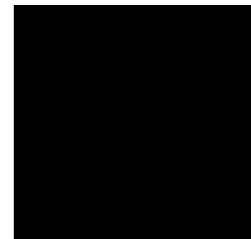
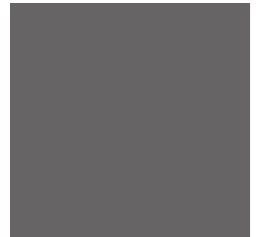
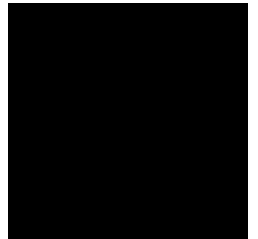




# 2007 Southern Utah 3rd Quarter Market Report

A Quarterly Newsletter & Report on  
Commercial Real Estate in Southern Utah  
from St. George to Cedar City

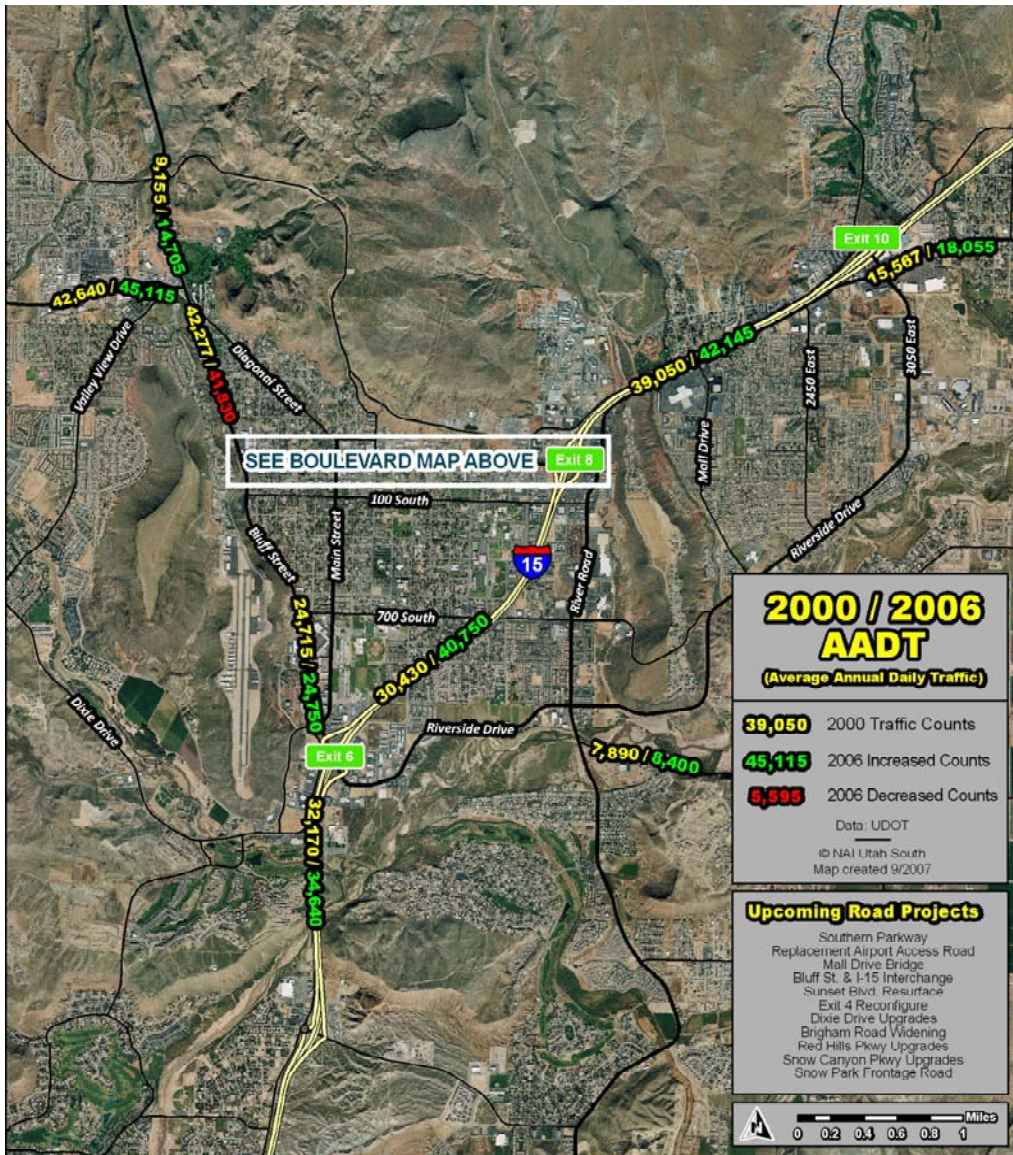


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# Impact of Construction & Growth on Traffic



St. George Boulevard traffic decreased an average of 78% during it's reconstruction, while Washington County traffic counts increased at all other major intersections. Exit 8 saw an increase in traffic due in large part to the influx of residential units on south River Road.



There is more to commercial real estate than just square footage & lease rates. We understand the elements that impact your business.

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NAI's services include...

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- Leasing
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**Where can we help you next?**

# Current State of The Market

In spite of national trends, Southern Utah is weathering the battered real estate markets very well. There is significant discussion in the national press & in our local press about national real estate trends. These trends are almost exclusively focused on the residential markets & they can seem quite foreboding. Nationwide, building permits are at decade lows, transaction volumes have dropped a lot, foreclosures are up, inventories are up, & asset values are dropping by double digits. More recently, the unraveling of the sub prime securities markets created instability that seems to have mostly stabilized.

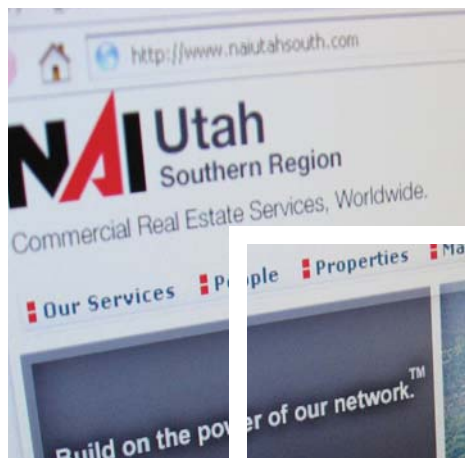
