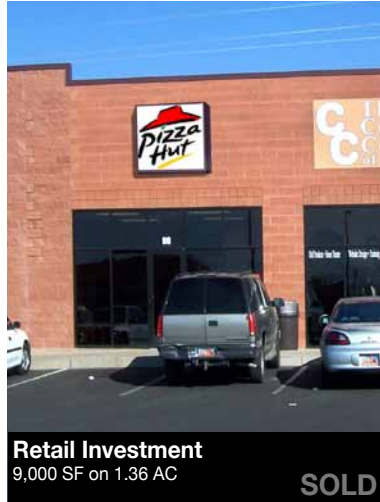


3rd Quarter 2011 Market Report

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



2011 Q3

Inside...

- 2 **WHERE CAN WE HELP YOU NEXT?**
- 2011 Q3 CLOSED TRANSACTIONS**
- 3 **INDUSTRIAL - WASHINGTON COUNTY**
- 4 **OFFICE - WASHINGTON COUNTY**
- 5 **RETAIL - WASHINGTON COUNTY**
- 6 **MULTI FAMILY - WASHINGTON COUNTY**
- 7 **INDUSTRIAL, OFFICE & RETAIL - IRON COUNTY**
- 8 **BANK-OWNED PROPERTIES**

Where can we help you next?

Our commercial real estate agents are experts in finding solutions for our clients. As part of the largest real estate firm in Southern Utah, our agents have the resources and knowledge to help you maximize the value of your investment. Below are a few of the results we have delivered to clients this quarter.



Property Tax Appeals

The County Assessor has the responsibility of assigning a value to every property in the county. In most instances they get it right. We recently introduced a product to help with the appeals process for when there is a disconnect. We recently saved one client approximately \$20,000 per year in property taxes.



Property Management

We have a reputation with our clients of saving property owners money and eliminating headaches. Over the course of a year, we helped reduce annual operating expenses 20%. Combined with our leasing services, landlords get benefit from a passive investment. We are currently managing nearly 300,000 SF of office, retail, and industrial space.



Acquisitions and Dispositions Outside of Southern Utah

We represented Overstock.com in the lease of its 18,000 SF outlet located in Sandy this quarter. Our agents have the ability to complete transactions outside of Southern Utah. Through NAI Global, we are ready to help you wherever your business takes you.



Complex Transactions

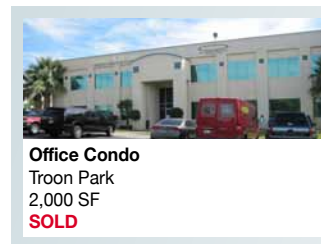
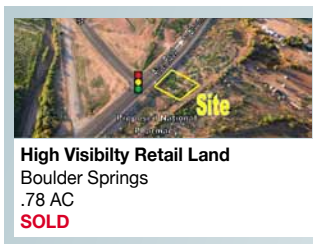
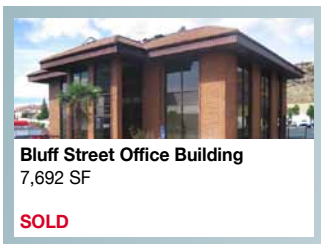
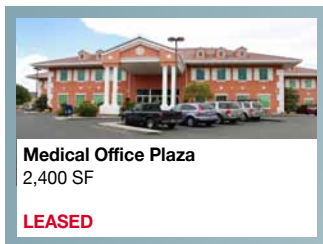
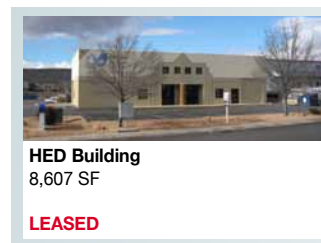
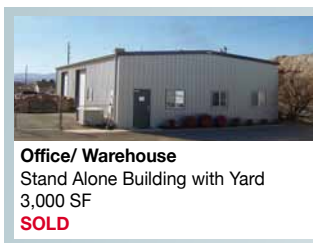
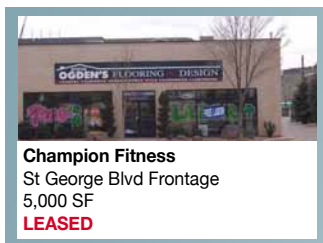
We facilitated the sale of the Bloomington Market on Exit 4. The transaction involved not only procuring the buyer, but facilitating both the real estate and business sale, transferring fuel supply agreements, transitioning real property and equipment leases, and helping secure favorable financing terms through the SBA.



