

Anthony Davis had been planning to buy a house for more than two years. While renting a room in a Citrus Heights half-plex, the high school English teacher had been doing his real estate homework—scrimping and saving, researching the market, considering trends, cleaning up his credit, checking out loan programs. By early September 2001, he was ready to get serious, so he started interviewing real estate agents.

And then, on a bright, crisp, late-summer morning, planes flew into buildings, and buildings collapsed into dust.

Davis, like the rest of us, sat transfixed by the horrible television images of airliners used as bombs, of skyscrapers crumbling before his very eyes. But he didn't sit there for long. On Sept. 12, he picked a real estate agent to represent him and started looking at homes for sale. By early November, after getting beat out by other buyers on two houses, he made a bid on a third, a 30-year-old home in Rancho Cordova. The seller accepted, and he moved in Jan. 2.

Seller's Market

{ So you thought Sept. 11 and the recession would put the brakes on the Sacramento real estate market? Think again. BY KARL GRUBAUGH

"The terrorist attacks were something I thought about, of course, but I had been looking forward to this for so long," Davis says. "I decided I was not going to put my life on hold for six months or a year. Not to minimize the tragedy, but what was I going to do, just stop everything? The president made it clear that we should get on with the business of America and not be held hostage by terrorists, and that's what I decided to do."

The events of Sept. 11, however, were just the opening salvo of a several-week period in which there was little in the way of good news for Sacramento and the rest of the nation. The worst attacks ever on American soil—the day's death toll eclipsed anything seen in this country since the Civil War—quickly were followed by anthrax, a looming state budget crisis, war in Afghanistan, the official announcement of a national recession, a shadowy shoe bomber and the utter collapse of energy giant Enron.

But despite perhaps the most uncertain times in America since the Vietnam War, Davis and many other local residents went out and bought houses. The year 2000 was one of the hottest ever for real estate in the Sacramento region, and although things cooled off some in 2001, the regional real estate market continues to be surprisingly robust. Despite the post-Sept. 11 uncertainty—or maybe, in a weird, quirky sort of way, because of the uncertainty—the real estate market continues to percolate in the capital region.

{ An Insulated Market }

Especially for homes priced above \$400,000, Fair Oaks real estate agent Tanya Lush says, the market seemed a bit quieter in 2001 than it had been the year before. After Sept. 11, though, the phones simply quit ringing. Lush had a home listed for sale for almost \$1 million that was going absolutely nowhere. Stock options for Bay Area evacuees were drying up, the market for expensive homes in Sacramento was flat and seemed to be poised for a fall, and Lush was afraid she might have to tell her clients to start slashing the sales price. Then suddenly, 10 days after the terrorist attacks, the phones started ringing again—a lot. Buyers, who had grown a bit coy in 2001 and then were silenced by the tragic story unfolding in New York, Washington, D.C. and Pennsylvania, were ready to look at houses again. Within a few weeks, the home Lush had listed was sold with two competing offers.

Michael Lyon, the president of Lyon & Associates Realtors in Sacramento, was expecting a much deeper slump after the terrorist attacks.

"I thought it would be much worse," Lyon says, "but it didn't happen." Lush, who works in Lyon's Fair Oaks office, was curious: Why were buyers suddenly coming out of the woodwork? "It seemed paradoxical," she says. "I asked some buyers, 'Why are you looking now?' Their answer was, 'You never know how long you've got, so you might as well live the way you want to live.'"

Geoff Zimmerman is the owner-broker of Dunnigan Sierra Oaks Realtors, and she says that, after a post-attack lull, her company's results in October 2001 were "huge, bigger than ever, and we had an excellent November and December."

Zimmerman says the Sacramento real estate equation is fairly simple: The market for jobs drives the market for housing. "As long as new jobs keep coming to the Sacramento area, we'll be fine," Zimmerman explains. The capital-area unemployment rate has increased to nearly





Michael Lyon

5 percent, up from an all-time low of 3.2 percent in late 2000, but the region still is doing better than just about anywhere else when it comes to job growth. According to a study released in mid-January by researchers at California State University, Sacramento, and the California Institute for County Government, the Sacramento area will enjoy a slight job growth of about 1 percent during 2002—not so hot compared to the 4- to 6-percent growth of the previous two years, but terrific compared to the negative job growth projected for the Bay Area, California and the United States. “Labor is moving here; there’s job creation here,” Lyon says. “The best job creation in the nation is here in the valley. Sacramento has land and jobs. In Sacramento, Davis and the foothills, we are the luckiest people in the United States right now.”

It’s not just jobs, however, that make real estate transactions happen. It’s the incredibly rare buyer who can pay cash for a home in 2002. Almost without exception, buyers have to join forces with a bank

We’ve got the jobs, and loans are inexpensive, so get out of the way and let the good times roll.

to buy a home. And loan rates have started rising since they bottomed out last fall at just under 7 percent for a 30-year fixed mortgage. Still, historically speaking, the price of a home loan is relatively cheap. "Frankly, I never thought I'd see below 10 percent again," Zimmerman says. "Mortgage rates are still really low."

