

LUXURY MEMO SPECIAL REPORTS

## Real estate – Luxury Memo special report

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Central Park Tower will be home to 179 private units and Nordstrom's New York debut. Image credit: Extell

By NANCY BUCKLEY

Keeping up with modern times is crucial in every industry, but with the ever-growing competition of residential buildings, it is important for real estate companies to stay current with laws, technology and trends.

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The opportunities seen in auctions, expansions, construction and innovation provide a space for luxury real estate to grow. However, ever-changing regulations and unpredictable natural disasters create a risk unique to the industry.

"It is important for luxury real estate marketers to remember three things: the impact of shifting demographics in luxury markets, buyers' increased focuses on mobility and lifestyle and the fact that inventory levels remain low in high demand markets," said Craig Hogan, vice president of luxury at **Coldwell Banker**, Chicago.

### Top 5 trends in real estate

- Technology

Keeping up-to-date with the latest tech trends is extremely important and necessary for all industries, but in real estate, the ability to bring a home to a potential client virtually is essential for the modern consumer.

- The legal side

Between government regulations and tax reforms, keeping up with the newest laws allows real estate firms to adjust and understand potential consumers.

- Foreign influence

International investors are not a new concept, but with the changing political environment in America and elsewhere, there have been unprecedented trends in foreign consumption of real estate both at home and abroad.

- The unpredictability factor

Mother nature's touch has allowed for both positive and negative outcomes across industries. Real estate is no different with unpredictable storms, fires, mudslides and tornados raging through areas have led to unprecedented outcomes to the real estate market.

- Records cracking everywhere

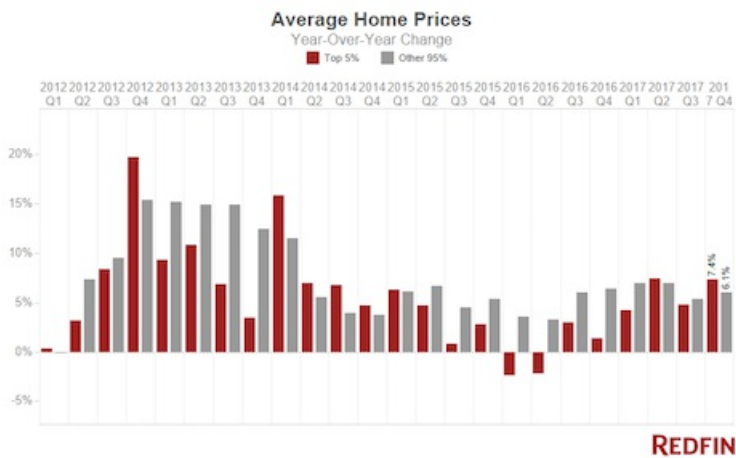
From the tallest residential buildings and the growth in properties available to the decline of purchases, the records swing both ways year-to-year as real estate firms try to predict the future and accommodate the present.

### Governing it all

Real estate can be affected by far more than just the realtor and the client.

Regulations, tax reforms, legal changes and political trends all play a factor in the real estate market. A tax reform can swing a market toward the international buyer instantly, or a political stance can create relations with a foreign country, increasing the demand for real estate between the countries.

A report from Redfin found that 38 percent of prospective home buyers cited high taxes as the primary economic concern that influenced their decisions, particularly about which states they decide to purchase property in and how they plan to spend their money. The tax reform bill passed by Congress late in 2017 is poised to have an effect on the country's luxury real estate industry as buyers consider moving across state lines to deal with tax rate changes ([see story](#)).



### Average home prices

Real estate broker Tony L. Smith found that buyers are leaving Massachusetts, which has a property tax of nearly \$10,000, for Florida, whose property tax is around \$2,000 less.

Florida real estate is seeing another surge because of relations with Russia. With the current White House administration on friendlier terms with Russia, more affluent consumers from the country are interested in real estate within Miami.

