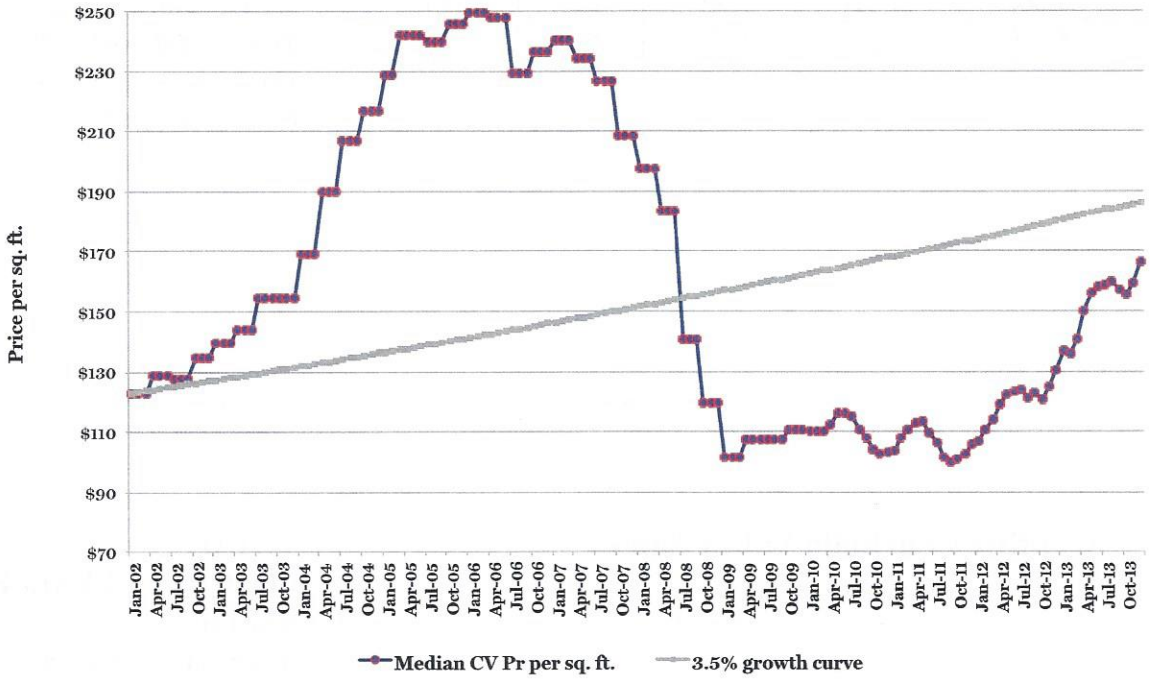
market WATCH

MONTHLY DESERT HOUSING REPORT

COACHELLA VALLEY MEDIAN PRICE PER SQUARE FOOT 2002 - 2014 (JANUARY 1ST)



SUMMARY

Valley housing received a nice surprise in December as the median price per sq. ft. rose 4.4%. This helped produce a yearly return of 27.8% for 2013, which is 4.7% greater than last year's gain of 23.1% and brings us just 12% short of the growth curve (see chart), which we believe represents fair recovery for the Valley. Because household net worth recently hit record levels due to the combined recovery in home equity, stocks, 401k's and IRAs values, we expect prices in the Valley to reach this level in 2014.

We think the real worry in 2014 won't be from overly high prices or rising interest rates but from new, over-the-top lending regulations going into effect this year. From what we've read we believe they will measurably slow homeowner lending and unnecessarily eliminate qualified buyers from the market, possibly slowing or even reversing the recovery.

However, we think the Coachella Valley will be one of the region in California least affected by this. While it will certainly affect the local market, we expect to see little effect on either retiree migration or second home buying. That's because these two groups of buyers are motivated not so much by income but by net worth. Many will buy with 100% cash or put down a larger than normal down payment, avoiding the restrictions.

