

# 2009 3rd Quarter Market Report

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



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Southern Region

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# Tenants & Buyers Changing Tactics



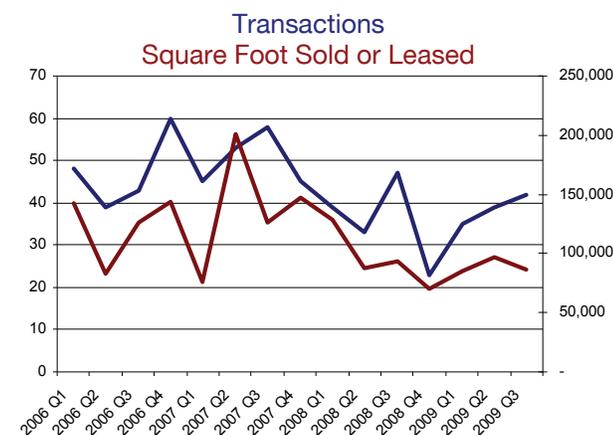
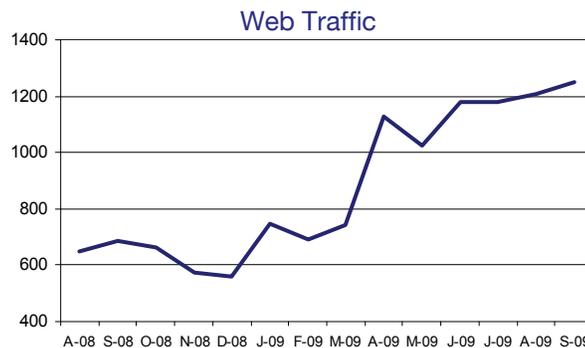
In the book “Who Moved My Cheese”, after finding the new location for cheese and giving up on convincing his friend to leave the old location, one of the things the main character writes on the wall in the maze for his friend is “Change Happens: They keep moving the cheese”.

With increasing vacancies and falling lease rates, many of you have asked where the tenants and buyers have gone. A couple of years ago it was easy to dispose of properties: put up a sign and they came out of the woodwork. Today, there are still existing businesses and entrepreneurs who need space to open, relocate, or expand their business - the challenge is to find them. Tenants and buyers have changed their decision making process: they do more work up front, they are more selective, they are more patient, and they have more options.

Year-to-date, the number of deals and the overall activity at NAI continue to improve. The fourth quarter of 2008 represented a low-point in transaction volumes as a result of the fear of economic collapse and political uncertainty. Since then, our marketing strategy has been adjusted to be much more aggressive in an effort to generate more exposure for our listings. Our direct mail activities have increased, our email campaign has been overhauled, and we have added a blog and property videos to our website. There are good indications it is working. Our web traffic has doubled (see chart) and our property videos have been viewed over 800 times in just three weeks.

In spite of challenging market conditions, NAI is doing deals. We have closed over 40 transactions this quarter, consisting of nearly 100,000 square feet. While this represents nearly the same pace of transactions relative to 2006, the number of square feet absorbed is about 70% of the 2006 pace and is not fast enough to reduce current inventories—yet.

Change has happened and will continue to happen in our market and in our community. We are optimistic that when the next big changes occur, they will be moving our economy toward a recovery.



