

2007 Southern Utah 1st Quarter Market Report

A Quarterly Newsletter and
Report on Commercial Real
Estate in Southern Utah from
St. George to Cedar City



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Mary Iwanski

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About Our Market Report



To those of you who are picking up one of our market reports for the first time, we welcome you. To those of you who have been reading our Southern Utah Market Report for many quarters, or even years, you will notice some changes. In either case, we hope the information provided will help you make better decisions relating to your business and your investment portfolio.

We have introduced Iron County vacancy and lease rates to our Market Survey. Although Iron County has historically lagged the Washington County market, in recent years the tightening of the labor market, the growth of the Providence Center and the efforts to revitalize the industrial sector have resulted in high levels of commercial activity. We look forward to providing insight into this market as we watch to see whether the momentum will create long-term growth.

With all of the interest in Southern Utah, and the uncertain macro economic environment nationally, we felt the necessity to provide insight into the local economic climates. In this report, we have included a snapshot of key economic trends at the local, state and national levels.

Last, a word about our rigor. Tracking our investment and economic climate is not something we take lightly. We work very hard to scrub all of the data for bad observations, and we spend many hours ensuring our samples are representative and accurate. As with any statistical process, we work with averages and volatility. We are in no position to make guarantees about your particular situation, but we believe strongly that the presentation made is representative.

Please don't hesitate to contact us with your comments or your feedback.

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Managing Director

Mark Walter
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Principle Broker

Are you working with partial information?

Understanding your options is critical to making a good decision, whether it relates to leasing or purchasing space. Working with the Commercial Preview or the Washington County MLS can only provide a partial view of the commercial real estate market in Southern Utah.

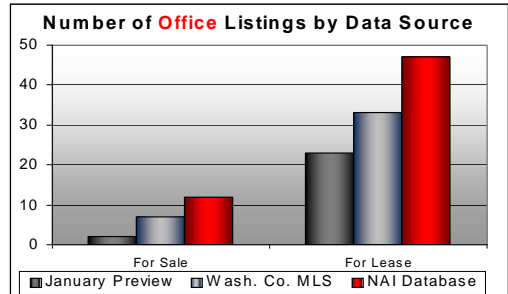
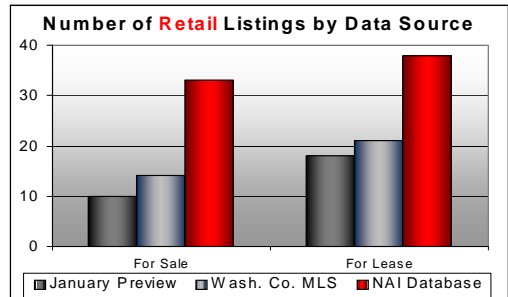
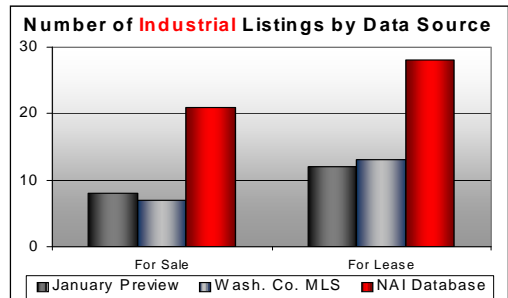
NAI Utah Southern Region keeps track of **opportunities across the Southern Utah market**. Each week we review all of the commercial properties for sale or lease and make that information available to our agents and their clients. You can see for yourself how much of a difference the additional information can make.

In Southern Utah's Industrial leasing market, it is the **difference between** looking at a total of **12 properties versus 28**. In the retail leasing market it is the **difference between 18 properties and almost 40**. At NAI Utah Southern Region, we go out of the way to provide the most comprehensive view of the real estate market in Southern Utah.

**Come in and see where we
can help you next.**

NAI Utah
Southern Region

Commercial Real Estate Services, Worldwide.



