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Selling luxury real estate – Luxury Memo special report

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Properties are ultimately about how consumers can envision spending their lives in their homes. Image credit: Luxury Portfolio

By SARAH JONES

Most wealthy consumers have a personal, emotional attachment to their houses, and feelings often come into play for buying properties as well.

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While real estate purchasing decisions are also rational, 37 percent of affluent consumers say that the emotional appeal of a potential residence was the top reason they bought, according to a report from Luxury Portfolio and YouGov. Taking into account clients' needs beyond number of rooms or square feet can help brokers sell buyers on a potential new home, allowing consumers to envision themselves actually living their lives in a space.

"Ultimately, the purchase of a luxury home is an emotional decision for most affluent consumers," said Stephanie Anton, president of Luxury Portfolio International, Chicago.

"Whether it's simply because it's fulfilling some desire like always having dreamt about living on the water, to a reward for hard work and being successful, or by a desire to have enough bedrooms for all your kids because you had to share growing up, etc., all those motivations are really based on emotion," she said.

"Successfully marketing 'luxury' anything, from homes to handbags, takes a fundamental ability to tap into emotion and connect with clients at that level."

Top 5 trends in real estate buying

- Slow to sell

  Luxury Portfolio found that while 38 percent of global affluent consumers are looking to buy real estate in the next year, only 23 percent showed an interest in selling property in the same timeframe.

- Urban living

  Affluent consumers mostly have their primary residence in an urban area, picking city life over suburbia or rural locales.

- Traditional touches

  When wealthy buyers are looking for a home, traditional home styles are the most favored.

- Emotion over investment

  Consumers are choosing homes based on the emotional connections they have with a property, rather than focusing on the potential return on investment.

- Status symbols

  About a third of consumers say that real estate is an indicator that someone is wealthy, and affluents tend to use their homes as a status symbol, as well as a place to sleep.

Seller's market

In general, affluent consumers are more apt to be looking to buy real estate than sell it. This has led to a shortage of inventory, driving up competition.

Since 2015, luxury homes have continued to go under contract at a faster pace, according to Redfin. In the second and third quarters of 2018, luxury homes were on the market for an average 65 days before going under contract (see story).

For those who are selling, this tough buyer's market also presents the stress of finding new property that lives up to their wants and needs.

Per Luxury Portfolio, the propensity for buying and selling is much higher in the Middle East, where 71 percent are planning to buy and 68 percent are anticipating selling.

Asia, meanwhile, has the largest disparity, as 68 percent of affluents are looking to buy, while only 18 percent are planning to sell.

Asia has a very competitive real estate market. Image credit: Sotheby's

Competition is part of the impetus for Asian buyers to look elsewhere for properties.

Many real estate markets across the world are likely to see an increase in foreign buyers, as fewer new taxes are expected compared to past years.

In the 2018-2019 buying period, taxes on foreign buyers in regions such as the United States, Canada, United Kingdom, Australia and Thailand are not expected, says a recent report from Juwai.com. Chinese buyers' most coveted property destinations are predicted to have fewer new taxes in their top property locations compared to the past three years (see story).

"We know UHNIs love real estate," Ms. Anton said. "On average, they own four homes, and many are always in the market, open to an opportunity, and excited about the opportunity to buy.

"So, if you own three homes and are looking to purchase a fourth, there is no need to sell in order to be in the game," she said.

"And second homes or investments are a big part of that stat. This is why we see such a disparity in Asia because we're seeing people from Asia still very much in the real estate game looking to purchase outside of their country as an investment, a condo for their child while they are in school, a get-away for themselves, etc.

"The other factor is the tightness in inventory, or a lack of desirable homes to purchase, in some markets. We know many consumers are hesitant to sell simply because they are afraid they won't find something they will want to buy. Overcoming that uncertainty can be a hurdle for potential sellers today."

Buyers in the Middle East also tend to have a greater average budget. Globally, about a third of luxury homebuyers are seeking properties between $1 million and $1.5 million, but the most common price range for Middle Eastern buyers is more than $5 million.

North Americans and those in the Middle East have the greatest share of buyers looking for homes between 3,000 and 5,000 square feet, while Asian and European consumers favor more compact homes of less than 2,000 square feet.

