Meyers-Pollack Quarterly
2011 First Quarter

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The Economy: Good, but not Great... — Greater Phoenix Issue

Main Themes

National

- ✓ The recovery is about to enter its 8th quarter. A solid recovery is in place and is likely to continue.
- ✓ The recovery will be relatively modest given the extent of the decline in 2008 & 2009.
- ✓ Unemployment will continue to decline albeit slowly as job creation picks up modestly.
- ✓ While the consumer will recover, consumer balance sheet restructuring is not over. This suggests a modest consumer recovery.
- ✓ Capacity utilization is still at levels well below what is necessary for significant business investment in plant.
- ✓ Investment in business equipment (mainly computers and software), however, should remain strong.
- ✓ Nationally, the housing recovery should start sometime in 2012. The exception will be the bubble states.
- ✓ Overall, GDP growth will continue, albeit modestly so.

Arizona

- ✓ While growth is anemic by historic standards, a major turnaround has occurred.
- ✓ Jobs over the last twelve months were up 1.4% compared to job declines of 6% from the previous twelve months. Employment should be up in 2011.
- ✓ "Base" industries are doing better as a result of the national recovery.
- ✓ The big issues that remain have to do with construction and population flows.
- ✓ In the Phoenix area, 65,000-80,000 excess units still exist. New single family housing permits fell to less than 7,000 in 2010 compared to 60,000+ in 2005.
- ✓ Permits this year are likely to be down slightly (see "Special Section: Housing Analysis").
- ✓ The decline in housing prices is probably not over, although declines will be modest.
- ✓ Commercial construction will be limited for the next 3-5 years due to high vacancy rates in office, industrial and retail. Apartment construction should increase.
- ✓ Retail sales in Arizona should improve in 2011.
- ✓ Despite the qualifiers, the forecast is favorable. Everything is relative.

Economy at Glance: What are the Experts Saying?

National Consensus Forecast

- ✓ **Gross Domestic Product**
  Consensus forecasts for GDP continue to improve due mainly to strong Q4 2010 growth. 2011 forecast = 3.2% 2012 forecast = 3.3%.
- ✓ **Personal Consumption Expenditures**
  Growth in PCE accelerated to its highest annual rate in Q4 2010 (+4.4%) since 2006 primarily led by auto purchases.
- ✓ **Industrial Production**
  Recently stepped up but still remains 6.0% below the pre-recession peak.
- ✓ **Inflation**
  Panelists expect inflation to increase by 1.9% in 2011 and 2.0% in 2012.
- ✓ **Housing**
  Total housing starts continued to slide in January dropping to an annualized 670,000 units. A normal year is 1.5 million.

Arizona Consensus Forecast

- ✓ **Population**
  Up, but only modestly. Household formations lag.
- ✓ **Employment**
  Big turn around over last year. Up 2% in 2011
- ✓ **Personal Income**
  Should grow at strongest rate since 2007
- ✓ **Retail Sales**
  Should be up by 5% in 2011 after declines in 2008 through 2010.
- ✓ **Housing Permits**
  Weaker than most people expect (see "Special Section: Housing Analysis").

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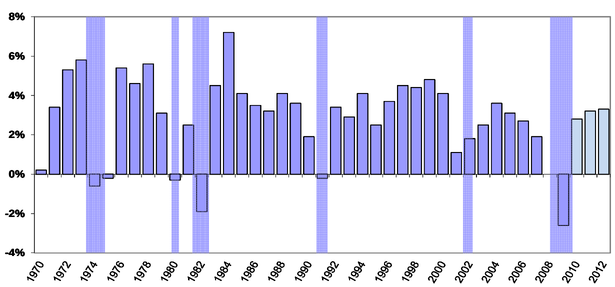
The National Economy

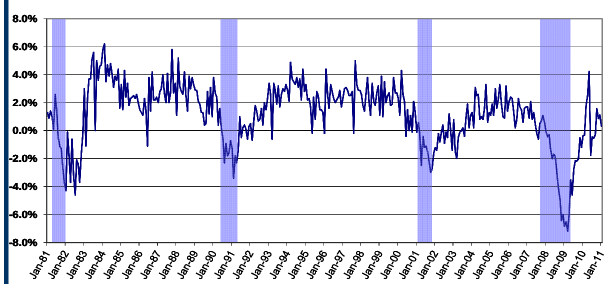
The moderate but sustainable recovery will continue. The unemployment rate is likely to continue to decline but very slowly. Employment will pick up, but similarly slowly. That, plus increases in hours worked, will put more income into the system. Although consumers are not done restructuring their balance sheets, there will be more money to spend on retail items. Thus, the retail recovery, while modest by historic standards and certainly less than we expected given the extent of the decline, will continue. Business spending on equipment is likely to grow as well. Despite all the talk of “we need to cut deficits” at the federal and state level, overall government spending is still likely to be up Thus, the overall picture remains one of continued but moderate growth.

U.S. Real Gross Domestic Product
Annual Growth 1970-2012
Source: U.S. Bureau of Economic Analysis & Blue Chip Indicators



The forecast now suggests growth of 3.2% and 3.3% in 2011 & 2012, respectively. While slow given the extent of the decline, growth is still growth.

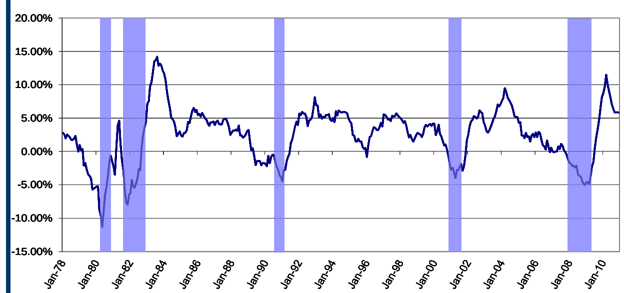
National Employment
Percent Change Month Ago, Annualized
1981-2011*
Source: US Bureau of Labor Statistics



* As of Jan 2011

National employment growth so far this year is slow. More rapid growth is anticipated.

