MARKET TRENDS

- The St. George commercial real estate market explored the depths this year, and started making its way back up. The first half of 2010 appeared to be bumping along the bottom. Since mid-year, however, the market has come off the bottom in most sectors and shown signs of strengthening. Developers have lost their appetite for constructing speculative properties, with limited new construction aimed at known tenants. This trend is expected to continue through 2011 as existing inventory is steadily absorbed.

MARKET FORECAST

- We expect the industrial sector to continue to improve. In addition to the Lighthouse and Czarnowski projects, several significant transactions are in the pipeline; expect to see more inquiries. Positive absorption and lease rates will continue to improve. If there are good enough levels through the first half of 2011, new construction will come back into the market. Until inventory decreases and prices on existing space rise, it will continue to be cheaper in most cases to purchase a building than to construct a new one.

- Rising confidence will fuel more activity in the retail market in the coming year. We have passed the stage where transactions are made up mostly of bargain hunters and into a time where companies are beginning to make strategic plans on how to move forward. In the coming year, retailers that weathered the storm will be ready and willing to get back to business.

- Although 2010 ended with a small up-tick in unemployment, several announcements will help that come down gradually. We expect local companies to slowly but steadily begin hiring again, supporting the office sector. The recovery will be slow, but much smarter and more sustainable than the explosive growth that triggered the recession. This careful approach may find us in a situation where we have a lot of demand for office space and little supply in the next two to three years.

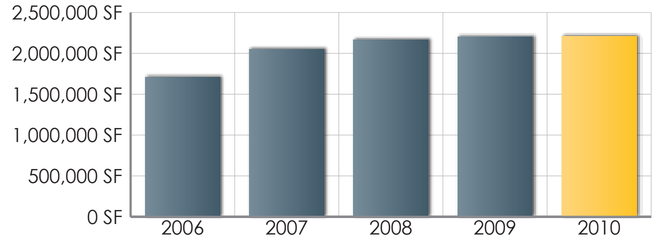
OFFICE MARKET

- The office sector does not appear to have hit bottom yet. Vacancies rose from 14.2 percent at mid-year to 15.2 percent at the end of 2010. The asking lease rate has continued to experience downward pressure. The rate of decline has slowed from the first of the year but has not turned the corner yet.
- Low rates continued to fuel a migration of quality tenants from Class B and C buildings to Class A space. Landlords are offering incentives such as low and free rent and some tenant improvements, but overall they are being very careful with their cash and often opting to sign short-term agreements instead.
- The number one factor that weighed on the office market was the unemployment rate, which increased in the most recent report and continues to affect this sector's ability to recover.
- Most transactions in the investment sector were purchases of cash flow properties. Investors wanted projects with an immediate return, and were not interested in buy-and-hold opportunities. Much of the focus has centered on bank owned properties and those priced at a discount, yielding a significant cash-on-cash return.
- The mean asking lease rate is down slightly from $0.83 per square foot NNN at mid-year 2010 to $0.80 per square foot NNN at year-end 2010.
- Construction remains at a near standstill with only 10,000 square feet under construction.
- Strong tenants are moving from Class C to B and from Class B to A.
- Shorter lease terms are more prevalent due to landlord concerns with the lease market and tenant uncertainty with the economy.

OFFICE MARKET INDICATORS

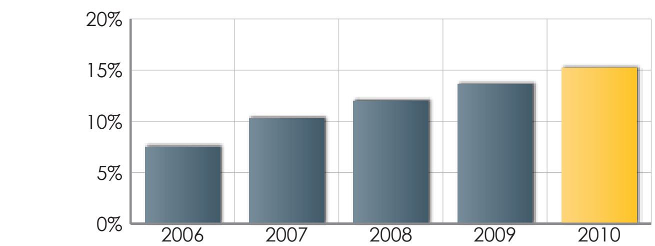
Total Inventory (SF)	2,211,724
Lease Rates PSF	$5.40 – $14.20 NNN
Vacancy	15.2%
Cap Rate	8.5% – 10.5%
Land Values PSF	$6.00 – $14.00
Under Construction	10,000 SF

OFFICE MARKET TOTAL INVENTORY - FIVE YEAR HISTORY



	2006	2007	2008	2009	2010
Sq. Ft.	1,710,000	2,048,000	2,165,164	2,203,924	2,211,724

