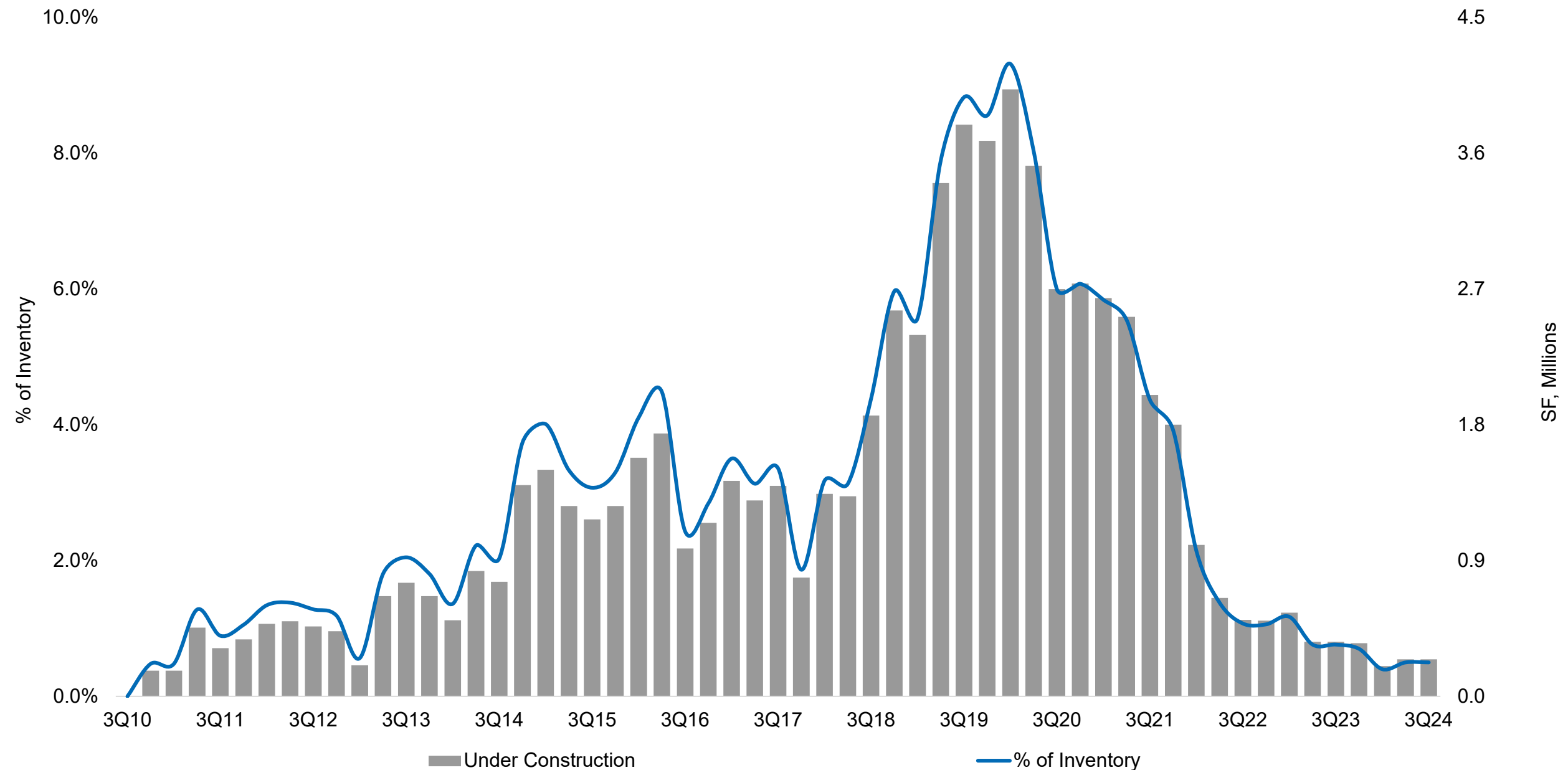
## Upcoming Sublet and Direct LEDs a Concern Among Lowered Leasing Activity

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# Office Construction at Lowest Levels Since 2010

Under-construction activity climbed to a record high in 2020 and has been trending down since. Today's new construction starts largely consist of built-to-suit or owner-occupied projects as speculative builders turn to better-performing product types, such as industrial and multifamily, for now. No new office deliveries for the Metro in the third quarter of 2024 with only 245,200 SF underway at quarter-end, further illustrating measured office growth within the Metro.

