Luxury Sellers Find Trouble at the Top

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Sept. 22, 2003 -- For Bob Lodie, the news was tough to swallow. Living in real-estate rich Westport, Conn., he figured his $1.7 million home, with six bedrooms and a sweeping veranda, was a safe investment. But when he was forced to sell it last year, not only did he not make a profit -- he wound up taking a $150,000 loss.

"I couldn't believe I took the hit," says the motivational speaker. "It was disappointing."

If you're wondering how home values are holding up, there may be some bad news on the horizon. According to a survey commissioned by Weekend Journal, luxury-home prices through the first half of 2003 are down in almost half of 50 major counties we looked at, including even the blue-chip suburbs of the Midwest and Connecticut's gold coast. At the economy's top, three years ago, that figure was only 8%. And with people buzzing about the recent rise in interest rates, some brokers are beginning to use the "D" word (that's decline) for the first time in years. "We peaked in 2001," says Jim Bodin, an agent who handles luxury homes for Coldwell Banker in Colorado.

Wealthy homeowners who bought before the real-estate boom, of course, still stand to make a profit. But brokers say signs of a luxury slump keep cropping up, with one Chicago agent saying his area suddenly has 200 big places for sale. New York's Hamptons is seeing a remarkable surplus of super-priced homes, too (more than a dozen are asking $20 million or more). Why the pileups? "No one has to buy a luxury home," says David Lereah, chief economist for the National Association of Realtors.

Overall, of course, home prices continue to buck the economy, rising 5.56% over the 12 months ending in June according to the federal government. Indeed, our survey found only two markets in which overall prices had dropped (sorry, Boulder, Colo.). But when it comes to luxury homes -- defined in our survey as those over 4,000 square feet -- prices have been on the downswing for a while, falling last year in almost a third of our markets, according to Fidelity National Information Solutions, which did the survey. For now, analysts say it's too early to tell how much the slowdown will trickle down the market, if at all.

Jolt For Buyers

Still, it comes as a bit of a jolt to people like Robin Brown, who paid $12 million for her 1852 townhouse in New York three years ago. Now she's got it on the market again -- for about $4 million less. "Wall Street went down," says Ms. Brown, who owns an upscale health club. "That's when it hits the high end." Among the other folks now facing a loss: everyone from Enron ex-Chairman Kenneth Lay (out $620,000 on the recent sale of a four-bedroom riverview home in Aspen) to Scott Rudin, producer of films like "The Hours." He paid $4.5 million for The Rocks, his 8,000-square foot Washington, Conn., place -- and just settled for $1.2 million less.

To be sure, reports of real estate's impending fall have been heard repeatedly lately -- from the post-Sept. 11 dip to the "bubble" debate last winter. And the recent uptick in interest rates has many experts predicting a slowdown this year, with higher rates driving down what people will spend. That could affect buyer confidence especially on the high end, say analysts, as folks start doubting whether they'll be able to trade up. "If those expectations change, you're going to have fewer motivated buyers," says David Dale-Johnson, of the University of Southern California's Lusk Center for Real Estate.

For our survey, FNIS compiled data from more than 15,000 publicly recorded upper-end sales in the past two years. To get more geographic spread, they defined luxury homes by size, rather than just price, using a minimum 4,000 square feet, or about double the median American home. Then they compared median prices so far this year (in most places with sales through the end of the second quarter), with the same time period in 2002 and 2001. For context they also looked at the overall market in each spot. Click here to view data for 50 counties across the U.S.

Here, what's going on in some key spots around the country, from East to West:

- **Fairfield County, Conn.**

Numbers: Luxury market, -9.71%; luxury median, $1,465,000
The Scene: Two words -- Wall Street
Toughest Sell: Darien trophy homes

Until recently, these upscale Connecticut suburbs were among the hottest markets in the country, with high-end prices growing by almost 20% a year. But those days are gone -- along with the big Wall Street bonuses that fueled them. Indeed, while the $1.465 million median luxury price here is among the highest in the country, that's still down almost 10% from last year.

Local agents say high-end sellers are getting increasingly willing to deal, too. Indeed, in pricey Darien, where 10 houses are on the market for $5 million or more, seven have been "marked down substantially," says agent Doug Werner -- including a place with its own pipe organ called the Villa des Arts, now available for $5.2 million.

- **Palm Beach County, Fla.**

Numbers: Luxury market, -6.83%; luxury median, $810,600
The Scene: Weakness in lower ends of luxury market, but mega-rich aren't abandoning Worth Avenue yet
Toughest Sell: "Starter" homes in the $1 million to $3 million range.

