

# 2008 4th Quarter Market Report

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

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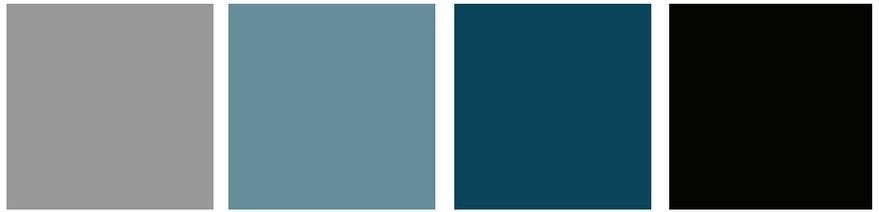
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# Navigating This Market Cycle

Last quarter we discussed giving up resistance, or capitulation, in the markets. In the cycle of market emotions “the bottom” is scary. Starting over requires rebuilding confidence and attention to fundamental investment principles in spite of an uncertain future. Understanding how we came to this point in the market cycle can give us an indication of the road ahead.

## How did we get here?

The length and depth of the housing lead downturn have been underestimated multiple times over the past eighteen months. Each time it looked like we were starting to stabilize, more bad news deepened the recession. It started with losses in the banking sector, resulting from derivatives backed by housing, then it was skyrocketing commodity prices, then consumer confidence fell, then the credit crisis spread to all sectors and asset classes, then the stock market crashed, and now retailers and auto manufacturers are taking a hit. As this report illustrates, we are now seeing the impacts of that cycle show up in the commercial markets, with accelerating vacancy rates and falling lease rates.

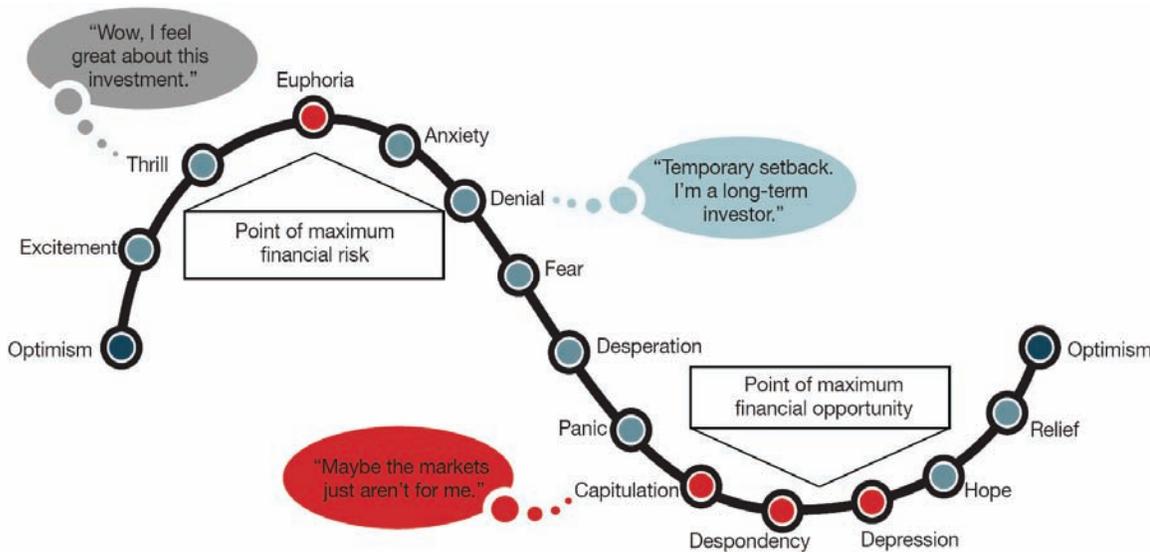
## What will lead us out?

