Members Present:
Dan Anderson, Arizona Board of Regents
Jay Butler, Arizona State University
Tracy Clark, Arizona State University
John Lucking, ECON-LINC
Elliott Pollack, Elliott D. Pollack and Co.
Marty Shultz, Arizona Public Service
Don Wehbey, DES

Mr. Richard Stavneak, Director, JLBC Staff, welcomed everyone to the Finance Advisory Committee (FAC) meeting.

Mr. Tim Everill, Mr. Jake Corey, Mr. Brian Cary, and Mr. Hans Olofsson, JLBC Staff, provided a slide presentation and handout with an overview of the state revenues and issues for the panel to consider. (Click here to view handout)

Mr. Elliott Pollack gave a slide presentation and handout on the national and Arizona economies. (Click here to view handout)

Mr. Stavneak said one of the points that JLBC Staff emphasized is that they believe that some portion of the significant increase in April collections was due to the real estate market. In looking at FY 2005, even though the market has cooled in the last 4 to 5 months, there is still a significant run-up in housing prices during the first part of the year, providing the potential for another April surprise this upcoming year. It is hard to tell whether it will be bigger or smaller than the last one.

Mr. Pollack said it is slightly bigger but it is a supply and demand imbalance. You have seen more homes on the market, although the average days on the market is still below normal, and builders are still having a tough time getting their permits through the communities in this valley. The new home prices you see are the prices from 7 months ago because it has taken that long to get a home delivered. He said he agrees that the market is going to cool and turn the other way but not until enough new supply is on stream and he does not think that is immediate.

Mr. Stavneak asked Mr. Pollack’s perspective on the growth path that the JLBC Staff laid out based on the consensus.
Mr. Pollack said he felt it was pretty well on, although it was difficult to see them dropping off quite as rapidly as JLBC Staff showed. He expressed the same caution, that a lot of this revenue is due to temporary circumstances having to do with the construction markets and it is very difficult to take it seriously.

Mr. Jay Butler gave a slide presentation and handout on the real estate market. (Click here to view handout).

Mr. Stavneak asked Mr. Butler if he thought the use of the creative financing techniques that homeowners are using has increased significantly, and does it pose a greater than average threat for the next recession, in terms of people being more leveraged than they have the capacity to support in the long run.

Mr. Butler said that the numbers argue that they are seeing greater numbers of non-traditional financing in this situation. These all work well if you keep you income flow supporting this. However, there are a couple of issues: 1) if home prices begin to decline people that have used the heavy appreciation rates of their homes to finance autos, trips, and those types of things will be in financial trouble, and 2) lenders have begun to tighten their standards.

Mr. Stavneak said there is the issue of renters versus owners and whether or not they are getting the homeowners rebate exemption even though they are renting because they do not properly classify their property as a rental property. He asked if Mr. Butler thought that investors not correctly classifying their property was a significant issue.

Mr. Butler said there is no doubt they are not classifying it correctly. If you look at the numbers being reported that are classified as investment properties, it is quite low. He is not convinced that a lot of people coming in from out-of-state even know about the distinction. Investors are starting to pull out of the market and taking their profits with them, so it may become a moot issue.

Mr. Cary asked if the conversions of rentals into condominium sales are treated in his data as new sales or sales of existing units.

Mr. Butler said they are not conversion of rentals; they are conversion of owner occupied concepts of being a multi-family to a condominium. They are still rentals and they treat them as resales.

Mr. Stavneak asked the panel to give their perspective of where they think the state is headed in terms of the economy, state General Fund revenues, and the housing market.

Mr. Dan Anderson said generally the JLBC Staff forecast was on the mark. The economy has been a little bit stronger in the last couple of months than he expected. There is some recovery in the labor market, job creation is still up. Concerns over the natural disasters lately have not had as much of a negative impact. He is concerned about the ability of the construction industry being able to keep going locally because of supply constraints. It is really going to hurt the commercial side, lack of concrete and other things that are stretching projects out. In general, he is more optimistic that he was 3 or 4 months ago.

