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Coachella Valley market is changing, but prices have not fallen like other areas.

Buyers, sellers having to re-adjust expectations...

By Lou Hirsh,
The Desert Sun
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Those who do sell their homes are still making money on them.

But in today's Coachella Valley real estate reality, home price appreciation, on a year-over-year basis, has slowed into the single digits - most recently at about 8.1 percent in August, down from 19.7 percent in August 2005 and the seller-heyday 37 percent of July 2004, according to DataQuick Information Systems.

Multiple Listing Service data from the California Desert Association of Realtors indicates that for the first eight months of 2006, the median price of \$380,000 was an increase of 1.3 percent from the same year-earlier period.

In 2005, the appreciation rate for the same period was around 20 percent.

Unlike what's happening in places like San Diego, valley prices year-over-year are not yet falling - with the monthly median sales price still hovering just below \$390,000.

But sales counts are down more than 40 percent from a year ago, according to DataQuick.

The current market means buyers, sellers and investors are all having to readjust their expectations.

"I have to tell sellers not to price their house up too high, but to price it at what they're willing to accept and negotiate from there if they have to," said Rocio Flores, a real estate agent with Century 21 D'Oro in Indio. "There's a ton of inventory out there, especially with the new building still going on."

The one, later effect

And at some of the larger subdivisions, homes continue to be built, adding yet more competition for investors still trying to sell properties purchased during the boom of 2004-05.

"It's a much more competitive market out there right now, and builders are having to do things to entice buyers," said Fred Bell, executive director of the Southern California Building Industry Association's Desert Chapter.

In response, some new-home builders are throwing in free pools, casitas and major price breaks to move their product. And instead of seeing bidders line up, some resale-home sellers are now having to drop prices by tens of thousands of dollars, as the sellers' market of two years ago moves in favor of buyers.

Even though their true impact has never been calculated, experts agree that much of the mass buying and building activity of that frenzied period of 2004 was spurred by speculators.

As occurred elsewhere in California, speculative buyers - many of them not residents of the valley and with no plans to live here - often purchased large quantities of resale or new-construction homes, aiming to "flip" them quickly for a profit.

With that party long over, the rest of the valley market is feeling the hangover - though the local market still hasn't been hit as hard as places like San Diego.

"I'm sure there were a lot of speculators who bought here in 2004 and 2005 but decided, 'Hey it's been a good run,' and they're not in the market anymore," said Chapman University economist Esmael Adibi.

He regularly tracks valley economic trends and is the co-creator of The Desert Sun Economic Index.

"But any of them who are still in the market, I imagine they are having problems selling those homes," Adibi said.

The news isn't all gloomy. Some local experts maintain that consumer shopping and sales activity remain steady in the higher price categories, as baby-boom retirees and other second-home buyers look for deluxe homes at prices still favorable compared with other regions.

"I truly believe that this market is still seeing good interest at the higher end," said Mary Garcia, an agent in the Palm Desert office of Dyson & Dyson Real Estate.

She said she is still seeing committed buyers, particularly in the \$600,000 to \$900,000 price range.

"My office showed homes (in that range) to about 30 couples in two days in early September," Garcia said. She noted that about 10 percent of those shoppers would likely go on to close a deal on a valley home by the time the month was out.

Garcia said shoppers from outside the valley - places like Northern California and Los Angeles and Orange counties - currently comprise about 60 percent of the buyers and browsers she's been showing homes.

Even at the high end, she said buyers are conscious of value. For instance, she noted that while \$600,000 buys around 2,000 to 2,500 square feet in a new valley luxury home, the same space in a comparably built house would cost around \$900,000 in competing regions of California.

Several local observers contend that the current market phase - being witnessed throughout California and the nation - is historically normal.

The valley's current unsold inventory, for instance, is about where it was 10 years ago.

They also note that all high-flying markets must eventually moderate to sustain long-term growth and bring the needs of buyers and sellers into balance.

"This housing market cycle or slowdown is different than others in the past in that local economies are still strong," said Greg Berkemer, executive vice president of the California Desert Association of Realtors.

"Jobs are increasing, and incomes are not dropping. That may help mitigate its length and descent."

Berkemer contends there is still pent-up demand - just not at some of the current price points.

But as sellers lower their prices and "reality settles in" - with the market shifting into a true buyer's market - those priced out of the market over the past two years may find themselves able to get back in and purchase a home.

For now, according to real estate analyst Patrick Veling, seller motivation is the big unknown factor.

Some valley sellers may have listed their homes out of fear of missing out on a market peak.

However, most have not been lowering prices significantly as inventory has risen, and a truly enthusiastic buyers' market has not yet materialized.

"Is it a meltdown? No," said Veling, president of Real Data Strategies in Brea. He tracks all aspects of the local home market.

"Can it lead to a potential reversal in prices? Possibly, if sellers are actually motivated."

Especially at the higher end of the pricing scale, where sales are still steady.