So, if all of this bad news has resulted in more bad news, how do we get out? Housing was the signal that lead us into this recession and housing will be the signal that leads us out. Housing will be considered in recovery when prices and volumes stop falling. Relief in the housing market will stop the pressure to shed jobs and operations that affect businesses occupying office and industrial space. Relief in the housing market will also provide relief to homeowners who have watched their net worth fall, which has impacted confidence and consumer spending. Lastly, a stable housing market will signal the beginning of the end of bank losses, of retailer closures, and of reductions in aggregate demand.

We have weathered eighteen months of one of the most challenging cycles in memory. The inset chart illustrates the emotional rollercoaster of the past couple of years. Just three years ago, no one could go wrong whereas three years from now we will probably be saying the same thing. While there will be more challenging months ahead, we are eighteen months closer to a recovery than when the bad news started. That is all good news.

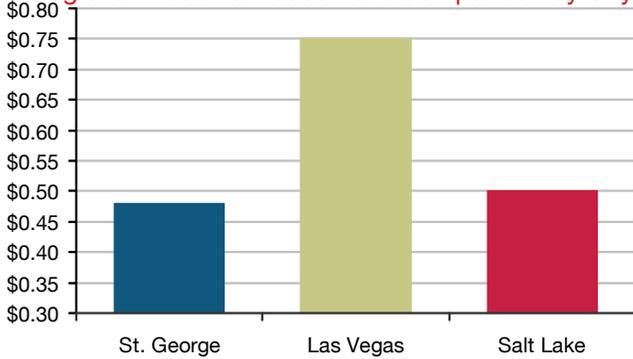
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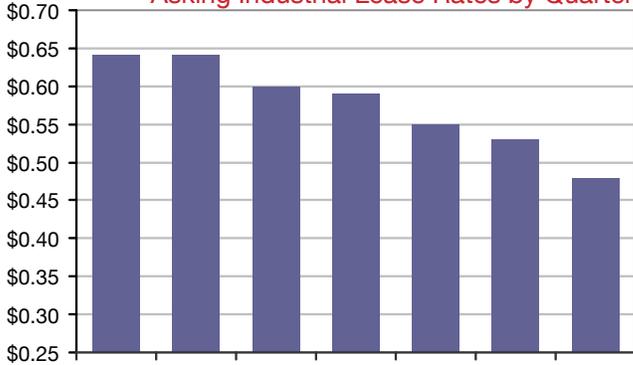


# 2008 4th Quarter: Washington County Industrial

Regional Industrial Lease Rate Comparison by City



Asking Industrial Lease Rates by Quarter



Industrial Vacancy Rates by Quarter



For Lease: Riverside Corner  
267 East 1400 South | St. George

Asking Lease Rates (NNN)		< 20,000 SF	> 20,000 SF
Low		\$0.40	\$0.40
High		\$0.70	\$0.55
Average		\$0.48	\$0.48
Stabilized Vacancy		22.40%	
2007 Ending Inventory		7,665,000	
Built in '08 YTD		313,000	
2008 YTD Inventory		7,978,000	
Under Construction		183,000	
New Construction Absorption		283,000	
New Construction Vacancy		43.8%	

## Review

Last quarter, there was very little industrial leasing activity. In the fourth quarter, industrial absorption turned negative as companies, related to the construction industry, vacated space or attempted to sub-lease excess space. As a result, industrial vacancy jumped from 14.8% to 22% as the St. George market contracted. This 22% vacancy is based on NAI's survey of over 1,000,000 SF of multi-tenant space and excludes owner-occupied properties. We double-checked this number by comparing the total available industrial space for lease and the total industrial base inventory, which includes owner-occupied properties, and the vacancy rate is still 15.4% (This does not include owner-marketed properties.)

New construction vacancy is similarly high at 43.8%. This figure is significantly higher in the Gateway Industrial Park, where many spec industrial buildings were built in late 2007 and 2008. Asking lease rates edged down to \$0.48 per SF per month, triple net, for warehouse space.

At the time of this report, some 33 industrial buildings (including individual condo spaces) are on the market for sale. Just eighteen months ago, it was difficult to find an industrial property for sale. Spec industrial projects have come to a near screeching halt, although multiple new properties for end users are under construction or were completed in the fourth quarter.

