CHAPTER 4

2002: MARKETS TO WATCH

Unquestionably, the 24-hour cities—New York, Washington, D.C., Boston, Chicago, and San Francisco—maintain their iron grip on investors. Add the powerful Southern California suburban agglomeration—San Diego to north of Los Angeles—into this mix and you have the "Consensus Six," the group of megamarkets where most investors want to own or finance because of perceived potential for better risk-adjusted returns. Beyond these markets, interest among the *Emerging Trends* experts drops off noticeably.

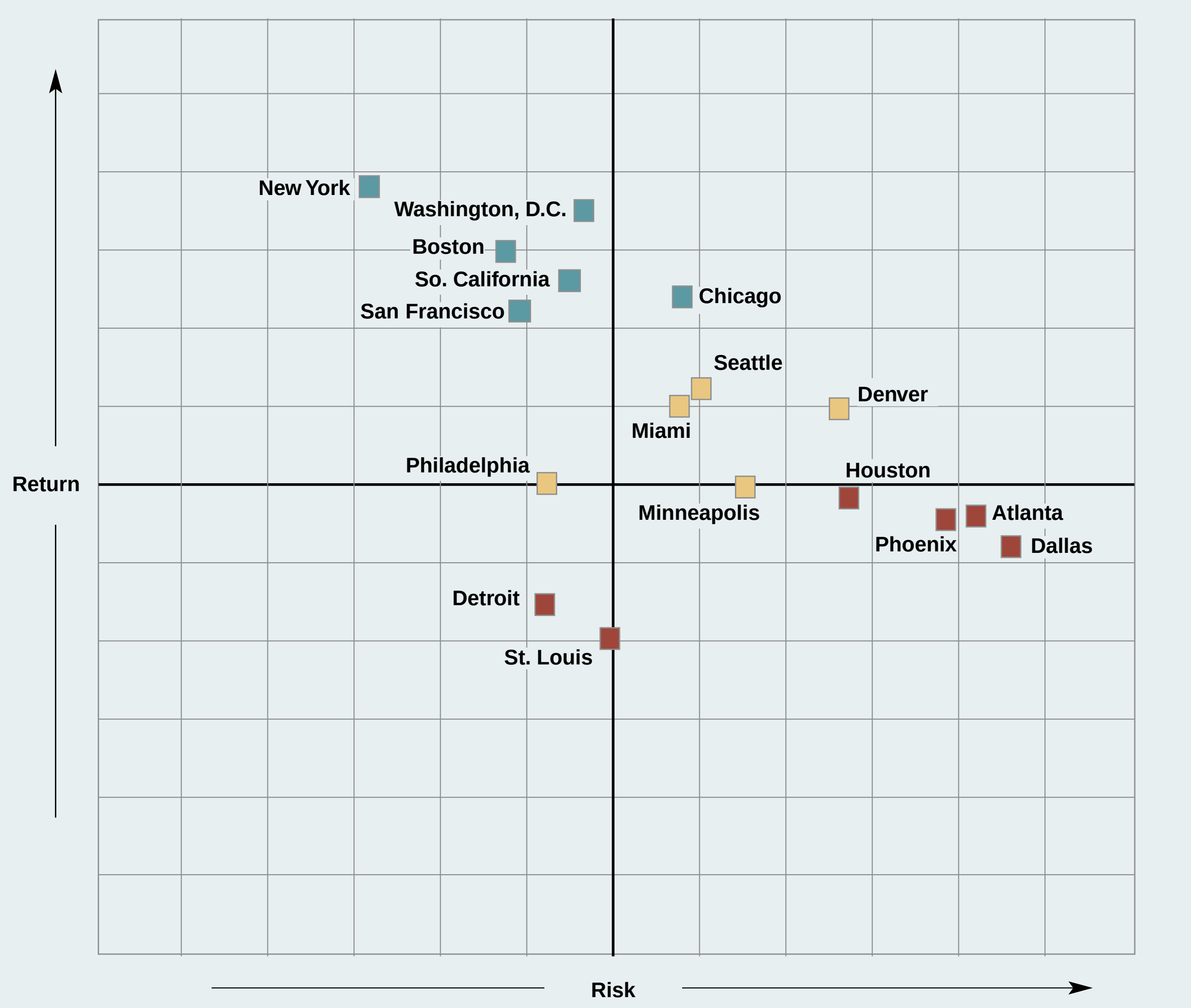
In fact, the 24-hour mantra, which *Emerging Trends* initiated in the 1995 edition, built to numbing repetition during this year's interview process. Even San Francisco, which dropped off its perennial top market perch in this year's survey, retains a significant following from interviewees. They believe the city's 24-hour fundamentals will prompt a quick recovery from the 2001 deluge of sublease space, which sent vacancy rates into double digits.

