

2008 2nd Quarter Market Report

A Quarterly Newsletter & Report on Commercial Real Estate In Southern Utah



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NAI Utah
Southern Region

Commercial Real Estate Services, Worldwide.

243 E St George Blvd Suite 200 | St George UT
tel 435 628 1609 | toll free 888 316 1609

Back to Fundamentals

“...the commercial market has stable dynamics that provide opportunities for those with a long term view. As a result, value investing and cash flows are popular once again.”

You may have noticed the government buildings photographed in this issue. The Washington City Recreation Center and the Santa Clara City Office Building both make an appearance. While our focus is the private sector, the amount of activity from government public works projects is worth noting. Intended or not, this has been a well-timed government stimulus providing work in the commercial construction sector.

Although the Recreation Center and the City Office Building are notable completions, the recent Desert Hills High School completion, the new courthouse facility, the student housing expansion at SUU, the St. George replacement airport, and the road improvements along I-15, including Exit 2 and Exit 6, are all pumping money into our economy. Most of this contract money is staying in the State.

On another note, the weak banking environment and overall economic softness continually raises the “How is the Market?” question. Our response? We are back to fundamentals. With vacancies increasing over the past two years, some have speculated that the bottom is falling out of the commercial markets. We believe that is not the case.

We acknowledge that the market has softened and we are going through a market cycle. However, we argue that the commercial market has stable dynamics that provide opportunities for those with a long term view. As a result, value investing and cash flows are popular once again. Look for an increase in the number of closed residential transactions locally, and a broader economic recovery nationally, to signal the next expansion in Washington County. In the meantime, there are great opportunities for investors, developers, and tenants looking to transact in the current market.



Mark Walter
mwalter@naiutahsouth.com
Principal Broker



Neil Walter
nwalter@naiutahsouth.com
Managing Director

Santa Clara Town Hall

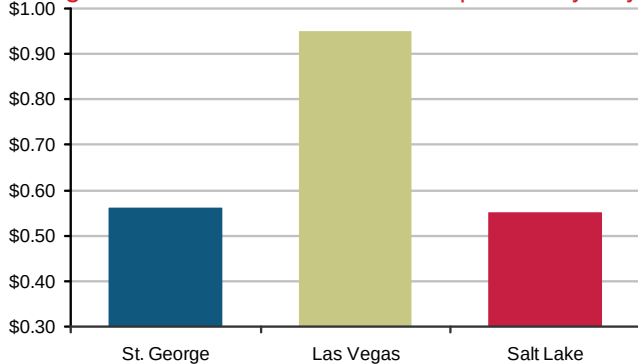


Washington City Recreation Center

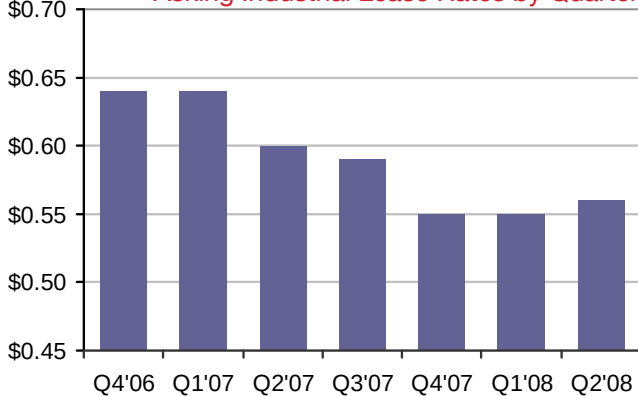


2008 2nd Quarter: Washington County Industrial

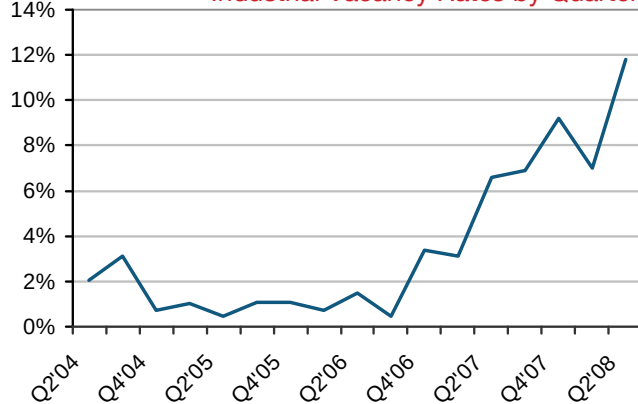
Regional Industrial Lease Rate Comparison by City