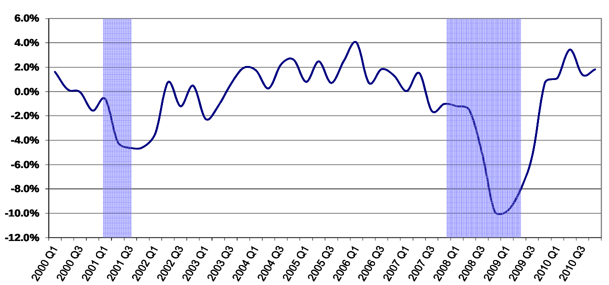
Composite Index of 10 Leading Indicators
1978-2010*
Source: The Conference Board



* As of Dec 2010

Leading indicators continue to advance. More evidence of a continued recovery.

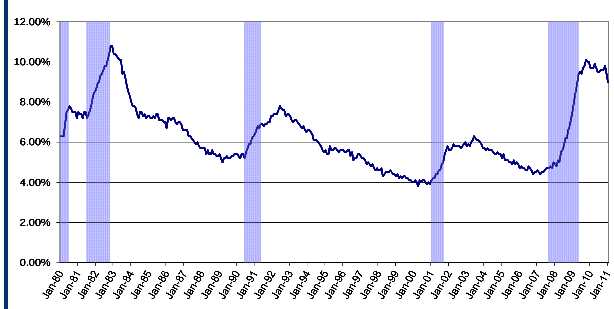
Hour Worked
Quarterly Percent Change
2000 - 2010*
Source: Bureau of Labor Statistics



* As of Q4 2010

Employers are continuing to get all they can out of existing workforce before they hire. This is expected based on historical data.

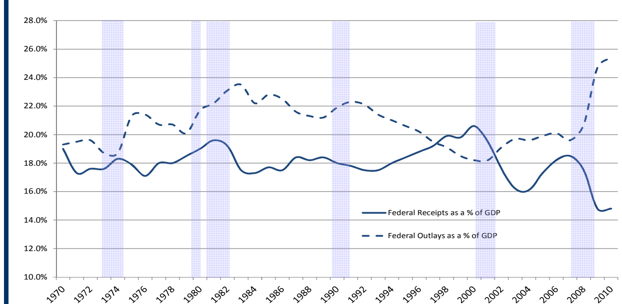
U.S. Unemployment Rate
1980-2011*
Source: Bureau of Labor Statistics



* As of Jan 2011

The decline in the unemployment rate last month was larger than expected. It will still take a while for the level of unemployment to get back to normal.

Federal Receipts & Outlays as a Percent of GDP
1970 - 2010
Source: www.whitehouse.com

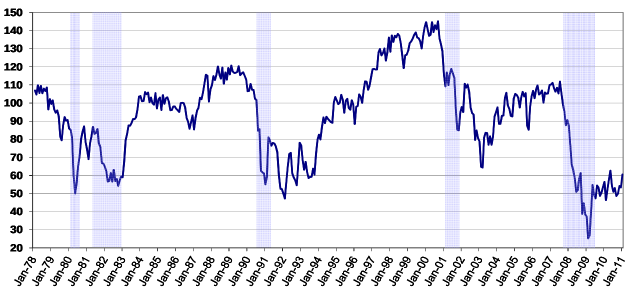


The federal deficit is large because of a huge increase in federal spending as a percent of GDP combined with a lower tax intake due to the recession. Unless this is corrected, it will cause problems down the road.

National Economy: The Consumer

Retail sales continue to be a plus. The last time a major decline occurred (during the early 1980s) a massive retail sales boom followed. Such a boom this time around is less likely although sustainable growth seems probable. Consumer confidence has been flat for quite some time and remains at levels that are low by historic standards. Gains in the stock market are a definite plus for the financial obligations ratio. The financial obligations ratio is at levels first seen in 1985 and not seen since 1999. Those levels are likely to continue to decline in 2011. Ultimately, this will leave consumers in relatively good shape.

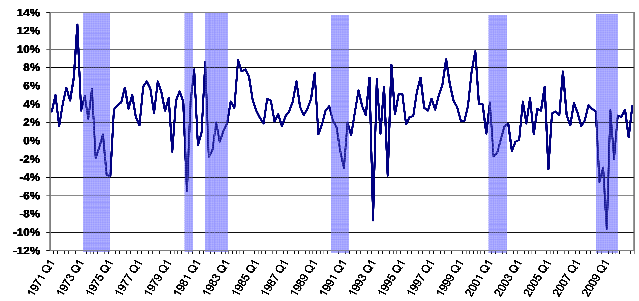
Consumer Confidence
1978-2011
Source: The Dismal Scientist



* As of Jan 2011

Confidence is a coincident indicator and should turn up as employment starts to grow again.

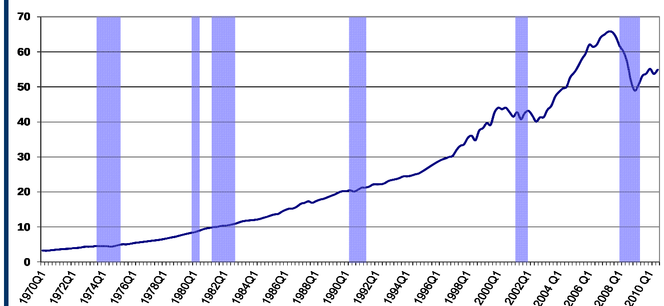
Real Personal Income
Percent Change Quarter Ago, Annualized
1971 – 2010*
Source: Bureau of Economic Analysis



* As of Q4 2010

Real incomes are growing again. It will take sustained growth in employment and hours worked to push up the rate of growth.

