STATE OF ARIZONA

Joint Legislative Budget Committee

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FINANCE ADVISORY COMMITTEE
December 20, 2005
Senate Hearing Room 1 – 1:30 p.m.

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 4^{th} 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 2^{nd} fastest growing state. The most recent figures, when compared to other states, show Arizona ranked at 3^{rd}. 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 48^{th} among states. He said that what the data shows for the 2^{nd} 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.

Finance Advisory Committee

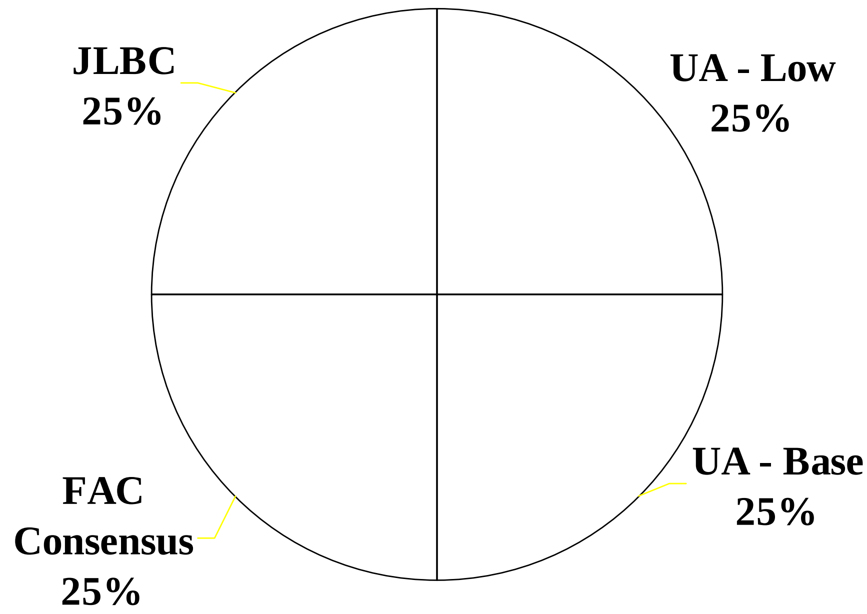
December 19, 2005

JLBC

FAC Forecast is a Component of "Big 3" General Fund Revenue Consensus Estimate

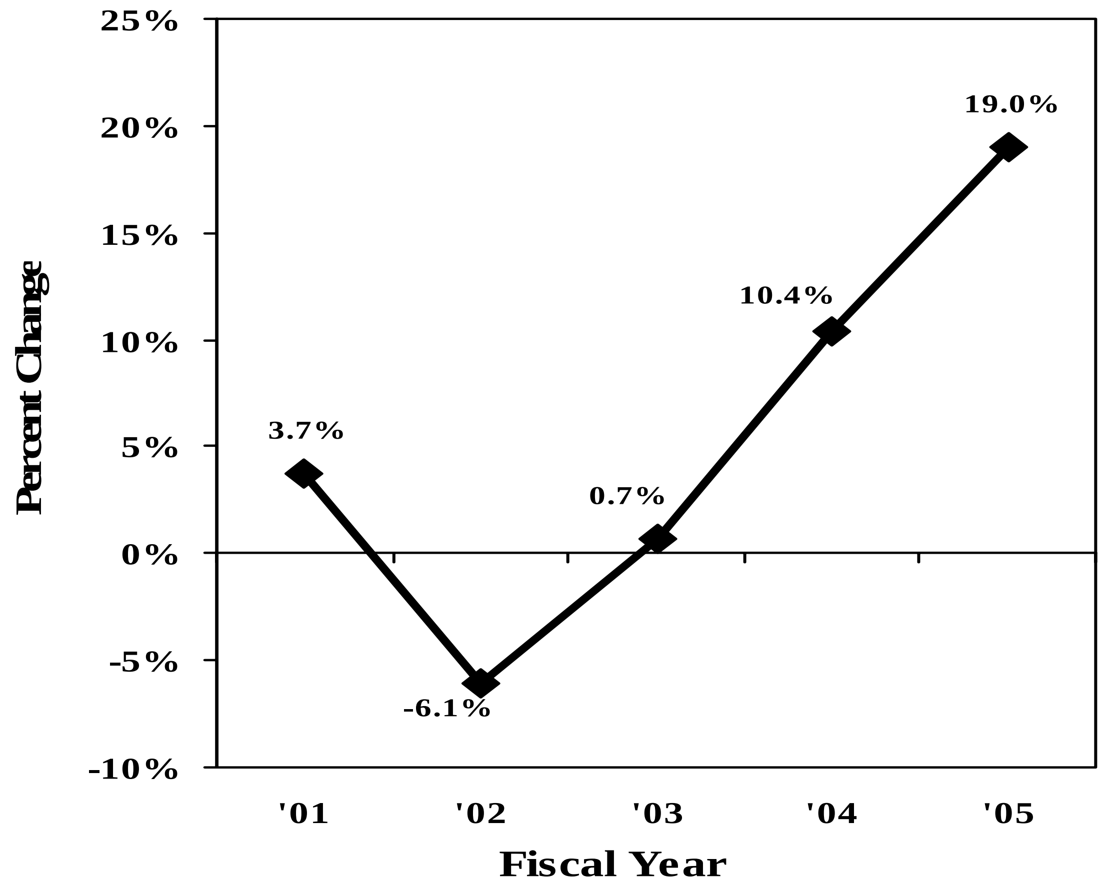
Big 3 forecast equally weights:

- **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**

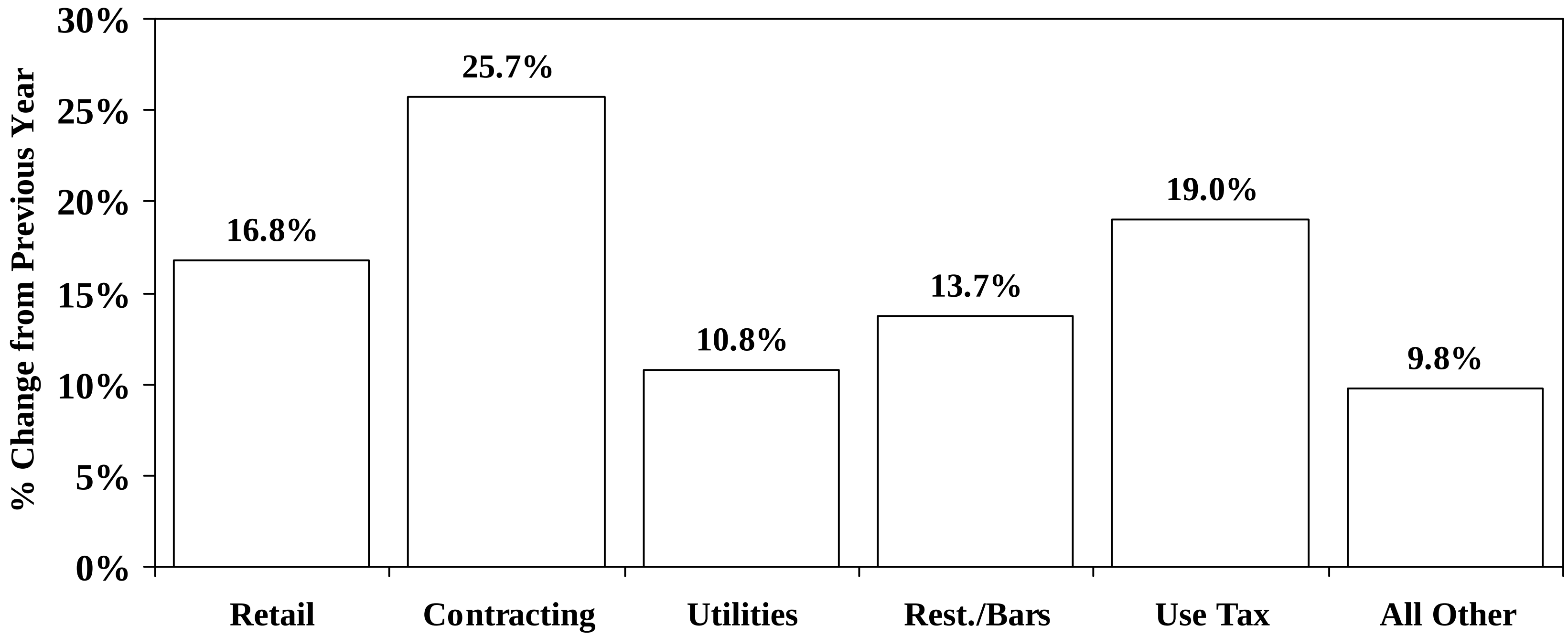


FY 2006 Revenues Have Maintained Pace of the Last Quarter of FY 2005
-- But Difficult to Sustain

- 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

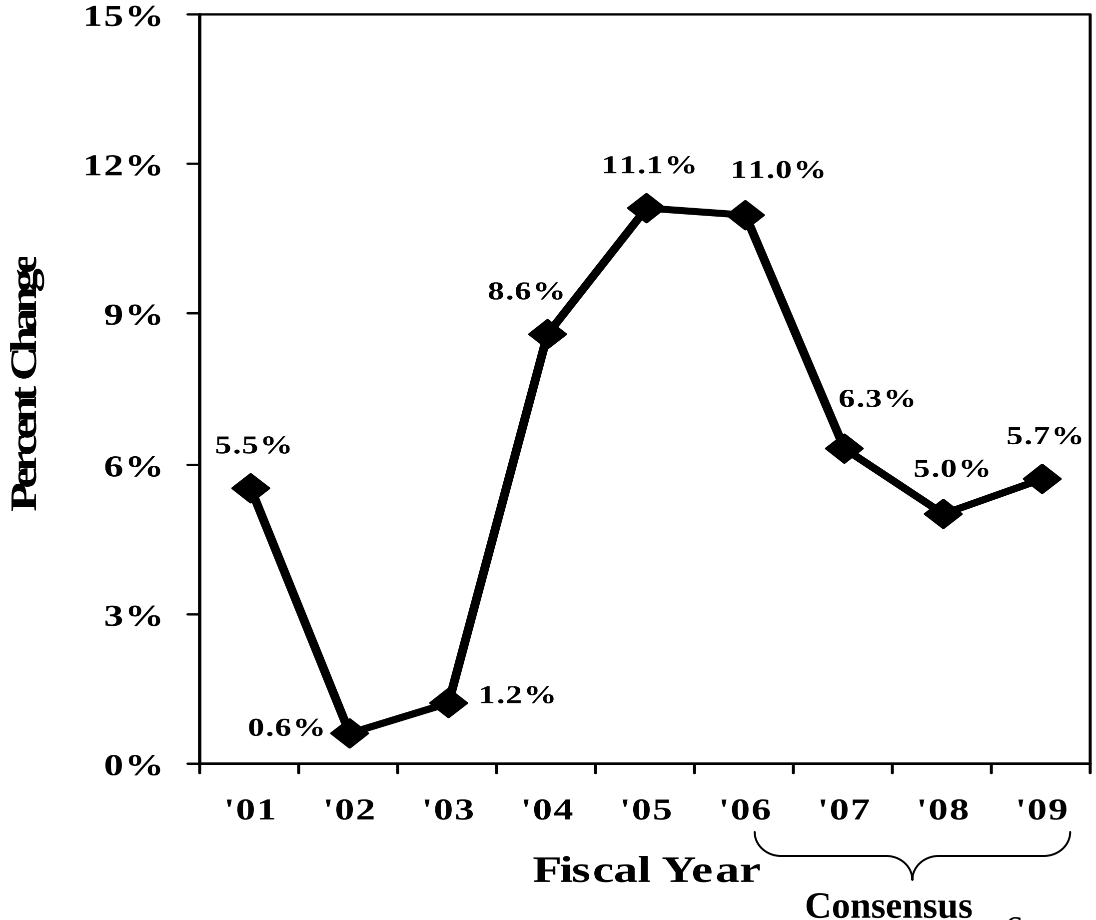
- Overall Growth is 17.1% (Through October)



FY 2006 Year to Date – All Major Categories

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

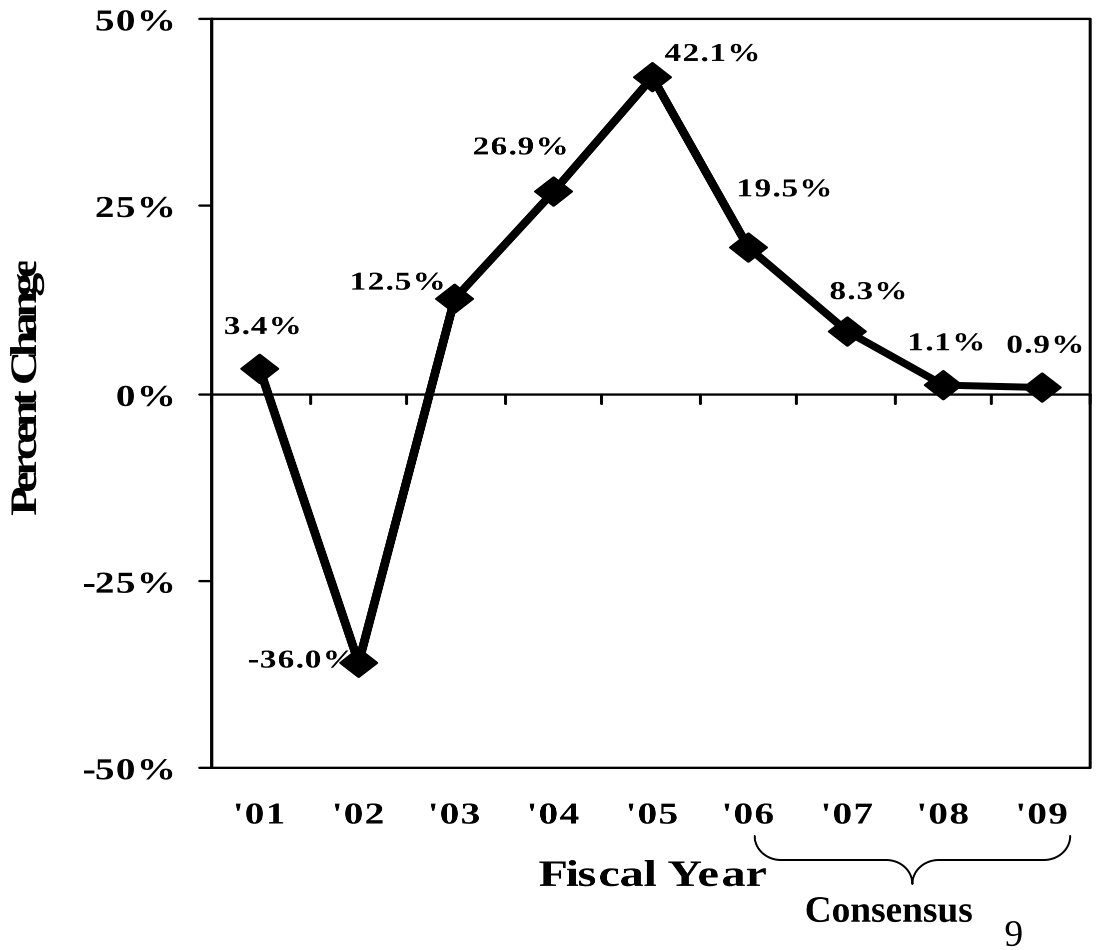
- Winter holiday sales account for 20% of total annual retail industry sales.
- After an initial projection of 5% growth, the National Retail Federation now estimates holiday sales will increase 6% over last year.
  - Reflects strong early season sales, which were spurred by lower gas prices and retailer 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

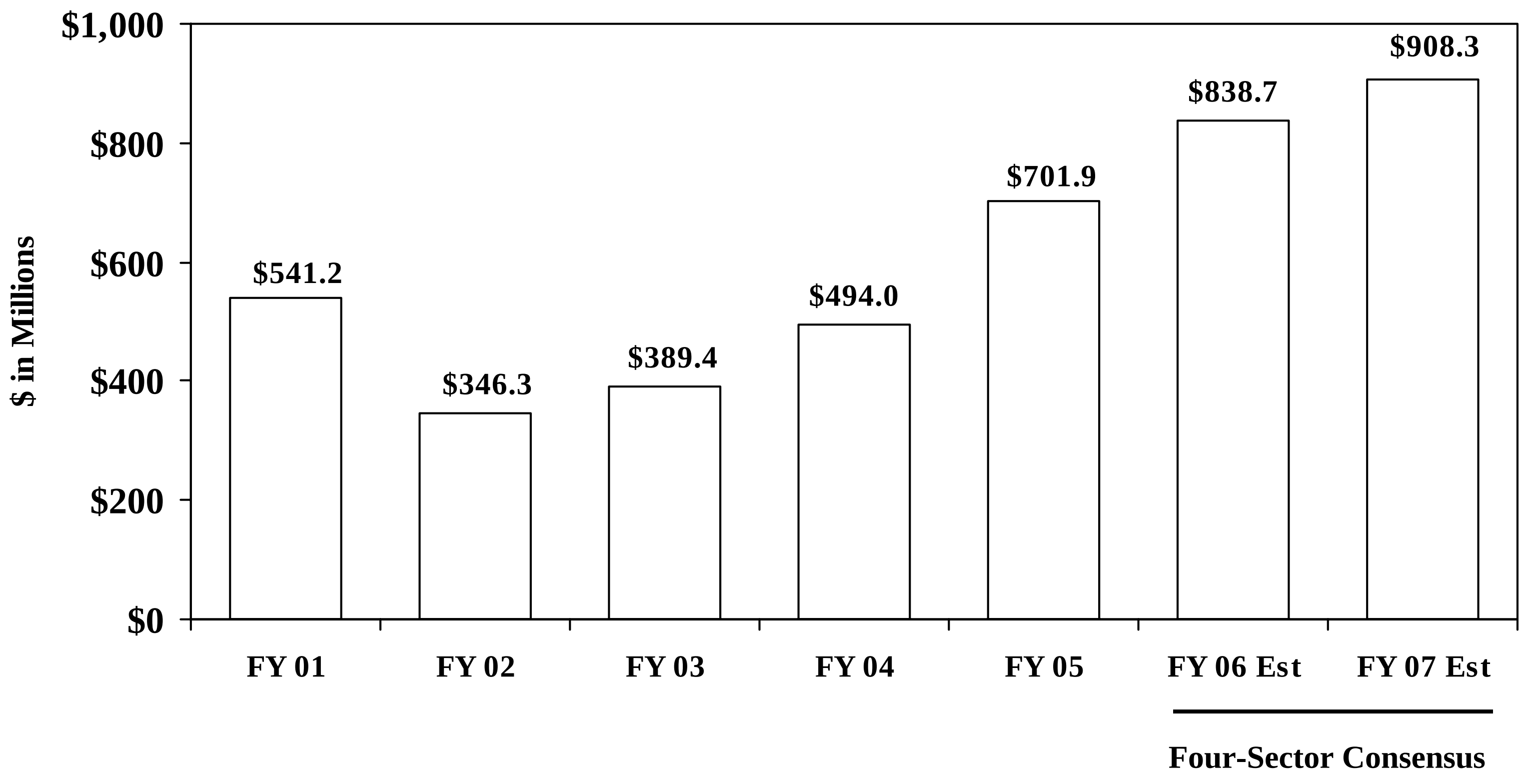
- Auto sales account for approximately one-third of retail sales.
- In the last 3 months, total US auto sales have decreased 4.5% from the same time last year.
- Due to higher fuel costs, truck sales (including SUV’s) currently represent 53.5% of the US auto market, a 3% decrease from a year ago.
- In 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



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.

