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Greenwich rounds the bend

As lovely lanes as any in Devonshire as beautiful chateaux as many in France, a seashore lined with villas like Italy—such is Greenwich on the Sound, crowning the undulating ridges of the foothills of the Catskills or the Berkshires. —*Greenwich: Old and New*, by Lydia Holland and Margaret Leaf; Greenwich, Conn., 1935

Following the 1929 stock-market crash, Paul A. Dahlgreen, an alert Greenwich real-estate broker; appealed to his neighbors to invest in the lovely lanes, villa-lined seashores and undulating ridges directly underneath their own feet. Even then, it was hard to imagine Greenwich poor, and Dahlgreen evidently could envision no circumstances in which an acre of Greenwich land would ever command a smaller price than it had in 1929. He was wrong about that. According to Thomas B. Gorin, a contemporary broker who has looked through the old records, some estates that fetched $1 million at the top of the market in 1929 changed hands for as little as $75,000 in the 1930s. (According to *Greenwich: Old and New*, incidentally, the town itself sailed through the Depression, running budget surpluses, financing capital expenditures out of income and generously filling the Community Chest.) Not anticipating the slump, however, Dahlgreen advertised in the *Greenwich News & Graphic* on January 3, 1930, "Invest in Greenwich Real Estate Instead of Stocks":

The Town of Greenwich "market" never hits the toboggan. In 50 years, there has never been a decrease in value, but in 50 years total assessed valuation has increased 50-fold.

The name of the broker who first said that Greenwich real estate never falls is unknown, but it was surely not Dahlgreen in 1930. Jeremiah Atwater, a real estate speculator from New York, was on record with a bullish opinion as early as 1865 (if Dahlgreen's figures were right, they imply a 50-year compounded rate of return in Greenwich property of 8.14%; it was therefore correct to have been bullish in 1865 if not in 1930). The only recorded calamitous setback to Greenwich property values, besides the Great Depression, was the burning of houses by British troops during the Revolutionary War.

Rebuilt nicely since the 1770s, Greenwich is situated 28 miles northeast of New York City just over the Connecticut line. It is the richest suburb in the Northeast, and it is the Connecticut town closest to New York. It has excellent shopping, polo facilities, convenient transportation and a civic-minded population. It votes Republican and is 50.6 square miles in size. According to the Bureau of the Census, there were 59,578 Greenwichites in 1980 but only 58,270 in 1986. The town denies that there has been a decline, and, certainly, the real-estate sales population has boomed. The Greenwich Board of Realtors has almost 700 members, including a contingent from neighboring Stamford, representing 1.2% of the Census Bureau's version of the 1986 Greenwich population. To put 700 brokers in perspective, there were only 649 residential real-estate transactions last year. However, to judge by the undiminished bullishness of the brokers toward the Greenwich market and the 5% to 6% commissions paid on each brokered sale, one should probably not squander much sympathy on the local sales force yet. (Asked for advice on how to proceed in what has become a difficult market, one realtor helpfully suggested, " . . . don't price your home more than 10% higher than last year. Also, put your house on at a 6% commission rather than 5% to cover more advertising costs and to make the broker's commission more palatable to the selling broker.") Greenwich is not the most intensely brokered community in the United States, although it may be close. Aspen, Colo., musters 285 brokers out of a year-round population of 8,000, for a ratio of brokers to populace three times greater than Greenwich's. However, by any standard, Greenwich is a case study in the happy confluence of financial bull markets, abundant credit and low tax rates. It may also be a bellwether for what is to follow.

