

INSIDE...

A Quarterly Newsletter & Report on Commercial Real Estate in Southern Utah
2010 2nd Quarter Market Report

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NAI Utah
Southern Region

Commercial Real Estate Services, Worldwide.

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

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Good News

Vacancy and Lease Rates

We were encouraged by good news this quarter. After collecting the data for this market report, we were pleased to find that market conditions appear to be stabilizing. Although there are no guarantees for the future, office, retail, industrial and multi-family vacancy rates held steady over the past couple of quarters.

We aren't calling a change in trend yet; that said, this is the first quarter since 2007 when vacancy rates didn't increase in multiple sectors. Lease rates have now adjusted to 2002-2003 levels and will continue to remain soft. As a result, many tenants continue relocating and in some cases the lower leasing costs are making businesses profitable again. This is an important step—profitable businesses don't vacate leased space.

Market Activity

Overall activity is up. Our St. George office saw a 30% increase in the number of transactions this quarter. It was particularly encouraging to see some investment sales. Multi-family, office, retail, and industrial buildings sold through our office in the 2nd quarter, although most were smaller deals. While we are seeing increased interest from clients with \$1-3 million to invest, larger transactions will remain difficult to finance as long as banks feel pain from commercial real estate portfolios.

Sales activity should continue to improve slightly as bank inventory moves through the system. Leasing will constitute the majority of the transactions. Continued leasing is a necessity because of drained cash reserves and persistent financing challenges.

Utah Business Magazine Recognition

This spring, NAI Utah was recognized as the largest commercial real estate firm by transaction volume in the state by Utah Business Magazine. We were pleased to play a part in that success. By choosing to do business with NAI, clients are choosing agents who are leasing and selling more commercial real estate than any other firm in the state. We are working hard to contribute in a positive way to the real estate markets in our communities, and we will continue to do everything we can to help our clients through the current cycle.

NAI Utah
Ranked #1
 By **Utah Business Magazine!**

Rankings

COMMERCIAL REAL ESTATE Ranked by 2009 UT Total Transaction Value								
Rank	Company	Phone/Fax	Address	Broker/Officer	Year Est.	FTE	Brokers/ Agents	2009 UT Total Transaction Value (\$Millions)
1	NAI Utah Commercial Real Estate	(801) 676-5555 P (801) 676-5555 F	300 E. 300 South Salt Lake City, UT 84111	Michael R. Van Dyke David A. Van Dyke David A. Van Dyke	1999	67	92	\$651.4
2	Commercial Real Estate	(801) 647-2222 P (801) 647-2222 F	4500 S. Valley Drive, Ste. 300 Salt Lake City, UT 84111	Steven R. Bunker Phyllis Bunker Harold R. Bunker	1987	25	100	\$714
3	Commercial Real Estate	(801) 555-2222 P (801) 555-2222 F	110 S. Main Street, Ste. 100 Salt Lake City, UT 84111	Michael R. Van Dyke David A. Van Dyke David A. Van Dyke	1999	67	92	\$651.4
4	CB Commercial	(801) 488-2222 P (801) 488-2222 F	221 S. Main Street, Ste. 100 Salt Lake City, UT 84111	Michael R. Van Dyke David A. Van Dyke David A. Van Dyke	1999	67	92	\$651.4

HAPPENINGS IN SOUTHERN UTAH

Construction of the new **Dixie Drive Interchange** is now underway. The newest interchange to be built in Washington County will be located approximately one-half mile south of the Bluff Street Interchange on I-15. The new interchange and related improvements have been designed to reduce vehicle back-up onto the interstate and alleviate pressure on the Bluff Street corridor.

Hurricane, Santa Clara, and 12 other municipalities in Utah received a cut of a \$1.2 million federal stimulus grant to upgrade Utah streetlights with energy-saving, LED lamps and fixtures. Hurricane City expects to save nearly \$15,000 a year in reduced costs.

