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New-home sales creep even lower

Foreclosures still flood market

MICHAEL SHAW | STAFF WRITER

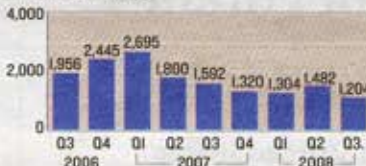
New-home sales for Greater Sacramento in the third quarter were the lowest in the decade that The Gregory Group has tracked them.

There were 1,204 homes sold in the six-county region July through September, the Folsom-based analyst said, about 100 fewer than the previous low set during the first quarter of the year.

Gregory Group founder Greg Paquin said sales aren't plunging, but they are bouncing along the bottom as a steady stream of foreclosed homes flood the market.

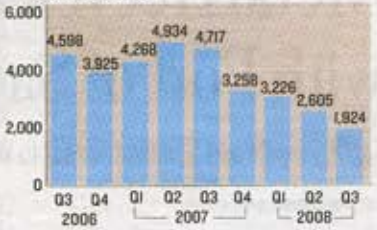
New-home sales, inventory falls

Sales of new single-family homes in Sacramento area*



*El Dorado, Placer, Sacramento, Sutter, Yolo and Yuba counties
 **Includes homes under construction and ready-to-build lots
 Source: The Gregory Group

Unsold inventory of new single-family homes** in Sacramento area*



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CAR DEALERS SENT PACKING

Franchises left region at almost triple the national rate

KELLY JOHNSON | STAFF WRITER

Auto dealers are hurting all over the United States, but Greater Sacramento's new-car franchises have disappeared at a rate two-and-a-half times greater than the national average.

The number of new-car franchises operating in the Sacramento region shrunk by 13.3 percent from December 2004 to August 2008, compared to 5 percent for the national average, according to Urban Science Applications Inc., a Detroit-based retail consulting firm.

The local decline also was faster



Car parts are loaded on a trailer at Winter Volvo Lincoln Mercury on Florin Road, which closed in August after 60 years.

than in other major California markets and in a sampling of other cities, mostly in the western United States, based on a review of 15 markets conducted by Urban Science at the request of the Business

Journal. The Urban Science data was based on franchises rather than dealerships; a single dealership location might sell more than one auto brand, and each brand would count as a franchise.

Since March, the four-county region has lost at least a half-dozen dealerships, some with multiple franchises. Some were bought out

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Solar power projects begin to rise as tax credit sunset is delayed

Extension could mean job growth for region

CELIA LAMB | STAFF WRITER

The gates have opened for large, commercial solar power projects that were on hold until the federal

tax credits were extended. After failing nine times, the renewable energy system installation tax credits passed last week when they were slipped into the \$700 billion economic stimulus bill. The solar power industry, which was bracing for the end of a one-year tax credit, now looks forward to a stable 30 percent tax credit through

2016, the elimination of the \$2,000 cap for residential solar energy systems and the addition of tax credits for utilities that build their own renewable power systems. The fast-growing industry — with about 300 employees in the four-county region and another 1,000 slated for a solar-panel manufacturer at McClellan Park — is a

bright spot in an otherwise stormy economy. Solar industry executives predict the changes will bring job growth — as many as 440,000 jobs nationwide, according to a Navigant Consulting Inc. survey — and an influx of institutional investment for solar

SOLAR | PAGE 46

CARS | With the housing market drop, many consumers can't rationalize new car purchase

FROM PAGE 1

through manufacturer-backed consolidations. Others simply couldn't make it in an economy where consumers have closed their wallets in response to fear, the housing bust and a credit crisis, and where dealers themselves struggle for financing to replenish their inventory.

Similar factors have brought pain to the retail auto industry here and around the nation, but those factors — hard-to-find credit, rising gas prices and declining home values — have hit Sacramento harder, industry sources said. New-car dealers here chased the explosive population growth and boom of new homes that began in the late 1990s. But the housing bust obliterated homeowners' sense of wealth. They can no longer pull equity out of their homes to buy a new vehicle, and many can't get financing.