Everything Else

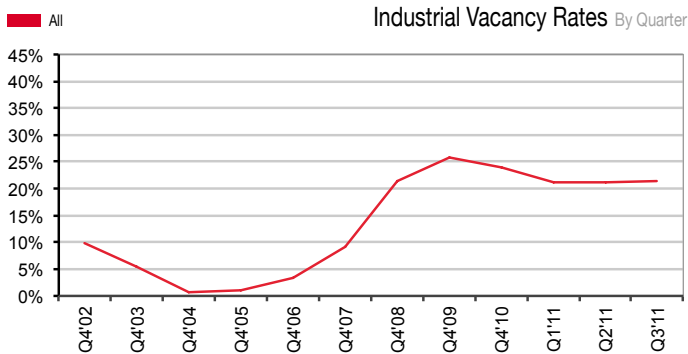
We closed 57 transactions this quarter, a transaction per day. We can also help with demographic analysis, traffic counts, residential and commercial development patterns, floor plans and site plans, proforma investment scenarios, broker price opinions and, of course, commercial real estate statistics. Commercial real estate is more than putting a sign on a property. We are 100% focused on real estate for businesses. In addition to acquisitions and dispositions, we are asking ***"Where can we help you next?"***

A Selection of 2011 Q3 Closings from NAI Utah South



Industrial

2011 3rd Quarter | Washington County



Asking Lease Rates (NNN)	< 20,000 SF	> 20,000 SF
Low	\$0.20	\$0.20
High	\$0.50	\$0.40
Average	\$0.30	\$0.25
Multi-Tenant Vacancy		
		21.4%
2010 Ending Inventory		
		8,261,000
Built Year To Date		
		31,000
Q2 2011 Ending Inventory		
		8,292,000
Under Construction		
		8,000

Review

The vacancy rate for multi tenant industrial space remained essentially the same as the previous quarter as it continued to hover just over 21%. The average asking lease rate ticked down slightly. Industrial lease rates are the lowest they have been in the last decade and landlords are wondering if it is possible for rates to drop any lower. Overall, industrial demand today has little to do with lease rates and more to do with a lack of tenants, due to a sluggish recovery. Construction companies were the primary sector that vacated space in the downturn and these businesses are looking for a jumpstart in new construction, as opposed to lower lease rates, before they will be in the market again.

There continues to be movement for industrial space over 20,000 square feet but it has primarily been on the acquisition side. Both investors and users have acquired the majority of large, vacant buildings that have come on the market. This activity has come within the last 18 months and continues. Industrial buildings sold this quarter include: Classic Commercial Storage (58,000 SF), Fairgrounds Industrial (30,000 SF) and 3879 S River Road (58,000 SF). Cox Trucking is expanding in today's market, finishing their 31,000 SF facility this quarter and working on another 8,000 SF that is under construction.

Outlook

A recovery in the industrial sector is not likely without a recovery in the construction market. In a community heavily based on retirement and tourism, our industrial market is still feeling the weight of our smaller construction sector. Growth in manufacturing and distribution will help improve occupancy rates, but construction will make the difference. Though the economy struggles, there are signs that the good residential inventory is declining and a phase of improved construction may be on the distant horizon.

Industrial Units • LEASED

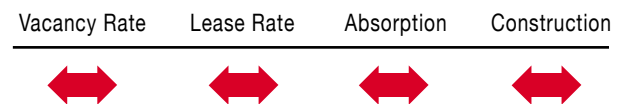


Four tenants lease 15,500 SF at River Park on River Road.



