2009 1st Quarter Market Report

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

WHAT'S INSIDE...

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NAI Utah Southern Region

Commercial Real Estate Services, Worldwide.

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Growing Green?

No there wasn't a typo in the title. The press, politicians, and now businesses (GE and NBC commercials for example) are regularly promoting a higher level of environmental consciousness. While "Going Green" has become a popular mantra over the past two years, "Growing Green" is a little different spin on the movement. Some of the "Green" promotion is dependent on an emotional appeal to do the right thing, but there may be compelling business reasons to look at environmentally friendly real estate and associated operations.

In the real estate world LEED (Leadership in Energy and Environmental Design) is gaining momentum. Its supporters extol the benefits of environmentally friendly buildings while its detractors complain about the costs. In reality, some of the requirements add cost and do not earn a return on investment, while others add little or no cost and pay generous dividends. Landlords <u>and</u> tenants should be incorporating the best ideas into construction and operations regardless of intentions to LEED certify the building.

Before lean manufacturing techniques were discovered and implemented, manufacturers, and therefore customers, had to make the choice between quality and price. It was widely held that you couldn't manufacture quality products inexpensively. As manufacturing evolved, a few, including Toyota, started to realize that optimizing the system and eliminating waste could actually improve quality and reduce cost. We have never looked back.

Real estate and its related operations are now moving in the same direction. Addressing residential, commercial, industrial, and institutional building efficiency is a tremendous opportunity. For example, changing inefficient incandescent lights to fluorescents costs the typical homeowner $35 and saves $87 per year in energy costs. Similar cost savings are applicable to commercial buildings. Federal and State governments as well as utilities are even offering tax credits to defray part of the cost of some improvements.

Green construction is about air, lighting, and efficiency. North-facing windows and prismatic skylights reduce lighting costs by letting in indirect light without heating the building during the summer. Using energy efficient HVAC systems that are maintained regularly and have programmable thermostats reduces heating and cooling costs. Getting out the calk gun to seal drafts reduces the air change rate resulting in higher HVAC efficiency. Properly insulating water pipes and attics are inexpensive investments that reduce energy consumption and save building owners money. While pursuing green certifications ensures implementation of these techniques, you can implement the concepts design principals even if you don't pursue certification.

Regardless of your position on renewable energy and the related government incentives promoting it, reducing inefficiencies in the construction and operations of real estate makes economic sense. In twenty years, as Southern Utah grows, we may have many more buildings built after 2009 than were built before 2009. Why not grow at a lower cost? We are entering a new phase of development, construction, remodeling, and operations where increasing efficiency and reducing waste produce a higher quality product at a reduced cost and, by the way, it is also good for the environment.

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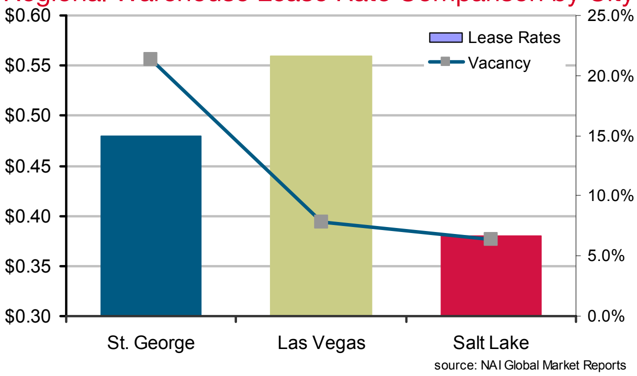
Managing Director

Visit our blog for links to resources about growing green and recommendations for reducing operational costs. Simply go to www.naiutahsouth.com and click on "News Blog."

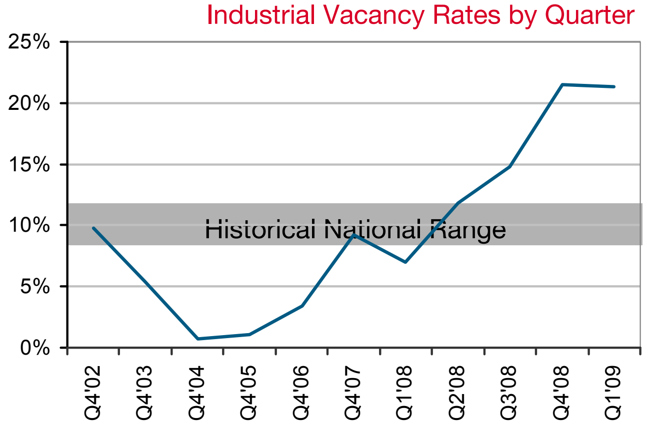
2009 1st Quarter: Washington County
Industrial

