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ARIZONA REAL ESTATE OUTLOOK

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I recently witnessed an encounter with two commercial real estate brokers that illustrates a profound insight into our local economy.

The one real estate broker is currently experiencing a record year in terms of completed transactions. From all indications, his deals in the pipeline indicate that 2008 will be similarly successful.

The other real estate broker went up to him and said "Haven't you read the economic news, the housing market is down, the stock market is down, the economy is in the tank, how are you doing all these deals and what makes you expect that you're going to repeat next year?"

The other broker had a puzzled look on his face and he says "Oh, is that right? I hadn't heard that news. Other than trade publications I don't read that much, and I very seldom watch the TV news. Maybe I should follow the economic news more carefully". My advice to my broker friend is to not read the economic news and follow your own instincts when it comes to making a living in a so called "down market."

There are always pros and cons to any economic condition. Prior to this year, we have gone through the longest economic expansion in our state's history. From my view as a retail builder, this has attracted marginal developers into our industry, and we still have land prices that are much too high compared to the rents we can achieve. I anticipate that both of these conditions will be corrected over the next two years.

The real estate slowdown has primarily been that of housing. Anytime Wall Street tries to securitize any part of our industry it usually ends up in disaster. This is exactly what has happened with sub prime loans and the subsequent loosening of basic underwriting criteria. This, along with unwise investor activity in the housing market, has caused an extreme slowdown which could have been predicted long ago.

In my opinion, the people in our industry can either moan and groan about the current condition and not do anything, or recognize the opportunities that are presented in any down market. For example:

1. My friends in the housing industry tell me that over the next two years there will be no better time to buy a home.
2. Many existing neighborhoods are underretailed. As a result, infill development for the shopping centers will be in great demand.
3. With the exception of the home building industry, job growth in Arizona is still strong which will benefit the office and industrial sectors.
4. The combination of in-migration and stricter underwriting criteria for residential sales will hopefully spur the apartment demand over the near term.

There are many reasons to feel optimistic for the short term. People are in the mood for change, and the upcoming presidential election will be a source for optimism whether a Republican or Democrat is elected. Down markets always present opportunities to the creative and entrepreneurial, and our current condition is no exception to that. The big growth spurt for the Pederson Group was during the early 90's when we were going through a serious recession. We took advantage of rehab opportunities, and there was limited competition for new development deals and financing. This time period was one of the most profitable for our company.

Bottom line, as long as the sun keeps shining in Arizona and we have a pro-business attitude, things are still going to be very good. There is no other place where I would rather do business. **A**

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