The average property that is sought-after is a four-bedroom, three-bathroom home with about two parking spots.

On average, consumers want four bedrooms. Image credit: Luxury Portfolio

Millennial and Gen X luxury homebuyers are more apt than their predecessors to have spent a lifetime surrounded by wealth, making them discerning and educated real estate consumers.

Today, the majority of consumers looking for homes priced at $1 million or more are between the ages of 25 and 49. A recent report from Luxury Portfolio dubs the rising affluent class the "new aristocracy," due to their upscale upbringing and expected financial power.

At an average age of 37, the new aristocracy is at a point in their lives where they desire urban properties with room.

More than half of the new aristocracy is looking for a home that is at least 5,000 square feet or more, and about a quarter are seeking a property that is at least 20,000 square feet. The report partly attributes this desire for space to multigenerational living arrangements and growing families (see story).

City life

Zillow recently noted the urbanization trend, pointing out that some of the most desirable neighborhoods are located in metro areas. Along with cities, coastal areas and warm climates are appealing to buyers (see story).

Luxury Portfolio found that 59 percent of buyers want their next home to be in a city. This is an even more prevalent trend in the Middle East and Asia, where about three-quarters want an urban abode.

North America is the only region where suburban dwellings are the primary desire, with 46 percent wanting a less urban lifestyle.

Half of buyers say that location is the most important physical attribute of a home, topping factors such as the property's layout.

Each quarter, Knight Frank's Prime Global Cities Index tracks the movement in prime residential prices across 43 cities worldwide, 74 percent of which have seen an increase of prices year-over-year as of October 2018. Since its record low in the first quarter of 2009, the Prime Index has seen a growth of 55.7 percent (see story).

A recent report from Coldwell Banker shows London, New York, Tokyo, Sydney and Paris are the top cities of choice for affluent homebuyers.

According to the Global Luxury report by Coldwell Banker and Luxury Home Marketing, London's luxury segment is

the most expensive in the world, with prices reaching $6,000 per square foot. New York is a close second, as home to 8,375 ultra-wealthy individuals, but the city saw prices level off last year (see story).

London's real estate market is showing signs of promise. Image credit: Knight Frank

"Affluent buyers tend to purchase a home based not on price, but on value, and a location convenient to their lifestyle needs provides extraordinary value to a home," said Craig Hogan, vice president of luxury for Coldwell Banker Real Estate, Chicago.

"In The Report: State of Luxury 2019 by Coldwell Banker Global Luxury, we found that wealthy buyers continue to flock to select urban markets, identified as 'Power Markets,'" he said. "These Power Markets aren't defined by location in terms of typical factors such as being coastal, but are considered for reasons including close access to airports, a vibrant scene of arts and culture, top universities and educational opportunities, an ease of doing business and a prestige brand presence.

"The luxury buyer is also looking for privacy, views and exclusivity. They're looking for condominiums with outdoor spaces to walk their dog or play ball with their kids, as well as urban villages with shops, transportation, luxury fitness studios, doggie daycare and offices all integrated into the building."

Design trends

Consumers are typically seeking traditional homes, with about four in 10 saying they want their next home to be classic. North Americans and Europeans are driving this trend globally, with about half of these populations desiring traditional homes.

Meanwhile, 45 percent of Middle Eastern buyers favor a contemporary look, and 46 percent of Asian affluents want a modern home.

Millennials are also having an impact on architecture trends.

Peter Pennoyer, who runs an eponymous architecture firm in New York, spoke about his update of late New York socialite Brooke Astor's apartment for a couple in their 30s at a recent Luxury Portfolio conference. As part of the redesign, the doorways were widened and heightened, creating a more open space.

A number of the architect's redesigns have focused on adding light or openness to what were traditionally very partitioned spaces. For instance, some home projects have brought the kitchen out of hiding with the addition of doors.

While some homes come with character, Mr. Pennoyer has also added in details to rooms that would otherwise be blank boxes, such as moldings (see story).

"Consumers want open concepts, modern, sleek and light colors," said Eileen Foy, broker at Douglas Elliman, New York. "White, neutral color palettes and Calacutta, Carrara marble in kitchens/bathrooms and wide plank floors.