## Office Under Construction and % of Inventory



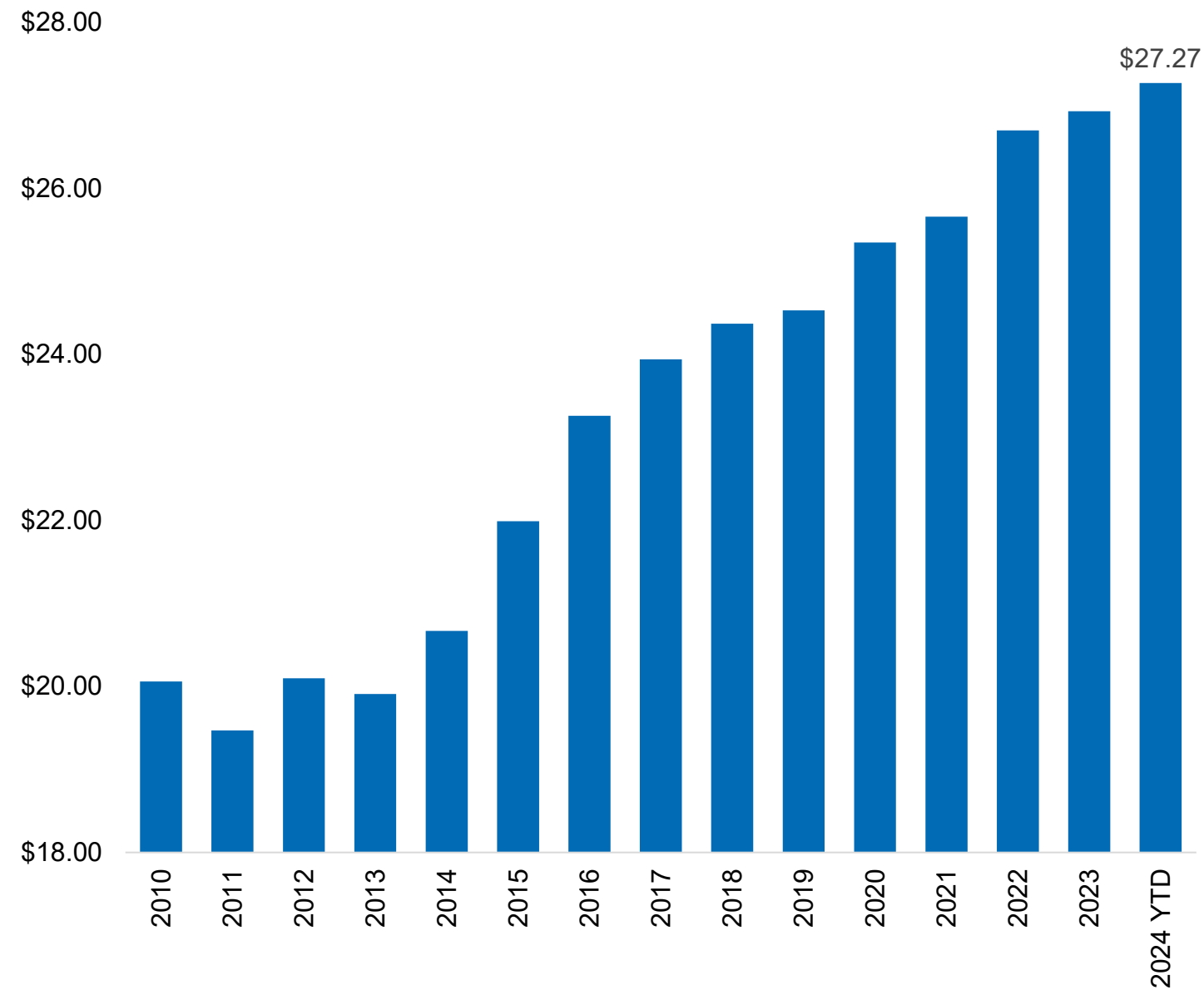
Source: Newmark Research



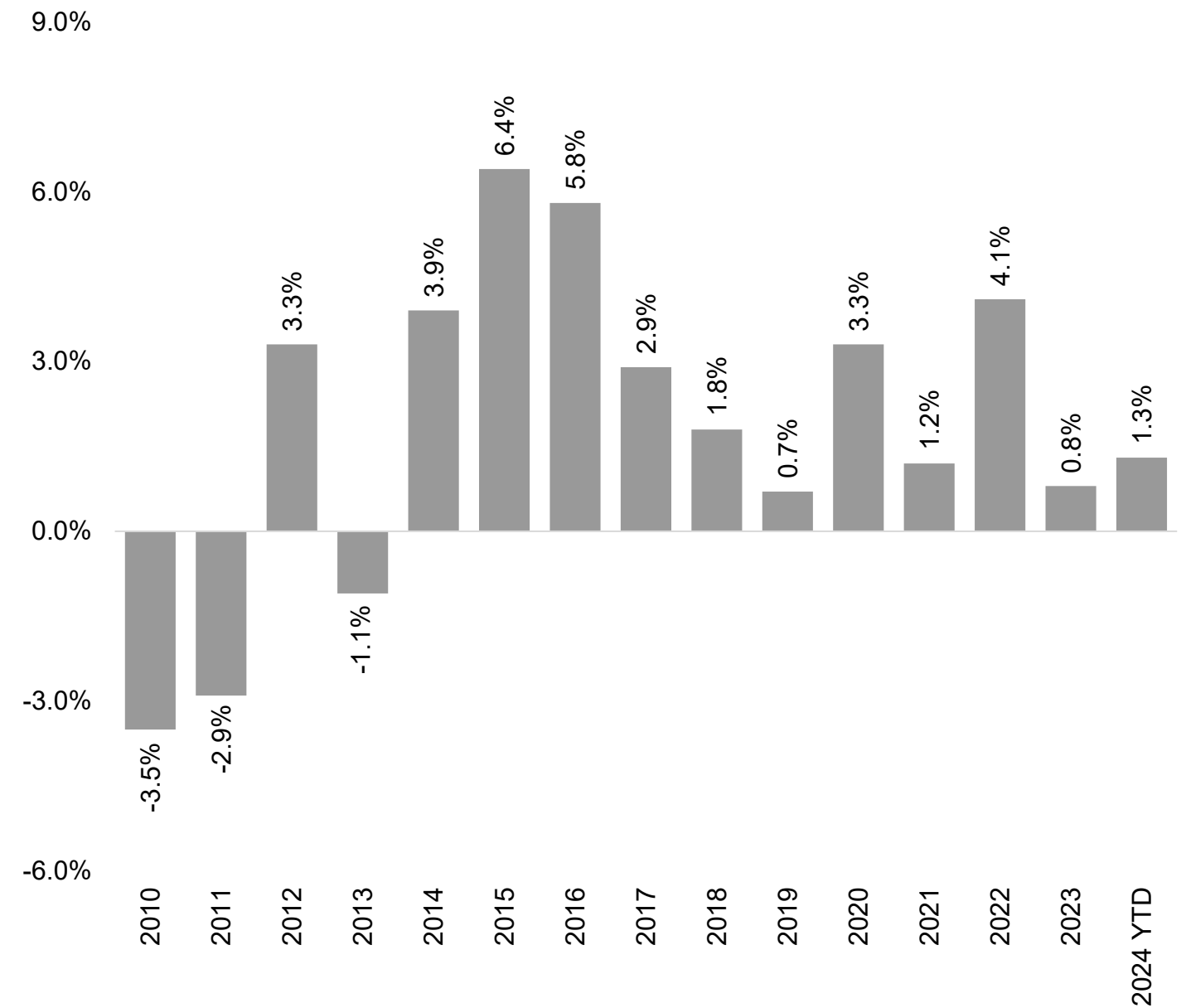
# Average Asking Rents See Little Change Since 2022

Despite rising availability in recent years, overall asking rents have experienced growth. Though, the velocity has slowed since 2022. Fewer office deliveries (with high asking rents), paired with more spaces becoming officially vacated throughout 2024, will lead to stagnant rent growth in the coming quarters.