Regional Warehouse Lease Rate Comparison by City



Asking Industrial Lease Rates by Quarter

Industrial Vacancy Rates by Quarter



Asking Lease Rates (NNN)		< 20,000 SF	> 20,000 SF
	Low	$0.40	$0.45
	High	$0.70	$0.55
	Average	$0.48	$0.46
Stabilized Vacancy		21.3%	
2008 Ending Inventory		7,978,000	
Built in '09 YTD		160,000	
2009 YTD Inventory		8,138,000	
Under Construction		68,000	
New Construction Absorption		321,000	
New Construction Vacancy		33.0%	

Market Outlook

Vacancy Rates ↔

Absorption ↔

Construction ↓

Lease Rates ↓

Review

Industrial vacancy rates and asking lease rates are very similar to 4th quarter conditions. That is a very good sign, considering the trends throughout 2008. We did see a slight decrease in asking rates for lease space over 20,000 SF, as average asking lease rates dropped from $.48 to $.46. Asking rates for space under 20,000 is essentially the same. It should be noted that these are asking rates and the size of concessions—including free or reduced rent and landlord improvements—have increased. If anything, landlords have become more motivated to lease their space due to increased time on the market. Additionally, fewer landlords are expecting a quick recovery in the industrial market and are more inclined to make reasonable deals work today, rather than wait.

Noteworthy industrial buildings completed this quarter in the Fort Pierce Industrial Park include Green Valley Cabinets, Morley Industrial Building, Old Dominion Freight Line, and Mountain Land Pipe Supply. In the Mill Creek Industrial Park, S&S Warehouse completed their building. The majority of new space is being built by owner occupants who are leaving smaller space behind. Construction of spec space has slowed considerably.

Outlook

Don't expect a quick turn around in 2009 for the industrial market in terms of vacancy, lease rates, or absorption. Despite industrial market conditions, 190,000 SF was built this quarter and 313,000 SF were built in 2008, most of which was for owner occupants. Even if a quick economic recovery occurs, manufacturers, contractors, and distributors will be slow to expand into new facilities. We are seeing some new leasing activity and a period of relatively little new industrial construction, which will allow for demand to catch up with current supply.

For Sale or Lease: Spacious Office/Warehouse
1324 Sandhill Road | Washington

Partial List 1st Quarter Industrial, Investment & Land Transactions

Industrial - Lease	SF	Agent
Contempo Tile - Whse Units	1006	Jason & Meeja
Contempo Tile - Whse Units	991	Jason & Meeja
Office/Warehouse near Millcreek Ind. Park	3600	Jason & Meeja
Office/Warehouse near Millcreek Ind. Park	1200	Jason & Meeja
Office/Warehouse near Millcreek Ind. Park	1200	Jason & Meeja
Southwick Office/Warehouse	1560	Jason & Meeja
Southland Retail Building	1720	The Walter Group
Office Warehouse with Spacious Yard	5116	Wes Davis

2009 1st Quarter: Washington County

Office

Market Outlook

Vacancy Rates

Absorption

Construction

Lease Rates

Asking Lease Rates (NNN)	Class A	Class B	Class C
Low	$1.00	$0.80	$0.65
High	$1.35	$1.20	$1.00
Average	$1.18	$1.03	$0.92
Vacancy	9.0%	12.3%	16.3%
Stabilized Vacancy	11.5%		
2008 Ending Inventory	3,163,642		
Built in '09 YTD	23,000		
2009 YTD Inventory	3,186,642		
Under Construction	57,000		
New Construction Absorption	94,000		
New Construction Vacancy	36.0%		

Review

Over a year ago, tenants were willing to put up money for office tenant improvements to customize their space. Today, tenants want nice space, cheap rent, and are unlikely to pay for their own tenant improvements. With the current selection, most tenants are able to find an existing space in the right location with a floor plan that fits.