Asking Industrial Lease Rates by Quarter



Industrial Vacancy Rates by Quarter



Lease Rates (NNN)		< 20,000 SF	> 20,000 SF
	Low	\$0.45	\$0.48
	High	\$0.70	\$0.55
	Average	\$0.56	\$0.49
Stabilized Vacancy		11.80%	
2007 Ending Inventory		7,665,000	
Built in '08 YTD		165,000	
2008 YTD Inventory		7,830,000	
Under Construction		18,000	
New Construction Absorption		129,000	
New Construction Vacancy		30.4%	

Review

As construction activity continues to slow in both the residential and commercial sectors, general contractors and their subs have taken the brunt of the slowing housing market. The industrial segment has finally shown a significant reaction to these market conditions.

As indicated in the first quarter market outlook, we now see higher vacancy rates, lower absorption rates, and lower new construction numbers. Vacancy jumped from 7% to 12% in the last quarter. New construction vacancy (property less than one-year-old) also increased to around 30%. Absorption is now flat in industrial with few new leases signed.

New Industrial construction has responded appropriately with only 18,000 SF currently under construction. Storage unit developers have jumped in and taken up some slack in the industrial market. Not counted in the numbers reported above are the recently completed Washington Dam Storage project, the Stor-N-Lock facility in Gateway, or the Swiss Bank Storage facility in Fort Pierce.

Outlook

Look for the Industrial sector to recover with the housing sector. In the meantime, there will be some manufacturers and distributors, value-added businesses, and owner/users who will continue to selectively look for strategic opportunities to expand their businesses and position themselves for the next economic cycle. Tenants will continue to ask for concessions from landlords, and get them, as long as there is plenty of inventory in the market.

Market Outlook

Vacancy Rates



Absorption



Construction



Lease Rates



Partial List 2nd Quarter Industrial, Investment & Land Transactions

Industrial - Lease	SF	Agent
1035 E 100 S Suite A&C	5,082	Chappells
Fort Pierce Warehouse/Slater Building	16,000	Jason & Meeja
Gateway Crossing Space 7	3,000	Jason & Meeja
Rio Virgin Office/Warehouse	1,650	Curren Christensen & Walter Group
Industrial - Sale	SF	Agent
Blackhill Industrial Park Unit 3	2,000	Wes Davis
Blackhill Industrial Park Unit 4	2,000	Wes Davis
Fairgrounds Industrial Park Lot 38	1	Jason & Meeja
Former Gale Insulation Building	9,000	Wes Davis
Investment - Sale	SF	Agent
Sunmart/Red Cliffs Texaco	2,739	Walter Group
River Road Chevron	2,940	Walter Group
Land - Sale	Acre	Agent
11.29 Acres Broken Arrow Ranchettes	11.92	Chappells
Boulder Mountain Ranch	6 +/-	Chappells
North Side of 3000 North in Cedar City	0.86	Landon Terry
Fort Pierce Lot 122	2.39	Ryan Garrett



For Sale & For Lease:
Gateway Crossing 198 N Highway 91 | Hurricane

2008 2nd Quarter: Washington County Office



Market Outlook

Vacancy Rates



Absorption



Construction



Lease Rates



Lease Rates (NNN)	Class A	Class B	Class C
Low	\$1.20	\$1.10	\$0.80
High	\$1.40	\$1.30	\$1.05
Average	\$1.32	\$1.22	\$0.97
Vacancy	5.9%	8.7%	12.4%
Stabilized Vacancy	8.30%		
2007 Ending Inventory	2,939,000		
Built in '08 YTD	130,000		
2008 YTD Inventory	3,069,000		
Under Construction	66,000		
New Construction Absorption	190,000		
New Construction Vacancy	29.3%		