**Mark Walter**  
Principal Broker

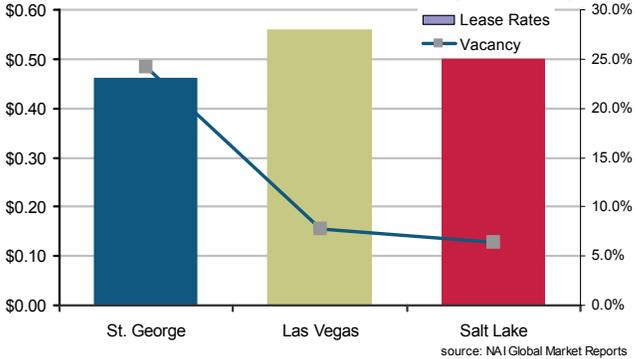
**Neil Walter**  
Managing Director

## Happenings Around Southern Utah Info Gathered from The Spectrum Newspaper & The St. George Chamber of Commerce

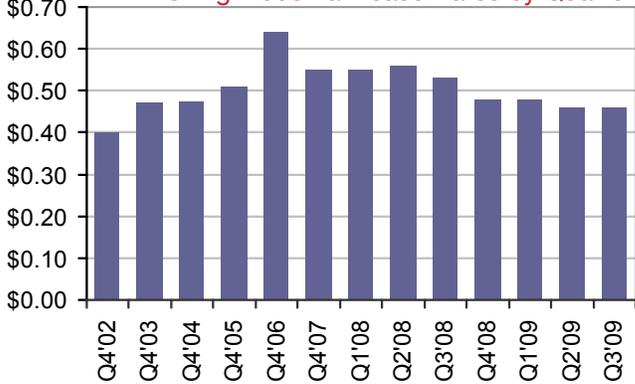
- Natural Grocers, an independent natural and organic grocery chain, opened a store at 624 W. Telegraph St. in Washington, Utah.
- Town & Country Bank started construction of their new location at 405 E. St. George Boulevard. Construction is expected to be completed around the first of the year.
- Cedar City officials break ground for the new Cedar City Aquatic Center.
- The 798 E. St George Blvd. location of McDonald’s will be demolished and replaced with new building by 2010, including a two-lane drive-thru area.
- Chrysler franchise gets new home with Stephen Wade dealership in St. George.
- Five Guys Burgers & Fries franchise brings Southern Utah their #1 rated burger, opening Sept 28th in former Fazolis location at 1279 E. 100 S. in St George.
- Frontage road connecting Buena Vista and Exit 13 is underway and expected to be completed by mid November
- Café Rio celebrated the opening of its new location at 1243 S. Sage Dr in Cedar City, Utah with a donation to Children’s Miracle Network.
- Desert Palms opening new 19,000 SF location at 540 N Bluff in St George.
- Katering Koncepts opens new catering business location in the Bluff Street Plaza, 705 N. Bluff St in St George.
- Krave opens new frozen yogurt eatery in the Boulevard Commons at 140 N. 400 W. Ste 3, St George.

# 2009 3rd Quarter: Washington County Industrial

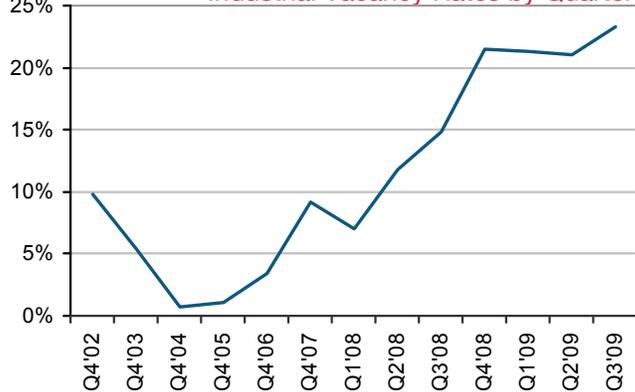
## Regional Warehouse Lease Rate Comparison by City



## Asking Industrial Lease Rates by Quarter



## Industrial Vacancy Rates by Quarter



Asking Lease Rates (NNN)	< 20,000 SF	> 20,000 SF
Low	\$0.35	\$0.32
High	\$0.55	\$0.48
Average	\$0.46	\$0.43
Stabilized Vacancy	23.3%	
2008 Ending Inventory	7,978,000	
Built in '09 YTD	191,000	
2009 YTD Inventory	8,169,000	
Under Construction	44,000	
New Construction Absorption	160,000	
New Construction Vacancy	39.0%	

### Review

About 25% of the multi-tenant industrial properties surveyed this quarter experienced a decrease in total occupancy; 15% of industrial buildings experienced an increase in tenant occupancy, and 60% experienced no net change in occupancy. NAI has seen an increase in the number of transactions relative to the first and second quarters. The vast majority of new leases are for small space, with short-term leases, at low rates. Nearly every industrial lease completed by NAI in the 3<sup>rd</sup> quarter was for new businesses coming into our market. New business leasing was not sufficient enough to outpace business contraction in the 3<sup>rd</sup> quarter.

Ft. Pierce Industrial Park is reporting no new lot sales in 2009. Other industrial areas are reporting few if any industrial land sales. Activity for industrial building sales are more active, but far from robust.

