

Washington County is showing strong signs of confidence in the economy, particularly in the retail and industrial sectors. The office market remained sluggish in 2011 with most of the activity in the form of tenants taking advantage of the low lease rates and moving up to higher quality space.

**Office:** The office market remained relatively flat through 2011. Mid-year vacancy rose from 15.2% to 15.5% and then dropped to 15.4% by year-end. The flight to quality space continues as tenants migrate from Class C to B space and from Class B to A space. This growing vacancy in Class C contributed to significant price declines in this class, bringing down the mean asking lease rate from \$9.38 per square foot (sf) at midyear to \$7.92 per sf. Class A asking lease rates, for the most part, remained unchanged.

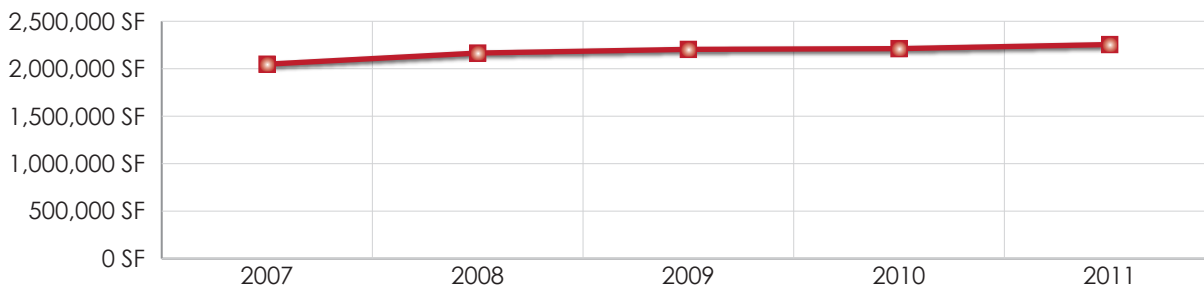
**OFFICE MARKET INDICATORS**

Total Inventory (SF)	2,254,724
Lease Rates PSF	\$5.40 - \$14.40 NNN
Vacancy	15.40%
Cap Rate	8.5% - 10.5%
Land Values PSF	\$6.00 - \$14.00
Under Construction	17,170 SF

St. George remains the center of activity for the county with the Central Business District and comparatively higher lease rates. The outlying areas are struggling to attract and retain tenants. In 2011, much like the previous two years, there were few first generation space leases. This is the result of ample second generation space available on the market and the gap that exists between current asking lease rates and a landlord's ability to profitably build out and lease first generation space.

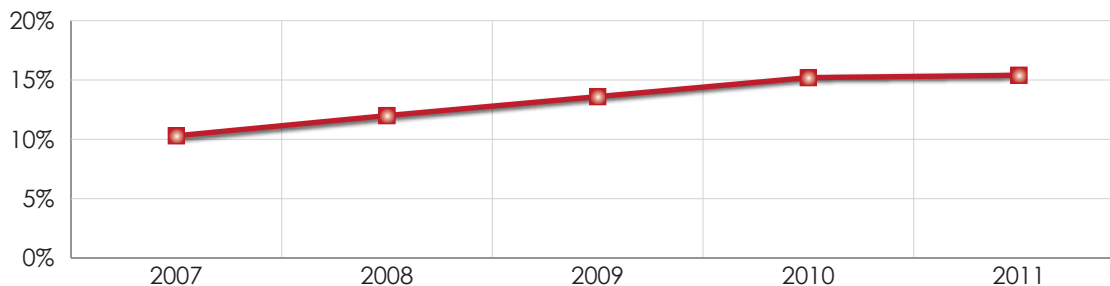
**MARKET TRENDS**

**OFFICE MARKET TOTAL INVENTORY – FIVE YEAR HISTORY**



	2007	2008	2009	2010	2011
<b>Square Feet</b>	2,048,000	2,165,164	2,203,924	2,211,724	2,254,724

**OFFICE VACANCY RATES – FIVE YEAR HISTORY**



	2007	2008	2009	2010	2011
<b>Vacancy</b>	10.3%	12.0%	13.6%	15.2%	15.4%

**INDUSTRIAL MARKET INDICATORS**

Total Inventory (SF)	7,983,264
Lease Rates PSF	\$3.00-\$6.00 NNN
Vacancy	9.50%
Cap Rate	8.5%-10.5%
Land Values PSF	\$2.00 - \$4.50
Under Construction	0