Mr. Tracy Clark said the revenue forecasts are conservative enough to be useful because they may actually come in a little higher. He thinks there are more capital gains out there from the stock market than most people are giving it credit for. That is all temporary money, so he cautioned against cutting the tax base because this situation is not going to recur. He does not feel we will have another situation where we have this much appreciation, and low interest rates. The next time we have a recession it is going to be big, nationally and probably locally as well, because people have sold all their equity out of their houses and are really in a precarious position. The recession does not seem likely in 2006 or 2007.
Mr. Stavneak noted that Arizona’s problems in the 70’s and 80’s sometimes was that the economic base was not as diversified, the highs were higher and the lows were lower. The general thought was that as the economy diversified it mirrored more the overall national economy. He asked what their perspective was on that at this point.

Mr. Pollack said that in terms of employment its highs were higher but its lows were not as low as the U.S. He does not think that will change, the highs will remain higher and the lows will not be so bad. It clearly is a cyclical economy and that will continue.

Mr. Clark said he does not think the state is diversified enough to become less cyclical. Obviously, it depends on which one of the shoes drop. If we have another series where high tech manufacturing is bad, that is going to hurt more than if it is a general recession brought on by consumers spending less money.

Mr. Lucking said he is inclined to agree. Overall, he is more optimistic than the consensus is, not dramatically but marginally. His concern is inflation. Capacity utilization is running close to 80% and he is not sure that that is a number he is comfortable with. Resource prices, oil and gas, metals and building materials are dramatically higher. We have not see energy prices flow through, but businesses have more pricing capacity now than they were a year ago. Fiscal stimulation had been very strong. The one positive thing recently is that the dollar has been somewhat stronger, but he is not convinced that is going to last. Overall, he would be concerned about inflation, it is running at the high end of the 1-2% that the feds seems to think is their comfort zone.

Mr. Stavneak said in terms of changes, the new Federal Chairman seems to be more model driven than the intuitive approach that Mr. Greenspan took. He asked the panel if that will have any impact in the short-run.

Mr. Lucking said that he really does not have an answer to that. Psychologically he feels the Chairman will have to demonstrate to the world as a whole that inflation is not going to get out of hand and even the core level is running toward the high end of their comfort level.

Mr. Wehbey said that what is notable is that in terms of total wage growth they have been seeing above 6% since 4th quarter, 2003. There is good job growth numbers and also wage growth. When the economic downturn occurred they saw layoff numbers increase and wage deterioration. They have seen an improvement to wages and they have been healthier in the recent 2 quarters. For 10 consecutive months Arizona has been ranked 2nd fastest growing state. The most recent figures, when compared to other states, show Arizona ranked at 3rd. In the migration of population, Arizona has a very steep incline, even when you consider what we experienced in the downturn, we were quick to recover and start adding jobs. States like Michigan are still posting year-over-year job losses, they rank 48th among states. He said that what the data shows for the 2nd quarter is that Arizona is at about 5% growth rate as opposed to what they were reporting earlier at 4%.

Mr. Stavneak said the significant areas where you find employment up most in the last year is in the construction industry which is up 14.5%. Business and professional services at 9% seems to be the second highest category. He asked the panel their perspective on the construction number and how it relates historically over time because the state is known to be a construction-driven economy, and secondly in terms of business and professional services what would be included in a category like that.

Mr. Wehbey said that Arizona has a couple of industries that are rather strong and construction is one of them. It is a hot market but there are concerns with it because of the financial instruments used with it. What we have now occurring is not because of what consumers have opted to use as financial instruments, but what the industry itself is serving up as options. Many of the panel members are concerned about what the implications of the new options have in the market. As far as the construction industry, it has been supporting a lot of financial activities such as refinancing, banking and savings and loans. There are a lot of other services connected to the construction industry that basically provide
professional consulting and technical support as industries grow. Business growth in Arizona is fairly widespread with the exception of information services, which still has been showing job losses and has been flat in the recent couple of months. Construction is a cyclical industry and the question is at what point will it begin to slow down and to what extent those new financial instruments contribute to the market, especially a fast growing market.