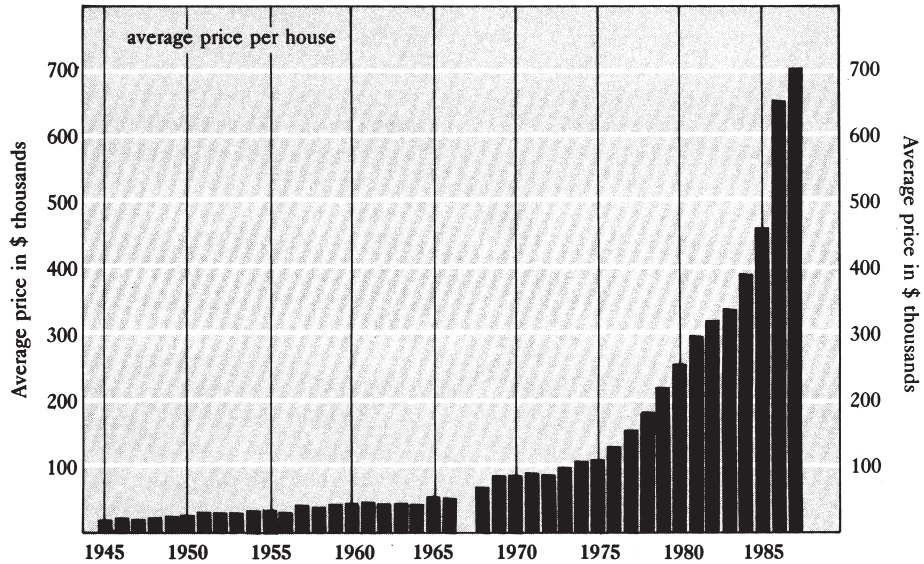

One Round Hill Road: four bedrooms for only $5.5 million.

Greenwich is bounded on the south by the Long Island Sound—in the sunshine, the Manhattan skyline gleams—and to the north by what is known as the back country. In a testimonial advertisement for Conyers Farm, a 1,000-acre development being offered in lots of 10 to 23 acres at prices of $1.3 million per lot and up (that is for the land only), a satisfied customer stated, "Conyers Farm is perfect for the polo-playing businessman." It is the type of marketing line that is thought to play well in Greenwich. In 1987, the average price of a Greenwich house was $706,150. That was only slightly less than the town's outstanding general obligation debt, $830,000, to which Moody's has assigned the fully warranted rating of Aaa.

According to *Greenwich*, a publication of the Greenwich Board of Realtors, "Greenwich's homes range from reasonably priced colonials and ranches to impressive estates and waterfront properties." These are elastic terms. To a Greenwich broker, "reasonable" can denote anything up to and including a four-bedroom, brick-and-shingle, not-much-to-look-at, 1961-vintage colonial on 2.09 acres for $910,000. Recently, a woman from Larchmont, N.Y., was shown what her broker described as the cheapest house in Greenwich. It was in the Glenville section and was offered for $243,000; opinions are subjective, but the would-be buyer called it a wreck. At the baronial end of the market, a 60-odd-acre estate on Old Mill Road, complete with manor house, stables and outbuildings and a sign at the entrance warning: "Beware of the lions," went unsold last year. The asking price was $21 million, a figure so high, even for Greenwich, that it was thought to reveal an unexpressed preference by the owner to stay put.

People want to live in Greenwich. Tom Seaver, Barton Biggs, Diana Ross, John Reed, Harry Helmsley, Donald Trump, Ivan Lendl and David Stockman own houses there. People have always wanted to live in Greenwich, and during most of the postwar period they have been willing to pay ever more fabulous prices for the privilege. Since 1945, house prices have registered annual declines in only six calendar years, according to *The Greenwich Record of Real Estate Sales*. The years were 1952, 1953, 1956, 1958, 1962 and 1972. Generations of Greenwich brokers and homeowners have come to view a strong financial return on their homes as another Greenwich amenity, like the public library.

Greenwich house prices boom...



source: *The Greenwich Record of Real Estate Sales*

In 1986, the price of the average Greenwich house broke all annual price-appreciation records by jumping 43%, to $656,000 from $458,000 in 1985. Nothing quite like it had been seen before, or at least not in the postwar period; in the runner-up percentage gain year, what had been a $32,460 house in 1956 became a$40,068 house in 1957, representing a rise of 23.4%. Probably, therefore, at least in relative terms, 1987 was bound to be a disappointment. It was.