OFFICE VACANCY RATES - FIVE YEAR HISTORY



	2006	2007	2008	2009	2010
Vacancy	7.5%	10.3%	12.0%	13.6%	15.2%

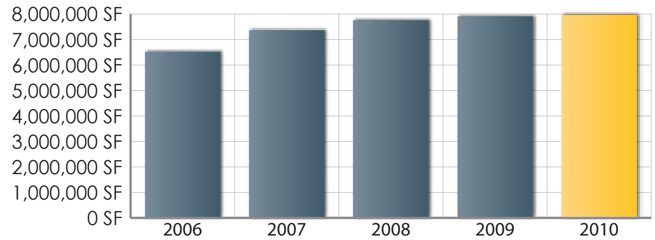
INDUSTRIAL MARKET

- The year 2010 ended with positive absorption in the industrial sector and it feels like we have finally turned the corner. The federal government made SBA loans extremely attractive, which resulted in a quadrupling of this type of financing in 2010 versus 2009. The blended vacancy rate fell from 16 percent at mid-year to 14.5 percent, which is very encouraging.
- Several significant deals were announced during the year. Lighthouse Foods secured property on which they will build a new facility that will bring over 150 jobs to the county. In December, Czarnowski Display Services, a Chicago-based exhibit and event group, announced it will invest over $6.5 million to develop a new production and distribution facility in St. George that will employ 50 new full-time staff, as well as 25-40 temporary seasonal employees. They have under contract a 95,000 square foot building in the Ft. Pierce Industrial Park, making it the largest industrial deal in Washington County done in over three years. The multi-tenant space did a little better during 2010, although lease rates did not gain any ground. Cash-strapped landlords were unable to offer many tenant improvements, settling on shorter term agreements instead. There was an increase in bank-owned property offerings, which has added pressure to both pricing and lease rates. As a result of these conditions, asset appraisals continue to come in lower helping the market to reset at a faster pace.
- The Washington County vacancy rate dropped by 1.5 percent during the last two quarters.
- National companies are starting to move on lower priced inventory, with groups like Litehouse Foods purchasing 88,000 square feet.
- Additional large purchases are expected to close in the first quarter of 2011.
- Lease rates seem to have slowed their descent with the low hovering at $3.00.
- Leasing activity should see continued improvement through 2011 as a result of lower lease rates.

INDUSTRIAL MARKET INDICATORS

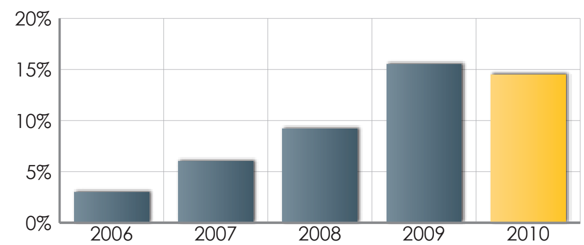
Total Inventory (SF)	7,953,268
Lease Rates PSF	$3.00 – $8.40 NNN
Vacancy	14.5%
Cap Rate	8.5% – 10.5%
Land Values PSF	$2.25 – $4.50
Under Construction	35,312 SF

INDUSTRIAL MARKET TOTAL INVENTORY - FIVE YEAR HISTORY



	2006	2007	2008	2009	2010
Sq. Ft.	6,500,000	7,340,000	7,738,000	7,893,444	7,953,268

INDUSTRIAL VACANCY RATES - FIVE YEAR HISTORY



	2006	2007	2008	2009	2010
Vacancy	3.0%	6.0%	9.2%	15.51%	14.5%

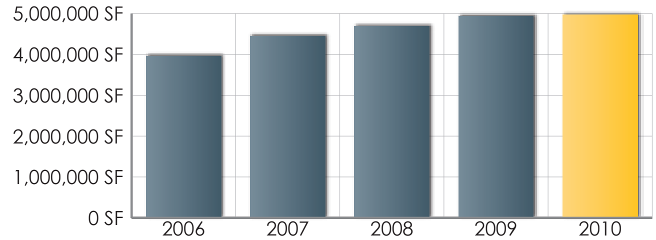
RETAIL MARKET

- Retail vacancies hit bottom this year and have now started to improve. At mid-year the vacancy rate hit 12.84 percent. By the end of 2010, it had dropped to 11.7 percent, which was near the same in 2009 year-end.
- While there was no speculative development in retail, there was a limited amount of new construction. The Red Rock Commons project will take the place of Settlers RV Park on River Road, just off St. George Blvd. Two major tenant agreements for Dick's Sporting Goods and PetSmart are already in place with others expected to follow. McDonalds and Chase Bank are also completing new locations on Telegraph Street in Washington.
- The Washington County retail market has started to recover with the overall vacancy rates declining by over one percentage point in the past six months to 11.67 percent.
- Anchor tenant properties continue to outperform anchorless properties, enjoying both significantly higher lease rates and substantially lower vacancy rates.
- During the latter half of 2010, new construction of nearly 100,000 square feet of anchored retail space at Red Rock Commons began.
- National tenants have experienced a renewed interest in the Washington County retail market. This is expected to continue as the overall economy strengthens statewide and throughout the nation.

RETAIL MARKET INDICATORS

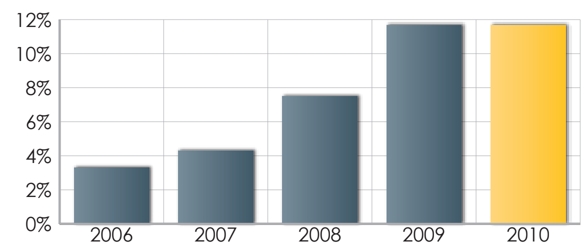
Total Inventory (SF)	4,964,556
Lease Rates PSF	$8.20 – $24.00
Vacancy	11.67%
Cap Rate	8.5% – 10.5%
Land Values PSF	$9.00 – $24.00

RETAIL MARKET TOTAL INVENTORY - FIVE YEAR HISTORY



	2006	2007	2008	2009	2010
Sq. Ft.	3,955,000	4,440,000	4,690,000	4,933,839	4,964,556

RETAIL VACANCY RATES - FIVE YEAR HISTORY



	2006	2007	2008	2009	2010
Vacancy	3.3%	4.3%	7.5%	11.66%	11.67%