Bank of America has been ordered by Utah's 5th District Court to halt its foreclosure activity in Utah as a result of the company's failure to comply with state law. The court order, if made permanent, would force Bank of America and other lenders to follow state statutes requiring them to register with the state and open offices in Utah, allowing customers to negotiate with lenders in person.

The **St. George City Council's** proposed \$40.4 million general fund budget for the 2011-12 fiscal year will likely result in the layoff of approximately 15 to 20 city employees. The recession has proven difficult even for municipalities.

Ross Hurst, the owner of Hurst Ace Hardware as well as six other stores across Utah, died as a result of complications from a recent surgical procedure. In addition to his accomplishments in retail, Hurst was known for his charitable nature.

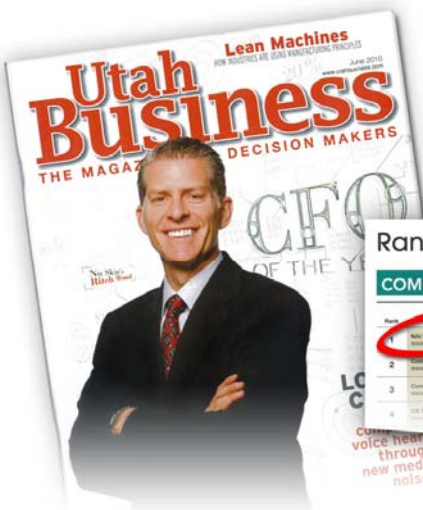
RelocateAmerica.com has named St. George to its list of "Top 100 Places to Live" in America citing sporting events, education, habitat protection, and outdoor activities as a few of the cities' strengths.

Forbes.com named St. George the #22 "Best Small Places for Business" in April.

The **Learning Center for Families** celebrated the groundbreaking of their new 20,000 SF facility which will allow them to serve more of our area's pregnant woman, infants and toddlers with new programs.

Fargo's Drive-thru, in Santa Clara, suffered from an early morning fire that destroyed the interior of the restaurant.

SouthWest Federal Credit Union struck a deal with Virginia-based Chartway Federal Credit Union. The struggling Credit Union was liquidated and its assets were transferred to Chartway, who assured customers that operations will continue as normal.





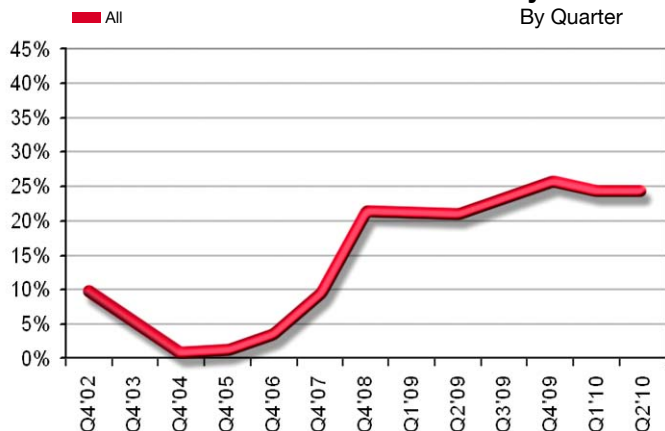
Industrial

2010 2nd Quarter | Washington County

**2010
MARKET
TREND**

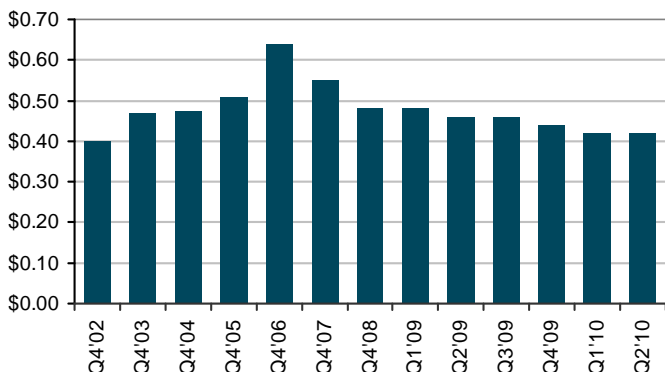
Industrial Vacancy Rates

By Quarter



Asking Industrial Lease Rates

By Quarter



Asking Lease Rates (NNN)	< 20,000 SF	> 20,000 SF
Low	\$0.30	\$0.25
High	\$0.55	\$0.46
Average	\$0.42	\$0.39
Multi-Tenant Vacancy	24.4%	
2009 Ending Inventory	8,172,000	
Built Year To Date	74,000	
Q2 2010 Ending Inventory	8,246,000	
Under Construction	8,000	

