

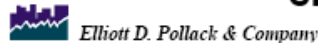


OUTLOOK 2011

Be Optimistic, But Not Too Optimistic

Presented to:
Economic Outlook 2011
September 8th, 2010

By:
Elliott Pollack
CEO, Elliott D. Pollack & Company



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ParaWest Management

7979 N. Hayden Rd., Suite D263
Scottsdale, AZ 85258
480.951.4872
ms@parawestmanagement.com

PARAWEST MANAGEMENT
Apartment Investment Specialists
Property & Asset Management, Acquisition/Disposition Consulting



Greater Phoenix economic fundamentals have not really changed (even with SB1070).

The long term economic outlook remains favorable.





Shorter Term Considerations:

- We will benefit from the U.S. recovery;
- Housing is very affordable again;
- Single family permitting is probably bottoming;
- Employment has probably bottomed;
- So has population;
- Consumer spending will be up a little;
- California is still a complete disaster;





Longer Term Considerations:

- People *will* start moving here again;
- We will again create jobs at a rapid pace as the local recovery takes hold;
- But, these will be lower quality jobs;
- We anticipate base industries will not grow as strongly;
- The jury is still out on whether state policymakers will help to turn this around.





Greater Phoenix Outlook Summary

<u>Subject</u>	<u>Good News</u>	<u>Bad News</u>
National economy	Recovering	Very slowly
Housing	At or past bottom	Still many negatives. No quick fix for population flows.
Commercial real estate	At or near bottom	Recovery will be slow and take a long time.
State government	Sales tax revenues no longer falling	Revenue growth too slow to fix problem soon.
Retail sales	Past bottom; pent up demand	Consumers' need to restructure balance sheet will prevent big recovery.



Greater Phoenix Forecast 2010 – 2011

<u>Indicator</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Population	0.9%	1.0%	2.0%
Employment	-7.8%	-1.0%	2.0%
Retail Sales	-10.6%	1.0%	8.0%
Building Permits	-41.0%	20.0%	50.0%

