

Living Like a King

FOR SALE: ONE-BEDROOM, ONE-BATH CONDO ON MANHATTAN'S UPPER EAST SIDE. Two closets and a mini-kitchen complete this 672-square-foot, view-challenged space. Asking price: \$1.2 million.

This ad is adapted from an actual property description in a *New York Magazine* article (Jan. 16, 2006) on the escalating price of housing in the New York City area. If you do the math, the cost comes out to \$1,786 per square foot. Annual fees and taxes of \$14,000, of course, are extra.

Extravagant real estate prices aren't limited to a single locale. As reported in the *Los Angeles Times* (Jan. 25, 2006), one out of every 13 home sales in California in 2005 brought a price in excess of \$1 million.



In Florida, a real estate developer has offered to buy the entire 42-acre town of Briny Breezes for \$500 million, which averages out to more than \$1 million for each of the existing 488 units. Briny Breezes is a mobile home development "where some pre-built homes were rolled onto foundations and others still rest on wheels." (Bloomberg.com, Feb. 9, 2006)

What I don't understand is why there isn't more outrage about such prices in this unreal real estate market.

Have many more people suddenly traced their lineage to the Saudi Royal family, or are regional economies developing

where the "average American Joe" simply can't participate?

Expert opinions are mixed on whether a true asset bubble exists in real estate. Merrill Lynch economist David Rosenberg believes that "this is the most overvalued residential real estate market on an average national basis that we've ever seen." But Mark Vitner, senior economist with Wachovia, says that although "everyone is looking for evidence of a housing bubble, there isn't one. Supply has not kept up with demand."

Bubble or not, there's little debate that housing has become a lot more expensive for just about everyone.

We may all want to live like royalty, but I'm not sure that spending a king's ransom on basic housing is the way to get there. Food and clothing, like shelter, are basic necessities, but I doubt there would be much rejoicing if the price of a can of Progresso soup was \$10 or the cost of a pair of cotton socks was \$50. So, why the jubilation about the soaring price of real estate?

Those able to sell into this market, of course, are fortunate as long as they can either downsize or move to a less expensive area. But it seems to me that, over time, this rising tide of housing prices will do more to sink dreams of home ownership than to lift everyone's economic boats.

Turning back to that modest 672-square-foot condo, I wondered what a person would need to earn to afford such an abode. Using a mortgage calculator from the Internet, I ran a scenario assuming a 10 percent down payment, a 25-year mortgage at 7 percent, \$14,000 in annual taxes and fees, and no other monthly interest expenses. The calculator told me that a person would need to make \$377,138 annually to afford this bit of luxury.

So, can I assume that's about the typical wage for an "average Joe" in Manhattan?

If you do decide such a condo is for you, I'm sure there will be times when the walls of that space will seem a bit confining, and an escape to the wide-open spaces of the countryside is in order. If so, I have a great set of wheels to recommend.

Try the 2006 Maybach 57S. At \$367,000, it may be a bit pricey, but it's still only a fraction of the cost of housing. And with a V-12 engine rated at 604 hp, you'll have almost as many horses under your hood as square feet in your residence.

Parking, of course, is extra.

RICHARD T. ZATORSKI is chief actuary at the Guard Insurance Group in Wilkes-Barre, Pa.