

FIGURES | SALT LAKE INDUSTRIAL & LOGISTICS | Q1 2023

# Strong fundamentals lead to record-high achieved lease rates in the Salt Lake industrial market

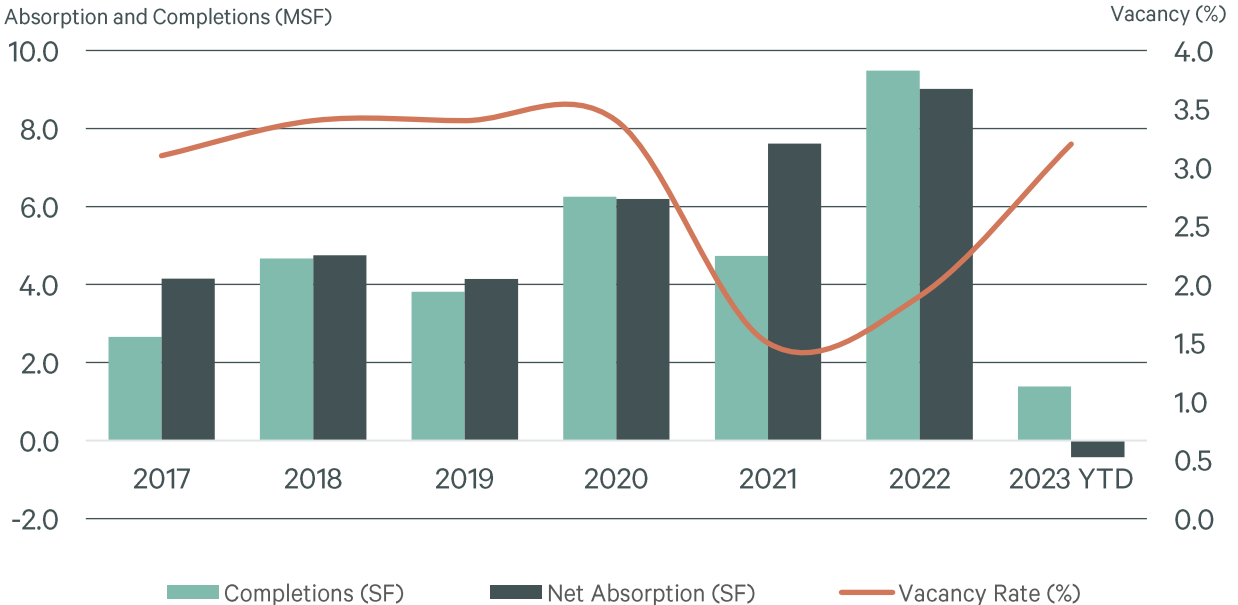


Note: Arrows indicate YOY change.

## HIGHLIGHTS

- In Q1 2023 3.0 million sq. ft. was leased, second only to Q1 2021 in terms of total leasing activity in the first quarter of a year.
- Vacancy increased by 1.7 million sq. ft. quarter-over-quarter, representing a 100-basis point increase.
- Q1 2023 saw negative absorption for the first time in the Salt Lake County industrial market since Q1 2012.
- 1.3 million sq. ft. was delivered in Q1 2023, with only 28.3% of the space leased upon delivery—the lowest amount since Q2 2019.
- The Airport and California Ave submarkets continued to be the most sought-after submarkets in the county, accounting for 71.5% of lease activity.
- Active vacant sublease space increased by over 750,000 sq. ft. in Q1 2023, representing a 92.0% quarter-over-quarter increase.
- Sale volume remained stagnant, due primarily to prime interest rates sitting at a 15-year high.