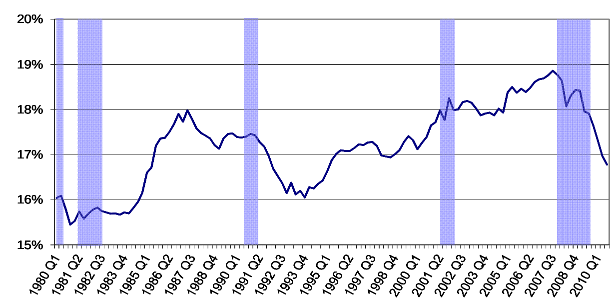
Household Net Worth
1970 – 2010*
Source: Federal Reserve



* As of Q2 2010

Household net worth turned positive in the fourth quarter of 2009. People will continue to feel better but modestly so.

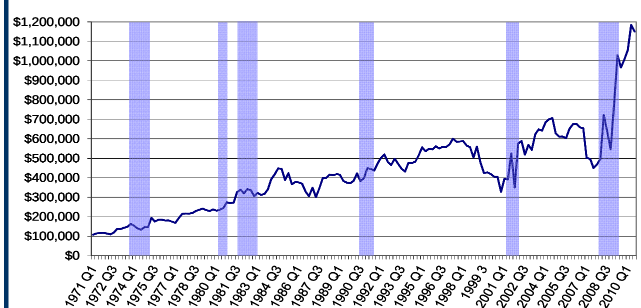
Financial Obligation Ratio
1980-2010*
Source: Federal Reserve



* As of Q3 2010

Combining consumers' inability to borrow with gains in the stock market, the financial obigation ratio will continue to decline.

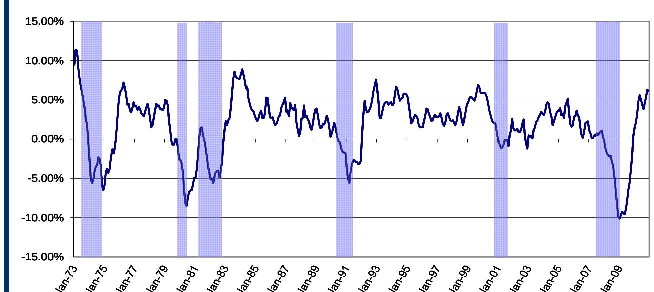
Household Net Private Saving
1971 - 2010*
Source: Free Lunch.com



* As of Q3 2010

The quantity of savings has almost doubled from pre-recession levels. Savings needs to be higher since consumers can no longer use their house as a credit card and stocks are still off of the peak.

Real Retail Sales U.S.
Percent Change Year Ago
1973-2010*
Source: Federal Reserve



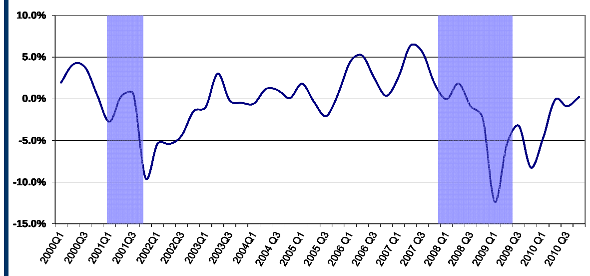
* As of Dec 2010

Retail sales has turned positive after several quarters of decline.

National Economy: Business

The nation's business sectors appear to be in good shape. Corporate profits are at recovery levels and spending on business equipment, mainly software and computers, is up as well. Much of the growth is in the financial and manufacturing sectors. While banks remain tight, the level of corporate profits combined with the low level of spending on plant suggests that corporations are essentially self financing at the present time, and that banks are easing their loan standards. Credit standards will not be as easy as 2002 through mid 2007 or anytime in the foreseeable future.

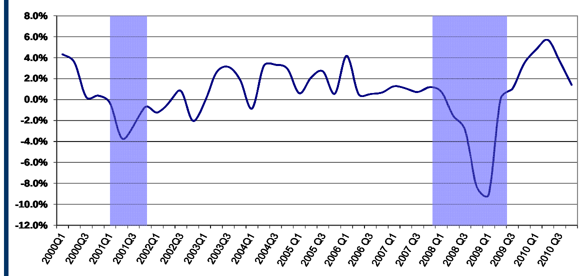
Business Spending on Plant
Percent Change from Prior Quarter
2000 - 2010*
Source: Bureau of Economic Analysis



* As of Q4 2010

Given the levels of capacity utilization, business spending on plant will be muted in 2011.

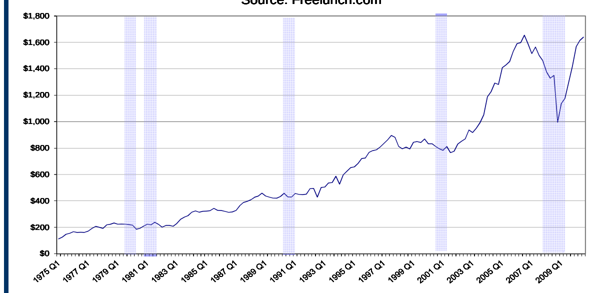
Business Spending on Equipment
Percent Change from Prior Quarter
2000-2010*
Source: Bureau of Economic Analysis



* As of Q4 2010

Spending on equipment helps companies get as much productivity as they can out of their existing workforce. Spending on business equipment is likely to continue to be relatively strong although not likely as strong as 2010.

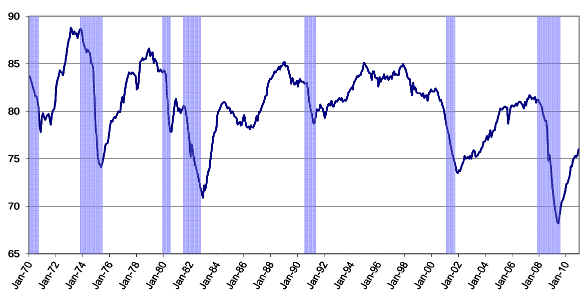
Corporate Profit
(Billions of Dollars, SA)
1975 - 2010
Source: Freelunch.com



* As of Q3 2010

Corporate profits are very high especially for financial corporations. This allows the corporate sector to be strong and the financial sector to more effectively deal with the writeoffs in residential and commercial real estate that are still in front of them.

