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REAL ESTATE

Millionaires are fueling the luxury property market in new ways: Coldwell Banker

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Wealth is moving out of New York City as millionaires embrace the Zoom lifestyle and look further afield. Image credit: Tag Heuer

By ELLEN KELLEHER

The panic and disruptions triggered by the pandemic are encouraging millionaires to change the way they spend money and throw more of it at new homes as they take advantage of rock-bottom interest rates.

Affluents in the United States are at a turning point, forged amid the chaos of COVID-19, according to Coldwell Banker Global Luxury's report "2020: A Look at Wealth: New Affluent Trailblazers." Now home-bound, millionaires' spending habits are shifting and they are re-aligning their priorities to spend more on real estate and intangibles like family, health, privacy and security.

"COVID has given people lots of time to wonder if they should move and a reason to accelerate the process," said Dawn McKenna, broker with Coldwell Banker, Chicago.

"Under normal circumstances, people take their time to plan big changes. With the pandemic, they are acting and acting quickly," she said.

The 2020 report is based on insights from the WealthEngine platform and consumers aged at least 23 years old with a net worth of more than $1 million. Data was collected between Sept. 1 and Oct. 6.

Rich spend money differently these days

Month after month of lockdowns have made wealthy buyers reassess their living standards and trade up if more space is desired. Cheap money is also fueling the highest end of the property market as mortgage rates are set to remain low at least in the near term.

Thanks to the sea change in how affluents are making lifestyle choices amid the pandemic, the luxury real estate market is booming.

Demand for the most exclusive properties is surging, with the median price of a luxury property climbing to roughly $1.4 million for a single-family home in 2020 at the end of March 2020, per the study. A short pause in the market's pace during April and early May preceded the start of a surge of pent-up demand in mid-May and June.

Hudson, New York is a town favored for relocation by younger millionaires. Image credit: New York State

"Major lifestyle changes are thought to be responsible for a rise in demand for larger single-family home in locations that can offer more space and greater freedom," wrote the report's authors.

The number of millionaires in the U.S., with more than $1 million to their names, has grown to 26 million, per the report, thanks partly to a strong economy, the rise of the tech sector and growth in the stock market.

Coldwell Banker created three categories to describe this emerging millionaire class.

Affluent "explorers" are under the age of 39, with $1 million to $1.5 million in net worth. They are ready to leave the city behind and purchase homes in far-flung suburbs and sleepy small towns where their dollar will carry them further.

Sought-after destinations for explorers range from Paletka, Florida and Edwards, Colorado to Hudson, New York and State College, Pennsylvania.

In the second tranche are the new suburbanites who are leading the revival of the suburbs. They are slightly older as they tend to fall between the ages of 39 and 54 with $5 million to $10 million in net assets.

As one expects, suburbanites prefer suburbs that offer space, backyards and amenities such as home offices for working parents and good schools. They also want to be within commuting distance from cities like New York, Boston or Chicago.

Popular destinations include Short Hills, New Jersey; Carmel Valley, California and Bethesda, Maryland.

Rounding up the group are the resorters, who older than 54 with $10 million or more. They are more likely than not to be on vacation, place a premium on privacy and flock to destinations where they can enjoy a so-called resort lifestyle.

La Jolla, California; Aspen, Colorado and Stowe, Vermont are a trio of markets attracting their interest.

Older, wealthy people flock to Stowe, Vermont. Image credit: Sotheby's

Looking ahead, wealth is shifting from its traditional concentration in New York and California. Indeed, the rise of telecommuting and changing real estate needs have contributed to the flow of money away from this pair of cities.

As part of this, "Zoom" towns nicknamed for the popular video message application are in vogue as wealth becomes decentralized in the U.S.

Closer look

As the pandemic had a lesser impact on high-net-worth individuals, sales of the most expensive homes in the United States are far outpacing sales of medium-priced ones.

Indeed, supply has shrunk in many markets and housing priorities have shifted for many prospective and current homeowners.

Per a new report from Redfin, sales of U.S. luxury homes climbed 41.5 percent in the third quarter from the year-ago period, marketing the biggest jump in prices seen since 2013. Underlining the disparity in how COVID-19 is playing out across the U.S., this rise compares to just a 3 percent increase in sales of medium-priced homes and a 4.2 percent fall in affordable home prices (see story).

A cluster of cities on the West Coast drove the surge in luxury home sales in the third quarter. Luxury sales rocketed 86.1 percent in a year in Sacramento, where the median luxury home price is $1.2 million, outpacing gains seen in any other city across the country (see story).

"A lot of people have decided it's time for a move," said Ms. McKenna. "For most people, their home is the most important thing they own and the center of their life."