

PALM SPRINGS LIFE

market WATCH

SPRING 2016 SEMINAR

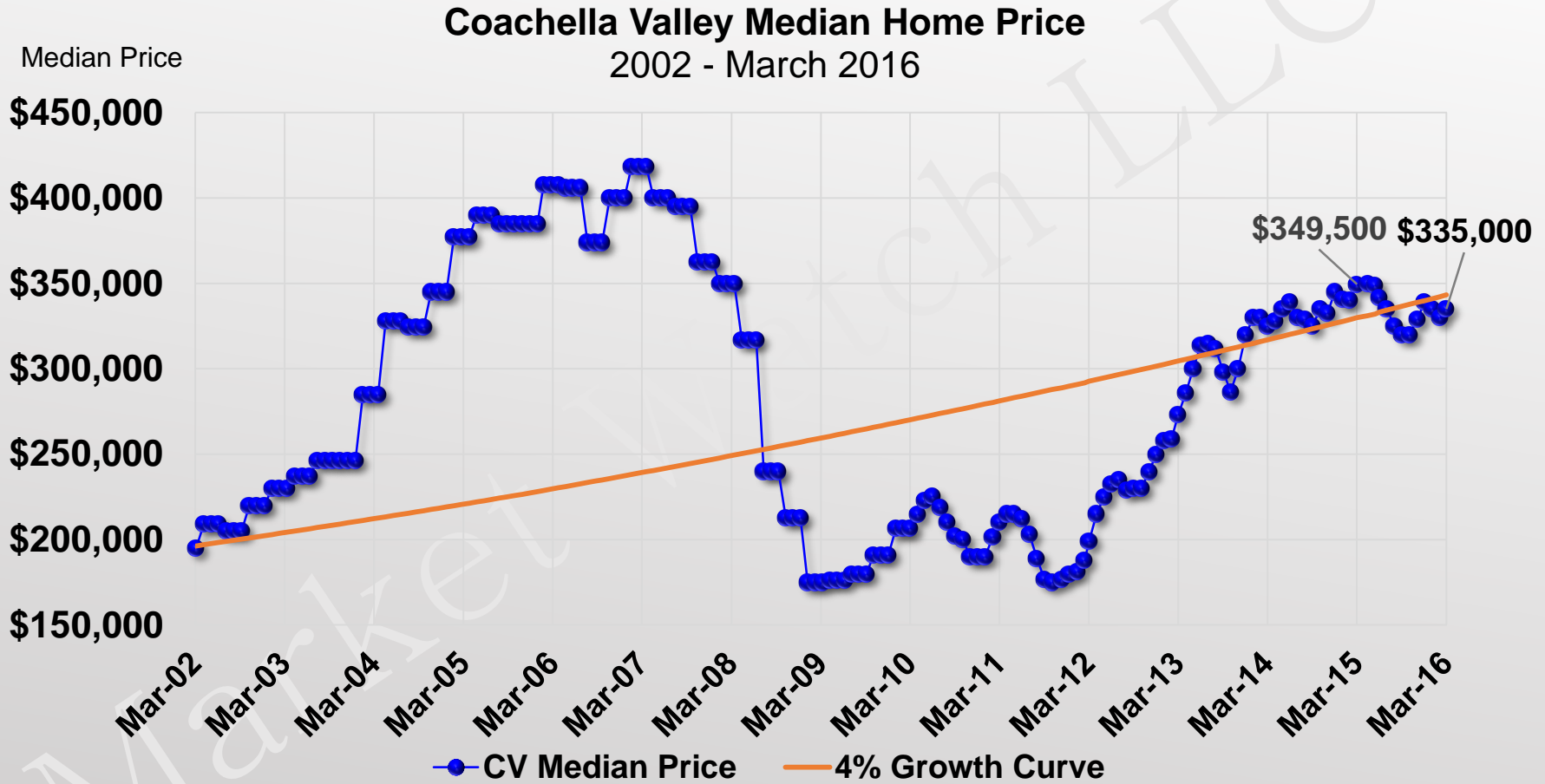


SNOWBIRDS

A VITAL COMPONENT TO BOTH THE VALLEY'S ECONOMY AND HOUSING MARKETS

The continuing story behind the Valley's second home market. Find out why our friendly, winter-time visitors are so important to Coachella Valley housing.

