

2009 2nd Quarter Market Report

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



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Southern Region

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RECOVERY?



Technically, to remain in recession, the economic environment must continue to get worse. While the rate of decline is decelerating, growth remains elusive suggesting there are more difficult times ahead. Recently, some indicators have shown "green shoots" (see inset table) and reports from CNN, Business Week, the Wall Street Journal, and the Federal Reserve predicted the end of the recession in the second half of this year. Although the recession may end in 2009, it does not mean the economy has recovered. A full recovery will require absorption of excess production capacity, and in the commercial markets, excess space, which is going to take us most of 2010 and likely into 2011.

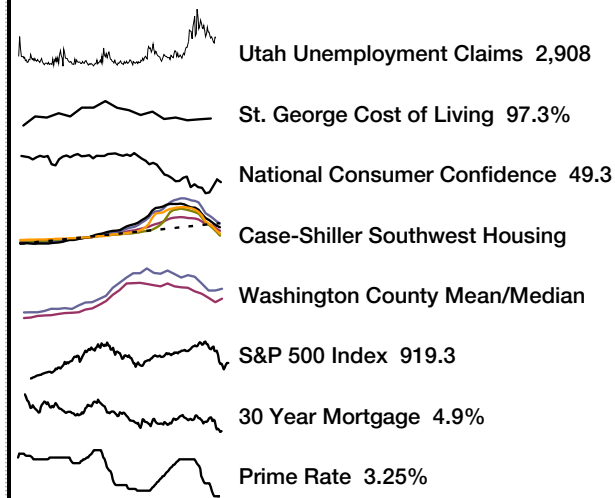
The news cycle has shifted slightly as some indicators are showing positive signs. Utah weekly unemployment claims peaked in January and nationally in March. Consumer confidence is up nearly 100% to a reading of 48.9 after falling to a low of 25.3 earlier this year. It regularly registered over 100 prior to the recession. Housing markets are making an effort to stabilize. Wall Street Journal has reported twice on improvements in Southern California transaction volumes and even CNBC's Jim Cramer called a bottom to the national housing crisis and told viewers to buy homes. Locally, home buyers are getting very good deals on homes that have seen significant price reductions and the months of April and May showed slightly better volumes year over year. Last, the stock market locked in its best quarter in over 30 years and interest rates remain extremely low.

Why doesn't the recovery occur more quickly? The biggest obstacle to getting the economy on track is uncertainty. Unfortunately, the Federal Government has been the biggest contributor to uncertainty by intervening in markets and over committing public resources. The bulk of the stimulus package passed in the first quarter will come too late to create jobs and stabilize the economy this year; on the other hand, local public works projects including the courthouse, the airport, and the many road projects are underway at just the right time.

A full recovery will include the housing and financial sectors healing. It will also include continued improvement in consumer confidence levels, retail sales, and lower business inventories. As it relates to commercial real estate, investment sales activity will increase as buyers anticipate better market conditions. Leasing activity will improve next as overall business conditions get better, and commercial construction will significantly improve when much of the excess commercial space has been absorbed.

We believe in Southern Utah, its resilience, and the resourcefulness of the community. We believe it is a great place to work, play, and raise a family. As the economic environment starts to improve over the next couple of quarters, vacancies and lease rates will stabilize and eventually recession will be replaced with a more friendly "r" word--recovery.

Some Indicators...



Sources: Department of Labor, C2ER, Conference Board, Standard & Poors, WCBR MLS Data, Yahoo! Finance, Federal Reserve. Most recent data as of June 30, 2009. Data series are 2005-current for unemployment, cost of living, and consumer confidence. The remaining series are 1995-current.