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



Source: CBRE Research, Q1 2023

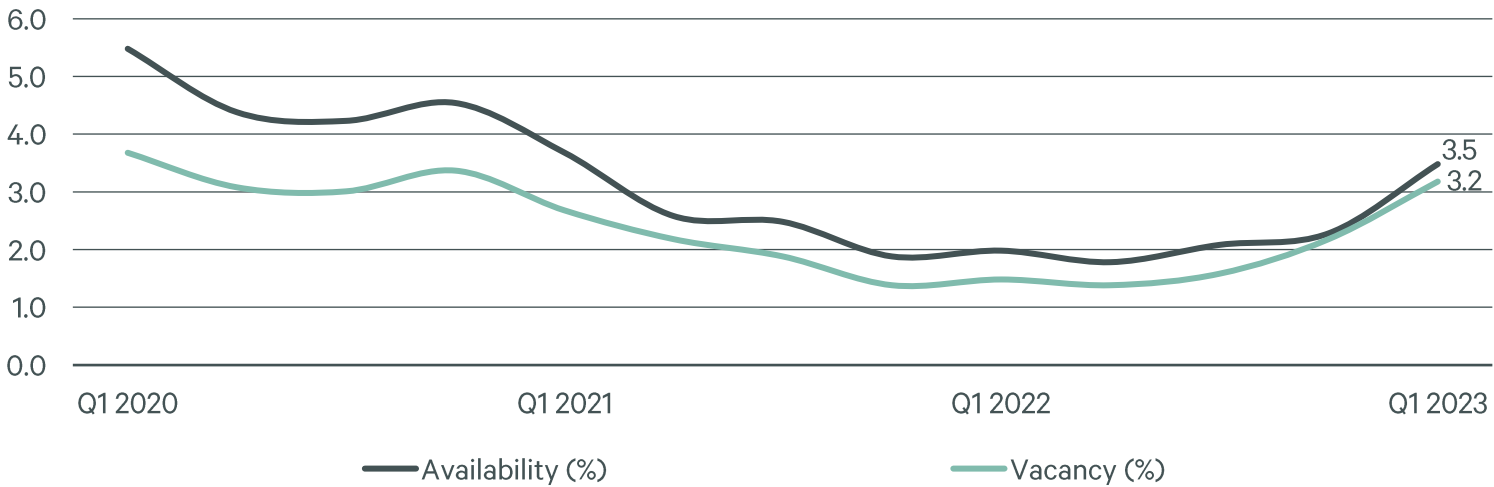
## Market Overview

The Salt Lake County industrial market experienced mixed trends in Q1 2023. For the first time since Q1 2012, there was negative absorption in a single quarter, leading to a 100 basis-point quarter-over-quarter increase in vacancy. One key trend contributing to the rise in vacancy was a rapid increase in vacant sublease space. In Q1 2023, over 750,000 sq. ft. of sublease space was listed, representing a 92.0% quarter-over-quarter increase. However, despite the increase in vacancy, leasing activity remained robust, with over 3.0 million sq. ft. leased. This made Q1 2023 the second strongest first quarter based on area leased, second only to Q1 2021. Strong leasing activity allowed average asking and achieved lease rates to reach an all-time-high in market history. The increase in vacancy has increased landlords' motivation to fill space quickly—another key contributor to Q1 2023's strong leasing activity.

Construction in the Salt Lake industrial market remains substantial, with over 1.3 million sq. ft. delivered this quarter. Delivered space this quarter was only 28.3% preleased, which also played a role in the increase in vacancy. This is an important trend to follow in the upcoming quarters and will be used to determine groundbreakings for future speculative projects. Total sq. ft. under construction increased by 1.5 million sq. ft. quarter-over-quarter due to a few large build-to-suit (BTS) projects breaking ground, two of which include a small amount of speculative space. Expect developers to continue to wait to break ground on proposed speculative projects until they can lease a large percentage of the space.

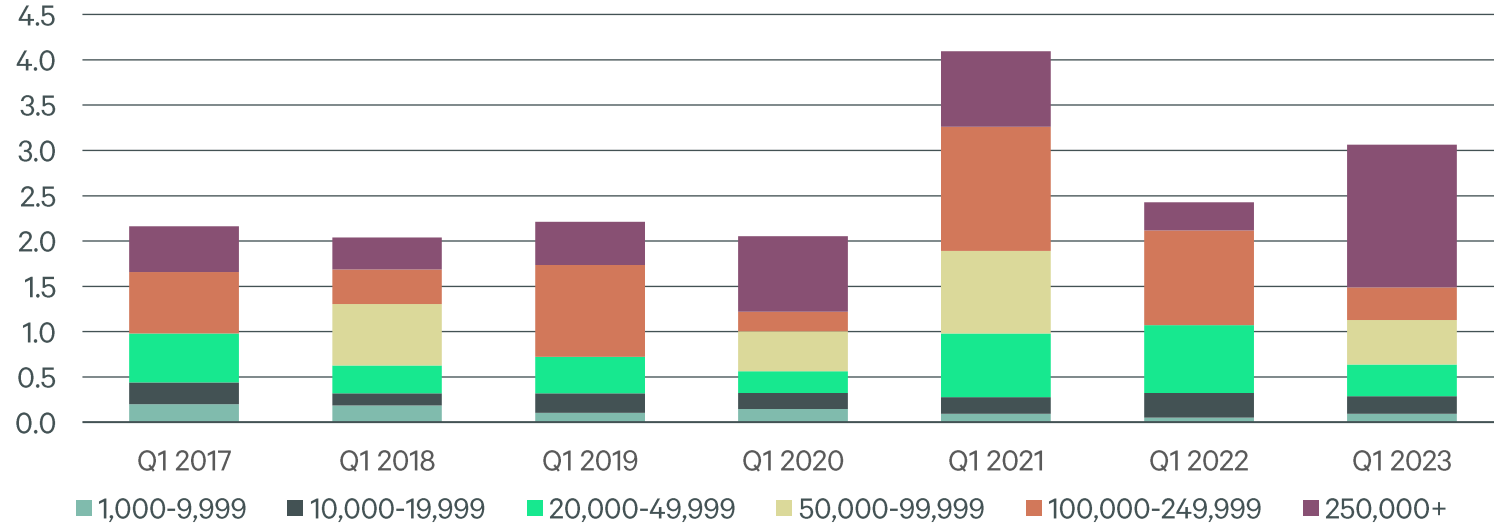
Despite the mixed trends, the Salt Lake industrial market remains well-positioned due to its strong fundamentals and demand for space. Achieved lease rates are at an all-time high, and the market has shown resilience to negative macroeconomic conditions.

