

LUXURY CONSUMERS: THE EMOTIONAL ROLE OF HOME

FEBRUARY, 2013

A RESEARCH STUDY
BROUGHT TO YOU BY

**LUXURY
PORTFOLIO**
INTERNATIONAL®

IN COOPERATION WITH

Harrison Group

LUXURY HOMES FROM LEADING REAL ESTATE COMPANIES OF THE WORLD®

AUTHORITATIVE RESEARCH

We are pleased to bring you this white paper as part of our continuing focus on providing customers, agents and brokers with the most up-to-date and current thinking on what it takes to create win-win scenarios in the luxury real estate market. Luxury Portfolio International® is an authority in luxury trends, tracking and uncovering trends through strategic research and sharing in vehicles such as LuxeTrends®, the Luxury Portfolio Magazine, the Luxury Portfolio Blog and white papers such as this. We believe in examining every aspect of the affluent consumer with a laser focus to ensure we are creating the very best opportunities in the market. This focused study helps us understand today's continually evolving and dynamic consumer. So by pulling back the curtain to investigate the true science in real estate and marketing, we ensure we have the metrics and can approach every transaction from the most informed position possible.

In our latest endeavor, we have again tapped Harrison Group, a YouGov company, as experts in understanding high net worth Americans, to produce this valuable document. Unless otherwise specified, the data is from the 2012 *Survey of Affluence and Wealth in America*, produced by American Express Publishing and Harrison Group. Data collected in the study are among three income groups: Upper Middle Class, which includes consumers with \$100K to \$149K in discretionary income; Core Affluent, which includes consumers with \$150K in discretionary income to <\$450K in household income; and One Percenters, those with \$450K+ in household income. These groups are defined by household and discretionary income (i.e., gross income reduced by factors representing property assets including mortgage and property taxes).

Luxury Portfolio International® is a registered trademark of Leading Real Estate Companies of the World®
Contains copyright and legal information for American Express Publishing and Harrison Group.

CONFIDENTIAL, PROPRIETARY & TRADE SECRET INFORMATION

This document contains confidential, proprietary and trade secret information of American Express Travel Related Services Company, Inc. ("American Express") and must not be disclosed in whole or in part to any third parties without prior written consent of American Express.

TODAY'S AFFLUENT AND WEALTHY CONSUMERS

Through six years of recession, wealthy consumers have learned how to manage their finances through resourceful purchasing and careful liquidity management. Since the recession took hold, affluent and wealthy families increasingly describe themselves as feeling happier and more successful than before; they have shifted priorities to an ever-tightening circle of trust (family, close friends and trusted advisors), to a focus on good health, and to adding quality in their lives by spending more time with family and creating shared memories through experiences.

Yet affluent and wealthy consumers (including affluent and wealthy real estate buyers) live in a divided economy. Their individual households have developed stronger personal balance sheets thanks to secure incomes, reduced credit card and mortgage debt, and a reprioritizing of wants and needs. However, even as they feel increasingly good about their personal success in emerging from the recession stronger than when it began, they have little faith that the same is true of the economy as whole. Survey data confirm that more affluent and wealthy consumers believe things have worsened over the course of the year than believe they have improved. This is true for the economy at large, the performance of government and America's reputation in the world. These forces of personal strength and national uncertainty are the basis of a tale of two economies: mine and everyone else's.

The emergence of worth. After the first shocks of the 2008 financial crisis started to wear off, affluent and wealthy consumers tiptoed back into the consumer marketplace with a mindset dominated by fear-based buying habits where best price became more important than best quality. Now, however, these same consumers are shunning compromise and refusing to trade quality or craftsmanship for price. Instead, they are increasingly allowing—even expecting—quality and craftsmanship to dictate price. In real estate this means buyers are becoming more focused on the details of distinction that set one property apart from another. And when these factors are brought to life through authentic interactions with realtors who understand their client's values, goals and mindsets, the client comes to expect that the price of a home *ought* to reflect the worth of a home. When realtors focus on the details of distinction and on the experiences and emotions that a buyer expects to realize through a purchase, the relentless pursuit of "the deal" is mitigated. We call this phenomenon the Worth Dynamic¹ and it is the way in which 40-45% of affluent and wealthy consumers approach marketplace decisions in the categories that matter to them.