Data as of Jan 30, 2007

A Sample of Our 1st Quarter Transactions

Leases

Industrial

Warehouse/Office in Hurricane	1800 Sq. Ft.	Brandon Vandermyde & The Chappell Team
Warehouse in St. George	2609	Jason Griffith & Meeja McAllister
R&R Industrial Center	7500	Jason Griffith & Meeja McAllister
Red Hills Warehouse/Office	6000	Wes Davis, Jason Griffith & Meeja McAllister

Office

Red Cliffs Professional Park	1000 Sq. Ft.	Jason Griffith & Meeja McAllister
Chelsea Commercial Condos	1283	Jason Griffith & Meeja McAllister
320 East Project	739	Jason Griffith & Meeja McAllister
Zion Plaza	450	The Walter Group
Metcalf Office Space	3000	The Walter Group
Boulevard Office Park	1251	The Walter Group
Central Business District	2227	Wes Davis
Westwind Plaza	1155	The Chappell Team, Jason Griffith & Meeja McAllister

Retail

Sunburst Shopping Center	3000 Sq. Ft.	Brandon Vandermyde & Wes Davis
Boulevard West Mall	1300	The Walter Group
Prime Retail in Sandstone Village	2500	Wes Davis, Ryan Garrett

Sales

Investment

Snow Canyon Chevron	3000 Sq. Ft.	The Walter Group	C-Store
Richfield Conoco	3050	Joseph Iwanski & The Walter Group	C-Store
A Sweet Secret	2980	Wes Davis	Business Investment

Land

1 Acre in Hurricane	1.00 Acres	Jason Griffith & Meeja McAllister	Retail/Office
1.08 Acres on Convention Center Dr	1.08	John Griffith & Landon Terry	Retail/Office
10 Acre Ranchette in Wayne County	10.00	The Chappell Team	Farm/Ranch
15.18 Acres in Parowan	15.18	The Iwanski Team	Retail/Office
Casto Canyon Ranch	419.00	The Walter Group	Farm/Ranch
River Ranch, Lot 4	22.97	The Walter Group	Farm/Ranch
Paunsaugunt Lot 65	2.93	The Walter Group	Multi-Family/Residential
River View Estates, Lots 1 & 3	9.02	The Walter Group	Multi-Family/Residential
Paunsaugunt Lot 78	1.61	The Water Group	Multi-Family/Residential
Festival Plaza	0.55	Wes Davis	Retail/Office
12.058 Acres in Red Cliffs Square	12.06	Wes Davis	Retail/Office

Office

160 N 200 W, St. George	1864 Sq. Ft.	The Walter Group	Professional Office
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Visit www.naiutahsouth.com to read press releases of our latest transactions.

What's Happening Around Town...

Walgreens

Walgreen Drug Stores, founded in Chicago in 1901, have since expanded throughout the U.S., operating more than 5,600 stores. Adding to that count, 5 new stores have been announced for the St. George area. John Griffith, at NAI, assisted with the site selections for these new stores.



The Home Depot

The Home Depot slogan, "You can do it. We can help." - is now being heard on the west side of St. George. The Home Depot's second location, in Washington County, opened on February 1st. Interesting fact: Over 22 million people visit a Home Depot store each week.



Olive Garden

The Olive Garden Restaurant opened their doors for business on March 5th. They are a welcome addition to the St. George dinner scene. John Griffith, at NAI, assisted in bringing Olive Garden to town. Olive Garden currently operates 584 restaurants in the U.S. and Canada and employs more than 70,000 people.



Checker Auto Parts

There are currently 4 Checker Auto Locations around the St. George area, with the Bloomington location being the newest... but not for long. Wes Davis, at NAI, is assisting to bring a 5th to the area! The location has yet to be disclosed. Checker has over 1,307 stores operating in 22 states and employs approximately 15,000 people.



Country Inn & Suites

As a leader in the mid-scale hotel segment, Country Inns & Suites by Carlson, features residential architecture and home-like interior design. They currently have over 380 properties open, and an additional 100 properties in development (one of which is opening soon in Northeast St. George).



Texas Roadhouse Grill

Texas Roadhouse is a place where the whole family can enjoy great food in a fun-filled, lively atmosphere at affordable prices. They currently have over 235 locations in 43 states. The newest Texas Roadhouse, in Northeast St. George, is presently under construction and plans to open in April.



Did you Know?