Partial List Industrial Transactions

By Quarter

Industrial - Lease	SF	Agent(s)
Office/Warehouse/Yard	3,300	Wes
St. George Industrial Park	5,010	Brandon
Retail/Wrths Near Riverside Drive	3,306	Chappell Team
Office/Warehouse in Gateway	2,500	Brandon
Industrial Space	2,400	Jason & Meeja
Industrial Space	1,872	Jason & Meeja
HED Building	4,000	Jason & Meeja
R & R Industrial	2,000	Walter Group, Jason & Meeja
Industrial - Sale	SF	Agent(s)
Warehouse / St. George Industrial Park	3,991	The Walter Group
Classic Contractors Park at Ft. Pierce	4,496	Brandon

Review

Industrial leasing is holding steady and so are vacancy rates. We didn't see absorption, but we didn't see vacancies increase either. Hopefully we are seeing the trend start to change, as this is the third quarter of nearly flat vacancy rates. On average, new leases are occupying between 2,500 and 3,000 SF of space. Asking lease rates held steady, although landlords with flexible terms and concessions have the best chance of picking up tenants.

We have seen a few industrial sales transactions in Washington County this quarter. These transactions were primarily owner occupied and less than 5,000 SF. In the current market, financing for investment properties is challenging, although there are very good rates and terms for owner occupants, particularly in conjunction with the SBA products lenders are pushing today. As it relates to construction, Wilkinson Electric completed their building in Fort Pierce and one other small building is under construction.

Outlook

On a national level, several leading commercial players believe that the industrial leasing market has hit, or will hit, the bottom this year. Although there hasn't been positive absorption yet, there has been a small flurry of industrial leases caused by aggressive landlords who are willing to make deals happen. Locally we are seeing a similar dynamic.

As businesses prepare to grow with the economic recovery, they are going to test the waters with temporary employees as well as temporary locations. Landlords have to be willing to be flexible with leasing terms and incentives in order for business owners to feel comfortable attempting to occupy more space. The sooner landlords embrace this, the sooner we will start to see positive absorption and eventually an increase in lease rates.

Vacancy Rates



Lease Rates



Absorption



Construction



River Park Industrial

FOR SALE



Office

2010 2nd Quarter | Washington County

**2010
MARKET
TREND**

Vacancy Rates



Lease Rates



Absorption

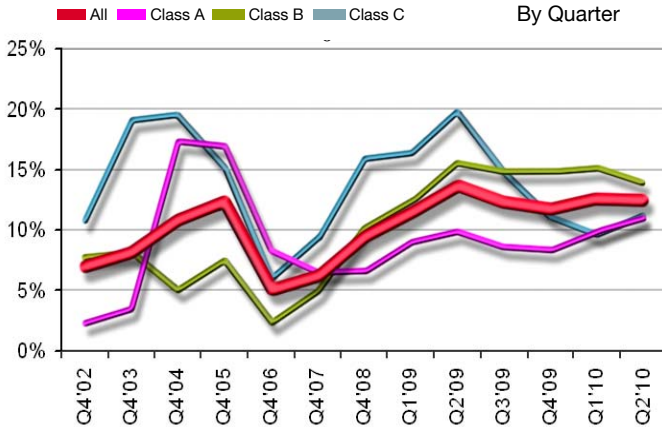


Construction



Office Vacancy Rates

By Quarter



Review

NAI experienced a jump in office leasing activity during the last quarter, including a couple of small office condo sales. In addition, several longer-term leases (3-5 year) were signed last quarter, which have been rare and are a signal of confidence. Several tenants are taking advantage of the market's very low rates.