## Outlook

Unfortunately, vacancy rates will likely edge higher and lease rates will likely fall further next quarter. We do not believe that industrial will turn around until we see a material recovery in the local housing market and the national economy. Positive absorption will come almost exclusively from build-to-suit or end-user demand. Landlords should work diligently at keeping their existing tenants in place. Consideration of temporary rent abatements might even be in order to help companies prosper.

## Partial List 4th Quarter Industrial, Investment & Land Transactions

Industrial - Lease	SF	Agent
Fort Cedar Commerce Center	5,000	Brandon Vandermeye
HED Retail/Warehouse	1,200	Jason & Meeja
Industrial - Sale	SF	Agent
Old Wheeler Machinery Building	19,500	Brandon & Monty

## Market Outlook

### Vacancy Rates



### Absorption



### Construction



### Lease Rates



# 2008 4th Quarter: Washington County Office



## Market Outlook

### Vacancy Rates



### Absorption



### Construction



### Lease Rates



Asking Lease Rates (NNN)	Class A	Class B	Class C
Low	\$1.05	\$0.90	\$0.70
High	\$1.30	\$1.20	\$1.05
Average	\$1.18	\$1.05	\$0.92
Vacancy	6.5%	10.3%	15.9%
Stabilized Vacancy			10.10%
2007 Ending Inventory			2,939,000
Built in '08 YTD			224,642
2008 YTD Inventory			3,163,642
Under Construction			81,000
New Construction Absorption			136,000
New Construction Vacancy			43.6%

### Review

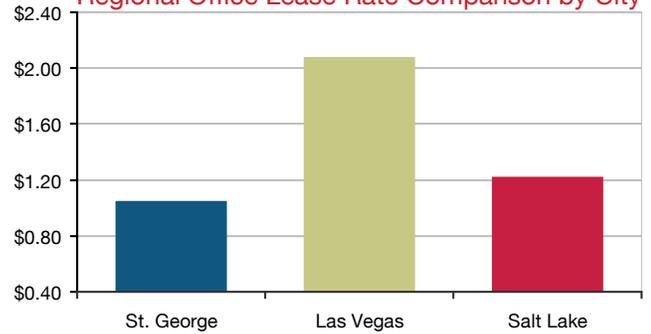
Negative absorption seems to be a reoccurring theme for the 4th quarter leasing market, and the office segment trend is no different. Existing business contraction and fewer new business starts have been the greatest factors in the significant decrease in price and increase in vacancy. Although new office construction has tapered some, there is still much more construction than is necessary, given current market conditions.

The most notable office project completed this quarter is the Park at Paradise Canyon, totaling approximately 40,000 SF. New construction, started this quarter, includes the 37,000 SF Executive Plaza on Bluff Street, a 23,000 SF building in Tonaquint, and dirt being moved for the Office Park at Dinosaur Crossing. Other notable properties under construction include the Dixie Regional Medical Center Outpatient Pavilion, adjacent to the Hospital, and the new Washington County Courthouse on Tabernacle Street.

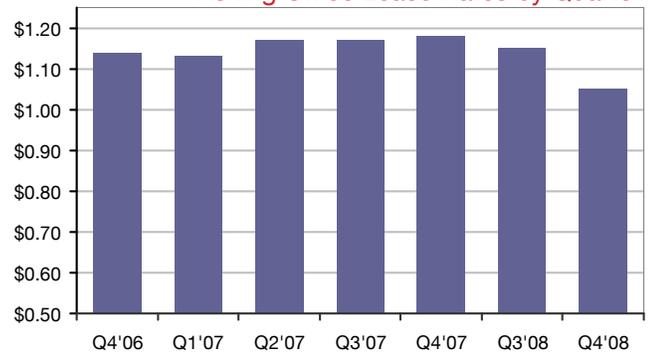
### Outlook

Mortgage companies experienced increased activity as mortgage rates reached a low of 4.75%, which could stimulate other business for office occupants. However, economic challenges, in general, weigh heavy on businesses. Even if such stimulus maneuvers prevail, many companies have ample space within their current offices to grow business before further expansion of space is needed. Before realizing positive absorption, a national economic turnaround, combined with period of limited office construction, will be necessary.

