

A shift to quality sums up 2011 in Utah County. The market is experiencing a lack of quality space with an abundance of distressed properties. In general, lease rates are declining across the board. Tenants are taking the opportunity to move to higher quality space, leaving the older, Class B and C properties vacant and more difficult to lease. Distressed property is the favored type of commercial real estate selling as companies and investors look for bargains in this market.

**MARKET INDICATORS**

<b>Utah County Office</b>	
Total Inventory (SF)	9,744,418
Lease Rates PSF	\$13 NNN Avg. (\$4.30 - \$30.00)
Vacancy	14.42%
Cap Rate	8.50%
Land Values PSF	\$8.00 Avg. (\$4.00 - \$14.00)
<b>Utah County Industrial</b>	
Total Inventory (SF)	30,431,710
Lease Rates PSF	\$0.46 NNN Avg. (\$0.22 - \$0.71)
Vacancy	8.21%
Cap Rate	9.00%
Land Values PSF	\$3.50 Avg. (\$1.20 - \$5.50)
<b>Utah County Retail</b>	
Total Inventory (SF)	10,949,472
Lease Rates PSF	\$14.00 NNN Avg. (\$5.00 - \$32.00)
Vacancy	12.45%
Cap Rate	8.00%
Land Values PSF	\$8.00 Avg. (\$4.00 - \$14.00)

**OFFICE ABSORPTION IN SQUARE FEET**

	<b>Class A</b>	<b>Class B</b>	<b>Condo</b>	<b>Overall</b>
Orem	63,598	66,660	16,736	146,994
Provo	-104,321	-8,059	9,615	-102,815
UC North	210,198	58,434	55,073	323,705
UC South	0	-23,628	10,038	-13,590

**MARKET TRENDS**

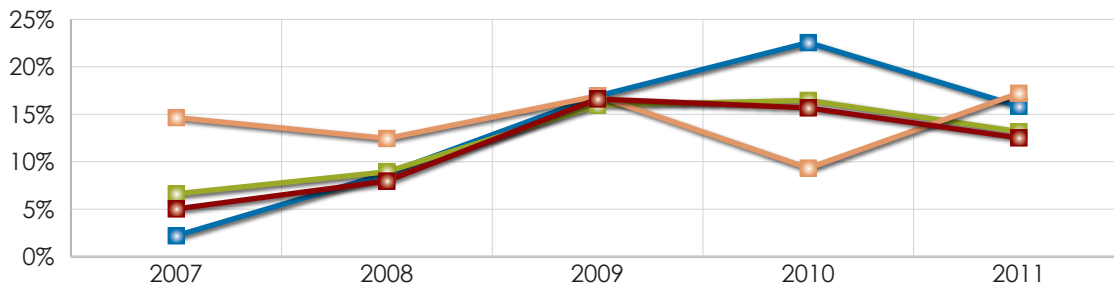
**Office:** Utah County has seen high absorption of 354,344 square feet (sf), particularly in high quality spaces. In 2008 there were 1.5 million sf (msf) of office space on the market. This supply was based on 2006-07 demand. Over the last three years, we have seen much of this 1.5 msf absorbed and the market is ready for more high quality space.

Class A space is leasing at historical Class B rates of 2007. We believe lease rates have bottomed out, but the market is still very much tenant-driven with landlords willing to give generous concessions just to fill the space. While there was increased leasing activity, this was reflective of tenants moving around to take advantage of the market conditions. A temporary spike in subleasing also occurred due to all the activity. Most of the new leases are short term, due to an uncertainty in the economy and the lack of high quality space.

The shortage of high quality and large block spaces are driving build-to-suit transactions. Lending institutions have been willing to loan on owner-occupied or heavily pre-leased buildings only, with much of the new construction financed by SBA loans. Two new buildings were constructed at Thanksgiving Place with 60,000 sf preleased or 80%.

Building sales have primarily been distressed property as tenants and investors look to pick up bargains.