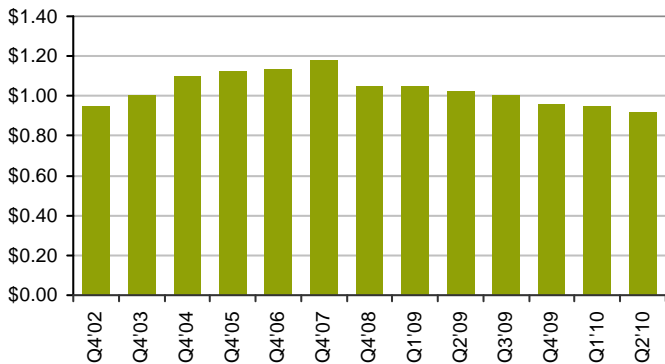
Overall, office vacancy finished the quarter mostly unchanged. Class A and C vacancies are slightly higher while Class B vacancy rates fell. Asking office lease rates are now slightly lower than the asking rates of 2002. Most demand for office space is under 2,000 SF. Simister Orthodontics is under construction on Dixie Drive, IHC is expanding their Sunset Boulevard Instacare facility, and a new 22,000 SF building is under construction in Washington City across from Nissons Market.

Outlook

We expect office leasing to remain more or less status quo through the rest of 2010. The rate of market rent reductions have slowed. The greatest demand continues to be for centrally-located office space with functional floor plans at aggressive rates. New construction should remain slow, except for users with specific building needs that cannot be found in existing product or in the rare case of pre-leasing.

Asking Office Lease Rates

By Quarter



Asking Lease Rates (NNN)	Class A	Class B	Class C
Low	\$0.90	\$0.60	\$0.55
High	\$1.25	\$1.15	\$0.89
Average	\$1.10	\$0.90	\$0.71
Vacancy	11.0%	15.9%	11.2%
Multi-Tenant Vacancy	12.50%		
2009 Ending Inventory	3,239,000		
Built Year To Date	4,000		
Q2 2010 Ending Inventory	3,243,000		
Under Construction	44,000		

Partial List Office Transactions

By Quarter

Office - Lease	SF	Agent(s)
South Mall Drive Office Building	2,917	Jason & Meeja, Monty
Medical Office	2,600	Brandon
Blackridge Terrace I	2,000	Brandon
Chase Plaza	1,307	Wes, Chappell Team
Sunland Professional Park, Phase 1	1,525	Jason & Meeja
Red Cliffs Professional Park	976	Jason & Meeja, Brandon
Beautiful Office Condo	1,246	Curren
Red Cliffs Professional Park	1,000	Jason & Meeja
Red Cliffs Professional Park	350	Jason & Meeja
Medical Office	1,672	Brandon
Office - Sale	SF	Agent(s)
Sunland Commercial Center	1,600	Walter Group
Professional Office	1,581	Wes



