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REAL ESTATE

80pc of affluents believe real estate still safe for investing: Coldwell Banker

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Coldwell Banker's latest 2022 Trend Report release provides insights into wealth creation, real estate, property investment, luxury spending preferences, and emerging trends. Image credit: Coldwell Banker

By AMIRAH KEATON

Despite fluctuating market conditions, consumers are over three times more likely to consider 2023 more opportune for luxury real estate investment versus 2022, according to a new report.

Though high-net-worth individuals have begun to temper their homebuying plans parallel perceived risk and reward as compared to buying habits during luxury real estate's 2021 boom, it seems affluents are not holding off on real estate purchases any time soon. Coldwell Banker's 2022 Trend Report release provides insights into wealth creation, real estate, property investment, luxury spending preferences, and emerging trends.

"Luxury real estate investment continues to be hot for wealthy individuals in the U.S. and abroad," said Liz Gehringer, president at Coldwell Banker Affiliate Business and chief operating officer at Coldwell Banker Real Estate LLC, in a statement.

"Backed by data and expertise, Coldwell Banker Global Luxury Property Specialists have the knowledge and network support to provide end-to-end guidance for all those looking to buy their next dream property."

For this report, Coldwell Banker partnered with Censuswide, the Institute for Luxury Home Marketing and Wealth-X to obtain data. Survey findings are based on research conducted by Censuswide of 2,001 U.S. consumers ages 18 and up with a household income of $1 million or more and who have bought a home in the U.S. worth $1 million or more, with quotas of a minimum of 100 per the regions targeted, between Aug. 2, 2022, and Aug. 15, 2022.

Coldwell's 2022 trend report

Coldwell Banker's report offers six key trends that it purports will guide the industry over the next few years.

Coldwell Banker shares insights in a brief clip previewing the firm's 2022 Trend Report

Though the wealthy are largely insulated from many market threats, the threat of lowered portfolio value still holds a high level of influence over investment strategy.

Wealth-X speculates that stock markets may have fallen by a total of 20 percent in 2022, reducing the standing of wealthy earners marked by a net worth of $5 million or more by 12 percent since 2021, due to happenings such as geopolitical events triggering rising interest rates, inflation and fiscal volatility.

Real estate allocation has weathered this decline, however. Its allotment has remained unchanged y-o-y. Coldwell explains that this is due to a preference for tangible assets, as buyers want to see their money in times of economic challenge.

The report reveals that luxury single-family home prices have appreciated by 60 percent appreciation since 2017, backing a streak of confidence in real estate as a sound investment from survey respondents.

Understanding exactly how this demographic is proceeding with purchases is worthy of extensive analysis.

Findings suggest that though housing value confidence remains high and the seller's market proves its staying power, luxury real estate players seem to be airing on the side of caution, with a more measured approach to acquisition.

First, Coldwell is claiming evidence of the return of buyer leverage.

As of June 2022, luxury home inventory increased for the first time in two years, though supply shortages still persist. Inventory levels are not on pace with demand at the rate necessary to declare a true and traditional buyer's market.

In good news for buyers, the report lists that luxury home sales have begun a decline as compared to y-o-y figures, as the rate of price increases slows as well. Predictions from Freddie Mac state that home value increases are expected to slow down from 17.8 percent in 2021 to 10.4 percent by the end of this year.

Coldwell notes that here, nuances exist across income levels.

"There is an interesting shift happening in locations such as Carmel-by-the-Sea," said Tim Allen, luxury property specialist affiliated with Coldwell Banker Realty in Carmel-by-the-Sea, California, for the report.

Prices for real estate in the region readily top the $25 million mark.

"[Mass affluent] buyers during the pandemic purchased smaller luxury cottages as second home escapes, but now that many have decided not to go back to the city, they are looking for larger homes," Mr. Allen said.

"Recognizing this will come with a significant price increase, they are now ready to move further inland," he said.

"This has opened the door for the ultra-affluent to step in, especially if the [smaller] home is move-in ready to the level of their expectations."

Speaking of, Coldwell's next report trend hones in on luxury single-family homes with smaller square footage, which are on the rise.

