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How to Avoid Celebrity Real Estate Blunders

Fame provides no exemption from foreclosure crisis

By Candice Novak

Posted August 8, 2008

Though seemingly immune to ordinary tasks, celebrities have not escaped the misery of real estate deals gone bad, proving all socioeconomic strata are subject to the slumping housing market. As thousands of Americans grapple with the subprime loan mess, the higher-than-usual foreclosure rate that goes with it, and a stagnant housing market, celebrities also are feeling the pain of bad real estate decisions. Ed McMahon, after his long career as Johnny Carson's sidekick on *The Tonight Show*, owes more than \$644,000 in mortgage payments on his estate in Beverly Hills, Calif., which he owns with his wife. Facing foreclosure, he is trying to sell the property for \$6.5 million, down from its earlier \$7.6 million price. McMahon explained the predicament to CNN's Larry King in simple terms: "If you spend more money than you make, you know what happens."

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An even sadder twist of fate is the situation of the families whose homes were re-done by *Extreme Makeover: Home Edition*. A growing list of homes re-done as a part of the show are now for sale; their owners can't afford to pay the extra taxes assessed because of the improvements and added square footage.

These high-profile homes are just a taste of nationwide housing woes. A report from the online real estate service Zillow.com shows that the rate of foreclosure transactions has increased nearly sevenfold in the last year. In the first quarter, 14.2 percent of transactions nationwide were homes in foreclosure, compared to 2.3 percent from the year-ago quarter. And 1 in 4 homes (26.1 percent) sold in the first quarter was sold at a loss.

The top screwups include buying and selling at the wrong time, not remembering to factor in closing fees when setting a price, and assuming that renovations will add to price.

Joe Russo, author of *Selling Your House/Condo in This Housing Emergency of 2008: A Guide to Selling Your Home Now*, says, "In this market, I would advise any seller to sell at the first opportunity they can." Very simply, the "pool of available buyers" is drying up, Russo warns, "and credit is getting tighter." He expects another two years of depreciation and at least four years before houses begin to appreciate on a large scale.

If the worst has already happened and a seller faces foreclosure, he or she should contact the lender to see about working out a forbearance agreement or other deal to give the borrower additional time to pay, says Zachary Schorr of Los Angeles-based Schorr Law, a commercial real estate litigation firm.

"Banks are not in the business of buying and selling property; they simply want to have their loans repaid with interest," he says. Because of the unusually high number of homes banks have on their hands, they may be "more willing to work with a struggling homeowner" to come up with a deal, Schorr says.

When it comes to selling a house, you should spend sparingly on improvement. "It's not a good time to put major money into renovations," says Rob Harrington, chairman of Ophome, a company that provides consumers with a variety of real estate information. The work often doesn't lead to a higher selling price. "Spend the money on the little things to provide a good curb appeal, but don't re-do the kitchen or bath" in hopes that will increase the final price, he advises. "It just doesn't translate over."

These are some of the biggest celebrity home blunders from the past half year:

Donald Trump lowers price by \$25 million, and sells

Donald Trump's mansion in Palm Beach, Fla., sold for the most ever spent on an estate in the United States. But that was after an equally impressive price cut: Trump lowered the cost from \$125 million to \$100 million after two years on the market. He sold the house to a Russian billionaire this month. Trump bought the 60,000-square-foot house called the Maison de l'Amitié for \$40 million. He assigned one of his *Apprentice* show's winners to renovate the place, which added to the price.

CNET founder incurs net losses

Halsey Minor, founder of the Computer Network, sold his Bel Air, Calif. glass-and-glitz house for about \$12 million just two years after buying the place for \$20 million. There's been no explanation of the house's multimillion depreciation. The four-bedroom, nine-bath mansion was put on the market in June.

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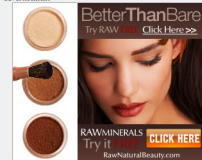
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Strikeout

The lender foreclosed on retired baseball player José Canseco's 7,344-square-foot house in Los Angeles in May after he couldn't make payments. He bought the house, which was built in 2001 and had four bedrooms, six baths, and a pool, for about \$2.8 million in 2005. After a couple of multimillion-dollar divorces, Canseco was strapped for cash. He also lost "about \$1 million" in equity in the house. The Wall Street Journal said Canseco could be one of the highest-profile owners to walk away from a mortgage. The house also had liens against it.

Bad bet

Professional poker player Annie Duke sold her mansion in Los Angeles's Hollywood Hills in June 2007 for \$2.84 million, losing \$10,000 on the deal. The 42-year-old Duke bought the 3,528-square-foot house in 2005. It was built in 1928 and had four bedrooms and three baths on a quarter-acre lot. Duke bets, matches, and raises for a living, but the Columbia graduate had to fold on this one.

Neverland Ranch never paid for

Michael Jackson owes more on his loan than his fantastic estate in Santa Barbara, Calif., is worth. The King of Pop owed \$23,212,963 on his \$23 million loan in November, causing the bank to foreclose on the property. On the same day the estate was to be auctioned in May, the loan was bought by Colony Capital LLC.

Fed chairman sees housing slump firsthand

Ben Bernanke isn't selling or in foreclosure, but his Washington, D.C., home has lost value in the housing and loan crisis he so closely follows as the Federal Reserve chairman. He bought the 2,600-square-foot, four-bedroom place for \$839,000 in 2004. The value went up each year until this year. The proposed 2009 assessment is \$885,290—down from last year's \$948,110.

Hard Rock Cafe founder sells

Peter Morton, cofounder of the Hard Rock Cafe chain, sold his beachfront house in Malibu, Calif., in February for \$9.8 million—though he bought the property for \$10.5 million in 2007. The buyer was media mogul David Geffen, who helped form DreamWorks.

Up Beverly Hills

Actress Sharon Stone attempted to sell her Beverly Hills mansion at about the price for which she bought it. When there weren't any takers, she lowered the asking price by almost \$1 million in May. The price dropped from \$10.95 million to \$10 million on the Sotheby's listing. Stone bought the property through her Vanguard Trust in 2006 for \$10.99 million.

Bust in Brewster, N.Y.

Actor Harvey Fierstein will lose money on his home, which is on sale through a broker in New York. Fierstein bought the rural, 3,640-square-foot, four-bedroom house in Brewster in late 2005 for \$790,000. It is now listed for \$749,900.

Swimming around zero

Olympic swimmer and model Amanda Beard is selling her bungalow in Venice Beach, Calif., for the same price she bought it for—\$1,045,000. Beard, who purchased the 981-square-foot, 3-bedroom house in 2006, will likely lose money on the sale after dealing with closing costs.

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