Since the election of President Trump, Russian interest in luxury real estate in the United States has increased by 35 percent, according to the National Association of Realtors. The highest real estate purchase from a Russian buyer in Miami was a home that sold for \$47 million.



*Porsche Design Tower Miami*

Russian consumers are likely interested in Miami properties due to the stability of the U.S. dollar. Local currencies within Russia are currently weaker, providing Russians with confidence regarding U.S. real estate investments.

Other factors could be the privacy, weather and security of Miami, which differ drastically from these factors within Russia ([see story](#)).

"Foreign investment in the U.S. real estate market continues to reach new heights," said Anthony Hitt, president and CEO of [Engel & Völkers Americas](#), New York. "It's critical that real estate professionals, especially in the luxury sector, are equipped to market to and service foreign investors as they look to purchase in the U.S."

Another geographical switch in the real estate industry as a result of politics was seen with the French President Emmanuel Macron's amendment to his reform on France's wealth tax, resulting in only French citizens being taxed, causing more expatriates and other non-French citizens to flock to France for greater tax breaks ([see story](#)).

This, however, was not the case in Canada where a real estate boom has sparked the government to prevent real estate speculation by taxing foreign buyers in certain areas.

The benefit to foreign buyers in France is offering positive predictions for the country's real estate market. Knight Frank is expecting a 12 percent increase in luxury property sales in Paris in 2018.

Another development in French real estate was the implementation of rent caps in Paris in August 2015.



*Emmanuel Macron*

This law empowers renters to challenge landlords if prices are too high. Landlords are prevented from charging more than 20 percent per square meter above the median rent in the area, which is assessed annually.

However, these rent caps had an adverse effect in surrounding areas, raising prices in the Greater Paris region, which may lead more renters to consider buying.

Surprisingly to many, real estate is one area in the chaos caused by Brexit where things are actually looking up.



*London; image courtesy of Burberry*

Demand for housing in the United Kingdom is still high, and while the initial shakeup of the industry may make a dent, some experts believe that real estate should fare just fine in the future. Nevertheless, these predictions hinge on the exact terms of Brexit once it is in place ([see story](#)).

#### Record-breaking times

The interesting part of real estate is that records are constantly being reset. From the tallest residential building to the rise and fall of trends in different regions, real estate trends change from year-to-year.

For example, while market-wide activity in luxury real estate in New York's Manhattan borough saw a drop of 11.2 percent in the past 10 years, all price indicators saw record highs.

According to the [Douglas Elliman 2017 Manhattan Townhouse Decade Sales Report](#), from 2008 to 2017 negotiability became more flexible in New York luxury real estate, resulting in a decline in on-the-market time. The average sales price in the past 10 years in luxury was reported as \$20,382,189.



*One57 condo Sotheby's Realty 465*

"One major trend we are seeing in the United States includes the importance of walkability," said Scott Durkin, Douglas Elliman President and COO, New York. "From millennials to older adults, a growing number of Americans want the convenience of being able to go outside their door with easy access to shops, restaurants, and local services.

"We are seeing this of course in New York City but also in less obvious markets such as Westchester and Connecticut and even Los Angeles. Americans are becoming more and more sensitive to the importance of time and the environment, so the less time spent in cars, the better.

"According to the just-released Douglas Elliman | Knight Frank Wealth Report, the world's ultra-wealthy population increased by 10 percent with New York affirming its global supremacy," Mr. Durkin said. "Buyers from around the

world want to own in Manhattan, which continues to serve as a secure investment, relatively immune from global strife."

In the past decade in New York luxury real estate, new records were set in terms of price per square foot. 2017 saw an average price per square foot of \$3,489. Average square footage saw a steep decline down to an average of 6,075 in 2017, compared to 9,482 in 2008.

The townhouse market in New York saw record prices set in 2015, but fell short of that in 2017. However, inventory numbers continue to remain low, marking the second lowest on record ([see story](#)).



*Townhouse in New York City*

2018 does not look good for New York as a whole, with a CityRealty report predicting that the city will see a slight decline for the first time since the 2009 global recession.