Review

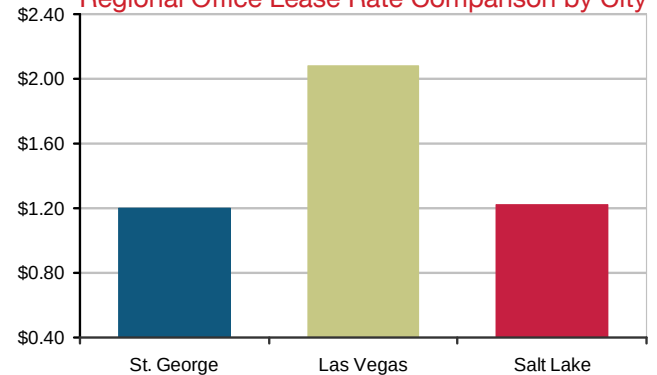
Leasing in the office market has been confined to smaller spaces over the past two quarters. Space available for sublease is up significantly and inventory continues to come on the market. Vacancy rates are up on stabilized properties as well as properties constructed in the past 12 months.

Office construction has slowed as only two new buildings were completed in the second quarter. Office construction has also dropped to 66,000 SF from 106,000 SF last quarter. On the other hand, the new Dixie Regional Medical Center Outpatient Pavilion at 150,000 SF and the IHC Jubilee Home (not included in the under construction numbers) will be a significant addition to the health care uses in the area.

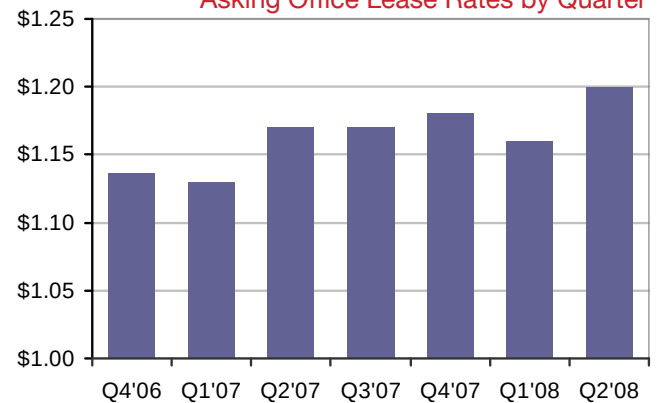
Outlook

Much like the industrial sector, we will continue to see leases signed but much of the activity will be relocation of existing businesses. Expect sublease space to continue to hit the market. As indicated previously, landlords are making concessions to attract and maintain good tenants, although don't expect those concessions to necessarily show up in asking lease rates. As reported previously, expect creative offerings, well-designed space, and well-located space to see acceptable levels of traffic while less desirable locations or poor layouts will struggle.

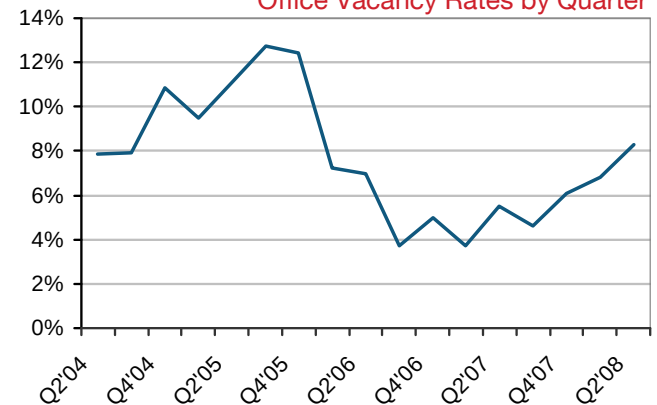
Regional Office Lease Rate Comparison by City