Office Average Asking Rent, \$/SF/Year, FS



Year-over-Year Asking Rent Growth Rate

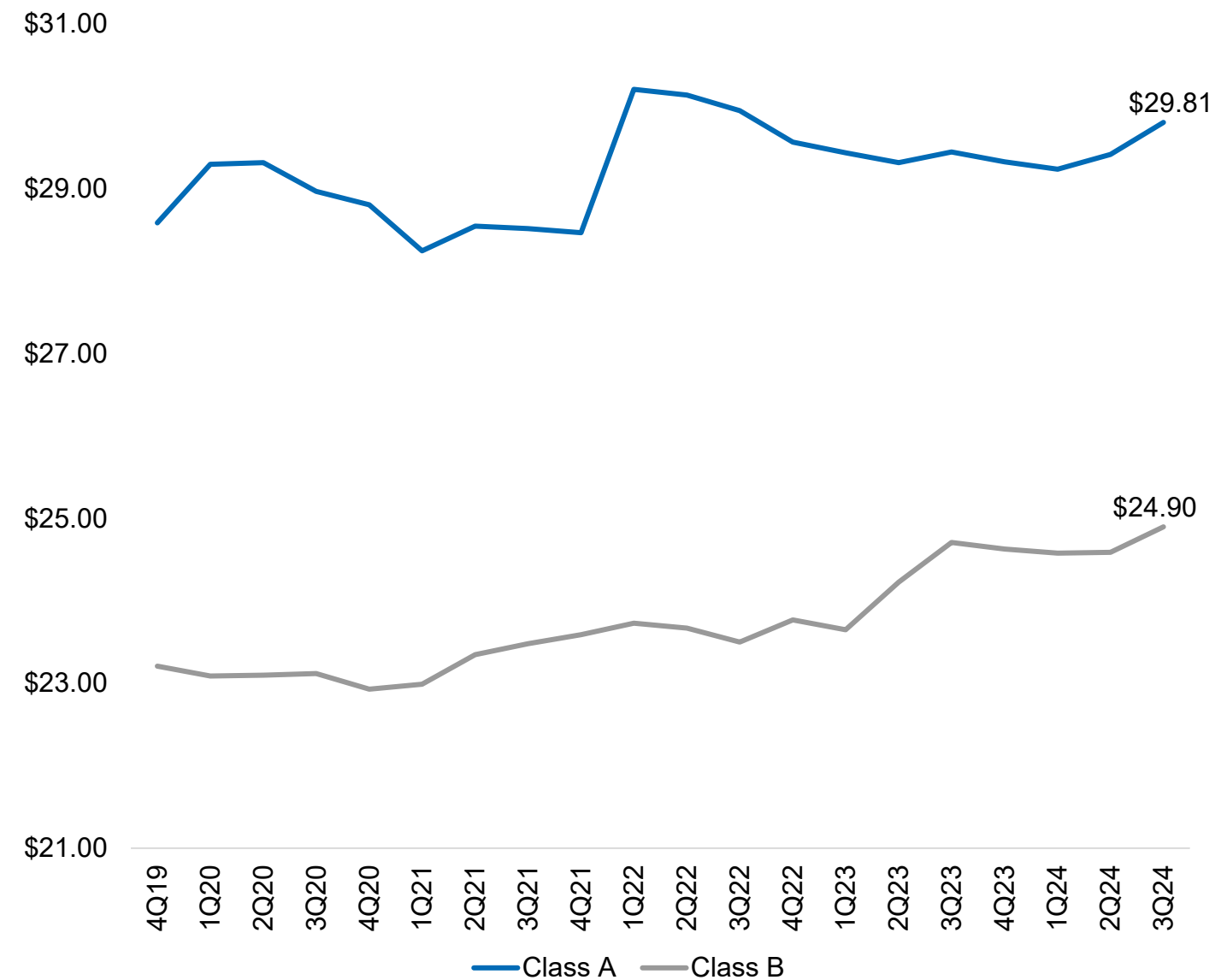


Source: Newmark Research

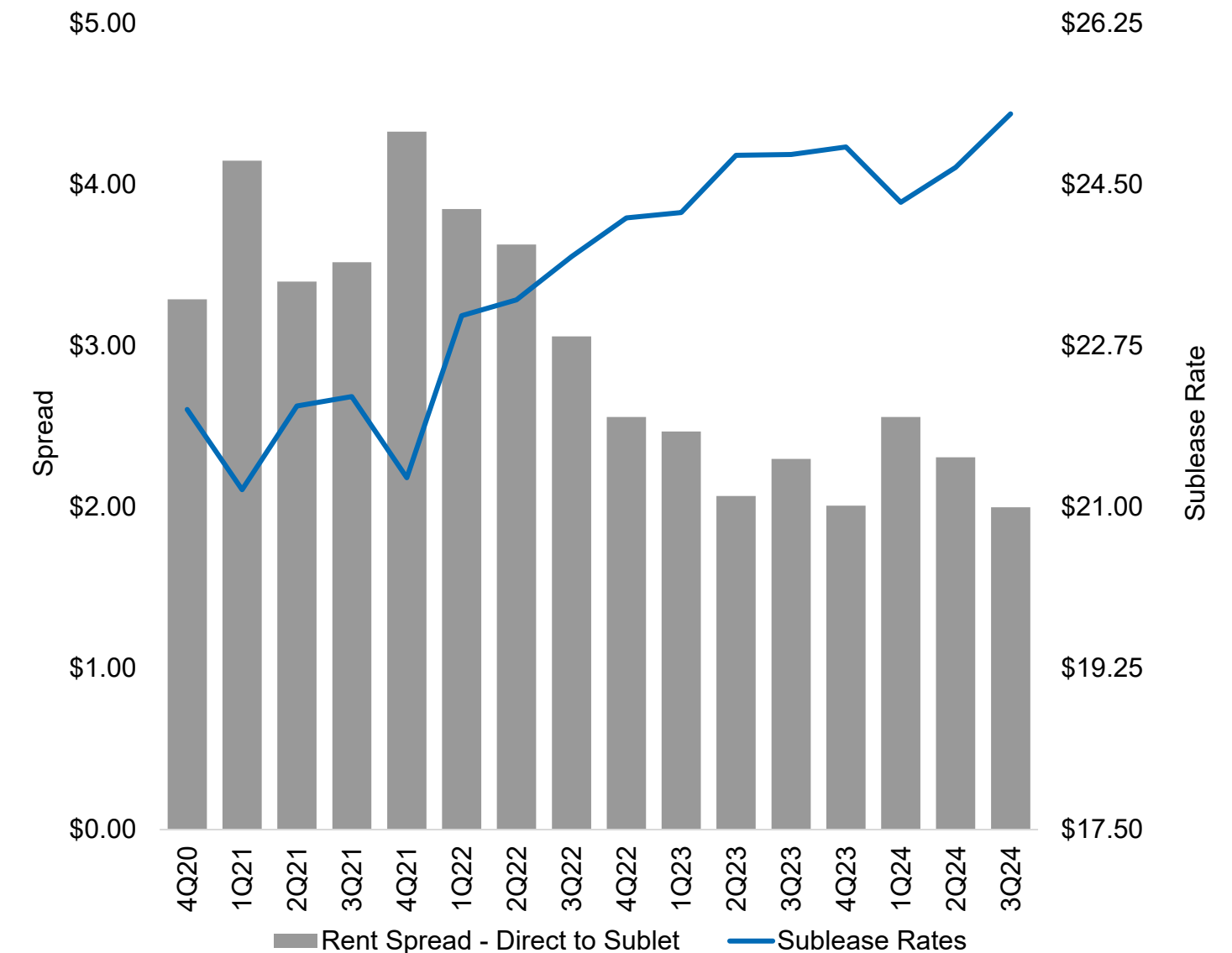
# Rent Delta Between Direct and Sublet Continues 2024 Decline

The rent delta between direct and sublet space has narrowed in recent quarters, averaging near \$2.22/SF for the last year. The friction between sublessors and lessors portends rate spread stabilization in coming quarters as both work to attract users in a market experiencing higher vacancy and lowered demand for large blocks of space, especially as upcoming sublease expirations occur and reenters the market as direct space with landlords.

Class A and Class B Asking Rents



Sublease Asking Rates



Source: Newmark Research

# Larger Tenants Attracted to Downtown Salt Lake City Compared to Suburbs

Subleases and renewals accounted for most of the leasing activity in the first nine months of 2024. In the suburban markets, larger blocks of space are still struggling to find tenants, with most deals signed being 10,000 SF or less. In contrast, Downtown Salt Lake City is retaining tenants, and even experiencing expansions with those renewals in some instances.

## Notable 2024 YTD Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
BambooHR	Pluralsight Headquarters	Draper Tech Corridor	Sublease	61,615
<i>BambooHR took the remaining portion of Pluarlsight's sublease on the first and second floors during the second quarter of 2024.</i>				
Confidential	250 Tower	Central Business District	Direct New	45,964
<i>A confidential tenant leased out the former WeWork space in 250 Tower in downtown Salt Lake City.</i>				
Woodside Homes	Six Gateway	Central Business District	Lease Renewal	41,102
<i>Six Gateway retained Woodside Homes for another lease term, totaling 41,102 SF.</i>				
Filevine	60Park	Sugarhouse	Renewal/Expansion	35,610
<i>After previously subleasing 10,000 SF in the same building, Filevine signed to stay in the current location and expand its footprint up to 35,610 SF.</i>				
Bank of Utah	Social Hall Plaza	Central Business District	Renewal/Expansion	31,689
<i>Bank of Utah renewed 17,500 SF and expanded an additional 14,189 SF at Social Hall Plaza in the third quarter of 2024.</i>				



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# Davis and Weber Counties Market Fundamentals



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## Davis and Weber Counties Office Map and High-Level Statistics – 3Q24