The current White House administration's first year has had a negative effect on the Trump-branded real estate properties, including New York, with a record-breaking decline. For the first time in history, Trump-branded condos saw below-average sale prices and the average price per square foot compared to the median in New York, according to CityRealty's Year-End Report ([see story](#)).

In 2017, California cities saw a decline in the luxury real estate market. While in the recent past the luxury real estate market was plagued by an overabundance of listings, on-the-market properties in California priced for more than \$1 million saw a 23.8 percent drop. Residences priced more than \$5 million also saw a decrease in listings by 23.4 percent with prices rising by 13.7 percent.



*San Francisco property; image credit: Sotheby's*

San Francisco saw a 12 percent decrease in price, down to an average of \$5.03 million for a luxury home.

However, San Francisco is not the only Californian city to see a price drop for luxury homes. Los Angeles and Long Beach have seen declines of 1.2 percent and 5.6 percent, respectively ([see story](#)).

The rise in cost of real estate has led to this decline in California. Today, \$5 million is considered the new \$1 million within luxury real estate, as affluent homebuyers seek bigger and better to showcase lavish lifestyles.

A [report from Tulia](#) shows that the number of homes valued at the \$1 million mark has quadrupled in 16 years, but \$5 million homes are increasing even faster.

"The U.S. luxury real estate market is evolving at a rapid pace," Coldwell Banker's Mr. Hogan said. "First and foremost, in our Power Markets we're seeing a 'new normal' as the prices of luxury properties have begun to level off compared to the explosive year-over-year price increases we've seen in past years.

"Another trend the industry has its eye on is the rise of 'second-tier power markets,' smaller cities that are often overlooked in the luxury market," he said. "Cities such as Austin, Dallas and Atlanta are continuing to see shorter median days on the market than ever before and experiencing significant population increases.

"Finally, the influence of 'tech titans' are continuing to dramatically impact the luxury market as cities with strong tech centers are seeing soaring property values and some of the shortest days on the market. One thing that stood out to us was that of the 20 new cities Amazon is eyeing for its second headquarters(HQ2), 14 were already standouts in our report as power markets.

"Once Amazon announces its HQ2 location, the chosen city's real estate market will notice the impact that comes with a major tech company setting up shop and bringing an influx of new talent to the region."

Records are also being broken in terms of the physical buildings that are home to some of the world's most renowned real estate offerings. A variety of luxury real estate firms and developers are appealing to affluent clientele through unique buildings that become part of famous city skylines on iconic streets.



*Chicago's 1000M is located on one of the city's most iconic streets*

While many eminent streets in major cities such as New York, Miami and Chicago see rare opportunities for developers to establish new residences when they do these spaces are in high-demand. Projects such as Chicago's 1000M, Oceana Bal Harbour, FL, 1399 Park in New York and Brickell City Centre in Miami are some of the many developing unique projects located on iconic city streets to attract ultra-high-net-worth individuals ([see story](#)).

Even more new buildings are making their own impressions on the ultra-wealthy. For example, real estate developer Extell Development Company has secured a \$1.135 billion financing package for the construction of a residential tower on Billionaires' Row in New York.



*Central Park Tower Web site*

Announced Jan. 2, Extell's construction loan is the largest to date, with \$900 million funded by a senior construction loan syndication led by J.P. Morgan and \$235 million from a preferred equity loan from a hedge fund. When complete, the Central Park Tower will become an architectural landmark, as it will be the tallest residential building

in the world.

At 1,550 feet tall, the Central Park Tower will be located on 57th Street with Central Park directly to its north. The residential tower is located at the intersection of Columbus Circle and the Plaza District ([see story](#)).

Appealing to the location is essential to the luxury real estate firm's ability to attract consumers. Owning on Central Park has always been a sign of social esteem, a trend that will not decline in years to come.

