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REAL ESTATE

Global competition grows for luxury homebuyers

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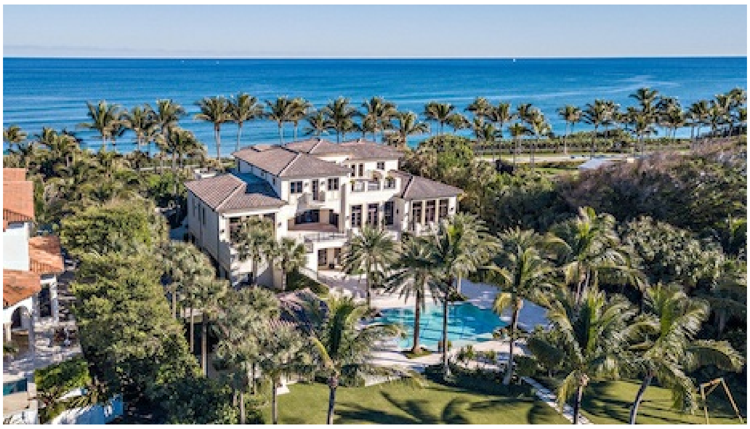


The lifestyle in Palm Beach holds a different appeal than big cities. Image credit: Brown Harris Stevens Residential Sales/Luxury Portfolio International

By SARAH RAMIREZ

NEW YORK Luxury real estate markets have responded unevenly to cultural changes spurred by the COVID-19 pandemic, leaving struggling cities to be more mindful about how to welcome homebuyers.

Competition for luxury buyers has become global as digital transformations accelerated by the pandemic have made affluents more mobile, according to panelists at the State of Luxury Real Estate eConference on Jan. 14. Growing demand for high-end real estate amid low inventory creates an opportunity for emerging markets as well as developers.

"The pandemic has really brought life back to the luxury market, especially in the suburban markets," said Ivy Zelman, CEO at Zelman & Associates, New York. "Prior to COVID, it was lackluster, at best, and some markets, especially those laden with supply like New York City and Miami, saw pressure deflation.

"Even markets like Philadelphia, parts of Chicago and especially suburban markets were very weak and under pressure," she said.

State of Luxury Real Estate was produced by Luxury Daily in association with Luxury Portfolio International

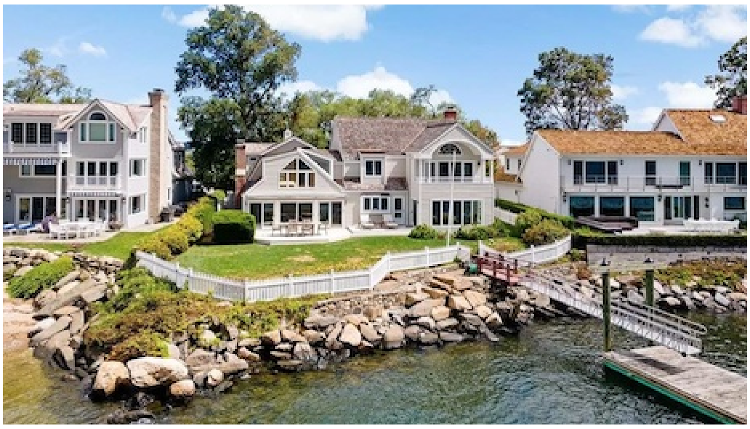
On the move

With the sudden and swift rise of remote work, many financially secure workers now find themselves with the ability to work anywhere rather than be limited to large cities with more job opportunities.

In the United States, affluents are leaving urban centers for nearby suburbs or warm weather destinations. For instance, the Hamptons and Connecticut saw their strongest real estate performance as wealthy New Yorkers made the decision to leave the city.

"A lot of places that people are flocking to are not big cities," said Gregory Heym, executive vice president and chief economist at Terra Holdings, New York. "These places do have to provide the amenities.