Year-to-Date Change in City Price Per Square Foot

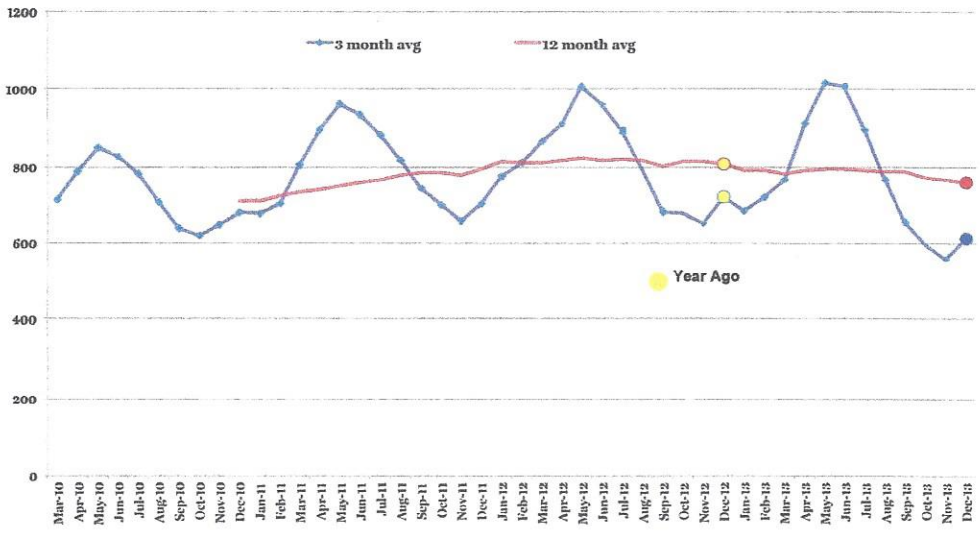
City	Dec 2013 Median Pr. per sq. ft.	Dec 2012 Median Price/sq. ft.	Yr. over Yr. Change	2006 All Time High	% from all time high
La Quinta	$199.98	$142.11	40.7%	$293	-32%
Desert Hot Springs	$89.81	$67.87	32.3%	$187	-52%
Indio	$127.30	$97.08	31.1%	$216	-41%
Cathedral City	$134.13	$103.83	29.2%	$237	-43%
Coachella City	$92.23	$73.83	24.9%	$215	-57%
Palm Desert	$179.92	$149.55	20.3%	$267	-33%
Rancho Mirage	$216.98	$184.58	17.6%	$331	-34%
Palm Springs	$241.29	$213.81	12.9%	$307	-21%
Indian Wells	$219.66	$252.38	-13.0%	$359	-39%

PRICE GAINS RANKED BY CITY

Just as the entire Valley had a price surge in December, so did some cities. In December, Rancho Mirage was up 7%, Palm Springs up 3.6% and Indio was up 2.7%. For the entire year La Quinta was the number one city with a 40.7%. This was followed by Desert Hot Springs and Indio, both up over 30%.