Mark Walter
Principal Broker

Neil Walter
Managing Director

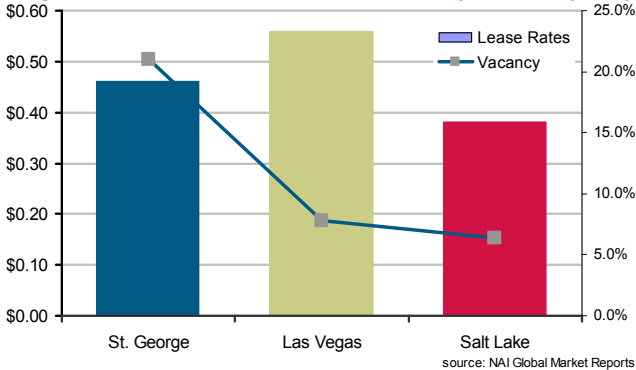
Happenings Around Southern Utah Info Gathered from The Spectrum Newspaper, The St. George Chamber of Commerce and The Salt Lake Tribune

- Big Lots opened at 901 South Main Street in Cedar City, Utah next to Staples, Albertsons and Christensen's.
- Honnen Equipment Co. has acquired the assets of four John Deere Construction & Forestry dealerships including the St. George location from Scott Machinery Co.
- InterLinx Communications completed the fiber optic cable network in Cedar City.
- Desert Falls International Sports Resort, a project that considered Hurricane, is working on entitlements in Mesquite, NV. The company negotiated to purchase 925 acres for 6.6 million. The first phase of the resort is anticipated to be operational in 2010.
- Best Western Bryce Canyon Grand Hotel opened June 25th across from Ruby's Inn. The hotel is a combination of 164 rooms and suites.

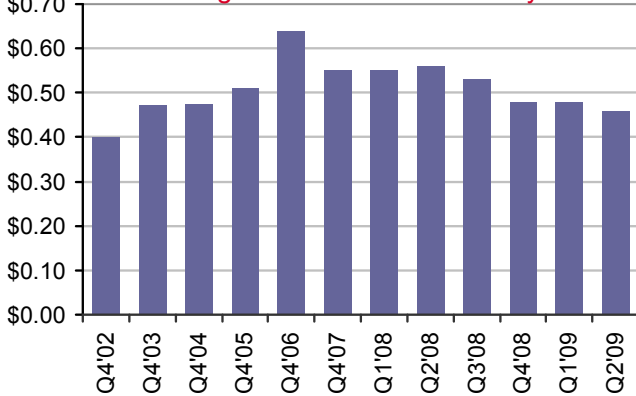
- The Iron County Commission unanimously passed an amended funding agreement, paving the way for the aquatic center located off Royal Hunte Drive. It is scheduled to open May 2010.
- The Hurricane City Council rejected a bid by Our World Family, LLC to build a 2,000 acre theme park and educational resort in Southern Utah. This is the second setback for the resort after being voted down in Toquerville. The council determined that pursuing the proposal would be too expensive for taxpayers.
- Brick Oven Pizza is going to be opening at the corner of St. George Boulevard and River Road in place of Ruby River.
- Grease Monkey, located next to Costco, held their ribbon cutting May 26, 2009.

2009 2nd Quarter: Washington County Industrial

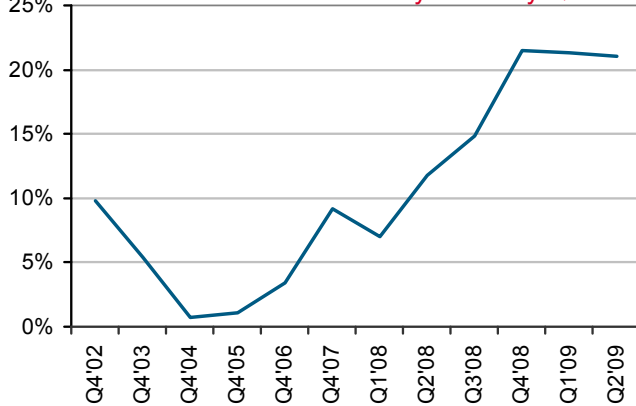
Regional Warehouse Lease Rate Comparison by City



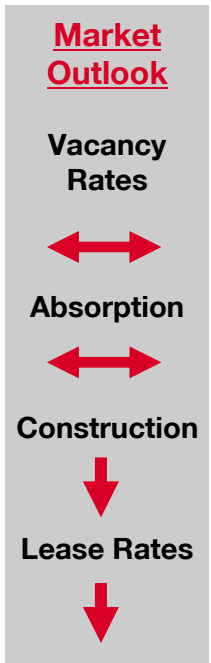
Asking Industrial Lease Rates by Quarter