Interviewees have come to realize that properties in better-planned, growth-constrained markets hold value better in downmarkets and appreciate more in upcycles. Areas with sensible zoning (integrating commercial, retail, and residential), parks, and street grids with sidewalks will age better than places oriented to disconnected cul-de-sac subdivisions and shopping strips, navigable only by car. Booming populations and wide-open spaces in the Sunbelt's expanding suburban agglomerations can provide developers and investors with short-term opportunities to cash in on growth waves—but the returns, on average, have not been competitive. "Most of the gains in office returns reflected in NCREIF numbers have been confined to the big markets on the coasts, not the Sunbelt," says a researcher. "Markets where you can build too easily tend to produce lower returns."

Geographic barriers to growth have been a boon not only to the 24-hour kingpins like New York, Boston, San Francisco, and Chicago, which are hemmed in by water, but also to the "Granddaddy" Southern California agglomeration, which is pinched by ocean, mountains, and desert. Miami, sandwiched between the Atlantic Ocean and the Everglades, also gets relatively high ratings. The also-rans of the 1990s—hot-population growth markets clustered in the Southeast and Southwest—continue to huddle uncomfortably in the lower-return/higher-risk part of the *Emerging Trends* gauge for market risk and return.

EXHIBIT 4-1

Metro Areas - Return and Risk: 2002



Source for all exhibits in Chapter 4: Emerging Trends in Real Estate 2002 *interviews*

Today's Generations X and Y now gravitate to the pulse and allure of big city lifestyles, but tomorrow they won't put their children's education at risk in city schools.

RISING RISK FOR 24-HOUR CITIES

Despite consensus esteem for the Big Five, there's evidence that the 24-hour juggernauts have peaked. Five nettlesome issues threaten to blemish their high standings—at least in the near term:

1

The souring economy

The '90s economic resurgence propelled a renaissance in the nation's largest cities—increasing tax revenues, wiping out deficits, and lowering unemployment. City services improved. More jobs and more cops sent crime rates plummeting. Streets were cleaner and safer; residential neighborhoods burgeoned and tourist traffic soared. Cultural venues flourished and restaurants proliferated. The whole scene attracted the best and the brightest—executives, entrepreneurs, artists, the moneyed elite—creating a synergy of excitement, creativity, and commerce.

Now, a weakened economy promises to test local governments, whose reputations as fiscal managers are mixed at best. Layoffs and business cutbacks would hit city halls hard in the pocketbook, forcing unpalatable tax hikes and cuts in key services. Higher crime would cast a pall, potentially stalling the in-migration of suburban empty-nesters and tempering the flow of visitors. Erosion of job opportunities would slow the advance of Generation Xers, and lowered bonuses might tip the scale for professionals weighing whether to stay in a high-cost environment or move elsewhere. The 24-hour markets spiraled up in an economic boom; a recession could reverse that scenario. At the very least, expect the economic slowdown to take some sheen off 24-hour lifestyles.

2

Federal indifference

Examine the 2000 election map: most of the nation's major urban centers, including the Big Five, voted overwhelmingly for Al Gore. Politics is politics, and President Bush's core constituency lives in suburban and rural areas. Big-city mayors can expect little support from the new administration. Mass-transportation spending, initiatives to address public housing and shore up the inner-city poor, and school rebuilding assistance are among the urban wishlist items notably absent from the Administration's agenda. Congress doesn't exactly endorse a strong urban program either. If times turn tough, cities would be on their own. Exception: New York will have a claim on funds to re-build downtown—the country will make it an imperative to help restore the devastation of the World Trade Center horror.

3

Public school debacle

Without exception, cities have failed to make any headway in improving deplorable public school systems. It's urban America's "great Achilles' heel—a determining factor in judging an area's quality of life." Over the next decade, as increasing numbers of Echo Boomers start families, suburban school districts will beckon. Today's Generations X and Y now gravitate to the pulse and allure of big city lifestyles, but tomorrow they won't put their children's education at risk in city schools beset by teacher shortages, crumbling facilities, questionable academic standards, abysmal reading scores, and safety issues. A reverse tide will head back to the burbs.

4

Housing shortages

While the rich and powerful can pay astronomical amounts for apartments on Nob Hill, Fifth Avenue, or Lake Shore Drive, the big cities contend with chronic affordable-housing shortages for low- and middle-income people—the backbone of their service industries and municipal governments. Resuscitating and replacing dilapidated housing stock, and rehabbing commercial space into residential, must

Nomenclature

24-HOUR CITIES

Major urban cores that enjoy prime residential neighborhoods, a thriving business environment, a critical mass of service retail, pedestrian-friendly multifaceted attractions (parks, cultural institutions, entertainment facilities), relatively safe environments, and mass transportation. To wit, "The Big Five"—Boston, Chicago, New York, San Francisco, and Washington, D.C.

SUBURBAN AGGLOMERATIONS

Car-dependent metro areas featuring sprawl and embedded urban nodes, including subcities. Examples: Atlanta, Dallas, Phoenix, Southern California.

9-TO-5 MARKETS

Struggling urban cores that lack residential underpinnings and empty out when office workers go home—typically, the original downtowns of Sunbelt metro areas (now suburban agglomerations) or the central business districts of older industrial cities. Examples: Atlanta, Dallas, Detroit, Los Angeles, Phoenix, St. Louis.