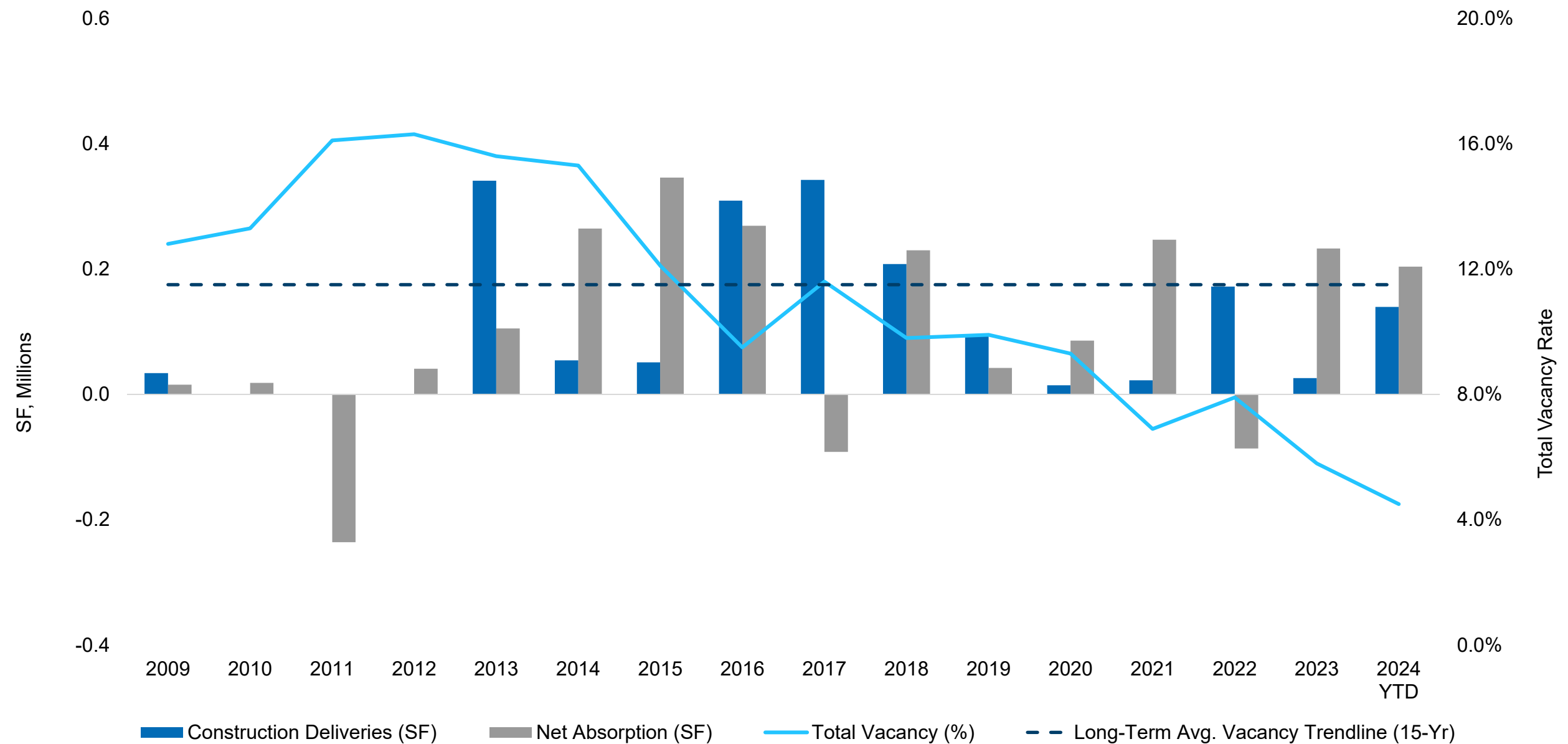


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# Office Vacancy in Davis and Weber Counties Lowest Across the Wasatch Front

Total vacancy in the third quarter of 2024 came in at 4.5% and sits well below the 15-year average of 11.5%. Strong employment from Hill Air Force Base, coupled with moderate office development, are key factors. While lowered vacancy is welcome, it has pushed some tenants to look elsewhere due to a lack of available Class A product. Recent office development announcements illustrate the desire to build and expand within the market and will bring much-needed trophy space.