Industrial Vacancy Rates by Quarter



Asking Lease Rates (NNN)		< 20,000 SF	> 20,000 SF
Low		\$0.35	\$0.40
High		\$0.55	\$0.48
Average		\$0.46	\$0.43
Stabilized Vacancy		21.0%	
2008 Ending Inventory		7,978,000	
Built in '09 YTD		173,000	
2009 YTD Inventory		8,151,000	
Under Construction		62,000	
New Construction Absorption		289,000	
New Construction Vacancy		33.0%	



Review

The impact of 3 million jobs lost in the manufacturing, warehousing, and construction sectors nationwide has not left Washington County unscathed. Downsizing in the construction industry has been the primary driver of vacancy rates rising to unusually high levels in Washington County. Vacancies left by contractors who have gone out of business or are downsizing have been felt in every industrial park in the community. The largest and most painful movement in industrial vacancy occurred in the 3rd and 4th quarters of 2008 and vacancy rates have remained level since.

New construction is only a fraction of recent years, which will allow for existing space to be absorbed more quickly as demand returns for industrial space. Only 173,000 square feet has been completed year to date with one industrial building completed 2nd quarter and two more currently under construction. Comparatively, there was nearly 900,000 square feet of new space completed in 2007. Although not specifically industrial, Monster Storage broke ground on their 125,000 square foot climate controlled multi level storage facility--the first of its kind in Southern Utah. Town Storage also is underway on a 77,000 square foot facility on Riverside Drive.

Outlook

Equilibrium will occur in the industrial sector. Neither the sub 2 percent vacancy rate of 2005 nor the 20 plus percent vacancy rate of today are normal. Construction drove the unprecedented growth in recent past, and construction will lead the way to recovery in our industrial market. In the last four months, the number of building permits pulled and the number of new home sales have increased each month. Although there are still not enough transactions to create absorption; a continuation of the trend would assist in providing balance in the industrial sector.

Partial List 2nd Quarter Industrial Transactions

Industrial - Sale	SF	Agent
Hurricane Fairgrounds Warehouse	9,386	Mathew Chappell
Industrial - Lease	SF	Agent
Hoskins Warehouse	1,800	Jason & Meeja
Riverside Corner	5,600	Jason & Meeja, Wes D.
Warehouse off Sunset Blvd	2,500	Walter Group & Brandon V.
Southland Building	1,720	Walter Group
Office/Warehouse	1,700	Wes Davis
Office/Warehouse/Secure Yard	7,000	Wes Davis & Chappells



For Sale: Office/Warehouse with Fenced Yard
1028 North Westridge Drive | St. George

2009 2nd Quarter: Washington County Office



Market Outlook

Vacancy Rates



Absorption



Construction



Lease Rates



Asking Lease Rates (NNN)		Class A	Class B	Class C
	Low	\$0.90	\$0.70	\$0.60
	High	\$1.25	\$1.15	\$0.95
	Average	\$1.13	\$1.01	\$0.89
	Vacancy	9.9%	15.5%	19.9%
Stabilized Vacancy		13.7%		
2008 Ending Inventory		3,163,642		
Built in '09 YTD		50,000		
2009 YTD Inventory		3,213,642		
Under Construction		48,000		
New Construction Absorption		82,000		
New Construction Vacancy		47.0%		

Review

Leasing in the office market has continued to be confined to smaller spaces. An abundance of office space makes this a 'buyers' market. The average vacancy rate inched up to 13.7 percent, continuing the gradual trend of the previous 6 quarters. Despite a soft office market, Washington County compares well to rates in Salt Lake City and Las Vegas. Office sales have been sparse as buyers are price-driven and tighter bank lending standards have kept many potential buyers out of the market.

Lease rates softened slightly from already historical lows. Tenants have been successful in negotiating shorter lease terms, particularly in existing Class-B space. Most office developments have postponed construction until the office market and lease rates recover. Executive Plaza on Bluff Street is the newest addition to the office market. Sand Town Center on 200 North and a small building at the Crossroads Center on River Road, are currently under construction.

