

2008 1st Quarter Market Report

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



NAI Utah
Southern Region

Commercial Real Estate Services, Worldwide.

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Market Report Methodology...

As we have visited with clients and business partners about the use of our quarterly newsletters, we realized there were a couple of misconceptions about the way we gather and report data. The following is our methodology.

Vacancy Rates

As we report vacancy rates, the data used in the calculations comes from a sample of over 3.8 million square feet of leased multi-tenant properties in Southern Utah. The sample was originally started in 2002 and we add to it periodically as newly built properties stabilize (typically around one year after construction is complete). Many of the properties are managed and leased by the property owner or a representative other than NAI. Each quarter, we ask them what their vacancy rate is and use the reported numbers to calculate our reported vacancy rates.

Lease Rates

Lease rates are *asking* lease rates for the respective property types. We have an analyst who keeps track of properties marketed by our competitors so that as we look at *asking lease rates*, we include virtually all of the commercial properties marketed by the brokerage community as a whole. These calculations are weighted calculations and we make adjustments for various kinds of lease terms and property types. We also control for outliers to reduce skewness in the data.

Construction and Absorption

In our property database, we track existing commercial properties as well as those that are under construction. In addition to using available building permit reports, we canvas the area and look for projects that we may have missed. We keep a record of the status of each of the properties and track them from when dirt first starts moving until the building is complete, except for tenant improvements. We then keep track of how much of this new construction is absorbed over the first four quarters. Obviously, the owner-occupied space is absorbed immediately. Recently, multi-tenant properties have taken up to 12 months to reach stabilized vacancy, of course some properties lease more quickly and others lease more slowly.

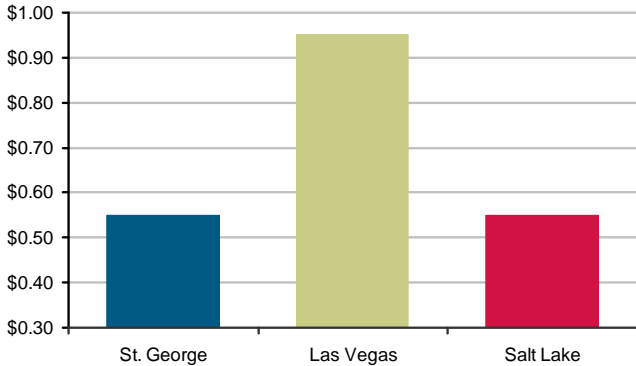
Please do not hesitate to contact us about the information contained in our market report. We hope you continue to find it helpful.

Mark Walter
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Principal Broker

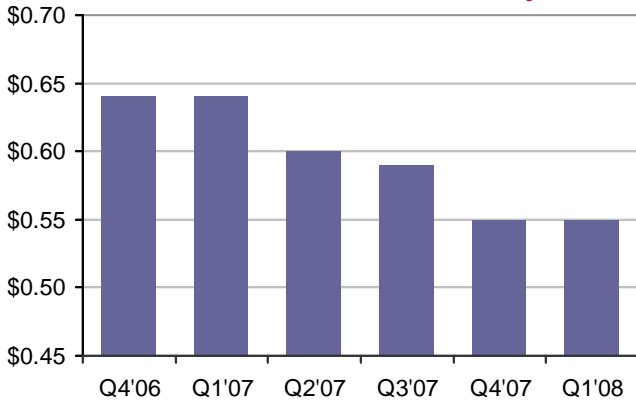
Neil Walter
nwalter@naiutahsouth.com
Managing Director

2008 1st Quarter: Washington County Industrial

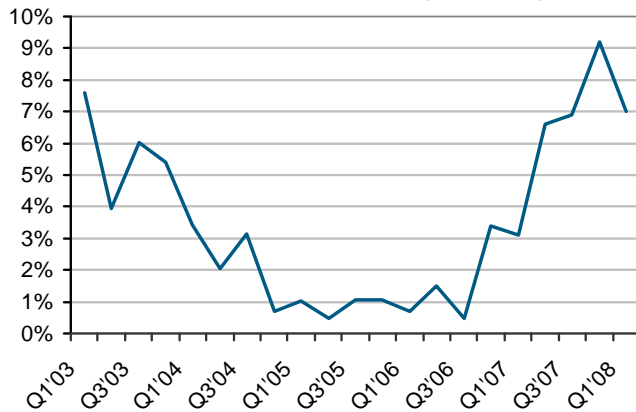
Regional Industrial Lease Rate Comparison by City