SUBCITIES

Emerging urban centers with 24-hour characteristics embedded in suburbs. Examples: Birmingham, Michigan (Detroit); uptown Buckhead (Atlanta); Reston, Ballston-Rosslyn corridor, and Bethesda (Washington, D.C.); Walnut Creek (San Francisco).

continue to be high priorities if city neighborhoods are to thrive and support business growth. Local property tax abatements and intelligent federal housing programs need to be encouraged. Recent progress could easily backslide, especially if municipal coffers run low and the White House together with Congress turns a deaf ear. Leading-edge California, through its pension funds, steps up efforts to provide more funding for affordable housing in infill areas—expect other states with large cities to follow suit, if they can.

5

Fear factor

Heat-of-the-moment reactions are inherently unreliable, but the recent terrorist attacks cast a shadow on big city life. Buildings imploding, massive loss of life, dislocation, and inconvenience combine to create an unsettling psychological mosaic. Around the country, office workers, city-dwellers and visitors watched, traumatized, as the tragic events unfolded on television. In New York, tens of thousands of people actually witnessed the horror. Suddenly, the suburbs—even more so, the hinterlands—feel much safer.

TEMPERED PROSPECTS FOR SUBURBAN AGGLOMERATIONS AND HIGH-GROWTH MARKETS

High-growth markets typically recover sooner coming out of a cyclical bottom and crest faster. But the interviewees predict that demand drivers in these markets will be more subdued as they emerge from the expected downturn than they were in the previous recovery, which followed an unprecedented slide. As a result, investors' opportunities to ride a growth wave will be moderated. "These are timing markets, in and out," said an interviewee. "You've got overactive developers, few supply constraints, and this time round you won't have had a big enough drop to have a real up."

SECOND-TIER CITIES STAY OFF RADAR SCREENS

The best anyone can say about investment prospects for smaller cities is "buy and sell at appropriate pricing—that means at higher cap rates than in the larger markets." Across the board, interviewees urge "care and caution." Corporate consolidations can deplete a year's worth of absorption, or more, in smaller cities that are

The best anyone can say about investment prospects for smaller cities is "buy and sell at appropriate pricing."

dependent on a handful of big tenants. "If a company pulls out, it's over." Cities without major airports or airlines, effectively off the beaten track, are redlined on corporate relocation lists and by many institutional investors. "Avoid like the plague—for institutional investors they're radioactive." Adds another interviewee: "If you stop anywhere between Chicago and the East Coast, you'd better be careful."

PRESSURE TURNED DOWN ON SAFETY-VALVE MARKETS

When 24-hour city rents get too outrageous for tenants to bear, companies start relocating operations to cheaper nearby "safety valve" cities or suburbs—an example is Oakland on the other side of San Francisco Bay. But as rental rates decline and tenants stay put, safety-valve markets typically lose their allure. 2002 will be no exception. "The overflows are over." Exception: New Jersey and Connecticut suburbs gain from terrorists' destruction of the World Trade Center as some tenants are forced out of the financial district.

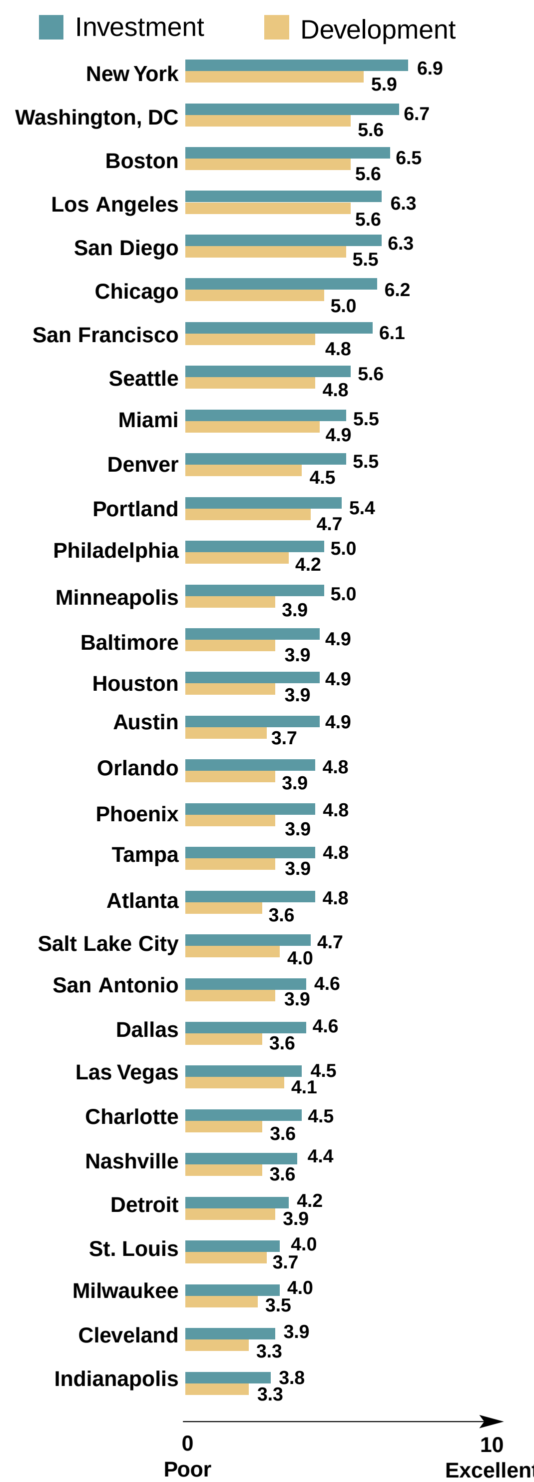
CITIES NEED MASS TRANSPORTATION TO PROSPER