Although it can seem scary in the trenches, Washington County is faring significantly better than the national press suggests. In Southern Utah, transaction volumes are off by 50% compared with the peak, but volumes are consistent with 2003 & 2004. Transactional business such as title companies, mortgage brokers, contractors, & real estate brokers are hit particularly hard by lower volumes. That said, we believe we are in a stable market. According to the Southern Utah Home Buying Facts guide, Washington County average sale prices have dropped by approximately 5.9% from July 2006 to July 2007. Numbers indicate that from the highest quarterly average sales price to the lowest, Washington County is off by about 7%. Considering that we just went through a period of 100% appreciation in a period of two or three years, this isn't much of a price correction. When you look at price per SF on existing homes, (this adjusts for variations in the size of homes) it looks as though we are only off 2.5 to 3%.

What about August & September? We are a little early for anything but preliminary numbers for September, but MLS residential units closed for August were higher than for July. Prices were 2% lower in August, but September appears to show prices holding. We are also showing average time on the market at between 110 & 130 days. This is a more than a month less than in 2002 & 2003. Many ask how we explain these numbers. It is generally a matter of pricing. The homes that have been on the market, for a considerable amount of time, are overpriced. It is like placing a limit order for a stock that will never be filled. Many of these homes go through multiple realtors. Not until the home is priced appropriately (or the owner gets lucky) does the home sell. Similarly, the market is clearing relatively less expensive homes. As a result, we end up with a significant number of homes that are not priced to sell & a significant number of expensive (over \$350,000) homes that artificially inflate our inventory numbers.

