Solid leasing activity led to increased achieved lease rates and strong market fundamentals

▲ 6.1 MSF
YTD Leasing Activity

▲ 4.1%
Total Vacancy

▼ $0.80 NNN
Avg. Asking Lease Rate

▲ 8.7 MSF
Under Construction

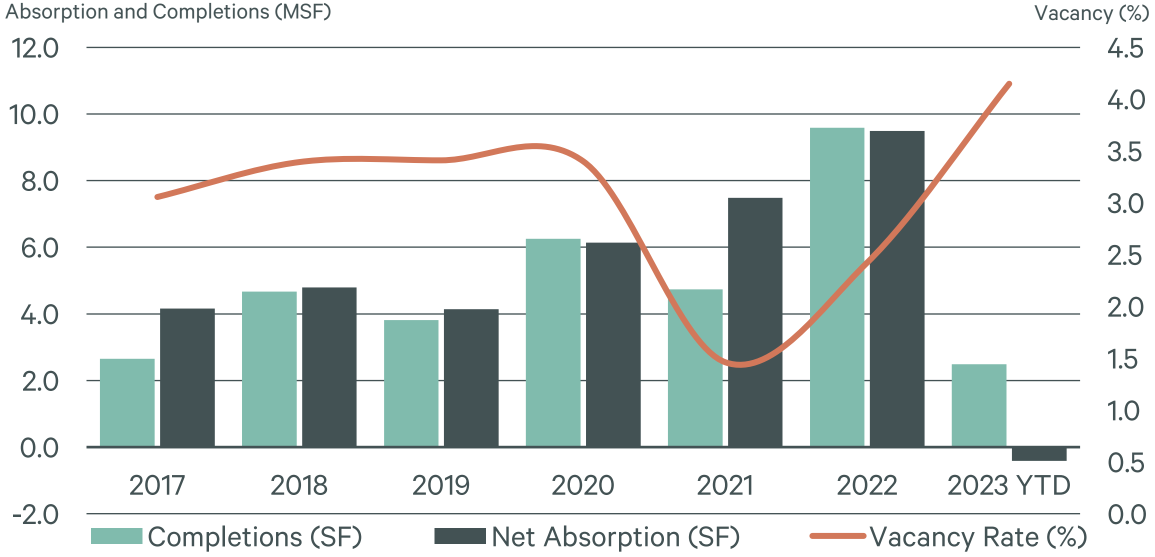
▼ 2.4 MSF
YTD Deliveries

Note: Arrows indicate YOY change.

HIGHLIGHTS

- New sublease listings added during Q2 2023 drove second straight quarter of negative absorption.
- Available space increased by 2.1 million sq. ft. quarter-over-quarter, the largest single-quarter increase in history.
- 1.1 million sq. ft. delivered in Q2 2023, with 65.3% vacant upon delivery.
- The Northwest Quadrant continued to shoulder leasing activity in the market with 83.1% of Q2 2023 leasing activity.
- Just over 860,000 sq. ft. of new vacant sublease space came to market in Q2 2023, marking the second straight quarter of new vacant sublease sq. ft. being over 800,000 sq. ft.
- Weighted average achieved lease rates increased by $0.04 quarter-over-quarter, breaking the previous quarter's record-high rate.
- High interest rates and a hesitant lending environment led to stagnant sale activity for the third straight quarter.

FIGURE 1: Completions (MSF), Net Absorption (MSF), and Vacancy Rate (%)



