LUXURY OUTLOOK

2022

Sotheby's
INTERNATIONAL REALTY

A Modernist masterpiece in Los Angeles' Pacific Palisades has city and coastline views

Sotheby's International Realty–Brentwood Brokerage

Cover photograph by Madrid Sotheby's International Realty; this page: Billy Farrell/BFA.com

LUXURY OUTLOOK **2022**

WELCOME

Welcome to the Sotheby's International Realty 2022 Luxury Outlook. In the pages that follow, we explore the data as well as experts' opinions to forecast the trends likely to shape this year and beyond, across the world's prime housing markets.

The end of last year showed signs of a slight shift in the frenzied market of 2021—including fewer bids on houses, and homes spending a little longer on the market. But a true buyer's market isn't likely, as people continue to move, and real estate is considered a hotter investment than ever. Plus, there are two major issues keeping the market on the side of sellers: low inventory and material supply slowdowns. As such, most experts predict prices will increase throughout 2022, especially after the slower winter months.

As borders reopen, pent-up demand from international buyers will compete for limited inventory with local buyers. That might spell good news for financial capitals like New York City and London. As such, we'll look into the future of big cities—many of which bounced back more quickly than expected post-Covid lockdowns—as well as how the market is likely to shape up in second-home locations and suburbs, which saw prices skyrocket due to pandemic-related migration patterns.

But if 2020 and 2021 were fueled by remote work, we're predicting that in 2022, *hybrid* work is likely to drive the market, with many looking for larger homes that can accommodate remote work yet remain within commuting distance to their office. We also explore areas around the world poised for tax changes that may influence buyers' real estate investment plans.

Millennials are changing the market, too, finally giving up their rentals and buying homes—often with money passed down by their parents. Tech companies—many of which have relocated, expanded their headquarters, or are planning to do so—are affecting the migration patterns of these millennials (and Gen Z, too).

In fact, the strength of secondary and tertiary cities (now often tech hubs) is one of the trends we're exploring, in addition to the popularity of serviced apartments and branded developments as low-maintenance homes; the increased popularity of eco-conscious house buying (think solar energy and electric-car chargers), and even the emergence of cryptocurrency, which is still in nascent stages with regards to buying and selling property, but likely not for long.

Finally, we're diving into some luxury lifestyle trends. From wine to NFTs to handbags to sneakers, more high-net-worth individuals of all ages—many new to the auction world—are looking to put their money into assets they can enjoy now, with hopes of appreciating value over time.

Join us as we explore these market-shaping forces and much more.

A. BRADLEY NELSON
Chief Marketing Officer
Sotheby's International Realty

A VIEW FROM SAN FRANCISCO

2021 proved to be a perfect storm for the high-end housing market as the starts-and-stops of the pandemic's reopening fueled even stronger demand for larger homes and inventory struggled to keep pace. Here in San Francisco, the luxury market saw aggressive bidding wars for the most desirable properties, with more than one listing selling for a million dollars over the asking price. In contrast to the brief pause during the height of the pandemic in the spring of 2020, 2021 witnessed new listings arriving on the market throughout the year, as the pandemic blurred the normal seasonal patterns of Bay Area real estate.

While the value of a "luxury" property varies widely around the world, in San Francisco the benchmark price is generally $3 million or more. According to the San Francisco MLS, the number of new listings sold for more than $3 million increased substantially in 2021 compared to 2020, rising by a remarkable 78%.

RECENT MARKET MOVERS

In the ultra-luxury market, the San Francisco MLS reported 24 sales over $10 million, fully twice as many as the 12 that changed hands in 2020. The most expensive listing recorded on the MLS sold for $32,000,000 to a buyer represented by Sotheby's International Realty, while another traded for $24,950,000.

The majority of sales over $10 million occurred in Pacific Heights and Presidio Heights, while neighborhoods including the Marina, Eureka and Noe Valleys, Bernal Heights as well as the Sunset and Richmond districts also saw exceptionally strong demand throughout the past year.

Building on the strength of an incredible 2021, we are already seeing a range of attractive new listings hit the market early in the new year. We invite you to explore them all at sothebysrealty.com.

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78%

Year-over-year increase in unit sales over $3 million in San Francisco, per SFAR MLS

PHOTO CREDIT: JACOB ELLIOTT

SOPHISTICATED PACIFIC HEIGHTS HOME

San Francisco, CA
$18,000,000

ORIGINALLY BUILT IN 1889, THIS RESIDENCE IS IDEALLY SITUATED IN THE HEART OF PACIFIC HEIGHTS, A SHORT DISTANCE FROM SHOPS AND RESTAURANTS. BENEFITING FROM A FOUR-YEAR RECONSTRUCTION, THE HOUSE IS A DREAM FOR CHEFS AND ENTERTAINING.

In San Francisco's Pacific Heights, on one of the area's most exclusive streets, this house evokes Parisienne style

Sotheby's International Realty—San Francisco Brokerage

LUXURY OUTLOOK **2022**

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This 6,000-square-foot residence, in Florida's Santa Rosa Beach, is perched atop rolling white sand dunes and has views of the Gulf of Mexico

Scenic Sotheby's International Realty

IS THERE RELIEF AHEAD FROM THE MARKET FRENZY?

While the current state of the housing market is great news for sellers, for buyers, the past year and a half has felt like they can't catch a break.

"This past spring and summer, homes would go on the market and within three days have 30 offers, with prices going almost US$100,000 over asking," says Jenny Telwar, managing broker, Zeitlin Sotheby's International Realty in Nashville, Tennessee. "Buyers have been burned out by that experience a little bit. And not every buyer has the capability to throw so much cash at [a deal] and to waive all contingencies."

For market watchers on any side of the equation, the breakneck pace of sales leads to an obvious question: How long can a frenzy like this one last?

"We've seen markets like Aspen, Colorado, more than double sales volume for our company," says Philip A. White Jr., president and CEO, Sotheby's International Realty. "There are so many examples like this. We have an office in Destin, Florida, that's done US$2 billion in sales volume through November, and it's less than 100 agents in the panhandle of Florida. Park City, Utah, is a similar story."

Toward the end of the summer and the start of the fall season, aggressive bidding wars in hot markets have shown small signs of easing up.

"I envision that it's going to abate to some degree; it can't continue to grow at the velocity it has," White says. "But people are still moving. I still hear about multiple bids."

Even in areas where buyers have grown unwilling to make wild offers just to compete, a chronic lack of inventory all but guarantees that the market will remain tight.

"Denver is at an interesting point, where we're so starved for inventory and it's so hard to find a house, but there are massive amounts of transactions occurring," says Shannel Ryan, president, LIV Sotheby's International Realty in the Denver, Colorado, metro area. "There's very little standing inventory, which is different from nothing coming [on the market]. It just doesn't stay around for very long."

While anything resembling a buyer's market is a long way off, sellers expecting dozens of over-asking offers and waived contingencies may need to adjust their expectations.

"The market isn't slowing down, but it's not the case anymore that you put your house on the market and that day you have 50 showings and 15 offers," Ryan says. "It's an education process with our sellers. We need them to have the right expectation." With the data in hand, they're able to guide their clients toward good decisions, she says.

"I think the buying public is having a moment of, 'This feels more like what I was used to,'" Ryan adds. "'Denver is competitive, but I'm not having to give away my firstborn.'"

In Nashville, Telwar says, "Going into the fourth quarter [of 2021], we've seen fewer offers on homes, and it's normalized a bit. But in hot areas there will still be three to five offers within a day or two. That's better than 30 offers, but we're still seeing a multiple-offer situation."

For buyers, then, the traditionally slow winter months may be an opportune moment to get into the market while competition is slightly less rabid, and before prices climb any further.

"Prices are only going to escalate in 2022, so they really need to buy now," Telwar says.

"Inventory isn't likely to go up," White says. "With interest rates low, buyers may want to consider buying as much house as they can."

WHAT WILL BE THE BIGGEST CONCERN FOR BUYERS AND SELLERS IN 2022?

A survey of agents around the world found local policy and economic recovery will remain the driving issues this year.

1. LOCAL POLICY OR TAX CHANGES
2. ECONOMIC RECOVERY
3. COVID-19 PANDEMIC
4. RETURN TO THE WORKPLACE
5. CLIMATE CHANGE AND NATURAL DISASTERS

Source: Sotheby's International Realty 2021 Survey

Old-world craftsmanship endures at the Burlington mansion in Nashville, Tennessee.

The House on Little Nell in Aspen, Colorado, is described as an heirloom

From top: Zeitlin Sotheby's International Realty; Aspen Snowmass Sotheby's International Realty

WHAT LIES AHEAD
Q&A with Philip A. White Jr., President and CEO, Sotheby's International Realty


Villa La Favorite, a Belle Époque mansion in Cannes, France

Côte d'Azur Sotheby's International Realty

As an industry veteran, Philip A. White Jr., president and ECO, Sotheby's International Realty, has seen many trends and dramatic moments in the real estate market. In the process, he has led Sotheby's International Realty to record-high global sales volumes and continued successful expansion across the globe.

What was the biggest real estate story of 2021?

We saw cities like New York, San Francisco, London, and Madrid seeing rebounds. In 2020, we encountered this fundamental shift in buyer priorities that fueled interest in second-home markets and resort locations, but in 2021, buyers were returning to cities, energized by the strong housing market fundamentals, rollout of the coronavirus vaccine, and the transition to in-office work. The New York City market is returning to its pre-pandemic normal; anyone looking for a rental apartment should prepare for bidding wars. As the San Francisco luxury market continues to rebound, a window of opportunity remains for buyers of high-end condos—a segment that is appreciating slower than the feverishly in-demand single-family home market. London's prime market has seen increased interest from ultra-high-net-worth U.S. buyers.

However, we also continued to see interest in suburban and secondary markets, primarily areas within commuting distance of major financial centers. Families that relocated during the pandemic are likely to stay, with some portion of new suburbanites opting to keep a pied-à-terre for city nights.

There has continued to be a strong stock market and low interest rates. People have seen the value of residential real estate go up so much in the last year and a half and they don't want to be left behind.

What do you expect to be the driving narrative of 2022?

This is likely to be the year of the international buyer. New investors have slowed, but as borders open and vaccines roll out, I expect that to grow.

We're also always on the lookout for emerging areas of luxury. We recently opened offices in Bulgaria, Jamaica, and Morocco, and prior to that, in areas including Seoul, Antigua, Paraguay, and Romania. What will be interesting moving forward is the level of international interest in emerging U.S. markets that saw a surge of popularity during the pandemic. Up-and-coming business centers that also offer sunny destinations, Austin and Nashville, are notable examples.

Overall, beyond the international markets, I suspect that residential transactions are going to level off a little bit because we had such a strong spurt of activity in the second half of 2020 and first half of 2021.

Which areas are seeing the most growth?

Florida has no state income tax and is pretty much the hottest market in the country. Texas is up there, Colorado, even California.

Californians are buying out of state in areas like Idaho and Colorado. But with California's climate, access to the ocean, and all the great lifestyle attractions, it's still alluring to high-net-worth individuals.

We also saw an increase of interest in emerging markets such as Coeur d'Alene, Idaho, named one of America's hottest housing market, according to an emerging housing market index report.

Internationally, areas such as Sydney, Australia, Greece, and the French Riviera have seen a surge of interest from buyers, including foreign investors, which saw an increase in both inquiries and home prices.

More than ever—for buyers and sellers—working with a knowledgeable agent who truly understands the local market is of utmost importance. A great agent scours the market for deals where there is minimized inventory and can advise on the strongest secondary markets and areas of highest potential growth. ▨

The interview has been edited for clarity and space.

AMID INFLATION AND RELATIVELY LOW INTEREST RATES, LUXURY REAL ESTATE REMAINS A SURE INVESTMENT


A 12,000-square-foot home in Toronto's Bridle Path neighborhood is a serious trophy property, complete with a pool, hot tub, and water features

Sotheby's International Realty Canada

The expansive growth in the luxury-home market during the Covid-19 pandemic is expected to continue in 2022, albeit at a slower pace, as low interest rates and inflation fears push wealthy individuals toward alternative asset classes, and countries reduce economic-stimulus measures.

Across the globe, luxury-home sales reached record levels in 2021. The U.K. saw a major increase in sales priced at £5 million or more during the first half of 2021, while its stamp-duty holiday was still in place. While that program has since ended, the luxury market there is expected to benefit from foreign investors coming back into the market, as travel restrictions loosen in some parts of the world.

In the six months from June to November 2021, listing prices for homes in the top 10% of the market in the U.S. were up nearly 20% compared with the same period the year before, according to data compiled by Realtor.com.

"We don't think the current pace of home-price growth, at least in the aggregate, is sustainable," says Joel Kan, associate vice president of economic and industry forecast, the Mortgage Broker's Association.

Still, as inflation rates rise, and developed markets continue to debase their currency, luxury real estate could be an attractive hedge and a way to get out of paper money, says Jonathan Woloshin, head of real estate and financials research, UBS Wealth Management. With experts predicting the 10-year Treasury yield won't surpass 3% by the end of 2022, real estate may become even more attractive.

"If you look over the course of decades and centuries, luxury real estate—with all its ups and downs—has held value and even grown in value," Woloshin says.

In late 2021, the U.S. Federal Reserve announced that there could be three interest rate hikes ahead in 2022, and the Mortgage Bankers Association has predicted the 30-year fixed rate could rise to 4% by the end of 2022.

"Every little bit of that rate increase is going to matter more because you're applying it to a much bigger loan balance," Kan says.

However, buyers paying in cash or using a securities-backed loan will be less affected by interest rates, if at all, Woloshin notes.

Meanwhile, many countries are considering increasing taxes, which may influence where high-net-worth individuals decide to locate. In the U.S., the current 37% top rate on income will rise to 39.6% in 2026, as 2017 tax reform provisions are scheduled to expire. President Joe Biden's plans for a social spending bill would also create a new surcharge on high-income individuals whose adjusted gross income is over $10 million—or the top 0.02% of Americans. While those increases may not be enough to make wealthy individuals pick up and move elsewhere, a wealth tax could, Woloshin says.

4%

The Mortgage Bankers Association predicts that the **30-year fixed rate could rise to 4%** by the end of 2022.

"We're seeing more and more of the wealthy renounce their U.S. citizenship, for economic reasons and for political reasons," he says. Already, the number of Americans who renounced their citizenship hit an all-time high in 2020, at 6,707, according to the Internal Revenue Service.

Even countries that have long attracted high-net-worth individuals on account of their low taxes are considering increases. Singapore officials have hinted that higher levies for real estate may be on the way. The country already has imposed limits on second-home owners and foreign buyers.

In China, some speculate the government may roll out a nationwide property tax. The policy focus is "common prosperity" and addressing the wealth gap. In addition to proposed property taxes and regulatory measures aimed at controling prices, the development of rental housing has gained traction.

Canadian Prime Minister Justin Trudeau pledged a ban that would keep foreigners from buying homes for two years if he is re-elected. One of his opponents, Jagmeet Singh, called for a 20% tax on foreign buyers. (Already, in Vancouver, residential properties that sit vacant more than six months per year are taxed at 3% of their assessed value, due to a 2016 Empty Home Tax passed by the City Council.) In its 2021 budget, the Canadian government also included a proposal for a nationwide "underused housing tax" that would tax vacant residential property with non-resident, non-Canadian owners.

Even with pressure to recoup revenues lost to Covid-19, it's yet to be seen whether these proposals become reality. A long-discussed pied-à-terre tax aimed at luxury second homes failed to pass through New York's legislature this last year.

In a move more favorable to those buying second homes, the U.S. government rolled back a policy meant to limit Fannie Mae and Freddie Mac's ability to purchase loans for new investment properties, which may mean lower rates for those buyers in the short term. The U.S. also plans to raise the cap for mortgages backed by Freddie Mac and Fannie Mae to close to $1 million in high-cost areas to assist home buyers as prices continue to rise.

U.S. LUXURY SNAPSHOT, JUNE–NOVEMBER 2021

Realtor.com's data shows the cut-off list price for homes in the top 10%, the active listing count for homes over US$1 million, and median days on market for the top 10%.

AREA	CUT-OFF LIST PRICE		ACTIVE LISTINGS		MEDIAN DAYS ON THE MARKET	
U.S. (OVERALL)	US$1.2M	5.1%*	286,487	7.2%*	62	-24.4%*
GLENWOOD SPRINGS, COLORADO (ASPEN)	US$7.9M	-10.6%*	713	-26.0%*	125	-3.1%*
MIAMI, FLORIDA (INCL. PALM BEACH)	US$2.5M	19.6%*	15,315	-0.6%*	104	-38.1%*
NASHVILLE, TENNESSEE	US$1.4M	30.2%*	2,049	8.0%*	40	-36.5%*
NEW YORK CITY	US$2.7M	14.7%*	41,810	3.6%*	82	-15.5%*

* Year-over-year difference, during the same time frame.

Source: Realtor.com

BUT WHAT ABOUT SUPPLY?

While inflation and higher interest rates may play a role in the luxury market, a larger question looms: whether supply can catch up with all the recent demand.

"Because the economy's still improving, we do expect that inventory to free up, and we're going to see more transactions, which will help this rapid home-price growth moderate a little bit," Kan says.

Yet in many luxury markets, such as ski resorts or Manhattan's Billionaires' Row, supply is highly constrained.

"We're talking about a very unique subset of real estate where there is a certain fixed amount of the best of the best," Woloshin says.

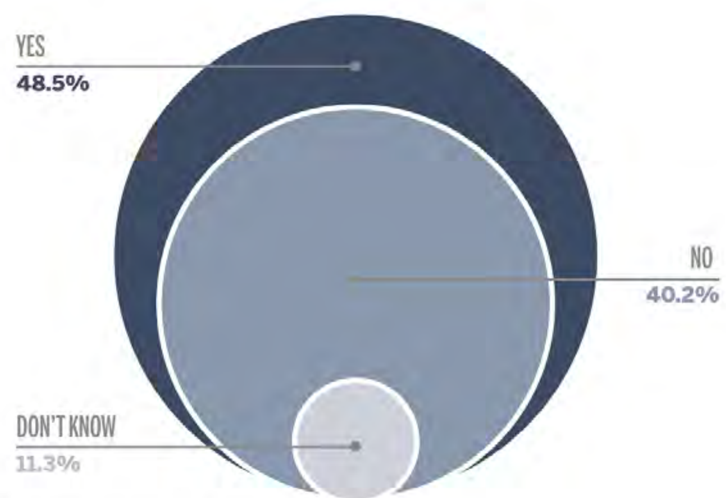
In the coming year, new demographic trends will also impact the market. In North America, millennials and Gen Xers are expected to make up the vast majority of luxury-home sales. Many of those sellers are staying in urban environments, looking to relocate to larger spaces, according to agents who work with them.

Still, others will continue to re-evaluate their lifestyles and move to small towns or suburban areas in a search for more space and a respite from city life.

"People have the ability to live their lifestyle their way," Woloshin says. That, he says, means that the demand for second homes or relocations won't go away in 2022. ◻

WOULD AN INCREASE IN INTEREST RATES AFFECT THE STRENGTH OF THE MARKET IN THE COMING YEAR?

We asked Sotheby's International Realty agents whether a change in interest rates might affect the market—the answer was nearly split.



Source: Sotheby's International Realty 2021 Survey

US$10M

Under President Biden's new plan, those **with an adjusted income over US$10 million—or the top 0.02% of Americans—will see a tax surcharge,** the White House says.

One&Only Kéa in Greece offers a stunning outdoor private living area

Greece Sotheby's International Realty

SECOND-HOME TRANSACTIONS COOLING SLIGHTLY, BUT DEMAND AND PRICES STILL HIGH

Second-home markets have been experiencing high demand since mid-2020, with luxury buyers motivated to seek out properties in holiday destinations with easy access to beaches, mountains, and other scenic spots where they can wait out the pandemic.

In fact, vacation-home sales were up 57.2% year-over-year for January-April 2021, compared with the 20% year-over-year change in total existing-home sales, according to data from the National Association of Realtors.

There have been similar increases in inquiries in Europe: Foreign buyers, undeterred by Covid-19, are buying properties on the French Riviera sight unseen, with brokers reporting multimillion-dollar sales to investors who haven't set foot in the homes. In Greece, inquiries from American second-home buyers were up by 60% in spring 2021 year-over-year, Greece Sotheby's International Realty found.