Source: The 2012 Survey of Affluence and Wealth in America

In today's environment, real estate industry professionals, as well as savvy consumers, should consider how they will answer the question "which details of this property are worth paying more for?" Top agents describe the particulars of relevant features, amenities, and construction details. And while the details that matter most will vary from buyer to buyer—with some valuing professional grade kitchen appliances and others valuing an en suite with his and hers walk-in closets or lots of privacy around the home—the Worth-oriented consumer is one who will complete a transaction then later might confide to a friend, "I know I paid more than I should have, but it was worth it!"

¹ To illustrate the Worth Dynamic, segments were created from a cluster analysis of attitudinal statements from the 2012 Survey of Affluence & Wealth Study. Based on their correlation with attributes related to belief in luxury as embodying craftsmanship, quality and service, 87% of respondents were classified into one of the four groups (13% remained unclassified). Those with the highest positive correlation to "Worth" statements such as "I am willing to pay full price on the products and services I buy to get the quality and service I deserve" are classified as "Fundamentally Worth-oriented" while those with the highest negative correlation to these statements are "Fundamentally Deal-oriented."

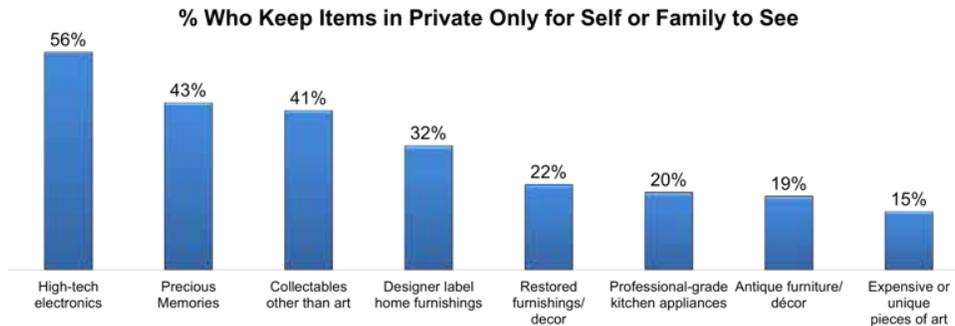
THE EMOTIONAL ROLE OF HOME

The purchase of a luxury home is an emotional experience. The home is an expression of a consumer's personal success and happiness, and is the bedrock upon which good things can be built. In fact, 80% of homeowners say that their home makes them feel *extremely happy*² and 69% say they are extremely happy with their life in general (compared to just 57% among non-owners). Fully 91% of homeowners say the home is where they *plan for the future* and 85% say the home is where they *create their favorite memories* (Luxury Portfolio proprietary data). So it is no surprise that homes are filled with items that promote the creation of new memories while serving as showcases for the memories their owners hold dear. For example, 94% say they have items that represent precious memories, 74% have collectibles other than art and 61% have antique furniture or décor in their homes (Luxury Portfolio proprietary data).

| % Who Have Each In Their Home | Total Affluent and Wealthy % |
|---|------------------------------|
| Items that represent precious memories | 94 |
| High tech electronics | 84 |
| Collectibles other than art | 74 |
| Professional-grade kitchen appliances | 64 |
| Expensive or unique pieces of art | 61 |
| Antique furniture and decor | 52 |
| Designer label home furnishings | 47 |
| Restored or refurbished furnishings/decor | 40 |

Source: Luxury Portfolio proprietary data among n=625 consumers, from The 2012 Survey of Affluence and Wealth in America

Many affluent and wealthy consumers are perfectly content keeping their items of personal meaning tucked away for the private enjoyment of their family and/or themselves. In fact, nearly half (48%) keep at least one of the listed items in private areas of the home, with *high tech electronics* leading as the top item kept in private, followed by items that represent precious memories and collectables (other than art). On the other hand, the vast majority of owners of antiques, art and designer home furnishings have their items "on display" (Luxury Portfolio proprietary data).



