

HOUSING DEMAND CONSIDERATIONS

Regional economic conditions dictate the demand for housing. Positive employment trends influence population growth via increased net migration. Placer County remains a great example of a local response to regional employment changes. Further, housing demand in Rocklin benefits from increased migration from the greater Sacramento Area. Regional housing supply and demand considerations follow:

A simplified presentation of regional housing supply and demand conditions appear in Table 1.

Table 1

NET DEMAND AND SUPPLY HOUSING UNITS SACRAMENTO MSA 1989-2002

Year	Population	Total Wage & Salary Employment	Annual Change Population	Annual Change Employment	Housing Units Permitted	Housing Units Demanded	Net Demand Annual	Pent Up Demand
1989	1,274,300	533,300	42,500	19,400	20,001	17,000	3,001	3,001
1990	1,325,500	560,000	51,200	26,700	15,262	20,480	(5,218)	(2,217)
1991	1,372,700	569,500	47,200	9,500	8,854	18,880	(10,026)	(12,243)
1992	1,403,200	557,800	30,500	-11,700	8,465	12,200	(3,735)	(15,978)
1993	1,427,500	558,300	24,300	500	7,975	9,720	(1,745)	(17,723)
1994	1,446,100	573,200	18,600	14,900	9,014	7,440	1,574	(16,149)
1995	1,457,600	590,600	11,500	17,400	7,317	4,600	2,717	(13,432)
1996	1,474,300	608,900	16,700	18,300	8,203	6,680	1,523	(11,909)
1997	1,495,900	629,000	21,600	20,100	9,255	8,640	615	(11,294)
1998	1,524,700	655,700	28,800	26,700	13,220	11,520	1,700	(9,594)
1999	1,567,900	689,800	43,200	34,100	14,074	17,280	(3,206)	(12,800)
2000	1,636,600	713,800	68,700	24,000	15,691	27,480	(11,789)	(24,589)
2001	1,664,300	736,800	27,700	23,000	17,582	11,080	6,502	(18,087)
2002	1,710,200	747,058	45,900	10,258	21,575	18,360	3,215	(14,872)
2003	1,751,200	745,600	41,000	-1,458	4,555	16,400	(11,845)	(26,717)

Note: Housing Units Demanded Calculated at 2.5 persons per household

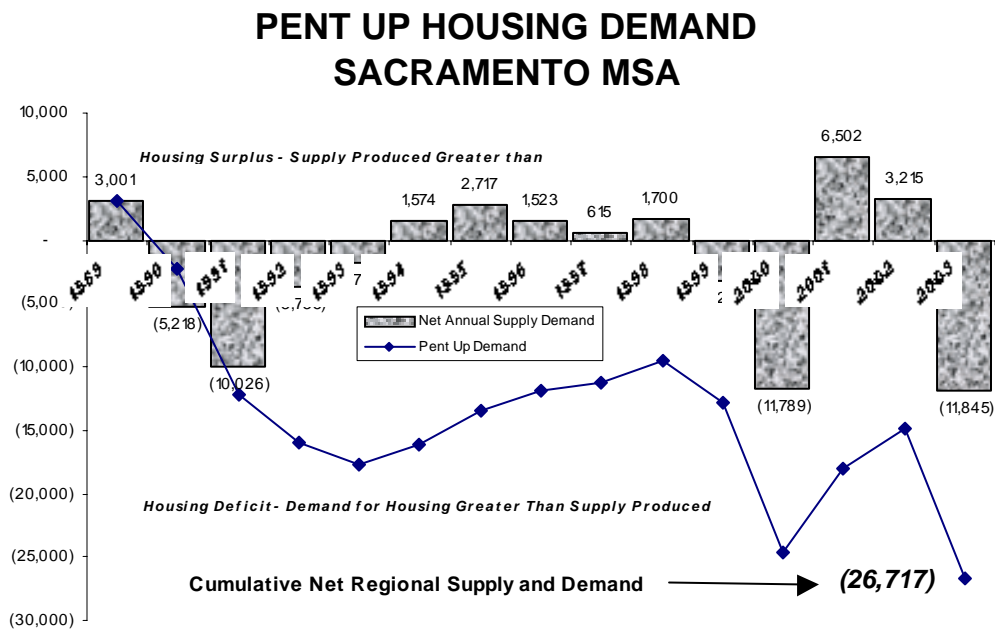
Source: *Rand California via Internet Real Estate Analytics*

