

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

2010 3rd Quarter Market Report

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Commercial Real Estate Services, Worldwide.

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Headed in the Right Direction

The engine of our economic automobile died in 2008. In 2009, it sputtered as everyone tried to repair it. A lot of the parts have been changed and there are some signs that we are finally moving forward again. Whether it will fail us again or not, we can't say for sure, but for now, we're headed in the right direction.

Commercial interest and activity improved in the third quarter. The number of leases and the number of square feet leased both increased. Interest in investment properties is also gaining momentum, although most of the financial capital is poised waiting for very good deals, which will come from the banks in most cases.

To date, the number of bank-owned commercial properties has been less than expected. The next six to twelve months will reveal how much inventory is really in the pipeline. It is our hope that the amount of inventory continues to be less than expected.

Signs of economic development interest are starting to pick up again. Companies from outside of the area have shown show interest in our market again, although in most cases it is preliminary. This is the result of a combination of factors. First, they believe in the long run our market will be an attractive growth market for the future. Second, they see both lease rates and sale prices significantly lower than even a year ago. Third, they know they need to do a deal before a sputtering recovery gains momentum. We are hopeful some of those we have been working with and some of the inquiries at the Washington County Economic Development office result in announcements for our community.

While a true recovery is far from certain, there are some like the Bloomberg reporter linked on our blog who feel commercial real estate is "poised for a rebound". The assessment was based on an analysis of CAP rates relative to corporate bond yields and improvements in investment transaction volumes.

Peter Linnemen, NAI Global's economist from the Wharton School of Business will outline his market view for commercial real estate on October 20th. He will address the likelihood of a double dip recession, inflation expectations, the implications of our federal deficits, and the consequences of the Federal Reserve's monetary policy—including addressing quantitative easing two (QE2).

The biggest barrier to an economic recovery has been the broad lack of confidence by businesses, investors, and consumers due to the uncertainty about our economic future. While recovery predictions will continue to emerge they will always have the caveat, "barring any unforeseeable events." Since unforeseeable events seem to be regular occurrences now, we will leave the recovery predictions to the experts. From our little corner of the world, this quarter's increased transactions are an indication of an improving market, although individually it still feels like a recession.



Mark Walter
Principal Broker



Neil Walter
Managing Director

HAPPENINGS IN SOUTHERN UTAH

Smead Manufacturing Company, a leading manufacturer of office filing products, recently announced plans to expand their Cedar City facility. General manager Gordon Goodall credited the decision to "a highly efficient facility with a strong commitment to excellent customer service."

ContactPoint Receives \$3 Million in Funding. The leader in sales and customer service performance systems, recently received \$3 million in Series A capital funding from Prescott Investors of Connecticut. St. George-based ContactPoint will use the funding for software development, telecommunications systems and expansion, which will include hiring additional employees.

Solar Energy Announcements for Southern Utah Area. Utah will fulfill its Energy Resource and Carbon Emission Reduction Initiative with the development of the Utah Red Hills Renewable Park. Expected to break ground in December, Scatec Solar North America plans to capture the energy of the sun with its 400,000 photovoltaic modules, with construction beginning in the spring of 2011. The first phase is anticipated to bring up to 70 jobs locally. A similar facility, scheduled to start construction in the second quarter of 2011, is planned on Sithe Global's solar plant at the north end of Flat Top Mesa, five miles west of Mesquite, NV. The 50-megawatt plant will be one of the nation's largest. Additionally, plans are under way in Parowan for a \$500 million, 660 acre solar power plant from Scatec Solar.

Johnson Canyon to Remain Open. Kane County commissioners celebrated a victory in federal court after it was determined that the main road connecting Johnson Canyon to Cannonville, was a legal county right-of-way. The dispute, whether the road was owned by the federal government or by the county, was decided by a quiet title suit ruling after it was shown that the BLM had failed to safely maintain the road.

Infrastructure Stimulus Report. A new report says Utah leads all states when it comes to the percent of federal stimulus money spent on transportation projects. Utah has spent 84 percent of the \$213 million allocated according to the U.S. House Transportation and Infrastructure Committee Report.

