

## Los Angeles mansions are sitting on the market

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Los Angeles is experiencing a mansion surplus. Strong demand for high-end single-family homes spurred a frenzy of new construction projects. Now, those projects are sitting on the market, causing a surplus of high-priced homes. The exact cause of the surplus is under debate among L.A.'s leading luxury brokers.

"If you ask 10 different luxury brokers in the Los Angeles market, you are likely to come up with 10 different answers," Yin Ho, an associate in the real estate team of international law firm Withers, tells [GlobeSt.com](https://www.globe.st). "However, the general consensus is that within the past decade, apart from New York City, Los Angeles has emerged as the primary U.S. market for domestic and international luxury real estate buyers. From a global perspective, Los Angeles is seen as a safe and attractive market due to its status as one of the top-two "gateway" cities in California and the West Coast. This is fueled by the fact that Los Angeles supports a diverse population and economy, top tier universities, and geographic proximity to China and Asia."

While developers were certainly zealous in their response to the demand for luxury homes, Ho says that the cyclical nature of the real estate industry has contributed to the surplus. "The new crop of luxury spec homes and mansions is an optimistic response by developers seeking to profit from buyer demands," says Ho. "What has led to the actual surplus, however, is the trend-driven aspect of the real estate industry. Once a market has been established and validated—validation occurred following record-breaking sales of luxury real estate in the past five years—the industry moves quickly fulfill that market even perhaps, to a point where the market can no longer absorb the demand."

This has happened in the past. In the 2000s, Ho says that tract homes were popular, and developers responded. "The predominant trend in the 2000s was the construction of tract homes in subdivision communities and buyers purchased those homes until it was no longer sustainable," he says. "The current trend and surplus in mansions and luxury homes is no different. Unfortunately, a recurring theme has been the presence of inexperienced developers producing substandard luxury homes."

In addition to trend cycles, many of the developments are delivering at the same time, causing a short-term oversupply issues. "In response to complaints from residents as to construction impacts, the cities of Los Angeles, Bel Air, and Beverly Hills all proposed or enacted development limitations that made it more difficult, financially infeasible, or less profitable to develop 'McMansion' styled homes," says Ho. "Developers, seeking to "grandfather" their projects before the McMansion restrictions were imposed, therefore rushed their projects through the permitting stages. The effect is that these grandfathered projects will enter the market all at the same time."

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