Source: CBRE Research, Q2 2023

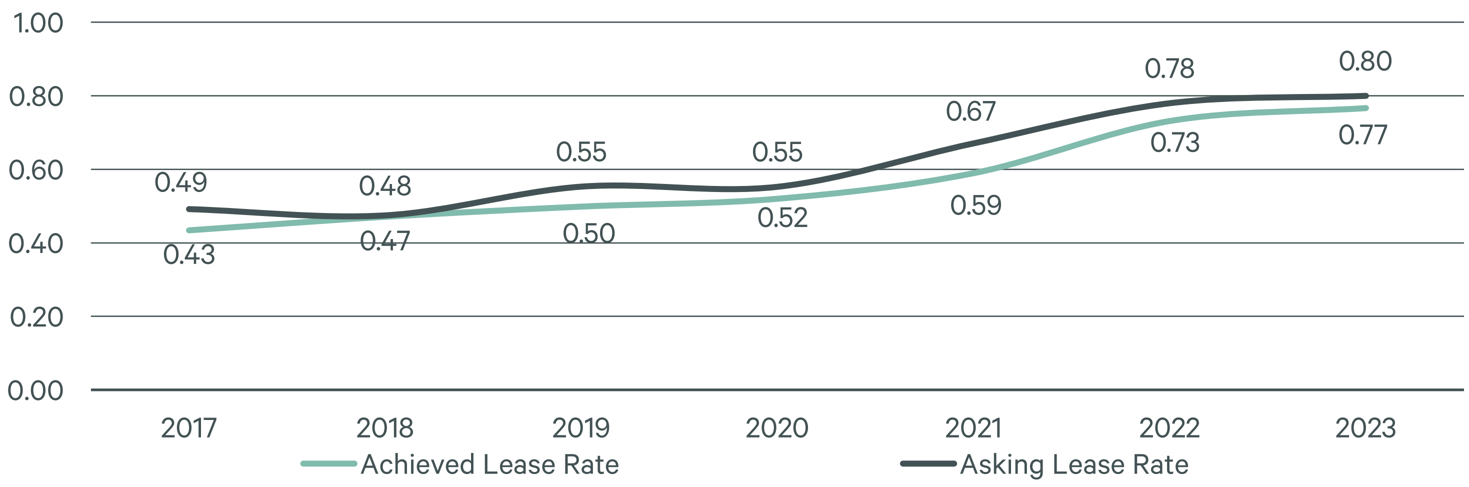
Market Overview

Q2 2023 saw strong leasing activity and increasing average weighted lease rates, positioning the Salt Lake County industrial market to finish the year strong. Increasing vacancy rates provided relief to tenants looking to occupy space in the market, giving them multiple options to choose from. This, coupled with landlords' need to fill space, helped spur leasing activity amid macroeconomic headwinds. The market-wide vacancy rate grew by 80 basis points (bps) quarter-over-quarter and was up 270 bps from Q2 2022, due to record-breaking deliveries over the last 12 months and a rapid increase in vacant sublet listings. The increase in vacant sublease space was the primary driver of negative absorption for the second straight quarter—the first time since Q4 2011 and Q1 2012. Despite these headwinds, H1 2023 still finished above H1 2022 in terms of new leasing activity and average achieved weighted lease rates. With a slowdown in construction starts due to increasing interest rates and strong demand for space in the market, vacancy rates are expected to come back down by year-end 2024.

New construction continued to drive leasing activity in the area, accounting for 54.6% of leases in Q2 2023. The preleased percentage for delivered space increased to 34.7% from 28.3% in Q1 2023 but remained well below previous quarters. Q2 2023 saw the groundbreaking of City Creek Industrial - Building G and 9000 S Logistics Center – Buildings 1 and 2, which will bring just under 1 million sq. ft. of new speculative space to the market in 2024. These notable groundbreakings will offer occupiers new options in 2024.

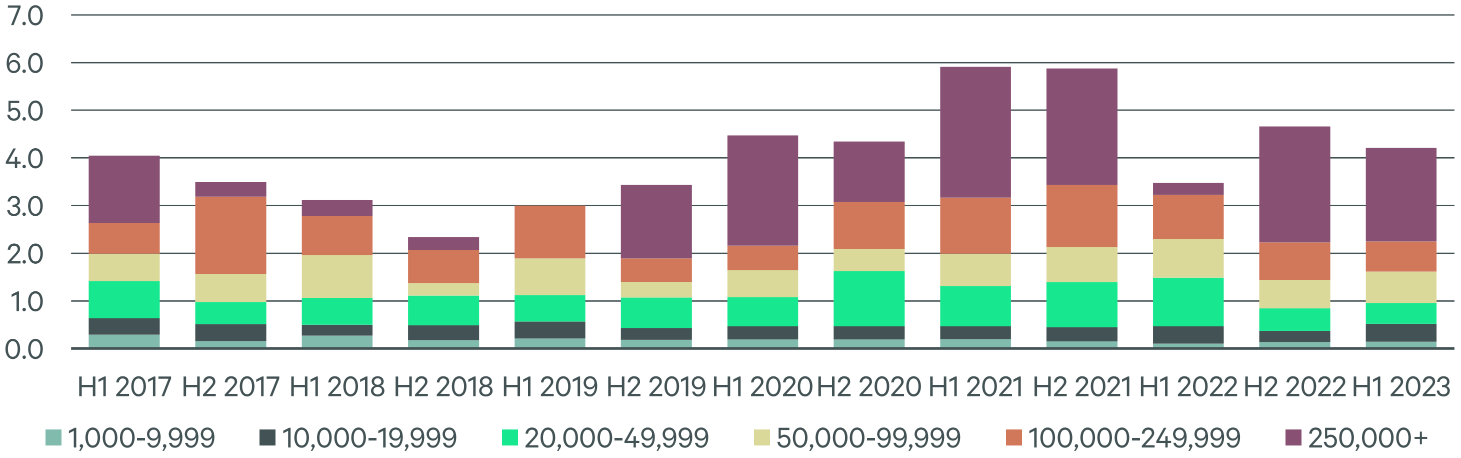
Strong leasing activity has helped sustain growing achieved lease rates and healthy market fundamentals in the first half of 2023. Salt Lake County benefits from its favorable geographical and economic position, which will continue to drive industrial real estate activity regardless of macroeconomic conditions.