St. George Area Facts

Settled	1861
Incorporated	1862
Population: Early 1990's	30,000
2007 est.	138,000+

Noteworthy residents

Robin Williams	Comedian and movie star
Paul Teutul Sr.	Star of the TV Show "American Chopper"
Julius Erving	Former NBA star
Jeffrey R. Holland	LDS religious leader
Bruce Hurst	Former Major League Baseball pitcher
Doug Jolley	NFL tight end
Dan Truman	Diamond Rio's keyboardist
J. Edwin Seegmiller	Scientist who made breakthrough discoveries about arthritis
Tracy Hickman	Noted fantasy author

Commercial Market Overview

St. George Area

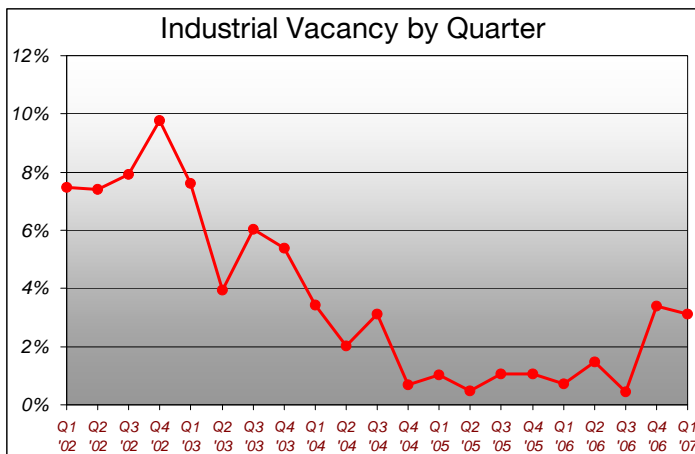
Industrial Market

Lease Rates (NNN)		
	Low	\$0.45
	High	\$0.76
	Average	\$0.64
Total Vacancy		3.13%
Total Inventory		7,460,340 sq. ft.



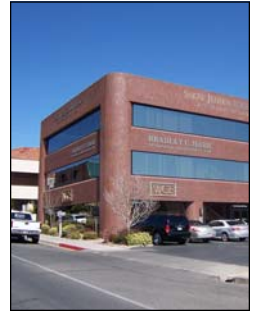
Vacancy rates are moving up; but are significantly lower than what many would consider a stable vacancy of 8-10%. According to NAI's first quarter survey, industrial vacancy is 3%. Throughout 2005 and 2006, vacancy averaged approximately 1%. Industrial users still have few choices when moving or finding a new location. However, a significant amount of industrial warehouse is either under construction or in development. A large portion of this space is spec space which should help keep up with demand and bring vacancy up closer to a normal range.

Lease rates and industrial land prices continue to edge up. NAI believes absorption is off a bit since the end of 2006.



Office Market

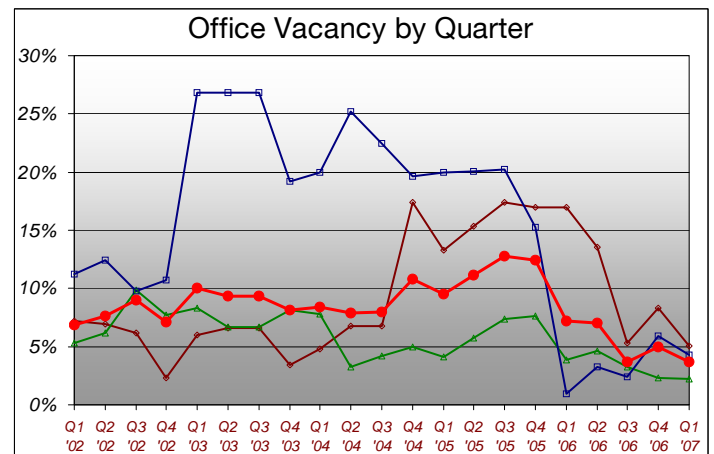
Lease Rates (NNN)	Class A	Class B	Class C
Low	\$1.15	\$1.00	\$0.80
High	\$1.50	\$1.25	\$1.15
Average	\$1.34	\$1.13	\$1.08
Vacancy	5.08%	2.25%	4.28%
Total Vacancy		3.67%	
Total Inventory		2,208,781 sq. ft.	



With so much new product coming online, the expectation in office leasing has been for vacancy to increase. To date, office vacancy has held surprisingly low. It is taking time for the much expected supply of inventory to hit the market. Although the supply of fully completed inventory is low, lease demand for office space, in general, has softened during the first quarter. Some reasons for this may be:

- Some tenants have already signed leases in buildings under construction and some are purchasers of new buildings, which reduces future demand.
- Tenants are waiting to see what will happen with newly completed inventory before expanding or starting a new business.
- Tenants are resistant to higher lease rates and are opting to stay at their current locations.