Forbes Names Utah No. 1 for Business. For the first time, Forbes Magazine has named Utah the No. 1 state in the country for business and growth. Utah's economy has expanded 3.5% annually over the past five years.

Genpak expands in Cedar City. The food service packaging company also plans to expand its operations, bringing 30 more jobs to the area.

Children's Museum for St George. A local group of St. George citizens, including Council member Gail Bunker, proposed to use the basement floor of the former 5th District Courthouse as a children's museum, stating it as "vital to the community." The council will decide if it will grant a five-year lease to the project.

Raser Technologies is Making a Huge Investment in the ever-growing Southern Utah alternative energy market with more than 200,000 acres of geothermal leases throughout the Escalante desert. Raser is planning to build 10 more geothermal plants over 10-plus years and add solar and wind sites in Beaver, Iron and Washington counties in the future.

Eagle Point Ski Resort Opens. The business community of Beaver is looking forward to some increased traffic to the area when the resort opens in December at the site of the former Elk Meadows Resort.

Sunset Corner Considering IMAX Screen. Washington County Commissioners approved the allocation of up to \$6.5 million in federal economic recovery bonds to Sunset Corner Properties to facilitate the construction of a giant screen movie theater, to be attached to the Sunset Corner Stadium 8 theater. The screen, nearly 3 times the size of a normal screen, would display both 2D and 3D films.



Industrial

2010 3rd Quarter | Washington County

**2010
MARKET
TREND**

Vacancy Rates



Lease Rates



Absorption

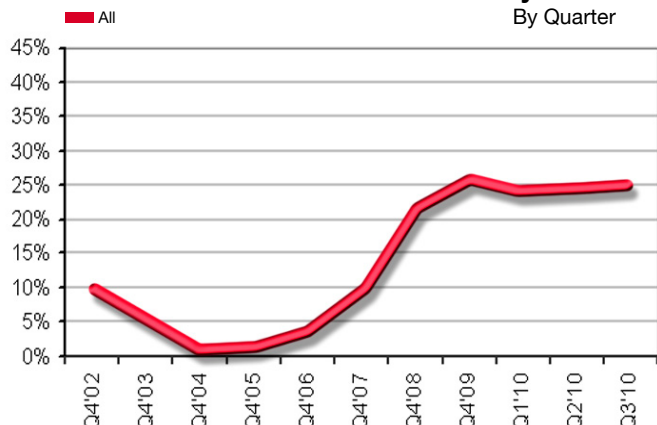


Construction



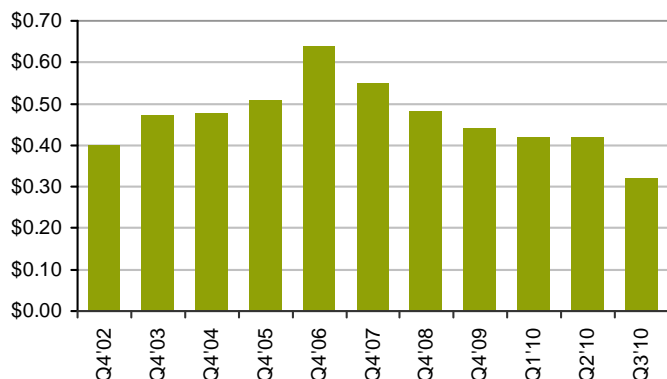
Industrial Vacancy Rates

By Quarter



Asking Industrial Lease Rates

By Quarter



Asking Lease Rates (NNN)	< 20,000 SF	> 20,000 SF
Low	\$0.20	\$0.20
High	\$0.55	\$0.46
Average	\$0.32	\$0.30
Multi-Tenant Vacancy 25.1%		
2009 Ending Inventory 8,172,000		
Built Year To Date 89,000		
Q2 2010 Ending Inventory 8,261,000		
Under Construction 125,000		