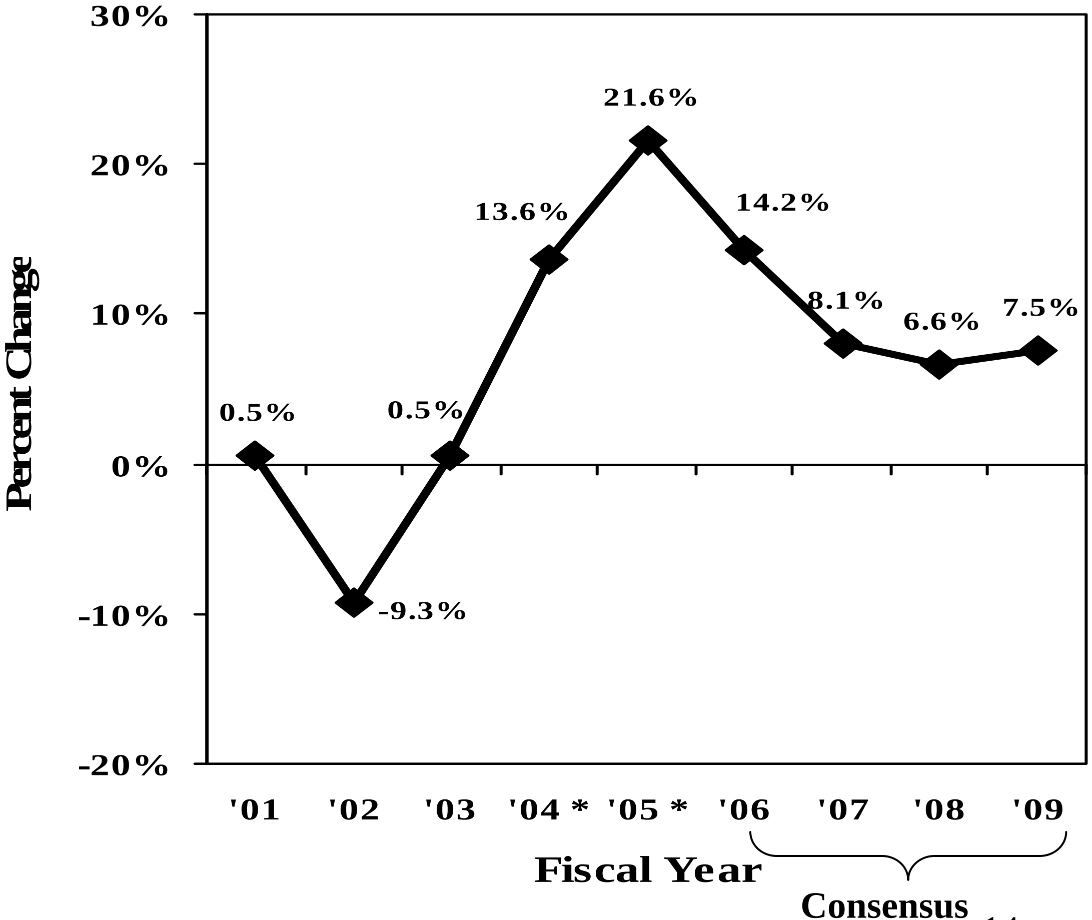
Key Issues for Corporate Income Tax Revenue (cont.)

- 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.

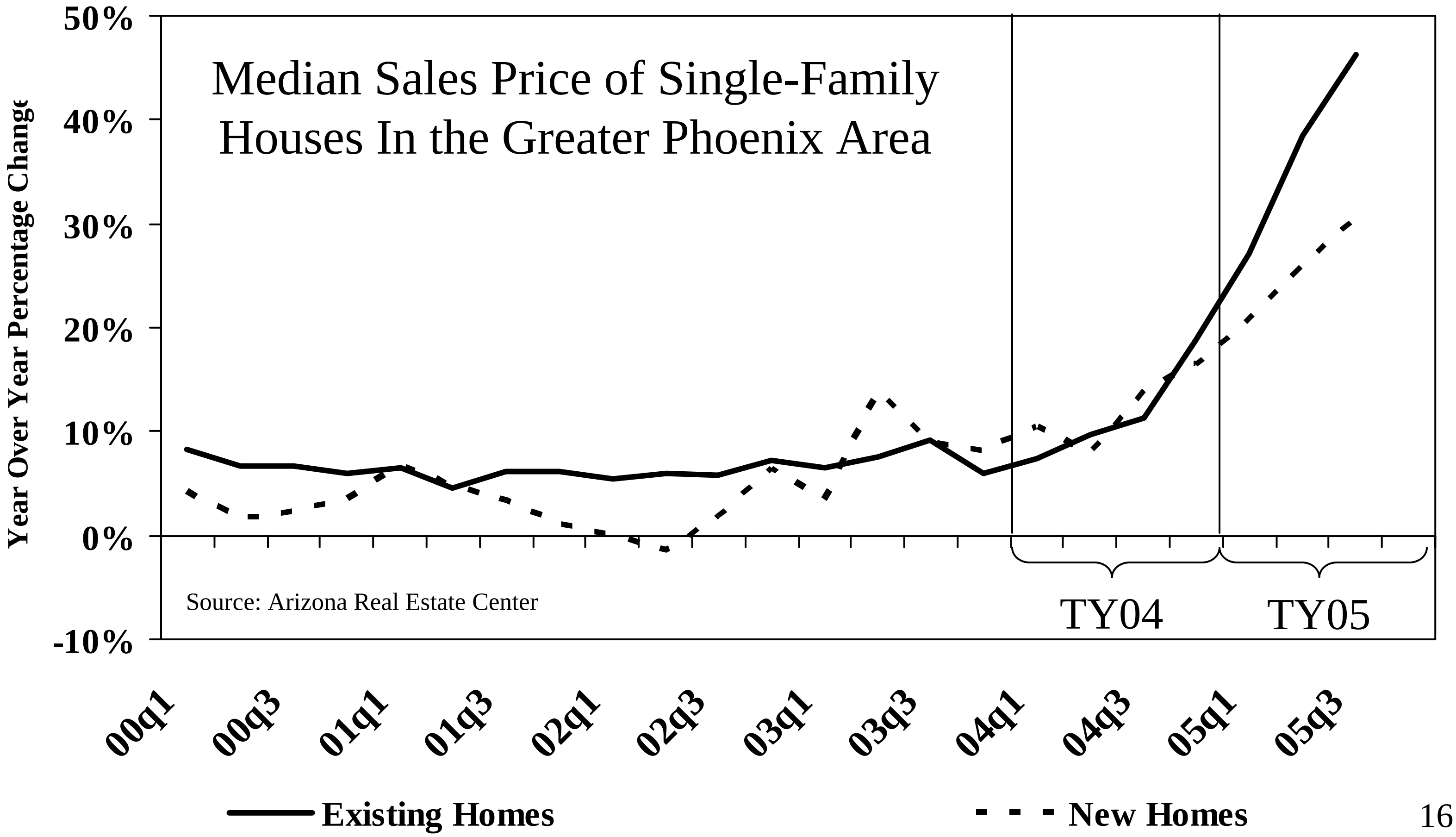
Rapid Housing Price Inflation Has Increased Income Tax Collections

- 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



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.

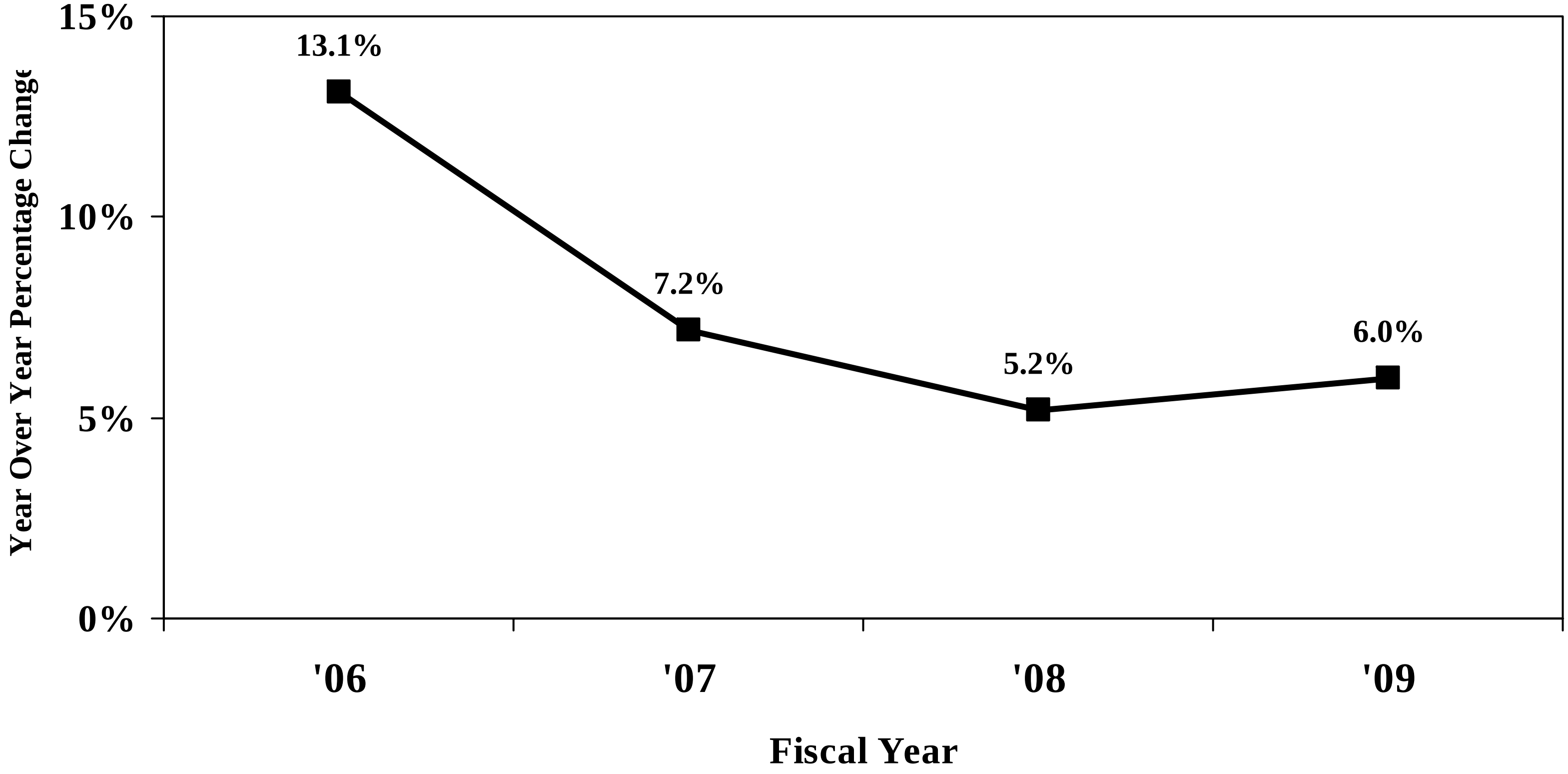
40% Housing Appreciation Rate Will Not Result In Comparable Property Value Growth

- 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

	FY 2006	FY 2007	FY 2008	FY 2009
Sales Tax				
JLBC Forecast (12/05)	13.5%	7.2%	6.0%	6.0%
UA - Low (11/05 revision)	8.9%	4.2%	3.0%	4.3%
UA - Base (11/05 revision)	9.3%	6.0%	5.2%	5.8%
FAC (12/19/05 Survey)	12.2%	7.8%	5.8%	6.6%
Average:	**11.0%**	**6.3%**	**5.0%**	**5.7%**
Individual Income Tax				
JLBC Forecast (12/05)	13.1%	7.5%	7.0%	7.0%
UA - Low (11/05 revision)	15.3%	7.0%	4.8%	6.5%
UA - Base (11/05 revision)	14.4%	8.5%	7.8%	8.4%
FAC (12/19/05 Survey)	14.1%	9.2%	6.8%	8.1%
Average:	**14.2%**	**8.1%**	**6.6%**	**7.5%**
Corporate Income Tax				
JLBC Forecast (12/05)	15.8%	8.1%	6.4%	3.0%
UA - Low (11/05 revision)	19.8%	1.7%	-10.1%	-6.4%
UA - Base (11/05 revision)	25.7%	15.0%	3.7%	0.9%
FAC (12/19/05 Survey)	16.6%	8.2%	4.3%	6.0%
Average:	**19.5%**	**8.3%**	**1.1%**	**0.9%**
Overall Weighted Average:	**13.1%**	**7.2%**	**5.2%**	**6.0%**