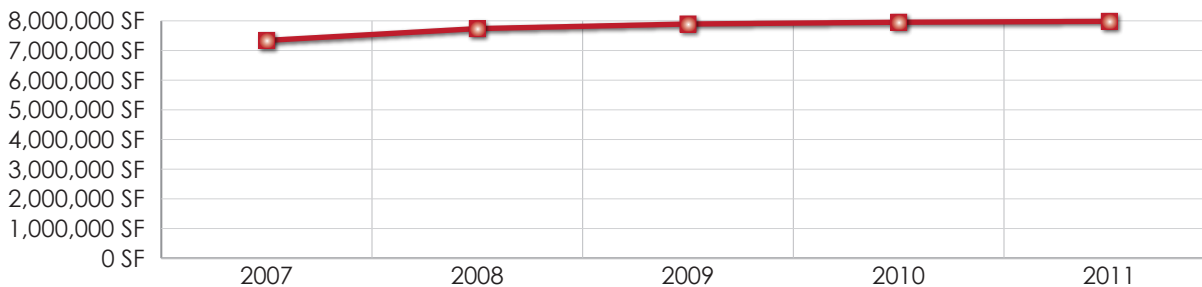
manufacturing companies are finding some success in the marketplace. The high-quality product in this size is nearly all leased within St. George proper and is starting to push absorption up in the surrounding industrial parks.

Large block space, over 50,000 sf, comprises approximately 290,000 sf of available space with only one available above 60,000 contiguous sf. One or two large leases or purchases will further tighten the market for these properties.

**Industrial:** The industrial sector in Washington County continues to enjoy success. The absorption rate in 2011 climbed to 5.29% with the small blocks of space, under 10,000 sf, contributing significantly to this rate during the second half of 2011, along with the lease of a 59,000 sf warehouse in St. George. Local contractors and small

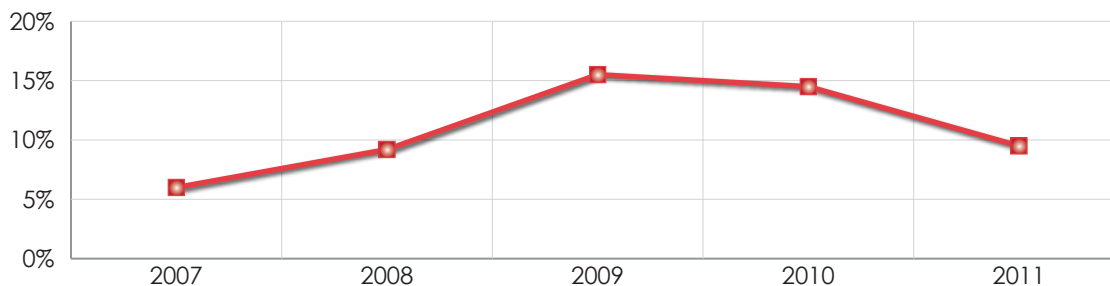
Only one significant building was newly constructed this year for an owner occupant, Cox Trucking, which relocated to a 30,000 sf facility in Ft. Pierce. As with the retail space, if absorption continues at the same pace as 2011, the industrial market will be out of product in a little under two years.

**INDUSTRIAL MARKET TOTAL INVENTORY – FIVE YEAR HISTORY**



	2007	2008	2009	2010	2011
<b>Square Feet</b>	7,340,000	7,738,000	7,893,444	7,953,268	7,983,264

**INDUSTRIAL VACANCY RATES – FIVE YEAR HISTORY**



	2007	2008	2009	2010	2011
<b>Vacancy</b>	6.0%	9.2%	15.51%	14.5%	10.24%

**RETAIL MARKET INDICATORS**

Total Inventory (SF)	5,068,035
Lease Rates PSF	\$8.20-\$24.00
Vacancy	9.01%
Cap Rate	8.5%-10.5%
Land Values PSF	\$7.25-\$24.00
Under Construction	10,000 SF

