

AVON, CO, USA | \$7,995,000



The Allure of the Second Home: Why Affluent Buyers are Displaying Confidence in Resort Markets

2019

YouGov Affluent Perspective

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DOMINICAL, COSTA RICA | \$7,800,000





Introduction

Affluent buyers and sellers today come from a wide range of cultures, financial backgrounds, passions, experiences and expertise. Putting their differences aside for a moment, their similarities are astonishing. They can be described as young, wealthy and full of luxury experience. That experience brings them to buy a similar range of brands from Chanel, Gucci, Burberry and Dior, to Cartier watches and Calvin Klein jeans. BMW and Audi are the cars of choice and The Ritz Carlton, Four Seasons and independent luxury hotels are some of their favorite places to stay on vacation.

When it comes to real estate, their similarities remain strong. In this report we will answer the following questions specifically about their behavior in the hot, high-end second home market:

- 1 Who is considering buying? Selling?
- 2 What is the current state of the resort and second home market?
- 3 Why are they buying?
- 4 What are they looking for?

This report focuses on affluent consumers (the top 10% and above income earners in 26 countries) who are in the market to buy or sell a second or vacation home in the next three years. We define luxury buyers as those who, within the next three years, expect to buy a luxury non-primary home and sellers as those selling a non-primary home valued at \$1,000,000 USD or more. The term “second home” included in this report refers to a residence that is not primary and may include the ownership of two or more homes.

This study is global in nature, which means the markets of purchase will be varied. Some of these buyers are looking at resort markets like St. Bart’s, San Tropez, Cabo San Lucas, The Hamptons, Aspen, San Moritz, Bali, Mauritius and the like. Others are seeking vacation homes near quiet lakes, golf courses and ski resorts, and others still may be looking for a second home for business convenience or seasonal living.

Who is considering buying? Selling?

Consumer profile: Buyers, age 40 and younger, are taking over the luxury second home market, but lack the experience of Gen X and Boomers

Luxury second home buyers and sellers have similar demographic profiles in terms of age, geography, education and professional status. As a result, their financial profiles are similar, with the only noticeable difference being that sellers have slightly higher asset levels.

One stand-out feature of this group is its impressively high assets and astonishingly low age. About half of the qualified consumer market is under the age of 40, yet their aspirations for purchase are in the millions of dollars.

The next unique aspect of the buyer group is the level of experience they have with home ownership. For most, this is not their first time purchasing a second home—the average number of residences is over three and 14% own at least five residences currently. This is not being driven by the Millennial group, but rather by Gen X and Boomers. Of Gen X luxury second home buyers, 17% have more than five homes, along with 19% of Boomers in this buyer group. As these two generations have amassed their wealth, they have also amassed a variety of personal residences to call home.

| | Total Affluent | Luxury Second Home Buyer | Luxury Second Home Seller |
|--------------------------------------|----------------------|--------------------------|---------------------------|
| Demographics | | | |
| Average age | 48.0 | 43.5 | 43.7 |
| Gen Z (18–22) | 2% | 3% | 0% |
| Millennials (23–40) | 29% | 45% | 49% |
| Gen X and older (41+) | 69% | 52% | 51% |
| Married | 81% | 83% | 89% |
| Have children under 18 | 60% | 71% | 77% |
| Current Primary Home Location | | | |
| North America | 41% | 28% | 27% |
| Latin America | 4% | 8% | 6% |
| Europe | 24% | 22% | 20% |
| Middle East | 2% | 3% | 5% |
| Asia-Pacific | 29% | 40% | 42% |
| Financial Life | | | |
| Average income | \$341,000 | \$579,000 | \$603,000 |
| Average wealth | \$3.1 Million | \$5.5 Million | \$6.0 Million |
| Average primary home value | \$1.3 Million | \$2.3 Million | \$2.9 Million |
| Experience with Wealth | | | |
| Grew up in an affluent household | 49% | 73% | 70% |

