

# 2008 3rd Quarter Market Report

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



## What's Inside...

- 2 Capitation Versus Opportunity

### Washington County

- 3 Industrial
- 4 Office
- 5 Retail

### Iron County

- 6 Cedar City

- 7 Happenings Around Southern Utah & Agent Highlights

**NAI** Utah  
Southern Region

Commercial Real Estate Services, Worldwide.

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# Capitulation Versus Opportunity



“Sellers and buyers are waiting for the other to flinch. The recovery begins once the standoff is over.”

To capitulate is to surrender, consent, or yield. Capitulation is the giving up of resistance. Pundits speak of the need for there to be capitulation in the markets before we see a recovery in asset valuations. In the stock market, the signal for this is a sustained three week to three month sell off. During capitulation, prices break through all resistance barriers and effectively freefall, because investors lose confidence in a recovery and decide selling at any price is better than hanging on. Buyers wait because they are sure prices will be lower tomorrow. During capitulation, as in a bubble, fundamentals are temporarily thrown aside while emotions drive the market. The reversal happens when the opportunities for buyers are just too good to pass up.

Sound familiar? We are well into the stage where sellers are “dumping” their homes because selling at a distressed price is better than not selling at all. During November, December, and January, buyers stood on the sidelines waiting to see what would happen to home prices. Today, foreclosures and short sales are presenting opportunities that are just too good for buyers to pass up.

The land markets are experiencing this on a dramatic scale. Land sales larger than 10 acres evaporated over the Christmas Holiday last year, and buyers are still reluctant to step in nine months later. As a result, sellers have become more and more aggressive with their pricing hoping to draw in buyers. The investment opportunities in the land markets are tremendous today, but the fear of the current cycle remains paralyzing. Sellers and buyers are waiting for the other to flinch. The recovery begins once the standoff is over.

Gerald Loeb, one of the great contrarian investors of the last century, stated: “It should be recognized that [the exceptional opportunities] will inevitably be available principally when the majority of buyers refuse, because of fear, to take advantage of low prices.

The presence of buyers suggests the housing market has capitulated. Since Warren Buffet stepped in to invest \$5 billion in Goldman Sachs on September 23<sup>rd</sup>, it looks like the banking sector may have capitulated. Once the broader recovery has begun, we will all breathe a sigh of relief and then regret our positions weren’t more aggressive during the uncertainty.

If you are a seller, adjust your price slightly more aggressively than current market conditions and be ready to do the deal that presents itself. If you are a buyer, waiting until tomorrow may yield a better price; waiting may also yield a missed opportunity. Buyers remorse is just as nagging when it comes as a result of the deal you should have done. Opportunities are not for those with weak resolve.

**Mark Walter**  
mwalter@naiutahsouth.com  
**Principal Broker**

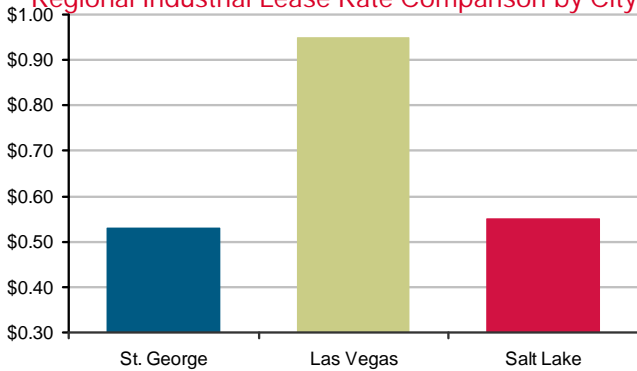
**Neil Walter**  
nwalter@naiutahsouth.com  
**Managing Director**