Regional Office Lease Rate Comparison by City



Asking Office Lease Rates by Quarter



Office Vacancy Rates by Quarter



### Partial List 4th Quarter Office Transactions

Office - Lease	SF	Agent
Troon Park	2,000	Curren & The Walter Group
Zion Plaza	450	Curren & The Walter Group
166 N 300 W	900	Curren, Brandon & The Walter Group
Ence Executive Tower 1	1,781	Jason & Meeja
Wells Court	723	Jason, Meeja & Monty
Troon Park	3,351	Ryan Garrett
Tonaquint Center	5,270	The Chappell Team
Office - Sale	SF	Agent
Previous Hurricane Valley Health Center	9,792	The Walter Group

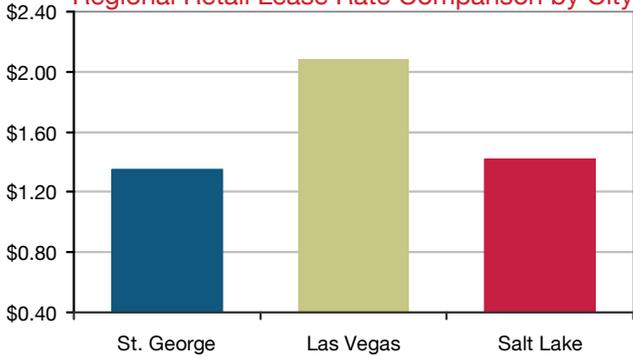


For Lease: The Center at Dinosaur Crossing  
446 South Mall Drive | St. George

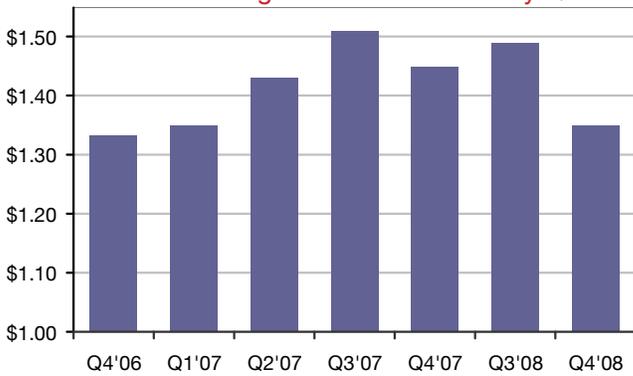
# 2008 4th Quarter: Washington County Retail



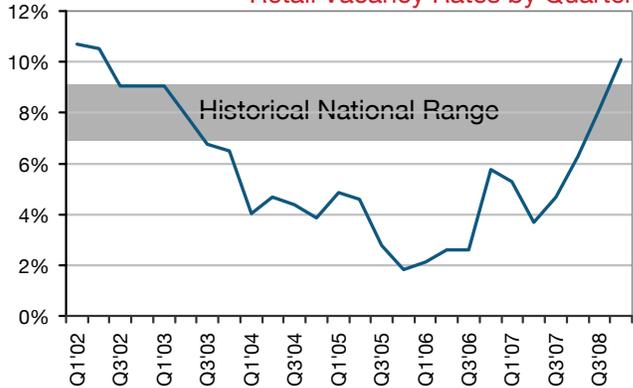
Regional Retail Lease Rate Comparison by City