FIGURE 2: Historical Availability Rate (%) & Vacancy Rate (%)



Source: CBRE Research, Q1 2023

FIGURE 3: Q1 Historical Area Leased (MSF)

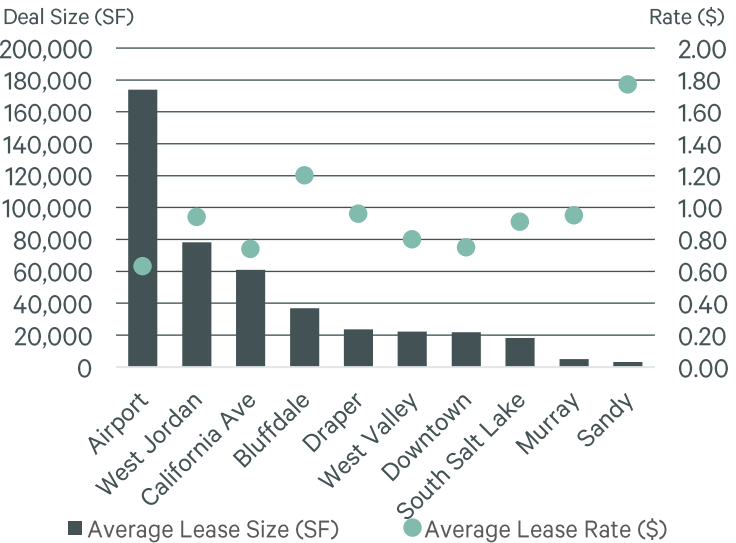


Source: CBRE Research, Q1 2023

Submarket Performance

The Northwest Quadrant (NWQ), which includes the Airport, California Ave, and West Valley submarkets, experienced a significant increase in vacancy in Q1 2023, largely due to newly listed sublease spaces. As a result, Salt Lake County reported negative absorption for the first time since Q1 2012. Despite this, the NWQ still saw over 2.3 million sq. ft. of leasing activity, which represented 71.5% of the total leasing activity in Q1 2023, indicating strong demand for the area. Meanwhile, the South Valley saw positive absorption of approximately 414,000 sq. ft. driven by 290,000 sq. ft. of leasing activity and the delivery of a few fully leased properties. Strong leasing activity across all submarkets allowed asking and achieved lease rates to remain at an all-time high in Q1 2023.

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



Source: CBRE Research, Q1 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	20,656,479	4.7	4.1	1,216,913	(824,879)	0.84	0.63	6,614,799	-
Bluffdale	2,422,189	1.9	0.0	184,578	180,818	1.40	1.20	174,471	142,719
California Ave	55,536,553	6.0	5.4	974,522	(124,847)	0.79	0.74	1,954,026	1,082,776
Downtown	15,185,961	0.9	0.9	109,044	(30,886)	0.87	0.75	-	-
Draper	4,797,767	3.6	0.8	70,866	220,641	1.22	0.96	-	159,600
Murray	3,950,928	0.5	0.5	14,699	-	-	0.95	-	-
Sandy	5,769,335	0.2	0.2	3,120	-	1.45	1.77	98,619	-
South Salt Lake	17,593,233	0.1	0.2	145,189	27,810	0.80	0.91	-	-
West Jordan	11,080,132	2.3	2.9	234,910	12,786	0.89	0.94	1,222,304	-
West Valley	22,608,419	3.1	2.9	111,403	109,427	0.69	0.80	231,536	-
Market Total	159,600,996	3.5	3.2	3,065,244	(429,130)	0.80	0.74	10,295,755	1,385,095

Source: CBRE Research, Q1 2023

Lease Activity

Lease activity remained robust in Q1 2023, with 3.0 million sq. ft. leased. This reflects a significant increase compared to the 2.2 million sq. ft. leased in Q1 2022. The quarter-over-quarter area leased increased by 1.3 million sq. ft., indicating continued strong demand in the area. The build-to-suit Scannell Logistics project was a major contributor to lease activity this quarter, accounting for 1.07 million sq. ft. Additionally, just under 1.0 million sq. ft. in renewals were recorded, including the Pacific Flyaway renewal at Freeport West Landmark 6. With the increasing amount of vacant space in Salt Lake County, landlords are becoming more motivated to fill space, which is expected to lead to strong leasing activity throughout 2023.