"You have to attract businesses to those areas for people to work if they choose," he said. "Make sure you have the great restaurants and cultural institutions that people are used to having many choices of in larger areas."



Waterfront property in Stamford, CT. Image credit: Luxury Portfolio International

Those same urban areas, however, had come to rely on high-wage office workers as essential to their local economies due to consumer spending, taxes and other factors. Now, the physical absence of these employees has had real economic ramifications on cities across the globe.

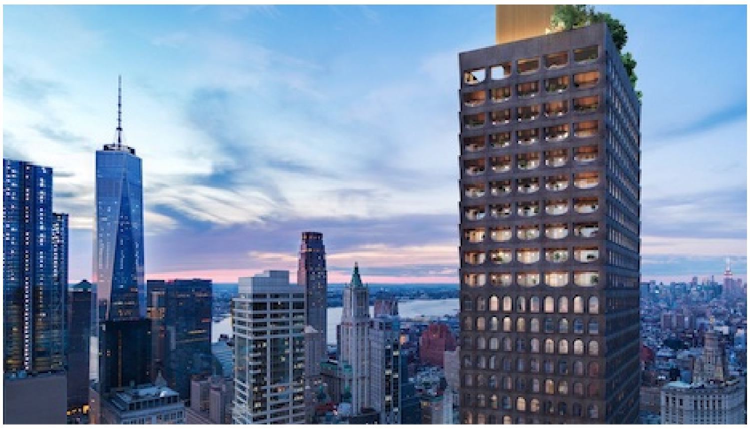
According to a recent study from data company Unacast, New York lost an estimated $34 billion in income from a net loss of 70,000 residents in 2020. While the estimated 3.57 million people who left New York were partially offset by the 3.5 million newcomers, the new residents earned lower average incomes.

"I think that people that move to urban areas and cities do so for probably a couple of reasons, such as access to good jobs, ease of transportation," Mr. Heym said. "We've seen a lot of events chase people away from certain parts of the globe.

"I think people ultimately realize why they chose that area in the first place," he said. "As much as they may embrace their newest surroundings, we have found that people that have left New York City have come back at a pretty significant rate."

Mr. Heym cautioned, however, that cities and states should be cautious with new taxes to address budget shortfalls.

New York State lawmakers have previously considered placing a "pied--terre tax" on non-resident owners with residential properties valued at more than $5 million (see story).



Real estate experts expect HWNI will return to New York. Image credit: 130 Williams

Implementing these types of tax measures may further encourage high-net-worth individuals to move to low- or no-tax markets, such as Texas and Florida.

Ms. Zelman predicts that the next few years will see move rates climb, reversing a recent trend that saw more consumers "age in place" and invest in home upgrades as they grow older rather than relocating. With younger consumers fleeing cities, luxury listings in suburban markets are receiving more competitive offers.

Modern developments
Affluents in other countries are also on the move.

According to Affluent Consumer Research Co. CEO Chandler Mount, 15.5 million affluent households are expected to buy a home in the next three years.

With demand outpacing low inventory levels, particularly in desirable suburban neighborhoods, real estate developers also stand to gain.

High-end buyers are not only looking for more space, per Ms. Zelman, but they also want higher-quality homes with more modern features, such as home gyms, offices and connected smart appliances.

According to a recent survey from Knight Frank, a desire to upgrade their current primary residence is the leading reason for clients to consider a home purchase.

Home offices have risen on the list of priorities, with almost two-thirds of clients believing they are more likely to work from home even after restrictions lift. About a third of respondents are also interested in properties with an annex for extended family members or close friends (see story).

The importance of amenities also extends beyond an individual household.

"All those great bells and whistles of the city, but now being exported either to suburbs or less densely populated city areas, are quite in demand for the luxury buyer," Mr. Mount said. "They really value close proximity to medical facilities, shopping, schools and other recreational things to do.

"They want to be able to walk to work if they're not planning to work from home," he said. "It's almost as if all the amenities that they want in the house must also be available to them in a different format outside of the home."