Tron Park Professional

FOR SALE or LEASE



Retail

2010 2nd Quarter | Washington County

**2010
MARKET
TREND**

Vacancy Rates



Lease Rates



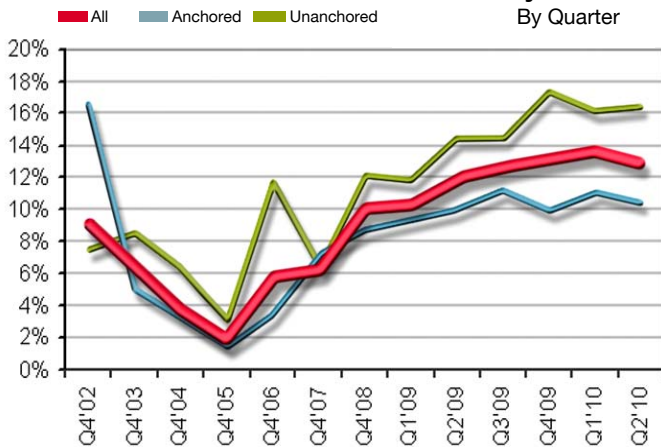
Absorption



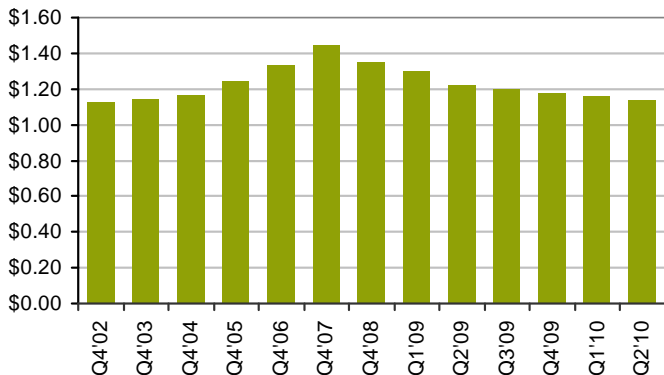
Construction



Retail Vacancy Rates
By Quarter



Asking Retail Lease Rates
By Quarter



Asking Lease Rates (NNN)	Anchored	Unanchored
Low	\$1.05	\$0.65
High	\$2.00	\$1.20
Average	\$1.50	\$0.93
Vacancy	10.4%	16.4%
Multi-Tenant Vacancy		12.9%
2009 Ending Inventory		6,096,000
Built in Q2 2010		8,000
Q2 2010 Ending Inventory		6,104,000
Under Construction		10,000

Review

Since the 1st Quarter, anchored retail centers have seen vacancy rates fall slightly to 10.4%. Part of this decrease in vacancy can be attributed to local retailers who have moved to power centers in an effort to increase visibility and traffic, even though rents are higher than the unanchored centers they left. As a result, vacancy rates in unanchored centers inched up slightly. We are still seeing some retailers closing, downsizing, or attempting to sell their businesses as they struggle with the economy.

Of note, the Verizon Wireless store relocated to the old Famous Dave's location in the same center. Window signage now announces a new Apple Company Store will be opening in the old Verizon space. Ethan Allen's former location leased to a furniture and mattress retailer. El Mariachi Mexican Grill also just opened the doors to its newly remodeled restaurant at Ernesto's former location. Findlay is now selling Volkswagens instead of Saturns on Sunland Drive and is building a new Kia dealership on the adjacent vacant lot.

Outlook

With the recent activity, lower lease rates, and adjusted prices, we anticipate the retail market to slowly improve, absent economic shocks. As consumer confidence increases, so does retail sales, and eventually commercial development and leasing. As we move into the fall and closer to the Christmas season, we hope to see better activity than we experienced in 2009.

Investment - Sale	SF	Agent(s)
Chevron C-Store in McCammon	2,240	Walter Group
Chevron C-Store in Soda Springs	4,742	Walter Group
7 Unit Benchmark Apartment Bldg	12,044	Walter Group
Duplex	2,020	Jason & Meeja
6 Unit Apt Building	5,760	Walter Group

Partial List Retail / Investment Transactions
By Quarter

Retail - Lease	SF	Agent(s)
St. George Blvd Frontage	500	Ryan
Bloomington Courtyard	2,500	Jason & Meeja
Southland Retail Building	1,976	Walter Group, Jason & Meeja
Retail Buildings	1,000	Walter Group, Wes
East Ridge Mall Space	2,000	Walter Group, Jason & Meeja
East Ridge Mall Space	1,000	Walter Group, Curren
Former ANB Bank Building	1,645	Walter Group, Wes
Anchored Retail Space	1,430	Jason & Meeja, Wes
Tonaquint Retail Center, Phase 2	4,960	Walter Group
The Shoppes at Santa Clara	1,040	Walter Group, Roger
Pier 49 Pizza Building	1,350	Jason & Meeja
Camera Country Building	2,400	Chappell Team
Dinosaur Crossing	1,280	Walter Group & Monty
Horizon Plaza II	2,448	Walter Group



