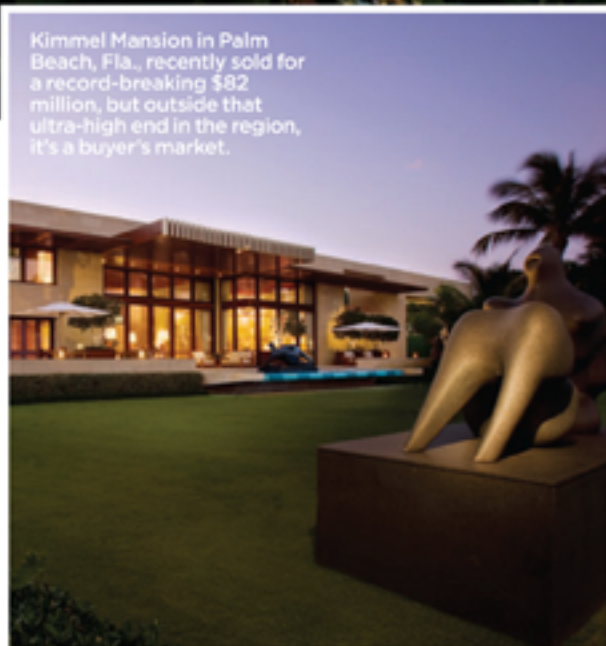




Kimmel Mansion in Palm Beach, Fla., recently sold for a record-breaking \$82 million, but outside that ultra-high end in the region, it's a buyer's market.



Silver Lining

As The Credit Mess Takes A Toll On The Realty Market, Demand Stays High For Ultra Luxury Homes

BY CATHERINE APPLEFELD OLSON

During his speech to induct John Mellencamp into the Rock and Roll Hall of Fame in March, Billy Joel made a self-effacing crack about his recent ride in the tumultuous real estate market. Discussing his involvement with Farm Aid, he joked, "I figured this might work out for me. With all the real estate I've been buying, I just might take up farming soon."

Joel may be laughing, but many homeowners are closer to tears. Dreams of little pink houses and grand mansions alike have come tumbling down in recent months as homeowners default on their mortgages in lemming-like fashion. An Associated Press/AOL poll in April revealed growing anxiety, finding that one of seven mortgage holders fear they won't be able to make their monthly payments on time during the next six months.

For the metropolitan areas where music industry artists and executives flock—New York, Los Angeles, Nashville and Miami—and the high-end properties many seek, the current climate is actually only partly cloudy.

In fact, the housing market in the ultra upper echelons is booming. In many cases homes are selling for figures that well

overshadow those from this time a year ago, which is no small feat given the sums of money bandied about on real estate in early 2007.

"We are talking about an affluent group and the high-end market has maintained itself to a degree," L.A. Mortgage senior loan officer Harvey Friedson says of the entertainment crowd. "They are doing much better than the middle area of, say, \$650,000-\$1 million, which has been hit much harder. We've generally had very little trouble with the bigger loans."

Indeed the distressed economy is clearly taking a toll on the middle market and even the lower high-end. Industry players who've grown used to calling the shots in real estate deals are finding it's a whole different ballgame today.

"Most of them don't really understand the financial world," says Christine Lloyd Maddocks, a Los Angeles-based realtor who specializes in homes that contain recording studios and as such has a heavy music industry client base. "They are in the entertainment industry, and their world lives big."

Lloyd Maddocks recalls working with a composer client recently who wanted to sell his **continued on >>p48**

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Woodland Hills home and relocate to Santa Monica, Calif.

"He said he wanted to get 100% financing and take some money over that amount, so basically refinance at 110%," she says. "I had to explain to him, 'They just don't do that anymore.' What was in vogue five, six years ago is not happening right now."

As a way to lay down the payment necessary to purchase a home these days, some music artists are taking cash advances on their royalties and using that money to pay down the 20% or other requirement, Lloyd Maddocks says. "Of course it's all hinged on how much they are going to be paid over what period of time, but it's an option I've seen used lately."

Though much of the world looks to the New York skyline as a beacon of the U.S. market, the truth is there aren't any real bargains to be found here in the luxury market.

The number of apartments that closed for more than \$10 million in the city rose by 318% in first-quarter 2008 compared with the same period in 2007, says Silvana Malpelli, senior VP/director of relocation and business development at Brown Harris Stevens. During that same period, the average price for a Manhattan apartment rose 47%, she adds.