Source: Luxury Portfolio proprietary data among those who own each item

Anecdotally, we see additional fascinating trends emerging that relate to privacy, display of precious memories and the home as the emotional center of a family. For example:

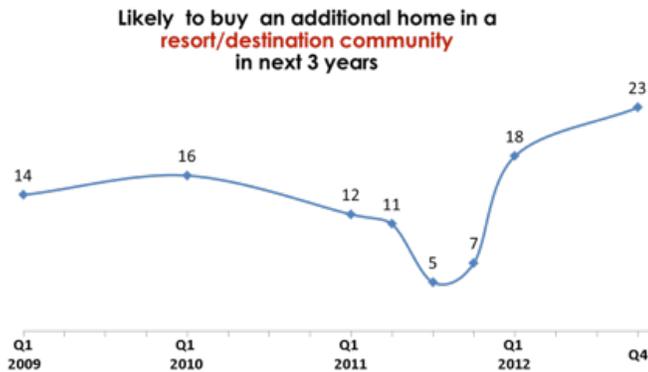
- Built-ins to house books, collectables, and other family heirlooms serve to preserve memories. And increasingly, they are a place for technophiles to organize digital content and house the latest interactive entertainment that is part of their daily lifestyle.
- The formal dining room, while not as prevalent in modern homes as it once was, still remains the keeper of many heirloom furniture pieces used for holiday traditions, family milestone celebrations and special family moments.
- Formal gardens have transitioned to today's very common resort style pools or landscaped terraces with an outdoor kitchen area that is often the center of major entertaining or summer celebrations for the whole family.

² Source: Luxury Portfolio proprietary data among 625 affluent and wealthy consumers, from The 2012 Survey of Affluence and Wealth in America.

My home is my refuge. Over the course of 2012, wealth disparity increasingly dominated the national conversation, thanks in part to the Occupy Wall Street movement, and in part to a divisive presidential campaign. This conversation did not abate even after the election and affluent and wealthy Americans (and particularly very wealthy Americans) firmly believe that the trend among mainstream Americans is towards a disdain for wealth rather than a celebration of success. This concern has sparked a trend toward reduced visibility of wealth and a greater focus on associating with communities of the very-well-known where there is less risk of being judged and of having to defend one's success. Nearly all homeowners (92%) agree that their home is a place to *take refuge—a place to get away*—and they are looking for properties that fit into that image and give them a sense of privacy. It provides insulation against the everyday by allowing consumers to enjoy what they have: their family, their shared memories, and their personal expressions of style. Observations in the luxury real estate market confirm this trend:

- Today's lifestyle communities have expanded from what was once a gated country club or golf club community to encompass extensive lifestyle, fitness, and epicurean and social opportunities where residents only interact with others who share similar financial and social positions. These communities of course feature technology to connect them to nearly every facet of their world and extended family so they can safely reside within the walls of these affluent enclaves.
- Nearly every major metropolitan area supports exclusive bedroom communities which are out of reach to the masses due to their high level of educational and community services and their associated real estate taxes. While not exclusive or gated, by default each of these highly desirable areas attract a collection of homeowners with the means to afford these desirable communities.

Further, the search for communities of refuge has boomed among consumers with the means to buy in a resort or destination community (that is, consumers with \$2 million or more in assets). Nearly one-in-four are *extremely or very likely* to do so within the next 3 years. The rate of consumers interested in these exclusive properties is higher now than it was in Q1 2009 (14%) and from the low registered in Q3 2011 (5%).



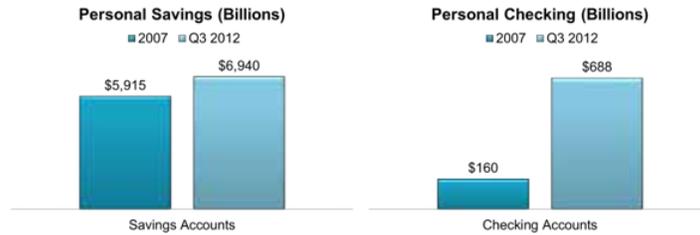
Source: The 2012 Survey of Affluence and Wealth in America
Among those with \$2 million or more in assets (n=333)

AMID UNCERTAINTY, CASH IS KING

The savings rate among affluent and wealthy households holds at 23%, up from a rate of 11% in 2007. 63% of all personal surplus money is going into money markets, and only 37% is going into financial markets. In 2007 these proportions were reversed. In addition to risk-averse savings activity, affluent and wealthy households are paying down their liabilities. Credit card debt has been eliminated in 75% of affluent and wealthy households, 31% have zero debt on their primary home (91% own a home) and 48% of second home owners own their homes outright (22% have a second home).

