

California Real Estate ^{Up} or ^{Down} in '92?

By Jan Loomis

Fred Sands chuckles, "They say that Southern California real estate always goes up. Historically 'they' have always been right, eventually." But history has been cold comfort over the last three years. The California real estate market has developed a case of the blahs that just doesn't seem to want to go away.

Fred Sands began his successful real estate firm in 1969 with one office in Brentwood. He currently has 50 offices and over 1600 agents, and his business has grown during this downturn. His 22 years plus in the real estate business have given him a perspective on its ups and downs and he is in a unique position to comment on the present condition of the market.

First the good news: According to Sands: the first quarter of 1992 was substantially better than 1991, a whopping 20 percent better in his own company. Since the first quarter of 1991 was overshadowed by the Gulf War, 1992 would have to be better, but according to Sands that 20 percent factor reflects more consumer confidence, lower interest rates and motivated sellers with realistic price expectations for their homes. All of these factors have contributed to more deals closing and to a stabilization of prices.

The bad news: The recent riot substantially slowed real estate activity in Los Angeles. Like a giant monkey wrench tossed into the works, the unrest and the barrage of bad publicity erased buyer confidence and reduced May home sales. It's still too early to tell what the long term effects will be,

although six weeks after the riot there seems to be some improvement.

Where does that leave the marketplace? Sands feels that the effects of the riot will wear off and 1992 will proceed along the lines of its initial recovery. He notes it is most definitely a buyer's market, which is good news for anyone planning to acquire real estate. Conversely, for sellers it is a market which requires careful preparation, a lot of marketing and, above all, patience. It is certainly possible to sell a house in 1992 and to get a good price for it. Perhaps not the inflated prices that were bandied about in the '80s, but a good price. Sands likes to use the stock market to illus-

trate his philosophy about real estate values. "People buy a stock for \$10", he says, "it goes up to \$50 and back down to \$30 and they are still grateful for the increase and feel good about the stock. They should approach real estate the same way.

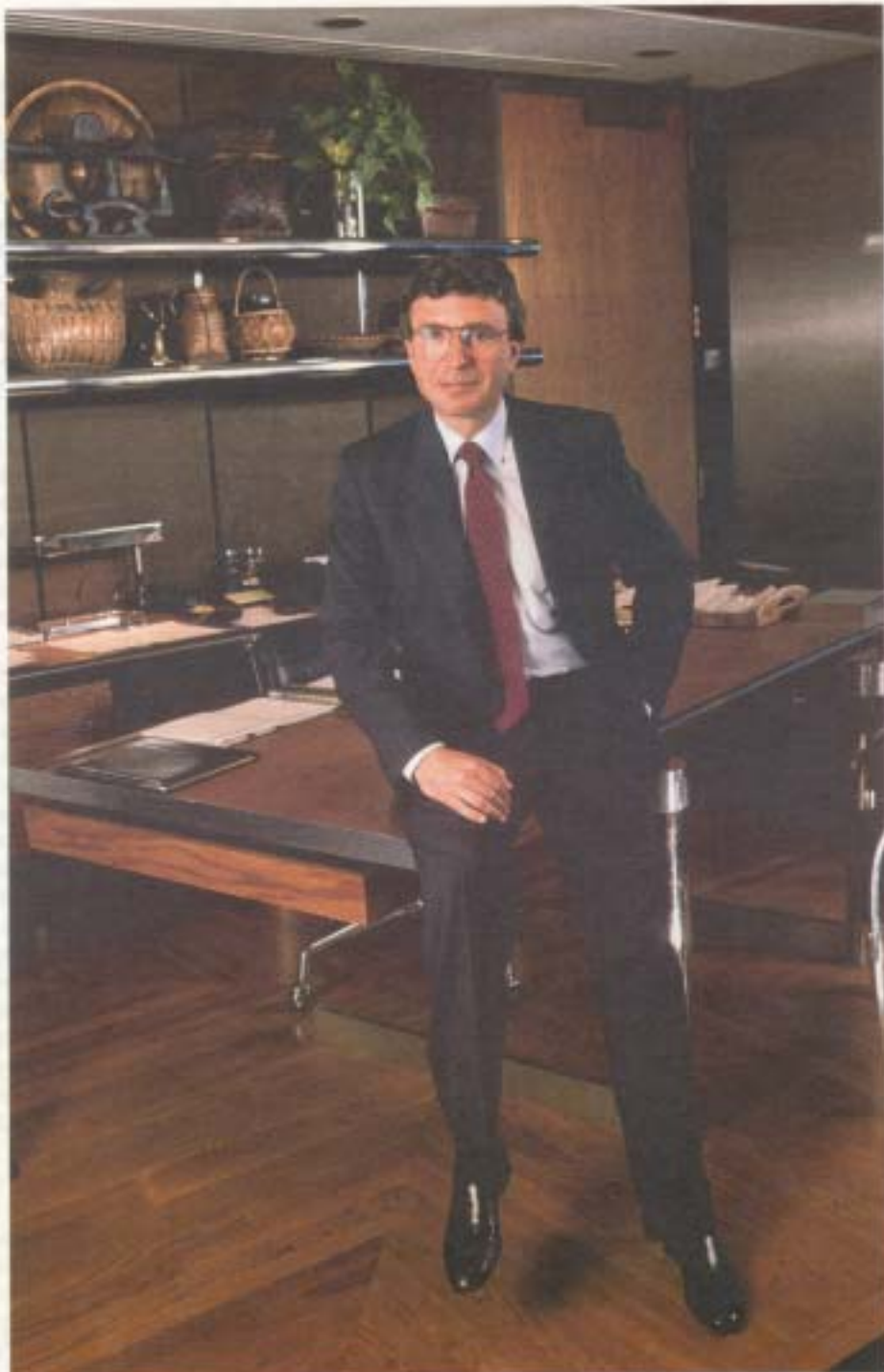
"Nobody rings a bell when the market hits the bottom and it only lasts 20 minutes."