"Our market has stayed pretty strong because there are still more people who can afford to have it all than apartments that actually have it all," Malpelli says.

"All cash doesn't matter so much because most deals at the high end are all cash," she adds. "And with respect to co-ops, many of the top ones now require two to three times the [purchase price in] liquid assets as well."

Many big music and film names are eschewing staid co-ops for the allure of downtown living. Jon Bon Jovi reportedly paid \$25 million for new Soho digs last year. Such gleaming new high-rises as 40 Mercer and 15 Central Park West, where Sting and Denzel Washington recently bought homes, are attracting celebrities in droves.

"These buildings are tailor-made for that crowd," Corcoran Group president/CEO Pam Liebman says. "Entertainment people love their architecture, their cool factor, the amenities, the privacy. A lot of the typical co-ops have not seen the same sales phenomenon this year. But the entertainment crowd is not necessarily interested in co-ops. The co-ops wouldn't let them in, and they don't really want to live there anyway. It's not their lifestyle."

Of course, not every entertainment denizen dwells downtown. A townhouse on the Upper East Side, home to former Viacom president/CEO Tom Freston, is on the market for a cool \$38.5 million. The six-and-a-half-story home, which was owned by Andy Warhol from 1974 to 1987, has been completely updated and includes a roof-top terrace and seven wood-burning fireplaces.

Another new building of interest to the music industry is the Hit Factory. The famed studio where luminaries from John Lennon to the Rolling Stones to Madonna laid down platinum tracks has been converted into 27 upscale loft-like residences ranging in size from 1,542 to 3,400 square feet. At press time, only four units were still on the market.

Yet while the "trophy listings" are booming, "when you get into the more 'normal' stratosphere, that's where we're seeing more caution from the buyer," Liebman says. "They better feel there's some value or else they walk away."

In Los Angeles, the concept of value is a little more fluid. The entertainment industry was hit big-time with the double assault of a nose-diving economy and the writers' strike. The uncertainty has definitely given more buyers pause, Lloyd Maddocks says.

"My clients are slower to move and a lot more careful," she says. "What's affected them more than anything is the Hollywood [writers] strike. A lot of people went back to work when the strike ended, but a lot also didn't. And they've had to take some time to see what the needs are for music for the series and movies. We are still feeling the fallout."

Lloyd Maddocks estimates that in prize ZIP codes including Beverly Hills and Bel Air, Calif., housing prices are down 10% from last year this time. In Malibu, where fires recently swept through, price tags have been cut even more. "It is most defi-

nately a buyer's market," she says.

Sitting pretty amid the turmoil is Nashville, where property values are holding their own and the term "high end" has escalated from describing \$1 million-\$2 million homes to \$4 million and beyond, Lura Bainbridge Realty owner Lura Bainbridge says.

"We haven't seen any downturn in the market here. Nashville has been insulated because it's so diversified and so many entertainers and movie stars are moving here," she says. "It's like all of a sudden in the past few years they've discovered Nashville is a great place to live."

Helping raise Music City's "it" factor are Nicole Kidman and Keith Urban, who recently upgraded their digs, and "American Idol" creator Simon Fuller, who purchased a penthouse condominium in downtown Nashville.

"We've expanded way beyond the singer/songwriter and country genres in terms of entertainers who are here," Bainbridge says. "There's always a hot spot, and Nashville has just become a very savvy place to live."

Down in Miami, although the Kimmel Mansion in Palm Beach just pulled in a record-setting \$82 million, that city and south Florida remain strong buyer's markets for residences outside the ultra high end.

"If you want to try to get into this market, especially on the waterfront, now's the time to do it," John Paul Rosser and Associates principal John Paul Rosser says. "There's been some price movement already and if this spring fails like last spring, then there will be even more."

In a sign of a continued depressed market, two top agencies—Sotheby's Realty and Coldwell Banker—recently began working with real estate auction homes to help unload luxury properties.

"There just aren't as many buyers right now," Rosser says. "Everyone's waiting for the last shoe to drop and the government keeps propping it up."

In star-studded Key Biscayne, Fla., alone, there were 119 single homes listed at press time and another 350-plus condos on the market, Rosser says. "The last time I saw those numbers," he adds, "was 20 years ago."

Prices are down in prize areas like Bel Air, Beverly Hills and Malibu.

KEITH URBAN and NICOLE KIDMAN, seen here at this year's Academy Awards, may walk the red carpet in Los Angeles. But this residence in Nashville is the place they call home.

