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LUXURY REAL ESTATE: WHAT MATTERS MOST TO TODAY'S GLOBAL ELITE

2018

YouGov Affluent Perspective

LUXURY PORTFOLIO
INTERNATIONAL®

NEW YORK, NY | \$29,750,000



THE MARKET FOR GLOBAL REAL ESTATE

The global market for luxury real estate has been volatile this year, with extreme highs and lows, and vast differences from market to market, because after all, real estate — even at the high end — is most susceptible to local market forces. At Luxury Portfolio International® we have a distinct point of view: as the luxury division of Leading Real Estate Companies of the World®, we work with independently branded, local leaders in diverse markets from Beverly Hills, California to Asheville, North Carolina, to Cape Town, South Africa, to Auckland, New Zealand and have a unique opportunity to distill the reporting and insights we hear from our local leaders everywhere, to paint a picture of the global luxury real estate market. We also work closely with our research partner, YouGov, to incorporate global data on the affluent consumer to understand their preferences and trends at the top.

Based on these sources and others, we can report that globally, **the population of affluent consumers continues to grow, as does their interest in and emotional relationship with real estate.** In fact, interest in *purchasing* residential real estate remains high, with 38% of the global high-net-worth considering a purchase in the next three years. It is important to note however, that at the same time, interest in *selling* remains significantly lower, at 23%. The impact of this mismatch in purchase intent is resulting in higher prices, less inventory and hesitation on the part of sellers as they manage the process of finding a new home in markets such as San Francisco, California, Hong Kong and beyond. Today, across the globe, **real estate is viewed by high-net-worth individuals (HNWI) everywhere as a “wealth creator” and recognized globally as the preeminent status symbol of wealth and success.**

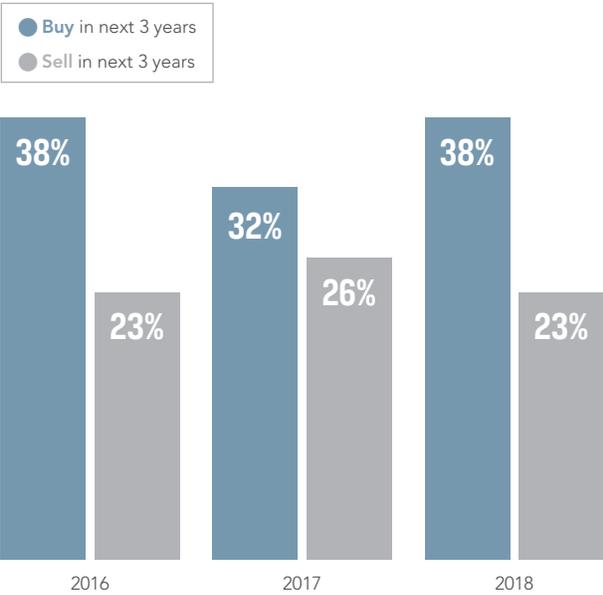
Highlights of this paper include:

- Asian consumers have a high intention to buy, and low intentions to sell, which may drive consumers toward foreign investments or delays in purchase as suitable properties can be harder to find.
- While the financial aspect of real estate is undeniable, luxury homebuyers in Europe, the Middle East and Asia tell us that “emotional ties” to a property is the most important factor in the decision to purchase a home.
- North American luxury buyers are more likely to say the “physical space” is the most important factor in the buying decision.
- As fortunes grow in the Middle East, so too does the allure of owning high-end property. The region is the most active with a large renting population eager to move into a more desirable living situation and a culture focused on real estate as a path to wealth formation.
- Purchasing a home ranks as the most obvious indicator of success worldwide. Real estate is seen as a smart financial investment and as a significant driver of personal wealth.
- For affluent homebuyers everywhere, **a house becomes a home when certain needs are met: 1) security and privacy, 2) the ability to grow as a person, 3) having a personalized/customized space and 4) a place that facilitates happy memories with family and friends.**

GLOBAL HNWI MARKET FOR REAL ESTATE 2018

The global interest in purchasing residential real estate* remains high, with 38% of HNWI considering a purchase in the next three years and the trend toward buying and selling has been consistent since 2016. When buyers outnumber sellers, market values can climb, inventory can shrink, and sellers may hesitate to move for fear of not being able to find a suitable replacement. Early planning to make a move can put buyers in the best position. In fact, in many markets now is an ideal time to sell while competition is low, and demand is high.