Asking Office Lease Rates by Quarter



Office Vacancy Rates by Quarter



Partial List 2nd Quarter Office Transactions

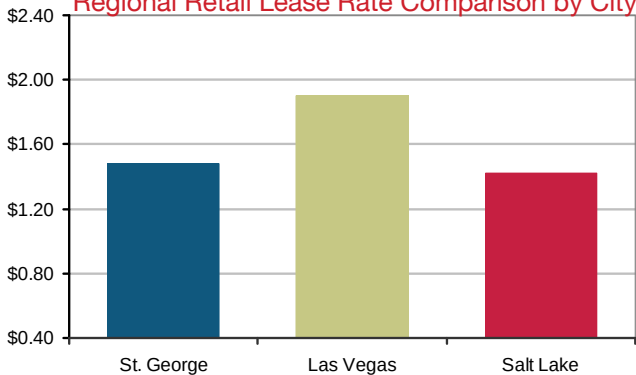


For Sale or Lease:
CBD—Class A Office 301 N 200 E | St. George

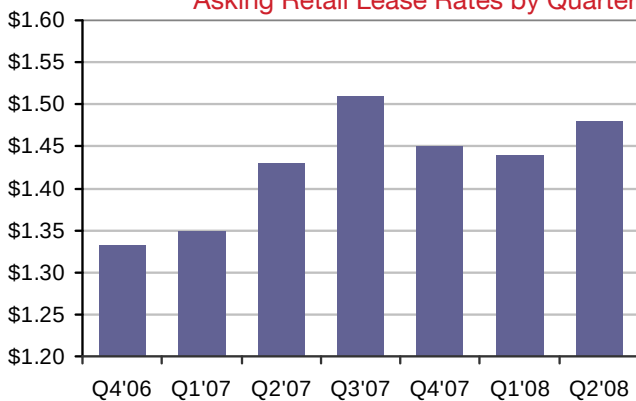
Office - Lease	SF	Agent
144 Brigham Rd	1,550	Chappells
221 Mall Dr T102	1,200	Chappells
Pioneer Shopper	1,900	Jason & Meeja
Red Cliffs Professional Park Suite C-1	463	Jason & Meeja
Sandale Terrace 150	1,700	Jason & Meeja
Sun Valley Prof. Park Suite 150	1,497	Jason & Meeja
Santa Clara CBD Office Space	2,800	Ryan Garrett
Troon Park, Phase 1 & 2 Building 10 Suite 101	300	Ryan Garrett & Brandon Vandermyde
Boulevard Office Park, Building A Suite 203	725	Walter Group & Curren Christensen
Chase Plaza/Sundance Title	1,619	Wes Davis
Chase Plaza/TruNoni	260	Wes Davis
Troon Park Phase 1 & 2 Suite 105	1,279	Brandon Vandermyde
Office - Sale	SF	Agent
Boulevard Center Building C Suite 103	3,784	Jason & Meeja/Walter Group

2008 2nd Quarter: Washington County Retail

Regional Retail Lease Rate Comparison by City



Asking Retail Lease Rates by Quarter



Retail Vacancy Rates by Quarter



Partial List 2nd Quarter Retail Transactions

Retail - Lease	SF	Agent
Rio Plaza Suite 107	1,343	Chappells, Jason & Meeja
Dixie Sunset Plaza Suite 4	1,392	Chappells, Jason & Meeja
Cotton Mill II	15,000	Jason & Meeja
Dixie Sunset Plaza Suite 7	1,092	Jason & Meeja
Greensprings Shopping Center	1,600	Jason & Meeja
Rio Plaza Suite 208	1,270	Jason & Meeja
Rio Plaza Suite 104	1,270	Jason & Meeja
Rio Plaza Suite 204	1,685	Jason & Meeja
Albertson's Center No. 1 Unit 3	1,600	John Griffith
Old Red Hills Suzuki Building	8,981	Ryan Garrett
Southland Retail	3,440	Ryan G, Walter Group
Zion Gateway Plaza Suite C,D, & H	3,800	Walters, Chappells, Jason, Meeja, Ryan, Landon
Festival Plaza/Rise & Dine	3,500	Wes Davis
Red Cliffs Square D	1,328	Ryan G, Jason & Meeja
Red Cliffs Square E	1,328	Ryan G, Jason & Meeja
Retail - Sale	SF	Agent
Shoppes at Santa Clara	10,271	Walter Group

