

PHOENIX



B L U E C H I P E C O N O M I C F O R E C A S T

Forecasts show market dynamics have changed

The Greater Phoenix Blue Chip real estate consensus for 2001 and 2002 has changed very little since the November estimates despite what appears to be (based on conversations with non-residential real estate brokers and developers) a marked slowdown in leasing and sales activity. It still appears that 2000 will have been the peak in construction for the industrial market. Office space construction this year should approximate last year's numbers. Residential construction peaked in 1998.

The weakness in the national economy has yet to manifest itself in the Greater Phoenix residential market. The consensus, however, is that single-family housing will decline modestly for the year, followed by another relatively small decline in 2002. This is a positive forecast considering that housing markets have traditionally shown significant declines during periods of national slowdown or recession.

A modest slowdown in multi-family construction is expected as well; from about 8,000 units permitted in 2000 to

about 7,300 this year and 6,600 in 2002. Vacancy rates are expected to stay at about the 7 percent level.

The office market is expected to stay strong this year, with construction actually expected to modestly exceed last year's level. Absorptions, however, are expected to be at about 2 million square feet compared to 3 million square feet last year. Thus, vacancy rates are expected to rise to about 13 percent. Because of that, construction in 2002 is expected to dip to about 2.3 million square feet and vacancy rates are expected to approach 14 percent.

Retail construction is also expected to be strong this year, mainly because of the two regional malls under construction (Chandler Fashion Center and Desert Ridge Marketplace). Vacancy rates are expected to rise relatively modestly both this year and in 2002. Once again, new construction is expected to be lower in 2002 than in 2001. Retail absorption is also expected to decline next year.

The industrial market, while not as strong

as in 1999 or 2000, is expected to approach 6 million square feet of construction this year and 4.6 million in 2002. Vacancy rates should rise but still be relatively modest by historic standards. Absorptions are expected to decline both this year and next in response to the slower economy.

Overall, it is clear that the real estate market has peaked and construction has passed its peak in single-family and multi-family, as well as industrial, markets. The peak in office and retail should be reached this year. All markets are expected to show weaker construction activity and higher vacancy rates in 2002. These forecasts, however, suggest market dynamics that are much different, indeed, much stronger, than previous slowdowns in the real estate market. While the slowdown is not yet reflected in what is under construction and in vacancy rates, conversations with those in the non-residential market suggest that leasing and sales activity has been affected by the weaker national economy.

— E.P.

Population growth helps local economy weather downturn

The panel remains optimistic that the Greater Phoenix economy will weather the national economic slowdown in good shape. However, the pain will not be evenly distributed. Manufacturing is in a recession because of the rapid slowdown in business investment. Retail will be a mixed bag; those who have been struggling will do worse, while successful retailers like Wal-Mart and Target will continue to expand.

Our economy will continue to benefit from population growth. New residents bring a demand for new housing, increased spending and demand for services. Population growth is expected to hold up well even as the national economy slows. Residential construction is

expected to decline modestly, but because of the low interest rates and the influx of new residents, the level of activity will remain high by historical standards. The economy will benefit from the construction of the Cardinals stadium and the Coyotes arena.

On the negative side, the drop in business investment has hit high-tech manufacturing hard. The drumbeat of layoff announcements seems continuous, but it is important to remember that sometimes a company announces layoffs to boost stock prices and then accomplishes much of the reduction with normal attrition.

There is also the wild card of energy shortages and high energy prices. Arizona

is not likely to experience the rolling blackouts seen in California. However, if it is a particularly hot summer, it could be close. Arizona utilities were able to hedge against higher energy costs and build more capacity without relying so heavily on natural gas. The biggest impacts will likely be from higher energy costs and the fact that so many businesses have economic ties to California. There is a perception that what is bad for California is good for Arizona. This may be true for real estate, but for the rest of Arizona's economy, bad times for our neighbor mean lost business and fewer opportunities.

— T.C.

GREATER PHOENIX ECONOMIC FORECAST FOR 2001									
ANNUAL PERCENT CHANGE 2001 FROM 2000								AVERAGE RATE FOR 2001	
SOURCE	Popu- lation	Personal Income	Retail Sales	Wage & Salary Empl.	Manu- facturing Empl.	Construc- tion Empl.	Services Empl.	National CPI	Unem- ployment Rate
Arizona Public Service	2.9	6.8	6.0	3.6	1.2	(2.5)	4.3	2.4	3.4
ASU – Bank One Economic Outlook Center	2.7	6.0L	5.0L	3.3	1.0L	(4.0)	5.0	2.7	3.3
CH2M Hill	2.8	6.0L	5.5	3.2	1.3	(5.0)L	4.6	2.7	3.7
Communities Southwest	2.8	6.4	5.5	3.2	1.6	(5.0)L	4.6	2.7	3.4
Department of Economic Security	2.7	7.3H	6.4	4.0H	2.4H	1.4	5.6H	2.5	3.0L
ECON-LINC	2.7	6.2	5.6	3.2	1.0L	(4.0)	4.2L	2.7	3.4
Elliott D. Pollack and Co.	2.9	7.0	6.0	3.4	1.0L	(5.0)L	5.0	2.7	3.1
H. C. Reardon Economics	2.8	6.4	5.9	3.6	1.5	(5.0)L	5.5	2.7	3.5
Joint Legislative Budget Committee	2.9	6.4	6.2	3.1L	1.0L	0.0	4.4	2.9H	3.5
Lancaster Consulting	2.7	6.2	5.0L	3.3	1.0L	(5.0)L	4.5	2.5	3.9H
The Maguire Company	2.8	6.6	5.7	3.6	1.8	0.0	4.8	2.3L	3.5
Salt River Project	3.2H	6.4	6.0	3.5	1.0L	1.0	5.0	2.9H	3.1
U of A – Eller College	2.9	6.3	6.4	3.2	1.2	(1.2)	4.6	2.5	—
VisionEcon	2.6L	6.7	7.6H	3.1L	1.9	2.0H	5.5	2.8	3.2
2001 Consensus	2.8	6.5	5.9	3.4	1.4	(2.3)	4.8	2.6	3.4