GLOBAL HNWI REAL ESTATE INTENTIONS: TRENDS



STRONG GROWTH IN THE WORLD OF GLOBAL WEALTH

Research firm Wealth-X recently reported² that the world's ultra-high-net-worth (UHNW) population (net worth of \$30 million USD or more) increased by 13% year on year to 255,810 people. The wealth that this group controls also grew by 16% to \$31.5 trillion USD.

Asia is the fastest growing wealth center, closing the gap with Europe and North America. The Middle East is not growing as quickly as Asia (less than 5%) but the absolute wealth they control on a per capita basis is the highest (\$168 million per UHNWI).

The most recent Credit Suisse Global Wealth Report³ shows a net gain in the high-net-worth population (net worth of \$1 million USD or more) which increased 7% to 36.1 million people and grew in value by 10% to \$129 trillion USD.

2018 MARKET INTEREST¹ IN THE NEXT 3 YEARS BY REGION

	Global	North America	Europe	Middle East	Asia
BUY	38%	30%	35%	71%	68%
SELL	23%	25%	17%	63%	18%

* Among global affluent consumers with \$1 million USD or more investable assets
¹ In the market for a primary residence, second or vacation home, or buildable lots
² Wealth-X World Ultra Wealth Report 2018
³ Credit Suisse Global Wealth Report, mid-2017 results



HOME TRENDS AMONG "CORE" LUXURY BUYERS⁴

For the purposes of this research, we are focused specifically on those that are in the market to buy a \$1 million+ USD home in the next three years. Those in the \$1 to \$4 million USD range make up 80% of luxury home purchasers and truly serves as our "core" or "foundational" high-end home market. But what specifically, are they interested in?

There are two consistent themes in the four regions included in our study, North America, Europe, Middle East and Asia: one, consumers link a **high preference for urbanicity** and two, the **architectural style** of the home. The table on the next page details the preferences for location, size, rooms, style and budget for buyer's next luxury home.

The Middle East is an extremely active luxury real estate market that continues its strong intentions to both buy and sell. Buyers in the top of the market are seeking an urban environment and lots of space. Contemporary and modern architectural styles are in highest demand. Close on the heels in terms of purchase interest is **Asia**,

however this region also has the greatest discrepancy between buyers and sellers, suggesting that some buying may be delayed, or take place in another country.

The luxury buyer in **Asia** also prefers an urban setting with contemporary, modern or loft architectural styling. The market in **Europe** mirrors the global average, but unlike buyers in the Middle East and Asia, Europeans are split in their desire for urban and non-urban living. Traditional styling is in the highest demand, though the overall size of the home is the smallest of all regions.

North America is less active in purchase interest than other regions, and like Europe, they are split between those seeking an urban and non-urban setting.

From a budget perspective, North America and Europe have a large proportion of buyers in the \$1 to \$1.5 million USD range, bringing their average spend to around \$2.2 million USD overall. Buyers in the Middle East have larger budgets overall (\$3.2 million USD average) and a high percentage of \$5 million USD or higher buyers (31%). Asia has buyers across all price points over \$1 million USD, with an average of \$2.8 million USD overall.

⁴ "Luxury homebuyers" in this report defined as those looking to buy a primary residence worth \$1 million USD or more in the next three years. North America: United States, Canada; Europe: United Kingdom, France, Germany; Middle East: Saudi Arabia, United Arab Emirates; Asia: China, Hong Kong, Japan, Singapore and South Korea.

HOME TRENDS AMONG GLOBAL LUXURY BUYERS

In which one type of location do you want your next personal residence?

	Global	North America	Europe	Middle East	Asia
Urban	59%	45%	41%	74%	76%
Suburban	29%	46%	29%	13%	22%
Rural	9%	3%	26%	1%	1%
Don't know/Not sure	4%	3%	4%	12%	2%

Style — Which of the following architectural or home styles are you thinking about purchasing for your next personal residence?

