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2012 Outlook Positive for Commercial Real Estate

Overall, Utah's commercial real estate market had a positive 2011. Throughout the year markets statewide fluctuated with the economy and presented significant opportunities for both buyers and sellers. These opportunities led to an increase in transactions and have created a feeling of cautious optimism throughout the commercial real estate industry. Owners, tenants and agents are looking forward to 2012 as the economy continues to recover.

A prevailing sentiment throughout the market is that there are deals to be had for both owners and tenants in all areas. Low interest rates have made new construction or purchases more feasible for owners and investors, while lease rates remain reasonable for tenants.

Some of the common trends throughout the industry are:

- Utah's economy is strong and has created an ideal environment for buyers, sellers, and tenants in all areas.
- Tenants are acting on favorable lease rate opportunities and moving to higher quality space.
- All segments of commercial real estate will see moderate growth in 2012.

Office Market Outlook

Looking forward to 2012, experts are predicting a continued soft office marketplace. "We have seen significant activity in the central business district for owner occupied and/or single use buildings," says NAI West Vice President and office leasing and investment specialist Jack Woodward. "Current indicators are showing that lease rates and sales prices are slightly lower than year end 2010. We have also seen a corresponding drop in vacancy rates for 2011," he continued. Owners should see an increase in leasing activity as tenants continue to take advantage of soft market conditions.

Commercial brokers are also expecting to see positive absorption of office space. With Utah's pro-business culture and strong economy, available space should decrease through 2012. Woodward used northern Utah County as an example of the positive direction of the office market, stating "Several buildings in the area have been leased before construction is completed."

Retail Market Outlook

The retail real estate market has a very positive outlook for 2012. Vacancy rates dropped in 2011, and are expected to continue to decline in 2012. Grocery stores and other retailers are following population



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growth and seeking new locations in Utah's high growth areas. A number of regional and national retailers established Utah locations in 2011 and many more are planned for the coming year.

"We expect to see a lot of repositioning in 2012. Store closures have slowed and vacancy rates are predicted to fall 10 to 20 percent," says Mountain West Retail/Investment Principal Chris Hatch. This decrease in rates is a function of nominal new construction in the area, he added.

Hatch is also predicting a strong 2012 for retail investments. "Real estate investment trusts and institutional buyers continue to search our market for core investment opportunities with stable growth and upside."

Industrial Market Outlook

The next 12 months should look very similar to 2011 for Utah's industrial real estate market and should see slight increases in activity. There are a number of projects that will come to market in 2012 that may give Utah a slightly negative net absorption, but overall vacancies will remain low.

Commercial brokers and experts are predicting a continued flight to quality as tenants find opportunities in class A and class B properties with favorable rents. CAM fees are up and owners that can find ways to keep operating expenses lower will have a better opportunity to retain tenants.

Jeff Heaton, NAI West Vice President and industrial properties specialist, sees no indication of lease rates or property values decreasing and remains optimistic about Utah's industrial market. "Utah has all the fundamentals for a positive industrial market. We are experiencing population growth, have an educated work force, low cost of living and a proactive, business friendly government that are all combining to improve the marketplace," says Heaton.

Investment and Multi-Family Market Outlook

Investment and multi-family indicators show a very positive outlook for 2012 and this should remain one of the most robust segments in the industry. Both owners and sellers will have significant opportunities in the next 12 months as the market is experiencing increased occupancy levels (94-95%), with attendant market rent increases.

"In 2012 an additional 4,200 multi-family units are scheduled to be added in Salt Lake County alone. Despite the increase in units, occupancy rates should remain above 90 percent," says Greg Ratliff, NAI West Broker and investment and multi-family specialist. "Demand for quality rental housing will continue to increase and we expect to see these additional units absorbed quickly." This upward trend



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in occupancy, combined with the reemergence of available debt with low interest rates, continues to make multi-family an attractive investment opportunity.

Additionally, Ratliff says, these trends are creating favorable opportunities for sellers who are able to trade at lower income capitalization rates than the previous two years due to the availability of debt to qualified investors.

Summary

Overall, Utah continues to have one of the healthiest commercial real estate markets in the country. “We expect that 2012 will be a solid year for commercial real estate,” said Lloyd Allen, SVP and Business Director at NAI WEST. Quoting *Investment Trends Quarterly* Allen said, “...Despite the investment losses taken in real estate during the past few years, it is still a relatively stable investment compared to the volatility of the stock market and the potential is there for reasonable returns.’ I expect 2012 to be fairly stable and even provide solid returns, particularly from retail, multi-family and industrial properties. In the brokerage community, we anticipate moderate growth in transaction volume and see 2012 as a good time for an astute client to do profitable real estate transactions.”

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NAI West was founded in Salt Lake City, Utah in 1998 as a full service commercial real estate brokerage. It has since grown to include property management, property maintenance and business acquisition services. In 2010 NAI West was recognized as the number one commercial real estate brokerage by Utah Business Magazine and the number one property management firm by the Enterprise Newspaper.