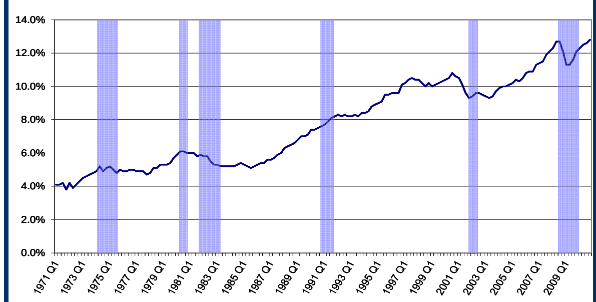
Capacity Utilization Rate
1970-2010*
Source: The Conference Board



* As of Dec 2010

By the end of 2011, the capacity utilization rate should be high enough to spur business spending on plant.

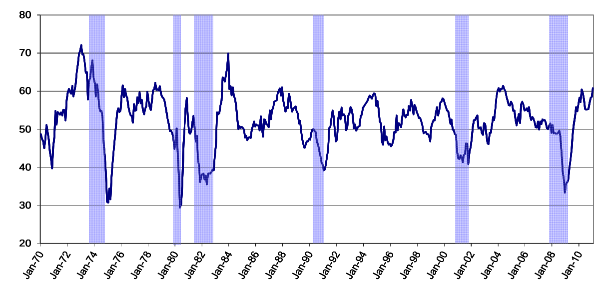
U.S. Real Exports as Percent of Real GDP
1971-2010
Source: Bureau of Economic Analysis



* As of Q4 2010

Even with the modest recovery, we are importing in more foreign goods. At some point, our status as a large debtor nation will affect the value of the dollar and make foreign goods more expensive.

Purchasing Managers Index
1970-2011
Source: Institute of Supply Management



* As of Jan 2011

The Purchasing Manager's Index suggests continued strength in manufacturing.

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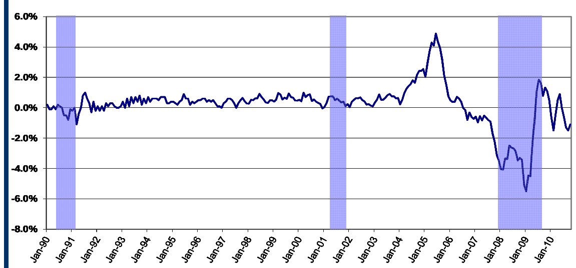
Western United States Home Prices

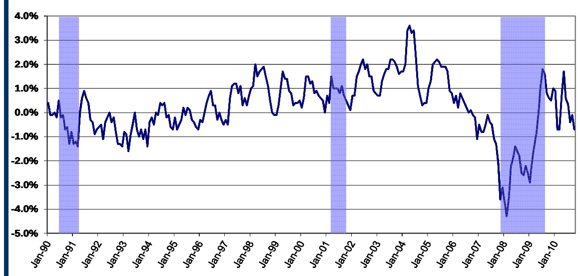
The S&P/Case-Schiller Home Price Index measures changes in existing single family home prices given a constant level of quality. The following charts provide the percent change versus a month ago for the home price indices for selected metro areas. It is clear that the major declines are over although modest declines are likely to continue given the supply/demand situation in most markets. In the Arizona, California and Nevada markets, prices will probably not fully stabilize until next year.

Greater Phoenix Home Price Index
1990-2010*
Source: S&P/ Case-Shiller, Macro Markets LLC



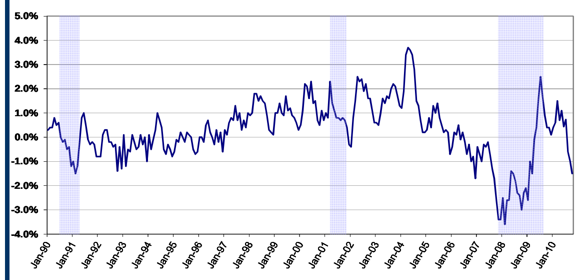
* As of Oct 2010

Greater Los Angeles Home Price Index
1990-2010*
Source: S&P/Case-Shiller, Macro Markets, LLC



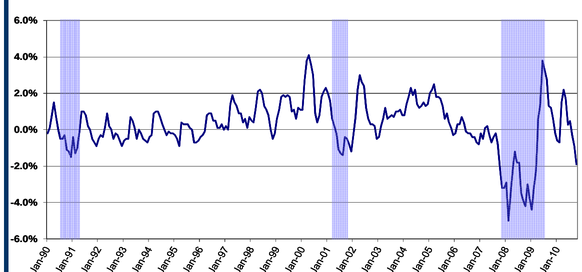
* As of Oct 2010

Greater San Diego Home Price Index
1990-2010*
Source: S&P/Case-Shiller, Macro Markets, LLC



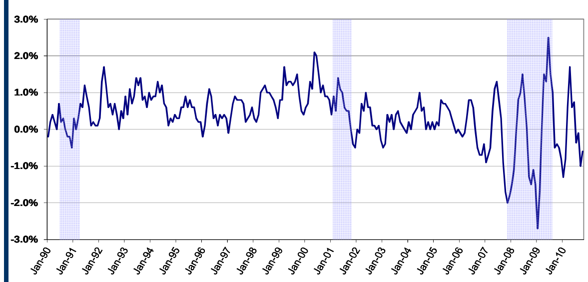
* As of Oct 2010

Greater San Francisco Home Price Index
1990-2010*
Source: S&P/Case-Shiller, Macro Markets, LLC



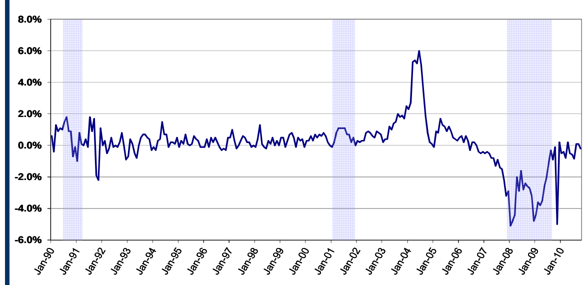
* As of Oct 2010

Greater Denver Home Price Index
1990-2010*
Source: S&P/Case-Shiller, Macro Markets, LLC