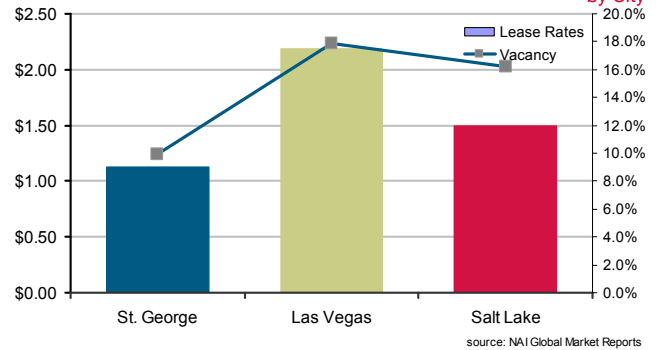
Outlook

Leasing will continue to be soft and activity will continue to be primarily from the relocation of existing businesses through the second half of the year. We expect to see the most demand for space with the following features: functional floor plans, like-new condition, well-located areas, and discounted rates.

Partial List 2nd Quarter Office, Investment & Land Transactions

Office - Lease	SF	Agent
Red Cliffs Professional Park	639	Jason & Meeja
Red Cliffs Professional Park	350	Jason & Meeja
Ventana Office Park	1,155	Jason & Meeja
Office - Sale	SF	Agent
McArthur's Landing	1,200	Monty Bundy
McArthur's Landing	2,177	Monty Bundy
Investment	SF	Agent
Kolob Market - New Harmony	3,036	Walter Group
Bloomington Market	6,098	Walter Group
Successful Sandwich Shop	n/a	Wes Davis
Eagle Rock Chevron	4,500	Walter Group
Resort Investment Property	3,648	Ryan Garrett
Residential Note	n/a	Ryan Garrett
Land - Sale	AC	Agent
Commercial Land	1	Walter Group

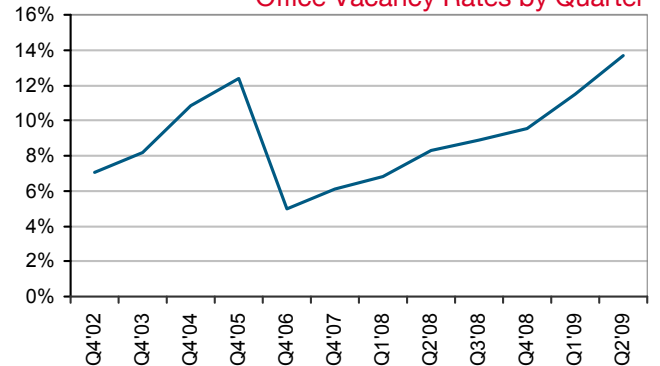
Regional Local "A" Office Lease Rate Comparison by City



Asking Office Lease Rates by Quarter



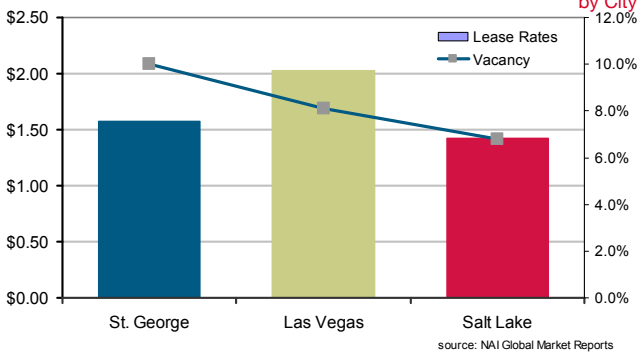
Office Vacancy Rates by Quarter



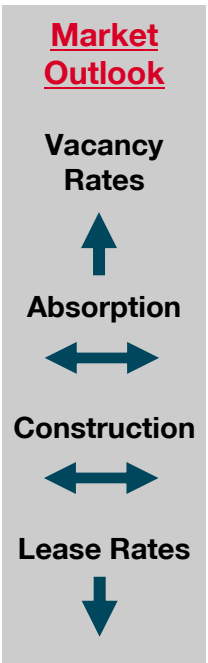
For Lease: Sun Valley Professional Park
48 South 2500 West | Hurricane

