

# Utah County

## YEAR-END 2010 | MARKET REVIEW

### OFFICE MARKET

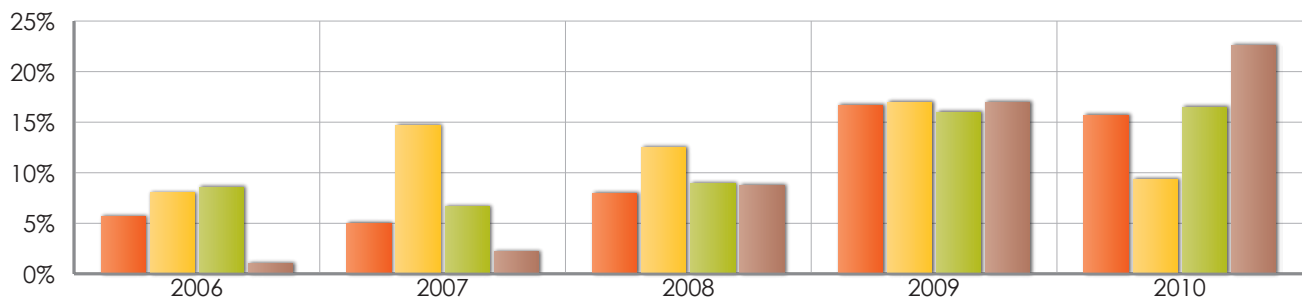
#### UTAH COUNTY MARKET OVERVIEW

- The Utah County market gained strength in some areas and lost ground in others during 2010. It was a year of frustration for many landlords as tenants continued to bargain shop and take their time making space decisions. Tenants were also the beneficiaries of a variety of incentives—from low rates and flexible terms, to free rent and generous tenant improvement allowances.
- Property sales were slow in 2010 compared to recent years, except owner/user purchases financed by low-interest SBA loans.

#### MARKET INDICATORS

Utah County Office	
Total Inventory (SF)	9,294,059
Lease Rates PSF	\$11.75 NNN Avg. (\$5.00 – \$20.00)
Vacancy	14.09%
Cap Rate	9.5%
Land Values PSF	\$6.00 Avg. (\$3.00 – \$10.00)
Utah County Industrial	
Total Inventory (SF)	30,071,498
Lease Rates PSF	\$0.38 NNN Avg. (\$0.20 – \$0.55)
Vacancy	8.59%
Cap Rate	7.49%
Land Values PSF	3.50 Avg. (\$2.00 – \$6.00)
Utah County Retail	
Total Inventory (SF)	10,391,821
Lease Rates PSF	\$13.00 NNN Avg. (\$6.00 – \$28.00)
Vacancy	11.05%
Cap Rate	9%
Land Values PSF	\$7.00 Avg. (\$6.00 – \$14.00)

#### OVERALL OFFICE VACANCY – FIVE YEAR HISTORY



	2006	2007	2008	2009	2010
Orem	5.66%	5.03%	7.97%	16.61%	15.67%
Provo	8.00%	14.65%	12.45%	16.93%	9.33%
Utah County North	8.58%	6.62%	8.94%	15.95%	16.46%
Utah County South	1.04%	2.2%	8.77%	16.92%	22.55%

OFFICE MARKET

- Overall vacancy rates in Utah County office space declined from 16.5 percent at mid-year to 14.09 percent at the end of 2010. Class A saw the largest decline in vacancy, improving from 19.3 percent at mid-year to 13.45 percent at year-end. One major factor in those changes was the removal of 220,000 square feet of space at the Novell campus, triggered by the sale of the company. As a result of this single factor, Provo's vacancy rate dropped from 30.6 percent to just 9.33 percent. This may be a temporary improvement, as the Novell campus space could be reintroduced to the market, pending the decisions of the new owners.
- Office vacancies increased slightly in Orem and North County, while doubling in South County, a relatively small office submarket, to 22.55 percent. Rates have continued to fall during 2010 on office space. Landlords have added incentives to low lease rates, enticing tenants any way possible to fill vacancies. The trend does not seem likely to change in the near term.