Keeping up with the times

As in any industry, being able to adapt to technology is the key to success for businesses. In real estate, being able to bring the essence of a home or apartment to a consumer virtually is a formidable task.

"Technology is certainly changing the real estate industry," Engel & Volkers' Mr. Hitt said. "While technology will never fully be able to replace the human relationships upon which the real estate industry is built, there are more tools available to real estate professionals than ever before to uplevel the home-buying experience for clients.

"Technologies like VR, AR, AI and blockchain will continue to shape the real estate industry, but should be viewed as a way to support the one-on-one service component."

Consumers of luxury real estate are often buying second or third residences. Having the time to physically search for the perfect option is not always possible, but with technology, real estate agents can bring the home to the person.



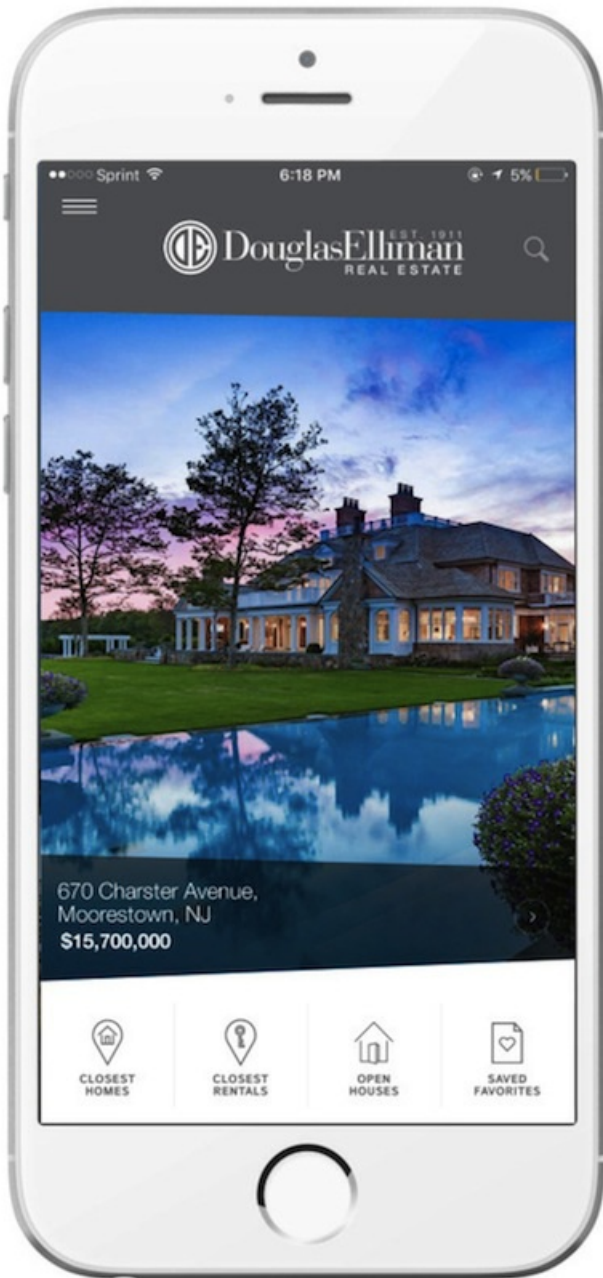
### *IR Architects' virtual reality technology*

Los Angeles-based architecture firm IR Architects is bringing a digital twist to luxury residential real estate thanks to a new virtual reality project called AVR Studio.

The project will allow potential buyers to tour virtual homes and experiment with interior decoration all through the power of virtual reality. As VR has become increasingly accessible, powerful and usable, more brands and companies in the luxury world have begun experimenting with its unique capabilities ([see story](#)).

Virtual reality is not the only option for bring consumers options in real estate. Firms such as Douglas Elliman are investing further in establishing themselves as content creators.

Douglas Elliman created a new blog that hopes to arm consumers with a wide range of information from experts to make informed decisions. Elliman Insider will be a digital complement to its printed magazine, which was recently revamped ([see story](#)).