Industrial Lease Rates by Quarter



Industrial Vacancy Rates by Quarter



1st Quarter Industrial Transactions

Industrial - Lease	SF	Agent
Hurricane Office/Warehouse	1,200	Brandon V
Commerce Park at the Gateway	2,000	Jason & Meeja
Southland Retail Warehouse	1,720	Brandon V, Walter Group
Southland Retail Warehouse	1,220	Walter Group
Southland Retail Warehouse	1,320	Walter Group
3676 S 1700 E	3,000	Jason G
3676 S 1700 E	6,000	Jason G
Millcreek Warehouse	14,867	Walter Group
Office/Warehouse Building for Lease	7,500	Brandon V
Ft. Pierce Industrial Park	1AC	Wes D
Ft. Pierce Ind Park Office/Warehouse	5,472	Wes D
Retail/Warehouse	4,000	Chappell Team, Jason or Meeja

Lease Rates (NNN)	< 20,000 SF	> 20,000 SF
Low	\$0.45	\$0.45
High	\$0.88	\$0.60
Average	\$0.55	\$0.49
Stabilized Vacancy	7.00%	
2007 Ending Inventory	7,665,000	
Built in '08 YTD	90,000	
2008 YTD Inventory	7,755,000	
Under Construction	75,000	
New Construction Absorption	630,000	
New Construction Vacancy	33.7%	

Review

In the industrial market, stabilized vacancy rates fell to a 7% market vacancy. Actual lease rates remain soft relative to last year. Overall interest has softened, but remains active for spaces less than 10,000 SF; however, owners are still seeing their properties lease much more slowly than in recent years because of additional inventory and the softening market.

In the first quarter, we saw an additional 90,000 SF of new construction completed. There is approximately 75,000 SF still under construction.

Outlook

Multi-tenant properties and smaller single-tenant properties will see the most market activity. Large industrial space over 50,000 SF will continue to struggle given that historically these facilities have been primarily absorbed by owner-users.

Asking lease rates are still lower than a year ago, and we are seeing more leases being signed in the \$.50 - .60 per SF range than in previous years. Vacancy on new properties remains high, but should look better by the end of the year if new spec construction slows as anticipated.

Market Outlook

Vacancy Rates



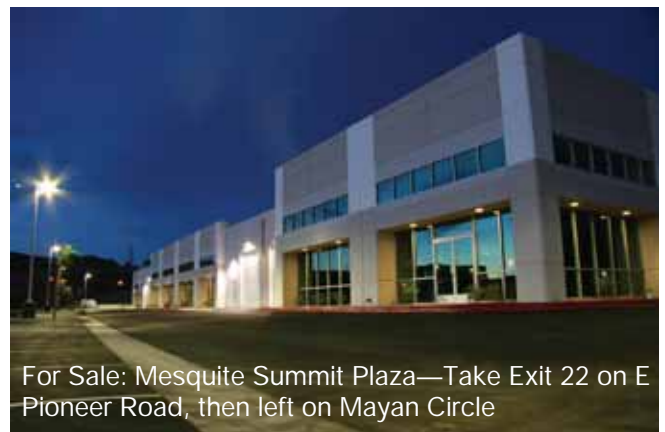
Absorption



Construction



Lease Rates



For Sale: Mesquite Summit Plaza—Take Exit 22 on E Pioneer Road, then left on Mayan Circle

2008 1st Quarter: Washington County Office



Market Outlook

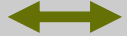
Vacancy Rates



Absorption



Construction



Lease Rates



Lease Rates (NNN)	Class A	Class B	Class C
Low	\$1.20	\$0.90	\$0.75
High	\$1.50	\$1.30	\$1.15
Average	\$1.34	\$1.22	\$0.93
Vacancy	4.1%	7.4%	10.5%
Stabilized Vacancy			6.80%
2007 Ending Inventory			2,939,000
Built in '08 YTD			76,000
2008 YTD Inventory			3,015,000
Under Construction			106,000
New Construction Absorption			218,000
New Construction Vacancy			22.8%