National Outlook

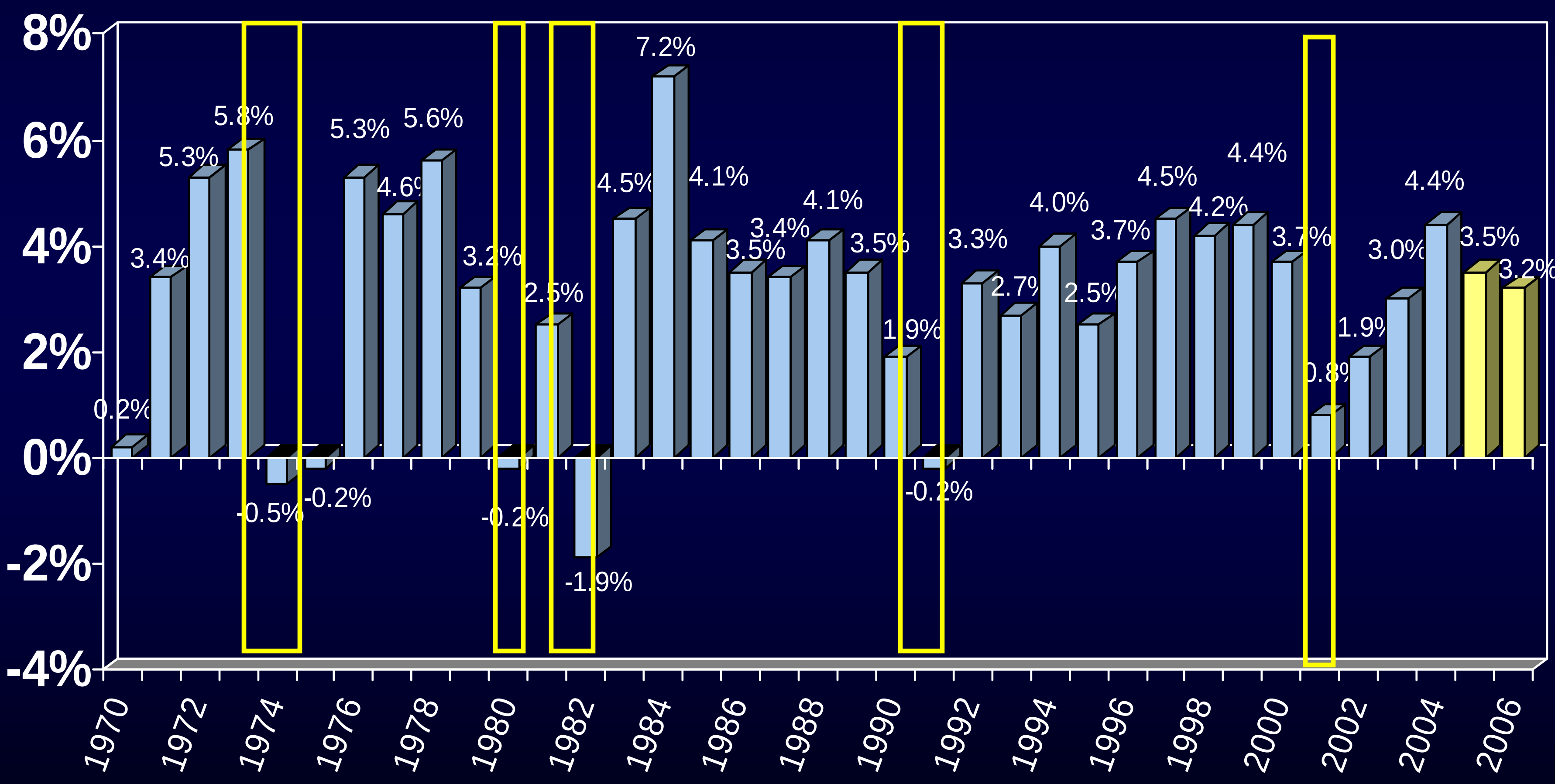
Finance Advisory Committee

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

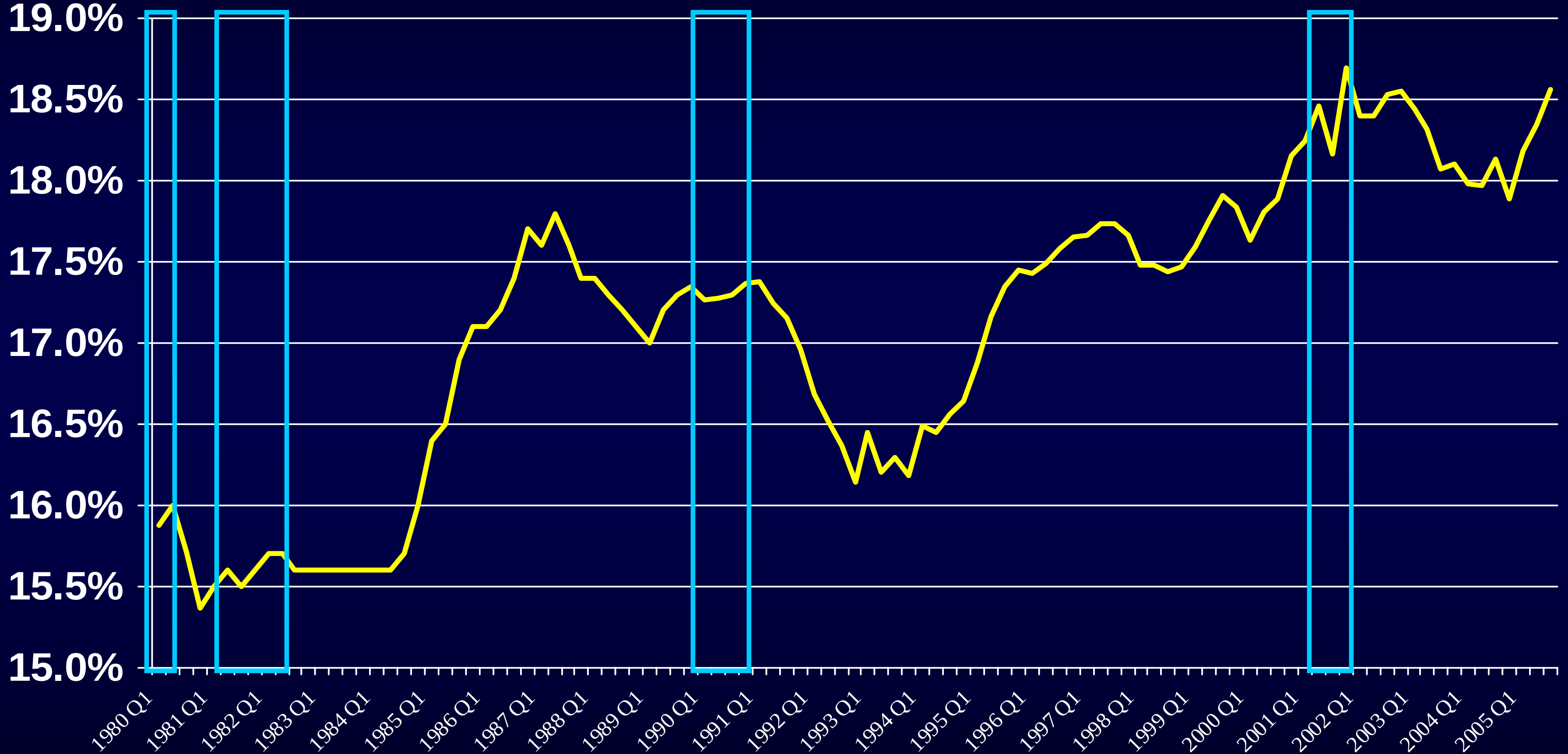
Consumer

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.

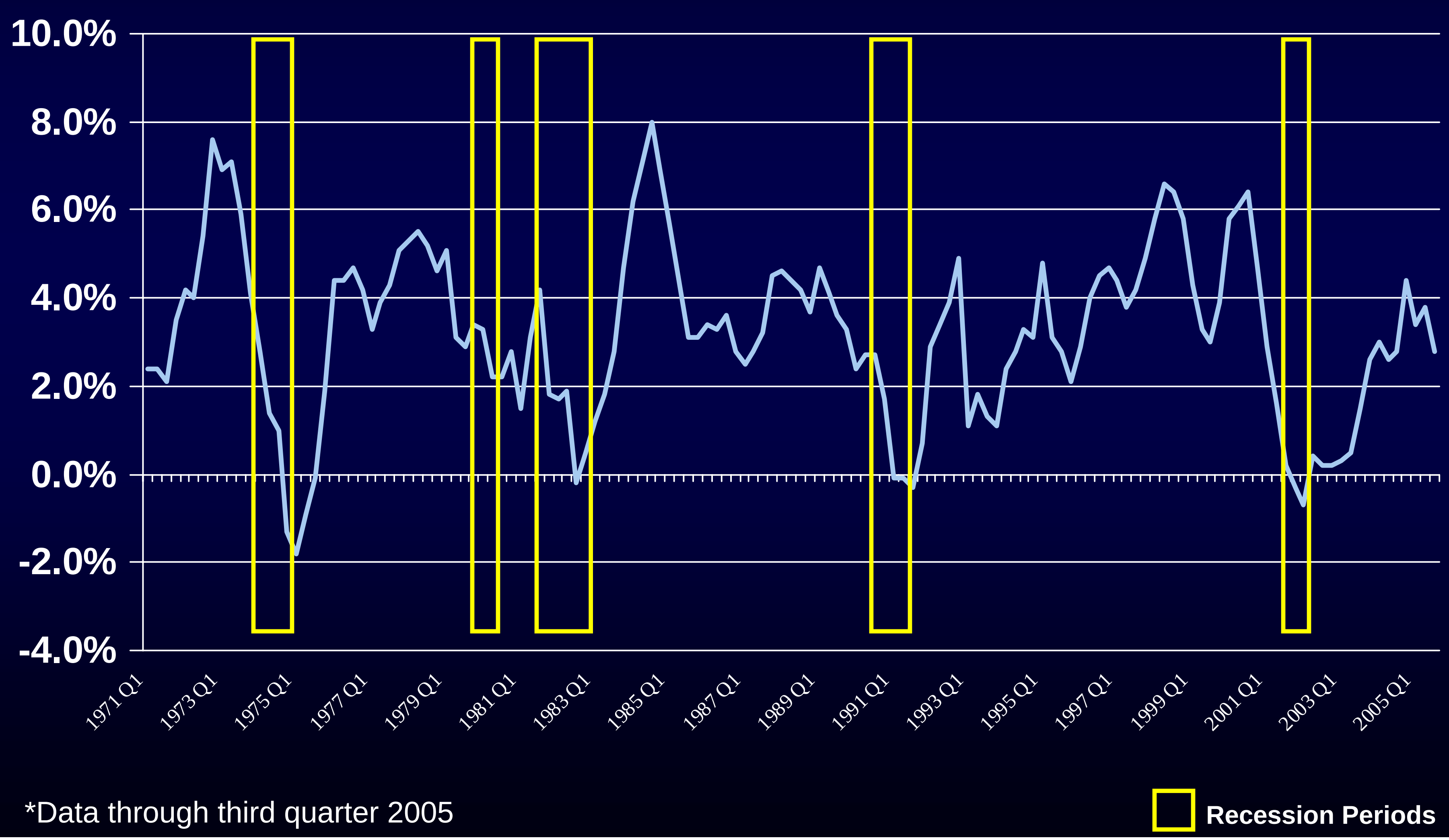
Financial Obligation Ratio
1980 – 2005*

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.

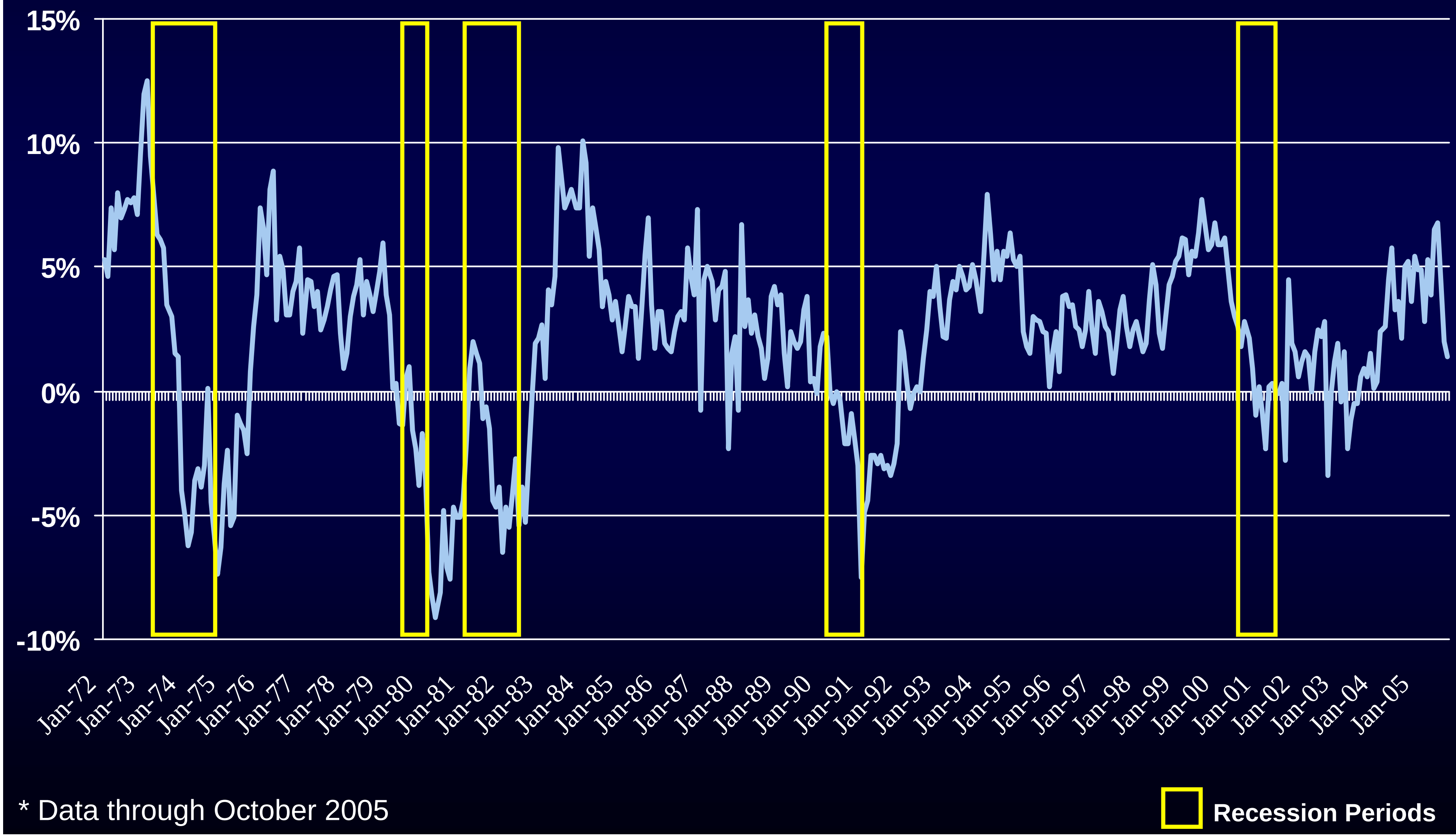
U.S. Real Personal Income
Percent Change Year Ago
1971 – 2005*
Source: Bureau of Economic Analysis



