Workforce Housing Availability and Affordability in the Coachella Valley

Prepared for:

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REPORT OVERVIEW

Wheeler's has prepared this comprehensive analysis to help regional leaders in both the public and private sectors better know and understand the market dynamics and key economic conditions in the Coachella Valley that impact the availability and affordability of housing geared for the region's core workforce.

The report is segmented into two core sections. *Section One* provides a big picture view of the key factors that are relevant to the nature of workforce housing need, affordability and availability in the region. This section of the report includes current and historical data and analysis of the following items:

- Demographics (population growth and projections, household characteristics, etc.);
- Income (household, family and per capita for the desert cities);
- Employment (jobs and unemployment);
- Housing affordability considerations;
- Residential construction activity (housing starts for single- and multi-family units), and
- Other factors, such as foreclosure activity, that impact housing.

Section Two presents an in-depth analysis of the current status of housing – both for sale and for rent – that most closely matches up with the income level and needs of our core workforce. In this section we analyze the following categories of information:

- Available inventory and pricing of workforce housing for purchase, including resales and new housing;
- Monthly rent and availability/occupancy rates of apartments and townhouses in the region;
- New housing in the development "pipeline" that could be available in the future, and
- Projections for housing needs for the various income sectors based on the Southern California Association of Governments Regional Housing Need Assessment estimates.

Section Three provides some concluding remarks and observations on what the data and anecdotal information might be telling us.

SECTION ONE: THE BIG PICTURE

POPULATION GROWTH TRENDS

COACHELLA VALLEY POPULATION GROWTH RATE SURPASSES STATE, COUNTY RATES

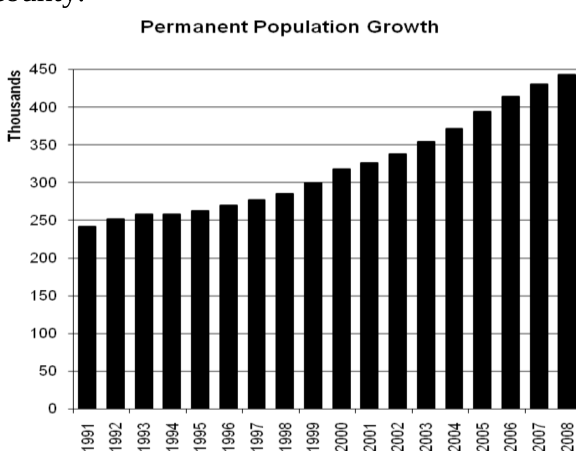
The California Department of Finance provides population estimates for the state, the counties and the cities at the beginning of every year. The January 2008 data (released on May 1, 2008) shows that California added 490,000 residents in 2007 – a 1.3% increase over the previous year.

The 2008 data report lists 478 California cities, of which 439 gained population, 2 experienced no change, and the remaining 37 lost population. Compared to the prior year, more cities gained population and fewer cities lost population.

The year 2007 marked the seventh consecutive year that Riverside County ranked in the top 10 in all three key population measures – size, numerical change and percent change. In the category of numeric change in population, Riverside County managed to hang on to its 2nd place ranking.

COACHELLA VALLEY GROWTH OUTPACES COUNTY, STATE

The Coachella Valley grew at a faster rate in 2007 than both the county and the state. The valley population expanded at a rate of 2.9% in 2007, down .7% from the 3.6% increase during the previous year. The valley added 12,682 new permanent residents in 2007, bringing the grand total to 443,612 (including Wheeler's estimates of the population in the unincorporated areas within the valley). The valley boasted 4 of the top 10 fastest growing cities in terms of percentage increase in Riverside County. The city of Indio was among the 10 fastest growing cities (6th) in terms of numeric change in California among those with a population of less than 300,000. It was also the 3rd fastest growing city in Riverside County in terms of percentage increase. Coachella, where permanent population grew 5.2%, posted the 2nd fastest growth rate in the desert region and the 4th fastest growth rate in the county.



COACHELLA VALLEY POPULATION FIGURES

As of January 1, 2008

	Census 2000	Jan 1, 2007	Jan 1, 2008	One year growth #	One year growth %	% Growth Since 2000 Census
Western Valley:						
Cathedral City	42,647	52,151	52,465	314	0.6%	23.0%
Desert Hot Springs	16,582	24,907	26,068	1,161	4.7%	57.2%
Palm Springs	42,807	46,893	47,251	358	0.8%	10.4%
Unincorporated	9,642	11,754	11,966	212	1.8%	24.1%
Total Western Valley	*111,678*	*135,705*	*137,750*	*2,045*	*1.5%*	*23.3%*
Central Valley:						
Indian Wells	3,816	4,945	5,025	80	1.6%	31.7%
La Quinta	23,694	41,125	42,958	1,833	4.5%	81.3%
Palm Desert	41,155	49,789	50,907	1,118	2.2%	23.7%
Rancho Mirage	13,249	16,957	17,057	100	0.6%	28.7%
Unincorporated	10,353	10,993	11,191	198	1.8%	8.1%
Total Central Valley	*92,267*	*123,809*	*127,138*	*3,329*	*2.7%*	*37.8%*
Eastern Valley:						
Indio	49,116	77,208	81,512	4,304	5.6%	66.0%
Coachella	22,724	38,515	40,517	2,002	5.2%	78.3%
Unincorporated	42,340	55,693	56,695	1,002	1.8%	33.9%
Total Eastern Valley	*114,180*	*171,416*	*178,724*	*7,308*	*4.3%*	*56.5%*
Total Coachella Valley	**318,125**	**430,930**	**443,612**	**12,682**	**2.9%**	**39.4%**
Comparison (in 000's):						
Riverside County	1,545	2,035	2,088	53	2.6%	35.1%
California	33,872	37,559	38,049	490	1.3%	12.3%

Numbers may not add up due to independent rounding

In some cases, population figures as of January 1, 2008 were revised by the Dept. of Finance

As shown above, the eastern sector of the valley grew the most by a large margin during 2007, with an increase of 4.3% to 178,724 permanent residents, or roughly 40% of the valley's population. This district includes the cities of Coachella and Indio, as well as the unincorporated communities of Mecca, Thermal and land to the south toward the Salton Sea. Indio has the largest population in the valley with 81,512 permanent residents. The eastern sector has grown 56.5% since the 2000 Census. Clearly, the eastern valley will continue to far outpace the growth of the rest of the valley as the availability of land is much greater there than in the other areas.

Utilizing the age group breakdowns provided by the Census Department's American Community Survey of 2006, approximately 55% of the 443,612 permanent Coachella Valley residents – roughly 244,000 – are within the age groups that comprise the region's workforce.

POPULATION PROJECTIONS (2015 AND 2035)

Essentially every entity that provides population projections for the Coachella Valley, including CVAG, estimates that the area can accommodate between 1 million and 1.2 million permanent residents at build out. When that will happen is difficult to predict with a high level of confidence, but the Riverside County Center for Demographic Analysis the region will be home to approximately one million people by the year 2035.

Specifically, the Riverside County Center for Demographic Research projects that total permanent population in the Coachella Valley will be 559,1005 in 2015 and 1,001,000 by 2035.

The projected increase in number of residents is approximately 115,000 by 2015 and 560,000 by 2035. As a very basic analysis, the Coachella Valley would need to produce approximately 38,000 new housing units by 2015 (equivalent to 5,400 per year) if the region wide average of three people per occupied household continues. It would take roughly 187,000 new dwelling units to accommodate the new people projected to live in the region by 2035, which would require an average of 6,900 new units per year.

If we continue with the assumption that people in the workforce will comprise 55% of the valley's population, then 63,250 of the 115,000 new residents in the region by 2015 will be added to the workforce and 308,000 of the 560,000 new residents in the region will be among the workforce. A more targeted analysis – assuming a greater number of people per workforce oriented household (closer to the prevailing 3.5 people per family household) – points to the potential need of 18,000 (2,250 per year on average) workforce housing units in the region to accommodate the new working people in the region by 2015 and 88,000 new units (3,150 on average) by 2035.

