

Arizona Real Estate: Land Gold – IS or IS NOT? Pinpoint signals when to buy. End of year Interview with *Kuldip Verma*.



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As we come to the end of 2006, it's time to reflect back on a year that has been a complete contrast to the good times of 2005 related to real estate investments. After an unprecedented 2005 for real estate growth, there was a sudden negative 'step-change' for real estate nationwide and Arizona was no exception. When it comes to land, it's been a bad news/good news story in Phoenix and elsewhere in Arizona. The good news is that the price gains of 2005 have overall held up very well in 2006, definitely not a bubble that many experts were predicting. Granted, 2006 has been a buyers market and sellers are offering all kinds of incentives ranging from low cost carry-backs to longer balloon periods. What it has not been is a bubble ready to burst, in fact far from it.

Well, to assess the facts and statistics of 2006 and look ahead to 2007, it's time once again to turn to the maestro himself, Kuldip Verma of Vermaland. Kuldip and I have had numerous discussions on the state of the real estate market in the Phoenix area and, as always, his views are interesting. So I decided to interview him and ask him about his opinions on how 2006 panned out, but more importantly to get his 'crystal ball' out and project his expectations as to what to expect in 2007 and beyond. As you will see from his responses to my questions below, he came loaded with statistics and numbers and made a compelling case for the tide to turn and good times to roll again in the not so distant future.

Q: What do you think is going on in the Phoenix/Arizona housing and land market?

Kuldip: First, let's look at some current and forecasted data:

Employment Growth 2006		
	Phoenix	U.S
Aug-over-Aug Percent	5.0%	1.3%
YTD August	5.6%	1.4%
Jobs created last 12 mos.	88,500	1,687,000
Greater Phoenix % of U.S. Job Growth	5.2%	
1 out of every 72 jobs in the United States are in Greater Phoenix		
1 out of every 19 jobs created in the U.S. over the last 12 months have been in Greater Phoenix		

Phoenix-Mesa Employment Growth		
(Ranking among all metro areas greater than 1,000,000)		
Source: Arizona State University, U.S. Bureau of Labor Statistics		
YEAR	RANK	# of MSAs
1991	5	22
1992	4	22
1993	2	22
1994	1	22
1995	1	25
1996	1	25
1997	3	26
1998	1	26
1999	2	27
2000	10	30
2001	10	30
2002	6	28
2003	3	28
2004	4	28
2005	1	28
2006ytd	1	28

Long Term Job Growth- States

Long-term employment growth will be similar to the past. Texas and Hawaii move into the Top 10.

25 Year Growth through 2006			25 Year Growth through 2030		
	%	Rank		%	Rank
Nevada	4.7	1	Nevada	2.5	1
Arizona	3.8	2	Arizona	2.3	2
Florida	3.1	3	Idaho	2.0	3
Utah	3.1	4	Florida	1.9	4
Idaho	2.7	5	Utah	1.7	5
Georgia	2.5	6	Texas	1.5	6
Washington	2.3	7	Georgia	1.4	7
Colorado	2.3	8	New Mexico	1.3	8
New Mexico	2.3	9	Hawaii	1.3	9
Virginia	2.2	10	Virginia	1.3	10

Source: Global Insight

Now, let us look at the population growth data:

Greater Phoenix Population Projections - Various Sources

	2000	2010	2020	2030
DES	3,251,876	4,582,014	5,885,794	7,060,443
Annual Growth		- 3.5%	2.5%	1.8%
UofA	3,251,876	4,541,760	6,180,375	8,344,339
Annual Growth		- 3.4%	3.1%	3.0%
Census*	3,251,876	4,306,600	5,579,947	7,159,112
Annual Growth		- 2.8%	2.6%	2.5%
U.S. (Census)		0.9%	0.8%	0.8%

*Assumes Greater Phoenix Continues to Capture 70% of Statewide Growth

Next, Lets look at the median prices for various metro cities and the housing needs forecast:

<u>Median Price of Existing Single Family Homes</u>	
As of Second Quarter 2006 Source: Elliott D. Pollack	
Source: National Association of Realtors	
Phoenix, AZ	\$272,200
Seattle, WA Currently	Unavailable
San Francisco Bay Area, CA	\$751,900
San Diego, CA	\$613,100
Salt Lake City/Ogden, UT	\$191,200
Riverside/San Bernardino, CA	\$395,700
Orange County, CA	\$726,200
Los Angeles Area, CA	\$576,300
Las Vegas, NV	\$319,100
Denver, CO	\$255,200

<u>Greater Phoenix Housing Needs Forecasts - UofA</u>			
Source: Elliott D. Pollack & Co.; University of Arizona			
	2000	2010	2020
Population	3,251,900	4,541,800	6,180,400
Ch. Each Year		129,000	163,900
New Units Required Each Year*		51,600*	65,500*
(86,600 units per year in 2020's)			
* Includes both single family and multi family; Based on 20 year housing to population ratio.			

Q. How is this impacting the Phoenix Market?

Kuldip: It appears that the reasonable demand for housing units has been 50,000 units per year. However in 2004 and 2005 approximately 60,000 units have been built because of investor demand. This created an excess inventory which the builders are trying to get rid off. New home sales have been still strong this year with new home closings at 4,451 units in October 2006 and 42,079 units through October, for the year. However the new home permits have dropped to 2,341 units in October 2006. The total number of permits through October 2006 was 38,280 units. Reduction in the new home permits shall start reflecting in the reduction in the inventory.

There are still 44,562 homes on the Multiple Listing Service (MLS). This number is high. The median price of new homes in October '06 was \$281,990.00, as compared to \$251,568.00 in October '05. The resale median price in October '06 was \$257,000.00, approximately the same as \$257,900.00 in October 2005. The numbers are average and will vary area to area.

The upward pressure for price increase shall come as the new home inventory and resale inventories come down. Both these inventories are still on the high side. As you can see, as these are diminishing on a monthly basis, there will be upside pressure on price increases. Watch for the inventory of both new home and resale homes and the Job growth. These are fundamental indicators of things to come and shall signal whether the house prices shall start to move up.

Raw land market is somewhat different to the housing market. Builders have slowed down on buying land.

First the builders have to reduce their inventories, which they are already working on. Once they reduce the inventories, they will start buying, that will be the time to get in the market. It does not appear very likely that this will happen in the next 3 months. In the mean time, keep an eye on the stats and watch for the signal.

With all the bad news in the housing this year, 2006 should be the 3rd best housing year in Greater Phoenix history – something to cheer about!

In the next few weeks, we plan to put all these data on the following web-sites: www.vermland.com and www.JustLand.com, to enable you to access the current data.

Watch for interviews with Kuldip Verma in the next issues of Valley India Times for 'signals on when to buy'.

Source: Elliott D. Pollack, University of Arizona, DES

Thanks to Kuldip for at least cheering me up – clearly the Phoenix and Arizona fundamentals are better than any other city in the US, giving hope that good times will roll again in the not too distant future.

For further questions or information feel free to call or email me.

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