

09

Mid-Year Market Snapshot

Coldwell Banker Commercial Salt Lake City, Utah





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Office



Retail



Industrial



From the Directors



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Amid much tighter lending practices for commercial property investment, regional & national retailers holding off store expansions until overall store sales improve, and pressure on landlords for increasing tenant concessions, the local commercial market continues to weather the national economic storm. At mid-year, tenants clearly have the upper hand in lease negotiations for concessions among all commercial asset types.

With many recent publications touting Utah as an exceptional business friendly state, moderate cost of living, quality of life

[continues >](#)

Class A vacancy downtown is 2.5%. Class A suburban vacancy is 12%.

Fewer companies are expanding and landlords are forced to accept aggressive tenant Letters of Intent, with increased concessions.

Fortune 500 companies continue to eye Utah and the Wasatch Front for new locations. A skilled work force, abundant university institutions, quality of life, moderate cost of living/tax rates and business supportive government, all add up to positive office decisions for major companies. Microsoft, E-Bay, Disney, Oracle have all recently expanded or entered the market. Several others are poised to close on major transactions in the 2nd half of 2009.

There is downward pressure on lease rates among all office asset classes.

A wide variety of vacancy exists across the market, but large blocks of available space are very few. Less and less sub-lease space exists on the market.

According to the American Legislative Exchange Council, Utah was ranked the #1 state to pull into economic recovery.

Large retailers such as Target, Cabelas, JC Penney continue to wait on the sidelines with expansion plans until overall store sales improve.

Individual store sales for many mid to large box retailers are 7 to 9% below prior year sales.

Current landlords of retail properties are very thin on cash and are in a difficult position to offer tenant improvement dollars or complete capital improvement projects.

Free rent in lease negotiations is now a common concession in the marketplace.

Regional and local Quick-Serve restaurants are entering or expanding in the market such as Smash Burger, Costa Vida and Five Guys Burgers. Lower lease rates and favorable locations abound.

Metropolitan Theatres has entered the market with a 42,000 square foot, 12 screen location in West Haven (Weber County).

Both local and national tenants continue to seek rent relief from landlords by "blending and extending" existing leases or asking for immediate short-term rent concessions.

Average lease rates in the market have dropped 15 to 20%.

New listings are outpacing closed transactions 6:1

Large industrial sales have diminished considerably. Smaller transactions with private investors are the norm, rather than large properties with institutional buyers. The market is hungry for recent sales comps.

The industrial market along the I-80/I-15 corridor remains healthier than the retail and office sector. Office & retail users continue to look for less expensive alternatives in storage, warehouse and distribution.

Those larger, credit tenants with recent lease expirations, are re-negotiating tenant favorable lease terms with significant concessions.

The largest transaction to-date in the market was the 680,000 square foot Prologis sale. Cap rate was estimated to be 9%.



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Market Snapshot

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Investment



Business Mergers & Acquisitions



Asset Services - Property Management



From the Directors Continued

and an educated, talented work-force, we believe Utah and the local market is poised to lead the country in economic recovery by 1st Quarter 2010.

We owe our clients, colleagues and business professionals a brief mid-year snapshot of the local market. Our group of talented, experienced professionals has successfully closed significant transactions the past year. Coldwell Banker Commercial continues to be the professional leader in the market, and was again awarded the #1 Global Office designation in 2008 among all Coldwell Banker Commercial offices.

Weak market demand, heightened market uncertainty, tight lending requirements and higher commercial interest rates continue to apply upward pressure on cap rates. Current market cap rates range from 8.5 to 9.5% for non-credit tenant properties to 7.5 to 8.0% for national credit tenant investments.

Historical loan-to-value norms have been in the 75% range. Today's ratios are now 60-65%. Some values on high quality assets, with solid deal fundamentals, may approach 70% by year-end. Only investors with strong cash flow and high liquidity are candidates for financing nowadays.

Due to a continued low volume of sales transactions, local and national appraisers are scouring the regional/national markets to confirm recent sales comps.

Office condo sale prices are 15% below their previous sale per square foot asking price of two years ago. SBA lending for owner/users of both office and medical office condos is still available. SBA loan-to-value ratios are 90%.

