



Utah's commercial real estate market hitting new highs

Cautious optimism » But industry leaders are still hesitant to celebrate after barely surviving economic downturn.

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Investments in Utah's commercial real estate markets topped \$1.3 billion in 2013, marking a return to record cash flows not seen since before the economic downturn.

And by all accounts, that number would have pushed higher if more office, retail, industrial and rental properties had been available for sale, part of a larger recovery for the industry across the state. Predictions are that 2014 will be at least as healthy for commercial sectors.

Out-of-state buyers accounted for nearly two-thirds of the Utah commercial deals larger than \$10 million, as outside money poured in. Thousands of new multifamily dwellings were either built or announced for the Wasatch Front's most populous counties. New, more efficient industrial buildings and trendy office towers are in demand, as cool work spaces become crucial to recruiting young talent. Iconic national retailers are opening their first outlets in the state, with plans to expand.

So you'd think these indicators, released Tuesday, would bedazzle a Salt Lake City gathering of commercial real-estate executives, developers, lenders and brokers. But this remains a chastened crowd, its industry leaders and rank and file still tender from surviving one of the worst collapses in recent memory.

"The years '08 and '09 were the most unpleasant years that I've spent at the company," said one of its leading figures, John Cushman, board chairman for New York-based, privately held Cushman & Wakefield, a global player in commercial real estate services. "We had to take good businesses and carve them down to the bone."

While it had a palpable sense of relief, much of Tuesday's conference of the Utah chapter of NAIOP, formerly known as the National Association of Industrial and Office Properties, also focused on potential new challenges. As their markets slowly return to a pre-recession flight trajectory, participants were cautioned not to go on auto-pilot.

E-commerce in particular, can't be underestimated for its profound effects on the longterm viability of the brick-and-mortar retail space, according to Steve Bogden, director of strategic planning for Coldwell Banker Commercial Intermountain. And it is already transforming demand for industrial buildings and warehousing, as the back end of online shopping, order fulfillment and delivery logistics all grow in size and complexity, another expert said.

"Omni-distribution is rapidly becoming one of the key buzzwords of our industry," said Kyle Roberts, co-founder and executive vice president of Newmark Grubb ACRES.

Utah's central position on the U.S. map is key to luring new investment aimed at that growing trend, Roberts and other said. So are its robust job-growth numbers, a well educated workforce and recreation opportunities. The state is seen as an underexploited place to buy and a place relocating businesses are more and more likely to land, speakers said.

Investment returns on Utah commercial properties are drawing more interest from large pension funds, real-estate investment trusts, privately held capital and cash managers on the East and West Coasts, as they all look for deals and try to spread their bets geographically.

"You have tremendous growth prospects but a market that institutionally is yet undiscovered for a lot of the wrong reasons," said John Brady, managing director and portfolio manager for Oaktree Capital Management, which recently partnered with another private real estate investment house, Hines, to buy several offices buildings in Salt Lake's Gateway mall.

Office space in Utah drew the most investment in 2013, followed by retail and industrial buildings. Most big deals drew multiple offers from eager bidders, Kip Paul with Cushman & Wakefield said.

Vacancy rates dropped in all categories of office properties last year, but fell most sharply in suburban areas of Utah, according to Tab Cornelison, senior vice president with CBRE. While vacancy statewide was at 13.1 percent, Cornelison noted, it was at 2.3 percent in the Salt Lake neighborhood of Sugar House.

Rising rents, low residential vacancies and expansion of Utah's employment base, meanwhile, are driving a broad-based construction spree of new multifamily housing units. At least 2,500 new apartments will hit the market in 2014, according to Dan Shin, a multifamily housing expert with Marcus & Millichap. Average monthly rents climbed from \$732 in 2009 to \$845 last year and will probably rise more in 2014.