> Luxury real estate remains in a strong position going into 2023, with more affluent consumers turning to real estate as a long-term investment strategy, says a new #CBGlobalLuxury report. Learn what's driving luxury via "The Trend Report." https://t.co/oBlT3cGAvs pic.twitter.com/s61akOSuGL
>
> Coldwell Banker (@coldwellbanker) Oct. 24, 2022

Larger homes purchased for the purposes of acquiring space during the pandemic meant attached homes took a dive in value prices fell by 1.5 percent by June 2020. Low prices and less attention on the primary residence meant luxury buyers interested in building generational wealth by investing in multiple, lesser-priced, smaller homes and sales took action.

Sales began to rebound by the end of last year. In 2021, larger homes with square footage hitting 4,500 to 5,000 sold 21.6 percent faster than smaller square-foot homes.

Now, the phenomenon has flipped luxury single-family homes with smaller footprints of 2,500 to 3,500 square feet are selling 18.6 percent faster than larger single-family homes between April and August 2022 across 20 top U.S. markets, according to Coldwell's analysis.

Further, inventory levels for properties under 3,500 square feet have risen by 129 percent since April 2022. With choices already low, some purchases of smaller properties are turning into a want versus need exercise for affluents seeking to close on luxury shelters in a reasonable amount of time.

Interestingly, Coldwell's next trend suggests that the market could soon be fueled by cold feet, resulting from purchases made within the last two years, with relocations listed as its third trend.

Around a quarter of respondents who got caught in the buying frenzy of that time frame, purchasing a home in 2020 or 2021, reported not being satisfied with their purchase.

"It is important to note that a large majority close to 72 percent of respondents reported being satisfied with their home purchase during 2020 and 2021," said Diane Hartley, president at the Institute for Luxury Home Marketing, for the report.

"However, with the insatiable buying frenzy and quick decisions being made, there were bound to be stories of regretful buyers who leapt too quickly into unknown environs."

New York and California rank high among the list of locations of most interest for those changing locations.

New York is one of the leading centers of luxury consumption worldwide. Seen here: Skyline with a view of the Empire State Building

For the fourth identified item, purchasing patterns also mimic those of a population craving stability.

Seeking to diversify their investment portfolios with long-term wealth generators, this group is either looking to buy in traditional luxury centers known for garnering returns, or is moving forward with the future in mind by searching for property amid areas that face lower levels of extreme weather, and are largely unimpacted by climate change.

Coldwell's final two trends include a push beyond borders Wealth-X data says that the number of American high-net-worth individuals overseas property purchases in 2022 is projected to rise by 14 percent from 2021 and 29 percent from 2019 as well as the growing popularity of innovative financing options, sparked by rising interest rates.

"Between the historic rise in interest rates this year and the growing population of high-net-worth buyers, the number of real estate transactions using tactics such as asset leveraging and other creative financing methods is only expected to increase," said Shant Banosian, executive vice president of Guaranteed Rate at Coldwell Banker Real Estate, LLC, for the report.

"While the idea of using debt as a strategy is not new for the world's wealthiest individuals, more and more wealth managers are advising their clients to embrace this tactic," Ms. Banosian said. "The more they can borrow, the longer they can hold appreciating assets and the longer they hold, the bigger their tax savings."

"This strategy could help them in the short term since it helps bridge the gap between rising interest rates and prices

as the market slowly moves into a more balanced state for buyers and sellers."

Pricing peaks

This year, the global affluent population those with a net worth of more than $5 million grew by 19.8 percent year-over-year, according to Coldwell Banker's 2022 Global Luxury Market Insights report (see story).

This increase has fueled the market thus far. As the space cools (see story), enduring affluent preferences will shape the next chapter of luxury real estate.

"While the luxury property market is now trending toward balance, there is still insatiable demand from wealthy buyers looking to diversify their portfolios and build long-term wealth through investing in real estate," said Michael Altneu, vice president of global luxury at Coldwell Banker Real Estate LLC, in a statement.

"This strategy powered by the wealthy is the driving force that we see throughout The Trends Report and really underscores the power they still have when it comes to purchasing the properties that they desire."