

2020  
VISION

## Forecasting the future

Let us point you in the right direction -  
There are signs everywhere if you know where to look.



## MULTI-FAMILY INVESTMENTS | LAND AND DEVELOPMENT

Micro-Area-Partnerships (MAPS)

JERRY **TENGE**  
Senior Vice President  
602.222.5094  
Jerry.Tenge@colliers.com

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## FAST FACTS

### ▶ METRO PHOENIX

#### Projected Population

2006:	4.0 million
2020:	5.2 million
2030:	6.1 million

Source: Maricopa Assn. of Governments

## TOP FIVE SOURCES OF INTERNATIONAL INVESTMENT

- ▶ Canada
- ▶ Norway
- ▶ Eastern Europe
- ▶ Great Britain
- ▶ Asia

## MULTI-FAMILY BENEFITS FROM TWO-YEAR CORRECTION

- Lending practices will be aggressive
- Increased rental rates
- Increased value
- Premier discipline of the commercial market

*The multi-family market will benefit from the absorption of single-family homes, condos and other vacant homes over the next two years. As the housing supply is absorbed, rental rates will begin to rise and we will see an increase in the value of multi-family units.*

## METRO PHOENIX “THE” INVESTMENT OPPORTUNITY

### FORECLOSURES—THE REALITY

With 59,000 residential foreclosures, Metro Phoenix appears to be in over its head. When you look more closely at the statistics, however, you understand that this represents only a 1.5-2.0 year supply in housing stock in an average market of 42,000 sales per year. In comparison to our neighboring states, Nevada has 189,000 foreclosures and California has 2.6 million. This represents a 5.4-year supply in California and a 7.6-year supply in Nevada. Metro Phoenix should be building new homes within two years.

### ▶ FIGURE 1: FORECLOSURES—COMPARISON OF ARIZONA, CALIFORNIA & NEVADA

State	Number of Foreclosures			Number of Foreclosures Expected	State Population	Percentage Foreclosures in Market
	Actual 2007	Forecast 2008	Forecast 2009			
Arizona	10,000	39,000	10,000	= 59,000	÷ 5,000,000	= 1.20%
California	481,000	1,500,000	700,000	= 2,681,000	÷ 36,000,000	= 7.50%
Nevada	28,000	91,000	70,000	= 189,000	÷ 2,000,000	= 9.50%

### ▶ FIGURE 2: FORECLOSURE INVENTORY & RECOVERY PERIOD Inventory ÷ Average New Home Absorption = Recovery Period

State	Number of Foreclosures Expected	Average New Home Absorption	Recovery Period
Arizona	59,000	÷ 42,000/year	= 1.4 years
California	2,681,000	÷ 500,000/year	= 5.4 years
Nevada	189,000	÷ 25,000/year	= 7.6 years

### ▶ FIGURE 3: FORECLOSURES—IMPACT ON HOUSING VALUES

State	Average House Value	Average Foreclosure Value	Percentage of Market Value
Arizona	\$242,000	÷ \$350,000	= 70%
California	\$500,000	÷ \$750,000	= 67%
Nevada	\$305,000	÷ \$650,000	= 47%

Source: Inman News Source (All statistics above)

## IMPACT... CATCHING OUR BREATH

The current recession represents a minor blip and provides an opportunity to catch our collective breath. With that said, the long-term prospects are positive (Figure 4, back page). However, the current situation is difficult for homebuilders who are left with product that is being auctioned off at drastic reductions.

Overbuilding has also impacted investors who purchased spec homes hoping to capitalize on rising construction costs and then were left holding mortgages with unexpected higher

interest rates. This has resulted in approximately 17 percent of the housing inventory being added to the rental supply, which will cause rental rates to drop 5 percent in 2008. It will take two years to absorb this stock before the market is again balanced. With the decline in rental rates, there has also been a decline in values for multi-family properties. Cap rates have risen from 5 percent to 7 percent in the last six months.

The multi-family market will benefit from the absorption of single-family homes, condos and other vacant homes over the next two years. As the housing supply is absorbed, rental rates will begin to rise and we will see an increase in the value of multi-family units.

The areas of the multi-family market with a greater problem are the Class C and D properties. Arizona's new immigration laws heavily impact these properties. Class C and D quality buildings are now showing a 25 percent vacancy rate vs. a 10 percent vacancy in Class A and B. The loss of the Hispanic tenant base is one that will continue unless future legislation allowing visa work permits is passed.

## OPPORTUNITIES FOR GLOBAL INVESTORS

Metro Phoenix is seeing a major influx of foreign investors. This increased investment interest is tied to two factors: 1) favorable currency exchange rates and 2) the high cost of oil. As the dollar shrinks in value internationally, investors are able to buy properties at discounted market prices, while also increasing their returns. As we know, the cost of fuel has increased over the past several years. As this trend continues, there will be a significant increase in investment in Phoenix by international countries where oil is king.