Review

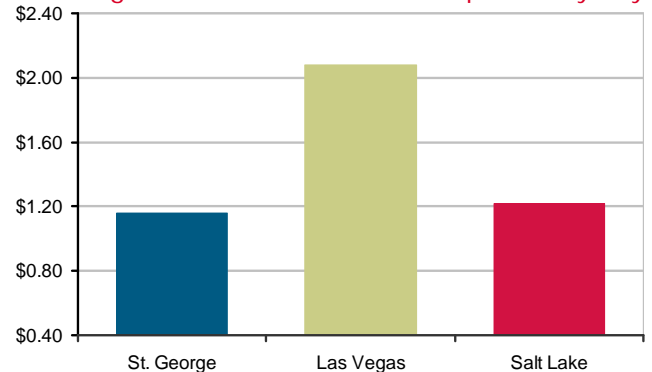
The office market saw lease rates decline and vacancy rates increase. The activity in the office market is mostly confined to smaller spaces in existing buildings with lower than average lease rates. The result is that stabilized vacancies remain relatively constant and newly constructed properties are still struggling to lease.

New construction has slowed in the office sector, reflecting the difficulties with leasing and absorption. In the first quarter, the Chiniquy Building was the only finished multi-tenant property and new buildings breaking ground are slowing as anticipated.

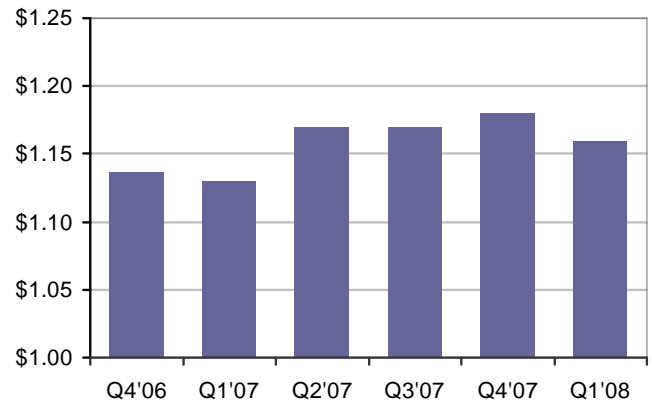
Outlook

We expect to see a high degree of sub-leasing and more lease rate concessions—although not necessarily in asking lease rates. As reported last quarter, expect creative offerings, well designed space, and well located space to see acceptable levels of tenant traffic while less desirable locations or poor layouts will continue to struggle. Due to the amount of the office market that is tied to the real estate industry and the amount of office subleasing by real estate related businesses, market activity indicates there will be little or no real office absorption in 2008 and new construction vacancy will jump significantly.

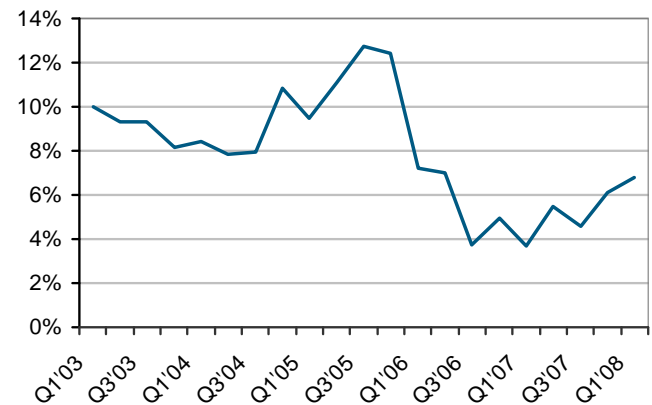
Regional Office Lease Rate Comparison by City



Office Lease Rates by Quarter



Office Vacancy Rates by Quarter



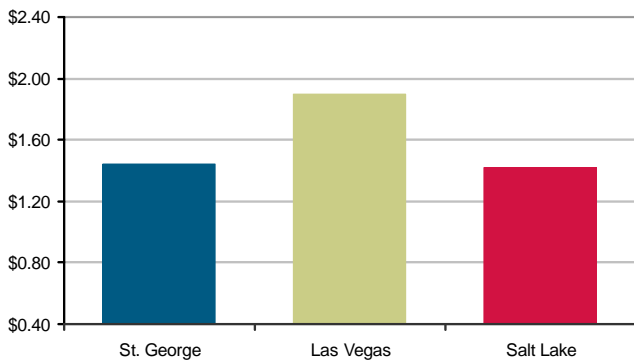
1st Quarter Office Transactions

Office - Lease	SF	Agent
Red Cliffs Professional Park	1,200	Chappell Team, Jason or Meeja
Chase Plaza	5,000	Wes D
Bloomington Courtyard	2,500	Chappell Team, Jason G
Red Cliffs Professional Park	350	Jason or Meeja
Red Cliffs Professional Park	650	Jason or Meeja
Sunland Prof. Park (Phase 2)	1,500	Jason or Meeja
Downtown Office Space	2,500	Brandon Vandermyde
Red Hills Commercial Center	1,780	Ryan Garrett
Richardson Homes Office Building	1,264	Jason or Meeja
55 S Bluff St	400	Jason or Meeja
Boulevard West	1,000	Curren C
Sun Valley Professional Park	1,980	Jason or Meeja
Red Cliffs Professional Park	1,000	Curren C, Jason or Meeja
Ventana Office Park	1,155	Jason or Meeja

