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REAL ESTATE

From great to good: Luxury real estate adjusts to a more normal market

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The luxury real estate market, especially in the United States, has had a breathless ascent in recent years. Prices have risen dramatically, fueled by a more global real estate market where money shifts from place to place with increased fluidity.

The growth in luxury real estate is tied directly to the amount of wealth being generated in the world. The number of billionaires in the world keeps rising. This year's rush of initial public offerings in the U.S. stock market is expected to bring more money to areas such as San Francisco and Silicon Valley but also to markets like Hawaii and to places all around the world.

In an uncertain world, real estate is still seen as a safe investment and the tech elite have demonstrated over and over again that they see real estate as a smart place to put both their personal money but also their company funds.

Ambitious projects from Amazon, Google and Salesforce have proven the value of physical space to companies that trade in the online world.

Paradoxically, the new wealth is also obsessed with motion.

Travel is a great love for many high-net-worth individuals and they frequently combine it with work activities whether it is establishing new offices or exploring investment opportunities. New hot spots emerge quickly and social media plays a role in drumming up excitement and interest in plays that may be off the radar.

Today, people evaluate success not just by what they experience, and this changes how they view real estate.

Inventory and the Goldilocks conundrum

Ask agents and you will rarely hear them express that there is just the right amount of inventory.

In the past few years the lament has been that there is not enough inventory to suit demand at the lower range of the luxury market (under $2-$3 million in most markets) while there has been too much inventory at the higher ranges.

So far this year, that trend has been continuing although certain U.S. coastal markets that have seen an increase.

The Northwest Multiple Listing Service reported at the beginning of April that Western Washington saw the highest inventory since last August. There is still two months of inventory or less in many areas. However many luxury condo projects are starting to come online in Seattle and home prices are flattening.

San Jose, California has seen inventory rise in the last few months and, last year, realtor.com predicted that the San Jose metropolitan area would lead the country in inventory increases.

Many markets in China are seeing high inventory as a building boom has started to lead to an oversupply in major cities.

Meanwhile smaller cities where prices are lower are starting to see an increase in interest that has outpaced the major markets.

Tax migration, Brexit and recession fears

In the U.S., the impact of last year's Tax Cuts and Jobs Act has had repercussions throughout the housing market, especially when it comes to tax migration.

Residents of Connecticut, New York and New Jersey are starting to look toward Florida and other states where real estate is less expensive.

Florida's status as a no-income-tax state makes it particularly desirable.

Sarasota in Florida became one of the top markets last year for luxury real estate and Naples continues to see increased interest.

On the West Coast, Nevada has become a magnet attracting Californians ready to leave high prices and high taxes behind.

Las Vegas luxury real estate prices have increased and there is not enough high-end inventory to satisfying the growing Reno market.

In recent months, much of the world has been in wait-and-see mode after the global economy slowed during the second half of last year.

The U.S. Federal Reserve has decided to wait on any additional interest rate increases through at least 2019. While the potential for a recession or at least a global slowdown still lurks, much of the world feels more watchful than pessimistic.

The watch-and-wait attitude has prevailed in Europe as the United Kingdom works its way through an increasingly tangled Brexit.

While there has been some value seeking at the high end, a lot of buyers and sellers have sat on the sidelines.

Uncertainty tends to slow a market, while a move in any direction causes action.

A similar dynamic has been in place as China and the U.S. continue to negotiate tariffs. In both of these situations, inaction leads to paralysis.

Much attention has been focused on China's investment around the world but now more foreign money is coming into China with large scale investors such as Canada's Brookfield looking into investing in large development projects in Shanghai and other top markets.

China has scaled back some of its large scale commercial investing in the U.S. and Europe. However, Chinese investors are still the top foreign buyers in the U.S. and Canada.

What has changed about Chinese residential investors over time is that as they gain confidence, they are expanding into smaller cities and doing more value seeking. Over time, the investors in China's real estate may also make the same journey.

Markets to watch

The traditional enclaves of wealth such as Beverly Hills, Geneva, London, New York and Hong Kong continue to have value for high-net-worth individuals. As cities they exist as marquee brands, known and trusted throughout the world.

There is a universal demand for high-end homes with technological amenities as well as a setting that feels safe and secure.

Privacy is something that has become a concern for these individuals who are protecting themselves, both online and offline. In real estate, this often means a setting with a beautiful view or landscape that is both convenient but also protected.

Edinburgh, Scotland

While Brexit has caused slowdowns throughout the U.K., one of the areas that has been seeing an uptick is Scotland.

Knight Frank recently reported that the luxury real estate is on the rise in Edinburgh, with homes in the 1.5 million- 2 million ($2 million-US$2.6 million) price range rose by 13 percent in the first quarter over one year ago.

Edinburgh has also seen an increase in luxury tourism with a new crop of luxury hotels including the floating Fingal hotel and the Market Street Hotel opening this summer.

Montreal, Canada

While Vancouver and Toronto have seen their luxury markets fall off from record highs, Montreal is set for a record spring.

In the past quarter, luxury condo prices in the Greater Montreal Area rose by 8.4 percent from the previous year to $1,295,401. The median price of luxury homes were up by 5.4 percent to $1,680,942.

Montreal has seen major population increases and was called the leading Canadian city for economic growth by the Conference Board in 2018.

Palm Beach, Florida

Palm Beach is one of the Florida markets that has benefitted from tax migration.

The fact that the current "Winter White House" is located in Palm Beach at President Trump's Mar-a-Lago residence has raised the international prominence of this enclave. Already this year, Palm Beach has seen a $28.66 million sale.

Manhattan, New York

Manhattan luxury real estate has been taking it on the chin since the middle of last year. A newly announced mansion tax will mean that sellers will need to focus on attractive pricing.

What has been interesting is that sales upwards of $20 million have continued to be strong.

The mansion tax, which is a real estate transfer tax, will now be 3.9 percent for properties over $25 million.

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