Data for the Sacramento, MSA (Sacramento, Placer and El Dorado Counties) appear in the table. Data considerations in the reporting of employment data dictate the use of MSA geography. Annual changes in total wage and salary employment and population are shown. The population data include the components of net natural increase and net migration, an important and volatile determinant of housing demand. The annual sum of all housing units (both multi-family and single family) relate to population and employment change. For purposes of discussion, housing units demanded was calculated at 2.5 persons per household.

Net demand represents the difference between units demand and units supplied on an annual basis. When the column reports a positive number, a housing surplus is generated. Negative numbers indicate a deficit condition, where demand outstrips supply. Larger numbers in the population column indicate periods where migration is higher, since the rate of natural increase (births minus deaths) is relative constant.

The final column in the table addresses the cumulative demand and supply conditions for housing. Annual deficits and/or supplies are passed forward as unsatisfied demand. In the absence of production, the net deficit or pent-up demand occurs. Figure 1 shows the table's finding in chart form.

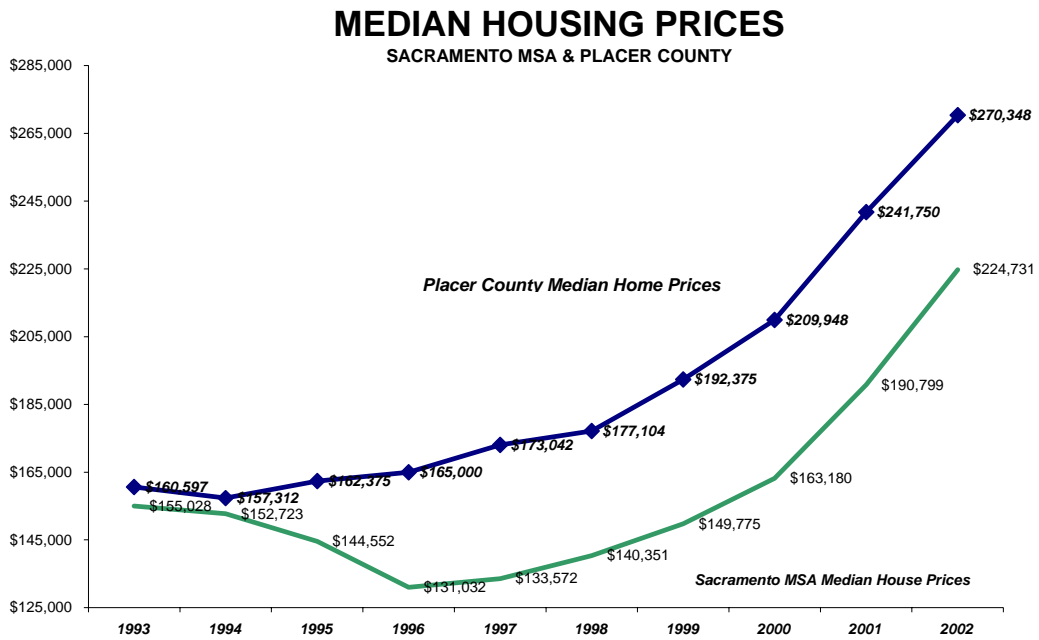
Figure 1



Source: Rand California via Internet Real Estate Analytics

The chart concludes that a pent-up demand for approximately 27,000 units exists in the region, which leads to increased housing prices which is readily apparent in the Sacramento Regional housing market as shown in Figure 2 which reports regional median home prices in addition to median housing price trends in Placer County.