Lease Rates (NNN)		Anchored	Unanchored
Low		\$1.40	\$1.05
High		\$2.00	\$1.75
Average		\$1.75	\$1.39
Vacancy		6.0%	6.9%
Stabilized Vacancy		6.40%	
2007 Ending Inventory		5,655,000	
Built in '08 YTD		102,000	
2008 YTD Inventory		5,757,000	
Under Construction		135,000	
New Construction Absorption		316,000	
New Construction Vacancy		19.9%	

Review

The retail market has continued to see the best absorption rates and lowest vacancy rates, both for stabilized properties and properties built in the past 12 months. Barnes & Noble, In-N-Out, and Buffalo's Café were the major credit expansions in the area. El Pollo Loco and Walgreen's remain on the horizon for the remainder of the year, with Wal-Mart looming for 2009 in Hurricane. NAI recently leased a 15,000 SF space with Down East Outfitters at the Cotton Mill Center (Kohl's) and construction will commence shortly for this and two other tenants at the Cotton Mill.

Although not included in the under construction or base inventory numbers, banks have been expanding aggressively. SunFirst bank completed its Hurricane site last quarter. Mountain America Credit Union is nearing completion at Festival Plaza, America First Credit Union is nearing completion in front of Home Depot on Sunset Boulevard, and Goldenwest Credit Union is going vertical on Sunset Boulevard. A number of other bank sites in Boulder Springs and throughout the county have been acquired although construction has not yet commenced.

Outlook

It is worth reiterating the statement from last quarter that, even more so than in recent history, location will be the most important criteria for retail tenants and developers. Properties in well-established traffic corridors will see more activity, better tenants, and faster lease-up times than sites in developing or secondary areas. Retail construction activity will continue to ease until the next wave of national tenant expansion, which will most likely coincide with a change in the broader economic environment.

Market Outlook

Vacancy Rates



Absorption



Construction



Lease Rates



For Lease: The Shoppes at Telegraph Square
568 W & 520 W Telegraph Road | Washington

2008 2nd Quarter: Iron County

Cedar City

Industrial

For the first time since we started tracking the industrial market in Cedar City, we saw industrial vacancy rates increase. As with Washington County, this is a result of the number of general and subcontractors scaling down their operations as the residential markets try to absorb existing inventories. Last quarter, we warned that the industrial leasing market was not strong and that the difficulties leasing industrial space there were not reflected by the vacancy rate. We also mentioned that asking lease rates of \$.68 per SF were out-of-line and that property owners should not expect to see the same numbers by this quarter. Average asking rates for industrial properties are now at \$.54 per SF—the lowest we have reported since beginning the survey in the first quarter of 2007. Long-term, we anticipate Cedar City to be a very good industrial market as oil prices make rail an even more attractive option and the industrial parks start attracting value-added businesses.

Office

Vacancy rates rose slightly and average asking lease rates dipped, as suites came available in buildings that have historically remained near full occupancy. The office market remains soft and owners will have to provide attractive incentives to secure tenants. There are a couple of new properties in the works and, in the near term, we anticipate this negatively impacting vacancy and lease rates.

Retail

The retail sector saw a sharp reversal in the vacancy rate, primarily as a result of the number of subleases coming available in the Providence Center area. Vacancy rates jumped from 15% to 19.7% as average asking lease rates continued to fall from \$1.24 to \$1.21. As with the office and industrial sectors, we see this as part of the current cycle and the reaction is consistent with a market that is more volatile than the Washington County market. As evidence of other's bullish, long-term view of Cedar City, the Walgreen's that opened this year was purchased by an investor, and another retail investment property in Cedar City is rumored to be under contract. For investors looking for value plays or land banking in Cedar City, now is a very good time to be looking at deals.



