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For Silicon Beach homebuyers, a salary's just a starting point

Techies tap stock options and crypto in dealmaking frenzy

By Alexei Barrionuevo | June 06, 2018 10:00AM

(Credit: Bird, Pixabay, Money via Flickr)

There was a time when buying a first home meant patiently saving money for several years — or cozying up to mom and dad for the down payment.

While those practices remain, a growing number of young buyers in Silicon Beach are purchasing multimillion-dollar homes by liquidating stock options — or even cryptocurrency portfolios — in a bid to edge out the competition and boost their purchasing power.

And cashing out is not the only way they are doing it.

Over the past year, big banks have become more open to allowing buyers to use option grants as a measure of total compensation. That has allowed buyers who work in tech to shop for far pricier homes than their salaries alone would allow them to consider, mortgage brokers and agents say.

"This is a huge part of how they are able to buy higher-priced homes," said James Kay, a private mortgage banker at Wells Fargo in El Segundo.

The shifts help explain how Silicon Beach is, in some ways, becoming a housing economy unto itself, driven by its own particular pools of cash flowing from the tech industry. The beachy set of Los Angeles neighborhoods that stretch from Playa del Rey to Santa Monica have seen overall single-family home sales volume hit $2.3 billion between April 2017 and March 2018, a 69 percent increase from the 12-month period ending March 2016, according to The Real Deal's analysis of Redfin data. The number of sales have also jumped significantly, to 1,133 transactions from 770.

"This is definitely fueling the market," said Bianca Mitchell, a 30-year-old agent with Halton Pardee + Partners who lives in Santa Monica and is engaged to a tech startup executive. "There is no way I could afford to buy something here unless I had a large infusion of cash like that."

"How are you going to get that much cash, that quickly, at our age?," she added.

A wave of new business

Of the five deals Mitchell did this year, she said that all but one client tapped additional funds from stock options at large tech companies, or from past startups, to help fund their down payments.

Stephanie Younger, who leads a Silicon Beach-focused team at Compass, said that buyers used stock-option cash to help fund their purchases in about 15 percent of the 168 sales her team did last year. Among buyers 35 or younger, more than half tapped option funds, she said.

Silicon Beach is an outgrowth of Silicon Valley, anchored by mushrooming extensions of the tech behemoths based up there, including Google, Facebook and Apple. These firms, and the ecosystem of smaller companies that are built off them, are taking over millions of square feet of space in L.A., reshaping the city's office and residential markets in the process.

The companies are hiring a steady stream of talent in L.A. from the Bay Area, Seattle, Texas and New York, many of whom are looking to buy homes within walking distance of their offices on the West Side, agents say.

"The technology cluster in Silicon Beach is immense," said Younger. "We are seeing much more activity from media tech, advertising tech, and companies like Tesla, SpaceX."

Playa Vista, with its long row of tightly clustered apartments, condos and detached homes feeding off of Jefferson Boulevard, is considered the epicenter of the growing tech zone. Developer Brookfield Residential shifted from building smaller condos in the area to larger detached homes, some of which have sold for more than $4 million.

Facebook and Google have rented massive spaces in Playa Vista for expansions, with Google set this fall to take over the former Howard Hughes airplane hanger, dubbed the Spruce Goose.

Neighborhoods like Mar Vista, some four miles from Playa Vista, were considered affordable just five years ago. Now, the bedroom community of mostly single-family homes has become a magnet for tech executives with families.

Earlier this year, Halton Pardee responded to the uptick in business by opening a new office that straddles Culver City and Mar Vista, said Tami Pardee, CEO of the firm, who sold a four-bedroom, five-bath home last year in Mar Vista for $3.7 million. With 25 buyer's agents and five listing agents working the area, Halton Pardee is the most active firm in Silicon Beach, agents and mortgage brokers say. Younger's 13-person Compass team is in second place.