Partial List Industrial Transactions

By Quarter

Industrial - Lease	SF	Agent(s)
David Houser Office-Warehouse	5,500	Jason & Meeja
Riverside Drive Retail/Warehouse	2,865	Jason & Meeja
Aspen Components	16,000	The Walter Group
Westridge Warehouse	2,600	Roger
Fairgrounds Industrial Park, Lot 38	1,787	Jason & Meeja, Chappell Team
R&R Industrial Center, PH 2	2,500	Jason & Meeja
River Park	4,675	Brandon
River Park	1,816	Jason & Meeja, Wes
Fairgrounds Industrial Park, Lot 38	1,755	Jason & Meeja
Office/Warehouse	1,700	Wes
Office/Warehouse & Yard	3,000	Wes
Contempo Tile - Whse Units	991	Jason & Meeja
Fairgrounds Industrial Park, Lot 38	3,100	Jason & Meeja
River Park	1,839	Jason & Meeja, Brandon
Contempo Tile - Whse Units	1,000	Jason & Meeja, Wes
Industrial - Sale	SF	Agent(s)
River Park	72,255	Jason & Meeja, Walter Group
Leased 10,000 SF Industrial Bldg	10,000	The Walter Group

Review

The industrial market in Washington County saw vacancy rates hold steady for another quarter. In 2009, most of the leasing activity came from firms downsizing to smaller facilities. In contrast, leasing activity this year is from new firms entering the market and firms relocating to take advantage of low market prices.

NAI had one of the best leasing quarters since 2007. We closed 14 lease transactions totaling 56,000 SF in Washington County. Not only did the number of transactions increase, but the average transaction size has also increased. While this is a good sign, several quarters of increased lease volume will be necessary to bring relief to landlords.

Outlook

Industrial sales prices for existing inventory have fallen dramatically, which has created an opportunity that is attracting attention from investors outside our market. This past quarter, NAI helped investors purchase 82,000 SF of industrial space. There is no question that these buyers want a deal, but there is demand for aggressively priced inventory.

We continue to believe that landlords will need to be flexible with leasing terms and incentives in order for business owners to feel comfortable attempting to occupy space in the industrial sector. Lower prices have helped generate some demand from tenants. Going forward, any improvement in the national economy should generate increased interest from new firms looking to enter our market.



River Park Industrial

SOLD



Office

2010 3rd Quarter | Washington County

**2010
MARKET
TREND**

Vacancy Rates



Lease Rates



Absorption

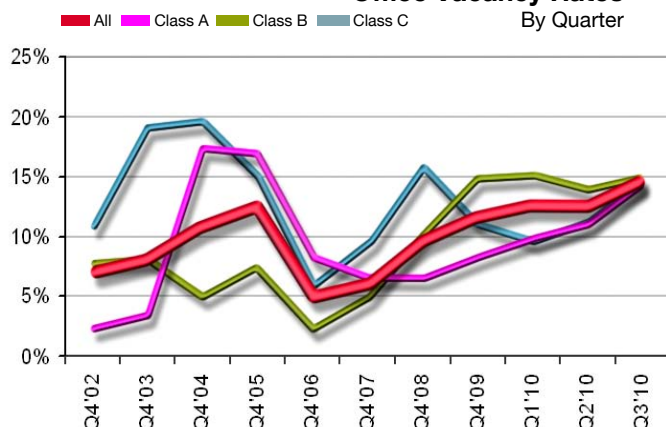


Construction



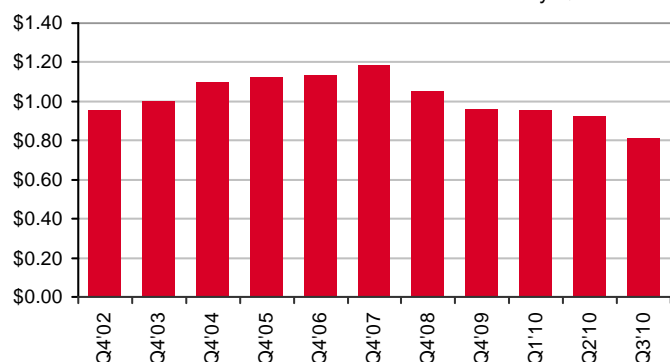
Office Vacancy Rates

By Quarter



Asking Office Lease Rates

By Quarter



Review

The office market remains in transition as firms continue to struggle with economic conditions. We continue to see falling lease rates and firms vacating space. On the other hand, last quarter we had the grand opening of Sand Town Plaza and Richens Eye Center. The building has incorporated the historical colors and architecture of many historical buildings in the St. George area while simultaneously implementing new building technologies that make a great space. Simister Orthodontics also finished their building and there are buildings under construction in St. George and Washington.