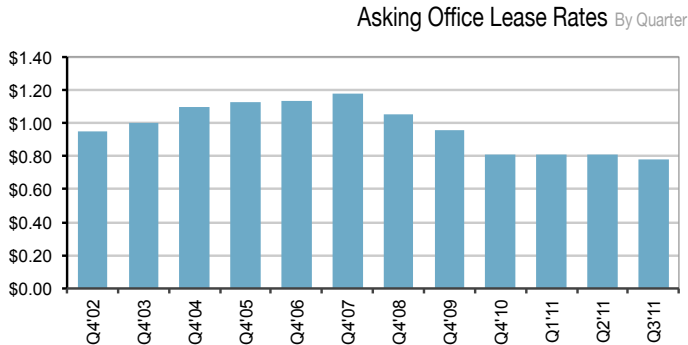
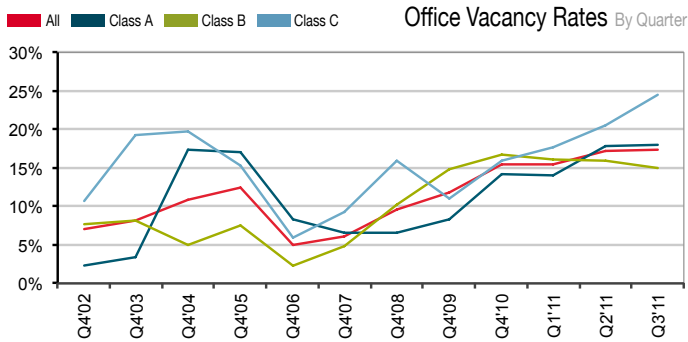
EVCO House of Hose moves their location to Exit 4.

Market Trend



Office

2011 3rd Quarter | Washington County



Asking Lease Rates (NNN)	Class A	Class B	Class C
Low	\$0.70	\$0.50	\$0.40
High	\$1.10	\$0.90	\$0.75
Average	\$1.00	\$0.70	\$0.65
Vacancy	18.0%	15.0%	24.6%
Multi-Tenant Vacancy			
			17.30%
2010 Ending Inventory			3,246,000
Built Year To Date			62,000
Q2 2011 Ending Inventory			3,308,000
Under Construction			37,000

Review

This quarter vacancy survey indicates a small decline in vacancy rates in Class A and B and a 4% increase in Class C. The trend since 2007 has been a slow increase in overall office vacancy and declining lease rates. The Class B segment of the office market is signalling a little improvement after vacancies declined slightly in each of the past 3 quarters. This is, in part, the result of Class C tenants moving to Class B space at the same or slightly reduced rent.

There continues to be a fair amount of unfinished office space on the market that is difficult to lease. Financing to finish the improvements is often difficult to obtain, tenants often don't want to wait for improvements, and landlords are having a hard time obtaining lease rates that justify the cost to finish the space. In addition to unfinished space, there is a substantial amount of vacant space that isn't functional, is old, or poorly located. While a substantial amount of the vacancy fits these categories, there is still an over supply of well located and very desirable space for tenants to choose from.

New construction continues, but very little is from private companies in the office sector. Bingham and Snow finished its new building on St George Boulevard and the Division of Child and Family Services is doing an extensive renovation of the Justice Building on 200 N and 200 E. Though not office, it is also worth mentioning the 167,000 SF Centennial Commons building under construction on the Dixie State College campus, and the assisted living facilities at Sun River and behind Texas Roadhouse in Washington.

Outlook

The office market is tied primarily to the local economic business environment. When business growth occurs for the local accountant, insurance company, marketing firm, and engineer, the office leasing market will begin to experience improvement. More jobs and better income, as well as a continual increase in population growth, will slowly pull demand back toward equilibrium in the office sector.

Downtown Office Space • LEASED

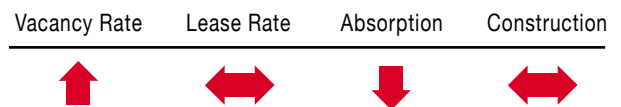


Scientific Tool Works software engineering relocates to Tabernacle Towers.



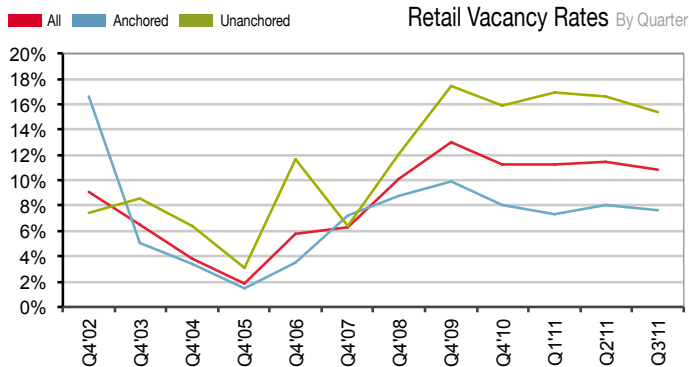
Diversified Wealth Solutions leases 4,200 SF at the 2nd North building.