In Sydney, despite tight travel restrictions curtailing foreign investment, wealthy locals who already own primary homes in the area have been driving up prices by investing in secondary prime properties.

"There is a strong 'fear of missing out' mindset, and people are making offers and closing deals much quicker than in any previous time that I can remember in my career," says Michael Pallier, managing director, Sydney Sotheby's International Realty. "This is reflected in the most recent CoreLogic figures that show Sydney home prices are up 23.9% year-over-year through the end of September."

The way buyers have been utilizing these new investments, too, has changed. With remote-work policies still in place at many companies, homeowners are staying longer in their vacation properties, using them more like primary homes, rather than visiting occasionally and renting them out the rest of the year.

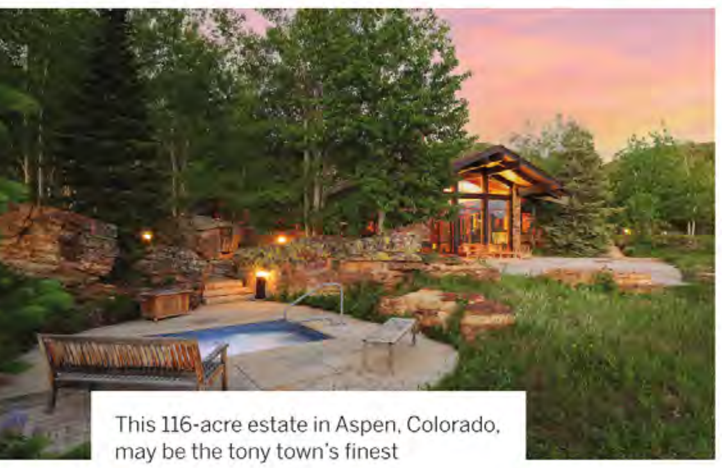
"People are spending more and more time here. They've discovered it's possible to work efficiently at a distance," says Frederic Barth, CEO, Côte d'Azur Sotheby's International Realty. "They're spending more time in areas like the French Riviera, where they can enjoy villas with a pool, a garden, and beautiful views, and avoid being stuck in apartments in big cities."

In the U.S., demand for second homes showed signs of cooling during the spring of 2021, as some offices began reopening, and mortgage-lending rules for vacation properties were initially tightened. (Note: the

57.2%

U.S. vacation-home **sales were up 57.2%** year-over-year for January-April 2021, according to the National Association of Realtors.

Extensive renovations have been made to this beautifully appointed Mediterranean-style mansion in Palm Beach, Florida



This 116-acre estate in Aspen, Colorado, may be the tony town's finest

This contemporary house in Cap d'Antibes, France, comes complete with a caretaker's house

Federal Housing Finance Agency has temporarily rolled back those restrictions, which should bring mortgage rates for second homes back down.) And even as the number of transactions declined in some markets, price appreciation remained strong due to low inventory.

"The demand in Hawaii in the second-home market has not died down. The sales numbers have slowed down, though, as a direct response to the record-setting low inventory," says Ryan MacLaughlin, principal broker, Island Sotheby's International Realty in Maui. "We haven't seen this kind of inventory drought in 40 years. Yet the demand coming from West Coast buyers is still very much there. The price point on every transaction is continually going up, while the amount of trades per month are down."

It remains an open question as to how new owners of second homes will use their investments going forward, once rates of Covid-19 transmission decrease, travel restrictions are loosened, and more workplaces reopen.

But for many high-net-worth investors, the pandemic has encouraged lifestyle changes that may become permanent.

"Of course it's hard to predict what might shift, if and when work requirements change en masse, but many of the homeowners in Aspen are at a wealth level where they don't need to report to an office if they choose not to," says Andrew Ernemann, owner and broker associate, Aspen Snowmass Sotheby's International Realty. "Conversely, there are many people that have found ways to work remotely just as efficiently or even better than before."

SECOND-HOME SALES IN THE COMING MONTHS

In the U.S., price appreciation of second homes is expected to continue even after the number of transactions slowed over the summer due to limited inventory, according to agents.

South Florida's second-home market, for instance, has seen dramatic price increases, especially at the high end.

"Prices have gone up dramatically in the past two to three years, and I see that increasing because of several factors," says Todd Peter, senior global real estate advisor, Sotheby's International Realty–Palm Beach Brokerage. "There's limited supply, demand is extremely high, and people are wealthy right now, with the stock market seeing all-time highs. We also have record-low interest rates, so people are buying hard assets like homes, and for the foreseeable future I see it continuing."

Brokers expect that demand for second homes will continue—and that those who have already purchased vacation properties since the onset of the pandemic will stay put.

"With the exception of any unforeseen macro event, the fundamentals in our market continue to point toward price appreciation, due to limited inventory with continued demand," Ernemann says. "Many of the recent transplants have found the Aspen area to be a great place to spend more time than they would have in the past. The rental market is incredibly tight right now, and it does not appear that there has been a large shift toward recent purchasers renting out their homes—not yet, anyway."

In some markets, recent holiday-home investors have begun to return to their primary homes, but they aren't in a rush to sell. "We are starting to see some clients returning to their clients in the mainland, and heading back to their corporate offices, but we haven't seen those clients wanting to sell," MacLaughlin says. "The uncertainty with Covid, and the understanding that 'working in paradise' can actually work, has made those clients want to hold onto those properties in anticipation of being able to do it again. That, and the fact that they now have a property to retire to in a few years or down the road."

There may eventually come a cooldown in demand, but we believe buyers who have already purchased holiday homes are likely to hold onto them for some time.

"As the effects of the pandemic are minimized, most likely people who haven't left the big cities so far will stay. But I doubt that people who purchased second homes will sell them immediately just because life in the big city is returning to normal," Barth says. "So far we haven't seen a change in second-home buying trends." ▨

From top: Sotheby's International Realty Palm Beach Brokerage; Aspen Snowmass Sotheby's International Realty; Côte d'Azur Sotheby's International Realty

Italy Sotheby's International Realty

A villa with panoramic sea views and architectural charm in the heart of Porto Rafael in Italy

DOMESTIC BUYERS DOMINATE THESE HOT MARKETS... BUT HOW LONG WILL IT LAST?

The Covid-19 pandemic and resulting restrictions on international travel have hindered foreign buyers from investing in overseas real estate, and as a result, domestic buyers are dominating many luxury markets around the globe. In the U.S., for instance, the National Association of Realtors found that international buyers accounted for US$54.4 billion in home sales from April 2020 to March 2021, a 27% decrease from the same period the previous year.

There have been similar shifts in Europe. In Spain, for example, the first quarter of 2021 saw a 23% drop in foreign investment from the first quarter of 2019, the Association of Spanish Land Registrars found.

Diminished competition from overseas investors—and the desire to upgrade to larger properties amid the pandemic and ongoing remote-work policies—have motivated domestic buyers to purchase luxury real estate in their home countries, according to reports.

"Italians are definitely buying more than before the pandemic," says Diletta Giorgolo Spinola, head of residential, Italy Sotheby's International Realty. "And as smart work seems to be the future, they're opting for larger apartments or properties with outdoor space."

Domestic buyers who used to invest in second homes abroad are also deciding to buy holiday homes in Italy, she says.

In Australia and New Zealand, domestic buyers are similarly driven by lifestyle factors to relocate within the country, away from large cities to more spacious homes in less densely populated regions, where they can work remotely in style.

The state of Queensland, for instance, where Covid-19 cases have been consistently low, has seen an influx of buyers from other parts of Australia. Domestic interest has been strong enough to drive up values, despite the drop-off in foreign investment.

"There has been a huge increase of people from New South Wales and Victoria wanting to move to Queensland, a northern migration like nothing we have seen before," says Tyson Clarke, senior sales executive, Queensland Sotheby's International Realty. "Those states have higher house prices, so they are selling, coming to Queensland cashed up, and driving the prices up."

Another major factor in the rising demand for luxury real estate in Australia is the return of expats seeking luxury properties in their home country. In Queensland, for instance, Australian buyers deciding to trade up have led to Brisbane's market increase for the last 12 months hitting 17%, Clarke says, where the city's normal growth is 2.5%.

Melbourne, too, saw a dramatic increase in housing prices.

"We have seen a major reduction in overseas inquiry, and those we do see are normally expatriates looking to make a property investment," says Rob Curtain, managing director, Peninsula Sotheby's International Realty in Melbourne. "At the start of the pandemic, we had many returning and purchasing property. However, this year, most likely due to our government's extreme lockdowns, they're simply buying as longer-term investments."

In New Zealand, cheaper mortgages have helped fuel domestic demand to such an extent that the government is attempting to institute cooling measures to address the rapid price appreciation.

"There has been a noticeable increase in purchasers moving from the cities of Auckland and Wellington to lifestyle destinations in New Zealand, like Queenstown, Hawkes Bay, and Tauranga," says Mark P.A. Harris, co-founder and managing director, New Zealand Sotheby's International Realty. "Domestic buyers are looking for lifestyle, room to move, and easy-access areas away from the cities."

INTERNATIONAL AND DOMESTIC BUYER OUTLOOK

The slowdown in foreign investors in many prime markets hasn't hurt the pace of transactions, nor the level of competition among domestic buyers. In the months to come, brokers say, low inventory will continue to drive up prices for local buyers.

"Inventory numbers are low, as existing owners in these lifestyle areas are holding onto their properties, so prices have been increasing substantially over the last 12 months," Harris says. "The interest in property is still very high, as there are few viable alternative-investment opportunities at present with borders still closed."

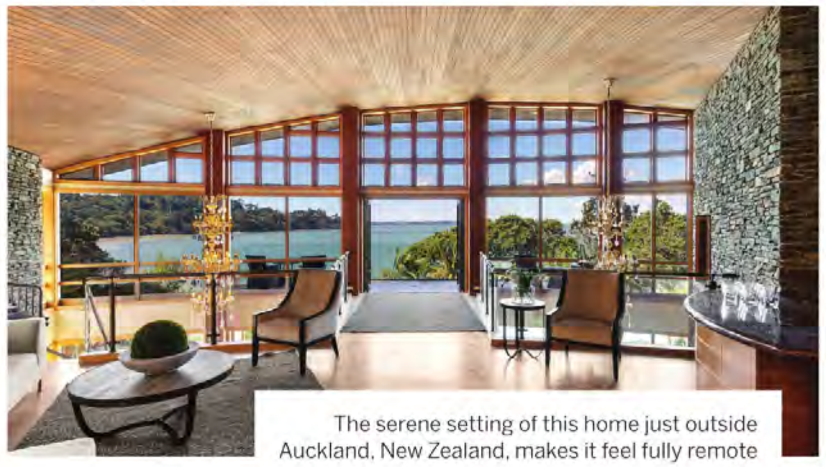
And some foreign buyers are choosing not to wait for restrictions to be lifted, and purchasing properties sight unseen. Harris estimated that there has been more than NZ$100 million worth of sales over the past year to people who haven't physically seen the properties.

While Australia and New Zealand continue to maintain particularly strict travel policies, other regions are loosening restrictions, and international buyers are expected to begin re-entering prime real estate markets—though the Omicron Covid variant has led to some uncertainty about timing. Major U.S. metro areas like New York and Miami should see a resurgence of interest from overseas real estate investors.

In Europe, some foreign investors are evading travel restrictions by chartering private planes or driving to visit their desired markets.

"We've seen more high-net-worth individuals from other countries, especially northern Europeans, come to buy as they can drive down to Italy," Giorgolo Spinola says. "The flat tax for international buyers has also helped attract them. If travel bans get lifted or become less restricted, we expect these numbers to grow."

A farmhouse nestled on Italy's Tuscan hills

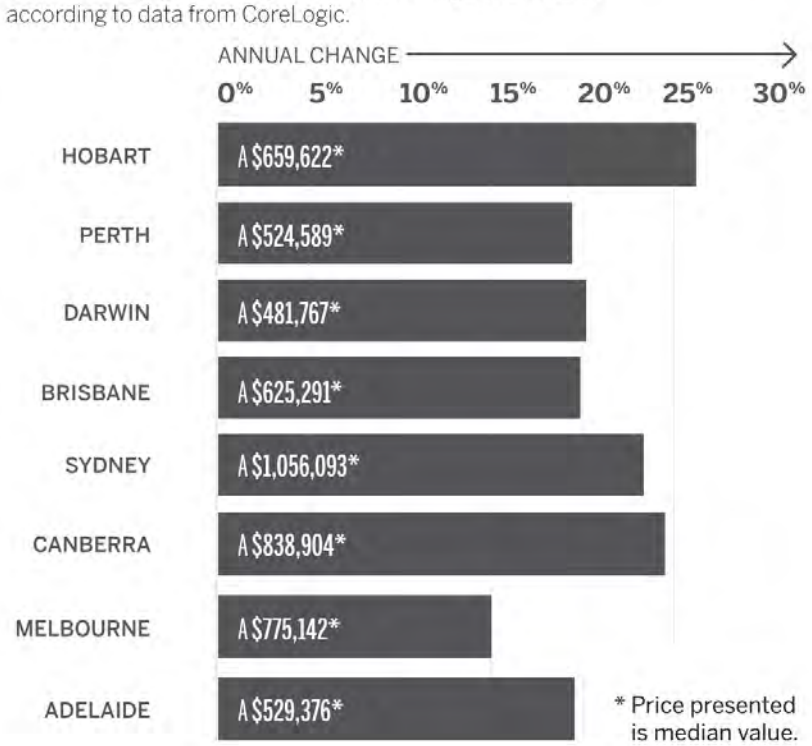


The serene setting of this home just outside Auckland, New Zealand, makes it feel fully remote

From top: Italy Sotheby's International Realty; New Zealand Sotheby's International Realty; Right: Golden Gate Sotheby's International Realty

AUSTRALIA'S HOUSING PRICES RISE

Australia's top-performing markets, as of September 2021, according to data from CoreLogic.



* Price presented is median value.

Source: CoreLogic

MATERIAL SUPPLY ISSUES MAY PUT LONG-TERM PRESSURE ON HOME PRICES

A Hamptons-style new construction in Old Palo Alto, California

With delivery schedules delayed and prices of material goods rising, pandemic-induced supply-chain issues have dominated headlines for much of 2021, and are poised to continue into the new year. While the supply-chain issues have an effect on every corner of the economy, the housing market has felt a particularly dramatic impact.

"Every part of a house is more expensive today," says Philip A. White Jr., president and CEO, Sotheby's International Realty. "It's impacting new-home construction more than anything. We hear the most about lumber, but it's everything. And that's pushing up the average sales price."

People will still build personal homes if, for example, a US$12 million house now costs US$13 million instead, says Jason Friedman, senior global real estate advisor, Daniel Gale Sotheby's International Realty in New York. But for developers, a sudden spike in the price of construction material, compounded by a chronic shortage of labor, can change the entire calculus of a project.

The Achilles' heel in the market right now is construction costs, says Dean Jones, owner, Realogics Sotheby's International Realty in Washington. "The delays associated with Covid have given every developer pretty significant [difficulties]—some projects are facing six- to 12-month delays."

Even a shortage of basic appliances like stoves and refrigerators is slowing things down. "The thing we've been seeing the most problem in getting is actually the appliances," Friedman says. "You can pay whatever you want to pay, they just don't have them."

Delayed building deliveries mean that developers' equity remains tied up in existing projects, rather than invested in new ones, further slowing down the new-construction pipeline and leaving builders to assess whether new projects are financially feasible at all.

All of which translates into yet another factor putting a squeeze on inventory and upward pressure on home prices.

"Unfortunately, added costs of construction from the supply chain are going to get passed on to the consumer," Jones says.

"Things are more expensive," adds John Young, realtor, Golden Gate Sotheby's International Realty in California, who is also an independent real estate developer. "You have increased demand from people spending more money on their houses [than they did before the pandemic], then reduced supply from Covid-induced shocks to the material supply chain."

Even once the supply chain gets back to running at its usual pace, the ripple effects of a construction slowdown could be felt in the housing market for years to come.

"It could be 2024 or 2025 before we see some kind of pickup in new supply," Jones says. "The entire economics of building a building has really been turned on its head, and it's going to take a number of years to heal. Then once it heals, it will take a number of years to get the supply."

6–12 MONTHS

Due to material-supply issues, some developers are seeing **6–12 month delays in delivery of homes,** according to Dean Jones of Realogics Sotheby's International Realty.

TAX HAVENS AROUND THE WORLD

Chalet with panoramic views of the mountains in Vaud, Switzerland

Cardis Immobilier Sotheby's International Realty

BAHAMAS

There's no income tax, capital-gains tax, or inheritance tax in the commonwealth, though there is a value-added tax on goods and services.

To qualify for annual residency, buyers must live in or lease a property for at least 12 months. Permanent residency is granted to those who buy a residential property of US$750,000 or more and those who make commercial investments.

"We have families who purchase a home and establish residency as a means of saving on home-country taxes and preserving their wealth for future generations," says George Damianos, CEO, Damianos Sotheby's International Realty.

CAYMAN ISLANDS

These three Caribbean islands are tax-neutral: There is no tax on income, capital gains, sales, or property. There is, however, a 7.5% stamp-tax duty levied on property transactions; the amount is determined by the purchase price or the market price, whichever is higher. "We are head and shoulders above all others that offer a tax-neutral environment within which to operate, because of the robust regulatory framework that is in place to ensure compliance with onshore regulatory requirements, and also because we have such a high level of professionalism and compliance within our financial services, real estate, and other industries," says Sheena Conolly, CEO/broker owner, Cayman Islands Sotheby's International Realty.

As an added incentive, a Global Citizens Programme gives individuals with a minimum annual income of US$100,000 the opportunity to live and work on the islands for two years. Global Citizens are required to live a minimum of 90 days on the islands each year.

HONG KONG

Although nonresidents are charged a 15% buyers stamp duty on sales of residential properties, there is no capital-gains tax, no dividend tax, no inheritance tax, and no income tax on money earned outside Hong Kong. The duty is significant, though, says Franky Cho, COO, List Sotheby's International Realty, Hong Kong, because "it's one of the priciest property markets in the world."

MALTA

Non–European Union/European Economic Area nationals and European citizens and their families who obtain special tax status through the Global Residence Programme or the Residence Programme in Malta are taxed at a flat rate of 15% on remitted income. Retirees of all nationalities who have applied for the Malta Retirement Programme are taxed at 15% on their pensions. Senior-level employees with companies licensed by the Malta Financial Services Authority, the Malta Gaming Authority, or the Authority for Transport in Malta are taxed at a flat rate of 15% up to €5 million; any excess income is exempt. "Malta has been a jurisdiction consistently sought after by individuals looking to set up their personal and professional base within the EU," says Andres Gutierrez, investment-migration advisor, Malta Sotheby's International Realty.

ST. KITTS & NEVIS

The dual Caribbean islands don't levy personal income tax, gift tax, death duties, estate tax, inheritance tax, or capital-gains tax, including on worldwide income. Property taxes are just .002%. Lifetime full citizenship, which may be passed to descendants, is conferred upon those who make a minimum non-refundable contribution of US$150,000 or who buy real estate for at least US$200,000 and hold it for seven years, or for US$400,000, resalable after five years.

"Our tax benefits are ranked highly amongst competing jurisdictions," says Neil Paine, managing partner, St. Kitts & Nevis Sotheby's International Realty. "Many would argue that the St. Kitts & Nevis passport, which gives visa-free access to over 140 countries, is, from the standpoint of personal finance, one of the top five most desirable globally."

SINGAPORE

There's no capital-gains tax on property sales, and for residential real estate, under free-trade agreements, nationals and permanent residents of Iceland, Liechtenstein, Norway, and Switzerland, as well as U.S. nationals, pay the same rate of buyer's stamp duty as citizens of Singapore. Owner-occupied residential properties have lower tax rates. Personal income tax tops out at 22%, the second-lowest of Asian-Pacific countries.

