

Beverly Hills Condo Borrows From Its Buyers

BY NICHOLAS G. MILLER

The developer behind one of the country's most expensive real-estate projects has an unusual request for its condo buyers: Lend us money.

Purchasers of the site's roughly 150 condo units are also providing debt to help Cain, an investment firm based in London, fund its \$10 billion project, known as One Beverly Hills.

The 17.5 acre site, set to be completed in 2029, will include high-end retail such as Dolce & Gabbana, upscale dining, 78 new hotel suites and acres of botanical gardens.

The ultraluxury condos will be operated by Aman, one of the world's leading high-end hotel operators.

The condo owners' debt takes the form of a bond—the developers call them Founder Bonds—and buyers will receive a return of 5%, according to a person familiar with the matter.

No condo buyers are forced to participate in the bond program. Founder Bonds offer a financial return and the opportunity to assist in the construction of their future home, Cain has told condo buyers.

When the Founder Bond program was launched early last year, 10-year Treasury debt offered less than 5% returns. In recent weeks, however, the 10-year yield has exceeded that level, rising above 5.3% at one point this month.

That means Founder Bond holders are now earning less than the yield on Treasuries, which are commonly considered the "risk-free" rate.

But some said this rarely seen financing tool sticks condo buyers with a risk.

The bonds are junior to other debt on the project, which includes a \$2.8 billion senior loan led by J.P. Morgan and a \$1.5 billion mezzanine loan from VICI Properties. Parts of both loans are conditional on Cain hitting certain sales milestones.

That means that if the condo towers were to fall short of completion—in a city where most luxury buyers are focused on single-family homes and estates—bondholders could be left not only without the penthouse that they were expecting, but also without the extra money lent to the developers.

“Even though these are luxury buyers, I would guess they’re going to face more exposure if the project goes bust than they may realize,” said David Reiss, a professor at Cornell Law School, who researches real-estate finance. “They’re getting paid a small amount to take a large amount of risk...but because they’re luxury, they may be able to tolerate the risk better.”

California typically limits deposits developers can keep from buyers to 3% of the purchase price—far below typical deposits for luxury condos developers can retain in other states—to protect buyers if they decide to pull out. And unlike several other states, California doesn't allow developers to use that deposit money for construction costs.

But those deposit restrictions don't apply to Founder Bonds, giving Cain flexibility to use that money on the project.

Cain has already raised around \$350 million through this novel approach to help finance a major commercial real-estate project and aims to boost that number to over \$1.6 billion, say people briefed on the matter.

Cain has the funds to complete the project without relying on the Founder Bonds, but money raised from buyers through the bonds would replace some of the equity Cain has committed to the project, according to people familiar with the matter.

For One Beverly Hills to pencil out, the condos will have to command an unprecedented level of demand. Prices for the residences start at \$15 million, and recent sales have exceeded \$7,000 a square foot—more than \$2,000 above the square-footage price earlier this year of a condo in West Hollywood's Sierra Towers that set a Los Angeles County record.

In July, one buyer reserved a penthouse to be sold for \$200 million, a price that would blow past the L.A. market's previous record condo sale of \$39.2 million. More than \$1 billion worth of condos are already under contract or reserved.

"You're offering people 360degree views which can't be touched, acres of gardens and a level of privacy and service that allows them to enjoy their home without having to manage everything that comes with it," said Jonathan Goldstein, Cain's chief executive.

All the buyers so far have agreed to purchase Founder Bonds, typically worth around 30% of the sales price, according to a person familiar with the matter. Over the summer, Cain raised \$70 million in Founder Bonds across \$200 million in condo sales.

Many condos listed in Los Angeles in recent years have struggled to command prices owners were seeking. On multiple new condo projects, the original developers defaulted on loans before the buildings fell into other hands.

"I don't know how many of them...are going to trade out of their house for a \$20 million condo," said Los Angelesbased luxury real-estate agent Tyler Drinkwater. "You're trading down in space. The economic dynamics don't really add up to me."

At the Beverly Hills Mandarin Oriental, another branded residence, developer Michael Shvo defaulted on a \$200 million loan in 2024. Shvo offloaded the remaining unsold units in a bulk sale to an investor the following year.

Through August, condo sales in Los Angeles were lower this year than in any other year on record, according to Redfin, whose data stretches back to 2012.

Proponents of One Beverly Hills said the ultraluxury market is a different story.

"When you get above \$10 million, we're seeing a very different buyer," said Parker Beatty, Compass's regional vice president of Southern California and Hawaii. "They want the ability to lock and leave, they want the security and amenities."

The ultrawealthy move around much more than they used to as their businesses have become more global and want the flexibility that condos provide, said Liam Bailey, global head of research for real-estate consulting firm Knight Frank.

Plus, Beverly Hills has continued to boom, even as other parts of Los Angeles have declined.

"Beverly Hills is its own animal," said Erik Hendrickson, managing wealth adviser for the Los Angeles region of Northern Trust.

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