"Buildings with amenities such as 24-hour staff, fitness centers, children's playrooms and roofdecks continue to be in-demand," she said.

One West End development in New York. Image credit: Douglas Elliman

When it comes to home dcor, consumers are also looking for one-of-a-kind touches, which sometimes leads them to antiques.

As younger consumers seek out home furnishings that are unique as well as sustainable, the market for secondhand furniture and dcor is on an upswing.

Auction search platform Barnebys found that the furniture, design and mirror category has grown 32 percent in the past year. Reflective of millennials' larger embrace of the circular economy, they are showing a penchant for buying and reselling antique pieces at auction (see story).

Home sweet home

Most affluent consumers say that their house is more than just a place to sleep. Per Luxury Portfolio, 78 percent consider their property a home to which they are emotionally connected.

For affluent buyers, a house becomes a home when factors such as security and the ability to raise a family are met.

Emotion is at the core of all decision-making, and for advertisers that means learning how to activate emotions in consumers to influence their purchases.

At Forrester's annual Consumer Marketing forum in New York on April 6, a principal analyst for the market researcher talked about some of the ways that brands can use emotional appeals to help influence customers as well as the way emotion ties into decision-making.

Emotion is a powerful tool and while people might associate emotional advertising with the heartstring-tugging ads of animals in need of shelter, the range of emotions marketers can employ go far beyond that (see story).

For instance, Macklowe Properties' recent campaign sought to help consumers picture themselves living in its residences by depicting imagined residents from the animal kingdom going about New York (see story).

Macklowe's ad for 200 East 59th

Some of the aspects preventing consumers from establishing a more meaningful bond with their homes include being unsettled, such as wanting to renovate, facing separation from family or being on a work assignment. The most common reason that a house does not strike an emotional chord is the fact that it is not the consumer's dream home.

Thirty-seven percent of consumers globally say that the top reason they bought their home was an emotional connection.

"Emotions play a big part of buyers' real estate decisions," Ms. Foy said.

"How a client feels when they enter a home will likely determine if they decide to make an offer," she said. "The smallest negative feeling triggered will ultimately be remembered."

This trend is driven by all regions except North America, where the size of the home and the value are weighed more heavily. Forty-three percent of North American buyers prioritize the physical space of the house above all other attributes.

Value means different things to different buyers. Globally, buyers consider a home to have value if it will likely appreciate, with 49 percent looking for return on investment.

Being able to customize a home is more valuable than having a turnkey property to affluent buyers. Consumers in the Middle East and Asia are more apt to seek the ability to make a home their own.

Renovation potential is also most popular in the Middle East.

Meanwhile, value can be driven by changing tax codes.

Prospective homebuyers residing in high-tax coastal markets in the United States are being drawn to more affordable metro areas.

Research from Redfin shows that 24 percent of home searchers were looking to move to another metro area in the second quarter of 2018, up 3 percent from the second quarter of 2017. People are looking to leave metro areas that have an average tax burden three times higher than the areas attracting new residents (see story).

"Ultra-high-net-worth buyers will always think of real estate as an investment," Coldwell Banker's Mr. Hogan said. "Unlike other financial investments, high-end real estate also provides comfort, security and enjoyment as a place to live.

"Affluent buyers can purchase multiple properties around the globe, which allows them to diversify their wealth by mitigating political or currency risks," he said. "The ultra-rich have an affinity for buying quantity, and while they don't compromise on quality, they do sometimes choose smaller homes that are artfully created instead of mega mansions or showpiece villas.

"This means the right balance of location, style, architecture and amenities for their individual or family needs. We're seeing luxury buyers demand more in-building amenities, especially anything that relates to wellness. This could include anything from in-unit swimming pools, luxury fitness centers, spas, outdoor exercise space, meditation and yoga rooms, theaters and quiet areas."

Status symbols

Thirty-five percent of affluent consumers believe that a person's home is the best indicator that they are well-off. This surpasses hard luxury, social standing and what car they drive.

"It is no longer about the conspicuous consumption and showing off to your neighbors of the 1980s, but it is about sharing your success with friends and family, particularly those that have achieved a similar level of status or success," Ms. Anton said. "It is showing you have 'arrived' to those who are in the know."