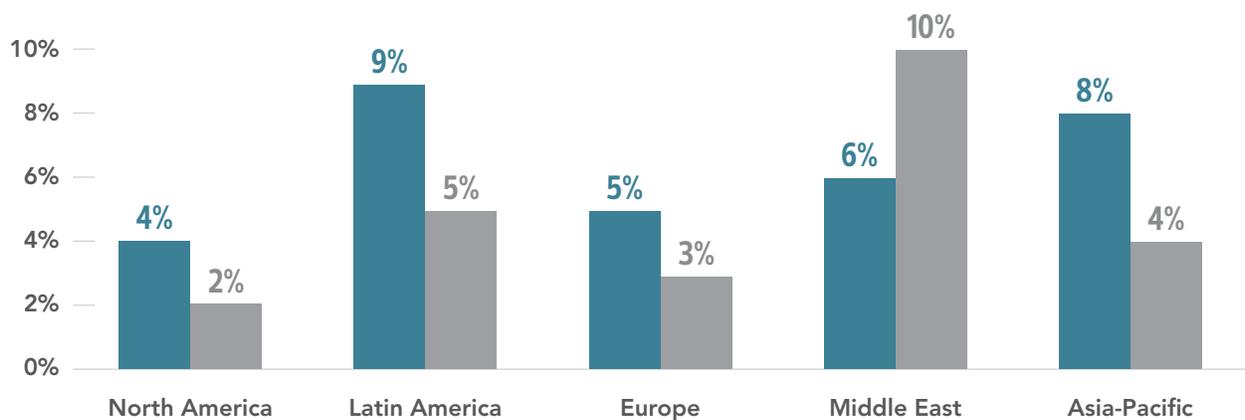
| | Total Affluent | Luxury Second Home Buyer | Luxury Second Home Seller |
|---|----------------|--------------------------|---------------------------|
| Career | | | |
| College graduate | 87% | 95% | 92% |
| Employed full/part-time | 80% | 88% | 91% |
| Business owner/C-Level executive (among employed) | 28% | 62% | 63% |
| Number of Personal Residences Owned | | | |
| Average number owned | 1.6 | 3.2 | 3.8 |
| Own 0 | 11% | 3% | 0% |
| Own 1 | 52% | 21% | 0% |
| Own 2 | 23% | 37% | 51% |
| Own 3 | 8% | 18% | 19% |
| Own 4 | 3% | 6% | 11% |
| Own 5 or more | 3% | 14% | 18% |

Affluent consumers from developing countries (such as Brazil, Mexico, Saudi Arabia, UAE, China and Singapore) are younger consumers. As a rule, the average age for these regions is 35–41 years, and they show greater market interest than those from developed areas (such as North America and Europe), which tend to skew older. All regions, except the Middle East, have an equal or

greater proportion of buyers than sellers. More buyers tend to imply a seller's market, which is not necessarily the case on the whole. The disproportionate amount of buyer demand though, can be seen in many high-end markets which are struggling with a lack of inventory at all price points including the high-end.

% OF TOTAL AFFLUENT WHO ARE LUXURY BUYERS AND SELLERS

● Luxury Buyers | ● Luxury Sellers



What is the current state of the resort and second home market?

Affluent consumers are in acquisition mode

Those who are in the market to purchase a luxury second home are adding to their portfolio and unlikely to sell their existing second home at this time—thus there

are more buyers than sellers. Interestingly too, this means that sellers are also buyers, but buyers are not necessarily sellers.