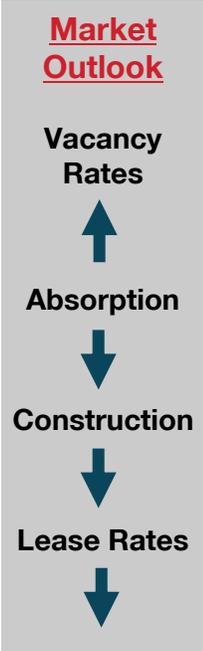
Asking Retail Lease Rates by Quarter



Retail Vacancy Rates by Quarter



Asking Lease Rates (NNN)		Anchored	Unanchored
Low		\$1.10	\$1.00
High		\$2.00	\$1.88
Average		\$1.63	\$1.38
Vacancy		8.7%	12.1%
<b>Stabilized Vacancy</b>		10.10%	
<b>2007 Ending Inventory</b>		5,655,000	
<b>Built in '08 YTD</b>		229,000	
<b>2008 YTD Inventory</b>		5,884,000	
<b>Under Construction</b>		177,145	
<b>New Construction Absorption</b>		118,000	
<b>New Construction Vacancy</b>		46.7%	



## Review

Retailers are feeling the heat as the average family is spending less and consumer confidence is down. With business slowing, tenants are seeking relief from landlords, putting downward pressure on lease rates. Vacancy rates are up for multi-tenant retail buildings, as many entrepreneurs are hesitant to open new locations, given the current economic environment.

Not all retailers are taking a passive approach during the economic slowdown. Walgreens just finished a site in Hurricane and is nearing completion on their Sunset Boulevard store. Wal-Mart has shown retail sales growth nationally, and construction is moving along on their Hurricane location. Other new fourth quarter expansions include: Golden West Federal Credit Union, Car Quest Auto, Pirates Pizza, and St George Transmission on Sunset Boulevard, as well as Red Robin in Washington, Wingate Hotel at Exit 4, and Maverik at Exit 13. It should also be noted that Harmon's Grocery Store has begun moving dirt for their site in Santa Clara, on the Corner of Rachel Drive and Pioneer Parkway.

## Outlook

The national outlook for retail suggests that more retailers will close during the first quarter, before the outlook improves. Locally, recent closures include Famous Dave's, Gandolfo's, and more than a couple of boutiques. The bright news for retail this quarter is the vast majority of new construction for end-users, as opposed to multi-tenant speculative space. New construction for multi-tenant retail is down, which will lessen the burden for existing landlords leasing space. When consumer confidence rises and retail sales increase, entrepreneurs will feel more confident in expanding their retail presence.



For Lease: Festival Plaza  
3050 East 969 North | St. George

## Partial List 4th Quarter Retail Transactions

Retail - Lease	SF	Agent
Lemmon Tree Plaza	2,856	Jason & Meeja
Old Red Hills Suzuki	500	Ryan Garrett
Retail - Sale	SF	Agent
Old Tractor Store in Hurricane	4,144	Jason & Meeja
Dennys Restaurant in Salina	4,479	The Chappell Team
Investment - Sale		Agent
Classy Closets Business		The Chappell Team
Land - Sale	Acres	Agent
Commercial Frontage in Hurricane	3	Ryan Garrett

# 2008 4th Quarter: Iron County Cedar City

## Industrial

At 7.1%, the Iron County industrial market is showing a much lower stabilized vacancy rate than Washington County. Despite the lower vacancies, projects continue to be slow leasing, particularly the new warehouse space in Port 15 and Fort Cedar. We continue to watch the impact of the Palladon Ventures mine reopening, to see if there are ripple effects that would create additional demand in the industrial sector. In 2008, there was some absorption as the developed space off of Highway 56 was leased or sold, and vacancies held relatively steady. Looking to 2009, we anticipate the market to continue to be slow and we are discouraging speculative building. End-users, who will occupy their space, will be the only source of demand until the contractors and their subs start seeing significant new business.