Hamptons real estate gets a modern update. Image credit: Nest Seekers International

While Europe, the Middle East and Asia all say that real estate is the ultimate status symbol, North Americas buck the trend, with 32 percent considering hard luxury products the best tip-off of someone's wealth.

Wealth is also often made through real estate, with consumers, on average, attributing 16 percent of their wealth to properties.

Homebuyers who are purchasing second homes are increasingly looking at these investments in the hopes of earning rental income, as opposed to using the properties solely for leisurely retreats.

Research from real estate adviser Savills shows that two-thirds of owners rent out their second homes for at least part of the year in an effort to cover part, or all, of the expenses behind maintaining multiple properties. As today's

technology simplifies the home rental process and expands the pool of potential renters, more than a third of all additional homes are bought as solely rental properties (see story).

Real estate is also a key asset, with consumers holding about a third of their wealth in properties. This is even higher in Europe, where about half of total assets are tied to real estate.

Reflective of an improving global economy, the wealth held by high-net-worth individuals grew 10.6 percent this past year, according to data from Capgemini.

The consulting firm's World Wealth Report 2018 found that the population of wealthy consumers and their collective wealth both rose for the sixth consecutive year. Since the last edition of the report, 1.6 million more individuals gained high-net-worth status, led by wealth creation in Asia and North America.

Financial advisors helped to drive HNWI wealth, with returns on investments managed by these professionals up 27 percent last year. Equities are also the largest asset type for these consumers, followed by cash and real estate (see story).

"Consumers are rarely binary," Luxury Portfolio's Ms. Anton said. "They are more likely a little of an emotion-based decision-maker, and a little financial-based decision-maker, so solely focusing on one versus the other is generally not recommended.

"Even if, for example, the property is an income-producing property, part of the way to effectively sell that is more about selling the benefit to the owner, i.e. more income," she said. "On the other hand, connecting to consumers emotionally is all about marketing and, specifically, storytelling. Painting a picture for a client about how it would feel to live in a specific space. Not defining the home by functional need, but instead by the benefit it brings, for instance, a perfect bedroom for a daughter because the windows look like the turret of a castle.

"Knowing your clients well is the most surefire way to know how to effectively speak to them. For example, in [a recent Luxury Portfolio white paper], we how people define a 'house' versus when something becomes the much more personal term, a 'home.' We found that someone may say where they live is just a house because they are unsettled, temporarily living somewhere, or not in love with it.

"So for an agent, that is a great clue not to try to sell someone a 'home' if they are really not looking for a long-term decision. Understanding their motivations, long-term plans, financial picture, really getting to know them as people and their story, makes all the difference to effective communication."

Best practice tips for luxury realtors

- Stephanie Anton, president of Luxury Portfolio:
    - "Stay in touch with your past clients regularly, and on a personal level. It's not just about sending them a newsletter. It's about maintaining a personal relationship and continuing to be a resource and go-to person for them."
    - "Be very very involved, in your community, in volunteering, in your child's school, etc. The most connections you can make can only be a help in this business."
- Craig Hogan, vice president of luxury for Coldwell Banker Real Estate
    - "Understand that ultra-high-net-worth buyers are looking for a curated experience and white-glove service. They want you to understand their lifestyle and amenity needs and be able to recommend a property that feels like a true home. It requires personalization to build a meaningful connection with them and a deep knowledge of the luxury community in their neighborhood. The luxury buyer often owns multiple homes, so it is imperative you know how this home fits in with the buyer's lifestyle and business."
    - "Agents should also keep in mind that the luxury buyer is looking for a home to be a sanctuary that promotes their security, serenity and overall well-being. They want a retreat from their busy work and public lives. Luxury buyers expect their homes to be outfitted with technology that improves security and convenience, such as smart camera systems, Internet-based sound systems in every room and green technology like solar panels. Of course, wellness is another consideration for luxury home buyers, and this can mean everything from air purification systems and circadian lighting systems to outdoor and indoor space for mental and physical health."

- Eileen Foy, broker at Douglas Elliman:
    - "You must have a clear and legible floorplan and high-resolution photography. Written descriptions should highlight the apartment features as well as the building amenities and the neighborhood attributes. We are not just selling an apartment. We are selling a lifestyle and people are investing their hopes and dreams in this purchase."

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