## View Over South River Road

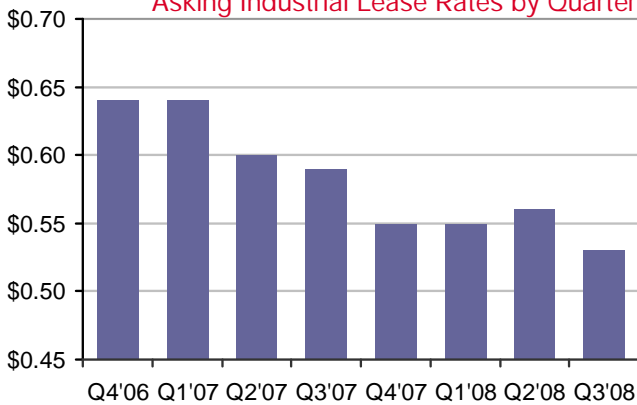


# 2008 3rd Quarter: Washington County Industrial

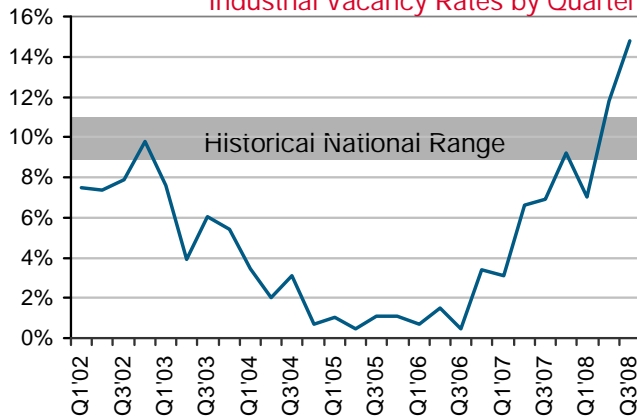
Regional Industrial Lease Rate Comparison by City



Asking Industrial Lease Rates by Quarter



Industrial Vacancy Rates by Quarter



For Lease: Old Wheeler Machinery  
203 North Playa Della Rosita | Washington

Asking Lease Rates (NNN)		< 20,000 SF	> 20,000 SF
Low		\$0.45	\$0.48
High		\$0.70	\$0.55
Average		\$0.56	\$0.49
Stabilized Vacancy		14.80%	
2007 Ending Inventory		7,665,000	
Built in '08 YTD		209,000	
2008 YTD Inventory		7,874,000	
Under Construction		45,000	
New Construction Absorption		127,000	
New Construction Vacancy		58.0%	

## Review

The last quarter saw very little space leased, more subleases, and vacancy rates jump to 14.8%-above the historical national range. The speculative construction started in the last half of 2007 has yet to be absorbed; consequently, development in 2008 has been minimal compared to recent history. Vacancy on properties less than one year old stands at 58% and is 73% when the speculative 80,000+ SF buildings in Fort Pierce and Gateway are included in the mix. For context, the 58% represents about 219,000 SF of vacant industrial space that at last year's absorption rates would be leased or sold within a single quarter.

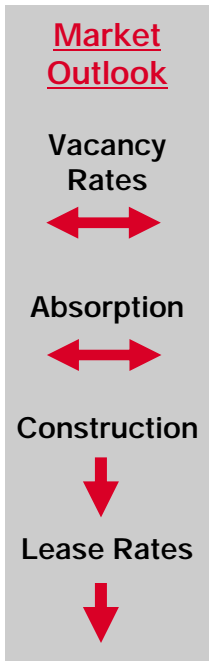
Asking lease rates fell slightly to \$.53 per SF per month for warehouse space. Office/warehouse with large amounts of office space is still being offered at higher rates. Last year at this time, industrial buildings could not be bought for \$100 per SF. This year, they are not selling for \$100 per SF.

## Outlook

We do not believe vacancy rates will increase beyond current levels. Nearly all spec industrial projects are finished, and efforts to lease these properties have been one of the contributing reasons for increases in vacancy. Historically, our vacancy rate has been much better than the national averages. Absorption of existing vacant space will take time, and we expect smaller spaces to move faster than larger ones. In the meantime, look for the industrial sector to recover with the housing sector and national economy.