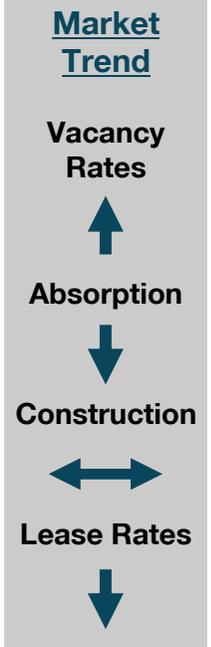
New industrial construction is sparse. This is not unexpected considering we are still experiencing negative absorption. The newest addition to the industrial market is the 17,000 SF Snow Warehouse located in the Ft. Pierce Industrial Park. Construction of the new Wilkinson Electric building just started and is moving along quickly. Monster Storage at 700 S Bluff Street (125,000 SF) and Town Storage at 2012 E. Riverside Dr. (77,000 SF) are nearing completion.

### Outlook

Although there are signs of improvement in the greater economy, we believe the overall industrial market will continue to experience oversupply through 2010. We will likely see positive absorption in the foreseeable future, but it will take several consecutive months of strong absorption to change the market trend.

### Partial List 3rd Quarter Industrial Transactions

Industrial - Lease	SF	Agent(s)
R&R Industrial Center, PH 2	2,000	Jason & Meeja
Fairgrounds Industrial Park	1,755	Jason & Meeja
Dixie Sunset Plaza Warehouse	1,375	Jason & Meeja
Hurricane Gateway Crossing	3,300	Jason & Meeja
Downtown Warehouse Space	2,200	The Chappell Team & Ryan
St. George Industrial Park	1,600	The Walter Group
Southland Retail Building	1,220	The Walter Group & Curren
Millcreek Industrial Building	1,500	Curren
Riverside Commercial	1,845	Jason & Meeja
Industrial - Sale	SF	Agent(s)
Coal Creek Ind. Park Office/Wrhs	3,200	Jason, Meeja & Curren
Hoskins Warehouse	5,000	Jason & Meeja



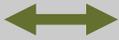
For Sale: State-of-the-Art Warehouse Facility  
 444 South Commerce Drive | St. George

# 2009 3rd Quarter: Washington County Office



## Market Trend

### Vacancy Rates



### Absorption



### Construction



### Lease Rates



Asking Lease Rates (NNN)		Class A	Class B	Class C
Low		\$0.90	\$0.70	\$0.60
High		\$1.25	\$1.15	\$0.95
Average		\$1.13	\$1.00	\$0.89
Vacancy		8.6%	14.9%	14.7%
Stabilized Vacancy		12.4%		
2008 Ending Inventory		3,163,642		
Built in '09 YTD		50,000		
2009 YTD Inventory		3,213,642		
Under Construction		48,000		
New Construction Absorption		64,000		
New Construction Vacancy		35.0%		

## Review

Leasing activity and demand in the office market was slightly better than the previous quarter. Although a small amount, there was absorption in the office market. This was driven by softening lease rates and business growth. Vacancy rates decreased from 13.7% to 12.4%. By comparison, Southern Utah's office vacancy remains less than the Las Vegas and Salt Lake City markets. We are starting to see new office tenants opening in St. George.

New office construction is sparse. One notable project nearing completion is the 20,000 SF Sand Towne Center at 165 W. 200 North. Also, a small Crossroad building on South River Road is nearing completion, and the finishing touches are being added to the Utah Division of Wildlife Resources building at Quail Creek reservoir.

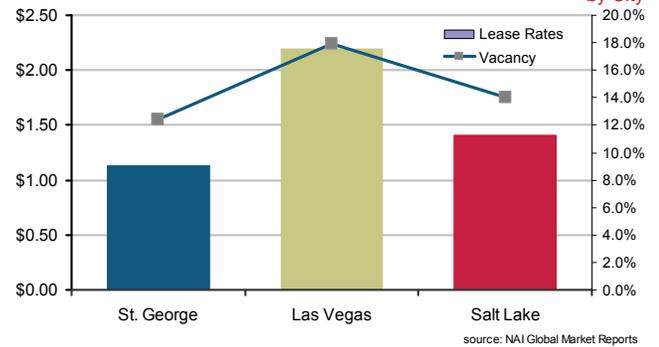
## Outlook

NAI expects office leasing to remain soft through the end of the year. Tenants will continue to ask for aggressive rates with other concessions. Most of the leasing activity will continue to come from business relocations, although we do expect an increasing number of new businesses to enter the market. Most landlords will entertain low rents; however, we do not recommend that landlords sign long-term leases at historic-low rates.

