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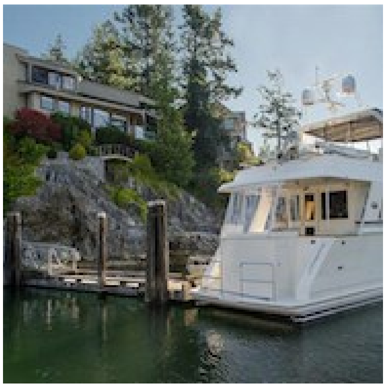
RESEARCH

$2.9T of UHNW wealth invested in residential real estate: report

February 5, 2015



Sotheby's Vancouver property for sale for $7.7 million

By SARAH JONES

The 211,275 ultra-high-net-worth individuals collectively hold $2.9 trillion worth of residential properties, according to a new report from Wealth-X and Sotheby's International Realty.

From 2013 to 2014, the value of these residential real estate assets grew 8 percent, and in 2014 7 percent of the world's wealth was made through real estate, up from 5 percent the previous year. Between the third quarter of 2013 to the same period in 2014, luxury residential real estate grew 2 percent faster than the entire real estate market.

"It was good to have a third party validate what we felt was happening, which is this continued creation of extremely high net worth," said Philip White, president and CEO of Sotheby's International Realty, Madison, NJ. "We know that they have a great appetite for luxury real estate, which obviously is our core business.

"On average, a billionaire owns four properties, they trade them out every three years, and the four properties total about $96 million," he said. "These are all facts that we wanted to assimilate, we can share this with our 16,000 sales associates and brokers, they can in turn send this out to their clientele.

"So it just helps us get a closer look at what we do on a daily basis, which is sell properties, not only in the United States, but all over the world."

The inaugural "Global Luxury Residential Real Estate Report 2015" studied properties valued at $1 million or more, owned by ultra-high-net-worth individuals, defined as having a net worth of at least $30 million.

The UHNW Real Estate Index used the average price per square foot in the most popular luxury neighborhoods within key locations, including New York, Hong Kong, London, Singapore, Dallas, Mumbai, Los Angeles, Paris, San Francisco and Washington, Palm Beach, FL and Monaco, as well as the average price of properties sold in these areas.

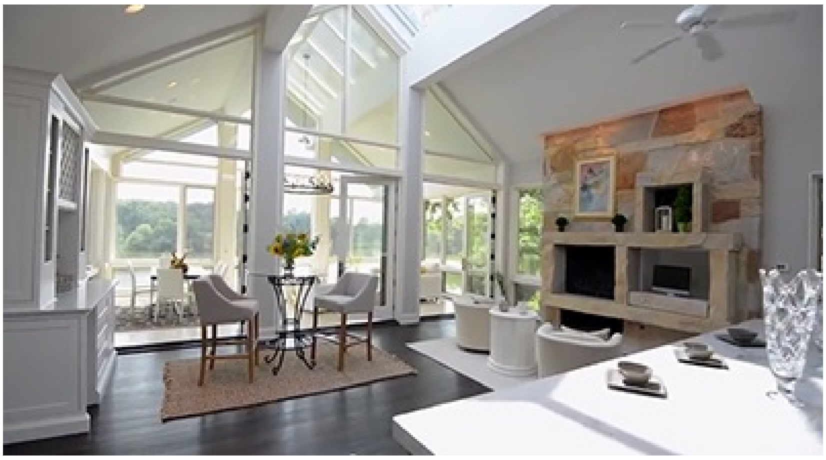
Spreading out

Most of the ultra-high-net-worth population owns a property in their residential city, as well as additional real estate outside of their hometown or country. Seventy-nine percent of this group owns two or more properties.

Billionaires are more likely to own multiple properties, with an average of four homes worth $94 million.

The UHNW population may have the financial means to own luxury residential real estate, but some choose to instead purchase more properties at lower price points.

Affluent families may use real estate as a method to increase their wealth, but the main driver behind purchase decisions is personal or practical. For instance, parents may buy a second home nearby to their child's university or a wealthy individual may buy a property near to a place of frequent business travel.



