

RESEARCH

Faltering economy brings real estate market down with it

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Redfin Washington, DC listing

By FORREST CARDAMENIS

For the first time in three years, luxury home prices fell in the third quarter, according to a new report by real estate brokerage firm Redfin.

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Although non-luxury home prices increased almost 4 percent, luxury homes fell 2.2 percent year-over-year. The drop reflects economic volatility overseas, in China but also Latin America, while also pointing to an increased supply.

"High-end buyers tend to be sensitive to stock market volatility while buyers in the rest of the market are not quick to react to it," said Nela Richardson, chief economist at Redfin, Seattle. "Particularly in enclaves that foreign buyers are attracted to, we've noticed a change."

"Redfin agents in the San Francisco Bay Area report that some of the Chinese buyers they are working with have cancelled their plans to buy homes in the U.S. now due to concerns about the stock market," she said. "We've also seen banks in the Miami area raise lending requirements for buyers in Venezuela and other Latin American countries affected by the slump in energy prices."

In the **report**, Redfin defines luxury homes as the 5 percent of home sales that are priciest. The data also includes a breakdown of various individual markets.

Falling slowly

Given the findings of the second quarter, in which prices increased a mere 0.4 percent, the new results are not especially surprising.

Prices in Scottsdale, AZ and Boca Raton and Fort Lauderdale, FL had the most significant drops, each in the 14 to 15 percent range. This is the second consecutive quarter the Floridian cities have declined in price, a possible trend attributable at least in part to an increase in the number of luxury condos hitting the market.



Fort Lauderdale Redfin listing

"There is very limited land area to build single-family homes in Boca and Fort Lauderdale, so builders are focusing on luxury high-rises," said Aaron Drucker, Redfin managing broker in South Florida, in a statement. "The increase in supply is pulling down sale prices for the entire luxury segment."

Elsewhere in Florida, namely in Delray Beach, there was a massive jump, with an 11 percent year-over-year increase in the average sale price of luxury homes. Washington had the biggest increase. A 16 percent increase year-over-year brought the average sale price of a luxury home to \$2.4 million.

Other big winners were Denver, CO with a 15 percent increase, Bend, OR; Fremont, CA; Boston; Portland, OR; Oakland, CA; Littleton, CO and Long Beach, CA.

"Coastal markets are always a high point for luxury sales," Ms. Richardson said. "The views and proximity to the ocean never go out of style."

"Beyond that, a strong local economy is key to the luxury home market. We've seen cities that have attracted major corporations and high paying jobs like Reno and Denver have particularly strong luxury markets."



Bend, OR Redfin home

Other cities experiencing big drops were Alexandria, VA, Los Angeles and Houston. Austin, TX, Seattle, San Jose, CA and Chicago also dropped 1 to 2 percent despite big gains in the bottom 95 percent of the market.

Houston, Austin and Los Angeles also experienced significant drops in the second quarter. Bend was also a big winner with 33 percent gains year-on-year in the second quarter, but no other cities sustained rapid growth from that quarter, where 10 cities grew at a rate of 20 percent.

Trending down

The third quarter findings fall in line with what was predicted based on data from the previous quarter.

Luxury real estate prices hardly budged in the second quarter of 2015, but that understates the vast differences in growth rates across different cities, according to a report by national brokerage Redfin.

By contrast, the rest of the market has grown noticeably, with prices up 4 percent year-over-year, and sales for homes priced above \$1 million skyrocketed. An increase in demand due to lowered prices in the second quarter, along with uncertainty in the stock market in the third quarter may lead to slowed growth in both sales and price ([see story](#)).

Despite the recent slowdown, other reports have located new luxury real estate hubs.

As the global economy continues to grow, more cities are experiencing booms in luxury real estate, according to a new report by Coldwell Banker NRT.

In the United States metropolitan areas like Seattle, Atlanta and Houston and Dallas, are emerging as affluent hubs, as are resort towns like Vail, CO and, in the international arena, Monaco. In addition to international economic expansion, the rise of new markets can be partially attributed to young affluents that have a greater degree of freedom in choosing where to live ([see story](#)).

"Luxury prices have been weakening all year," Ms. Richardson said. "There is still a lot of demand, and sales for homes above \$1 million are still strong across the country. We think prices in the luxury market will likely be flat over the course of 2016."

Final Take

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