Leasing activity improved over last quarter and we saw two more office condos exchange hands. The typical office lease today is about 1,400 SF. Tenants are getting a great deal with office lease rates lower than in 2002.

Outlook

We continue to show office space frequently and the market remains active, although absorption is still not positive. Demand is the strongest for centrally-located space with functional floor plans at very aggressive lease rates. We expect new construction to 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 Lease Rates (NNN)	Class A	Class B	Class C
Low	\$0.70	\$0.50	\$0.50
High	\$1.25	\$1.05	\$0.85
Average	\$1.04	\$0.77	\$0.62
Vacancy	14.4%	15.0%	14.7%
Multi-Tenant Vacancy			
2009 Ending Inventory			3,239,000
Built Year To Date			7,000
Q2 2010 Ending Inventory			3,246,000
Under Construction			43,000

Partial List Office Transactions

By Quarter

Office - Lease	SF	Agent(s)
Small Office Suite for Lease	200	The Walter Group, Curren
Medical Office	1,672	Brandon
Sun Valley Professional Park	1,700	Jason & Meeja, Chappell Team
Coral Canyon Town Center II	230	Roger
Red Cliffs Professional Park	1,000	Jason & Meeja
South Mall Drive Office Building	2,434	Jason & Meeja, Roger
South Winds Commercial Plaza	3,200	Jason & Meeja
Commercial Home	1,126	The Walter Group
Nice, 8 Room Office Suite by Riverside Drive	1,527	The Chappell Team
Coral Canyon Town Center II	230	Roger
Chase Plaza	260	The Walter Group, Wes
Red Cliffs Professional Park	463	Jason & Meeja
Riverwoods Office Building III	6,631	The Walter Group
Professional Office	250	Wes
Professional Office	250	Wes
Office - Sale	SF	Agent(s)
High Visibility Corner at Ancestor Square	1,500	Jason & Meeja
The Park at Paradise Canyon Bldg C	1,500	Roger



Historic Hardy House

FOR LEASE



Retail

2010 3rd Quarter | Washington County

2010
MARKET
TREND

Vacancy Rates



Lease Rates



Absorption

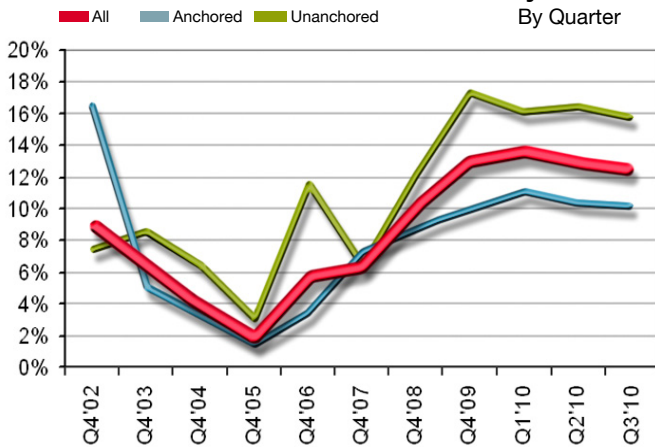


Construction



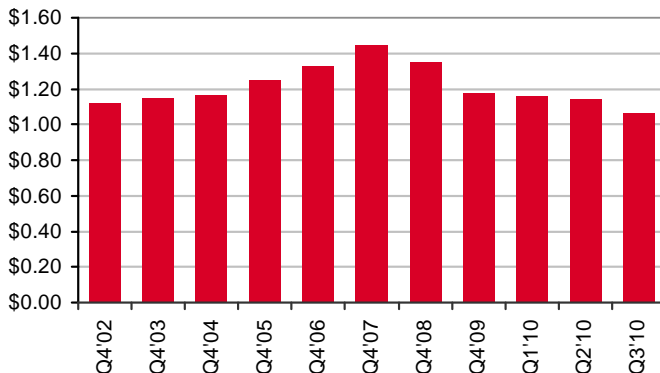
Retail Vacancy Rates

By Quarter



Asking Retail Lease Rates

By Quarter



Asking Lease Rates (NNN)	Anchored	Unanchored
Low	\$1.05	\$0.50
High	\$2.00	\$1.25
Average	\$1.25	\$0.86
Vacancy	10.2%	15.8%
Multi-Tenant Vacancy		
12.5%		
2009 Ending Inventory		
6,096,000		
Built Year To date		
8,000		
Q2 2010 Ending Inventory		
6,104,000		
Under Construction		
14,000		