Americans' growing desire to work near where they live is no accident. Across the country in major cities and suburban agglomerations alike, traffic congestion takes an increasing toll on harried lifestyles—the average citizen spends 36 hours a year stuck in traffic, triple the time wasted in 1982. Car commutes are longer too, especially in the large metro areas, as roadways strangle in ever-lengthening rush hours. A commuter whose daily round trip to work is 90 minutes spends 15 full days annually in a car just to get back and forth.

Markets served with mass-transportation alternatives and attractive close-in neighborhoods should be positioned to sustain better long-term prospects as people strive to make their lives more convenient. Building roads and spaghetti junctions won't handle future growth alone and will only raise already unacceptable air pollution levels. That's why Houston, Dallas, Los Angeles, Denver, and other car towns have put in or are building modest light-rail systems. Atlanta's downtown would be destitute without MARTA. Expanding these systems to serve more people will be a challenge, however. The cost of building light rail, let alone subways, can be prohibitive, especially in areas that have been developed already. In agglomerations with dispersed urban nodes "it's harder to make a serious dent" in the effort to transport people to where they need to be. "In suburbia, people love their cars." Well, they had better be ready to spend even more time in them, or move closer to where they work.

EXHIBIT 4-2

Markets to Watch



THE CONSENSUS SIX: AMERICA'S TOP MARKETS IN 2002

The list of leading *Emerging Trends* markets shouldn't be a surprise. Since the mid-1990s these metropolitan areas have consistently ranked at or near the top of the survey. Five of the markets comprise the nation's major 24-hour cities. They boast diversified economies, well-planned infrastructures, multifaceted environments, and natural features that not only serve as barriers to entry but also provide extraordinary settings and enhance living experiences.

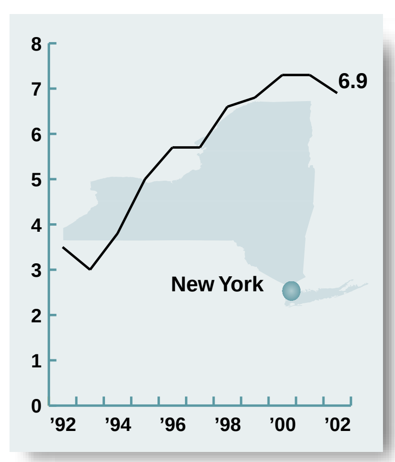
Los Angeles and San Diego may take offense at being lumped together in a "Southern California" market. But over the last few years the two cities have ranked together like twins. Interviewees constantly talk about "Southern California" without distinguishing between the individual markets—except to point out that their high rankings don't necessarily reflect good perceptions of either downtown L.A. or San Diego. The Southern California powerhouse, a huge suburban expanse with a critical mass of 20 million people, is a beast unlike any other, and arguably deserves to be recognized for the moment as a galvanized market, feeding off its diversity, climate, and ideal Pacific Rim location.

Except for Chicago, all these markets benefit from coastal locations, as global gateways to commerce and immigration. Foreigners think of these places first for both visiting and doing business. A damaged New York is still the world's financial capital and Washington, D.C., dominates global politics. For its part, Chicago benefits from its de facto standing as the commercial center of the Midwest and its huge international airport. The California markets, along with Seattle, remain the prime entry points from Asia. Importantly, immigration flows into these markets provide workers to sustain economic growth. As international economies grow more closely linked, these metro areas should become even more dominant within the U.S.

It bears repeating, however, that these markets are entering a more difficult period—one marked by rising vacancies, softening rents, and slower growth. And they have not escaped intractable socio-economic issues, which could diminish their ratings in the future.