	Global	North America	Europe	Middle East	Asia
Traditional	41%	46%	51%	26%	35%
Contemporary	39%	37%	28%	45%	45%
Modern	37%	22%	38%	37%	46%
Loft	30%	18%	36%	18%	37%
Mediterranean	21%	25%	19%	29%	19%
Island/Beach house	20%	18%	16%	25%	23%
Mountain/Log Home	13%	9%	12%	14%	16%
Other	2%	6%	1%	—	0%

Number of Rooms (average response)

	Global	North America	Europe	Middle East	Asia
Bedrooms	4.0	3.7	3.8	4.6	4.1
Bathrooms	3.0	3.4	2.7	4.0	2.7
Parking spots in a garage	2.3	2.4	2.3	3.1	1.9

Planned Size in Square Feet — How many square [U.S.: “feet” Others: “meters”] are you looking to have in your next personal residence?

	Global	North America	Europe	Middle East	Asia
Under 1,000	12%	3%	27%	5%	19%
1,000 to under 2,000	12%	8%	10%	16%	24%
2,000 to under 3,000	14%	20%	1%	4%	18%
3,000 to under 5,000	21%	27%	17%	20%	10%
5,000 to under 7,500	14%	15%	19%	18%	4%
7,500 to under 10,000	14%	19%	10%	9%	8%
10,000 to under 20,000	6%	4%	7%	15%	10%
20,000 or more	6%	5%	9%	13%	7%
Mean	5,781	5,791	5,902	7,951	5,257

How much do you plan to spend on this next personal residence?

	Global	North America	Europe	Middle East	Asia
\$1,000,000 to \$1,499,999 USD	32%	44%	43%	15%	21%
\$1,500,000 to \$1,999,999 USD	16%	17%	19%	13%	15%
\$2,000,000 to \$2,499,999 USD	11%	8%	3%	13%	17%
\$2,500,000 to \$2,999,999 USD	11%	10%	11%	15%	10%
\$3,000,000 to \$3,999,999 USD	11%	9%	12%	3%	13%
\$4,000,000 to \$4,999,999 USD	8%	4%	7%	10%	10%
\$5,000,000 or more	12%	8%	5%	31%	14%
Mean (in USD 1,000s)	\$2,544	\$2,197	\$2,229	\$3,215	\$2,806



FALMOUTH, MA | \$7,900,000

WHISTLER, BC, CANADA | C \$22,000,000



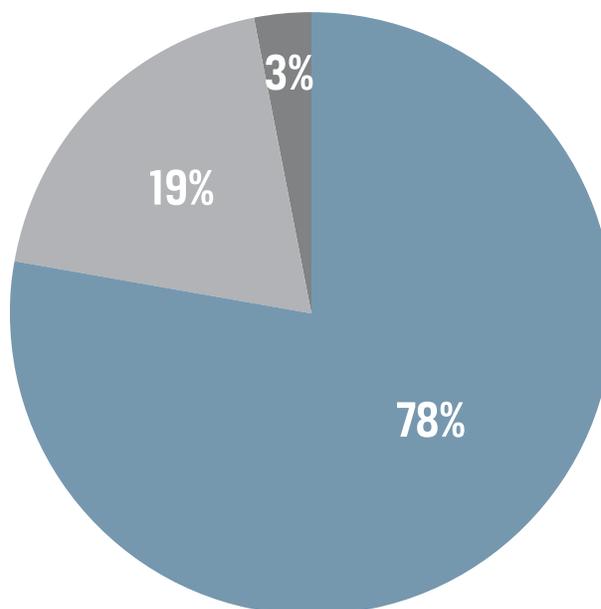
HOME: THE EMOTIONAL TIES

As we explored in our report from the beginning of the year, *The Rise of the New Aristocracy*, most luxury homebuyers see their residence as more than just a place to sleep or as an investment. This is also supported by data we collected in the last year among current high-net-worth homeowners who rank “improve quality of life” at-or-above “financial investment” as a main reason for purchasing a primary residence.