Monthly Coachella Valley Sales

December 2013

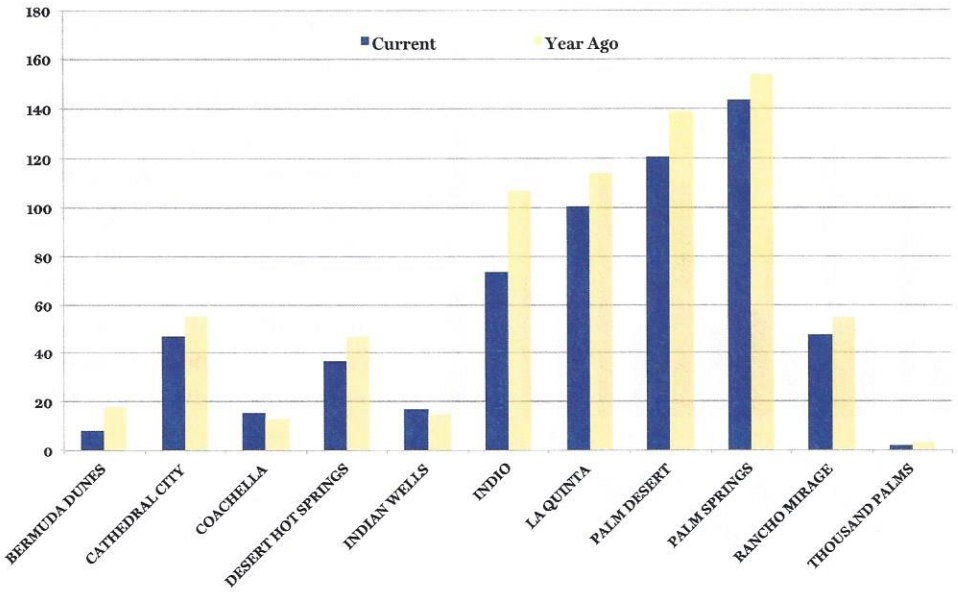


TOTAL COACHELLA VALLEY SALES

Almost like clockwork, as we enter January, the average of three month sales has begun to rise just like it has the last two years. However, both three and twelve months average sales are below the levels of the same time last year. It will be important to keep a close eye on sales since it will be a key factor to further recovery. We think It will be a tug of war as higher prices and restrictive lending limit the number of one type of homebuyer but record net worth will bring forth another.

Homes Sales Per Month by City

3-Month Average Sales

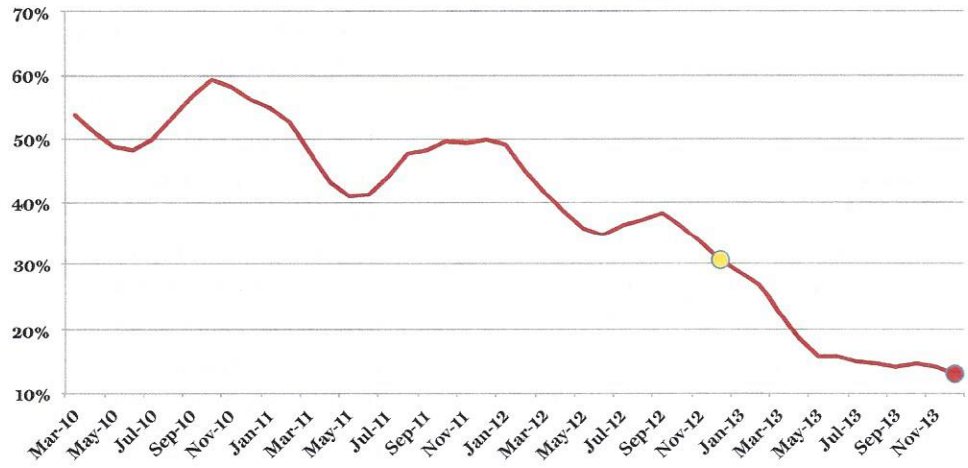


SALES BY CITY

At the city level, nine of the eleven cities in the Valley show lower three month sales compared to the same time last year — one city, Indio, dramatically so. The only two showing higher sales are Indian Wells and the City of Coachella but this could simply be random variation because their sales are so low. Again, it will be important to follow sales, city by city, for any negative effects from the new 2014 restrictive lending laws as we go into the busy season.