Source: *Elliott D. Pollack & Company*

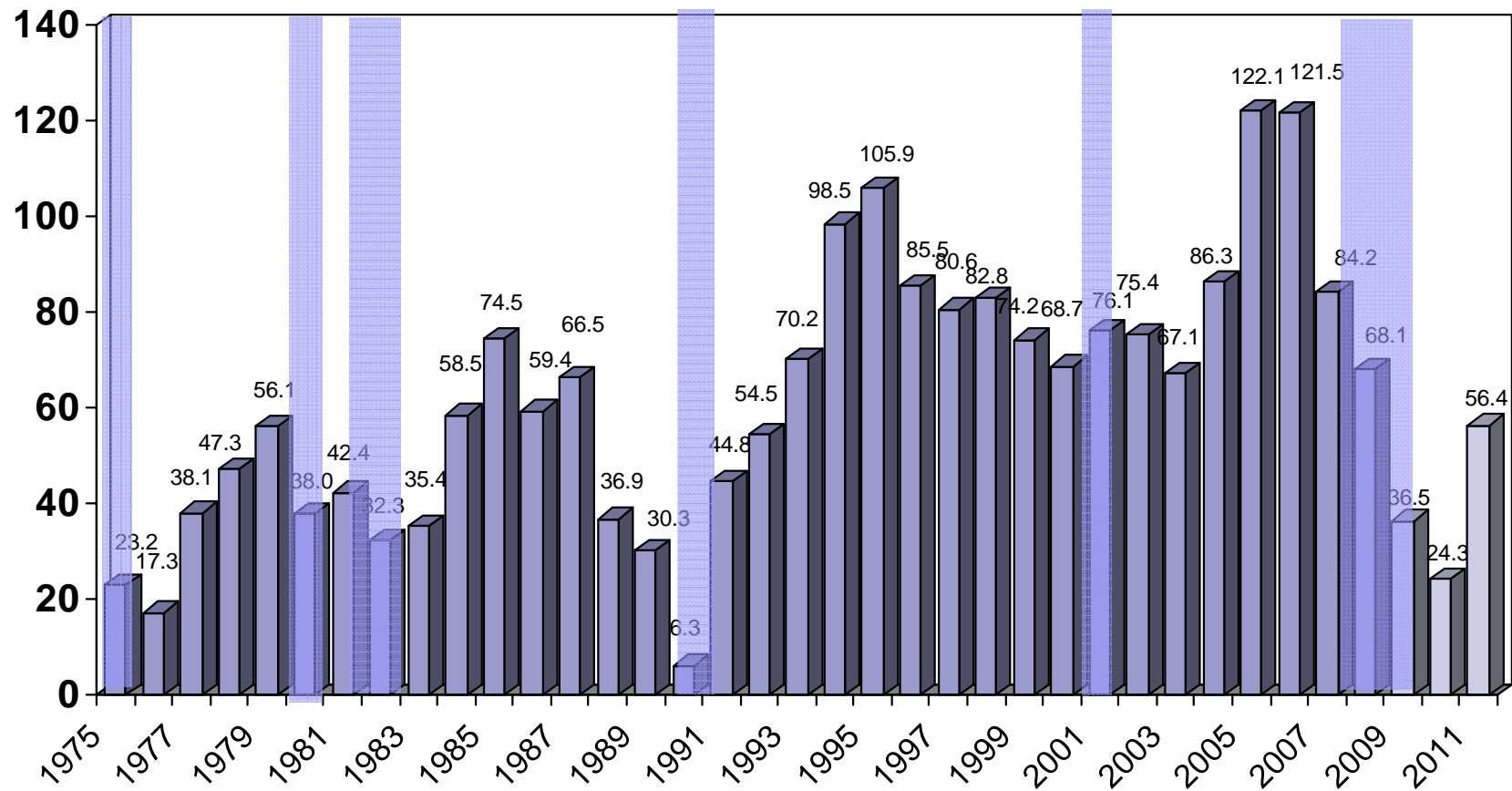


Elliott D. Pollack & Company

Greater Phoenix Net Migration 1975–2011

Source: University of Arizona

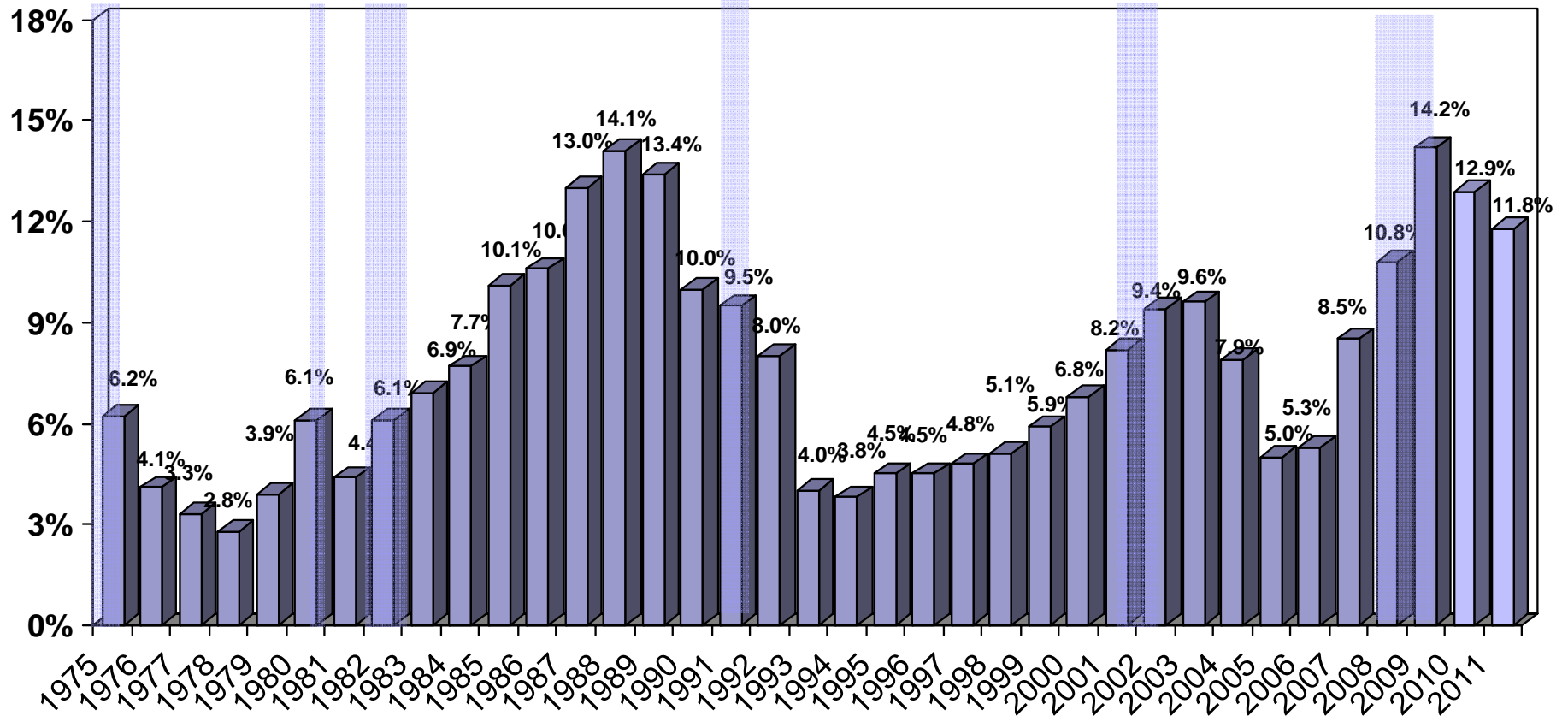