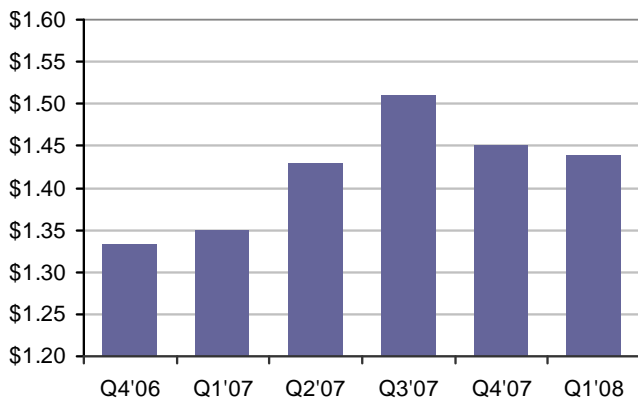


2008 1st Quarter: Washington County Retail

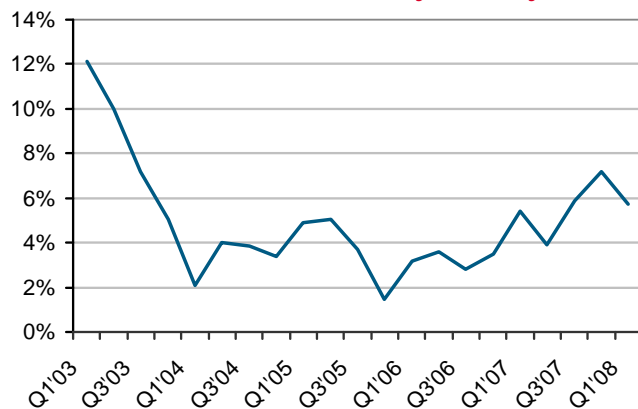
Regional Retail Lease Rate Comparison by City



Retail Lease Rates by Quarter



Retail Vacancy Rates by Quarter



For Lease: Zion Gateway Plaza
2000 W State Street, Hurricane

Lease Rates (NNN)	Anchored	Unanchored
Low	\$1.59	\$1.00
High	\$2.08	\$1.80
Average	\$1.75	\$1.38
Vacancy	5.7%	6.2%
Stabilized Vacancy		5.90%
2007 Ending Inventory		5,655,000
Built in '08 YTD		69,000
2008 YTD Inventory		5,724,000
Under Construction		129,000
New Construction Absorption		386,000
New Construction Vacancy		13.4%

Review

Of the three market segments, the retail transactions below underestimate the amount of activity. Retail leasing in January slowed over worries about the economy. Interest and showings of retail properties picked up in late February and March and the number of leases completed in the second quarter should be higher. Local shop owners have become more price sensitive, while national tenants have increased the amount of time and scrutiny they are placing on their site selections.

Asking lease rates are down, vacancy rates are essentially the same, and new construction vacancy rates are up. Construction activity is down, with the exception of financial institutions and hotels. Walgreens remained active with the demolition of the Learn Key building on Sunset Boulevard and the closing of their site in Hurricane.

Outlook

The retail market has softened, but not as much as other segments. This is consistent with the slowing of national tenant expansion in 2008 relative to the past two or three years. Construction activity will continue to ease until the next wave of national tenant expansion, which will most likely coincide with a change in the broader economic environment. Look to the national economy as an indicator for the retail sector to heat up again.

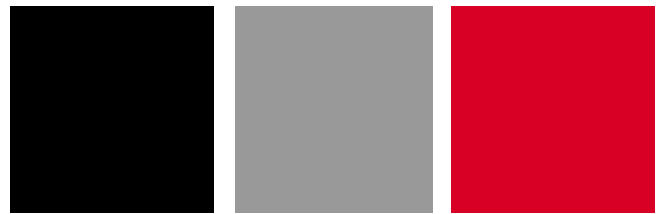
Even more so than in recent history, location will be the most important criteria. Properties on well established traffic corridors will see more activity, better tenants, and faster lease-up times than sites in developing or secondary areas.