SWITZERLAND

The country is extremely amenable to negotiating lower taxes for high-net-worth individuals. The income-tax rate is lower than that of neighboring nations, and mortgage loans are tax deductible. High-net-worth individuals can make a low, lump-sum payment on the money held in their Swiss banks in lieu of taxes. The amount of taxes foreigners pay is based on seven times their monthly rent. These policies encourage home buying and the taking out of mortgages in order to benefit from generous tax deductions. ▨

LUXURY BUYERS KEEP CITIES THRIVING DESPITE PANDEMIC

For hundreds—or sometimes thousands—of years, cities around the globe have defied predictions of their death, including alarms set off during the start of the Covid-19 pandemic.

In fact, many global cities began to rebound as early as the summer of 2020. Luxury-home buyers returned to expand their stake in cities from London to Madrid, from São Paulo to San Francisco, and from Hong Kong to Tokyo. Real estate agents anticipate sales and prices to continue to rise in 2022, as international buyers return.

"The real estate market was one of the sectors that recovered the fastest from the economic crisis generated by the pandemic," says Renata Victorino, partner-director, Bossa Nova Sotheby's International Realty in São Paulo, Brazil. The hot market, she says, "has attracted investors who are looking to get away from more traditional financial investments and prefer the security that investing in real estate provides."

In New York, luxury buyers returned to the market beginning in January 2021, says Wendy Arriz, associate broker, Sotheby's International Realty–East Side Manhattan Brokerage.

"The most recent Wealth-X report found that New York City was still the number one city in the world, with the most ultra-high-net-worth households in 2020," Arriz says. "People love the city, and they want to be here for the culture and the energy."

DEMAND RISING FROM DOMESTIC BUYERS

While urban luxury markets typically include buyers from around the globe who own multiple homes and prefer to invest in safe-haven economies, pandemic travel restrictions kept many of them in their home countries.

In San Francisco, domestic buyers have dominated of late, but there are "rumblings" that international buyers are beginning to return, says Carrie Goodman, real estate specialist, Sotheby's International Realty–San Francisco Brokerage.

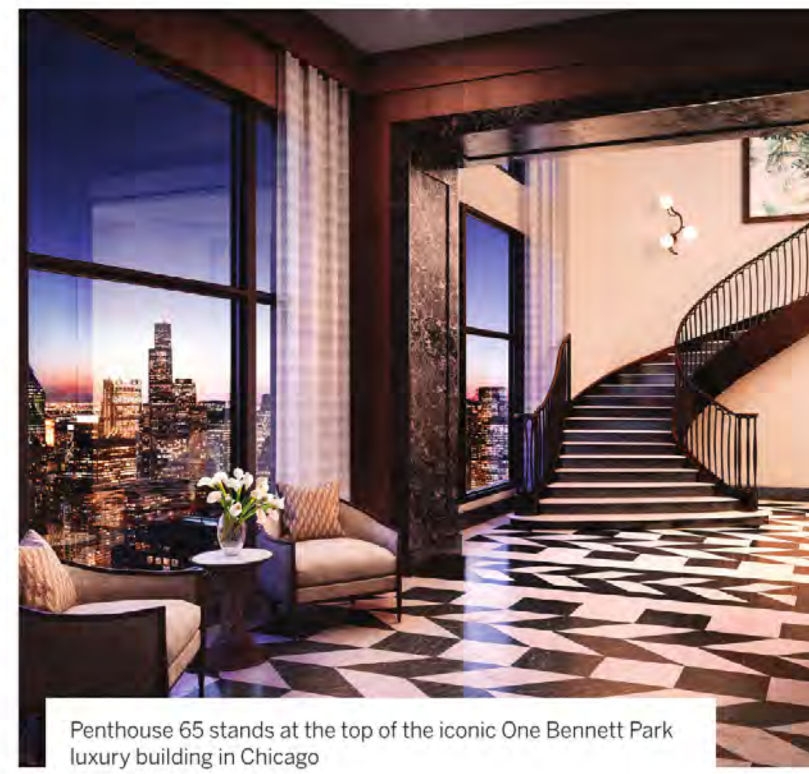
"The confluence of finance and tech money, plus the generational transfer of wealth, have kept the market strong, especially for condos priced from US$2 million to US$3 million," Goodman says.

In Los Angeles, Robin Walpert, senior global real estate advisor, Sotheby's International Realty–Santa Monica/Venice Brokerage, says her buyers were mostly locals purchasing a second home or upgrading their living space.

Luxury buyers and owners in Hong Kong tend to own multiple local residential properties, says Franky Cho, COO, List Sotheby's International Realty, Hong Kong. "The majority of the 'superrich' are

From left: Sotheby's International Realty–Pacific Palisades Brokerage; Jameson Sotheby's International Realty

Situated in Beverly Hills, California's exclusive Trousdale Estates, this house has a seriously chic 1970s vibe



Penthouse 65 stands at the top of the iconic One Bennett Park luxury building in Chicago mainland Chinese with permanent residency in Hong Kong, who bought properties in their own names or the names of their children as first-time home buyers," Cho says. Many are "business owners, CEOs of a listed company, or have a high-paying job, such as bankers and lawyers."

He anticipates rising prices in Hong Kong to continue, especially in the superluxury property segment, once the border with mainland China reopens.

In Japan, international buyers often choose the Niseko area in Hokkaido, which became popular for Japanese buyers during the pandemic, says Mugi Fukushima, branch manager, List Sotheby's International Realty, Japan in Ginza, Tokyo. "They want an area where they can feel like they're abroad," Fukushima says.

In New York City, Arriz says she hasn't worked with any international buyers in the past 18 months. But she's expecting them to pick up as travel restrictions are lifted.

UPSIZING INDOOR AND OUTDOOR SPACE

While cities continue to lure luxury buyers, their priorities have shifted in favor of locations with single-family homes or larger condos, particularly with outdoor space.

"It used to be that big homes in the city languished on the market, but now people want a grandiose home with as much space as they can get," says Tim Salm, real estate agent, Jameson Sotheby's International Realty in Chicago, Illinois.

Chicago buyers quickly shifted from wanting high-end condos to single-family homes in the city with office space and room to entertain and exercise, says Ryan Preuett, real estate broker, Jameson Sotheby's International Realty.

Even the empty nesters who were able to sell their big suburban family home during the pandemic are looking to "downsize" into as large a condo as they can find, Preuett says.

In San Francisco, there are similar trends. "We've seen an incredible interest in places like St. Francis Wood in San Francisco because there are big stately homes there," Goodman says. Sales were up 175% in that neighborhood year over year from January through August 2021, and prices rose 18% in that same period, she says.

"The interest for larger homes with open and functional areas, and condominiums with leisure spaces, should continue even after the pandemic," says Victorino in Brazil.

People have adapted to being home more and having more space, and that isn't likely to change, she says.

"After selling for over 25 years, the evolution of this real estate market has been a head-turning experience," Walpert says of the Los Angeles area. "The amount of 'out-on-the-town' pandemic money saved and profitably invested, combined with pent-up demand for housing, resurrected and expanded our luxury market."

THE LURE OF EXCITEMENT

"Once the lockdowns eased, the draw for culture to come back into people's lives was important," says Guy Bradshaw, managing director, United Kingdom Sotheby's International Realty. "Restaurants, theaters, cinemas,

AVERAGE PRICE PER SQUARE FOOT FOR LUXURY PROPERTIES ON THE MARKET

Sotheby's International Realty looked at homes currently on the market with the agency in major cities, starting at US$1.5 million.

*Major outliers were removed for this calculation

Source: Sotheby's International Realty data

galleries, and sporting events had all been missed. We've seen a renewed interest in buyers wanting to be closer to the city and to experience all their pre-pandemic luxuries."

In New York, buyers who left for the suburbs or their beach homes want to be back in the city because they missed it, Arriz says.

The same is true in Chicago, Preuett says. "We've had lots of buyers say they miss their city life and that's why they're moving back."

"If you want to be a mover and shaker, you need to be where the action is," Goodman says.

OPPORTUNITY SEEKERS FIND FEW BARGAINS

While some luxury buyers hope to find a bargain, few are available. Even in New York, which saw a steep decline in luxury prices early in the pandemic, prices are climbing.

"That window is over," Arriz says. "Now it's a seller's market."

Most agents reported steady or rising prices in 2020 and 2021 in their cities, partly due to short supply.

"Pricing remained steady as the choice of homes is simply not there in London," Bradshaw says.

NO SLOWDOWN IN SIGHT

While domestic buyers kept the market strong in most cities, the reinvigorated demand from overseas buyers is expected to grow, Bradshaw says.

"People will begin to move around the world for work, which means demand will inevitably increase," he says.

The 2022 outlook on the real estate market is positive in São Paulo, and Rio de Janeiro, too.

Because of the perceived security of investing in real estate, "even with the high unemployment rate and low projections for the recovery of the national economy, and political uncertainty, the market should remain heated in the first half of 2022," Victorino says.

In Los Angeles, low interest rates and a "ravenous appetite" for upgraded housing bode well for a strong luxury market in 2022, Walpert says. ◻

LUXURY OUTLOOK 2022

IRREPRESSIBLE CITIES POISED FOR GROWTH

While urban areas have rebounded more quickly than anticipated from the global disruption created by the Covid-19 pandemic, some cities managed to thrive throughout the ordeal. Some metropolitan areas with a severe shortage of luxury homes prior to the pandemic experienced a high volume of sales and rising prices, in part because of the new desire for larger homes and private outdoor space.

In addition, cities with a deep bench of wealthy domestic buyers, continued interest from international buyers, or both, continued to experience a robust luxury real estate market.

"I think people in general have been given a new appreciation for just how important 'home' is, as we were all forced to stay quarantined at home for several months," says Jeff Curtis, agent, Barcelona & Costa Brava Sotheby's International Realty. "Spacious apartments which have nice outdoor spaces and great distribution have become very valuable, even more so than normal."

Several cities in Spain were particularly resilient.

In the luxury property sector in Seville, average sales prices rose by 6% from the beginning of the pandemic, and sales increased by 30%, according to Sergio André, managing broker, Seville Sotheby's International Realty.

"Our market, in comparison with other offices in Spain, is typically about 80% national, mostly Sevillians, and 20% international, mostly from France, Belgium, Switzerland, and the U.S.," André says.

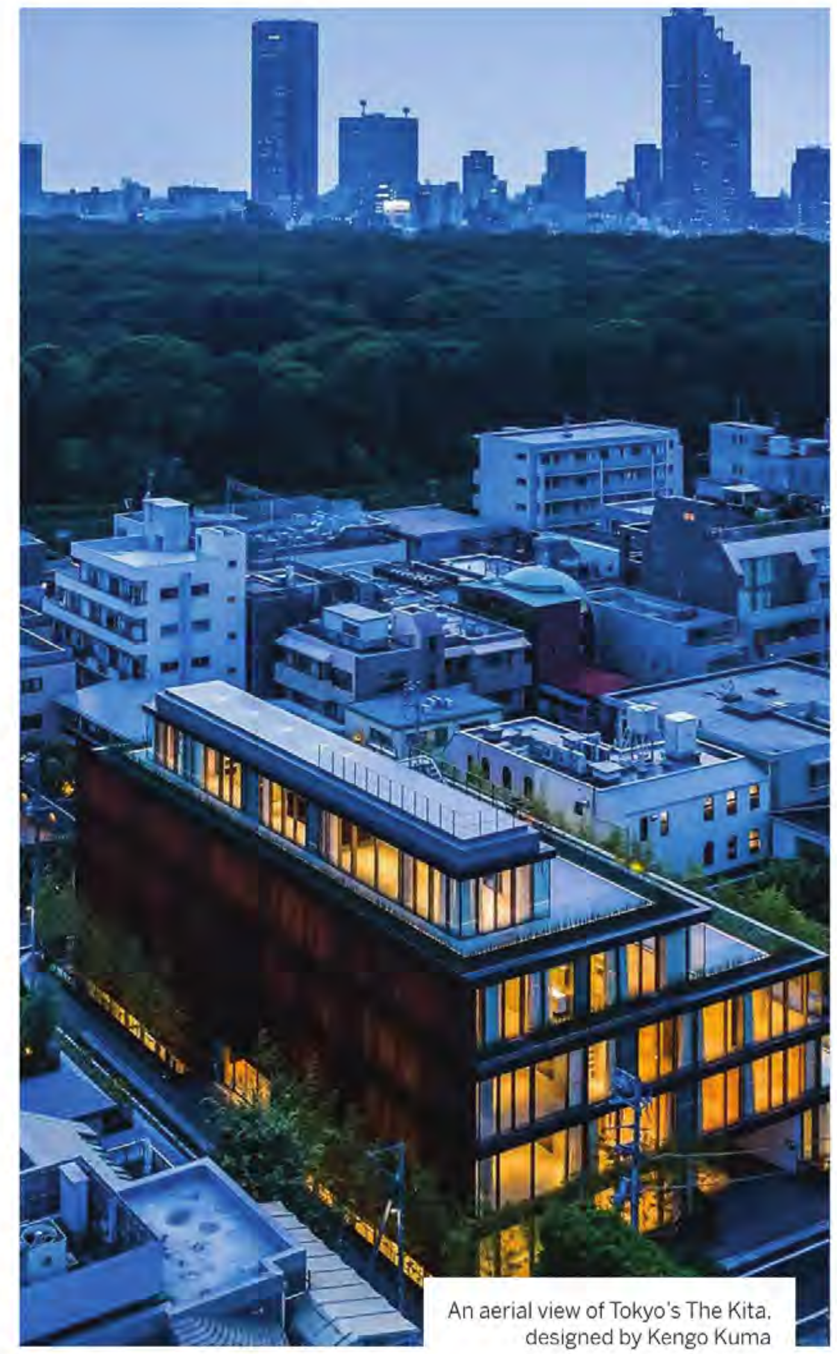
CONTINUED INTERNATIONAL INTEREST IN THE STRONGEST CITIES

Demand from domestic luxury buyers, especially for homes with patios, terraces, and swimming pools, kept cities like Seville strong. Some cities also continued to see demand from international buyers.

"We received phone calls from all over the world, wondering and perhaps hoping for great discounts or distress-type prices due to the pandemic, but it just never happened," Curtis says. "A large percentage of our buyers are international, but it's worth noting that our national luxury market seems healthy as well."

In Madrid, most luxury buyers come from Latin American and European countries, escaping sociopolitical and economic issues in their own countries and attracted by Madrid's reputation for welcoming people from

List Sotheby's International Realty, Japan



An aerial view of Tokyo's The Kita, designed by Kengo Kuma

The only full-floor residence at the posh Park Imperial building in Midtown Manhattan

MANHATTAN LUXURY SHOWS STRENGTH OF CITIES

The median price and luxury threshold for the top 10% of deals across Manhattan

Source: UrbanDigs

abroad, says Javier Guimón Ybarra, office director, Madrid Sotheby's International Realty.

"There's a clear decrease of luxury properties on offer in the most sought-after areas of the city, mainly in the areas that are popular among foreign investors," Ybarra says. "The market is surprisingly showing extraordinary strength in certain luxury neighborhoods, such as the Salamanca District, Chamberi, and the Retiro District."

While foreign buyers ready to establish residency in another country were less common in most places during the height of the pandemic, some investors continued to buy properties sight unseen.

ASIAN CITIES RETAIN APPEAL FOR WEALTHY RESIDENTS

Some overseas investors purchased in Japan, for example, due to the stability of the Japanese economy, says Mugi Fukushima, branch manager, List Sotheby's International Realty, Japan in Ginza, Tokyo.

While wealthy New Yorkers fled to the Hamptons or to Palm Beach when the pandemic struck, and San Franciscans headed to the beach, the desert, or the mountains, agents say there was no similar dramatic withdrawal from cities such as Hong Kong, Singapore, and Tokyo. Urban high-rise living is the norm in many Asian countries, and there are fewer alternative domestic locations where wealthy residents retreat.

Singapore thrived during the pandemic and is anticipated to continue to see an influx of wealth because of its reputation for stability, international finance, and as a safe haven for investors. Hong Kong is expected to remain able to rely on consistent demand from Chinese high-net-worth individuals, agents say.

"Prices in the Hong Kong luxury market were steady throughout the pandemic, and the number of transactions has been consistently increasing," says Franky Cho, COO, List Sotheby's International Realty, Hong Kong.

Sales have been especially strong for newer luxury developments in Hong Kong, including a record-high price of HK$89,000 per square foot for a unit at 8 Deep Water Bay Drive in Repulse Bay.

Cho believes better containment of Covid-19 and the weakened impact of social movements in Hong Kong have helped the market there.

"The quantitative-easing policies launched by other countries and the consistently low supply of domestic properties in Hong Kong also have had an impact on the soaring number of transactions and prices," he says.

Left: Sotheby's International Realty–East Side Manhattan Brokerage; Right: ONE Sotheby's International Realty

Miami's One Thousand Museum by Zaha Hadid

REIMAGINING THE MULTIFAMILY BUILDING

While most of the luxury high-rise buildings currently selling units were designed prior to the age of social distancing and more-consistent disinfecting, developers are tweaking their offerings and giving careful consideration to the new normal.

Below are some of the current and anticipated changes to luxury high-rise buildings.

REFRESHED INDOOR AIR QUALITY: Whether it's a new building or one that needs retrofitting, developers are investing in the latest filtration technology—within individual units, between units, and in common areas. "Air filtration is extremely important here in San Francisco, not just because of Covid-19, but also because of the wildfires," says Carrie Goodman, agent, Sotheby's International Realty–San Francisco Brokerage.

PRIVATE ELEVATORS: Elevators that are exclusive to one unit or to one tier of units are more desirable than ever as a means of reducing contact with neighbors, and bolstering security.

LARGER UNITS: While agents say a pied-à-terre is desirable for many people as cities come back to life, most buyers want more living space even if they plan only occasional use of a condo or luxury rental. Functional space within a unit to entertain, work, exercise, and have some privacy are all important floor-plan elements. Buyers are often looking for units with extra bedrooms that can be used for multiple purposes.

PRIVATE OUTDOOR SPACE: Agents say any building with private outdoor space sells for a premium over those that lack balconies or terraces. Even a condo with a Juliet balcony is more appealing than one without access to fresh air, says Wendy Arriz, an associate broker with Sotheby's International Realty–East Side Manhattan Brokerage in New York.

At One Steuart Lane in San Francisco, every condo includes a wraparound terrace, a recessed balcony, or both. Goodman says units sell for US$3,000 to US$4,000 per square foot, in part because of the private outdoor space.

CREATIVE WORKSPACE: Whether a condo includes a dedicated office, a multifunctional room, or a simple office nook, luxury buyers expect to find an attractive place where they can work from home. Many people anticipate working remotely more frequently and want to do so comfortably.

Coworking spaces in high-rise buildings are getting a makeover, too, with some including private office nooks that can be reserved occasionally or rented long-term. Communal workspaces are being designed with more access to outdoor space, separation between workstations, and additional air-filtration measures.

"Condos with public workspaces are increasing in Japan, which is very surprising for us because most Japanese people had not considered working from home until now," says Mugi Fukushima, branch manager, List Sotheby's International Realty, Japan.

ACCESS TO FRESH AIR: The most sought-after—and often the priciest—buildings are located within walking distance of parks, rivers, and gardens, agents in London, New York, and San Francisco say.

"People want to feel they can enjoy the outdoors even in a city and not be in an urban jungle," Goodman says.

RETHOUGHT AMENITY SPACES: Fitness centers, yoga rooms, spas, art studios, and music rooms are desirable, but developers are increasingly looking at adding private spaces within communal amenity offerings. Future developments are more likely to include features such as a small room to workout with a personal trainer, or a meditation room that can be reserved.

HIGH-QUALITY FIXTURES AND FINISHES: Agents say buyers are more discerning than ever and are focused on allocating more resources to their homes in anticipation of continuing to spend more time there.

"Higher-quality homes sell faster," says Ryan Preuett, real estate broker, Jameson Sotheby's International Realty in Chicago.

A shingle-style home on more than one acre in Rye, New York

Julia B. Fee Sotheby's International Realty

WHAT GIVES A SUBURB STAYING POWER?

Despite predictions that some suburban markets could collapse as city dwellers went back to the urban homes they fled when Covid-19 struck, many suburbs are thriving, poised for even greater real estate growth because of their long-lasting appeal.

For the suburbs that surround New York City—whether in New Jersey, New York, or Connecticut—that appeal is about proximity to the city, good commuter-rail service, a strong sense of place, and strong, established schools...all elements that make for a successful suburb.