Private equity nationally is currently sitting on \$400 billion in un-invested funds and firms are continuing to raise capital.

Despite the huge pool of funds, deal flow slowed in the first half of 2009, due to turmoil in the capital markets in Q4 2008.

“Expect to see mid-sized company activity begin to increase during the second half of 2009”

Quality companies will sell, and valuations have yet to see a significant drop.

Expect to see mid-sized company activity begin to increase during the second half of 2009, with the healthcare and life sciences sectors leading the rebound.

Construction costs for tenant improvements and capital projects are 15-20% lower in 2009 from two years ago, due to available labor and lower materials prices.

Average annual common operating costs for Class A office space along the Wasatch Front is \$7.10 per square foot. Class B office average is \$6.25 per square foot.

A survey of 16 Community and Neighborhood shopping centers in Weber/Davis/Salt Lake/Utah counties, revealed an average annual common area cost (CAM/Tax/Ins) of \$4.22 per square foot.

LEED Certified office buildings, both newly proposed and existing office buildings, are in very short supply. Newly constructed office buildings achieving LEED status include 222 South Main in downtown Salt Lake and Thanksgiving Park in Lehi.

Buildings in well located Transit Oriented Development (TOD) zones, close to Front Runner & Trax Stations, will maintain stronger investment values.

Management fees average 3.0 to 4.25% of gross receipts on most third party managed properties in the Salt Lake commercial market. Management fees on larger downtown office buildings average 2.0 to 2.75% of gross receipts, with additional reimbursements for on-site management offices and management staff.

Service Lines:

Acquisition and Disposition Services

Auction Services

Brokerage and Transaction Services

Capital Services

Construction Management

Corporate Services

Investment Analysis

Market Research and Analysis

Project Management

Property Development

Property and Facilities Management

Relocation Services Hospitality

Property Types:

 Office

 Land

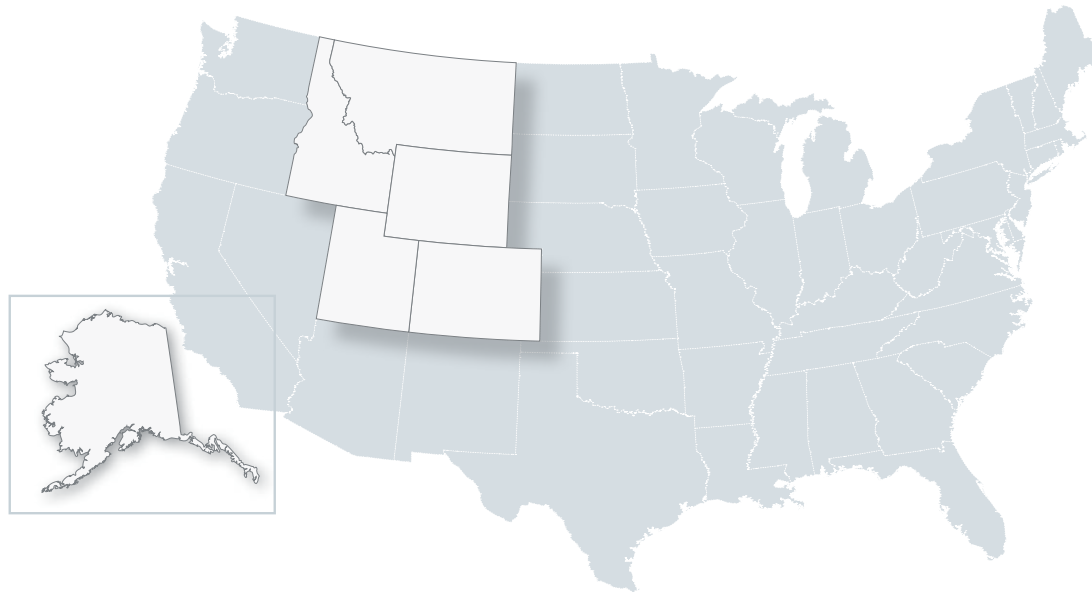
 Investment

 Retail

 Industrial

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