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11/18 00:07

U.S. Luxury Home Sales Slip, a Sign the Housing Boom May Fizzle

By Kathleen M. Howley

New York, Nov. 18 (Bloomberg) -- Financial adviser Christopher Apgar put his New York apartment up for sale for \$2.15 million a month ago. The three-bedroom unit, with its library, rebuilt Italian granite kitchen, and views of the Empire State Building, drew no offers.

Before the Standard & Poor's 500 Index fell to a five-year low Oct. 9, an Upper East Side apartment like Apgar's, with its oak floors inlaid with ebony and an 800-square-foot terrace, would have sold in days, brokers say. "I wish I had put it on the market a month earlier," said Apgar, who dropped the price to \$1.99 million on Oct. 31. "It would have been sold by now."

While homes across the U.S. are selling at a record pace this year, sales in the luxury segment of the market -- houses priced at more than \$1 million -- have slowed. They fell 10 percent to 4,890 in the third quarter after having climbed 68 percent in the second quarter. The decline means the overall housing market may have peaked, economists said.

"If luxury sales slow, the rest of the market will follow," said Michael Sklarz, chief valuation officer for Santa Barbara, California-based research company Fidelity National Information Solutions. "A slowdown at the high end is a clear sign that prices are at a turning point for the entire market."

The sales decline is the first sign that a 40 percent slide in the S&P 500 from its peak March 24, 2000, along with more than 65,400 job cuts in 20 months at financial companies, is leading wealthy consumers to buy fewer penthouses and mansions.

"There's a lag between what happens on Wall Street and what happens in the luxury home market," said Hall Willkie, president of Brown Harris Stevens, the Manhattan brokerage handling Apgar's property. "Eventually it catches up to us."

Luxury Sales Slow

In New York, apartment sales in the most expensive 10 percent of the market, with a

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\$3.13 million average price, fell 18 percent in the third quarter from the second quarter as the city's unemployment rate reached a four-year high of 7.9 percent. California property selling for more than \$1 million slid 9.5 percent -- in a state that accounts for 65 percent of U.S. home sales in that price bracket.

A decline in luxury home sales often occurs before demand slows for less expensive property because wealthy buyers are more likely to buy based on choice instead of need, Sklarz said.

"This data is the first clear sign, on a national level, that we are going to see a leveling out of prices in a broader sense," he said.

Wary Executives

Buyers of luxury homes are good indicators of the market's direction. "They tend to be business executives who are more in tune with where the economy is headed," said John Burns, president of Burns Real Estate Consulting Inc. in Irvine, California.

"Since these are discretionary purchases -- they already live in big houses and are looking to move to nicer ones -- they'll stay put for a few years if they don't believe the timing is right," he said.

The 10 percent third-quarter decline in luxury homes was the largest drop since the fourth quarter of last year, the months following the Sept. 11 attacks, according to research company DataQuick Information Systems Inc.

This year's third-quarter decline was a reversal from June 2002, when wealthy Americans used real estate as a haven for their money as the S&P 500 slid 7.3 percent, property brokers said. Sales of homes priced more than \$1 million had their biggest surge since 1988 in the second quarter of 2002. Economists said then that housing sales were keeping the economy from slipping back into recession.

Slashing and Waiting

The S&P 500 fell on Oct. 9 to 776.76, the lowest since 1997. U.S. consumer confidence this month had its biggest increase since January, as measured by the University of Michigan's preliminary sentiment index. Higher confidence may translate into increased consumer spending.

That may help some owners of luxury homes who need to sell now and can't lure a buyer.

"I don't sleep at night," said Ildy Lee, who rejected a \$1.2 million offer for her renovated Los Angeles house two weeks after putting it on the market in January for \$1.3 million. The house with sunset ocean views is still for sale -- at \$1.1 million.

"I very bitterly regret not taking the first offer," said Lee, who bought the house to live in, renovate and resell. Lee said she lost the \$191,000 profit she would have earned by accepting the January offer and that she expected a loss of at least \$12,000 when she sells.

Record Sales Pace

Overall, the housing market remains strong. Demand for homes priced at less than \$1 million drove annual sales for all homes to 5.36 million homes in the third quarter, ahead of last year's record 5.3 million. That was the third straight quarter that total home sales reached a record.

Total home sales have been helped by declines in mortgage rates. Rates on a 30-year fixed mortgage reached a 37-year low last week, falling to 5.94 percent, according to U.S. mortgage buyer Freddie Mac.

Prices signal that demand may wane. The median U.S. home price rose 7.2 percent in the third quarter to \$161,800 from a year earlier, less than 7.5 percent in the second quarter and the 8.1 percent in the first quarter, the National Association of Realtors said. U.S. prices will rise 4.2 percent next year, in line with the average of the past 20 years, the group estimates.

'Just Unrealistic'

U.S. luxury homes appreciated at 6 percent on average in the first three quarters of this year, and that will probably fall to 4 percent this quarter through most of next year, DataQuick analyst John Karevoll said.

Some sellers of luxury homes haven't yet realized that they need to lower their prices, says Stephen Kliegerman, a sales director at Manhattan residential brokerage Halstead Property Co.

"The definition of a down market is when you're selling for less than your neighbor did a few months ago, and that's not occurring," he said. "What we are seeing is the million-dollar property asking \$1.2 million, and that's just unrealistic."

For New York financial adviser Apgar, who plans to move to a smaller apartment because his son is now away at school, the lower demand may mean dropping his price again. In the worst case, he said, he's prepared to live a while longer with his Gaggenau stove, parquet floors, and trees on the terrace.