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REAL ESTATE

Affluent buyer demand for move-in-ready luxury properties persists: report

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"Mixed market messages" defined the luxury home sector in September, per new data published by The Institute for Luxury Home Marketing. Image credit: The Institute for Luxury Home Marketing (ILHM)

By ZACH JAMES

The number of luxury single-family homes and attached properties on the market is increasing as the overall volume of completed sales goes down compared to last year, according to a new report.

Published by The Institute for Luxury Home Marketing (ILHM), The October 2023 Luxury Market Report provides an analysis of the headwinds currently impacting the luxury real estate scene in North America. The Texas-based firm's stats show that "mixed market messages" defined the luxury home sector in September, with findings pointing towards a buyer's market taking hold in the long term while a seller's market is currently underway.

"Buyers are seeing more luxury inventory available to them compared to last year, however, if they are looking for move-in-ready properties with the expectation of a high-level of amenities from privacy and wellness features to the integration of technology then they are unlikely to find a bargain and could even face stiff competition," said Kathleen Bibbins, general manager of the Institute for Luxury Home Marketing, Dallas.

"For sellers, they need to understand that selling is not related to limited supply anymore it's about meeting buyer demand," Ms. Bibbins said. "Compared to the traditional luxury market before COVID-19, we are still below average on inventory availability.

"The big differentiator is the lack of new inventory coming onto the market."

For the monthly report, ILHM sourced active and sold luxury home listings from California-based agency REAL Marketing, which compiled the data from a variety of sources, including local MLS boards, local tax records and Realtor.com from Sept. 2022 to Sept. 2023. ILHM determines the benchmark for which properties are deemed to be at luxury price points by overall trends and location.

Shifting tides

While there are signs of favoritism towards both sides of the aisle usually indicating a balanced market ILHM's report posits that the current state of affairs is strange and outside typical norms, though technically being labeled as a seller's market.

This is due to several factors, including available inventory not meeting the "move-in ready" status, homebuyers wanting "unique features," such as privacy, as well as amenities tied to wellness and technological integration, the latter seen as a tool that could also move the needle for luxury retail (see story), as consumers seem to have the same demands across sectors.

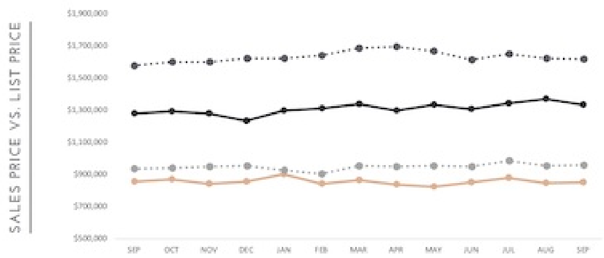
In general, North American audiences are looking for added value to their transactions, especially with an investment as large as a home. They are also seeking comfort above all else, according to a recent study by Horizon Media (see story).

A variety of factors are contributing to the unusual luxury housing market. Image credit: Pacaso

These trends also overlap with findings from real estate marketing firm Luxury Portfolio International (LPI), which showed that home improvement projects and interior furnishings sales are on the rise among the affluent (see story).

With these increased expectations from consumers, sales of single-family homes and attached properties have fallen 4.8 percent and 1.3 percent year-over-year (y-o-y), respectively. Since last September, inventory levels have conversely risen among the same categories sales of single-family homes by 6.7 percent, and of attached properties, by 17.7 percent.

Listing prices are said to have remained steady through this turbulent period, with the cost of single-family homes growing by 4.15 percent and attached properties dipping by 0.53 percent y-o-y.



Median sale prices are lagging behind list prices in September. Image credit: The Institute for Luxury Home Marketing (ILHM)

Luxury single-family homes, on average, are selling at a rate of 98.6 percent of the list price. With this, the median sales price for high-end homes in America and Canada was $1.33 million last month, around $50,000 higher than in September 2022, per ILHM.

Total inventory for this segment, however, is also up significantly, to the tune of nearly 5,000 more homes y-o-y, though unit sales have dipped by exactly 750 homes.

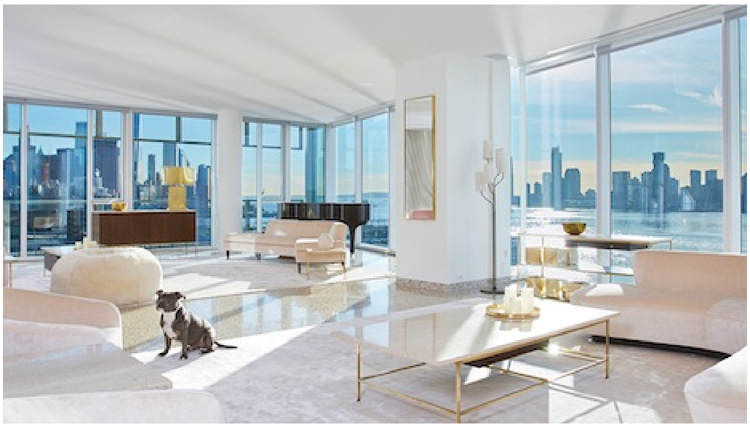
All of the above trends affected the attached properties market roughly the same, the only difference being total sales increasing slightly over last September.

The most in-demand homes are those in the "mid-sized" category, defined as being between 3,000 to 3,500 square feet.

Financial reality

Potentially the largest factor affecting those buying luxury homes is increasing interest rates across North America, regardless of the location in the U.S. or Canada.

Homeowners who have secured low-interest rates for their current residences are unlikely to trade out for a more expensive compounding option.



Potentially the largest factor affecting those buying luxury homes is increasing interest rates across North America. Image credit: Brown Harris Stevens

Experts quoted in the report do not expect interest rates to change in the near or somewhat distant future.

Destinations like Los Angeles (see story) and Manhattan (see story) are among those being adversely affected by financial hurdles, though globally, the ultra-luxury market remains strong.

"Overall, we would say that the slowdown in sales is due to hesitancy rather than the market seeing a downturn," Ms. Bibbins said.