OVERALL OFFICE VACANCY - FIVE YEAR HISTORY



	2007	2008	2009	2010	2011
<b>Orem</b>	5.03%	7.97%	16.61%	15.67%	12.51%
<b>Provo</b>	14.65%	12.45%	16.93%	9.33%	17.22%
<b>Utah County North</b>	6.62%	8.94%	15.95%	16.46%	13.17%
<b>Utah County South</b>	2.20%	8.77%	16.92%	22.55%	15.84%

OFFICE MARKET OVERVIEW - FOURTH QUARTER 2011

	DIRECT OFFICE SPACE			SUBLEASE	
	Total SF	Available SF	Vacancy	Available SF	Vacancy
<b>Orem</b>					
Class A	1,314,693	119,102	9.06%	19,803	1.51%
Class B	715,612	74,605	10.43%	3,577	0.50%
Condo	989,841	184,251	18.61%	4,140	0.42%
<b>Overall</b>	<b>3,020,146</b>	<b>377,958</b>	<b>12.51%</b>	<b>27,520</b>	<b>0.91%</b>
<b>Provo</b>					
Class A	1,458,830	370,173	25.37%	3,933	0.27%
Class B	1,200,837	108,850	9.06%	28,717	2.39%
Condo	610,628	84,244	13.80%	0	0.00%
<b>Overall</b>	<b>3,270,295</b>	<b>563,267</b>	<b>17.22%</b>	<b>32,650</b>	<b>1.00%</b>
<b>Utah County North</b>					
Class A	1,172,758	137,058	11.69%	54,972	4.69%
Class B	1,274,716	157,319	12.34%	15,387	1.21%
Condo	658,244	114,720	17.43%	2,139	0.32%
<b>Overall</b>	<b>3,105,718</b>	<b>409,097</b>	<b>13.17%</b>	<b>72,498</b>	<b>2.33%</b>
<b>Utah County South</b>					
Class A	6,400	0	0.00%	0	0.00%
Class B	261,199	36,929	14.14%	2,467	0.94%
Condo	80,660	18,240	22.61%	0	0.00%
<b>Overall</b>	<b>348,259</b>	<b>55,169</b>	<b>15.84%</b>	<b>2,467</b>	<b>0.71%</b>
<b>Totals</b>					
Class A	3,952,681	626,333	15.85%	78,708	1.99%
Class B	3,452,364	377,703	10.94%	50,148	1.45%
Condo	2,339,373	401,455	17.16%	6,279	0.27%
<b>Total Market</b>	<b>9,744,418</b>	<b>1,405,491</b>	<b>14.42%</b>	<b>135,135</b>	<b>1.39%</b>

**INDUSTRIAL ABSORPTION IN SQUARE FEET**

Orem	303,823
Provo	389,301
Utah County North	-49,867
Utah County South	-198,085
<b>Overall</b>	<b>445,172</b>

- Xlear
- US Synthetics
- Blendtec
- Novatak
- Universal Industrial Sales

**Industrial:** Similar to trends in office and retail sectors, tenants are moving into the higher quality space to take advantage of the market conditions. Lease rates vary widely between \$0.22 and \$0.71 depending on quality and flexibility of the space. The average rate is slightly higher than a year ago but the low end has fallen some. Older, less efficient warehouse buildings struggle to retain occupants. A shortage of high quality space is forcing some growing companies to build, primarily in the high cube distribution type space.

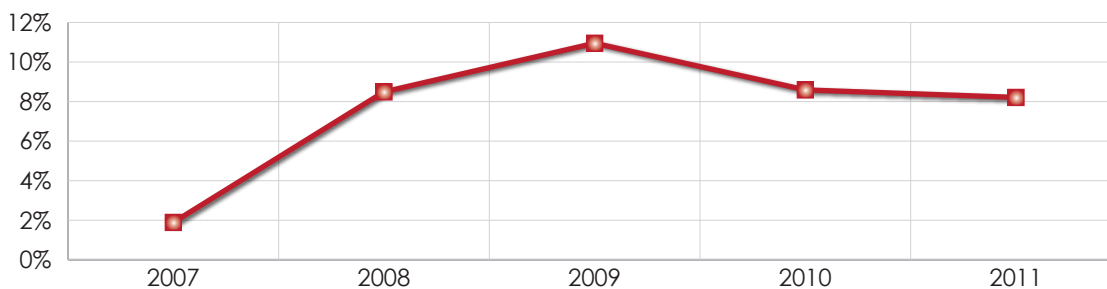
The manufacturing sector did not see a lot of leasing activity in 2011. Most manufacturing buildings in the county are owner occupied. A number of companies either expanded or built new facilities and include:

- A.C. Label
- Shelf Reliance

Generally, sales are off from normal values, however non-distressed properties are selling at near 2008 rates. The market is unpredictable and pricing depends on the distress of the asset and quality of the facility.