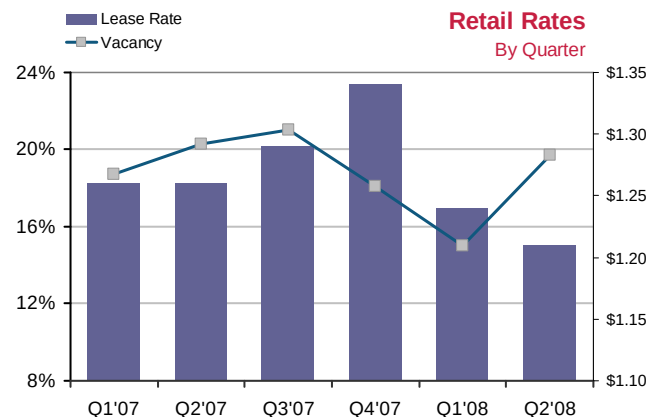
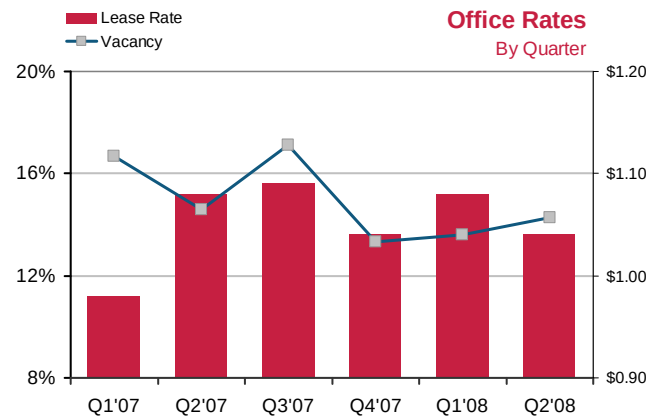
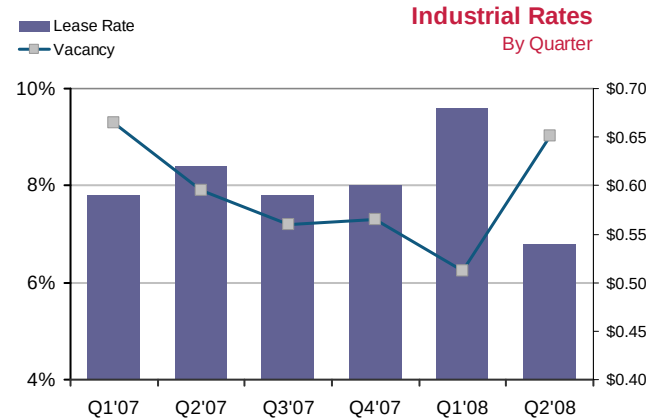
Industrial for Lease:
Coal Creek Industrial Park |
Cedar City



Office For Sale or Lease: 1957 Royal Hunte Drive | Cedar City



Lease Rates (NNN)		Industrial	Office	Retail
	Low	\$0.35	\$0.80	\$1.00
	High	\$0.70	\$1.35	\$1.50
	Average	\$0.54	\$1.04	\$1.21
	Vacancy	9.0%	14.3%	19.7%



Investment for Sale: Previous Cedar City Hospital

Agent Highlights

Pat Chappell & Ryan K. Garrett

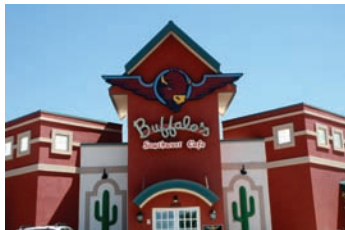


Pat Chappell brought to NAI the knowledge she gained from a successful 22 year career as a mid-sized business owner and incorporated this experience into a commercial real estate career. As a Retail Business & Investment Specialist, Pat and her husband, Mathew, have assisted their clients with acquiring and divesting motels and restaurants throughout Utah. Her extensive management experience has enabled Pat to successfully represent national clients such as; Super 8 Motel, Howard Johnson, Denny's Restaurant, Gandolfo's Deli, Burger King, Texaco and Phillips 66. Pat has also effectively assisted clients with 1031 TIC exchanges, land development & acquisition, and has represented national tenants with prime leases. Pat graduated from Brigham Young University with a Bachelors in Art and Environmental Design. She completed most of her graduate studies in architecture at the University of Utah. Pat and her husband have 11 children and many grandchildren.



