

Utah Site Selection Quarterly

A PUBLICATION OF THE ECONOMIC DEVELOPMENT CORPORATION OF UTAH

View 72 Corporate Center is an 87-acre commercial development that will include two million square feet of Class A LEED-certified office space, retail, restaurants and hotel amenities. It is centrally located at 7200 South, just off of I-15 in the Salt Lake Valley.



Goldman Sachs Expands in Utah.

Companies in life sciences, composites industries, outdoor, and finance continue to find their way to Utah. In

particular, our excellent workforce, unique location, and competitive incentive programs were mentioned as key elements in the Goldman Sachs relocation decision. This issue of Utah Site Selection Quarterly focuses on Utah's commercial real estate market. Like most areas of the country, the Utah market has suffered because of the recession, with some sectors struggling significantly (the office market) and others (industrial) not nearly as much. That said, 2010 looks to be a better year.

Jeff Edwards, President & CEO, EDCUtah

Utah's Prescription for Growth

What's the best medicine for a rebound in Utah's commercial real estate market? More jobs.

That's the consensus among EDCUtah's investors from the commercial real estate market, such as CB Richard Ellis, Coldwell Banker Commercial NRT, Commerce Real Estate Solutions, InterNet Properties, NAI Utah, and Price Realty Group.

Naturally, there are other factors besides jobs that will influence the recovery of the commercial real estate market, but Mark Bouchard, senior managing director of the CB Richard Ellis office in Salt Lake City, says job growth will lead the recovery. "We need to get people back to work locally and nationally," he adds.

Steve Bogden, managing director and principal broker for Coldwell Banker Commercial NRT, says the relationship between the job market and the commercial real estate market is an intricate challenge: "As the Utah job market improves, consumer spending will

improve. When consumer spending improves, the retail market improves, which leads to the hiring of more people. As more people are hired, the office market improves, too. An improving job market is not the only factor in the recovery, but it is an important one."

Just What the Doctor Ordered

Job growth may be on the horizon. According to a report produced in January for Commerce Real Estate Solutions by the University of Utah's Bureau of Economic and Business Research (BEBR), the number of job openings posted with the Utah Department of Workforce Services is now running at about double the rate of one year ago: 20,000 versus 10,000.

Meanwhile, initial unemployment claims are down 13 percent compared to a year ago, from an average of 4,150 new claims weekly in January 2009 to 3,600 in January 2010,

and the number of temporary workers is growing. An increase in temporary workers is generally considered one of the first signs of a recovering labor market. The number of temporary workers has increased from 14,800 to 17,700 between April and September of 2009.

The BEBR projects that job losses in 2010 will slow to 18,000; down from the 61,000 jobs lost in 2009. In 2011 job gains are expected to be near 20,000, while wages are forecast to increase by \$1.6 billion.

Utah Not Immune, but Hopeful

While Utah was not immune to the global recession, the state has fared better and will continue to fare better than the nation and other regional markets due to strong employment (93.3 percent), robust population growth (2.1 percent) and a highly educated workforce, says Lloyd Allen, NAI Utah's

senior vice president of brokerage services.

“Given that the Wasatch Front did not experience the intensity of the enormous sub-prime fiasco that so many other markets did, Utah’s path is upward and one of progress. What remains to be learned is how the depth and velocity of that paradigm shift to a ‘new normal’ will impact the broader economy in general and the uses of and demands for commercial real estate in particular over the long term,” he says.

Utah is actually in great shape in many respects, echoes Bouchard. “The unemployment rate, which is close to 7 percent, is lower than the national average, and we have a fiscally responsible government, so the state isn’t suffering from billion-dollar budget deficits that other states in the region are experiencing.”

Steven Price, an industrial specialist with Price Realty Group, adds that Utah offers tremendous benefits, especially for industrial, distribution and manufacturing companies.

“Salt Lake City is becoming the hub in a hub and spoke distribution system, with benefits that range from excellent north-south and east-west interstate corridors; a Delta Air Lines hub that links the country together as the interstates do; an abundant and skilled labor force; and land, construction and energy prices that are very competitive with other markets in the West,” he says.

Prognosis for 2010 and Beyond

While most brokerages were happy to leave 2009 to the history books, they say 2010 is yet uncertain and may bring flat to slightly negative growth, while 2011 is expected to be the year the market makes a sustainable comeback.

“No one is clairvoyant,” says Bouchard, “but we do expect the market to improve. There may be more challenges during 2010, but we are better prepared and more informed.”

Bogden says one of the biggest inhibitors of the recovery is the lack of financing opportunities for retailers, developers and other businesses. “The finance market has got to loosen its purse strings, especially for retailers,” he adds.

Retail will the lead recovery

The retail market, once called the darling of commercial real estate, was the first sector to be slammed by the recession, yet it could also be among the first sectors to rebound. During 2009 retailers conducted a small-scale exodus to anchored retail centers, with many retailers concentrating on areas with more roof tops.

Specialists in the retail sector expect retailers to slowly emerge from hiding as consumer confidence grows, residential construction re-

bounds and unemployment stabilizes. Bogden says his brokerage is starting to receive more inquiries about space, and smaller shops are going into anchored centers. Meanwhile, there is also some movement in what he calls mid-box stores.