1st Quarter Retail Transactions

Retail - Lease	SF	Agent
Green Valley Mall	800	Curren C
Pier 49 Pizza Building	1,350	Jason or Meeja
Southland Retail Building	2,330	Walter Group
Festival Plaza	2,000	Wes D
Rio Plaza	1,685	Jason or Meeja
Rio Plaza	1,270	Jason or Meeja
Retail - Sale	SF	Agent
El Tapatio Retail Building	5,700	Walter Group
Don Jose	3,850	Wes D
Staples South Bluff	22,800	Walter Group
Gandolpho's Restaurant St. George	1,800	Chappell Team
Gandolpho's Restaurant Cedar City	1,400	Chappell Team
Hurricane Walgreens Site	1.59 AC	John G, Landon T



2008 1st Quarter: Iron County Cedar City



Industrial

Of the three markets, the industrial market remains the most healthy. Vacancy rates dropped slightly to 6.2%, which is below the Washington County vacancy rate. That said, the leasing environment is still not as strong as many would like and property owners hoping to pre-lease or pre sell office warehouse space have been having difficulty. Asking lease rates rose to \$.68 per SF from \$.59 per SF, which we believe is aggressive and out of line with what property owners should expect in the second quarter.

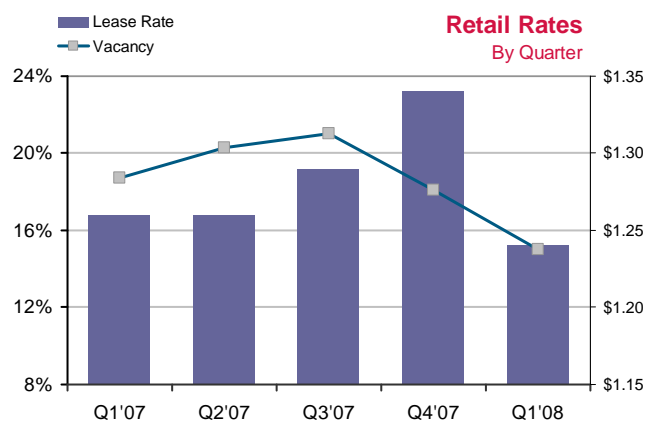
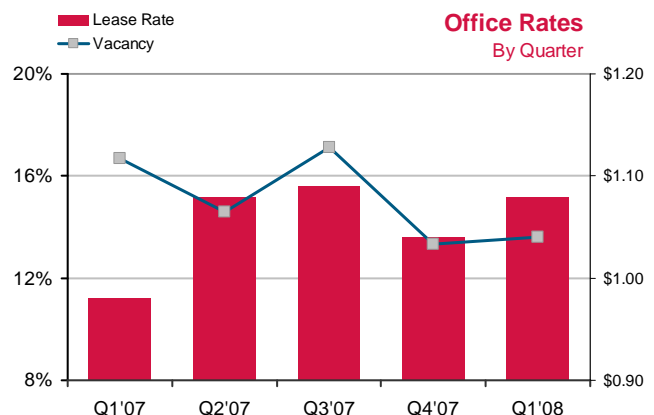
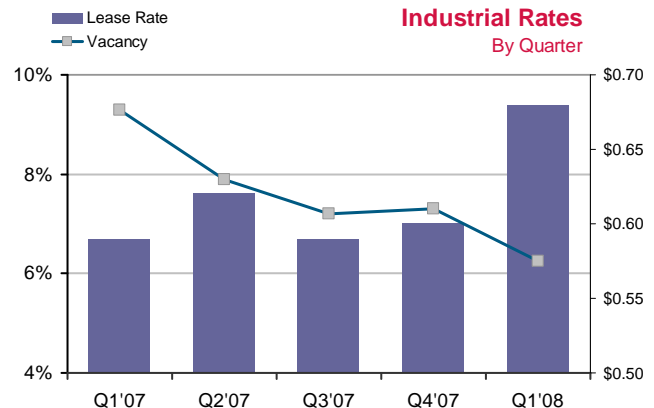
Office

Vacancy rates in the office segment barely changed from 13.3% to 13.6%. The challenge in the office market is not excess new construction, but simply lack of activity. There are few new office users looking for space, which means that in many cases when a company leases space they are leaving vacant space behind somewhere else. Asking lease rates also increased since the fourth quarter. We believe property owners will need to be more generous than the asking lease rates suggest to lease their properties.