FIGURE 2: Average Asking ($) and Average Achieved Weighted Lease Rate ($/SF/Mo/NNN)



Source: CBRE Research, Q2 2023

FIGURE 3: Historical Area Leased Only Including New Leases and Expansions (MSF)

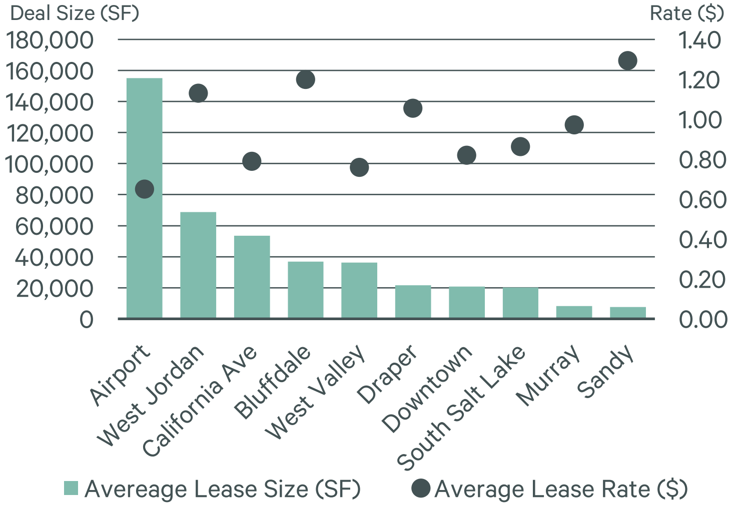


Source: CBRE Research, Q2 2023

Submarket Performance

Vacancy rates continued to increase across the market due to new construction deliveries and sublease listings. The Northwest Quadrant (NWQ), which includes the Airport, California Ave, and West Valley submarkets, experienced a 90-bps increase in vacancy quarter-over-quarter. However, leasing activity in the NWQ remained robust, with 2,158,914 sq. ft. leased in Q2 2023. This accounted for 83.1% of Q2 2023 total leasing activity, showing that despite increasing vacancy and negative absorption, demand for the NWQ remained strong. South Valley, which includes Sandy, Draper, Bluffdale, and West Jordan, experienced a 130-bps increase in vacancy quarter-over-quarter, and accounted for 6.3% of total leasing activity. Increasing average achieved lease rates and strong lease activity will help spur future growth across all submarkets.

FIGURE 4: Annual Average Deal Size (SF) and Weighted Average Achieved Lease Rate by Submarket ($/SF/Mo NNN)



Source: CBRE Research, Q2 2023

FIGURE 5: Market Summary

MARKET/ SUBMARKET	Net Rentable Area (SF)	Availability Rate (%)	Vacancy Rate (%)	YTD Lease Activity (SF)	YTD Net Absorb (SF)	Asking Rent ($/SF/Mo NNN)	Weighted Average Achieved Rent ($/SF/Mo NNN)	Under Construction (SF)	YTD Deliveries (SF)
Airport	22,160,739	8.9	7.8	2,015,520	(632,045)	0.71	0.65	4,154,279	679,940
Bluffdale	2,454,233	4.4	3.1	184,578	180,818	1.23	1.20	142,427	174,763
California Ave	55,803,728	7.4	6.2	2,245,050	(268,491)	0.78	0.79	2,340,838	1,241,144
Downtown	15,155,446	1.2	1.1	207,459	(76,797)	0.78	0.82	-	-
Draper	4,797,767	3.7	3.6	108,167	111,595	1.10	1.05	-	159,600
Murray	3,885,648	0.6	0.6	41,725	(5,242)	1.10	0.97	-	-
Sandy	5,769,335	0.5	0.2	22,664	(2,136)	0.96	1.29	98,619	-
South Salt Lake	17,566,744	1.6	0.6	342,501	(68,529)	0.98	0.86	-	-
West Jordan	11,180,982	3.9	3.8	343,805	(152,015)	0.97	1.13	2,008,074	-
West Valley	22,841,914	3.9	2.2	615,996	496,483	0.75	0.76	-	231,536
Market Total	**161,616,536**	**5.1**	**4.1**	**6,127,465**	**(416,359)**	**0.80**	**0.77**	**8,744,237**	**2,486,983**

Source: CBRE Research, Q2 2023

Lease Activity

Despite weakening macroeconomic conditions, demand for industrial space in Salt Lake County remained strong. In Q2 2023, a total of 2,598,742 sq. ft. was leased, with expansions and new leases accounting for 1.8 million sq. ft. New leasing activity in Q2 2023 was primarily driven by a flight to quality, with a total of 1,405,873 sq. ft. leased in new buildings or first-generation spec space. Increasing vacancy in the market helped spur leasing activity, as landlords were more motivated to fill vacant space by providing tenants with concessions, including free rent and tenant improvements. These factors, along with strong market fundamentals and a growing number of tenant options, are expected to drive leasing activity for the remainder of 2023.