The short term outlook for the office market will depend on how long it takes for the new product to hit the market and the intensity of future demand for office space.



Commercial Market Overview

Retail Market

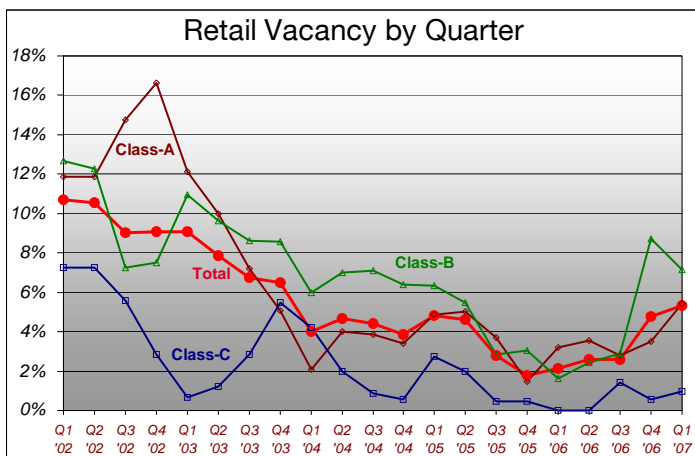
Lease Rates (NNN)	Class A	Class B	Class C
Low	\$1.25	\$1.08	\$0.90
High	\$2.17	\$1.67	\$1.10
Average	\$1.83	\$1.35	\$1.02
Vacancy	5.42%	7.15%	0.97%
Total Vacancy	5.31%		
Total Inventory	5,325,046 sq. ft.		



Retail vacancy rates remain tight. New inventory didn't hit the market, as delays in development took their toll. Class A vacancy increased from 3.51% to 5.31%. Class B vacancy decreased from 8.71% to 7.15%, and Class C vacancy nudged up slightly from 0.58% to 0.97%. Overall, Q1 vacancy increased from 4.77% to 5.31%.

St. George area retail lease rates averaged higher across each classification. Class A jumped the most to \$1.83 per SF per month NNN, a \$.20 increase. Class B moved up \$.08 per SF per month NNN, and Class C also grew \$.13 per SF per month NNN.

New retail projects permits, pulled in January alone, totaled 130,207 SF. Some noteworthy projects include Festival Plaza (adjacent to Sportsman's Warehouse) and Rio Plaza, now under construction on Riverside Drive.



Investment



When purchasing real estate as an investment, the total return is realized annually through lease revenue, and at the time of the sale, through asset appreciation (or depreciation). Depending on the investor, they may focus on realizing their return primarily through appreciation, through annual lease income or through a combination of both.

From 2005 to 2006, commercial assets appreciated rapidly and investors were more willing to purchase based upon appreciation, and less on lease revenue. The focus is shifting. Buyers are now looking for income and expecting higher capitalization rates. Buyers who are unable to find assets with sufficient lease revenue are looking to other markets.

The change in the market is due in part to;

- The recent residential real estate trend. Local buyers realize they can't solely rely on asset appreciation in the short run.
- Fewer local 1031 exchange buyers transferring cash from farm land to commercial investments than in 2005.

Many investment buyers are still looking aggressively for assets that meet their investment guidelines.



Cedar City Market Review



We are not new to the Iron County market. NAI has been doing business there for many years, but this is the first time we have included the county in our market report. In 1967, Washington County surpassed Iron County in population. Since then the gap has widened, with current population estimates are 48,000 for Iron County and 138,000 for Washington County. Since 1967, Iron County has been characterized by slower growth, a colder climate, and a riskier investment.

The perception of Cedar City is changing. Growth is increasing with an estimated 9.6% population growth rate in 2006. Southern Utah University remains a highlight of the community and is exporting graduates throughout Utah and Southern Nevada. The rail spur, west of the airport, and the development of an industrial base has been quietly underway for a while. Industrial is starting to gain momentum with the marketing of Port 15, the Charlotte Pipe deal and the development of new flex space for lease. The development of the Retail sector has been the most visible change over the past couple of years. The Providence Center is the primary destination for shopping in Iron County, although the mid box national tenants have been slow to enter the market.