## Partial List 3rd Quarter Industrial, Investment & Land Transactions

Industrial - Lease	SF	Agent
R&R Industrial Center, PH 2	3,000	Jason & Meeja
Ft. Pierce Small Warehouse w/Yard	2,400	Jason & Meeja
1478 South 270 East, Building 1	4,000	Jason & Meeja
Southland Retail Building	1,320	Walter Group & Curren
Blackhill Business Park	3,000	Wes Davis
791 N Red Rock Rd, Suite 3	1,100	Wes Davis
Black Hills Industrial	3,000	Wes Davis
Investment - Sale	SF	Agent
Eden Apartments in Cedar	14,000	Walter Group
Land - Sale	Acre	Agent
2.21 Acres (Approx.) in Hurricane	2.21	Jason & Meeja
.86 Acres in Cedar	0.86	John G. & Landon
4.69 Acres in Grover	4.69	The Chappell's
6.80 & 4.69 Acres in Grover	11.49	The Chappell's
6 Acres in Bicknell	6	The Chappell's
Ft. Pierce Industrial Park	1.44	The Chappell's
Paunsaugant Lots 76, 90, 92 & 98 in Hatch	6.375	Walter Group



# 2008 3rd Quarter: Washington County Office



## Market Outlook

### Vacancy Rates



### Absorption



### Construction



### Lease Rates



Asking Lease Rates (NNN)	Class A	Class B	Class C
	Low	\$1.10	\$0.95
High	\$1.40	\$1.25	\$1.15
Average	\$1.24	\$1.16	\$0.97
Vacancy	6.9%	9.2%	13.6%
Stabilized Vacancy			8.90%
2007 Ending Inventory			2,939,000
Built in '08 YTD			182,000
2008 YTD Inventory			3,121,000
Under Construction			103,000
New Construction Absorption			176,000
New Construction Vacancy			32.0%

## Review

While the office market remains soft with new sub-leases every week, space is still leasing. Most of the activity is in cheap existing spaces that are ready to occupy tomorrow. Vacancy rates edged higher across Class A, B, and C space and asking lease rates softened. Asking lease rates remain optimistic as serious tenants are getting significant concessions. Given the recent rise in vacancy rates, our vacancies are still below national averages.

Office absorption remains slow given recent completions and existing projects under construction. Dixie Commons office space is now available for occupancy, and The Park, Tonaquint Building C, and Executive Plaza are going vertical or are nearly complete. With new construction vacancy at 32%, representing

about 84,000 SF of vacant space, there are many good options for tenants to choose from.

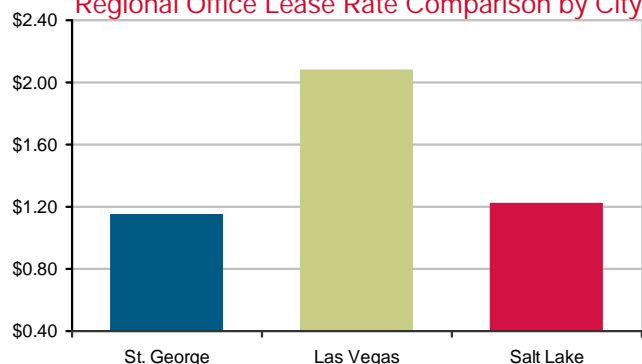
## Outlook

Landlords will have to be patient until the housing market drives growth in related service businesses. We will continue to see signed leases but much of the activity will continue to be relocation of existing businesses. Expect sublease space to continue to hit the market, although at a slower rate. As indicated previously, landlords are making concessions to attract and maintain good tenants, although concessions are not always showing up in asking lease rates. As reported previously, expect creative offerings, well-designed space, and well located space to see acceptable levels of traffic while less desirable locations or poor layouts will struggle.