Market Trend



Retail

2011 3rd Quarter | Washington County



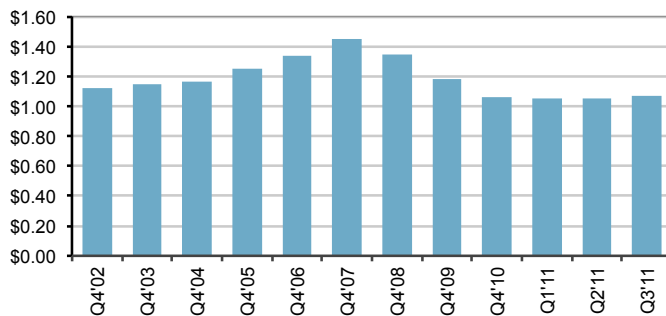
Review

Both anchored and unanchored vacancy rates declined slightly over last quarter showing a small improvement in overall retail occupancy. Tenants continue to seek high traffic interchange locations adjacent to big box retailers. There is a noticeable gap between the 15.4% vacancy for unanchored sites and 7.6% for anchored locations. Asking anchored lease rates ticked up slightly while unanchored rates stayed the same.

Visible retail activity continues with the construction of Red Rock Commons, a 135,000 SF retail center that will be home to Dick's Sporting Goods, PetSmart, Old Navy, Gap, and Ulta. Paradise Bakery finished the remodel of the former Hollywood Video location and is now open for business. Jimmy Johns is moving forward with a new location on Sunset and the McDonalds on Bluff Street is undergoing substantial renovations. The former Desert Palms building is taking new shape as it is being converted to a detox facility.

Restaurant and gas station demolitions and reconstructions have become common over the past few months. This quarter, Kneaders Bakery finished its new Bluff Street building on the old Premium Oil site, Maverik finished a new building in LaVerkin on the former Chevron site, and the Sinclair on 1000 E St George Boulevard was torn down and is under re-construction.

Asking Retail Lease Rates By Quarter



Outlook

As long as space is available at competitive rates, tenants will gravitate toward anchored sites. When space becomes limited and anchored lease rates rise, tenants will begin to gravitate back toward less expensive unanchored sites. In the near future, lease rates will remain low and landlords of unanchored sites will need to price aggressively and be creative in attracting tenants.

Asking Lease Rates (NNN)	Anchored	Unanchored
Low	\$0.90	\$0.50
High	\$2.00	\$1.20
Average	\$1.30	\$0.84
Vacancy	7.6%	15.4%
Multi-Tenant Vacancy	10.8%	
2010 Ending Inventory	6,108,000	
Built Year To date	8,000	
Q2 2011 Ending Inventory	6,116,000	
Under Construction	139,500	

Retail Buildings • LEASED

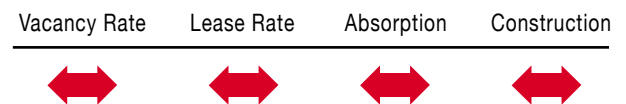


Seasonal Halloween store leases 25,000 SF of space in the former Sunroc building.



Alpine Home Medical takes additional space next to TJ-Maxx.

Market Trend

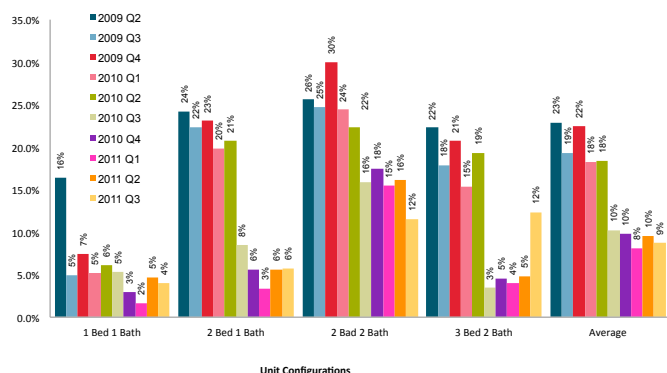


Multi-Family

2011 3rd Quarter | Washington County



Vacancy Rates (Unit Type) By Quarter



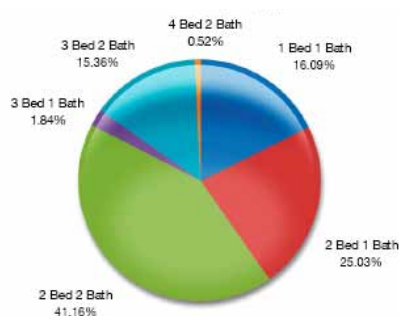
Review

With the summer over and school back in session, asking rental rates are up and vacancies are down. The prediction from apartment managers was that vacancies would drop once the fall semester began, and that is exactly what happened. Vacancy rates are lowest for the most inexpensive 1x1 configurations with 3x2 showing unusually high vacancy due to the competition in the residential home and condo markets.