Recession Periods



Multi-Family Year-End Vacancy Rates Maricopa County 1986–2011*

Source: ASU Realty Studies

 Recession Periods



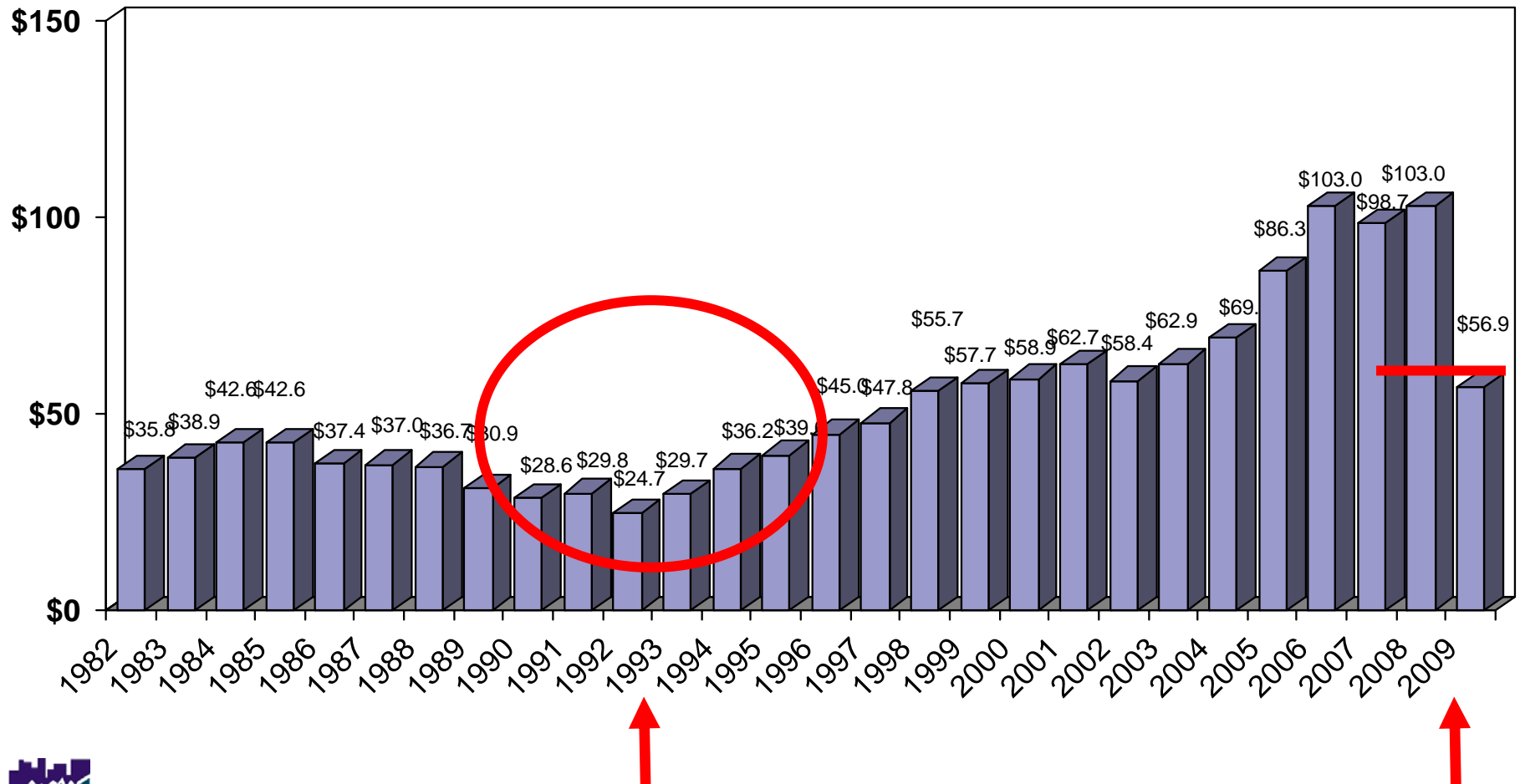
*2010 -2011 are forecasts from the Greater Phoenix Blue Chip