Shifts within the structure of the auto industry also are contributing to the shrinking number of franchises in Sacramento and beyond. Manufacturers are consolidating dealerships in an effort to keep the remaining sellers profitable. Some dealers are vanishing as part of an evolution to fewer, higher-volume operations.

At least some observers contend new-car dealers overbuilt in the Sacramento region, and they predict more will fail.

TOO RARE TO TRACK

California has lost more than 70 new-car stores this year. The California New Car Dealers Association knows that is much more than in 2007, but it doesn't know by exactly how much: Up until this year, the trade group didn't track the number.

"It wasn't a significant trend that we felt we had to pay particular attention to," said Brian Maas, the association's director of government affairs. Dealers are suffering from Eureka to San Diego, he said.

The National Automobile Dealers Association expects the nation will lose 500 to 600 dealerships this year. But closings accelerated in September when credit became hard to find, and if they continue at that pace, the total for the year could reach 700, said Paul Taylor, the group's chief economist.

That's a big spike from net losses of 430 in 2007 and 295 in 2006. But the country lost a comparable amount in the recession of the early '90s — 700 net in 1991 alone, Taylor said.

The number of franchised dealerships has been declining almost every year since 1949, he said. "Many more cars are sold by the current 20,770 dealerships as were sold by 47,000 dealerships in the 1949 time frame," he wrote in an e-mail.

Although the industry has shed comparable numbers of dealerships before, auto marketing researcher Art Spinella said the industry didn't lose as many individual

sales per year in the recession of the early '90s.

"This is the first time we've seen it this bad," said Spinella, president of CNW Marketing Research Inc. in Bandon, Ore. "I don't see this turning around for any of them — not in the next year or two."

Grant Thornton LLP Corporate Advisory and Restructuring Services reported last week that it expects U.S. automakers to sell 2 million fewer vehicles this year than in 2007, dropping to 13.8 million units. A decline of 2 million vehicles could translate to a loss of more than 100,000 jobs, Grant Thornton projected. At that smaller sales rate, about 3,800 stores would need to close. The company projects 2009 sales to slide further, to between 13.4 million and 13.7 million vehicles.

Sales for auto manufacturers shrank in September, including Toyota Motor Sales USA Inc., down 29.5 percent; Ford Motor Co., down 34.6 percent; and American Honda Motor Co. Inc., off 20.9 percent.

"It used to be Toyota was bulletproof," Spinella said.

There were fewer customers to match the reduced sales. Spinella said that showroom traffic dropped 39 percent in the first half of September and 50 percent in the second half.

BIGGER BOOM, BIGGER BUST

Greater Sacramento has lost a higher proportion of new-car franchises than much of the state and nation because all the broader economic problems — rising gas prices, credit crisis and declining home values — were amplified by the region's surge in population and accompanying supercharged housing boom.

"The housing market cratered here first," said Maas, from the California car dealers' group.

Greater Sacramento in August hit its highest unemployment rate in a dozen years. Although the capital region has diversified to some degree, it is still highly dependent on government jobs.

"Our state government is struggling," Maas said. It isn't hiring as much or boosting salaries much, and the state suspended many temporary workers during the budget crisis.

Like their fellow Californians, Sacramentans felt wealthy from enormous gains in their home values and used home equity to buy new cars.

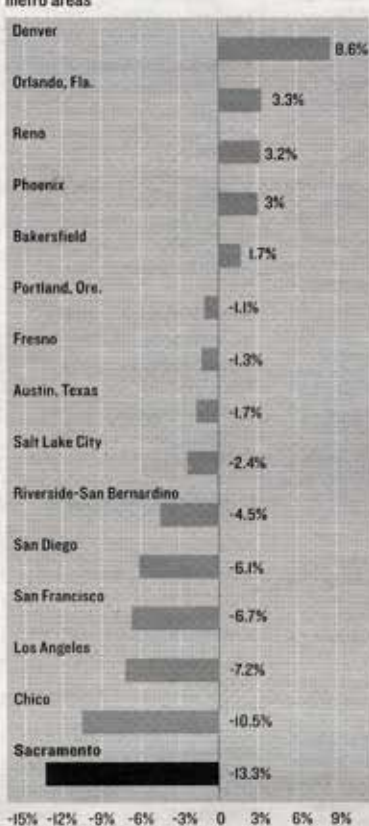
"People don't feel as wealthy (now)," Maas said.

