

GREATER PHOENIX BLUE CHIP
Second Quarter, 2009

The Bottom
By
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The news from the GPBC panel continues to be less than sanguine. 2009 will mark the bottom of the single family housing decline, panelists say, with permits dropping by more than 90 percent from the 2005 peak. The recovery is expected in 2010, but panelists expect it to be merely modest. Permits for new homes will rise nearly 50 percent over 2009, panelists predict, but this would make the 2010 level more than 85 percent below the 2005 peak.

Multifamily permits are projected to stay at 2009 levels in 2010, making this the only commercial category that is not expected to decline in 2010. Absorption of apartments is expected to be negative this year, but turn positive next year. The resulting decline in apartment vacancy rates will be modest -- from almost 13 percent to about 12 percent. These represent very high levels of vacancy by historic comparison.

As for the office market, almost one out of every four square feet of space is expected to be vacant by year end (not including sublease space). Absorption is expected to be negative for 2009 and near zero in 2010. Construction of new office space is expected to decline from 3.4 million square feet in 2008 to 2.2 million this year and less than 1 million the following. Given the high level of vacancy rates, it could be years before any significant new space is required. This would be similar to the scenario that occurred in the early 1990s.

The same general dynamic exists for both the retail and industrial markets. Given the weak economy, absorption is expected to be negative this year for the first time on record for the retail market. Absorption in the industrial sector is also likely to be negative this year -- the first time since 1990. Vacancy rates in retail are projected to be the highest (at 13 percent) since 1991. Like other non residential sectors, new construction is expected to fall off a cliff. Industrial absorption will be significantly negative this year and about zero the next. Vacancy rates nearly match the peaks of the 1988-1992 real estate disaster.

Overall, vacancy rates are very high, absorption rates (given the economy) are very low or negative and new construction is headed towards zero. Not a pretty picture.