Retail

Retail has seen steady improvement in the vacancy rate from a high of over 20% in the third quarter last year down to 15% in the most recent quarter. Asking lease rates have fallen to the lowest level we have seen in a year at \$1.24 per SF. Providence Center still has asking rates at or above \$1.50 per SF NNN, but many of the other retail spaces coming available around town on Main Street are much more competitive at closer to \$1.10 per SF.

Lease Rates (NNN)		Industrial	Office	Retail
Low		\$0.60	\$0.80	\$1.00
High		\$0.80	\$1.43	\$1.50
Average		\$0.68	\$1.08	\$1.24
Vacancy		6.2%	13.6%	15.0%



Agent Highlights

Wes Davis joined the NAI Utah South team in 2002. During his tenure he has been recognized as Rookie of the Year, Top Listing Agent, and Top Producer. Wes success has come from his innate ability to help investors and business owners acquire, dispose of, or lease property.

A combination of his work experience and education has contributed to Wes' ability to work collectively with clients assisting in their success. Wes has successfully brokered over \$100 million with over 150 commercial transactions.



Wes Davis

Wes graduated from the University of Utah, David Eccles School Business, with a degree in Business Management. He went on to receive his Masters in Business Administration from Southern Utah University, School of Business. He is a member of the National Association of Realtors, St. George Chamber of Commerce, Washington County Board, and a number of Investment Networks.

Jason Griffith has been dedicated to commercial, investment, and industrial real estate in Southern Utah, for the past 15 years. In 1992, Griffith joined the ERA Brokers Consolidated Commercial Division - St. George's oldest largest commercial brokerage firm at the time. Jason has extensive experience in most core areas of commercial and development real estate, including office, retail, and industrial brokerage and leasing.

In 1998, shortly after graduating from Southern Utah University with a Bachelor of Science degree, Griffith obtained the highly sought-after Certified Commercial Investment Member (CCIM) designation from the Commercial Investment Real Estate Institute. The CCIM designee, 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 NAI's state-of-the-art technology and databases, his CCIM curriculum and experience gives Jason the foundation necessary to competently serve his clients, large and small, local and corporate.



Jason Griffith

1st Quarter... Happenings Around Town

- St. George City has now acquired a total of 635 acres for the new airport. The City Has received about \$107 million from the Federal Aviation Administration and the existing airport land sale.
- The Fort Cedar Commercial Center breaks ground. The project will begin with two buildings - one 10,000 SF and the other 9,800 SF. The project is to eventually house 18 buildings with 180,000 SF of commercial space. The first building is scheduled to be completed in June.
- Dixie State College students studying nursing, dental hygiene and other medical fields will have a new building to call a home this fall. The Russell C. Taylor Health and Science Center, a 78,000 SF facility, will move away from the college campus and closer to professionals in the medical field (next to Dixie Regional Medical Center).
- Office Max opened in January next to Roberts Crafts and Kohl's.
- Zion Harley-Davidson is expanding its full-service dealership in Coral Canyon to 20,000 square feet, more than twice the size of its 8,000 square foot facility.
- New 20,000 SF IHC Hurricane Valley Health Clinic Opens located at 75 North 2260 West in Hurricane. The 20 acres site allows for expansion for the family practice, Instacare, physical therapy, medical imaging, laboratory and office space for visiting specialists.
- Washington City Council passed a zoning ordinance for Washington's Historical District that will permit mixed use buildings up to three stories high.
- The Construction of the 110,000 SF Community Washington City Recreation Center continues with the exterior walls, trusses and roofing nearing completion. The Center will include aquatics area, 3 basketball courts, aerobics, cardio and strength rooms, climbing wall, day-care facilities, multi-use rooms and more.
- Next Entertainment and Celebrity Investments (Salt Lake film co and investor) purchased 1,700 acres near Snow Canyon State Park for a master-planned community and filming facility. They will break ground for SkyofDreams Ranch this year. The 50-acre production campus will include two sound stages with green screen capabilities, a computer graphics animation and special effects facility, as well as room for post production work.
- The Former Blue Bunny Ice Cream on Main Street has returned with new owners and a new name. "Real Scoop Café" will eventually relocate to the former La Soiree and serve Blue Bunny Ice Cream as well as pizza and salad.
- In-N-Out is opening its first store this spring along Telegraph Street and Green Spring Drive in Washington City.

Washington City Recreation Center





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