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REAL ESTATE

Growing wealth contributing to luxury real estate competition

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Due to a shift in values caused by the pandemic, buyers are looking for homes away from city centers. Image credit: Luxury Portfolio International

By SARAH RAMIREZ

The hybrid lifestyles that have emerged during the COVID-19 pandemic will continue to influence the luxury real estate market into 2022.

During the Luxury Hour webinar hosted by Luxury Portfolio International on Dec. 9, real estate experts discussed what industry professionals can expect from the market next year as it continues to evolve. Changes in city environments coupled with growing wealth among high-net-worth individuals continues to put stress on the market.

Luxury Hour was moderated by Mickey Alam Khan, president of Luxury Portfolio International and editor in chief of *Luxury Daily*, New York.

Inventory struggles

As many affluents and high-net-worth individuals have seen their assets and wealth grow on the strength of the stock market, competition has increased for luxury real estate.

According to Marci Rossell, chief economist at Leading Real Estate Companies of the World, many luxury real estate buyers are feeling that they are not in control of the process an unusual position for them.

From work to exercise, more activities are taking place at home, fueling the desire for bigger homes. Image credit: Luxury Portfolio International

Unlike a typical real estate bubble in which buyers invest in real estate because they have leverage and expect prices to continue climbing, current buyers are more likely to feel they are overpaying for homes.

However, overpaying has not dissuaded many buyers because they feel like more space is a necessity. With remote lifestyles more firmly entrenched, consumers now desire separate rooms for work, exercise and other activities now taking place at home.

Cryptocurrency investors have also seen their wealth increase, and, in turn, are spending on real estate, according to Amir R. Korangy, founder and publisher at The Real Deal

As of a result of this confluence of factors, high-end inventory, which was already strained, continues to dwindle.

Management companies and vacation rental platforms making owning vacation homes less of a headache. Image credit: Inspirato Real Estate

A pre-pandemic slowdown in new construction and higher rates of retirement among older builders and contractors has also led to a shortage of construction workers. Even without accounting the impact of supply chain disruptions, this means it will take some time for inventory to recover.

Remote lifestyles
Although the "Great Resignation" has grabbed headlines as workers quit jobs at high rates amid historic levels of vacant roles, Ms. Rossell argues that this era is the "Great Rearrangement" among the wealthy as many relocate and change their lifestyles.

The pandemic has accelerated how quickly younger, well off families and professionals leave high-density areas, whether permanently or by purchasing additional homes.

As Mr. Korangy explained, the boom in management companies and rental platforms such as Airbnb have made owning multiple properties more manageable and enticing. Now rather than sitting vacant for much of the year, third- and fourth homes can be more easily used for supplemental rental income.

He also argues that the metaverse is going to further advance remote living and work, leading to more HNWI dispersing from city hubs. Millions are already being spent on virtual properties in the metaverse.

While Ms. Rossell is not ready to declare the death of the city office, she agrees that the widespread shift to hybrid work models is impacting urban cores and commercial real estate.

The shift to remote work has wide-ranging implications. Image credit: Neiman Marcus

Vacant commercial structures can start to deteriorate if sitting unused for too long, so building owners and cities will have to pivot by rethinking their use and even addressing existing zoning laws.

Possibilities are seemingly endless, however, from converting traditional office spaces to fulfillment centers for ecommerce or incorporating hoteling space in office buildings for employees commuting from farther distances.

Beyond real estate, shifting migration patterns also impact the retail, cultural and financial scenes in major cities.

Research from Knight Frank also shows that urban centers will continue to play important economic roles, continuing to attract tourists as well as homeowners and second homeowners (see story).

However, as employees continue to opt out of the in-office work model, daily routines will shift and ultimately impact brands and retailers that rely on the physical business from commuter employees (see story).