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Bumpy housing market ahead

Economic expert says prices could drop up to 25% in valley before 2009

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RANCHO MIRAGE - As financial sector stocks roiled on Wall Street on Wednesday, Beacon Economics president Christopher Thornberg delivered a sobering, straight-forward message for the Coachella Valley.

Brace yourselves for a long ride, he said of the housing market.

"We are in turbulent times," said Thornberg, a former senior researcher with the UCLA Anderson Economic Forecast.

"The worst years in housing are not behind us but in front of us," he said, predicting it will be 2009 before the valley's housing market picks back up.

Thornberg spoke to about 150 business professionals and academics at the Urban Land Institute Inland Empire's conference, "The Coachella Valley: The Last Urban Frontier?"

He forecasted a slow drop in prices of up to 25 percent throughout 2008.

His message, though, was tempered by other speakers who pointed to the valley's strengths.

"The Coachella Valley and Imperial Valley are rapidly emerging as crucial economic centers," said Mark Pisano, executive director of the Southern California Association of Governments.

The valley is resilient and growing by leaps and bounds.

John Shumway, principal of The Concord Group, said he thinks Thornberg's forecast missed the mark because the region's population of 438,000 is on track to hit 500,000 by 2013.

The attraction to this area is sterling, he said, and employment trends are on the rise.

"We continue to add about 4,500 jobs a year for the Coachella Valley," Shumway said. "We don't see that changing."

The long-range picture is not only positive, it's bright, Shumway noted.

Thornberg was one of two keynote speakers at the day-long event, which also featured two panel

discussions on the local economy. He agreed the valley is on solid footing for the future but will need to ride out a few rocky months from an economic point of view, posing these reasons:

Housing sales have fallen about 25 percent over the same period last year.

Fifty percent of all first-lien mortgages in the Inland Empire have subprime characteristics.

Home vacancy rates are up.

Consumers are fueling the economy and have tapped into home equity to bolster their spending, as only half of the mortgage draws were taken to reduce debt.

With the Inland Empire at ground zero, Thornberg predicted that home prices will continue to fall and that second home sales will be weak.

"There's a lot of pressure right now on local retailers, and local government," he said, and the local tourism economy may feel the pinch.

At the same time, Thornberg noted the Coachella Valley has a leg up over the long haul on other sectors of the nation: "The economy will accelerate out of this downturn."

The Inland Empire was the fourth-largest growing economy in 2001.

"Ten years ago, this was a distant suburb. In 20 years, Palm Springs is going to be a suburb. It's becoming a great place to live. Employment is tracking well, and there's job growth around the region," he said.

Ray Osborne, president of New Home Marketing Network, said the housing industry long has responded to market demand.

"I think we overshot that demand and got oversupplied," he said, citing an inventory of detached homes across the valley that represent about a nine-month supply.

"I'm a silver lining kind of guy," so the solution will be to stop putting projects in the pipeline for a while and work through the situation in the first nine months of 2008.

"There's no doubt the Coachella Valley will have a bright future," said Tom Reimers, executive vice president of O'Donnell/Atkins, a California land brokerage firm specializing in residential, commercial and hotel land acquisition.

"We are in for rocky times between now and the next six to nine months," Reimers said. "But the long-term growth patterns are very beneficial in this market, and we see transactions picking up mid- to late next year in a significant way."

Mario Gonzales, president and chief executive of GHA Companies, which has a number of top residential developments in its Coachella Valley portfolio, agreed that "doom-and-gloom" predictions have to be tempered.

Positives include population growth, the predicted influx of baby boomers moving to the valley and the region's price points.

"We're in a storm right now," he concurred. "We'll weather it if we work through the existing inventory and develop tactics to regain consumer confidence."

If long-term trends for population, employment and income remain positive, Shumway said he believes new home sales will return to normal in late 2008 or early 2009.
