

Commercial Market Overview

Industrial Market

St. George Area

Lease Rates (NNN)	
Low	\$0.54
High	\$0.75
Average	\$0.60
Total Vacancy	6.60%
2006 Inventory	6,692,000
Built in '07 YTD	618,000
YTD Inventory	7,310,000
Under Construction	739,000



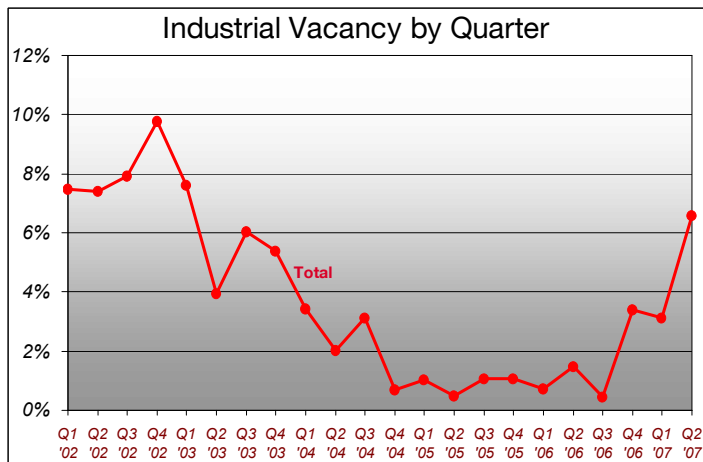
Review

Industrial activity in Southern Utah is shaping up to be a banner year for additions to inventory. Industrial demand has outpaced supply for several years. Longer development lead times have contributed to developers' slower reaction to market demand. Much of that lagging supply is becoming available in 2007. In the first half of 2007, 618,000 SF was completed, with another 739,000 square feet still under construction.

Several large industrial spec developments are near completion, with several others in varying phases of development. Vacancy rates bumped up, again, from last quarter's 3% to 6.6% vacancy.

Outlook

NAI expects vacancy to rise through the next couple of quarters to, perhaps, a more normal 8-10% vacancy with the completion of these projects. In addition, as competition and available locations increase, NAI expects lease rates to soften. We have already seen several instances of price decreases. The easing will continue unless Washington County has another period of explosive growth, similar to 2005, which is not anticipated for another couple of years.



* 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	\$1.10	\$0.95
High	\$1.50	\$1.25	\$1.10
Average	\$1.35	\$1.17	\$1.00
Vacancy	6.00%	4.60%	8.20%
Total Vacancy	5.52%		
2006 Inventory	2,620,000		
Built in '07 YTD	110,000		
YTD Inventory	2,730,000		
Under Construction	291,000		

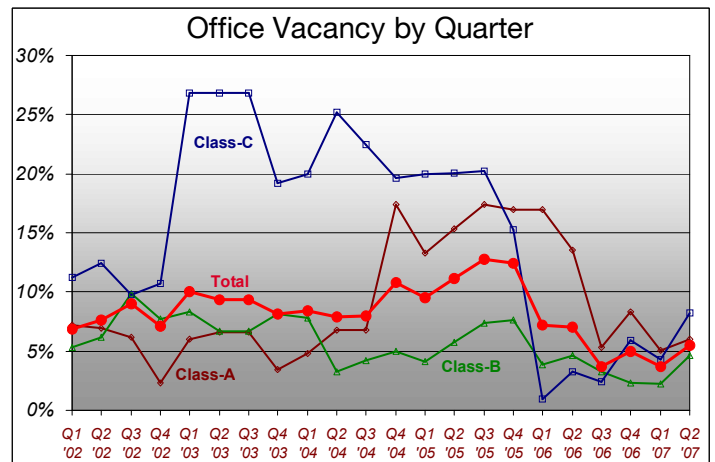


Review

Although the first quarter 2007 experienced a small decrease in vacancy, the second quarter realized an expected increase in all of the Class A, B and C office categories. Although vacancies have risen, they are still low, relative to historical averages of 8-10%. There is a healthy demand for office space. However, the completion of new office space is outpacing demand. Office buildings completed in the second quarter include the 14,000 SF Ivory Homes Building, the 32,000 SF Snow Jensen & Reese building in Tonaquint, the 42,000 SF Coral Desert Medical Building, and the 22,000 SF Coral Canyon Building. While many of these buildings have owner occupants, and have leased out space, the net result has been increased vacancy. Most of the increase has been in the class B and C categories, which shows a preference for newer space even at the increased cost.

Outlook

With many new office buildings currently under construction, it is expected that vacancies will rise through the rest of the year and lease rates will, for the most part, remain the same. Business owners are still showing a strong desire to own their own office space, as the value of buildings and the cost of leasing has increased significantly from 2004 to 2006. Looking further ahead, continued new construction, and slight increases in vacancies, should create additional opportunities for business owners to purchase office space as owners with vacancies become more motivated.