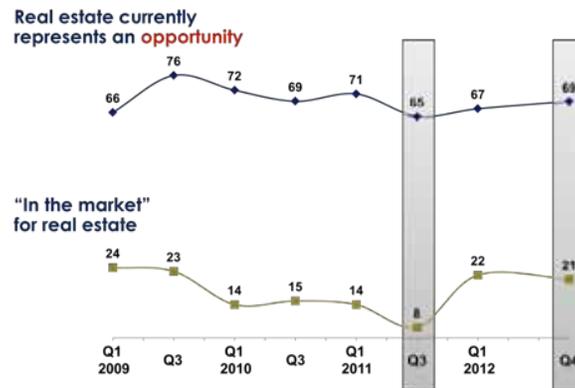
Signs of a coming capital boom. Despite widespread restraint in the consumer market there have been signs of an improving market for capital purchases in certain corridors of wealth. The trend is manifested in two key ways: a build-up of cash and increasing interest in the real estate category.

- **Cash:** As a country we have over \$7.6 trillion³ dollars in savings and checking accounts. What's notable about this pile up of cash is the growth in *checking accounts*, which earns virtually no interest, indicates a readiness to make purchases.



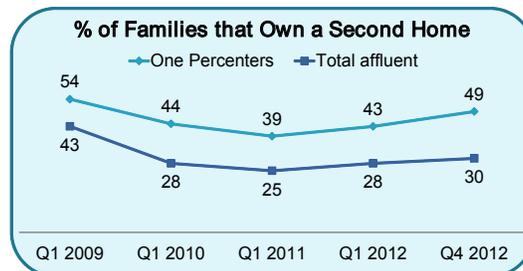
Source: U.S. Federal Reserve, Level of Funds Accounts Report, December 2012

- **The demand for real estate:** Overall interest in real estate has improved from the low point observed in Q3 2011 and has rebounded to the levels in Q1 2009 in rather short-order. Along with the bullish trend to higher demand, 69% of affluent and wealthy consumers feel there is an opportunity to buy right now—largely unchanged over the past 4 years.



Source: The 2012 Survey of Affluence and Wealth in America

Primary home ownership among affluent and wealthy Americans was largely unaffected during the course of the recession (over 90% own a home). The same was not the case for second or vacation home ownership which dipped from 47% in 2009 to 23% in 2011. However, the latter is on an upswing and now stands at 30%, driven in large part by consumers in the top end of the economy, the One Percenters.



Source: The 2012 Survey of Affluence and Wealth in America

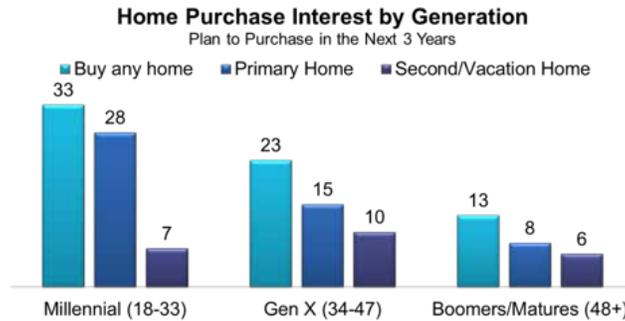
When asked what they are looking for in a vacation or second home, most One Percenters are looking for a beach/ocean setting (62%), with one in five favoring a lakeside property (22%) and/or gated community (26%). These preferences point to a recurring theme of reinforcing emotional needs such as spending more time with family and creating a place of refuge.

³ Savings Source: Federal Reserve Flow of Funds report, Third Quarter 2012, December 6, 2012

THE NEXT GENERATION OF HOMEBUYERS

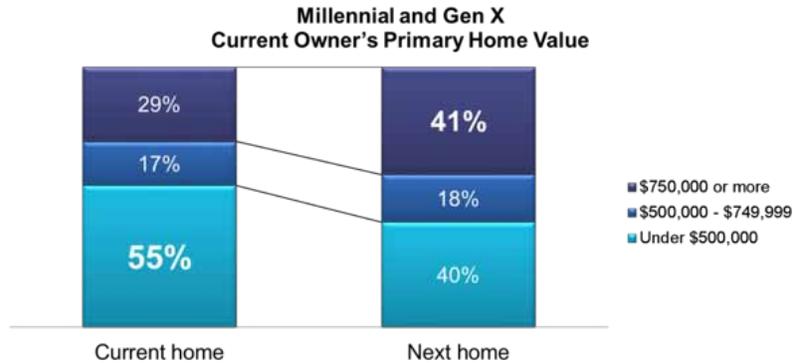
The power of the affluent in the real estate market. What the affluent lack in the overall number of homes sold in America, they make up for in the relative share of dollars spent on real estate. Federal statistics on primary and second homes indicate some 5.3 million new and existing homes sold in 2012 at a value of \$1.2 trillion.⁴ If the market continues at this pace over the next three years, we calculate the affluent and wealthy will represent 10% of the homes sold and 36% of the total dollar value of spent on residential real estate.