### WHY INVEST IN ARIZONA

- ▶ Discounted market prices
- ▶ High growth area
- ▶ Favorable currency exchange rates
- ▶ Hedge against decreasing American dollar
- ▶ Low construction costs
- ▶ Low labor costs
- ▶ Pro-development government
- ▶ Pro-development lenders

## OTHER FACTORS MAKE ARIZONA AN ATTRACTIVE INVESTMENT

Of the American population, 60 percent are turning 60 or near retirement age. This group controls 90 percent of America's wealth. If you have a large wallet, you are fortunate because you can retire anywhere—California, Nevada, Arizona or New Mexico. If you have a medium wallet, you can retire in Arizona, Nevada or New Mexico. If you do not have a wallet at all, you will be living with your children or retiring to New Mexico.

Many studies have shown that the reason large employers, such as Intel and USAA, have located in Arizona is because they can employ professionals who can support 1.5 family members and a house on a salary of \$79,000. The equivalent salary necessary to net the same lifestyle in California would be \$169,000. Arizona is also a right-to-work state and anti-union.

▶ (continued on back page)

## Forecasting the future



▶ **JERRY TENGE**  
Senior Vice President  
Multi-Family Investments  
602.222.5094  
Jerry.Tenge@colliers.com

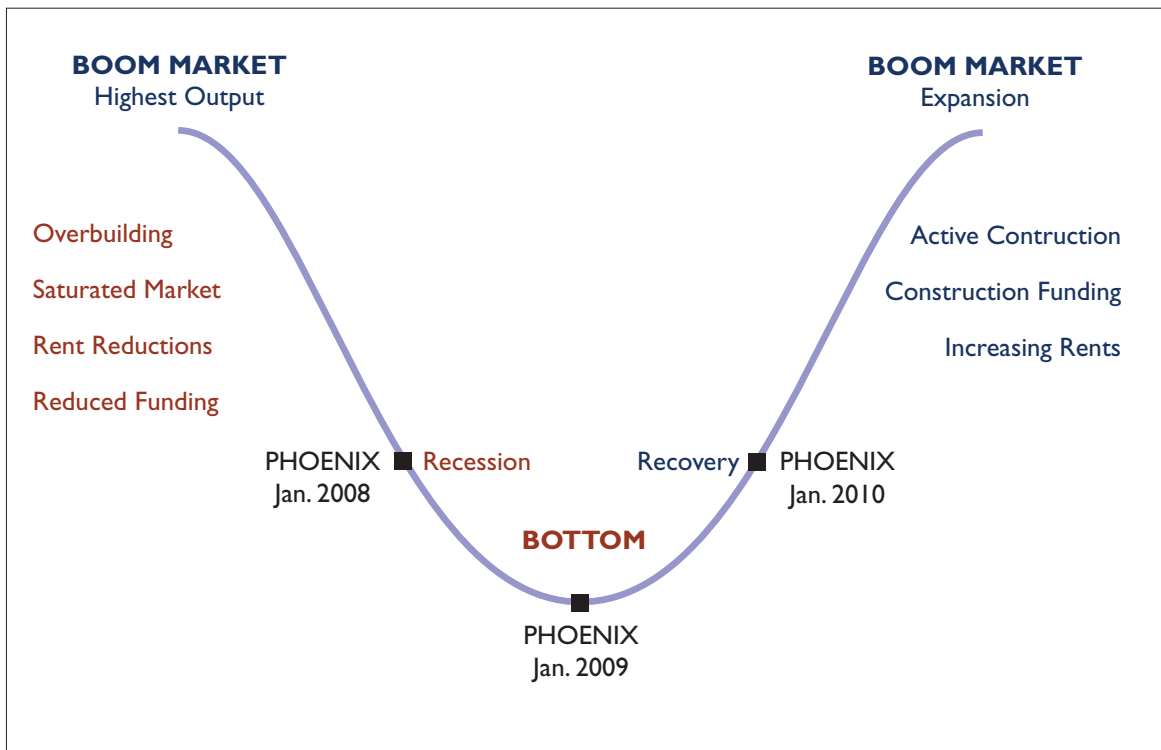
## BARGAINS & QUICKER RECOVERY EQUALS OPPORTUNITY

*Do you like shopping for bargains?  
Is your favorite store Wal-Mart?*

Metro Phoenix is the one real estate market where we have bargains for the Wal-Mart real estate shoppers. Not only does Phoenix offer savings on investments as compared to previous years, but there is also a shorter turnaround time to improved real estate market conditions.



▶ **FIGURE 4: COMPONENTS OF A REAL ESTATE CYCLE**



Source: Colliers International

2390 E. Camelback Rd, Suite 100  
Phoenix, Arizona 85016  
Phone: 602.222.5000  
www.colliers.com/phoenix

14080 N. Northsight Blvd.  
Scottsdale, Arizona 85260  
Phone: 480.596.9000  
www.colliers.com/scottsdale

*Cohenfinancial*<sup>®</sup>  
REAL ESTATE INVESTMENT BANKING



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