Lease Rates

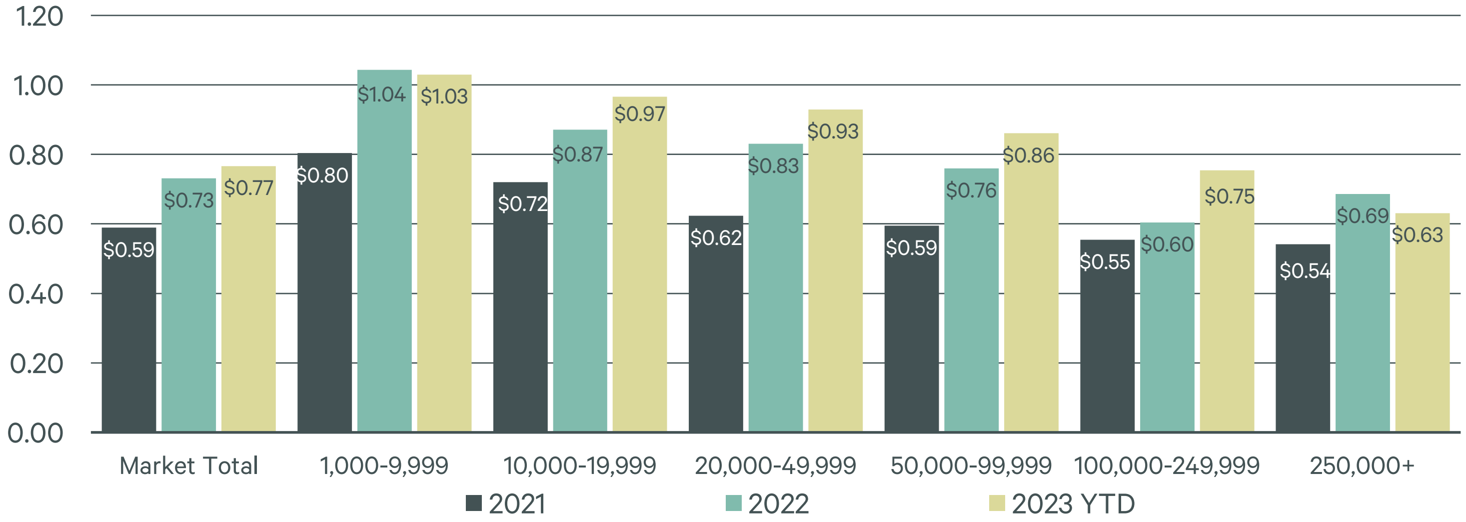
The Salt Lake County industrial market continues to demonstrate its resilience, as average achieved lease rates reach new highs each quarter. Notably, achieved lease rates in deals between 100,000-249,999 sq. ft. have experienced a growth of 20.6% since 2022, indicating strong demand within this size range, and contributing to an overall market growth of $0.04. However, average achieved lease rates in deals over 250,000 sq. ft. have experienced a decrease. This can be attributed to the significant amount of vacant space in this size range, as buildings over 250,000 sq. ft. currently have a 7.3% vacancy rate. Despite these fluctuations, the climbing average achieved lease rates demonstrate the strength of the Salt Lake County industrial market and provide proof that demand for industrial space in the area remains robust even amid macroeconomic challenges.

FIGURE 6: Q2 2023 Notable Lease Transactions

TENANT	Transaction Size (SF)	Location	Industry	Lease Type
Specialized Bicycle	583,308	Airport	Bicycle	New Lease
Sephora	350,892	California Ave	Beauty	Renewal
Confidential Tenant	309,409	California Ave	Manufacturing	New Lease
BioFire Diagnostics	179,400	California Ave	Biotech	New Lease
McLane Global Logistics	108,819	Airport	Logistics	New Lease

Source: CBRE Research, Q2 2023

FIGURE 7: Weighted Average Achieved Lease Rates ($/SF/Mo NNN)

