
High-End Home Market Still Going Strong

Investors and international buyers have been keeping high-end sales moving.

By Nora Caley

Despite rising interest rates and the subsequent decline in mortgage originations, the luxury home market is still going strong - and not because celebrities are buying trophy homes.

These days, the people who are purchasing million-dollar homes are often buyers from other countries or investors who are increasingly paying cash - or at least making a large down payment - for these upscale properties.

"There have been transactions in the \$50 million to \$70 million range," says Jonathan Miller, president and CEO of Miller Samuel Inc., a real estate appraisal firm in New York City. "You have to realize this is not even the top one percent; it's a couple of tenths of the top one percent. It's a narrow niche of the market."

Miller adds that there have been some apartment sales approaching \$90 million in some of the city's newest apartment buildings. Most of the high-end transactions are mostly on the East and West coasts. "This has been going on two-and-half years - almost three years - where you've had this almost new segment of the market defined," Miller says.

There have been some high-end sales just outside New York City, too. In a report prepared with Douglass Elliman Real Estate, Samuel Miller Inc. noted that home prices in the Hamptons, the resort area on Long Island, have increased dramatically. The average price of homes that sold in the fourth quarter of 2012

jumped 35% from a year earlier to \$2.13 million.

Luxury home values increased in California as well. According to the First Republic Prestige Home Index by First Republic Bank, luxury home values increased in San Francisco, Los Angeles and San Diego in the second quarter of 2013 compared to a year ago. In the San Francisco Bay Area, the average luxury home price in San Francisco was \$2.9 million, up 10.9% compared to second quarter of 2012. In Los Angeles, the average luxury home was \$2.1 million, up 6.1% from second quarter of 2012. In San Diego, the average luxury home was \$1.7 million, up 8% year-over-year.

The index is based on a proprietary model and looks at changes in homes valued at more than \$1 million in key California urban markets. The homes measure 3,000 to 6,000 square feet and have three to six bedrooms and three to six bathrooms. According to a press release from the San Francisco-based First Republic Bank, "Limited inventory and growing demand from both U.S. and international buyers are driving the market."

Other factors are driving some of these sales, too, says Brian Thielicke, partner and certified mortgage planning specialist at Cobalt Mortgage in Tukwila, Wash. In the Seattle area, the buyers of homes in the \$750,000 to \$1.5 million range are highly paid techies. "Due to regional technology-related employment increases, we have seen a great influx of ethnically diverse clientele," Thielicke says. He adds that many buyers are not financing their purchase. "A good portion of our Chinese clients are either paying cash or investing significant amounts into their down payments."

Cash comes up in other regions, too. Donald Boucher, president of the appraisal firm Boucher & Boucher in Washington, D.C., says diplomats, lawyers and investors have always bought high-end homes in the nation's capital, but one detail that is different now is many are paying cash. "I think it's just local people sitting on cash," he says. "Some people sold houses and decided not to buy until now, and some people just have money in the stock market and are deciding they want to put it into real estate."

Of course, the definition of "high-end" varies. Some experts consider anything over \$1 million to be high-end, while others use a higher threshold. According to Irvine, Calif.-based RealtyTrac, in August, a total of 8,070 homes with prices of more than \$1 million were sold in the U.S. That was an increase of 0.59% compared to August 2012.

The larger increase, according to RealtyTrac, was among homes in the low end of this category. In August 2013, there were 6,300 homes sold with prices between \$1 million and \$2 million - an increase of 9% compared to August 2012. The number of homes priced from \$2 million to \$5 million totaled 1,591 in August 2013, down slightly compared to 1,631 in August 2012. Sales of homes priced at \$5 million or more decreased to 179 in August 2013, compared to 624 in August 2012.

Some million-dollar homes are not "trophy homes," but older or historic structures that have been updated. Jan B. Brzeski, founder of Arixa Capital Advisors in Los Angeles, says his fund specializes in lending to developers who redevelop high-end homes in upscale neighborhoods. "In California, there are a huge number of homes owned by people in their seventies or eighties who are still living in the same house where they raised their kids," he says. "These people generally have not kept the house up-to-date. Maybe they have a new oven, but the tiles are the same, and the layout is a maze - not the open layout that people want now."

A developer might buy a home for \$1 million and then spend \$300,000 or more to update it before selling it for \$1.6 million. Arixa Capital loans up to 75% of the project's cost.

Brzeski says the eventual buyers are not celebrities. "There are lots of professionals raising families who can afford a home of \$2 million to \$6 million," he says. "Interest rates are still relatively low by historical standards. There has been a revival, and the market has come back a lot."

Nora Caley is a Denver-based freelance writer.