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Hoffman Land Index: Land Values on Rise in Southern California

By Allison Landa, News Editor

Southern California real estate players may be encouraged by news from the land brokerage The Hoffman Company, whose third annual Hoffman Land Index reveals that land values in many areas have doubled or tripled in 2009 as compared to 2008.

The Index, which was released this month, surveyed 48 geographic areas. Of those, half recorded what Hoffman considers a substantial increase in the value of a 7,200 square-foot finished lot as compared to the bottom of the local market in the fourth quarter 2008. Most of the areas that recorded increases were located close to major job centers.

"Some housing markets in Southern California already have reached bottom and in some desirable areas – such as the Dairylands, Corona and Temecula/Murietta in Riverside County and west San Bernardino County – the prices for a finished lot have jumped by 30 percent to 45 percent since August," Hoffman principal Norm Scheel told CPE. "The values are still much lower than the peak of the market in 2005, but the real estate freefall seems to be over."

According to the Index, Los Angeles County has seen price declines since 2005 flatten in four of the seven cities. In Riverside County, all but two of the 15 areas surveyed showed an increase in 2009 over the 2009 finished lot value, with the Dairy Lands showing the greatest increase with a jump from $110,000 in 2008 to $160,000 in 2009. That represents a 45.5 percent increase.

In San Bernadino County, more than two-thirds of the areas surveyed recorded increases, with the city of Fontana seeing the greatest jump. The average value went from $70,000 in 2008 to $100,000 in 2008 – an increase of nearly 43 percent.

Scheel noted that in additions to the Inland Empire cities of Dairylands and Fontana, Murrietta also saw a significant value increase: 43.8 percent. He added that several others in the western part of the region showed increases in the 20 to 30 percent range.

“What these cities have in common is that they are closer to freeways, major job centers and shopping or entertainment in markets such as Los Angeles, Orange and San Diego counties,” he told CPE. “The Inland Empire cities closer to the coast also tend to be more dense or constrained markets with fewer land opportunities than outlying areas such as Victorville, Adelanto and Hemet, where land prices are stagnant or still dropping.”

In Victorville, average lot values dropped from $133,000 in 2005 to $45,000 in 2009, while in Adelanto lot values have plunged from $115,000 in 2005 to $35,000 in 2009.

The Coachella Valley also continues to see challenging times, with land values dropping in all twelve areas surveyed up to the third quarter 2009. Declines ranged from 23.1 percent in Coachella to 5.3 percent in La Quinta. However, in the fourth quarter of 2009, land values started stabilizing for the first time since the peak in entry-level cities such as Indio, Coachella, Cathedral City, and Desert Hot Springs.

“The areas still at greatest risk are those in outlying tertiary markets … especially markets that were overbuilt in the first half of the past decade,” Scheel told CPE. “In the Coachella Valley, for example, we’re still seeing significant price declines in the double digits, and the value of a finished lot in some areas – from Desert Hot Springs to Coachella – is three to four times lower than it was at the 2005 peak.”