Apartment Sales: Price per Square Foot Maricopa County 1982–2009

Source: Kammrath & Associates





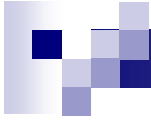
Multi-Family Construction Activity

Source: PMHS

	<u>Absorption</u>	<u>Chg in Inventory*</u>
2005	4,756	(5,169)
2006	(4,653)	(3,828)
2007	(5,846)	4,979
2008	(4,466)	3,234
2009	(5,319)	6,831
2010 q2_{ytd}	10,221	3,171

*There were 19,949 condo conversion in the Greater Phoenix area from q1 2005 through q4 2009.



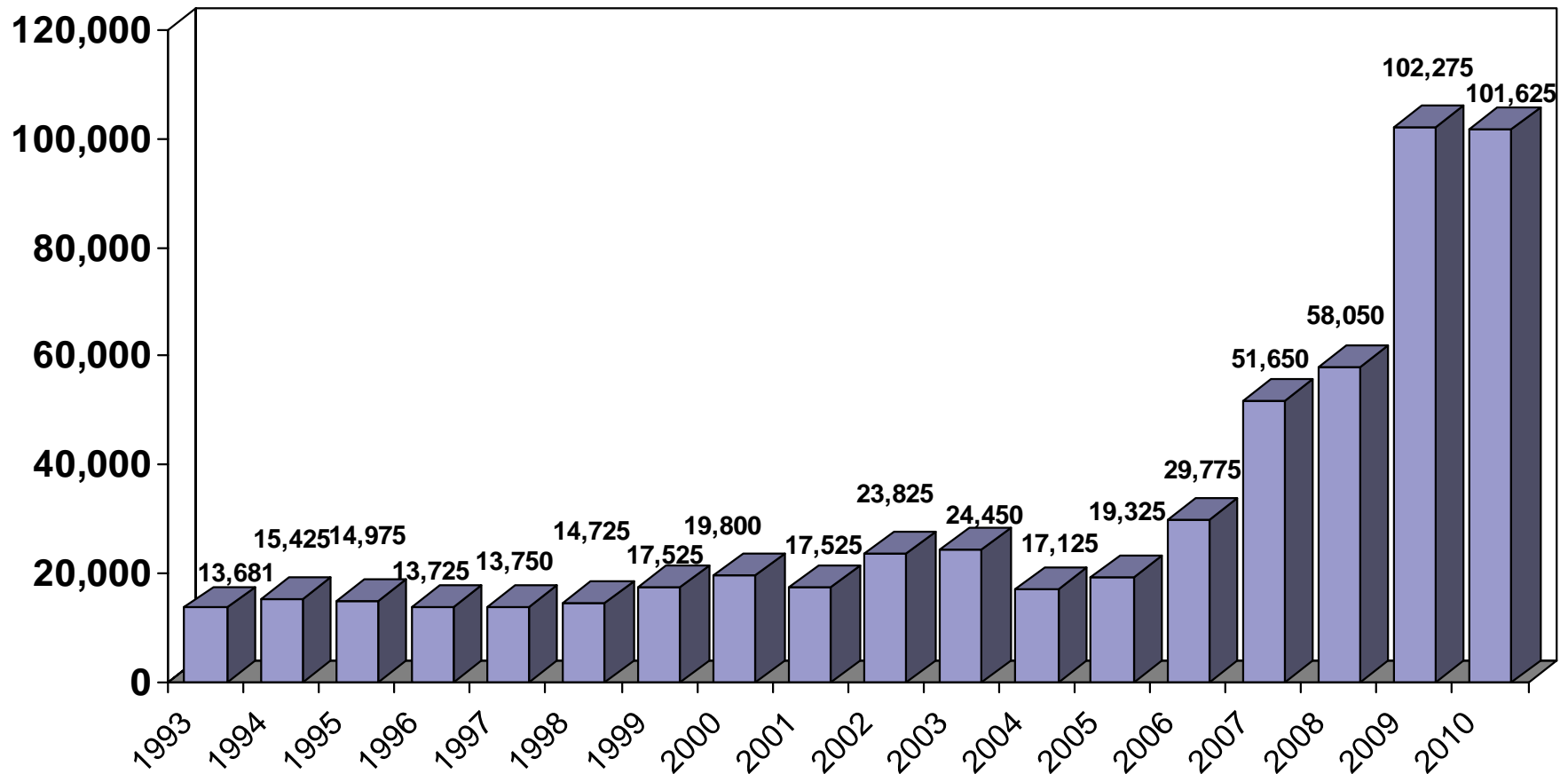


**There are currently
293 multi-family units under
construction (q2 10).**



Single-Family Vacant Units Greater Phoenix 1993–2010q2

Source: PMHS

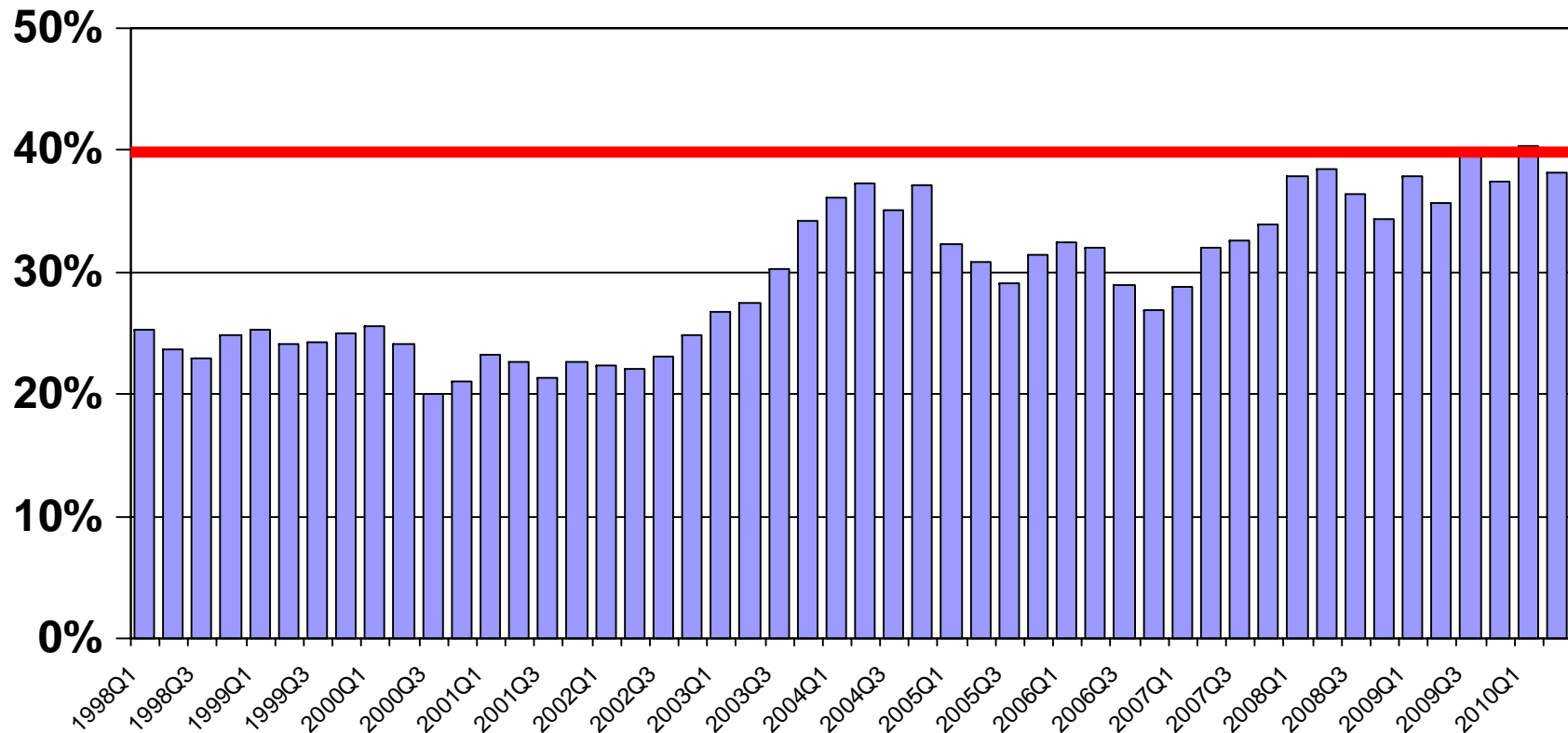


Investors: 40% Market?