Outlook

As the overall rental market, including homes and condos, continues to tighten and household formation accelerates, we expect (over the next 12-18 months) rental rates to continue to climb and vacancy rates to fall and then stabilize.

Market Share by Unit (SF)



While there are two assisted living centers under construction and a senior subsidized housing project in the works, there is no new development of market rate product in the multi-family sector. With the recovery of lease rates and vacancy rates, this is not likely to last. In Southern Utah, the economics for developing new units remains marginal but is improving as time goes on. Across the country, multi-family is a bright spot in the commercial real estate sector and construction is very brisk.

Configuration	Rent	Rent/SF	Vacancy
1 Bed 1 Bath	\$ 568	\$ 0.89	4.0%
2 Bed 1 Bath	\$ 635	\$ 0.65	5.8%
2 Bed 2 Bath	\$ 698	\$ 0.68	11.5%
3 Bed 2 Bath	\$ 864	\$ 0.67	12.4%
Average	\$ 670	\$ 0.70	8.7%

Agent Spotlight: Wes Davis

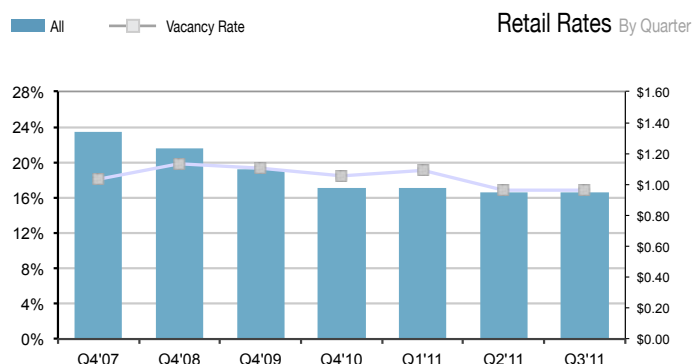
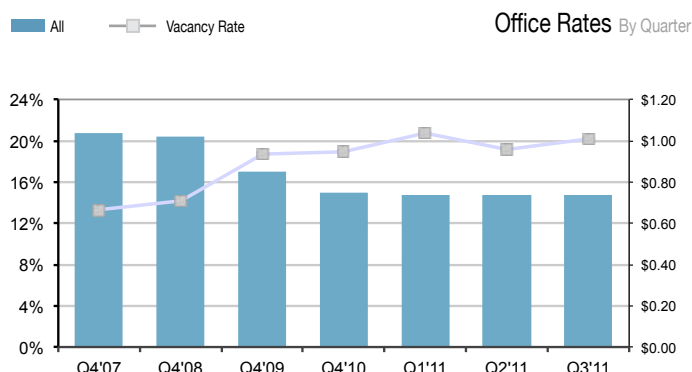
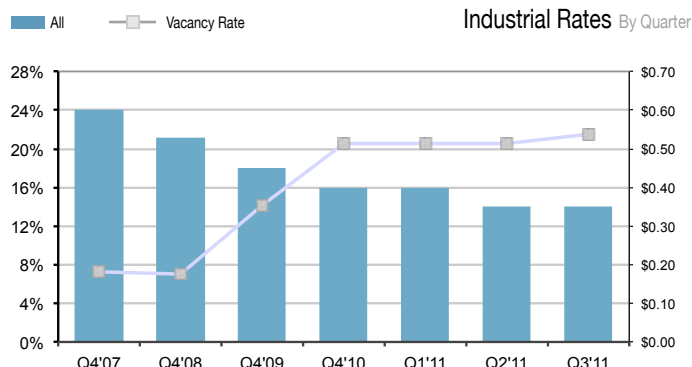


Wes has been in commercial real estate since 2002. During this time, he has been the Rookie of the Year, Top Listing Agent, and Top Producer on many occasions. His success has been attributed to hard work, dedication, creativity and active client relationships. He believes in providing quality service by going above and beyond to satisfy his customers. His experience includes brokering sales and leasing of office parks, retail centers, industrial buildings, land, and structuring joint ventures.

