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Record Hamptons Home at \$103 Million Signals Market Resilience

By Kathleen M. Howley

May 23 (Bloomberg) -- Ron Baron, founder of the investment company bearing his name, didn't hesitate to pay \$103 million for a 40-acre parcel in East Hampton, New York. It is the record for a residential property in the U.S. and just a little less than double the annual compensation of some of his neighbors.

House prices in the beach retreat that Steven Spielberg shares with billionaire investor Thomas H. Lee rose 14 percent during the first quarter, even as the national median fell. The Hamptons, former potato farms where seagull cries now mix with the sounds of well-tuned Ferraris, is boosted by salaries on Wall Street, 40 minutes away by helicopter, said Diane Saatchi, a broker at Corcoran Group in East Hampton.

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“People have made an incredible amount of money on Wall Street over the last few years,” said Saatchi, who started selling real estate in the Hamptons 19 years ago. “For them, spending millions on a summer home to be near their friends isn't a big deal.”

Wealthy New Yorkers trade their Manhattan apartments for summertime houses in the dozen hamlets of East Hampton and Southampton to maintain their social standing, said George Simpson, president of Suffolk Research Service Inc., a real estate records company based in Southampton.

“The housing market all over the United States is down, but not here because this is where all the rich people want to be seen in the summertime,” Simpson said.

The Hamptons began attracting crowds of Manhattan socialites and executives in the 1960s. Their demand pushed up property values of century-old estates built for wealthy industrialists such as Harry Payne Whitney and cottages where artists such as Jackson Pollock had summered.

Double Blankfein's Salary

The record price Baron paid is about double the salary of elite Wall Street executives such as Goldman Sachs Group Inc. Chairman Lloyd Blankfein, a Southampton summer resident who earned \$54 million in 2006 at the world's largest securities firm by market value. In a typical U.S. home purchase, buyers spend almost four times their annual income for a property, according to data from the Chicago-based National Association of Realtors.

Incomes for Wall Street traders and investment bankers are surging as companies pay higher salaries to fight the lure of hedge funds, private pools of

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capital that give managers a cut of profits on the money they invest. Last year, the five biggest Wall Street firms paid a record \$36 billion in bonuses.

The median price for East Hampton, where actress Renee Zellweger and billionaire financier Carl Icahn own vacation homes, rose to \$970,000 in the first quarter from \$850,000 a year ago, Simpson said. The total sales volume rose to \$300 million from \$216 million a year earlier.

Higher Prices, Fewer Sales

While prices are increasing, transactions have lagged behind. East Hampton, which includes the villages of Montauk, Amagansett and Wainscott, had 160 sales in the first quarter, down from 165 a year earlier and a record 221 homes in 2005.

In Southampton, where fund managers George Soros and Stanley Druckenmiller own homes, the median price was \$795,000 in the first quarter, 6.7 percent higher than a year ago. The total sales volume fell to \$545 million from \$572 million, and the number of transactions declined to 337 from 391.

“There are some staggering numbers at the high end, but the market for houses in the \$2 million to \$3 million range is just chugging along,” said Paul Brennan, Hamptons regional manager of Prudential Douglas Elliman Real Estate.

“Properties are selling, but I wouldn't call it hot.”

Southampton includes the villages of Water Mill, where actor Richard Gere owns property, and Bridgehampton, site of the four-bedroom house that model Christie Brinkley put on the market this month for \$7.9 million.

Prices Dwarf Nation

“Some of this year's demand is being driven by Europeans, because of the weak dollar and strong euro,” said Susan Breitenbach, the Corcoran vice-president who lists Brinkley's property. “To them, a home in the Hamptons seems like a bargain.”

Hamptons real estate prices dwarf those paid by most buyers in the U.S. The median selling price of previously owned homes across the nation was \$212,300 in the first quarter, down 1.8 percent from a year earlier, according to the National Association of Realtors. That was the lowest in two years.

The U.S. median home price probably will fall 1 percent in 2007 from a year earlier, the realtors' group said on May 8. That would be the first national decline since the Great Depression in the 1930s, said Lawrence Yun, an economist with the Chicago-based trade group.

The ‘M’ Word

For many U.S. buyers, stricter lending standards resulting from record defaults among subprime borrowers have made it tougher to purchase real estate. For most Hamptons buyers, it's had no effect, said Judi Desiderio, president of Town & Country Real Estate in East Hampton.

That's because three-quarters of Hamptons buyers don't use mortgages, said Desiderio, who's been selling real estate in the area for 26 years. Of those who borrow to buy real estate, about 10 percent do it from necessity and the others opt for a home loan because of temporary cash-flow issues, she said.

“If you're buying a house over \$5 million in the Hamptons, you don't even know what the ‘M’ word means,” said Desiderio, referring to mortgages. “We don't even bring it up, it would be an insult. They're strictly all-cash deals.”

Richard Grasso, the former New York Stock Exchange chairman who's fighting a court battle to hang on to his \$190 million pay package, lives in the Southampton village of Sagaponack.

J. Crew Group Inc. Chief Executive Millard Drexler, known as Mickey, bought film director Paul Morrissey's oceanfront estate in Montauk at the easternmost tip of Long Island. Drexler and his wife, Peggy, paid \$27.5 million in January for the estate, the former home of artist Andy Warhol.

Antique Houses

Reed Krakoff, president of Coach Inc., paid \$25 million a month ago for the East Hampton estate where a young Jacqueline Bouvier, who later married John F. Kennedy, spent her summers. The property has a six-bedroom house and formal gardens.

Baron, whose New York-based Baron Capital Inc. oversees \$20 billion for clients, bought Adelaide de Menil's East Hampton estate this month after the heiress to the Schlumberger Ltd. oil service fortune donated four antique houses and two barns from the property to the town. The buildings were moved in April from the 40-acre site of pine trees, fields and sand dunes. Baron declined to comment.

The price Baron paid surpasses the U.S. record set by Revlon Inc. Chairman Ronald O. Perelman who sold his Palm Beach estate for \$70 million in 2004 to Dwight Schar, chairman and chief executive officer of homebuilder NVR Inc. Perelman owns a home in East Hampton.

'Three Ponds'

Baron's price was more than double the former Hamptons record of \$45 million

for Burnt Point, the 25-room mansion on Georgica Pond that copper trader David Campbell sold in 2005 to Stewart Rahr, president and CEO of drug distributor Kinray Co.

The most expensive Hamptons home now on the market is Three Ponds, the 25,000-square-foot Mediterranean-style Bridgehampton mansion owned by Cheryl Gordon, the widow of Manhattan commercial real estate mogul Edward Gordon. The estate is listed for \$75 million with Corcoran's Breitenbach.

The Gordon estate has been on and off the market for six years at the same price, with no takers, at least in part because it's not on the waterfront, said Brennan of Prudential. The 65-acre estate has a 75-foot swimming pool, three ponds stocked with trout, an orangery or greenhouse, and a Rees Jones-designed golf course.

“Some of the price tags on these Hamptons sales can seem extravagant to outsiders, but they're really not if you consider the buyers probably have been getting \$20 million in bonuses for the last few years,” said Corcoran's Saatchi.

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