After three years of double digits returns, the Valley's median price has continued upward at about 4% for two years now*



*On a city basis each of the major nine cities has its own unique trend and number

The Coachella Valley housing market is developing a growing supply problem

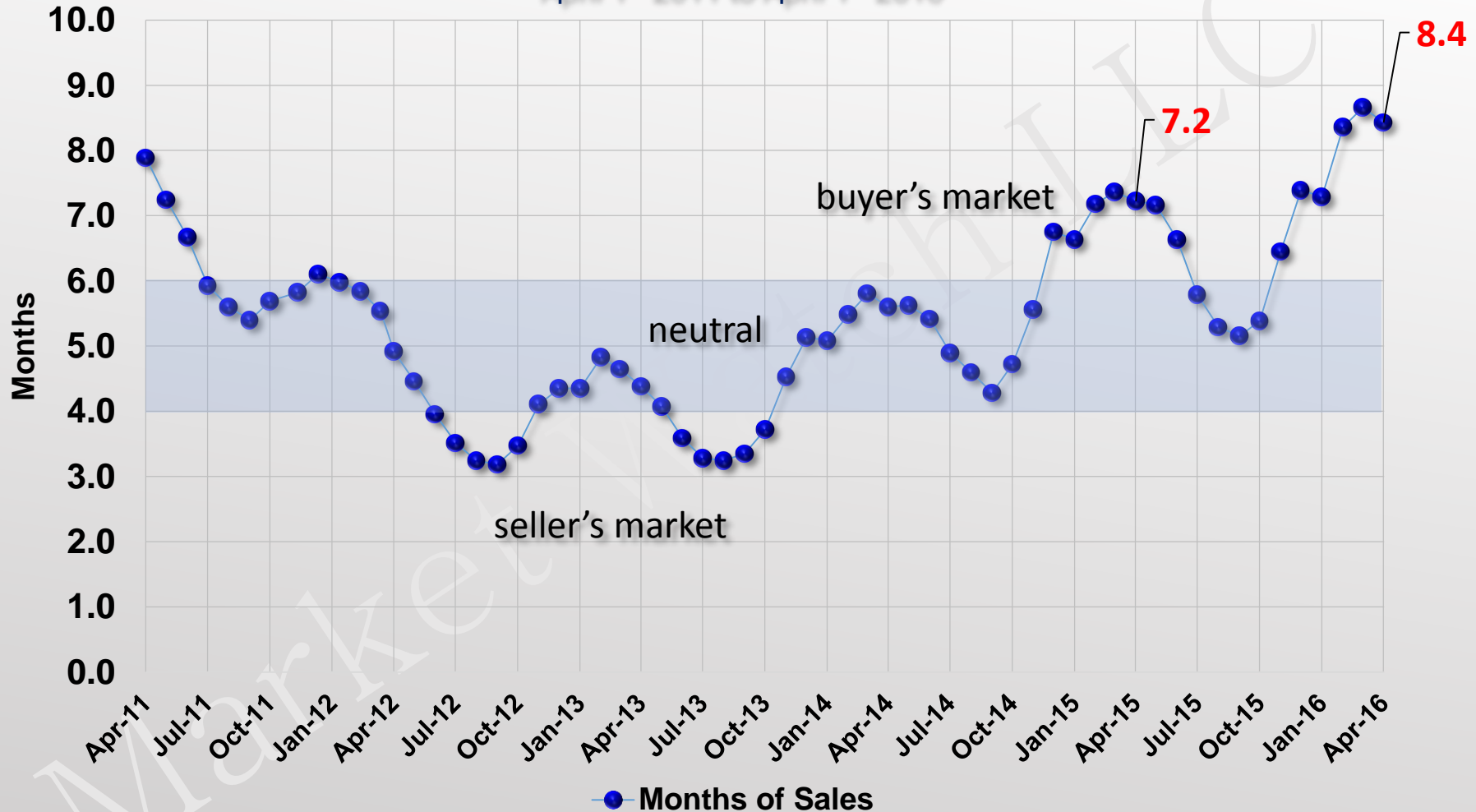
Valley Housing Inventory

April 1st 2011 to April 1st 2016



The 8.4 “months of sales” inventory ratio is too high for continued price stability