Affluent Greenwich, Connecticut, "has always been a place to come to—for its amenities, its amazing beaches, its schools, its great parks," says Joseph Barbieri, senior global real estate advisor, Sotheby's International Realty–Greenwich Brokerage. "We've always been a tax haven for New Yorkers, plus we have lower taxes than neighboring Westchester County in New York."

"We're also a very sophisticated town," he says, pointing out amenities like the Greenwich Polo Club.

Inventory was depleted in six months during Covid, says Barbieri, whose office handled the US$45 million sale of designer Tommy Hilfiger's 22-acre spread in January 2021. "The town had been languishing, but with Covid we were literally off to the races. Greenwich came back in a big way."

Now if people see something they like, they just buy it, he says. "That wasn't so prior to Covid."

Other towns in Fairfield County, including Darien, New Canaan, Westport, and Fairfield, are also doing quite well, he says.

"In the US$1 million–to–US$2 million range, things are gone in days. We have record-low inventory in all of the towns. Every time I go to an open house, at least four or five people ask me whether I have any new listings about to come on the market," he says.

The suburban market in northern New Jersey has also been strong.

"The first seven months of Covid were historically busy," says Charles Oppler, CEO/managing partner, Prominent Properties Sotheby's International Realty, which has 15 offices in northern and central New Jersey. "There was tremendous rental activity, too, because people wanted to be in much smaller buildings," says Oppler, the 2021 president of the National Association of Realtors.

"We are still seeing growth in towns with an easy commute because people will still be commuting," he says, pointing to communities with good train service into New York, such as Montclair, Summit, and Ridgewood as well as the close-in New Jersey cities of Hoboken and Jersey City. "There is tremendous strength in both of those cities now. There was a lull during Covid, but we're now seeing lots of growth in both."

In Montclair, sales are up 22% over last year, up 22% in Tenafly, and up 25% in Summit, Oppler says.

In northern New Jersey, "it's always been proximity to the city, the strength of the community, and the strength of the schools," says Oppler. "None of that has changed."

"Buyers are looking at functionality more than ever now," he says. "When they're considering three versus four bedrooms, they see that fourth bedroom as an office or a classroom."

There is also a lot of pride in these successful suburbs. "There is a parochial hometown feel to many of our communities," Oppler says. "When you go to the local town-fair days, they're just packed. There is a lot of pride in these communities—this is where I live, this is where I'm going to raise my family, this is where I'm going to make lifelong friends."

Looking ahead to 2022, Oppler envisions inventory won't move as quickly. "I think we'll slow down a little. But there will still be a lot of demand."

Barbieri is also bearish about the Greenwich outlook for 2022. "We are at a robust pace of buyers coming in at all price ranges, from US$1 million to US$30 million or US$40 million," he says.

The market in Westchester, the county immediately north of New York City, has also remained resilient. Sales are up 33% year to date, and the median price for a home is up 8% so far this year, says Mimi Magarelli, agent, Julia B. Fee Sotheby's International Realty, who primarily covers the affluent southern Westchester communities of Larchmont, Mamaroneck, and New Rochelle.

Other Westchester communities that have remained strong during and after the pandemic include Scarsdale, Bronxville, and Rye, along with what are known as the Rivertowns along the Hudson River, she says.

Like so many great suburbs across the country, low inventory in the county is becoming a problem, down 39% year to date, she says.

"Great schools, proximity to New York City, and access to parks and public beaches" are a big part of Westchester's appeal, Magarelli says. "People really appreciated those spaces during Covid... They discovered all these things they didn't use because they were on the train every day."

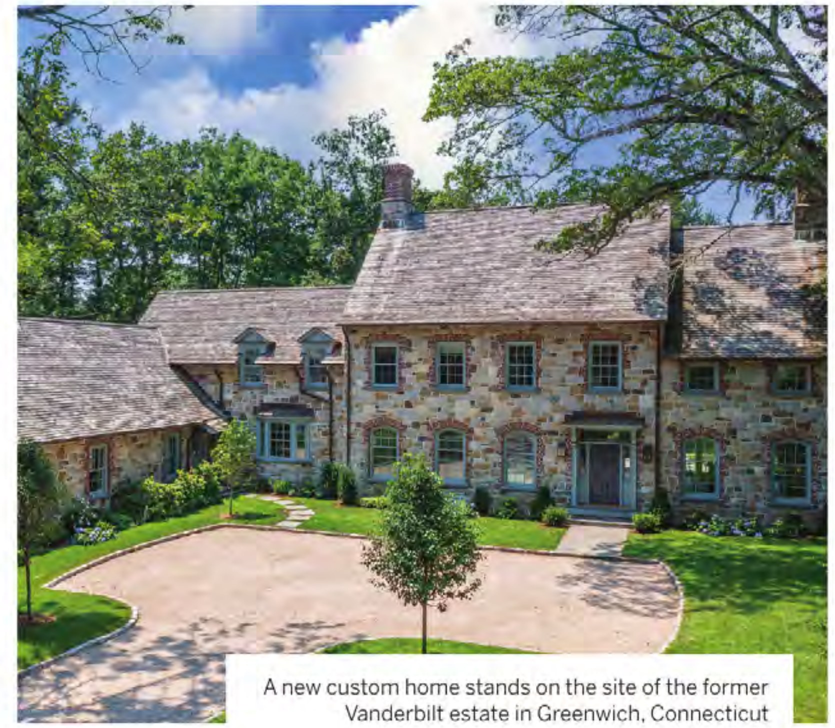
Prices in her area have remained fairly stable, she says. "That's one of the beauties about living here. There are no huge ups or huge downs. That points to our stability."

"Anecdotally, we saw a lot of inner moves and local move-ups," Magarelli says.

"People saw it as an opportunity to stay in their community and get a bigger, better house or the waterfront they always wanted," Magarelli says. "That points to the staying power of these communities."

Plus, she adds, "some people are saying, 'Let's get out of New York City and the Hamptons and buy one great house, in Greenwich or Westchester.'"

From top: Sotheby's International Realty—Greenwich Brokerage; Briggs Freeman Sotheby's International Realty



A new custom home stands on the site of the former Vanderbilt estate in Greenwich, Connecticut

A North Dallas home made of steel and Calacatta marble

The North Shore suburbs that line Lake Michigan north of Chicago, Illinois, including Evanston, Winnetka, Glenview, Highland Park, Kenilworth, Northfield, and Northbrook, have also fared well.

"In my experience, Winnetka is the No. 1 requested suburb from Chicago and out-of-town clients," says Erica C. Goldman, agent, Jameson Sotheby's International Realty. "But each suburb offers its own distinct pluses, and the best part of living on the North Shore is that you utilize all of them for dining and shopping. With all of these—Winnetka, Wilmette, Glencoe, Kenilworth—the commute downtown is manageable."

Dallas, Texas is another metropolitan area that has seen tremendous growth in its suburbs.

"We have a business-friendly climate, and so many companies are relocating here," says Ralph Randall, agent, Briggs Freeman Sotheby's International Realty, who specializes in close-in suburbs like University Park and Highland Park. "We're seeing so much relocation to this city from California and New York. It's crazy. We just don't have enough houses."

They're attracted to the amount of land and the interior square footage they can get in Dallas, he says. "Many people comment on the quality of new construction here. The strength in Dallas is the location and the individual townships," Randall says. "It's the town center, the municipal government, and the school district. That's what's driving this."

University Park and Highland Park, for example, have their own municipal police and fire departments, he says. "The response time can be as little as two minutes."

Other Texas suburbs that are thriving include Plano, Frisco, Southlake, Westlake, and Preston Hollow, which has "great public schools as well as 10 to 15 amazing private schools," Randall says. "These are really well-organized communities with all of the amenities you would ever need. You don't have to drive into Dallas at all."

Many of these older, well-established suburbs have century-old trees lining their streets, which is very attractive to people, he says, partly because they're not native to Texas.

For 2022, "I see a continuation of what we're seeing now, especially in the affluent suburbs," Randall says. "This isn't coming to a halt any time soon."

MORE BUYERS TURN TO EXURBS

With more companies offering extended remote-working options for their employees, home buyers are pushing out farther and wider into once-rural exurbs far from city centers.

TENNESSEE

The exurbs around Nashville have been particularly busy since March 2020.

"We're seeing the biggest growth in exurbs in Williamson County," consistently ranked among the 20 wealthiest counties in the U.S., says Jenny Telwar, managing broker, Zeitlin Sotheby's International Realty based in Nashville. "It's one of our most active markets."

"This is where we've seen our craziest market—the houses selling in a day or a weekend with 30 offers, the US$200,000 over-asking bids, and buyers waiving everything under the sun," she says. "It's like a faucet was turned on, and it's never stopped gushing."

Williamson County, which is 30 to 40 minutes from downtown Nashville, "has always had demand, but we've never seen a market like we've had in 2021."

One recent buyer closed on a new-construction home in April 2021 for US$1.6 million and turned around and sold it in a day for US$2 million in July.

Nashville has seen a steady stream of national companies looking for an expanded presence in the city, she says. "Most of the buyers I've worked with are from New York, Chicago, San Francisco, San Diego, and throughout New Jersey. We expect to see even more."

Tennessee's Trousdale County is another high-performing Nashville exurb. Prices there rose 17% from January 2020 to August 2021, Telwar says, and pending sales in Hartsdale, the county seat, shot up 63% in the same period.

Trousdale, which is about 90 minutes from downtown Nashville, "isn't a commuter pocket," she says. "It's more retirees who want to be close to good health care."

Other Nashville exurbs with strong recent sales include the Tennessee cities of Columbia, Franklin, and Murfreesboro. From January 2020 through August 2021, pending sales rose 23% in Murfreesboro and 50% in Columbia, "which is a rural, rural area," Telwar says.

She expects 2022 to be another strong year. "The buyer drive is still very, very strong," she says. "People love Tennessee—the low taxes, the green spaces, the slower pace."

Plus, there's a lot of land still to be developed. "The entire Middle Tennessee corridor has a ton of potential. We're optimistic."

Located in Houston, Texas, this 1939 house is on the National Registry of Historic Places

TEXAS

The greater Austin, Texas, market has also been thriving. Since the suburban market is so competitive, people have been moving further afield, says J Kuper, a third-generation agent and broker/owner, Kuper Sotheby's International Realty.

Exurbs around Austin that are doing quite well include Lakeway, "which has been hot for some time;" Dripping Springs, which is due west of Austin; and Cedar Park, which is due north, he says.

Not long ago, the Dripping Springs and Cedar Park markets were both considered "very small subsets" of the outlying area, but "now they are borderline considered part of the Austin market," Kuper says.

New builds have been big in Cedar Park, Kuper says, driving up prices. And residents of Dripping Springs feel like they live in a small town, but are still very much connected to Austin, he says.

For the greater Austin market, sales are up almost 15% compared with September 2020, and "that was a record-setting month then," he says.

Year to date, sales are up almost 21%, and the average price is up almost 25%.

Like Nashville, many corporations have moved to Austin in recent years, he says. "Their workforce is completely happy to be part of the greater Austin community. They are OK with living 30 or 45 minutes from town and being a commuter," he says.

This Orlando, Florida, home is on 300 feet of waterfront and 4.22 acres

From top: Martha Turner Sotheby's International Realty; Premier Sotheby's International Realty

LUXURY OUTLOOK 2022

Little Ghent Farm in New York's scenic Columbia County

Four Seasons Sotheby's International Realty

NEW YORK

In New York's Hudson Valley, the center of which is about 100 miles north of Manhattan, New York City residents eager for office and outdoor space have flooded the market.

"It hasn't really slowed down," says Raj Kumar, agent, Four Seasons Sotheby's International Realty who works primarily in Columbia, Dutchess, Ulster, and Greene counties. "Our team is seeing bigger- and bigger-ticket buyers. It's a strong and steady market now. The frenzy that we saw during Covid is no longer there."

The company had record-breaking sales in a few Hudson Valley communities this year, including a US$1.1 million sale in Greenville and a US$2.2 million sale in Barryville.

Last year, he had a US$3 million sale on the city of Hudson's Warren Street, its main thoroughfare, a record for the street.

In May, Columbia/northern Dutchess and Greene counties saw a 37% year-over-year increase in median price, he says. Other communities with a lot of traction include Germantown, Rhinebeck, Red Hook, Ghent, Kerhonkson, Millbrook, and Chatham, says Kumar, who lives in Hudson.

Most of Kumar's buyers are New York City residents looking for a second home, "but we're seeing more first-home buyers," he says.

Someone looking for a property in the US$600,000-to-US$700,000 range "used to be considered a good buyer," Kumar says. "Now that buyer is looking in the US$1.5 million–to–US$2.5 million range."

Kumar predicts "a strong market for many years to come...Land is still inexpensive and plentiful."

FLORIDA

The exurban markets that ring Orlando, Florida, have also been hot.

"What you get for your money here is unbelievable, and the other story is our low taxes," says Carrie Prieto, managing broker for four Premier Sotheby's International Realty offices in central Florida.

Californians and Midwesterners have joined the traditional buyers from the Northeast.

In Ocala, which is about 65 miles north of Orlando, the average price in August 2021 was up 46% year over year, and active inventory was down 32%, she says. New construction is booming, with 7,000 permits for new construction backlogged in the Ocala Building Division.

"The prices are lower than Orlando, and people are okay with the one-hour drive to the city," Prieto says.

On the west side of Orlando, "Lake County has seen tremendous growth," she says. Average prices are up 24%, with active inventory down 34%.

The Clermont area of Lake County has become very popular over the last 10 to 12 years, she says. "It was all country there previously."

In exurban Orange County, the Horizon West master-planned community is bringing more than 40,000 residential units (mostly single-family and townhomes), Prieto says. "The schools have had trouble keeping up," she says.

In Osceola County, south of Orlando, "St. Cloud was a small, sleepy city until the last four or five years," she says. "Now there are big land sales and a lot of communities being planned, with big national building companies coming in."

SUPERLUXURY PROPERTIES BREAK RECORDS

Most expensive home in Dorado Beach, Puerto Rico

Call it pandemic purchasing or a change in priorities for high-end homeowners, but the US$30-million-plus home sale is a trend that shows no signs of slowing.

"The gains from the stock market have been so strong over the past decade," says Jessica Canning, agent and luxury specialist, Sotheby's International Realty–Carmel Rancho Brokerage. "Plus, a lot of people are evaluating what they want to do with their lives and how they want to spend what they've earned. Many are focusing on spending quality time in places that make them happy."

Here, three agents share more about their US$30 million deals and what homeowners are looking for in high-end properties in these markets.

PEBBLE BEACH, CALIFORNIA: ALL ABOUT THE VIEW

With only 26 oceanfront properties and 52 golf-front properties in the exclusive coastal community of Pebble Beach, that dynamic of fixed supply and increased demand (the ratio of buyers to sellers is currently 10 to 1) has been on full display in the US$30 million second-home market in this area, known for its gorgeous coastline and renowned golf courses. In July 2021, a 10,000-square-foot residence with views of the Pebble Beach Golf Links and Carmel Beach sold for US$32.7 million in a deal brokered by Sotheby's International Realty—Carmel Rancho Brokerage.

During the dot-com boom 20 years ago, homes were selling in the US$20 million–to–US$22 million price range. Now, that price has been elevated to over US$30 million.

"With 30% of our buyers coming from the Bay Area, we tend to dovetail with what's happening in that market," Canning says of Silicon Valley, which is two hours away by car.

The biggest driver of value—and therefore price—of any home north of US$10 million is a house featuring a big kitchen and extensive square footage both inside and out, Canning says.

"Ultimately, buyers are seeking a home with the best conceivable view," she says. "As well as the most luxurious amenities."

DORADO BEACH, PUERTO RICO: TAX BENEFITS TO CONSIDER

For home buyers eager to live full time in Puerto Rico, the luxurious homes in the East Beach community within Dorado Beach are a huge draw.

In fact, a two-acre ocean property with a main house and a guest house sold for US$30 million last year, the highest ever for Puerto Rico, according to Oriana Juvelier, president of Puerto Rico Sotheby's International Realty, who served as listing agent on the sale.

"Home buyers are seeking favorable tax situations," she says. "They're also seeking 13,000 to 15,000 air-conditioned square feet, and another 4,000 to 5,000 square feet of outdoor living, because our great weather enables us to be outside year-round, from sunup to sunset. That's what you'll get in the US$30 million range."

And for the US$30 million home buyer, amenities abound, including wellness spaces for yoga, pilates, and cycling, and an at-home spa.

"Home buyers used to want a movie theater or bowling alley," Juvelier says. "The new luxury buyer wants a full body-treatment space and at-home spa space with floor-to-ceiling windows facing a garden, backyard, or green space of some sort."

NEW YORK CITY: IT'S ABOUT SPACE—AND DESIGN

In the city that never sleeps, a US$60 million apartment home sold in 2021 was the most expensive co-op sale since 2015.

The triplex penthouse, located next to the Guggenheim Museum, was shown for one day only in May, says Nikki Field, senior global real estate advisor and associate broker, Sotheby's International Realty–East Side Manhattan Brokerage, who handled the sale.

"We queued up seven potential buyers, one after another, for that 'one day only' showing," Field says. "The profiles were all similar: billionaires upgrading in New York that qualified for a socially elite building."

After two days of competitive bidding, one candidate made an all-cash US$60-million offer.

"Ultraluxury buyers in New York are limited by nothing," Field says. "Their goals are generally divided into two arenas: uptown or downtown, and 'move-in ready' or grand estate with prewar bones."

In this highest of high-end markets, buyers are focused on views, thoughtful design, and curated amenities.

"All of this delivers the added value they require and that their money can pay for," she says. ▪

Puerto Rico Sotheby's International Realty

Michael Jordan Nike Air Ships are the priciest game-worn shoes ever sold at auction

Sotheby's

2021 RECORD-BREAKERS

REAL ESTATE

Several sales were standouts this year, including One 100 Palm Jumeirah, a 14,000-square-foot contemporary mansion in Dubai, sold by Luxhabitat Sotheby's International Realty. The final sale price was AED111.2 million , which sets the record for the highest closing price on a single signature villa in the region. In Hong Kong, a US$55 million home, nestled in quiet, tree-filled acreage and featuring a 2,181-square-foot private garden and 830-square foot rooftop, set sales records when it sold through List Sotheby's International Realty, Hong Kong. In the U.S., the sale of an US$80 million hilltop mansion in Pacific Palisades to a buyer who made his fortune in cryptocurrency set sales records for the Westside of Los Angeles and features a retractable roof and two panic rooms. It was sold by Sotheby's International Realty–Pacific Palisades Brokerage.

GEMS

The Key 10138, an exceptional, rare 101.38-carat pear-shaped D flawless diamond was the second largest pear-shaped diamond ever to appear on the public market. This year it set the highest price achieved for any physical item ever offered for purchase with cryptocurrency, at HK$95.1 million. Another record sale: Last year the largest Kashmir sapphire ever to be offered at auction sold in Geneva for CHF3.53 million as part of a brooch. Kashmir sapphires over 30 carats are rare, and this Kashmir sapphire, a 55.19-carat gem, was formerly in the collection of Maureen Constance Guinness, of the Anglo-Irish brewing family, who died in 1998.

SNEAKERS

In April 2021, Sotheby's auction house sold a rare pair of Nike Air Yeezy 1 prototypes, worn by Kanye West at the 2008 Grammys, for US$1.8 million to Rares, a start-up that allows users to buy and trade shares of the highest valued sneakers. At US$1.5 million, a pair of worn Michael Jordan Nike Air Ship sneakers, which sold in October, became the priciest game-worn footwear from any sport sold at auction.

CARS

This year marked the first time a Lewis Hamilton F1 car has been offered for public sale. During a unique event, conducted immediately after the Formula 1 Pirelli British Grand Prix 2021, and featuring demonstration laps in front of 140,000 spectators, Sotheby's sold Lewis Hamilton's 2010 Turkish GP race-winning McLaren MP4-25A for a record £4,836,000.

FINE WINE

The white-glove sale of wines from the cellar of a Hong Kong billionaire doubled its pre-sale estimate, and Sotheby's three-day sales series of wines and spirits ended with an outstanding total of HK$119.5 million/ US$15.4 million.

