



On The Waterfront

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March 29, 2002

To most people, waterfront property is a perk of the very rich--or the very lucky. But those estates and weekend homes with ocean or lakefront access are more than places to get cool breezes and good views. They can also be excellent investments.

Of course there's always an element of risk attached to any home that is positioned close to the water. Flooding and erosion are a common problem, as is the occasional hurricane. But property owners eagerly pay for the risk of losing their homes to natural disasters. Is it worth paying a 15% to 50% premium on a house, which may cost an additional couple hundred thousand dollars in damages protection? It often is.



South
Florida



Santa
Barbara



Cape
Cod,
Mass.



Long
Island,
N.Y.



Hunts
Point,
Wash.

Since there is only a finite supply of usable (and desirable) waterfront property, the cost is dear. Price tags on waterfront properties may be impressively large, but the land itself isn't always. The term "waterfront" conjures images of sandy beaches and private docks, but in many regions of the country waterfront property includes polluted stretches of land littered with decaying remnants of factories.

Scarcity alone doesn't ensure that waterfront property will deliver a return. The land is often overvalued and vulnerable to the elements. For example, homeowners in the small beach town of Pacifica, south of San Francisco, saw about \$20 million in damages to private property as a result of floods and land erosion caused by the El Niño storms in 1998. At least two homes were destroyed in a landslide, 31 homes were condemned and 17 homes were in need of "significant repair."

Similarly, Fire Island, a spit of land off Long Island and a longtime weekend and summer getaway for Manhattanites, has been plagued over the years by concerns about erosion, which hurts the valuations of real estate there. One Fire Island landowner in the process of selling his home (who asked not to be named to avoid threatening the sale) says that after 23 years of ownership he'll see only a 50% return on the home. By contrast, a Manhattan co-op bought 23 years ago could easily sell today at five to six times the original purchase price.

Still, those who bought waterfront property probably did themselves a favor by keeping that money out of the stock market. Paul Grover, co-founder of real estate firm Kinlin Grover, based in Massachusetts' Cape Cod, says both demand and prices in Cape Cod real estate are rising steadily, despite the recent economic downturn.

"A lot of clients that bought from us two or three years ago are saying, 'Thank God our money wasn't in the market.' And in a lot of cases, their investment has doubled in the last couple years," Grover says.

The fiscal return on waterfront property shouldn't be negated. After decades of neglect, city planners and real estate developers are also rapidly discovering the value in waterfront land as a means to generate new revenue. Waterfront revival plans are happening everywhere, from Pittsburgh to Seattle.

David Leland, managing director of Leland Consulting Group, a real estate strategy-consulting firm in Portland, Ore., has worked on many waterfront revival plans in California, Idaho, Colorado, Washington, Iowa, Oregon, and Texas. According to Leland, the process of cleaning up an area and jumping through regulatory hoops in order to develop waterfront property can turn out to be quite profitable.

"Waterfront property can be worth up to 150% to 250% more than similar property a block away," Leland says. "Developers should see a 18% to 22% return on equity right away. That's a reasonable return that is consistent with the industry, and, frankly, developers need--and are entitled--to see it."



Gables Estates, South Florida

In terms of getting bang for the buck, Florida may offer investors some of the best waterfront property in the country. This \$12 million South Florida estate covers 7,700 square feet and includes a swimming pool, seven bedrooms, six bathrooms, two laundry rooms, a protected dock and a gym. Audrey Ross of Christie's Great Estates/Esslinger-Wooten-Maxwell has the listing.



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Santa Barbara, Calif.

Close to both the beach and the mountains, this \$5.895 million El Capitan ranch, Goleta, comes complete with a spa, sauna, tennis court and gated beach. The home is just 15 minutes away from Santa Barbara, home to too many celebrities to list here. Lee Drummy of Pitts & Bachmann has the listing.



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Courtesy Kinlin Grover

Cape Cod, Mass.

The buyer of this \$10 million estate gets his or her own sandy beach as well as 1.4 acres of manicured gardens and a guesthouse. The living area has floor-to-ceiling windows, but glass cleaner isn't included. Kinlin Grover represents the property.



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Courtesy Allan M Schneider Associates

Sagaponack, Long Island, N.Y.

A contemporary home on the beach, this \$3.5 million summer pad has an eight-person Jacuzzi. There's no pool, but there's room for one on the single-acre property. Allan M. Schneider Associates' Lisa Craine and Fabio Velez are the co-exclusive agents on the property.



South Florida



Santa Barbara



Cape Cod, Mass.



Long Island, N.Y.



Hunts Point, Wash.



Hunts Point, Wash.

This lakefront home may be so lovely you can tolerate the rainy weather. Included in the \$9 million price tag is a private dock, boat, deck, luxurious courtyard and gardens. Susan Stapleton of John L. Scott Real Estate has the listing.

