

## **Is the Glass Half Full or Half Empty?**

Greater Phoenix Blue Chip  
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Looking at the responses from panelists this quarter, the question becomes, "Is the glass half full or the glass half empty?" If the glass is half empty there will be no quick recovery. If the glass is half full, at least in the residential market (single family permits), is moving in the right direction. One would have to be seeing the world through rose colored glasses, however, to be feeling good about the results.

While single family permits are expected to be up almost 38% in 2010 and another 41% in 2011, 2011's permit numbers are still 75% off of 2005's peak. But at least we are moving in the right direction. Multi family permits are expected to increase only modestly over that period of time. Vacancy rates are expected to peak in 2009 and 2010 and then are expected to decline modestly in 2011.

Non-residential activity, however, is far less sanguine. Vacancy rates in office are expected to be the same in 2011 as they were in 2009. The good news is that in 2011 they will have come down off of the peak in 2010. Very little new construction is anticipated, but absorption, after being negative by more than one million square feet in 2009, is expected to be zero in 2010 and almost 800,000 square feet in 2011. Thus, the recovery is likely to be painfully slow with vacancy rates by the end of 2011 in the mid twenty percent range.

Retail is expected to fair just as poorly. With very little new construction, negative absorption in 2009 and 2010 and only very modest absorption in 2011, vacancy rates in 2011 will still be approaching 13%.

Industrial has the same story line with vacancy rates reaching an all time high next year and in 2011 being about where they were at the end of 2009. Very little new construction is anticipated and absorption should again be negative in 2010, albeit much more modestly so before increasing in 2011.

Thus, it appears for commercial, the bottom will be reached in 2010. The path back will be a slow and difficult one. For residential, we are in that slow difficult path back, but for real estate in general, there appears to be no quick fix.