STAMPS

In June, Sotheby's sold a block of four "Inverted Jenny" postage stamps, dating to 1918 and thought by many to be the most important piece in U.S. philately, for US$4.9 million, US$2 million more than the block went for the last time it was sold, and a record auction price for a U.S. stamp.

COINS

A new world record for a coin at auction was achieved this year with the US$18.9 million sale of the "elusive" 1933 Double Eagle coin. Last bought by fashion designer Stuart Weitzman at a record-setting price in 2002, this is America's last gold coin in circulation. It's considered one of the most beautiful coins minted in the U.S. and features Liberty, personified by a statuesque woman, on one side and an American eagle in flight on the other. ▪

Casteel Creek Retreat is on 250 acres in Edwards, Colorado

MILLENNIALS MAKE THEIR MARK

Millennials are entering the home-buying market en masse, shedding their title of the "renter generation" as they reach new life milestones, with 4.8 million millennials turning 30 in 2021. And they're increasingly relying on wealth transfers, according to real estate agents.

"Most millennials are utilizing a transfer of wealth from their parents, grandparents, or a relative to purchase property. And even when parents are buying, their millennial kids are often the ones making the decisions because it'll be theirs one day," says Jonathan Spears, agent, Scenic Sotheby's International Realty, based in Destin, Florida.

Nearly US$70 trillion will be passed down from older generations between 2018 and 2042, according to data from market-research firm Cerulli Associates, and more millennials continue to use their share for real estate, with home showings becoming more of a family affair.

Spears says baby boomer–aged buyers are bringing their millennial kids to showings and having them ultimately make the purchasing decision. They factor in attractive features such as developments that include community pools, tennis courts, and other amenities fit for remote-work life, in addition to proximity to towns and entertainment.

The number of young adults aged 25 to 34 purchasing homes with a co-borrower aged 55 and up has increased since 1994, according to a survey from Freddie Mac's portfolio of purchase loans. While 1.3% of young adult first-time home buyers listed adults over 55 as co-borrowers in 1994, that number increased to 3.2% in 2018.

Sweeping views and high-end amenities are all part of this condominium at the Waldorf Astoria Residences in Atlanta's Buckhead neighborhood

From top: LIV Sotheby's International Realty; Atlanta Fine Homes Sotheby's International Realty

WHERE THEY'RE BUYING

Some millennials in the U.S. have left big cities like New York, Los Angeles, and San Francisco to head west and down south to places like Denver, Colorado; Seattle, Washington; Phoenix, Arizona; and Austin, Texas. Many are looking just outside of big cities, with 47% of millennial homeowners reporting they live in the suburbs rather than urban and rural neighborhoods, according to market data from Zillow.

More than 33,000 millennial residents moved to Texas; Colorado saw more than 29,500 new millennial residents; and Washington state saw more than 25,000 in 2019, according to the most recently available migration data from the U.S. Census Bureau analyzed by SmartAsset. Arizona saw more than 20,000, while Florida had around 14,000 millennial residents move to the state, the same data shows. North Carolina, Ohio, Tennessee, Idaho, and Pennsylvania rounded out the list of top 10 places where millennials are moving.

"Millennials are making sure they have a great home office and access to amenities, whether it's a private pool at the house or in the community, a clubhouse, or tennis court," Spears says. "We have also found that affluent millennials are choosing to reside in the more established communities that promote new urbanism and convenience to world-class amenities including restaurants, shopping, and boutique grocery stores."

In his particular market, there's been a demand in Walton County, Florida's WaterSound property development, Seaside, and Rosemary Beach neighborhoods, he says.

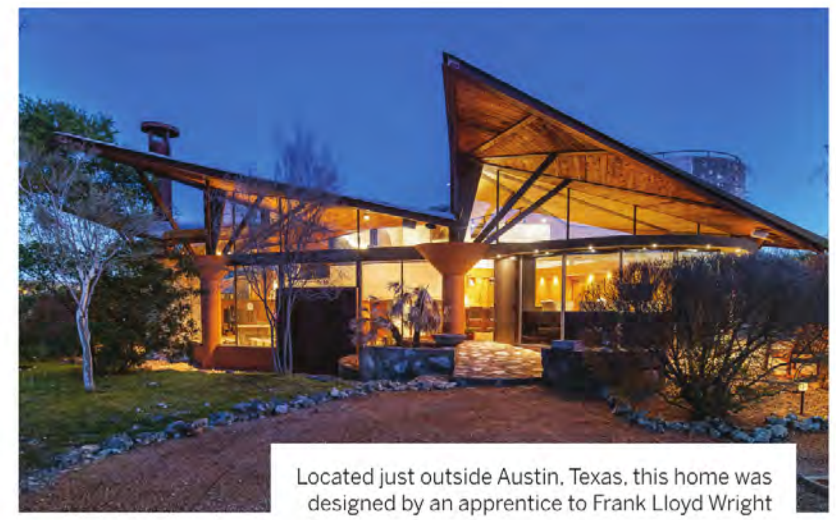
The National Association of Realtors' 2021 Home Buyers and Sellers report found that buyers aged 22 to 30 were most likely to purchase a new home for the community's amenities.

MOVE-IN READY HOMES

Turnkey properties that are move-in ready and don't require major renovations or repairs are also increasingly attractive to millennials, particularly those looking in the luxury space.

"Most millennials don't want to do work on a property to avoid dealing with the challenges of getting permits, paired with the mentality that they're too busy working and value time with friends over remodeling or taking on a big project," says Greg Fulford, luxury real estate agent, Sotheby's International Realty–San Francisco Brokerage.

This modern marvel designed by Arthur Erickson, in Shoreline, Washington, has striking water features



Located just outside Austin, Texas, this home was designed by an apprentice to Frank Lloyd Wright

"Most millennials are utilizing a transfer of wealth from their parents, grandparents, or a relative to purchase a property."

JONATHAN SPEARS
Agent
Scenic Sotheby's International Realty

From top: Realogics Sotheby's International Realty; Kuper Sotheby's International Realty

CONVENIENCE TO JOBS, CULTURE

When it comes to factors influencing neighborhood choice, 74% of home buyers aged 22 to 30 and 63% aged 31 to 40 say buying homes conveniently located to their jobs was a factor in their purchase, according to recent NAR data. And 34% of buyers aged 22 to 30 and 27% aged 31 to 40 say buying a home in a neighborhood that's located near entertainment and leisure activities was also a priority; while more than half (55%) of millennials surveyed say general proximity was an influencing factor, according to the same NAR data.

"With millennials, the biggest factor in real estate and what's driving price is proximity—to work, restaurants, coffee shops—that's always been a driving factor. What's interesting is despite Covid, it's still an important factor," Fulford says.

BUYING WITH SMART HOMES IN MIND

Having a home fully equipped with automation systems for things like lighting, temperature control, entertainment systems, and appliances is also a driving component in the millennial home-buying experience, with 17% of home buyers aged 22 to 30 and 10% of those aged 31 to 40 saying smart-home features are why they purchased new and previously owned homes, according to NAR data. ▢

What's Next: GEN-Z HOME BUYERS

Gen Z, the generation behind millennials, with the oldest members in their early 20s, have their sights set on homeownership.

Indeed, 27% of older Gen Zers (aged 18 to 24) plan to buy a home in the next two years, compared with 36% of millennials (aged 25 to 43), according to the most recent data from the Center for Generational Kinetics, a global Gen Z research firm. What's more, according to the same data, 71% of Gen Z (aged 13 to 25) in 2021 think they will own a house in the future.

"They want to own their own houses, and they're predisposed to save," says Jason Dorsey, generations expert and president, Center for Generational Kinetics. "Before Covid, they were very bullish on the path to home buying. They still want to own houses, it's their version of financial stability or financial success."

Their parents are helping, too. "We're also seeing a lot of parents of Gen Z choosing to help them with the down payment because they think it's better for their kids to get into a house," Spears says.

Gen Z home buyers are purchasing in areas with thriving local economies, not far from the college or university towns where they may have recently lived, Spears notes.

Growing up as digital natives has translated into how they browse, search, and purchase homes, particularly as first-time buyers, statistics suggest.

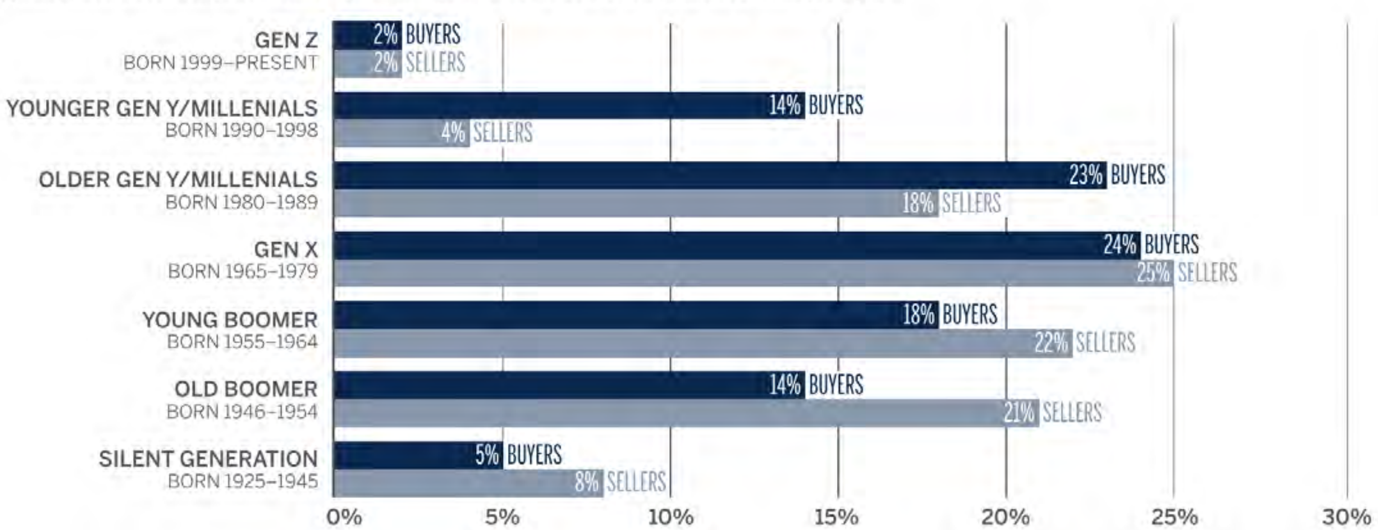
The majority of Gen Zers (67%) said they would consider using an online service or app to buy a home, compared with 39% of millennials, according to a June 2021 BRG research survey of more than 1,000 participants aged 18 through 24, commissioned by real estate technology company Homie.

Social media also plays a major role in how Gen Z is finding homes and connecting with brokers.

"Many times, a Gen Z home buyer may see a home they like on Instagram and flag the listing to their parents," Spears says. "Brokers are leveraging the power of social media to reach new home buyers, and that's the Gen Z market." ▢

SHARE OF BUYERS AND SELLERS BY GENERATION

The National Association of Realtors looked at the percentages of home buyers and sellers by generation, from the Silent Generation to Gen Z, in their 2021 Generational Trends Report.



Source: 2021 Home Buyers and Sellers Generational Trends Report

TECH EXECS DRIVING HIGH-END SINGLE-FAMILY HOME BUYING

High-net-worth home buyers hailing from tech-driven fields like life sciences, engineering, technology, and telecommunication are shaping the luxury real estate market. And the pandemic-fueled remote-work lifestyle shift coupled with liquidating stock has motivated many buyers to seek out more space in cities such as Austin, Miami, and just outside of San Francisco in Marin County.

States like Texas without income taxes continue to become bustling tech bubbles, as companies like Planatir, Oracle, and SpaceX moved their headquarters to Austin during the pandemic. Apple is opening a US$1 billion campus in Austin, and Amazon recently expanded its footprint outside of Texas' capital city with an 820,000-square-foot fulfillment center. Microsoft, in September, announced a new headquarters in Miami, Florida, while private-equity giant Blackstone will also be opening an office in downtown Miami with more than 200 tech employees.

Interestingly, the list of top 20 emerging housing markets for October 2021 was dominated by much smaller markets such as Elkhart County, Indiana; Raleigh, North Carolina; Colorado Springs, Colorado; Waco, Texas; and Sarasota County, Florida, with the average population size closer to 400,000, according to data from The Wall Street Journal and Realtor.com's Emerging Housing Markets Index.

And the population continues to grow in these emerging markets. What's more, the data show that 6.4% of movers in the top markets were from other places, with the average at just 5.9% for all 300 areas reviewed.

OUTDOOR AMENITIES, TURNKEY HOMES DRIVE BAY AREA BUYERS

A reported 17% of tech jobs listed in the San Francisco area are now remote, compared with between 2% to 3% before the pandemic. Agents in the Bay Area say high-end home buyers working in tech have left the city for more space.

"There's a lot of new money in tech right now and a lot of IPOs. More than US$20 million in homes have sold in Marin County [in 2021]—that's more than any other year. People would rather be in Marin because you have the ferry, and it's close to the water," says Magda Sarkissian, agent, Golden Gate Sotheby's International Realty in the San Francisco Bay Area, California.

This year, six homes sold over US$10 million in Mill Valley, California. "That's the strongest year ever for Mill Valley," she says.

From top: Barcelona & Costa Brava Sotheby's International Realty; Sotheby's International Realty–Bridgehampton Brokerage

A luminous duplex apartment high above Barcelona, Spain

Solitude awaits at this modern Hamptons, New York, bayfront retreat, from acclaimed architect Thierry Pfister

"People's values have changed. They want to be with their families and friends, they want room for in-laws, and space for their kids to play. They're buying into the outdoor access to hiking, biking, and sailing culture," she says.

As electric cars appear to be the future of the car industry, brokers say they're also seeing charging stations become essential in high-end homes.

MORE LAND, NO INCOME TAXES

Tye Truitt, realtor, Kuper Sotheby's International Realty in Austin, Texas, says home buyers from the "tech-odus" are typically paying in cash and purchasing outside the city center in search of more land and bang for their buck.

"While the cost of living in Austin is increasing, it is still much more affordable to the tech executives coming from the traditional tech hubs in California, New York, and elsewhere," Truitt says. "This is especially true in the surrounding areas that are still close to the city center and are very affordable, like Leander, Texas, for example, which is located only 15 miles north of the new Apple campus in the northwest Austin tech corridor."

"Additionally, there is no state income tax; a vibrant music and cultural scene; warm weather for most of the year; and a lot of outdoor and nature-based activities, which again, during the pandemic became even more desirable," Truitt explains, noting that CEOs he's worked with have cited the Lone Star State's "business friendly" environment as a reason for moving. ▢

A four-bedroom penthouse on the Mediterranean seafront in Cyprus

WHERE ARE LUXURY BUYERS RELOCATING IN 2022?

Global trends are prompting wealthy buyers across the world to make moves abroad. According to Henley & Partners, a global citizenship and residence advisory firm, when it comes to relocation trends, "all the key metrics of the past are in flux. Corporate tax arbitrage is coming under fire, and a proposed global flat tax will change the pecking order of advantageous jurisdictions for international companies. Then there is remote working, with at least 40% of the global workforce now 'location independent.'"

Europe—specifically areas like Portugal, Italy, and France—has seen rising interest from American buyers. London's prime market has seen a spike in property inquiries from ultra-high-net-worth U.S. buyers, too. Demand is reportedly being driven by concerns about President Biden's recent proposal for tax hikes on the wealthy and big corporations.

Meanwhile, U.S. tech corporations are set to add to London's American expat community Google has agreed to lease an additional 70,000 square feet of office space next to its US$1.2 billion headquarters at King's Cross, while Meta is looking to expand into a larger London office as well.

In Paris, Americans are planning purchases again. Paulo Fernandes, managing owner, Paris Ouest Sotheby's International Realty, says that since September, the number of visits to the website from abroad has increased by 40%. "Foreign buyers remain interested in Paris because a classic Paris stone property is a safe investment, and prices here are perpetually rising," Fernandes says. "We have also noticed the return of French expats from London due to Brexit," he adds.

In 2021, Cyprus, a popular relocation spot, experienced a continuing stream of demand, says Anastasia Yianni, CEO, Cyprus Sotheby's International Realty. Cyprus's key markets for international buyers are Europe, Ukraine, Russia, and the Middle East, with most buyers coming from Scandinavia, Germany, and the U.K., she says. Its appeal remains in the sunny climate, good-quality education, and a low tax regime, in addition to the opportunity to obtain a lifelong permanent residency for an investment worth €300,000 (plus VAT) or more, an option that has been available since 2012.

Left: Cyprus Sotheby's International Realty. Right: Lew Geffen Sotheby's International Realty

LUXURY OUTLOOK **2022**

South Africa is seeing heightened interest from its main markets—including North America, Canada, China, and the U.K., in addition to Mauritius and Australia, which are mainly from retiring expats, says Grahame Diedericks, agent, Lew Geffen, Sotheby's International Realty in South Africa.

Popular spots include Cape Town for its lifestyle offerings; the business hub of Johannesburg; and the Waterfalls Estates development in Midrand, which lies between Pretoria and Johannesburg. "People are amazed at how developed South Africa is and by the lifestyle it offers," Diedericks says. The corporate-rental market is getting busier, he says, and companies are increasingly investing in properties for high-level staff members instead of renting them.

Over in Asia, Japan is emerging as an investor hotspot. There are no legal restrictions on non-Japanese nationals buying land or property, and they are subject to the same taxes as domestic buyers. There are also many property markets, from Tokyo to other attractive areas like Hokkaido, Kyoto, and Okinawa, that are mature and stable. Factors like low crime rates and the availability of land as freehold make Japan appealing to international investors, according to Mugi Fukushima, branch manager, List Sotheby's International Realty, Japan. In addition, the country has a focus on branded residences.

Fukushima says more Japanese people are also buying overseas properties, and that Hawaii remains the top destination by far. "A number of people buy properties in Singapore and Dubai for relocating purposes, and the Philippines and Thailand for investment," he says.

And the Hong Kong property market could be poised for a lift from the pending influx of investment from mainland China when borders open again, which is expected in February.

The Chinese government is putting intense focus on the long-term economic development and integration of the Greater Bay Area, which ties together the areas of Guangdong, Hong Kong, and Macau.

But Singapore also attracts international wealth, not only from Southeast Asia and South Asia, but from the U.K., Australia, and other developed economies, due to its mature financial-services infrastructure and livability. It's become more attractive due to the efficiency with which its government has so far dealt with the pandemic, says Dominic Volck, group head of private clients, Henley & Partners. ▧

> "People are amazed at how developed South Africa is and by the lifestyle it offers."
>
> **GRAHAME DIEDERICKS**
> Agent
> Lew Geffen, Sotheby's International Realty

Located in Cape Town, South Africa, this modern, all-glass home is set on two acres

LUXURY OUTLOOK 2022

BOOMERANG BUYERS STIMULATE MARKETS BACK HOME—PARTICULARLY IN AUSTRALIA AND NEW ZEALAND

One of the pandemic's significant effects on the global property market is the boomerang-buyer phenomenon, which has seen millions around the world take advantage of work-from-home policies to move closer to their families. Some chose to give up or downsize homes in the city to move back to their hometowns, while hundreds of thousands of expatriate workers rushed to purchase property in their home countries. From Ireland and the U.K., to France and Germany, Bulgaria and Serbia, the U.S. and Canada, India and Singapore, and Australia and New Zealand, boomerang buyers returning from abroad spurred sales, particularly in the luxury sector. Nearly two-thirds of expats worldwide had considered purchasing a property in their home country as a result of the pandemic, the Financial Times reported, with 29% planning to move back full time and 57% seeking a home for future use. The Economist recorded a mass exodus of expat workers from Asia, with more than 15,000 choosing to return to the U.S. alone. This boomerang-buyer trend is set to continue into 2022.

In Ireland, a wave of buyers abandoning Dublin to move closer to family in their home counties is fueling rising property prices outside the capital, along with the largest return of Irish citizens living overseas in more than a decade, according to government data. In India, around 50% of those who moved back during the pandemic said their primary reason was the desire to be closer to family, according to local news reports. Meanwhile, up to 81% of Indians living overseas cited plans to buy luxury property in their homeland, 53% for personal use and 47% for investment, a shift from pre-pandemic surveys which found that 68% of properties purchased by Indian expats were investments. Luxury real estate was most in demand with overseas Indian buyers, with 50% searching for luxury properties priced at over US$200,000, the highest surveyed price band.

