

Salt Lake County YEAR-END 2010 | MARKET REVIEW

OFFICE MARKET

OFFICE MARKET TRENDS

- The one word that seems to best describe the office market this past year is stabilization. There was very little change in numbers between the end of 2009 and the wrap up of 2010. However, there was movement towards a slow, but much healthier recovery from the fragile economic situation experienced during the last several years.
- Vacancy rates remained almost flat, ending the year at 15.70 percent versus 15.72 percent at the close of 2009. While overall market rates did not change significantly, the classes of buildings did not fare equally. Market conditions fueled a flight-to-quality that lowered Class A vacancy rates, and left Class B and C properties with higher vacancy rates.
- Lease rates saw only minor fluctuation, falling from \$20.55 per square foot in 2009, to \$20.47 per square foot at the end of 2010, although we did see some downward pressure on effective rates. Landlords ramped up efforts to win tenants, offering concessions such as free rent,

MARKET INDICATORS

	Current	Change since:	
		Q4 09	Q2 10
Direct Office Vacancy	15.70%	▼	▲
Sublease Vacancy	1.22%	▼	▼
Average Market Lease Rate	\$20.47 PSF	▼	▼
Completed Construction	318,000 SF	▼	▼

Arrows are indicators, arrows do not represent a positive or negative value.

increased tenant improvement packages, moving expenses and other creative enticements.

- Several large deals contributed to the climb including: FLSmidth, which opened a new 100,000 square foot building in the View 72 development; Fusion-IO with 118,000 square feet at Cottonwood Corporate Center; Provo Craft with 60,000 square feet at RiverPark Corporate Center; Advanced MD with 52,000 square feet at RiverPark Corporate Center; and Goldman Sachs, which moved into 150,000 square feet of space on seven floors in the new 222 Main Street building

OFFICE MARKET OVERVIEW – FOURTH QUARTER 2010

CBD [^]	DIRECT OFFICE SPACE*					SUBLEASE	
	Total SF	Available SF	Absorption SF	Vacancy	Rents PSF**	Available SF	Vacancy
Class A	3,717,513	478,702	-12,779	12.88%	\$28.69	85,174	2.29%
Class B	1,808,070	231,871	54,007	12.82%	\$20.49	30,692	1.70%
Class C	1,648,611	331,643	-19,658	20.12%	\$15.52	17,657	1.06%
Overall	7,174,194	1,042,216	21,570	14.53%	\$23.58	133,523	1.86%
Periphery							
Class A	1,332,687	34,911	6,000	2.62%	\$22.79	0	0.00%
Class B	1,404,551	219,641	-9,076	15.64%	\$18.71	41,529	2.96%
Class C	880,323	158,173	-20,888	15.59%	\$14.05	0	0.00%
Overall	3,617,561	412,725	-23,964	11.41%	\$19.08	41,529	1.15%
Suburban							
Class A	7,889,100	787,471	66,296	9.98%	\$23.01	113,671	1.44%
Class B	8,207,331	1,597,592	-169,005	19.47%	\$18.95	85,502	1.04%
Class C	4,394,559	1,070,420	-114	24.36%	\$14.76	8,939	0.20%
Overall	20,490,990	3,455,483	-102,823	16.86%	\$19.61	208,112	1.01%
Total Market	31,282,745	4,910,424	-105,217	15.70%	\$20.47	383,164	1.22%

* Sublease space is not included in these figures. ** Weighted full service asking lease rates. ^ Central Business District - Salt Lake City, Utah.

downtown. The Royal Bank of Scotland Group came into the market for the first time, opening a 30,000 square foot IT office in Taylorsville.