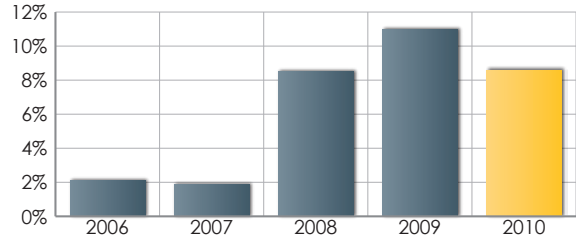
OFFICE MARKET OVERVIEW - FOURTH QUARTER 2010

Orem	DIRECT OFFICE SPACE			SUBLEASE	
	Total SF	Available SF	Vacancy	Available SF	Vacancy
Class A	1,326,194	194,201	14.64%	6,449	0.49%
Class B	665,888	91,541	13.75%	3,577	0.54%
Condo	966,683	177,829	18.40%	5,243	0.54%
Overall	2,958,765	463,571	15.67%	15,269	0.52%
<b>Provo</b>					
Class A	1,316,536	123,558	9.39%	49,542	3.76%
Class B	1,194,434	94,388	7.90%	5,211	0.44%
Condo	587,787	71,018	12.08%	7,400	1.26%
Overall	3,098,757	288,914	9.33%	62,153	2.01%
<b>Utah County North</b>					
Class A	998,316	172,814	17.31%	23,376	2.34%
Class B	1,219,174	160,211	13.14%	34,753	2.85%
Condo	623,084	134,633	21.61%	12,226	1.96%
Overall	2,840,574	467,658	16.46%	70,355	2.48%
<b>Utah County South</b>					
Class A	6,400	0	0.00%	0	0.00%
Class B	308,903	61,005	19.75%	0	0.00%
Condo	80,660	28,278	35.06%	0	0.00%
Overall	395,963	89,283	22.55%	0	0.00%
<b>Totals</b>					
Class A	3,647,446	490,573	13.45%	79,367	2.18%
Class B	3,388,399	407,145	12.02%	43,541	1.29%
Condo	2,258,214	411,758	18.23%	24,869	1.10%
<b>Total Market</b>	<b>9,294,059</b>	<b>1,309,476</b>	<b>14.09%</b>	<b>147,777</b>	<b>1.59%</b>

**INDUSTRIAL**

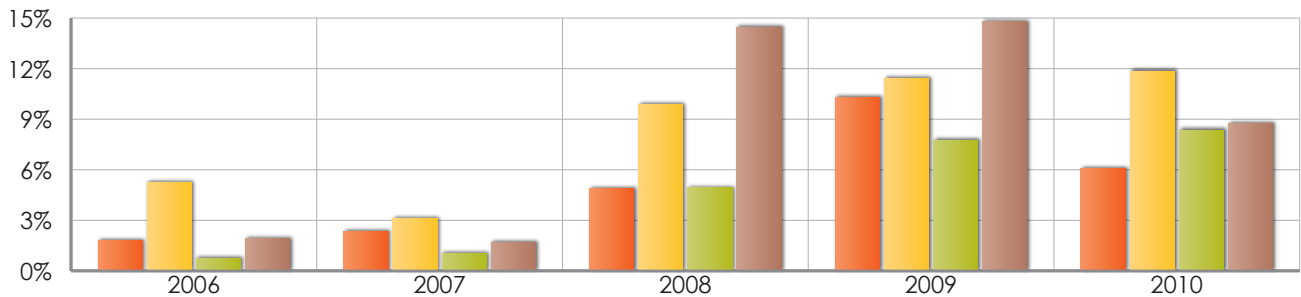
- Previously, the total inventory number for the industrial market included only multi-tenant properties. To more accurately reflect the reality of the market size and come in line with how other mid-sized markets report, the inventory number now includes all industrial properties. As a result of this more comprehensive accounting, what once looked like a 15 million square foot market now reflects a more accurate inventory of nearly double that, close to 30 million square feet.
- While industrial looks to be the best performing of all Utah County commercial real estate sectors, the enthusiasm for it should be tempered somewhat, as some of the good news is a result of the accounting change. For example, vacancies showed a sharp decline during 2010, ending the year at 8.59 percent. However, this was due largely to the fact that most buildings added in the re-inventory process were owner/user buildings and were more occupied than the multi-tenant buildings that made up the inventory before.
- Orem had the lowest vacancy rate at 6.07 percent. Provo was highest at 11.85 percent. The drop in industrial vacancies was fueled primarily by landlords slashing lease rates to whatever level it took to get tenants into the space.