RESORT/SECOND HOME MARKET—TOTAL GLOBAL AFFLUENT



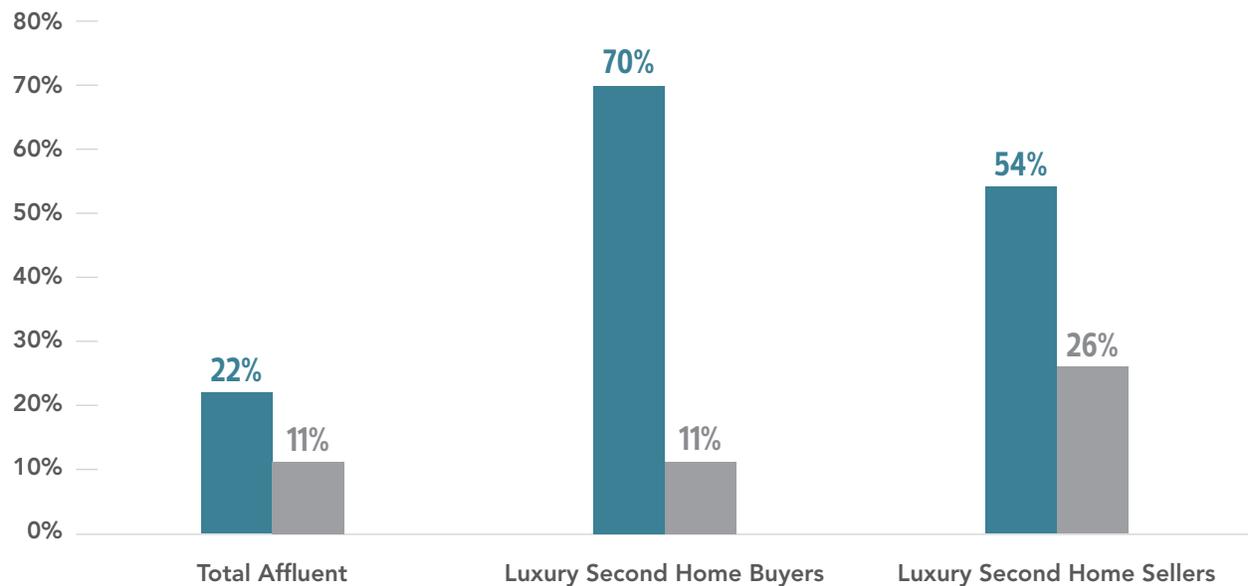
| | Total Affluent | Luxury Second Home Buyer | Luxury Second Home Seller |
|----------------|----------------|--------------------------|---------------------------|
| Both | 22% | 28% | 69% |
| Buy Exclusive | 62% | 72% | 0% |
| Sell Exclusive | 16% | 0% | 31% |

Buyers show more confidence in the market than sellers. More than half of buyers believe that now is a good time to purchase a second home, while relatively few

think it is a good time to sell. As noted previously, these consumers are quite savvy when it comes to home ownership; 76% own two or more properties currently.

WHICH OF THE FOLLOWING IS IT A GOOD TIME TO DO?

● Buy a Secondary Home | ● Sell a Secondary Home



Fueling the competition

We are seeing a rising competitive spirit, as today's buyers believe that other potential buyers have reached the same conclusion, that it is a good time to purchase, possibly fueling a fear of missing out on the best properties.

More than half of luxury second home buyers believe the market is getting stronger as new money floods the global marketplace.

WHICH OF THE FOLLOWING STATEMENTS BEST DESCRIBES YOUR POINT OF VIEW ON THE LUXURY RESIDENTIAL REAL ESTATE MARKET?

| | Total Affluent | Luxury Second Home Buyer | Luxury Second Home Seller |
|--------------------------------------|----------------|--------------------------|---------------------------|
| It is getting stronger (more buyers) | 22% | 55% | 49% |
| It is getting softer (fewer buyers) | 23% | 25% | 33% |
| It is not changing very much | 22% | 15% | 13% |
| I do not know about this market | 33% | 5% | 6% |

Some sellers show concerns, as 33% believe the market is getting softer. This may be influenced by media reports about climate change threatening beachside resort communities, limited snowfall at ski resorts or news about golf course closure rates. Beyond that

perception, they show signs of concern in their own financial stability, coupled with the potential to turn a profit in the near term. These may be strong motivating factors to sell.