- While this is good news, and an indication of an improving economy, we are still substantially below the 10-year absorption average of 900,000+ square feet.
- In 2010, there were a number of large lease transactions, but smaller tenants continued the trend of renewing for shorter periods of time. These smaller tenants are awaiting signs of an improved economy before they commit to a longer term or expansion.
- In 2010, there was an increase in the number of both inquiries and site visits from companies looking to enter or expand into the market. State and city governments were very aggressive with economic incentives. Friendly economic policies coupled with low labor and operational costs, a skilled, bilingual workforce, access to major transportation corridors (air, rail and interstates), and lifestyle is helping Utah become more competitive in attracting new companies to the state.
- The market added 318,000 square feet of new construction in 2010 versus 768,294 square feet in 2009. However, over half of the 2009 square footage was from the 222 Main Street building, which added about 460,600 square feet to the market. The 10 year average of new construction is about one million square feet. While we saw positive activity, it is still significantly below the norm. On a positive note, over 85 percent of the new

space that came online during the year was leased and occupied by year-end.

OFFICE MARKET FORECAST

- New construction in 2011 will be almost exclusively build-to-suit projects, like the 160,000 square foot Questar building, and the 125,000 square foot University of Southern Nevada facility at RiverPark. It has been several years since a significant Class A office development was built on spec, and is expected to continue until developers feel confident the recovery has gained more momentum.
- The one exception will be Old Mill Corporate Center IV, which is scheduled to break ground in March 2011 with a 175,000 square foot, six-story structure to be delivered in 2012.
- Overall, expect to see lease rates, vacancies and absorption continue to stabilize and make slow, but steady upward progress.
- Employment indicators ended the year on a positive note. The state's unemployment rate is significantly lower than the national average at 9.5 percent, with temp agencies busy placing employees in the Utah workforce. Expect to see positive job growth in 2011, supporting the office market's continued recovery.

SUBURBAN OFFICE MARKET* – BY QUADRANT

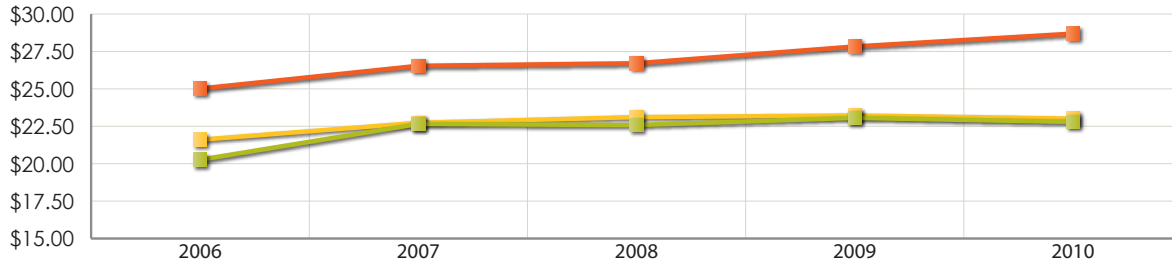
	Northeast	Northwest	Central East	Central West	Southeast	Southwest	Totals
Vacancy	7.97%	23.30%	22.17%	18.02%	16.46%	8.57%	16.86%
Absorption SF	14,893	-60,687	-16,357	28,451	40,504	10,304	-102,823
Rents PSF**							
Class A	\$24.88	\$19.12	\$24.90	\$21.33	\$21.66	\$23.25	\$23.01
Class B	\$20.34	\$17.22	\$18.81	\$19.08	\$19.26	\$19.72	\$18.95
Class C	\$13.92	\$14.86	\$15.15	\$15.00	\$15.90	n/a	\$14.76
Overall	\$19.17	\$16.97	\$20.23	\$19.39	\$20.15	\$22.80	\$19.61

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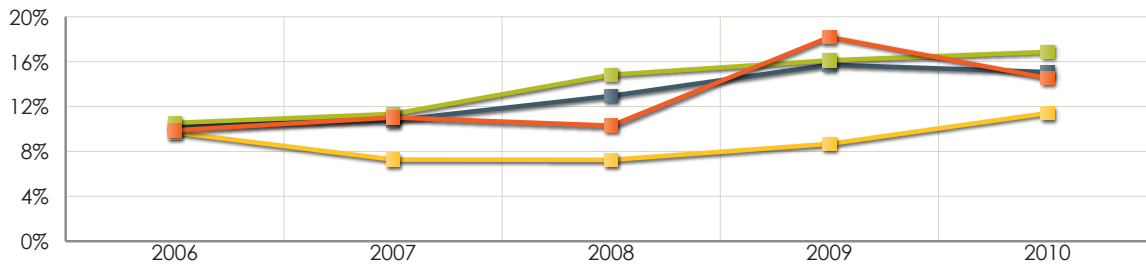
OFFICE MARKET CLASS A QUOTED RATES PER SQUARE FOOT** – FIVE YEAR HISTORY