They may find it more difficult to rationalize the purchase of a new car. They also may not qualify for home-equity loans.

California has the highest rate in the nation of using home equity to pay for big-ticket items such as cars, Spinella said. Historically, 30 percent of car purchases in the Golden State relied on home equity, he said. That's dropped to 20 percent in the past year, but it's still four

California car franchises hit the brakes

Percent change in auto dealer franchises from December 2004 to August 2008 for selected metro areas



Source: Urban Science Applications Inc.

times the national average.

Elimination of the wealth effect also could reverse a consumer trend started in the mid-'90s of buying for the latest and greatest model instead of purchasing because the old clunker is dead. From World War II until the mid-'90s, 90 percent of new vehicles were sold to people who needed a replacement, Spinella said. That has since shrunk to 12 percent.

Dale Vaira, who closed his Winter Volvo Lincoln Mercury dealership on Florin Road in August after 60-plus years in business, thinks consumers have permanently changed their thinking when it comes to car buying.

"The mind-set (of) customers has changed," Vaira said. "The mind-set before was if gas went up it was coming back down."

Now they figure gas prices will stay high, he said.

They've switched to small or subcompact cars at the expense of larger SUVs and trucks, Maas noted.

They'll be more cautious and will buy to replace instead of upgrade, said Vaira, who accepted a buyout from manufacturers Volvo and Ford.

OVEREXTENDED?

The way car dealers make their money has changed over time, leaving them particularly vulnerable to a shift in growth patterns. In Greater Sacramento, their expansion to keep up with the population growth in the late 1990s increased their vulnerability.

The Detroit Big 3 of Ford, General Motors and Chrysler are consolidating dealerships in some metro markets that had too many dealers to be profitable. Manufacturers have discovered that they can "over-dealer" a market, said Edward

Lapham, Automotive News executive editor.

Katrina Rapton, general manager of Mel Rapton Honda in Sacramento, contends that the Sacramento region has too many dealerships, in her brand and in others.

There are four Honda dealerships within 20 minutes of each other, plus more a few more miles out. Another Honda dealership is planned for Folsom.

Hanging on

"That's too many," she said. The industry operating model is based on the premise that parts, service and body work should cover all the costs of the dealership, with sales being the gravy.

"That almost never happens," Rapton said. "We are not making money on the cars we sell."

Her new-car department lost money in September, she said, but her overall dealership made money because of its strong service department.

The arrival of Internet sales has only hurt the new-car business, she said. Competition drives down prices, which consumers might like in the short term, but thinner margins cut into services that consumers enjoy.

Some of what new-car dealers are up against is beyond their control. If a strong, well-capitalized auto group, such as that operated by the local Malta family, needs to shutter some franchises, then the area has too many dealers, Rapton said. Malta recently closed its Hyundai store in Sacramento and its Ford Mercury dealership in Auburn, but has not responded to Business Journal inquiries about those closings.

"You don't have to be a bad dealer to go out of business," she said. A big obstacle for new-car dealers now is their own ability to get credit. They have to borrow money to buy vehicles and immediately pay it back upon selling each car. But the dealer may not receive payment from the customer's bank for up to two weeks, Rapton said. If dealers can't borrow money during that gap, some won't be able to make payroll or keep the lights on.

Mel Rapton Honda is constructing a new, larger building down Fulton Avenue at Capital City Freeway. Rapton has confidence in her operation, but she acknowledged it is a scary time to expand.

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Scenes like this one at Winter Volvo Lincoln Mercury, which closed in August, are common throughout Sacramento.

DENNIS McCAY
SACRAMENTO BUSINESS JOURNAL