Coachella Valley Distressed Sales

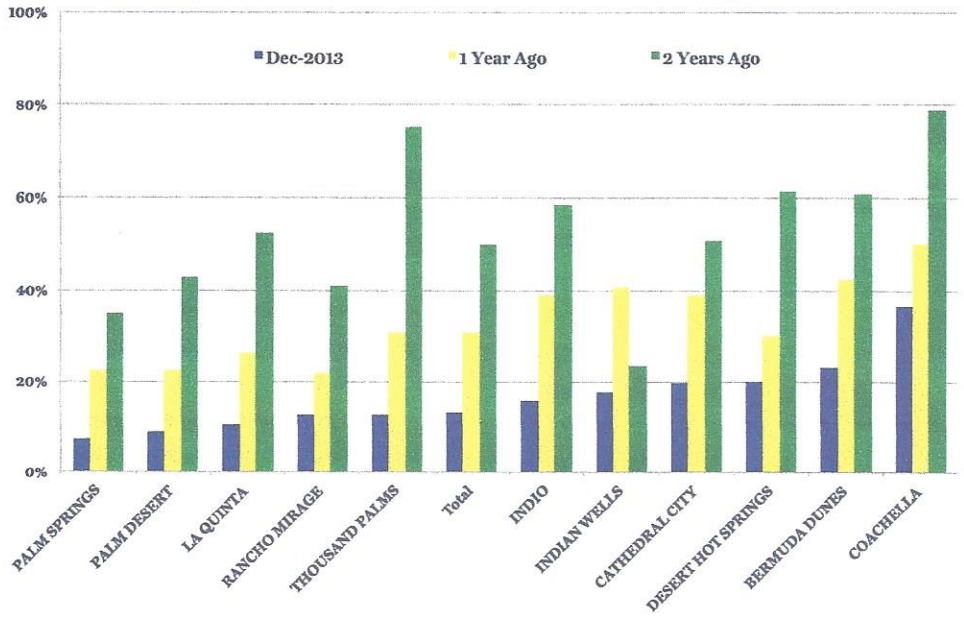
December 2013 - REO and Short Sales



DISTRESSED SALES

After going from 50% on December 2011 down to 16% by May 2013, the rate of decline in distress sales has slowed. Since May it has since inching down at less than 1% per month. The ratio is currently 13%. As prices continue to move higher, the need for short sales will continue to decline. Likewise, the number of foreclosures should also fall away as notices of default edge down toward zero. We fully expect distress sales to go below 10% by this spring.

Percent Distressed Sales by City

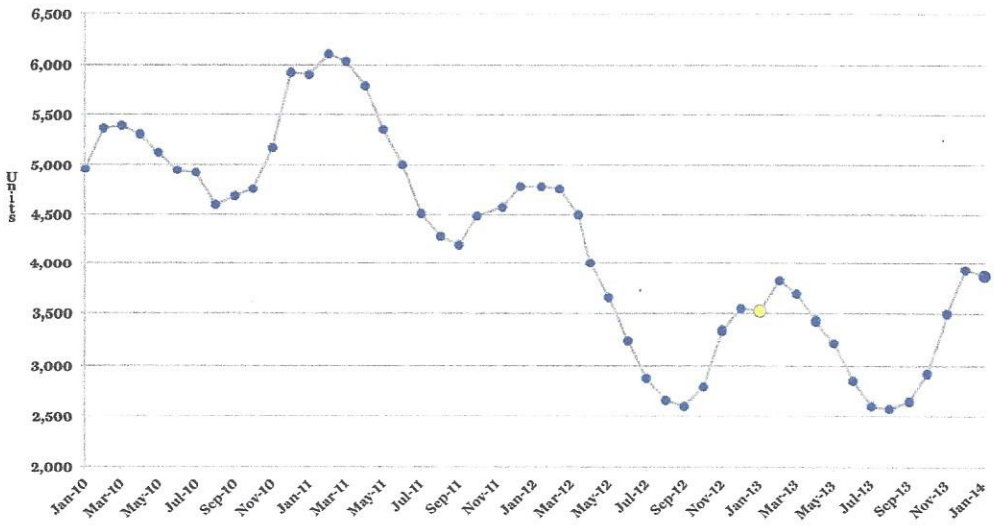


DISTRESSED SALES BY CITY

Six months ago only five cities has distress sales less than 20%, now nine cities are below 20%. It's the city of Coachella that still has a relatively high ratio of 36%. The city of Thousand Palms shows the greatest two year improvement. dropping from 75% two years ago to the current ratio of 12%. The three major cities — Palm Springs, Palm Desert and La Quinta — are now below 10% of sales.

