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## ***Consolidated Asset Management, Inc.***

The following is Consolidated Asset Management's Newsletter for Mid-Year 2008. An overview of the Phoenix Economy, Single and Multi-Family Housing and The Phoenix Office Market are reproduced for your consideration.

### **ECONOMIC OVERVIEW**

The Phoenix Metropolitan Area has historically been an area of strong population growth, employment growth and low unemployment rates. The strengths of the economy are still in force despite the slow down experienced by the nation and the Phoenix Metropolitan Area.

The United States Census Bureau ranks Phoenix as the second largest city in the west after Los Angeles, California and the fifth largest city in the United States in terms of population. With a land area of 515 square miles Phoenix often ranks low among population density statistics. Between 2000 and 2006 the City of Phoenix was the fastest growing city in percentage terms.

The U.S. Census Bureau expects the Phoenix-Mesa-Scottsdale Metropolitan to have a population of 4,179,429 in 2007. According to Moody's | Economy.com the region added approximately 60,000 new jobs and 109,800 new residents in 2007.

Preliminary April 2008 unemployment figures released by the Department of Labor state the nation's unemployment rate at 4.6%, while the Phoenix Metropolitan Area is experiencing only a 3.2% unemployment rate. This puts the Phoenix-Mesa-Scottsdale metropolitan area ranking 5<sup>th</sup> for the lowest unemployment rate among large metropolitan areas.

The cost of living in the Phoenix region continues to be attractive. The median house price in 2007 was \$257,400 compared to \$589,200 in Los Angeles and \$386,900 in Seattle which rank as the 1<sup>st</sup> and 3<sup>rd</sup> largest city on the west coast, respectively. Additionally, utilities, healthcare, apparel and services and miscellaneous goods rank below the national average, helping contribute to a lower cost of living enjoyed by area residents.

### **COST OF LIVING (U.S. AVERAGE = 100.0)**

<b>Region</b>	<b>Average</b>
Composite Index:	101
Housing:	104
Grocery Items:	102
Utilities:	99
Transportation:	102
Health Care:	94
Education:	101
Apparel and Services:	88

Region	Average
Miscellaneous Goods:	98

Source: Expenditure data are derived from the 2004 and 2005 Consumer Expenditure Surveys, Bureau of Labor Statistics

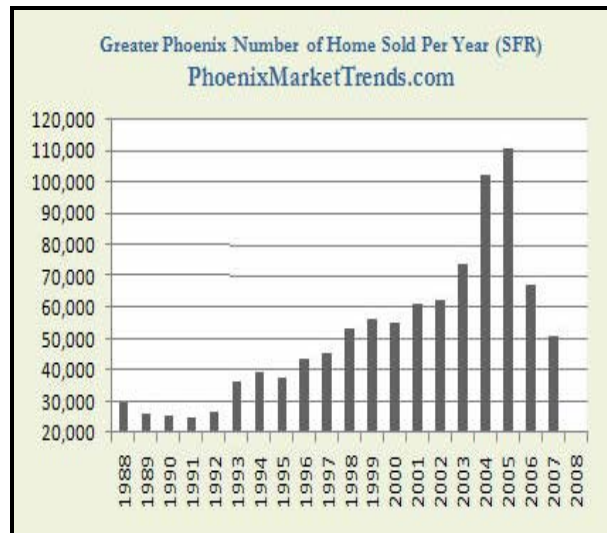
With continued population and employment growth coupled with a lower than average unemployment rate and affordable living, Phoenix remains a good place to live, work and do business.

### MULTI-FAMILY AND SINGLE HOUSING OVERVIEW

The Greater Phoenix Real Estate Market has seen the number of single-family home sales and the median price increase each year from 1988 through 2006. For the first time since 1988 the number of single family homes sales and the median price decreased in the Greater Phoenix market. In 2007 the single-family home sales totaled 78,305 with a median price of \$257,400 in the Greater Phoenix Market.