EAST HAMPTONS, NY, USA | \$3,695,000





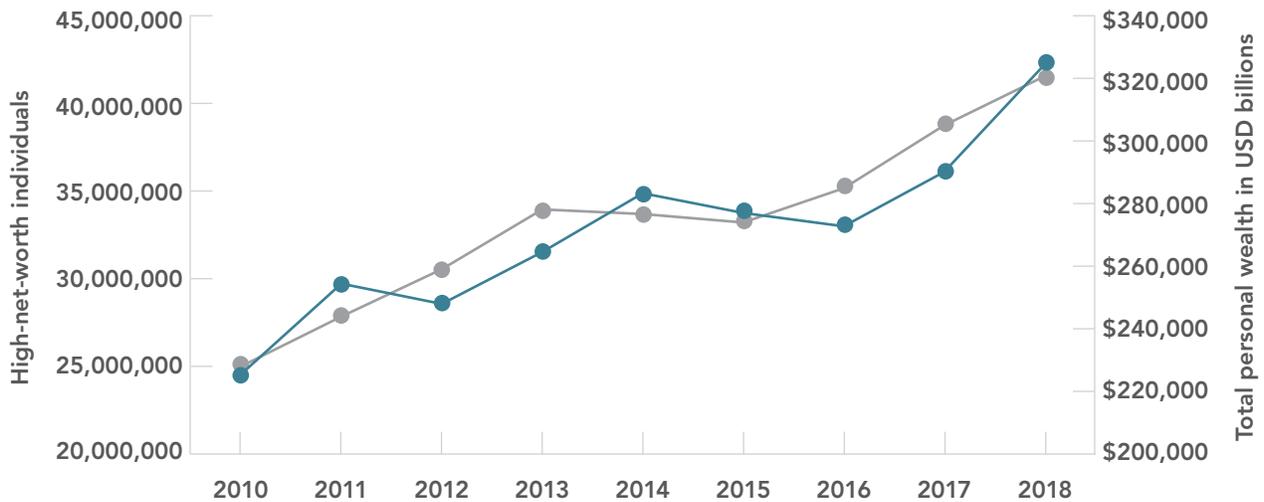
Bottom line: There are more potential buyers now than ever before

Global personal wealth has continued to grow at a rapid pace since 2010. Despite a slight contraction between 2014 and 2016 the overall growth rate has been staggering. Looking more recently, in just the past four

years, personal wealth globally has grown by 15% and the number of high-net-worth individuals (HNWI) has increased by 25%. **The potential market for luxury property has never been bigger.**

CREDIT SUISSE: GLOBAL WEALTH TREND

● USD \$1 Million+ Net Worth Individuals | ● Global Personal Wealth



CREDIT SUISSE: HNWI AND PERSONAL WEALTH LEVELS WORLDWIDE INDIVIDUALS (MILLIONS OF ADULTS)

| | 2015 | 2018 | Percent Change |
|--|------------------|------------------|----------------|
| \$1–5 Million (net worth) | 29.8 | 37.1 | 25% |
| \$5–10 Million (net worth) | 2.5 | 3.3 | 31% |
| \$10+ Million (net worth) | 1.5 | 1.8 | 22% |
| Total HNWI (NW \$1 Million+) million adults | 33.8 | 42.2 | 25% |
| Personal Wealth Levels (USD billions) | \$275,531 | \$317,084 | 15% |

Those at the highest end of the wealth spectrum (over \$10 million in assets) represent a unique opportunity. While the mainstream market has concern and behaves with caution, this consumer is becoming more aggressive with investing and feeling extremely confident in the market.

Our last paper, *Media and the Message: Marketing Real Estate to the Affluent*, detailed the media consumption habits of the global high-net-worth household, and some insights can be carried forward for the ultra-high-net-worth consumer, specifically:



This group is **more reliant on agents** than websites for information (though they do use both).