Wing • Stop Franchise

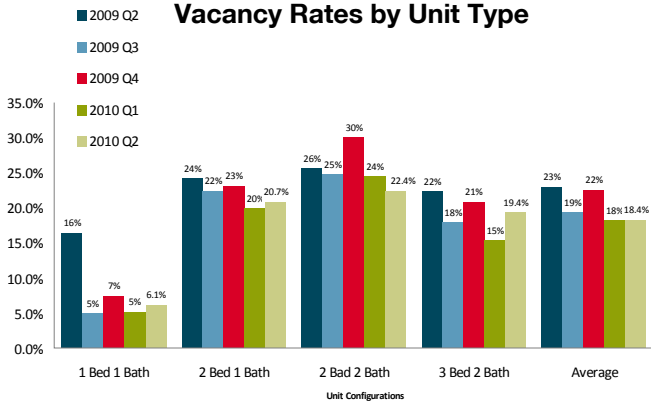
FOR SALE



Multi-Family

2010 2nd Quarter | Washington County

Vacancy Rates by Unit Type



Configuration	Rent	Rent/SF	Vacancy
1 Bed 1 Bath	\$ 548	\$ 0.86	6.1%
2 Bed 1 Bath	\$ 631	\$ 0.64	20.7%
2 Bad 2 Bath	\$ 681	\$ 0.67	22.4%
3 Bed 2 Bath	\$ 814	\$ 0.63	19.3%
Average	\$ 652	\$ 0.68	18.4%

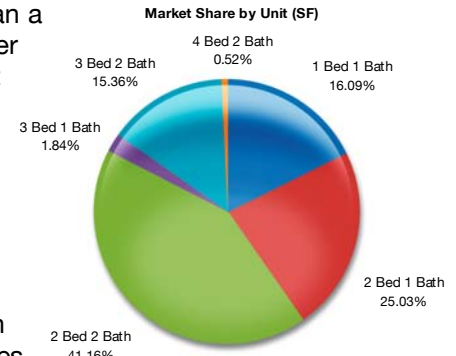


Benchmark Apartments

SOLD

Average multi family vacancy rates have held steady at just over 18%. Vacancies fell in 2x2 configurations but were offset by increases in other configurations. Overall, we expect vacancies to remain below 20% and eventually start to trend lower, with the hope that the worst of the housing volatility is behind us.

Asking rents held steady over the past quarter at \$652 per unit. This is about \$45 per month less than a year ago. On a price per square foot basis, current rental rates work out to about \$.68 per SF. Over the past quarter, rents on 1x1 and 2x2 configurations edged up slightly while 2x1 configurations fell slightly and 3x2 configurations held steady. Lease rates will remain aggressive until vacancy rates see a significant improvement.



There have been a few recent sales transactions in the sector. Most of the activity is on properties that are less than 10 units, nearly vacant, and bank owned. Sale prices are below \$50,000 per door and may be far below if there is significant obsolescence or deferred maintenance. This is in contrast to the institutional multifamily market still transacting in major metropolitan areas where there is still competition for properties. Recently, there have been more sales in Cedar City, although we expect there will be additional opportunities in Washington County over the next 12 months.

MATHEW CHAPPELL

Mathew Chappell has been an investment specialist at NAI since 2005 and has brokered numerous business sales, 1031 TIC Exchanges, and land transactions for clients from around the world.

Mathew is an expert in the field of listing and selling farm land, land for development and businesses. As a former business owner and President and CEO of a mid-sized national cheese manufacturing plant and other multiple business organizations, Mathew was responsible for the management of more than \$6,000,000 in annual revenues, and 40 employees. He was President and General Manager of a family farm which included crops, dairy and beef.

Extensive hands on knowledge of farm and ranching, federal and state land laws, and water allow Mathew the unique ability to give a prospective buyer the necessary tools for making an informed decision.

His experience as a former Securities Agent gives Mathew the ability and capability to analyze a client's investment needs in the context of current market conditions and implement solutions that will meet a 1031 TIC client's investment objectives and optimize their real estate portfolio through personalized strategic asset management.