Partial List Retail / Investment Transactions

By Quarter

Retail - Lease	SF	Agent(s)
Horizon Plaza II	2,448	The Walter Group
Anchored Retail Space	10,500	Wes, Ryan
Prime Retail with I-15 Visibility	1,380	Curren, Roger
East Ridge Mall Space	1,000	The Walter Group, Brandon
East Ridge Mall Space	1,000	The Walter Group, Curren
Bluff Street Frontage	5,288	Wes
St. George Blvd Retail Space at Blvd Commo	2,628	Ryan
Former Scaldoni's Restaurant	3,828	Brandon
Retail Adjacent to Costco	1,300	Wes
Retail Near College & CBD	1,000	Wes
East Ridge Mall Space	1,000	The Walter Group, Curren
High Traffic Retail	1,000	The Walter Group, Wes
St. George Blvd Retail Space at Blvd Commo	780	Ryan, Brandon
Investment - Sale	SF	Agent(s)
570 W 500 S	5,183	Walter Group

Review

The gap between anchored and unanchored space remained mostly unchanged while vacancy rates fell slightly. Asking rents are also at an eight year low. Commercial Agents are showing retail space regularly, but we have yet to see a rebound in consumer spending and retailers remain cautious about expanding as aggressively as they have historically in our market. It was typical this quarter to have multiple showings of spaces in high traffic areas with good signage and good visibility near a strong anchor. On the other hand, it was also typical for properties in low traffic areas, with difficult access, or poor signage to have very few, if any, showings.

The Spirit Halloween Store opened for the season near TJ Max, there are a couple of new yogurt or ice cream concepts in town, and La Frontera will be opening in the former Scaldoni's location. In addition, Sunset Corner is looking at IMAX style theatre expansion. Last, 40 Subway locations in the State of Utah transferred hands, including the operations in Washington and Iron Counties.

Outlook

Improved sales in the fourth quarter relative to the past two years would set the stage for an improvement in the retail sector. Leasing activity should slow in the fourth quarter because of the emphasis on the holiday season, but this seasonal trend should not be misunderstood as additional weakening in the retail sector. We will have a better idea of whether retail will rebound or retrench in 2011 after the Christmas Sales Numbers are reported.



Auto Service Facility

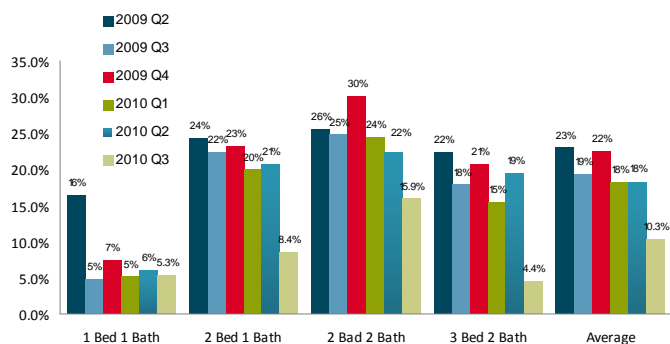
FOR SALE



Multi-Family

2010 3rd Quarter | Washington County

Vacancy Rates by Unit Type



Configuration	Rent	Rent/SF	Vacancy
1 Bed 1 Bath	\$ 558	\$ 0.87	5.3%
2 Bed 1 Bath	\$ 633	\$ 0.64	8.4%
2 Bed 2 Bath	\$ 694	\$ 0.68	15.9%
3 Bed 2 Bath	\$ 855	\$ 0.66	4.4%
Average	\$ 664	\$ 0.69	10.3%