GREATER PHOENIX ECONOMIC FORECAST FOR 2002									
ANNUAL PERCENT CHANGE 2002 FROM 2001								AVERAGE RATE FOR 2002	
SOURCE	Popu- lation	Personal Income	Retail Sales	Wage & Salary Empl.	Manu- facturing Empl.	Construc- tion Empl.	Services Empl.	National CPI	Unem- ployment Rate
Arizona Public Service	2.8	6.4	5.9	3.3	1.0	(3.5)	4.1	2.3L	3.5
ASU – Economic Outlook Center	2.6L	5.8	4.7L	2.8	0.7L	(5.0)	4.5	2.5	3.7
CH2M Hill	2.7	6.2	6.0	3.0	1.4	(5.0)	4.8	2.5	3.5
Communities Southwest	2.7	6.2	6.0	3.0	1.4	(5.0)	4.8	2.6	3.6
Department of Economic Security	2.6L	6.6	6.5	3.6	2.5H	(3.9)	5.2	2.8H	3.2
ECON-LINC	2.8	6.4	5.8	3.4	1.4	(2.0)	4.6	2.5	3.5
Elliott D. Pollack and Co.	2.7	6.0	5.0	3.0	2.0	(10.0)L	5.0	2.5	3.3
H. C. Reardon Economics	2.8	6.8	6.0	3.5	2.0	0.0	6.0H	2.6	3.6
Joint Legislative Budget Committee	2.8	6.5	6.6	3.1	2.0	0.0	4.4	2.6	3.5
Lancaster Consulting	2.6L	5.8	4.7L	2.9	0.9	(10.0)L	4.1	2.5	4.2H
The Maguire Company	2.7	6.3	6.0	3.4	1.6	0.0	4.8	2.3L	3.5
Salt River Project	3.3H	6.2	6.0	3.7H	2.0	1.5	5.5	2.6	3.0L
U of A – Eller College	2.6L	5.7L	5.2	2.6L	1.8	(3.5)	3.6L	2.6	—
VisionEcon	3.0	8.6H	9.3H	3.4	0.9	4.0H	5.9	2.3L	3.5
2002 Consensus	2.8	6.4	6.0	3.2	1.5	(3.0)	4.8	2.5	3.5

Data sources for Maricopa County (Greater Phoenix area): population, Arizona Department of Economic Security; personal income, Bureau of Economic Analysis; retail sales, Arizona Department of Revenue; wage and salary employment, manufacturing employment, construction employment, service employment

GREATER PHOENIX HISTORICAL DATA									
SOURCE	Popu- lation (thousands)	Personal Income (millions)	Retail Sales (millions)	Wage & Salary Empl. (thousands)	Manu- facturing Empl. (thousands)	Construc- tion Empl. (thousands)	Services Empl. (thousands)	National CPI	Unem- ployment Rate
2000	2,966	\$81,769*	\$30,167	1,544.6	162.2	117.9	512.0	172.2	2.6
Percent Change	2.9	7.1	8.4	3.9	0.4	4.8	5.5	3.4	
1999	2,882	81,711*	27,825	1,487.2	161.8	112.3	486.2	166.6	3.0
Percent Change	3.1	7.7	10.4	4.8	-2.9	7.6	9.0	2.2	
1998	2,794	75,869	25,207	1,418.8	166.7	104.4	446.2	163.0	2.6
Percent Change	3.3	9.7	7.9	5.5	5.2	11.8	5.2	1.6	