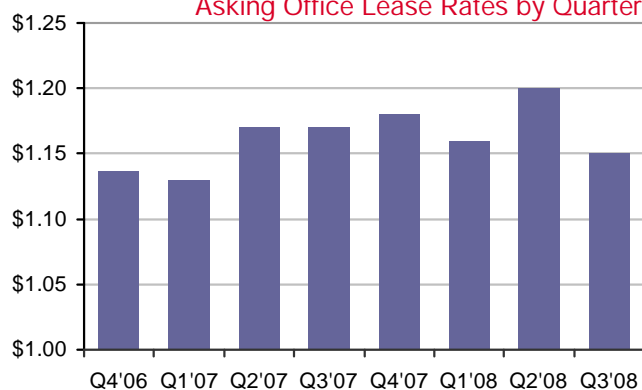


For Lease: Hurricane Professional Office  
2600 West State Street | Hurricane

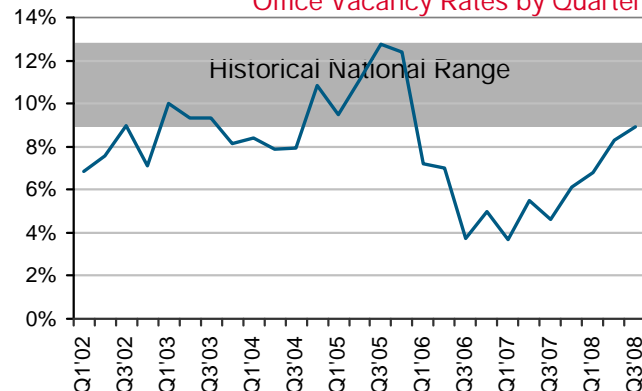
### Regional Office Lease Rate Comparison by City



### Asking Office Lease Rates by Quarter



### Office Vacancy Rates by Quarter



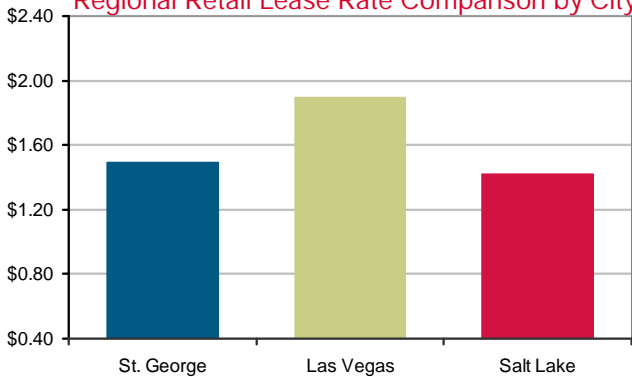
### Partial List 3rd Quarter Office Transactions

Office - Lease	SF	Agent
Bluff Street Plaza	1,080	Brandon & Landon
St. George Surgical Center	1,475	Brandon Vandermyde
Chelsea Commercial Condos	2,500	Jason & Meeja
Sunland Professional Park	3,005	Jason & Meeja
Red Cliffs Professional Park	1,453	Jason & Meeja
Ventana Office Park	1,155	Jason & Meeja
Red Cliffs Professional Park	1,000	Jason & Meeja, Curren
Troon Park	1,000	Jason & Meeja, Ryan
Troon Park	3,725	Ryan Garrett
Troon Park	210	Ryan Garrett
DSH Plaza	1,306	Ryan Garrett
Main Street Plaza	3,772	Walter Group & Curren
AMS at Chase Plaza	1,664	Wes Davis
TRU NONI at Chase Plaza	260	Wes Davis
Chrisco at Chase Plaza	394	Wes Davis
Home Care at Chase Plaza	1,354	Wes Davis
301 North 200 East, Suites 2B & 2C	4,400	Wes Davis
1006 North 1400 West, Suites 1 & 2	1,400	Wes Davis

# 2008 3rd Quarter: Washington County Retail



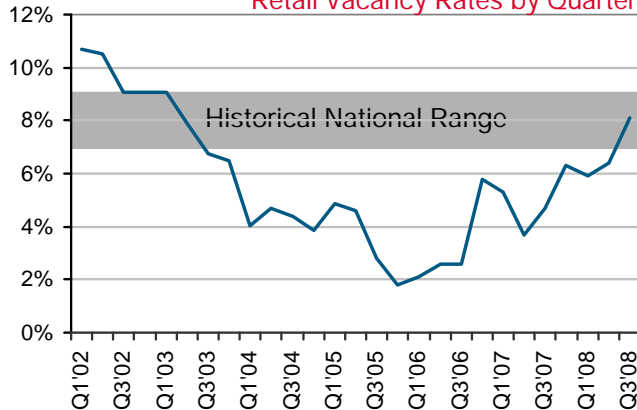
Regional Retail Lease Rate Comparison by City