### *Douglas Elliman Branded App*

Digital reads can also take form in a more mobile environment. For instance, Douglas Elliman released its third mobile application which will allow realtors to create personalized pages to connect with clients.

For home shoppers browsing on the app, they are able to view listings in the form of an interacted map or a list. The user experience is indicative of many third-party real estate apps such as Zillow, of which many consumers are already comfortable with ([see story](#)).

Keeping up with sites and apps such as realtor.com and Zillow is a factor that all realtors face when trying to best reach their consumers, but with branded apps and sites, realtors are given an opportunity to reach consumers digitally in a more personal manner.

Another benefit to technology in the real estate world is the reach it can provide to international buyers.

This benefit has been utilized beyond real estate agencies. For example, The Q Kapital Group, a Miami-based mortgage lender, also released a new mobile app designed to help foreign nationals buy and mortgage homes and property in the United States.



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### How it Works!

The Q Kapital Group is here to help you get the best mortgage loan for the purchase of your next property. Whether you are a US Citizen/Resident or a Foreign National, buying real estate in Florida is a simple, secure, and profitable process with us.

Start your Qualification Process Here



The screenshot shows a mobile application interface for a loan application. At the top, there is a back arrow and the text "US Citizen/US Resident Loan Application". Below this, a section titled "Information to complete loan application" contains four input fields. The first field is "First Name\*" with the value "David" in green. The second field is "Last Name\*" with the value "Bower" in green. The third field is "Date of Birth\*" and the fourth is "Social Security Number".

#### *The Q Kapital app*

Q Kapital Group's app is designed to easily manage mortgages on properties in the U.S. from buyers in other countries, specifically for properties in Miami and New York. With rising interest in international spending from wealthy consumers around the world, particularly in China, this app could reach a wide affluent audience ([see more](#)).

However, not all trends are digital. For example, auctions have risen out of the land of foreclosures to luxury homes looking for buyers. A recent residential sale from Platinum Luxury Auctions shows the potential for the auction format in high-end real estate, as a property that failed to sell for a decade found a buyer in two days.

The Boca Raton, FL home was on and off the market for 10 years before the owner tapped Platinum as the auctioneer and broker. While real estate auctions are often associated with foreclosures and other troubled properties, a number of firms have proven that the format is also effective for finding luxury buyers ([see story](#)).



*Platinum Luxury Auctions - Boca Raton - Kitchen*

Trends can create a disruption or boost in the real estate industry, but often the future is unpredictable.

Keep your eye on the curveball

Government regulations, laws, politics, technology and human desire are all important in real estate, but they all lay dormant when the ultimate power takes over: Mother Nature. Paying attention to the trends in the industry is essential, but a hurricane, fire or tornado can change everything in an instant.

Trends have been seen in those looking to purchase in South Florida or Hawaii who previously were seeking property in the Caribbean. Similarly, there has been an influx of renters in South Florida from Puerto Rico and other islands badly hurt in the summer's storms.



*Hurricane Irma moves through the Caribbean. Image credit: Wikimedia*

In California, wildfires and mudslides have caused buyers to flee to southern states and have decreased the inventory and housing stock available for buyers.

As a result of these natural disasters, construction has seen an increase as of late.

However, this construction trend is not limited to cities affected by horrible terrors. Increased construction has led to a decline in 2017 luxury home purchases.

Also as the Chinese solidify their place as the top foreign buyers of United States real estate, new home construction is said to increase in 2018 due to the segments' interest in new-build housing.



*Boston is a popular location for Chinese homebuyers in the US Image credit: Otis & Aheam*

Chinese consumers are the number one foreign buyer in the U.S. for real estate, with \$31.7 billion spent from the segment over the past year. According to real estate network Zillow, the U.S. construction market will start to focus on entry-level homes as well as luxury to cater to the Chinese segment.