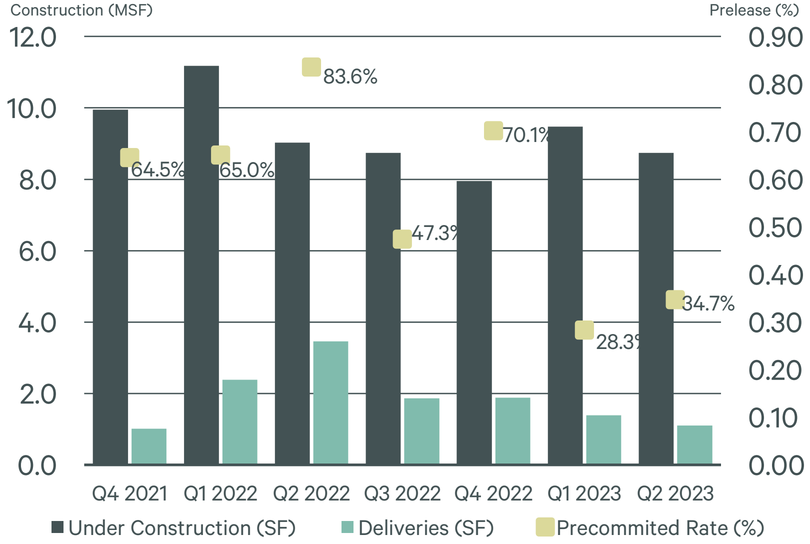


Source: CBRE Research, Q2 2023

Construction

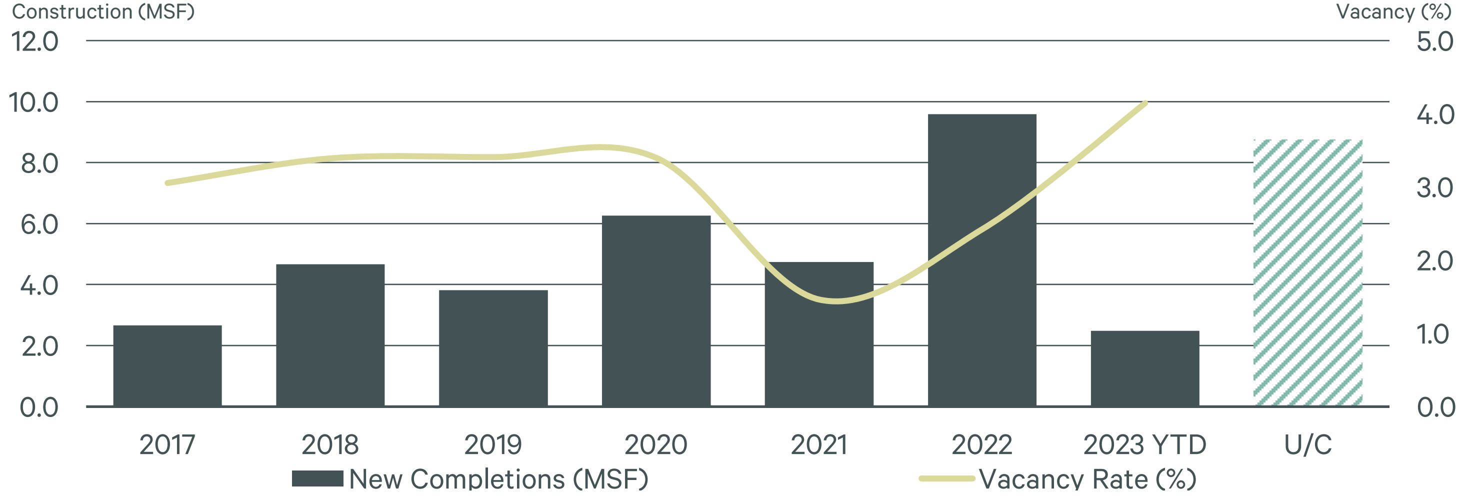
Just over 1.1 million sq. ft. delivered in Q2 2023, with 34.7% of the space leased upon delivery. SLC Global Logistics Center – Building 7 delivered fully-leased, the only project to do so this quarter. This quarter also saw three significant groundbreakings: 9000 S Logistics – Buildings 1 and 2 and City Creek Industrial Building G, which will add 990,000 sq. ft. of speculative space to the market. The total amount under construction fell by 727,198 sq. ft. due to the pause of The Quadrant III, a 1.1 million sq. ft. speculative project previously listed as under construction. As delivered space continues to increase in 2023, it will be important to monitor new construction starts. If construction starts begin to slow, vacancy will quickly tighten back up near the end of 2024 as current available space is leased.

Figure 8: Construction Completions (SF) and Delivered Preleased Rate (%)



Source: CBRE Research, Q2 2023

FIGURE 9: Historical Construction Completions (SF), Under Construction (SF) and Vacancy Rate (%)



Source: CBRE Research, Q2 2023

FIGURE 10: Q2 2023 Notable Construction Completions

PROPERTY NAME	Property Size (SF)	Submarket	Preleased (%)	Spec/BTS
Hamilton Inland Logistics Center	474,600	Airport	0%	Spec
Lake Park Commerce Center – Building 3	231,536	West Valley	76%	Spec
SLC Global Logistics Center – Building 7	205,340	Airport	100%	Spec
City Creek Industrial Building J	158,368	California Ave	0%	Spec

Source: CBRE Research, Q2 2023

Sales Trends

Sale activity remained stagnant in Q2 2023, as high interest rates coupled with uncertain macroeconomic conditions continued to sideline investors. Sourcing capital has alco become increasingly difficult, with recent bank failures prompting banks to be more conservative in their lending. Despite these challenges, a few large sales have taken place in 2023, including that of American Tire Distributors. This fully occupied investment property is an example of continued investor interest in the area. Sale activity is expected to remain scarce as interest rates persist at a 15-year high.