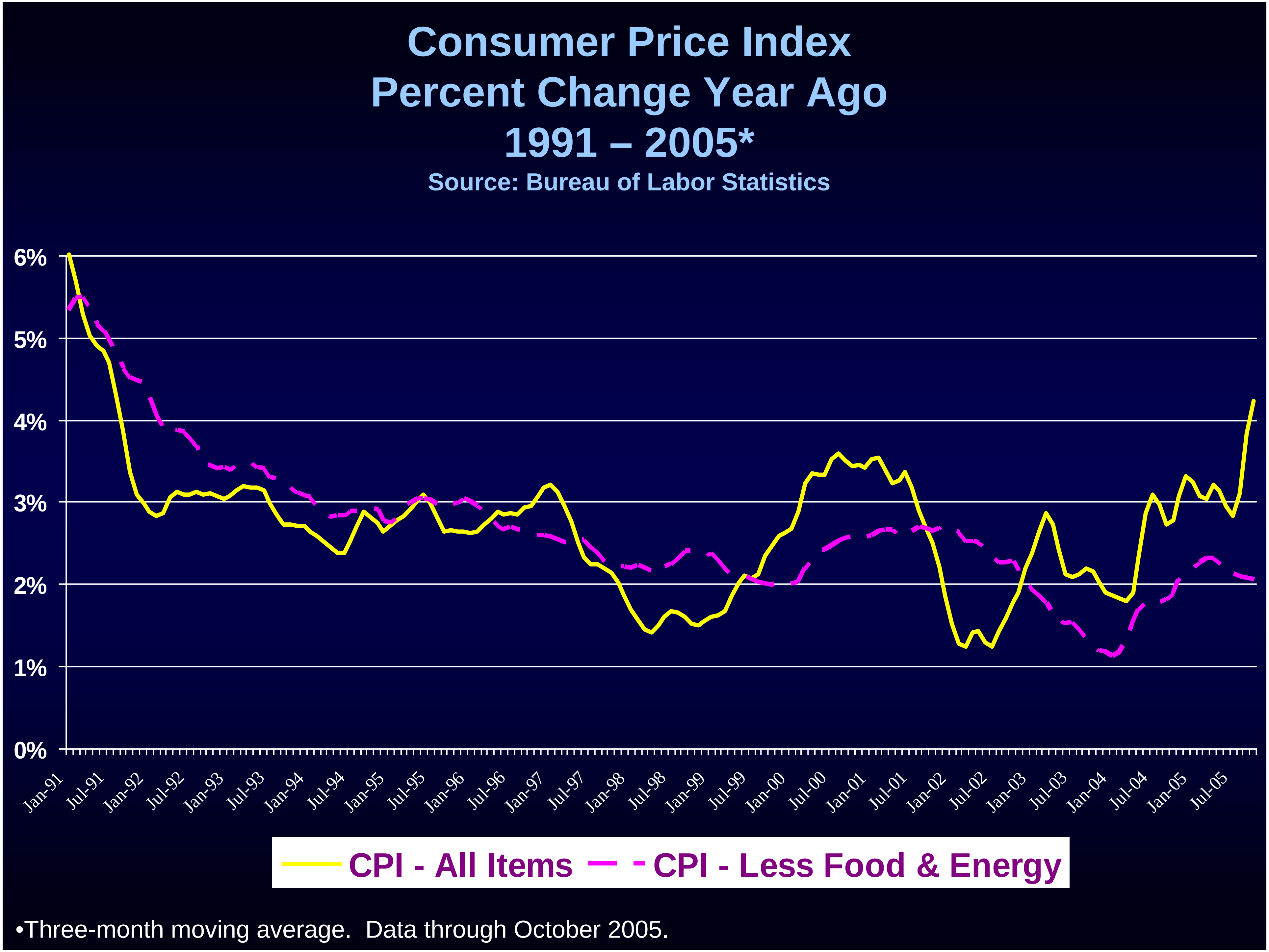
*Data through third quarter 2005

U.S. Real Retail Sales
1972 – 2005*

Source: Federal Reserve Board of St. Louis



* Data through October 2005



Consumer Price Index
Percent Change Year Ago
1991 – 2005*
Source: Bureau of Labor Statistics
6%
5%
4%
3%
2%
1%
0%
Jan-91
Jul-91
Jan-92
Jul-92
Jan-93
Jul-93
Jan-94
Jul-94
Jan-95
Jul-95
Jan-96
Jul-96
Jan-97
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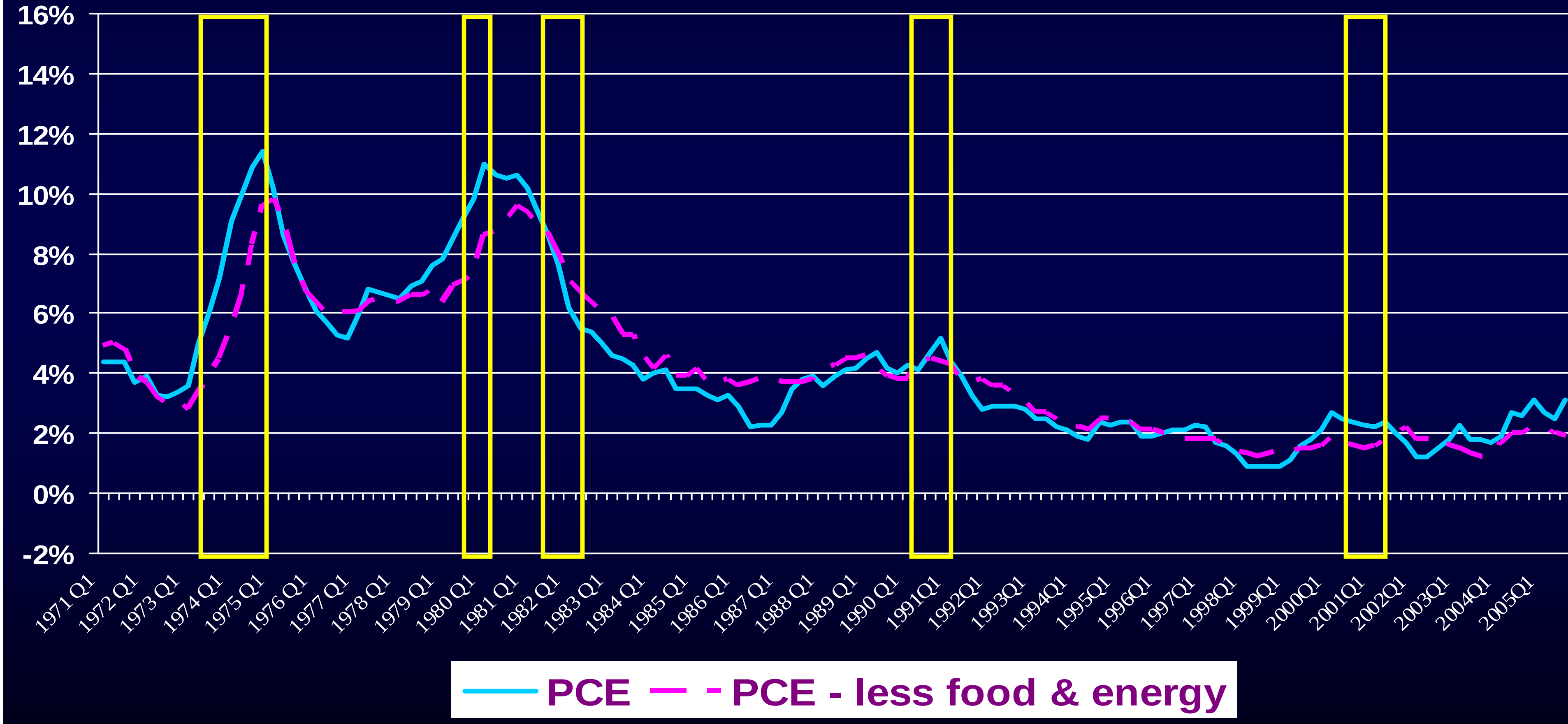
Jan-01
Jul-01
Jan-02
Jul-02
Jan-03
Jul-03
Jan-04
Jul-04
Jan-05
Jul-05
CPI - All Items
CPI - Less Food & Energy
•Three-month moving average. Data through October 2005.

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

Source: Bureau of Economic Analysis



•Data through third quarter 2005.

Recession Periods

30-Year Conventional Mortgage Rates 1982 – 2005*

Source: Federal Reserve Economic Database

•Data through October 2005.

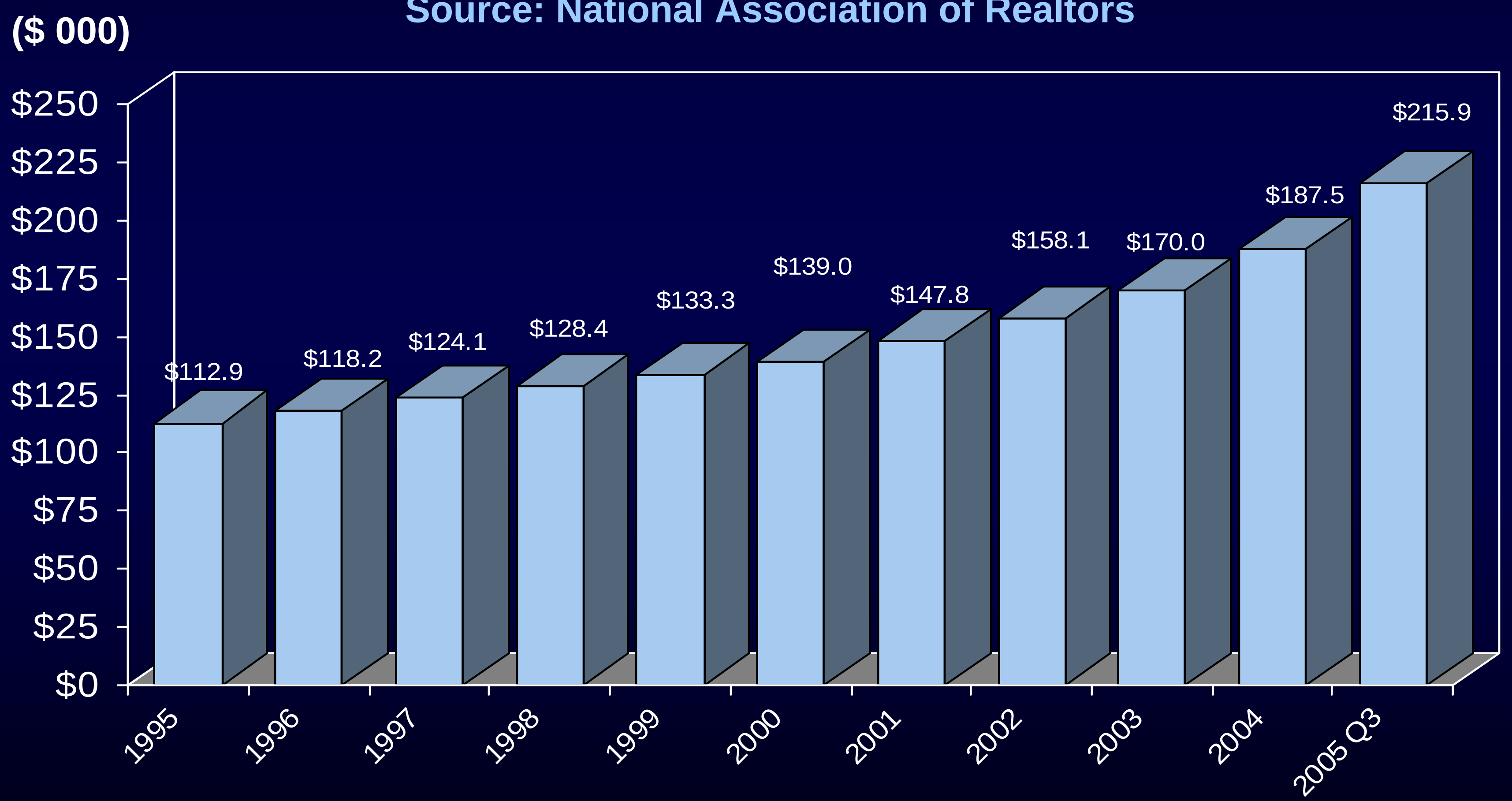
3-Month Treasury
1982 – 2005*

Source: Federal Reserve Economic Database

•Data through November 2005.

Single Family Median Price of Resales
United States
1995–2005*

Source: National Association of Realtors

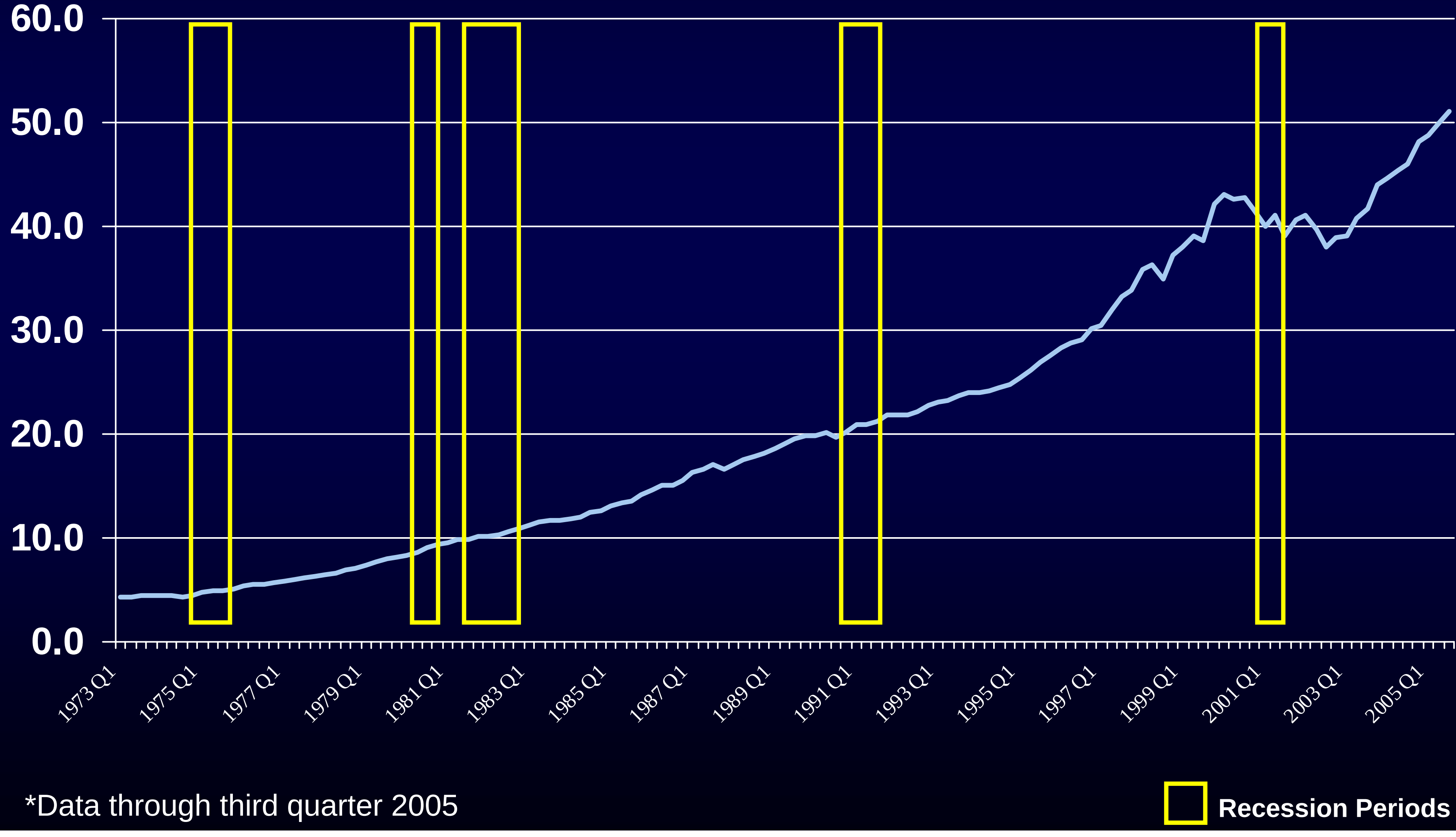


* As of third quarter 2005.