Figure 2



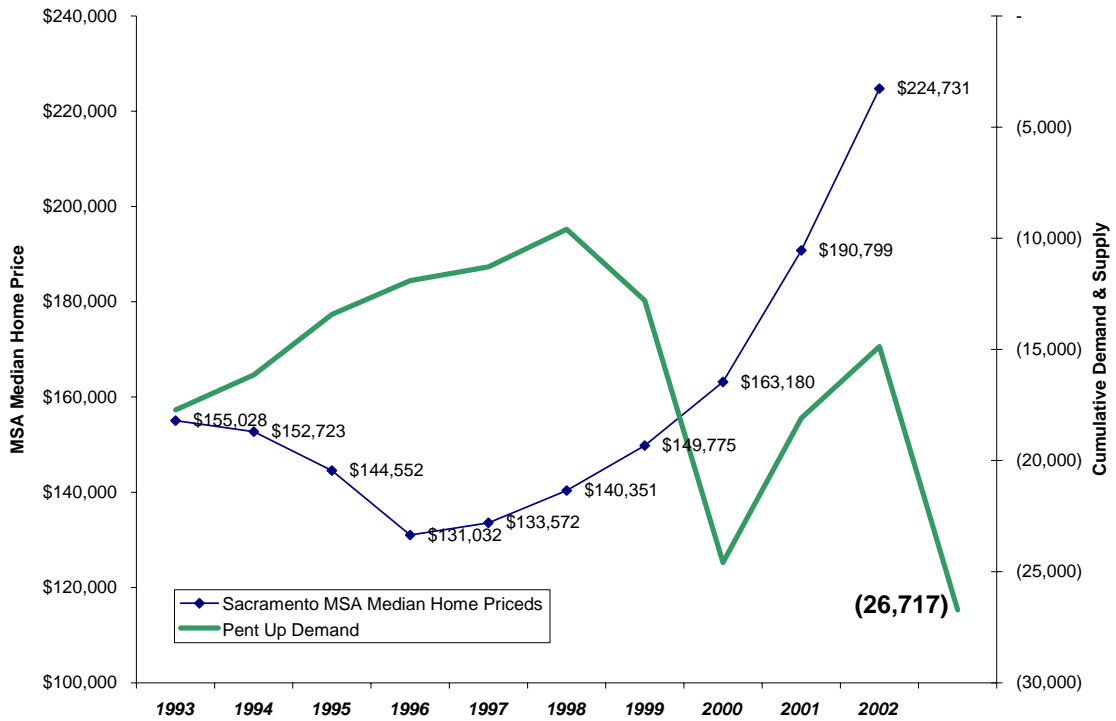
Source: Real Estate Analytics

The relationship between housing supplied and demand appears in Figure 3 which compares REA's estimate of pent up demand with data on median housing prices. While final data for 2003 remain unavailable, the implication for higher housing prices is clear in the chart. Historically low mortgage rates added to the surge in housing prices as well.

Due to a housing production totaling 21,000 units in Year 2000 the calculation of pent-up demand approached balance, but still indicated a 15,000-unit deficit according to analysis.