Last year, the average house rose by just 7.7% (to $706,150), the average elapsed time from listing to sale stretched out (to about three or four months from one or two months in 1986) and the volume of transactions dried up. Late in the year, real-estate advertising linage in the *Greenwich Time* dropped off. Condominium sales softened. The Revenue Act of 1987, which effectively limits a taxpayer's mortgage-interest deductions to a mortgage no greater than $1 million (for primary and secondary homes combined), was passed—a knock at the baronial end of the market. And on October 19, the stock market crashed, discommoding local investors just as it had done in 1929 and furnishing local realtors with another opportunity to compare a substantial investment in Greenwich property with a flyer in an untrustworthy common stock.*

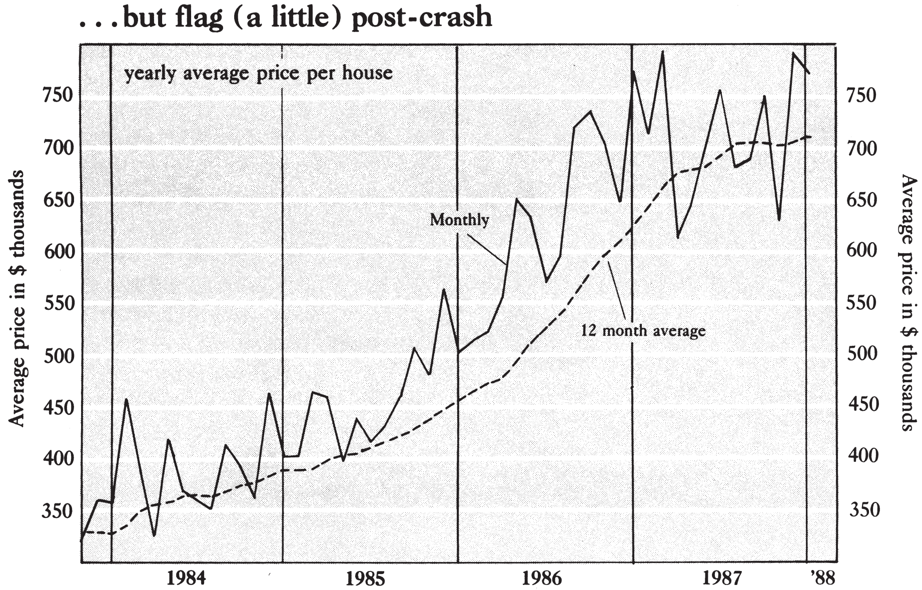
Going up, of course, is what Greenwich property values are supposed to do—have almost been warranted to do. Nothing like a bear market has started yet, but nobody who has worked on Wall Street will deny the theoretical possibility of one. For ourselves, we expect there will be less bull-market money with which to buy houses. In any event, a bear market in Greenwich property would fly in the face of a number of received truths—for instance: *Low interest rates are good for property values, and the lower the rates, the better*. However; the decline last year in 30-year, fixed-rate mortgages to 8½%, an eight-year low, sparked no new surge in prices, and it is a matter of historical record that the rock-bottom interest rates of the late 1930s were associated with the Dark Ages of Greenwich house prices. Thus, if interest rates drop for deflationary reasons, house prices will not rally. Or, another axiom: *A weak dollar delivers strong foreign buying, especially at the top end of the property market*. However, no dramatic influx of foreign money has been seen in Belle Haven, Rock Ridge or out on Round Hill Road, where a $5.5 million house built on speculation awaits a buyer. If, in view of accessible mortgage rates and the still-weak dollar, Greenwich property continues to languish, that would be worth knowing about. It would suggest that the value of cash is rising and that $1 million is on its way to becoming real money again.

Here and there recently, hot real estate markets *have* cooled down. According to The Tokyo Land and Housing Dealers' Association, for example, land prices in Tokyo have fallen by 15% from last year's peaks. (According to Thursday's *Financial Times*, some Tokyo properties have fallen 30% to 50% from the high. "Despite this heavy discounting," the paper reported, "much of the market is now frozen, with buyers sitting on the sidelines waiting for prices to stabilize.") Cushman & Wakefield recently disclosed a rise in midtown-Manhattan office vacancy rates, to 10.2% in the fourth quarter from 9.1% in the third quarter. And the Manhattan residential market has lost its bounce. Each week, the broker L.B. Kaye advertises apartments, mainly expensive ones, in the "Luxury Homes and Estates" section of the *New York Times Sunday Magazine*. Since December, the headlines over the ads have suggested a rise in the anxiety level of the owner-sellers, e.g., from last Sunday's layout, "PRICE CRASH!" ("Owner must sell now!") and "SACRIFICE ON PARK." Land in Tokyo and apartments in Manhattan and houses in Greenwich may have nothing much in common. On the other hand, it is a truism that major moves in markets are international in scope (witness stocks and bonds in 1985-87). If Tokyo land prices can go down, is it unthinkable that Greenwich can follow?