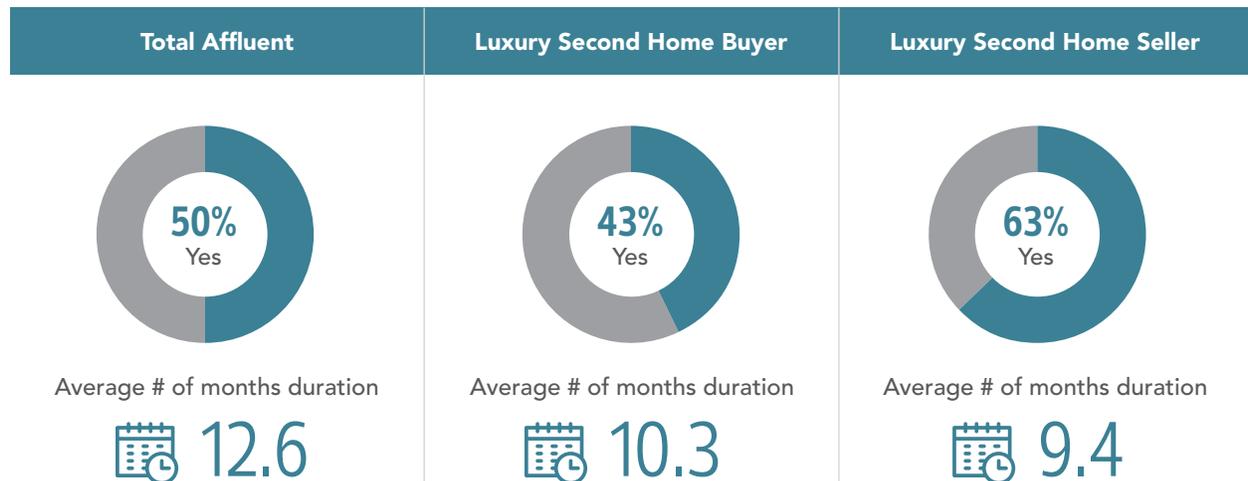
Online videos, articles, and advertising in real estate/design magazines and news media elicit an **above average response**.

While the market bears an ever-growing group of potential buyers, sellers are showing signs of concern that cannot be ignored. Luxury second home sellers appear to have concerns over the economy's continued expansion; two-thirds predict a recession is coming, though most believe it will last less than one year. Despite similar demographics to buyers, sellers have a distinct mindset toward concern for their assets.

External factors, such as the strength of the global economy and security of retirement assets create significant concern for sellers, their own behavior may be complicating matters. Sellers are **65% more likely than buyers** to say they spend beyond their means and are **30% more likely than buyers** to be worried they may run out of money someday. Their aggressive positioning in the market (currently own 3.8 homes on average) combined with high luxury living may be too much risk to bear ahead of an expected economic slowdown. Divesting from the property may also free up some much needed cash flow.

| | Total Affluent | Luxury Second Home Buyer | Luxury Second Home Seller |
|---|----------------|--------------------------|---------------------------|
| Confident in the strength of the global economy | 21% | 55% | 56% |
| Concerned with the security of retirement assets | 39% | 49% | 65% |
| Agree I worry that at some point I may run out of money | 51% | 56% | 73% |
| Agree I spend beyond my means | 21% | 37% | 61% |

DO YOU THINK THAT YOUR COUNTRY IS HEADING INTO A RECESSION?



What are second home buyers looking for?

Wellness is the new luxury

Affluent consumers have begun living with wellness in mind and this also influences the second home market. In fact, **96% take at least one aspect of wellness seriously** as part of their daily routine. Beyond physical and emotional wellness, which most affluent consumers focus on, luxury buyers are keen to improve their intellectual, social and even spiritual wellness.

73%

Three-quarters of buyers take care to eat well, exercise and stimulate their mind.

83%

Eight-in-ten prioritize time with family and friends.

Amenities that address these needs are sought by buyers, and especially resort and second home buyers because of a growing demand for communities that take a holistic approach to overall wellness.

Wellness first began making an impact in real estate in 2014 with the introduction of the WELL Building Standard in the commercial real estate space as workers sought healthier office environments. The WELL Standard is a performance-based system that measures, certifies and monitors such features as building materials, cleaning products, water and air quality and access to daylight and fitness facilities.

The trend is now poised to explode into the residential real estate market worldwide, led in part by demands from the affluent consumer.

In a 2018 study by the Global Wellness Institute, "Build Well to Live Well," the group reported that "wellness real estate" has grown 6.4% annually since 2015, to reach \$134 billion in 2017, and anticipated to expand 6% yearly through 2022 to reach \$180 billion. The U.S., along with a few key Asia-Pacific countries (China, Australia, India) and Europe (UK, Germany), account for three-quarters of the market.