What are the main reasons you are considering the purchase of a personal residence in the next year/next three years?

	Current Luxury Home Owners
Improve quality of life	40%
Financial investment	34%
Looking to upsize	24%
Change of scenery	22%
Looking for a new adventure	20%
Increased sense of personal security	17%
Want to move away from the city	16%
Children’s education	16%
Looking to downsize	15%
Lower my cost of living	15%
Business/work-related reasons (such as office relocation, new job, etc.)	15%
Looking for more privacy	14%
Moving out of apartment/condo into first home	13%
For additional rental income	12%
To move closer to a family member	12%
Tax reasons	12%
Want to move to the city	8%
Political reasons	8%
Health reasons	7%
Other	5%

Globally, 78% say that their residence is a “home,” rather than just a “house.”⁵ That is, a place with emotional ties.



- My residence is a home — a place I have emotional ties
- My residence is just a house — a place to sleep and keep my possessions
- Not sure

Perhaps surprisingly, the global affluent rank emotional connection as the most important reason behind the purchase of their current home. These homeowners fell in love with their home and were able to imagine making it the epicenter of their lives.

Only in North America do homeowners place greater importance on the physical space (lot, location and layout) over emotional connection. This is possibly due to the competitive market for luxury properties in desirable areas in North America and the fact that there may not be enough time to “fall in love” with a property. Often buyers must act fast because supply is limited.

In contrast, for the rest of the world, physical aspects such as lot, location and layout rank second or third after their emotional ties to a home.

⁵ No statistical differences by region

% WHO RANK ITEM AS "#1 MOST IMPORTANT"

	Global	North America	Europe	Middle East	Asia
An emotional tie (e.g., just loved the place)	37%	20%	44%	43%	44%
The physical space (e.g., lot, location, layout of the home)	32%	43%	32%	28%	25%
The value (e.g., best value for the money)	21%	25%	13%	16%	26%
The price (e.g., most affordable)	9%	12%	11%	12%	7%

Those emotional ties are so strong for many reasons. First and foremost, they connect back to the thing that has become increasingly important to wealthy consumers today: security. Security, of course, gives peace of mind, a place for their family to live and grow and create happy memories of times together.

An emotional connection to a home also provides a way to live a completely customized life by making ones' home their own, through renovation, embracing design and personalized décor. Ultimately, it's about improving quality of life.

What makes a "house" a "home"?

SECURITY GIVES PEACE

"It is the place I sleep, so it's where I feel most **safe** and comfortable. This **security** brings about emotional affinity."

"It's light and **bright** and has good energy. It's extremely **private** and secure and is tailored to my exact needs. My family and friends feel **comfortable** and at home themselves."

A PLACE FOR FAMILY TO GROW

"It's where I will **grow** my family. It's where I relax and **unwind** from the stresses of the working day. It's a place where I can feel safe and secure. It's a place I will be **proud** of."

"Having a comfortable **space** where family members have the ability to relate to one another and have **access** to facilities and resources to pursue various accomplishments is important to me."

HAPPY MEMORIES OF TIMES TOGETHER

"My home will be selected based on the immediate surrounding **neighborhood**. One of my children is a teenager and the other two are approaching this age. **Friends** play a significant role in character building and I want to live in an area where my children's friends are **positive** influences."

"A **convenient** living space that is comfortable enough for everyday living, but with space and facilities, to accommodate the frequent visits of close friends and family, with **spacious** internal and external areas to build good memories with those we love."

PERSONALIZED LIFE

"Somewhere **cozy** and safe with space for my things and my **personality** and a good place to bring friends for laughs and food and wine."

"A place to grow, experience life and friends, a **refuge** but never a showplace — it is a private **abode** that we are sometimes willing to share with others (some, not all)."

At 78%, emotional ties run deep and are an important factor to consider when buying, selling, trying to market, or trying to negotiate the sale of a luxury property. For most, this is a highly emotional and highly personal process.