2009 2nd Quarter: Washington County Retail

Regional Anchored Retail Lease Rate Comparison by City



Asking Lease Rates (NNN)	Anchored	Unanchored
Low	\$1.10	\$0.85
High	\$2.00	\$1.50
Average	\$1.58	\$1.21
Vacancy	10.0%	14.5%
Stabilized Vacancy	11.9%	
2008 Ending Inventory	5,884,000	
Built in '09 YTD	204,000	
2009 YTD Inventory	6,088,000	
Under Construction	8,000	
New Construction Absorption	244,000	
New Construction Vacancy	26.0%	



Review

The retail market in Southern Utah is hit-and-miss as it continues to feel the broader national economic downturn. Restaurants and specialty stores have particularly struggled as consumers have cut back further on discretionary spending. National consumer confidence is up; however, actual spending has remained somewhat sluggish. Even so, retail is our most active market and NAI is seeing more activity than in the office or industrial segments. Vacancy increased to nearly 12 percent and average asking rents decreased slightly.

Larger retailers continue to open, such as the Hurricane Wal-Mart, and several new mid-boxes recently opened in the Cotton Mill II Center adjacent to Kohl's, but new interest from mid-box tenants is minimal. The Grease Monkey next to Costco and Astin Mele Center on Tabernacle were also new retail additions to Washington County in the second quarter.

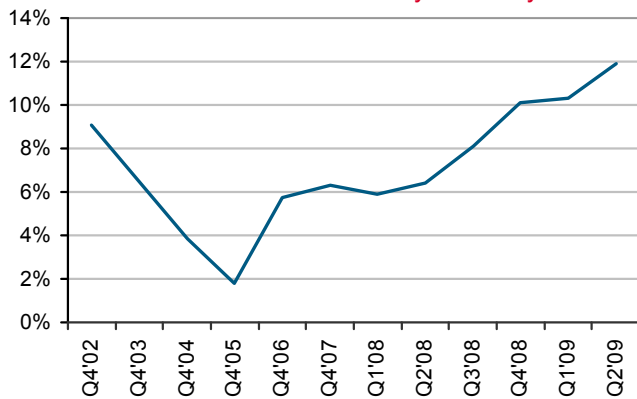
Outlook

Although consumers may not immediately return to past levels of spending, American families will only defer needed durable goods purchases for so long. As jobs stabilize and consumers feel security in economic conditions, spending will also increase. Once consumer spending shows consistent signs of improvement, so will the retail sector.

Asking Retail Lease Rates by Quarter



Retail Vacancy Rates by Quarter



Partial List 2nd Quarter Retail & Multi Family Transactions

Retail - Sale	SF	Agent
S&R Commercial Center, Building 1	3,664	Jason & Meeja
Retail - Lease	SF	Agent
Retail/Office on Red Hills Pkwy	952	Brandon Vandermeye
S&R Commercial Center, Building 1	7,000	Jason & Meeja
St. George Boulevard Retail/Office	1,783	Walter Group & Landon T.
Downtown Hurricane Retail for Lease	2,310	Chappells
Day Care/Pre-school Space	5,500	Ryan Garrett
Downtown St. George Auto Dealership	8,981	Ryan Garrett
Dinosaur Crossing	1,550	Walter Group & Monty B.
Boulevard West Mall	1,790	Walter Group & Curren C.
Spirit Halloween Super Store	10,500	Wes Davis & Ryan Garrett
David Hansen Photography	1,088	Ryan G. & Curren C.
Krave Yogurt at Blvd Commons	1,620	Ryan Garrett
Multi Family - Sale	Units	Agent
Dixie Cove	24	Walter Group



For Lease: Retail/Restaurant Opportunity on Bluff St.
744 N Bluff Street | St. George

2009 2nd Quarter: Washington County Multi Family

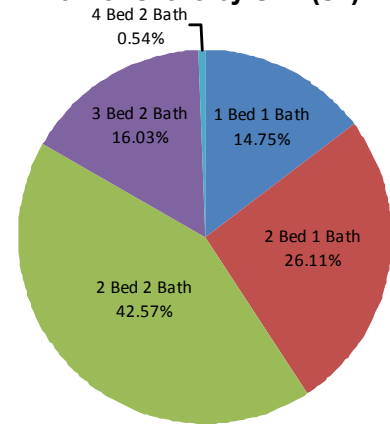
This is the first market report where we have provided coverage for the multi-family market in Southern Utah. (The market study is oriented toward apartment complexes. Condos and subsidized housing were excluded from our survey.) We surveyed 911 units totaling nearly 900,000 SF. Demand for apartments is impacted significantly by the availability and pricing of housing. During the last 12 months, many apartment tenants have moved from apartments into more traditional housing, which has driven apartment vacancies up and rents down.