{ Looking for Value }

So perhaps, at least in the Sacramento area, the trick of buying or selling real estate in uncertain times isn't really all that tricky at all: We've got the jobs, and loans are inexpensive, so get out of the way and let the good times roll. That seems to explain, at least in part, what has happened in the Sacramento area since the first of the year, as a sudden surge hit in the capital real estate market in early January. A week into 2002, Lyon polled real estate agents in his offices across the region. The message from the trenches was unmistakable and perhaps a bit surprising, given the post-Sept. 11 economic slowdown being trumpeted in the media: Things are starting to heat up again. Lyon says his agents told him they were suddenly "getting multiple offers, full-price offers, even bidding wars" on desirable properties.

Still, Lyon says, things are different than they were a year ago. With the bursting of the dot-com bubble, people have shaken off their real estate mania like a wet dog finishing off a chilly swim in the river. In other words, no one's buying a Sacramento house assuming they'll see a 26 percent annual increase in the average price of a home. The new mantra for buyers is value, and sellers ignore it at their own peril. For the 90 percent of buyers who will move again in seven to 10 years, the key to getting their money's worth is to get the facts and be good shoppers. "Buyers should be very demanding," Lyon says. He explains they should be looking at the numbers, especially price per square foot, if they don't want to overspend.

Lyon says, however, that when homes for sale in the Sacramento market are broken into three different price ranges—under \$200,000; \$200,000 to \$400,000; and above \$400,000—separate stories emerge. In the under-\$200,000 category, it's a seller's market. The most recent figures available show regional sales are up, inventory is down and the average price per square foot has increased 13 percent in a year. "Under \$200,000 is hot," Lyon says. "Inventory is weak, and there is not enough of it. People are paying full price under \$200,000, and they are not cherry properties."

The mid-priced market is neutral, Lyon says, but it's becoming a seller's market—sales are up and inventory is down, and price per square foot rose 9 percent in a year. "Both the buyer and seller have to



1,300 sq. ft. Laguna home, sold for \$180,000



2,100 sq. ft. Gold River home, listed at \$318,000

"Under \$200,000 is hot," Lyon says. "Inventory is weak, and there is not enough of it. People are paying full price."

win in this market," Lyon says. "It needs to be a good value for the buyer and a fair price for the seller."

Above \$400,000 recently has shifted from a buyer's market, Lyon says, to what he calls "a weak buyer's market." The price per square foot for these properties increased by only 3 percent for the year that ended in November, but December figures showed a slight increase in sales and a large drop in inventory. "Shockingly, we're selling almost twice as many homes priced over \$400,000 as we were a year ago, but not for exorbitant prices," Lyon says. "We're not having to give them away, either. You have to be competitively priced; you have to be fair. If buyers see value, they'll buy."

Which was certainly the case for Davis, although he wasn't in a position to buy a high-priced house. When he started his research, the upper-end market was hot and he thought he wanted to end up in the Roseville area or somewhere else in South Placer County. By September, however, the lower end of the market—Davis' end—suddenly was hot, and he had to compete with other buyers when he started bidding on houses.

And although the post-Sept. 11 and American-recession blues didn't stop him or even really slow him down, he still had to face the same kind of uncertainty that's always existed when it's time to buy real estate: the fear of the unknown. What's going to happen? Where are prices headed? Will I qualify for a 30-year loan? Will I actually still be alive in 30 years? Is this a smart purchase? But "there's no way around" those kinds of questions and that kind of uncertainty, Davis says. "If you want a home, you have to be willing to live with it."

For the price he paid—in the \$150,000 range—he would have been forced to buy a condominium or a small cottage in Placer County. In Rancho Cordova, however, he was able to buy a nearly 1,300-square-foot home with a huge back yard. "It was move-in ready, and there wasn't anything else like it in the area," Davis says. "Although maybe I could have bought a tool shed or something in Granite Bay—they make some nice sheds these days."

OK, so Davis is joking about living in an outbuilding in superexpensive Granite Bay. And besides, he says he's thrilled to be part of what he and others are calling the Rancho Renaissance. For Davis and so many others in Sacramento, buying real estate in seemingly uncertain times is still an intelligent, reasonable risk, and they continue to take the plunge.

"It's a great little place to live," he says of his new home, which sits not more than a mile from the American River in a neighborhood full of cute homes and young families. "I'm really comfortable here. It's a terrific neighborhood. I have absolutely no regrets."



2,700 sq. ft. Carmichael home, sold for \$595,000



4,300 sq. ft. Fair Oaks custom home, listed at \$975,000