Figure 3

MEDIAN HOME PRICES AND PENT-UP DEMAND

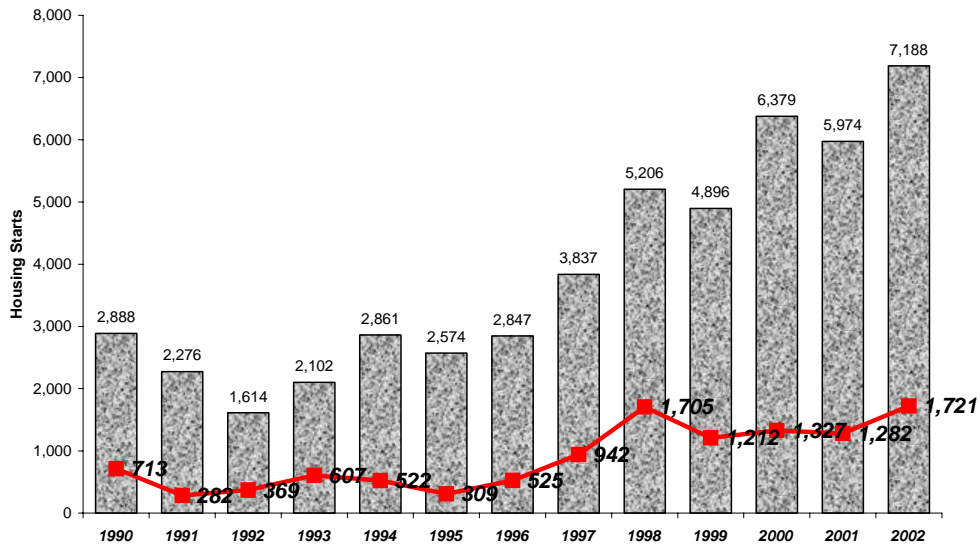


Source: Real Estate Analytics

In Placer County housing production continued strongly as new housing permitted reached 7,200 units as shown in Figure 4.

Figure 4

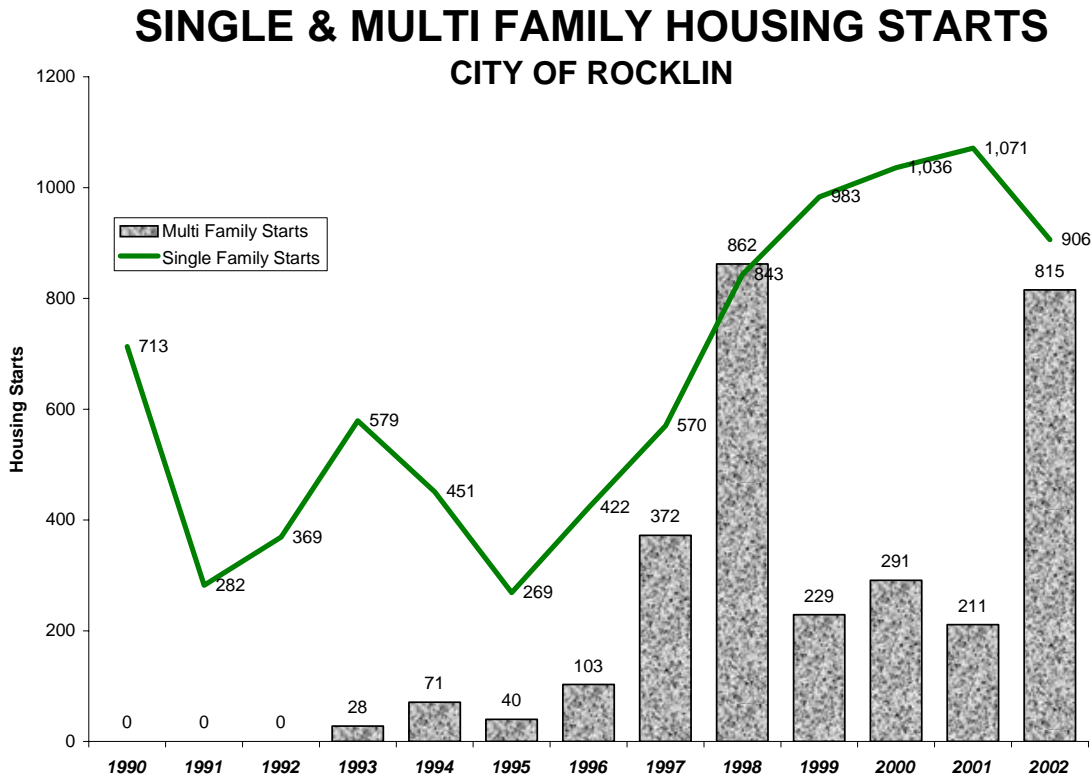
HOUSING STARTS PLACER COUNTY & ROCKLIN



Source: Real Estate Analytics

Production in the City of Rocklin during 2002 showed balance in the production of multi-family and single-family units. As indicated, the production of multi-family units occurs in bursts given the larger scale of multi-family architecture.