Vacancy rates are currently significantly higher than historical averages. In the past, we have seen vacancy rates below 10% and rents in the \$.90 - .95 cent per square foot range, depending on the size, condition, and location of the apartment. Even in current market conditions, price ranges are wide and some properties are doing much better than others. There are some great opportunities in this market: buyers can purchase properties discounted 20-40% compared to prices two years ago, and for the first time in years there are multi-family land parcels for sale.

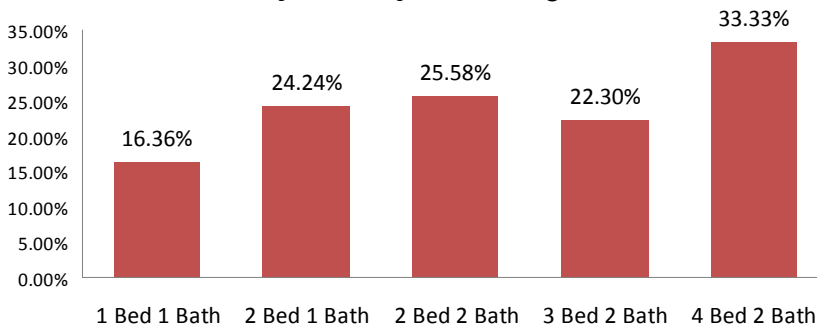


Configuration	Rent	Rent/SF	Vacancy
1 Bed 1 Bath	\$ 488	\$ 0.72	17.9%
2 Bed 1 Bath	\$ 757	\$ 0.77	25.9%
2 Bed 2 Bath	\$ 715	\$ 0.70	27.3%
3 Bed 2 Bath	\$ 828	\$ 0.64	22.2%
Average	\$ 697	\$ 0.71	24.0%

Market Share by Unit (SF)



Vacancy Rates by Unit Configuration



For Sale: 13 Unit Multi-Family Investment By Dixie State College

Agent Highlights: Wes Davis and Ryan Garrett

Wes Davis joined the NAI 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 and assist in their success. Wes has successfully brokered over \$100 million with over 150 commercial transactions.

Wes graduated from the University of Utah, David Eccles School of 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. To learn more about Wes visit his linkedin profile at:

<http://www.linkedin.com/pub/wes-davis/b/138/461>



Ryan K. Garrett joined the NAI team in 2007 bringing with him an expert technical and management background. He earned his Masters in Information Systems Management and his Bachelors in Business Management from Brigham Young University. A native of St. George, Ryan relocated back from Scottsdale, Arizona, where he spent several years specializing in software development. Ryan's clients include: Subway Sandwiches, Dominos Pizza, Boulevard Commons, Green Valley Cabinets and most recently Papa John's Pizza. Ryan has worked with invest-