Sublease Activity

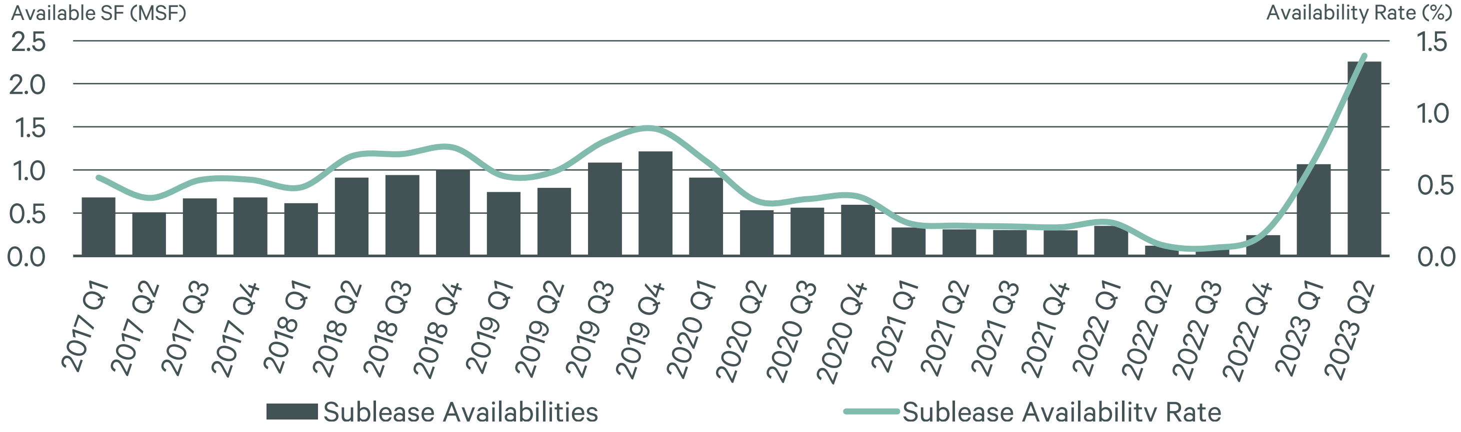
New sublease listings continued to increase vacant square footage across the market. Just under 1.4 million sq. ft. of available sublease space listed in Q2 2023, with 861,013 sq. ft. classified as vacant. The majority of sublease listings are concentrated in the NWQ, accounting for 80.9% of the total market sublease availability. This concentration exists not due to lack of demand in the area, but to the large amount of total space, as the NWQ also accounts for 64.8% of NRA in SL County. This quarter saw multiple sublease listings taken off the market after leasing a portion of the available space, indicating that tenants are seeking to downsize rather then completely exit the market. The increasing availability of sublease space can be contributed to uncertain macroeconomic conditions, as companies are implementing cost-cutting measures in anticipation of a potential recession. Sublease activity will be an important trend to follow for the remainder of 2023, and the time space takes to lease will be an important indicator of the overall health of the market.

FIGURE 12: 2023 Notable Sale Transactions

PROPERTY NAME	Transaction Size (SF)	Location	Usage Subtype	Sale Type
Raceway Commerce Center	397,894	West Valley	Distribution/Logistics	Investor
American Tire Distributors	160,230	California Ave.	Distribution/Logistics	Investor
West Jordan Freezer/Cooler	100,803	West Jordan	Cold Storage	Investor
Daybreak South – Building 1	76,528	West Jordan	R&D/Flex	User
Williamson Industrial	58,543	Sandy	Distribution/Logistics	User

Source: CBRE Research, Q2 2023

FIGURE 13: Sublease Availabilities (MSF) and Sublease Availability Rate (%)