## Partial List 3rd Quarter Office Transactions

Office - Lease	SF	Agent(s)
Hurricane Office	1,800	Brandon & The Chappell Team
Bluff Street Office/Retail	750	Curren & Landon
E Tabernacle Office	1,916	Curren & Landon
Red Cliffs Professional Park	463	Jason, Meeja & Brandon
Red Cliffs Professional Park	3,107	Jason, Meeja & Brandon
Ventana Office Park	1,155	Jason, Meeja & Brandon
South Mall Drive Office Building	3,534	Jason, Meeja & Brandon
Crossroad Center at McArthur Landing	1,395	Monty & Brandon
Tonaquint Office	5,250	Monty & Curren
Crossroad Center at McArthur Landing	129	Monty
Crossroad Center at McArthur Landing	169	Monty
Crossroad Center at McArthur Landing	3,500	Monty
Crossroad Center at McArthur Landing	1,200	Monty
Chase Plaza	2,002	Wes
Chase Plaza	1,419	Wes
Morris Murdock Travel	1,250	Curren

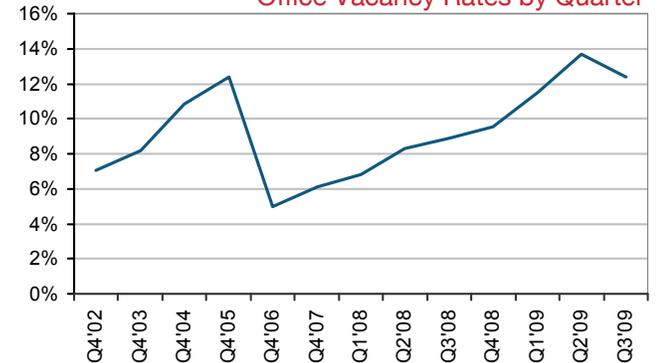
## Regional Local "A" Office Lease Rate Comparison by City



## Asking Office Lease Rates by Quarter



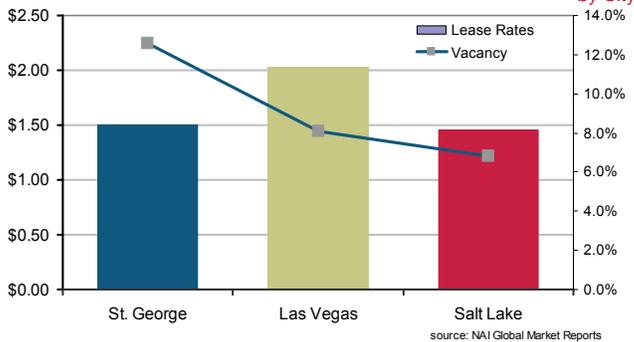
## Office Vacancy Rates by Quarter



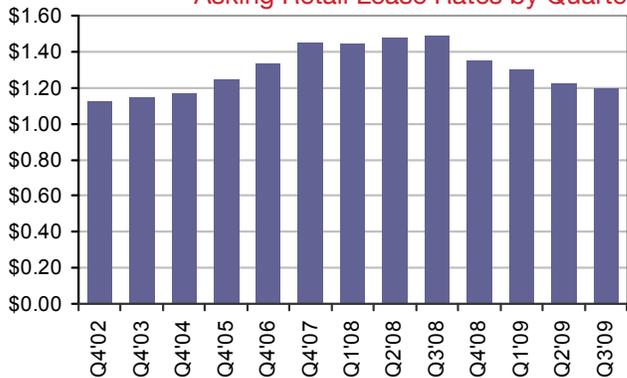
For Lease: South Mall Drive Office Building  
94 South Mall Drive | St George

# 2009 3rd Quarter: Washington County Retail

Regional Anchored 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	\$0.85
High		\$2.00	\$1.35
Average		\$1.50	\$1.09
Vacancy		11.2%	14.5%
<b>Stabilized Vacancy</b>		12.6%	
<b>2008 Ending Inventory</b>		5,884,000	
<b>Built in '09 YTD</b>		212,000	
<b>2009 YTD Inventory</b>		6,096,000	
<b>Under Construction</b>		20,000	
<b>New Construction Absorption</b>		44,000	
<b>New Construction Vacancy</b>		26.0%	

## Review

Nationally, consumer spending moved up again in August as sales rose at their fastest pace in over three years. Locally, retail continues to be Southern Utah's most active market. Nevertheless, retail vacancy increased from 11.9% last quarter to 12.6%. NAI is seeing most of the market interest in high exposure locations.