## Historical Construction Deliveries, Net Absorption, and Vacancy



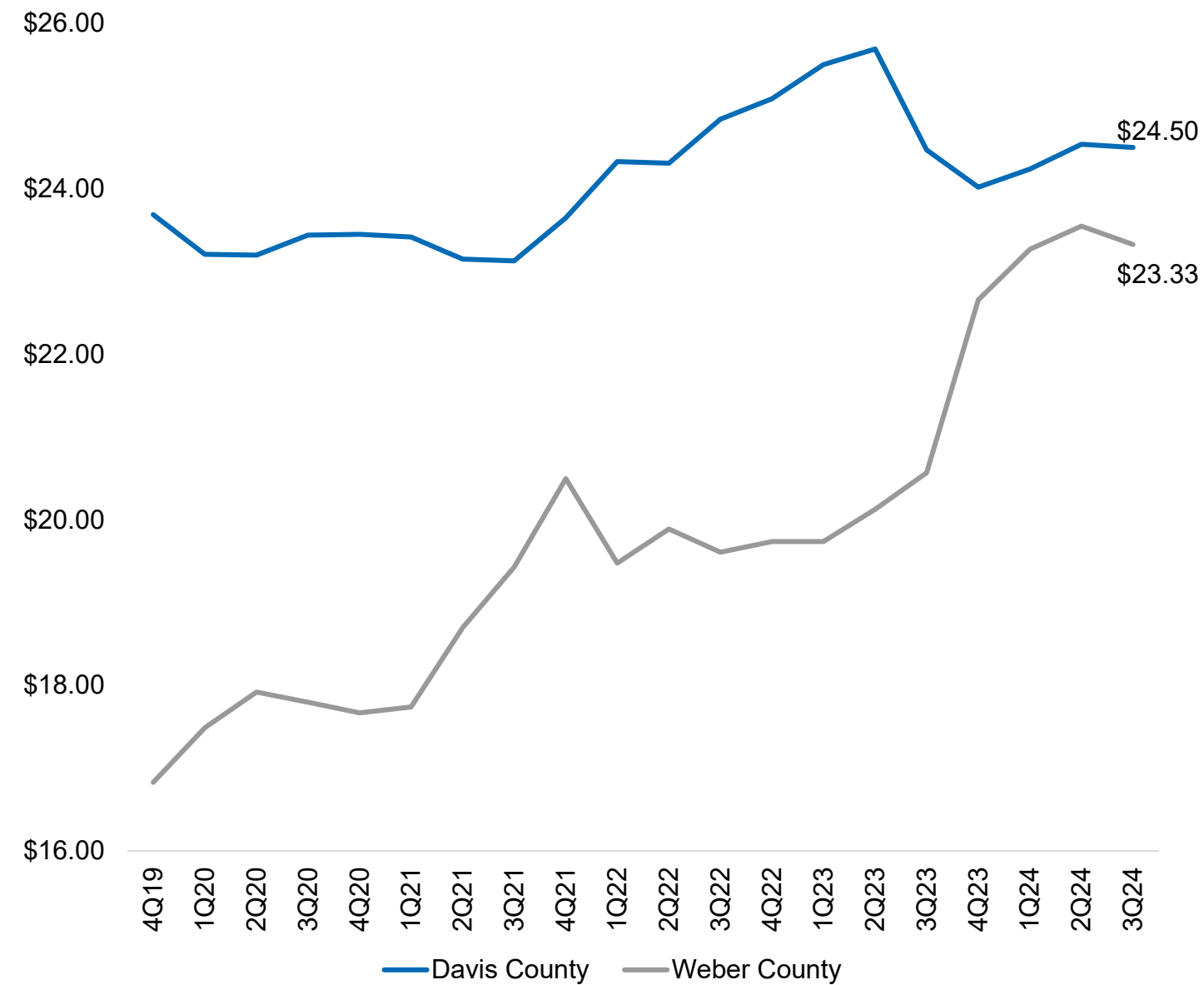
Source: Newmark Research



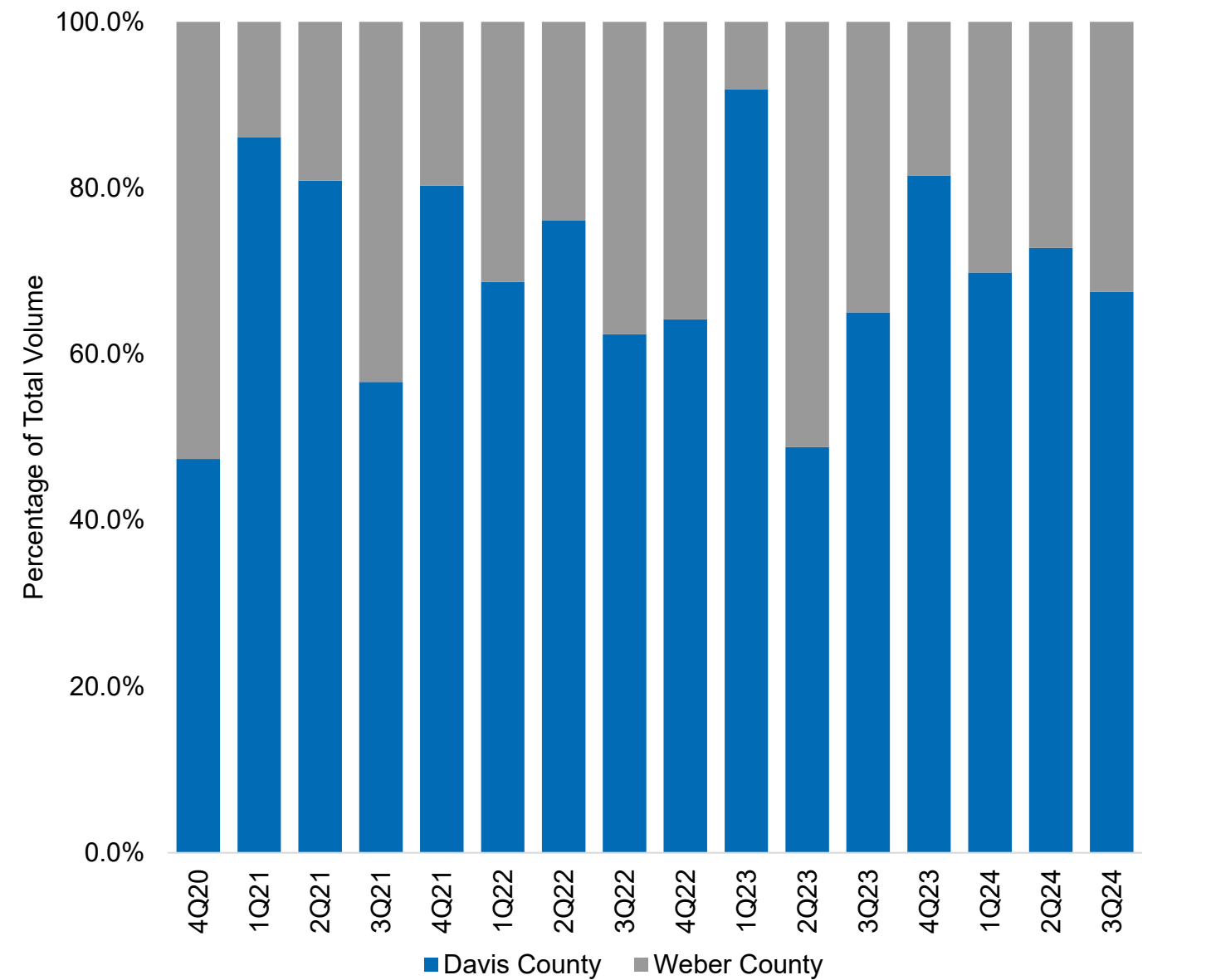
# Davis and Weber Asking Rate Gap Closes

Fewer Class A options in Davis County compared with Weber County closed the asking rate gap between the two counties in recent quarters. Davis County continues to outpace Weber County in terms of transaction square footage volume, buoyed by the Hill Air Force Base.

Davis and Weber Counties Asking Rents



Total Leasing Activity



Source: Newmark Research

# Medical and Medical-Adjacent Users Active

Tenants, particularly medical and medical-adjacent companies, have made strong moves to sign new leases throughout Davis and Weber Counties in the last 12 months, a testament to the strong fundamentals the office market has in attracting users to the northern portion of the Wasatch Front as its population and economy grows.

## 2024 YTD Notable Transactions

Tenant	Building(s)	City	Type	Square Feet
HDR Engineering	Centerville Legacy Crossing 1	Centerville	Lease Renewal	16,256
<i>HDR Engineering committed to another term in Legacy Crossing.</i>				
Catholic Health Initiatives of Colorado	1580 W. Antelope Dr.	Layton	Lease Renewal	11,222
<i>Layton retained Catholic Health Initiatives of Colorado as a tenant win the region for another lease term.</i>				
Wellness Fertility	Crossroads Landing	South Ogden	Direct Lease	9,103
<i>Crossroads Landings welcomed medical tenant, Wellness Fertility, for 9,103 SF.</i>				
Providence Group	Farmington Station F	Farmington	Direct Lease	7,404
<i>Management company, Providence Group, leased 7,404 SF in Farmington Station.</i>				
Davis Behavioral Health	Syracuse Arlo Office	Syracuse	Property Sale	7,230
<i>The new office development in Syracuse was purchased by Davis Behavioral Health.</i>				

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# Utah County Market Fundamentals



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## Utah County Office Map and High-Level Statistics – 3Q24

