


INVESTMENT STRATEGY | ⌚ 6 MINUTES

What you need to know before buying a luxury home





It's no bubble. Luxury home prices are rising for good reasons—and you can still find good value.

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Is now a good time to buy a luxury home? A recent run-up in luxury home values, coupled with higher mortgage rates, has some wondering if they should stay on the sidelines, at least for a while.

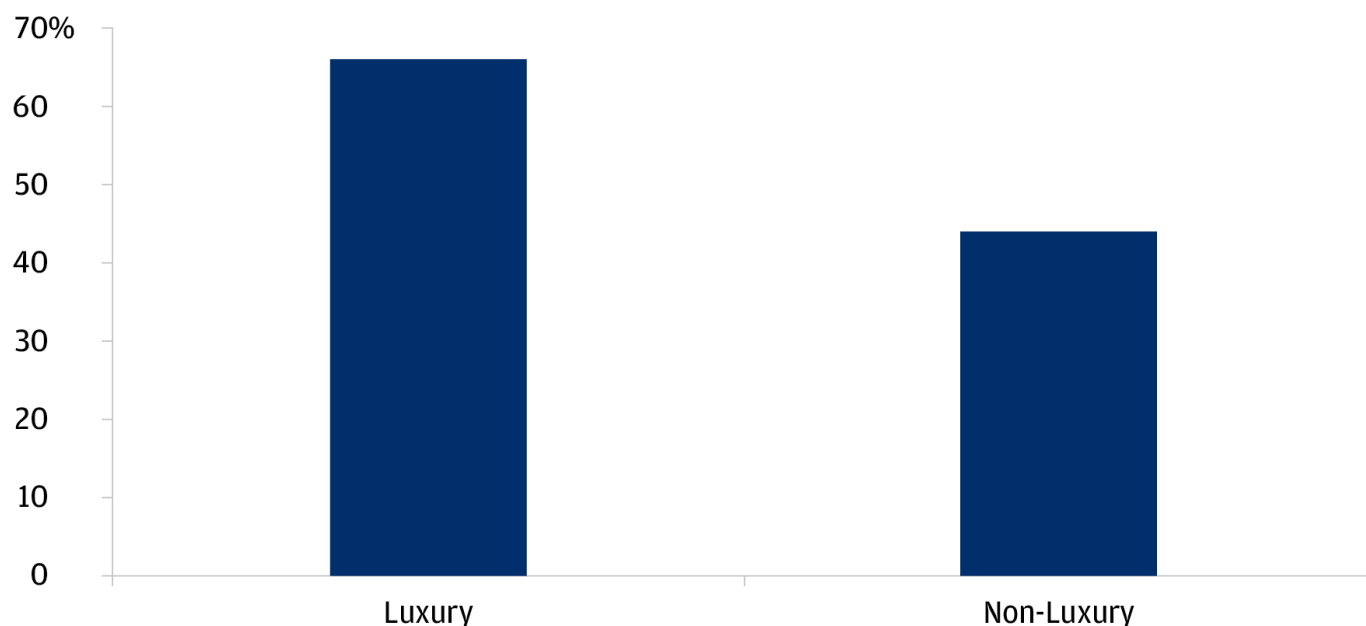
Our view: Don't be excessively cautious. We see good value across the U.S. market, in part because the dynamics of the luxury housing market have changed in ways that are not always well understood.

The state of the luxury market, defined as the top 10% of home values, is not impacted by changing mortgage rates like the overall housing market is. Instead, changes in wealth—increases in total net worth—are the key drivers. A post-pandemic surge in the total wealth of the top income households, along with greater use of private aviation and the rise of remote work, has spurred dramatic gains in luxury housing prices.