So, where is the market heading? Currently, Utah has the lowest foreclosure rate in the country. This is an indication of a market that is healthier than average. Other economic indicators also show that we are performing very well. Our workforce is growing faster than both the State & the Nation at 3.5% since July 2006, & our wages rose 3.3% over the past year. Increases in the cost of living are now lower than the Nation on average. Unemployment remains low at 2.9% compared with over 4% for the Nation. All of these indicate economic strength. This doesn't mean prices have hit bottom, but it does mean there is a floor.

The local commercial market is in very good shape. We are seeing significant construction activity this year, validating the law of supply & demand. In 2005 & 2006 we were short supply & lease rates moved up. In 2007, inventory has become available & lease rates have stabilized. If you are looking for commercial real estate, or even a home, now is a very good time to buy. In the world of stocks, Washington & Iron Counties are growth stocks. Investors have to endure a little volatility but, in the end, the capital gains should make it worth the ride.

## Can One Site Really Have So Many Answers?



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Neil Walter

nwalter@naiutahsouth.com

**Managing Director**

Mark Walter

mwalter@naiutahsouth.com

**Principal Broker**

# A Sample of Our 3rd Quarter Transactions

## Leases

### Industrial

350 North Industrial Center	3,627 SF	Jason Griffith & Meeja McAllister	Office Warehouse
Coal Creek Industrial Park	3,200	Jason Griffith, Meeja McAllister, & Eric Christensen	Office Warehouse
Fort Pierce Office/Warehouse	5,260	Wes Davis	Office Warehouse
R&R Industrial Center, Suite 4	1,500	Jason Griffith & Meeja McAllister	Warehouse
R&R Industrial Center, Suite 10	2,500	Jason Griffith & Meeja McAllister	Warehouse
Riverside Commercial	1,845	Jason Griffith & Meeja McAllister	Office Warehouse
Riverside Drive Office/Warehouse	2,280	Jason Griffith, Meeja McAllister, & Eric Christensen	Office Warehouse
Southwick Office/Warehouse	4,103	Jason Griffith & Meeja McAllister	Office Warehouse
Sunchase Business Park	20,000	Wes Davis	Office Warehouse

### Office

Boulevard Office Park	1,131 SF	The Walter Group	Professional
Crossroads Center, Building E	3,000	Wes Davis	Professional
Ence Executive Tower	2,406	Jason Griffith & Meeja McAllister	Professional
Metcalf Office Space	900	Ryan Garrett & Brandon Vandermyde	Professional
Morningside Office Plaza	2,525	Jason Griffith, Meeja McAllister, & The Chappell Team	Professional
Red Cliffs Professional Park	1,000	Jason Griffith & Meeja McAllister	Professional
Rio Plaza	10,182	Jason Griffith & Meeja McAllister	Professional
Ventana Office Park	2,310	Jason Griffith & Meeja McAllister	Professional

### Retail

Dixie Sunset Plaza	1,090 SF	Jason Griffith & Meeja McAllister	Unanchored Strip
Festival Plaza, Suite A-2	1,420	Wes Davis	Anchored Strip
Festival Plaza, Suite B-2	3,010	Wes Davis	Anchored Strip
Festival Plaza, Suite B-4	1,610	Wes Davis	Anchored Strip
Festival Plaza, Suite B-5	2,450	Wes Davis	Anchored Strip
Old China King Building	2,700	Wes Davis & Eric Christensen	Free Standing
Pier 49 Pizza Building	1,350	Jason Griffith & Meeja McAllister	Unanchored Strip
St. George Boulevard Mini-Mart	1,700	Joseph Iwanski & Brandon Vandermyde	Free Standing
Rio Plaza	6,445	Jason Griffith & Meeja McAllister	Unanchored Strip
Southland Retail Building, Suite A180	1,756	The Walter Group	Unanchored Strip
Southland Retail Building, Suite A170	3,150	The Walter Group	Unanchored Strip