MEEJA MCALLISTER

After moving to St. George, Meeja McAllister joined NAI Utah Southern Region and the Jason Griffith Team in 2003. Meeja's experience with commercial, institutional, and industrial buildings and construction began over 10 years prior in 1992 where she worked as an inside sales representative for the western region's largest manufacturer of HVAC and air distributing equipment. In that capacity, she attended and graduated from numerous manufacturer technical schools and was responsible for compiling bids for general contractors on multi-million dollar developments. Meeja's attention to detail, professionalism, and customer service experience has added to our NAI Team.

Meeja's philosophy includes hard work, attention to detail, honesty, integrity, and working smart for our clients to assist them in their commercial real estate needs. Listening to client needs, and following through on commitments, is the key to character and integrity.

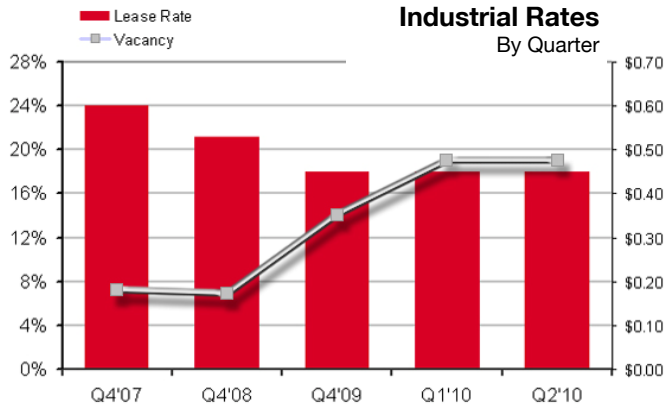
Since obtaining her license, Meeja has completed many lease and sale transactions and joined Jason Griffith as a partner. Meeja's primary focus and experience is in retail, office, and industrial brokerage.





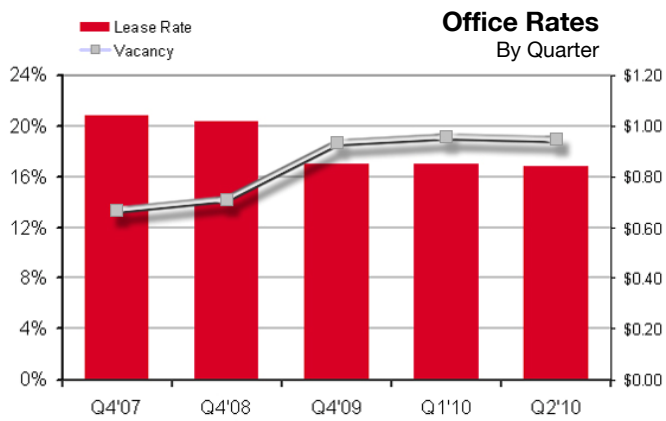
Cedar City

2010 2nd Quarter | Iron County



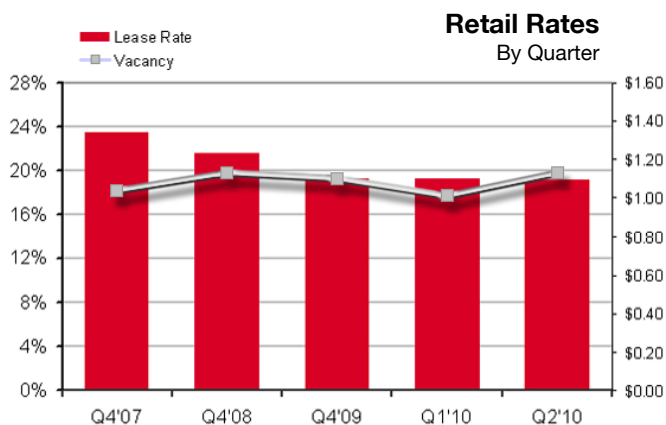
Industrial

For the first time in several quarters industrial vacancy rates have not increased in the Cedar City market. Lease rates also have held relatively steady; however, there appears to be a trend of decreasing rates and added leasing incentives to increase activity and lure potential suitors into the market. Cedar City industrial product still remains at higher asking prices than in Washington County and the amount of space leased second quarter (as compared to Washington County) was less. The 6-12 month outlook appears to be similar to last quarter—relatively flat absorption and lease rates and high vacancy rates.