Non-luxury home prices have risen too, but at a slower pace. From Q4 2019 to Q4 2023, luxury home prices increased 65% versus a 40% gain for the non-luxury market. Not surprisingly, we note considerable geographic variation. These reflect a variety of factors, including differences in tax rates and regulations, as well as trends in domestic migration. For example, median prices jumped 56% in Miami, Florida, while New York City prices gained 28%.¹

Since 2019, luxury home price gains have outpaced the overall market

% increase in median sales price from Q4 2019 to Q4 2023



Sources: Miller Samuel, National Association of Realtors, Haver Analytics. Data as of December 31, 2023. *Note: luxury data and non-luxury data are calculated using the average of 4 metros (Manhattan, Miami Beach, St. Petersburg FL, Long Island NY). Luxury refers to the top 10% of homes by sales price whereas non-luxury refers to the bottom 90% of homes by sales price.

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As we discussed in an earlier article, [higher prices have exacerbated the housing affordability crisis](#) in some key U.S. housing markets.

Changes in wealth versus changes in rates

Our analysis sheds some light on market trends. An analysis we performed finds no statistically significant relationship between mortgage rates and luxury home prices (we used data from real estate firm Miller Samuel). On the other hand, we do find a relationship between mortgage rates

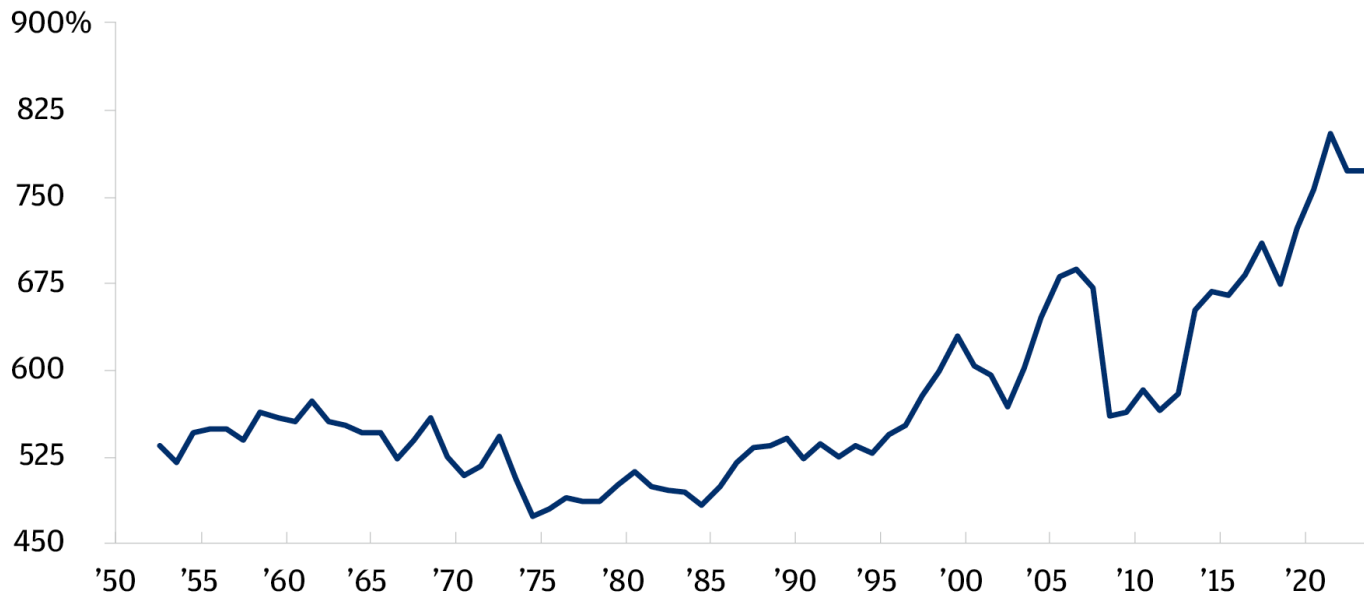
and non-luxury house prices, as higher rates put downward pressure on home prices, and lower rates push prices higher.

Our analysis concludes that the move in mortgage rates in recent years—from just under 3% to just over 7%—would cause an 8.2% drop in overall home values, all else equal (see Appendix, Exhibit 1). But for the luxury market, such a rise in mortgage rates would not materially impact home prices.

