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REAL ESTATE

Wait-and-see approach stifles, but does not prevent home price growth

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Stuart, FL home

By FORREST CARDAMENIS

Second-quarter luxury home prices have increased slightly on the year, up 0.8 percent to $1.66 million, according to Redfin's quarterly report.

While overall growth is slight, it is a measurable improvement on the first quarter's 1.1 percent decrease, and quarter-on-quarter growth is a more respectable 4.4 percent. Stabilizing global markets are instilling confidence in some buyers, but volatility still persists as western economies slow, driving down confidence and prices.

"Anecdotally, our agents are definitely hearing concerns about the election from both buyers and sellers, and the overall unease and uncertainty may be keeping some buyers on the sidelines," said Nela Richardson, chief economist at Redfin. "As far as Brexit is concerned, after seeing the largest one-day drop in equities in U.S. history in the aftermath of Brexit, the stock market rebounded in a big way.

"For the most part, the housing market can stomach large swings in the stock market, but some luxury buyers become queasy when the market becomes too volatile," she said. "On the flip side, U.S. real estate may become an appealing investment depending on how Brexit impacts the pound and Euro."

Redfin's analysis tracks luxury homes, defined as those in at least the 95th percentile in price, in more than 1,000 United States cities.

In recovery

While inventory for homes priced more than $1 million fell half a percentage point, the number of sales increased 10.7 percent. The slowing market over the past several quarters has signaled a buyers market and spurred some buyers to take advantage.

While faltering stocks in the immediate aftermath of Brexit appeared to signal slowing commerce and home purchasing, the market quickly recovered in the short-term to mitigate the damage. As prudent investors pull out of the U.K., the U.S. may look like a viable alternative.

Miami Beach new construction

Conversely, the Treasury Department has expanded its money-laundering investigation, expanding disclosure agreements to Los Angeles, San Diego, CA and New York's remaining boroughs. As cash-only purchases become less viable and direct attention to buyers, many could turn to alternative markets.

The biggest winner in the second quarter was Stuart, FL, with a remarkable 139 percent year-over-year increase. Such growth is obviously unsustainable and results from small-sample size sets in which a handful of very expensive homes sold this quarter, with a similarly anomalous shortage in Q2 2015.

Nevertheless, it suggests the continued interest in South Florida properties, with many looking outside the market's traditional players to find better value.

A focus on value was behind many other big winners, as 10 of the 15 cities with the biggest year-on-year changes had luxury price points below $1.5 million. These cities Longmont and Highlands Ranch, CO; Henderson, NV; Murrieta, CA; Asheville, NC; Alpharetta, GA; Portland and Bend, OR and Clearwater and Tampa, FL are largely full-time residents and derive appeal from proximity to larger cities or resorts and lower price points.

Murrieta, CA home

Also of note, Miami Beach, which suffered a nearly 15 percent drop in the first quarter as investors looked to more value, recovered with a 21.6 percent increase, bringing the average sale price to more than $8.8 million. Though some buyers are looking further from Miami, the prime locations seem unlikely to wilt or go out of style.

With Murrieta, CA surging, it is hardly a surprise that the neighboring cities in Palm Desert, Long Beach, Oceanside and Tumecula. Each of these markets had much higher price points, driving consumers to less expensive alternatives.

In San Francisco and Bellevue, WA, the economy played a larger role.

"These cities have a large contingent of tech-wealthy buyers who's money is tied more closely to the equities markets and they may be concerned about the recent jolts we've seen in the stock market," Ms. Richardson said. "In addition, foreign buyers who normally flock to these cities are also highly sensitive to global volatility.

"Even high-end buyers are wary of purchasing at the peak of the market," she said. "I think these price declines may indicate some fear on the part of luxury buyers that we've hit peak values."

The Florida markets of Hollywood, Fort Lauderdale, West Palm Beach and Sarasota all fell despite being big winners in the previous quarter, likely for the same reasons as the California markets. The Woodlands, TX, had the biggest drop, at 23.4 percent to an average sales price of $1.6 million.

Alexandria, VA home

Alexandria, VA and Washington also performed poorly, as they have in recent quarters. With election tensions even greater than normal, many buyers are adapting a "wait-and-see" approach to local real estate.

"For buyers and sellers here, it's less about politics and more about the logistics of the potential turnover in jobs and people moving in and out of the area," said Dan Galloway, Redfin real estate agent in Washington, in a statement. "Therefore it may make sense to wait until November when we know what the future will bring for jobs and housing in Washington."

Global outlook

Brexit and the U.S. presidential election are two high-stakes decisions, and they occur amid general economic uncertainty brought by China's slowdown and lowered oil prices, as well as geopolitical turmoil that has seen an increase in terrorism attacks and increasing tensions between the west and Russia.

Nevertheless, across global nations, housing prices increased by 3.4 percent in the year-long period ending March 31, Knight Frank's Global House Price Index shows.

The growth rate is comparable to the increase Knight Frank found in prime global cities, suggesting stability on both regional and national scales. Major players are stumbling amid economic and political volatility, but a surge in Nordic markets and in Turkey has buttressed the overall market (see story).

Earlier this week, Knight Frank also examined the impact Brexit has had thus far on London's real estate market, concluding it has actually served as a market correction in an environment where sellers were asking for unrealistic prices.

Prime real estate prices continue to fall in London, with -1.5 percent growth in July.

The number of prospective buyers contracted even more, down 6.2 percent over the same period, as the market continues to adjust to a four year run of rapid growth ending in 2013. Effects of increased stamp duty and the Brexit referendum are best seen in relation to this recent past rather than as independent agents (see story).

"We'll continue to see price appreciation at the bottom of the market outpacing luxury," Ms. Richardson said. "I expect a bit of motion sickness as high-end buyers decide whether parking their money in real estate is a safe place in a rocky global economy."