The meeting adjourned at 2:50 p.m.

_____________________________
Cheryl Kestner, Secretary

_____________________________
Tim Everill, Revenue Section Chief

NOTE: A full tape recording of this meeting is on file in the JLBC Staff office at 1716 West Adams.
FAC Forecast is a Component of “Big 3” General Fund Revenue Consensus Estimate

Big 3 forecast equally weights:

- FAC average
- UofA model - base
- UofA model - low
- JLBC staff forecast
- Remaining revenues (6% of total) are Staff forecast
Setting the Context for the FY 06 and FY 07 Estimates -
FY 2005 General Fund Revenue Growth of 19.0% Was the Largest in 30 Years

- Sales Tax = 11.1%
- Individual Income Tax = 21.6% (adj. for withholding)
- Corporate Income Tax = 42.1%
- April 2005 biggest collection month ever
- ’05 percent growth largest in 30 years
FY 2006 Revenues Have Maintained Pace of the Last Quarter of FY 2005 -- But Difficult to Sustain

- 5-month YTD revenues are up 18.4%.
- Easier to post bigger gains in the first half of FY 2006 since the first half of FY 2005 wasn’t growing as fast as the second half.
- Second half of FY 2006 should show somewhat slower growth.
FY 2006 Sales Tax Collections To Date are Strong Across All Major Categories
- Overall Growth is 17.1% (Through October)
Sales Tax Growth Rate
Consensus Forecast of
11.0% Growth in ’06 and 6.3% in ’07

- ’06 YTD rate = 17.1%
- ’06 consensus = 11.0%
- ’07 consensus = 6.3%
- Forecast generally strong, but double-digit growth in ’05 relied primarily on construction.
Winter Holiday Sales are Expected to be Strong

- Winter holiday sales account for 20% of total annual retail industry sales.
- After an initial projection of 5% growth, the National Retail Federation now estimates holiday sales will increase 6% over last year.
  - Reflects strong early season sales, which were spurred by lower gas prices and retailer discounts.
- Internet sales, which may not result in a tax being collected, have seen some of the strongest gains.
Recent Trends in the Auto Industry May Impact Sales Collections

• Auto sales account for approximately one-third of retail sales.

• In the last 3 months, total US auto sales have decreased 4.5% from the same time last year.

• Due to higher fuel costs, truck sales (including SUV’s) currently represent 53.5% of the US auto market, a 3% decrease from a year ago.

• In addition to fuel costs, rising interest rates could affect sales.
Corporate Income Tax Growth Rate
Consensus Forecast of
19.5% Growth in ’06 and 8.3% in ‘07

- ‘06 YTD rate = 28.2%
- ‘06 consensus = 19.5%
- ‘07 consensus = 8.3%
Corporate Income Tax Collections Have Continued to Grow Rapidly

Four-Sector Consensus
FY 2006 Corporate Income Tax Collections Continue to Climb

• FY 2006 net revenue increased 28.2% for the year to date through November.

• Corporations reported strong profits across the board, with especially good results in home building, financial services, technology and natural resources.

• Companies doing business in the state continue to benefit from the unusually rapid growth of the regional economy.
Key Issues for Corporate Income Tax Revenue

- The U.S. Blue Chip forecast panel predicts corporate profits will increase by 16.6% in 2005 and 7.1% in 2006.

- Global Insight, the forecasting firm, projects U.S. corporate profits will increase by 4.1% in 2006 before dipping (1.2)% in 2007.

- Rising tax liabilities may induce corporate taxpayers to claim credits carried forward from prior years.