Lease Rates

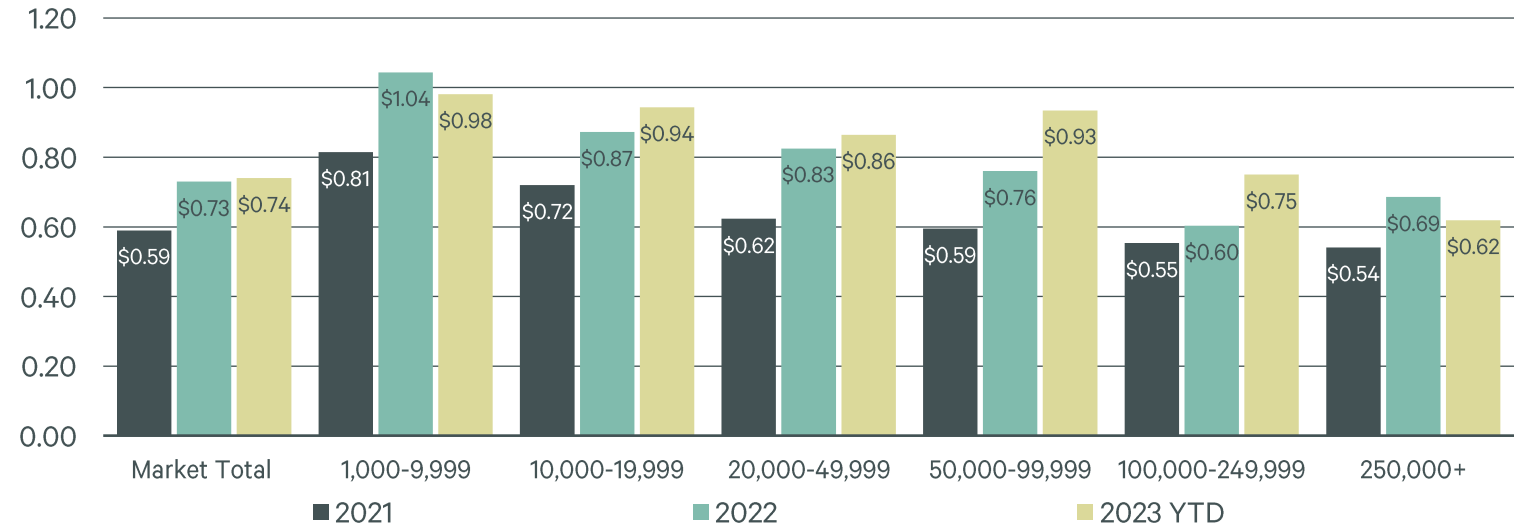
Strong lease activity coupled with all-time-high average achieved lease rates has maintained Salt Lake’s status as a desirable industrial market despite turbulent macroeconomic conditions. Average achieved lease rates crept to an all time high in Q1 2023, despite increasing vacancy rates. A big factor in increasing lease rates this quarter was the South Valley quadrant, historically the most expensive quadrant in the county, saw an all time high in total lease activity in the first quarter of a year. Average achieved lease rates slowed in spaces over 250,000 sq. ft. in Q1 2023 compared to the average over 2022. Expect to see average achieved lease rates in this size range to remain slightly below the 2022 average in 2023 due to the 140 basis-point increase in vacancy quarter over quarter. Average achieved lease rates decreased in spaces between 1,000-9,999 sq. ft. as well, but this was due to lack of sample size rather than a large increase in vacancy. Overall, average achieved lease rates re expected to remain strong throughout 2023, as demand for industrial space in Salt Lake County remains robust.

FIGURE 6: Q1 2023 Notable Lease Transactions

	Transaction Size (SF)	Location	Industry	Lease Type
TENANT				
New Balance	806,661	Airport	Apparel	New Lease
Pacific Flyway	507,007	California Ave.	Sporting Goods	Renewal
Bluebox	265,020	Airport	3PL	New Lease
Frito Lay	199,680	West Jordan	Food	New Lease
Alpha Plastics of Utah	159,995	California Ave.	Manufacturing	Renewal

Source: CBRE Research, Q1 2023

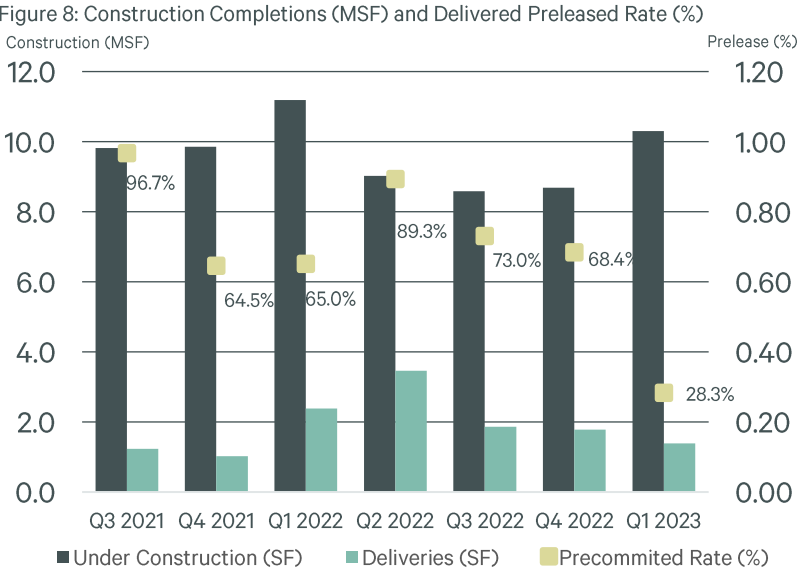
FIGURE 7: Weighted Average Achieved Lease Rates (\$/SF/Mo NNN)