Household Net Worth

1973 – 2005*

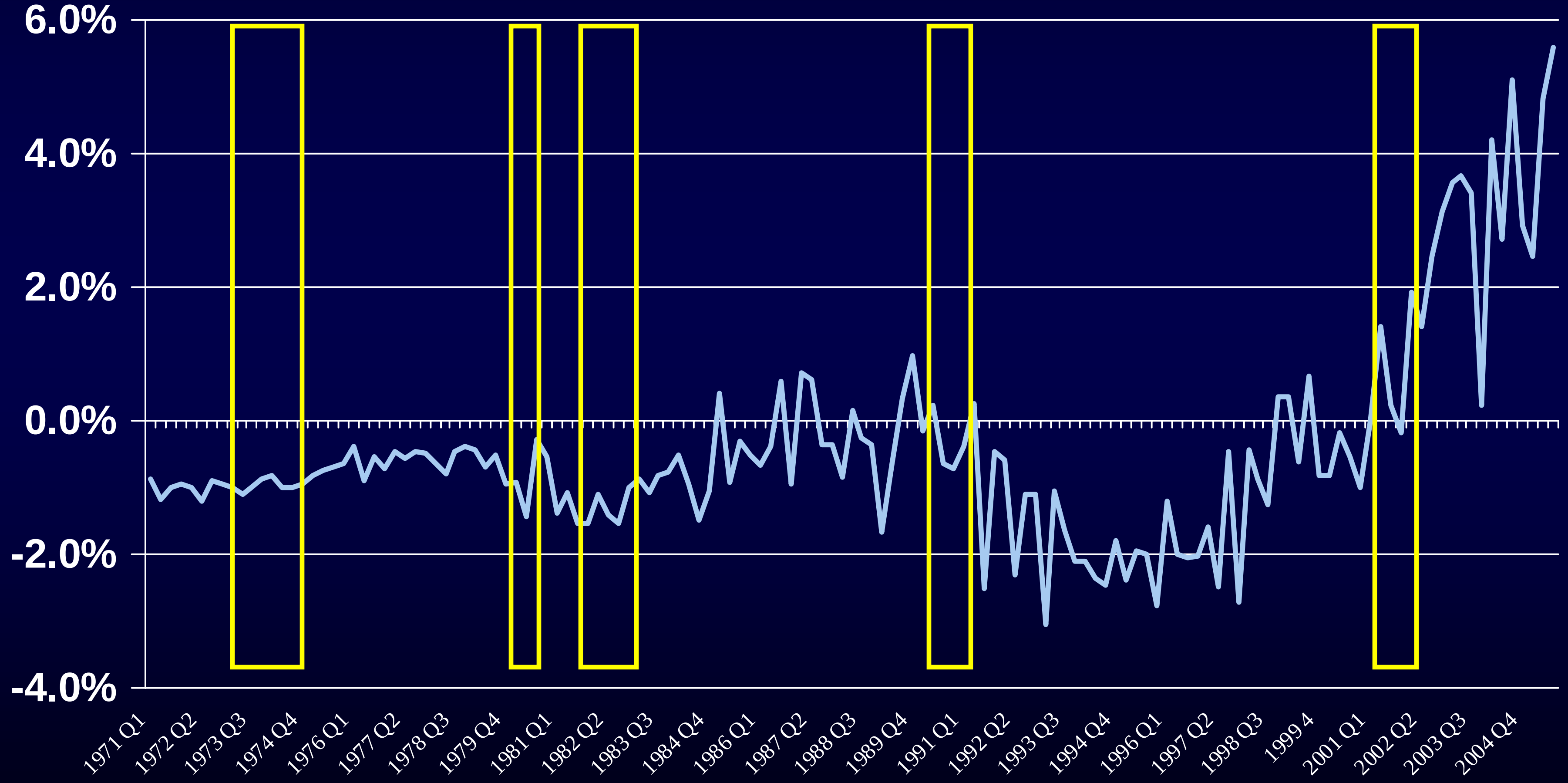
Source: www.economy.com



*Data through third quarter 2005

Mortgage Equity Withdrawal as a share of Disposable Income U.S.: 1971 – 2005*

Source: Bureau of Economic Analysis

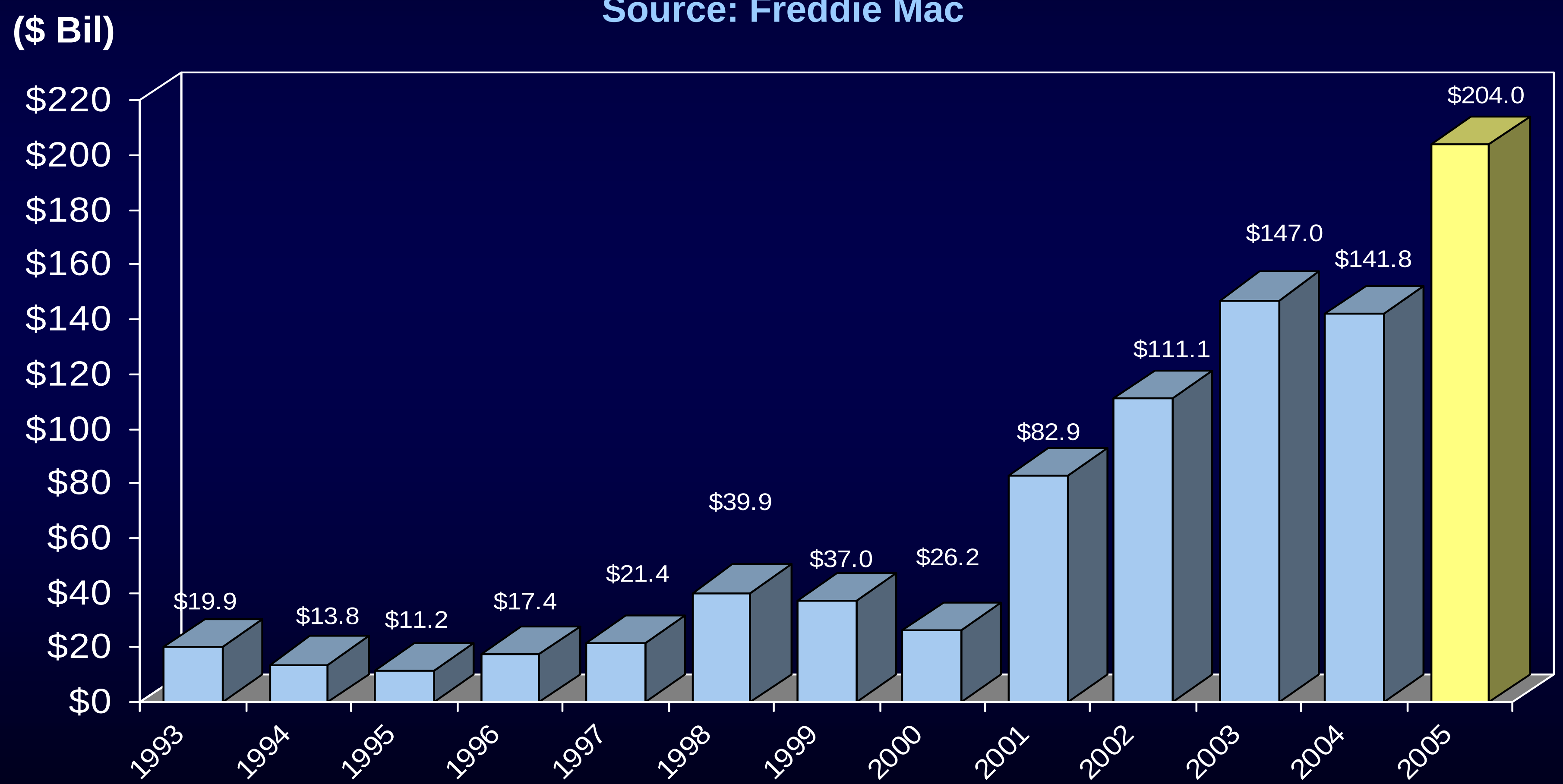


* Data through third quarter 2005

Recession Periods

Home Equity Cashed Out During Mortgage Refinancings 1993–2005*

Source: Freddie Mac

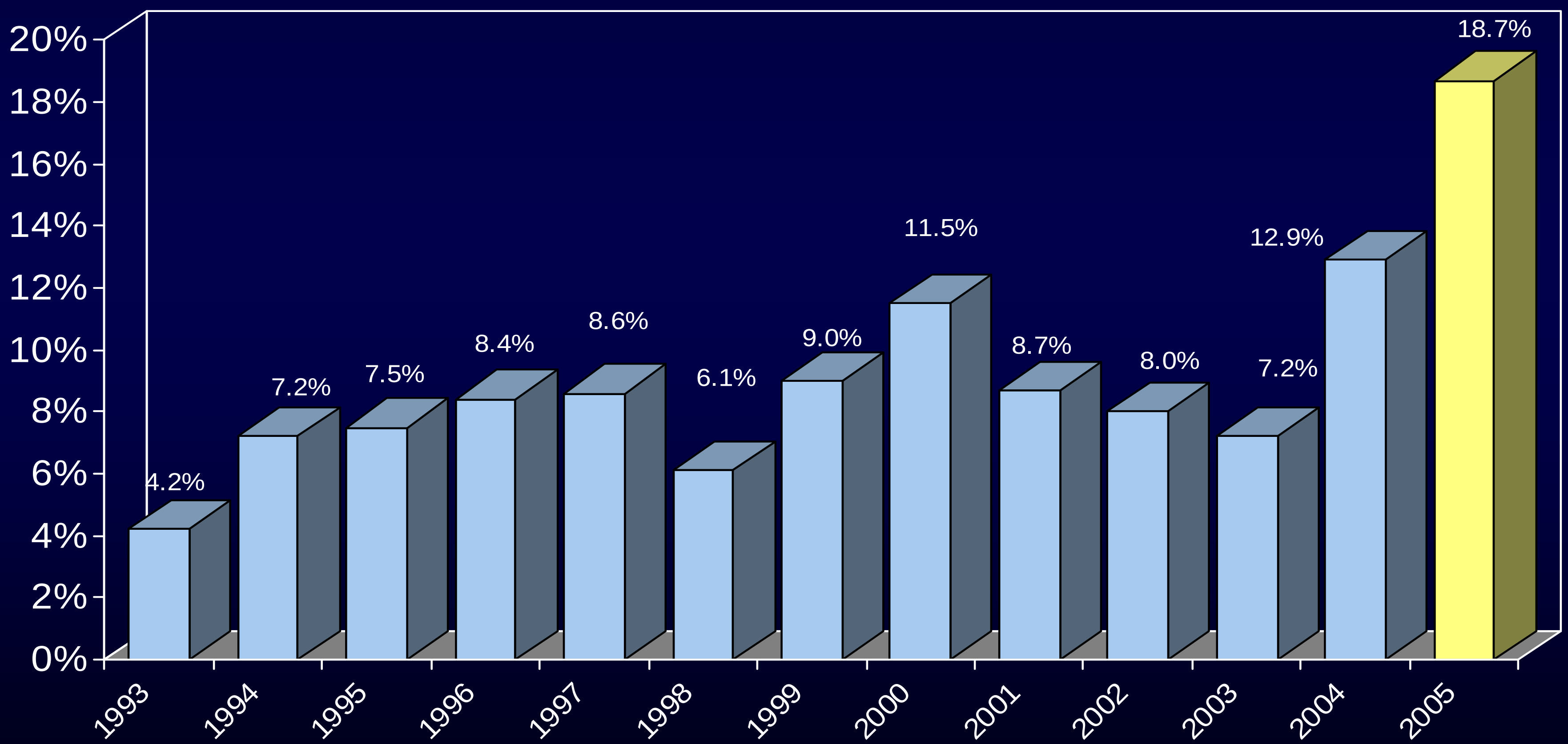


* 2005 forecast from Freddie Mac.

Cash-Out Dollars as a Percentage of Refinanced Origination Amount 1993–2005*

Source: Freddie Mac

(Percentage)

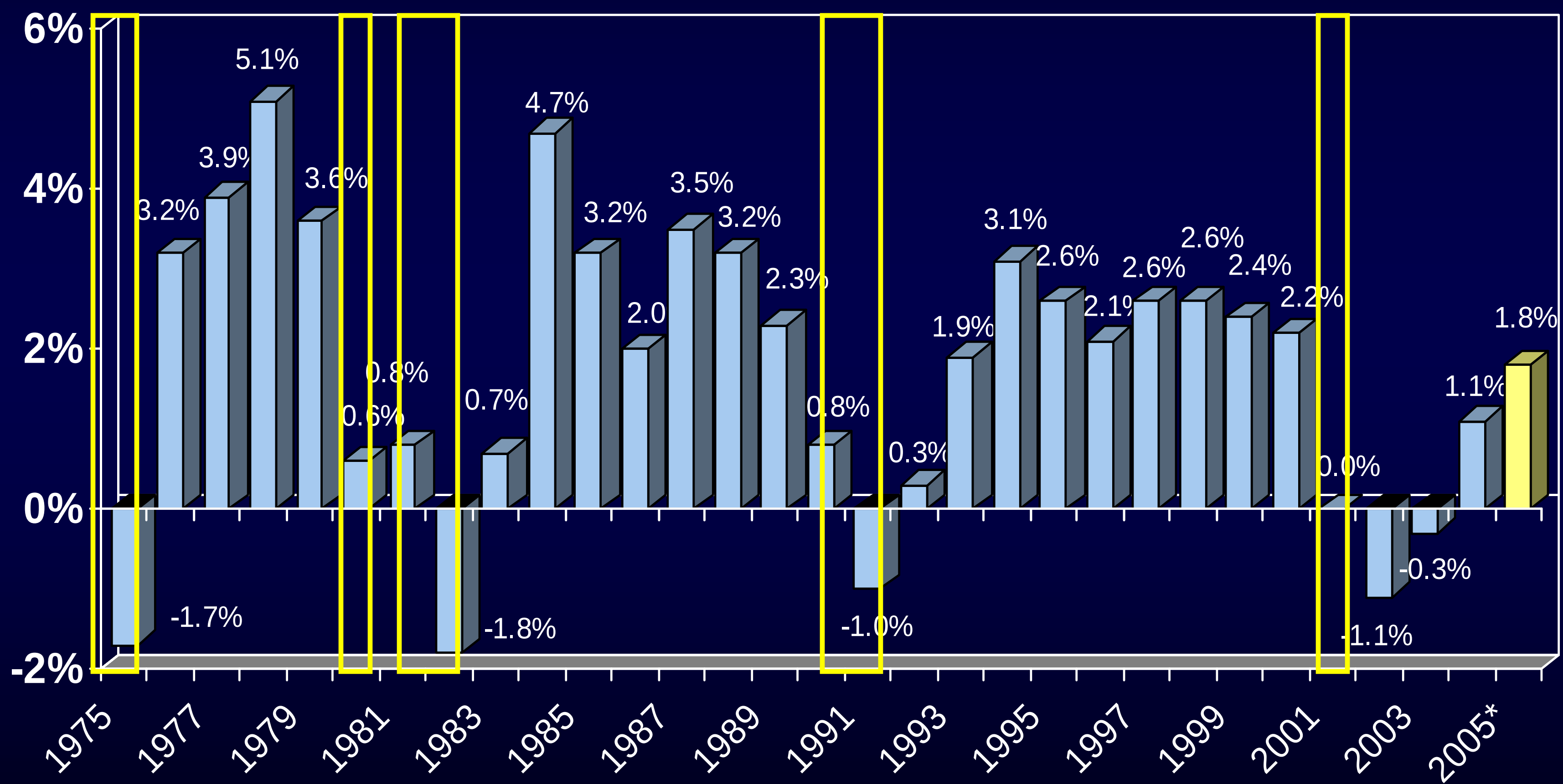


* 2005 is a forecast from Freddie Mac.

National Employment*

Annual Percent Change 1975–2005**

Source: Bureau of Labor Statistics



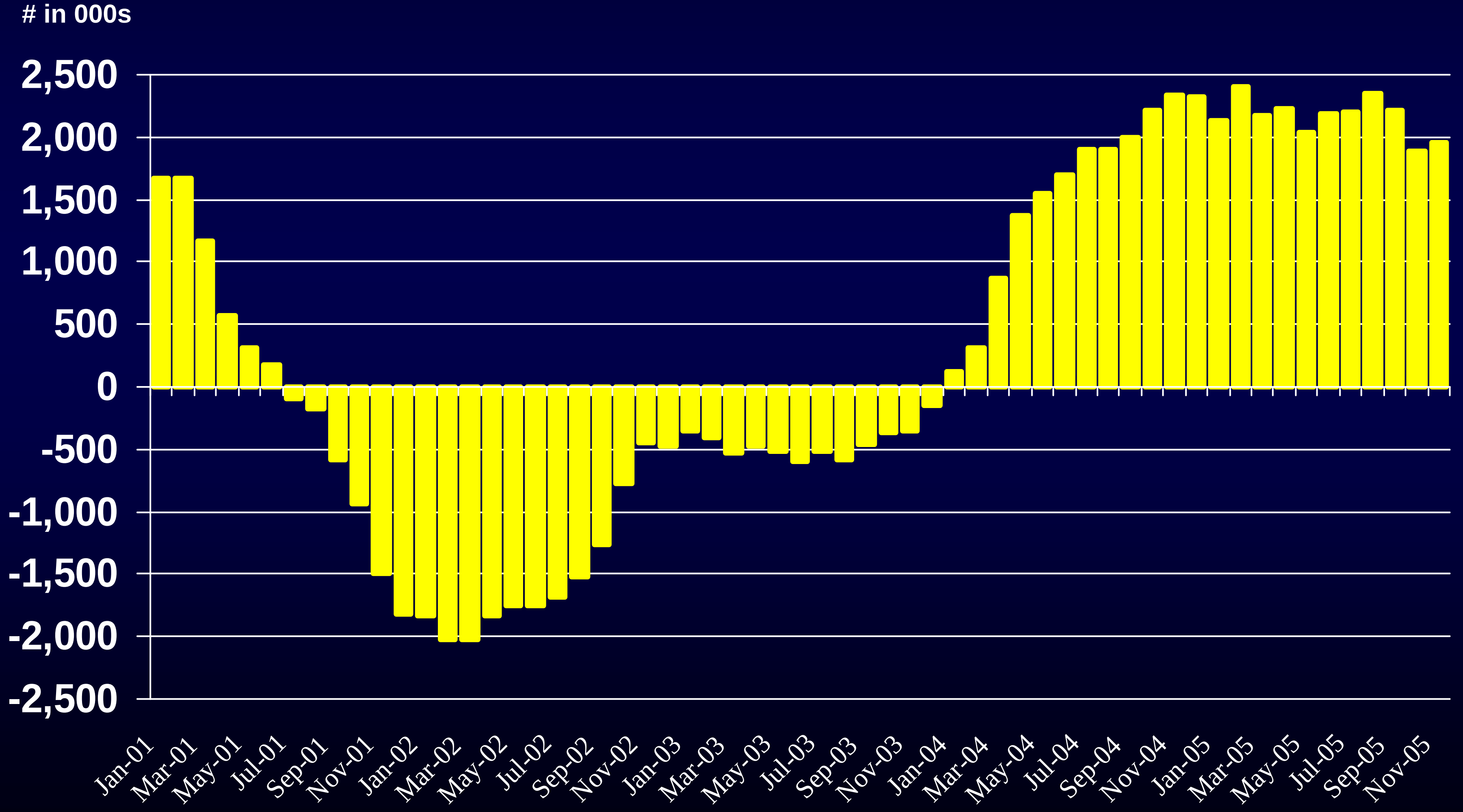
*Non-agricultural wage & salary employment. Changed from SIC to NAICS reporting in 1990.

**Year-to-date through November 2005.

Recession Periods

National Employment
(Net change in jobs over year ago)
January 2001 – November 2005

Source: U.S. Bureau of Labor Statistics



National Employment Growth

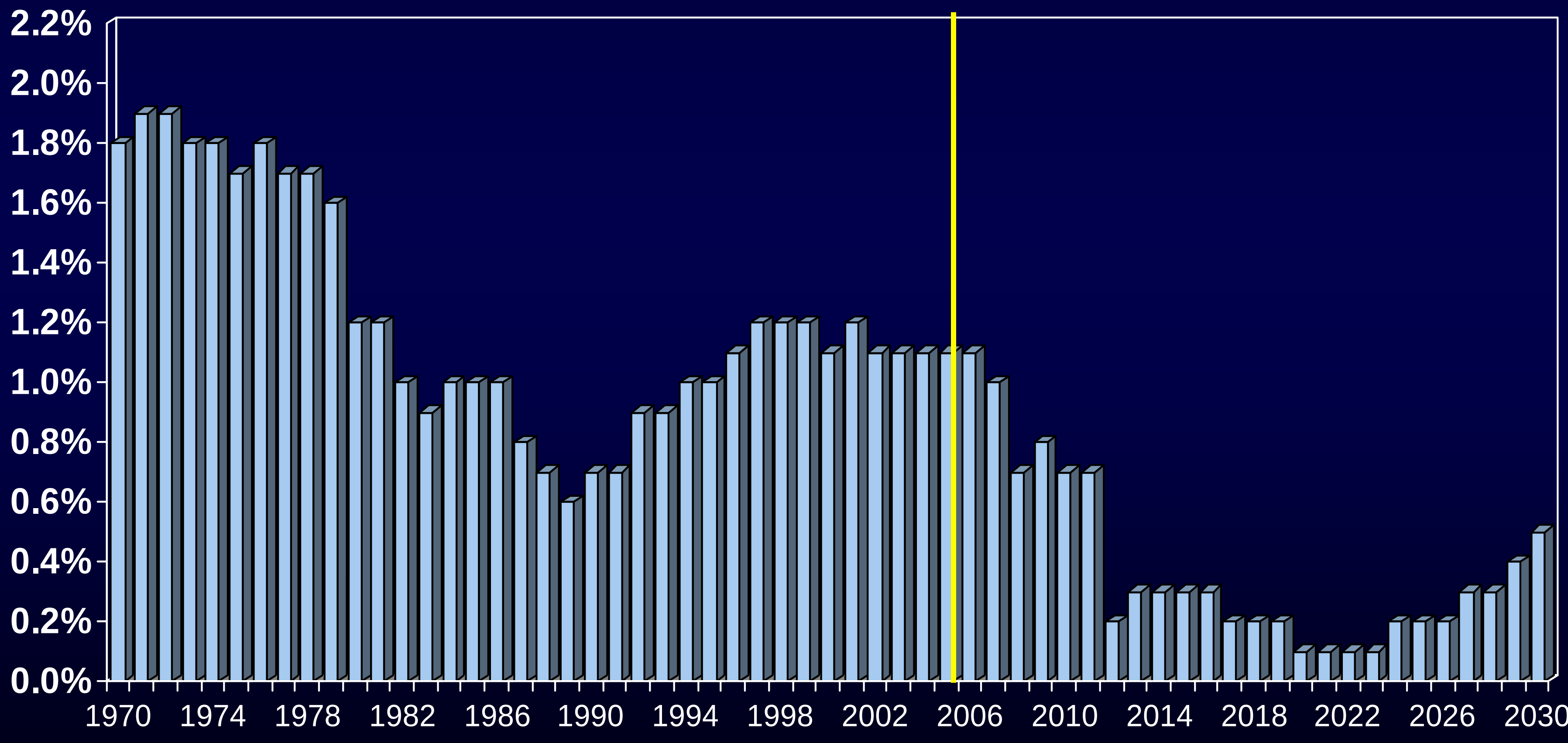
Recession	Annual Growth 4 years post over 3 year post
1975	4.8%
1982	1.9%
1991	3.3%
2001	1.5%