Developers have stayed ahead of the recent growth, as vacancy rates are still high across industrial, office, and retail. Following is a quick overview:

Lease Rates (NNN)	Industrial	Office	Retail
Low	\$0.51	\$0.75	\$0.75
High	\$0.80	\$1.20	\$1.50
Average	\$0.59	\$0.98	\$1.26
Vacancy	9.31%	16.68%	14.56%

Industrial

The vacancy rate shown is for office and retail warehouse space. Highway 56 is the new industrial corridor as it leads to the airport industrial park and the new Port 15 industrial park. Currently new office warehouse is being built on Highway 56 as well as out in Port 15. This new space is designed to accommodate users starting at about 2,500 sq ft through 20,000 sq ft. The current vacancy rate is 9.3% and lease rates are \$0.45 for warehouse and \$0.75 for office. Blended rates are running between \$0.55 and \$0.60. In addition, the old Leggett & Platt facility at 212,000 sq ft is available. As the market is small, relatively small increases in supply or decreases in demand have material impacts on absorption.

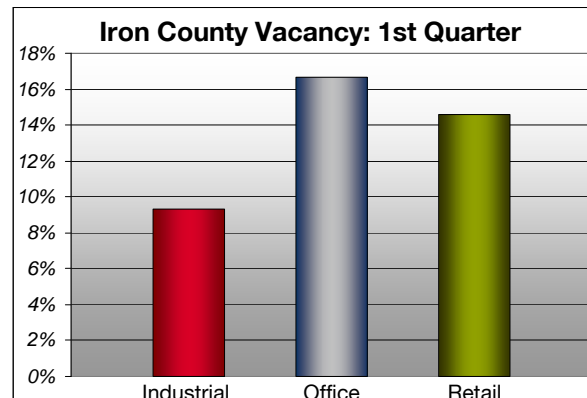
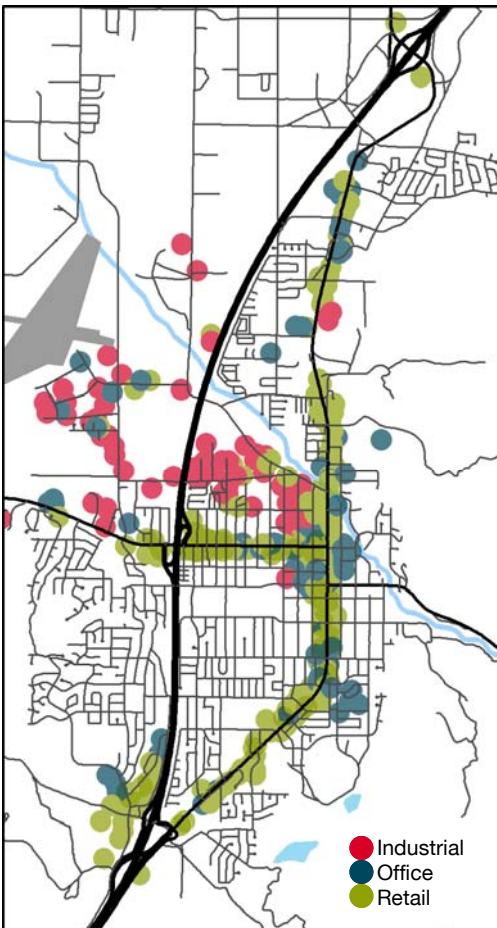
Retail

Growth in the retail sector has been visible to anyone passing through town. Buildings are going up as fast as they can get permits at the Providence Center while Main Street (at the center of town) remains attractive as well. Vacancy rates remain high as most retail buildings have at least one space available for lease. National tenants provide stability while local tenants continue to have turnover. Tenants have many options and are getting concessions from landlords. As the community continues to grow, the retail sector should start to stabilize.

Office

The office market is currently overbuilt. There is office space available overlooking the Providence Center, on Main Street, and around the new IHC hospital. In Washington County,

medical office is difficult to find whereas, in Iron County, it is readily available. The vacancy rate is 16.7% and lease rates are running about \$0.98 per square foot. Tenants continue to be in the driver's seat. To move space, landlords are making concessions--particularly for strong tenants.



Can One Site Really Have So Many Answers?

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Real Estate Market
Have Washington County Home Prices Risen Too Far? by Neil Walter
Adjusting for Inflation
Why Do We Adjust for Inflation?
Should I Buy or Lease Space?
More on Lease Versus Buying Space
Should You Invest in the Real Estate Market or the Stock Market?