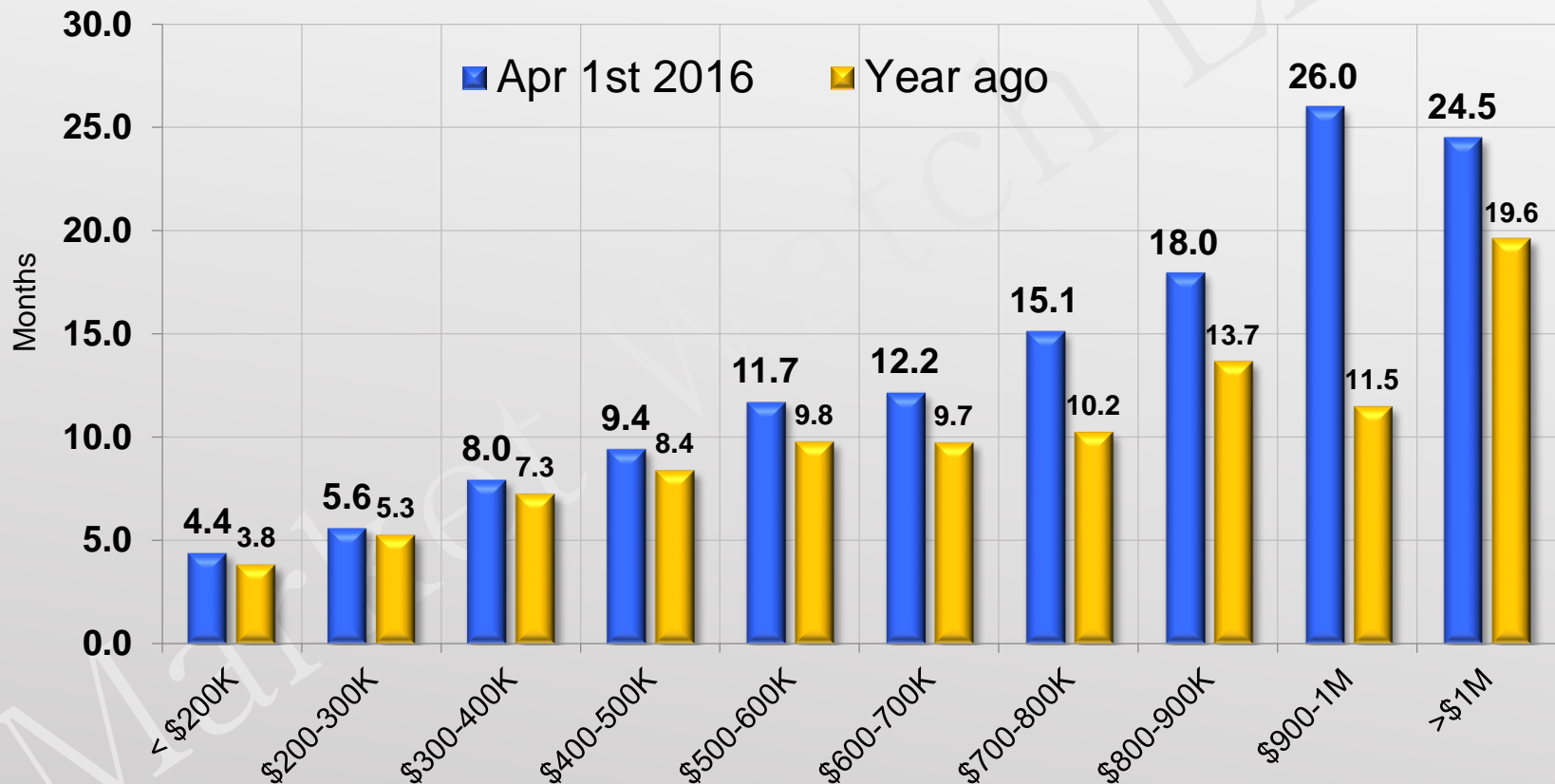
April 1st 2011 to April 1st 2016



This problem extends to all price brackets over \$300,000

“Months of Sales” by Price Range

uses avg. twelve month sales



The Valley's abnormally high inventory

- **Creates downward pricing pressure**

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- **Appears unique to our region:**