Driving the activity are the high salaries tech companies are paying, generally ranging from $150,000 to $350,000, agents say, and the ballooning rents in the area. The median rental price for a one-bedroom apartment in the Marina del Rey/Playa Vista neighborhoods, was $2,900 this February, up 15 percent from 2015, according to Zumper.

"People are starting to see the value in owning a condo that is $1 million versus paying $5,000 in rent," said Tamara Mattox, an agent with Halton Pardee who did 20 transactions in Silicon Beach last year, mostly to tech buyers. "Most of these guys have the income to comfortably support any purchase under $2 million. The people that are buying in excess of that have had to cash out a significant amount."

Crypto and Stock Options Boosting Sales for Younger Buyers

This wouldn't be a true techie haven without cryptocurrency making a cameo.

Agents like Mattox, a Bitcoin investor herself, have built almost mini-practices around referrals from other crypto evangelists who are looking for ways to turn their profits into a pad.

Last year one of her clients, who had bought Bitcoin when it was $200 per coin, used a portion of his $150,000 profit for a down payment on a $1.6 million, three-bedroom home in Venice. To create the necessary liquidity, Mattox steered him to Robinhood, a third-party platform where investors can convert to dollars for a modest fee.

Kris Zacuto, an agent at Hilton & Hyland marketing homes in Playa Vista, said he has been surprised by how open Silicon Beach buyers are about their source of wealth, “walking around with million-dollar crypto portfolios.”

But the use of cryptocurrency in real estate is still in the crawling phase, as many brokerages and escrow companies are not yet equipped — or trusting enough — of the monetary instruments to treat them as income or assets.

Buyers also need to be careful to liquidate their portfolios into dollars further out than 60 days, said Jonathan O’Donnell, a loan officer at PERL Mortgage in Santa Monica. Any less time and banks may not treat the funds as verified assets. O’Donnell said that some crypto-holders, frustrated at the bank’s rules, have simply elected to convert to dollars and then buy properties in cash.

More common in Silicon Beach has been the use of liquidated stock options to fund purchases, with some buyers using restricted-stock units to extend their buying power.

Where banks once shunned stock options from public companies, they now seem more open to considering them as additional income, provided buyers can show they have had the stock for at least two years and will continue to receive shares as part of their compensation, mortgage brokers said. Banks value the shares based on the average share price for the last year.

The changes allow them to out-muscle lawyers and other professionals working primarily with a salary. Tech buyers, even with median salaries averaging $240,000 at companies like Facebook, “were at a disadvantage previously,” O’Donnell said.

“They had all this income coming in and the banks were ignoring half of it,” he added. “Now they are getting what they deserve. They feel finally banks are willing to see this for what it is; it is part of their compensation.”

Banks that have adjusted their stance on the stock awards include Union Bank, Bank of America, Wells Fargo, Chase and Luther Burbank Savings, O’Donnell said.

Kay, the mortgage banker, said Wells Fargo has adopted a “more conservative” stance on how it qualifies restricted stock units as income, compared to more “liberal interpretations” from banks based in Silicon Valley. But he said that “in certain circumstances, yes, we can use that as income to help them qualify for a higher purchase price.”

In one recent case, an employee of a dating app company was able to qualify for a $1.4 million home in Silicon Beach this year on a base salary of $120,000. Originally, his salary was only enough for him to buy a $750,000 home. But with nearly 19,000 vested shares from 2016 and 2017 he was able to boost his income, in the eyes of lenders, by an additional $237,000, to more than $357,000 in total income, according to someone familiar with the deal.

Mortgage brokers worry that banks could adjust their view on the stock awards again in light of companies like Snap, where shares prices fell considerably after the company went public last year, potentially putting some options underwater and future income in doubt. “Does that buyer look the same now?” O’Donnell said.

Kay agreed, noting that lenders that approved loans for Snap employees meant that “you just gave a loan to somebody based on income that is probably going to go down.

“For that reason we are extra-conservative,” he said. “We look at it on a case-by-case basis.”

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