- State tax legislation passed in 2005 will affect corporate revenue in FY 2007 and FY 2008.
Key Issues for Corporate Income Tax Revenue (cont.)

- Much of the corporate sector’s profitability has been driven by the interest rate-sensitive housing and financial industries. Interest rates have been rising and may keep climbing.
- Recent surveys have reported that consumer confidence in the state is steady, but the UA’s Business Leaders Confidence Index has dropped (16.5)% from a year ago.
- Price inflation flared up this year and is taking a toll in the form of rising business costs, which could reduce profit margins.
Individual Income Tax Growth Rate
Consensus Forecast of
14.2% Growth in ’06 and 8.1% in ‘07

- ’06 YTD rate = 15.9%*
- ’06 consensus = 14.2%
- ’07 consensus = 8.1%

* FY 04, FY 05, and FY 06 rates adjusted for $76 M in underwithholding in FY 04 and $76 M one-time increase in FY 05.
Rapid Housing Price Inflation Has Increased Income Tax Collections

- Greater Phoenix median resale price is currently 42% above last year.
- Real estate related earnings may have added an estimated $150 million to FY05 individual income tax collections.
- Although the real estate market has cooled in recent months, the cumulative increase for CY 05 in terms of both price and volume is large enough to significantly impact tax collections in April ‘06.
While ’04 Was Good for Real Estate, ’05 Even Better

- Median Resale Price Up By 19% in ‘04
- Median Resale Price Will Increase By About 40% in ‘05

Source: Arizona Real Estate Center

Median Sales Price of Single-Family Houses In the Greater Phoenix Area
Rising Home Prices Will Also Affect Assessed Property Valuation Growth

- Under the state's K-12 funding formula, assessed valuation growth determines how much of the increased ADE cost is funded by local school property taxes.
- FY 2007 residential property values are based on assessments as of January 1, 2005.
- Due to a two-year residential valuation freeze, Maricopa’s FY 2007 values reflect assessments as of January 1, 2004.
- Increase in housing prices during CY 2005 will not be reflected on the property tax rolls until FY 2008 at the earliest.
40% Housing Appreciation Rate Will Not Result In Comparable Property Value Growth

- Residential property represents only about 50% of the assessed value on the tax rolls.
- Other types of real property, such as commercial and industrial property, have not grown as rapidly.
- Personal property, which represents about 13% of taxable value, typically depreciates.
- Median sales price is not a perfect measure of housing appreciation. An index based on repeat-sales or sales price per square foot would likely show a lower appreciation rate.
- Under the Arizona Constitution, real property appreciation is limited to 10% annually for primary property tax purposes.
Summary of Big 3 Revenues -- Likely to Grow by 13% in FY 2006

• 4-sector consensus forecast predicts 13.1% FY 06 growth for Big 3 revenue categories -- would require 9.1% growth in remaining 7 months to reach this forecast.

• JLBC Staff projects 13.6% Big 3 growth in FY 06 -- requires 9.8% growth in remaining months.

• Above does not include smaller revenue categories, which will reduce total growth rate slightly.
Consensus Forecasts a “Big 3” Growth Rate of 7.2% in FY 2007, with Further Moderation through FY 2009
### FY 2006 – FY 2009 Quartile Forecast Worksheet