* As of Oct 2010

Greater Las Vegas Home Price Index
1990-2010*
Source: S&P/Case-Shiller, Macro Markets, LLC



* As of Oct 2010

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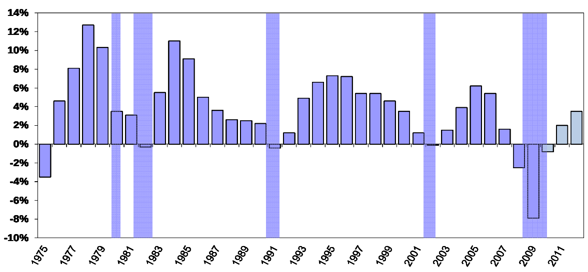
Greater Phoenix Outlook

While the Phoenix metro economy is now growing at a rate that, by historic standards, can only be described as anemic, the turnaround has really been amazing. Over the last twelve months, the area has created 28,800 jobs. While this is only a growth rate of 1.7 %, it compares to a decline of 119,700 jobs the previous twelve months and another decline of 111,000 jobs for the twelve months prior to that. Indeed, relative to other metropolitan areas, Greater Phoenix is growing rapidly. According to ASU, over the 12 months from December 2009 to December 2010, Greater Phoenix was the 2nd fastest growing metro area (with more than 1 million jobs) in the country. This can't mask the fact however, that rate of growth is slow relative to what is normal. No speedy recovery is in sight.

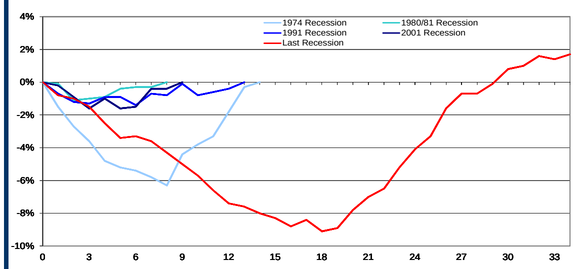
Phoenix-Glendale-Mesa MSA Employment
Annual Percent Change 1975-2012*
Source: Department of Commerce, Research Administration**



*2011 & 2012 are Forecasts

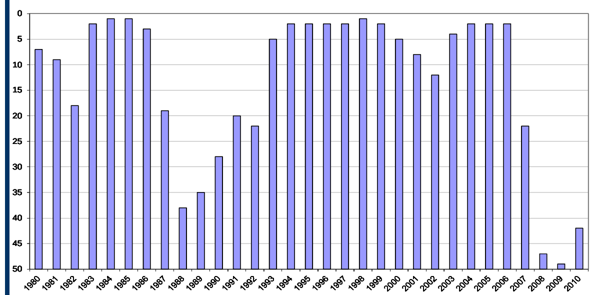
Yearly employment growth had its worst showing on record in 2008 and 2009. 2010 was negative as well. 2011 will be up modestly (+2.0%) and 2012 is expected to be up by 3.5%.

Greater Phoenix Y/Y Job Losses
Recent Recessions - Duration in Months
Source: Bureau of Labor Statistics



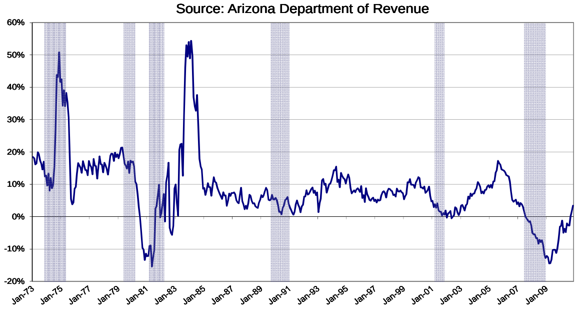
This was the most severe jobs recession Greater Phoenix has gone through, perhaps ever. Given the depth and length in the employment recession, the recovery could be expected to be very strong. However, this is not likely to occur in 2011 or 2012.

Arizona Employment Rank Among 50 States
1980 - 2010 Growth Over Previous Year
Source: Arizona State University



For a state that is usually in the top five growth states, this recession was devastating. The good news is that relative to other states we are recovering. As of December 2010 (the latest data available), we now rank 8th out of fifty states. Will it last?

AZ Retail Sales
Percent Change Year Ago*
1973 - 2010
Source: Arizona Department of Revenue



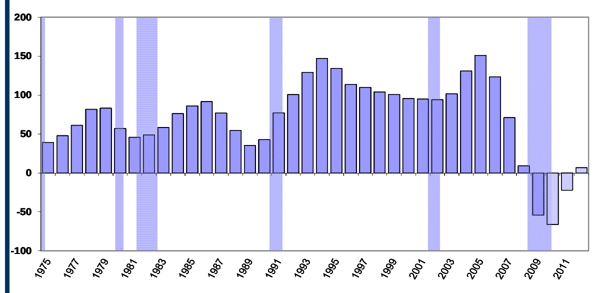
Real retail sales are up but the recovery is weak given the depth of the recession.

Greater Phoenix Employment
Percent Change December 2010 from December 2009
Source: Arizona Dept. of Commerce, Research Administration

Sectors In Decline		Sectors Improving	
Mining	0.0%	Education & health services	4.6%
Government	-1.8%	Trade	4.0%
Information	-2.9%	Prof. & Bus. Services	3.8%
Financial Activities	-2.5%	Transp. & Utilities	2.2%
Other Services	3.4%	Leisure & Hospitality	1.9%
		Construction	2.2%
		Manufacturing	0.1%

Many sectors are making a recovery. Indeed, strong growth in trade, educational health services, prof. services and positive growth in manufacturing and hospitality are moving the economy forward.

Arizona Net Migration
1975-2012
Source: University of Arizona



*2010 - 2012 are Forecasts

According to the University of Arizona, migration should remain negative in 2011 and turn slightly positive in 2012. If this occurs, it will be a continued drag on housing.