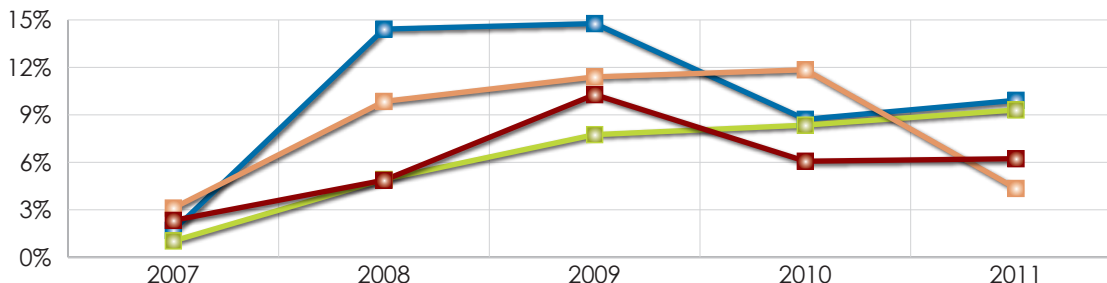
The Anderson Geneva Development / East Lake Business Park is shovel ready as of 2011. This is the largest urban renewal project in the United States today with 1,700 acres for mixed use development, adding 600 acres for industrial development in Northern Utah County. The Utah Department of Transportation has just completed the right-of-way purchase for the Vineyard Connector through the property that will create a new east/west thoroughfare from the communities to the west to I-15. Utah Valley University also purchased 100 acres in the middle of the development for a campus expansion. By the end of 2012, we anticipate several large national tenants to sign deals of the 20-25 acre size within the industrial area.

**OVERALL INDUSTRIAL VACANCY - FIVE YEAR HISTORY**



	2007	2008	2009	2010	2011
<b>Overall</b>	1.89%	8.49%	10.95%	8.59%	8.21%

INDUSTRIAL VACANCY BY TYPE – FIVE YEAR HISTORY



	2007	2008	2009	2010	2011
Orem	2.33%	4.87%	10.28%	6.07%	6.23%
Provo	3.11%	9.85%	11.40%	11.85%	4.35%
Utah County North	1.03%	4.92%	7.75%	8.35%	9.31%
Utah County South	1.70%	14.42%	14.77%	8.72%	9.92%

RETAIL ABSORPTION IN SQUARE FEET

Orem	307,765
Provo	-31,741
Utah County North	56,114
Utah County South	10,451
Anchorless Strip	113,130
Neighborhood Center	170,823
Community Center	13,867
Mall Space	44,769
<b>Overall</b>	<b>342,589</b>

**Retail:** Overall, the retail sector is weathering the economy and heavy road construction in the county. Leasing activity is high and retail sales are up from last year. Retail sales of properties valued at \$1 million or more were 2% higher this year. The market also experienced a 14% increase in leasing activity in the last quarter vs. last year. Average lease rates

have decreased by 25-30% from \$16 per sf NNN to \$13 per sf NNN. Single tenant NNN buildings are in the highest demand with very little investment activity in the multi-tenant inline centers.

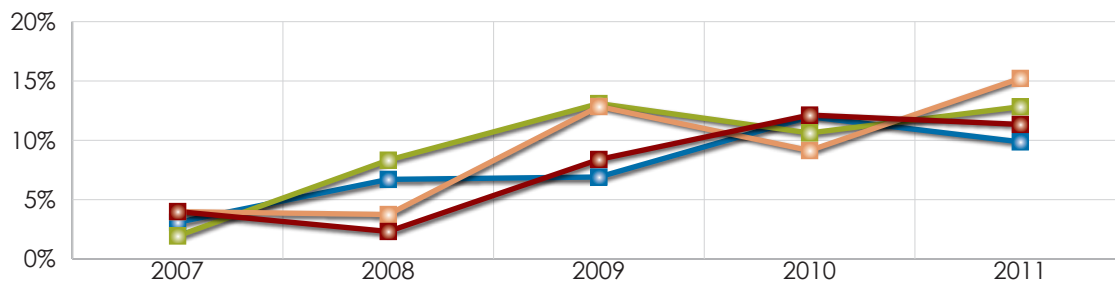
University Mall and The Meadows have seen higher lease rates and less vacancy (<5%) due to many national tenants taking advantage of the high foot traffic. Nordstrom has announced it is pulling out of University Mall leaving Macy's and Sports Authority as the only remaining anchor tenants. North Lehi, including the Thanksgiving Point area, continues to be underdeveloped in the retail sector. We expect significant retail development in the upcoming year(s). Anchorless strip malls and free-standing buildings are fairing the poorest with vacancies at 21.83%.