<table>
<thead>
<tr>
<th>Tax Type</th>
<th>FY 2006</th>
<th>FY 2007</th>
<th>FY 2008</th>
<th>FY 2009</th>
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<tr>
<td><strong>Sales Tax</strong></td>
<td></td>
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<tr>
<td>JLBC Forecast (12/05)</td>
<td>13.5%</td>
<td>7.2%</td>
<td>6.0%</td>
<td>6.0%</td>
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<tr>
<td>UA - Low (11/05 revision)</td>
<td>8.9%</td>
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<td>UA - Base (11/05 revision)</td>
<td>9.3%</td>
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<td>5.8%</td>
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<tr>
<td>FAC (12/19/05 Survey)</td>
<td>12.2%</td>
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<td>5.8%</td>
<td>6.6%</td>
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<tr>
<td><strong>Average:</strong></td>
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<td><strong>Individual Income Tax</strong></td>
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<tr>
<td>JLBC Forecast (12/05)</td>
<td>13.1%</td>
<td>7.5%</td>
<td>7.0%</td>
<td>7.0%</td>
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<td>UA - Low (11/05 revision)</td>
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<td>UA - Base (11/05 revision)</td>
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<td>7.8%</td>
<td>8.4%</td>
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<td>FAC (12/19/05 Survey)</td>
<td>14.1%</td>
<td>9.2%</td>
<td>6.8%</td>
<td>8.1%</td>
</tr>
<tr>
<td><strong>Average:</strong></td>
<td>14.2%</td>
<td>8.1%</td>
<td>6.6%</td>
<td>7.5%</td>
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<td><strong>Corporate Income Tax</strong></td>
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<td>JLBC Forecast (12/05)</td>
<td>15.8%</td>
<td>8.1%</td>
<td>6.4%</td>
<td>3.0%</td>
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<td>UA - Low (11/05 revision)</td>
<td>19.8%</td>
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<tr>
<td>UA - Base (11/05 revision)</td>
<td>25.7%</td>
<td>15.0%</td>
<td>3.7%</td>
<td>0.9%</td>
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<tr>
<td>FAC (12/19/05 Survey)</td>
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<td>8.2%</td>
<td>4.3%</td>
<td>6.0%</td>
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<tr>
<td><strong>Average:</strong></td>
<td>19.5%</td>
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<td>1.1%</td>
<td>0.9%</td>
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<tr>
<td>Overall Weighted Average:</td>
<td>13.1%</td>
<td>7.2%</td>
<td>5.2%</td>
<td>6.0%</td>
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</tbody>
</table>
National Outlook

Finance Advisory Committee

Elliott D. Pollack & Company

December 19th, 2005
United States Real Gross Domestic Product*  
Annual Growth 1970 - 2006**  
Source: U.S. Bureau of Economic Analysis & Blue Chip Economic Indicators

* Based on chained 2000 dollars.  
** 2005 - 2006 are forecasts from the Blue Chip Economic Indicators, September 2005
Consumer
Why consumers are still spending…

- Productivity growth ➔ more output growth ➔ more income growth.
- Inflation low compared to past four expansions ➔ more real income growth.
- Low interest rates ➔ housing demand.
Financial Obligation Ratio
1980 – 2005*
Source: Board of Governors, Federal Reserve Board

NOTE: The FOR includes debt service payments as a percent of disposable income. The FOR is a broader measure as it includes auto lease payments, rental payments, homeowner’s insurance and property taxes.
*Data through third quarter 2005.
U.S. Real Personal Income
Percent Change Year Ago
1971 – 2005*
Source: Bureau of Economic Analysis

*Data through third quarter 2005
U.S. Real Retail Sales
1972 – 2005*
Source: Federal Reserve Board of St. Louis

* Data through October 2005

Recession Periods
Consumer Price Index
Percent Change Year Ago
1991 – 2005*
Source: Bureau of Labor Statistics

Personal Consumption Expenditures
Price Deflator (2000=100)
Percent Change Year Ago
1971 – 2005*

Source: Bureau of Economic Analysis

• Data through third quarter 2005.
30-Year Conventional Mortgage Rates
1982 – 2005*
Source: Federal Reserve Economic Database

- Data through October 2005.
3-Month Treasury
1982 – 2005*
Source: Federal Reserve Economic Database

- Data through November 2005.
Single Family Median Price of Resales
United States
1995–2005*

* As of third quarter 2005.

