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Hamptons luxury home sales soften as Wall Street weakness takes a toll

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An estate is seen near a golf club in East Hampton, New York, March 16, 2016. REUTERS/JEFFREY BASINGER

The market for luxury homes in the Hamptons, the summer playground for Wall Street's wealthiest, is losing some of its luster as financial markets limp along for a second year.

The average price of the 10 most expensive homes sold in this cluster of towns, villages and hamlets on Long Island's east end was $35.5 million in 2015, 20 percent lower than the $44.6 million recorded the year before, according to real estate brokers Town & Country Real Estate in East Hampton.

That is far from calamitous given it is the second-highest average top 10 price ever and up from just $15.9 million in 2009, the year the market bottomed during the financial crisis.

But for Judi Desiderio, who has been active in Hamptons real estate for three decades and is now Town & Country's chief executive, it is still a meaningful decline.

Her maxim is that record sales prices are only shattered following outstanding years for U.S. stocks and that the Hamptons real estate market goes in cycles in lockstep with Wall Street's fortunes. Excluding dividends, the S&P 500 benchmark stocks index lost 0.7 percent last year and is down about 1 percent so far this year.

The top 10 numbers may be skewed by one or two of the highest priced sales but the softness is also reflected in a wider survey by brokerage Corcoran Group that shows the median price for the most expensive 10 percent of Hamptons sales (57 homes), declined about 4 percent to $7.6 million in the fourth quarter of 2015 from a year earlier.

Desiderio said the next boom may not happen for some years. "We won't see this again until 2021 as it seems to run in seven-year cycles," she predicted.

Wall Street's performance and luxury home prices in the Hamptons are inextricably linked, especially the level of bankers' bonuses as they often finance second homes, said Anthony DeVivio, managing director in the Hamptons for another brokerage, Halstead Property.

The average bonus from a Wall Street bank was likely 5 percent to 10 percent lower in 2015 than the previous year, the first decline since 2011, said Alan Johnson of compensation consulting firm Johnson Associates Inc.

Hedge funds also have struggled, with an average return of just 0.04 percent last year, according to the Barclay Hedge Fund Index. In 2014, it wasn't much better – with a 2.88 percent gain.

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Still, real estate brokers see the weakness in the Hamptons as a modest correction rather than something much worse.

"It's not something that's going to kill the market," said DeVivio.

It certainly didn't prevent hedge fund manager Scott Bommer from being able to ink a deal to sell his ocean-front property at Lily Pond Lane in East Hampton for $110 million, the New York Post reported last month, one of the few times the sale of a home has topped $100 million in the United States.

Bommer, who shut his SAB Capital in late December, bought the property – which is a combination of three addresses - for $93.9 million in 2014. The Post identified the buyer as Michael S. Smith, chief executive of natural gas company Freeport LNG.

The 6.2-acre estate includes a century-old five-bedroom home on a back lot. The ocean-front lot has an 8,000-square-foot stucco mansion with seven bedrooms, and eight full bathrooms, along with a swimming pool, said broker Ed Petrie of Compass, who declined further comment because of a confidentiality agreement.

"It's the best of the best, and people are going to pay a premium for the best of the best," said Susan Breitenbach, a top broker in the Hamptons who notched $333 million in sales last year for the Corcoran Group.

In 2014, billionaire investor Barry Rosenstein of Jana Partners paid $147 million for ocean-front property in East Hampton, a record for U.S. residential sales. The prices of luxury homes surged that year after U.S. stocks soared 30 percent the year before.

While the luxury end of the market may be softening, the overall market in the area remains solid.

When all fourth-quarter sales are included, the median sales price rose 3 percent to $1.12 million from a year earlier, according to Corcoran's figures.

The brokers say the market for homes listed under $5 million is poised for higher prices, with steady or better sales volume as demand appears robust and the supply of homes for sale is low.

Traditionally the high level of wealth among the buyers of homes in these beach communities makes it somewhat protected from market gyrations, though not fully.

"There are two markets right now," said DeVivio. "On the low end it's clearly still a seller's market, and on the high end it's clearly a buyer's market."

Ernest Cervi, regional senior vice president at Corcoran in Bridgehampton, said the median sale price was up every quarter last year while the inventory of homes for sale was in decline.

"Our inventory has been decreasing since 2011, so I think the market is in a good place right now," Cervi said.

(Reporting by Herbert Lash; Additional reporting by Lawrence Delevingne in New York; Editing by Martin Howell)