While actual retail rents have decreased, it has not been to the extent of the office and industrial markets. Retailers are asking for large rent concessions.

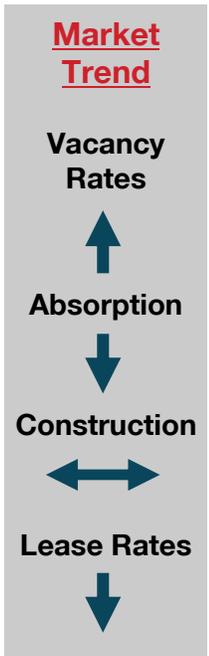
Town & Country Bank (7,781 SF) is under construction on the Boulevard and the Utah State Liquor Store (12,517 SF) is under construction in Hurricane.

## Outlook

Our market usually sees decreasing vacancy in the 3rd and 4th quarters because of the upcoming holiday season. The Christmas season is the sink or swim part of the year for retailers. In challenging economic cycles, it is common to see increased vacancy following the Christmas season if retailers don't feel they have sufficient sales to carry them through the next holiday season.

## Partial List 3rd Quarter Retail, Investment & Land Transactions

Retail - Lease	SF	Agent(s)
Bluff Street Plaza	1,150	Brandon
Downtown Hurricane Retail	1,155	The Chappell Team
Space at Blvd Commons	1,088	Ryan & Curren
Small Office Suite for Lease	200	The Walter Group
Boulevard West Mall	1,300	The Walter Group & Curren
Anchored Retail Space	10,500	Wes & Ryan
St. George Boulevard Frontage	2,700	Wes
Town & Country Bank	.77 AC	The Walter Group
Pappa John's	1,359	Ryan & Brandon
Retail - Sale	SF	Agent(s)
Tsunami Juice & Java Building	2,150	The Walter Group
Leased Investment	8,800	Wes & The Walter Group
Investment - Sale	SF	Agent(s)
New Mexico Quick Lube		The Walter Group
Cedar City 6-Plex REO	5,600	Wes
Land - Sale	AC	Agent(s)
Paunsaugunt Cliffs Ranches	36.858	The Walter Group
Festival Plaza	0.25	Wes



# 2009 3rd Quarter: Washington County Multi Family

## Multi-Family

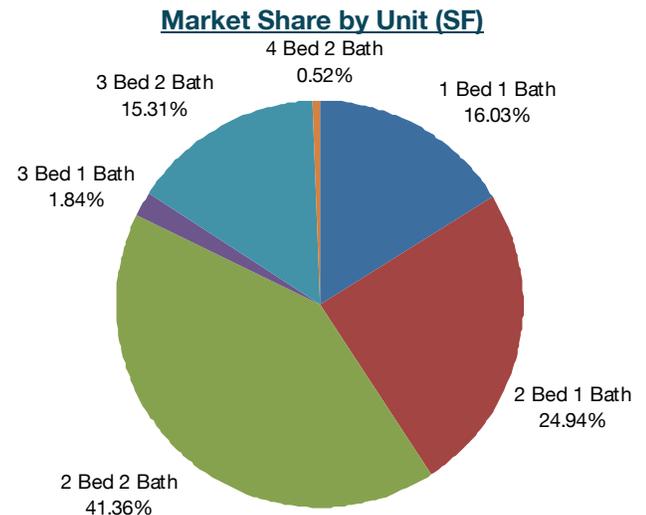
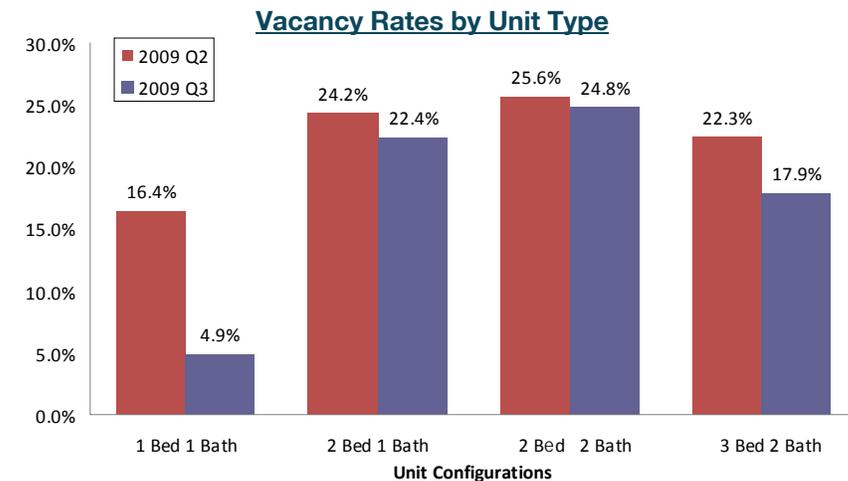
The multi-family market remains volatile. The good news is that vacancies are moving in the right direction, for all configurations, as landlords discount some units in an effort to attract tenants. Last quarter, vacancies were 23% and weighted average asking prices were \$0.71/SF. Vacancies have dropped almost 4%, in three months, as a result of aggressive discounting, particularly in the 1 bed/1 bath configurations.