Source: CBRE Research, Q1 2023

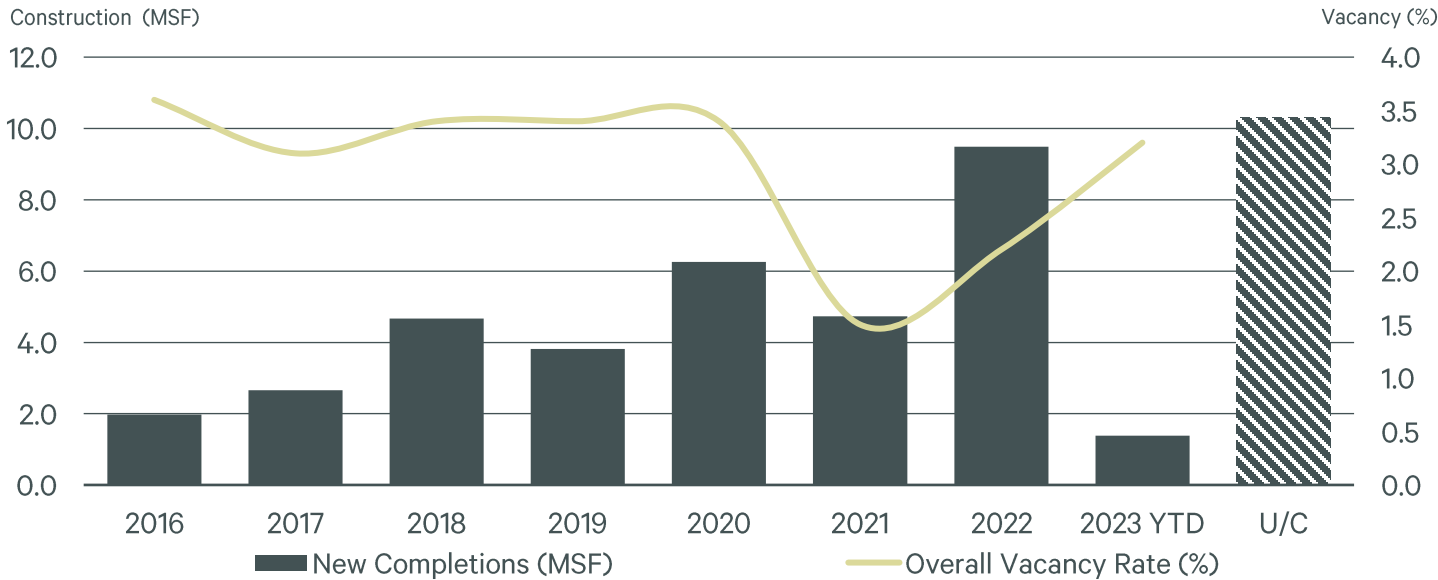
Construction

Construction activity remained strong in Q1 2023; with total square feet under construction increasing by 1.5 million sq. ft. quarter-over-quarter. This was largely due to the groundbreaking of Scannell Logistics Business Park Buildings 2 and 3, a build-to-suit 1.5 million sq. ft. project. Expect new groundbreakings to be almost exclusively build-to-suit projects with a small amount of speculative space available in each building due to macroeconomic uncertainty. 1.3 million sq. ft. delivered in Q1 2023, highlighted by the completion of Wingpointe Logistics, a 504,528 sq. ft. speculative project that remains 100% available. Throughout 2023, it will be important to monitor what percentage of space is preleased upon delivery, as this percentage in Q1 2023 was below recent quarters. This trend will likely determine the future of construction in the area as developers watch closely to determine profitability of future speculative projects.