Output per Hour

Output per hour growth 3 years + 3 quarters Post Recession

Recession	Growth 3 years + 3 qtrs post
1975	9.2%
1982	11.0%
1991	7.9%
2001	13.5%

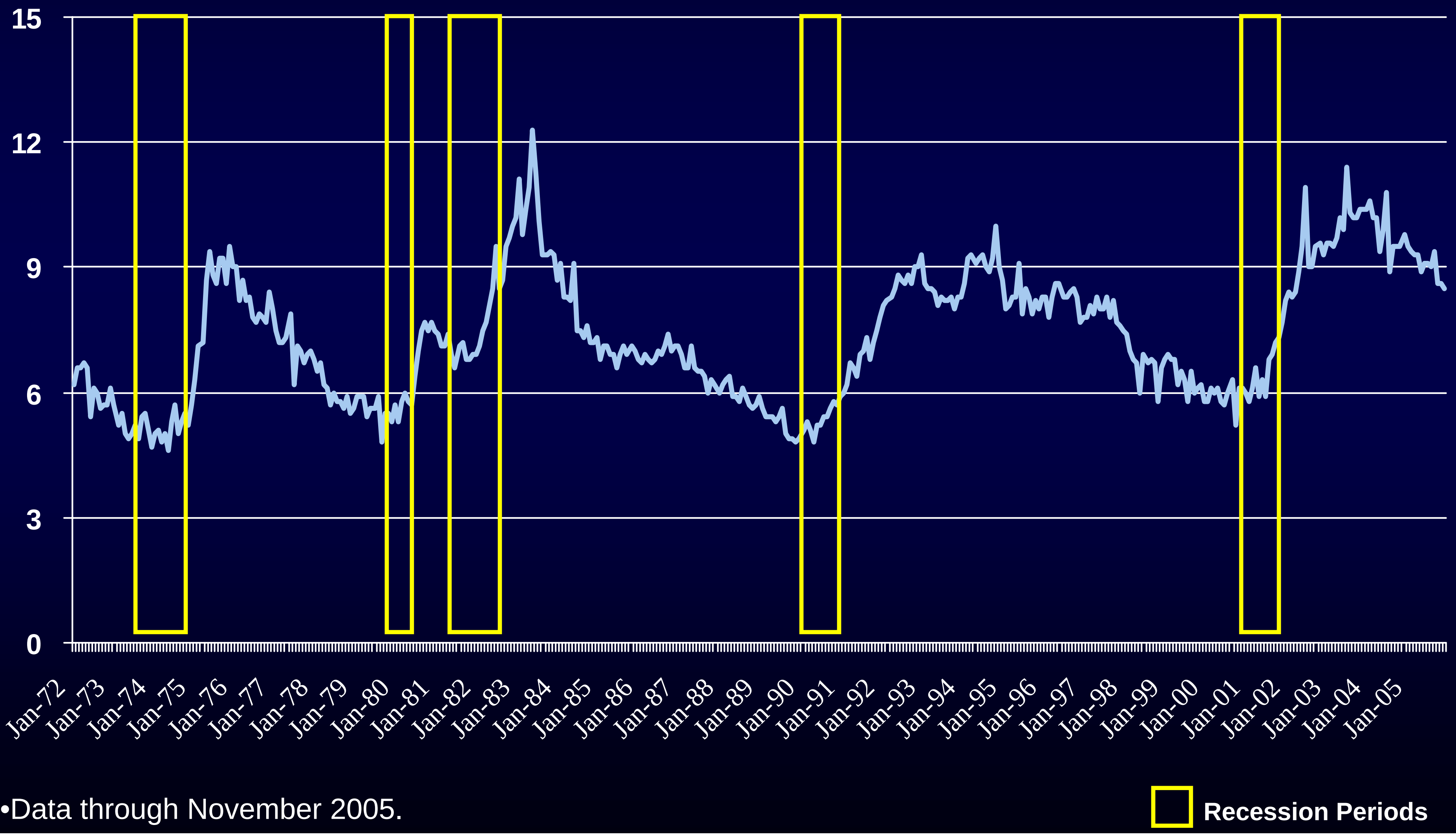
Labor Force Growth
Annual Growth Rate of Working Age (16-64)
1970–2030
Source: Census Bureau



* Forecasts from the Census Bureau

Median Weeks Unemployed (S/A) 1972 – 2005*

Source: Bureau of Labor Statistics

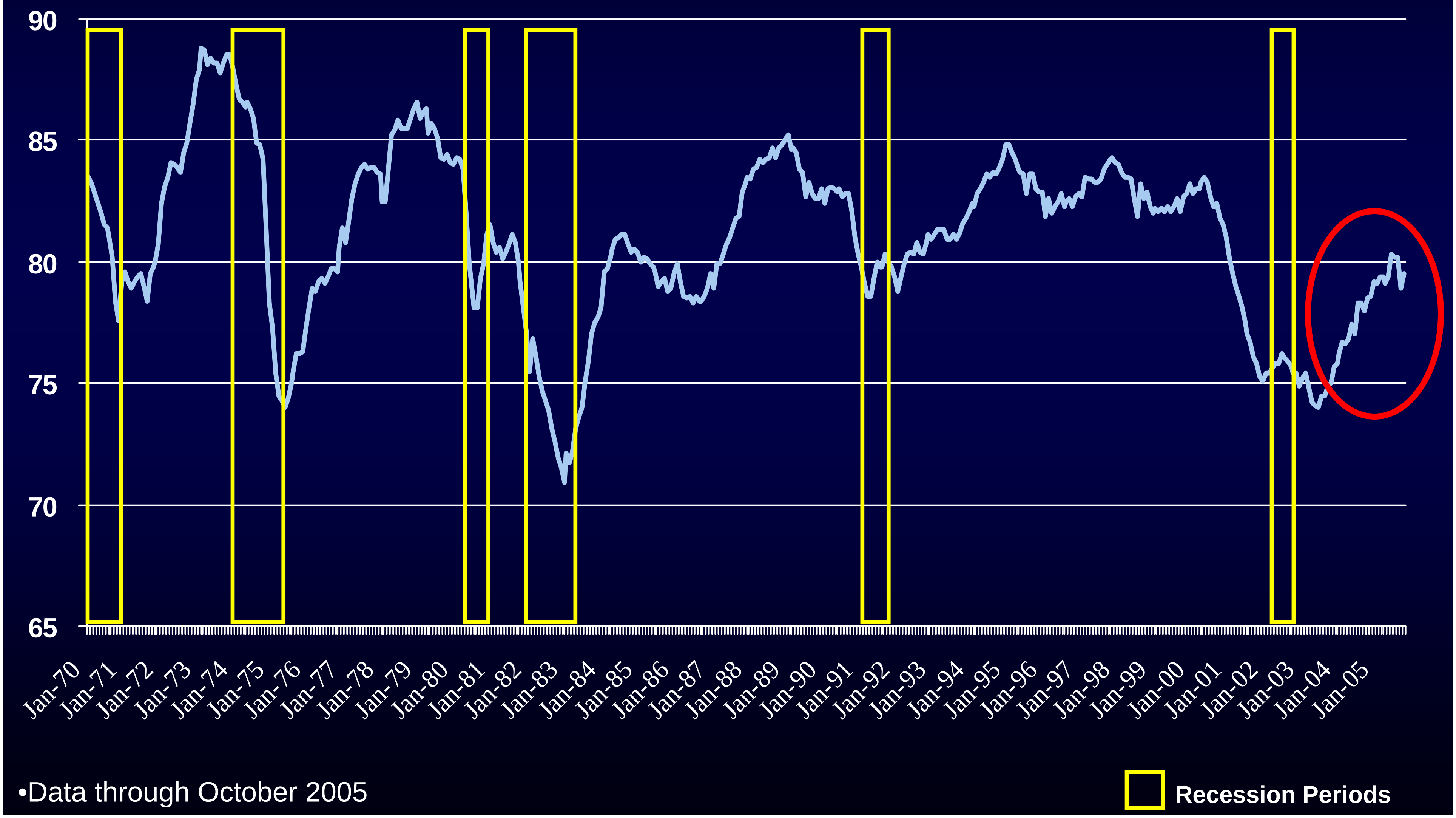


•Data through November 2005.

Business

Capacity Utilization Rate 1970 – 2005*

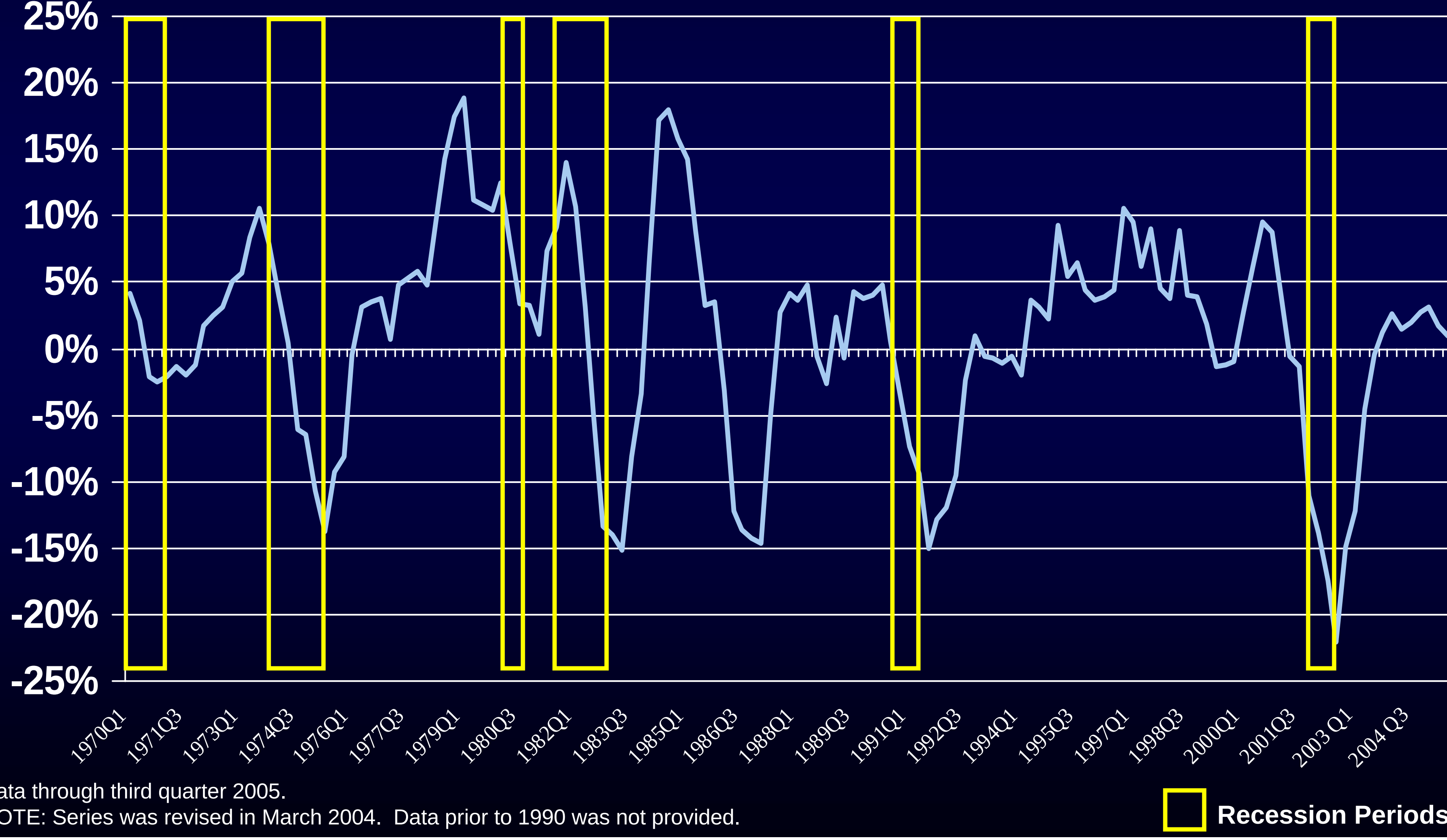
Source: The Conference Board



•Data through October 2005

Total Plant Spending
Percent Change Year Ago
(Real Dollars)
1970 – 2005*

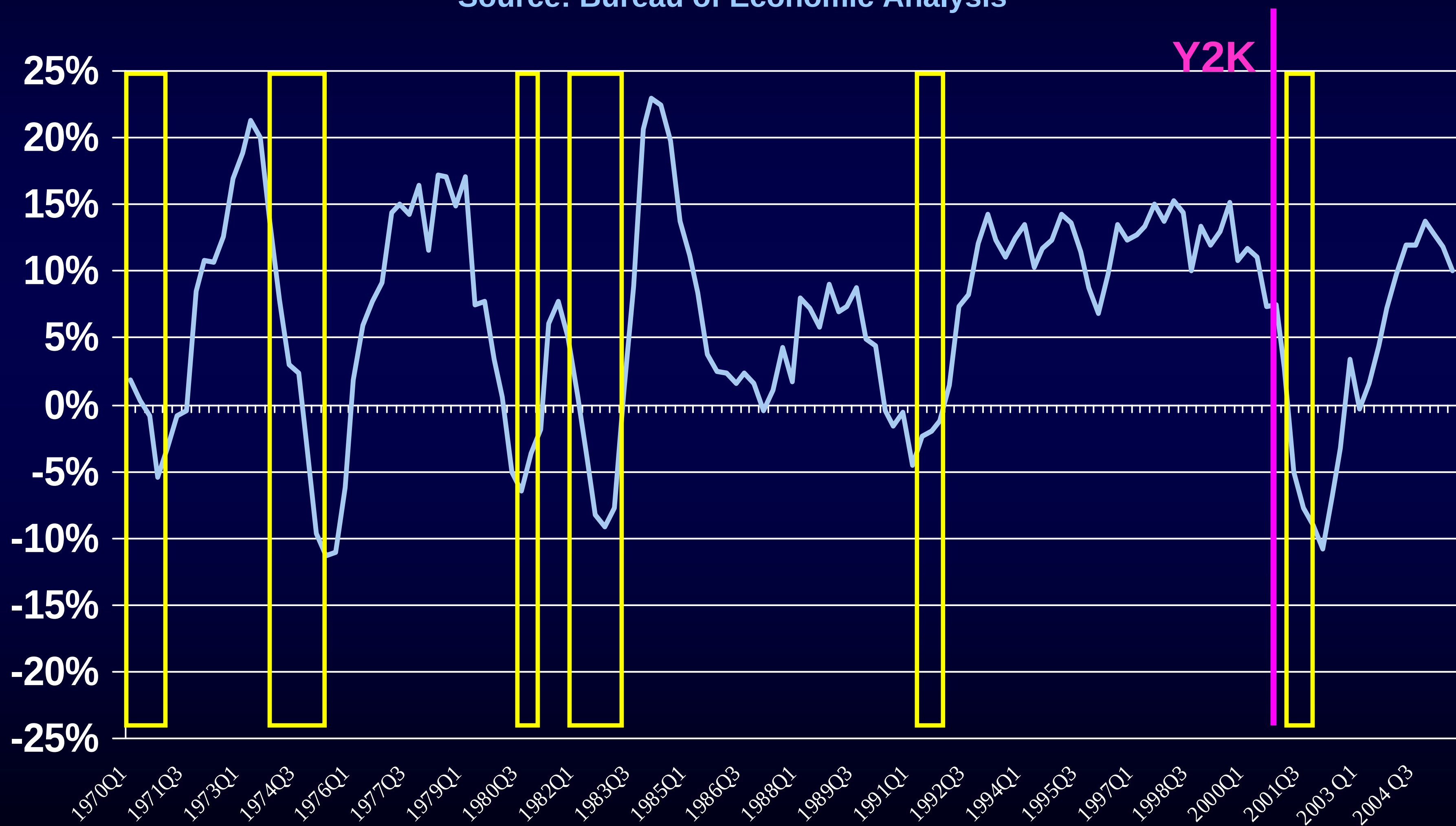
Source: Bureau of Economic Analysis



•Data through third quarter 2005.
•NOTE: Series was revised in March 2004. Data prior to 1990 was not provided.