## Sales

### Investment

Grandma's Attic	5,000 SF	The Walter Group	Retail Store
Sinclair Station & Mexican Restaurant	4,270	The Chappell Team	Free Standing
Super 8 Motel, Salina UT	40,900	The Chappell Team	Hotel/Motel

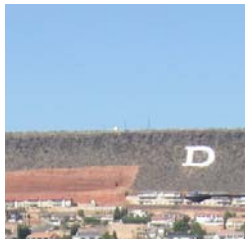
### Land

1.2 Acres of Industrial Land	1.20 AC	Wes Davis	Industrial
2.02 Commercial Acres in Virgin	2.02	The Walter Group	Other
1.9 Acres East of Stock Building Supply	1.90	Jason Griffith, Meeja McAllister, & The Chappell Team	Retail/Office
14.13 Acres in Fremont	14.13	The Chappell Team	Farm/Ranch
20.59 Acres in Fremont	20.59	The Chappell Team & Brandon Vandermyde	Farm/Ranch
7.05 Acres in Leeds	7.05	The Walter Group	Multi-Family/Residential
Ft. Pierce Industrial Park, Lot 154	1.81	The Walter Group	Industrial
Garfield County Acreage	6.31	The Walter Group	Multi-Family/Residential
Pine View Commercial Center	0.69	Ryan Garrett & Brandon Vandermyde	Retail/Office

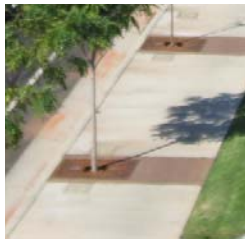
### Retail

Sunland Commercial	1,600 SF	Wes Davis	Unanchored Strip
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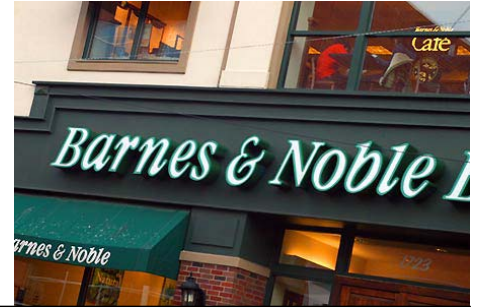
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# 3rd Quarter... Happenings Around Town



- **Barnes & Noble** announced a new store at Red Cliffs Mall. The store will stock close to 200,000 book, music, DVD & magazine titles, & include a café serving Starbucks coffee, according to a press release from Red Cliffs Mall.



- **Festival Plaza**, the newest retail center to St. George, located next to Sportsman's Warehouse & Costco, held its Grand Opening on July 10<sup>th</sup>, 2007. The center has filled up quickly, with many new & existing retailers.



- **Lane Bryant**, the nation's largest women's plus-size specialty apparel, will open a new location at Red Cliffs Mall. Lane Bryant is the most recognized name in plus-size clothing, with an emphasis on fashion.



## Other Notable Happenings

- **Coldwater Creek**, a National retailer of women's apparel, jewelry, gift, & accessories, announced a new location in Red Cliffs Mall.
- **Instacare** opened a new facility on Sunset.
- **FAA** grants \$7 million for airport land purchase.
- **Tonaquint Data Center** broke ground on Sept. 10.
- **Pizza Factory Pineview** opened for business.
- **hair. A Paul Mitchell Partner School** has opened in Washington.
- **Noble Roman's** held its grand opening at the Shoppes at Telegraph.

- **Tai Pan Trading Company** is building a new location in St. George, its third in Utah. Tai-Pan Trading Wholesale Home Decor has been an importer/wholesaler supplying the home décor markets along the Rocky Mountain region since 1979.



- **Chico's** opened at Red Cliffs Mall. Chico's is the leading specialty retailer of private branded sophisticated, casual-to-dressy women's clothing & accessories.