Vasilios Priskos, principal broker and founder of InterNet Properties, Inc., says downtown Salt Lake City has been going through a transformational change.

“In the last year, over 30 new retail businesses have opened in the central business district. Most of them are small, local shops, but people are starting to take risks again. We are seeing more investment in downtown than before the 2002 Olympics,” he says.

“We are starting to see more deals completed in both the retail and office markets, with many new tenants coming into the city from other parts of Salt Lake County and many are new to our State.”

Retail market projections for 2010 and beyond:

- The “jobless recovery” will keep growth in check.
- The new, cooperative model of “keeping good tenants in place benefits all parties” softened closures in 2009, and will continue through 2010.
- Credit will remain tight in 2010. Developers and investors will be required to have substantial equity contributions with low loan-to-value ratios.
- Owner/user SBA lending will continue to remain strong.

Industrial sector is a bright spot

The rebound of Utah’s industrial sector is expected to follow the retail sector. NAI Utah reports that values in Utah’s industrial market are faring far better than many markets across the nation. The industrial market, especially along the Wasatch Front, has been buffered from national trends by its historical lag and relative stability, which reduces risk and provides adequate time to prepare and adjust to market trends.

A market study by CB Richard Ellis confirms that the industrial sector weathered the economic challenges of 2009 relatively well, thus sidestepping the huge leaps in vacancy seen in many other major markets. The brokerage says the lack of new construction played a major role in moderating vacancy levels. Meanwhile, an across-the-board decline in activity levels, due in large part to the sharp reduction in available credit and consumer demand, is an historic anomaly in the Salt Lake area market. The availability of sublease space, once a rarity in the Salt Lake market, is helping to offset the lack of new industrial product while providing tenants

with quality inventory from which to choose.

NAI Utah estimates that the state needs approximately 100 square feet of industrial space for each individual. “When we apply the State’s forecasted 2.1 percent population growth to the Wasatch Front’s 1.7 million population, we can easily see that we need 3,500,000 square feet of available space. Our supply currently sits at 2,700,000 square feet,” the brokerage says.

Industrial market projections for 2010 and beyond:

- Industrial vacancy is likely to stabilize in late 2010.
- Overall lease activity should rise by approximately 10 percent in 2010.
- The dearth of new industrial construction will extend through 2010.
- With no new construction on the horizon, certain industrial sectors remain weak.
- Vacancy will likely grow in 2010, and then be held in check thereafter.

More market clarity than during 2009

“The wheels came off the investment market, and we are not out of the woods yet,” says Tucker White, senior investment specialist for NAI Utah Commercial Real Estate, adding that investment activity slowed to a crawl as investors took a “wait and see” position, not knowing where the market was headed.

“Real estate investors don’t know if we have hit bottom yet, and they don’t want to catch a falling knife, but they are cautiously optimistic. There is more clarity in the market now than in 2009, he says.”

Kip Paul, an investment specialist for Commerce Real Estate Solutions, says there is a night and day difference in the market now, as compared to 2009.

“There might be times that we bounce along the bottom, but transactions are starting to occur again and the once frozen lending market is starting to thaw,” he says. “For owner-users and investors, there are some good bargains in the market right now.”

Indeed, cap rates are in a steady upward trend, forcing property values down to 2002-2003 pricing levels. Meanwhile, highly leveraged properties with weak underwriting that were purchased at the peak of the boom are now underwater or vulnerable, he adds. Nonetheless, the delinquency rate of 3.4 percent is half the national average.

Investment market projections for 2010 and beyond:

- Pent-up demand from qualified investors waiting for the market to bottom out will begin to cautiously move from the sidelines.
- The market will see a slight increase in

transaction activity, particularly from national buyers.

- Cap rates will continue to increase in proportion to rising commercial loan interest rates.

Office market will lag

While it will probably take several years to work out office space usage inefficiencies and shadow space, recovery of the office market is expected to follow that of the job market.

NAI Utah reports an increase in absorption over the past six months. December marked the completion of the 222 Main office tower in downtown Salt Lake City—the first class A office space to be constructed in the central business district in more than a decade. This 22-story, LEED silver-certified high rise, which is partially leased but not occupied, has added 420,000 square feet to the district's vacancy rate. Nonetheless, the building will add a new level of quality to the market.

Office market projections for 2010 and beyond:

- The market will lag behind the recovery due to the time it takes for companies to regain confidence, begin hiring again, execute lease agreements and occupy new space.
- Speculative office construction is not expected in 2010.
- The market will continue to favor tenants.
- There is trend a toward newer buildings being available in the suburban market areas.
- Inventories of leasable space are expected to increase and pricing per square foot will continue to get pushed down, as landlords compete for fewer tenants.

Bright spots in the market

For having just endured the worst recession in history, Bogden sums up the outlook for the commercial real estate market in positive fashion: "I think we have bottomed out and we are on our way to recovery. Once the gate opens for good, strong business lending,

Utah's economy is going to take off. I expect the market will look much better during the second half of 2010 and climb from there."