In contrast, one-fifth of buyers (19%) report simply living in a space that has purely operational value. There are four primary reasons for this dispassionate view toward their residence which all revolve around the fact that they are not settled in a forever place — whether because 1) it is not their dream home (35%), 2) they are on a work assignment (28%), 3) because they haven't gotten around to making the changes just yet (26% have plans to renovate) or 4) because they have had changes since they first purchased the property (21%).

Being in an "unsettled" state has a direct impact on a homeowner's emotional connection to a property.

Which of these reasons, if any, apply to your thoughts about it being just a house?⁶

	Global
It's not my dream residence	35%
I am only living here for a short while	28%
I have plans to renovate	26%
My life situation has changed since I purchased it	21%
I'm not a sentimental person	19%
I am separated from the rest of my family	19%
I am on a work assignment	16%
I don't love my house	16%
I haven't had a chance to personalize it yet	13%
I don't care enough about this house to make it my home	13%
Other (specify)	8%
None of these	6%

⁶ Results not available by region

For many though, buying real estate is not completely an emotional purchase since many focus on more practical features such as the physical lot, location, layout and the financial gains to come from a wise investment.

Globally, 85% of wealthy buyers consider the purchase of property/real estate as a rational choice and just 15% call it a guilty pleasure.

Very few purchases are the result of impulse buys as this tends to be a highly educated and informed group of purchasers.



As we examine the differences between purchase behavior and drivers around the globe, we see that regional differences have an impact. For Asian buyers, proximity to shopping and schools play a large role compared to other global regions. In the Middle East,

features that cater to young families like proximity to schools are distinctly more important than buyers with more mature families. In North America, the neighborhood and community along with proximity to family score extra points.

AFFLUENT HOMEBUYERS: THE EMOTIONAL COMPONENT OF HOME

What is it about the physical space that you find to be most important? *Select up to 3 items*

	Global	North America	Europe	Middle East	Asia
The location	50%	53%	56%	57%	42%
The layout of the home	45%	50%	42%	30%	47%
Neighborhood or community	34%	51%	32%	37%	24%
Good place to raise children	28%	22%	30%	46%	27%
Proximity to work	23%	20%	28%	17%	23%
Proximity to shopping	23%	9%	23%	22%	31%
Proximity to schools	21%	17%	14%	25%	27%
The lot	21%	19%	19%	11%	26%
Proximity to family	12%	19%	2%	15%	12%
Proximity to entertainment	10%	7%	9%	15%	12%
None of these	1%	1%	1%	—	1%



AUCKLAND, NEW ZEALAND | NZ \$6,250,000



While “value” ranks third on our list of the “most important” factors in a home purchase globally (as shown in the previous section), it does out-rank “price” in the grand scheme of things.

Buyers at this price point think about value in two ways:

1. As long-term appreciation of the capital investment
2. Based on the potential to customize a home to personal specifications

What is it about the value (e.g., best value for the money) of the home that you find most important?

	Global	North America	Europe	Middle East	Asia
Likely to appreciate in value	58%	48%	56%	49%	67%
Potential to customize it to exactly what I want	51%	47%	35%	51%	63%
Potential to update with renovations or additions	31%	24%	33%	40%	31%
Move-in ready	31%	29%	29%	38%	32%
None of these	3%	2%	3%	9%	1%

REAL ESTATE AS A WEALTH CREATOR

One point this research makes very clear, affluent home buyers have a special connection with real estate, as one-third (35%) believe real estate is the most obvious indicator that someone is wealthy. The home plays an important role in externally confirming the owner's status and internally, signifying success to themselves as well as their peers.

Regional differences exist in this phenomenon, with **Europeans** having the strongest association between wealth and real estate (44%). Real estate is also a powerful indicator of wealth in the **Middle East** (38%), but here the accouterments of luxury (jewelry, designer

fashion) also convey high status. Across the globe in **Asia**, we find "social cues" such as the circle of friends and educational background as being the second most obvious indicator of wealth. This is evidence for the maturing Asian consumer who is now seeking distinction, not only from what they own, but what they have experienced and accomplished. In **North America**, we find that real estate tied with luxury products such as jewelry and designer fashion to be the most obvious indicators of wealth. Once again, we see the importance of "symbolic luxury" with these buyers who have taken great care to build their savings and be prudent in their purchasing.