Percent of Non-Owner Occupied Sales of Total Sales

Greater Phoenix

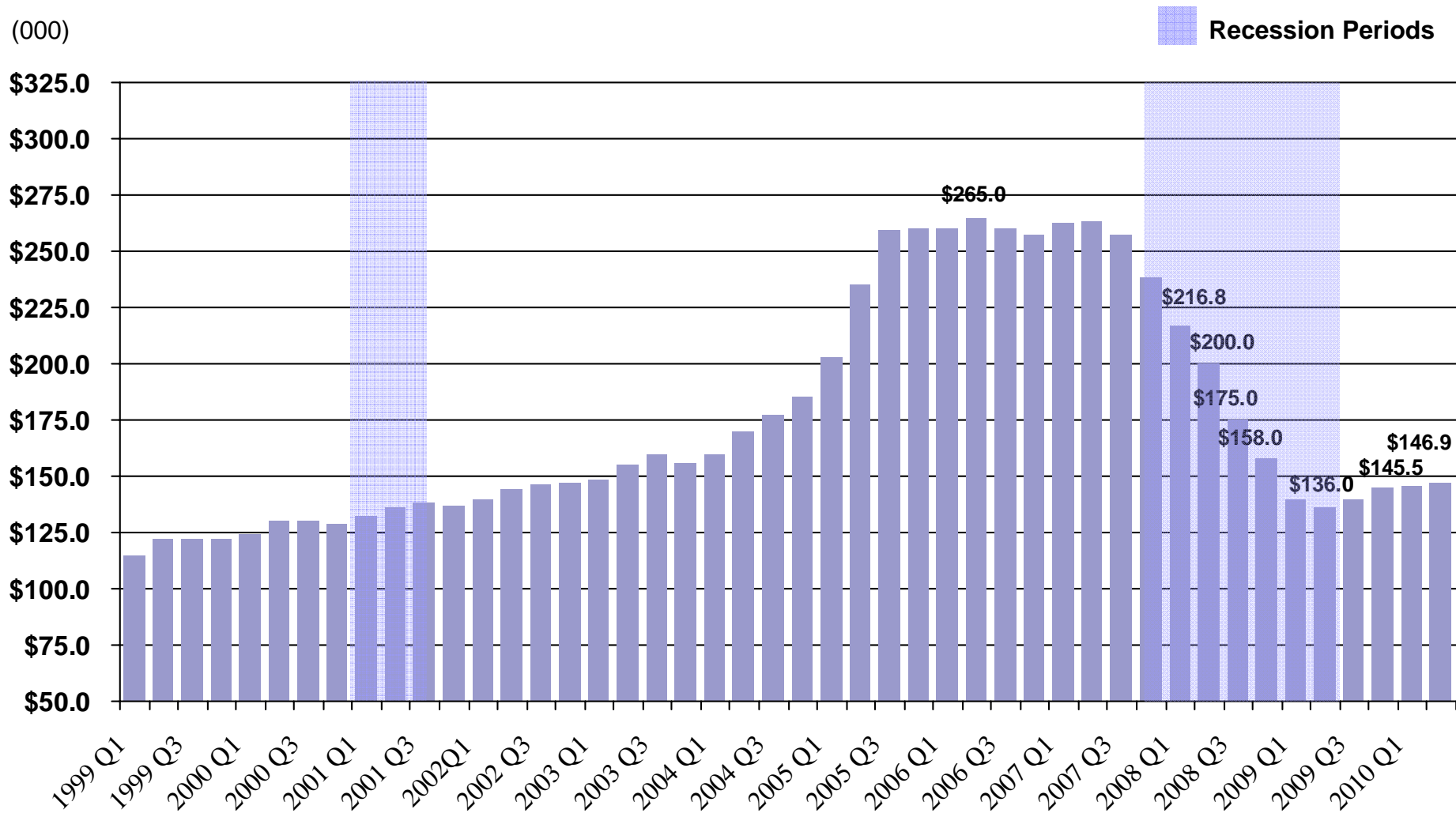
Source: DataQuick



Greater Phoenix Median Price of Single Family Homes - Resale

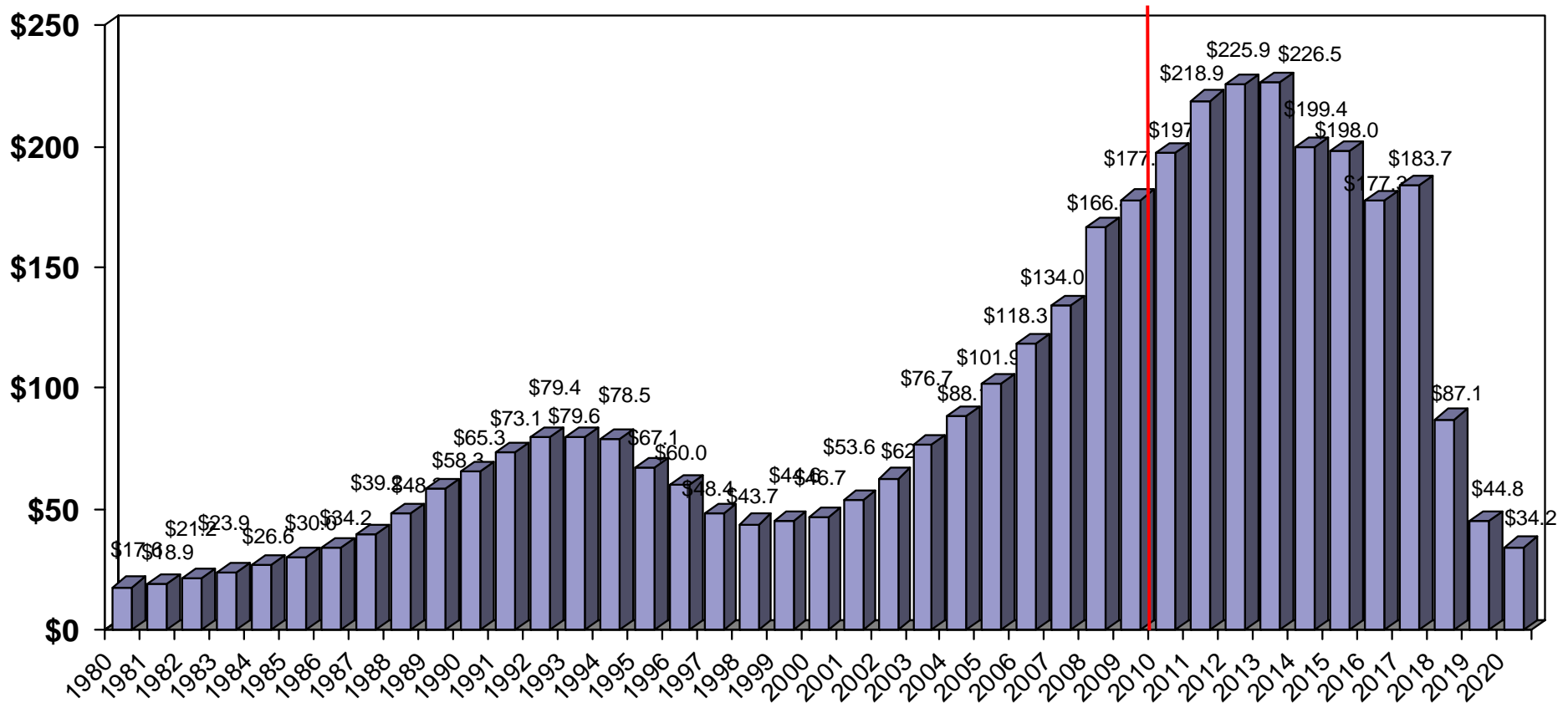
1982 – 2010*

Source: Realty Studies



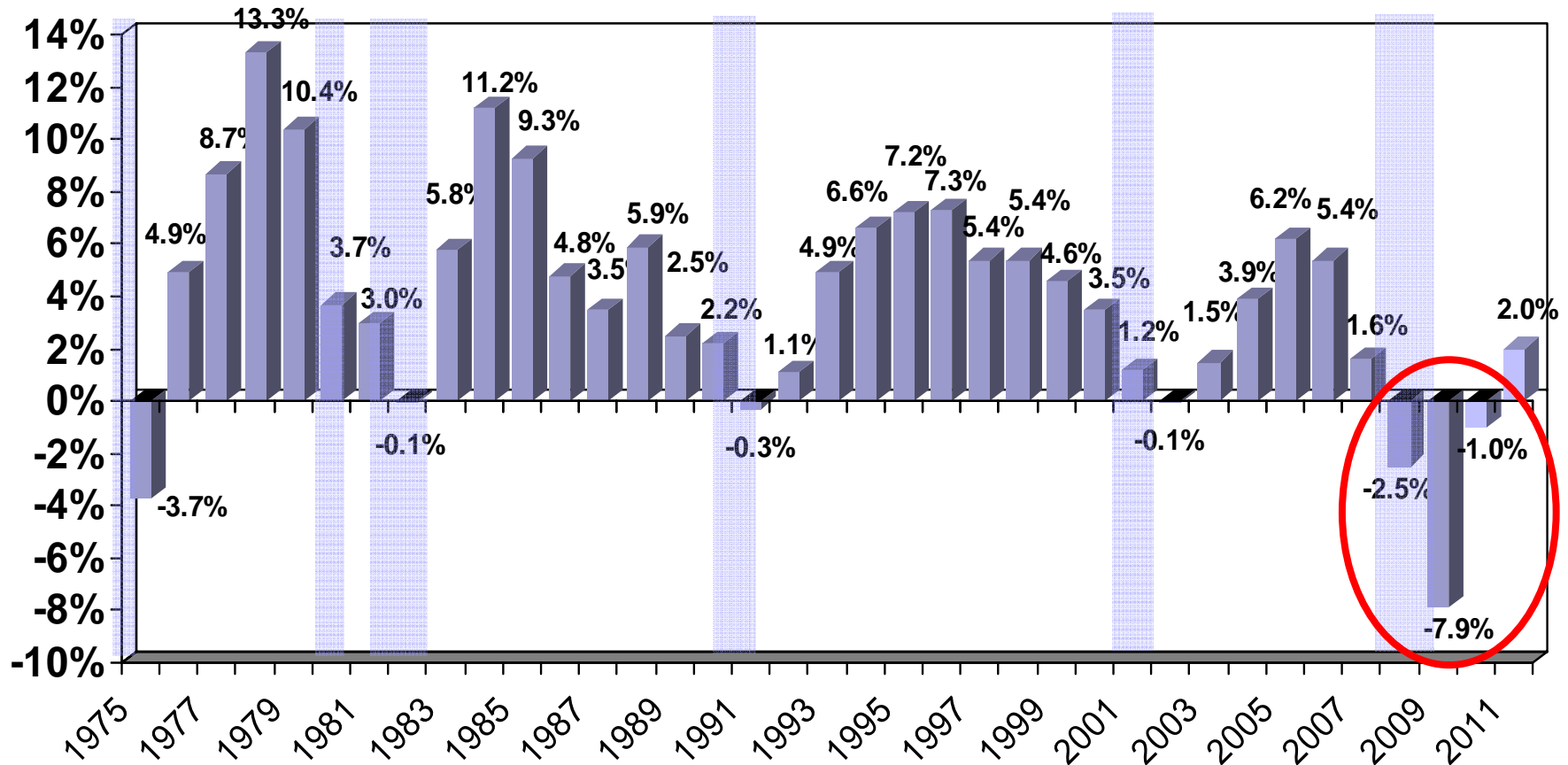
Commercial¹ Mortgage Maturities 1980–2020*

Source: Foresight Analytics



Greater Phoenix Employment* Annual Percent Change 1975–2011**

Source: Department of Commerce, Research Administration



*Non-agricultural wage & salary employment. Changed from SIC to NAICS reporting in 1990.

