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Property values may increase

Economist says 2006 should be 'fairly strong year'

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CATHEDRAL CITY - Despite recent sales count dips and inventory increases, California homeowners - including those in the Coachella Valley - should see annual appreciation of at least 8 percent on their properties by the time 2006 concludes, according to economist Robert A. Kleinhenz.

He said that appreciation could actually be slightly higher, depending on what the Federal Reserve decides to do with short-term lending rates as the year goes on, as reported Thursday at thedesertsun.com.

"It's looking like it's still going to be a fairly strong year," Kleinhenz told an audience of nearly 300 real estate professionals at the Doral Palm Springs Resort in Cathedral City.

In a Thursday morning forecast presentation, the deputy chief economist for the California Association of Realtors said 2006 is on track to be "perhaps the fifth or sixth best year" on record for the number of home sales in the state, even if it marks the first time since 2001 that California doesn't rack up double-digit annual price appreciation.

Statewide home sales in 2006 should still top 500,000 units if trends continue at their current pace, he predicted.

In May, the Coachella Valley's \$412,000 median price came in 8.4 percent higher than a year ago, according to figures from research firm DataQuick Information Systems. In May 2005, prices were rising at an annual rate of 24.9 percent.

Kleinhenz said the valley will be helped in the long run by steady demand for homes among baby boomers, as well as continued population and job growth for the overall Riverside-San Bernardino county region. Annual job growth in the inland county region is currently around 2.1 percent, among the best in California and the nation.

Kleinhenz said housing market indicators should remain positive as long as Riverside County's population continues to grow, unemployment remains low, and mortgage rates don't jump sharply. Also, the supply of homes in California is expected to lag behind demand for the foreseeable future.

While first-time buyers continue to be shut out of the market, repeat buyers - aided by rising equity on their homes - remain a force in the market as they trade up and purchase second and vacation homes in places like the valley, Kleinhenz said.

If the federal funds rate does not go much beyond the 5.25 percent set by the Federal Reserve this week, the economist said that might help limit future increases in adjustable mortgage rates. That in turn could encourage future buying and price appreciation.

Economists are on the lookout for the impact on homeowners as interest-only and other adjustable-rate loans translate

FORECAST HIGHLIGHTS

These were among points made by economist Robert Kleinhenz of the California Association of Realtors, during a Thursday presentation and housing market forecast in Cathedral City.

Expect single-digit appreciation.

California communities, including the Coachella Valley, will likely end 2006 with year-over-year housing price appreciation of around 8 percent. It would be the first time since 2001 that the state did not see double-digit appreciation, but historically still one of California's best years for total sales, which should top 500,000 homes.

Boomers still a force. In places like the Coachella Valley, baby boomers and other repeat homebuyers - aided by rising home equity - continue to steadily fuel overall sales by trading up and purchasing second and vacation homes. However, first-time buyers continue to be shut out as prices rise.

Economy remains strong. The Riverside-San Bernardino county metro area is still creating jobs at an annual rate of 2.1 percent, among the best in California and the nation. The housing market should remain generally positive as long as the region's population rises, unemployment remains low and interest rates don't rise too sharply.

Source: California Association of Realtors

into higher monthly payments for some recent home buyers in late 2006 and early 2007.

Kleinhenz noted that while most loans for home purchases have been adjustable-rate in the past year, the majority of current homeowners in the state hold fixed-rate loans not affected by recent interest rate moves.

The economist added that housing continues to perform well as an investment compared with other vehicles. He pointed to state figures indicating that since 1960, homes purchased and kept for at least five years have brought an average gain of 11.3 percent for their owners.

The wild card in the coming months will be consumer psychology. Kleinhenz noted that between 2002 and 2005, both buyers and sellers knew that California had a boom market, which brought brisk movement in home-buying.

In 2006, he said, buyers have been expecting prices to tumble because of higher inventories. And sellers still want to get at least as much as their neighbors garnered on their past home sales, which is creating market friction and longer selling times.

Thursday's program was presented by the Palm Springs Regional Association of Realtors and Old Republic Title Co. in Indian Wells.

Paula LaBellarti, an agent with Keller Williams Realty in Palm Springs, said the economist presented a well-balanced view of the housing market in Southern California and the valley.

She said the local market remains healthy and does not warrant the "bubble" fears being generated by media headlines about the national housing scene. At the same time, the data point to the need for sellers to be realistic about their asking prices.

"This market is putting the 'real' back in real estate," said LaBellarti, who is also the local real estate association's president.

According to DataQuick figures, the valley market continues to move in favor of buyers, although sales counts in May were 19.7 percent lower than a year ago, with a total of 1,131 properties sold.

The valley's latest median price is not far off the record \$418,500 seen in February of this year.

Housing experts and area economists have been saying for the past several months that the valley is in a "soft landing" mode, with prices continuing to rise even as appreciation rates slow, unsold inventory increases and homes stay on the market longer.

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