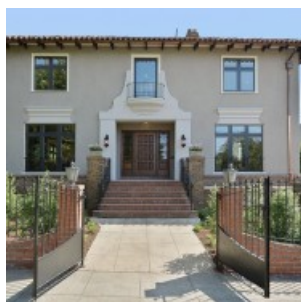


RESEARCH

Housing market enters slump as prices fall for first time since 2011: Redfin

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Oakland, CA luxury home

By FORREST CARDAMENIS

The luxury housing market is in a slump, with prices falling 1.1 percent in the first quarter of 2016 compared to the year-ago period, according to a new report from Redfin.

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Aside from a positive blip in 2015's fourth quarter, the market has been slowing since the third quarter of 2014, so the drop is not terribly surprising. With prices falling, buyers are taking advantage, and several cities are proving themselves as viable luxury hubs for the future.

"The global economy has been sputtering with troubles in China, Brazil and Europe," said Nela Richardson, chief economist at Redfin. "The relative weakness of other currencies compared to the U.S. dollar has dissuaded many foreign buyers from purchasing luxury real estate in the States.

"High-end buyers, who pull from investment portfolios to finance luxury home purchases, were hesitant after stock prices dropped steeply in January and February before rebounding," she said. "Luxury demand, especially for vacation and investment properties, has been more fragile this year, causing prices to slump."

In a slump

According to Redfin's [fourth quarter housing report](#), luxury homes, or those in the top 5 percent of homes sold, dropped 1.1 percent, but sales increased a respectable 6 percent. Most of this occurred higher in the market, with homes priced above \$5 million increasing 13.2 percent, compared to just 3.3 percent for those more than \$1 million.

Additionally, many cities are building luxury homes on spec, suggesting that these numbers actually understate demand.

Redfin notes that in January and February, stocks dipped tremendously, but they have mostly rebounded since, suggesting a slight rebound is possible, although consumers should not expect a Q4 repeat. With the strong dollar, foreign buyers, who comprise a significant chunk of high-end real estate sales, are dissuaded.



Irvine, CA home

As a result, there is a larger inventory at the top of the market, giving buyers more choices and room for negotiation. Only 1.2 percent of homes sold above list price.

On the upside, however, a number of cities saw massive year-over-year improvements, some for the second or third consecutive quarter. Topping the list, Oakland, CA saw almost a 50 percent increase in the average sales price compared to same period last year.

The average was artificially inflated by a single \$20 million sale, but with San Francisco being overcrowded, Oakland has emerged as a destination, featuring on Redfin's list of biggest winners in the slow third quarter of 2015.



Boca Raton, FL home

"The intensity in the Oakland market is driven by two factors: buyers fleeing San Francisco and moves by Uber, Amazon and other companies to establish offices in Oakland," said Tom Hendershot, Redfin agent, Oakland, CA. "Last year, we saw minimal competition for homes in the \$1.5 million-plus range, and now homes in the \$1.2 \$1.6 million range typically get 10 offers.

"That competition drives pressure up the food chain," he said. "While the multi-million dollar homes at the very top have fewer buyers and less competition, it's no surprise to see prices rising across the board."

Irvine followed with a 41.4 percent increase, followed by four Floridaian cities, including Boca Raton, which had some of the biggest drops in recent quarters. Seven of the top 13 cities on the "Biggest Winners" list, signifying continued demand for Florida's waterfront.



Irvine, CA home

Seattle, Long Beach, CA, Portland, OR and Denver and Littleton, CO all featured on the list, many for the second or third time since the first quarter of 2012. New money from tech start-ups entering the markets surrounding more traditional luxury hubs, such as Los Angeles and San Francisco, are creating high demand for luxury in these cities.

Indeed, more established luxury hubs, including Los Angeles and San Francisco, in addition to San Jose, CA; Houston, Austin, TX and Boston, were among the biggest fallers.

The stock market and subsequent lower valuations of tech companies played a role in San Francisco's 4.7 percent drop, while activity in the lower 95 percent of the Austin and Boston markets pushed up prices across the market. In Miami, the glut of condos has led to an imbalance in supply and demand, driving prices down.



Austin, TX home

"Some of the luxury winners seem to be cities drawing luxury buyers with better value," Ms. Richardson said.

"Oakland's luxury market is more affordable compared to San Francisco's," she said. "Irvine is more affordable than the waterfront communities in Orange County.

"Luxury homes in Sarasota and Clearwater are more affordable than in the luxury communities of southern Florida."

Global outlook

Despite the slowdown in Austin this quarter, it remains one of the nation's emerging luxury hubs.

Silicon Valley, CA communities are experiencing a shortage of inventory at the high-end, but new cities are emerging as luxury hubs, according to a report by Coldwell Banker from April 2016.

Austin, Fort Lauderdale, FL and Seattle each experienced impressive growth in sales at the \$1 million price level. The emergence of these cities as entry-level luxury hubs and other sales patterns indicate a stable market in 2016 ([see story](#)).

Across the yearlong period ending the fourth quarter of 2015 on a global scale, housing prices increased most dramatically in cities in the Middle East and Africa, according to a March 2016 report by Knight Frank.

Housing prices increased in 121 of the 165 markets that "Global Residential Cities Index" tracks and by 4.4 percent overall, outperforming the national level index. The expedited growth of cities, as well as the increased prices in less established urban areas, evidence a growing trend toward urbanism and metropolitanism that will be sustained for several more decades ([see story](#)).

In the U.S., however, consumers should not expect growth across the market, at least until the economy stabilizes.

"We anticipate slowing or negative growth in the luxury market in the near term as the global economic outlook remains cloudy," Ms. Richardson said.