* 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	\$0.91
High	\$2.10	\$1.60	\$1.25
Average	\$1.80	\$1.43	\$1.12
Vacancy	3.90%	4.60%	1.70%
Total Vacancy	3.71%		
2006 Inventory	5,085,000		
Built in '07 YTD	216,000		
YTD Inventory	5,301,000		
Under Construction	283,000		



Iron County

Cedar City

Lease Rates (NNN)	Ind.	Office	Retail
Low	\$0.51	\$0.75	\$0.75
High	\$0.80	\$1.35	\$1.58
Average	\$0.62	\$1.08	\$1.26
Vacancy	7.90%	14.60%	20.30%



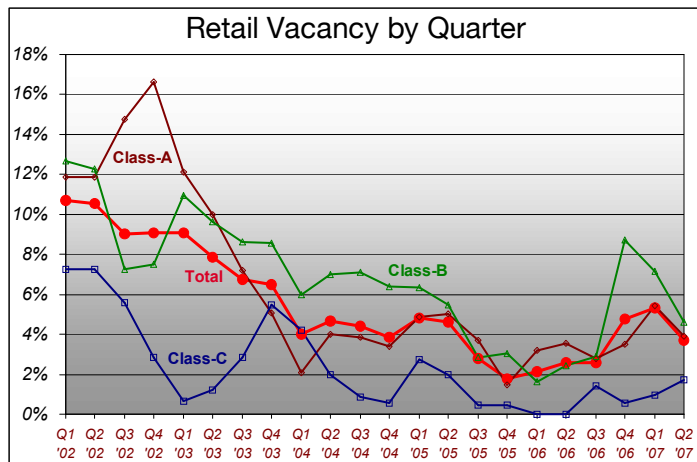
Review

The St. George retail market maintains its trend of being well below the nation's average in vacancy rates. According to the NAR, national retail vacancies are projected to increase from 8.1% to 8.6%, caused by a decrease in retail sales. However, since last quarter, the St. George retail vacancies have dropped from 5.31% to 3.71%.

The most drastic change in the past quarter has been class B space. The vacancy rate dropped by 2.15% and prices increased by \$.08 / SF. Much of the new class B retail being developed is inline space. Typically, these projects have been built to serve a niche market in an underserved location and they have been leasing in 6-12 months from completion. New retail development completed year-to-date in Washington County includes the new Home Depot on Sunset Boulevard, The Shoppes at Telegraph, Texas Roadhouse Grill, Checker Auto Parts in Bloomington, Sunset Corner Building 300, Middleton Commercial, and The Olive Garden.

Outlook

As St. George continues to receive national attention for its growth, it will continue to catch the eye of national retailers looking to expand in, what could be considered, an untouched market. With approximately 216,000 SF built in 2007 and another 283,000 SF currently under construction, we foresee the lease rates to remain steady and vacancy rates to remain low.



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

Industrial

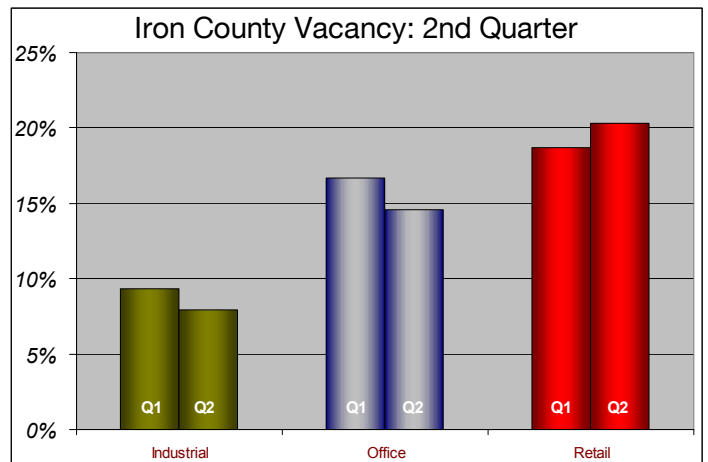
Asking lease rates have edged up from \$.59 to \$.62 per square foot and vacancy rates have decreased from 9.3% to 7.9% during the last quarter. Although there remains ample industrial property to develop, the selection of space available for occupancy today is relatively thin. So far, the industrial market has been spared excess supply, although large facilities remain on the market and there is ample available land for development.

Office

The office market has tightened slightly from 16.7% to 14.6%, although numerous properties continue to struggle with vacancy. Substantial vacancies persist in the medical office segment. Office space less than \$1.10 has been leasing better than more expensive space. Average asking prices at \$1.08 are almost \$.10 higher than last quarter as much of the remaining available space is class A or medical office space.

Retail

Currently, retail is the most overbuilt. We reported a vacancy rate of 14.6% last quarter and have since revised the 1st quarter vacancy rate to 18.7%. Second quarter vacancy stands at 20.3% with additional space coming available in the Cedar town Center. Asking lease rates have held steady at \$1.26 per square foot. The discrepancy between the Washington County and Iron County markets is most pronounced in retail. It will require the housing market to pick up and another burst of growth to absorb the excess retail inventory in Iron County.



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