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August 25, 2002

Million-dollar mania

More local homes than ever are selling for seven figures

First of two parts.

By HEATHER BOERNER
Sentinel staff writer



Ray Horn built this Thurber Lane home that's now on the market for \$1.2 million. Sentinel Photo by Shmuel Thaler

More million-dollar homes sold in 2000 than in the entire decade previous: 167 to be precise. And the trend hasn't stopped.

It's as serious a shift in the county's landscape as the 1989 Loma Prieta earthquake, but the effects haven't been quite as visible. First it was just the beach homes selling for that amount. Then it was beach bungalows bought and razed to make way for bigger homes. Now homes without an ocean view or a generous lot are selling for \$1 million or more.

This is not a story of numbers — though those numbers can be staggering. It is a story of how a quirky beach town changed because of a worldwide tech economy centered 20 miles away, because people realized the house they bought a half-century ago for \$40,000 was now a gold mine, and because longtime residents put a few hundred thousand dollars into remodeling their homes and scored a \$1 million profit.

And it's a story of how these factors changed everything in Santa Cruz, from who could afford to rent here to what a starter home sells for.

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"As far as I'm concerned, this is what ruined the housing market," said Bruce McGuire, a 40-year veteran of the housing market and a real estate appraiser who has seen the average value of the county's land triple in the past five years. "It's gotten to the point that if I want the rest of my children to stay here, I'm going to have to give them a house."

Two of McGuire's daughters moved to Palm Springs, where they bought houses with pools for less than \$200,000 each. The median home price in Santa Cruz County in July was \$540,000, more than double February 1997's median of \$240,000. That's an all-time high.

Last month, the National Association of Home Builders declared the Monterey Bay region the least affordable place to live in the country because the cost of buying a home far outstrips the salaries people earn here. And they reported that since the spring of 2001, housing prices have jumped 58 percent.

'The market went ga-ga'

Before 1999, hardly anyone in the county had spent \$1 million on a house — a dozen sold in 1993, 18 in 1997. Then it shifted, quietly, in 1998, when 31 homes sold for more than \$1 million. It was 96 homes in 1999. Then in 2000, 167 million-dollar homes sold in a single year.

And just like that, the market changed, said real-estate agent Tom Brezsny of Monterey Bay Properties in Capitola.

"The market went ga-ga in 2000," Brezsny said. "We (as real-estate agents) would go into work each week and the market would have changed. It was a lot of greed and fear. But now we've crossed that million-dollar mark, and we've crossed it for good."

At the ground level, the average value of land in Santa Cruz skyrocketed. Designer and builder Roy Horn estimates that the land itself is worth \$200 per square foot, figuring that a bare parcel of land in Live Oak or Pleasure Point now goes for \$300,000 to \$400,000, and the house itself costs at least that much, more if the project is tied up in hearings at the Coastal Commission or elsewhere. Add the cost of building and, bingo, million-dollar home.

"If you're going to spend that much just on the land, you aren't going to build a shack," he said. "It's going to be a nice home."

Land with a house on it goes for even more, said appraiser McGuire. Until about 1996, the average cost per square foot of a house hovered around the \$150 mark. Now it's closer to \$400 per square foot on Westside Santa Cruz's Escalona Drive, \$283 a square foot in Live Oak and \$330 per square foot in the Soquel Highlands. The cost goes up with an ocean view or more land, he said.

And the cost per square foot was even more astronomical. In 1995, only two homes sold for \$1 million in Santa Cruz or Live Oak, for an average cost per square foot of \$521. By 2001, a dozen homes sold, for an average price per square foot of \$899 and an average cost of a high-end home at \$1.985 million. Some houses that sold for \$1 million or more in 2001 have a cost per square foot of as much as \$929 to \$1,093.

The county was primed for such an increase in land values, said land-use expert Bill Fulton. Like all other coastal communities in California, the area is feeling the pressure of population growth and the increasing demand for a piece of precious coastal real estate. So prices go up.

"You guys are in the closest proximity to the richest place in the world — Silicon

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Valley. You've had a lot of older neighborhoods that are ripe for remodeling. You're in a desirable location. And there's a chronic underproduction of housing in the coastal region, especially in Santa Cruz County where you have a lot of stringent regulations," said Fulton, who lives in another high-priced coastal community, Ventura. "You put all these factors together, and mansionization was inevitable."

Inevitable or not, 2000 and 2001 took a lot of people by surprise. When developer Bill Brooks built the county's first home and priced it above \$1 million in 1997, "everyone thought I was crazy," he said.

But the home sold. Then he started seeing things he didn't expect.

"People were coming in from the dot-com economy and paying for their house with cash, or their second house with cash," he said. "It was all that silly money coming in from over the hill."

All of the million-dollar homeowners who work in the tech industry whom the Sentinel contacted declined to comment for this story.

The late wireless telecommunications magnate Don Rossi built his dream home on an Aptos hilltop three years ago. With its 360-degree view of the ocean in the distance, the 7,100-square-foot home has a 1,300-square-foot master bedroom suite. Before moving into that house, he had built another home in Rio del Mar.

Then there are the stories of tech executives, flush with cash from their stock portfolios, overbidding on homes by hundreds of thousands of dollars. Or, as appraiser McGuire recounts, buying homes that weren't even on the market.

"A friend of mine lived on East Cliff Drive. He saw this guy watching his house, and he went out and talked to him. The guy said, 'I want to buy your house,'" he said. "My friend said, 'It's not for sale.' The guy said, 'You don't understand. I want to buy your house.' They argued about it, and finally the guy said, 'Listen, I have a blank check in my pocket, and you can write any amount you want on it.' My friend thought it was a joke and he wrote \$5 million on it. The guy said fine. It was the highest sale in history at the time."

McGuire spits the words, still angry at the aggression of that millionaire. It's a frustration many locals share. Like them, McGuire believes the reason home prices have skyrocketed in the last few years are because "the outsiders came in and threw this funny money around, bought up all the beach houses, and now talk on their cell phones as they drive over Highway 17."

Some of those dot-commers have since lost their homes to foreclosures, said Santa Cruz historian Geoffrey Dunn.

But it's not entirely dot-commers' fault. McGuire says that the market for million-dollar homes is different from the market for low-end homes. While the odd \$5 million home sale based on no real estate expertise may drive up the cost of high-end homes, it doesn't make starter homes more expensive.

Still, it has an effect. When people see how much large houses are going for, they figure their more modest home also could fetch a higher price, said Brezsnay. So while the million-dollar home phenomenon didn't directly pull up the cost of all other homes, it did change the way people looked at the housing market overall.

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