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Aspen's 2008 economic outlook: Will the rich keep spending?

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For Aspen's gold-plated economy to continue to purr along in 2008, thousands of wealthy people will need to once again decide to build or buy large expensive homes, entertain lavishly in those homes, purchase luxury goods such as jewelry and art, and continue to spend freely in the local resort marketplace.

While there are signs that some Americans may now be hesitating before making such decisions, there may be other off-setting factors, including the fact that even Aspen's real estate prices may now look like a bargain to European consumers.

Designing, approving, building, selling, buying, maintaining and using large luxury homes in Aspen, Snowmass Village and Pitkin County is the main economic engine for the Roaring Fork Valley.

And one of the leading indicators for that sector of the economy is real estate sales.

It appears as if 2007 will have produced the second largest sum of real estate sales in Pitkin County, just behind 2006.

In 2006, a record $2.4 billion worth of real estate in Pitkin County changed hands.

Through November 2007, there was $2.3 billion in real estate sales recorded, according to Land Title Guarantee Co.

And it appears as if 2008 may bring about a slight chill to the local market, which is still very robust, if not surreal.

Consider that just five years ago, the amount of annual real estate sales in Pitkin County was "only" $1.2 billion.

"We've seen a weakening in the numbers of sales and in dollar volumes compared to where we were in 2006," said Randy Gold, the president and owner of Aspen Appraisal Group Ltd., who recently completed a year-end analysis of the Aspen and Snowmass Village real estate markets. "2006 will probably remain the record year, but so what? It doesn't mean that 2007 was bad and it doesn't mean that 2008 will be bad."

What it may mean, however, is that the rapid increase in the value of local real estate may slow this year.

"Most areas of the market are going to be relatively restrained with respect to appreciation," Gold said.

Conventional wisdom among local real estate brokers is that prices for local real estate don't really ever drop much, they just stop going up as much as they were.

"If history is a guide, even if the Aspen market slows down or flattens, significant price decreases - and specifically 'deals' - will be minimal or unlikely except in rare individual circumstances," writes Tim Estin, a broker with Mason & Morse Real Estate, in what he calls The Estin Report. "If there is in fact a cooling off trend, it should be regarded as a healthy sign. A slowdown is a cyclical interval consistent with Aspen's history of rapid price appreciation followed by market lulls, but not fall-offs."

Estin notes that the external factors that could slow down the market include "credit and debt market problems (that) have led to a reduction in the availability of large mortgages, high oil prices, Iraq/Iran, stock market volatility (and) recession fears."

Philip Verlager, an economist who lives in Aspen's West End, says there are also some other international economic factors that could shape Aspen's local economy in 2008.

"The key question will be the amount of bonuses awarded to people working on Wall Street," Verlager wrote in an e-mail interview. "My guess is that the cash flow over the next year to the people working at investment banks will be down sharply. ...

"Further, the Hollywood types will have less to spend due to the writers' strike. This will put serious downward pressure on prices.

"A key factor will be the unwillingness of banks to lend. I know that many buyers pay cash. However, most cash buyers then borrow. These loans will be cut," Verlager wrote.

Brian Hazen, a broker with Coates, Reid and Waldron who sold more than $100 million in local real estate in 2007, said he has seen a change in potential buyers' attitudes over the last several months due to the downward pressure on home prices in the United States.

"If their home markets are very soft, it can't but help affect how aggressive they might want to be on purchasing second or third homes," Hazen said. "We've had a pretty soft fourth quarter, frankly. There was a loss of momentum."

But while U.S. buyers might be hesitating, some European buyers may see the Aspen market as a bargain due to the current exchange rate, where a Euro is now worth $1.45 (U.S.).

"We could see Europeans and Asians grabbing up Aspen property on the cheap," Verlager wrote.

Gold agrees.

"With the dollar being so weak, there is no question that we are a great buy for a European buyer," he said.

Another factor that could play into Aspen's economy is the growth in the number of very wealthy people in the country and Aspen's popularity with the upper-upper crust.

"Billionaires have done especially well over the past decade," writes Robert Frank, a reporter for the Wall Street Journal who writes "The Wealth Report" and who recently published "Richistan, A Journey Through the American Wealth Boom and the Lives of the New Rich." "The total wealth held by the Forbes 400 has more than doubled since 1995, from $439 billion to more than $1 trillion today."

And the demand for luxury goods - and experiences - appears to be growing.

For example, worldwide demand for champagne has been very strong in 2007.

"If a country's economy is in good shape, there is a good chance that its champagne sales are also growing," notes the Western Europe Food and Drinks Insight information service.

Champagne sales in the United States have been increasing by 10 percent a year since 2005.

And the Financial Times reported on Dec. 27 that orders for Rolls-Royce luxury automobiles are very strong and that cars coming out of the plant in West Sussex, England, were pre-sold through 2009.

Locally, Gold estimates that there are now at least 40 billionaires who own property in Aspen or Snowmass Village and that they have been changing the perception of what exceptional local properties are worth.

"These guys can afford to get whatever they want, and they do," Gold said. "Their influence is being felt at the very upper end of our market."

There were at least three local single-family homes sold for more than $20 million in 2007, including one for $36.5 million, which set a new benchmark.

As an illustration of how much money a billion dollars really is, Gold said that if a millionaire spent a dollar a second - or $3,600 an hour - their money would be gone in just over 11 days. But if a billionaire spent one of his billion dollars every second, their money would still last close to 30 years.

But even billionaires can be price sensitive.

In a Dec. 21 Wall Street Journal column entitled "Predictions for the Rich in 2008," Robert Frank said he was predicting moderation by the rich.

"Don't worry: Conspicuous consumption will continue and we'll still have plenty of oversized boats, homes, planes and parties to make fun of. Yet between the volatility in financial markets, political rhetoric about inequality, concerns about the environment and a bubble in art and collectible prices, I think we'll see a slowdown in spending and price increases at the top."

As the question of whether Aspen's gold-plated economy is bulletproof, the real threat may not come from events related to Wall Street and the global economy, but from events much closer to home.

"The great threat may not be the financial situation, unless it turns into a real disaster," said Philip Verlager. "Instead it may be the demand for labor and the difficulty of finding people to provide these services."

If a billionaire buys a home, he or she is likely to expect a high level of service, from maids to cooks to drivers to ski instructors, Verlager noted.

And if more and more of those service providers can't find their way into the country or decide that commuting through Aspen's daily traffic jam is not worth it, can the resort keep its free-spending "high-maintenance" clientele happy?

"We compete with the Vails and the St. Moritzs and many other really nice places," Verlager said. "And there are lots of towns across the world that were once the playgrounds of the rich. These people are finicky and to remain competitive, we need a really skilled work force."

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