

## First quarter real estate: retail surprisingly healthy, office rates down

Salt Lake City commercial real estate brokerage Commerce CRG last week issued its first quarter market review. It found that while the Salt Lake retail market saw a slight increase in vacancies during the first quarter to 8.69 percent, it is surprisingly healthy compared to neighboring markets such as Phoenix and Las Vegas, which should allow for a quicker recovery from current economic woes.

Office rental rates are finally coming down and landlords are being forced to make concessions to existing tenants to keep them happy, according to the report. Salt Lake will see the lowest office construction completion rates this year since 2006 — nine new office buildings and 773,000 new square feet. Investments are down due to the economy in Salt Lake County commercial real estate; investors still think prices are too high, and as they wait to invest, the inventory list gets larger. On the bright side, gig-box construction is particularly healthy in the industrial market.

### Retail

While national retailers announced closures, local and national retailers took advantage of aggressive deal-making by landlords. Asking lease rates declined slightly in Q1, but transactions were done at a discount and retailers have been actively

renegotiating rates on existing leases. Lower retail sales numbers resulted in lower transaction numbers — particularly among national retailers.

### Office

Vacancies increased slightly over Q4 2008, with class B and C space seeing the highest rates. Class A spaces is still performing relatively well, with a 9.46 percent vacancy rate. The Central Business District saw a slight uptick in absorption that was offset by a decrease in the periphery and suburban markets. Rental rates are finally coming down, and landlords are being forced to make concessions to existing tenants to keep them happy. Two office buildings were finished in Q1. Salt Lake's downtown will see its first highrise completion in 10 years when 222 S. Main comes on line in November. Subleases rates continue to rise, which should continue through the end of the year.

### Investment

As expected, most investments showed a slowdown in activity due to the condition of the broader economy. Transaction volume dropped, with many completed sales involving assumptions of existing debt. Limited financing options and the need to refinance maturing loans added uncertainty to an already shaking situation. The apartment sector

was the one bright spot. Although transaction volume dropped, transaction value saw a slight increase. Capitalization rate data is not what it appears at first glance. In reality, all sectors have seen an increase, driven by growing inventory and high and investor caution. Investor perceptions are that prices are still too high, leading to an inventory increase. Market participants seem to be waiting for price corrections, more distressed properties, and lender foreclosures to present opportunities at better prices. Looking ahead, we expect to see better transaction volume in Q2, as inventories increase and financial institutions seem to be stabilizing.

### Industrial

Despite the economic downturn, local and regional tenants in Salt Lake County expanded, albeit at a slower rate, in Q1 and are expected to continue on that pace. After four years of rate increases, lease rates are expected to hold or decline slightly through 2009. Big-box construction is particularly healthy. Speculative construction of structures smaller than 50,000 square feet has come to a standstill, with a few exceptions along I-15. There are more than 1.2 million square feet of new space under construction, with completion dates expected from June through September.