As we look ahead to the next generation of homebuyers, understanding the interests and motivations of “Young Affluent” (i.e., Millennials who are 18-33 years old) and Generation Xers who are 34-47 years old) becomes critical. Harrison Group estimates these two generations to make up 51% of affluent primary home buyers in the next three years, but have purchase plans that account for 57% of market share in terms of dollar-value.⁵ (This group is also important in the second home market, as they constitute 57% of the buyers and 58% of the dollars over the next three years.) The demand for primary homes is highest among wealthy Millennials who are poised from a life stage, and financial perspective to make significant purchases.



Source: The 2012 Survey of Affluence and Wealth in America

Value of current and next home among Millennial and Generation X homebuyers. Aside from obvious life stage differences, the Young Affluent is different from the older population in another important way: 56% have a bias to Worth-oriented shopping (with 29% being fundamentally Worth-oriented) versus 40% of Boomers and Matures (of whom only 17% are fundamentally Worth-oriented). This means that it is even more important for younger buyers to feel empowered with information on the quality of construction and the details of craftsmanship in a home—because they are willing to pay for it. Along with the search for exceptional properties, many younger homeowners are in the market to trade-up to a house of greater value. Current Young Affluent homeowners estimate their primary residence at an average value of \$1.2 million and forecast the cost of their next home at an average of \$1.6 million, a nearly \$400,000 increase in value (or 32% greater value than their current home).



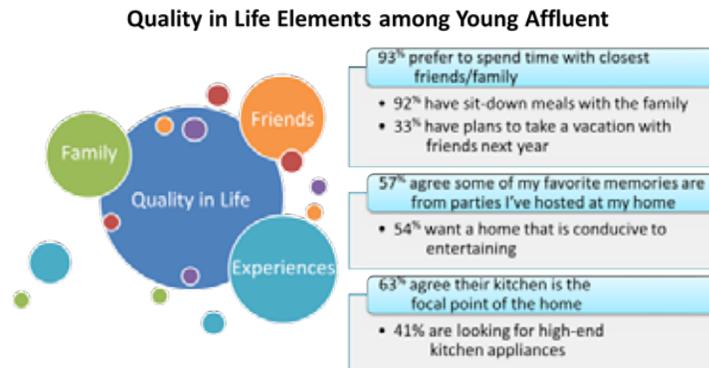
Source: The 2012 Survey of Affluence and Wealth in America

⁴ Source: New home sales and value Census.gov; Existing home sales and values Realtor.org

⁵ Source: Harrison Group estimate on U.S. primary and second home sales over the next 3 years

Priorities for the Young Affluent are family, friends and fun! Many of the Young Affluent are married (75%), the majority has children under the age of 18 (60%) and many have two or more children in the household (54%), making for a busy family life. Work life isn't any less hectic: one-in-five (21%) are business owners or c-level executives in a company they do not own. One-in-six (15%) have changed jobs in the past year, which may play some part in their increased demand for a first or new primary home purchase.

Their busy work and family schedule aligns with their desire for a full life. Their needs to spend time with family and friends and to create memories manifest as shared meal time, shared vacation time, and shared leisure time; they want their homes to facilitate these goals.



Source: The 2012 Survey of Affluence and Wealth in America

Young Affluent buyers are looking for details in a home where they can feel at ease; these include lots of privacy or open space around the home (60%) and a spectacular scenic view (45%). Inside the home, desired features include: a well-appointed master bedroom with a luxury bath en suite (54%) and his and hers walk-in closets (52%), a kitchen area that is conducive to entertaining (54%) as well as an outdoor patio/deck designed for entertaining (53%). Beyond entertaining, the need for a dedicated work/study space or library has reached 50% of affluent and wealthy Millennial/Gen X households, beating out an open floor plan throughout the house (44%) and a pool (34%) and hot tub or spa (25%) on the property.⁶