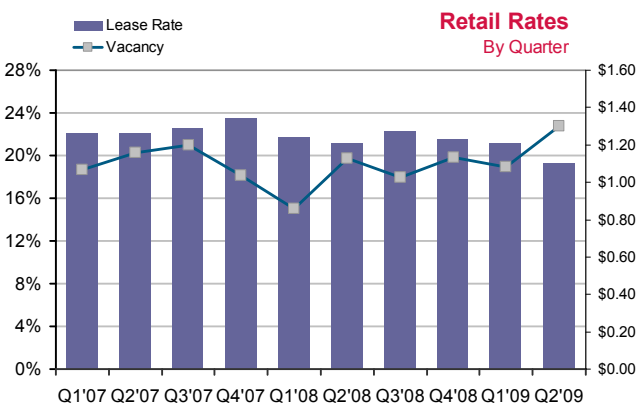
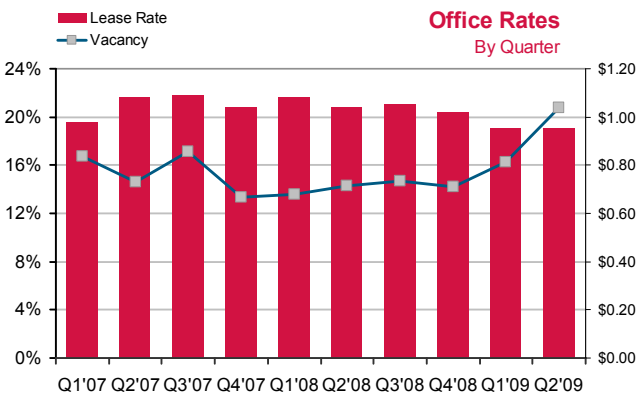
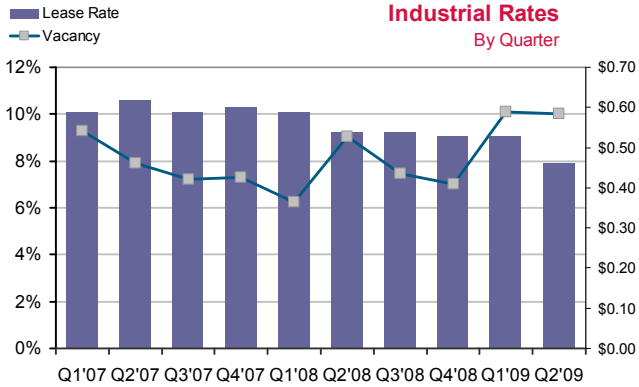
ment and multi-family properties such as: Ancestor Square, The St. George DMV Office Park and Dixie State College student apartments. Ryan's interest in commercial development has also expanded his career, working with government entities securing zoning changes and use variances. His strong interest in property valuation continues to drive him to find underutilized parcels that can be developed into triple net investments for property owners. To learn more about Ryan visit his linkedin profile at:

<http://www.linkedin.com/pub/ryan-garrett/a/358/226>



2009 2nd Quarter: Iron County Cedar City

Asking Lease Rates (NNN)	Industrial	Office	Retail
Low	\$0.35	\$0.70	\$0.75
High	\$0.60	\$1.28	\$1.50
Average	\$0.46	\$0.95	\$1.10
Vacancy	10.0%	20.8%	22.8%



Industrial

The Industrial market vacancies remain the lowest in Iron County; however, the industrial market is not strong. The lower vacancy rates reflect the fact that space isn't being vacated as quickly as in Washington County. Absorption of new industrial space continues to be very slow and the industrial land market continues to be stagnant. The result is downward pressure on lease rates. This quarter represents the sixth consecutive quarter of declining industrial lease rates. As we have indicated in previous reports, we don't expect the market to remain slow long-term as the industrial sector is an important part of Cedar City's economy.

Office

The office market continues to struggle as space continues to come available in all classes of buildings. Lease rates remain soft while some landlords are offering aggressive rates and incentives to generate activity. Lack of demand for office space continues to be a problem. The South Main Business Building and the Miller Office Building are under construction. These buildings are primarily owner-occupied and will create vacancies in existing office suites when the new buildings are occupied later this year.

Retail

Vacancies remain high in Cedar City and lease rates continued to fall. Most of the additional vacancy came from spaces vacated in older properties as economic conditions have continued to be difficult for retailers--particularly small businesses. The retail leasing market remains stagnant, except for small suites that are priced aggressively. The spaces around Lin's Marketplace on Main Street are a good example of spaces that have successfully been leased. On the brighter side, a new Cafe Rio is under construction at Providence Center, and a new CarQuest auto parts store is also under construction. Cafe Rio chose their site after looking in the Cedar City market for a couple of years.



For Sale: Chevron C-Store | 1744 West Royal Hunte Drive | Cedar



For Lease: 1760 North Main Street | Cedar City



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



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

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Mark Walter



Jason Griffith



Wes Davis



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Patricia Chappell



Meeja McAllister



Brandon Vandemyde



Ryan Garrett



Landon Terry



Curren Christensen



Monty Bundy



Alene England



Annette Humphrey

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- 3 Agents with Masters Degrees in Management
- 3 CCIM Candidates
- 3 Full-time Support Staff
- Marketing Department
- GIS Department
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- Property Management



Bob Wells



Sharee Jones

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