Unthinkable? Perhaps. Impossible? No. In the wake of the crash, some buyers retreated and a handful of deals have been broken. However, no across-the-board decline in house prices has been reported. One reason, perhaps, is that sellers have chosen to hold fast at the old high prices rather than do business at new and lower ones. Also, perhaps, in the eyes of the lenders, the crash has changed nothing fundamentally. Joseph D. Gioffre, president and chief executive officer of Greenwich Financial Corp., holding company of Greenwich Federal Savings & Loan, related that, in his institution, the creditworthiness of a Wall Street loan applicant is assessed by taking an average of three years' salary and bonus. When a man observed that the bonuses of the past three years have been spectacular and possibly nonrecurring, Gioffre replied that things have not gotten really bad yet—"The bonus decreases I've been reading about have been 20% or so."

In a real bear market, of course, a number of people who commute from Greenwich will be lucky to have a salary, let alone a bonus (Gioffre did add, by the way, that corporate executives handily outnumber financial people in Greenwich, and that, in any event, buyers of the Taj Mahal-type of property are relatively unleveraged). In January 1987, the number of unsold houses in the Greenwich Multiple Listing Service stood at 345. The inventory reached 561 in April, and all hands braced for the inevitable rush of springtime buyers. However, the buyers kept their distance—monthly sales volume peaked in June—and the house inventory has not significantly receded. It stands at 473, up from 345 in January 1987 and 240 in January 1986. Sales are predictably weak between the Army-Navy game and the Superbowl, brokers will tell you, but the seasonal weakness was much more pronounced in 1987. You have to go back all the way to 1981 to find a duller fourth quarter than last year's. Sales in the period from October to December 1987 (115) stacked up badly not only against the tax-bloated 1986 fourth quarter (244) but also against the fourth quarters of 1980 and 1982 (175 and 132, respectively), years of punitively high mortgage rates. "You better see a hot market from February to mid-March—that's before they go away on spring vacation—or you'll know that something happened," Louis D. Duff, a Greenwich broker, said.

. . . but flag (a little) post-crash



source: *The Greenwich Record of Real Estate Sales*

"When you are buying a house in excess of a million dollars, you are buying a fantasy," another Greenwich broker remarked. Passage of the Revenue Act of 1987, which caps a taxpayer's deductible mortgage debt at $1 million, starting last October 12, has heightened the element of fantasy in the seven-figure neighborhood. Odd to report, therefore, that the year of the crash and of the million-dollar tax bill saw a little boomlet in luxury "spec" houses. According to a report by Douglas Stevens, sales manager of the real-estate brokerage firm of William Pitt, about 36 such speculative properties are on the market, of which about two dozen have price tags of $2 million or more. To put those two dozen in perspective, only nine $2 million-and-up spec houses were sold between January 1986 and June 1987, a period that encompassed neither a stock-market crash nor passage of a disadvantageous tax bill.

The 13th annual real-estate issue of *The Nutmegger*, a Greenwich monthly magazine, was devoted to the theme "The Challenge of Selling a Big Estate," and it featured a handful of properties that could not appropriately be described, even in broker-talk, by the expandable phrase "reasonably priced." The first such estate happened to be the $5.5 million spec house, "One Round Hill Road," situated at the intersection of Round Hill Road and Lake Avenue, a Greenwich address equivalent to Park Avenue in the 70s. "While Black Monday on the stock market altered the prospects of estate owners to a degree as yet unknown," the magazine commented in introducing the house, "the positive aspect is that Greenwich real estate remains intrinsically a good long-term investment comparing favorably with the ownership of stocks and bonds."