## Office

The current vacancy rate is 14.2%. We revised last quarter's vacancy rate down to 14.7%, which is consistent with the past four quarters. Despite the high vacancy rates, there are still buildings being built. In addition to the retail/office project at 1760 North Main, Hinton Burdick is constructing a new building for their CPA firm and will be joined by Snow, Jensen & Reece. Office leasing activity remains very slow and many spaces have been vacant for more than a year. We are seeing asking lease rates soften, but the lower lease rates have failed to generate additional tenant traffic. As with industrial, prospective tenants in the office market are stalled, waiting to see what happens in the residential market.

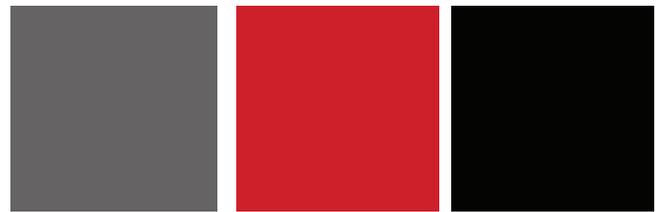
## Retail

At 22.7%, retail vacancies are the highest since we started the survey in Iron County. Much of the increase in vacancy is a result of sublease space left from failed retail outlets. As the population growth and the recreation traffic from Las Vegas slowed, the trade area became over-retailed. We expect that the first quarter will bring additional store closures and subleases in the retail market. The only positive absorption anticipated for the retail sector will come from users and build-to-suit situations.

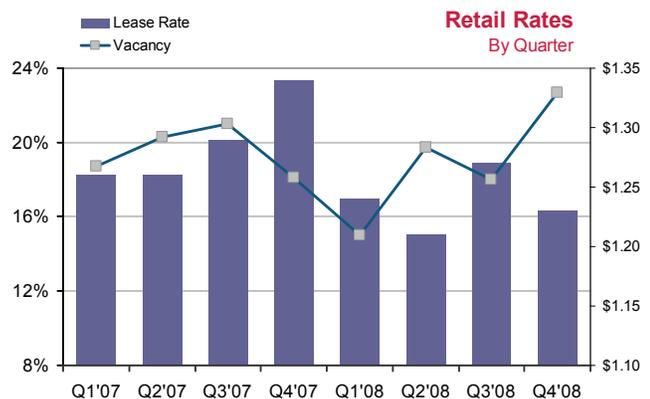
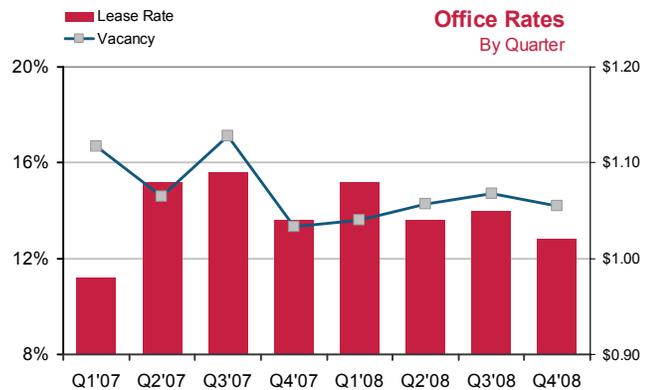


For Lease: Providence Towne Center | Cedar City

For Sale or Lease:  
427 S Main St.  
Third Floor |  
Cedar City



Asking Lease Rates (NNN)	Industrial	Office	Retail
Low	\$0.35	\$0.80	\$0.75
High	\$0.70	\$1.18	\$1.50
Average	\$0.54	\$1.02	\$1.23
Vacancy	7.0%	14.2%	22.7%



For Lease: 1760 North Main Street | Cedar City

# 4th Quarter:

## Happenings Around Southern Utah

Information Gathered from The Spectrum Newspaper and Main Street Business Journal



