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A Boom With a



View

By Kathleen M. Howley

**New York's real estate
power brokers grow rich
as record home prices fuel
worries of a bubble.**

◀ One morning last April, a New York real estate broker named Sharon Baum eased into the leather back seat of her Rolls-Royce Silver Spur, which bears the license plate SOLD 1, and told her chauffeur to take her to Midtown Manhattan.

As her car turned onto East 57th Street, Baum—who, by her own count, has clinched \$1 billion of sales in her 18-year career—was aiming for another closing. On the 12th floor of one of the buildings there, a half-dozen paint-splattered workmen were gutting a four-bedroom, five-bathroom apartment. It was up to Baum, 65, to add the finishing touch: the asking price.

“Whatever Sharon says, that’s what it will be,” said the owner, Bettye Martin Musham, who greeted Baum inside as power drills droned, sanders skirled and white dust rained from freshly spackled drywall. One of a handful of brokers who’ve dominated high-end New York real estate during a record-breaking, 10-year boom, Baum glided from room to room across the bare plywood floors and, in the master bedroom, delivered her verdict.

“In the fours,” Baum said, her voice just above a whisper. Translation: \$4 million–\$5 million, a price that might net a broker such as Baum a 5 percent, \$250,000 commission.

Ten years ago, five years ago, even one year ago, such bounty would’ve been unheard of for this GUT-REHAB (renovated unit) with LVLV VUS (lovely views) in a GB (good building). That was before home prices in New York—and across much of the U.S.—took off. Fueled by low mortgage rates, the average price of apartments in Manhattan, the nexus of global finance, media and the arts, has soared 141 percent since 1995, reaching \$1 million in 2004, according to Miller Samuel Inc., a New York-based property appraiser. Defying predictions that the housing market might become a bubble destined to burst, that average then rose 21 percent to \$1.21 million during the first three months of 2005. Nationwide, home prices have climbed more sharply in the past 10 years than during any decade since World War II, driving the median U.S. price to \$206,000 in April, according to the National Association of Realtors.

Riding New York’s real estate wave is an elite corps of brokers such as Baum who land outsized commissions by snaring listings of \$10 million or more. A vice president at Corcoran Group Inc.,

‘Let’s Shvo’: Real estate broker **Michael Shvo** says—only half jokingly—that he dreams of putting hot tubs on every rooftop in Manhattan.

the city's top-selling residential real estate firm, and a Harvard MBA, Baum has sold an Upper East Side residence to the emir of Qatar and has shown apartments to actors Harrison Ford and Nathan Lane. Her latest trophy listing is a Fifth Avenue mansion owned by the heirs to the Duke family tobacco fortune. The asking price: \$50 million.

Another top broker is Patricia Burnham, 53, who courts celebrity clients such as Calvin Klein at her corner table in the Grill Room of the Four Seasons, the power-dining temple off Park Avenue. Earlier this year, Burnham was shopping for an apartment for Sharon Bush, the former sister-in-law of U.S. President George W. Bush. Meanwhile, upstart broker Michael Shvo, a Prada-wearing Israeli who began his New York career in the taxi business, targets a young, new-money crowd. Shvo, 32, juggles three cell phones as his chauffeur-driven, black Mercedes-Benz S500 bounces over potholes on the way to Daniel, where chef Daniel Boulud's eight-course tasting menu runs \$168. Shvo says—only half-jokingly—that he dreams of installing hot tubs on every rooftop in Manhattan. As prices jump from record to record, Baum, Burnham and Shvo all agree the market is headed in one direction: up.

The Four Seasons, the Rolls, the Prada—no one would mistake these brokers for the sad-sack property hustlers in the Broadway revival of David Mamet's Pulitzer Prize-winning play *Glengarry Glen Ross*, which won a Tony Award this year. Yet rule No. 1 of Mamet's fictional boiler room also applies in real-world real estate: "ABC—Always Be Closing." Brokers such as Baum, Burnham and Shvo often work seven

days a week, says Steven Gaines, 53, author of *The Sky's the Limit: Passion and Property in Manhattan* (Little, Brown, 2005). Baum says she fields calls while lifting weights in the gym at 6 a.m. Shvo employs not one but two assistants—one for his day shift, which finishes at 7 p.m., and one for his night shift, which ends at 2 a.m.

As a national center of commerce and culture, New York is one of the most-visible examples of the housing boom that has swept communities from coast to coast. The price of a typical American home, however, wouldn't cover the cost of most one-room studios in Manhattan, where home prices have sailed beyond the reach of ordinary people. The mortgage payments alone on an "average" \$1.21 million Manhattan apartment run \$5,836 per month, or \$70,032 per year, assuming the buyer puts down 20 percent and secures a \$1 million, 30-year mortgage at 5.75 percent. The median household in Manhattan, home to about 1.54 million people, earns just \$48,030 annually, according to the 2000 census—nowhere near what it would need just to make the mortgage payments.

As an investment, a slice of the Big Apple has trounced U.S. stocks and bonds. So far this year, homes in Manhattan, by far the wealthiest of the city's five boroughs, have appreciated like dot-com stocks during the go-go 1990s. While the average apartment price jumped 21 percent in the first quarter, the Standard & Poor's 500 Index fell 2.58 percent. Undaunted by the steep rise in home prices, people bought 2,028 Manhattan apartments with a combined value of at least \$2.45 billion during the first three months of this year, a figure that dwarfs the combined economies of Belize and Equatorial Guinea.

The first-quarter streak was the market's hottest since 2001, when Wall Streeters and stock market investors were still flush from a record bull stock market that had sent the Nasdaq Composite Index soaring 500 percent from 1995 to 2000. Since then, the Sept. 11 terrorist attacks have stunned New Yorkers, Wall Street firms have suffered through the longest bear market since 1939–41 and slashed 100,000 jobs before starting to hire again and the U.S. Federal Reserve has raised interest rates eight times.