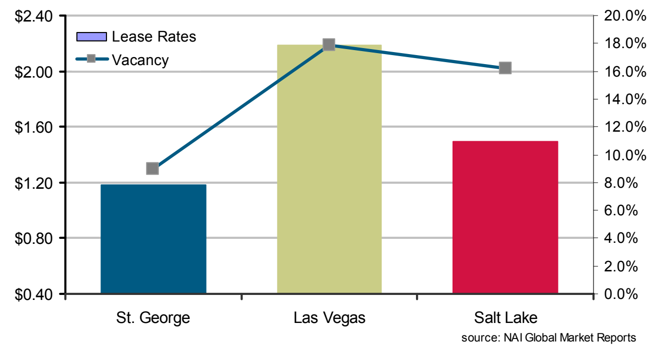
While Class A vacancy rates remain the lowest at 9%, overall office vacancy rates increased 1.4 % to 11.5%. Although the average asking lease rate is essentially the same as reported last quarter, we did see a reduction in the low asking lease rates in the Class A and Class C segments. The average remained the same because the decrease was small and it was offset by new inventory that came on the market at a higher rate. The trend is important to note because, although the average asking lease rate stayed the same, landlords are still feeling pressure to lower rates.

The newest completed office building is in the Tonaquint Business Park at approximately 23,000 square feet. Although not specifically office, we should make mention of the new 150,000 SF DRMC Outpatient Pavilion, next to the Hospital, that has just been completed. The courthouse construction downtown is still underway. Other buildings under construction include SandTown Center on 200 North and Executive Plaza on Bluff Street, which will also have some retail space.

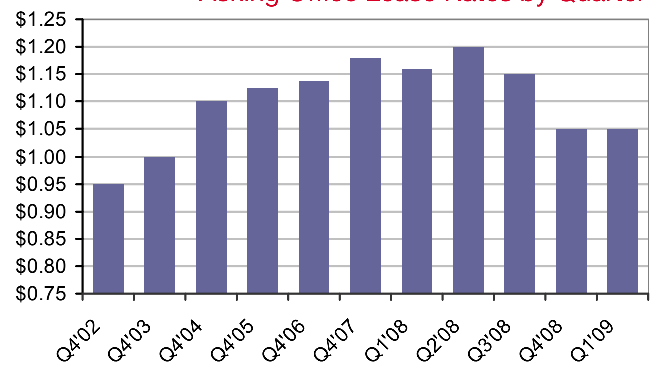
Outlook

We anticipate lease rates remaining soft and vacancy rates remaining high, although the recent rebound in residential refinancing (from historically low interest rates) has helped some of our office tenants who service the real estate sector. As with industrial, most companies have excess space to grow into prior to having expansion needs. Looking ahead, new leasing activity and absorption will occur in the Central Business District and Downtown areas first. As office tenants sense the broader economic conditions stabilizing, users with growth needs will feel more confident expanding their business into new space.

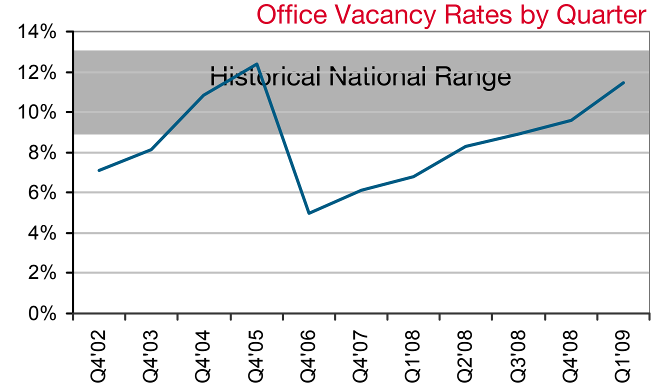
Regional Local "A" Office Lease Rate Comparison
by City



Asking Office Lease Rates by Quarter



Office Vacancy Rates by Quarter



Partial List 1st Quarter Office Transactions

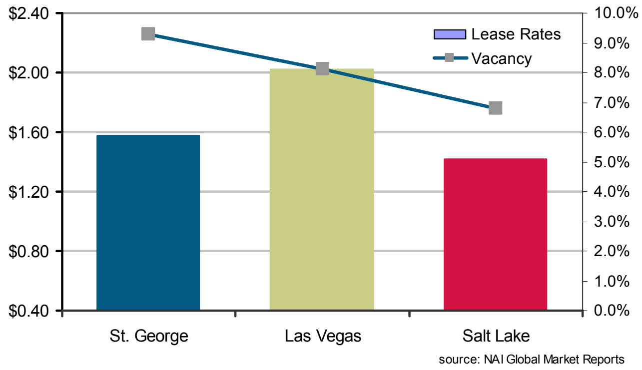
Office - Lease	SF	Agent
Ventana Office Park	1155	Jason & Meeja
Red Cliffs Professional Park	650	Jason & Meeja
Sunland Profesional	1500	Jason & Meeja
Riverwoods Office Building	8175	The Walter Group
Office Space in Downtown St. George	2122	The Walter Group & Curren C.
Office Above Steamroller Copies on Blvd	3600	Wes Davis