Source: CBRE Research, Q1 2023

FIGURE 9: Historical Construction Completions (MSF) and Vacancy Rate (%)



Source: CBRE Research, Q1 2023

FIGURE 10: Q1 2023 Notable Construction Completions

	Property Size (SF)	Submarket	Preleased (%)	Spec/BTS
PROPERTY NAME				
Wingpointe Logistics	504,528	California Ave	0%	Spec
Copper Crossing – Building 5	309,409	California Ave	0%	Spec
Mountain View Industrial Park – Building B	179,400	California Ave	0%	Spec
Sky Vista @ 126 <sup>th</sup> Building B	142,719	Bluffdale	100%	Spec

Source: CBRE Research, Q1 2023

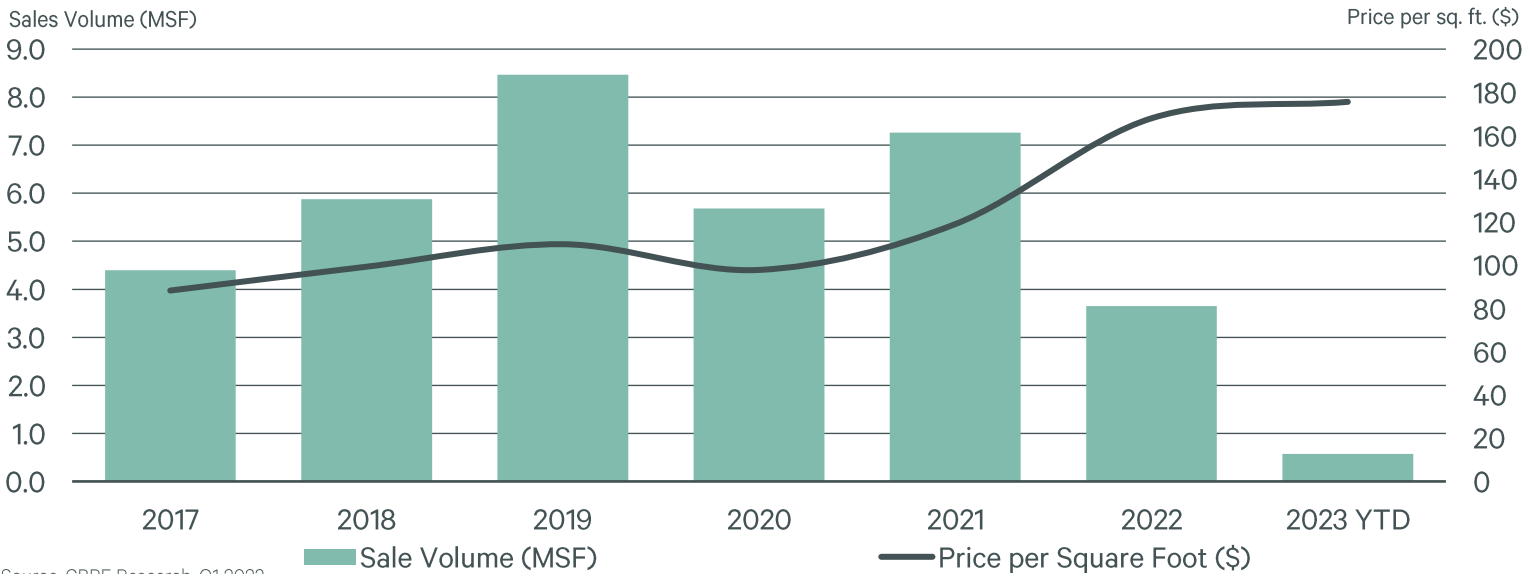
### Sales Trends

Sale activity remained slow in Q1 2023 amid sky-high interest rates and fears of a looming recession. These two factors have caused cash-strapped investors to remain on the sidelines, waiting to see what the rest of 2023 has in store for the commercial real estate market. Despite these external factors, Q1 2023 saw the sale of Raceway Commerce Center, a new development consisting of two buildings totaling 397,000 sq. ft. This large sale demonstrates that investors are still interested in the Salt Lake industrial market due to strong market fundamentals and a bright future as a hub for industrial space in the Western Region. Sale price per square foot remained at an all time high in Q1 2023 due to continuing increases in achieved lease rates and strong leasing activity. Sale activity in Salt Lake County is expected to continue to remain slow until the Fed begins decreasing interest rates.