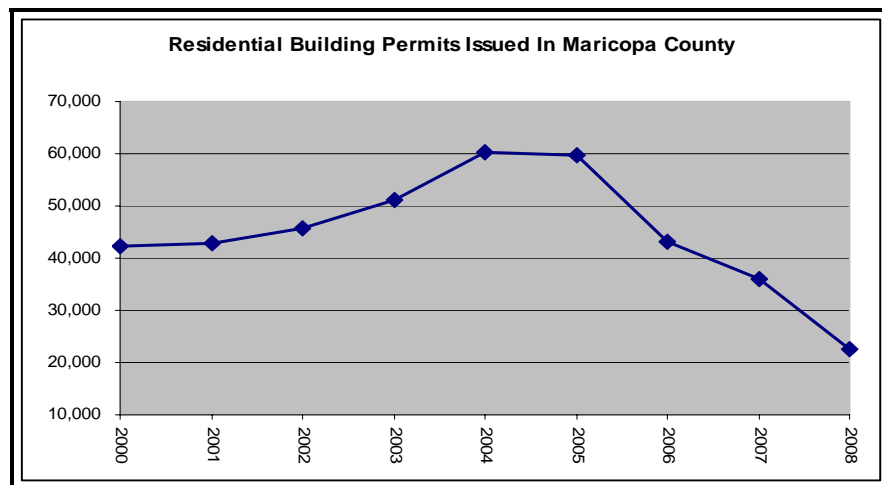


Source: Arizona State University Polytechnic Data



Source: Arizona State University Polytechnic Data

According to Arizona State University Realty Studies the number of residential building permits issued in Maricopa County increased each year from 2000 thru 2004, followed by a decrease each year thru the first quarter of 2008. The first quarter of 2008 Maricopa County issued 5,673 residential building permits, at this continued pace Maricopa County would issue a total of 22,692 residential permits in 2008. This represents a 37% decrease in the residential building permits of the 36,045 issued in 2007. The graph below represents the trend of residential building permits issued from 2000 thru 2008.



Source: Arizona State University Polytechnic Data  
\*2008 is annualized based on 1<sup>st</sup> quarter 2008 data

With the strong economic fundamentals the Greater Phoenix Area, the multi-family market in Phoenix remains solid, but recent vacancy rates have risen and lease-rate growth has not been as robust as seen in past years. The Phoenix Real Estate Market experienced a large number of speculative home buyers in 2005 and 2006, and a significant portion of these residences are now available on the market for lease. Additionally, several condo conversion projects have returned to the market as a “for lease” status. As a result of the increase in single-family homes on the market for lease and the increase market inventory from condo conversions renters in the Phoenix Market have more options than in previous years which have resulted in an increase in vacancy rates and concessions offered to secure leases.

According to a study by Real Data, Inc., the two categories of multi-family properties, the 50 to 99-unit sector and the 100 plus unit sector, are both recording a rise in vacancy and slower lease rate growth. The 50 to 99 unit sector has a 7.1% vacancy rate and is averaging \$666 per month rent. This rate markets an increase from the \$639 per month rent and a 5.5% vacancy rate from third quarter 2006. For projects over 100 units, the market vacancy rate is 9.1% (up from 6.8% at third quarter 2006) and average rental rates are at \$799 per month (up from \$784).

New developments in the Phoenix area continues, and according to RealData, Inc. there are just over 3,500 units currently under construction in the multi-family market at the end of the fourth quarter 2007. The North Tempe region is the most active with just over 900 units set to deliver.

## OFFICE MARKET OVERVIEW

The Phoenix Office Market ended the second quarter 2008 with a vacancy rate of 16.8%, an increase from the 15.7% vacancy rate in the first quarter. A total of 22 buildings were delivered to the market in the second quarter totaling 837,479 square feet, the net absorption for the Phoenix Office Market totaled a negative 119,009 square feet for the quarter. An additional 7,352,038 are still under construction at the end of the quarter. The average rental rate for the second quarter was \$26.20, a drop from the previous quarter’s rate.

The table below breaks down the historical vacancy rates for the greater phoenix market from 1980 through the first quarter of 2007.