Later in this report we will look at how these projected needs compare to actual and potential workforce housing production.

Projected Population by City
(2008 - 2035)

City	Current	Projected 2015	Projected 2035
Cathedral City	52,465	60,293	76,838
Coachella	40,517	60,759	119,383
Desert Hot Springs	26,068	50,836	70,311
Indian Wells	5,025	5,708	6,711
Indio	81,512	86,889	112,019
La Quinta	42,958	50,049	57,937
Palm Desert	50,907	59,588	73,131
Palm Springs	47,251	51,756	70,854
Rancho Mirage	17,057	22,586	32,847
Unincorporated	79,852	110,641	381,850
Total	**443,612**	**559,105**	**1,001,881**

Sources: California Dept. of Finance/Riverside County Center for Demographic Research

COACHELLA VALLEY EMPLOYMENT

OVERVIEW

The expanding frontier of Southern California’s urban economy has not yet reached the Coachella Valley. Thus, the jobs within the region tend to be filled by local residents while relatively few local residents tend to be commuters to jobs outside of it.

The valley economy has evolved based upon providing services to tourists, conventions, seasonal second homeowners and a growing base of retirees. Therefore, a significant share of the job base is in retailing, consumer services, hotels, amusement (including casinos) and construction. The skills required to work in these sectors often do not require well-educated workers. The major exception is the valley’s large health care field.

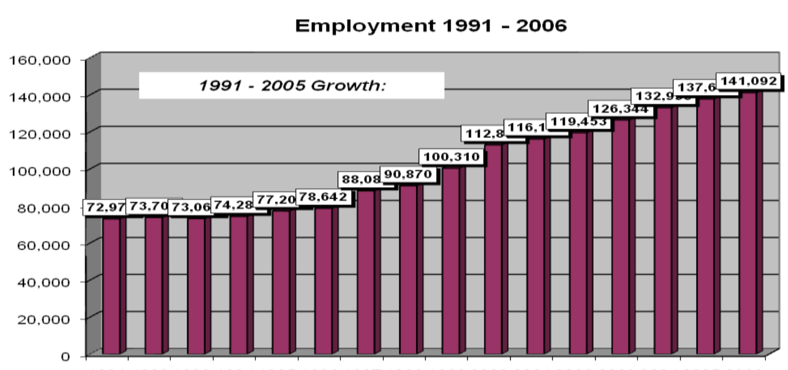
The region’s agricultural heritage has meant that, historically, a significant blue collar population has always lived in it. Though agriculture is now less of a growth force, many people from these families now constitute a significant share of the local labor force. This working population has tended to live in Indio, Coachella, Desert Hot Springs and Cathedral City, while their jobs have often been in the other five desert cities. Though recent housing trends have tended to break down some of this separation, the valley still has a significant division between cities with high income people needing services and cities with modest income residents who provide those services.

A preponderance of the most affordable housing built in the region within the past decade is located in the eastern sector of the Coachella Valley. Because of the relative scarcity of land in the desert’s most completely developed cities in the central and western sectors, most of the attainably priced housing being planned for the future is slated for the east valley with the exception of Desert Hot Springs.

Following are some charts and summaries that illustrate the long- and short-term growth in employment in the Coachella Valley.

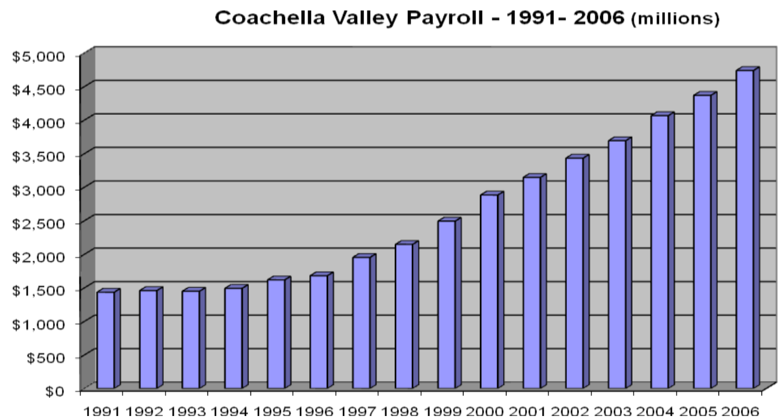
TOTAL EMPLOYMENT IN THE COACHELLA VALLEY

From 1991 – 2006 (note: 2006 full year figures are the latest detailed data available), the Coachella Valley’s employment went from 72,974 to 141,092; a gain of 68,118 jobs or 93.4%. The region’s economy is expanding because its full-time population is growing rapidly and its convention, tourism and retirement activities are increasing. Also, companies are learning about the region’s land and labor force cost advantages, especially in the East Valley with its Enterprise Zone benefits, and entering the desert market.



TOTAL PAYROLL

From 1991 to 2006, the total payroll released by the Coachella Valley firms and agencies more than tripled – going from $1.4 billion to approximately $4.7 billion. The gain in the region's payroll from 1991 – 2006 was $3.3 billion or 335.7%. Of the $3.3 billion gain in payroll, $644 million was needed by workers to make up for the 45.2% increase in Southern California prices that occurred during the period. When this is deducted, the Coachella Valley still saw the purchasing power of its local payrolls more than double.



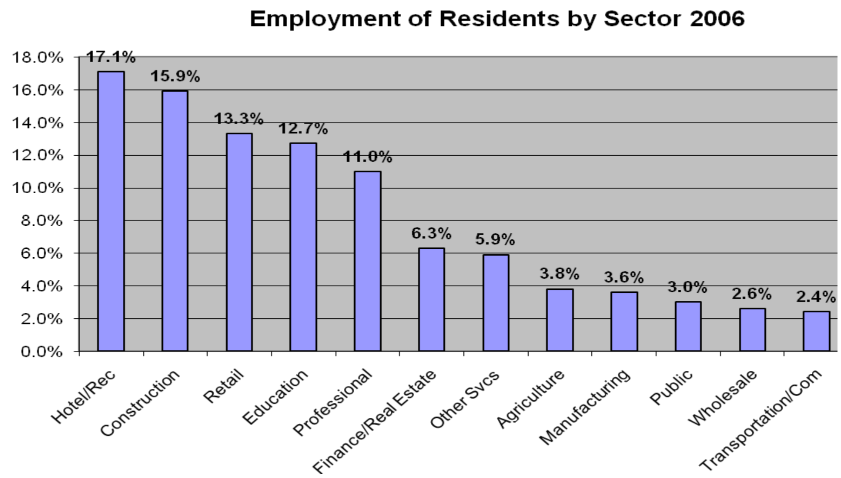
NUMBER OF FIRMS

The number of firms in the Coachella Valley has risen from 5,400 in 1991 to 8,483 in 2006 – a gain of 3,083 firms for an increase of 57%. These numbers should be viewed as a long-term general trend and not exact data because they do not include entrepreneurs with no payroll. For this reason, small upward or downward fluctuations from year to year are not significant as they generally involve very small firms switching from pure entrepreneurs to employers of one or two workers.

EMPLOYMENT BY SECTOR

In 2006 , the data showed five largest sectors in which residents of the Coachella Valley worked were: Hotel and recreation (19.4%); education (16.4%); retailing (13.6%); professional work including private health care (10.9%), and construction (10.4%).

By occupational type, a much higher share of Coachella Valley workers were in services industries, such as hotel, casino and recreational jobs, than in the Inland Empire as a whole (22.6% v. 15.9%). The valley had a much smaller share of work in production and transportation related jobs (7.4% v. 14.3%).