For Sale or Lease: DSH Plaza
293 E Telegraph | Washington

2009 1st Quarter: Washington County

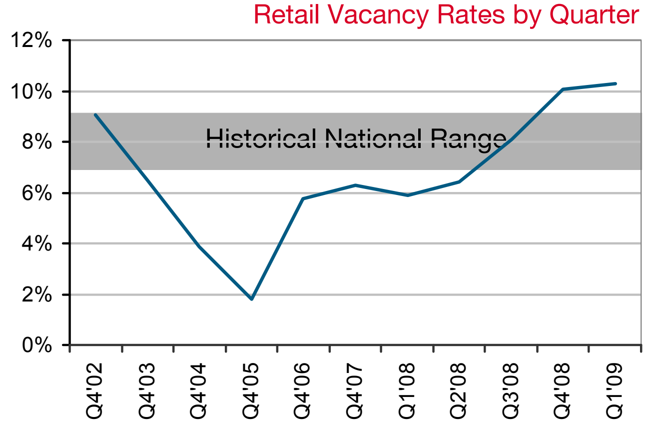
Retail

Regional Anchored Retail Lease Rate Comparison
by City



Asking Retail Lease Rates by Quarter

Retail Vacancy Rates by Quarter



For Lease: The Shoppes at Telegraph Square
568 W Telegraph Rd | Washington

Asking Lease Rates (NNN)		Anchored	Unanchored
	Low	$1.10	$0.85
	High	$2.00	$1.50
	Average	$1.58	$1.21
	Vacancy	9.3%	11.9%
Stabilized Vacancy			10.3%
2008 Ending Inventory			5,884,000
Built in '09 YTD			173,000
2009 YTD Inventory			6,057,000
Under Construction			57,000
New Construction Absorption			281,000
New Construction Vacancy			25.0%

Market Outlook

Vacancy Rates

Absorption

Construction

Lease Rates

Review

Retail leasing stagnated at the end of last year along with most other leasing segments. The number of retailers closing their doors seems to have slowed substantially. Vacancy appears to have mostly stabilized and finished up slightly at 10.3% for multi-tenant retail buildings. While leasing activity showed glimmers of starting up again toward the end of the quarter, we sense many entrepreneurs are still hesitant to open new locations, or they are having trouble getting business loans and bank financing. Still, retail leasing activity was much better than the previous quarter.

Taxable Retail Sales from January 2008 to January 2009 were down 7.87% statewide and St. George's retail sales were down 20.07%. Most of this decline has already been reflected in market conditions. Retail land sales were extremely low in 2008 by historical standards. In the first quarter of 2009 we sold three commercial land parcels. We regard this increase in sales as a positive sign.

Walgreens just finished a site on Sunset Boulevard and The Shoppes at Red Cliffs is complete. Steve Ogden's Carpet, the Astin Mele Retail Center, Down East Outfitters, Washington Mutual, and the Grease Monkey by Costco are all under construction.

Outlook

We do not expect next quarter to change dramatically relative to current market conditions. Population growth and retail sales are key components in retail absorption. Look for positive changes in these figures to signal the beginning of the next retail growth wave.

Partial List 1st Quarter Retail Transactions

Retail - Lease	SF	Agent
The Shoppes at Telegraph Square	1400	Jason & Meeja
Dixie Sunset Plaza	1170	Jason & Meeja
Pier 49 Pizza Building	1350	Jason & Meeja
St. George Boulevard Frontage	3269	Ryan Garrett
Red Hills Commercial Center	2265	Ryan Garrett
Retail/Warehouse Near Riverside Drive	1550	Chappell Team & Walter Group
Boulevard West Mall	1300	Walter Group & Curren C.
Dinosaur Crossing	21300	Walter Group & Monty Bundy
Retail Space at Sandstone Village	1820	Wes & Brandon
Festival Plaza	1610	Wes Davis
Tonopah Truck Auto Plaza	4800	The Walter Group
Land - Sale	**Acres**	**Agent**
3D Commerical Center	0.96	Jason & Meeja
Riverside Land	0.8	Ryan Garrett
Tuscany Plaza	1.35	Wes Davis