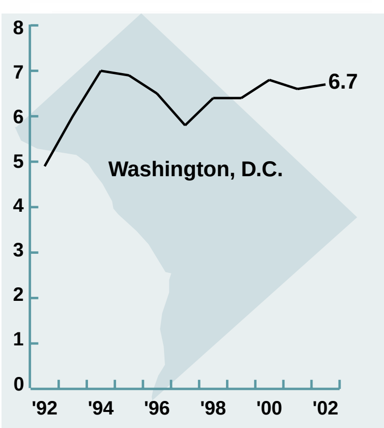
NEW YORK

The king of 24-hour cities rises to the top of the survey for the first time in more than a decade, but the World Trade Center attack is a psychological blow even as Class A vacancy vanishes. Will displaced companies leave the city permanently? Manhattan Island is the most supply-constrained of all the markets—"that's why it's number one." Considerable upside exists in most buildings to write old leases up to market at rollover. Also, as a morbid dividend of suicide skyjackings, there's little chance that Wall Street contractions will chill the office market. But sales of luxury condos will slow—plenty have been built recently and demand was declining even before September 11. Future development was headed for the Queens side of the East River, a subway stop from Midtown. But now all attention will be focused on resuscitating the destroyed part of the financial district. Expect a move to build more residential and enhance downtown's 24-hour attributes. Top-end hotels drop room rates as business and tourist travel plummet after a run of record years. Almost 3,000 new rooms won't help to firm occupancy rates in the downturn. Some festering concerns: can the new Mayor keep crime down and deal with shrinking tax rolls? It's not easy being king.



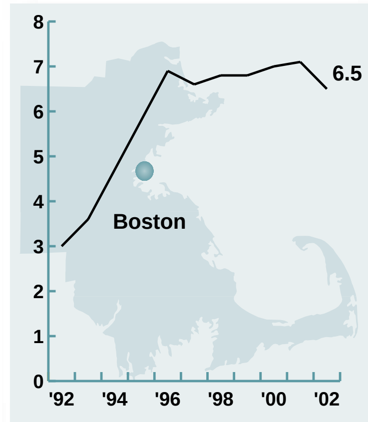
WASHINGTON, D.C.

Everybody's rainy-day market, the nation's capital always looks like a safe haven when the economy sags. The humongous federal government never downsizes—political rhetoric aside. "By all appearances it's as strong as ever." Lawyers, lobbyists, international businesses flock to downtown, close to the political heartbeat. But the Pentagon strike unnerves everyone and security corridors around the White House create inconvenience. Over the past decade, the region has become more diversified as a business and research center. Government actually constitutes only about a quarter of tenancy—down from 40% at its peak... The Tech Wreck hit certain northern Virginia suburbs hard, especially in the Dulles corridor. Now, increased defense spending could boost flagging occupancies. The death sciences—defense department contractors centered near the Pentagon—and the life sciences—biotech firms feeding off the National Institutes of Health in Bethesda—are solid. The improved standing of District government has bucked up confidence in the city, and East End residential expands. Attractive Northwest neighborhoods continue to be the District's anchor. A new convention center, scheduled for completion in 2003, will put D.C. in the big leagues of meeting destinations.



BOSTON

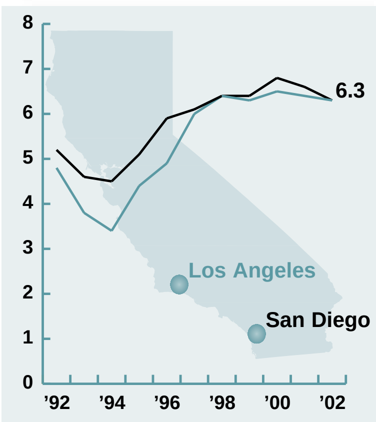
Nestled between the Charles River, the Harbor, and the Common, Boston's financial district doesn't have room to grow. A few, mostly preleased, office projects shoehorn into the few available sites, but not enough construction is under way to throw the office market out of balance. Vacancies increase downtown, but stay safely in the single digits. Concern over financial company layoffs is muted: "It's not like New York with the investment bankers and IPO dealmakers. In Boston, we have more money managers and mutual funds; it's a custodial business that marches on." The small Cambridge market and some R&D pockets along Route 128 were damaged in the dot-com blowup. Hotels are undersupplied, and multifamily is the best bet—negligible vacancies push rents up. "We were going 120 miles an hour, now we're going 30. The markets here are still moving ahead." For 2002, Boston is definitely in lower gear.



SOUTHERN CALIFORNIA

(Los Angeles south to San Diego)

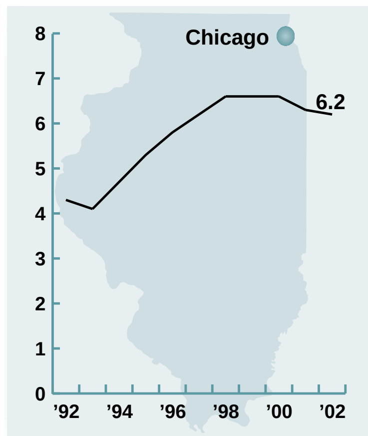
These markets were slower to emerge from the early-'90s recession, and development activity never got hot enough to cause overbuilding. Internet start-ups and telecoms weren't big players in the office markets, so sublease space has not been a major issue. "Southern California didn't borrow from the future like San Francisco did." Multifamily is "bulletproof." Available land for new commercial development is limited—"most people don't realize that," and projected employment growth outstrips the supply of new apartments. State and local officials look to increase infill affordable housing and discourage sprawl through projects with greater density. Ports and the Inland Empire, meanwhile, make up one of the country's most important distribution centers... Downtown L.A. remains a sensitive subject. With market vacancies in the high teens,



impressive skyscrapers command a fraction of New York rents—"they went through the '90s economic expansion without coming off the mat." The Staples Center (sports arena) and convention center haven't helped enough. Downtown needs attractive residential or it won't come back... San Diego faces similar problems. "Executives who live in upscale northern neighborhoods drive by so many desirable submarkets on their way downtown." Why should they bother with longer commutes? It's convenience that counts.