**Table: Greater Phoenix Office Market**

Year	Inventory Square Feet	Occupied Space Square Feet	Vacancy Rate
1980	8,690,667	7,600,474	12.54%
1981	10,361,388	8,955,585	13.57%
1982	13,573,947	10,693,902	21.22%
1983	15,278,031	12,152,389	20.46%
1984	18,577,405	14,213,085	23.49%
1985	22,998,476	17,021,867	25.99%
1986	28,603,932	19,989,357	30.12%
1987	30,542,038	23,536,554	22.94%
1988	32,578,060	24,752,508	24.02%
1989	36,527,355	27,190,236	25.56%
1990	37,717,755	27,726,123	26.49%
1991	38,174,802	28,585,744	25.12%
1992	38,175,151	29,774,392	22.01%
1993	38,203,520	31,583,515	17.33%
1994	38,126,329	33,209,607	12.90%
1995	38,002,673	34,214,413	9.97%
1996	38,092,771	34,638,583	9.07%
1997	38,841,981	35,924,310	7.51%
1998	40,472,388	37,032,178	8.50%
1999	43,942,078	38,070,429	13.36%

## Mid-Year 2008

Year	Inventory Square Feet	Occupied Space Square Feet	Vacancy Rate
2000	47,511,703	41,487,655	12.68%
2001	51,417,585	42,198,848	17.93%
2002	54,896,256	43,012,678	21.65%
2003	56,244,915	43,959,880	21.84%
2004	57,820,701	44,964,477	22.23%
2005	58,499,876	47,402,720	18.97%
2006	60,084,777	50,662,857	15.68%
2007 Q 1	60,419,777	51,266,547	15.15%

Source: Arizona State University Polytechnic Data

Costar breaks down The Phoenix Office Market into eight submarkets. The table below breaks down the current status of each submarket at the end of the second quarter 2008.

### TOTAL OFFICE MARKET STATISTICS

Market	Existing Inventory		Vacancy		YTD Net Absorption	YTD Deliveries	Under Const SF	Quoted Rates
	# Blds	Total RBA	Total SF	Vac %				
Airport Area	399	13,471,768	1,600,996	11.9%	822,249	1,000,394	300,509	\$22.87
Central Corridor	541	21,286,257	2,837,328	13.3%	(74,782)	94,284	1,030,000	\$26.81
East Phoenix	784	19,152,791	2,923,119	15.3%	(27,693)	260,488	670,954	\$27.65
East Valley	1,797	22,496,025	4,005,476	17.8%	(231,403)	539,340	1,762,227	\$25.76
Northwest Phoenix	1,083	22,024,160	3,726,854	16.9%	(297,346)	200,888	828,614	\$23.60
Paradise Valley	396	7,346,148	1,089,657	14.8%	(198,058)	25,045	458,224	\$25.81
Scottsdale	1,343	27,279,903	4,920,535	18.0%	(46,346)	634,988	1,679,156	\$28.42
West Phoenix	701	8,728,134	1,943,402	22.3%	(53,487)	573,088	622,354	\$25.92
<b>Totals</b>	<b>7,044</b>	<b>141,785,186</b>	<b>23,047,367</b>	<b>16.3%</b>	<b>(106,866)</b>	<b>3,328,515</b>	<b>7,352,038</b>	<b>\$26.20</b>

Source: Costar 2<sup>nd</sup> Quarter 2008

Friday, July 25, 2008

## UA report: Arizona growth machine to rebound by 2010

Phoenix Business Journal - by [Cathy Luebke](#) Phoenix Business Journal

Arizona's economic recovery is expected to be slow over the next few years, but the growth machine should be accelerating again by mid-2010.

That's according to the latest issue of Arizona's Economy, published quarterly by the University of Arizona's Eller College of Management.

"All considered, the recovery is expected to be subdued and similar to the 'jobless recovery' following the last recession, when it felt as though the malaise would never end," the report concludes.

The report also offers some specific predictions that back up that view.

Personal income in the Phoenix area is expected to make a gain of only 2.9 percent this year, hitting \$152 billion, followed by 2.5 percent and 5.2 percent gains in the next two years. More significant jumps are forecast for 2011 (8.7 percent) and 2012 (10.6 percent).

Retail sales look to regain speed on a similar schedule. Sales are expected to remain flat in the next two years, inching up 1 percent to \$58 billion this year and 0.4 percent in 2009. The year 2010, however, is expected to see a 5.2 percent boost, followed by 8.1 percent and 9.5 percent leaps in 2011 and 2012, respectively. That targets Phoenix-area retail sales at \$72.5 billion by 2012.

