Prime property

How long can the super-prime property boom continue?

The super-rich seem to have been largely unaffected by rising mortgage rates, spiralling inflation and the threat of recession — so far

Hugo Cox SEPTEMBER 23 2022

It is 10am on a bright September morning and Mayfair is buzzing. Just off Berkeley Square, a salesman in the Bugatti garage has a diary full of appointments and can't stay to chat. Instead, he gingerly drives the showroom's solitary car, price £3.4mn, from its steel turntable out on to the road and parks it behind a delivery van, to the delight of onlookers wielding camera phones. Next door in the Bentley showroom, there is a four-month waiting list for the popular 4x4 Bentayga.

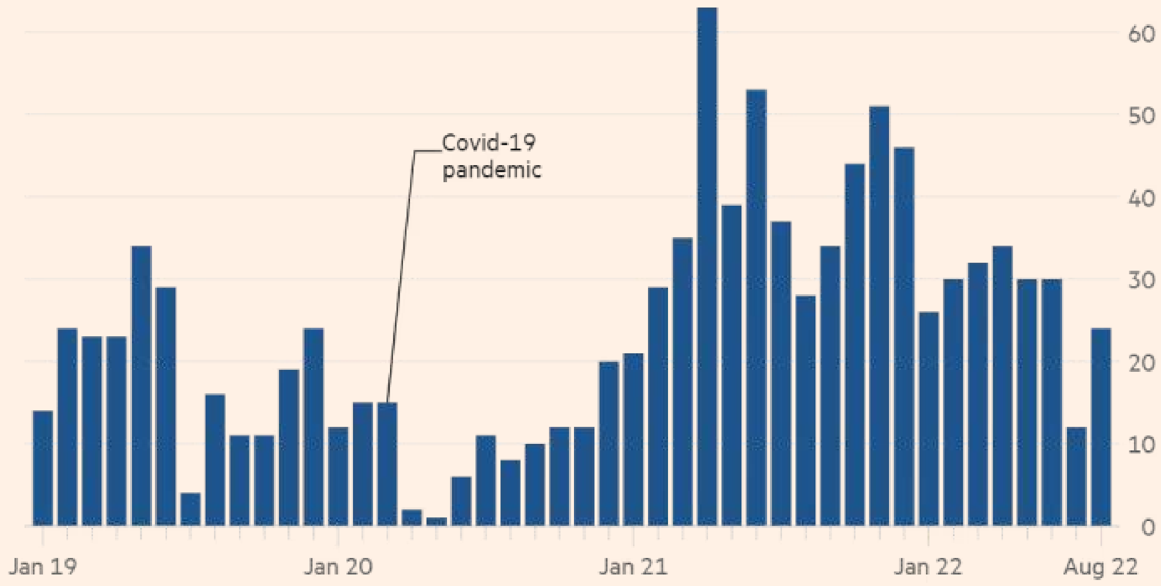
On the square's north end in Phillips auction house, neatly dressed workmen dismantle the mise-en-scène of the previous evening's David Hockney print sale, which sold all 78 lots, raising £3.3mn. The auctioneer's Louisa Earl says that attendance has grown steadily since January, when auctions resumed in person following UK lockdowns. Many are locals, some newly arrived. "They will move in nearby and it will be all white walls and they'll come here for things to decorate them with."

After a quiet period during the depths of the pandemic, the world's super-rich have been returning to city centres and have been buying homes.

In London and New York, a surge in transactions in 2021 has continued into 2022. Following a record tally of super-prime purchases in New York last year, 218 sales above $10mn were agreed between January and August this year, compared with 167 in 2019 before the pandemic hit. In London, 272 homes sold for £5mn or more over the same period, up two-thirds from the same stage in 2019, according to LonRes. And in Sydney, global estate agency Knight Frank calculates that sales of homes priced above US$10mn in the first half of the year were more than double the five-year average.