CHICAGO

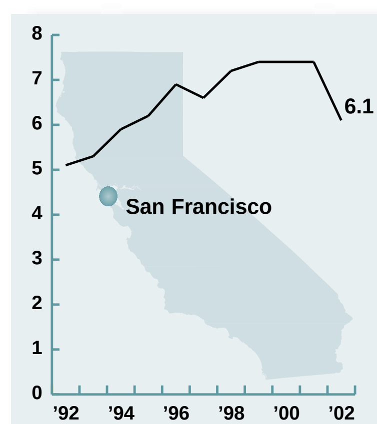
Downtown has held up "surprisingly well" despite concerns about new office projects. Boeing's relocation was a psychological plus, underscoring the "drawing power" of the city's 24-hour environment. "The West Loop is where everyone wants to be" (near the train station), but overall rents are softening and



vacancies are above 10%. Good-quality properties can be picked off at below replacement cost. Suburban office markets face "death and destruction" from overbuilding and downsizings by telecom firms—Lucent, Motorola, and Tellabs head the list. Recovery may be several years away... A 24-hour environment has lured younger executives and the empty-nest crowd to downtown, but condo developers got overenthusiastic—high-rise residential is now overbuilt. Industrial markets are always solid, but big-box distribution centers show excessive vacancies in the west end of the I-55 corridor.

SAN FRANCISCO

The Bay Area, ground zero of the dot-com bomb, drops to its lowest ranking in more than a decade. Sanity returned to this overheated market, but at a price. "Confidence has been shaken" by abrupt rent declines and the flood of sublease space: second-tier office and South of Market warehouse conversions for high-tech users have been blasted. "2000 rate spikes were wiped out." But Class A properties "have been holding their own" and the 24-hour market fundamentals remain intact. Most interviewees expect a resurgence when the nation's economy improves. "The problems are short-term—it's still the financial hub of the West Coast-Pacific region." Core investors may get some "unprecedented" pricing opportunities for well-leased office, but everyone—REITs, pension funds, and offshore investors—will be looking to take advantage of the slide. Hotels descend into a major funk, but the industrial markets look relatively solid... What can you say about Silicon Valley? "Ugh." But interviewees suggest the current decline may not presage an enduring collapse like the late-1980s nightmare.



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"NEXT BEST" MARKETS SAG

SEATTLE

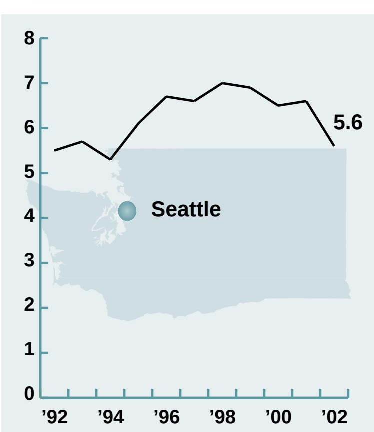
The tech bust then Boeing layoffs slammed this Microsoft backwater, which tracks San Francisco closely. Amazon remains a question mark. Between the active port, software makers, and other high-tech industries, Seattle's metro area remains relatively well diversified. Investors like the geographic barriers—water and mountains—and quality-of-life features. Downtown and Bellevue markets benefit from recent residential development, which helps establish more credible 24-hour environments. Traffic congestion drives demand for these apartments—they're closer to office centers. But overall, multifamily softens. Kent Valley industrials remain stable bets. Despite recent hard knocks, this market has strong legs for longer-term growth.

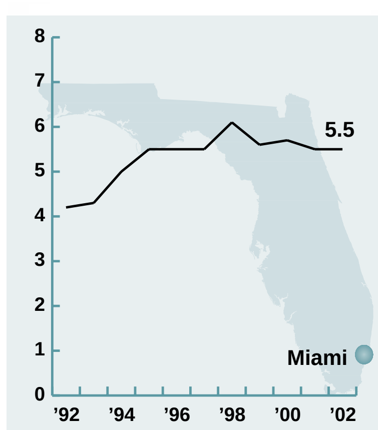
MIAMI

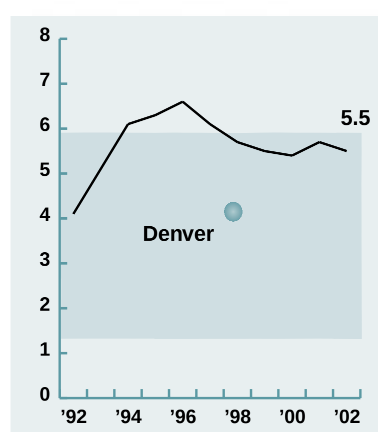
Developable land grows scarce in south Florida, and state and local impact fees hike project costs. Miami continues its transformation from a retirement community into a Latin business center. Growth constraints and traffic issues encourage a "move back east" into prime infill neighborhoods near Brickell Avenue and around Coral Gables. "People want to be near the restaurants, nightlife, and entertainment." Multifamily benefits from the demand. Shaky Latin American economies could dampen a sluggish office market... Hotels are overbuilt and troubled, especially the luxury segment. Miami Airport industrials are supply constrained and make excellent, but pricey, core investments.