Seen it before

Veling theorized that some sellers have enough equity in their homes, and are otherwise in a sound enough financial position, that there is little rush to drop prices.

He said the valley real estate market remains in the "soft landing" mode that he and other experts projected more than a year ago. Mortgage interest rates are still historically low, and the rising inventory is the only fundamental that has changed, Veling said.

Some experienced home builders say what they're seeing now in the valley is nothing new to them.

They point to residential building rates that have been slowing in recent quarters, and note that the region is well poised to avoid the problems that occurred in the early 1990s. That came at a time of recession when new

Homes are now being built in smaller phases, with releases timed to better match current demand, he said.

While larger national builders have been forced to make major adjustments in the current market - Toll Brothers, for instance, recently witnessed a rise in luxury-home orders being canceled and had to scale back production - the pace of the current market suits smaller, locally based builders just fine.

Rudy Herrera, a partner in Palm Desert-based builder Family Development, contends that the current market is better suited to the valley's supply of qualified construction workers and materials.

Today's buyers don't have to wait months to see construction begin on homes they've purchased, as frequently happened to customers of several builders during the frenzy days of 2004.

"No builder could possibly deliver 30 homes a month, even if they wanted to," Herrera said.

In today's market, builders are satisfied selling four to 10 homes per month for each development.

Builders note that today's demand is still strong, especially in places like northern Indio, and the simultaneous slowdown in construction and sales should allow the valley to absorb its current new-home inventory in a year to 18 months.

Builders' per-home profit margins may have dipped from their 2004 levels - going from 25 to 30 percent to around 10 to 15 percent, according to local experts.

But Herrera said current conditions are not abnormal for a growing community experiencing natural real estate cycles.

"If we had somehow circumvented everything that happened in the last two years, people would look at the sales they're having right now and would be quite happy with them."

Today's market is very familiar to Mickie Riley, who's been in the home-building business for more than 30 years. Two years ago, he moved his company, Rilmington Communities, from San Diego to Cathedral City. He said he's quite happy to be selling four to six homes per month in his valley developments.

While their effects still linger in the valley market, builders like Riley say good riddance to the speculator crowd that helped create today's surplus of unpurchased homes.

"They're gone from this market - which is good for us," he said. "We have always tried to sell to families and communities."

"It's better that way because if you sell to (nonresident investors) you end up with things you don't want - like neighborhoods of rental houses where you'd rather see owner-occupied homes."

Builders and other real estate observers are betting that current inventory will be absorbed in the long term, as the valley population grows and demand for homes keeps rising.

They point, for instance, to state projections that the valley's current population is likely to double by 2030, to more than 700,000 residents.

Nevertheless, the experts acknowledge there are several economic factors that must be monitored to determine the long-term future of the local housing market.

Economist Adibi pointed to the possible impact in late 2006 and 2007, when rising interest rates cause many homebuyers who took out interest-only and other nontraditional loans to face much higher monthly payments, as low introductory fixed rates turn adjustable.

Real estate agent Flores said she is already seeing a few cases where recent buyers are becoming overwhelmed by suddenly rising monthly mortgage payments, compounded by property taxes and insurance payments now coming due. Those owners could end up pricing their homes to sell quickly, so they can get out from under the loans and at least break even on their investments. That in turn could lower prices in the overall market.

In the current market, Flores theorizes that many potential valley buyers across all price ranges are sitting on the sidelines because they are uncertain of how mortgage interest rates, pricing and other economic factors will play out in the coming months.

"People are wondering, should I buy now or wait six months?" she said. "They're not sure what to do."

Economists are also watching for a potential increase in foreclosures in the coming year. In the past year, foreclosures of valley homes have remained historically low, although notices of default - sent by lenders when payments are overdue - have been rising.

Another factor is what the Federal Reserve does in its efforts to stem inflation. The Fed recently paused in its moves to bump up interest rates, but Adibi said that pause may not hold for long if fuel costs and other consumer prices head up in the future. Fuel prices recently have been trending down.

Bell emphasized that most conditions that bear studying are out of the direct control of valley builders, buyers and sellers.

"Right now we have a situation that builders can live with," he said. "I think we should be able to get through this market OK, as long as there are no further impacts from interest rates or some other economic event that hits the market."

For the most part, said analyst Veling, the long-term outlook for the valley real estate market - including the resale sector - remains positive.

"The unknown is whether the sellers get motivated enough to start lowering their prices significantly," he said. "Right now that just is not happening much."

[End of Article]

See "Side Bar" story next page. [Where Have All The Buyers Gone?](#)

two years makes...

By Marilyn Chung, The Desert Sun

Indio resident Juan Luna works on a home on Avenue Del Padre by Aliso Road in Cathedral City in August.



WHERE HAVE ALL THE BUYERS GONE?

What a difference two years makes.