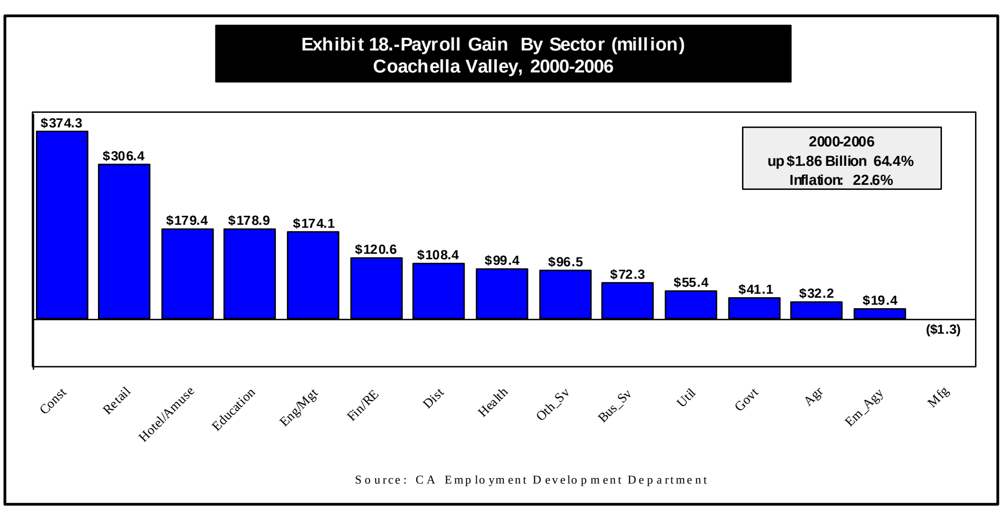


PAYROLL GAIN BY SECTOR

From 2000-2006, the largest share of the $1.86 billion increase in the Coachella Valley's payrolls (*20.2%*) was from the $374 million gain in the construction sector. The next largest increase was in the retail trade, which was responsible for $306 million (*16.5%*) of the increase.

The hotel and amusement sector ranked third in payroll growth accounting for $179 million (*9.7%*). The education sector ranked fourth accounting for $179 million (*9.6%*). These four sectors accounted for 55.9% of the Coachella Valley's payroll expansion. Unfortunately, these four sectors are not generally characterized as providing good paying jobs.

In 1991, the average pay per worker in the Coachella Valley was $19,663. By 2000, this had reached $25,538. It then moved on to $33,596 by 2006. That was 9.8% below the $37,235 for all Inland Empire firms. Clearly the jobs in the Coachella Valley pay lower than what would be expected in a more diversified and well rounded economy.



Employment by City: Current and Projected
(2007 - 2035)

City	Current	Projected 2015	Projected 2035
Cathedral City	12,463	18,787	29,349
Coachella	6,971	10,920	19,014
Desert Hot Springs	3,194	3,627	4,488
Indian Wells	3,827	3,960	4,241
Indio	19,298	25,275	36,126
La Quinta	14,444	17,052	21,678
Palm Desert	35,653	48,148	58,808
Palm Springs	31,725	44,216	66,921
Rancho Mirage	13,841	15,383	18,067
Unincorporated	16,046	22,176	41,162
Subtotal	157,462	209,544	299,854
Self employed*	13,384	17,811	25,488
Total	**170,846**	**227,355**	**325,342**

Sources: California EDD/Riverside County Center for Demographic Research
* Percentage based on American Community Survey estimate for Riverside County (2006)

The table above shows that there are 157,462 jobs based in the Coachella Valley according to the California Employment Development Department (EDD). The EDD data includes jobs represented by employees of organizations but not the self employed. Utilizing an estimate of the percentage of self employed prepared by the 2006 American Community Survey of the Census Department, we have estimated the number of self employed in the Coachella Valley to be 13,384 at the beginning of 2008.

The Riverside County Center for Demographic Research predicts that the Coachella Valley will have 209,544 jobs in 2015 and 299,854 total jobs held by employees in 2035. Including the self employed, to reach the projected levels, the region will have to generate 56,500 new jobs by 2015 and 154,500 by 2035. The equivalent average annual job generation would be roughly 7,000 between 2007 and 2015 and 5,500 per year up to 2035.

As a comparison, during a period of robust population growth and economic activity in the Coachella Valley from 2000 to 2006, a total of approximately 30,000 jobs plus self employed individuals were added, which is equal to about 5,000 per year.

UNEMPLOYMENT IN THE COACHELLA VALLEY

The California Employment Development Department estimates the labor force, employed and unemployed workers for all of the state's cities on a monthly basis. The estimates are based on telephone surveys throughout the state from which estimates – tied in with population data – are applied regionally.

These estimates are not deemed by most experts as extremely reliable in terms of matching up well with actual jobs in the economy, but they are the best system available with a methodology that has been utilized consistently for decades. As a result, the estimates provide reasonable comparisons of the rate of the unemployed civilian workforce between periods.

Certainly the volume of unemployed people in the civilian workforce in the Coachella Valley has increased and with it so has the unemployment rate. In April 2007, the unemployment rate of the desert cities combined was 5.2%. The rate has increased very substantially to 6.9% in the valley. The estimates show an increase of 2,400 people among the ranks of the unemployed during the past year in the Coachella Valley.

For the same periods, the unemployment rate in Riverside County was 4.9% (2007) and 6.8% in 2008 – slightly lower for both periods.

Unemployment in the Desert Cities

April-08

	Labor Force	Employed	Unemployed	Rate
Cathedral City	26,200	24,400	1,800	6.9
Coachella	11,800	10,400	1,400	11.6
Desert Hot Springs	9,200	8,300	900	9.7
Indian Wells	1,700	1,700	-	2.4
Indio	27,200	25,100	2,100	7.7
La Quinta	15,100	14,600	500	3.6
Palm Desert	25,600	24,500	1,100	4.1
Palm Springs	26,600	25,100	1,500	5.5
Rancho Mirage	6,500	6,100	400	6.2
Total	**149,900**	**140,200**	**9,700**	**6.9%**

April-07

	Labor Force	Employed	Unemployed	Rate
Cathedral City	26,000	24,600	1,400	5.3
Coachella	11,500	10,500	1,000	8.9
Desert Hot Springs	9,100	8,400	700	7.4
Indian Wells	1,700	1,700	-	1.8
Indio	26,900	25,300	1,600	5.9
La Quinta	15,100	14,700	400	2.7
Palm Desert	25,600	24,800	800	3.1
Palm Springs	26,500	25,400	1,100	4.1
Rancho Mirage	6,400	6,100	300	4.7
Total	**148,800**	**141,500**	**7,300**	**5.2%**

Source: California EDD

HOUSEHOLD INCOME AND HOUSING AFFORDABILITY IN THE COACHELLA VALLEY

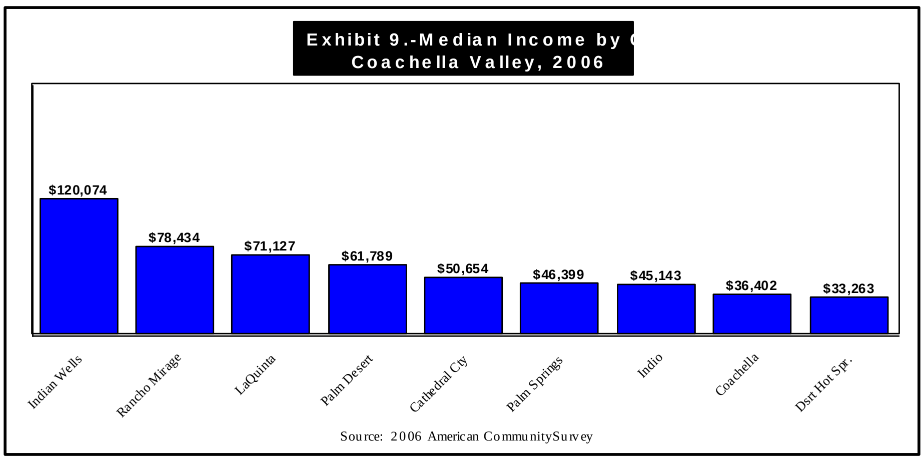
INCOME

According to the 2006 American Community Survey (ACS 2006), prepared by the U.S. Census Department every other year between the decennial Census the regional median annual household income in Riverside County was $62,000.