2009 1st Quarter: Iron County

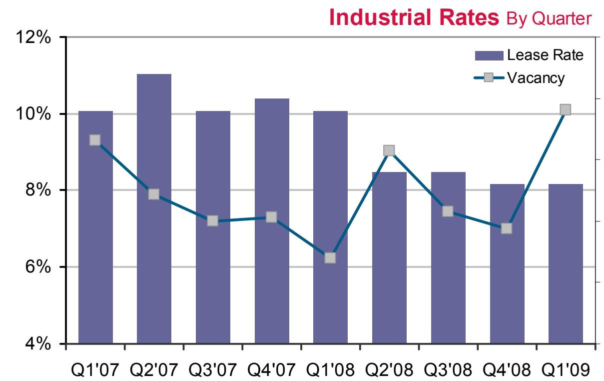
Cedar City

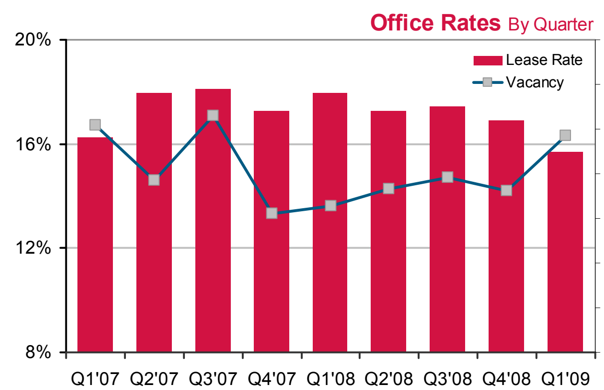
Asking Lease Rates (NNN)		Industrial	Office	Retail
	Low	$0.35	$0.70	$0.75
	High	$0.70	$1.28	$1.50
	Average	$0.53	$0.95	$1.21
	Vacancy	7.0%	14.2%	22.7%

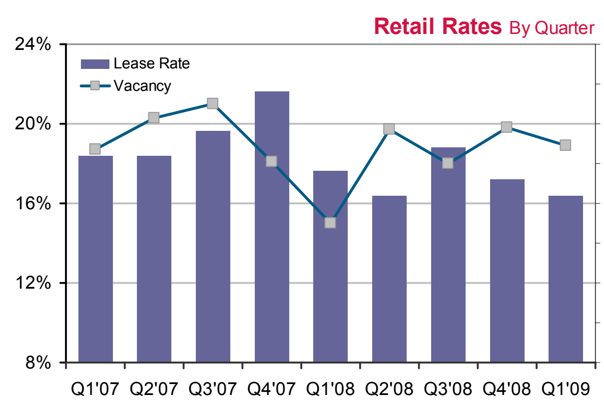
Industrial
Industrial vacancies have risen in the last quarter, but not dramatically. Lease rates seem to be holding steady at around $.53 per SF for warehouse space. We adjusted 2008 Q1 lease rates from our original estimate to reflect a better balance of warehouse and flex space. Asking rates continue to remain higher for space offering larger and nicer office build outs. Leasing activity has been very slow over the past quarter, but we anticipate market conditions starting to improve moving into this summer. Canyon Crossing is a nice project that is currently under construction and we are watching Port 15 and Fort Cedar for activity.

Office
Vacancy rates increased as space became available in buildings that have historically seen very high occupancy rates. In response, asking lease rates have fallen slightly. There is still some new construction activity as we discussed last quarter, but the only absorption has been from owners. As with industrial, the office market has stagnated with the residential markets, which are making an attempt at showing life. While we don't anticipate a quick rebound, we do believe we will see activity levels increase going into the summer.

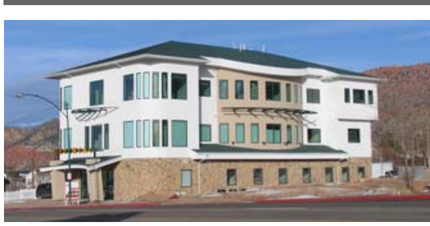
Retail
Vacancies have held steady while asking lease rates have hovered around $1.20. Some landlords are asking for more, but the number of options are holding averages down. The very good spaces that are offered at the most competitive rates have the best chance of leasing, as tenants are as price conscious as at any time in recent history. While a substantial amount of space remains available for lease, the supply dynamics are not expected to change in the near term. Landlords will build space as quickly as they think they can lease it, resulting in high inventory levels persisting, even if leasing activity picks up.