The traditional relationship between price and demand is apparent in this survey. For the smallest units, the asking rate fell and then increased as tenants took advantage of the lower lease rates and landlords now have relatively few units available. Multiple property managers reported that, last quarter, they dropped prices to combat vacancies and are now raising prices to recover lost revenue. As of this writing, asking rents for 2x1 and 2x2 configurations are lower than last quarter, while 3x2 configurations rose slightly.

Overall, heavy losses incurred by landlords, from previous quarters, will continue to affect net operating income, and CAP rates have been drifting higher. As a result, selling prices will continue to be suppressed, making offerings in today's market appear to be relatively cheap compared with recent history.



Configuration	Rent	Rent/SF	Vacancy
1 Bed 1 Bath	\$ 557	\$ 0.87	4.9%
2 Bed 1 Bath	\$ 638	\$ 0.65	22.4%
2 Bad 2 Bath	\$ 692	\$ 0.67	24.8%
3 Bed 2 Bath	\$ 858	\$ 0.66	17.9%
<b>Average</b>	<b>\$ 665</b>	<b>\$ 0.69</b>	<b>19.3%</b>



## New to NAI: Roger G. Stratford and Brian Judd

**Roger G. Stratford** joined the NAI team September 2009 and brings with him his vast experience, expertise and knowledge to NAI Utah Southern Region. He specializes in land and commercial property in the Washington County, Utah area. Roger came from Northern Utah and is a graduate of Utah State University with a degree in Finance and minors in math, economics and Spanish. He was a captain in the United States Air Force.



Following the Air Force he worked as an Account Executive for IBM, a pilot for Braniff International Airlines, and then was recruited to work for Murdock Travel, where he served as Vice President of Sales and Marketing.

Roger worked for Woodside Homes in Northern Utah for over ten years, closing over 75 million dollars in home sales. He served as president and CEO of Sun Hill Homes and recently sold and leased commercial properties with Coldwell Banker Commercial KGA.

To learn more about Roger go to: <http://www.naiutahsouth.com>



**Brian Judd** is the marketing director for NAI Utah Southern Region. He joined the NAI team September 2009 and is applying his variety of skills and creativity to provide quality publications and presentations.

Brian has been involved in the Graphic Design and Marketing field for over eighteen years. He began his career in the screen-printing business in 1990. By 1995 he had continued to increase his artistic skills and applied them full time to his Graphic Design Company, *Advent Media Group*, providing service for Southern Utah's local and regional companies.

In the spring of 1999, Brian was sought out by *LearnKey Inc.*, an international producer of computer-based learning, where he became Art Director, responsible for supervising several graphic artists and a team of Flash animators.

Brian lives in Southern Utah with his wife, April. They are actively involved with their eight busy children.