DENVER

Despite its supply growth and low barriers to entry, this market receives better marks than either Atlanta or Dallas. Underlying growth-control sentiment and Rocky Mountain environmentalism help investors rationalize that this agglomeration is somehow less wide open. Efforts to transform downtown from a 9-to-5 wasteland into a multifaceted urban environs have paid big dividends, although condo construction has outpaced demand, given the economy's slide. Formerly prime suburban office markets now lag the CBD, and should remain very soft. The once-vibrant Tech Center suffers from an anticipated road reconstruction bottleneck and too much new space. Telecom and Internet failures hit hard, especially in the I-36 corridor near Boulder, where sublease space pushes vacancies toward 20%; coming out of the downturn this submarket could provide attractive buying opportunities. But 2002 doesn't hold much promise anywhere in Mile-High country.





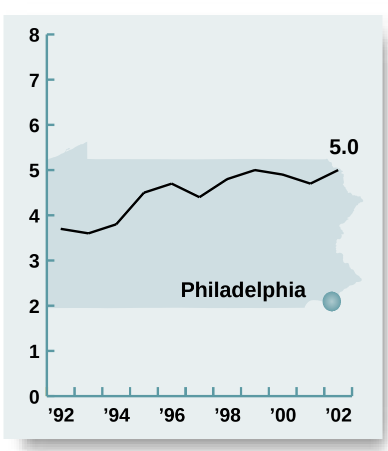


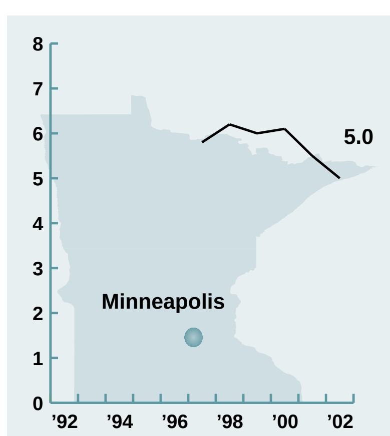
PHILADELPHIA

Caught in the glare between New York and D.C., Philly struggles, with modest success, to regain its own stature as a market worthy of greater attention from institutional investors. Tax incentives have lured multifamily developers and rehabbers into Center City and restored the essential residential base. Restaurants, museums, historic sites feed the urban dynamic. In 2001, the downtown office market finally eclipsed perennially stronger suburban districts, achieving higher rents and occupancy levels for the first time since the 1980s. But will tougher economic times reverse the positive trends? The local economy is relatively well diversified and markets are somewhat supply constrained. The ’90s upswing didn’t set the town on fire, except that hotels are substantially overbuilt. “We didn’t have a big boom—we won’t have much of a bust.” On a relative basis, Philadelphia looks healthier than it’s been for quite a while.

MINNEAPOLIS

Local developers thought they were in Dallas—they forgot the Twin Cities’ frigid climes aren’t exactly a population hot spot. Office markets—both suburban and central business district—are overbuilt, and prospects for recovery before 2003 look weak. Retail looks better (low vacancies), and apartments should rebound quickly if the economic downturn is short-lived. Downtown residential offers the best long-term play. It’s the familiar story—people want to be closer to work and urban amenities. Like other Midwest cities—Chicago excepted—this market’s future growth prospects will be hampered by limited appeal to immigrants and relocating businesses. Neither a 24-hour power nor a Sunbelt boom town, Minneapolis must be careful not to follow St. Louis and Detroit off investors’ radar screens.