The ACS 2006 estimated the Coachella Valley's average household income (different from the median) to be $66,473 and its per capita income to be $25,934.

For purposes of this report, we will utilize the county median estimate of $62,000 for the Coachella Valley because it is the figure designated for public housing affordability analysis by the California Department of Housing and Community Development.

The wide variation in community incomes is shown below in median incomes ranging from the $120,074 in Indian Wells and $72,434 in Rancho Mirage to the $36,402 figure in Coachella and $33,263 in Desert Hot Springs.



HOUSING AFFORDABILITY

We have chosen to consider housing affordability with two separate analyses of it. The first consideration is based on the First-time Buyer Housing Affordability Index that is regularly prepared and published by the California Association of Realtors (C.A.R.) for the various regions throughout the state. The other method is based on what local mortgage professionals consider the key income and household expenditure thresholds necessary to qualifying for the most readily available and easily accessible loan programs at this time for the housing available in the region.

First-time Buyer Housing Affordability Index

The percentage of households that could afford to buy an entry-level home in California stood at 44 percent in the first quarter of 2008, compared with 26 percent for the same period a year ago, according to the California Association of Realtors (C.A.R.). C.A.R.'s First-time Buyer Housing Affordability Index (FTB-HAI) measures the percentage of households that can afford to purchase an entry-level home in California.

In the Coachella Valley, 42% of households could buy an entry-level home during the first quarter of 2008 according the. C.A.R. considers the entry level pricing of a given market to be 85% of the prevailing median price. For the valley, the entry level price would be $258,400 based on the prevailing median price of $304,000. The index continues to head in a positive direction for potential first time buyers in the Coachella Valley. By comparison, C.A.R. estimated that 32% of households could have afforded an entry level home in the valley during the first quarter of 2007. The index stood at 38% in the fourth quarter of 2007.

The minimum household income needed to purchase an entry-level home in the Coachella Valley at $258,400 in the first quarter of 2008 was $52,100, based on an adjustable interest rate of 5.65 percent and assuming a 10 percent down payment. The monthly payment including taxes and insurance was $1,740 for the first quarter of 2008.

At $52,100, the minimum qualifying income was 25 percent lower than a year earlier when households needed $65,125 to qualify for a loan on an entry-level home. Recent decreases in home prices and mortgage rates have brought affordability into better alignment with income levels of the typical Coachella Valley household, where the median household income was $62,000.

The First-time Buyer Housing Affordability Index rose 11 percentage points in the first quarter of this year compared to the fourth quarter of 2007 due to a .56 point decrease in the mortgage rate and a 14.3 percent decrease in the entry-level median home price.

At 64 percent, Sacramento County and the High Desert region were the most affordable areas in the state. The Coachella Valley stood approximately in the middle range among regions identified by C.A.R. Monterey was the least affordable area in the state at 29 percent, followed by the San Francisco Bay Area at 30 percent.

Current local mortgage industry analysis

We talked in detail with two mortgage lending experts in the Coachella Valley to gain a thorough understanding of what it takes under the current market conditions for people to qualify for a mortgage. The analysis is based on the various levels of household income that fall into the typical workforce income ranges.

The income categories included are 50% of the area median income (AMI) – which is commonly referred to as low income ($31,000), the median income exactly ($62,000), and 120% of the median income – referred to as moderate income ($74,400).

As shown in the table below, utilizing an FHA loan, a low income household that earns $31,000 annually could afford a mortgage of $125,000 with an outlay of approximately $7,500 to cover a 3% down payment and closing costs. There is essentially no housing available for sale – just a few hundred units – in the region. Those units are likely quite subpar to say the least.

Housing Affordability Overview

Annual household income	**$ 31,000**	**$ 62,000**	**$ 74,400**
Monthly income	$ 2,583	$ 5,167	$ 6,200
Mortgage payment (40% of income)*	$ 1,033.33	$ 2,066.67	$ 2,480.00
What could this income buy?	**$ 125,000**	**$ 250,000**	**$ 300,000**
How much cash needed?			
FHA	$ 7,500	$ 15,000	$ 18,000
Conventional	$ 16,250	$ 32,500	$ 39,000

*Monthly payment capacity also assumes the borrower has minimal additional debt obligations

A median income household could afford a $250,000 mortgage with an FHA loan that would require $15,000 cash for the down payment and closing costs. The moderate income household could now afford a $300,000 after a cash outlay of $18,000.

Our mortgage experts noted that for the FHA loans, credit scores could be as low as the upper 500s for borrowers to qualify and provisions can be made for having sellers contribute up to 3% for closing costs. These parameters are somewhat surprising, but quite positive, given the general feeling about what subprime lending and other lenient lending has done to harm the housing market in recent years.

Conventional mortgages are simply not a good solution for providing financing a preponderance of our local workforce mostly because of the cash requirements for down payments and other up front costs.

The mortgage experts we consulted were Chris Bergsma, Vice President of the mortgage department of El Paseo Bank and Laine Rinker, President of Rinker Financial.

HOUSING STARTS IN THE COACHELLA VALLEY

Valley Wide Figures

As shown in the table that follows, for the Coachella Valley as a whole, the pace of permitting for housing units dropped precipitously in 2007. For the year, the total number housing starts was off 293% compared to 2006. For single family housing, the monthly average for new permits for all of the cities and the unincorporated areas combined was approximately 160 units in 2007. By comparison, during 2006, the average was more than 550 per month.

Coachella Valley Housing Starts: 2004 through 2007

Year	Single Family	Multi-Family	Total	Change (+/-)
2008 (through April)	328	275	603	-24%
2007	1,899	134	2,033	-293%
2006	6,757	178	6,935	- 18%
2005	7,944	262	8,206	- 3.8%
2004	8,122	393	8,515	--

For the first four months of 2008, total housing starts are down 24% and single family starts are averaging less than 100 per month for the valley as a whole. In the multi-family category, there were two large projects begun in La Quinta and Palm Desert that greatly bolstered the total.

INDIVIDUAL COACHELLA VALLEY CITY FIGURES

The next table below highlights the massive downturn in the number of single family housing starts in the Coachella Valley by city. For the year 2007 single family housing starts were down 256% compared with the same period in 2006. Leading the decline was Indio, which was down 623% in the period compared to the prior year. Cathedral City, Coachella, Desert Hot Springs and La Quinta all were down between 220 to 336%.

Through the first four months of 2008, single family housing starts were down by more than half (58%) compared to the anemic output during the same period in 2007.

Region	Year 2008 (thru April)	Year 2007	Year 2006	% Chg 07 v 06
Cathedral City	12	41	166	-305%
Coachella	50	207	664	-220%
Desert Hot Springs	8	121	528	-336%
Indian Wells	7	84	88	-4.8%
Indio	83	336	2,429	-623%
La Quinta	97	430	1,713	-298%
Palm Desert	12	181	250	-40%
Palm Springs	18	218	346	-58%
Rancho Mirage	7	62	94	-52%
Unincorporated:				
Palm Springs District	0	131	253	-93%
Desert Sands District	23	33	88	-166%
Coachella District	5	55	138	-151%
Total	**328**	**1,899**	**6,757**	**-256%**

Single Family Housing Starts by Region: Year 2007 v. 2006

CONSTRUCTION ACTIVITY IN THE REGION

Valley wide construction activity for 2007 as reflected by building permit valuation fell 38.9% from the level set in 2006. Based on reports from the valley's cities and by Riverside County for the unincorporated areas, single-family residential construction again represented the greatest share of construction activity, but it was down substantially from historically standard levels which have hovered at roughly 70% to 45% of the action in 2007. As a comparison, for the full year 2006, single family housing comprised more than 71% of the valley's construction activity.