Figure 5

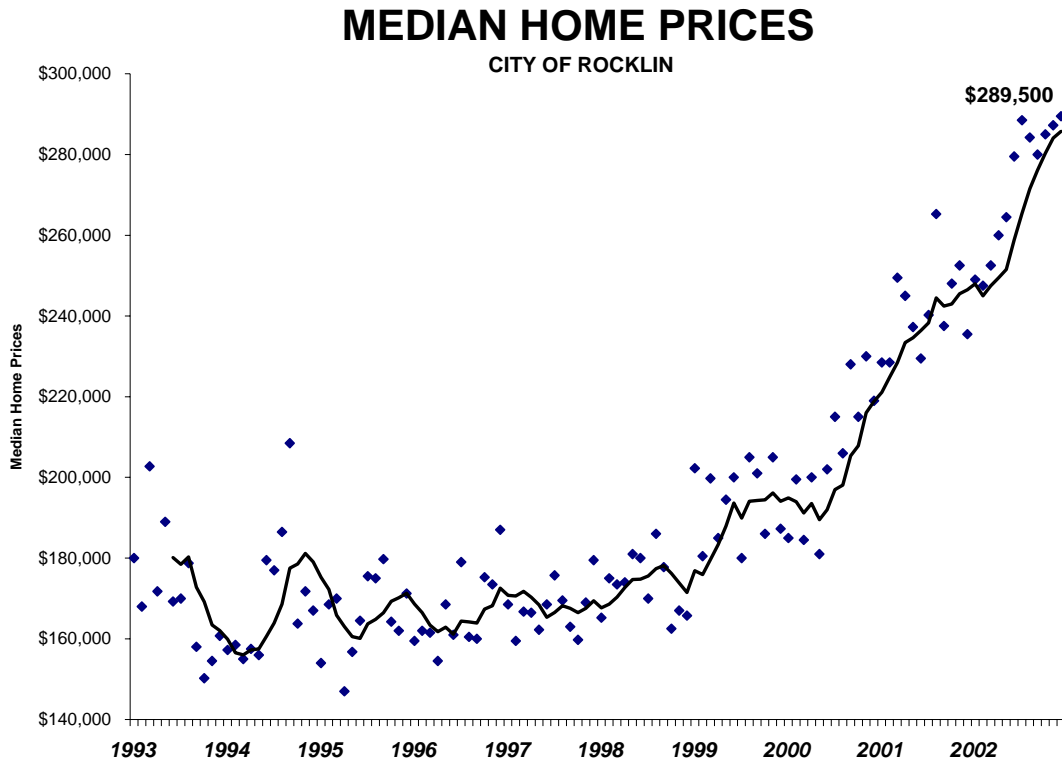


Source: Real Estate Analytics

Price levels in the City of Rocklin reflect general increase in median home prices experienced in Placer County and the region. These data appear in Figure 6. The chart indicates an increase of nearly \$100,000 in Rocklin City prices since year 2000. This increase reflects employment conditions in southwestern Placer County, the relative shortage of new housing construction and the quality of life opportunities offered by the community.

Favorable mortgage rates contribute to housing price escalations in addition to the local vitality of the community.

Figure 6



Source: Real Estate Analytics

FINDINGS AND CONCLUSIONS

The summary of housing market conditions in the region, in Placer County and the City of Rocklin shows the continued strength of market conditions. While no specific employment trend data is available for Placer County, an emerging economic recovery in technology sectors will continue to support housing demand. Interest rates, while very favorable in the current market, may dampen the housing price escalation experienced during the past two years. Supply conditions depend upon institutional factors related to permitting and financing, especially in the face of procedural risks to the development process. Regardless, demand is strong and will remain so for products positioned at reachable price points for the two income households likely to form the home buying sector.