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Wes Davis
Commercial Property Specialist

Jason Griffith
Commercial Property Specialist

Ryan Garrett
Commercial Property Specialist

Properties

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Properties

For Lease
For Sale

Excellent property. \$100,000 per acre.

Great 1-70 visibility. Zoned commercial. All utilities stubbed in.

Easy and multi use. Boulevard. Br

Excellent recreation property. Very

Excellent retail/warehouse building.

New office c

Market Research

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Southern Utah Market

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Quarterly Report & Newsletters
A quarterly produced newsletter. This publication provides valuable insight into the most important industry trends throughout Washington County, Utah. It includes articles from emerging markets to real estate trends, data tables on rental rates for office, retail and industrial space, and much more.

	2006	2005	2004
Spring			Spring
Summer		Summer	
Fall		Fall	Fall
Winter			

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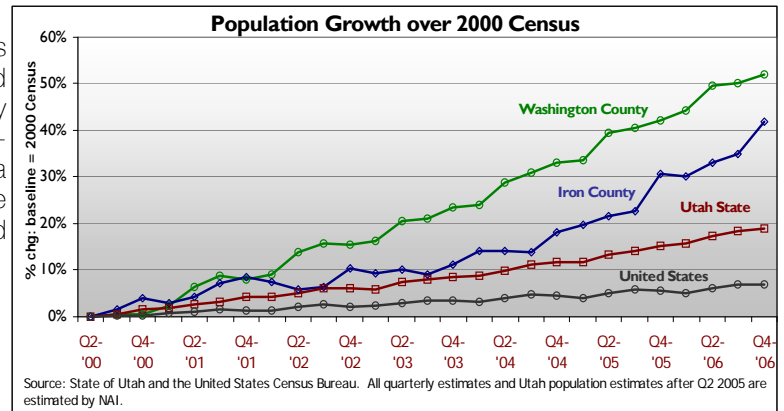
Macroeconomic Overview

Overview

Washington County has enjoyed population growth rates above 6% for more than 30 years. Recently, Iron County has also seen growth increase above the 6% level. As a share of the State population, Southern Utah is gaining ground, growing from less than 3%, in the 1970's to more than 7%. The growth has been exciting, created wealth, and resulted in many planning challenges. We can expect to see people continue to move to Southern Utah for the same reasons they have moved here for the past 30 years—climate, quality of life, natural beauty, and opportunity. The economic challenges to future growth are cost of living, lagging educational attainment, and lagging wages.

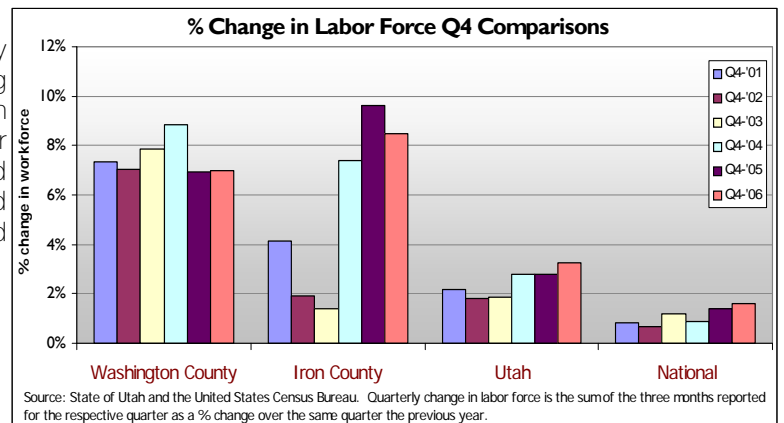
Population Growth

Since the 2000 Census, the Washington County population has grown by approximately 52%. This represents a 7% compound annual growth rate. By our estimates, the Washington County population sits at approximately 138,000. Iron County is not far behind, at nearly 42% growth (or 6% compound annual growth) and a total population of approximately 48,000. When compared with the State and National growth levels over the same period, at 19% and 7% respectively, over the past 6 years the gap is widening quickly.