Source: National Association of Realtors
Household Net Worth
1973 – 2005*

Source: www.economy.com

*Data through third quarter 2005
Mortgage Equity Withdrawal as a share of Disposable Income
U.S.: 1971 – 2005*
Source: Bureau of Economic Analysis

* Data through third quarter 2005

Recession Periods
Home Equity Cashed Out During Mortgage Refinancings 1993–2005*

Source: Freddie Mac

* 2005 forecast from Freddie Mac.
Cash-Out Dollars as a Percentage of Refinanced Origination Amount
1993–2005*

Source: Freddie Mac

* 2005 is a forecast from Freddie Mac.
National Employment*
Annual Percent Change 1975–2005**

Source: Bureau of Labor Statistics

*Non-agricultural wage & salary employment. Changed from SIC to NAICS reporting in 1990.

**Year-to-date through November 2005.
National Employment
(Net change in jobs over year ago)
January 2001 – November 2005
Source: U.S. Bureau of Labor Statistics
## National Employment Growth

<table>
<thead>
<tr>
<th>Recession</th>
<th>Annual Growth 4 years post over 3 year post</th>
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<tbody>
<tr>
<td>1975</td>
<td>4.8%</td>
</tr>
<tr>
<td>1982</td>
<td>1.9%</td>
</tr>
<tr>
<td>1991</td>
<td>3.3%</td>
</tr>
<tr>
<td>2001</td>
<td>1.5%</td>
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### Output per Hour

Output per hour growth 3 years + 3 quarters Post Recession

<table>
<thead>
<tr>
<th>Recession</th>
<th>Growth 3 years + 3 qtrs post</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td>9.2%</td>
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<tr>
<td>1982</td>
<td>11.0%</td>
</tr>
<tr>
<td>1991</td>
<td>7.9%</td>
</tr>
<tr>
<td>2001</td>
<td>13.5%</td>
</tr>
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</table>
Labor Force Growth
Annual Growth Rate of Working Age (16-64)
1970–2030
Source: Census Bureau

* Forecasts from the Census Bureau
Median Weeks Unemployed (S/A)
1972 – 2005*
Source: Bureau of Labor Statistics

Data through November 2005.
Business
Capacity Utilization Rate
1970 – 2005*
Source: The Conference Board

• Data through October 2005

Recession Periods
Total Plant Spending
Percent Change Year Ago
(Real Dollars)
1970 – 2005*
Source: Bureau of Economic Analysis

Data through third quarter 2005.
NOTE: Series was revised in March 2004. Data prior to 1990 was not provided.
Total Equipment & Software Spending
Percent Change Year Ago
(Real Dollars)
1970 – 2005*

Source: Bureau of Economic Analysis

Data through third quarter 2005.

*NOTE: Series was revised in March 2004. Data prior to 1990 was not provided.
Corporate Profit
1975-2005*
(Billions of Dollars, SA)
Source: Freelunch.com

Recession Periods

• Data through third quarter 2005
10-Year Treasury Rate minus 3-month Treasury Rate
1982 – 2005*
Source: Federal Reserve Economic Database

Data through November 2005.
Net Percentage of Large U.S. Banks Reporting Tougher Standards on Business Loans 1991 – 2005 *

Source: Federal Reserve, Board of Governors

* Data through third quarter 2005
Government
Deficit ?
U.S. Real Net Exports as a Percent of Real GDP
1971 – 2005*
Source: Bureau of Economic Analysis

*Data through third quarter 2005
U.S. Debt Held by Foreign & International Investors
1975-2005*
(Billions of Dollars, SA)
Source: Federal Reserve Economic Database

• Data through third quarter 2005.
M2 Stock – Seasonally Adjusted
Percent Change Year Ago
1970 – 2005*