The residential category accounted for $494 million of the total, but the volume of housing development in terms of permit valuation was down 57.3% for the year. <u>Through the first four months of 2008, residential construction valuation is down approximately 65% compared to 2007</u>. The market simply is not going to absorb new housing, so developers are holding tight and in fact struggling to sell their standing inventory.

Commercial construction was actually up 8.6% in 2007, which was the real bright spot for the industry in the region. The action was mixed with substantial retail store development which is still seeking to catch up with rooftops and continued expansion of the inventory of office space – much of which is not being absorbed.

The miscellaneous (Other) category represented 29.8% of all construction with a valuation of $325 million, and commercial construction accounted for 22% of the total or $243 million. In the aggregate there was $1.094 billion in construction activity in the valley during 2007 (see table below for full set of data).

Building Permit Valuation Breakdown 2007 v. 2006

(Millions $)	Single Family	Multi Family	Commercial/ Industrial	Other	Total
Palm Desert	$124.3	$16.5	$37.3	$73.5	$251.6
Palm Springs	54.7	1.2	45.1	56.3	157.2
La Quinta	108.1	0.0	10.0	36.3	154.4
Cathedral City	13.7	1.6	9.1	20.9	45.3
Rancho Mirage	27.1	0.0	73.0	48.1	148.2
Indio	49.5	4.0	23.7	39.0	116.1
Indian Wells	33.8	0.0	9.0	20.8	63.7
Desert Hot Springs	18.0	3.5	5.2	7.8	34.5
Coachella	34.3	0.0	11.7	12.3	58.2
Unincorporated:					
Desert Sands District	5.2	0.6	14.4	3.3	23.5
Palm Springs District	17.2	0.0	4.4	3.1	24.7
Coachella District	7.9	4.0	0.2	4.1	16.2
Total 2007	**$493.7**	**$31.5**	**$242.9**	**$325.5**	**$1,093.6**
Percent of total	45.1%	2.9%	22.2%	29.8%	100.0%
Comparison to 2006:					
Year 2006	$1,155.9	$61.3	$223.6	$350.0	$1,790.8
Change from 2006	**-57.3%**	**-48.7%**	**8.6%**	**-7.0%**	**-38.9%**

Coachella Valley 2007 Annual Construction Review

FORECLOSURE ACTIVITY WREAKING HAVOC

The National Picture

Nearly 1 in 10 American homeowners with a mortgage faced foreclosure or fell behind in their payments in the first three months of the year, according to a recent report released by the Mortgage Bankers Association.

The period from January to March marked the worst quarter for American homeowners in nearly a quarter-century. Both the rate of new foreclosures and late payments surged to the highest levels since 1979. (The delinquency rate includes Americans who are more than a month past due on their home loans.)

A breakdown of the statistics showed problems at nearly every level of the mortgage industry. Of the 45 million home loans included in the survey, 6.35 percent were at least one payment past due, up from 5.82 percent for the fourth quarter of 2007. (All figures are adjusted for seasonal factors.)

Foreclosure proceedings began on 0.99 percent of loans, up from 0.83 percent in the previous quarter. Over all, the percentage of loans being foreclosed on reached 2.47 percent in the first quarter, rising from 2.04 percent at the end of December 2007.

The mortgage problems were worst for homeowners who took out subprime loans, but even borrowers with solid credit records have not been immune. Subprime adjustable rate mortgages represented 6 percent of the loans outstanding but 39 percent of the foreclosures in the quarter. Prime adjusted loans represented 15 percent of the loans, but 23 percent of the foreclosures started. Out of the approximately 516,000 foreclosures started during the first quarter. Subprime ARM loans accounted for about 195,000 and prime ARM loans 117,000.

Four states — Arizona, California, Florida and Nevada — accounted for about 39 percent of the foreclosures, a disproportionately high amount of the newly reported figures. These regions have suffered the sharpest price drops.

Riverside County and Coachella Valley

In Riverside County, the number of foreclosure filings in May was nearly double the number of filings from a year ago. A total of 9,024 mortgage default notices, auction sale notices and bank repossessions were recorded in Riverside County in May, roughly 13 percent more than in April and 98 percent more than in May 2007, according to Irvine-based RealtyTrac, an online publisher of nationwide foreclosure market data.

Riverside County ranked second in the state – up from 4th in April – in the overall amount of foreclosure activity in May, RealtyTrac reported.

For the sixth straight month, California was 2nd in the nation in the volume of filings, just behind Nevada and just ahead of Arizona, figures showed. A total 71,930 filings was recorded statewide in May, representing an 11 percent increase compared to April and an 81 percent increase from a year ago.

In its monthly “California Foreclosure Report," Bay Area-based ForeclosureRadar.com reported that Riverside County's bank repossession auction sales were 269 percent higher than at the same time last year and 9 percent higher than in April. According to the company, in Riverside and San Bernardino counties last month, lenders were accepting bids on foreclosed homes that averaged 25 percent less than the asking price.

The Riverside-San Bernardino metro area's foreclosure rate was the fifth-highest in the nation in May, according to RealtyTrac. It said one in every 81 households in Riverside County slipped into some stage of foreclosure last month, compared to one in 153 in May 2007.

More than 1,300 Coachella Valley residential properties were in some stage of foreclosure in April, according to the latest figures from RealtyTrac. That's more than double the 532 desert homes that were in foreclosure a year ago. And it's a 28 percent jump from February's figures. One in every 117 households in the desert region is now in some stage of foreclosure proceeding.

All signs point to the notion that a large portion of the families who have been losing their homes to foreclosure during the past 18 months are those among our workforce who have enough household income to afford the current median priced home but got stuck instead with bad loans in much higher priced homes at the market peak. After foreclosure their credit is too impacted to enable them to qualify for today's median priced housing.

SECTION TWO: HOUSING IN THE COACHELLA VALLEY

EXISTING HOUSING

There were 152,455 occupied housing units in the Coachella Valley according to the California Department of Finance as of January 1, 2008. The table below shows the breakdown of existing dwelling units by city.

In all, there are estimated to be 204,765 housing units in the area. The 25.63% vacancy rate is indicative of the large population of seasonal residents that visit the Coachella Valley in the winter season or longer but report a hometown outside of the area.

The seasonal residency experienced in the Coachella Valley along with the larger percentage of retirees in the region compared to most others combine to push down the per household number, which is 2.82 for the valley as a whole. In cities where there is anecdotally more of a limited population of retirees, there is a significantly higher per household occupancy rate (e.g., Coachella at 4.8 and Indio at 3.5).

Coachella Valley Existing Housing Unit Breakdown (Jan. 1, 2008)

	POPULATION	-------------------------------- HOUSING UNITS --------------------------------								
			-------- SINGLE --------		----- MULTIPLE -----					
COUNTY/CITY	TOTAL	TOTAL	DETACHED	ATTACHED	2 TO 4	5 PLUS	MOBILE HOMES	OCCUP.	% VACANT	PER HOUSE -HOLD
Cathedral City	52,465	21,561	11,557	2,659	2,432	2,065	2,848	17,008	21.12	3.073
Coachella	40,517	8,814	6,276	319	700	1,062	457	8,428	4.38	4.802
Desert Hot Springs	26,068	10,907	7,358	180	1,377	1,313	679	9,085	16.70	2.850
Indian Wells	5,025	4,973	3,373	884	239	469	8	2,566	48.40	1.958
Indio	81,512	27,794	18,312	878	1,549	3,795	3,260	22,799	17.97	3.538
La Quinta	42,958	21,058	17,035	1,841	495	1,430	257	15,056	28.50	2.851
Palm Desert	50,907	34,120	13,453	9,697	2,541	5,120	3,309	23,549	30.98	2.145
Palm Springs	47,251	33,479	12,099	6,679	2,558	9,915	2,228	22,287	33.43	2.089
Rancho Mirage	17,057	14,634	7,147	3,680	615	1,196	1,996	8,438	42.34	1.959
Unincorporated	79,852	27,425	26,231	1,194	1,941	4,008	290	23,239	35.44	3.060
Valley Cities Total	**443,612**	**204,765**	**122,841**	**28,011**	**14,447**	**30,373**	**15,332**	**152,455**	**25.63**	**2.820**

The Riverside County Center for Demographic Research projects that there will be 194,500 occupied housing units in 2015 and 342,403 units in 2035. Based on the projections, the region will have to produce a total of 42,000 new units that will be occupied – equivalent to an average of 6,000 per year – by 2015. To meet the projected total in 2035, approximately 190,000 new units must be built, which would require an annual average of 7,000 units.