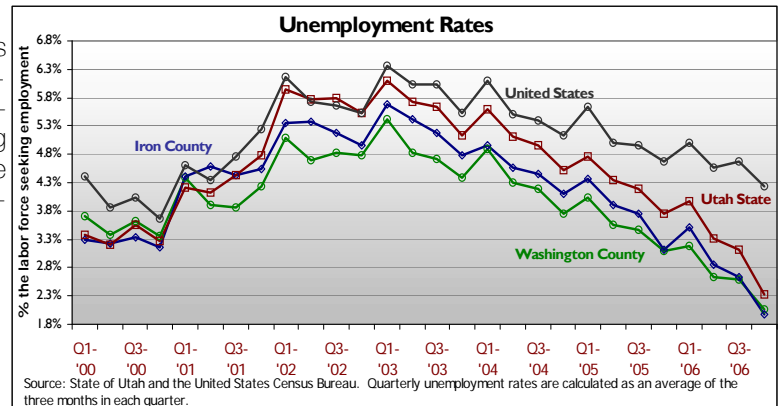
Labor Force

Washington County same quarter labor force growth has been very high over the past 6 years. Iron County has come on strong during the past two years. With declining unemployment rates, the growth in the number of jobs has been even higher. For the 4th quarter 2006, the Washington County labor force was at almost 61,000 and the Iron County labor force was at 23,500. The State of Utah and the National labor force numbers are approximately 1.3 mm and 153 mm respectively.



Unemployment Rate

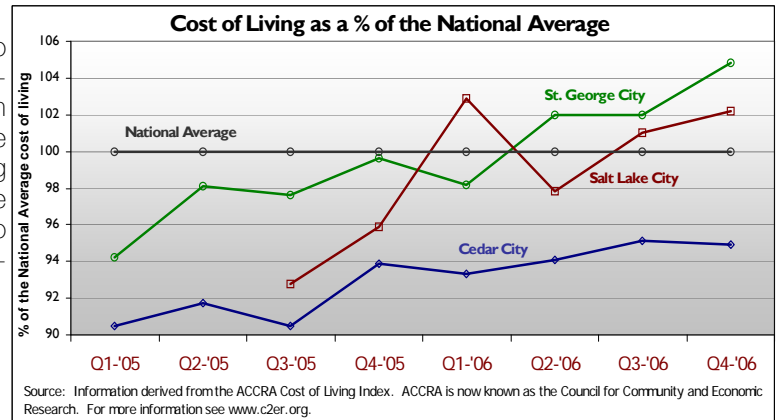
The unemployment rate is at historical lows. In some economist's view, it is too low. The job market in Southern Utah is very tight—even considering the 6-7% growth rates in the labor force. The major employers continue to be education and public services along with construction and retail services. Supporting antidotal evidence continues to pour in, as the school district and public services continue to have difficulty hiring to keep up with the growth.



Macroeconomic Overview

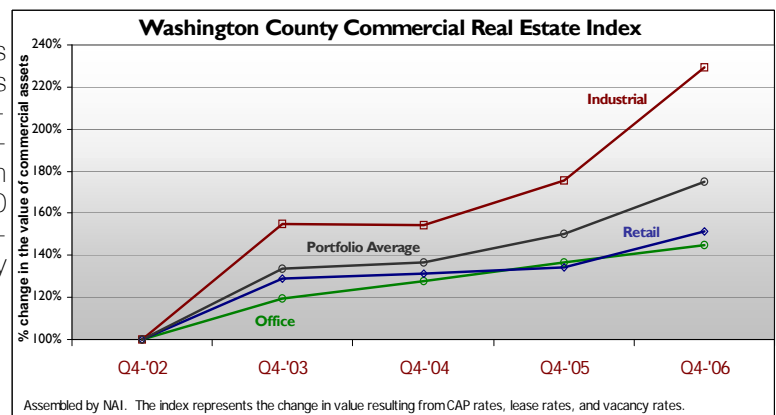
Cost of Living

The increase in the cost of living in Washington County, relative to the national average, is no surprise. Just two years ago, Washington County was 6% less expensive than the national average. In two short years, the county made up the difference. Most of the increase in the cost of living has come from increasing housing prices and groceries. The recent reversal in gasoline prices, relative to the nation, and the strength of Utah housing markets, relative to the nation, pushed the cost of living higher in the most recent quarter. Iron County continues to have an attractive cost of living.