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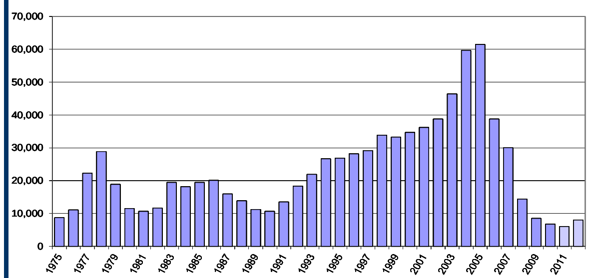
Greater Phoenix Outlook: Housing Market

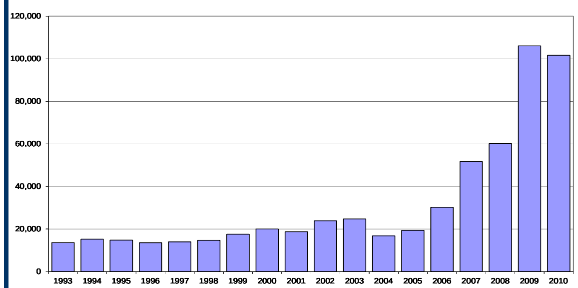
The supply/demand situation remains unbalanced. There is still a huge excess of supply and only modest demand. Greater Phoenix will slowly work through the excess supply, however. Given that situation, which effectively mandates modestly declining housing prices, it will be difficult for home builders to compete - although some have managed to do so. There is no reason to expect a major swing in housing permits in 2011. Single family housing permits in 2010 were at less than 7,000. Without the federal incentives, permits issued will be lower in 2011.

Greater Phoenix Single Family Permits
1975-2012
Source: ASU Realty Studies



Continued weakness in single family permits issued. No quick fix.

Single-Family Vacant Units
Greater Phoenix 1993-2010
Source: PMHS



It will take a while to absorb this excess. Again, there is no quick fix.

Greater Phoenix
Population per Single Family Household
Source: American Community Survey

1990	2.88
2000	2.88
2005	2.89
2009	3.13

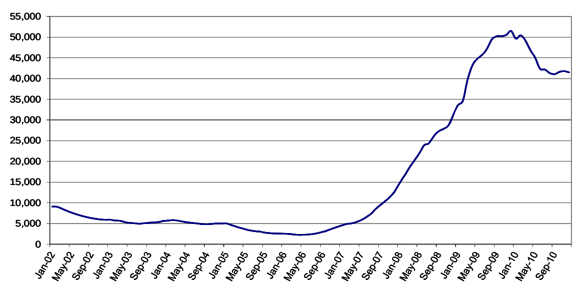
As expected, fewer household formations occurred during the recession due to doubling up. This should reverse over the next few years.

Maricopa County Permts v. Vacancy Rates
2010
Source: PMHS

District	Permits	Vacancy Rate	District	Permits	Vacancy Rate
Gilbert	1,278	11.0%	South Scottsdale	10	6.9%
Southwest Maricopa County	923	8.0%	North Tempe	8	7.0%
Western Suburbs	900	10.0%	Sunnyslope	5	8.0%
Superstition Springs	566	12.0%	Christown	5	12.1%
Deer Valley	505	12.0%	Central West Phoenix	5	12.1%
South Phoenix	258	8.0%	East Camelback	4	8.0%
Chandler	244	7.0%	North Mesa	4	11.0%
Union Hills	214	10.0%	South Mesa	4	9.0%
North Scottsdale	208	7.0%	Uptown	2	11.0%
Maryvale	143	10.0%	North Paradise Valley	1	8.1%
East Mesa	130	10.0%	Northwest Phoenix	1	9.0%
Glendale	101	9.0%	Central East Phoenix	1	11.1%
Sun City-Youngtown-Peoria	71	10.0%	Sky Harbor	1	13.1%
Northeast Maricopa County	52	0.0%	North Black Canyon	0	8.0%
South Paradise Valley	37	8.1%	Metrocenter	0	8.0%
South Tempe	31	8.0%	Mountain Park	0	8.0%

Builders are active in areas where they think they can sell homes. This has little to do with the number of existing vacant units in the area.

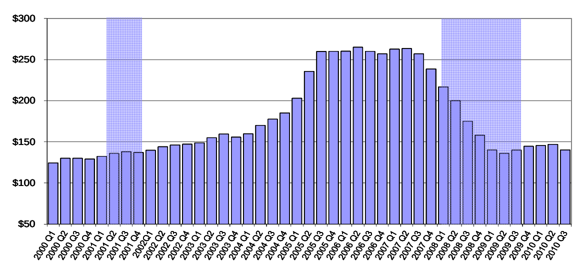
Maricopa County Foreclosures
2002-2010*
Source: The Information Market



* As of Dec 2010

Foreclosures off the peak but still high. 2011 will be another bad year.

Greater Phoenix Single Family Homes
Median Price of Resale
2000-2010*
Source: Arizona State University Realty Studies



*As of Q3 2010

We are now back to levels of prices not seen for almost a decade. No upward pressure on prices in the near future. It's a good time to buy.

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Special Section: Housing Analysis

Thoughts on the Greater Phoenix Housing Market: New Home and Land Market

Beware of overly optimistic near and intermediate term forecasts for new housing. We have done extensive modeling of the Greater Phoenix Housing and land market in order to determine the outlook for new housing and residential land. That research leads us to the conclusion that you should be pessimistic on new housing in the near and intermediate term.

It is more than jobs that are needed. If it were just jobs, the significant turnaround in Greater Phoenix employment over the last year (up 28,800 over the last twelve months vs. down 119,700 the previous twelve months) would have resulted in an increase in permits. The factors that need to be taken into account are basic supply and demand including the number of excess units in the market (somewhere between 65,000- 80,000), population flows, household formations, and the estimated number of housing permits each year.

The excess supply estimated by Arizona State University (and verified by data from the American Community Survey) is large. While some of the excess is due to the normal cyclical movement in household formations, the majority will need to be absorbed by increased population flows. The demand based on estimated population flows and household formations will be growing, but very modestly so. Overall, we expect no more than 6,000 new housing permits in 2011 and 8,000 in 2012.