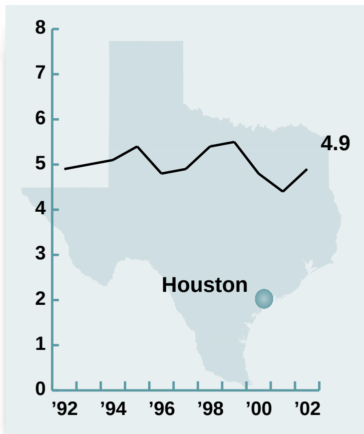




"HOT TOWNS" MOSTLY COOL DOWN

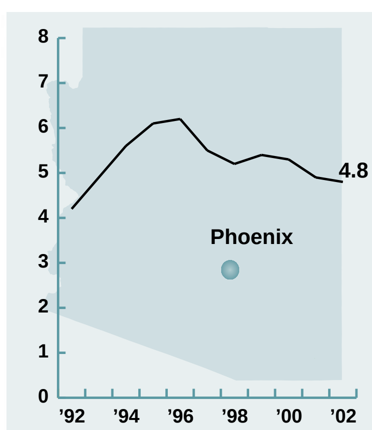
HOUSTON

Taking a page from Denver's LoDo playbook, downtown Houston has revived with a dose of residential and nightlife, including the Astros' new ballpark, an arts center, and a planned basketball arena. Unlike Atlanta and Dallas, Houston's downtown remains at the market's geographic center despite two decades of uncontrolled sprawl. Energy ("it's not just oil anymore") companies spur office expansions and tighten vacancies. Houston actually ranks second to New York in number of Fortune 500 company headquarters (20). A light-rail system between downtown and the Medical Center complex should help create an office corridor along Main Street. Infill residential shows decent prospects as more people look to the rebounding CBD, while traffic-clogged outlying areas remain suspect for investors. Even the venerable Galleria suburban market has lost some of its edge. "Houston has a good four years. The President's from Texas and his father lives there. It will be taken care of."



PHOENIX

Lots of population growth, lots of golf courses, lots of retirees, lots of low-paying jobs, and lots of sprawl. Not a lot of interest from interviewees.



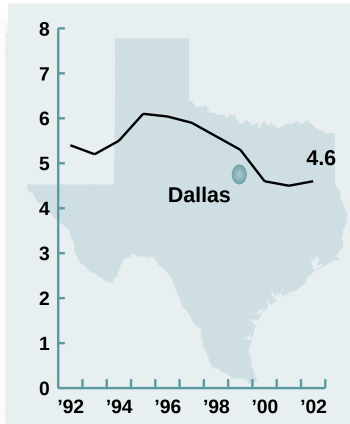
ATLANTA

When the economy slows in prime growth markets like Atlanta and Dallas, absorption slips quickly and "it's ugly for a while." New projects get whiplashed. Job growth is hitting ten-year lows. Telecom firms expanded like maniacs into this Southeast business center; now their spasms of contraction release sublease space onto the market, cooling tenant demand from "white hot to lukewarm at best." Office construction has shut down, but condo development and conversions continue against the tide. Industrial markets weaken, especially for mega (400,000-square-foot-plus) warehouses. "It's bad, but there's no panic—owners have deep pockets." Most interviewees write off the first half of 2002 and expect a rebound in 2003. A ray of hope: "This market can bounce back faster than most."

DALLAS

As the Metroplex expands northward into seemingly endless subdivision sprawl, denizens wonder if the 9-to-5 downtown can ever recover. 2002 won't help those prospects—the entire market suffers from weakening demand and pockets of oversupply. More than 10,000 technology-related layoffs have hurt...

Infill multifamily should hold up, as in-migration continues. Uptown, a 24-hour pocket, appears the strongest residential market. Overall, this national industrial hub should see occupancies and rental rates soften.



Power shortages appear to be more of a red herring than a real issue.

POWER

Electricity shortages raised a big stir in early 2001, because of California's rolling brownouts. But most states are probably supplied, or will be, with enough power plants to meet future demand.

Power shortages appear to be more of a red herring than a real issue. After making billions off of California's ill-considered energy policy through their trading strategies, utility companies are now concerned about a glut of new power plants coming on line countrywide in response.

Still, several major markets are vulnerable to high prices and supply constraints:

NEW YORK

The city needs more electric-generating capacity—among major cities it's just about last. Upgrades to existing generators and new power plant construction are fraught with local community issues—not in my back yard! Transmission infrastructure to bring power from outside sources into the city is also limited, and electricity costs are near national highs.

CALIFORNIA

Until generation capacity increases—probably by 2003—prices and supply could remain a problem, particularly for San Francisco, which trails even New York in generating capacity minus demand.

FLORIDA

Population growth and a transmission bottleneck raise concerns. Capacity could be tested.

Midwest markets face a capacity glut and enjoy the nation's lowest-cost energy on a regional basis. The Southeast boasts a well-integrated transmission system. Texas and the Gulf states, not surprisingly, are energy rich. The Mid Atlantic states have no supply problems and New England benefits from proximity to hydro power from Quebec.

WATER

Water is an even more critical issue. In some regions it's become an increasingly precious commodity and promises to complicate both development growth and livability prospects. Desert meccas like Phoenix and Las Vegas live on borrowed time, as population growth threatens to overtax the supply from aquifers and other sources. Georgia and several neighboring states battle over rights to the Chattahoochie watershed. Florida's low water table is threatened by saltwater penetration, while development and agriculture compromise the Everglades watershed. California has plenty of water, but most of it goes right to farmers in the Central Valley for growing rice, alfalfa, and other water-intensive crops. Los Angeles remains a *Chinatown* stepchild.

The water issue circles back to power, since most power plants require water to produce the steam that powers generators. Some areas may be forced to use extremely expensive desalinization technologies for water supplies.

It may not be an issue in 2002, but water—either its quantity or its quality—will eventually place growth restraints on many booming regions of our country, as well as increase their cost of living and doing business. That includes raising rents.