* Estimated

METROPOLITAN PHOENIX REAL ESTATE CONSENSUS FORECAST RESIDENTIAL

	2001				2002			
	Single-family Permits	Multi-family Permits	Year-end Apt. Vacancy (%)	Apt. Absorption	Single-family Permits	Multi-family Permits	Year-end Apt. Vacancy (%)	Apt. Absorption
Arizona Public Service	33,000	7,000	6.3	6,500	31,000	6,000	6.1	6,000
ASU Real Estate Center	29,000	8,000	8.5	6,000	27,000	7,500	8.0	6,250
CB Richard Ellis	33,000	8,200	6.0	8,000	28,000	8,000	6.3	7,000
Communities Southwest	31,000	6,250	7.0	4,600	29,000	5,500	7.4	4,200
Elliott D. Pollack & Co.	30,000	7,000	7.0	6,000	28,000	7,000	7.2	5,500
Griffin Consulting	28,000	6,500	7.4	5,250	26,500	6,400	7.5	5,550
Grubb & Ellis	N/A	8,500	6.8	7,800	N/A	7,500	7.0	7,000
Legacy Partners	N/A	6,000	7.0	6,000	N/A	5,000	6.0	6,000
Meyers Group	31,800	8,900	N/A	N/A	30,500	7,500	N/A	N/A
PricewaterhouseCoopers LLP	28,000	6,500	8.0	5,700	27,000	6,000	8.0	5,500
U of A, Eller College	24,905	7,351	N/A	N/A	19,111	6,222	N/A	N/A
Consensus	29,856	7,291	7.1	6,206	27,346	6,602	7.1	5,889
<i>Actuals from ASU:</i>								
2000 Actuals	32,511	8,009	6.8	6,225	2000 year-end inventory: 798,278 (single-family) 306,386 (multi-family)			
1999 Actuals	33,252	7,759	5.9	5,017				
1998 Actuals	33,811	7,877	5.1	3,674				

METROPOLITAN PHOENIX REAL ESTATE CONSENSUS FORECAST OFFICE (Millions of Square Feet)

	2001			2002		
	Construction	Vacancy (1st Qtr. %)	Absorption	Construction	Vacancy (1st Qtr. %)	Absorption
Arizona Public Service	2.20	12.0	1.50	1.80	12.4	1.40
CB Richard Ellis	3.50	10.5	3.00	2.00	11.0	2.50
Communities Southwest	2.80	11.8	2.10	2.40	12.2	1.90
Cushman and Wakefield	5.57	18.0	2.80	2.95	19.0	2.50
Elliott D. Pollack & Co.	4.00	15.0	1.75	2.00	15.5	1.75
Grubb & Ellis	2.50	13.0	2.00	2.00	12.5	2.00
Lee & Associates	4.30	11.5	1.90	3.70	13.7	1.90
PricewaterhouseCoopers LLP	2.00	13.0	1.50	1.50	14.0	1.30
Consensus	3.36	13.1	2.07	2.29	13.8	1.91
<i>Actuals from Lee & Associates:</i>						
2000 Actuals	3.10	10.8	3.06	2000 year-end inventory: 48.3 million square feet		
1999 Actuals	4.03	11.4	2.78			
1998 Actuals	1.77	9.3	1.59			

METROPOLITAN PHOENIX REAL ESTATE CONSENSUS FORECAST RETAIL (Millions of Square Feet)

	2001			2002		
	Construction	Vacancy (1st Qtr. %)	Absorption	Construction	Vacancy (1st Qtr. %)	Absorption
Arizona Public Service	3.00	10.1	2.50	2.00	10.5	1.40
CB Richard Ellis	3.00	6.5	2.70	1.80	6.5	1.60
Communities Southwest	3.00	8.6	2.40	2.60	9.2	1.80
Grubb and Ellis	4.00	6.0	3.60	3.00	6.5	2.80
PricewaterhouseCoopers LLP	2.50	8.5	2.00	1.50	9.5	1.00
Consensus	3.10	7.9	2.64	2.18	8.4	1.72
<i>Actuals from CB Richard Ellis:</i>						
2000 Actuals	2.68	5.3	2.78	2000 year-end inventory: 93.6 million square feet		
1999 Actuals	4.00	5.5	4.44			
1998 Actuals	2.21	6.3	3.14			

METROPOLITAN PHOENIX REAL ESTATE CONSENSUS FORECAST INDUSTRIAL (Millions of Square Feet)

	2001			2002		
	Construction	Vacancy (1st Qtr. %)	Absorption	Construction	Vacancy (1st Qtr. %)	Absorption
CB Richard Ellis *	6.50	6.5	8.00	5.00	7.5	6.50
Cushman and Wakefield **	5.83	9.5	4.60	4.46	11.0	4.20
Lee & Associates *	6.20	7.9	6.60	5.00	7.7	6.80
Grubb & Ellis **	5.00	7.0	5.00	4.00	7.5	4.50
Consensus: Total Space	5.88	7.7	6.05	4.62	8.4	5.50
Actuals from CB Richard Ellis:				2000 year-end inventory: 196 million sq. ft. (CB Richard Ellis) * 218 million sq. ft. (Cushman and Wakefield)** 208 million sq. ft. (Lee & Associates)* 220 million sq. ft. (Grubb & Ellis) **		
2000 Actuals Total Space	6.51	7.4	10.71			
1999 Actuals Total Space	9.45	8.1	7.03			
1998 Actuals Total Space	7.00	7.1	7.97			
*All space over 5,000 sq. ft. **Total Market (Space over 10,000 sq.ft) ***Spec space over 10,000 sq. ft., including single- or multi-tenant buildings						

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