Ryan K. Garrett joined the NAI team in 2007 bringing with him an expert technical and management background. He earned his Masters in Information Systems Management and his Bachelors in Business Management from Brigham Young University. A native of St. George, Ryan relocated back from Scottsdale, Arizona, where he spent several years specializing in software development. Ryan's clients include: Subway Sandwiches, Dominos Pizza, Carl's Jr. and most recently Godfather's Pizza. Ryan has worked with investment and multi-family properties such as: Ancestor Square, DMV Office Park and Dixie State College multi-unit college apartments. Ryan's interest in commercial development has also expanded his career, working with government entities securing zoning changes and use variances. His strong interest in property valuation continues to drive him to find parcels of underutilized properties that could be developed into retail centers. Ryan lives in Green Valley with his wife and four children.

2nd Quarter: Happenings Around Town...



- Santa Clara Town Hall held their dedication & art event May 16, 2008. *Photographs featured on front and inside cover.* The building was modeled after the old Santa Clara schoolhouse that was torn down in the 1970's.
- The 110,000 SF Washington City Recreation Center officially opened its doors on May 20, 2008. Housed in the center is Utah's largest indoor aquatic complex. *Photographs featured on front and inside cover.*
- Watts Construction has broken ground on a new El Pollo Loco Restaurant, located in the Cotton Mill Center. Construction is slated to be completed by the end of July and the restaurant is expected to open in August.
- In-N-Out Burger opened a 3,625 SF restaurant located at 832 West. Telegraph Street. This is the first In-N-Out Burger located in Utah.
- Town & Country Bank, headquartered in St. George, opened a loan production office located at 1224 South River Road.
- Stor-N-Lock located in Hurricane (126 North Old Highway 91) held their grand opening on the 6th of June. The project is a joint venture with The School and Institutional Trust Lands Administration (SITLA). The facility holds 508 units on approximately 4 acres.
- RAM Company recently held a ribbon cutting ceremony for its 33,000 SF expanded manufacturing plant, which is located at 3172 East Desert Drive South in St. George.
- Barnes & Noble opened their doors Tuesday, May 27. The St. George location, at the Red Cliffs Mall, will stock about 200,000 book, music, magazine and movie titles. The store also has a café serving Starbucks coffee, Cheesecake Factory sweets and Godiva chocolates. About 60 employees were hired to staff the store.
- Buffalo's Southwest Café, located at 2400 North Town Center, in the Coral Canyon development, opened for business May 11. The \$3 million facility has a lounge with seven flat screen televisions, a dining room and a private banquet room.
- La Quinta Inn and Suites held their grand opening March 27. The 104 room La Quinta Inn is located near Brigham Road and Exit 4 of Interstate 15. The hotel cost \$11 million to build and features a 24-hour fitness room, business center, boardroom, breakfast area and outdoor pool.
- St. George City Council adopted ordinances for a purchase and sales agreement with Anderson Development for St. George's 274 acre airport. Anderson Development is a Sandy-based land development firm that was chosen as the buyer for St. George's current airport property.
- The newly completed Sun Valley Professional Plaza, located at 48 South 2500 West in Hurricane, held an open house on June 26 to welcome tenants: University Health Care, Dialysis Research Foundation, Mountain View Title & Escrow Company and Hinton Burdick CPA's & Advisors. The 17,303 SF building was developed by Darcy Stewart.

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We know our markets intimately, & are on familiar terms with major property owners, tenants (occupiers) & government agencies.

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Over 100 Years Combined Real Estate Experience



Mark Walter



Jason Griffith



Wes Davis



Neil Walter



Jon Walter



John Griffith



Mathew Chappell



Patricia Chappell



Meeja McAllister



Brandon Vandemyde



Ryan Garrett



Landon Terry



Curren Christensen



Terry Salazar



Joseph Iwanski



Mary Iwanski



Allene England



Sandy White

16 Local Agents
3 Agents with CCIM Designation
3 Agents with Masters Degrees in Management

4 Full-time Support Staff
Marketing Department
GIS Department
Office Coordinator
Property Management



Annette Humphrey



Sharee Hale



Bob Wells



Micah Keith

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