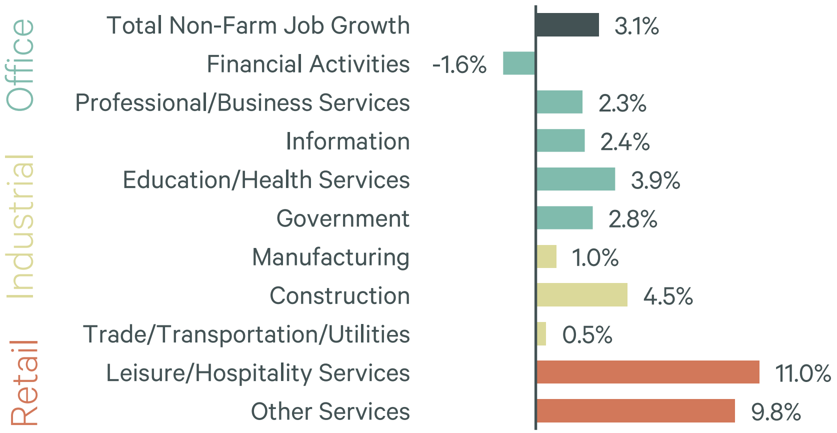


Source: CBRE Research, Q2 2023

Local Economy Overview

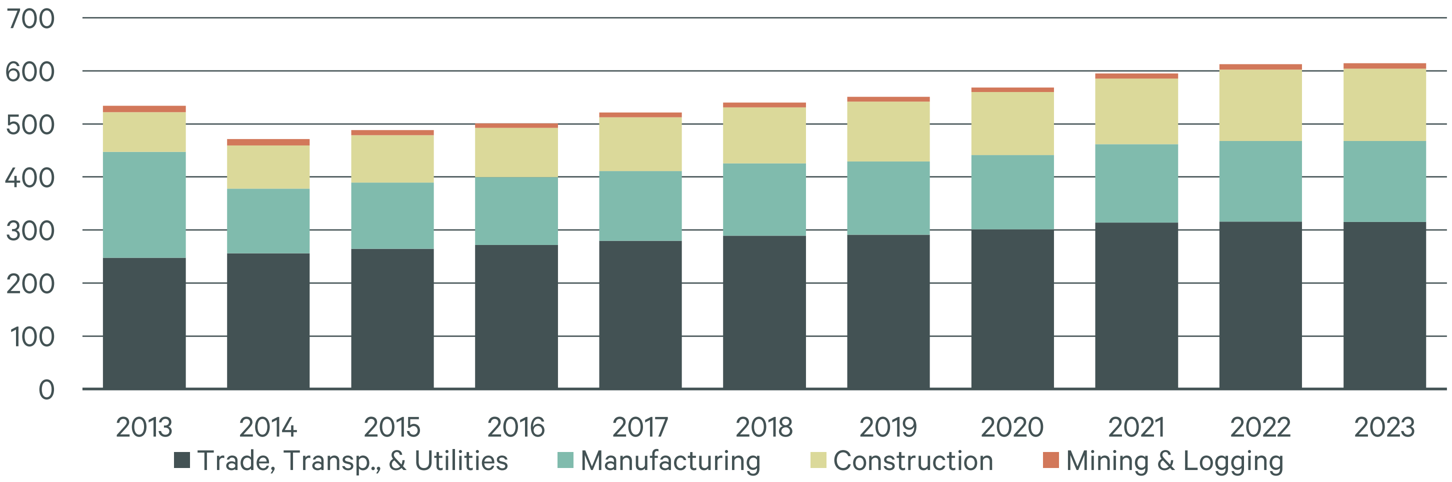
Utah's economy remains well positioned to continue to outperform the rest of the country. Recently ranked as the #1 economy in the U.S. and the #1 state overall by U.S. News, Utah's unemployment rate remained well below the national average of 3.7%, at 2.3%. However, Utah is not immune to macroeconomic conditions, as increasing interest rates caused investment activity across all commercial real estate property types to sputter. Utah's highly educated labor force, low unemployment rate, growing population, and relative affordability have positioned the state to withstand recessionary pressures from the federal government. These factors also attract employers to the state, which helps keep unemployment rates down and median income growing. Utah is also known as one of the best states for startups, home to nine unicorns, a company whose valuation is over 1 billion USD, founded in the state. The strength of Utah's local economy will help keep the commercial real estate market strong.

FIGURE 13: Utah Non-Farm Job Growth YOY by Industry (%)



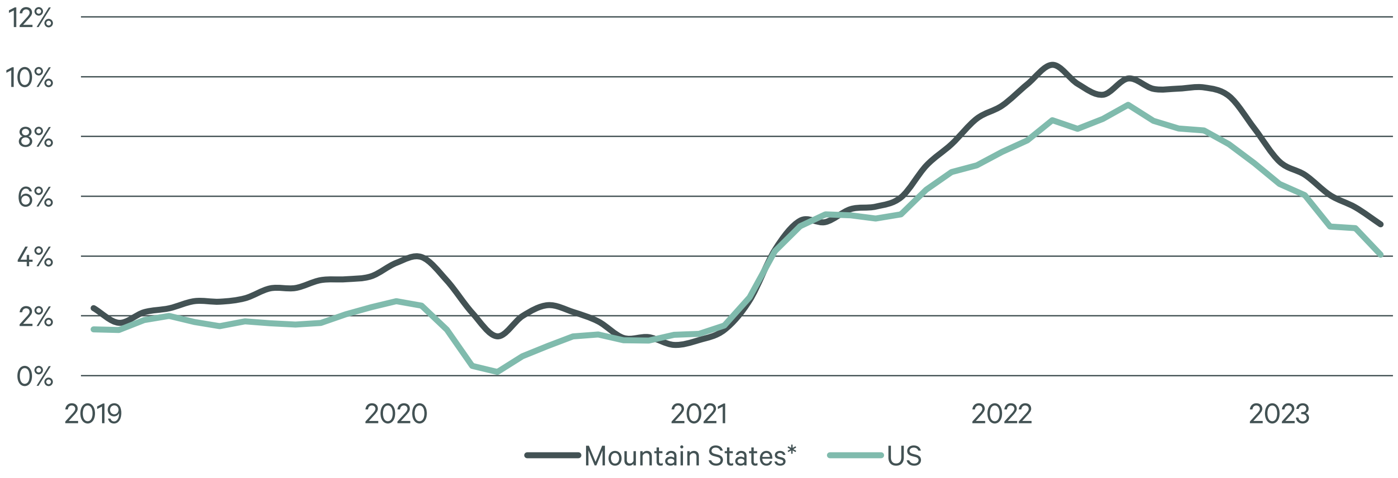
Source: Utah Workforce Services, June 2023

FIGURE 14: Utah Industrial-Using Employment (000s)