His areas of expertise include buying, selling, and leasing (landlord and tenant representation) commercial/investment real estate. He is proficient in calculating cash-flow analysis, return on investment, analyzing and mitigating risk, feasibility studies, site selection, forecasting, portfolio analysis, market research, and negotiations.

Cedar City

2011 3rd Quarter | Iron County



Asking Lease Rates (NNN)	Industrial	Office	Retail
Low	\$0.25	\$0.49	\$0.65
High	\$0.50	\$0.95	\$1.15
Average	\$0.35	\$0.74	\$0.95
Vacancy	21.5%	20.2%	16.8%

Iron County

Conditions remain mostly unchanged. There is a little construction, a few new tenants, a few transactions, but overall economic conditions remain anchored to the job market. This summer's macroeconomic roller coaster didn't help jumpstart the Iron County commercial markets. As we move into the winter, activity usually slows. Look for next spring before we see another opportunity for improving market conditions.

Industrial

Vacancy rates continue to bounce around 20%. Leases are getting signed at rates between \$.25 and \$.35 per SF, but there are few transactions. This year has seen interest in facilities over 10,000 SF and a few leases have closed, but leasing of multi-tenant space remains very difficult. Industrial space is a bargain with both acquisition prices and lease rates below replacement cost.

Office

Vacancy rates in the office sector also remain around 20%. Interest remains low and there continues to be lots of nice space available for lease. There are some suites offered as low as \$.35 per SF that have still not generated lease proposals. Rates fall within a wide range and there are few transactions. Tenants who are coming up on lease expirations have many options and should continue to get favorable terms while vacancy rates remain high.

Retail

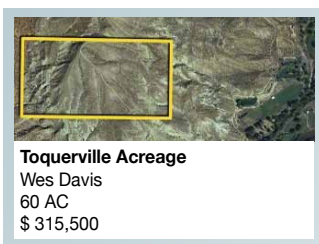
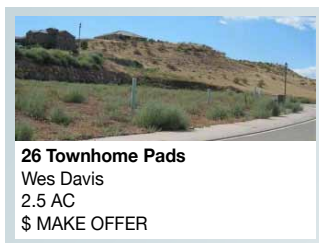
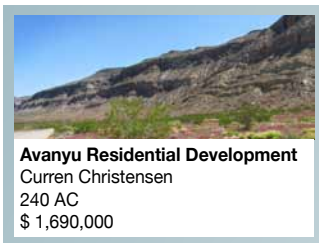
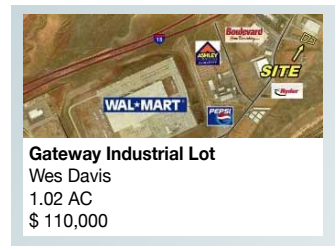
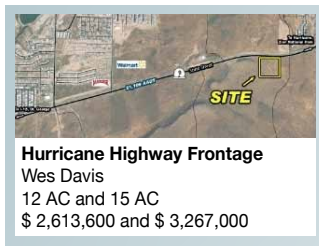
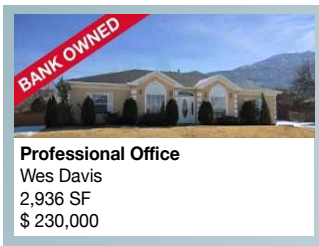
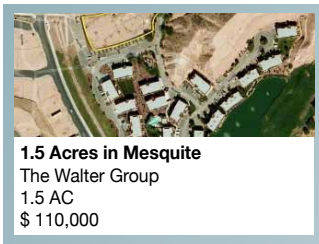
Vacancy rates continue to drift lower, although the pace is hardly fast enough. Like Washington County, retail is outperforming office and industrial. Another convenience store sold as the Chevron at Providence Center changed hands last quarter. Food retailer Jimmy Johns acquired a site on 200 N and the property is expected to be developed soon. Activity is better than office and industrial, but not strong enough to turn lease rates yet. Although progress will be slow, we expect the improving trend to continue.

Cedar City • SOLD



Fast food franchise Jimmy Johns purchases former Cedar City gas station and convenience store site for a new store.

A Selection of **Distressed Properties** from **NAI Utah Southern Region**



Search **139** NAI listings **For Sale** and **104** NAI listings **For Lease** at
www.naiutahsouth.com