# CHICO'S

# Commercial Market Overview

## Industrial Market

St. George Area

Lease Rates (NNN)		
	Low	\$0.54
	Average	\$0.59
	High	\$0.75
Total Vacancy		6.91%
2006 Inventory		6,692,000
Built in '07 YTD		648,000
YTD Inventory		7,340,000
Under Construction		196,000

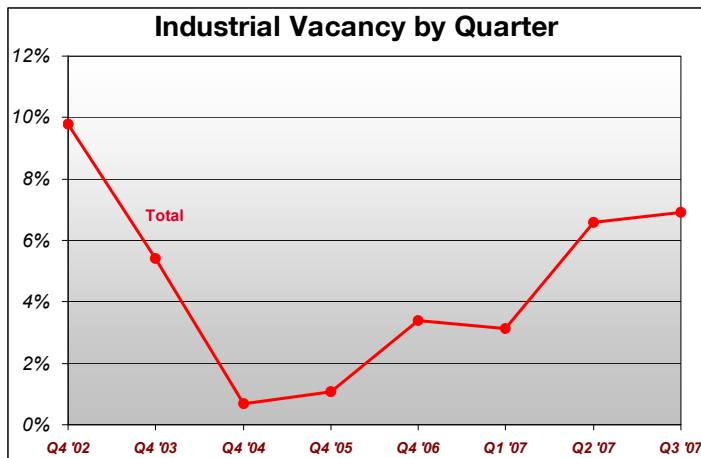


### Review

The number of projects completed during the first six months of the year resulted in an anti-climatic third quarter for industrial. The Red Hills Commercial building, in the old St. George Industrial Park, & the Dixie Metal Recycling building were the notable completions for the quarter. With all of the new space available, the once super-hot industrial market finally has enough supply for the market to stabilize. Vacancy rates edged slightly higher, & lease rates dropped slightly, signaling a peak in the 2004-2007 industrial fervor. For tenants, the number of spaces at less than 5,000 SF can still be difficult to find — if the tenant isn't flexible with location. For spaces larger than 5,000 SF & even up to over 100,000 SF, there are many more options than our market has seen in recent history.

### Outlook

The industrial market has stabilized with the recent surge in supply. For landlords, rising lease rates & abnormally low vacancy rates are a thing of the past. As an economic development zone, Fort Pierce Industrial Park will continue to see relatively suppressed supply because of restrictions on the development of investment properties. On the other hand, Gateway has seen significant spec building in anticipation of strong tenant demand in Washington County. If a tenant or a user can be flexible with their location, there should be plenty of opportunities to find space to lease—particularly larger space—through this quarter & into 2008.



• Sample includes 817,531 SF. Inventory includes only buildings over 6,000 SF; excludes storage locations.

## Office Market

St. George Area

Lease Rates (NNN)		Class A	Class B	Class C
	Low	\$1.20	\$1.05	\$0.91
	Average	\$1.36	\$1.17	\$0.96
	High	\$1.50	\$1.30	\$1.05
Vacancy		6.63%	3.24%	5.49%
Total Vacancy		4.64%		
2006 Inventory		2,620,000		
Built in '07 YTD		210,000		
YTD Inventory		2,830,000		
Under Construction		197,000		