For better or worse — and many contend it's not so bad — today's Coachella Valley real estate market bears little resemblance to the frenzied one seen in spring 2004.

Those were the days when:

- Potential buyers camped out at home builders' offices, checks in hand, waiting to buy first-phase homes that hadn't been priced — let alone built.
- Harried buyers entered lotteries for the chance to plunk down deposits, and resale-home shoppers were in bidding wars with other prospective buyers for the same properties.
- Resale buyers in some neighborhoods frequently got 10 percent and more above their asking prices.
- Speculating "flippers" quickly turned around and sold their newly bought homes for tens of thousands of dollars in profits — before the houses had barely closed escrow.

That seller-slanted market is now turned more in favor of buyers, although those buyers are much harder to come by. The current unsold resale inventory of more than 7,700 homes is more than four times the level seen in July 2004, and still more than twice the level of a year ago.

Those who do sell their homes are still making money on them. But annual price appreciation has gone from as high as 37 percent in the 2004 heyday to the single digits more recently.

Homes are taking considerably longer to sell, but buyers have more options.

The changes have a big impact on the region's economy. Fewer home sales means less money for brokers and real estate agents and less business for mortgage, title and escrow firms. And contractors and retailers serving the home-building and furnishing industry could also see a slowdown.

HOUSING GLUT: HOW IT HAPPENED

The Coachella Valley is generally seeing patterns similar to the rest of California and the nation, with unsold housing inventory levels and market times up considerably from a year ago, while sales counts have fallen. Experts point to these factors affecting the local market:

- Though their impact is hard to quantify, speculators played a big role in driving up demand for valley homes, especially from early 2004 to early 2005. Builders and resale owners saw high demand from nonresidents buying properties in large quantities, looking to "flip" them quickly for a profit.
- Rising prices and mortgage interest rates have forced many potential buyers out of the market. Many of the nonresident buyers of 2004 and 2005 have been unable to sell local homes bought during that period, and several of those properties are now sitting empty or being offered up as rental units.
- With more than 7,000 unsold homes now on the market - more than twice the level of a year ago - there is more competition for sellers and less urgency for buyers. The median time on the market for valley homes sold went from 42 days in the first eight months of 2005 to 68 days for the same period this year, according to Multiple Listing

SOFT LANDING

Many experts say the current housing slowdown in the Coachella Valley — reflecting what's happening throughout Southern California — is a typical correction for housing markets coming out of unusual phases. They say it's necessary and healthy for long-term growth. Long-term projections still call for the valley's population to double by 2030. That means demand for housing should remain strong. The valley continues to be attractive to retiring out-of-market baby boomers.

MARKET TRENDS

In the current Coachella Valley market, the median sales price is just under \$390,000. As the unsold inventory and prices have been ballooning, so have market times for homes that have sold across all price categories.

And generally, the higher the price, the longer a home stays on the unsold list.

According to Multiple Listing Service data, homes priced under \$500,000 that sold in the past 12 months took a median of 53 days to do so. That was up sharply from 32 days in the previous one-year period.

Here are other trends:

- Homes priced from \$500,000 to \$749,999 took 67 days (up from 44 days).
- Those in the \$750,000 to \$999,000 range took 71 days (up from 49 days).
- Those priced \$1 million and higher stayed on the market for 75 days (unchanged from the prior year).

As of Oct. 4, there were 7,775 unsold homes and condos on the valley market, listed for an average of 98 days.

Of the total, 14.3 percent were priced under \$250,000 and averaged 106 days on the market. The largest group, at 51.2 percent of the total, was homes priced between \$250,000 and \$499,999, on the market an average of 92 days. All other categories have remained unsold for longer periods:

- Those priced between \$500,000 and \$749,999 made up 16.5 percent of the total (94 days on the market).
- The \$750,000 to \$999,999 category comprised 8 percent (97 days).
- The \$1 million-and-up homes made up 9.9 percent (125 days).

By housing type, 76.7 percent of the current resale inventory is single-family houses (average time on market of 98 days); 22.9 percent is condos and townhomes (106 days); and the rest are in a miscellaneous category that includes timeshares and co-op housing (97 days).

BACK TO BASICS

Conrad Mariscal, assistant branch manager at the Palm Desert real estate office of Coldwell Banker, said the valley should start seeing increased home-buying activity during autumn, as part-time residents and tourists return to the region for the peak visitor season.

But he said real estate agents will need to educate clients on the need to price their homes based on the competitive state of the current buyer-leaning market — not the high-flying sellers' market of 2004.

"You have to get back to real estate basics," Mariscal said. "If you are an agent, you have to get out and market the property."

For a List of Properties Available in Your "Area of Interest", please visit:

<http://www.deserthomestoday.com/DHTR/DHTR-forms-hotproperties.htm>

To Find Out The Approximate Value of Your Property in the Desert, please visit:

<http://www.deserthomestoday.com/DHTR/DHTR-forms-home-cma-report.htm>



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