With its mega-mansions and pricey enclaves like Jupiter Island, Palm Beach has always been pretty insulated from the vagaries of the real-estate market. Interest rates don't really affect buyers at this level and the low taxes have helped keep sales here healthy -- as they still are in the $6 million-plus market say local agents.

So why are luxury prices down now? The growing supply of $1 million to $3 million homes, including condominiums and places built in the '50s, whose prices got a big run-up in the past decade (a three-bedroom on a lot not too much bigger than two tennis courts for $1.595 million?). Indeed, according to local listings, there are almost 90 houses in that price range currently available -- up by about a third from 2001.

Financier Wilbur Ross paid a bit more for his place -- about $9 million, though that was still 20% less than the asking price. So is he worried about his investment? Not exactly. "I wouldn't have bought if I thought it was going to have a precipitous decline," he says.

- **Cuyahoga County, Ohio**

Numbers: Luxury market, -9.17%; luxury median, $545,000
The Scene: Big homes aren't budging but there's bargain hunting in Shaker Heights
Toughest Sell: "Move-up" homes in west-side suburbs

We expected a big drop in prices in dot-com meltdown spots like northern California, but Cleveland? Experts say home prices here got ahead of themselves in the '90s -- the median price of a high-end home rose to more than $600,000 from $450,000 during the boom -- making many would-be buyers skittish. Indeed, this county, which includes the city plus upscale suburbs like Shaker Heights and Rocky River, was one of the bigger losers in our survey. (Still moving briskly: Shaker Heights homes under $500,000 -- when they come on the market.)

Terry Hebert figures he was lucky to sell his Rocky River home recently -- since local agents say move-up properties like his aren't drawing many bidders. But he still had to knock $30,000 off his $675,000 asking price. "I have neighbors who've been trying to sell their homes for two years," says the media executive.

- **Cook County, Ill.**

Numbers: Luxury market -3.85%; luxury median, $800,000
The Scene: Leading the slowdown -- and some buyers still sitting out
Toughest Sell: Turn-of-the-century homes needing big renovations

The big surprise here: The high-end market in Chicago and its Lake Michigan suburbs actually peaked back in the second quarter of 2001, ahead of many other spots in our survey. But sellers don't seem to have caught on, which has luxury properties stacking up -- the average time on the market for a big home here recently hit 138 days, up 40% from 2001.

Still, some observers, like high-end developer Christopher Carley say they're seeing signs of a turnaround. Mr. Carley says he's sold four apartments in his company's highest-end building since May; in the six months prior they'd sold just one unit. "Now that the stock market's gone up, confidence is back," he says.

- **Boulder County, Colo.**

Numbers: Luxury market +3.24; luxury median, $780,000
The Scene: Shift to plains towns on Boulder's east side
Toughest Sell: Mountain subdivisions with Boulder addresses, where some buyers worry about a repeat of last year's forest fires

Vaughn Paul started construction on a four-bedroom, 9,000-square foot place outside Boulder early in 2001, thinking he'd sell for about $2.5 million. But that was before big local employers like IBM and Sun Microsystems started laying people off and the big fires of summer 2002 burned 137,000 acres in the state. The result: "The market kind of dried up," says Mr. Paul, who recently sold the place for $1.9 million -- "well below expectations, that's for sure."

Indeed, this market has seen one of the biggest dropoffs in our survey -- going from nearly 20% annual upper-end growth in the late '90s to this year's anemic 3.24% (the overall market's doing even worse). The good news for buyers: Low-ball bidding's back here -- in the last year the split between asking and sales price has almost doubled, to 5%.

- **Los Angeles County, Calif.**

Numbers: Luxury market, +18.48%; luxury median, $1,250,000
The Scene: A scramble to trade up from sub-$1 million homes
Toughest Sell: 14-room-plus movie-star mansions

Things look a lot like 1999 in this corner of the country, with a booming local economy and low interest rates convincing many buyers that now's the time to trade up. "It might be their only opportunity, and they're all jumping," says agent Cecelia Waeschle. And, in fact, while prices in both the luxury and overall markets jumped close to 20%, the volume of sales rose almost as fast (up more than 15% so far this year).

But some market watchers are worried that last month's interest-rate jump may slow sales in the $1 million to $2 million range (that's "move-up" here). And already slumping: The ultra high-end $10 million-plus market. "There just aren't enough buyers," says Ms. Waeschle. (Memo to Madonna: It may be time to mark down that $11 million Beverly Hills place -- after all, you paid only $6.5 million in 2000.)

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