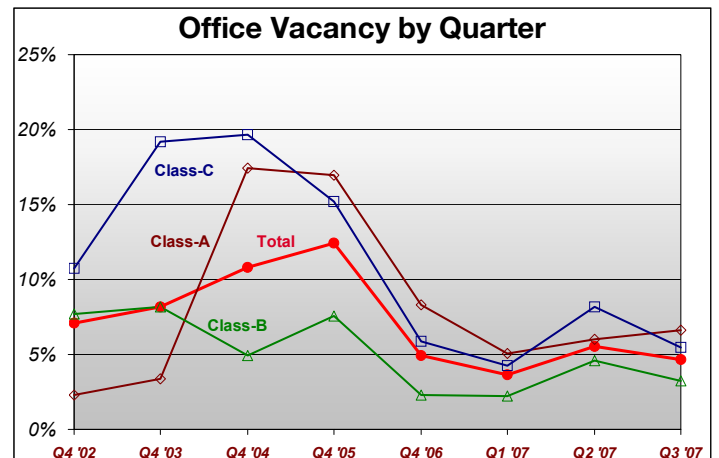


### Review

The office market saw 100,000 SF of space built over the past quarter, in addition to the 110,000 SF built during the first half of the year. There is just under 200,000 SF under construction & another 183,000 announced. We have been cautioning property owners about the impending correction in the office market since the end of 2006. At just under 5%, Class A vacancies have risen primarily due to new construction. Beginning in 2002, Class A office lease rates were at \$1.25 per SF NNN compared, with \$1.36 today. This represents a mere 8% increase over five years, in contrast with national trends that have risen more sharply. New additions to the market-place include the S&S Office Building & Rim Rock Commercial Center near Olive Garden, Workers' Compensation Fund of Utah's building in Tonaquint, the Bloomington Executive Suites building, & two smaller buildings—one on Sunset Boulevard & one in Ventana.

### Outlook

With long-run absorption rates around 170,000 SF per year, 2007 is already over that mark with additional properties anticipated to finish construction in the fourth quarter. The pipeline for new construction into 2008 is also filling up. As with many of the recently constructed buildings, absorption will be primarily from owner/users & excess space will be coming on the market. As a result, property owners can expect to see continued pressure on lease rates & rising vacancies through the end of the year & into 2008. Some of the new projects coming online in the 4<sup>th</sup> quarter include Boulevard Center Building C, the Chiniquy Center, South Main Plaza #2, & the Legacy Professional Building.



• Sample includes 1,170,946 SF. Inventory includes only buildings over 4,000 SF; excludes government & hospital locations.

# Commercial Market Overview

## Retail Market

St. George Area

Lease Rates (NNN)	Class A	Class B	Class C
Low	\$1.50	\$1.20	\$1.00
High	\$2.25	\$1.75	\$1.35
Average	\$1.82	\$1.51	\$1.29
Vacancy	5.92%	4.03%	2.77%
Total Vacancy	4.72%		
2006 Inventory	5,085,000		
Built in '07 YTD	351,000		
YTD Inventory	5,436,000		
Under Construction	360,000		

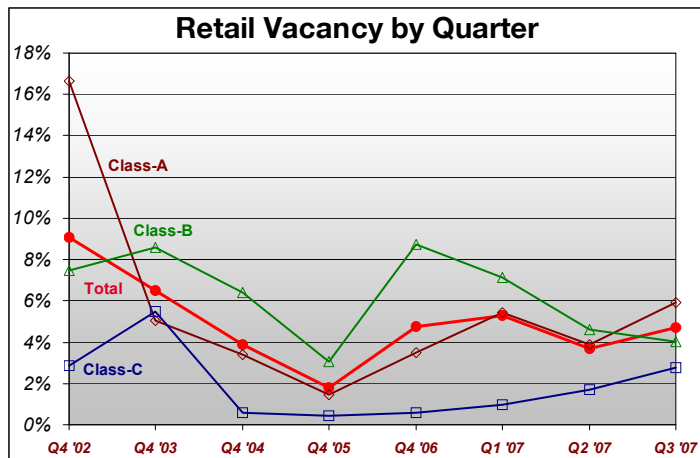


### Review

We continue to see strong retail expansion, lease rate stability, & more national tenants. Over the past two years, retail has been a very good market. Lease rates nudged up to \$1.82 per SF for anchored space. Year-to-date, 310,000 SF of new retail space has come online, with another 360,000 under construction, & more than 380,000 announced. With all of the new construction, we have seen vacancy rates move higher. National, regional, & local tenants are expanding into more than one location, such as the opening of the new Staples, which provides stability to growth & drives traffic to new commercial centers. Projects with good accessibility & visibility are still attracting tenants quickly, & higher vacancy rates are not a cause for concern, for desirable properties, at this point.