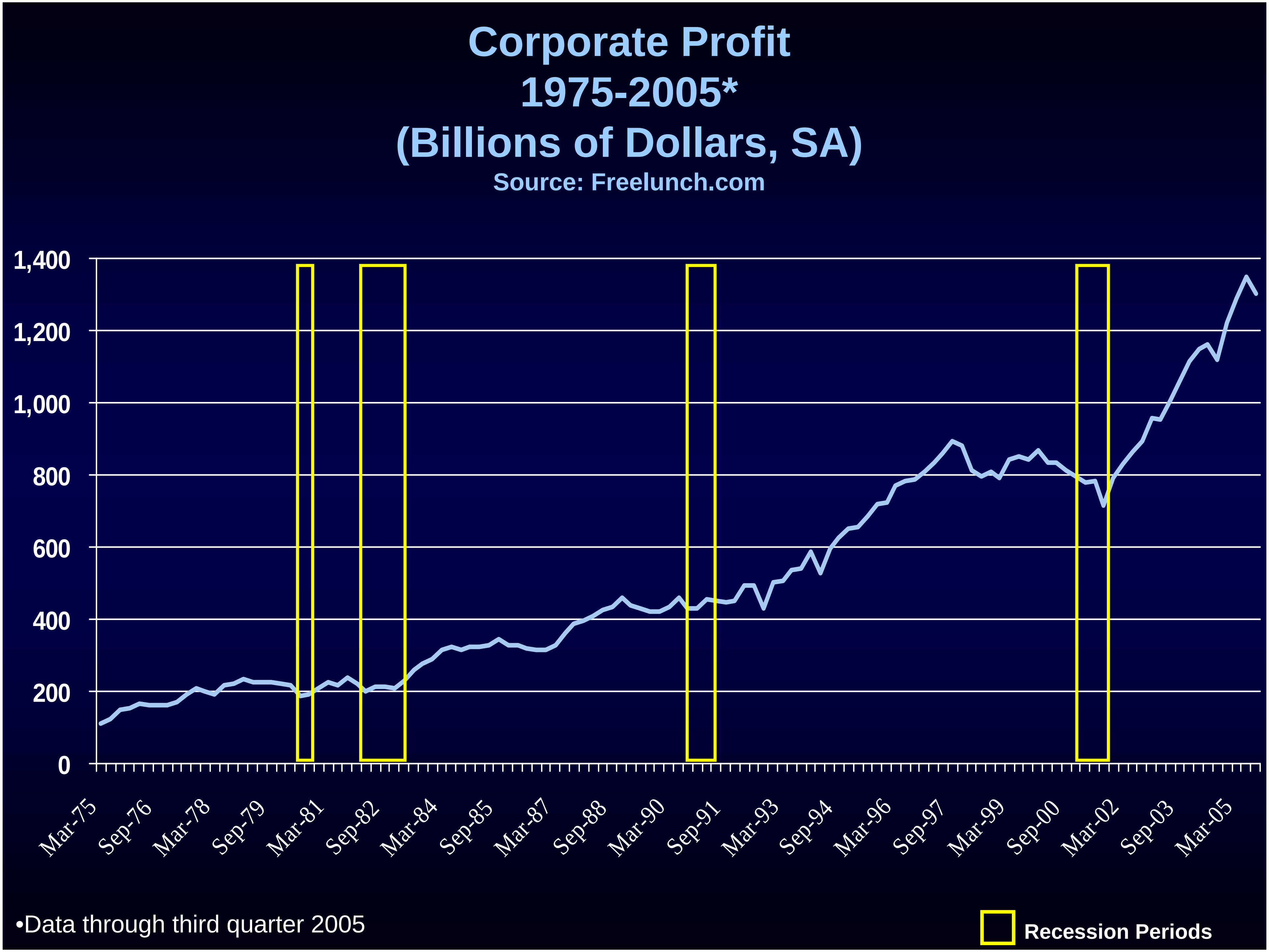
Total Equipment & Software Spending
Percent Change Year Ago
(Real Dollars)
1970 – 2005*

Source: Bureau of Economic Analysis



•Data through third quarter 2005.
•NOTE: Series was revised in March 2004. Data prior to 1990 was not provided.

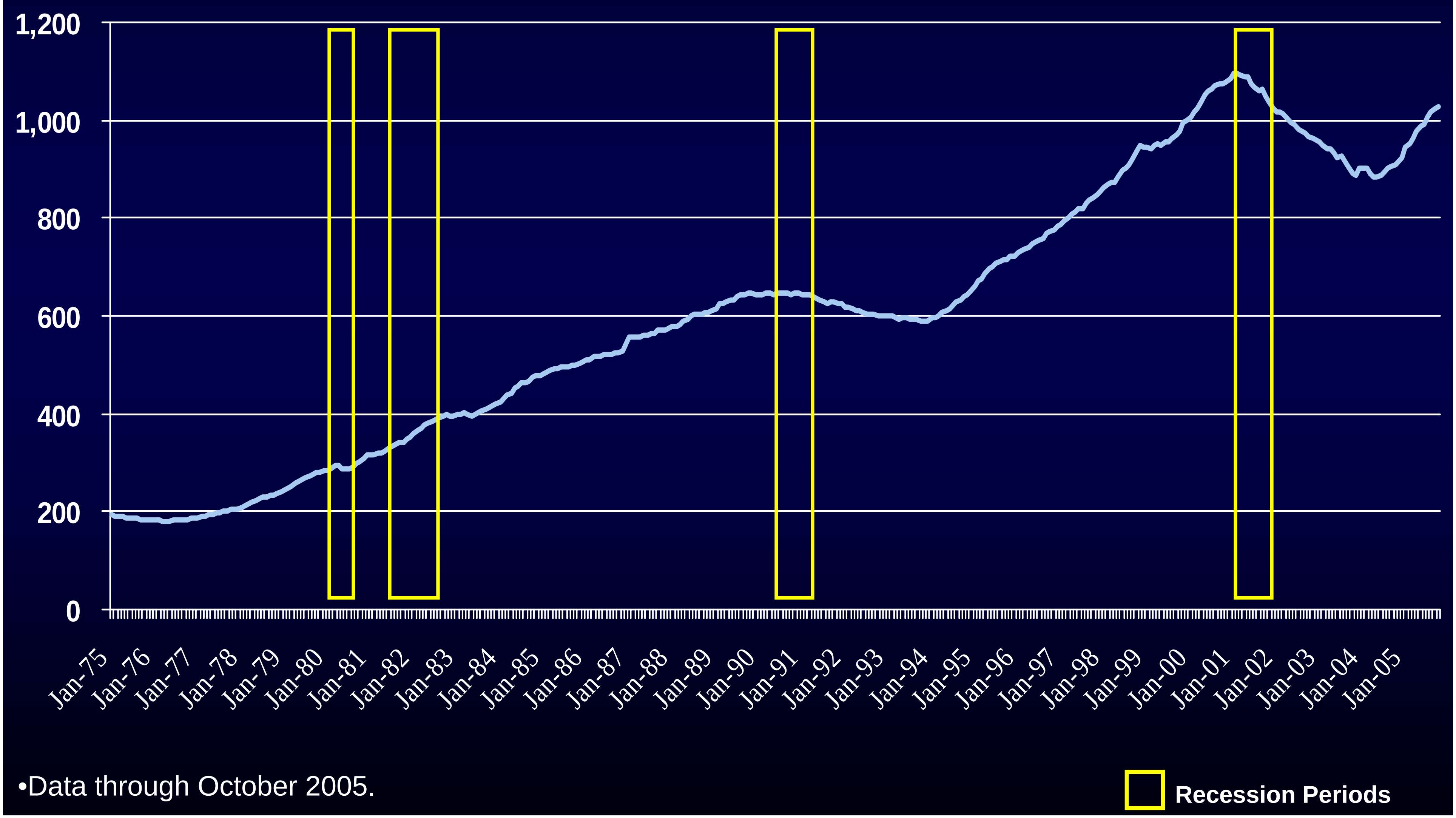
Recession Periods



Corporate Profit
1975-2005*
(Billions of Dollars, SA)
Source: Freelunch.com
1,400
1,200
1,000
800
600
400
200
0
Mar-75
Sep-76
Mar-78
Sep-79
Mar-81
Sep-82
Mar-84
Sep-85
Mar-87
Sep-88
Mar-90
Sep-91
Mar-93
Sep-94
Mar-96
Sep-97
Mar-99
Sep-00
Mar-02
Sep-03
Mar-05
•Data through third quarter 2005
Recession Periods

Commercial & Industrial Loans, U.S. Based Banks 1975-2005* (Billions of Dollars, SA)

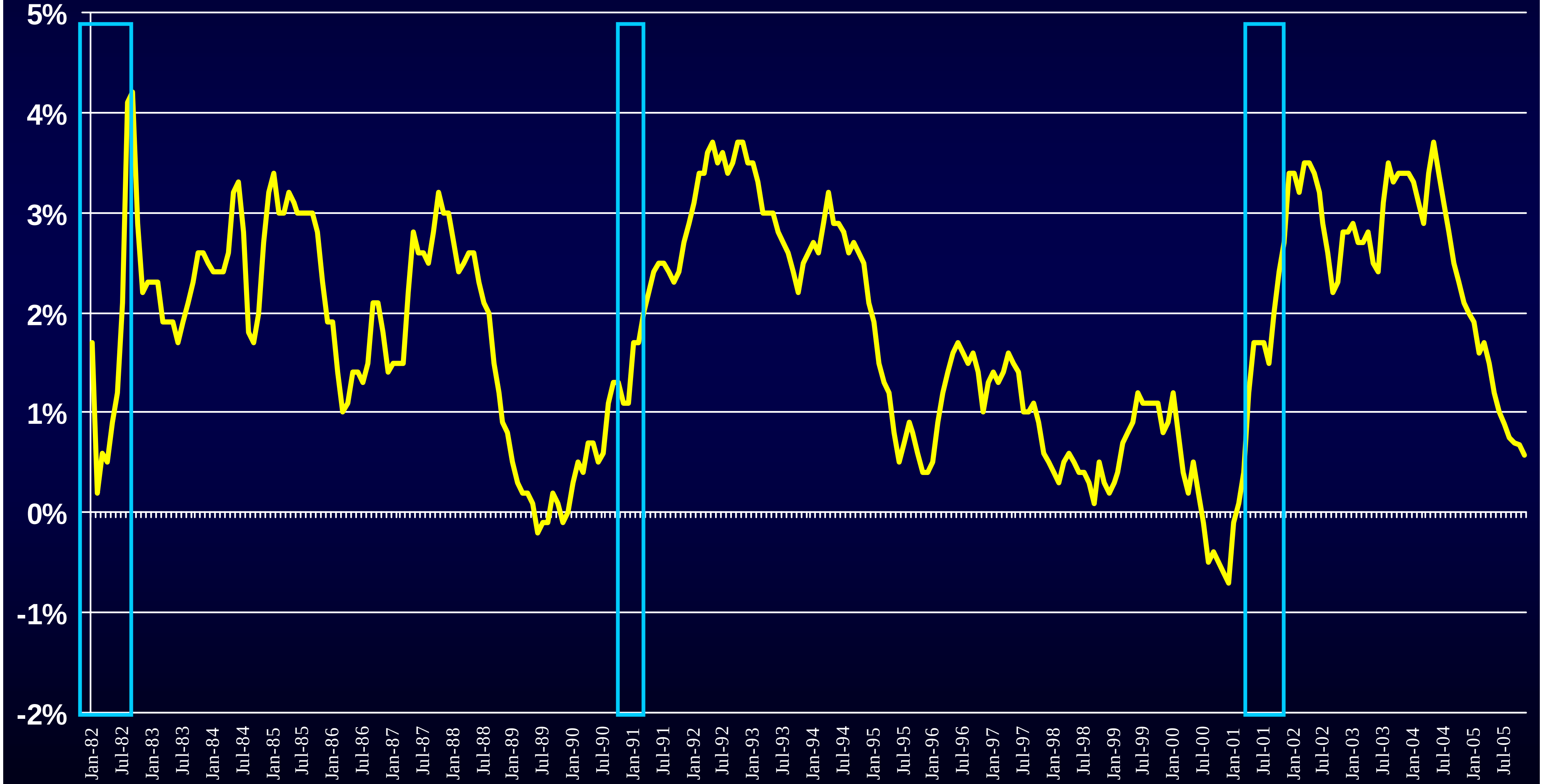
Source: Federal Reserve Economic Database



•Data through October 2005.

10-Year Treasury Rate minus 3-month Treasury Rate 1982 – 2005*

Source: Federal Reserve Economic Database

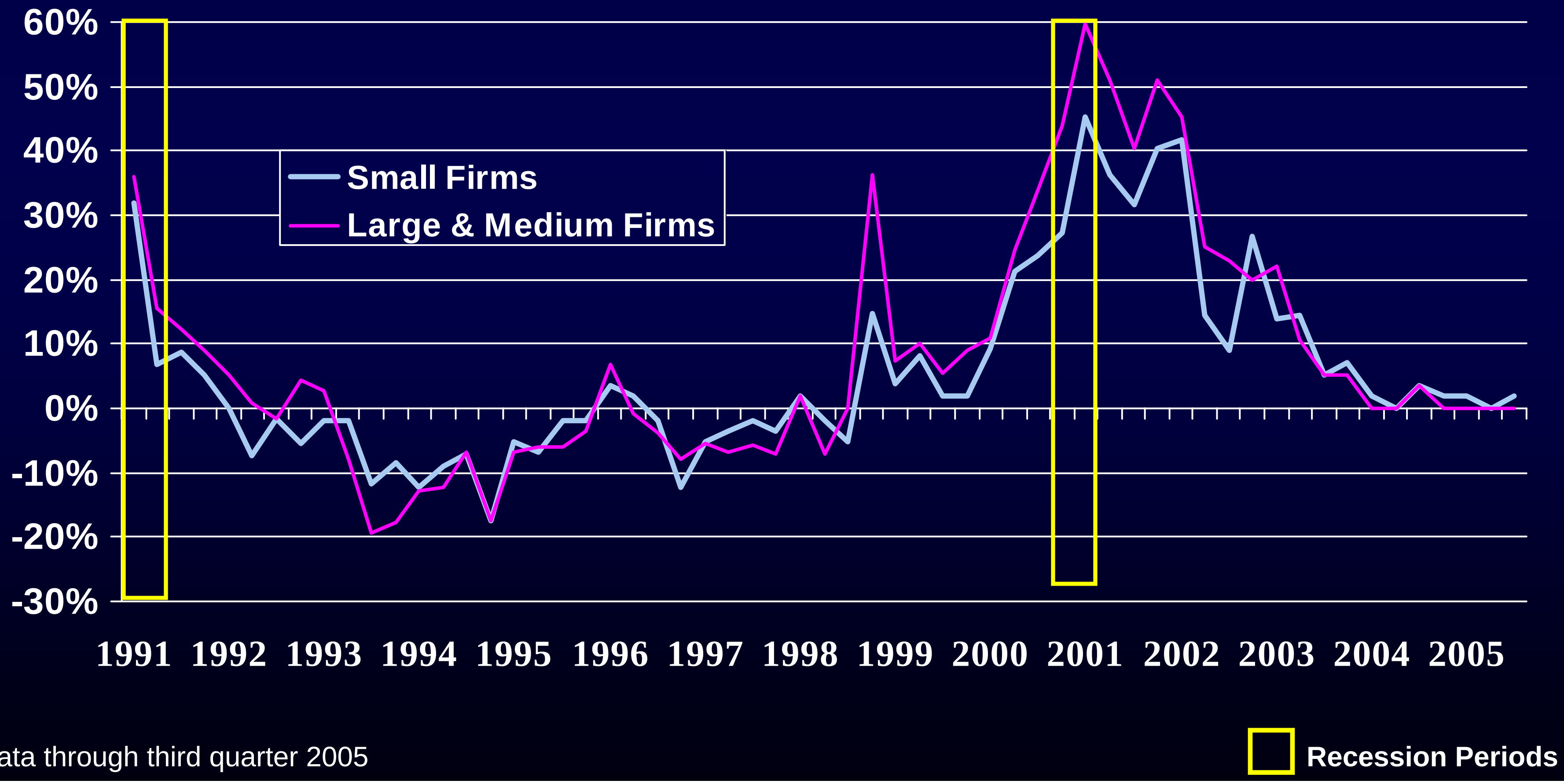


•Data through November 2005.

