

WEALTHY NEW YORKERS

REPORT

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Cutting back on luxury

Well-to-do pare pricey purchases as recession affects wallets, consciences

BY DANIEL MASSEY

Justin Israel, a retired garment manufacturer, is a wealthy man with an apartment on Central Park South and a beloved collection of art. But with the value of his stock

portfolio and of his Florida real estate investments falling, he recently decided that there were a few things he could do without.

The renovation of his summer home in the Hamptons? Not just now. Adding to his

collection of photographs of American Indians by Edward Curtis? "I've passed on the last couple

DOWN CYCLE: Justin Israel is holding off on renovations and art purchases. For mini profiles of the affluent and their spending, see Pages 22 and 23.



BUCKLE UP

Ultrarich New Yorkers cut back luxury

LIZ PALEY, 42

Vice president of advertising and marketing, Polo Ralph Lauren

INDULGENCE A day away from telephones and e-mail

VACATION SPOT Anywhere off the beaten path in Vermont

TOP SHOPS Ralph Lauren and independent bookstores all over the city

FAVORITE RESTAURANTS Eleven Madison Park and Union Square Cafe

CUTBACKS "I'm spending less to get more, and making sure that more of each paycheck goes to savings rather than discretionary spending. I'm conservative financially: The 13th mortgage payment gets made before I take a vacation."

RECENT PURCHASE FOR HER HOME "I had living-room drapes made. They're a beautiful gray striped flannel. They look like men's suiting."

—ELAINE POPELDT

of auctions," he says. As the economic mood darkens, even wealthy New Yorkers are cutting back. Acting less out of necessity and more out of a general feeling of anxiety or caution, many of the city's rich—including multimillionaires—are thinking twice about the latest sports car, designer handbag or home remodeling.

Luxury declines

"THIS IS THE YEAR the bottom falls out of

luxury," says Fred Crawford, managing director of AlixPartners, a restructuring and financial advisory firm.

He predicts that luxury shoppers will trade down to less pricey stores and may even consider no-frill brands.

Nationwide, spending on luxury goods was down 5.8% in February, according to MasterCard SpendingPulse, a retail indicator based on MasterCard transactions and estimates of cash and check purchases.

SAM EWEN, 38

President, Interference Inc., a guerilla marketing company

INDULGENCE Buying unique shoes

VACATION SPOT Cape Cod

TOP SHOP The Apple store

FAVORITE RESTAURANT Blue Ribbon Bakery

CUTBACKS Skipping the "nice to have" and getting only the "need to have"

RECENT PURCHASE FOR HIS HOME Vintage 1950s furniture

—DANIEL MASSEY



JUSTIN ISRAEL, 80

Senior adviser, Thirteen/WNET patron department; retired clothing manufacturer

FINANCIAL STATUS "Moderately wealthy"

INDULGENCES Subscriptions to the Metropolitan Opera and New York City Ballet; flying business-class

VACATION SPOT Recently returned from tour of Egypt

FAVORITE RESTAURANT Anthos

CUTBACKS Postponed remodeling of second home in the Hamptons

—DANIEL MASSEY

Same-store sales at Saks rose just 3.8% in the first two months of 2008, a fraction of the 18% jump posted a year earlier. Meanwhile, real estate agents say the market for second homes has tumbled. Some wealthy New Yorkers who have lost their jobs or who are facing much-reduced bonuses this year have a real need to change their lifestyles. Others, like Mr. Israel, are feeling squeezed by the sudden drop in the value of their investments.

The Bear Stearns story is a tale dramatic enough to give even a billionaire pause: James Cayne, chairman of the beleaguered securities firm, sold his stake—worth almost \$1 billion last year—for just \$61.3 million.

Some financial advisers report that the wealthy are moving assets into safer investments in the wake of the Bear Stearns debacle.

Avoiding the Bear trap

"IT'S ABOUT AVOIDING a situation where you could lose 20% of your assets in a week," says Tommy Gallagher, chief executive of Tiger 21, a Manhattan-based club for individuals whose net worth is more than \$10 million.

A large number of the well-to-do are reacting to the general economic malaise. They are conscious of the fact that while they may not need to pare spending, many others do.

"I cut back on conspicuous status expenditures because I don't think they're as appropriate during a downturn as they are during a time of prosperity," says Mark Kress, who earns an eight-figure salary as chief executive of Spencer Forrest Inc., a manufacturer of hair-care products.

"While I could easily afford to go to Europe, there's an absurdity to \$30

MARK KRESS, 63

Chief executive, Spencer Forrest Inc., a manufacturer of hair products

INCOME Eight figures

INDULGENCES Art acquisitions, period furniture

VACATION SPOTS Caribbean, Southeast Asia

TOP SHOPS Bloomingdale's, Bergdorf Goodman, Armani

FAVORITE RESTAURANT Waverly Inn

CUTBACKS Eliminating European travel and conspicuous status expenditures

RECENT PURCHASE Acquired and completely renovated a duplex penthouse condo in a converted church in Greenwich Village, featuring a 50-foot-tall atrium, original stained glass and a large terrace with outdoor kitchen

—DANIEL MASSEY



martinis and \$2,000 hotel rooms that I can't accept," adds Mr. Kress, who recently backpacked through Laos and Cambodia.

Mr. Kress is typical of many of the well-to-do, according to experts. Among the upper echelons, the latest styles have been the initial casualties, says luxury brand consultant Suzanne Hader, a principal of 400twin.

"They would rather put money into experiential stuff, like great vacations, than fashion—things that will have an impact on emotional life," she says.

Spending on substance

In a nationwide survey of more than 200 individuals whose net worth is between \$1 million and \$10 million, researchers from Prince & Associates Inc. found similar patterns. Sports cars are a no-go, but vacations of more than \$10,000 are still on the agenda.

In short, frivolity is out of style. Substance is in. New Yorkers, in particular, are thought to be wedded to experiences, like dining out, expensive spas and top exercise trainers. But they are able to walk away from items such as jewelry and

furniture.

"Do I need that expensive piece of clothing or a new watch?" says Sam Ewen, president of marketing company Interference Inc.

"The things I might do at other times say I can drop a couple of grand on, I'm now putting a second filter on."

Mr. Israel just renewed his subscription to the Metropolitan Opera, where attendance for the 2007-08 season is up about 5 percent over year-earlier levels.

"Do we think a second time about spending a lot of dough on something?" he asks. "Yes. But in the final analysis, we'll still live our lives."

LINDA TRAU, 56

Fashion designer

INDULGENCES Reading, films, traveling

VACATION SPOT Paris

TOP SHOPS Barneys New York, L'Éclairer in Paris, Dries Van Noten in Antwerp

FAVORITE RESTAURANTS Gobo and Candle 79 in New York

CUTBACKS Scaling back on shoes, bags, restaurants, electricity

RECENT PURCHASE FOR HER HOME A vase

—DANIEL MASSEY