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|-------------------------|------------|--------|
| California | 4.6 | months |
| Southern California | 5.2 | months |
| Phoenix | 3.1 | months |
| Scottsdale | 5.8 | months |
| Coachella Valley | 8.4 | months |

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➤ **The Standard Economic Housing Model doesn't explain it.**

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(applies to the vast majority of cities and regions)

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a) The Affordability Index

- **Income and wage distribution**
- **Mortgage rates**
- **Home prices**

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As you'll see, this standard economic housing model applies to only 20% to 30% of our market, so is not very useful.

Important participants in our market

Owner Occupant – A Valley resident who owns and lives in their own house or condo.

Remote Owner – An investor/2nd home owner who rents out or uses the home part time and lives elsewhere. Technically, where the title company situs address is different than the tax mailing address.

The Resident Renter – the local resident who rents or leases a home or condo from a remote owner year around.

The Seasonal Visitor – Someone from outside the region who comes to vacation or live in the Valley, primarily during the winter.

Snowbirds – from 80,000 to 100,000 retired visitors from the northwest, Midwest and Canada, who come for one to five months. Many own second homes (are remote owners). Others rent or lease.

Vacationer and/or event attendee – Visitors who come to vacation or for an event, who rent homes or condos and stay from one to four weeks.

Key facts in developing a custom, economic housing model for the Valley

- 1) There are approximately 108,000 detached homes and 43,000 condominiums in the Coachella Valley.**

Source: Riverside Assessor Office
using R01 and R02 listed units

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Key facts in developing a custom, economic housing model for the Valley

- 1) There are approximately 108,000 detached homes and 43,000 condominiums in the Coachella Valley.
- 2) **Of the 151,000 total, 47% are owner occupied and 53% remotely owned (The U.S average is 80% O.O. and 20% R.O.).**

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- 4) **Because of higher turnover rates, home sales of remote owners is 70% of total dollar sales.**
 - ***This percent varies by price bracket with 88% of sales for high priced homes and 40% for lower priced homes.***

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 - *This percent varies by price bracket with 88% of sales for high priced homes and 40% for lower priced homes.*
- 5) **An economic model should be somewhat quantifiable.**
 - ***The story of A and B***

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62% of the current Valley housing inventory is due to remote owners !

(Listings by price bracket and remote ownership)

| | March 1st 2016 | | April 1st 2016 | |
|-----------------|----------------|--------------|----------------|--------------|
| Price Bracket | Listings | % Remote | Listings | % Remote |
| \$0 - \$200k | 655 | 72.1% | 671 | 73.0% |
| \$200k - \$400k | 2,224 | 61.7% | 2,264 | 57.9% |
| \$400k - \$600k | 1,192 | 56.5% | 1,175 | 64.3% |
| \$600k - \$800k | 658 | 58.7% | 642 | 57.5% |
| \$800k - \$1M | 374 | 53.7% | 375 | 54.1% |
| \$1M - \$1.5M | 387 | 62.3% | 374 | 61.2% |
| \$1.5M - \$3.0M | 376 | 70.2% | 375 | 69.6% |
| \$3.0M - \$5.0M | 114 | 76.3% | 107 | 74.8% |
| >\$5M | 63 | 77.8% | 54 | 74.1% |
| Total | 6,043 | 62.0% | 6,037 | 61.9% |