Their house is their home, not a business venture. People need to take into account the length of time they have lived in their home and what it has cost them as well as the current market value."

His advice to sellers coping with this market is to do a lot of research before choosing a broker and a real estate company. The economics of the '90s mean that a competent, experienced broker is a necessity. Interview several. Ask them about how they would market the property. He feels that aggressive, multi-media marketing is one of the

keys to successfully selling a home in this market. Classified advertising, television (he has created a successful cable TV program showcasing properties), magazine advertising and marketing to the real estate industry should all be part of the plan. In a buyer's market, be aware that the best decision may be not to sell. If it is not a necessity, it may be better to wait awhile and sell the home later. This is particularly true of homes with large price tags (over \$2,000,000) which have taken a beating in this downturn. If you need to sell, price the home to move and be prepared to do everything necessary to draw attention to it. There is a lot of inventory on the market and it is important that the home is noticed by both the public and other real estate agents.

Buyers, Sands feels, are concerned about buying a house at the bottom of the market. "Buyers are fearful, they have to have bought a steal or a bargain to be comfortable." But as he points out, "Nobody rings a bell when the market hits the bottom and it only lasts 20 minutes." The mortgage situation is solid with low interest rates, and while the banks are cautious, there is money in the system. He also notes that buyers should be careful about their brokers. The complexity of today's deals means that very careful attention must be paid to the details—to inspections, geo-



logical reports and all other contingencies.

When asked about the '80s trend of tearing down houses and replacing them with larger homes, Sands says that attitudes have changed so much among homeowners that he does not feel this is still happening. His feeling is the "majority of people

have almost a depression mentality now. They are value oriented. Buyers used to ask about whether the house was French Normandy or English Tudor, now they want a deal." "Humble and thrifty" are the words he uses to describe the '90s buyer. No doubt that means that neighborhoods once in fear of

"mansionizing" can now breath a sigh of relief.

Overall, Sands feels the Southern California residential market has stabilized, that prices will not go any lower, that the shakeout in the real estate industry itself has made brokers more professional and better at their job. He is confident that this particular downturn is on its way to an upturn.

There is not as much confidence expressed, though, when Sands talks about the commercial real estate market. Commercial real estate has taken a beating in the '90s. Sands says there are presently some unparalleled bargains—many buildings going at prices well below their replacement costs. With the vacancy factor at approximately 17 percent, it is definitely a buyer's market and for the investor with liquidity, a golden opportunity. He feels that as the economy picks up these buildings will be increasingly valuable. And he does see the economy

beginning to perk up. People are again talking about new retail ventures, new businesses are beginning to appear—something that was not happening in 1991. Still the commercial real estate market is not showing the same signs of life as the residential market and the banks are very leary about lending on these properties.

Ultimately, Sands says, it all comes down to the economy, the future of real estate is inextricably tied to the economics of Los Angeles. Sands waxes passionate explaining what he thinks should be done to help the riot torn areas and the city's problems. He is convinced that, "employment is the key and the government has to provide a lot of incentives, loan money and tax credits to get people to invest in South Central." All the property owners in the city need to work towards a stable, law-abiding environment coupled with a progressive, growth-oriented business policy. Sands is bullish on the prospects of this happening and fully expects to see real estate appreciating again sooner rather than later.