Retail construction trends include heavily pre-leased buildings with an anchor tenant and outside pads. Most are primarily build-to-suit for strong credit tenants.

**RETAIL MARKET OVERVIEW – FOURTH QUARTER 2011**

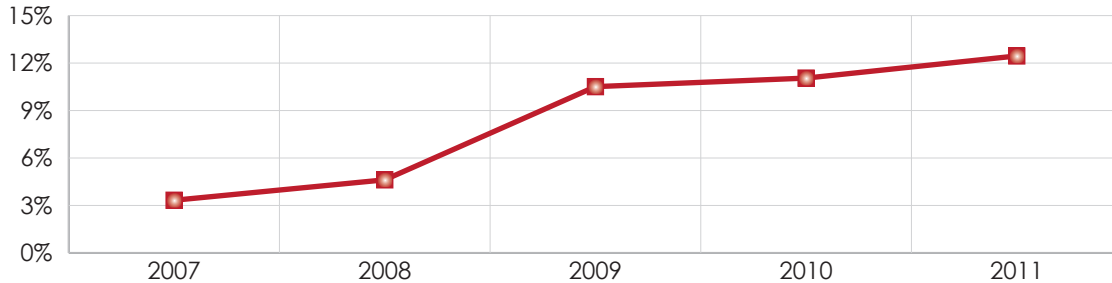
Sector	Total SF	Available SF	Vacancy
Orem	4,579,343	519,108	11.34%
Provo	2,300,236	350,120	15.22%
Utah County North	3,140,374	402,798	12.83%
Utah County South	929,519	91,730	9.87%
<b>Total</b>	<b>10,949,472</b>	<b>1,363,756</b>	<b>12.45%</b>
Type	Total SF	Available SF	Vacancy
Anchorless Strip	2,414,851	527,274	21.83%
Neighborhood Center	2,279,564	257,623	11.30%
Community Center	4,078,714	434,034	10.64%
Mall Space	2,176,343	144,825	6.65%
<b>Total</b>	<b>10,949,472</b>	<b>1,363,756</b>	<b>12.45%</b>

**RETAIL VACANCY BY SECTOR – FIVE YEAR HISTORY**



	2007	2008	2009	2010	2011
<b>Orem</b>	4.00%	2.32%	8.39%	12.13%	11.34%
<b>Provo</b>	3.99%	3.75%	12.85%	9.14%	15.22%
<b>Utah County North</b>	1.94%	8.33%	13.10%	10.62%	12.83%
<b>Utah County South</b>	3.09%	6.71%	6.91%	11.99%	9.87%

OVERALL RETAIL VACANCY - FIVE YEAR HISTORY



	2007	2008	2009	2010	2011
<b>Overall</b>	3.33%	4.62%	10.51%	11.05%	12.45%

MARKET FORECAST

Expect to see vacancy drop and lease rates firming up through 2012. The pendulum is gradually swinging toward the middle from tenant-driven deals to more favorable landlord terms. By the second half of 2012, we expect landlords to begin increasing rates as space becomes scarcer. Retail lease rates will remain low with tenant improvements and concessions still driving the deals.

Regionally, we will experience increased growth with a new Costco and WinCo coming online. The county line between Utah and Salt Lake Counties will continue to blur as employers look to locate closer to the workforces in both counties.

Overall, Utah County is coming out of the recession. This coming year will present opportunities for developers to address the lack of quality office and warehouse space. Vacancy will level out, but lease rates will remain soft.