# 2009 3rd Quarter: Iron County Cedar City

Asking Lease Rates (NNN)	Industrial	Office	Retail
Low	\$0.35	\$0.70	\$0.75
High	\$0.60	\$1.10	\$1.50
Average	\$0.46	\$0.87	\$1.10
Vacancy	12.1%	24.9%	21.5%

## Industrial

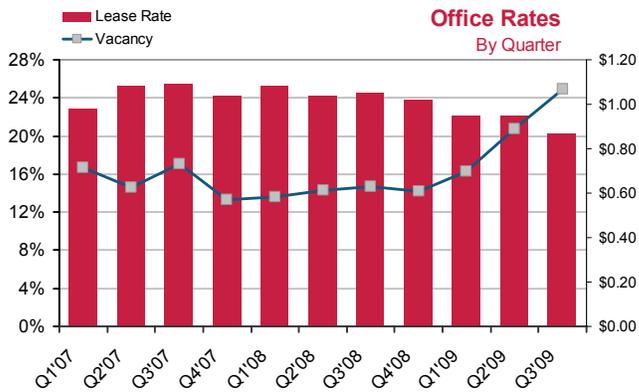
We have seen little change in the industrial market in Iron County. There is plenty of vacancy across all product types and there is ample land available for development. The Iron County market has not seen the number of businesses vacate their space like Washington County has experienced, but activity is slow and there is no real absorption. Lease rates continue to get softer, which will not change until we see some significant absorption in the market.

## Office

Office had a rough quarter. There were a few new empty spaces in office buildings that caused vacancy rates to increase from last quarter. With rising vacancies, lease rates continue to fall. Incentives are currently very aggressive, which has generated some leasing activity, but primarily from tenants interested in less than 1,000 SF. The South Main Business building and Miller Office building were completed this past quarter and have seen absorption mostly from the owners of the buildings, as was expected.

## Retail

Welcome additions to the retail market in the 3<sup>rd</sup> Quarter include Café Rio and CarQuest Auto Parts. The Utah State Liquor Store is currently under construction and should be completed this fall. This is more construction activity than we have seen in quite a while. Retail vacancy rates have fallen slightly. Although still high, vacancy rates are not trending up like the office market. Continued activity would be a welcome sign, although it may be well into 2010 before we see noticeable absorption.



For Sale: Chevron C-Store  
1744 West Royal Hunte Drive | Cedar City



For Lease: New Port 15 Industrial Tilt Up  
5352 West 900 North Bldg 4 | Cedar City



For Lease:  
1760 North Main Street | Cedar City

# NAI Utah Southern Region 2009 Closings



**Morris Murdock Travel**  
595 S Bluff St  
Leased 1,250 SF

Curren



**RAM-PRO, LLC**  
911 N 2175 W Circle  
Sold 3,200SF

Curren, Jason & Meeja



**Cross Fit Dixie**  
1035 E 100 S  
Leased 2,200 SF

The Chappell Team & Ryan



**XYZ Holdings, LLC**  
94 S Mall Drive  
Leased 3,234 SF

Jason & Meeja



**Kether One, LLC**  
321 N Mall Drive  
Leased 3,107 SF

Jason & Meeja, Brandon



**Shining Image Inc.**  
677 N 3050 E  
Leased 2,000 SF

Jason & Meeja



**Papa John's Pizza**  
1025 E tabernacle  
Leased 1,359 SF

Brandon & Ryan



**Fortified Financial, Inc.**  
1224 S River Rd  
Leased 3,500 SF

Monty



**Unity Marketing**  
1165 W Silicon Cir  
Leased 5,250 SF

Monty & Curren



**Tsunami Building**  
180 E Zion Park Blvd  
Sold 2,150 SF

The Walter Group



**St. George Industrial Park**  
545 N 1300 E  
Leased 1,600 SF

The Walter Group



**Cedar City 6-Plex**  
2047 Buckboard Rd  
Sold 5,600 SF

Wes



**Utah Title Loans, Inc.**  
844 E St. George Blvd  
Leased 2,700 SF

Wes



**Seasonal Magic, LLC**  
42 S River Rd  
Leased 10,500 SF

Wes & Ryan



**Festival Plaza**  
969 N 3050 E  
Sold .25 AC

Wes



**Kwal Howells Building**  
1007 W Sunset Blvd  
Sold 8,500 SF

Wes & The Walter Group