Indeed, even this might be optimistic. If you annualize the number of new permits that have been issued since the federal incentives ended last spring it comes to 5,787 vs. 8,892 annualized for the period in 2010 when the incentives were in place. Also, housing prices are still declining and are likely to decline, albeit modestly, for most of the year. The declines will make it more difficult for new home builders to compete.

Overall, no matter how we shock the model, every scenario of reasonable assumptions do not show supply and demand in housing returning to normal until 2014/2015. (Normal is defined as homebuilders needing to build in order to meet new population growth.) That number should be 30,000- 35,000 units annually once supply and demand is normalized.

Land, on the other hand, probably is in better shape than most people think. In a normalized market, an eighteen month supply of lots is the minimum necessary in order to keep the market fluid. That, combined with a forecast for a modest level of new housing and slowly improving population flows suggest that new lot development will have to begin by 2013 for 2014/2015 delivery. Virtually every improved and partially improved lot that is not too small or not geographically undesirable will be either built on or will be part of the necessary eighteen month inventory by 2014/2015. If our new housing permit numbers are low, the recovery in land occurs sooner.

Real estate, as we all know, is a market of markets. What happens in one market is not necessarily indicative of what happens in another. The national recovery in housing should start in earnest in 2012. But in the bubble states- Arizona, California, Nevada and Florida, it will obviously take longer. Even within the Phoenix market, areas will develop at different times. You will need the detail.

Metro Area Outlook Summary

Shorter Term Considerations

- ✓ U.S. recovery benefitting base sector industries
- ✓ Housing is very affordable
- ✓ Single family permitting is probably bottoming
- ✓ Employment has probably bottomed
- ✓ So has net migration
- ✓ Consumer spending will be up a little
- ✓ Boycotts from Senate Bill 1070 having only a minor impact

Longer Term Considerations

- ✓ People will start moving here again, but slowly at first
- ✓ We will again create jobs at a moderate pace as the recovery takes hold
- ✓ But, initially these new jobs will be lower quality jobs
- ✓ We anticipate base industries will not grow as strongly
- ✓ Bad press not expected to have any long term impact

Forecast by Indicator

Greater Phoenix Forecast 2010 - 2012

Indicator	2009 Actual	2010 (e)	2011 (f)	2012 (f)
Population	0.9%	1.0%	2.0%	2.3%
Employment	-7.9%	-1.0%	2.0%	3.5%
Retail Sales	-10.6%	0.0%	5.0%	8.0%
Personal Income	-3.5%	2.5%	4.0%	5.0%
Building Permits	-57.6%	-15.0%	-10.0%	30.0%

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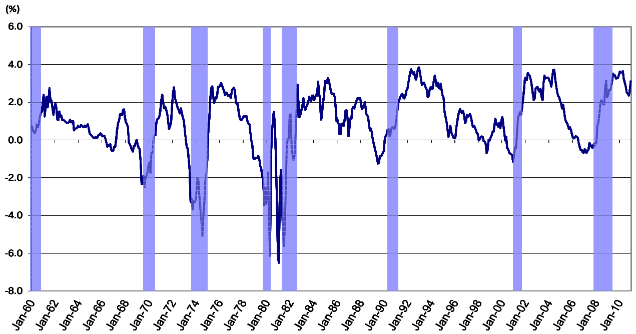
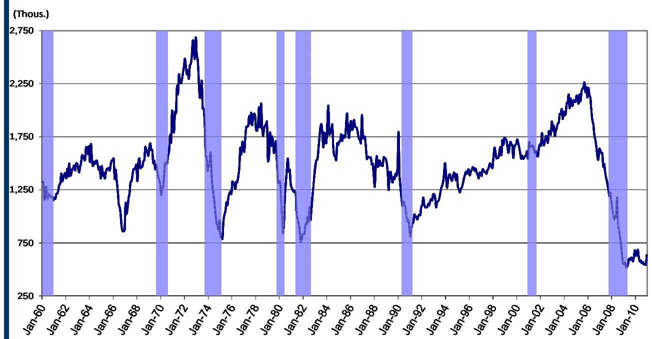
Leading Indicators