For Sale or Lease: 1957 Royal Hunte Drive | Cedar City



For Sale or Lease:
427 S Main St. | Cedar City

For Sale or Lease:
911 N 2175 W Circle | Cedar City

For Lease: 1760 North Main Street | Cedar City

1st Quarter: Happenings Around Southern Utah

Information Gathered from The Spectrum Newspaper, Main Street Business Journal, The Chamber of Commerce and The Salt Lake Tribune

- The new Hurricane Wal-Mart opened March 18th. More than 300 jobs were created.
- America First Credit Union opened its 87th branch in Hurricane, at 180 N 3400 W, inside the new Wal-Mart.
- Mesquite approved a new 920 acre, $500 million sports resort.
- Jim Matheson designated 256,000 acres of wilderness through the Omnibus Public Lands Management Act just passed by Congress.
- The White House announced that Utah will receive nearly $27.8 million to promote energy efficiency and jump-start job growth in Utah communities. St. George will receive $701,500 and Washington County will receive $257,100.
- UDOT plans to contribute around $6 million to Parowan's paving project of their main road, including new curb construction and handicap ramps (a $1.5 million project in itself).
- Planet Beach Contempo Spa held their ribbon cutting ceremony on March 26th, at 2376 E Red Cliffs Dr, Suite 304.
- Charleston Auto Parts held their ribbon cutting on March 27th, at their new 920 N 2100 W location.
- Edward Jones opened their new 1,280 SF location at the corner of Mall Drive and Riverside Drive.
- Studio Salons expanded to a 3,600 SF location at 67 E St. George Blvd (above Steamroller Copies). Studio Salons offers rental studio suites, allowing individuals to operate their own exclusive spa or salon while having 24-hour access to a private suite.
- Company Wake relocated their Washington State distribution warehouse and St. George Boulevard office to a single location in the Ft. Pierce Industrial Park. For more information go to http://companywake.com
- Auto Trim Design has a new central location, between the auto dealerships off Bluff Street and Hilton Drive, at 1495 S Blackridge Dr, #A150. Auto Trim has conducted business in Southern Utah for 26 years.
- Superior Threads, Inc. purchased a one acre commercial parcel, near it's existing location, for future expansion. For more information go to www.superiorthreads.com
- The new Washington City Library opened on March 27th. The building will be accessible from 10am to 7pm Mon - Thurs and 10am to 6pm Fri and Sat.

Agent Highlights: Curren Christensen & Jon Walter

Curren Christensen has been with NAI since 2007. Curren has a solid background in financial analysis, accounting sales and marketing. Curren believes that success and integrity in the commercial real estate industry are a must. Curren's areas of specialization include: tenant and landlord representation, lease versus buy analysis, as well as investment property acquisitions and dispositions. Some of Curren's most recent clients include; Western Mining & Minerals Inc., Wealth Builders Alliance Inc., D&B Blinds Inc., Habitat for Humanity of Southwest Utah Inc., Accurate Hearing Clinics and Audiology, Meridian Title Company of St. George Inc., Consolidated Insurance Group Inc. and Unity Marketing. Curren is from Central Utah and received his Bachelors of Accounting from the University of Utah. Curren also participated in collegiate athletics and stays active in local marathons and triathlons.

Jon has been with NAI since 2004. Jon's experience involves selling commercial investment assets and client consultation. He has sold noteworthy office, retail, and industrial buildings, commercial and development land, and many small businesses. He is responsible for client relations, marketing, property research, valuations, and closing the deal. In addition to sales, he is a partner in NAI Utah South, 6 ERA residential real estate offices, and Go Investments--a start-up real estate investment group. Jon's clients describe him as being "forthright, knowledgeable, quick to respond to our needs" and "very thorough and an ultimate professional". Jon is a native of Southern Utah. He graduated with his Bachelors of Business from Dixie State College. Jon is continuing his education and is finishing the requirements for a CCIM designation.

NAI professionals are virtually everywhere – from Los Angeles to London, Memphis to Mexico City – in 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.

We know our markets intimately, & are on familiar terms with major property owners, tenants (occupiers) & government agencies.

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Mark Walter


Jason Griffith


Wes Davis

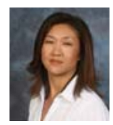

Neil Walter


Jon Walter


John Griffith


Mathew Chappell


Patricia Chappell

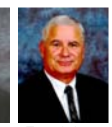

Meeja McAllister


Brandon Vandermyde


Ryan Garrett


Landon Terry


Curren Christensen


Terry Salazar


Joseph Iwanski


Mary Iwanski


Allene England


Sandy White

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

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

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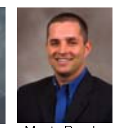
Annette Humphrey


Monty Bundy


Bob Wells


Sharee Hale

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