And yet New York home prices have kept spiraling higher. Today, New Yorkers like Musham spend millions of dollars for apartments in hopes of flipping them for even more. The roughly 8,000 active real estate brokers in Manhattan are now vying for a shrinking number of listings, helping to drive prices higher still. "It makes me nervous when I see such a staggering increase," says Paul Purcell, a partner at Braddock & Purcell LLC, a New York real estate consulting firm. "I worry that the market may be a little too hot."

Even in good times, few brokers have what it takes to become real stars. "It takes fanaticism and guts and tremendous courage," Gaines says. One of the most-important tasks for any high-end broker is shepherding clients past co-op boards. In luxury buildings, boards often require buyers to



Sharon Baum has listed the \$50 million Duke Semans mansion.

Investing in a slice of the Big Apple has trounced stocks and bonds. The average Manhattan apartment price has soared to \$1.21 million.

have at least three times the price of the apartment in liquid assets such as cash, stocks and bonds. That means a buyer needs \$15 million in assets to buy a \$5 million apartment. Disputes can get ugly: Fashion designer Gloria Vanderbilt famously sued the board of River House, a ritzy building on Manhattan's Upper East Side, for rejecting her as a buyer.

Serial closers must be able to play several roles at once: contract negotiator, financial adviser, design consultant, general contractor, market analyst, sociologist, psychologist, gofer. Baum, for instance, has helped oversee the renovation of Musham's flat free of charge. Among other things, she has prescribed a "trophy kitchen" replete with custom white cabinets, a black marble floor, a Traulsen refrigerator and a six-burner Thermador range. One time, Burnham ordered her driver to stop her Mercedes sedan so a client could buy milk. "If they wanted to go grocery shopping, that's what we'd do," Burnham says. Shvo says he recently advised a developer on the design of new, \$1 million-plus apartments near the New York Stock Exchange, hoping to make the units more appealing to his target audience: young Wall Streeters.

For brokers who can hack it, the payoff is money—lots of it. A handful of stars pull down at least \$2 million apiece annually, says Purcell, 53, who previously ran Insignia Douglas Elliman. Just five of the 1,000 Manhattan brokers Purcell oversaw at that firm—0.5 percent—made more than \$1 million. Most were lucky to earn \$100,000 to \$150,000, he says.

It's a cutthroat business, Purcell says. About 10,000 apartments are sold annually in Manhattan. Fewer than 1 percent of them are priced in excess of \$10 million. Assuming there's one broker on each side of every transaction—one representing the buyer and one the seller—that means there are just 20,000 opportunities each year to land a commission, big or small. "You have brokers fighting over the same piece of pie," Purcell says. "That's not a lot to go around."

Even the most-successful brokers rarely get to keep their entire commission. Their firm usually takes a cut. Rookies typically pocket half of the total commission, which ranges from 5 percent to 7 percent of the selling price. Veterans specializing in luxury property might get 70 percent of the commission. For these brokers, commissions operate on a sliding, tiered scale. For example, a broker might make 5 percent up to a certain price level, 4 percent up to the next level and so on. Baum, Burnham and Shvo, who win business almost entirely by word of mouth, decline to discuss their clients or the commissions they charge them.

Back on East 57th Street, Musham, a furniture designer, says she chose Baum to sell her apartment on the advice of friends. Musham bought the place in June 2004—she won't say what she paid—and hopes to sell at a quick profit. Whatever the apartment goes for, Baum's pro bono consulting has started to pay off: Musham says she's already referred two other friends to Baum. "It's all about the relationships," Baum says.

Before long, Baum slides back into her tan Rolls and heads for her next appointment. Baum, who lives on Park Avenue, typically rises at 6 a.m., runs in Central Park and then works out with her trainer. "I live on Starbucks lattes—vente, skim milk, extra foamy," she says as her chauffeur guides the car through midday traffic. "I usually spend lunch right here, in the car, either with clients or talking on the phone."

As she heads uptown, Baum explains one of the rules of high-end New York real estate: To get rich, you must act rich. Successful brokers have to live—or at least appear to live—much like their wealthy customers. "To be successful selling high-end real estate in New York, a broker has to understand what a billionaire senior partner at Goldman Sachs needs to impress his friends," Gaines says.

Hence, Baum's Rolls. She says she used to hire Lincoln Town Cars, the standard New York car-service ride, until a shabby one showed up one morning. "Sharon, is this really the best you can do?" Baum remembers her client saying. Baum promptly bought her first Rolls Royce. Seven years later, she's on her third.

Baum has come a long way from her girlhood days on a farm in Centertown, Missouri. After graduating in 1962 from Randolph-Macon Woman's College in Lynchburg, Virginia, Baum received her Harvard MBA in 1965, the first class to include women. After 18 years in marketing at Chemical Banking Corp., Baum quit to try her hand at real estate in 1987, a few months before the Black Monday stock market crash that October. That market meltdown eventually helped trigger a six-year slump in New York property prices. The average Manhattan home price fell 18 percent to \$350,078 in 1995 from \$429,242 in 1989. "I decided if I could make it in a market that was going down, down, down, down, then certainly I would be able to enjoy the good times," Baum says.

Times have been very good lately. Baum goes to Fifth Avenue to show off the priciest townhouse on the market: the \$50 million Duke Semans mansion. Tobacco king Benjamin Duke built the *beaux-arts* residence on the corner of 82nd Street in 1901. Baum has co-listed the mansion with brokers

Rich get richer Manhattan's luxury real estate prices have outpaced the overall market.



*Top 10 percent of transactions. **All condo and co-op sales.
Source: Miller Samuel