** 2010 & 2011 forecasts are from *Elliott D. Pollack & Co.*

 Recession Periods

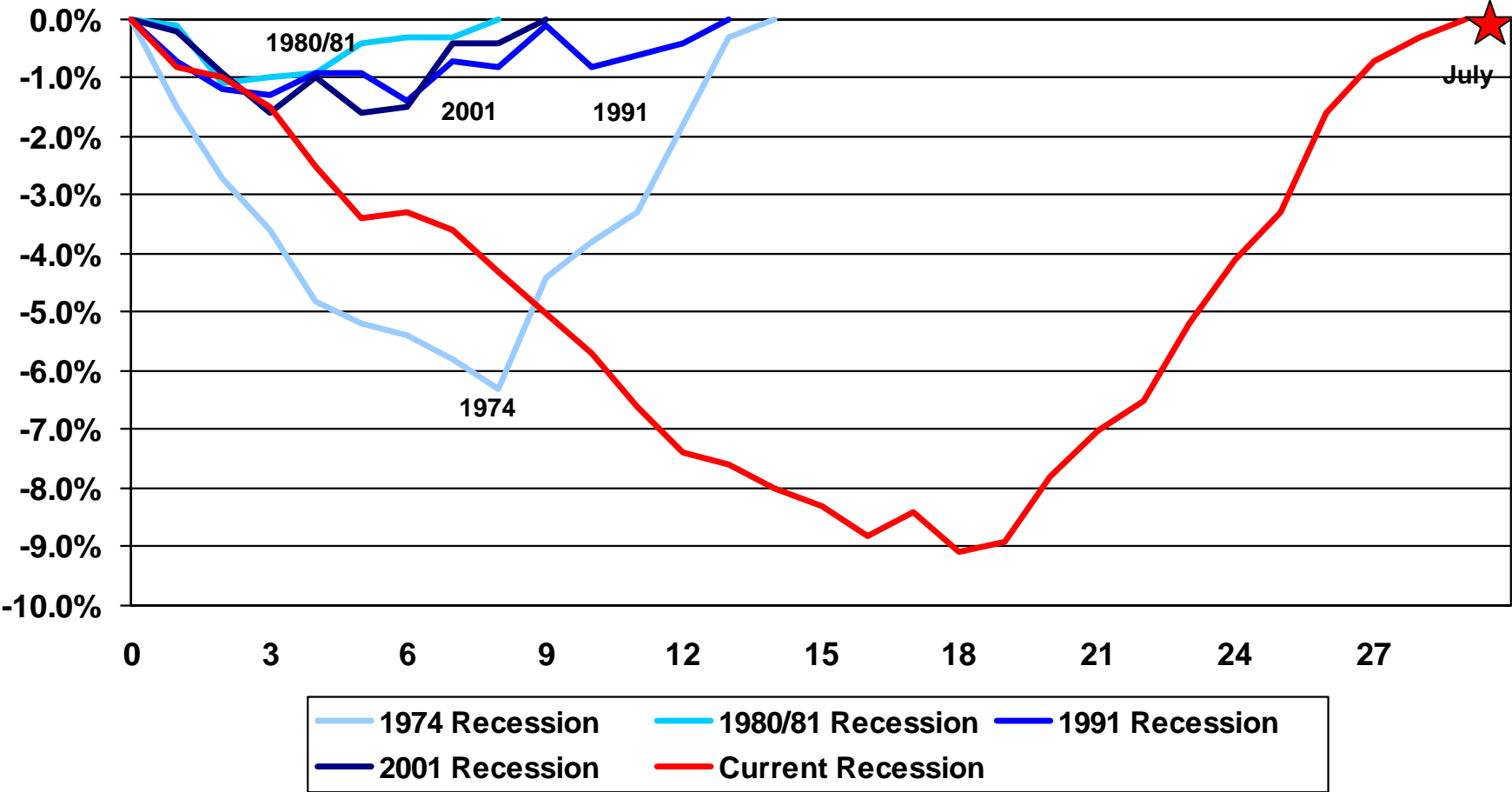


Elliott D. Pollack & Company



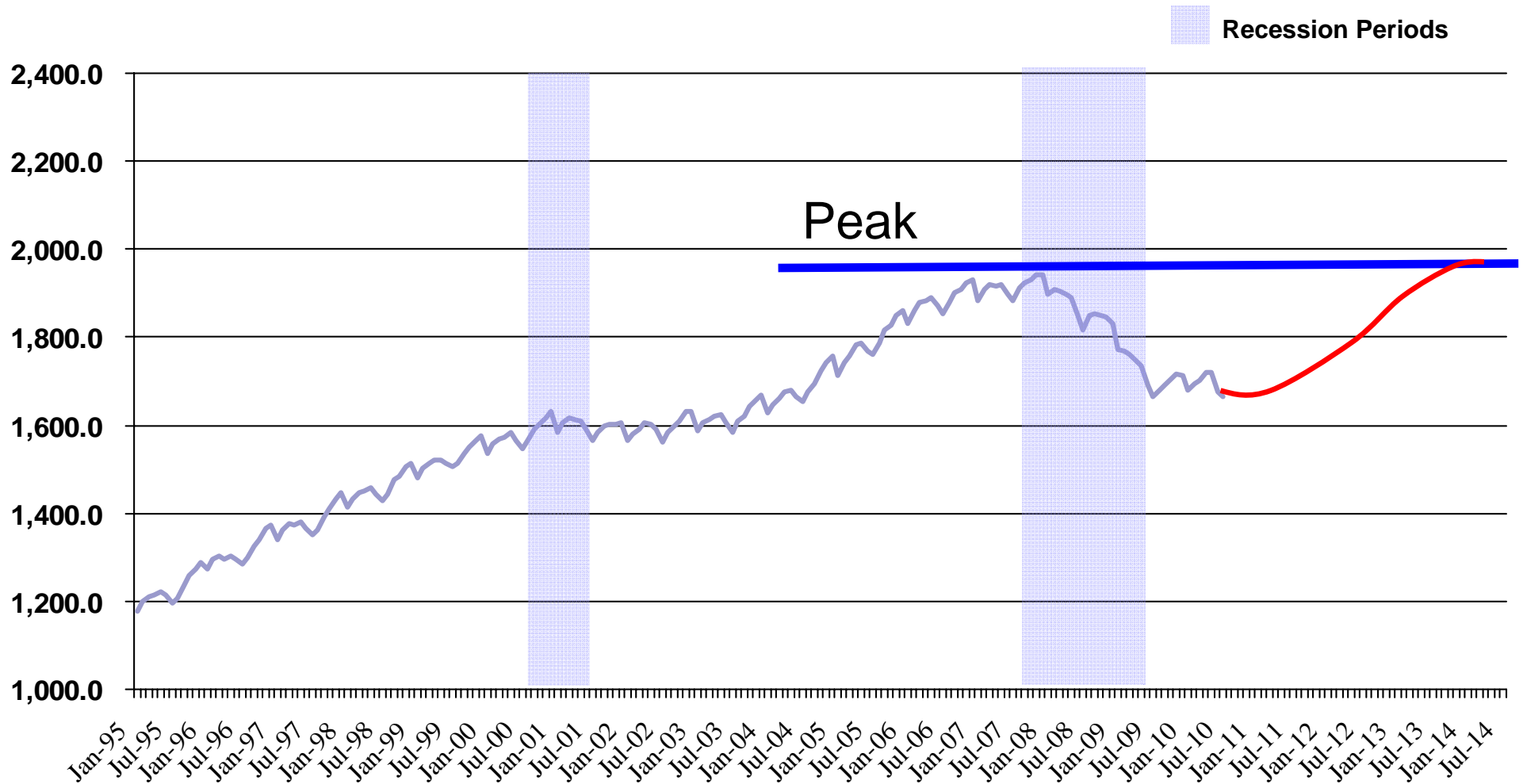
Greater Phoenix Y/Y Job Losses - Recent Recessions