**OVERALL INDUSTRIAL VACANCY - FIVE YEAR HISTORY**



	2006	2007	2008	2009	2010
Overall	2.11%	1.89%	8.49%	10.95%	8.59%

**INDUSTRIAL VACANCY BY TYPE - FIVE YEAR HISTORY**

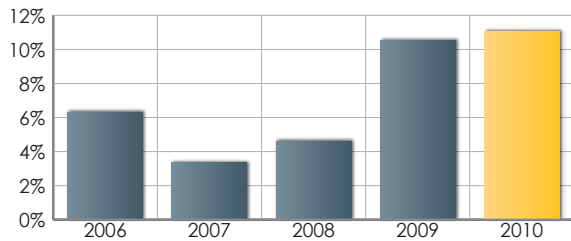


	2006	2007	2008	2009	2010
Orem	1.79%	2.33%	4.87%	10.28%	6.07%
Provo	5.22%	3.11%	9.85%	11.40%	11.85%
Utah County North	0.75%	1.03%	4.92%	7.75%	8.35%
Utah County South	1.92%	1.70%	14.42%	14.77%	8.72%

RETAIL MARKET

- Throughout most of the recession, the Utah County retail sector has been the best performing of all the commercial real estate markets. The bubble finally burst this past year, and retail ended 2010 on a weak note.
- Occupancy rates from mid-year were relatively flat, with vacancies increasing about half of a point to 11.05 percent amidst 10.4 million square feet of total inventory. Anchorless strip center vacancy was highest at 24.74 percent, while neighborhood center vacancies were just 5.08 percent. Mall vacancy rates were down from last year at 5.48 percent.

OVERALL RETAIL VACANCY - FIVE YEAR HISTORY



	2006	2007	2008	2009	2010
<b>Overall</b>	6.32%	3.33%	4.62%	10.51%	11.05%

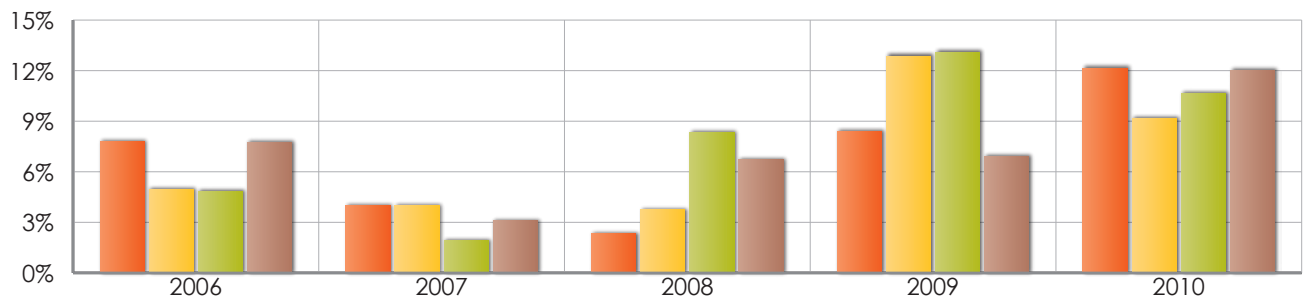
RETAIL MARKET OVERVIEW - FOURTH QUARTER 2010

Sector	Total SF	Available SF	Vacancy
Orem	4,270,396	517,926	12.13%
Provo	2,181,244	199,387	9.14%
Utah County North	3,000,162	318,700	10.62%
Utah County South	940,019	112,681	11.99%
<b>Total</b>	<b>10,391,821</b>	<b>1,148,694</b>	<b>11.05%</b>

Type	Total SF	Available SF	Vacancy
Anchorless Strip	2,357,750	583,303	24.74%
Neighborhood Center	1,950,214	99,096	5.08%
Community Center	3,981,843	351,030	8.82%
Mall Space	2,102,014	115,265	5.48%
<b>Total</b>	<b>10,391,821</b>	<b>1,148,694</b>	<b>11.05%</b>

RETAIL VACANCY BY SECTOR - FIVE YEAR HISTORY



	2006	2007	2008	2009	2010
Orem	7.77%	4.00%	2.32%	8.39%	12.13%
Provo	4.95%	3.99%	3.75%	12.85%	9.14%
Utah County North	4.84%	1.94%	8.33%	13.10%	10.62%
Utah County South	7.74%	3.09%	6.71%	6.91%	11.99%

## LOOKING AHEAD

- Expect to see a slow march toward economic recovery in 2011. Utah County is poised to reap some unique benefits in the next few years. There are currently between \$5 and \$6 billion worth of projects under construction in the county—a level unprecedented in the county’s history. A new convention center now under construction and a recently announced large addition to the NuSkin corporate headquarters will give the downtown area a major facelift. Developers have broken ground on several university buildings, as well two large off-campus student housing developments. Construction has begun on the National Security Administration Data Center project at Camp Williams in far northern Utah County, reported to be a \$1.8 billion facility, and Adobe has announced planned construction of a \$100 million complex in Lehi. Also underway is the widening of I-15, the largest freeway expansion project in the western U.S., as well as the widening of SR92, which totals close to \$2 billion. Construction will continue through 2011, with all of these projects scheduled to see completion by the end of 2012.