Forecasters say new residential building permits will end 2008 down 43 percent at 21,856, then squeak ahead by 2 percent in 2009. An upward climb is expected again in 2010, with a 49 percent jump to 32,663. More jumps are forecast for 2011 (52 percent) and 2012 (30 percent) before growth softens in 2013 with a predicted 12 percent growth to 71,732 permits.

Nonfarm jobs are expected to decline by about 1 percent this year and next, to 1.88 million, then climb to 2.25 million by 2013, the report says.

July 11, 2008

## RECESSION, EMPLOYMENT AND THE APARTMENT INDUSTRY

The economic slowdown resulting from the credit market crisis and the deflating of the house price bubble has led many analysts to conclude that the U.S. may already be in a recession. Meanwhile, others argue that a recession is unlikely. For apartment industry professionals, however, the real question is whether or not it even matters. This issue of *Research Notes* reviews the connection between economic growth and job growth and finds a growing disconnect between “recessions” and job losses, with job losses continuing well past the beginning of an economic recovery. For the apartment industry, this means the job market, not the overall economic state, is the more relevant metric.

A look at recent history is informative. According to the National Bureau of Economic Research, the last recession was both brief (from March to November 2001) and shallow—it was one of the very few recessions in which the GDP didn’t fall for at least two consecutive quarters. Yet this was accompanied by the biggest two-year drop in the number of renters on record.

This was partly due to the increase in homeownership—an unprecedented occurrence during an economic downturn. But it was due even more to the fact that employment continued to fall for almost two years *after* the end of the recession. For the job market, this recession was neither short nor shallow; the cumulative job loss was almost as large as in the 1981-82 recession. Because job growth drives rental demand, the downturn in the apartment industry was similarly prolonged.

Regardless of whether the current downturn will be declared an official recession, the job market has already shown signs of erosion, with employment dipping for seven consecutive months (eight excluding government jobs). At a minimum, this is a cautionary sign.

### Jobs and Economic Growth

Broadly speaking, economic growth is positively correlated with employment, although the correlation is not perfect. Until recently, there was a clear macroeco-

nom pattern: employment lagged the overall economy throughout the cycle, but the economic and employment downturns were of similar magnitude and duration.

But this pattern has broken down. Recessions have become less frequent, shorter and shallower, but job market downturns have become longer.

The table below summarizes key aspects of postwar economic and employment cycles. The top half shows that the last two recessions (which began in July 1990

Recession Begins	Months Duration	Decline in GDP	
Nov 1948	11	-3.5%	
Jul 1953	10	-3.5%	
Aug 1957	8	-0.9%	
Apr 1960	10	-2.2%	
Dec 1969	11	-0.5%	
Nov 1973	16	-2.5%	
Jan 1980	6	-4.3%	
Jul 1981	16	-5.6%	
Jul 1990	8	-2.5%	
Mar 2001	8	-1.4%	
<b>Before 1990</b>	<b>11.0</b>	<b>-2.9%</b>	
<b>After 1990</b>	<b>8.0</b>	<b>-2.0%</b>	

Job Downturn Begins	Months Duration	Months to Prior Peak	Decline in Jobs
Sep 1948	13	9	-5.2%
Jul 1953	13	10	-3.4%
Apr 1954	14	10	-4.4%
Apr 1960	10	10	-2.3%
Mar 1970	8	10	-1.5%
Jul 1974	9	10	-2.8%
Mar 1980	4	6	-1.3%
Jul 1981	17	11	-3.1%
Jun 1990	11	21	-1.5%
Feb 2001	30	18	-2.0%
<b>Before 1990</b>	<b>11.0</b>	<b>9.5</b>	<b>-3.0%</b>
<b>After 1990</b>	<b>20.5</b>	<b>19.5</b>	<b>-1.8%</b>

*Source: Bureau of Labor Statistics; Bureau of Economic Analysis; National Bureau of Economic Research; NMHC.*

and March 2001) lasted eight months, noticeably shorter than the 10.4 months for all postwar recessions or the 11-month average for recessions prior to 1990. Similarly, the decline in GDP was smaller in the last two recessions.