In NYC, a record number of super-prime homes sold last year

Agreed sales of $10mn+ homes



Source: Serhant

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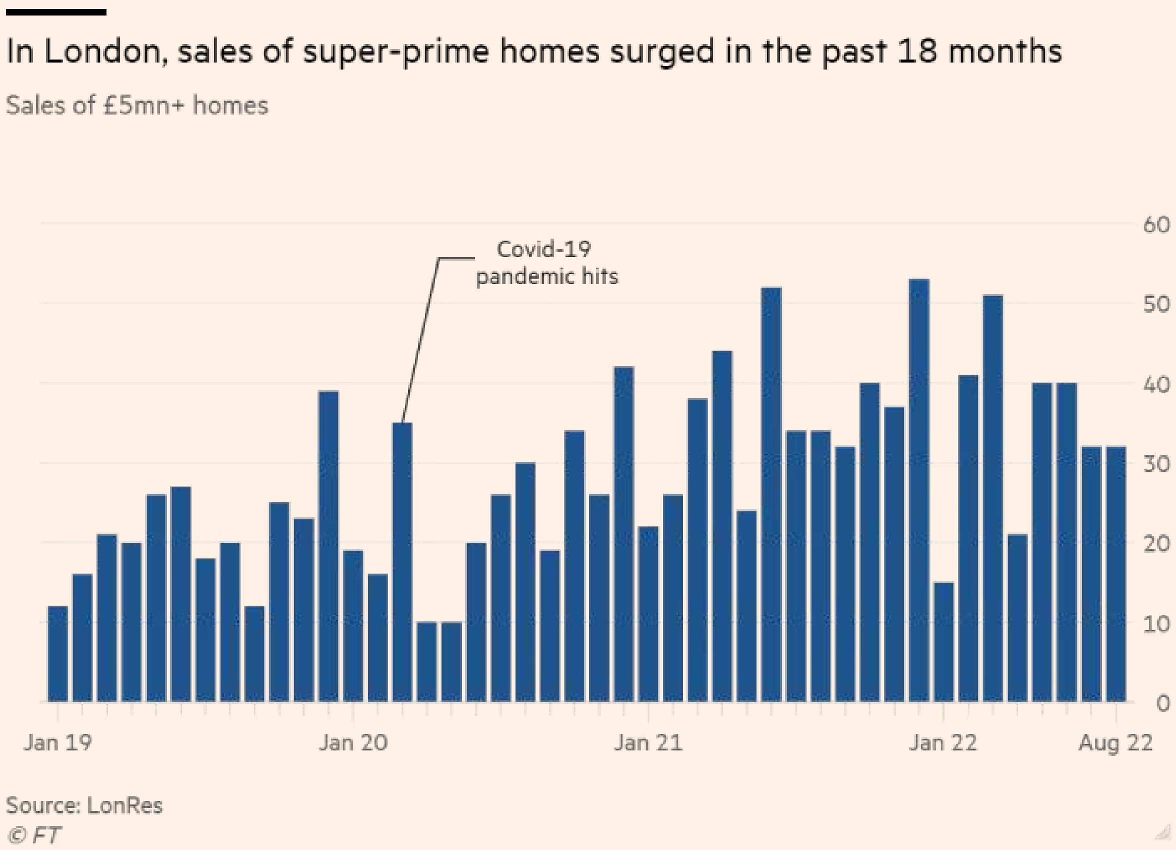
However, a darkening economic outlook — and a sharp decline in sales in mainstream property markets — raises a pointed question: just how long can the super-prime boom continue?

Manhattan home sales fell 38 per cent in the three months to August compared with a year ago; total US home sales fell 20 per cent year-on-year in July. UK house sales have fallen for five months in a row, according to the Royal Institution of Chartered Surveyors. Worse may be to come for mainstream housing markets, as mortgage rates climb and homeowners grapple with spiralling inflation.

Housing analyst Neal Hudson estimates UK house prices in July were overvalued by 17 per cent compared to wages and mortgage rates. “That could quickly rise to 40 per cent overvalued if mortgage rates hit 6 per cent,” he says.

Meanwhile, storm clouds over the world’s leading economies bode ill for the super-rich who own or are employed by leading companies. In July, the IMF warned that slowdowns in the economies of the US, China and Europe could push the world to the brink of global recession. This year's sharp falls in global stock markets, in which much of their wealth is invested, will also leave them feeling poorer: the MSCI's index of European stocks fell 21 per cent in the year to August; the US S&P 500 was down 17 per cent.



So far, however, such headwinds have done little to damp demand for New York's most expensive homes, says Garrett Derderian, head of research at New York estate agent Serhant. "Super-prime sales have disconnected from the realities of a broader slowdown; undeterred and uninfluenced by rising mortgage rates, inflation and recession fears."

In London, Paul Welch, mortgage broker to the super-rich, claims to be enjoying a record year. "In 2022, I have arranged more 100 per cent mortgages for home purchases above £10mn than at any time before over my 20-year career — and September has seen no let up," he says, adding that such loans require additional assets, such as an equity portfolio, as collateral.

Welch, who runs largemortgageloans.com, is currently arranging a £28mn loan for a US client that will fund the full price of a four-bedroom house in Knightsbridge. Last week, three banks were offering the money at a five-year variable rate of 1.5 per cent above the Bank of England base rate. "There are no equivalent 100 per cent mortgages in the standard market," says David Hollingworth of UK mortgage broker L&C. He says the closest deal available — a 95 per cent, two-year rate, charging 2.04 per cent above the base rate — is capped at £600,000.

Banks may offer very low rates to lure the right person, from whom there is the prospect of earning fees from other lucrative services. Welch says they may even make the home loan at a loss. "You only get one shot to win over a $200mn client," he says.

A penthouse at luxury development 200 Amsterdam in New York; in Manhattan, sales of homes priced above $10mn surged last year © Williams New York/Brown Harris Stevens Development

With cheap money still available to many super-rich, homes are changing hands for eye-watering sums in the world's property hotspots.