Asking Retail Lease Rates by Quarter



Retail Vacancy Rates by Quarter



Asking Lease Rates (NNN)		Anchored	Unanchored
Low		\$1.10	\$1.00
High		\$2.00	\$1.88
Average		\$1.76	\$1.38
Vacancy		5.6%	11.8%
Stabilized Vacancy		8.10%	
2007 Ending Inventory		5,655,000	
Built in '08 YTD		199,000	
2008 YTD Inventory		5,854,000	
Under Construction		165,000	
New Construction Absorption		280,000	
New Construction Vacancy		33.0%	

## Market Outlook

Vacancy Rates



Absorption



Construction



Lease Rates



## Review

Vacancy rates dropped slightly on anchored space and increased significantly on unanchored space. Given the recent rise, our vacancies are still within national averages. Asking lease rates remained mostly unchanged. New construction vacancy is up to 33%, with recent completions at Dixie Commons, Pine View Plaza, and Sunset Corner. That leaves about 136,000 SF of vacant new space that has not been absorbed. In 2007, that would have been absorbed within a quarter.

Multi-tenant space aside, there are many projects that are newsworthy. America First Federal Credit Union and Mountain America Federal Credit Union finished their branch locations, Players Sports Grill, and El Pollo Loco also opened this quarter. In Washington, Red Robin is underway. On Sunset Boulevard, Golden West Federal Credit Union, Walgreens, CarQuest Auto Parts. Dave's Automotive, and Washington Mutual are under construction and, in Hurricane, the Super Wal-Mart is taking shape.

## Outlook

Despite the construction, retail expansion remains fairly steady and will likely continue at this more conservative pace through 2010. Single tenant properties are dominated by regional and national tenants while multi-tenant properties cater to local businesses. The Market cycle is impacting these developers differently. Properties in well-established traffic corridors will see more activity, better tenants, and faster lease-up times than sites in developing or secondary areas. Despite the rise, Washington County vacancy rates should remain in-line with national averages.

## Partial List 3rd Quarter Retail Transactions

Retail - Lease	SF	Agent
206 North 1000 East, Suite 206	1,350	Brandon Vandermyde
Bluff Street Plaza	1,080	Brandon Vandermyde
Coyote Sunset	840	Curren, Walter Group, Jason & Meeja
The Shoppes at Telegraph Square	1,979	Jason & Meeja
Cotton Mill II Retail Center	15,001	John G., Landon, Jason & Meeja
Pendleton Sleep Center	1,850	John G. & Landon
Providence Towne Center	1,645	Terry Salazar
Grand Circle Plaza	1,200	The Chappell's & Brandon
Southland Retail Building	1,976	Walter Group & Curren
Consulting/Scaldoni's Restaurant	4,000	Wes Davis
Albertson's Center	1,600	Jason & Meeja
Retail - Sale	SF	Agent
Denny's Restaurant in Salina	4,479	The Chappell's



For Sale: Coral Canyon Business Center  
1379 West Sunset Blvd | St. George

# 2008 3rd Quarter: Iron County Cedar City

## Industrial

Vacancy rates have been bouncing between 6% - 9% over the past two years. The most recent quarter has seen vacancy rates fall to 7.5%. Asking lease rates for warehouse properties are holding steady, although many industrial properties are asking more than \$.55 per SF because of the amount of office space built out. This is the case with the new LM Construction buildings in Port 15, as well as the Fort Cedar properties, which opened since our last market report. The resumption of mining operations in the area should also help provide additional diversification of the industrial base in Iron County. Even so, the housing market continues to be a drag on the industrial sector as contractors and subcontractors wait out the market cycle. Long-term, we anticipate Cedar City to be a very good industrial market, as oil prices make rail an even more attractive option and the industrial parks start attracting value-added businesses.