The Market Watch custom economic housing model for the Valley

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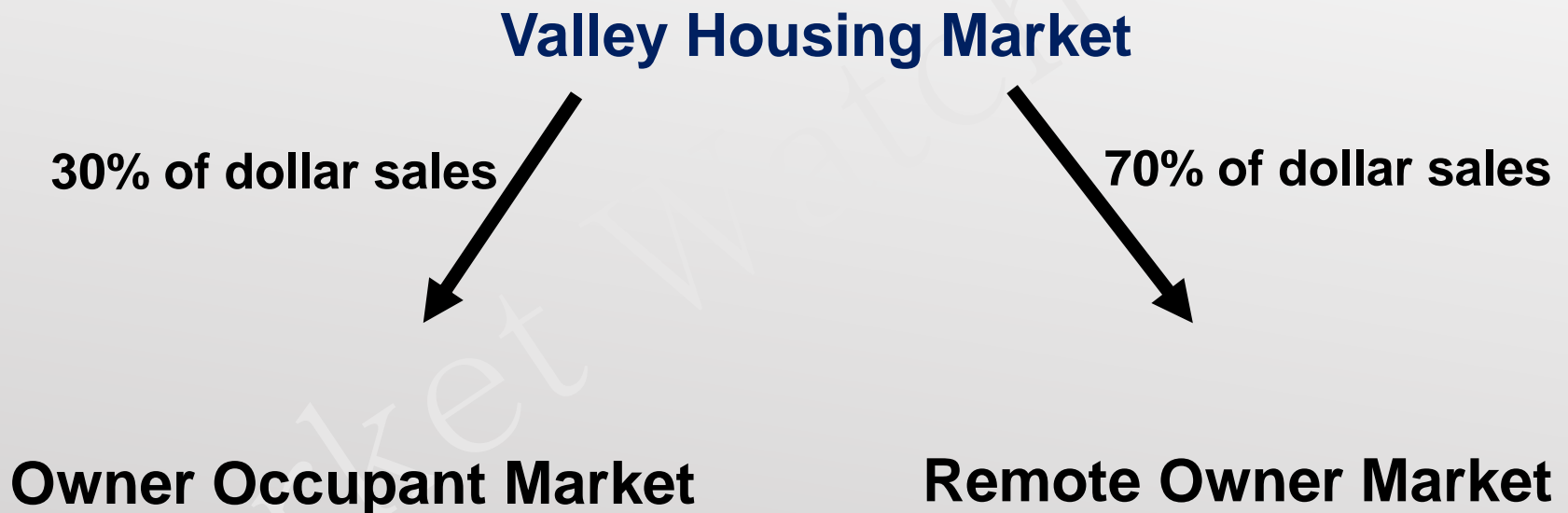
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The CV market is formed from two coexisting buyer markets in a dollar sales ratio of about 30% resident buyers (owner occupied) and 70% remote buyers. Different economic and financial factors drive each.



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Valley Housing Market

30% of dollar sales

70% of dollar sales

Factors that drive the Resident Worker market

- The Standard Economic Housing Model.
Homeownership rate from 50% to 60%

Factors that drive the Resident Retiree market

- Governed by the number of yearly, in-migrating retirees. Financed from pensions, IRAs and S.S.
They have a 70% to 80% homeownership rate.