The trend has been particularly evident through offerings from luxury real estate developers looking to differentiate and appeal to the high-net-worth buyer

who prioritizes living well. According to Chris Frampton, managing partner of Denver-based developer East West Partners, wellness is manifesting in real estate "using architecture, landscaping, sustainability and design to encourage social interaction and active lifestyles. Our focus is on building spaces that put people first. Because the affluent have time to devote to their physical health and well-being, wellness for this group is far more than just a trend, it is about living a life well lived."

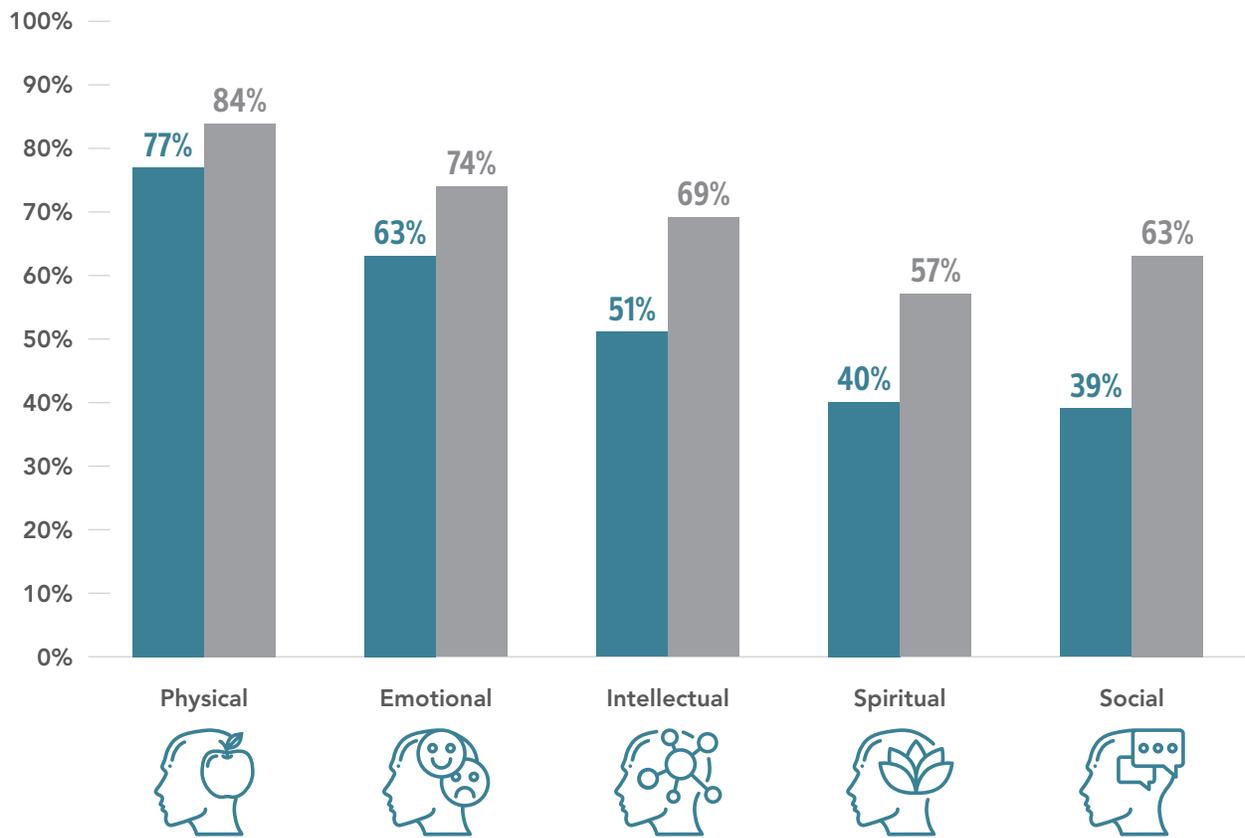
To appeal to this group, luxury developers are differentiating themselves by curating their offerings to appeal to wellness-minded buyers. These amenities go far beyond typical pools and gyms to focus instead on features that support the mind and body. These can range from on-site restaurants serving gourmet organic meals, to personal wellness assistants available 24/7 to remind residents to exercise, meditate and eat well, to "brain fitness" programs, offering classes on memory improvement and relaxation.