	2006	2007	2008	2009	2010
Central Business District (CBD)	\$25.02	\$26.54	\$26.71	\$27.83	\$28.69
Periphery	\$20.27	\$22.65	\$22.58	\$23.06	\$22.79
Suburban	\$21.60	\$22.73	\$23.11	\$23.22	\$23.01

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OFFICE MARKET VACANCY* – FIVE YEAR HISTORY



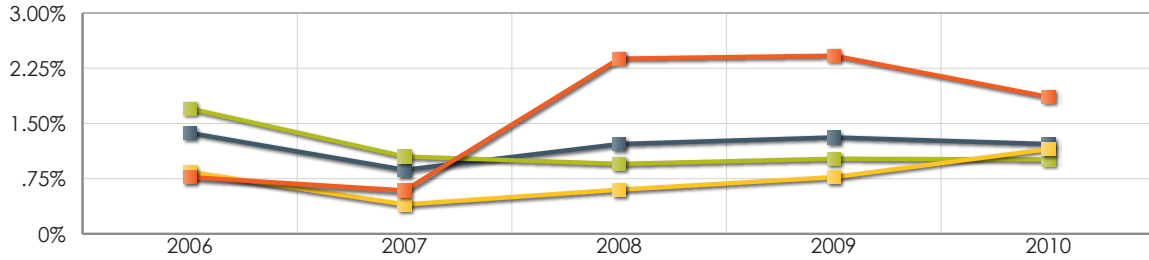
	2006	2007	2008	2009	2010
Central Business District (CBD)	9.88%	11.02%	10.30%	18.18%	14.53%
Periphery	9.68%	7.27%	7.25%	8.67%	11.41%
Suburban	10.54%	11.34%	14.83%	16.11%	16.86%
Overall	10.28%	10.76%	12.95%	15.72%	15.07%

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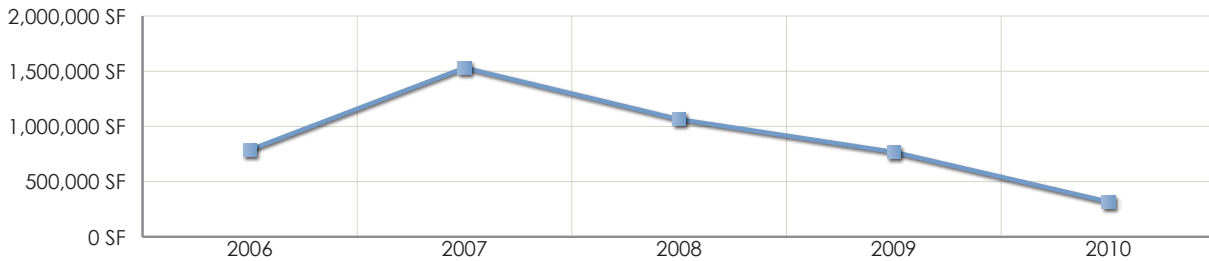
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OFFICE MARKET SUBLEASE VACANCY – FIVE YEAR HISTORY



	2006	2007	2008	2009	2010
Central Business District (CBD)	0.77%	0.59%	2.38%	2.42%	1.86%
Periphery	0.84%	0.40%	0.60%	0.77%	1.15%
Suburban	1.70%	1.05%	0.95%	1.02%	1.01%
Overall	1.37%	0.87%	1.22%	1.31%	1.22%

OFFICE MARKET CONSTRUCTION – FIVE YEAR HISTORY



	2006	2007	2008	2009	2010
Square Feet Constructed	789,000	1,530,567	1,064,424	768,297	318,000