## Office

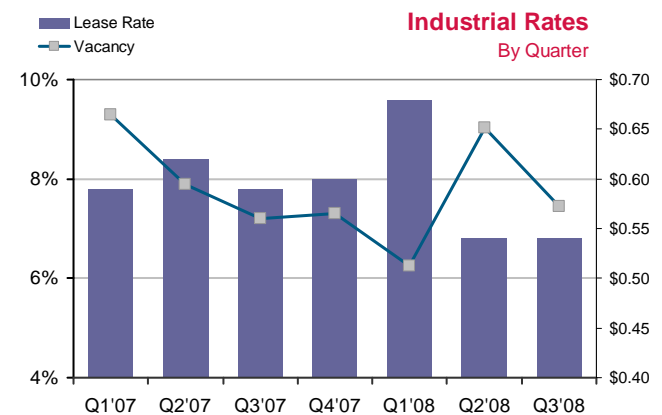
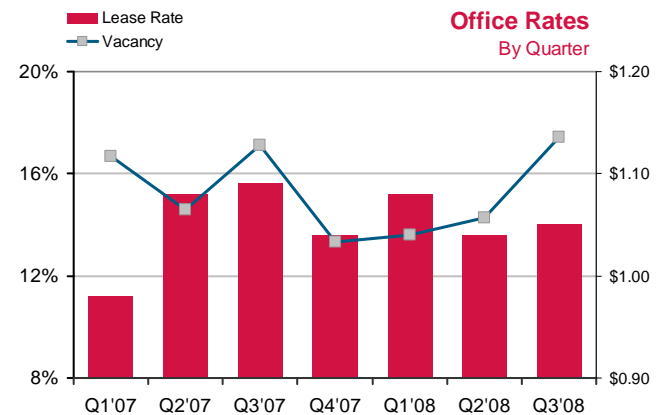
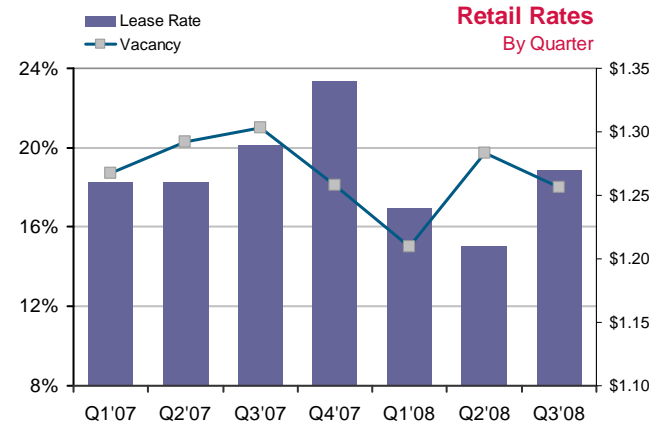
The office market softened as vacancies rose to 17.4%, the highest observation in two years. Vacancies appeared this quarter in buildings that have not had a vacancy since we started surveying the market in 2007. The higher vacancies are the results of downsizing that is only recently showing up in the vacancy rates. Asking lease rates in Cedar City have held steady, although some properties are being aggressively discounted to attract tenants. For office users or investors, there are a number of office properties on the market that are quality assets but are currently struggling with vacancies. Office properties have historically been scarce because the small market provides limited opportunities. As soon as the market recovers, opportunities will once again become hard to find.

## Retail

Asking lease rates are up slightly due to the number of opportunities in the Providence Center area, relative to the rest of the community. While there is some leasing activity in the retail sector, we are still seeing a large number of subleases. It is not uncommon to find multiple brokerages marketing different suites in the same property. Despite the number of subleases, vacancies fell in the third quarter to 18%. In recent history, they have been as high as 21% and as low as 15%, implying that the recent change is not signaling a trend. There are retail investment properties currently for sale in the Providence Center area. These are typically single-tenant properties or strip centers on an out-parcel, with three to five tenants, at a price of \$1.5 to \$4 million.