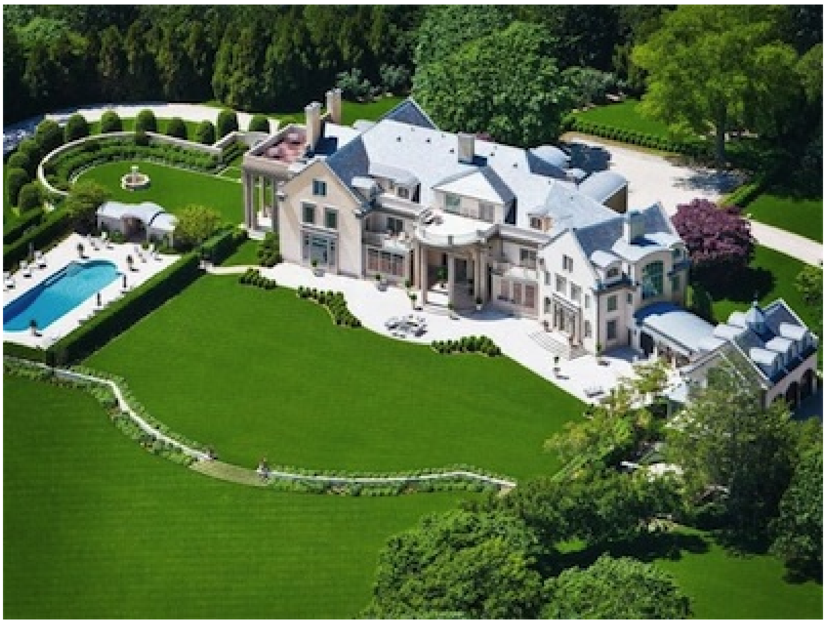
Sotheby's property in Illinois

Typical cities such as New York, London and Hong Kong continue to be popular, but new emerging markets including Monaco, Lugano, Switzerland and Marbella, Spain are gaining traction. The global nature of the luxury consumer means these individuals are seeking out properties in new locations.

Wealthier individuals, particularly billionaires, are more likely to have properties in multiple countries outside their own, while those with lesser net worths are more prone to looking domestically.

The affluent are also looking outside of their national borders for permanent homes, with more than 6 percent relocating beyond their birth country.

Secondary residences tend to be tied to hobbies or vacations, and these consumers invest in the enjoyment of their free time. Compared to a first home, these properties feature twice the square footage and are 45 percent more valuable.



Sotheby's listing in Southampton, NY

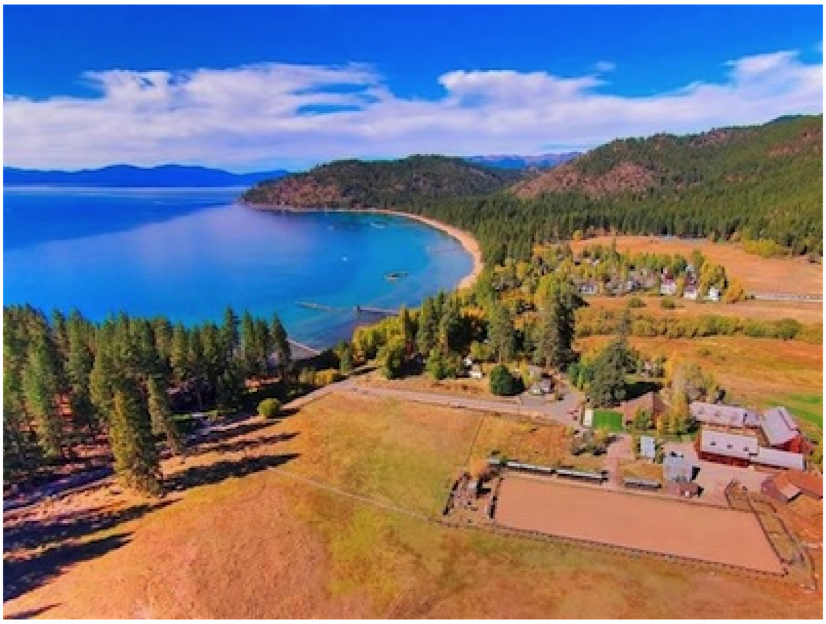
Secondary properties are typically held for 10 years, while primary residences are retained for 15 years on average. For billionaires, the amount of time property is held is lower, averaging three years, as they search for more investments.