In view of the stock market, of course, that might not seem an unreserved expression of civic confidence. However, Round Hill's owners—John Crowley, a retired executive vice president of Xerox; his wife, Carol, and a builder, Brad Carlson—are, or were when they began the project, brimming over with optimism. Carlson had had his eye on the site, "and when he heard rumors of it being developed, he stepped in fast to acquire it before it went formally on the market," the magazine related. The house is almost finished. It is a massive Georgian-style structure (the big houses in Greenwich loom up above the tree lines the way the aircraft carrier U.S.S. *Intrepid* does over the West Side Highway in Manhattan) with clapboard exterior, six fireplaces, custom millwork, an English pine custom kitchen, servants' quarters and four bedrooms. "Mr. Crowley, a venture-capital entrepreneur," said *Nutmegger*, "appreciates that it will be a special sale, but remains confident that the buyer is out there, waiting to be found, whether it be an Arabian oilman, a Texas tycoon, a Japanese electronics giant or a solvent Yuppie. The magnetism of Greenwich is universal." The price, $5.5 million, includes 4.85 acres. It works out to $1,375,000 per bedroom.

Post-crash sales plunge

Number of residential sales in Greenwich for the last three months of the calendar year:

1987	115
'86	244
'85	199
'84	174
'83	165
'82	132
'81	111
'80	175

source: *The Greenwich Record of Real Estate Sales*

Thumbing through *The Nutmegger*, a professional investor can't help but be struck by a sense of foreboding. For instance, there is the condominium problem. Last November, 204 Greenwich condominiums were up for sale. This year, it is estimated that over 300 new units will be built and brought to market. Inventory plus new supply—204 plus 300, or 504—"represents a figure nearly 20% greater than the combined sales of all condominiums in 1986 and 1987," wrote the broker Douglas Stevens, who wound up, dryly, "It should prove interesting to see if the demand for condominiums in the year ahead is proportionate to the generous supply that is anticipated."

There is also the sentiment problem. In financial markets, a preponderance of bullish sentiment is taken to be a bad omen, because it suggests that a market has already discounted the good news. For decades, in the case of Greenwich, being bullish has paid, and brokers have made a handsome living by preaching the destiny of rising prices. However, the times, probably, have changed, and what used to be congenital bullishness may already have become a form of denial.

For decades after the Crash, the giant homes of the 1920s bull market were viewed as white elephants. Nowadays, in Greenwich (and no doubt outside it), grand is in vogue once more, and no elephant is thought to be too big or too white for the carriage trade. In the 1930s and 1940s, according to the broker Tom Gorin, people would rent their houses to people who couldn't think of buying them. Maybe that is the strategy for 1988. Rent until the ratio of real-estate brokers to $5.5 million speculative houses falls more reasonably into line.

**The Greenwich News & Graphic*'s coverage of the crash, November 1, 1929, might have been reprinted, with only minor editing, on October 20, 1987:

"A steady stream was noticed calling at the local broker's office, representing people from every walk of life. Even women were among the clientele. A reporter for the *News & Graphic* visited the office but the manager and employees were too busy to discuss the matter.

"One employee was heard to comment that there was such a rush it was sometimes impossible to get an order through to New York City over the phone and that when connections were finally established, the price would be different than when the call was started."

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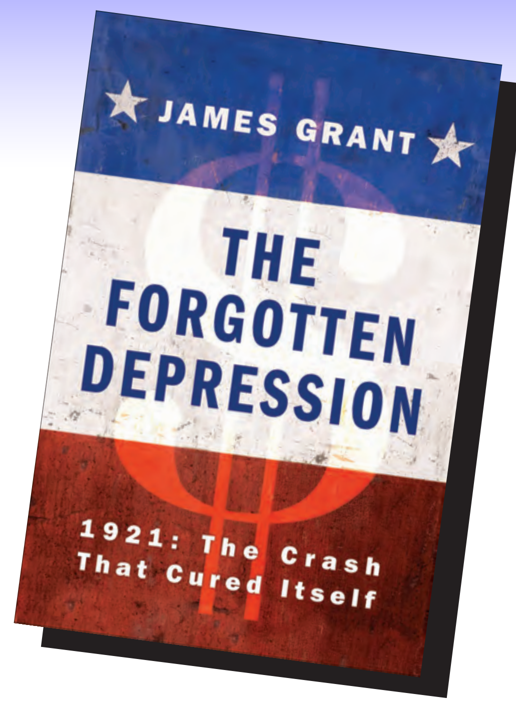

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