Like many others in the market, Priskos is looking forward to the completion of City Creek Center, and especially the new housing opportunities it will make available downtown.

"Adding 1,500 to 2,000 new residents downtown will have a great effect, and improve the vibrancy of the city 24/7," he says.

Here's a small list of activities that give Utah's commercial real estate market reason to be positive:

- Construction of the massive \$1.5 billion retail/office/condo project called City Creek Center continues on pace for completion in 2012.
- Construction of the \$1.6 billion National Security Administration (NSA) data center at Camp Williams on the south end of the Salt Lake Valley will engage multiple construction companies.
- 222 Main is complete, offering class A office space downtown, and a major tenant, Goldman Sachs, announcing that it will occupy a good portion of the tower.
- Smaller retail tenants in food, clothing, furniture, and other businesses are entering the market.
- Renovation at Valley Fair Mall continues.
- Winco Foods is entering the Utah market, bringing new competition and jobs.
- Construction of the new Workers Compensation Fund headquarters in Sandy will be completed in the summer of 2010.
- New development projects, such as the \$36 million transit-oriented development adjacent to Station Park in Farmington, are being announced or in various stages of planning along the I-15 corridor.
- An increase in the number of calls and inquires to the brokerages.

YTD Wins for Fiscal Year 09-10 year

Goldman Sachs

Financial, Salt Lake City
690 employees
\$51 M capital investment
\$47.3 M State incentive

Decho Corporation (dba Mozy Inc.)

Distribution, Pleasant Grove
90 employees, 16,000 SF
\$2.2 M capital investment
\$543,000 State incentive

Edwards Lifesciences

Life Sciences, Draper
1,200 employees, 166,000 SF
\$27 M capital investment
\$11.5 M State incentive
\$3 M local incentive

Quality Bicycle Products (QBP)

Distribution, Ogden City
100 employees, 85,000 SF
\$5.5 M capital investment
\$2.1 M State incentive

O'Reilly Auto Parts

Distribution, Salt Lake City
450 employees, 200,000 SF

Conductive Composites

Manufacturing, Green River
6 employees, 500 acres
\$700,000 capital investment

eBay Customer Support Center

Information Technology, Draper City
207 employees, 30,000 SF
\$80 M capital investment

Merit Medical Systems, Inc.

Medical Device Manufacturing, South Jordan/West Jordan
392 employees, 255,000 SF
\$11 M capital investment

SemiService, Inc.

Transportation, Salt Lake City
40 employees, 90,000 SF
\$12 M capital investment

Haemonetics Corporation

Manufacturing, Draper
220 employees, 100,000 SF
\$17 M capital investment
\$169,900 State incentive

Fairchild Semiconductor

Manufacturing, West Jordan
538 employees
\$49.5 M capital investment
\$1.2 M State incentive

Lofthouse Bakery Products, Inc.

Manufacturing, Ogden
115 employees, 60,000 SF
\$22.5 M capital investment
\$138,434 State incentive

Northrop Grumman

Aerospace Manufacturing, Salt Lake City
100 employees, 50,000 SF
\$12 M capital investment

UTAH RANKINGS and GREAT NEWS

For up to date rankings on Utah's prominence in Economic Development, please visit... edcutah.org/news

02.19.09 University of Utah, MIT lead nation in new companies founded. *Deseret News*

02.12.09 Utah Best City For Commuters. *Forbes*

02.08.10 Utah #1 least debt-burdened state. *Forbes & Utah Business*

01.02.10 The Next Ten Years: A Sunny Economic Forecast. *Deseret News*

12.23.09 Salt Lake City ranked 6th in ease of finding jobs online. *Deseret News*

12.16.09 Salt Lake City Ranked 8th in MarketWatch's 3rd Survey of the Best U.S. cities for Business. *MarketWatch*

12.02.09 High-tech industries seen as key to 9th-best growth rate. Utah in top ten to bounce back by 2015. *Salt Lake Tribune*

11.30.09 Provo/Orem and Ogden/Clearfield in America's top 15 most affordable places to live. *Forbes*

ECONOMIC DEVELOPMENT RESOURCES

EDCutah Web site	www.edcutah.org
Utah Governor's Office of Economic Development (GOED)	www.business.utah.gov
Utah Economic Developer Directory	www.edcutah.org/solutionproviders
Utah Sure Sites – Real Estate	www.utahsuresites.com
EDCutah Economic Review Weekly Newsletter	www.edcutah.org/newsletter
EDCutah Legislative Review	www.edcutah.org/legislature

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Please note: This newsletter is produced to give site selectors and corporate decision-makers the best opportunity to stay up to date on ED news in Utah. This publication is simultaneously e-mailed to site selectors and corporate decision-makers within the EDCUtah database. The e-mail version will make linking to resources and contacts convenient and user friendly. In the future, this newsletter will only be produced for e-mail and the web. If you did not receive the e-mail version of our newsletter, but would like to, please contact Amie Salazar at asalazar@edcutah.org or 801-328-8842.



Boarding in Little Cottonwood Canyon, Utah



Utah Governor's Office of Economic Development

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