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REAL ESTATE

Strong 2018 forecast for luxury real estate

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The world of luxury real estate is one of movement, as well as ups and downs. Wealth shifts around the world, always seeking new opportunities.

In our global market, we see that money has a migration pattern. When you put pressure, be it economic, environmental or political in one area, another area responds.

Looking at the global picture, a few key trends emerge.

Piece in the valley
In the United States, there has been shuffling in the ranks as real estate prices have reached record levels in some coastal areas.

These high prices, for both residential and commercial real estate, particularly in California's Bay Area have led to technology companies and their employees expanding to other markets and the formation of other tech enclaves around the country including Seattle, Portland, Denver, Austin, Pittsburgh and beyond.

Where businesses go, residential real estate follows, which explains part of the reason why in 2017 many cities in North America went to such dramatic ends to court Amazon's new headquarters.

Growth has its consequences. New construction is failing to keep up with the residential demand in many areas, driving up prices.

Analysts are predicting that new construction in 2018 will increasingly focus on single-family homes. In many cases, there is a strain when a large company moves in and expands rapidly.

At the same time, many much-needed fields such as construction saw workers moving on to other fields during the Great Recession, and the industry simply has not been able to keep up with housing starts as demand returned.

In 2017, we saw more training schools and state-led initiatives to find and train workers. We expect to see more of this in 2018, as well as an increase in modular construction and other alternatives to traditional stick-built construction that can save time and money.

North and south pull

Canada has seen a real estate boom in recent years, so much so that the government has sought to prevent real estate speculation in some areas by taxing foreign purchases.

With Vancouver and Toronto becoming increasingly high priced, Montreal has emerged as a popular opportunity for foreign real estate investors.

Data from October 2017 shows prices up by more than 9 percent to $386,911 (Canadian), making it a substantial bargain compared to the Greater Toronto area, where the average is $780,104 (Canadian) and the Greater Vancouver area, where the average home price rose more than 12 percent to an average of $1.04 million (Canadian).

In Montreal, as in hot markets in the United States, low unemployment has fueled interest in real estate, but rising prices have kept some buyers from entering the market.

In 2018, we will be watching the effect that proposed restrictions on foreign buyers in New Zealand have on that market.

New Zealand's rich natural beauty has made it popular with Silicon Valley's elite, and it has also seen increased attention from Chinese investors.

Because the proposed changes to New Zealand's Overseas Investment Act will focus on existing properties, there will still be opportunities for foreign buyers to buy new homes there.

Fire, storm drive migration

Environmental impacts contribute to part of the migration patterns we see as well.

For example, one immediate response in the wake of the hurricanes that affected the Caribbean and South Florida in 2017 was that some travelers who were planning to buy Caribbean real estate or even simply winter vacations are opting for South Florida instead.

Miami and surrounding areas have also seen an influx of renters from Puerto Rico. And the reverberation has been felt far beyond Florida, with our Realtor members as far as Hawaii reporting increased interest from buyers who may have previously looked in the Caribbean.

Similar impacts to the real estate market were felt as a result of the extensive California fires in 2017, with significant numbers of people being displaced in Northern and Southern California and lost inventory and housing stock. Markets such as Dallas, TX and Tucson and Phoenix in Arizona reported increases in potential buyers fleeing the fire-ravaged Californian regions.

On the flip side, the positive side of this dramatic environmental climate today is that as we look to the future, changing demands are already leading to the creation of innovative solutions.

When it comes to architecture and urban planning, states such as California and beyond are focusing on the development of more alternative fuel sources including solar and wide, extensive solutions for "smart cities" and urban planning and other creative solutions to navigate the environment.

Reign in Spain and elsewhere

Political changes are also increasingly a pressure point in determining where money moves next.

The reaction of the real estate market to Brexit has been multi-faceted.

Immediately upon the announcement of Brexit, prices in London dropped, and speculators started to wonder where will be the new financial center. This has brought new attention to established financial cities such as Paris and Frankfurt, and represents a great opportunity as European Union-centric companies need to incorporate outside of London.

With corporation movement comes real estate changes too, as workers shift alongside their companies.

Meanwhile, in London, price drops in the luxury real estate market have created new opportunities for investors and have already attracted buyers back from the Middle East, Russia, the United States and beyond, all interested in a possible opportunity in this long-time luxury enclave.

Meanwhile, as we shift to focus on mainland Europe, Spain has emerged as an interesting story.

In 2018, the impact of Catalonia's secession attempts will continue to reverberate throughout the E.U., affecting not just Spain but other countries.

What this is teaching us is that these types of shifts may become more common in the coming years. The reality is, politics and finances are intertwined, and areas with more stable governments may see increased interest.

GLOBALLY, THE STORY about high-net-worth individuals and families and the luxury real estate market is strong.

Since 2010, there has been a 91 percent increase in households with more than $10 million in net worth. Those high-net-worth individuals see real estate as an investment financially and personally.

From a financial perspective, real estate is generally a good investment.

As we have talked about in much of the research we have co-authored over the year, the affluent see real estate in alignment with their desire to create better lives for themselves and their families.

In a world where change is rapid and ceaseless, real estate investment in multiple areas is often seen as a way to secure the future for many of these individuals.

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