Net Percentage of Large U.S. Banks Reporting Tougher Standards on Business Loans

1991 – 2005 *

Source: Federal Reserve, Board of Governors



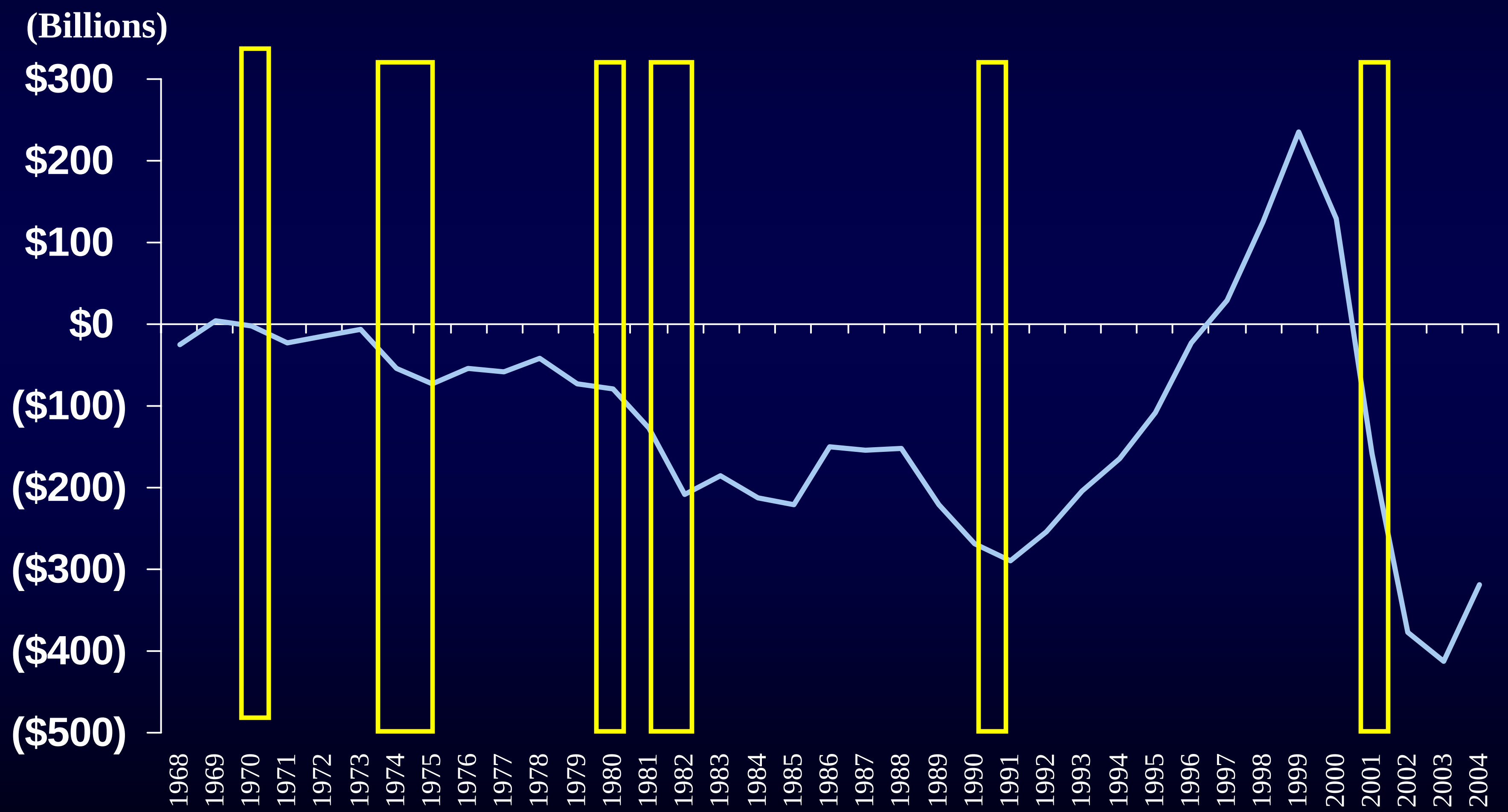
* Data through third quarter 2005

Government

Deficit ?

U.S. Federal Surplus/(Deficit) 1968 – 2004

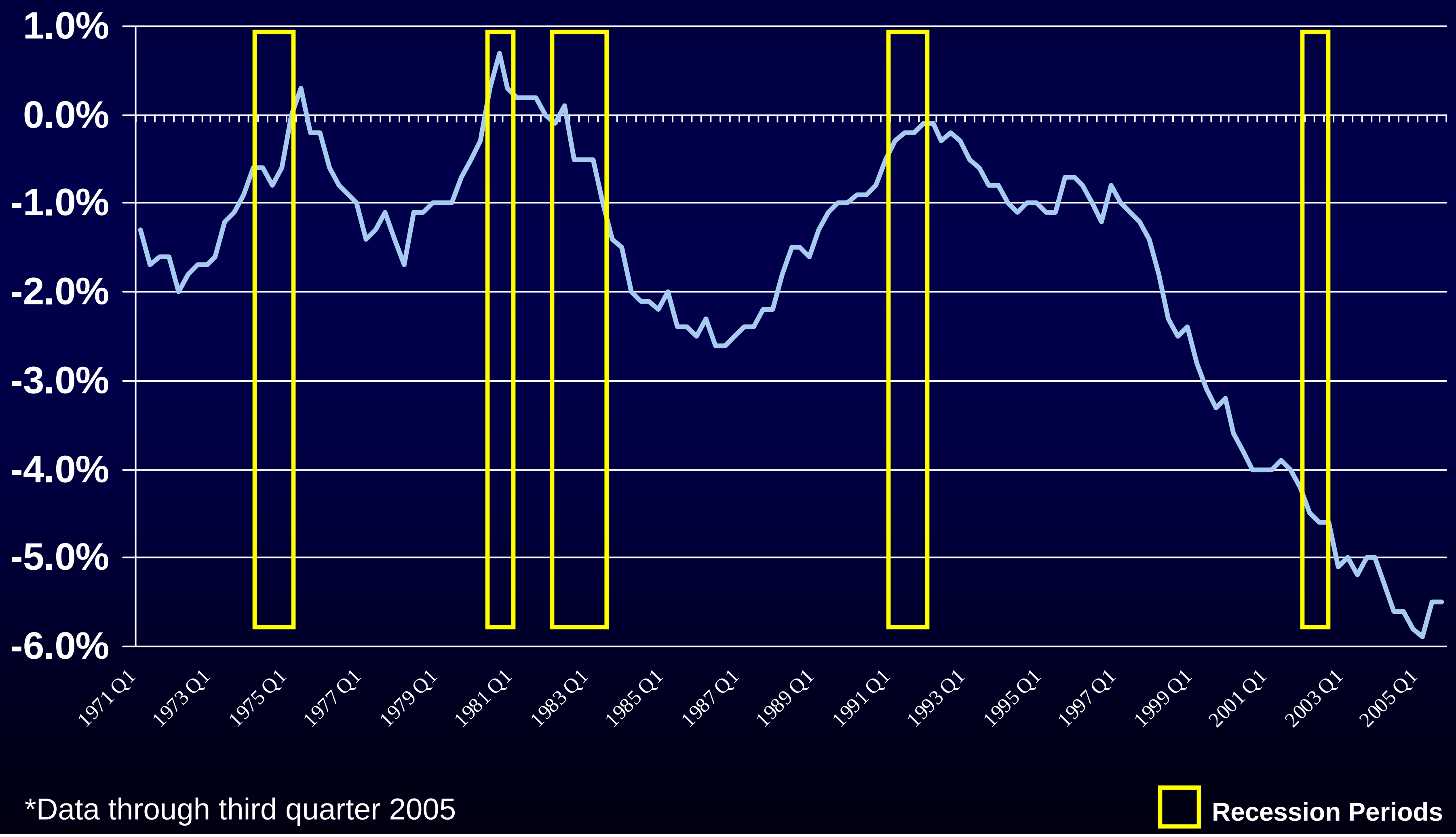
Source: White House Office of Management and Budget



U.S. Real Net Exports as a Percent of Real GDP

1971 – 2005*

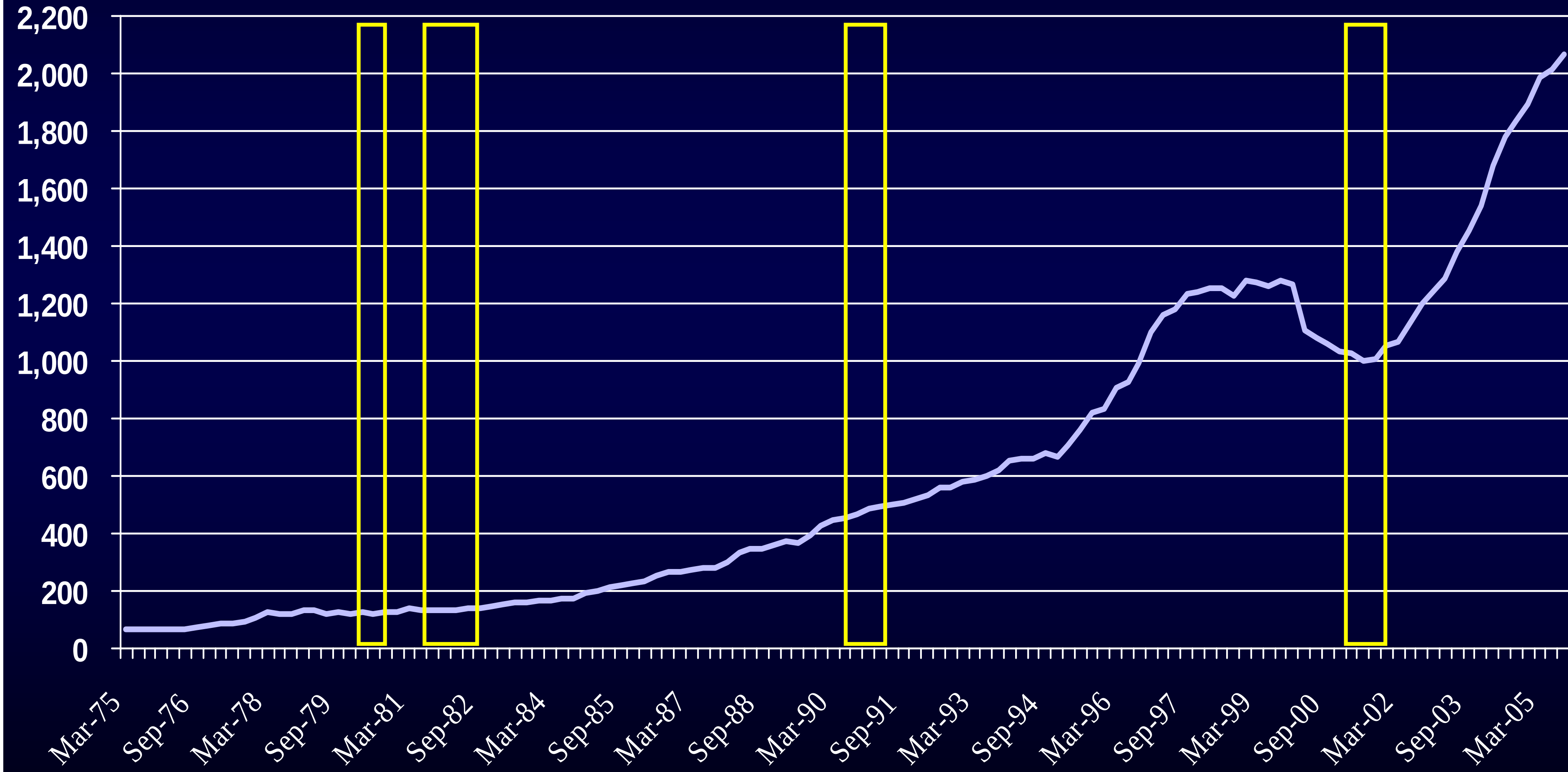
Source: Bureau of Economic Analysis



*Data through third quarter 2005

U.S. Debt Held by Foreign & International Investors 1975-2005* (Billions of Dollars, SA)

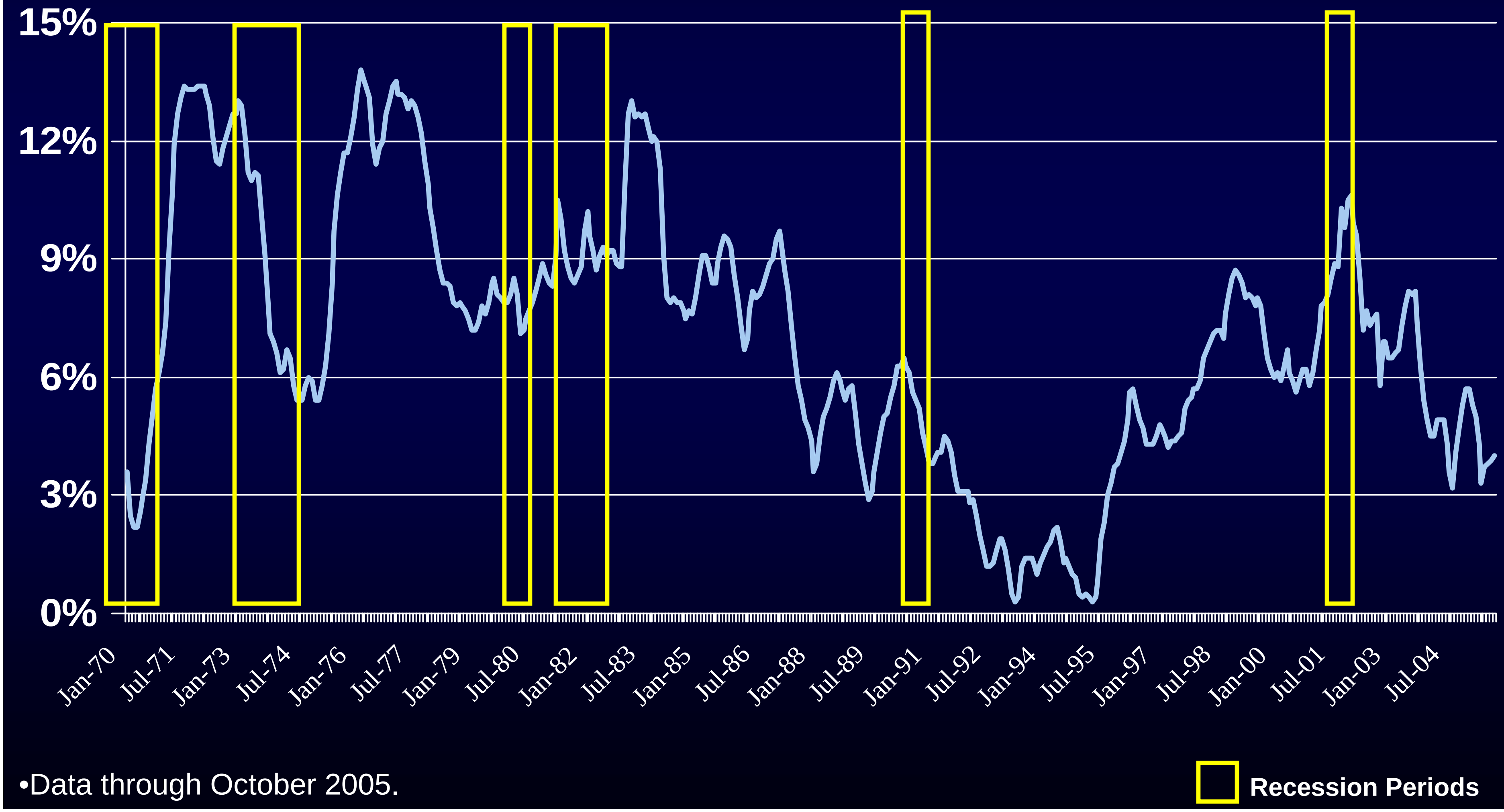
Source: Federal Reserve Economic Database



•Data through third quarter 2005.

M2 Stock – Seasonally Adjusted Percent Change Year Ago 1970 – 2005*

Source: Federal Reserve Bank of St. Louis, U.S. Bureau of Labor Statistics



•Data through October 2005.

2004 v. 2005
U.S. OUTLOOK GOOD NEWS

LAST YEAR	THIS YEAR
Fiscal stimulus	Not as much
Monetary stimulus	Strong (but not as much)
Real incomes up	Still strong
Businesses mean and lean	Still strong
Productivity growth strong	Not as strong
Job growth accelerating, albeit slowly	Same
Cheaper dollar means more exports	Same
Inflation (in near term) not a problem	Moving up slowly
Low interest rates	Moving up, but still low

U.S. Economy:
The Glass is Half Full

… But not as full as last year.

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& Company

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Joint Legislative Budget Committee

Finance Advisory Committee

Monday December 19, 2005

Arizona Single Family Construction Activity

County	2002	2005
Maricopa	63 percent	52 percent
Pinal	8	16
Pima	12	13
Coconino	2	1
Yavapai	4	5

Arizona Single Family Average Permit Value

County	2002	2005
Maricopa	$155,080	$184,025
Pinal	108,130	125,090
Pima	151,220	168,725
Coconino	145,910	200,835
Yavapai	136,725	179,985

Arizona Commercial Construction Activity

County	2005
Maricopa	75 percent
Pinal	4
Pima	10
Coconino	1
Yavapai	1

New Housing Permits

	Maricopa	Pinal
2005 YTD	33,946	13,944
2004	48,136	11,495
2003	39,652	6,730
2002	34,309	4,433

New Housing Permits
Maricopa County

2000s YTD	221,404
1990s	242,161
1980s	151,796
1970s	171,406

Median New Home Price Maricopa County

2003	$173,240
2004	$195,000
2005 Nov.	$288,980

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

Median Rate of Appreciation Maricopa County

2000	4.8 percent
2001	5.4 percent
2002	6.0 percent
2003	6.3 percent
2004	8.4 percent
1981-2004	4.0 percent

Housing Market
Pinal County

	New	Resale
2004	7,445	3,790
2005 YTD	7,632	4,260

2004	$145,900	$137,500
2005 Aug.	198,770	212,950

Housing Indicators Maricopa County

- Affordability

Year	Resale	New
2000	117	100
2001	124	108
2002	124	113
2003	126	113
2004	114	102
2005 3rd Qtr	78	78

COMPARATIVE RESALE HOUSING PRICES

Areas	Third Qtr. 2004	Third Qtr. 2005
United States	$188,200	215,900
Phoenix	177,500	259,700
San Diego	578,300	615,000
Las Vegas	283,200	313,000
Dallas	140,300	147,200
Atlanta	159,700	171,200

Source: NAR

Housing Indicators Maricopa County

- Inventory Turnover

Year	Resale	New
2002	7 percent	3 percent
2003	8 percent	4 percent
2004	11 percent	5 percent
1982-2004	7 percent	3 percent

Housing Indicators Maricopa County

- Jobs per resale home

Year	Resale
2000	29
2001	26
2002	25
2003	22
2004	16
2005 YTD	15
1982-2004	29

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