10 Year Treasury Bonds Less Federal Funds
1960-2010*
Source: The Conference Board



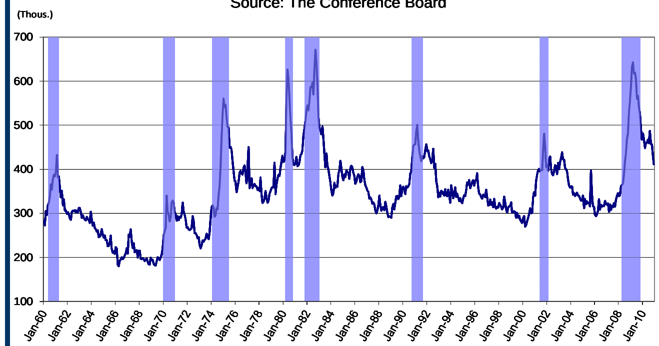
* As of Dec 2010

Building Permits
1960-2010*
Source: The Conference Board



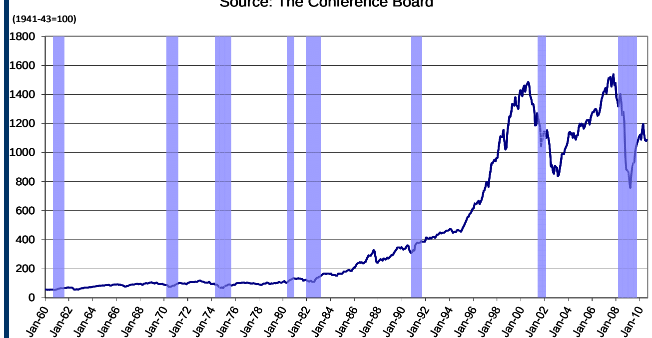
* As of Dec 2010

Average Weekly Insurance Claims
1960-2010*
Source: The Conference Board



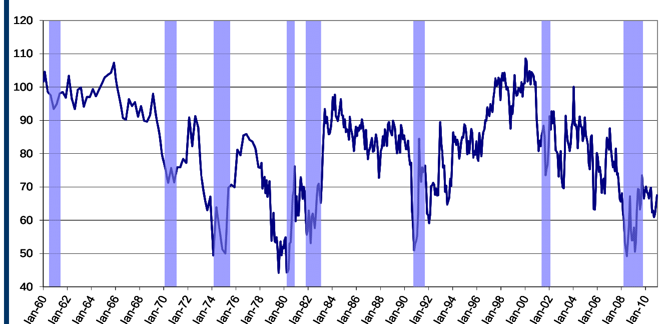
* As of Dec 2010

Index of Stock Prices
1960-2010*
Source: The Conference Board



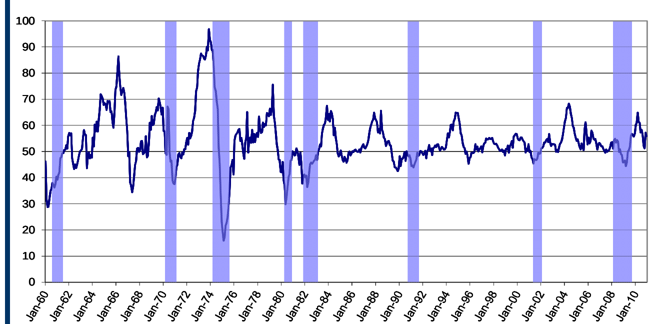
* As of Dec 2010

Consumer Expectations
1960-2010*
Source: The Conference Board



* As of Dec 2010

Index of Supplier Deliveries
1960-2010*
Source: The Conference Board



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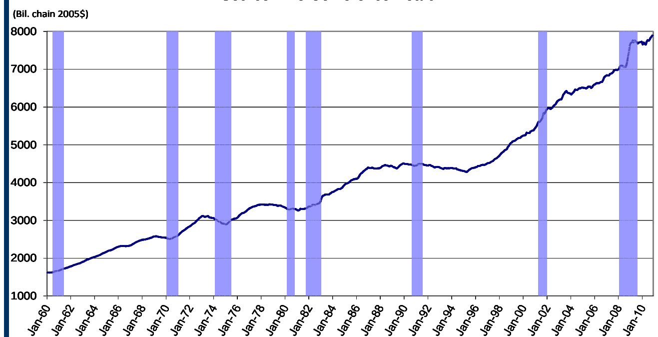
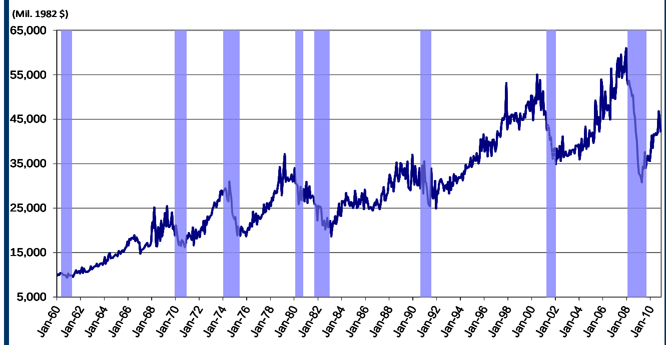
Leading Indicators

Money Supply-M2
1960-2010*
Source: The Conference Board



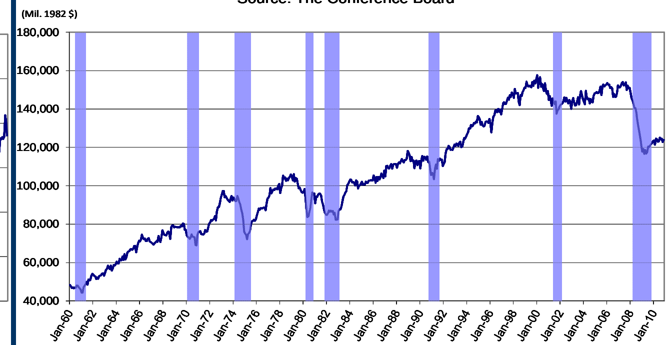
* As of Nov 2010

Manufacturing New Orders Non-Defense Goods
1960-2010*
Source: The Conference Board



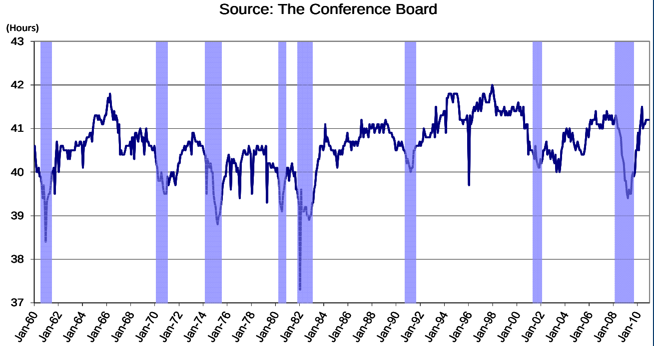
* As of Nov 2010

Manufacturing New Orders Consumer Goods
1960-2010*
Source: The Conference Board



* As of Nov 2010

Average Weekly Hours
1960-2010*
Source: The Conference Board



*As of Dec 2010

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- ✓ Economic & Fiscal Impact Modeling
- ✓ Real Estate Market and Feasibility Studies
- ✓ Litigation Support
- ✓ Revenue Forecasting
- ✓ Keynote Speaking
- ✓ Public Finance and Policy Development
- ✓ Land Use Economics
- ✓ Economic Development

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- ✓ Product Segmentation, Pricing and Absorption
- ✓ Asset Due Diligence
- ✓ Highest and Best Use Analysis
- ✓ Financial Cash Flow and Optimazation Scenarios
- ✓ Investment Strategy, Screening and Valuation
- ✓ Business Plan (Raise Capital/Sell)
- ✓ Asset/Portfolio Performance Review and Tracking
- ✓ Entitlement Review and Critical Action Planning