

Great Phoenix Blue Chip
2008 Issue 4

The Worst is Still to Come

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The worst is still in front of us. That is the conclusion that can be drawn from the data presented in this quarter's *Greater Phoenix Blue Chip Real Estate Consensus*. While single family housing is expected to be bumping along the bottom at a level of more than 64% below the prior year's levels, virtually no improvement is expected by the real estate panel in 2009. Indeed, improvement in the single family market is not expected until 2010 when the market starts to recover. While the recovery is expected to be large in percentage terms, up more than 35% in 2010, it will still be at a level that less than one-third of the peak of 2005's activity. Unfortunately, that is the good news.

Commercial activity in all sectors is expected to be under pressure. The vacancy rate in apartments is expected to be more than a percentage point higher at the end of this year than last year, and is expected to go up again in 2009. The number of multi-family units permitted is expected to decline by over 35% next year and stay at that level in 2010.

Higher vacancy rates and declining construction are also anticipated in office, retail and industrial markets. Indeed, vacancies in the office market are expected to be at a year-end level of 19% and should exceed 20% next year. The level of construction activity is expected to decline by more than 50% between 2008 and 2009 and another 60% between 2009 and 2010.

Retail vacancies are expected to climb to the double digit range and construction is expected to decline in 2009 and again substantially in 2010. The same general pattern is expected in industrial markets with vacancy rates staying in the high while construction slows dramatically in 2009 and stays depressed in 2010.

In each of these markets, the vacancy forecast is based on the assumption of declining levels of construction but even larger declines in the levels of absorption (in some cases even negative absorption) in 2009. No significant increases in absorption are anticipated until 2010.

Overall, the bottom for construction in most markets is anticipated to be in 2009 with continued weakness in 2010. Only housing is expected to show improvement in 2010. High vacancy rates are anticipated in apartments, office, retail, and industrial markets and will likely not begin to improve until the level of absorption (demand) improves significantly.