Luxury Buyers Impacted By Wall Street Performance Rather Than Interest Rates

It's harder to 'hide' money in real estate around the world, Abu Dhabi market continues to soften, and more news from around the globe

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Brokers have noted that in the last two weeks, buyers have signed major contracts in Miami luxury buildings, such as Park Grove.
PARKGROVE.COM

Based on signs of a strengthening economy, the Federal Reserve Bank is expected to raise interest rates early next week. While that increase is expected to be moderate, at just .25%, when paired with already increasing mortgage rates, which have gone up more than 15% since the election, it could spell changes to the real estate market.

But while these changes will likely impact the purchasing power of first-time home buyers and people who need significant financing, they're not likely to have any real impact on high-net-worth luxury buyers, experts say.

That's in part because these increases are moderate, with 30-year fixed-rate mortgage interest still historically low at 4.125%, compared to a 20-year average that falls somewhere between 6% and 7%, said Lawrence Yun, chief economist for the National Association of Realtors. But it's also because many of these buyers pay all cash or when they finance, do so because the rates are favorable—not out of necessity, said Julia Hoagland, a Compass broker.

What really impacts these buyers' bottom line, and their financial capacity and ability to buy property, is how Wall Street is performing. "Increasing mortgage rates are offset by the current strength of the stock market, which is at an all-time high," Mr. Yun said. "This is really helping out people at upper tier income brackets."

So, what does this all mean looking ahead to 2017? For one, experts are expecting that the U.S. luxury market will gain steam, now that the election is over and the economy is strengthening. There have been some signs that this is happening already, as last week was the second best week of the year for contracts signed in Manhattan on properties costing $4 million and above. It represented the highest sales volume in any 2016 week.

Jay Parker, the CEO of Douglas Elliman's Florida brokerage, also noted that in the last two weeks, buyers have signed major contracts in Miami luxury buildings, including Eighty Seven Park, Park Grove and the Four Seasons.

"We are seeing real activity," he said. "It's like an early Christmas present."

For those buyers that need financing, some might be trying to lock in rates before they continue to rise, Mr. Yun said. But more likely than not, this push is occurring because there's been a lot of pent-up demand growing as people waited to see what would happen after the election, Mr. Parker said. "Now that the gates have been dropped," he continued, "people are saying it's time to make their move."

But, given the fact that the expected .25% interest rate increase isn't quite a done deal, there are a few other ways this could play out, said Nela Richardson, the chief economist for Redfin, a national real estate brokerage.

If instead of the expected .25% increase the Fed does something "dramatic and unexpected," Ms. Richardson said, "we could see that immediately play out in the stock market, which would impact the luxury buyer."

If, on the other end of the spectrum, they decide not to increase the federal interest rate, as has happened in the past, it could mean some downward volatility in the stock market, Ms. Richardson said. "This would be a sign that the U.S. economy is weaker than Wall Street expected," she added.

At a .25% increase, Ms. Richardson said she doesn't expect to see any negative stock market activity, and that in fact, "the market might actually rally on the news that their expectations were finally met by the Federal Reserve System." This would be good news for luxury buyers, who might then be more inclined to make significant real estate purchases.

Another factor to consider is how increasing rates might impact local and international buyers' perceptions about how properties are likely to appreciate. If the rates increase, there's always the potential for home prices and homes values to go down, experts say.

"No one wants to buy a potentially depreciating asset," Mr. Yun said, noting that if people think we're in a bubble or that there's a depreciating market, it could lead them to hold back on making a purchase. "But given the housing shortage that's currently found across the country, price depreciation potential is low," Mr. Yun said, "and buyers on the upper end recognize that."

A final point to consider is how fluctuating interest rates impact the relationship between the U.S. dollar and other global currencies. While an increased interest rate might lead to a devaluation of the dollar, as compared to the pound or the Euro, for instance, that's not a sure thing, experts say, and isn't likely to be significant enough to really impact sales.

Foreign buyers often come to the U.S. for stability, Mr. Parker said. "I don't think they're standing by the sidelines waiting for their currency to go up or the dollar to fall," he continued. "They're making decisions based on where their money is going to be safe."