Occupied Housing Units by City: Current and Projected
(2008 - 2035)

City	Current	Projected 2015	Projected 2035
Cathedral City	17,008	19,777	26,132
Coachella	8,428	13,454	26,910
Desert Hot Springs	9,085	17,900	25,420
Indian Wells	2,566	2,723	3,423
Indio	22,799	24,318	31,279
La Quinta	15,056	17,839	19,650
Palm Desert	23,549	27,968	34,714
Palm Springs	22,287	24,098	35,184
Rancho Mirage	8,438	11,648	17,492
Unincorporated	23,239	34,775	122,199
Total	**152,455**	**194,500**	**342,403**

Sources: California Dept. of Finance/Riverside County Center for Demographic Research

RENTAL APARTMENTS AND TOWNHOUSES IN THE COACHELLA VALLEY

According to a first quarter 2008 market overview of the Coachella Valley's rental apartment and townhouse stock by Real Facts based in Novato, the region has an available inventory of 6,173 units within 29 properties.

The units vary, of course, from studio to three-bedroom apartments among three separate classes of property (Class A, B and C). The unit breakdown by class is 3,277 Class C, 1,636 Class B and 1,260 Class C.

Average monthly rental rates for existing units range from $635 for a studio to $1,473 for a three-bedroom apartment. The blended average monthly rent of all units among all classes of property in the valley stood at $1,014. By comparison for the Southern California region as a whole, the average blended rate is $1,491 or 47% great than the desert.

Among all two-bedroom apartments in the Coachella Valley, the average asking rent is $1,151, which is an increase of 7.6% compared to the first quarter in 2007. For a two-bedroom townhouse the prevailing rate is $1,200 – down 7.7%. For a three-bedroom apartment, the current average rate is $1,473, which is up 9.7%.

In terms of availability of units, the Coachella Valley the average occupancy rate stood at 91.7% at the end of this year's first quarter. Since the beginning of 2006 average occupancy has been as high as 95.9% and as low as 86.9%.

Since 2005, there have been 510 new units built in the Coachella Valley. In 2005, two hundred new units were added and in 2007 three hundred ten additional units came online.

AVAILABLE HOUSING FOR SALE

EXISTING HOUSING UNITS

Data obtained from the Coachella Valley's regional Multiple Listing Service (MLS) reveals that the current inventory of available single family residential units, including all styles and price ranges stands at approximately 8,900 units. The inventory is comprised of roughly 7,000 single family detached units and 1,900 condominiums.

In addition to the MLS inventory, there are now approximately 900 single family homes purchased back by lenders through the foreclosure process – known as real estate owned (REO) units. With the combination of MLS listings and REO properties, there are now roughly 9,800 single family units available in the Coachella Valley.

The 1,300 units now going through the foreclosure process could possibly bring the total to more than 11,000 single family units available for purchase within the next couple months.

Existing single family detached homes

According to the MLS, there are 2,160 single family detached homes available on the market at a price that is less than the current regional median price, which stands at $304,000. The average number of days that these homes have been on the market is 107. The average price of the single family detached homes available for less than $300,000 (approximately the median price) is $199,000 and the median price of these units is also $199,000.

Existing Housing Inventory - $300,000 and Less
Single Family Residential

Listing Price Range	Quantity	Average DOM
$19,999 or under	1	9
$40,000 thru $49,999	2	94
$50,000 thru $59,999	3	125
$60,000 thru $69,999	19	123
$70,000 thru $79,999	23	81
$80,000 thru $89,999	23	111
$90,000 thru $99,999	55	82
$100,000 thru $119,999	123	76
$120,000 thru $139,999	182	91
$140,000 thru $159,999	227	117
$160,000 thru $179,999	239	103
$180,000 thru $199,999	245	113
$200,000 thru $139,999	524	106
$250,000 thru $299,999	494	118
Total	**2,160**	**107**

During the three month period from March 1 to May 31, 2008 there were 601 homes sold in this price range (less than $300,000), with most of them priced in the higher two categories. Given this rate of absorption, there is approximately 11 months worth of inventory available in this price range. At the peak of the market in 2005, there was typically about three months worth of available inventory in the region, so the current rate of absorption is very robust in this category.

There are 329 single family detached homes available on the market at a price that is slightly greater than the current regional median price in the range from $300,000 to $350,000. The average number of days that these homes have been on the market is 122.

We have included this price range because homes at this price might attainable by households earning 120% of the area median income if a 10 – 15% down payment were made.

Existing Housing Inventory - $300,000 to $349,999

Single Family Residential

Listing Price Range	Quantity	Average DOM
$300,000 thru $349,999	329	122

Existing condominiums

According to the MLS, there are 775 condominiums available on the market at prices less than $300,000. The average number of days that these homes have been on the market is 139.

We have included condos for illustrative purposes to show additional availability of housing units priced at or below the area median housing price. However, it is generally accepted that the category of workforce housing is comprised of single family detached homes geared for families.

Existing Housing Inventory - Less Than $300,000
Condos/Townhouses

Listing Price Range	Quantity	Average DOM
$50,000 thru $59,999	3	68
$60,000 thru $69,999	1	71
$70,000 thru $79,999	4	32
$80,000 thru $89,999	9	86
$90,000 thru $99,999	12	134
$100,000 thru $119,999	40	104
$120,000 thru $139,999	45	136
$140,000 thru $159,999	54	202
$160,000 thru $179,999	69	153
$180,000 thru $199,999	90	154
$200,000 thru $249,999	210	120
$250,000 thru $299,999	236	143
Total	**773**	**139**

AVAILABLE NEW HOUSING UNITS

For purposes of this report, we analyzed the current supply of new housing available in the Coachella Valley at two price groupings: $300,000 and less and $250,000 and less.

Compared with the past three years, there is much more entry level single family housing available in the region and the pricing is much lower. The median price for new housing has dropped approximately 30% within the past 18 months.

$300,000 or less

According to MarketPointe, which continually surveys the new housing market throughout Southern California, there are 19 communities that offer new homes for $300,000 or less. The following data summarize the key statistics for these communities:

Available units:	441
Average price:	$260,653
Average home size:	2,022 square feet
Average lot size:	6,500 square feet
Weeks of supply:	8.31

$250,000 or less

There are 5 communities that offer new homes for $250,000 or less. The following data summarizes the key statistics for these communities:

Available units:	209
Average price:	$213,304
Average home size:	1,768 square feet
Average lot size:	6,360 square feet
Weeks of supply:	7.43

The data below summarizes the key statistics for the full supply of new housing available in the Coachella Valley. In all, there are 130 active communities that offer new homes at this time. Of those communities, the following statistics apply:

Available units:	1,543
Average price:	$335,900
Average home size:	2,185 square feet
Average lot size:	6,000 square feet
Weeks of supply:	23

When considering the full supply of available new housing it is clear that the more attainably priced inventory is much more limited. As shown above, only 209 of 1,543 units are priced less than $250,000 and 441 of them (including those at $250,000 and below) are priced less than $300,000.