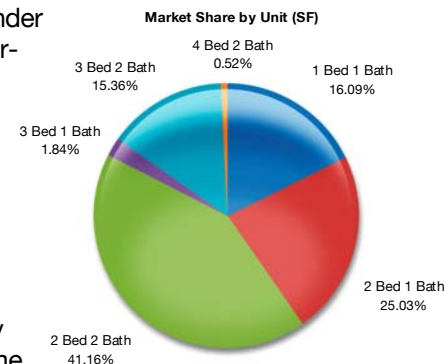


Devonshire Apartments

FOR SALE

Yes, we double checked the numbers. Vacancy rates really did fall to just over 10%. The multi-family market is the brightest spot in the commercial sector this quarter. With college starting, fewer rental homes available, and lower rents than last year, occupancy rates are up significantly and lease rates have tightened slightly. Vacancy rates for two bedroom configurations have improved the most, followed by three and four bedroom configurations. One bedroom units have been under 10% vacancy consistently during the past eighteen months.

With tightening vacancies, asking rents have reversed direction and are moving higher again. This is consistent with the national trend. If our market follows the broader multi-family trend, there will be fewer home owners in the future and more renters as a portion of the population. Over time, this will necessitate developing additional units in our market.



We are already seeing interest in our market for multi-family investment properties. This is the result of the large number of condos and townhomes that are rented as substitutes for apartments. Properties for sale under \$50,000 per door continue to generate interest, particularly those without obsolescence or deferred maintenance issues. We expect additional opportunities for investment, but any good deals should be picked up quickly.

MARK WALTER

Mark has been actively practicing real estate since 1975. Now the principal broker and co-owner of NAI Utah Commercial Real Estate Southern Region, he also is a co-owner of ERA Brokers Consolidated and jointly operates six of ERA's local offices. He has been a multi-million dollar producer for the last two decades. Mark is not a stranger to commercial and investment real estate. He has sold millions of dollars of commercial real estate including apartment buildings, free-standing commercial buildings, shopping centers, ranches, and development acreage.

Mark enjoys the challenges of commercial and investment real estate and has received the highly sought after Certified Commercial Investment Member (CCIM) designation from the Commercial Investment Real Estate Institute. The CCIM designation, often referred to as the Ph.D. of commercial real estate, is a recognized professional in commercial real estate brokerage, leasing, asset management, valuation, and investment analysis. Combined with his experience and brokerage skills, the CCIM designation gives Mark the foundation necessary to competently serve his clients.

Mark has put together joint venture partnerships that have developed office buildings, subdivisions, and development projects.



PAT CHAPPELL

Pat Chappell is recognized as a top listing agent with NAI Utah Southern Region. Pat was the second woman general contractor in the state of Utah. She specialized in the coordination, design, and building of multiple large commercial structures in a three state area. This diverse and complex business background, coupled with a vast administrative knowledge, enables Pat to offer seasoned business knowledge to business sellers and buyers looking to purchase real estate investments. She has found a niche, specializing in marketing and selling retail businesses.

Pat represents a large client base of investors and sellers who buy and sell mid-size retail buildings from 15,000-30,000 SF. Currently, Pat also represents clients in leasing retail centers from 25,000SF-143,000 SF throughout Washington County. Pat's national and regional client base is extensive. She has also represented and brokered numerous leases for many national tenants and continues to represent national, regional, and local tenants in the sale and leasing of commercial retail centers in the local area.