- **Wheeler Machinery** sold their former location to Peterbilt of Utah, where they will expand their business into Southern Utah. Voted Best in Class, and Dealer of the Year in Utah, Peterbilt plans to open their new 19,500 SF facility in the Summer of 2009.
- **Green Valley Cabinets** will open their brand new 50,000 SF building in Fort Pierce Industrial Park in late January. Green Valley Cabinets has been in business since 1978 and is the Southern Utah leader in high-end custom cabinetry.
- **Dixie State College** announced plans to build a new building named after alumnus Jeffery R. Holland. The 110,000 SF facility is estimated to cost \$45 million and will host the services currently at the Whitehead Building, in addition to classrooms and other services.
- **St. George Art & Community Center's** third floor is reopened as a renovated events center. The \$1.3 million restoration project has turned it into a place where people can come together.
- **St. George Replacement Airport** held their groundbreaking October 17th. The 1,200-acre site is scheduled to open November 1, 2010.

- **Milford Wind Corridor Project** began construction November 19th. First Wind, an independent wind power company, is the builder. First Wind is investing \$400 million in 203-megawatt wind corridor turbines scattered over 40 square miles.
- **Iron Mine** of Cedar City officially opened in October. Palladon has a 5-year, \$1 billion contract to supply iron ore to China Kingdom, an industrial conglomerate based in the People's Republic of China.
- **Wingate by Windham**, owned by Red Rock Hotel Group, is now open. The hotel is located in the Bloomington Business Park, near Wal-Mart. The property has 66 rooms and 11 suites.
- **Rise & Dine** breakfast lunch chain opened October 1st. The restaurant is located at Festival Plaza Shopping Center 969 N 3050 E, St. George.
- **Red Robin** at 640 W Telegraph Road in Washington City, opened its 6,350 SF restaurant. It will seat 212 guests.
- **Exit 2** opened to traffic January 31st. The project includes the interchange and eventually connect River Road as part of the Southern Parkway.

## Agent Highlights: Mathew Chappell & Brandon Vandermyde

**Mathew Chappell** has been with NAI since 2005 as a trusted real estate investment advisor. He has brokered numerous national, state and local investment and business sales, 1031 exchanges, and land transactions for clients from around the world. Mat is an expert in the field of listing and selling large businesses, retail development land, ranches, and farm land. He was President and CEO of a mid-sized national cheese manufacturing plant, large dairy ranch, and farm for 25 years. He owned and operated four other businesses concurrently. Mat was responsible for the day-to-day operation and management of more than 40 employees and \$8,000,000 in annual revenue.



Extensive, hands-on knowledge of farming and ranching, federal and state land laws, and water allows Mat the unique ability to give a prospective buyer the necessary tools for making an informed decision regarding land, or Utah water rights. Mat is known for his ability to negotiate a tough deal with impeccable integrity.



**Brandon Vandermyde** received his Associate Degree at Dixie State College, where he was a member of the baseball team and served as the Vice-President of the Ambassador Organization. He furthered his education at Southern Utah University, where he received a Bachelor Degree in Public Relations and a minor in Piano Performance.

Brandon has been able to incorporate his talents and outgoing personality in a variety of different professional capacities, some of which include: working throughout the United States as a Marketing

Manager, owning and operating several small businesses, and tutoring children with special needs.

Brandon joined NAI May 2006 and, during his first year, Brandon brokered enough transactions to become eligible for a Principal Broker's license, and was named NAI Utah South's Rookie of the Year. His success has come from his focus on integrity, work ethic, and his communication abilities.

NAI professionals are virtually everywhere – from Los Angeles to London, Memphis to Mexico City – in over 350 offices worldwide. Experienced local professionals in primary, secondary & tertiary markets are fluent in the local languages & customs, have deep roots in their communities & can guide your way in real estate decision-making as your company operates in new & existing markets.

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

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Mark Walter



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Brandon Vandemyde



Ryan Garrett



Landon Terry



Curren Christensen



Terry Salazar



Joseph Iwanski



Mary Iwanski



Alene England



Sandy White

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3 Agents with Masters Degrees in Management

3 Full-time Support Staff  
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Office Coordinator  
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Annette Humphrey



Monty Bundy



Bob Wells



Sharee Hale

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