The most glaring evidence of the low availability of attainably priced new housing for the region's workforce is the difference in weeks of supply. As a whole, the region has 23 weeks worth of new housing supply available, but only 7.43 weeks worth of supply priced below $250,000.

NEW HOME SALES

As shown in the table below, the sales of new housing in the valley hit a peak in years 2003 and 2004, held relatively firm in 2005 and then began dropping precipitously in 2006 and 2007 as the combination of price escalation and the subprime mortgage debacle burst the proverbial bubble.

Through the first quarter of 2008 the region looks to be on track to deliver approximately 2,500 homes if the pace set in the first quarter continues. Because of the significantly lower prices, it is likely that this will occur even considering a negative macro economic climate.

While the new housing development sector in the region got accustomed to delivering 5,000-plus units from 2003 through 2005, and more recently has been reeling from selling less than 2,000 units last year, the 10-year average is 3,781.

New Home Absorption

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	10 yr. avg.
Homes delivered	2,226	2,850	3,330	2,509	4,236	5,768	5,851	5,293	3,767	1,980	627 (Q1)	**3,781**

POTENTIAL FOR NEW REAL ESTATE DEVELOPMENT IN COACHELLA VALLEY

According to CVAG, there are approximately 61,000 acres of land that have been developed in "an urbanized fashion" so far in the desert. Of the total, approximately 49,500 acres is developed as residential property and 9,500 as commercial.

CVAG estimates there are another 200,000 acres of undeveloped residential, commercial, industrial, agriculture and tribal land that are forecasted to be developed in the future. The calculation is net of 180,000 acres of land that will be preserved as undevelopable open space under the auspices of the Coachella Valley Multi-Species Habitat Conservation Plan.

The breakdown of the zoning for the remaining land includes 154,300 acres currently zoned for residential development. In terms of percentage breakdown, the zoning as it stands would allow for 84% residential development and 16% commercial.

COACHELLA VALLEY HOUSING ENTITLEMENT PIPELINE

Wheeler's Market Intelligence research representatives spend many hours every week at the planning and building departments of each of the nine Coachella Valley cities and the County of Riverside.

We preview the agendas and meetings of every entity's architectural review and planning committees and their city councils (board of supervisors for the county) and follow up with staff to monitor the status of development projects. Our staff also maintains direct contact with most of the developers of note that are building and/or proposing projects in the region to stay apprised of their plans beyond what is divulged in public meetings.

For each of the cities and the County of Riverside we maintain an up-to-date docket of the "pipeline" of all residential and commercial development projects. Based on our ongoing monitoring and analysis, we are able to identify the number of single family residential units that have been fully approved by the various entities and also those communities and affiliated housing units that are making their way through the entitlement process.

The table below shows the number of residential developments and associated units in the planning and entitlement process for each of the Coachella Valley cities and the unincorporated areas of Riverside County.

As shown below, there are more than 113,000 units that are in various stages of planning throughout the region, including units designated for later phases of communities currently under construction.

Obviously, because of the state of the housing market, most developers with projects moving through the planning process will likely delay any actual project work until economic conditions begin improving significantly. Though the preponderance of the projects included below will not begin anytime soon, it is clear that there is significant capacity to produce housing on available land throughout the region.

Residential Developments in Planning (1Q2008)

City	Developments	Units
Cathedral City	18	2,566
Coachella	38	24,782
Desert Hot Springs	36	13,710
Indian Wells	3	104
Indio	53	11,955
La Quinta	41	6,050
Palm Desert	19	3,411
Palm Springs	52	6,672
Rancho Mirage	19	1,822
Unincorporated	104	42,188
Total	**383**	**113,260**

Regional Housing Needs Assessment

The Regional Housing Needs Assessment (RHNA) is mandated by State Housing Law and administered in Southern California by SCAG as part of the periodic process of updating local housing elements of their general plans. The RHNA quantifies the need for housing within each jurisdiction during specified planning periods. The current planning period is January 1, 2006 to June 30, 2014.

Communities use the RHNA in land use planning, prioritizing local resource allocation, and in deciding how to address identified existing and future housing needs resulting from population, employment and household growth. The RHNA does not necessarily encourage or promote growth, but rather allows communities to anticipate growth, so that collectively the region and sub-region can grow in ways that enhance quality of life, improve access to jobs, promotes transportation mobility, and addresses social equity, fair share housing needs.

The RHNA attempts to measure both the existing housing need of a given community and its future need. The existing need assessment simply examines key variables from the most recent Census to measure ways in which the housing market is not meeting the needs of current residents. These variables include the number of low-income households paying more than 30% of their income for housing, as well as severe overcrowding, farm worker needs and housing preservation needs.

The future need for housing is determined primarily by the forecasted growth in households in a community. Each new household, created by a child moving out of a parent's home, by a family moving to a community for employment, and so forth, creates the need for a housing unit. The anticipated housing needed for new households is then adjusted to account for an ideal level of vacancy needed to promote housing choice, moderate cost increase, avoid the concentration of lower income households and to provide for replacement housing.

The table below shows the current RHNA presented filed with SCAG by CVAG on behalf of the Coachella Valley cities.

Based on the RHNA plan, the Coachella Valley cities will have to produce in combination a total of 37,754 dwelling units to meet the anticipated need by mid-year 2014. On an annualized basis, this equates to 4,719 units each year.

The desert's cities project that it will take 8,721 new dwelling units to meet the need of very low income households (or 1,090 per year) and 6,102 new units to accommodate low income households (or 763 per year).

Regional Housing Need Allocation Plan - Planning Period (January 1, 2006 - June 30, 2014)

City	% very low income households	% low income households	% moderate income households	% above moderate income households	Number of very low income households	Number of low income households	Number of moderate income households	Number of above moderate income households	Total
Cathedral City	23.5%	16.3%	18.3%	42.0%	782	542	608	1,397	**3,329**
Coachella	22.5%	15.6%	18.5%	43.5%	1,288	893	1,059	2,493	**5,733**
Desert Hot Springs	21.8%	15.8%	18.9%	43.5%	2,161	1,570	1,871	4,322	**9,923**
Indian Wells	24.8%	17.4%	19.4%	38.4%	61	42	47	94	**244**
Indio	23.1%	16.1%	18.1%	42.7%	955	667	752	1,769	**4,143**
La Quinta	24.6%	16.7%	18.4%	40.2%	1,065	724	796	1,741	**4,327**
Palm Desert	24.1%	16.5%	18.5%	40.9%	1,105	759	847	1,875	**4,586**
Palm Springs	23.1%	16.2%	18.6%	42.1%	523	366	421	951	**2,261**
Rancho Mirage	24.3%	16.8%	18.8%	40.1%	781	539	603	1,285	**3,208**
				Total units	**8,721**	**6,102**	**7,004**	**15,927**	**37,754**
Source: SCAG				Units per year	1,090	763	876	1,991	4,719

For moderate income households the cities anticipate a need of 15,927 new dwelling units between 2006 and 2014 or an equivalent of 1,991 per year.

So how does the actual production of housing during the past 18 months look in comparison with the projected needs outlined in RHNA? Certainly, the first 18 months since the RHNA plan was prepared and filed have been anomalous because of the numerous well documented and publicized so housing starts have been down record low levels for the region.

As noted earlier in this report, the total number of housing units started in 2006 was 6,935 inclusive of single family (6,757) and multi-family (178) types. The pace dropped off dramatically in 2007 with a total of 2,033 starts comprised of 1,899 single family and 134 multi-family units. For the first two years of the period, the RHNA numbers for the Coachella Valley projected approximately 9,400 units; the region produced approximately 9,000 units.