Common amenities are emerging such as rooftop, glass-enclosed, soundproof meditation spaces, relaxation rooms, non-eye-irritating saline pools and indoor/outdoor yoga studios. Wellness-optimizing design inside each home ranges from circadian-rhythm lighting system, cleaner air, a result of high-grade filters in heating and cooling units that remove outdoor pollutants and odors, sound-proofing, and natural materials to posture-supportive heat reflexology floors, mood-enhancing aromatherapy emanating from remote-controlled walls, vitamin C-infused showers, or mood aligning paint colors, intended to mimic nature.

According to the Global Wellness Institute, prospective homeowners are willing to pay 10% to 25% premiums for homes in wellness developments at the middle and upper-end of the market, in part because supply has not yet met demand. There are more than 740 wellness-focused real estate projects across 34 countries currently in the pipeline.

WHICH OF THE FOLLOWING ELEMENTS OF PERSONAL WELLNESS ARE A FOCUS IN YOUR LIFE?

● Total Affluent | ● Luxury Second Home Buyer



ST. JOHN, US VIRGIN ISLANDS | \$1,750,000



Importance of design and incorporating passions

The role that design plays in the home is universally seen as impacting health and well-being, as it plays a dual role of influencing personal sanctuary and creating

a gathering place. Beyond the quality of materials in the building, luxury second home buyers expect style to come through as many entertain at home.

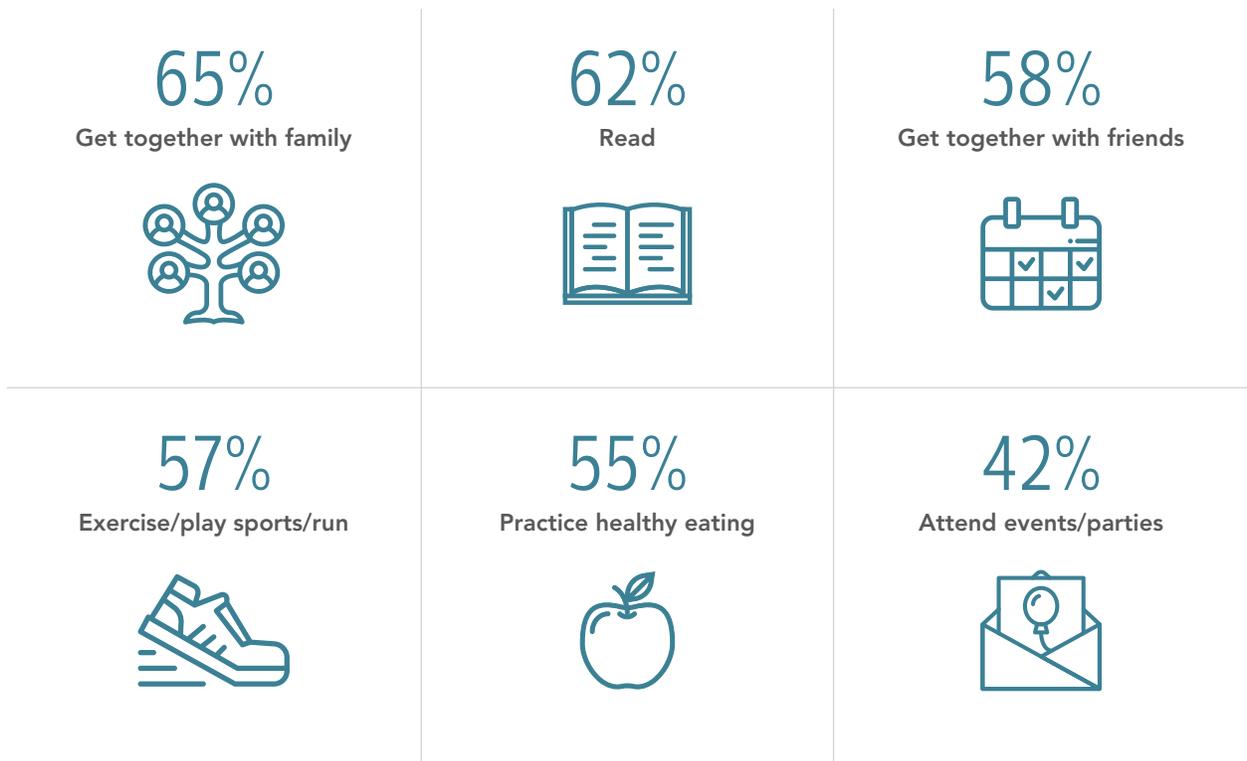
% AGREE: I BELIEVE THAT HOME DESIGN HAS A SIGNIFICANT IMPACT ON HEALTH AND WELLBEING