Data through October 2005.
# 2004 v. 2005

## U.S. OUTLOOK GOOD NEWS

### LAST YEAR
- Fiscal stimulus
- Monetary stimulus
- Real incomes up
- Businesses mean and lean
- Productivity growth strong
- Job growth accelerating, albeit slowly
- Cheaper dollar means more exports
- Inflation (in near term) not a problem
- Low interest rates

### THIS YEAR
- Not as much
- Strong (but not as much)
- Still strong
- Still strong
- Not as strong
- Same
- Same
- Moving up slowly
- Moving up, but still low
U.S. Economy:
The Glass is Half Full

... But not as full as last year.
Joint Legislative Budget Committee
Finance Advisory Committee

Monday December 19, 2005
## Arizona Single Family Construction Activity

<table>
<thead>
<tr>
<th>County</th>
<th>2002</th>
<th>2005</th>
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<tbody>
<tr>
<td>Maricopa</td>
<td>63 percent</td>
<td>52 percent</td>
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<tr>
<td>Pinal</td>
<td>8</td>
<td>16</td>
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<tr>
<td>Pima</td>
<td>12</td>
<td>13</td>
</tr>
<tr>
<td>Coconino</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Yavapai</td>
<td>4</td>
<td>5</td>
</tr>
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</table>
## Arizona Single Family Average Permit Value

<table>
<thead>
<tr>
<th>County</th>
<th>2002</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maricopa</td>
<td>$155,080</td>
<td>$184,025</td>
</tr>
<tr>
<td>Pinal</td>
<td>108,130</td>
<td>125,090</td>
</tr>
<tr>
<td>Pima</td>
<td>151,220</td>
<td>168,725</td>
</tr>
<tr>
<td>Coconino</td>
<td>145,910</td>
<td>200,835</td>
</tr>
<tr>
<td>Yavapai</td>
<td>136,725</td>
<td>179,985</td>
</tr>
<tr>
<td>County</td>
<td>2005</td>
<td></td>
</tr>
<tr>
<td>----------</td>
<td>------------</td>
<td></td>
</tr>
<tr>
<td>Maricopa</td>
<td>75 percent</td>
<td></td>
</tr>
<tr>
<td>Pinal</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Pima</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Coconino</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Yavapai</td>
<td>1</td>
<td></td>
</tr>
</tbody>
</table>
# New Housing Permits

<table>
<thead>
<tr>
<th>Year</th>
<th>Maricopa</th>
<th>Pinal</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005 YTD</td>
<td>33,946</td>
<td>13,944</td>
</tr>
<tr>
<td>2004</td>
<td>48,136</td>
<td>11,495</td>
</tr>
<tr>
<td>2003</td>
<td>39,652</td>
<td>6,730</td>
</tr>
<tr>
<td>2002</td>
<td>34,309</td>
<td>4,433</td>
</tr>
</tbody>
</table>
New Housing Permits
Maricopa County

- **2000s YTD**: 221,404
- **1990s**: 242,161
- **1980s**: 151,796
- **1970s**: 171,406
<table>
<thead>
<tr>
<th>Year</th>
<th>Median New Home Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>$173,240</td>
</tr>
<tr>
<td>2004</td>
<td>$195,000</td>
</tr>
<tr>
<td>2005 Nov.</td>
<td>$288,980</td>
</tr>
</tbody>
</table>
Resale Home Market
Maricopa County

SALES ACTIVITY
- 2005 YTD: 104,365
- 2004: 102,115
- 2003: 73,785

MEDIAN PRICE
- 2005 Nov.: $263,000
- 2004: $174,815
- 2003: $155,000
<table>
<thead>
<tr>
<th>Year</th>
<th>Rate of Appreciation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>4.8 percent</td>
</tr>
<tr>
<td>2001</td>
<td>5.4 percent</td>
</tr>
<tr>
<td>2002</td>
<td>6.0 percent</td>
</tr>
<tr>
<td>2003</td>
<td>6.3 percent</td>
</tr>
<tr>
<td>2004</td>
<td>8.4 percent</td>
</tr>
<tr>
<td>1981-2004</td>
<td>4.0 percent</td>
</tr>
</tbody>
</table>
## Housing Market
### Pinal County

