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RESEARCH

Millennial wealth impacting real estate markets, transaction process

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Aspen, CO home, listed on Coldwell Banker's Web site

By FORREST CARDAMENIS

Individuals are increasingly reaching levels of ultra-high net worth at a younger age, a development with notable impact on the real estate market, according to a new report from Coldwell Banker.

High-net-worth millennials spent nearly $5 million for their most recent home, a number more than triple that of baby boomers and less than $300,000 behind Gen Xers. The increasing wealth of young consumers is already having a profound impact on preferences and behavior as well as the demand in particular markets.

"If there is a trend, it is the rise of ultra wealth in younger generational categories, which is consistent with the overall growth of ultra wealth across all ages worldwide," said Ginette Wright, vice president of luxury marketing at Coldwell Banker NRT.

"This is a result of strong economic growth in areas like Asia, inherited wealth and the technology boom," she said. "Twenty years ago we didn't really see young adults become billionaires overnight like we do today in the tech world."

"Wealth, Real Estate and the High-Net-Worth Investor: Survey and Insights Into Preferences and Behavior" looks at the 1.8 million households and 1.5 percent of the population with an income of at least $200,000 and a net worth no lower than $5 million, determining their demographics and attitudes toward real estate agents, amenities and the generational differences among the consumers.

Growing young

These high-net-worth individuals have an average age of 53 and skew slightly male, 56 percent to 44 percent, with an average of 2.1 homes and almost two-fifths of their wealth tied to residential real estate.

Beverly Hills, CA, Coldwell Banker listing

About a third of those surveyed said that having a home gym is more important to them now than it was three years ago, and slightly more said having a green or LEED-certified unit is more important, responses likely due to an influx of millennials who have entered the high-net-worth demographic. Millennials are still the generation least represented amongst high-net-worth individuals and may not even be primary breadwinners, but their average household income, net worth and percentage of net worth in real estate each surpass that of boomers, who account for 43 percent of the HNW population.

Somewhat counter-intuitively, technological advances have made real estate agents irreplaceable. Seventy-two percent of respondents said an agent is more important than ever, almost two-thirds say they would never consider buying or selling a home without one, and over half say they are more important when selecting a home than friends, family and digital resources. Millennials affirmed these statements much more frequently than other generations.

It should be noted that a lack of experience buying and selling homes may contribute to millennials' dependency on real estate agents. Nevertheless, as millennials continue to enter the market and spend on real estate in larger proportions, real estate brokers must act on these numbers.

Miami Beach, FL, Coldwell Banker listing

Technology plays a major part in transaction as well. The most important criterion for an agent is not experience, knowledge of transaction process or the homes in the area, or even the reputation or demeanor of the agent, but rather his or her ability to respond quickly to messages, with millennials expecting faster responses. They similarly place more weight on social media and customer reviews of real estate agents than do Gen X-ers or baby boomers.

Sign of the times

Perhaps most significantly, those 34-and-under consumers are most likely to purchase another home in the next year and, more than that, will not limit themselves by location, a shift that could also affect what markets consumers are looking at for second homes, with resorts and homes in areas associated with vacation or retirement increasing while those in business hubs dropping.

Technology booms are continuing to have an impact on the market, not just in San Francisco but also in Bellevue, WA, Bend, OR, and Boulder, CO, all of which have a new generation of young, tech-savvy affluents contributing to

double-digit growth. The same is true of Reno, NV, which had a 20 percent growth spurt thanks in part to demand from Silicon Valley workers searching for second homes (see story).

Of course, the entrance of millennials into the real estate market was inevitable, so the market has had plenty of time to prepare.

Millennial consumers have radically different preferences compared to their boomer parents when it comes to purchasing luxury real estate, according to a June 2014 report by Unity Marketing.

The market for high-end real estate has changed drastically over the past decade, and differences between boomers and millennials play a considerable role in influencing current trends. After a brief post-recession rebound in recent years, the luxury real estate market is now settling into steadier pace that will require professionals to cater to millennials' new preferences (see story).

"More and more HNWIs can choose to live wherever they want, and each year I have seen the percentage of respondents who say they are not restricted by a static location increase," Ms. Wright said.

"It used to be you made a real estate buying choice based on the static location of your business, but now technology has completely changed the picture," she said. "We see more and more individuals in this group that can work anywhere, so the long-term dream of living in areas like Aspen, CO, Park City, UT, and Honolulu can be a reality much earlier in life. I think we will see resort areas continue to benefit from this kind of home buyer activity."

Final Take

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