Australia and New Zealand in particular are experiencing an influx of expat buyers in search of luxury property. Official statistics in New Zealand showed that July 2021 saw a net gain of New Zealanders for the 12th consecutive month, a reversal of the pre-pandemic status quo. A million New Zealanders live abroad—one in every six—but by May 2021, a record 50,000 had moved home as a result of the pandemic, more than at any time since the 1970s. Thousands more have purchased properties online, awaiting the reopening of borders. The country's median house price increased 19% for the year to April 2021, and high-end luxury properties are particularly coveted. "Definitely the biggest increase in demand is in that super high-end. For us that means NZ$10 million–plus," says Mark P.A. Harris, co-founder and managing director, New Zealand Sotheby's International Realty. "We just haven't got enough stock in that area to fulfil the demand at the moment."

Demand shows no signs of diminishing. "Since June or July 2020, we've had a record each month, so it's just been phenomenal in terms of the buying demand. We've got a million Kiwi expats around the world, and a huge amount of them wanted to try to get home, but also to buy something back home."

The hilltop Hayman Estate in North Queensland, Australia

Queensland Sotheby's International Realty

In Australia too, expat buyers are seeking footholds back home. In Queensland, the heart of Australia's lifestyle market, buyers from Sydney and Melbourne are competing with Australians living overseas. "We've seen a real acceleration in the acquisition and purchase of property in all of our lifestyle locations, particularly from our high-net-worth and ultrahigh-net-worth buyers in the southern capitals," says Paul Arthur, owner and CEO, Queensland Sotheby's International Realty. Australians spent A$65 billion on international travel for the year to March 2020, and "all that money is now staying here," he says. In addition to domestic buyers, "we've certainly seen...people returning to Australia that have been based overseas, that have spent their time building their net worth and are suddenly deciding it's time to come home," he says. "It's almost like a flight to safety...we've seen a lot of returning families coming out of the U.S. and parts of Asia, whether that's Hong Kong or China."

Due to lockdowns and travel restrictions, many buyers are purchasing properties online, particularly in New Zealand, where borders have been closed for most of the pandemic. "We've calculated we've done NZ$110 million worth of deals by purchasers who haven't physically seen the properties," Harris says, adding that New Zealand Sotheby's International Realty made three of the biggest residential sales in New Zealand in 2021, two for NZ$14.5 million and one for NZ$16.1 million. Two of the buyers were expat New Zealanders and the third was from Australia. He estimates that in the Southern Lakes area, up to 50% of buyers are coming from Auckland, 30% from the local area, and 20% to 25% are expat New Zealanders or international buyers from Australia and Singapore.

Most luxury buyers want properties in popular resort areas, including Queenstown, the Southern Lakes, and Hawke's Bay. "If a buyer was contemplating a move or a purchase in a lifestyle area over the last four or five years, this has just accelerated that decision," Harris says. The same is true of Queensland, where Arthur says demand far outstrips supply.

The boomerang-buyer trend—and accompanying price surge in the luxury sector—is set to continue into 2022, particularly if interest rates remain relatively low. "Prices have just gone through the roof," Harris says. In August, prices were up 25% year-on-year, but volume was down 25%, he says. "I think we're in for another steady year." The eventual opening of the borders is likely to lead to another surge in purchases from boomerang buyers, he adds.

In Australia, historic low interest rates have also helped to create "a perfect storm" for buying.

"We've still got the right factors in play to continue to keep the heat and drive in the luxury market, certainly within the state of Queensland...We've had within the last 12 months arguably the biggest Bull Run we've seen in decades," Arthur says. "Now that will cool at some time, but I think it'll be well into 2022 before we come off the highs that we're experiencing."

IRISH POPULATION AND MIGRATION ESTIMATE

Ireland's Central Statistics Office put out its population and migration estimates for the year ending April 2021.

Source: Central Statistics Office statistical publication, August 31, 2021

New Zealand Sotheby's International Realty

The Pacifica Super Penthouse rises high above the shores of Auckland, New Zealand

"Sea of Dreams," on the Cayman Islands, is a modern beachfront mansion

CARIBBEAN SEES BOOST FROM REMOTE WORKING

25%

Home **sales are up 25%** at two Caribbean resorts—Casa de Campo Resort and Puntacana Resort and Club—since the start of the pandemic, according to Dominican Republic Sotheby's International Realty.

As companies extend remote-working options, faraway tropical paradises in the Caribbean are cementing their appeal for luxury home buyers.

Both international and local buyers in the Dominican Republic "are more open to buying these homes and spending more time there," says Sergio Llach, president, Dominican Republic Sotheby's International Realty who works primarily at the 7,000-acre, self-contained Casa de Campo resort in La Romana and the Puntacana Resort and Club, two high-end luxury resorts on the southeast coast, around 35 minutes apart from each other.

"We are the Hamptons of the Dominican Republic," he says.

"The pandemic allowed people to justify buying a home here," Llach adds. "With the ability to work remotely, now they're willing to pull the trigger."

Local Dominican buyers "now will spend a day or two extra" at their weekend/second homes in these resorts, Llach says. "Everybody these days wants an office. They want to be able to work remotely, and they want to be away from the noise of the vacation home."

Prices at the two resorts are up about 15% to 20% since the start of the pandemic, Llach says, and the number of sales is up about 25%.

The residential luxury market remains quite strong, he says, mentioning a recent seller who first listed his home for US$3.9 million, then raised it to US$4.7 million, and closed on the deal at US$4.2 million.

Cayman Islands Sotheby's International Realty

A boutique luxury resort on Cockleshell Bay, at the end of the sought-after yet untouched Southeastern Peninsula in St. Kitts.

"The inventory we have sells faster now," Llach says. "People will pay premium prices for a home because there isn't a huge selection to choose from. It's not like it used to be."

Neil Paine, managing partner of St. Kitts & Nevis Sotheby's International Realty, agrees with Llach's assessment of the Caribbean market of late. "We are certainly seeing that people want a place where they can come and work while their family plays, so to speak."

"For new-development spaces, this is a big focus," says Paine, who opened the two islands' new St. Kitts & Nevis Sotheby's International Realty offices in July 2021. "People want a space where they can take Zoom calls, not worry about headboards being in the background, and still be out of the way of the family. We're seeing that on both the buyer and the developer side."

The inventory for the two islands is quite distinct, he says. "Nevis is more what I call rustic luxury, with pockets of several billionaires around the island." The Four Seasons resort on Nevis, which opened in 1991, "set the quality standard for the whole island."

St. Kitts is "more populated, with a big luxury pocket on the southeast peninsula of the island," he says.

"Most of the inventory we have is four-to-five-bedroom luxury villas," Paine says, including a five-bedroom, 16,000-square-foot villa on that southeastern peninsula of St. Kitts, listed for US$16 million.

Interestingly, the two islands run a successful path-to-citizenship program for real estate buyers and investors.

There are two price levels—US$200,000 and US$400,000—with different time frames for how long you need to hold onto the property, Paine explains. If you spend at least US$200,000 on a home, you need to hold it for seven years, and a US$400,000 home needs to be held for five years. "We've had tremendous traction on that, especially out of Asia."

As far as where St. Kitts and Nevis buyers are coming from, "we have a lot out of London and the East Coast of the U.S.," he says. New York and Miami buyers are big, and "we have a large contingent out of Toronto."

It's about a 60/40 split between North Americans and Europeans (predominantly the U.K.), with North Americans taking the larger share, Paine says.

The international buyers Llach now sees in the Dominican Republic are from the same places that he has been seeing for the last few years: Miami, New York City, Toronto, Madrid, and Switzerland.

From left: St. Kitts & Nevis Sotheby's International Realty; Dominican Republic Sotheby's International Realty

Vista Chavon, No. 9 at the Casa de Campo resort in the Dominican Republic

As far as what buyers are looking for, "they are looking for properties that they don't have to do any work on," he says. "During the pandemic, they were more willing to buy homes that needed work because they wanted to buy something, and they were willing to take what was available. But in general, people don't want to have to do any work on a home. They want to move in tomorrow."

Views are quite important, Llach says. "People want to be on the ocean or they want to have ocean views. Or they want to be on a golf course. People want openness, which is what we have here."

Buyers are willing to pay over ask for premium homes that are in excellent condition, he adds.

Looking ahead to 2022, "prices are up and I think they will continue to go up, or they will at least stay very firm," Llach says. ▢

"Everybody these days wants an office. They want to be able to work remotely, and they want to be away from the noise of the vacation home."

SERGIO LLACH
President, Dominican Republic Sotheby's International Realty

LUXURY OUTLOOK **2022**

TAX CHANGES AROUND THE GLOBE

From the U.S. to France and Oman to Ireland, governments and city authorities are looking to property as a way to raise funds, relieve housing shortages, and level up living standards as they battle to combat the economic effects of pandemic lockdowns and rising fuel costs.

A bundle of new taxes that will affect the property buying-and-selling process have been introduced or proposed, with many of them aimed at high earners. Here we look at which ones are having an impact on the luxury-property markets across the globe.

U.S.

In the U.S., President Biden has announced a raft of proposed tax changes, many of which include increases for those with incomes over US$400,000. The proposed package has been created to fund his US$1.8 trillion American Families Plan and includes higher taxes in real estate transactions where capital gains on investment properties are more than US$500,000.

Currently, property portfolio owners avoid paying capital-gains taxes on the sale of an investment property, as they can reinvest the proceeds from the sale into another property that costs the same or more, using the 1031 or "like-kind" exchange. The 1031 exchange was viewed as a useful tax-referring mechanism, as it allowed investors to put more of their profits into a new purchase. Under the proposed rules, Biden wants a US$500,000 cap on 1031 exchanges.

In **California**, the Proposition 19 rule is a new tax break to encourage home buyers aged 55 and over to move into new homes by reducing their tax bill. Previously, seniors kept their property-tax rate, set when they bought their home. They also had a one-time opportunity to retain their existing tax benefits if they move to a home of equal value or less value within the same county. From April 2021, they will be able to blend the taxable value of their old home with the value of a new, more expensive home, up to three times. However, the new rule limits people from keeping a low property-tax base unless they use the home as their primary residence.

Hawaii has a proposed conveyance-tax increase, known as House Bill 58, which would apply to sales of residential properties worth US$4 million or more, with the most expensive homes paying quadruple the current rates. The bill doubles the conveyance tax for single-family homes and condos that sell for between US$4 million and US$5.99 million, triples it for sales of US$6 million to US$9.99 million, and quadruples it for sales of US$10 million or more.

CANADA

A new tax of 1% on the value of homes held by non-resident, non-Canadian owners went into effect in Canada on Jan. 1, 2022 (although taxes won't be due until next year). There are some exemptions, including for owners who rent out the residence for six months or more each year. It's the first national tax of its kind, though **British Columbia** implemented its so-called speculation and vacancy tax in 2018, which ranges from 0.5% to 2% on homes that are empty more than six months of the year. **Vancouver** levies a separate Empty Homes Tax. There, properties deemed empty are annually subject to a tax of 1.25% of the property's 2020 assessed taxable value. **Toronto** is also considering implementing a separate 1% tax on vacant homes.

IRELAND

Local property tax has been reformed and is set to increase for some homeowners in Ireland. Under the new rules for the annual tax, 33% of properties have seen increases of up to €100 and 3% are seeing increases of over €100. A high rate has been applied to properties worth from €1.05 million to €1.75 million, which will be charged a mid-point rate made up of 0.1029% on the first €1 million and 0.25% on the balance. Properties priced at €1,750,001 and over are charged on individual property values as before (0.1029% on the first €1.05 million and 0.25% between €1.05m and €1.75m, and 0.3% on balance).

FRANCE

At the end of September, Marseilles city authorities voted to increase the housing tax for furnished rental properties, with the aim of helping to relieve the city's housing shortage. Currently, second-home owners in **Marseilles** have to pay a 20% surcharge on taxe d'habitation, which is similar to council tax in the U.K. and is based on the rental value of the home. The rate is going to be increased by the maximum legally allowed limit of 60% to encourage more second-home owners to rent their homes year round and reduce Airbnb-style seasonal rentals. The date of the tax hike isn't yet known, but according to the deputy mayor, only 15,000 dwellings out of 450,000 in Marseilles would be affected. Marseilles joins other cities such as Paris, which increased its surcharge to 60% in 2017.

OMAN

Oman's government imposed a 5% value-added tax in April 2021, which is also applied on the real-estate sector. Faisal Alshanfari, country manager, Oman Sotheby's International Realty, said the VAT has affected the luxury market slightly, but there are no plans for other taxes to be introduced in the future.

UNITED KINGDOM

At the end of September 2021, the U.K.'s tax holiday on stamp-duty rates, which started in July 2020, came to an end, meaning all buyers are now paying tax on properties priced over £125,000. Though the tax break meant property owners didn't have to pay tax on the first £500,000 of a purchase price—offering savings of up to £15,000—it had a negligible effect on the top end of the market, said Guy Bradshaw, managing director, United Kingdom Sotheby's International Realty.

AUSTRALIA

The Australian state of **Victoria**, which includes the city of Melbourne, has announced details of a proposed rise in land-transfer taxes, also known as stamp-duty or transfer tax, on properties priced at A$3 million and above. The current top rate of tax is 5.5% for properties worth more than A$1 million, and could rise to A$110,000 on properties priced at A$2 million, plus a 6.5% tax on the amount over A$2 million.

RUN ON LUXURY PROPERTIES IN SECONDARY AND TERTIARY MARKETS HERALDS LONG-TERM CHANGE

The seismic shift in home buyers' priorities since the pandemic's onset has led high-net-worth buyers from primary markets to secondary and tertiary markets, as they search for more space, access to nature, and lifestyle opportunities lacking in big cities. These markets are undergoing long-term transformations as a result, and luxury properties are expected to remain in high demand in these areas in the coming year, as prices begin to level off.

The pandemic sent house prices soaring in major economies around the world, but two sectors in particular saw an explosion of demand that is set to continue in 2022. "The first category was resort and second-home markets. The second category was luxury," says Budge Huskey, president and CEO, Premier Sotheby's International Realty in Florida and North Carolina. "In fact, last year and this year, the higher the price category, the higher the increase in the percentage of sales year over year."

Areas such as Asheville in North Carolina, Naples and Sarasota on Florida's Gulf Coast, and Vero, Jupiter, Ponte Vedra, and Amelia Island on Florida's east coast, experienced a sales pattern consistent with secondary and resort markets across the U.S. "The growth in sales year over year was somewhere from 40% to as high as 80%, versus the national market, which went up on average about 20%," Huskey says. Vacation-home sales rose by 16% from 2019 to 2020, according to a report from the U.S.'s National Association of Realtors, and by April 2021 sales were up by 33% over the past 12 months.

Significant price hikes also occurred in the high-end sector in other secondary and tertiary markets worldwide. In the Caribbean, prices have risen across the board, but

A new, state-of-the-art home in Asheville, North Carolina's Biltmore Forest neighborhood

Premier Sotheby's International Realty

A five-bedroom home at The Strand Turks & Caicos

Turks & Caicos Sotheby's International Realty

"the higher the quality, the more price elasticity," says Joe Zahm, president, Turks & Caicos Sotheby's International Realty. The entire Caribbean has seen soaring demand, but Turks and Caicos in particular is benefiting from increased interest due to "ease of access and use, high quality, and low density," he says. "We have reached a critical mass of high-net-worth demand that is unlikely to go away any time in the foreseeable future."

Many high-net-worth buyers took advantage of work-from-home policies to downsize their homes in primary markets and set up year-round residences in secondary or resort areas. "Things were centrally reversed," Huskey says, adding that many senior executives are registering their companies in Florida, enabling them to make it a permanent base.

"These second-home markets have now been exposed to an entirely new audience that they didn't have before," Huskey adds.

In Bend, Oregon, a seasonal town popular with skiers and hikers from San Francisco, Portland, and Seattle, the pandemic has also led to an influx of new year-round residents. "A lot of people who owned second homes just moved into them, or they sold them and upgraded to bigger homes," says Deb Tebbs, founder and CEO, Cascade Sotheby's International Realty in Oregon. "Areas that were primary vacation-home markets have now become primary-home markets," she says, adding that the pattern in Bend, Oregon, has been mirrored in places including Jackson Hole in Wyoming and Bozeman in Montana.

Prices for high-end luxury homes in Bend have increased from an average of US$1 million, to more than US$2 million to US$3 million since the start of the pandemic. Although there was a slight softening of the market going into the final quarter of 2021, Tebbs says prices are unlikely to decrease in the coming year, as demand far outstrips supply.

In Florida, the pace of sales started to slow in the second half of 2021, but standing inventory remains in short supply, down to a month or less from a pre-pandemic average of six to 12 months. "We cannot keep pace with the level of buyer demand out there at the moment," Huskey says. "I believe prices have been permanently reset. A lot of these markets were actually underpriced in the past, and they're only now really reaching what I consider to be their potential value."

The increased interest in secondary and tertiary markets has also led to some unexpected hotspots around the world. "This year, we have noticed an increase in demand for areas in and around the provinces of Lucca and Pisa. But Tuscany, in general, has seen a strong increase in requests," says Diletta Giorgolo, head of residential, Italy Sotheby's International Realty. "The same [goes] for the area of the Great Lakes, Lombardy, and for some southern Italian regions, especially Sicily and Apulia. Sicily, for example, has surprised us as one of the hottest and trendiest places throughout the country."

The influx of new buyers has led to long-term transformations. "Certain areas in the Tuscan countryside will have changed notably, particularly in the case of the classic Tuscan Borgo being brought to life," she says. "The influx of buyers has had a positive impact on the infrastructures and economy of many of these smaller towns and villages."

In Florida and North Carolina, where land available for future construction is limited in many secondary and tertiary markets, developers and investors from across the U.S. have begun to outbid local firms for the chance to build high-end luxury properties. "They're introducing far more expensive product than was ever seen in the community. Those products are selling and therefore pulling up values for all the other resale homes in the communities as well," Huskey says.

The influx of new full-time residents has also improved local communities' services and amenities, such as restaurants and retail outlets. "There are some permanent transformational aspects of the pandemic that will absolutely continue," Huskey says. "Every one of these markets are now on their way from being secondary to primary markets."

INTEREST IN SERVICED APARTMENTS SOARS

10 Trinity Square is a Four Seasons residence

The last couple of years have been tough for the hospitality-and-travel industry, with luxury hotel rooms standing empty across the globe. But there have been unexpected winners, too— serviced apartments available for short-term rentals. Fully furnished residences that come with all the bells and whistles of your favorite high-end hotel, from fresh flowers to an on-demand masseuse, are proving more appealing than ever, even in markets such as Europe and North Africa, where serviced apartments used to be a rarity.

Agents report continuing high demand for ultraluxury rental properties including a kitchen, living quarters, and space to work remotely. They also cite the assurance of a high level of hygiene control compared with, for example, Airbnb properties. Many of those requesting such properties are high-net-worth buyers who want a holiday home combined with the opportunity for high yields when they aren't in town.

In London, Guy Bradshaw, managing director of United Kingdom Sotheby's International Realty, says his rentals team has seen a "massive increase" in people requesting short-term stays in service-driven apartments rather than hotels, for vacations and business trips or a combination of both—the so-called "bleisure" (business and leisure) traveler.

"We see that people increasingly prefer to be in boutique-driven private spaces rather than public hotels," Bradshaw says. "Serviced apartments offer just that."

He cites the Four Seasons–branded 10 Trinity Square, in Tower Hill London, available for £29,900 per unit per month.

It has been particularly popular with Canadians and North Americans who want easy access to cultural attractions combined with a fully stocked fridge, maid and housekeeping service, drivers, and fresh flowers.

"We've had very top-level executives taking fully serviced accommodation for £60,000 to £70,000 a month, who have considered hotel options and private residences, but when spending that kind of money want their own space, outdoors, and privacy, alongside hotel-style amenities," Bradshaw says.

"Hotel-branded residences minimize the downside for affluent consumers."