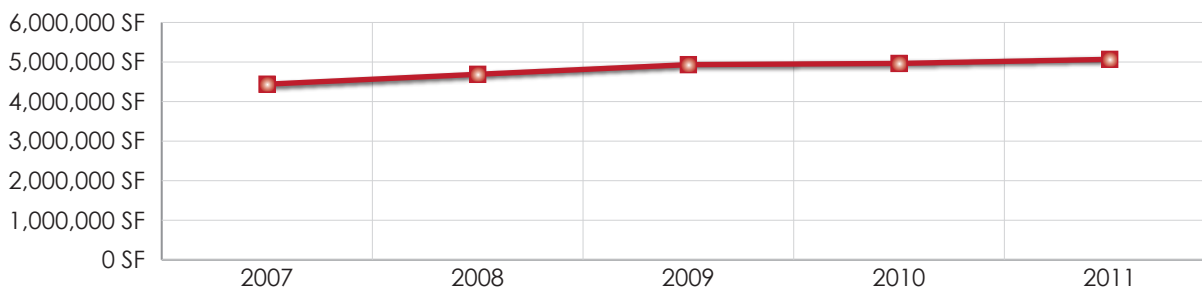
The large variance in lease rates is indicative of the flight to quality trend where Class A space is leasing as high as \$31 per sf down to \$6 per sf for less desirable space.

The I-15 corridor from St. George to Washington City continues to be the prime retail location, attracting national stores and restaurants. Red Rock Commons leased space in the past year to Dick’s Sporting Goods, PetSmart, Ulta, Old Navy, Gap Outlet and Chick-fil-A.

**Retail:** Retail is one of the bright spots in the Washington County commercial real estate market. This sector enjoyed solid positive absorption starting the year at 11.7%, falling to 10.6% mid-year and down to 9.01% by year-end. This 4.47% absorption rate includes the addition of 104,000 sf this quarter of the eventual 137,000 sf at the Red Rock Commons.

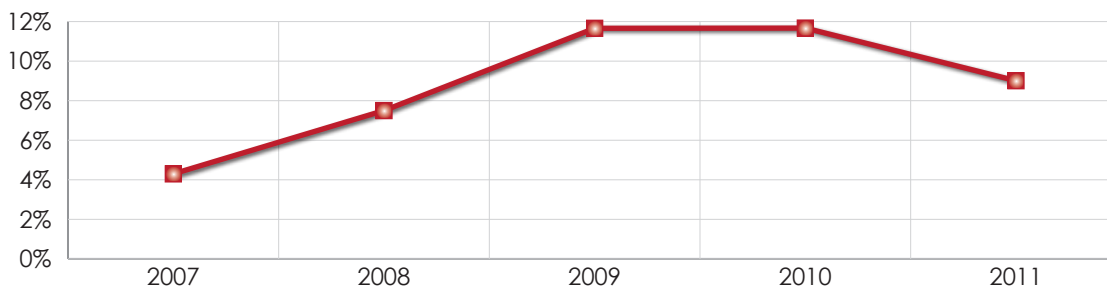
One trend to note: if absorption continues at the same pace as 2011, or 226,525 sf per year, with no additional vacant space added, the Washington market will be out of retail space in two years.

**RETAIL MARKET TOTAL INVENTORY – FIVE YEAR HISTORY**



	2007	2008	2009	2010	2011
<b>Square Feet</b>	4,440,000	4,690,000	4,933,839	4,964,556	5,068,035

**RETAIL VACANCY RATES – FIVE YEAR HISTORY**



	2007	2008	2009	2010	2011
<b>Vacancy</b>	4.3%	7.5%	11.66%	11.67%	9.01%

## MARKET FORECAST

Barring a bump in the road in the national economy the first half of 2012, expect positive momentum created this past year to continue forward in 2012. Washington County will continue to be a strong pocket market showing resiliency in comparison to some of its regional counterparts. Class A space across the sectors will continue to outpace its Class B and C counterparts in both absorption and rising lease rates.

With the office market near or at the bottom in 2011, expect to see vacancy decreasing moderately through 2012. Medical office continues to be the strongest category of office and the trend is expected to continue.

The retail sector will continue to see solid positive absorption through 2012. As the scarcity of prime retail space increases, expect new major retail projects to be announced, also anticipate lease rates to rise with anchored centers as the prime beneficiaries. The residential market in the county continues its recovery, adding additional rooftops to be served.

Industrial will play out much the same as the retail market. Positive absorption, rising lease rates, and some speculative construction will be the topic of 2012. Anticipate further absorption of the large block space over 50,000 sf with an increase in inquiries from large national tenants bringing some build-to-suit projects in 2012.