Remote Owner Market

The Market Watch custom economic housing model for the Valley

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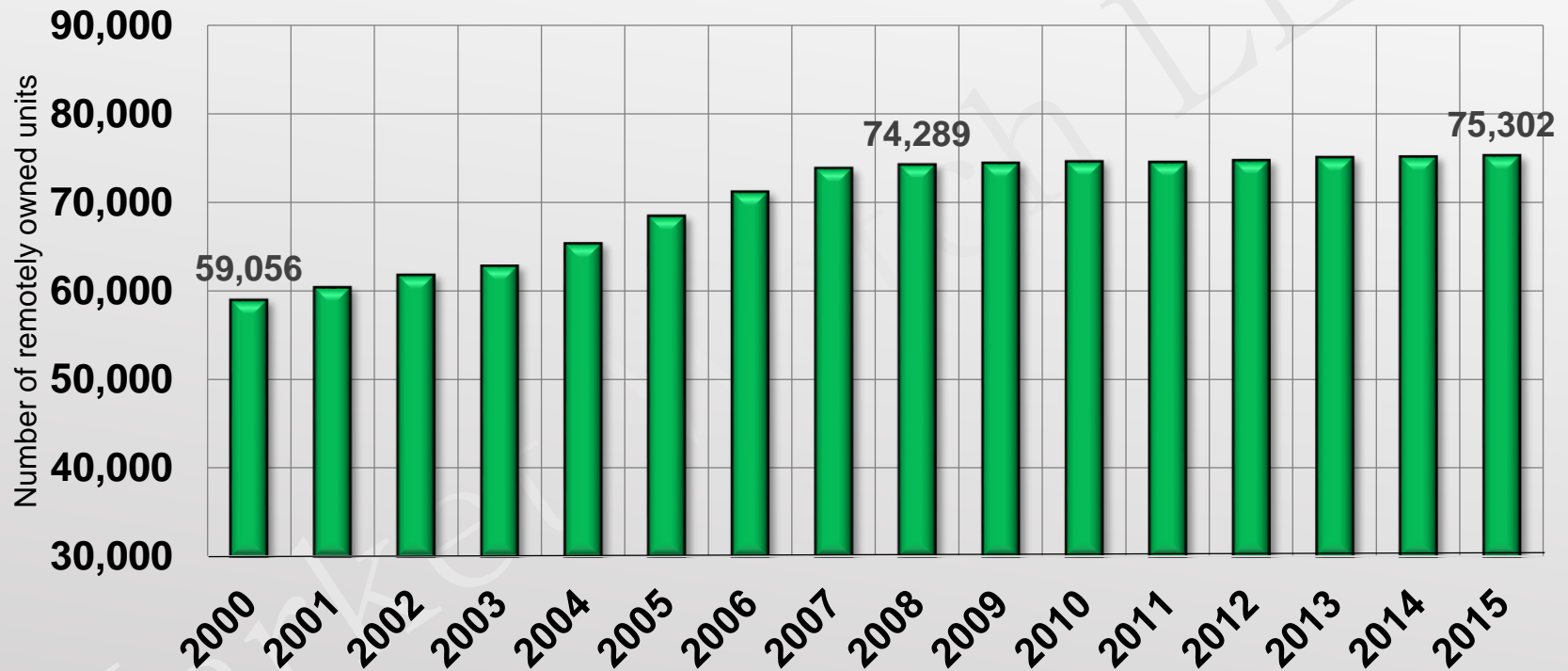
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Factors that drive the Remote Owner Market

- Buyer and owner expectations for both price appreciation (inflation) & rental income.
- Growth in number of **seasonal visitors** and local residents that rent homes.
- Changing outside perceptions plus competition from other snowbird locations.
- Exchange rates can influence foreign, seasonal visitors & also foreign home buying (and selling).

The growth of Valley remote ownership effectively stopped in 2008

The number of remotely owned valley homes and condos
(2000-2015)



An increase of only 1,000 net remote owners in last seven years

General remote ownership guidelines

Remote owners will continue to buy or own property if:

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- If rents alone cover costs, there is little pressure to sell even with low to negative price appreciation.
- **The key to robust Valley remote ownership - and therefore a healthy housing market - is the number and length of stay of seasonal visitors.**

A Q&A with the experts

Oranj Palm

Thomas Salinas, President
Matt Bechstein, Property Acquisition Manager.

McClean Company Rentals

Kelly Mclean – owner

Franklin Loan Centers

Walter Neil, president

KW Luxury Homes by Keller Williams

Doug Balog

Company: _____

Panel Member: _____

Interviewer

Peggy Sue Lane
First American Title

Key Questions

With remote owners driving 60% to 70% of our market:

- Is home price appreciation and/or rental income generally meeting current remote owner expectations?
- Do potential new remote buyers have different ideas or expectations for second homes or remote ownership?
- Overall, has rental and leasing income per unit been rising?
- Is high inventory a problem of too many remote sellers? Not enough new remote buyers?
- Have new regulations or higher lending requirements impeded the new remote buyer?
- After years of waiting the remote owner is now at break even and wants to sell. Is this a factor?

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Stay tuned for the November Market Watch survey of Valley Property Owners – the new leading indicator for Valley housing. It will be presented at our first Fall Seminar. Turns out property managers often know months in advance how the coming new year looks.

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