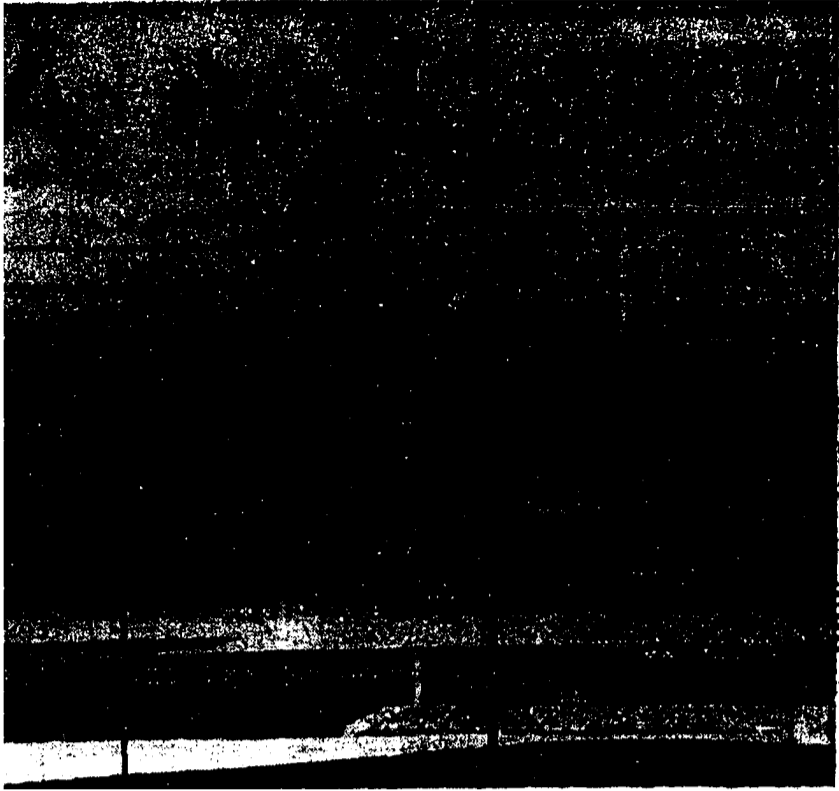


MODERN- Joshua tree frames view of Hesperia's modern elementary school and its well-watered grounds. This desert scene is but a short distance from tracts which face a possible problem in the providing of necessary water.

Times photo



DESERT COMMUNITY. New model home sits in desert not far from community of California City, in the background. The latter is one of three major desert developments that are now under way to attract thousands from the cities.

Times photo

Desert Promoters' Claims Produce Varied Reactions

Available Water Prime Factor for Success of Developments

This is the second installment of a four-part series in which The Times surveys the trend in desert real estate development in Southern California.

The series is likely to raise as many questions as it answers but in doing so it may also help bring into focus some of the forces that are currently shaping the desert's future.

BY HOWARD GINGOLD

Are desert real estate promoters promising more than they can deliver? Have unwary buyers been misled into investing in worthless land?

The best answer in most cases is probably a qualified no. Certainly a blanket condemnation of all desert developers would be out of order.

There have been some notable instances of questionable practices. But these seem to be more the exception than the rule.

Some claims made by promoters can only be judged subjectively. One man's idea of beautiful surroundings or desirable climate, for example, may vary considerably from another's.

Judgment Varies

In other cases the validity of statements made in promotional materials may be a matter of professional judgment, and professionals don't always agree.

Sales at Hesperia were suspended for eight months last year when Real Estate Commissioner Wynn A. Savage decided that water service at the development was being misrepresented.

Savage charged that developer M. Penn Phillips was selling lots with assurances of water when in fact the distribution system wasn't capable of providing it. Claims and counter-claims were heard for months and the commissioner's cease and desist order was rescinded only after the Hes-

peria Water Co. came under new ownership.

Phillips, who says he sold his interests in Hesperia and Salton City because "I've been way behind on my fishing," suggests that Savage's order was politically motivated.

He said the state's Democratic administration was "out to get me," presumably because he is a liberal donor to Republican causes.

He declined to enlarge on these statements and Savage, out of the country until later this month, has been unavailable for comment.

Early promotional advertising for California City played up the contention that the development overlies what was described as an inexhaustible source of water. Developer Nathan K. Mendelsohn had obtained the services of a consultant who advanced the theory that runoff water from the high sierra courses its way underground to basins beneath the Mojave.

Claims Withdrawn

The Department of Water Resources jumped on Mendelsohn for these claims and forced him to withdraw them from his advertising.

State water officials say there is no evidence to support any theory of limitless water; that as far as can be determined the Fremont and Antelope Valley basins are replenished by runoff from nearby surrounding hills and mountains and thus dependent on local rainfall.

California City is certainly in no danger of running out of water soon or in the near

Please Turn to Pg. 16, Col. 1

PWS-0086-0001

REACTION VARIED ON DESERT CLAIMS

Continued from Second Page
future and Mendelsohn insists that the supply is good for at least 50 years "for any thing that can happen" there.

Fraud Charge

But a state official here said the original claims of having water in perpetuity were "absolutely fraudulent."