The bottom half of the table shows the timing and extent of the job market downturns and recoveries. The most recent downturn stands out in sharpest relief: while the recession lasted just eight months, employment fell for 30 months, nearly twice as long as in any previous decline and almost four times as long as the recession itself. It took another 18 months to reach the prior employment peak, meaning that it took four years—from February 2001 to February 2005—to regain its pre-recession level.

To put this in perspective, by the time the economy began to recover (November 2001), 1.6 million jobs had been lost. After the recovery began, another 1.1 million jobs were lost in the subsequent 21 months. This was an unprecedented disconnect between economic growth and the job market.

The pattern was similar during the recovery from the 1990-91 recession. Although total employment fell for 11 months (not much different from the 8-month decline in the overall economy), it took another 21 months before jobs had rebounded to their previous peak—thereby earning the moniker the “jobless recovery.”

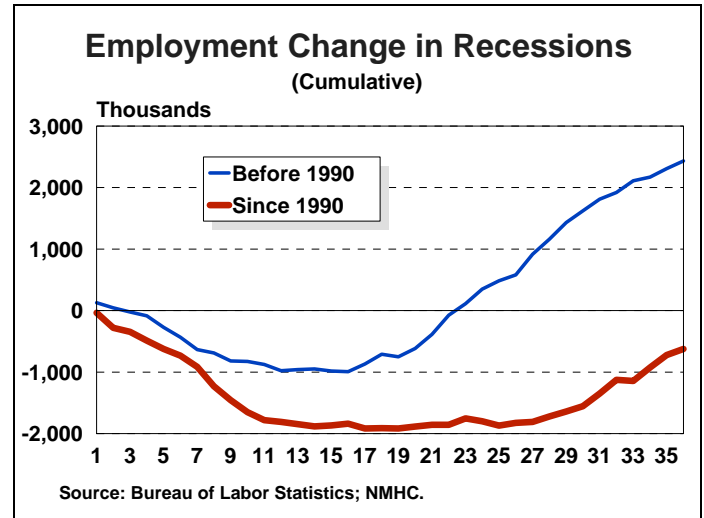
### Duration and Severity

One metric not shown in the table provides some additional insight: the number of months from when the job market peaks to when it recovers to that same level. In the job cycles prior to 1990, this averaged 21 months. In the last two cycles, however, it averaged 40 months, despite the fact that economic cycles were among the shortest and shallowest of the last six decades.

While the disconnect in duration between the downturns in the overall economy and slumps in employment is the clearest difference in recent decades, there is also a significant difference in severity, albeit in the opposite direction. Job losses are continuing well past economic recoveries, but the severity of labor market declines has diminished over time. As the table on page 1 shows, the average total decline in jobs in pre-1990 downturns was 3.0 percent, but it averaged just 1.8 percent in the last two downturns.

The chart to the right provides a summary view of the job market during economic downturns in the postwar era. Fewer jobs were lost, on average, in recessions prior to 1990 than has been the case since. In addition, the job market rebounded more quickly pre-1990.

While the trends are clear, economists have not yet determined the causes of this change. While some of the reduced severity of employment declines (the share of jobs lost from labor market peak to trough) can be explained by the reduced severity of economic downturns, this just makes the increased duration of labor market weakness more of a puzzle. Increased globalization and changing workforce strategies may be important, but more research is needed before we'll have a handle on this.



### Implications for the Apartment Industry

While no sustained job market decline has ever occurred absent a recession (indeed, a sustained job market decline is one of the deciding factors in identifying a recession), recent experience has shown that very weak labor markets can occur even when GDP doesn't fall much.

For that reason, the fact that GDP growth has not slipped into negative territory should be of little comfort to the apartment sector, considering that employment has fallen for seven straight months. Right now, there is no more important economic indicator for the apartment industry than the job market—not even possible signs of renewed turmoil in the credit markets.

Nonetheless, the industry is also the beneficiary of two trends that should mitigate the effects of even a moderate downturn: the reduced outflow of renters buying homes and demographics. While the former may only last until house prices start to appreciate again, the latter will be of longer duration. Therefore, although the short run may turn out to be challenging, the forecast after that continues to look bright.

Questions or comments on *Research Notes* should be directed to Mark Obrinsky, NMHC's Vice President of Research and Chief Economist, at [mobrinsky@nmhc.org](mailto:mobrinsky@nmhc.org) or 202/974-2329.