Here's a look at other news from around the world compiled by Mansion Global:

Abu Dhabi Investors Hedge Bets As Market Continues To Slump

The combination of global uncertainty as well as declines in the oil and gas sector have sped up the softening of the Abu Dhabi market, with many investors now waiting to see where the market moves before making any major purchases. The Cluttons Abu Dhabi Property Market Snapshot for Winter 2016/17 found that capital values dropped by 2.4% in the third quarter and 5.2% year-to-date, while rental values dropped by 1% in the third quarter and 9.4% year-to-date. Thanks to a slowdown in the creation of new senior-level positions at companies, the high-end villa rental market has been hardest hit, with a 20% drop this year, and an expected 7-8% drop in 2017. (Khaleej Times)

High-end Developers Appeal To Eco-conscious With Green Construction, Amenities

Some California developers are upping the sustainability factor in new projects, adding features such as solar panels, energy-efficient construction, recycled, non-toxic construction materials, and in the case of one Beverly Hills apartment complex, a system for harvesting rainwater to use for trees planted in a one-acre on-site park. "To be eco-friendly is now expected," said the senior vice president of development for Pacific Eagle. "In the luxury space, sustainability is becoming part of a more holistic way to live, a lifestyle statement more than having another crystal chandelier." Developers also note that green building isn't necessarily more expensive, and while the market of interested buyers and renters is smaller, any extra costs will likely be offset by higher asking prices. (Los Angeles Times)

Rising U.S. Interest Rates Put Hong Kong's Market At Risk Of a Downturn

As the Federal Reserve prepares to raise interest rates for just the second time in a decade, a new report from the International Monetary Fund warns that the move may have an adverse effect on Hong Kong's economy, where property values are already stretched and household debt is high. "A steeper-than-expected U.S. rate cycle or tightening of global financial conditions may have a bigger-than-usual adverse impact against a backdrop of high household debt with floating-rate mortgages," said the IMF in its report. However, Hong Kong's economy has proved resilient amid bumps over the past year, thanks in part to a strong job market, and is still expected to grow around 1.5% in 2016, and 1.9% in 2017.(Bloomberg)

New Regulations Make It Harder For Investors To Hide Money in Real Estate

As more countries around the world take transparency measures to crack down on tax evaders, the options are dwindling for global investors hoping to stash cash (and dodge tax bills) by investing in real estate abroad. Since the U.S. launched its Foreign Account Tax Compliance Act in 2010, foreign banks have had to either turn over client data or face a steep tax, and more than 100 countries, including Switzerland and Panama have agreed to participate, exchanging information through the Common Reporting Standard system. While there are some legal challenges to the new rules, some would-be investors are already transferring their wealth from property to harder-to-trace assets like diamonds and art. Making false claims of residency in tax-friendly nations is also becoming more difficult, and tax lawyer Philip Marcovici said, “More than ever [before] you only have two choices: play by the rules of your country or get out of your country.” (Financial Times)

Miami’s Foreign Buyers Move From Condos Toward Commercial Properties

High prices are driving foreign investors in Miami away from the condo market and into the arms of commercial real estate, according to Alex Zylberglait, the senior vice president of investments at Marcus & Millichap in Miami. “As the condo pricing got significantly out of balance in mid- to late-2014, we began to see a lot of foreign buyers saying, ‘I would rather own a commercial asset that’s going to give me more predictable cash flows and a higher appreciation potential,” Zylberglait said. Foreign capital in Miami commercial real estate jumped from $468 million in 2014 to $2.3 billion in 2015, per data from Real Capital Analytics. (Daily Business Review)

Condos at 432 Park Avenue See An Average Discount of 10%

As Manhattan’s luxury market continues to soften, buyers who purchased or went into contract this year at 432 Park Avenue saw price reductions average 10%, per a new analysis by appraisal firm Miller Samuel. One penthouse recently sold for $60.9 million, a 20% discount from its initial asking price. The price cuts are likely a direct result of a flood of luxury inventory to the market, as developers rush to get units sold before even more competition comes on line. (Bloomberg)

The U.K. Luxury Market Sees Serious Slump in the Last Six Months

Since the Brexit vote and new, higher stamp duty rates on second homes were implemented, both foreign buyers and U.K. nationals have backed away from the British luxury property market, according to a new report from investment firm LCP. To wit: from April through the end of October, the number of new-build homes sold for more than £5m fell by 83% year-over year. Similarly, across England and Wales, sales of homes costing more than £10m were down by 75%, and all told, transactions for U.K. properties between £5m and £10m dropped by 51%. Besides uncertainty surrounding Brexit, developers are also laying the blame on aggressive new tax rules, and LCP chief executive Naomi Heaton didn't mince words, saying, "Political posturing that has made foreign investment the scapegoat for our U.K. housing crisis is having an entirely negative impact. A contraction of the luxury market will not miraculously provide new homes for the domestic market. It will simply reduce tax take and damage the wider economy as affluent investors spend their money elsewhere." (The Guardian)

http://www.mansionglobal.com/articles/48353-luxury-buyers-impacted-by-wall-street-performance-rather-than-interest-rates?utm_content=bufferf8f0f&utm_medium=social&utm_source=twitter.com&utm_campaign=buffer