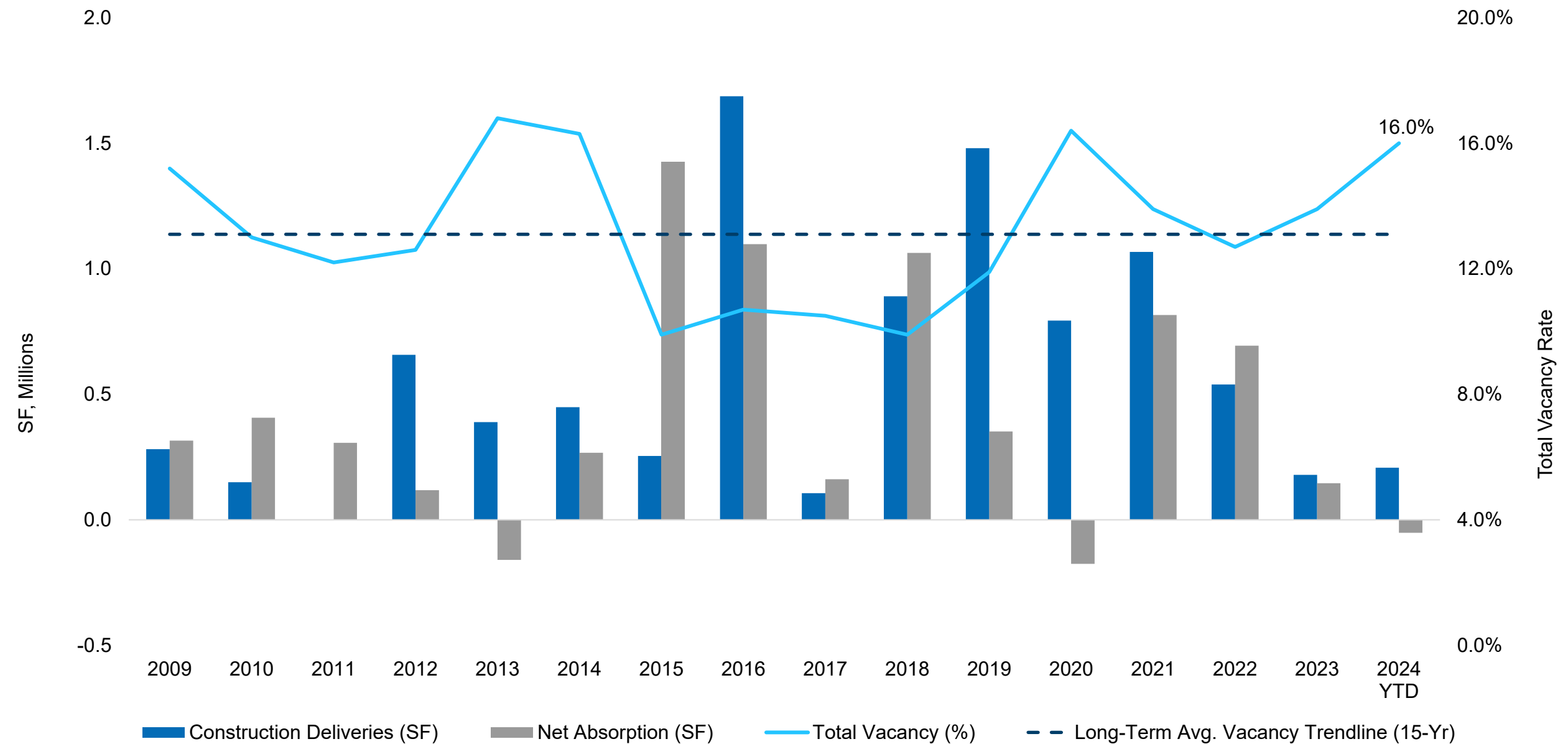


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# Tenant Contraction and Official Moveouts Impact Net Absorption and Vacancy

With minimal construction deliveries (26,916 SF in third quarter, 207,684 SF YTD), coupled with tenants contracting or vacating that led to YTD net absorption losses of 52,047 SF, total vacancy increased. The gradual rise in vacancy continues to be heavily affected by large blocks of both direct and sublet space in the northern portion of the county.