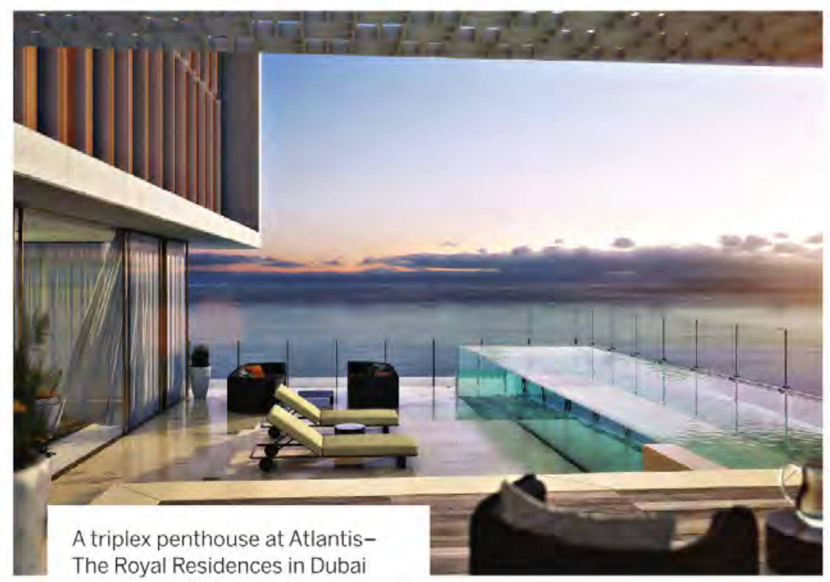
GREGG LYNN
Senior Global Real Estate Advisor, Sotheby's International Realty–San Francisco Brokerage

United Kingdom Sotheby's International Realty

From top: Rego Sotheby's International Realty; Damianos Sotheby's International Realty; LUXHABITAT Sotheby's International Realty

The St. Regis Bermuda Resort features a high-end residential community

Rosewood Residences and Villas at Baha Mar in the Bahamas



A triplex penthouse at Atlantis–The Royal Residences in Dubai

In a post-pandemic world, hotel brands are perfectly positioned to drive growth in the space, says Gregg Lynn, senior global real estate advisor, Sotheby's International Realty-San Francisco Brokerage. "In a world turned upside-down, trust is the keyword," says Lynn, who is responsible for the record US$28-million penthouse sale at San Francisco's St. Regis Hotel & Residences. "You can take comfort in the fact that a Four Seasons condo, as opposed to condo X, is going to be managed better. Your service promise will get delivered. Hotel-branded residences minimize the downside for affluent consumers."

Miami, Florida, Dubai, and New York City remain the top three cities for branded residences, but new areas are emerging, across the U.S.; Europe; Asian countries, including Vietnam; Australia; and North Africa.

At the Sky Residences at the W Hotel in Aspen, Colorado, "a lot of hotel guests inquire about the residences," says Will McCullough, agent, Aspen Snowmass Sotheby's International Realty.

The W's 11 branded residences offer fractional ownership, in five-week segments; in a market like Aspen, the investment is "significantly less than buying a home in a market where the average single-family sale was US$9 million last year," he says. For its price point, the Sky Residences offer an "unbeatable" location downtown, McCullough says. "It's a true ski-in-ski-out location, and a great lock-and-leave program for someone who doesn't have the time or energy to deal with a second home."

Nicolas Béguin, office director, Morocco Sotheby's International Realty, says the Marrakech market has traditionally been made up of villas, palaces, and riads in the historical heart of the city, with low demand for apartments. But this is starting to change with the rise in "exclusive residences" under the management of major international hotel brands.

The Four Seasons is the first to offer this type of serviced apartment in the Moroccan city, but apartments by Hyatt and Mandarin Oriental are under construction.

"The exclusivity of the property is closely linked to the exclusivity of services offered," Béguin says. Personal security is the top requirement for those buying apartments as a secondary residence—meaning occasional occupation by the owners—alongside the property being rented out seasonally. Other priorities include upkeep; personnel, such as a cook, driver, butler, housekeeper, and masseuse; and someone to organize activities. He says expected annual rental yields range between 8% to 15%.

8%–15%

Annual revenue yields expected at the Four Seasons in Marrakech, according to Nicolas Béguin, Morocco Sotheby's International Realty.

In Japan, serviced apartments in resort areas have proven "very popular" during the pandemic, says Mugi Fukushima, branch manager, List Sotheby's International Realty, Japan, especially among Japanese buyers who have been unable to go abroad. Many have been requesting information about rental yield, with the hope of renting out apartments when they aren't using them. Fukushima is marketing serviced apartments in the mountainous Niseko area of Hokkaido, where you can ski in and out of your own living quarters.

The U.S. has long attracted investors who want to buy a serviced apartment in a branded residence. But during the pandemic, Andre Duek, senior global real estate advisor, ONE Sotheby's International Realty, based in Miami, Florida, has seen a strong rise in interest among high-net-worth buyers looking for serviced-apartment properties as an investment as well as a holiday home for personal use. He has had interest from investors moving from New York City, San Francisco, California, Washington, D.C., Sao Paulo and Rio de Janeiro, Brazil.

For example, at the Four Seasons Surfside development in Miami, "buyers love the five-star service, premium location near a quiet beach, and full amenities with the best restaurants close by, and the promise of around 5%-a-year yield," he says. "Wealthy families have been looking for places to live like they're on vacation, particularly professionals from the financial and technology markets."

The Surfside residences come with access to four pools, resident-only fitness centers, and two restaurants, including chef Thomas Keller's The Surf Club Restaurant. Duek is also selling apartments in the 57-story Porsche Design Tower in Sunny Isles Beach, where your car is delivered, via an elevator, to your front door. Most residences have their own private swimming pool on their 15-feet deep terraces.

Bradshaw believes the serviced-apartment sector will stay strong long past the pandemic. "People are traveling around the world not for a few days, but for three to four weeks for a project. We expect to see more people coming for longer periods, staying in serviced apartments, rather than being completely relocated. A lot of providers are trying to grow their portfolios."

Lynn agrees. "I get a call every week from someone someplace in the world asking for hotel condos. And that's increasing," he says.

The Residences at St. Regis Marsa Arabia in Qatar

Qatar Sotheby's International Realty

BRANDED RESIDENCES MOVE BEYOND HOTELS

Branded residences are some of the fastest-growing segments in luxury real estate—and one of the most sought after.

Hotel brands fuel the category, and, according to a recent survey, represent the vast majority of branded residences (by some accounts, more than 80%). But dozens of nonhotelier brands are expected to enter the sector by 2025—think fashion, automotive, and lifestyle.

"For non-hospitality brands, residences are a way to diversify their business model and extend customer relationships," says Oliver Essex, senior sales associate, Qatar Sotheby's International Realty in Doha. "If you're advertising the residential product, it attracts people who love the brand. It's not just about an apartment; it's about a whole experience."

Branded residences also allow brands in fashion, automotive, or even food "to expand into a lifestyle brand and cover all touchpoints for clients, whether they're existing or new customers," says Essex, exclusive representative, The Residences at St. Regis Marsa Arabia in Qatar and The Residences at The St. Regis Al Mouj, Muscat in Oman. "By offering a more diverse range, brands are trying to attract the greatest number of people."

There's also a practical consideration for brands that enter the residential market. "They get royalty fees from developers," says Michael Carucci, executive vice president, Gibson Sotheby's International Realty in Boston, Massachusetts. One report estimates those fees can range from 2%-5% of residential sales annually. "It's also brand awareness. They'll certainly benefit from free advertising. I love Bentleys. I drive one. Would I buy something if they did a branded residence? Yes. But you've got to follow through on the quality and consistency the brand is known for."

"Those Bentley, Aston, and Porsche towers in Miami have hit some zeitgeist nerve, because people are buying them, they're cool, and there's a novelty factor," says Chris Graham, founder of London-based luxury real estate branding consultancy Graham Associates.

With 130 brands in the branded residence market now, Graham predicts at least another 40 will enter the category "within the next three or four years. "That's new players in the market," he says. Those players may include Condé Nast, which he says has been exploring the market for some of its brands.

But "will they ever overtake hospitality branding? Probably not," Graham says.

THE NEW ETHICAL LUXURY

Three letters are changing how today's investors view their capital opportunities—ESG. A fresh range of more socially conscious investment options, whether in real estate or other realms, has the potential to benefit the larger community while expanding investors' portfolios.

The developing world of ESG investment (which stands for environmental, social, and governance) demands analysis not only of risk and growth potential, but also ecological or societal impact. The concept allows for material gain as with any other bankable arrangement, while offering a chance to benefit the community beyond accounting.

Jon Hale, Ph.D. and CFA, is head of sustainability research for the Americas at Morningstar. When using the term ESG, he's referring to investments in public markets, such as stocks and bonds, often invested via mutual funds and ETFs. In the real estate class, most ESG investment options involve sustainability or affordable housing.

"Real estate investment trusts [REITs] are companies holding portfolios of buildings that are publicly traded, like stocks," Hale says. "So, yes—there are real estate funds that focus on REITs that have green attributes. Also, sustainable funds in the U.S. often seek out affordable-housing bonds that finance those projects, or those backed by mortgages on affordable homes."

Hale stresses that anyone with money to grow can add a sustainability lens to their investments.

When it comes to real estate, new-home buyers can make their property purchase or development selections based on their environmental concerns. Kevin McDonald, sales associate, Sotheby's International Realty-Wine Country Brokerage, represents buyers and sellers in northern Sonoma and southern Mendocino counties, and finds ESG-aware buyers bringing their environmental preferences to the buying or construction processes.

"They want to know what impact a property has on the land and resources," McDonald says. "Does the home have sustainable features? Is it on or off the grid? What's the solar-power capability?"

In his wine-country surroundings, McDonald finds a growing collection of turnkey properties with sustainable features. That selection makes it easier for buyers to invest in such homes without the challenges of making their own eco-conscious renovations.

> "They want to know what impact a property has on the land and resources."
>
> **KEVIN MCDONALD**
> Agent
> Sotheby's International Realty–
> Wine Country Brokerage

This modern wine-country home in Yorkville, California, boasts sustainable power

Sotheby's International Realty–Wine Country Brokerage

"Still, with my buyers, I find their principles win out over the costs of sustainability," he says.

Across the hemisphere, Jonathan Sparrow, sales partner, Cayman Islands Sotheby's International Realty, believes the vast majority of buyers investing in Cayman properties have some personal affiliation with the islands. That makes for some specific ESG decision-making with the potential for personal and social impact.

According to Sparrow, the Cayman Islands has seen a significant number of homes built in the last five to 10 years offering a strong focus on environmental impact, conservation, and ecology.

"Private homeowners and resort developers are willingly investing additional money to lessen ecological impact," he says. "A great example is turtle-friendly lighting that doesn't disorient new hatchlings [by] drawing them away from the water's edge when their natural inclination is to follow the moonlight into the ocean."

Sparrow highlighted a recent record home sale as a convergence of sustainability and investment success. The Sea of Dreams in Pease Bay was a record sale in 2021 and included a 10,000-gallon rainwater cistern to service one of the largest residential swimming pools on the island.

"Solar power is a natural staple for Caribbean homes—providing clean energy," Sparrow adds. "Construction methods and materials are utilized throughout our homes for maximum efficiency and reduced fuel consumption."

With younger generations more committed to sustainability than their older counterparts, the trend toward sustainable investments is likely to increase around the world, Hale says, and those same younger investors "have more sustainable investment funds to choose from than ever before."

A home for sale on the Upper West Side of Manhattan accepts cryptocurrency as payment

Sotheby's International Realty–East Side Manhattan Brokerage

IS CRYPTO THE FUTURE FOR REAL ESTATE?

Buyers broke numerous cryptocurrency records in 2021, and 2022 looks bright.

"There is an upward trend of people using digital assets to buy luxury goods," says Max Dilendorf, partner, Dilendorf Law Firm, who specializes in structuring real estate transactions using cryptocurrencies. "We represent a lot of clients in these transactions as lawyers and escrow agents."

While Dilendorf recognizes that some sellers may be hesitant to take bitcoin or other cryptocurrencies by virtue of how new they are, "by accepting bitcoin for real estate or any other luxury good, you increase your chance of selling," he says.

In May, a Miami penthouse made headlines when it sold for the equivalent of US$22.5 million in cryptocurrency. In September, the property hit the market again with some renovations and a US$28 million price tag. Again, the realtors would accept cryptocurrency. But one reason this particular deal made headlines is that at the moment, it's rare.

In Bucharest, Monica Barbu, CEO, Romania Sotheby's International Realty, is representing a seller who will accept cryptocurrency for the sale of a pop art–themed penthouse. It's the first luxury property in their office to be made available for purchase by bitcoin, she says.

Barbu says the seller may consider other forms of cryptocurrency, but the preference is bitcoin, since the seller is invested in it already.

In New York City, the seller of a limestone mansion located half a block away from Central Park will accept cryptocurrency. Cathy Taub, senior global real estate advisor, Sotheby's International Realty–East Side Manhattan Brokerage, represents the seller and said it wouldn't be the first time her clients have dealt in cryptocurrency.

"Generally, in my experience, sellers who accept crypto think of bitcoin and certain other crypto as digital gold. They have a concern about inflation eating away at their fiat cash," Taub says. "Given the immense global interest in crypto, there's no doubt in my mind that it will become increasingly popular as 'consideration' for real estate."

POTENTIAL UPSIDES AND DOWNSIDES

As a medium of exchange, cryptocurrency has benefits. It can be useful for buyers who need to initiate international exchanges and who want to avoid traditional banking fees. Compared with standard wire transfers, cryptocurrency transaction costs are lower. On the other hand, when two American parties conduct a transaction using a digital asset, the buyer will pay capital-gains taxes, Dilendorf explains.

"Under the U.S. tax code, bitcoin is considered property, and so is real estate. It isn't a cash payment, so it's a barter where you're exchanging one type of asset for another type of asset. Both assets have tax rates, so it's not convenient from a tax perspective," Dilendorf explains.

Some buyers may also be hesitant to part with their bitcoin—hoping it may go up in value.

"When bitcoin was US$65,000, we were getting a lot of interest from clients who wanted to buy real estate or yachts through crypto," Dilendorf says. "If bitcoin breaks US$80,000 or US$100,000, I would expect a lot of people to complete these types of transactions." Early adopters of bitcoin could see that valuation as an excellent time to liquidate and invest in luxury goods or other assets. (In the first three quarters of 2021, bitcoin ranged from US$29,413.29 to US$64,899 per coin.)

A group of researchers at global bank Standard Chartered forecast values will continue to increase, and bitcoin could reach US$100,000 by early 2022. "As a medium of exchange, bitcoin may become the dominant peer-to-peer payment method for the global unbanked in a future cashless world," Geoffrey Kendrick, head of crypto research, Standard Chartered, said in a statement.

Still, regulatory compliance presents an added layer of complexity. "When you make a payment with bitcoin or Ethereum, and the seller accepts it, the seller becomes a minibank," Dilendorf says. Sellers must complete a KYC—a "know your customer" or "know your client"—check and anti-money-laundering check.

"You can think of this as a title check on a bitcoin. You can see how and where this bitcoin was traded. If the order came from a sanctioned jurisdiction like Iran, it could raise questions," Dilendorf says. "Naturally, many sellers aren't equipped to accept bitcoin."

Thus, Dilendorf says most transactions have involved converting bitcoin into cash to expedite the process of buying real estate, green cards through the EB-5 program, yachts, and art.

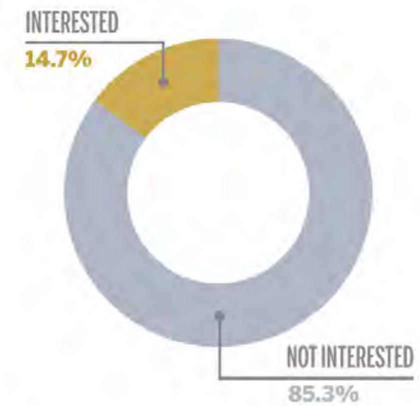
Bitcoin and Ethereum, the two most common cryptocurrencies used for luxury purchases, are already regulated with the U.S. Securities and Exchange Commission, and as such, there's more certainty in terms of regulations, Dilendorf says.

In 2022, more businesses could set up in-house support for cryptocurrency sales, or accept mix-and-match currencies for luxury goods, as buyers and sellers alike become more open to it.

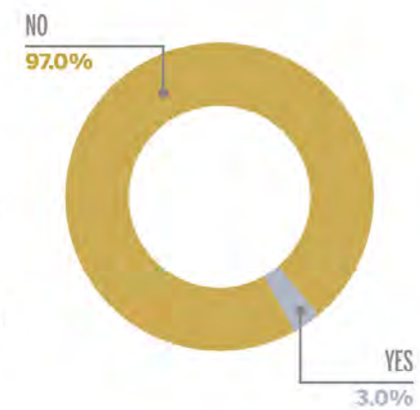
For now, Dilendorf says he asks every real estate agent he works with in New York City why they aren't listing prices in bitcoin. "It's a marketing pitch, and if someone wants to pay in bitcoin, it doesn't cost anything to the seller. Why not price it in bitcoin?" he says.

CONSIDERING CRYPTO

Sotheby's International Realty agents were asked if any clients were interested in purchasing properties with cryptocurrencies in 2021.



Agents were asked if any of their clients have already purchased or sold homes with cryptocurrency.



Source: Sotheby's International Realty 2021 Survey

LUXURY OUTLOOK 2022

FUELED BY MILLENNIAL NOSTALGIA, NEW COLLECTIBLES MARKETS SOAR

Nike Air Yeezy 1 prototypes worn by Kanye West

The collectibles market has exploded in the last year, as high-net-worth individuals looked to invest in alternative asset classes. Trading cards, retro video games, sneakers, and handbags are expected to continue the growth fueled in recent years by a younger generation of buyers.

"Across all markets, we're seeing a broader theme of nostalgia," says Brahm Wachter, vice president and head of streetwear and modern collectibles, Sotheby's. "As this new generation is coming into wealth, they're prizing things like perfect-condition video games and Pokémon cards and sports memorabilia."

Certain collectibles, such as sneakers, have gained in value as auction houses enter the game and formalize trading.

"It's opened up the market to a whole new group of potential clients," Wachter says. Most resale buyers are in their 30s to 40s and grew up in the 1980s around the birth of sneaker collecting and "sneakerhead" culture.

In the U.S. alone, the sneaker-resale market is estimated at more than US$2 billion per year. Sotheby's sneaker business has more than tripled since it launched in 2019, Wachter says, and is expanding worldwide.

Other new collectors have entered the market through new fractional-investing platforms such as Rally and Collectable, which allow investors to buy a stake in a collectible, rather than the entire item. Where previously, collecting was reserved for high-net-worth individuals who had the ability to maintain, insure, and store a collection, now investors can buy a stake in a sneaker or vintage guitar for as little as US$5.

The platforms have been buoyed by low interest rates, which have made investors weary of bonds. Collectibles offer the possibility of high return, so long as the asset continues to appreciate in value.

Wachter says fractionalized platforms also allow for more upside in the market, as a group of investors pooling their money together can pay higher prices than a single individual. In April, Sotheby's sold a pair of Nike Air Yeezy 1 Prototypes worn by Kanye West at the 2008 Grammys to fractionalized investing platform Rares for US$1.8 million, a record-breaking sneaker sale.

While the U.S. and Canada remain the largest market for sneakers, demand is also expanding in Asia (China, not the U.S., is the NBA's biggest market). In July, a sale featuring both watches and sneakers brought in 19.8 million Hong Kong dollars. In October, Sotheby's hosted its first dedicated sneaker sale in Hong Kong, featuring nine ultrarare, limited-edition sneakers, including two from Kanye West's archives.

Wachter says that as Nike realizes the demand for unique sneakers, it has begun to release more limited editions. That has kept the resale prices of three-and four-figure sneakers relatively stable, but he doesn't expect it to affect the sales prices of ultrarare sneakers, which usually have a design or celebrity connection, on the upper end of the market.

This year, Wachter expects to see fewer sneaker sales, but a greater average price paid per pair.

The market for trading cards, which over the course of the pandemic went from a dusty attic hobby to its own asset class, is expected to remain strong in 2022.