The 10-year average of housing units purchased in the valley is 3,750. If this average level were maintained over the course of the RHNA plan, the region

OTHER FACTORS INFLUENCING AFFORDABILITY

DEVELOPMENT FEES

The Building Industry Association, Desert Chapter revealed in March the results of a comprehensive study of the fees that must be paid by developers to produce housing in the desert cities. The fee categories included building, impact, planning, environmental and engineering which are all relevant fees necessary.

As shown in the table below, fees have increased substantially during the past three years thus putting additional pressure on developers to pass on their costs to new homeowners. Because of the high level of complexity based on the variances in types of housing and land on which homes are built, the study was simplified by uniform assumptions for housing type and land values. The fees shown below were for an assumed 2,400 square foot single family detached home within a subdivision of 60 units on land valued at $150,000 per acre.

Coachella Valley Residential Development Fees

City	2008	2005	% Change
Cathedral City	$26,393	$16,673	65.3
Coachella	$34,537	$15,929	101.2
Desert Hot Springs	$44,839	$16,501	105
Indian Wells	$29,486	$23,166	36
Indio	$34,080	$20,981	70.6
La Quinta	$26,824	$21,093	36.4
Palm Desert	$24,895	$21,036	18.2
Palm Springs	$34,993	$17,783	110.4
Rancho Mirage	$28,806	$24,456	39.2
Unincorporated	$37,125	$20,943	88.2
Average	**$32,200**	**$19,900**	**67%**

For purposes of this report, it is sufficient to note that fees have increased very substantially in the Coachella Valley during the past few years, thus putting upward pressure on housing prices making it less affordable. For the valley as a whole, fees have increased an average of 67% in the past three years considering all jurisdictions.

LAND PRICES

Land prices continue to fall very significantly from the high levels achieved in 2005. The potential effect of such drastic decreases could be more downward pressure on home prices, especially if local developers and other land owners have to sell land at low prices in the current down market. The lower price basis of the land will enable the new owners to offer lower prices for their homes when the demand increases and production gets back under way.

Based on gross transactions tracked in each of the past three years, residential lot prices have decreased by almost 60% for the Coachella Valley as a whole. The pricing would likely be even lower if the volume of transactions were higher, but the land owners who can hold out and continue to make payments on it are obviously holding tight and hoping for a market turnaround.

COST OF PRODUCING HOUSING

In recent years the costs of construction and land have increased far beyond what anyone could have expected. This combined with the escalation of land prices during the 2004 – 2006 market boom and the aforementioned increases in development fees has been responsible for a significant portion of the record appreciation in home prices experienced during the same period.

While both construction costs and land prices have come down during the past 18 months, the total cost that developers are facing to build a standard single family detached home on the regional average lot size (6,500 square feet) still makes it very challenging to produce single family housing for moderate and low income families.

As an example, the figures that we have obtained from a couple local homebuilders that are now building housing priced in the upper $200,000 o $300,000 range reveal how tight the margins are and point to a potential challenge to the feasibility of future development at this price range.

The finished price for the average sized lot in the Coachella Valley costs approximately $60,000. The cost, including only materials with no overhead allocation, to build the average sized home (2,000 square feet) at the median price level ($304,000) is roughly $120,000.

Overhead, financing, sales and marketing, insurance, warranty and property tax costs add roughly 15% more. When adding the average cumulative development fees per home in the region of approximately $32,000, the core cost of building the median priced and sized home is roughly $240,000. This general analysis is based on land prices in Indio, Coachella, Cathedral City and Desert Hot Springs where most of the land for workforce housing is available and feasible based on cost. Land in the other valley cities is priced significantly higher.

SECTION THREE: CONCLUSIONS AND OBSERVATIONS

AFFORDABILITY OF HOUSING

Though the available housing in the Coachella Valley has historically been significantly more affordable than almost all other areas in Southern California – typically 25 to 35% less expensive for similar configurations and amenities – it is still out of reach for a large portion of the region's workforce.

The underlying challenge to affordability even at a price level relatively lower than the neighboring counties is, and has been, jobs. This is certainly no revelation to anyone who pays attention to what is going on in the valley. The jobs in the region are overly skewed to the service industry which for the most part pays less than other sectors.

For households earning roughly the area median income, the supply of reasonably affordable housing for purchase and for rent is very limited. People at this level and below cannot afford the median priced home, and the housing at prices lower than median is very limited and typically sub-par.

For those stuck upside down in this market, it might feel like the conditions will last forever, but they will not. It's likely that within 24 months the housing available in the $300,000 and less category will be much tighter than it is now. It is also likely that increases in wages, especially for those in the local service industries, will not keep up with increases in housing costs as the economy improves.

Unless there is a substantial change in the types of jobs created in the Coachella Valley, it is very unlikely that wages will keep up with the cost of housing in the future. It is challenging enough as we've seen lately for people to keep up with cost of living increases beyond the cost of housing.

AVAILABILITY OF HOUSING

Based on the information garnered in this report, there is a reasonable stock of housing available at prices that those with slightly above the median income can afford. The absorption of this housing has been very positive during the past six months thus proving the real need for it.

However, this window of availability could possibly be fleeting because the recent steep drops in pricing have been brought about in part by developers of new homes and financially challenged owners of existing housing stock that have essentially been forced to unload units at rock bottom prices simply to stay afloat. Characterizing it as a buyer's market is a major understatement. People in the market for a new home have known this for a good while and have thus put considerable downward pressure on prices.

Housing for very low income individuals and families, based on essentially all of the input we have received for this report, is very limited and clearly not comfortably affordable. This holds true for both rental housing units and housing for sale.

LOCATION OF JOBS RELATIVE TO AFFORDABLE HOUSING

In the Coachella Valley there is an extreme differential in jobs per capita. This figure helps illustrate the imbalance of where jobs are located in the region relative to where people live.

In Indian Wells and Rancho Mirage for example, there are roughly .8 jobs per person while in Indio, Coachella and the unincorporated county areas there are approximately .15 jobs per permanent resident.

A big part of the challenge in providing affordable housing for our workforce in the future will be to better match up the location of housing for the workforce with the location of jobs.

As is well tracked and documented by CVAG and other organizations, this type of imbalance creates a wide range of problems for the region such as air pollution (as commuters in very large numbers travel from one end of the valley to the other for their jobs), transportation accessibility and more.

LIMITED SUPPLY AND FUTURE PIPELINE OF MULTI-FAMILY HOUSING

Development of apartments and other attached housing stock has been very limited and close to non-existent in the region for a number of years.

The lack of new multi-family housing development has so stagnant for three key reasons: 1) The cost of construction relative to the return on investment has been extremely unattractive because of the cost hazard insurance for attached units and unpalatable construction defect liability risks; 2) For many years in the valley, developers have had great success building and briskly selling single family homes on relatively cheap land while earning exceptional rates of return on investment, and 3) Municipalities generally have strongly preferred and approved the development of single family home communities because they create less challenges to transportation systems, public safety and they bring more property tax revenue relative to apartments.

These dynamics are all changing to some extent to make apartment and townhouse development more attractive to all involved. More new multi-family development projects are in the pipeline and/or slated for future planning than has been the case for many years.

URBAN SPRAWL DEVELOPMENT HAS PREVAILED

For a number of years there has been a palpable aversion to changing zoning in the region to allow for increasing the density of housing to help meet the needs of the Coachella Valley's workforce.

Developers typically point the finger at the municipalities contending that they refuse to allow down zoning that would enable more housing units to be developed on a given parcel. Municipalities counter that developers just want to build the typical single family detached unit communities because they are more profitable for the developer and require a lower volume of mitigation costs.

No matter what the reality is in this case, there is going to have to be some significant compromise in the future to increase density on the precious remaining land available for housing. This will be critical to both providing the necessary stock of affordable housing to accommodate the population growth projected and conserving enough land for commercial/industrial uses that will facilitate job creation.