### Sublease Activity

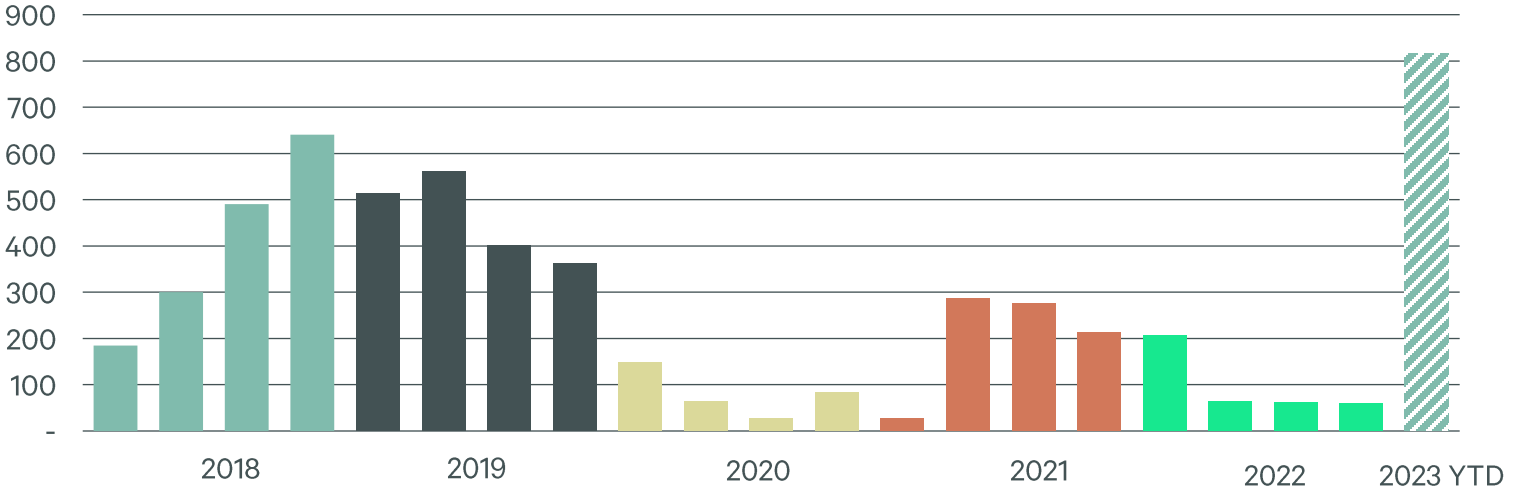
New sublease space on the market was a main contributor to the large jump in vacancy and availability this quarter. Over 800,000 sq. ft. of new vacant sublease space came on the market in Q1 2023, with one listing accounting for 500,000 sq. ft. alone. This increase in vacant sublease space provides insight into the current macroeconomic climate. Companies remain concerned about a recession on the horizon and are taking a preemptive rather than reactive approach. As a result, businesses across the United States are implementing cost cutting strategies, including decreasing their industrial footprint across secondary markets in the United States and laying off employees. However, new vacancies are expected to fill quickly due to below-market asking rates, and limited available space in desired submarkets.

FIGURE 12: Sale Volume (MSF) and Average Price Per Foot (\$)



Source: CBRE Research, Q1 2023

FIGURE 13: Vacant Sublease (SF, 000s)