Coachella Valley Home Inventory

January 1st, 2014

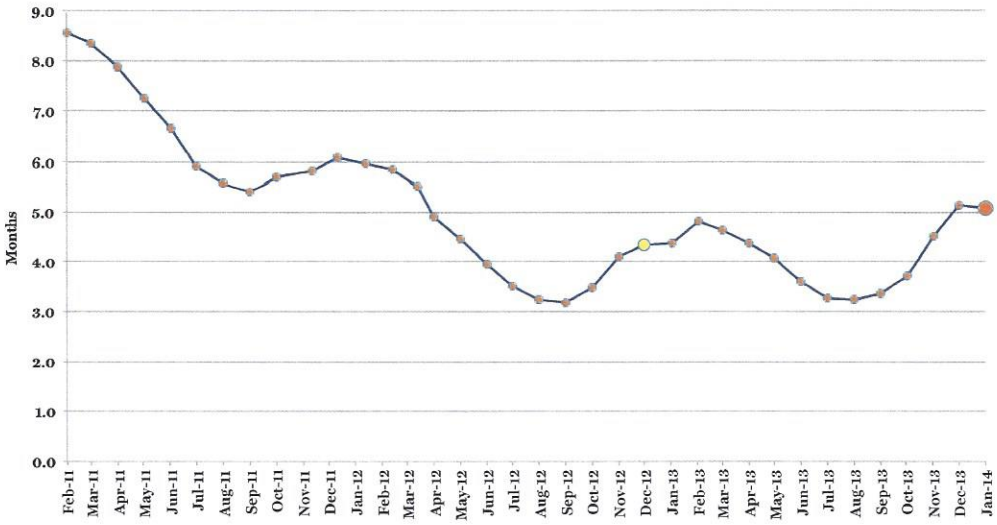


COACHELLA VALLEY HOUSING INVENTORY

MLS listings continue to be above last year's numbers by about 350 units, which is a small increase percentage wise. We find such a small increase after a strong 28% price increase a little surprising. At some point higher prices should begin to bring out either more investors looking to take profits or more homeowners looking to sell at high prices. So far this is not happening at any worrisome level. It would be very positive for the market if inventories continue to remain at these levels as we go into the more active season.

Coachella Valley Months of Sales

January 1st, 2014

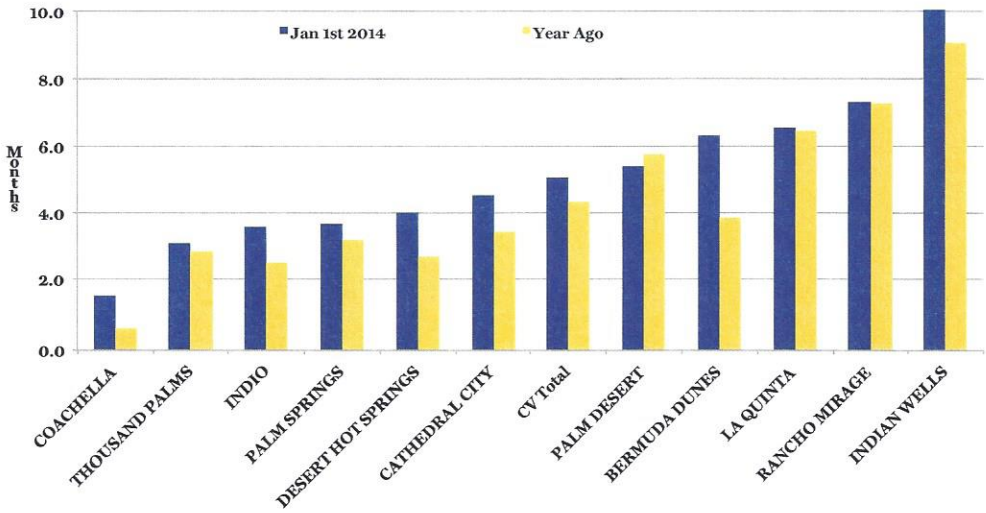


COACHELLA VALLEY MONTHS OF SUPPLY

The combination of lower sales and higher inventory continues to generate slightly higher "months of sales" compared to the same time last year. A year ago it was at 4.3 months. Starting 2014 it's at 5.09 months, which we believe is still an acceptable level. However, as the market picks up through spring, it will be important to watch this vital metric evolves.

Months of Supply by City

Average 12-Month Sales



MONTHS OF SUPPLY BY CITY

Every city except Palm Desert has a higher "month of sales" compared to the same time last year. This shows the slight rise in inventory is occurring throughout the region and is not located in any one city or section of the Valley. We believe one of the factors holding back price appreciation in Palm Desert is its relatively higher than normal months of sales. However, for the same reason we find La Quinta somewhat a mystery. This city had a price gain of 40% last year yet its inventory was over six months.