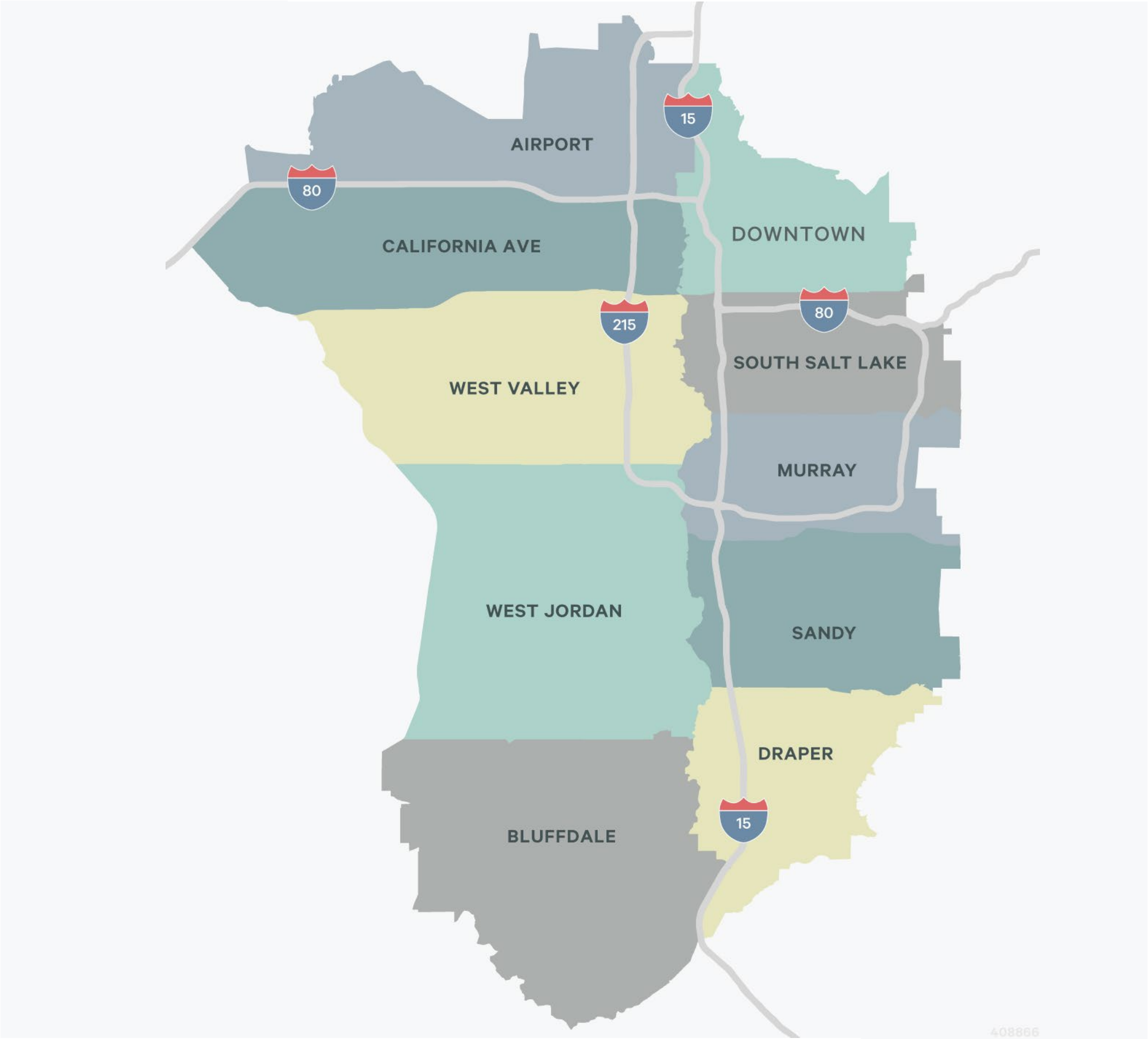
Source: Bureau of Labor Statistics, June 2023

Figure 15: 12-month Change in Consumer Price Index for Mountain States and U.S. (%)



Source: Bureau of Labor Statistics, June 2023

*Mountain States includes AZ, CO, ID, NV, NM, UT, WY



National Economic Overview

For the last six months the consensus amongst economists has been that H2 would bring the United States to the brink of recession and possibly push it over the edge. Recently, this narrative has been challenged by a surprisingly resilient consumer and labor market. Indeed, GDP growth in Q2 2023 is poised to hit the mid-2% range (p.a.). Beneath this veneer of health lies a fragile economy, which will probably lapse into recession, albeit a little later than previously expected.

Perhaps the key question is: Will the inflation slow fast enough to avert further rate hikes? CBRE's baseline view is that there is no need for further rate hikes because inflation is coming under control, but because of strong recent data the Fed will make one more rate hike, just to make sure the job is done. This will slightly exacerbate the coming slowdown and lead the Fed to begin cutting rates at the end of the year. The long-expected slowdown in the U.S. economy is still on track but will start in earnest at the end of Q3 2023 and last through to the end of Q1 2024 by which time, inflation will have slowed up, and rates will be falling.

Survey Criteria

Includes all existing industrial properties over 10,000 sq. ft. in Salt Lake County. Leasing activity includes renewals, new leases, and extensions. Property must fit within a subtype. Property may be owner-user. Buildings which have begun construction are evidenced by site excavation or foundation work. Only existing buildings are included in vacancy and availability rate calculations. Data in previous publications is subject to change.

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