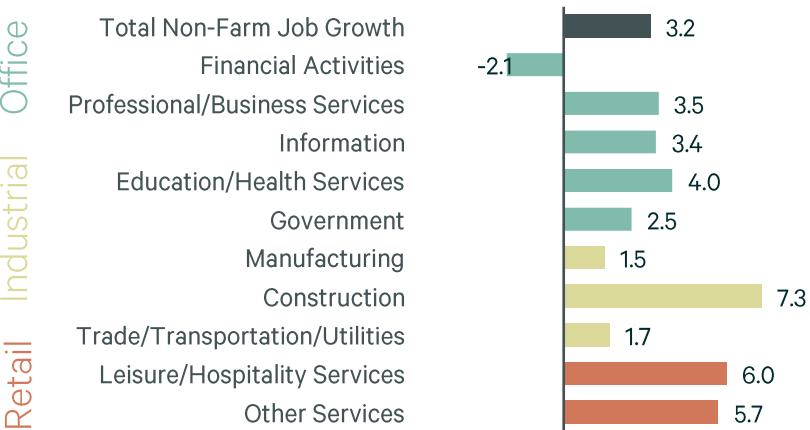


Source: CBRE Research, Q1 2023

## Local Economy Overview

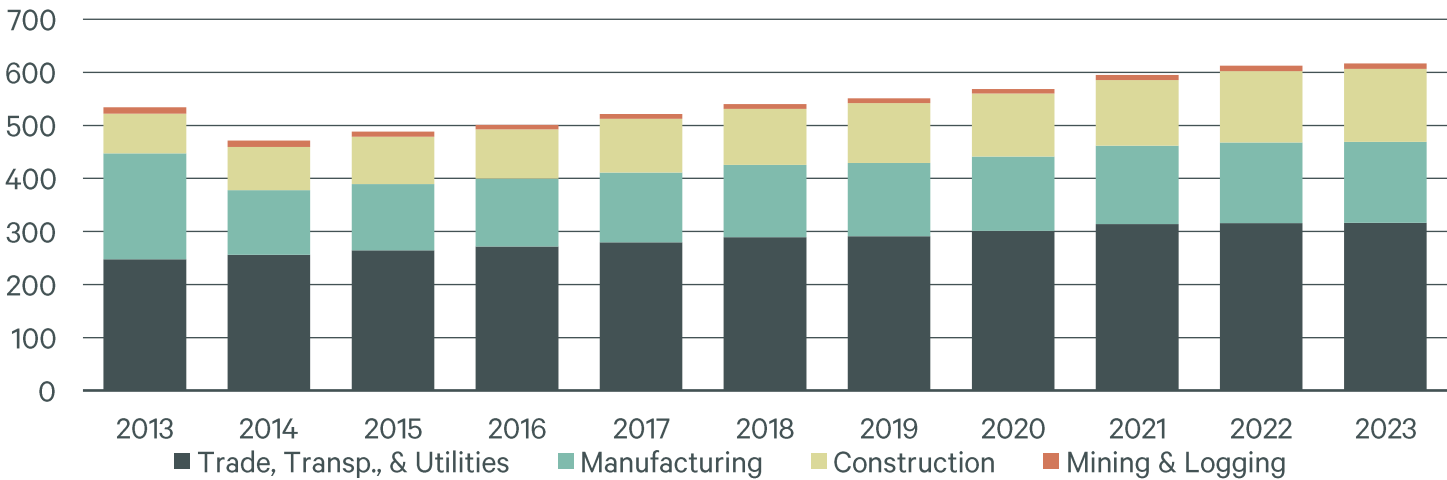
Utah continues to withstand economy slowing measures from the Federal Government. Utah's unemployment rate remains at 2.4%, which is well below the national average of 3.6%. However, the state is beginning to feel the pressure of continued interest rate hikes by the Fed, causing investment activity across all commercial real estate property types to slow considerably. Despite the Fed's efforts, stubborn inflation continues to remain at the forefront of Utah consumers' minds, as the change in consumer price index continues to trend downwards. Utah ranked as the 4<sup>th</sup> lowest state in the US on the misery index, an index that measures economic distress felt by the general population using inflation growth and unemployment rates, highlighting the strength of Utah's economy. Utah's relative affordability, highly educated labor force, and diversified economy position it well to withstand macroeconomic pressures. The growth of Salt Lake County's industrial market will heavily rely on the strength of Utah's local economy.

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



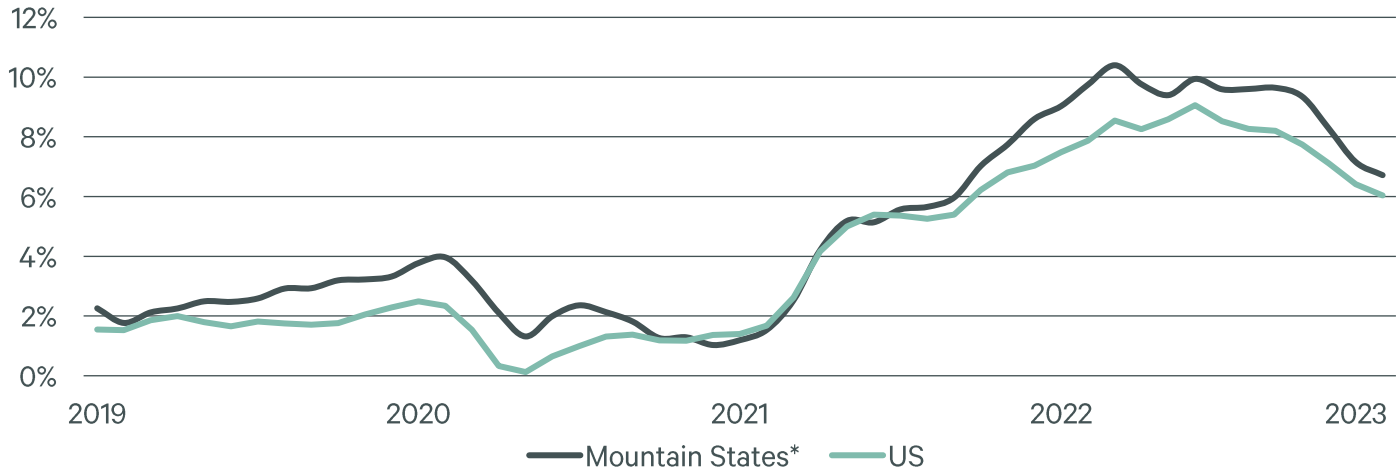
Source: Utah Workforce Services, February 2023

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



Source: Bureau of Labor Statistics, February 2023

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



Source: Bureau of Labor Statistics, February 2023

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





## National Economic Overview

Downstream consequences of the Fed’s tightening program are surfacing and signaling slower growth ahead. Specifically, trouble in the banking sector will likely weigh on even the strongest feature of the economy—the consumer—as banks limit lending to increase their own liquidity. This will erode demand for big-ticket items, such as housing and autos, but could also impede spending on services, which has been a key driver of job growth in recent months.

Meanwhile, other corners of the labor market, especially technology and corporate functions, are under pressure as hiring far exceeded revenue growth in recent years. Other operating challenges, such as inflation and cost of capital, are causing firms to shelve expansion plans and business investment is stalling. Like households, firms will certainly feel the pinch of constrained credit flows.

The impact on commercial real estate will be two-pronged—a weaker economy will slow NOI growth and tighter bank lending will limit investment activity. The silver lining is that a faster slowdown in the economy will reduce inflation pressure later this year and allow the Fed to ease monetary policy, providing greater clarity to the real estate sector.

## 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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