

From Development to Design: How Foreign Investors are Changing Luxury Real Estate

By Michael Nourmand

In the competitive Los Angeles real estate market, it is not uncommon for properties in desirable locations to sell for record breaking prices. But at the higher end of the luxury market, fewer buyers are purchasing. L.A. luxury real estate is changing, no question. Though there has been a sprinkling of large sales, home sales in excess of \$20 million have cooled off. So what's causing the market to cool? Fewer foreign investors are choosing the U.S. For years, the U.S. has been seen as an attractive investment, and a safe haven for foreign investors to park their money. But the beginning of 2016 marked a shift: fewer foreign investors are putting money into L.A. real estate. The \$20 million and up real estate market, which has flourished in recent years thanks to international investment, has now started to cool. I would estimate that foreign buyers are now only making up about 20% of the big purchases.

The decrease in foreign investment is likely due to a variety of factors, including the dropping oil prices, higher real estate prices, an international economic slowdown, international economic slowdown, and investors are having difficulty getting money out of their home countries and into the U.S. Significantly, the dollar has also become stronger, meaning that real estate prices have gone up. It's true that L.A. still has one of the most inexpensive real estate markets when compared to other international cities like London and New York. But we can't discount the fact that incomes are significantly higher in those cities. When we consider real estate prices relative to income, L.A. is not such a bargain.

Builders Are Monitoring Their Risk

Decrease in foreign investment is trickling down to development. In previous years, there was a push to build elaborate homes, with the idea there would be bigger profits. Trousdale is a good example. It's a neighborhood of numerous one-story homes, and drew great interest and large sales when developers saw a potential for big money. But as foreign investment slows down, builders wonder if they are taking too much risk by building ultra-luxury homes in a market with fewer buyers. Many builders try to reduce their risk by selling plans, permits and renderings before they begin new projects. This allows them to retain some profit and move on to other, more in-demand projects. It's a smart move on developers' part. Buyers who can afford homes in the \$20 million and up range will always be a small market, and with the downward shift in foreign investment, it will likely shrink more. Expect to see builders focus less on over-the-top expensive homes. Buyers are looking for homes in the mid-range "sweet spot." In spite of a decreasing amount of foreign investment, or perhaps because of it, more buyers want homes in the \$5-\$15 million range. This market is very active among "move-up buyers," people who are second- or third-time homebuyers selling a less expensive property and upgrading to a more expensive one. One area particularly hot is the Flats

of Beverly Hills. The biggest challenge for buyers is there simply aren't many favorable properties available in their price range. Buyers are finding that appealing homes are listed at exorbitant prices, while reasonably priced properties do not fit their needs. With limited options, move-up homebuyers are sometimes choosing to wait until a better home becomes available. One of my clients sold his home and is renting now, waiting to buy in the future. I've had several sellers negotiate leasebacks for the same reason. Regardless, the \$5 - \$15 million "sweet spot" remains very active in the luxury market, but it is location-specific.

Buyers Prioritize Land Over Views And Ultramodern Finishes.

Historically, land appreciates more, and there will always be a demand for land because of the limited supply. Developers can't turn office space or apartments into a single family home with a yard—open space will always be valuable. Land is also more appealing to many of those move-up buyers looking in the \$5 - \$15 million range. First-time homebuyers often prioritize views; however, once they start a family, couples realize that homes with views often have small yards with hardscape and the streets don't have sidewalks, which makes them unaccommodating for children. When they decide to upgrade, land is a bigger factor. In terms of design trends, the ultramodern style seems to have reached its peak. Open concept is still popular, so modern design won't die out completely because it's more conducive to that floor plan. But buyers are starting to get tired of seeing the same houses over and over again. I anticipate that we'll see modern design mellow out, with warmer finishes and furniture rather than concrete floors and harsh lines.

Foreign investment transformed the L.A. real estate market after the recession, and it's about to change it again. If you're watching the luxury market, whether you're a builder or a buyer, be on the lookout for these emerging trends. ■



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