Much of the advertising for desert real estate conjures up visions of bustling commercial and recreational activities, often reflecting more the promoter's wishes than reality.

If you are not particularly interested in living on the desert you may feel it's a good place to invest for profit. And you won't have any trouble finding encouragement for this point of view in real estate advertising, even though most promoters deny they are appealing to speculators.

Developer Claims

These are excerpts from a typical newspaper ad for a Yucca Valley development:

"This cool, precious High Desert Land will never again sell for so little! . . . and today's smart investors know it. This is rare country — high desert climate, fantastic view, priceless land. Small wonder the population doubles every year — and land values are skyrocketing!

"Be a part of this great high desert country. Profit from this fabulous boom."

How accurate are the claims?

High desert climate: According to U.S. Weather Bureau statistics, temperatures may range up to 112 deg. in the summer and as low as 25 deg. in the winter. It has been known to go as high as 117 and as low as 5.

Subject to High Winds

The area is subject to high winds in the winter, fall and early spring with gusts up to 90 m.p.h. possible. It is also subject to occasional summer thunderstorms and rainfall in normal years averages seven or eight inches, with some snow in the winter.

"Fantastic view": Surrounding hills provide typical high desert scenery with panoramic scenes available in some regions.

For those who like the desert, the view is fantastic.

But an appetite for the desert, as for Scotch whisky, is an acquired taste. And many who have not acquired the taste may find the desert monotonous, even ugly.

Sunrise and sunset on the desert, however, are spectacular. The view then, even from a spot barren in daylight, can be awe-inspiring.

Land Value Estimates

Skyrocketing land values: The San Bernardino county assessor's office reports that property values in the Morongo Valley School District, which includes Yucca and Twentynine Palms, have about doubled in the last five years. A Yucca Valley realtor said a lot that sold for \$800 five years ago is likely to bring \$2,800 today.

"Population doubles every year": The San Bernardino County Regional Planning Commission reports that the permanent population of Yucca Valley was 2,009 in April, 1960. In April, 1961, it was 2,143.

This type of advertising is obviously aimed at the investor bent on reaping quick profit.

'Many Overpriced'

A representative of the development which the ad is promoting estimated that about 75% of the parcels sold so far have been bought on speculation. In an unusually candid statement, he also confessed his belief that values aren't likely to rise much — if any — higher than they are now.

"I think many subdivisions up here are overpriced right now," he said.

Most developers, of course, depend heavily on advertis-

their money into real desert property, a different type of investor — it's hard to say how many — has put his into trust deeds on desert land.

Worthless Property

In at least some cases — again it is hard to estimate how widespread the practice has been — the investor has ended up holding a trust deed on virtually worthless property.

This would usually come about through a process instigated by the developer himself or by a so-called "10%" trust deed firm. The process might take this form:

A developer, finding he is short of funds, approaches a trust deed firm and offers to create some trust deeds on the land which he will sell at discount. The firm turns around and sells the paper to investors. If the developer discovers he can't make his subdivision go, he pulls out, leaving the investor holding a trust deed whose face value is more than the property is worth.

Or a 10% company may find it has more investors' money than available trust deeds. The firm gets a developer to buy some raw land and create some trust deeds and the same chain of events would follow.

Lorne Pratt, president of the California Assn. of Land

Developers, said he believes very few developers — and none of the major ones — have engaged in such practices.

In bankruptcy court proceedings recently, it was disclosed that a firm called Franklin Trust Deed Corp. had a number of trust deeds on undeveloped California City property which it sold to investors. Franklin's general manager, Marvin Betnun, had an interest in a subdivision which apparently was purchased from the California City Development Co.

Name Abandoned

According to California City developer Mendelsohn Betnun's California City Properties, Inc., had no direct connection with his organization, and subsequently agreed to abandon the name of California City in its title.

Another example of questionable trust deed activity on desert land was brought out in testimony last October before a state Assembly subcommittee on real estate contracts and trust deeds.

Near Palm Springs, the All American Investment Co. subdivided an area on which it sold second trust deeds to the now-defunct Los Ange-

les Trust Deed and Mortgage Exchange.

William E. Gummerman, assistant counsel for the Security Title Insurance Co., testified that the trust deeds sold to LATD were created when the developer, Sam Sparks, discovered he would need more funds than he had anticipated. He also said Sparks received only 27% of the face value of the paper and that LATD withheld "not only the discount which would normally come out, but they also withheld six months' interest prepaid."

Charles E. Smith, president of an organization of investors in LATD, told the committee members:

"As an example of the type of trust deeds they were selling, I went out to a vacant lot in the desert on which I had purchased a \$2,600 trust deed . . . There was nothing around the vacant lot but cactus, sagebrush and jack-rabbits.

"The dirt road I had taken to get there had boulders so big they nearly took the bottom out of my automobile. They were subdividing the desert in order to get trust deeds to sell . . ."

David Farrell, then presi-

dent of LATD, replied that the property in question was "very valuable" and that Smith's trust deed was probably still current.

"I have no reason to think Mr. Smith will lose any money," Farrell testified. "However, it is only natural, when something starts dying, that the vultures and the jackals start coming in to see how much they can eat."

Sunday: What to look for in desert—water, climate and land values.