### Outlook

Absorption in the retail sector has been very strong & will continue as long as the county continues to see strong growth. With long-run absorption at around 380,000 SF per year, we are not seeing enough development to risk becoming overbuilt, yet. The national headlines our community has seen have spurred expansion, & it will be important to watch expansion patterns of national tenants & retail sales growth in our community to make sure development doesn't get ahead of demand. Even with our rapid growth, there are a number of national & regional retailers who haven't entered our market. Over the coming months, look for a new Robert's Crafts location next to Kohls, the completion of buildings around Texas Roadhouse Grill, completion of improvements at the Red Cliffs Mall, grand openings for tenants at Festival Plaza, continued expansion at Sunset Corner, & announcements of new tenants at Red Cliffs Square.

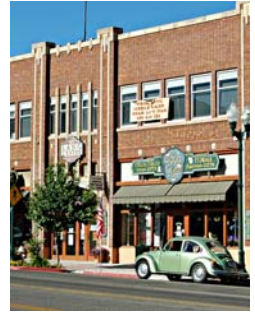


• Sample includes 1,124,138 SF. Inventory includes only buildings over 5,000 SF; excludes vehicle related & financial locations.

## Iron County

Cedar City

Lease Rates (NNN)	Ind.	Office	Retail
Low	\$0.50	\$0.90	\$1.09
Average	\$0.59	\$1.09	\$1.29
High	\$0.80	\$1.35	\$1.35
Vacancy	7.20%	17.10%	21.00%



### Industrial

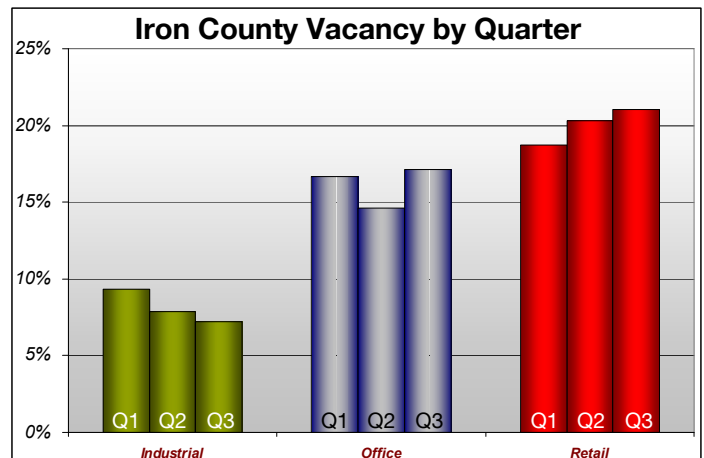
At \$0.59 per SF, industrial lease asking rates are slightly lower than last quarter & vacancy rates have dipped slightly. There is new office warehouse space available on Industrial Road & just off of Highway 56. More is coming on Highway 56 & in Port 15 & construction at the Charlotte Pipe facility is also moving along nicely. For large users, there are still existing facilities for lease & there is ample ground for developers of warehouse, flex, or manufacturing space. Industrial is a bright spot in the area.

### Office

The office market is still quite soft, particularly in the medical office segment. Office space has remained available near the hospital, on South Main Street, & on Royal Hunt Drive for more than a year. Lease rates are about the same as last quarter & vacancy rates are similar to the first quarter vacancy rates. New office construction is nearly at a stand-still right now, although we should start seeing absorption over the next couple of quarters.

### Retail

Retail vacancy rates remain high, although there is absorption in the market. Average asking lease rates appear to be stable, although the high end of the market has dropped \$0.13 reflecting landlord's willingness to make concessions. Construction continues at a brisk pace. At the Providence Center, two multi-tenant building & a Walgreens are under construction or nearly completed. Jimmy John's & the Comfort Inn should be finished in the next quarter & Bealls is renovating a space next to Staples.



• Industrial sample includes 104,569 SF. Office sample includes 171,926 SF. Retail sample includes 306,676 SF.

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