| Desired Amenities of a Dream Home | Millennials and Gen X | Boomers and Matures |
|--|-----------------------|---------------------|
| | % | % |
| Lots of Open Space/Privacy (NET) | 60 | 65 |
| A lot of open space around the home | 44 | 47 |
| Lots of privacy | 43 | 48 |
| Designed for Entertaining (NET) | 80 | 83 |
| Kitchen area conducive to entertaining | 54 | 56 |
| Outdoor patio/deck designed for entertaining | 53 | 55 |
| An open floor plan throughout the house | 44 | 51 |
| Professional-grade kitchen appliances | 41 | 45 |
| A home designed for effortless entertaining | 36 | 30 |
| Master Bedroom Features (NET) | 67 | 74 |
| Master bedroom with an on suite luxury bathroom | 54 | 60 |
| Master bedroom with his and hers walk-in closets | 52 | 52 |
| Master bedroom with a fireplace | 26 | 16 |
| Library/Work Space (NET) | 50 | 57 |
| A dedicated office space/child's homework space | 34 | 38 |
| Library or study room | 30 | 37 |
| A spectacular scenic view (i.e., mountains, waterfront, etc.) | 45 | 47 |
| Pool, Spa, Hot Tub | 44 | 36 |

Source: The 2012 Survey of Affluence and Wealth in America

⁶ Source: Luxury Portfolio proprietary data, The 2012 Survey of Affluence and Wealth in America

TAKEAWAYS AND THOUGHT STARTERS

- **The real estate market is poised for a boom:** Leading indicators for home purchasing register an uptick over prior years, particularly at the top end of the market. Interest in resort or destination communities has increased more than 50% from 2009 among those with the means to buy. One-in-five affluent consumers describe themselves as being “in the market” for real estate. Yet the tale of two economies means that if indeed it will be a big year for luxury home purchases, plans should be made not on a market basis, but on the basis of one household at a time and one family at a time. The opportunity for the real estate industry is to understand a buyer’s individual interests—and express them in the properties they represent.
- **The home plays an emotional role in the lives of the affluent and wealthy:** More and more, affluent and wealthy consumers are looking to foster a sense of privacy and well-being in their home. For the next generation of buyers this means a home design that caters to their lifestyle: space for both work and entertaining, areas for spending time with family and close friends, and a place to create treasured memories.
- **Perceptions of a climate of contempt factor into real estate decision making:** Affluent and wealthy consumers are wary about forming new relationships and it will take work to get inside and/or stay inside their circle of trust. Combine your understanding of affluent and wealthy consumers—including your knowledge that many feel their success is oftentimes scorned rather than celebrated or aspired to—with your market expertise and your ability to bring a property’s details of distinction to life. A new home should be a refuge from the stresses and trials of being in a negative public spotlight while feeling personally happy and successful.
- **Commit to your customers and commit to Worth:** Today’s affluent consumer wants to work with people who treat them with warmth and authenticity. Express your personal passions in relevant ways in order to deepen your relationships. Once you disclose a personal passion or interest, you increase the odds of a client doing the same. And when warmth is authentically shared in the context of your knowledge about the market and your ability to communicate the features and details that make a property unique, the odds of a mutually rewarding transaction are upped significantly.

LUXURY PORTFOLIO – WHO WE ARE

Luxury Portfolio International® is the luxury face of Leading Real Estate Companies of the World®, the largest global network of premier locally branded companies dominated by many of the world’s most powerful independent luxury brokerages. Launched in 2005, Luxury Portfolio International® today markets over 25,000 luxury homes to over 1.2 million high-net-worth visitors annually. By presenting a gallery of the finest luxury properties and brokerages worldwide, our brand is recognized throughout the world as the luxury standard of excellence.

In addition, we are unmatched in the global arena, with properties in over 45 states and 25 countries, website visitors from over 200 countries/territories every month, site translation in nine languages, conversion to multiple currencies and a total inventory of available properties totaling almost \$36.5 billion. The 200 brokerages of Luxury Portfolio International® represent the luxury segment of Leading Real Estate Companies of the World®, the premier global real estate organization encompassing 550 firms, 4,600 offices and 140,000 associates producing \$225 billion in annual home sales. Based in the United States with an office in London, Luxury Portfolio International® is backed by the experience of the most respected and recognized experts in luxury real estate in markets worldwide. This group’s experience spans many decades in the highly affluent residential market.

Contact Information:

Luxury Portfolio International®

CHICAGO | 161 N. Clark Street, Suite 1250 | Chicago, IL 60601 | USA | 800.621.6510

LONDON | 1 Northumberland Avenue | Trafalgar Square | London WC2N 5BW | UK | +44 20 3399 9040

Membership Questions:

Support@luxuryportfolio.com