Asking Lease Rates (NNN)	Industrial	Office	Retail
Low	\$0.35	\$0.65	\$0.75
High	\$0.70	\$1.18	\$1.50
Average	\$0.54	\$1.05	\$1.27
Vacancy	7.5%	17.4%	18.0%



For Lease: Providence Towne Center | Cedar City



For Lease: 1760 North Main Street | Cedar City



# 3rd Quarter:

## Happenings Around Southern Utah

Information Gathered from The Spectrum Newspaper and Main Street Business Journal



- **Palladon Ventures Ltd.** through its subsidiary, Palladon Iron Corporation, has resumed mining operations at the Iron Bull Mining & Milling facility at Iron Mountain, west of Cedar City.
- **United Rentals**, located at 4487 South River Road, on the far south end of the Fort Pierce Industrial Park, had the grand opening for their new 12,000 SF facility.
- **YESCO** held a ribbon-cutting ceremony at their 56,000 SF Fort Pierce Industrial Park design and manufacturing facility.
- **Tonaquint Data Center** will open its doors Oct 1. This high tech, high security, digital storage facility maintains power nearly 100 percent of the time and is fully equipped to deal with power outages. At full capacity, the storage center could store millions of servers.
- **Jubilee Home** for patients and family members of patients, at Dixie Regional Medical Center, opened it's 12,358 SF facility with 11 conventional guest rooms, private beds and special mother/baby suites.
- **El Pollo Loco** held the grand opening of their new location at 745 West Telegraph Street in Washington City. El Pollo Loco Restaurant serves a diverse menu of grilled chicken, burritos, tacos and Mexican side dishes.

- **Fort Cedar Commerce Center's** 13 ½ acre planned unit development was dedicated. The first phase of the project, by Benjamin Butler Development Group LLC out of Southern Nevada, offers 5,000 to 10,000 square foot buildings.
- Long time St. George Boulevard fixture, **Bruce's Rent-To-Own**, was demolished recently. They were located between Lunt Motor Co and Munoz Auto Sales. Some of the old adobe bricks from the original building were saved for St. George City restoration projects.
- The City of St. George has rededicated **Middleton Park**, which recently received several upgrades. New features include; restroom, picnic pavilion with large barbecue grill, improved basketball court, new benches, lighting, additional trees and shrubs, new sod and a new irrigation system.
- **Dixie Common's** 83,000 SF mixed use retail and professional office space held its ribbon cutting ceremony recently. Judd Larowe MD, of Internal Medicine Group, is leasing 3,000 SF. They have 25,000 SF of dedicated office space available, 26,000 SF of retail space and 14,000 SF for food court/retail.

## Agent Highlights: Monty Bundy & Meeja McAllister

**Monty Bundy** is our newest NAI team member. Monty grew up in St. George, where his family raised horses. Monty attended Dixie State College on a football scholarship, and also competed in the college's Rodeo Team roping events. He graduated in Business Management. Monty started his career in banking and mortgages 8 years ago and transitioned into commercial real estate 5 years later. Monty specializes in commercial land development and has sold land to the Rosenbruch Foundation for a new medical complex. He worked in Cedar on an equestrian subdivision and has organized a commercial syndication, near Exit 51, off of I-15. Monty resides in Diamond Valley with his wife and two daughters. He enjoys hunting, camping and volunteering for the 4-H Club as a riding instructor.



**Meeja McAllister:** After moving to St. George, Meeja McAllister joined NAI Utah Southern Region, and the Jason Griffith Team, in 2003. Since obtaining her real estate license, Meeja has completed many lease and sale transactions representing tenants, landlords, buyers & sellers. Meeja's primary focus and experience is in retail, office, and industrial brokerage. Meeja's experience with commercial, institutional, and industrial buildings and construction began over 10 years prior, in 1992, when she worked as an Inside Sales Representative for the western region's largest manufacturer representative of HVAC and air distributing equipment. In that capacity, she 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 greatly to our NAI Team.

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Patricia Chappell



Meeja McAllister



Brandon Vandemyde



Ryan Garrett



Landon Terry



Curren Christensen



Terry Salazar



Joseph Iwanski



Mary Iwanski



Allene England



Sandy White

16 Local Agents  
3 Agents with CCIM Designation  
3 Agents with Masters Degrees in Management

4 Full-time Support Staff  
Marketing Department  
GIS Department  
Office Coordinator  
Property Management



Annette Humphrey



Monty Bundy



Bob Wells



Sharee Hale

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