At the end of June, a Fifth Avenue apartment in Manhattan sold for $101mn, one of four since May that have breached $50mn, according to Serhant. In July, the St Tropez home of Bernard Tapie, the French businessman and politician who died in October, sold for €81.2mn.

Back in Mayfair's Mount Street, Wetherell says (despite having "NDAs up to my head which mean I can't give details") he has sold at least one home this year for more than £50mn. "If it's the right home, interest rate changes make no difference to these buyers."

The boom in super-prime purchases reflects the continued growth of global super-rich. The number of those worth more than $30mn increased by 9 per cent last year to 610,569, according to Knight Frank. Over the past five years, numbers have grown by 75 per cent.

Their complex financial arrangements mean they often enjoy a level of flexibility unthinkable for conventional home buyers.

Luxury shops in the Burlington Arcade, London © Simon Dawson/Bloomberg

Jonathan, who didn't want to give his real name, says he made a fortune from a £500,000 bitcoin investment in 2012 and has just paid £10mn for a six-bedroom house near Notting Hill. He funded it with a £5mn mortgage secured against the home with a private bank in the UK and another £7mn loan — including money for stamp duty and new interiors — from a Swiss private bank, secured entirely against £17.5mn of bitcoin.

"For the mortgage they didn't even look at my income," he says; all the bank required was that he pre-pay the interest on their loans — 3.7 per cent fixed over five years, a total of £925,000 — up front. "As for [the Swiss bank], they didn't even do a credit check on me," he says.

Jeffrey Feinman, a New York-based accountant at DDK & Company, whose super-rich clients include several billionaires, says wealthy buyers often favour a mortgage over a cash purchase of a home because it means not having to liquidate other investments — including in capital markets or their own companies — which they are confident will earn them more than the cost of the loan.

> **For the mortgage they didn't even look at my income. The Swiss bank didn't even do a credit check**

Recently, the number asking him for 100 per cent mortgages has fallen compared with earlier in the year, with growing anxieties about the global economy and rising inflation, he says. "I still do some of these loans but clients are following a more conservative approach; inflation is the magic word these days."

But a Monaco private banker says that today's low stock market prices have customers searching for investment opportunities, making them still keen to borrow large sums. "The level of borrowing is more or less the same [as at the beginning of the year]: while the cost of the loans is generally increasing, so are the future returns available on non-property investments," he reasons.

In London, the pound's weakness against the dollar — 1985 was the last time it was worth less — has increased the proportion of super-prime sales this year to buyers from the Middle East, North America and greater China, according to agents. The combined effect of price falls and a weakening pound means that prices for dollar buyers in central London today are 43 per cent lower than in 2014, according to Savills.

For those with a few tens of millions to spend on a new home, the world's leading cities continue to appeal. "A lot of today's London buyers made huge sums during the pandemic," says Alex Christian, co-head of Savills' private office in London.

One of his clients, a 40-year-old hedge fund manager, living in London, started his house search before the pandemic with a budget of £15mn. Today he has still not found the right home, but his budget has risen to £40mn.

Many newly minted are from the emerging world. These super-rich have long favoured home purchases in leading western cities as stores of wealth, for the quality of life such cities afford and to provide safety for their money and families.

Sydney, where super-prime sales have increased even as sales in mainstream property markets decline © Brendon Thorne/Bloomberg

One trust expert based in a UK crown dependency, who declined to give his real name, is currently helping two Chinese entrepreneurs find homes to buy in Europe. “Both are worried their assets may be seized by the government and want somewhere their wealth and family can be safe,” he says.

His Latin American clients similarly fear home governments seizing their assets. If their wealth becomes widely known in their home country, they or their family face the risk of kidnap.

How long the world’s super-prime housing markets can shrug off economic headwinds and a wider housing market slowdown is unclear. In February, the UK withdrew its tier 1 investor visa, long a popular route for the super-rich to obtain residency with their families in exchange for £2mn in investment funds. Concerned that prices are falling, Wetherell says many of his Mayfair clients are taking their homes off the market. “More homes have been withdrawn in the past few months than have sold, they’re not getting the right offers,” he says.

But a few doors down from Wetherell’s office, customers of Sautter, the celebrated Mount Street cigar shop, where the priciest smoke costs £300, show no signs of apprehension as they settle into comfortable armchairs for a lunchtime puff — a rarity since smoking was prohibited in almost all enclosed workplaces in 2007. A private equity investor from San Francisco, who is holidaying at the Connaught hotel opposite, puts down his newspaper to tell me about a recent encounter with an American visitor in the shop with whom he may soon do business.

“It has been our busiest summer in 12 years. We have so many locals,” says Magali De La Cruz, a Cuban who manages the shop, before launching into a leisurely stream of celebrity anecdotes from years gone by. “There where you are sitting was Alec Baldwin smoking with Keanu Reeves, who was [then] celebrating his 50th birthday.”

In the wood-panelled room, full of smoke and nostalgia, the economic realities outside — rising mortgage rates, spiralling inflation and looming recession — seem to belong to another world.

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