Buyers want a second home, like their primary home, that fits their busy lives and allows them to prioritize the activities they care most about. When it comes to their down time, they want to spend that time entertaining,

so they need space for family and friends. They are also looking for quiet spaces for reading and learning, and access to amenities that enable them to live healthy, happy lives.

ACTIVITIES LUXURY SECOND HOME BUYERS DO REGULARLY



% AGREE: I ENJOY PRESENTING MY HOME TO OTHERS



PASSIONS OF LUXURY SECOND HOME BUYERS

43%
Entertaining at home



39%
Wine



29%
Collecting art, antiques, etc.



Luxury second home buyers embrace the resort lifestyle through their passion for life

One passion fuels the next, complementing the way they live their life. Golf—once a preeminent force in resort real estate—has in recent years become a declining passion. In fact, from 2017 to 2019 the total affluent population show a 22% decrease in those describing themselves as passionate about golf.

Increasingly important is the focus on health and wellness, particularly around recreational sports, outdoor activities and running. This focus on more sustainable activities can be a boon to both new developers and the environment, as the impact of these types of amenities is much less than an 18-hole golf course.

PASSIONS AMONG LUXURY BUYERS



| Sports: Wide Popularity | |
|--|-----|
| Fitness and exercise | 40% |
| Outdoor activities like hiking, biking, etc. | 36% |
| Recreational sports (Skiing, tennis, etc.) | 31% |
| Running | 31% |
| Sports: Niche Popularity | |
| Auto racing/motorsports | 26% |
| Golfing | 25% |
| Equestrian sports/polo | 13% |

Key Takeaways

1 The high-end second home market is a net growing market

With more buyers than sellers, the demand for second homes is keeping home values high for luxury properties.

Buyers are likely to add to their portfolio—not replace. Sellers are more likely to replace than to sell out completely.

Sellers' confidence in the short-term is a bit shaken, as many are expecting a short-lived recession to hit. They may simply be playing the market (which more perceive as strong) and hedging their bets amid uncertain economic times.

2 Younger buyers make up half of the luxury second home market right now

Buyers are coming to the table well-schooled. Many have support from professional advisors that can help them craft the best deals and avoid costly missteps.

They can also draw on personal experience as most come from affluent backgrounds and are themselves quite well off, particularly considering their age.

3 Ultra-high-net-worth individuals are investing more aggressively

Most affluent consumers are staying the course or becoming more conservative with investment risk. On the other hand, one-in-five UHNWI are shifting toward a more aggressive strategy.

4 Buyers are ultimately seeking a life well-lived

Beyond their mind and body, these consumers are actively pursuing social wellness at a rate not before measured. This results in a consumer who is focused on active living in a sustainable and technology-influenced way. In terms of the home, they are likely to prefer places that make guests feel at home with them.



CANCUN, MEXICO | \$3,200,000



Study Methodology

YouGov Affluent Perspective is a global consumer research study taking place in 26 countries and 5 continents. The research is among 8,200+ consumers in the top 10% or higher in their local economy. For this research paper 433 luxury second home buyers and 270 luxury second home sellers were analyzed. The margin of error (MOE) at the 95% confidence level is $\pm 1.1\%$ in total, $\pm 4.7\%$ for buyers and $\pm 5.9\%$ for sellers. The MOE measures the maximum amount by which the sample results may differ from the full population.

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