UHNW consumers whose wealth is inherited generally hold 17.2 percent of their assets in real estate, more than other segments of the ultra-wealthy population. The greater an affluent's wealth, the smaller the percentage of their total net worth that comes from real estate.

Women value real estate more than men, holding 15.8 percent of their assets in real estate, compared with men's 9.9 percent, partially due to their lower appetite for risky investment. Female UHNW consumers also own properties which are 10 percent more valuable than their male peers.

Female millionaires also hold on to their properties twice as long as men.

Older UHNW individuals are more likely to buy large tracts of land, which can be more easily divided among inheritors than a house.



Sotheby's 133-acre ranch listing in Nevada

Seventy-five percent of the ultra-high net worth population is over the age of 50, and over the next three decades, $16 trillion is expected to be passed down to younger generations. When wealth moves to new generations, the inheritors tend to do active things with the money, such as invest in real estate or sell inherited properties (see story).

The older a consumer is, the larger the percentage of their liquid assets within their entire net worth.

Many UHNW individuals have the means to purchase a property with cash, but many choose to take on a mortgage instead. Part of the reasoning is that their cash earns a return consistently, rather than being stagnant.

Affluents also want to keep cash on hand to ensure the amount of funds necessary to make a business investment. UHNW generally keep $35 million in cash holdings, while for billionaires the figure is $600 million on average.

"This asset class for them, typically they're not going to want to lose money, but for the owner occupied, the primary driver is really about lifestyle, and comfort and having a place to be with their families," said David Friedman, president of Wealth-X, New York. "They're not investing in this to see maximal returns most of the time.

"One of the other fascinating things that came out of these observations was that counter to popular perception, this group is just as inclined to use credit, even though they have the cash to pay for an asset, and that would be because they want to use that liquidity as dry powder for other opportunities," he said. "I think the mentality is 'Why should I be paying rent when I can own something, and especially if I'm going to be spending time there?'"

New money

In general, the UHNW consumer who favors real estate tends to have inherited wealth. However, the Chinese and Russian consumers scooping up real estate tend to be self-made and younger than the global average, 52 years old compared with the general 59.

Russian buyers tend to look for properties in the United Kingdom, U.S., Italy, Australia, France and Switzerland. Those that have more than two residences share the common hobbies of real estate and traveling.

Eighty-nine percent of Chinese UHNW home buyers are self-made, with Hong Kong, Singapore and the United States as prime markets. They also show interest in Australia and Canada.

In 2014, the major metropolitan markets in Canada all saw double-digit sales growth for properties priced at more than $1 million, according to a report by Sotheby's Realty Canada.

The Greater Toronto Area saw the greatest gain, with a 38 percent rise in sales volume, compared to 2013. With a high demand for real estate in these markets, properties stayed on the market for less days, with a greater percentage of sales happening at more than the owner's asking price in both Vancouver and the GTA (see story).

Also, the average sales price for condominiums and co-ops in New York in 2014 is $1.8 million, according to CityRealty's year-end report.

Real estate prices in Manhattan have risen this year, reaching all-time highs in some areas. Understanding the highly priced areas in the Manhattan real estate market can help brands understand the neighborhoods to look toward for new store openings and events to best reach ultra affluent consumers (see story).

This growing interest from foreign buyers has changed the New York real estate market.

"The interesting thing is that New York luxury residential real estate, owner occupied, has been primarily and often hinged and linked to bonuses from the banking community, the financial community," Mr. Friedman said. "In the past, over the last decade, if bonuses were going to be big, then you knew the price of real estate was going up. If it wasn't, then it was going to drop.

"That as a primary driver of luxury residential real estate price and value has actually been decoupled, and now is more coupled to foreigners buying luxury residential real estate," he said. "And the Chinese trend in New York highlights a specific example of that.

"But it continues to drive it. What it does is it makes the value of high-end luxury residential real estate in New York less dependent on financial services and what's going on in Wall Street and also less attached to macroeconomic trends. Because the ultra-affluent who are going out and buying these assets here in New York, for example, their wealth is at a different scale, that it's pretty much insulated from the macroeconomic trends."

Final Take
Sarah Jones, editorial assistant on Luxury Daily, New York

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