

Expensive Homes Sell as Wealthy Shrug Off Stock Slump

Kathleen Howley

January 10, 2001

Manalapan, Florida, Jan. 10 (Bloomberg) –

Frank McKinney knew there would be a buyer for the 72-room estate he built last year in Manalapan, Florida, with its 15-seat movie theater, 2,000-bottle wine cellar and marble-floored garage space for 12 cars.

After a record 10-year economic expansion, builders such as McKinney and real estate brokers say the decline in the stock market that slowed house sales 3.6 percent last year has yet to be felt at the top end of the market.

McKinney figured there were people who wouldn't balk at the \$29.9 million asking price -- even as the Nasdaq Composite Index fell 26 percent from its peak through October.

"Their lifestyle is like a large locomotive on a train track that's not going to be deterred or denied by what happens in the stock market," the 37-year-old builder said.

In November, as the Nasdaq continued to drop, the eight-bedroom, 18-bathroom house sold for \$28.5 million. Outbidding a rival was entrepreneur Daniel Gittleman, chairman and chief executive officer of Bridgewater, New Jersey-based, StorageApps Inc., which sells data storage services to the financial services industry.

As Americans continued to spend wealth accumulated during the boom, home sales for a million dollars or more were strong from coast to coast last year.

In California, sales of million-dollar homes are likely to be up nearly 50 percent over 1999's record level, according to DataQuick Information Systems.

In Manhattan, the average price of luxury apartments along Park Avenue and Fifth Avenues rose 47% to \$2.67 million in the third quarter, while the average price for the market as a whole dropped 7.7 percent. In the Hamptons resort area on Long Island, multimillion-dollar home sales helped lift the average home price 41 percent in the third quarter to \$680,947.

Reservoir of Wealth

"A lot of people did very well in the '90s -- people in the top tier of the economic spectrum -- and they have the reservoir to buy property," said Daniel O'Connor, managing director of investment forecasting for CB Richard Ellis Global Capital Markets Group.

In Florida, McKinney has made a specialty of building multimillion-dollar homes geared to ultra-rich buyers, including one who made a snap decision to buy a \$12 million home in Del Ray Beach two years ago -- if McKinney would throw his red Hummer into the deal.

McKinney said he had to call his wife for a ride home.

Though it doesn't track national sales in the rarified category served by McKinney, the National Association of Realtors notes sales of homes priced over \$500,000 rose 27 percent from a year earlier in the third quarter, while sales of less expensive homes declined 1 percent.

Hot Winters

In contrast to the rest of the housing market, winter is the prime buying time for multimillion-dollar homes, largely because many buyers are Wall Street investment bankers who collect multimillion-dollar bonuses this time of year, brokers say. Bonuses are expected to top \$13 billion this year, according to New York State Comptroller H. Carl McCall.

“A lot of people decide to invest their yearly bonuses in real estate by either moving up or buying a vacation home,” said Florence Mackie, a broker with Itzkan & Marchiel-Hunneman Coldwell Banker in Boston.

Demand from buyers in the technology and financial industries has boosted high-end home prices by 30 percent in the Cape Cod community of Osterville, Massachusetts, according to brokers.

Venture capitalist Tom Roberts, general partner of Summit Partners in Boston, just paid \$8 million in cash for a waterfront vacation home in Osterville. And Quaker Oates Chairman Robert Morrison is paying \$5 million for a rambling, white-shingled waterfront house in Osterville that brokers said needs extensive renovations.

Both houses have doubled in value in the past few years, according to brokers.

Cash Buyers

About 75 percent of multimillion-dollar home sales are cash transactions, said Paul Grover, who sold more than \$100 million of waterfront estates last year with his partner Robert Kinlin, of Kinlin Grover GMAC Real Estate in Osterville. In the overall market, 88 percent of buyers use a mortgage to buy a house, according to the NAR.

The wealthiest buyers “are in a position to pay cash, and if it is not going to be used as a primary residence there is no real tax incentive to have a mortgage,” said Grover.

Lately, there are signs that the upper end will follow the market at large, where new home sales dropped 1.4 percent last year and sales of previously owned homes fell 3.6 percent, according to figures to be released this month by the NAR.

In Silicon Valley, the California region that is ground zero for many Internet companies, last year's Nasdaq rout helped reduce high-end house appreciation rates from a record-setting 10 percent a month in the first quarter of 2000 to a modest one to two percent a month now, said Alain Pinel of Coldwell Banker Northern California.

“We still see the 25-year-old who pulls up in front of the office, gets out of the Mercedes dressed in blue jeans, and buys a \$5 million house with cash. It still happens,” Pinel said. “It's just not as common as it was.”

In the San Francisco Bay area, the most expensive housing market is Marin County. Housing prices there rose 36 percent in November from a year earlier, the highest rate of appreciation of any of the nine counties in the area, according to DataQuick.

Builder McKinney remains confident for now. He is building another house on speculation in Gulf Stream, about two miles from the house he sold to Gittleman.

The anticipated price: about \$15 million.