In your opinion, what would be the most obvious indicator that someone is wealthy? Please select one response.

	Global	North America	Europe	Middle East	Asia
 Real Estate	35%	29%	44%	38%	31%
 Luxury Products (e.g., jewelry, designer fashion, luxury kitchen appliances, etc.)	22%	32%	13%	26%	19%
 Social cues (i.e., Circle of Friends & Educational Background)	18%	14%	12%	16%	26%
 Luxury Automobile	10%	7%	6%	8%	15%
 Luxury Hotel Stays	5%	4%	3%	10%	5%
 Something Else	11%	13%	22%	2%	5%

Globally, the high-net-worth consumer reports that, in their lifetime, their portfolio of real estate holdings has doubled in size as a percent of their wealth. A significant wealth creator, indeed, and in particular, Europeans have a large share of their wealth tied to their address. More than half of Europe's wealth (53%) is currently tied to real estate compared to just 24% in North America and the

Middle East. Not only does real estate signify a large portion of today's portfolio, it represents a substantial portion of where their money came from in the first place. Europeans claim real estate is nearly twice as important as an original source of wealth as those in North America or the Middle East.

	Global	North America	Europe	Middle East	Asia
% of current assets held in real estate	34%	24%	53%	24%	34%
% of total wealth that came from real estate	16%	11%	21%	13%	16%



TORONTO, ON, CANADA | C \$22,000,000

CONCLUSIONS

1. Emotions run high in a category dominated by practical features

For most luxury homebuyers, the emotional value of a property outweighs the practical features. The goal is to have a life well lived: personal growth, security and a customized environment with room for many happy memories. While a home's amenity suite is clearly important to the decision process, it's the ability to see oneself living comfortably that brings buyers over the threshold.

2. Value beats price

Luxury homebuyers rank "the value" as twice as important as "the price" in their primary residence. Good value for the money is established in the potential of the neighborhood and the ability to customize a home. For most buyers in this category that means a near-professional quality kitchen, lots of entertaining and family space and, as we observed in our report earlier this year *The Rise of the New Aristocracy*, outdoor living features that extend the home beyond its walls.

3. Real estate is a crucial wealth creator

Homeownership as a path to financial independence continues to play a significant role in wealth creation. Globally, luxury homebuyers seek the safety and stability of real property. Foreign investment, while down from recent peaks, remains an attractive option for many in maturing economies such as Asia and the Middle East.

4. Personal wealth is a predictor of success in residential real estate

Multiple sources indicate strong growth in wealth worldwide, a trend we have followed for the past eight years. The fastest growing (Asia) or most affluent per capita (Middle East), regions have an equally impressive budget for their next home.

5. Let the competitive market work to your advantage

The top of the home market has many buyers and relatively fewer sellers, making it a good time to list if you're contemplating a move. By putting your home on the market when there is less competition but strong interest you can expect to see the best return on your investment.

ABOUT THE STUDY

Data in this report are from YouGov Affluent Perspective 2018 Global Study and reported among 528 affluent and wealthy consumers who are in the market to purchase a personal residence for US\$1 million or more in the next 3 years. The margin of error is $\pm 4.2\%$ at the 50% interval, at the 95% confidence level. Look for percentage gaps greater than 5% for statistically significant differences.

- **North America** | United States, Canada
- **Europe** | United Kingdom, France, Germany
- **Middle East** | Saudi Arabia, United Arab Emirates
- **Asia** | China, Hong Kong, Japan, Singapore and South Korea

ABOUT LUXURY PORTFOLIO INTERNATIONAL®

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OF THE WORLD

CHICAGO | 161 N. Clark Street, Suite 1200 | Chicago, IL 60601 | USA | 800.621.6510
LONDON | 1 Northumberland Avenue | Trafalgar Square | London WC2N 5BW | UK | +44 20 3399 9040
SINGAPORE | 1 Raffles Place | Level 24 Tower 1 | Singapore 048616 | +65 6408 0507
luxuryportfolio.com