Silicon Valley and Boston are popular destinations for Chinese homebuyers, both of which are likely to see a price hike over the next year of 5.9 percent and 3.3 percent, respectively. The U.S. is likely to see an increase of 6 percent throughout 2018 ([see story](#)).

The most unexpected curveball of 2017 was the price of bitcoins.

"One of the newest trends we've seen gaining traction on an international level is the use of bitcoin and other cryptocurrencies in real estate transactions," Mr. Hitt said. "While bitcoin and other cryptocurrencies aren't new, they are becoming increasingly popular in conducting real estate transactions, especially among foreign investors.

"Bitcoin especially appeals to high-net-worth investors doing business across borders because it exists outside of traditional financial markets, and as such, offers low transaction fees, no sales tax and no government or financial intermediaries to slow up the process," he said. "When investing in a foreign country where financial systems may be unstable or less than transparent, bitcoin becomes a work around to avoid potential unforeseen volatility.

"We've seen those in our network who educated themselves on working with cryptocurrencies secure substantial listings and referrals because while many clients are requesting it, few industry professionals are taking the time to learn about it."

#### Best practices for real estate marketing

- Craig Hogan, vice president of luxury, Coldwell Banker
  - "Shifting demographics are what are making up-and-coming markets such as Raleigh, a rising tech hub, more attractive to luxury buyers. While luxury real estate used to be a tale of two coasts with New York and Los Angeles at the fore, the market is opening up and elevating new unexpected luxury hubs. It's important for luxury agents to keep an ear to the ground and realize up and coming opportunities in their market."
  - "Mobility and the 'lock and leave' lifestyle is also changing how luxury homes are marketed. Today's buyers are increasingly mobile and often aren't looking for the mega mansions of yesterday. Instead, more practical and sleek luxury options that require less maintenance and ease their on-the-go lifestyle."
  - "Lastly, it's important for luxury real estate professionals to remember that inventory remains low in high-demand markets. In markets like Seattle, homes have a median of just nine days on market. Luxury real estate professionals may need to counsel their clients to remain agile and work swiftly in ultra-competitive markets."
- Anthony Hitt, president and CEO, Engel & Völkers Americas
  - "The definition of luxury is changing, and it's no longer directly tied to a particular property or price point. Luxury means different things to different buyers, be it time, convenience, privacy, location...the list goes on. Luxury has a personal meaning to each buyer, and real estate professionals must adapt their marketing and service offerings accordingly to help each client claim their own personal piece of luxury, whatever that means to them."

- "Today buyers are coming to the table having done their research, with more tools available to them than ever before. However, even the most informed buyers in the luxury segment are looking for advisors who are experts in real estate, not experts in technology. Real estate professionals must leverage their expertise to add value to clients, be it listing access, neighborhood knowledge or even the reassurance of having an expert to guide them through the process."
- "As the definition of luxury continues to evolve and technology continues to evolve the industry, real estate professionals must focus on delivering a completely tailored, bespoke and white-glove experience to each client."
- Scott Durkin, Douglas Elliman President and COO
  - "The best practice for today's successful real estate marketer is to be in the markets where luxury buyers want to live. You have to become part of the fabric of the cities, towns and communities in which you work. At Douglas Elliman, we do this in many ways, most importantly, as partners in important community initiatives such as the Winter Equestrian Festival in Palm Beach, Art Basel in Miami, the Hampton Classic, Gay Ski Week in Aspen and the Frieze Art Fair in New York. It sends a signal to buyers and sellers that we have shared sensibilities and values and helps to build important emotional connections."
  - "Other important practices include well-packaged information that empowers our clients and customers. Douglas Elliman is proud of our globally recognized market reports that put information in the hands of our clients and customers to help guide them in the home buying and selling process. It is an invaluable tool that has helped elevate our brand around the world as the smart brokerage of choice."
  - "The third important practice of any great luxury marketer is to invest in great public relations. Nothing sets you apart better than third party editorial endorsement and successful high net worth buyers and sellers are also heavy consumers of the news. It is important that they are reading about you."

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