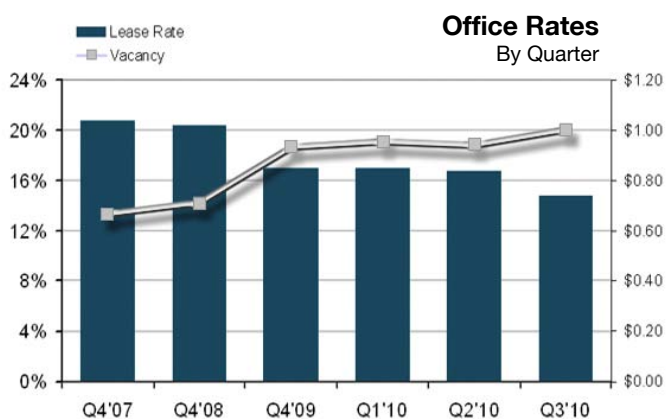
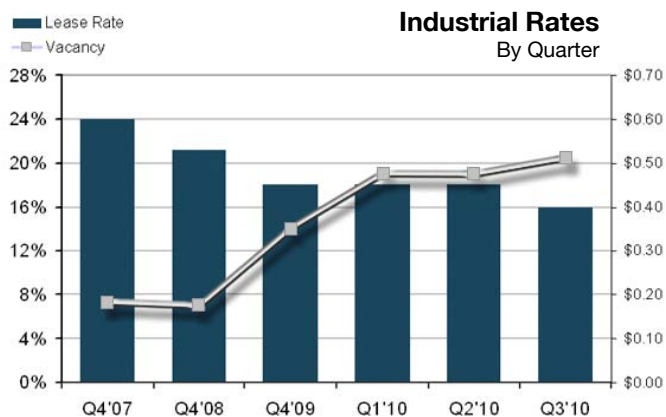
Pat and her husband Mat are sport enthusiasts who love to spend their free time taking breathtaking photos of secluded back country mountain locations. Pat and her husband have 11 children and many grandchildren.





Cedar City

2010 3rd Quarter | Iron County



Asking Lease Rates (NNN)	Industrial	Office	Retail
Low	\$0.30	\$0.50	\$0.65
High	\$0.65	\$0.95	\$1.15
Average	\$0.40	\$0.74	\$0.98
Vacancy	19.0%	18.9%	19.8%

Industrial

Insituform Technologies leased 16,000 SF in Cedar City to relocate a manufacturing facility from the San Francisco area to take advantage of the climate (they need a cool weather manufacturing location), centralized distribution, and a more friendly business environment. Raser Technologies announced a significant investment in geothermal energy west of Minersville in projecting ten more geothermal plants over ten years, with potential solar and wind sites. Genpack is expanding their existing Cedar City operations and bringing thirty jobs to the community. Parowan expects to get a \$500 million solar facility. Smead Manufacturing has also announced an expansion of its Cedar City facility. If you are looking for the source of an economic recovery in Iron County, these types of announcements will bring down vacancy rates, create jobs, and bring new revenue to the local economy.

Office

Vacancy rates remains stubbornly high while lease rates continue to fall. The office market has seen some leasing activity, but it has been offset by more contraction. As with most of the other sectors in both Iron and Washington Counties, asking lease rates moved lower in an effort to stimulate demand. Landlords continue to work with tenants to ensure that they retain them. The office market will continue to struggle until the local economy can support more professional services in the area.

Retail

This sector looks sluggish in the same way office does. Vacancy rates continue to hover at 20% while asking lease rates fall in an effort to stimulate demand from prospective tenants. The last two years have been a very difficult time to open a business, and many in the Cedar City retail market have struggled with the recession. As in Washington County, whatever activity there is should slow as we move into the holiday season as retailer focus on hopefully turning a profit for the year. The outcome of the next three months will significantly influence the retail activity for the rest of 2011.



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

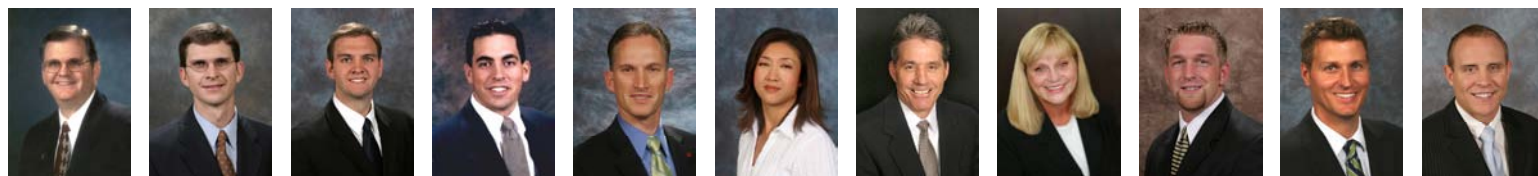


We take education seriously. This commitment is reflected in the most educated team of agents in the area.

- 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

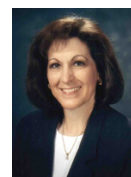


Joseph
Iwanski

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



Allene
England



Annette
Humphrey



Brian
Judd



Paul
Damron