<table>
<thead>
<tr>
<th></th>
<th>New</th>
<th>Resale</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>7,445</td>
<td>3,790</td>
</tr>
<tr>
<td>2005 YTD</td>
<td>7,632</td>
<td>4,260</td>
</tr>
</tbody>
</table>

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>$145,900</td>
<td>$137,500</td>
</tr>
<tr>
<td>2005 Aug.</td>
<td>198,770</td>
<td>212,950</td>
</tr>
</tbody>
</table>
### Housing Indicators
#### Maricopa County

<table>
<thead>
<tr>
<th>Year</th>
<th>Resale</th>
<th>New</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>117</td>
<td>100</td>
</tr>
<tr>
<td>2001</td>
<td>124</td>
<td>108</td>
</tr>
<tr>
<td>2002</td>
<td>124</td>
<td>113</td>
</tr>
<tr>
<td>2003</td>
<td>126</td>
<td>113</td>
</tr>
<tr>
<td>2004</td>
<td>114</td>
<td>102</td>
</tr>
<tr>
<td>2005 3rd Qtr</td>
<td>78</td>
<td>78</td>
</tr>
</tbody>
</table>
## Comparative Resale Housing Prices

<table>
<thead>
<tr>
<th>Areas</th>
<th>Third Qtr. 2004</th>
<th>Third Qtr. 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>$188,200</td>
<td>215,900</td>
</tr>
<tr>
<td>Phoenix</td>
<td>177,500</td>
<td>259,700</td>
</tr>
<tr>
<td>San Diego</td>
<td>578,300</td>
<td>615,000</td>
</tr>
<tr>
<td>Las Vegas</td>
<td>283,200</td>
<td>313,000</td>
</tr>
<tr>
<td>Dallas</td>
<td>140,300</td>
<td>147,200</td>
</tr>
<tr>
<td>Atlanta</td>
<td>159,700</td>
<td>171,200</td>
</tr>
</tbody>
</table>

Source: NAR
## Housing Indicators

### Maricopa County

#### Inventory Turnover

<table>
<thead>
<tr>
<th>Year</th>
<th>Resale</th>
<th>New</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>7 percent</td>
<td>3 percent</td>
</tr>
<tr>
<td>2003</td>
<td>8 percent</td>
<td>4 percent</td>
</tr>
<tr>
<td>2004</td>
<td>11 percent</td>
<td>5 percent</td>
</tr>
<tr>
<td>1982-2004</td>
<td>7 percent</td>
<td>3 percent</td>
</tr>
</tbody>
</table>
## Housing Indicators

### Maricopa County

- **Jobs per resale home**

<table>
<thead>
<tr>
<th>Year</th>
<th>Resale</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>29</td>
</tr>
<tr>
<td>2001</td>
<td>26</td>
</tr>
<tr>
<td>2002</td>
<td>25</td>
</tr>
<tr>
<td>2003</td>
<td>22</td>
</tr>
<tr>
<td>2004</td>
<td>16</td>
</tr>
<tr>
<td>2005 YTD</td>
<td>15</td>
</tr>
<tr>
<td>1982-2004</td>
<td>29</td>
</tr>
</tbody>
</table>
Housing Behavior

- Homes are an investment
  - Owner/occupant investor
  - Owner/landlord investor
  - Owner/speculator investor

- Motivation
  - Long-term: self-sufficiency
  - Short-term: lifestyle enhancement

- Return
  - Income: Rental
  - Financing
  - Appreciation
Other Real Estate Topics

- Condomania
  - New projects
  - Conversions
  - Commercial

- Retail Development
Final Comment

How can something seem so plausible at the time and so idiotic in retrospect?

Calvin
Contact

WWW.EAST.ASU.EDU/AREC