Duration in Months - BLS



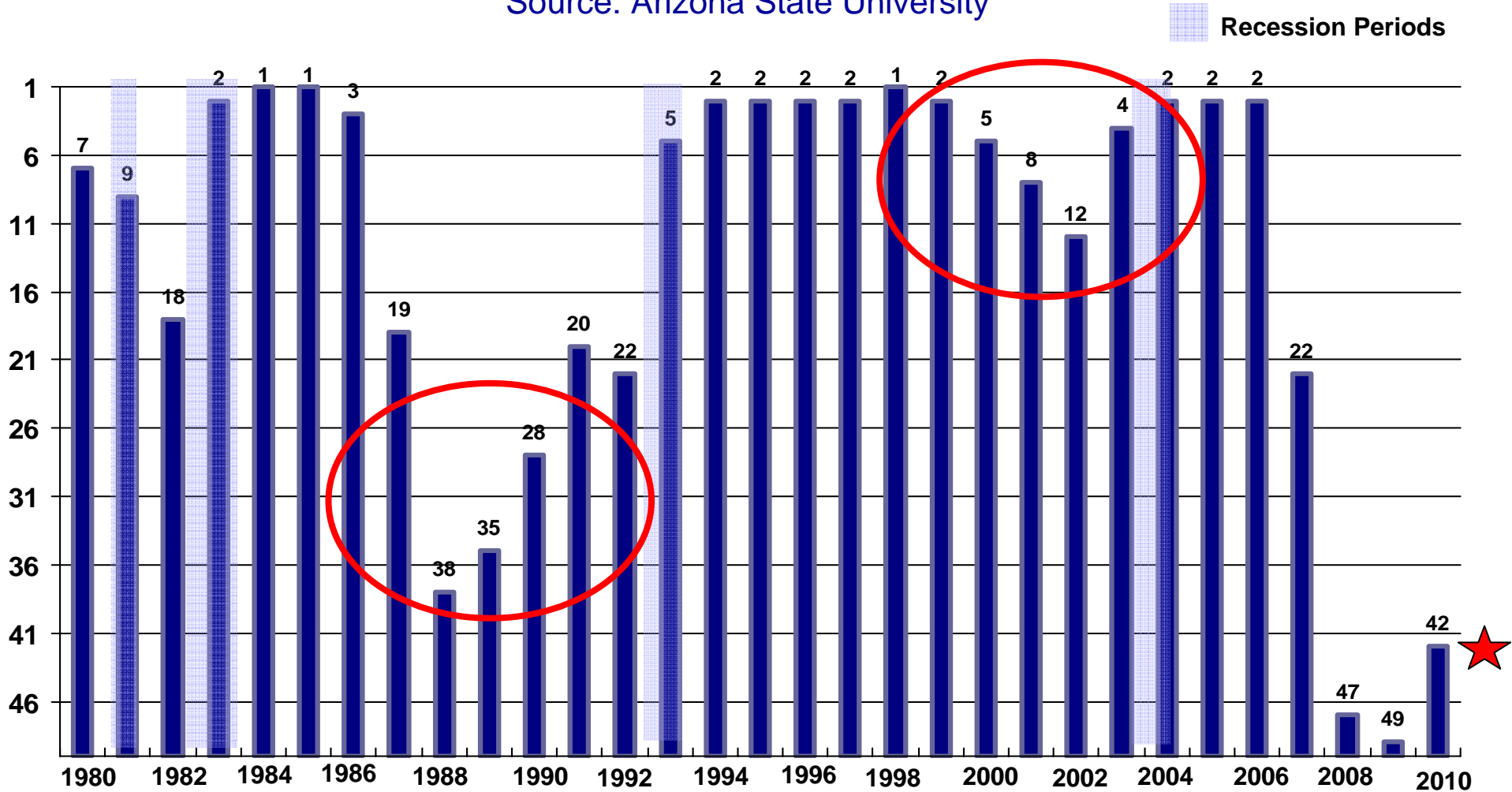
Employment Levels: Greater Phoenix back to Peak in 2014

Source: ADOC



Arizona Employment Rank Among 50 States 1980 – 2010 Growth Over Previous Year

Source: Arizona State University



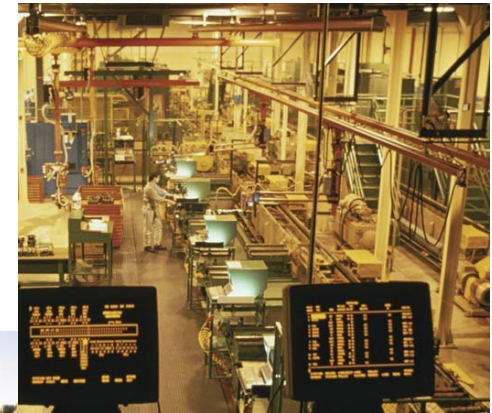
★ YTD July 2010 = 42



How did we go from 2nd to 49th?

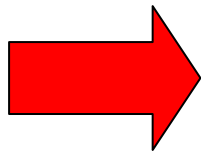
Base industries of Arizona were impacted

- a) Semi-conductors
 - Go into durables
 - Jobs being sent overseas
- b) Tourism
- c) Retirement

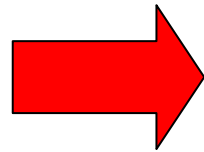


How did AZ go from 2nd to 49th?

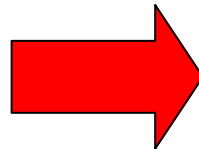
- Financial meltdown.
- Credit crunch/freeze.
- Overextended consumer.
- Excess single family inventory.



- Loss of wealth incl. home equity.
- Can't sell homes or retire.
- Homebuilding crash.
- ***Population inflows weaken.***



- Excess commercial construction



- ***Construction job losses.***
- ***All sector job losses.***



How did we go from 2nd to 49th?

People can't move here.

	Population Growth	
	<u>2007</u>	<u>2009</u>
U.S.	0.9% →	0.9%
Arizona	3.1% →	0.8%
	(195,000)	(55,000)



How did we go from 2nd to 49th?

Housing boom turns into bust

Permits	U.S.	Greater Phoenix
2004	7.4%	27.6%
2005	6.5%	4.4%
2006	-14.6%	-33.3%
2007	-28.6%	-26.5%
2008	-40.5%	-59.6%
2009	-28.5%	-26.5%



How did we go from 2nd to 49th?

Commercial Construction
Peak to Current 2009

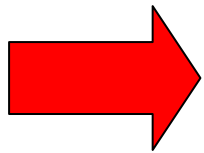


Percent Decline	Office	Retail	Industrial
U.S.	-15.4%	-51.4%	-57.5%
Greater Phoenix	-63.3%	-60.3%	-65.8%

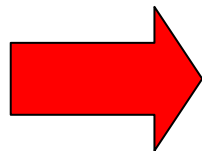


How does AZ go from 49th to 2nd?

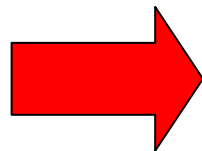
- *Wait. Slow recovery.*
- Credit frees up.
- Consumers more confident.



- Overall US economy improves.
- Stock market improves.
- Excess housing absorbed.



- *People start to move to AZ again.*
- Housing prices rise.
- *Construction job gains.*



- *All sector job gains.*
- *More people move to AZ.*
- Improved government revenue.
- Grow our base industries!!!

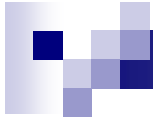




How do we go from 49th to 2nd?

- 2010 will be better than 2009
- 2011 will be better than 2010.
- It will be 2012 or 2013 before the State is growing rapidly again.





CONCLUSION:
Recovery in
Greater Phoenix
will be painfully slow.