Office

Continuing the first quarter trend, average office vacancy rates and lease rates remained mostly unchanged. Office vacancy reported a very slight decline from last quarter, but the improvement wasn't enough to show a new trend. A few property owners adjusted prices downward to entice tenants, but demand continues to be minimal. Most landlords are working with tenants currently occupying space and doing whatever it takes to keep them. In order to see a significant change in demand, new businesses will have to enter the market and existing businesses will need to look to grow.



Retail

Retail vacancy increased last quarter from 17.6% to 19.8%. This increase is a change in trend compared with the last three quarters of declining vacancy rates. A significant contribution to this was the vacancies left by Hollywood Video and other small tenants. The Roberts Craft's space is going through tenant improvements and will be occupied by JoAnn's this fall. As is the case with office space, the local and state economies will need to show steady, positive signs of improvement to make a significant impact on absorption and growth.

Asking Lease Rates (NNN)	Industrial	Office	Retail
Low	\$0.30	\$0.50	\$0.72
High	\$0.65	\$1.07	\$1.50
Average	\$0.45	\$0.84	\$1.09
Vacancy	19.0%	18.9%	19.8%



Cedar City Professional Office

FOR LEASE

NAI professionals are virtually everywhere – from Los Angeles to London, Memphis to Mexico City
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.

NAI Global is the world's leading managed network of more than 350 commercial real estate firms spanning the globe. Since 1978, our clients have built their businesses on the power of our expanding network. NAI Global's extensive services include multi-site acquisitions & dispositions, sublease, tenant representation, lease administration & audit, investment services, due diligence & related consulting & advisory services.

Landlord Representation | Tenant Representation | Investment & Land Sales | Property Management

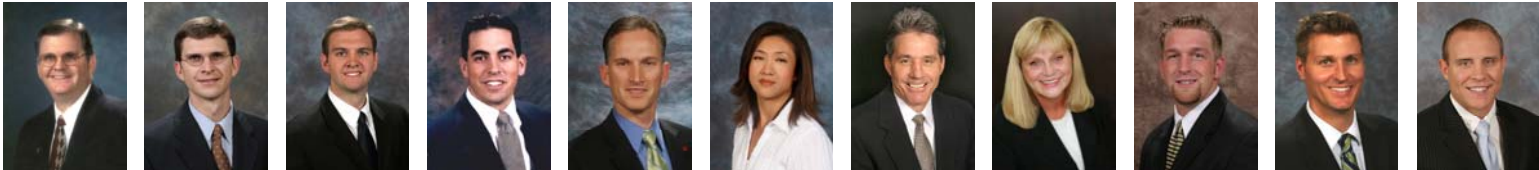


We take education seriously. This commitment is reflected in the most educated team of agents in the area.

- 3 Agents with the CCIM Designation (*More than all other firms in town!*)
- 3 Agents completing CCIM courses
- 3 Agents with Master's Degrees in Management
- 1 Chartered Financial Analyst charterholder (CFA)

The knowledge within the walls of NAI represents thousands of hours of study and dedication to becoming the most qualified team of commercial agents in all of Southern Utah. Only the agents at NAI are able to provide a combination of higher education and local know-how that allows them to provide the information you need to make the best deals.

Over 150 Years Combined Real Estate Experience



Mark Walter Neil Walter Jon Walter Wes Davis Jason Griffith Meeja McAllister Mathew Chappell Pat Chappell Brandon Vandermyde Ryan Garrett Curren Christensen



Monty Bundy Roger Stratford John Griffith Joseph Iwanski

Full-time Support Staff
 Marketing Department
 GIS Department
 Office Manager
 Property Management



Allene England Annette Humphrey Brian Judd Paul Damron