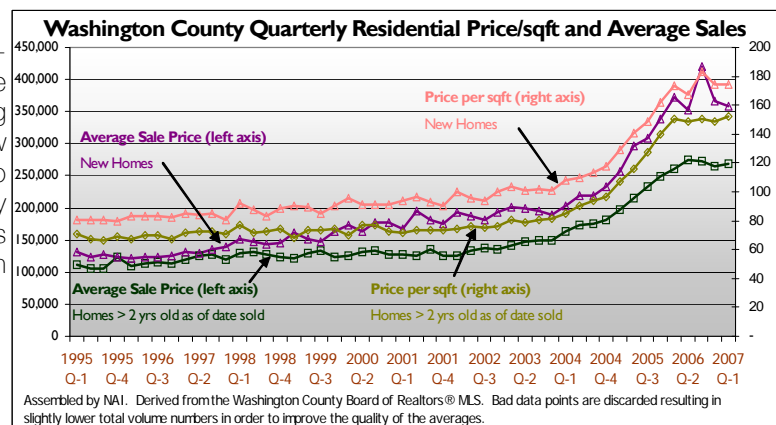
Washington County Commercial Real Estate

Commercial real estate in Washington County has appreciated as much as 70% over the past four years. Across the board, CAP rates are lower, lease rates are higher, and vacancy rates are down—resulting in commercial real estate appreciation. Industrial land values reinforce this point. In 2002 industrial land values ranged from \$1.00-1.84 per square foot. In 2006 prices ranged from \$3.00-6.00 per square foot—a 200% increase. We believe CAP rates have stabilized, lease rates will trend higher at a slower rate, and vacancy rates will trend higher, which will stabilize the commercial index.



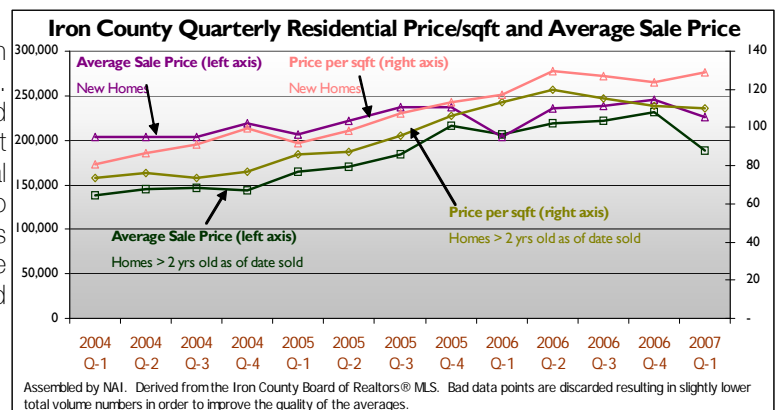
Washington County Residential Market

The Washington County housing market has made national headlines and has sparked concerns relating to affordability, workforce housing, and the availability of land for future development. Seeing existing home prices go from \$84 to \$148 per square foot and new home prices go from \$108 to \$174 per square foot, in just over two years, was the catalyst for the concerns. Our market has largely been shielded from the woes of the national real estate market as home prices, per square foot, have stabilized. We continue to watch transaction volumes and price discounts for signs of weakness.



Iron County Residential Market

The market for residential real estate in Iron County has also seen significant appreciation, although not as aggressive as St. George. On a \$ per square foot basis, new construction has appreciated 60% over 1st Quarter 2004 prices, and existing homes have not fared quite as well at 49% appreciation. As with other markets, total volume is down, but prices seem to be holding. It is important to note the difference in value between St. George and Cedar City is almost \$40 per square foot on existing homes, and \$46 per square foot on new homes. Only some of the differential can be accounted for by residential land prices.





The Results of Local Knowledge The Power of Global Contacts



2006 Leased Office Space

\$4,000,000
131,000 SF
70 Leases

Office Lease

11,400 SF

Chase Plaza
St. George, UT

Office Lease

14,400 SF

Morning Side
Office Plaza
St. George, UT

Office Lease

10,400 SF

Ventana Office
Park
St. George, UT

Industrial Lease

55,000 SF

Sunchase
Business Park
St. George, UT

2006 Land Sales

\$26,053,223
752 Acres
38 Transactions

Investment Properties For Sale

29 Opportunities
\$25-\$4,500 k

Retail Lease

10,100 SF

Dixie Sunset
Plaza
St. George, UT



Retail Lease

15,400 SF

The Shoppes at
Telegraph Square

Retail Sale

42,100 SF

Anderson Lumber
St. George, UT

Retail Available For Lease

244,000 SF
In Washington
County



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