## Historical Construction Deliveries, Net Absorption, and Vacancy

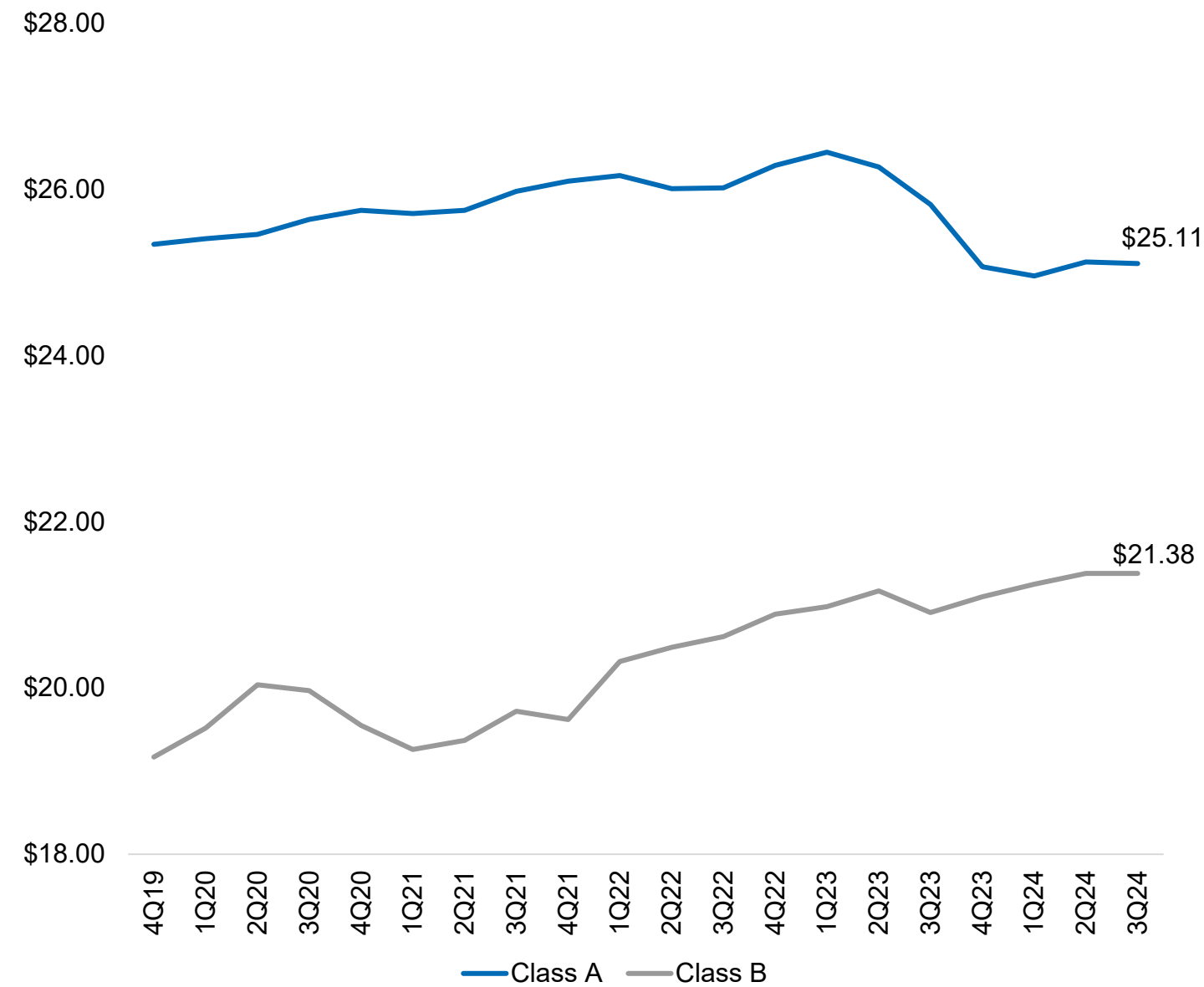


Source: Newmark Research

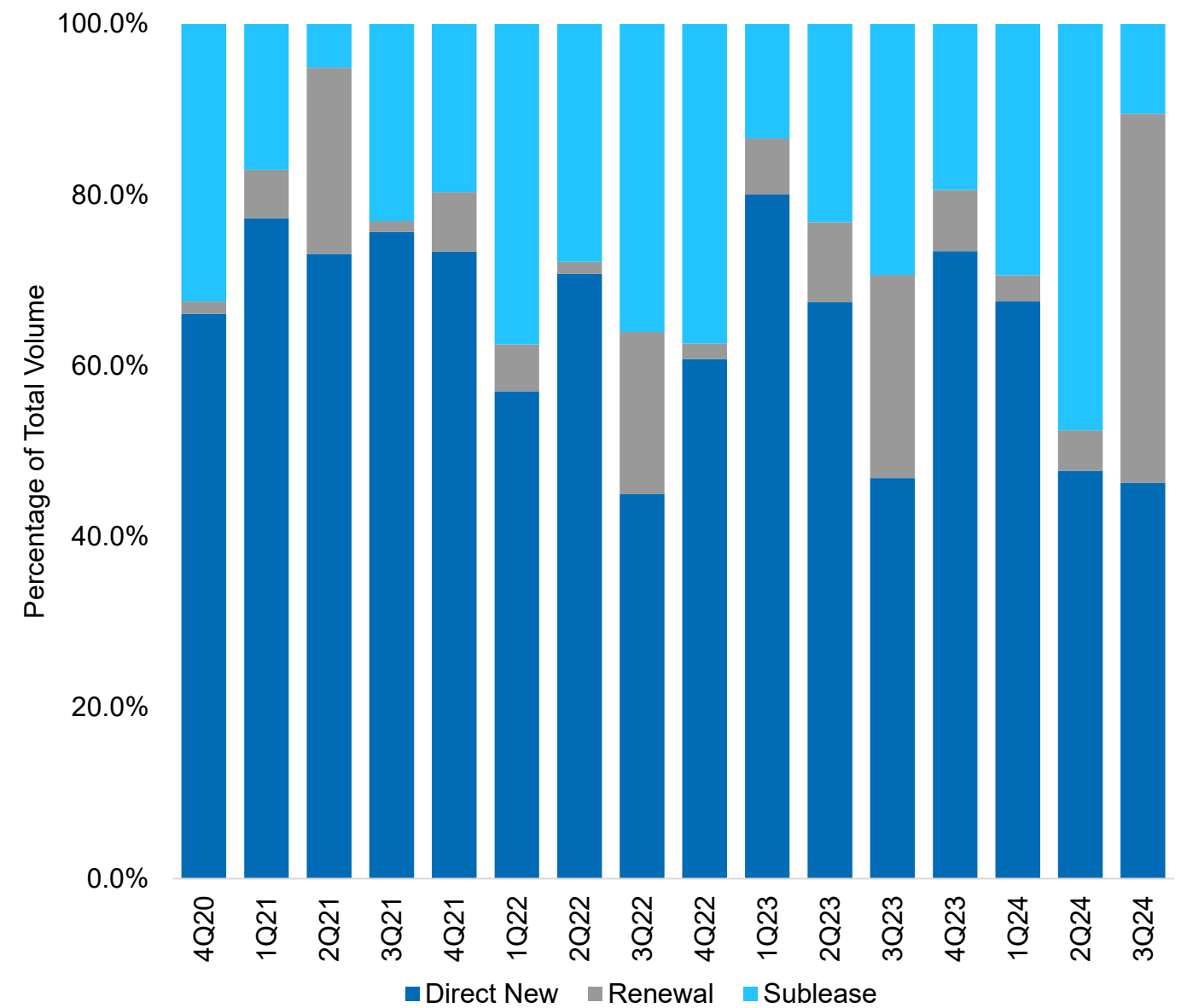
# Asking Rents Dampened; YOY Overall Transaction Volume Up Marginally

Despite high construction in recent years, average asking rates have not increased significantly. Much of this is from landlords of existing product willing to lower rents to vie for business. After a drop in direct asking rents in 2023, rates have remained relatively flat in 2024 as space remains on market longer than the historical norm. Leasing activity is up slightly; 3.4% YOY, with sublease and renewal deals comprising a large portion of overall transaction volume in recent years.

Class A and Class B Asking Rents



Transaction Leasing Volume Overview



Source: Newmark Research

# Northern Utah County Dominates Transaction Activity

Despite being hit heavily with increased vacancy in both direct and sublet space, the northern portion of the county remains very active. Large transactions are more frequently found in sublease transactions that are quick plug-and-play options with lower rates compared to direct.

## 2024 YTD Notable Transactions

Tenant	Building(s)	City	Type	Square Feet
Vivint	Thanksgiving Center	Lehi	Lease Renewal	127,741
<i>Vivint renewed its lease in Thanksgiving Center at the same footprint for another term.</i>				
Conservative Tax	384 S. 400 W.	Lindon	Investment Sale	43,200
<i>Conservative Tax purchased the 43,200-square-foot-building in Lindon during the third quarter of 2024.</i>				
Agility Holdings	Innovation Pointe 2	Lehi	Direct New	31,749
<i>Lehi's Innovation Pointe office park welcomed Agility Holdings for 31,749 SF.</i>				
Perkcity	Traverse Mountain 3 & 4	Lehi	Sublease	25,090
<i>Perkcity subleased 25,090 SF within the Traverse Mountain office park.</i>				
Integrity Insurance Services	3400 W. Mayflower Ave.	Lehi	Sublease	25,000
<i>Integrity Insurance Services subleased 25,000 SF from Younique Products.</i>				

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# Tech Corridor Market Fundamentals





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## Tech Corridor Office Map and High-Level Statistics – 3Q24

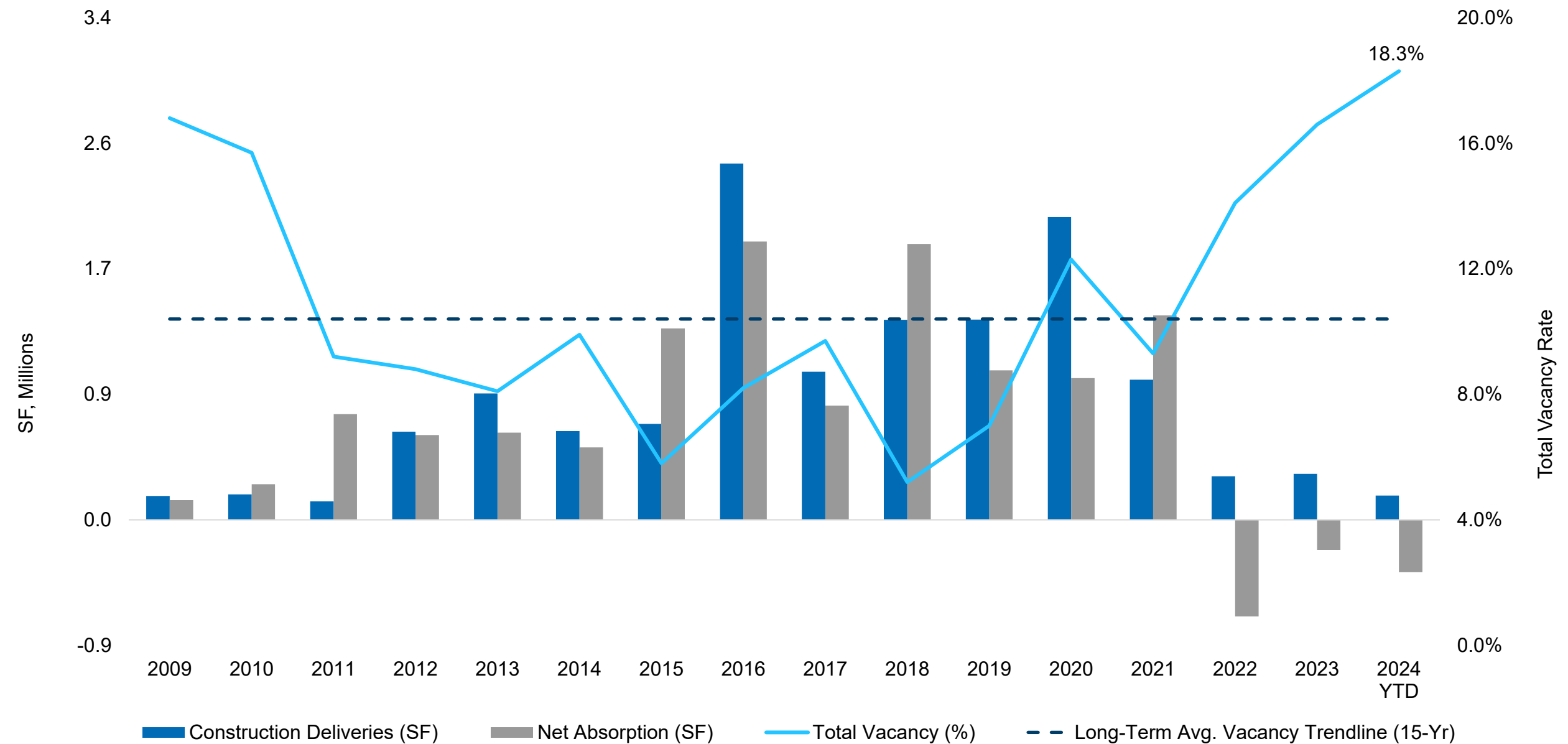


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# Total Vacancy in Tech Corridor Hits New Highs

164,268 SF in construction deliveries was met with 355,116 SF in net occupancy losses during the first nine months of 2024, causing vacancy to rise. No new construction starts or deliveries for traditional office product in the past couple quarters continue to illustrate that developers are waiting to see how space is absorbed and its impact on rents.

## Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

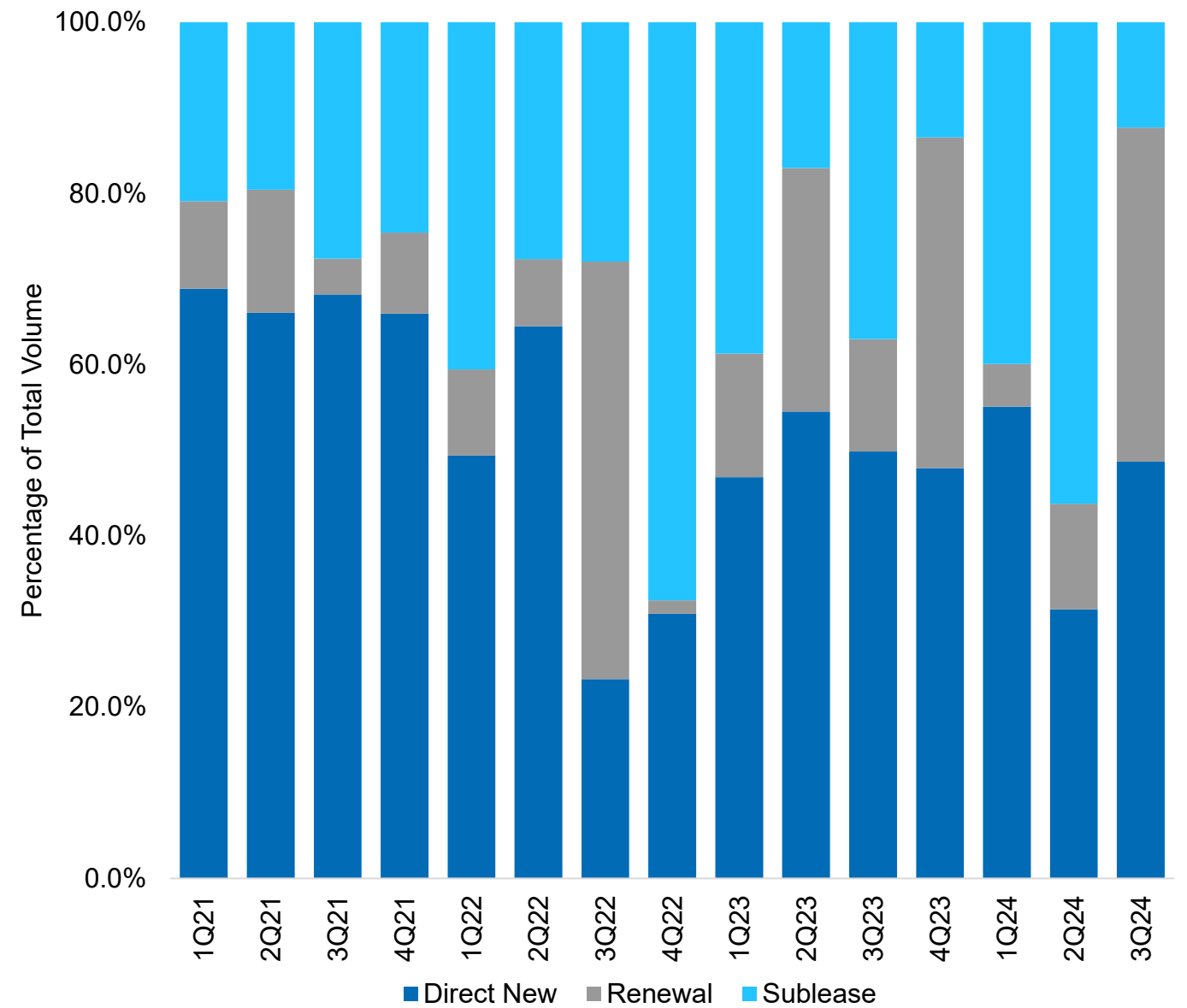
# Sublessors Become Bullish in Competition for Tenants

As space sits on the market and LEDs approach, many sublessors have turned to lowering rates to attract users over direct options. Square footage transactional volume was down by only 0.5% year-over-year with subleases and renewals making up a larger portion of leases signed in recent quarters. Home to more tech companies than other areas of the Wasatch Front, the region is susceptible to more space givebacks as tech occupiers downsize due to remote work and/or cost-cutting moves.

Direct and Sublet Asking Rents



Transaction Leasing Volume Overview



Source: Newmark Research

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## Tech Corridor Leasing Trends Since 2021



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# Tech Corridor Transactions

The top deals of the region illustrate office user desire to control real estate by purchasing office space to occupy and desire to cut costs where possible by utilizing sublease options that are offered at lower rents. The northern portion of the Tech Corridor that lies within Salt Lake County has seen increased volume throughout 2024.

## Notable 2024 YTD Transactions

Tenant/Buyer	Building(s)	City	Type	Square Feet
Vivint	Thanksgiving Center	Lehi	Lease Renewal	127,741
<i>Vivint renewed its lease in Thanksgiving Center at the same footprint for another term.</i>				
Onset Financial	Vista Station 1	Draper	Property Sale	125,000
<i>Vista Station 1 was purchased from Nuveen by Onset Financial.</i>				
Holiday Oil Company	Lone Peak Center	Draper	Property Sale	84,285
<i>Holiday Oil purchased the entire building and will occupy the second floor.</i>				
Journey Team	121 Election Drive	Draper	Property Sale	78,330
<i>Already existing tenant, Journey Team, purchased the 78,330-square-foot-building with plans to expand within the building.</i>				
BambooHR	Pluralsight Headquarters	Draper	Sublease	61,615
<i>BambooHR took the remaining portion of Pluarlsight's sublease on the first and second floors during the second quarter of 2024.</i>				

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# Utah Capital Markets Overview



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## Price-Weighted Average Cap Rates Up Across All Product Types

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## Private and User Buyers Are Active



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# Utah Capital Markets Transactions

Overall sales activity was slow over the last year, with fewer sale-offerings and closings compared to prior years. The Fed's recent and plans for additional interest rate cuts will likely favor future property sales volume. That, as well as more distressed or bank-owned assets entering the market.

## Select Transactions – Last 12 Months

Building(s)	City	Type	Closing Quarter	Square Feet
Spanish Springs	Spanish Fork	Industrial	Q2 2024	451,497
<i>Exeter purchased the Spanish Springs two-building portfolio for a total of 451,497 SF.</i>				
East 15 Commerce Park 1 & 2	Pleasant Grove	Industrial	Q3 2024	427,620
<i>Dakota Pacific sold buildings 1 &amp; 2 in the East 15 Commerce Park in a portfolio sale totaling 427,620 SF.</i>				
Sandy Commerce Park	Sandy	Office	Q4 2023	120,958
<i>Idaho-based investment company, Alturas Capital Partners, purchased Sandy Commerce Park from Nuveen.</i>				
121 W. Election Dr.	Draper	Office	Q2 2024	78,330
<i>JourneyTeam purchased the 78,330-square-foot-building in Draper with plans to occupy a portion of the building and lease out the remaining space.</i>				
Alta View Shopping Center – EoS	Sandy	Retail	Q2 2024	49,680
<i>EoS Fitness in Sandy's Alta View Shopping Center was sold to TPA Capital.</i>				

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