"The card market is really at an all-time high," Wachter says. Prices for cards spiked in 2021 as fans sought out new ways to engage with sports.

Sotheby's
Brahm Wachter

Sotheby's (4)

Sotheby's
Cynthia Houlton

Experts believe valuations will only keep increasing. Sports cards aren't the only cards trading at record prices. In auctions last year, first-edition Pokémon cards brought in six-figure sums.

Expect to see these kinds of "nostalgia items" from the '80s and '90s grow in value. Last year, a 1985 unopened Super Mario Bros. game sold for US$2 million, after it had been purchased just a year earlier for US$140,000. Unopened and first-edition games fetch the most value, as well as games for the Nintendo Entertainment System, whose popular characters like Link and Mario defined the childhoods of many millennials.

As with sneakers, handbags and fashion accessories are becoming increasingly limited in supply, creating new demand within the resale market, says Cynthia Houlton, global head for fashion and accessories, Sotheby's.

Both Chanel and Louis Vuitton have increased prices aggressively in recent years, and Chanel and Hermès have both begun to limit purchases of some of their top handbags to heighten exclusivity, Houlton notes.

Unlike sneaker or sports memorabilia, handbag buyers continue to care more about a bag in pristine condition than one with an important backstory. The largely female consumer base for handbags is uninterested in purchasing handbags previously owned by celebrities, Houlton says. "It's actually the bag itself that has value," she says.

Traditional collectibles, like watches, are also seeing major growth. McKinsey estimates that the pre-owned watch market is the luxury industry's fastest-growing segment and could be poised to hit US$32 billion in sales globally by 2025. Furthermore, 55% of buyers are under the age of 40.

US$32B

McKinsey & Company estimates that **the pre-owned watch market could hit US$32 billion in sales by 2025,** and is the luxury industry's fastest-growing segment around the world.

Values have skyrocketed for bags like the Birkin from Hermès

The pandemic created supply shortages for new watches, pushing prices up in the resale market. Rolex, which typically makes about a million watches per year, manufactured around 810,000 in 2020, according to a report by Morgan Stanley.

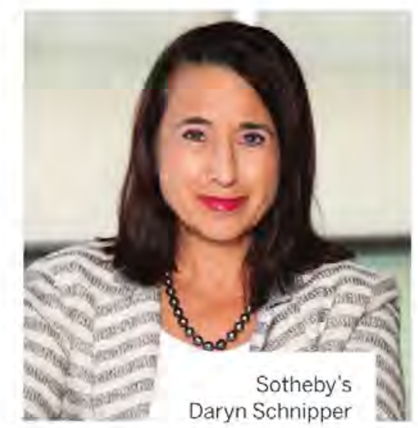
Beyond the bigger brands, independent watchmakers like F.P. Journe and Richard Mille have increased their market share, says Daryn Schnipper, chairman of the international watch division, Sotheby's.

"There continues to be strong demand for modern watches in general," Schnipper says. While vintage watches remain a core part of Sotheby's sales, modern models like the Patek Philippe Nautilus and the Audemars Piguet Royal Oak Offshore will continue to see the largest price increases, she predicts.

Even as sales have headed online, buyers have paid record sums for watches. Sotheby's sold a Rolex Paul Newman Daytona watch in 2020 for £1.2 million, its highest sale price for a watch at an online auction.

Looking forward, Schnipper expects the Middle East market to continue to grow.

As with sneakers, demand for watches is pouring in from Asia. In 2020, China imported the greatest value of Swiss watches at CHF2.39 billion, followed by the U.S. at CHF1.98 billion, Hong Kong at CHF1.70 billion, and Japan at CHF1.19 billion.



Sotheby's
Daryn Schnipper

TAKING STOCK

Q&A: Wine Collecting With Jamie Ritchie of Sotheby's Wine

The pandemic caused wine collectors to take stock of their holdings. Sotheby's Wine—the only major global auctioneer offering fine wines at retail—maintains stores in New York and Hong Kong, as well as an online business. "Other retailers may have 6,000 to 15,000 different wines and spirits, whereas we have under 2,000, each of which is very carefully selected," says Jamie Ritchie, one of the world's leading wine auctioneers and the head of Sotheby's global wine business. In October 2019, they launched the Sotheby's Own Label Collection, "which has been incredibly popular, with the original range of wines exceeding 30% of retail sales in the first six months," he says.

Below, Ritchie talks wine with us.

In the nearly 30 years since launching Sotheby's New York wine auctions, what are the biggest developments?

The market outlook for both wine and spirits is extremely positive, with increased global demand for the highest quality. The following three factors are the most noteworthy:

1–Regulation is responsible for the price of wine today. Firstly, in 1994, when New York relaxed its regulations permitting wine to be resold at auctions, it ignited the secondary market, as it enabled wine lovers to start building collections; and there was a huge transfer of wine from Europe to the U.S.—as the U.S. wine buyer was the least price sensitive from 1994 through 2008. Secondly, in 2008 when Hong Kong reduced its tax rate to 0%, it enabled auction houses and fine-wine merchants to ship wines to Hong Kong for auction with no additional taxation. Since 2009, Asian wine buyers have been the least price sensitive, and this is the No. 1 wine market.

2–The wine-and-spirits market has become truly global. As wealth has been created by ever-younger generations in all types of industries, such as tech and real estate, there has been a broader diversification of clients that were traditionally from the world of finance and, before that, doctors and lawyers. Thirty years ago, the average age of a wine buyer was 65. Now 75% of our new buyers are under 50, and 43% are under 40.

3–The evolution in demand and prices for bordeaux, burgundy, and whiskey—10 years ago one would never have thought that the percentage of bordeaux, burgundy, and spirits would shift so dramatically, with the growth in prices and demand for burgundy and spirits outstripping bordeaux.

What are some of the most common mistakes people make when beginning to collect?

Buying the wrong wines, producers, and vintages, as well as too much of specific types of wines or vintages. You don't want to buy all young wines, as you have nothing to drink while they are maturing. Advice is needed, but it is important to find someone you can trust, then verify with third parties that they can be trusted.

What do you tell new collectors re: storage, conditions, etc.?

Store wines lying down at 55 degrees Fahrenheit, 60% to 80% humidity, in the dark, vibration-and odor-free. Wine needs these conditions for long-term storage. If you cannot provide

them at home, then use a professional wine-storage business—there are many.

In comparison to wine, whiskey and spirits are relatively easy, as they are more robust and tend not to spoil when the bottle is sealed. Store bottles upright (so the alcohol doesn't degrade the cork) and avoid direct sunlight and temperature extremes (use 60-70 degrees Fahrenheit).

What do you have your eye on with respect to collecting?

Bordeaux is undervalued, as prices have been relatively stable and inexpensive compared with Burgundy and California. For example, 2005 is a truly great vintage, but still at very fair prices—I expect them to increase as they get toward their 20th anniversary and more great bottles are opened. I expect burgundy prices to remain high and, since production is so limited, you have to buy it when the vintage first comes onto the market. Champagne, Italy, Rhône, and Spain will continue to attract greater demand, as prices in other regions have increased, so they all look like good value. And ever-increasing diversity in wines will continue to be appreciated, with indigenous grape varieties becoming more valued. American Whiskeys will also see increased global demand.

For the reds, the best Pinot Noirs (from any region) will be in strongest demand worldwide, for their essential nuance and finesse. Syrah (worldwide) and Nebbiolo from Piedmont, as well as Sangiovese from Tuscany will continue to attract more attention.

For the whites, Riesling is becoming more popular from all countries, but especially Germany and Austria. ▢

The interview has been edited for clarity and space.

In 2021, Sotheby's Wine expanded its Own Label Collection

Sotheby's Wine

Pak's *Cube* is an open-edition unit that goes toward redemption of specific NFTs

Sotheby's (2)

NFTS, 'ADDITIVE TO THE ART WORLD,' REQUIRE ADAPTIVE THINKING FOR COLLECTORS

Sotheby's Sebastian Fahey

In 1973, a Sotheby's decision to auction 50 contemporary works of abstract and pop art unsettled traditionalists and stoked critics. As it turned out, the auction was a resounding success and became a major inflection point, raising the visibility, marketability, and appreciation of the works of living artists.

Fast forward to today. In April, Sotheby's sold a collection of non-fungible tokens (NFTs) by a digital creator known as Pak for a total of US$16.8 million. By the end of October, its NFT sales totaled more than US$95 million.

NFTs, which are digital tokens certifying the authenticity of digital creations, surged in popularity beginning last year, prompting a debate among art-world observers over whether they were a pandemic-fueled craze or a legitimate new facet of the market.

Recent NFT sales have quieted many naysayers. Sales totaled US$2.5 billion in the first half of 2021 and a stunning US$10.7 billion in the third quarter, increasingly attracting a broader audience to the art market and drawing the attention of traditional collectors.

Sotheby's Natively Digital auction in June, which sold 28 NFTs for a total of US$17.1 million, drew 1,300 bids from 24 countries. Of those, 75% of bidders were new to Sotheby's, while 30% were crossover bidders from the auction house's traditional business. At gavel, 70% of buyers were new.

"I've been at Sotheby's for 17 years and haven't seen anything as innovative and exciting come to the market as NFTs," says Sebastian Fahey, a managing director at Sotheby's. "I don't see digital art as something that takes away from other mediums. It is additive to the traditional art world and especially so when it comes to generative art."

But NFTs require adaptive thinking by traditional collectors. They own a digital file that proves they possess the original digital creation, and they have to have some comfort in dealing with cryptocurrencies. (The digital assets are acquired using digital currencies, primarily Ethereum, because most NFTs are recorded on the Ethereum blockchain—essentially a digital ledger.)

While NFTs' unique aspects could potentially sustain a divide between digital and traditional collectors, the entrance of large auction houses into the market has gone a long way toward stitching the two together.

DISPLAYING NFTS

Exhibitions of digital works have been an effective way to broaden appreciation, Fahey says, adding that Sotheby's hosted physical exhibitions of NFTs on screens in gallery-like settings in London, Hong Kong, and New York City during its first Natively Digital sales.

"People who couldn't grasp the impact on a small screen walked in and said they could really see how it worked. The future of digital art will be shaped by these digital exhibitions. There are discussions about opening digital museums," he says.

"Ultimately, we want to provide a bridge between the traditional and digital art worlds." ▢

US$95M

By October 2021, **NFT sales at Sotheby's had brought in more than US$95 million,** according to the auction house.

FINE ARTS

Q&A: Mari-Claudia Jiménez, Chairman and Managing Director of Sotheby's Auction House

Non-fungible tokens (NFTs) and their headline-grabbing prices disrupted the traditional art world in 2021, legitimizing digital art and bringing in a whole new breed of buyers. Mari-Claudia Jiménez—chairman, managing director, and worldwide head of business development, global fine arts for Sotheby's auction house—offers insights on their influence, the state of the global market, and more.

In 2021, digital art changed the way people view and buy art. What were the biggest surprises?

Digital art and NFTs have taken the market by storm, and by October 2021, we sold over US$95 million worth of NFTs. Digital art is a very different way of thinking about art, and its connection with bitcoin and cryptocurrency created a broader market. It brought in many cryptocurrency investors who weren't art collectors but who were thinking about asset-portfolio diversification.

How have these new buyers affected the overall market?

Some clients who initially came for the NFTs have stayed and have started buying some traditional art. It's a definite trend—most of them are not art collectors. They skew younger—43% of our NFT buyers are under age 40. In our other sales, 40% of all buyers are under 40.

The Bored Ape Yacht Club #8817 by Yuga Labs NFT sold for US$3.4 million

What role has the pandemic played in the art market?

It caused us to become a largely digital company and accelerated significant technological innovations. We presented robust digital catalogs that supplemented and in some ways supplanted the experience of seeing a work in person, we livestreamed our sales for the first time, and although we always have had phone bids, we had never held marquee evening sales where people could bid online in real time from their home computers. We also used a variety of techniques, including 3-D capabilities, to engage people virtually. This hybrid model of live and virtual will be the future for us.

Did the new format lead to any other changes?

Yes, it eliminated some of the barriers to entry for new buyers because online sales are intrinsically less intimidating, and it assured clients that buying at Sotheby's isn't limited to the ultrahigh-net-worth or those who are looking to acquire only museum-quality art. The new buyers also led us to include newer offerings, such as unique, limited-edition sneakers. Handbags have also become an important part of our offerings, joining jewelry, watches, and wine in our luxury-goods division. The new, younger buyers who came for the NFTs looked around our website and sometimes started bidding on other items. Offerings like wine, cars, and memorabilia and pop-culture items have taken on a more prominent role. We also created a department that focuses on science and popular culture. It offers offbeat, funky things like dinosaur skeletons.

What do you feel will be hot in the next couple of years?

The NFT market will continue to grow. We've also seen an uptick in some of the more traditional categories, such as art and art objects, silver, and decorative arts. People are looking at

them in a different light because during the pandemic lockdowns people were keenly focused on their surroundings. While interest in 20th-century design continues to be incredibly strong, there has been a general re-evaluation of the role decorative arts play in collectors' lives, and clients are looking at the decorative arts with renewed enthusiasm. For example, in September 2021, we sold a collection of rare 18th-Century Meissen porcelain comprising 120 lots that brought in US$15 million, seven times the presale estimate. It had a great backstory. It was stolen by the Nazis and was restituted by the Dutch government to the heirs of the original owners.

How do you expect 2022 to compare with 2021?

I hope it will outpace 2021, which brought a number of historic sales. We're assuming it will be a more normal world because we're starting off on a different note. Everyone who wants to will be vaccinated. And the ability to travel always helps the market. During the pandemic, many items we sold for US$50 million or more were being bought sight unseen. In fact, in January 2021, the Botticelli painting that brought US$92.2 million, a record for the Renaissance master, was sold with no live clients attending the sale. That's typical for paintings of lower value up to US$1 million but not traditionally for higher-priced offerings. However, nothing replaces the experience of seeing an object in person.

The interview has been edited for clarity and space.

Sotheby's (2)

Sotheby's is known for its live auctions. It's now working with galleries more directly, too

COLLABORATION OVER COMPETITION

While auction houses and galleries historically have vied for business, they're increasingly finding more benefits to collaborating.

A new symbiotic relationship has evolved largely out of the challenging business environment under the Covid pandemic lockdowns, which shuttered galleries and stalled in-person auctions.

"When the lights went off during Covid, everyone had to get creative because they didn't have the ability to get in front of their clients," says Noah Horowitz, worldwide head, gallery and private-dealer services at Sotheby's. "There's a willingness to look at things anew and rethink how to enhance relationships with collectors and get business done."

Once traditional auctions became impossible in March 2020, Sotheby's was quick to respond by expediting the introduction of its Gallery Art Network as a way to work together with galleries and art dealers to drive sales.

The network is an online marketplace that enables contemporary art galleries to showcase collections to global audiences and transact sales. It launched with more than a half-dozen high-profile New York City galleries participating, including Lehmann Maupin, Kasmin Gallery, Luhring Augustine, Petzel Gallery, Jack Shainman Gallery, Sperone Westwater, and Van Doren Waxter.

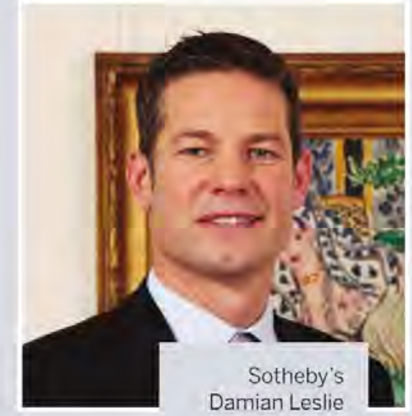
As lockdowns waned, Sotheby's began opening brick-and-mortar gallery spaces in key art markets around the globe. In the summer of 2020, it opened a space in the Hamptons, followed by others in Palm Beach; Monaco; Cologne, Germany; and Los Angeles.

"This started bringing to the surface, in a public way, the relationships and collegiality between Sotheby's and gallerists," Horowitz says.

"Sotheby's recent efforts are just the beginning of a long evolution in the relationship between galleries and auction houses," he adds. "There is an extraordinary opportunity to do so much more in this space, to put Sotheby's resources at the fingertips of the international gallery community."

Sotheby's Noah Horowitz

Sotheby's (3)



Sotheby's Damian Leslie

Spotlight on: SOTHEBY'S FINANCIAL SERVICES

Sotheby's Financial Services, the only full-service global art-lending operation, was founded in 1989 to support clients with their borrowing requirements during the banking crisis, when many banks were refusing to extend loans. It has since become a major institution inside Sotheby's, working with clients globally across price points and collecting categories, and has extended over US$9 billion in funding.

Damian Leslie, head, Sotheby's Financial Services for Europe and Asia, offers a snapshot.

Why do clients come to you versus their own bank?

We have three decades of expertise, and with everything from valuations through legal services and storage being completed in-house, we have the ability to provide truly bespoke facilities for our clients without additional fees.

The majority of lenders are fairly restrictive about items they can use as collateral in terms of the artist, minimum value, or category of art. We are much more flexible and can lend against any items that Sotheby's has a market to sell.

As a full-service lender, we can be much faster while keeping costs low for our clients. It takes an average of three or four weeks for our conventional loans, compared with three or four months for other lenders.

Can you break down your lending services?

Our borrowers come in three types. The first are sellers who want to consign works for sale and are looking for immediate access to capital. Second, buyers looking to acquire artwork who want to finance all or part of the purchase either through a secured loan or an arrangement to pay over time. And third, people who have no intention of selling their art, but want to release the value stored in their collection, either via a straight term loan or a revolving credit line.

We often help beneficiaries of estates to raise funds to pay inheritance taxes, typically by way of our consignor solutions. These tax obligations are often due prior to selling items or due prior to the sale proceeds being received, so Sotheby's Financial Services can extend a loan against the value of the art collection within the estate, allowing the beneficiaries to settle the obligation.

ANATOMY OF AN OF-THE-MOMENT HOME

GARAGE WITH STORAGE

This helps keep clutter out of the main house and allows for out-of-sight storage of tools, lawnmowers, snow blowers, sports equipment, and other stuff. Make sure there's still room for two cars.

ENERGY-EFFICIENT APPLIANCES, WINDOWS, AND LIGHTING

Look for Energy Star–certified windows and appliances for the kitchen and laundry room. Also look for Energy Star–certified LED light bulbs, which last 25 times longer than incandescent bulbs and use at least 75% less energy. Solar panels and ceiling fans will also reduce utility costs—and lower your carbon footprint.

FIRST-FLOOR FULL BATHROOM

A main-level bath and bedroom are great for guests and visiting parents, and many homeowners like the age-in-place option it offers.

HVAC

A modern, wellness-oriented HVAC (heating, ventilation, and air conditioning) system will replenish oxygen and clean and filter indoor air to remove excess moisture, smoke, odors, dust, airborne bacteria, and carbon dioxide.

EAT-IN KITCHEN

Efficiency is key, as are a homey feel, good task lighting, plenty of space for storage (a walk-in pantry is ideal), and food prep. Wine refrigerators, built-in coffee makers, gas ranges, warming and refrigerator drawers, and dual ovens, sinks, and dishwashers are all the rage.

SMART TECHNOLOGY

This includes state-of-the-art Wifi, wireless audio systems, and technology that allows you to control lights, thermostats, music, alarms, and blinds with a smartphone.

DELUXE PRIMARY BEDROOM SUITE

Desirable features include walk-in closets, a sitting area with a fireplace, a private terrace or balcony, and a luxurious bathroom with a walk-in shower and a soaking tub.

PRIVACY SCREENING

For added privacy, consider a fence or good landscaping (evergreen shrubs and trees are best) between you and your neighbors.

HOME OFFICE(S)

During the pandemic, homeowners looking for Zoom-friendly spaces have converted former coat closets, erected plywood walls in garage corners, and added air conditioners and cable lines to unfinished attics. These days, one home office is a must—and two is even better.

OUTDOOR LIVING SPACES

Ideally, it's a flat backyard with some grass if you have children or pets. Patios, decks, porches, pool decks, and terraces are great—and more and more expected.

Sotheby's International Realty–San Francisco Brokerage

This grand home in San Francisco, California, has a richly detailed coffered ceiling it its extra-large living room, which opens onto a sunny terrace

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