Changes in wealth—shifts in net worth—are a different story. As shown in Appendix, Exhibit 2, our analysis determines that changes in wealth have twice the impact on luxury versus non-luxury home values.² And by any measure, U.S. wealth has increased dramatically over the past decade.

U.S. wealth has risen significantly over the past decade

Total U.S. household wealth, as % of disposable income



Source: Federal Reserve Board, Haver Analytics; data as of December 31, 2023.

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Private jets, remote work—and multiple homes

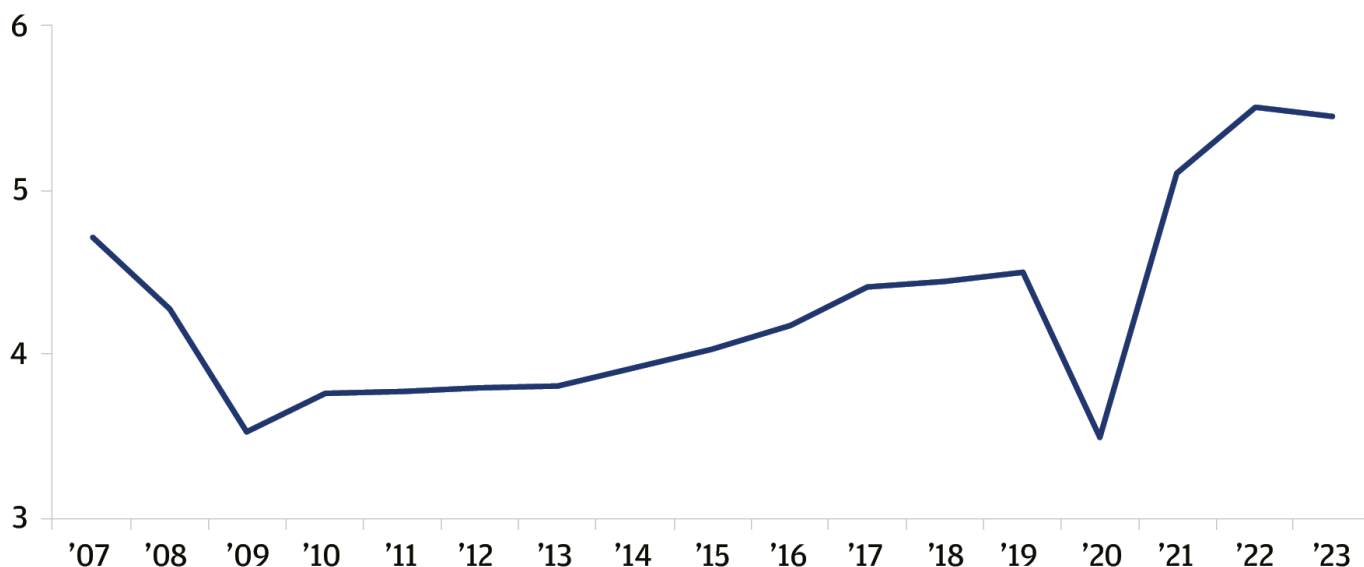
Two interconnected post-COVID trends—the rise of remote work and a surge in private aviation—have fueled much of the gains in luxury home prices. Although work from home is less prevalent

than it was at its pandemic peak, it still accounts for 28% of full paid days versus 7% pre-pandemic.³ At the same time, the use of private aviation jumped dramatically. In 2022, total U.S. private jet flight hours were already 22% higher than pre-pandemic levels.⁴

The rise of remote work and increased private aviation have shifted the mental calculus for many potential luxury homebuyers. You may be one of them. Pre-pandemic, you might have thought about buying a ski house, say, but rejected the idea because you thought you wouldn't use it enough. But if a private jet can take you to the slopes in just a few hours, and you can work there as needed—why not? Increasingly, buyers are feeling much more comfortable owning multiple homes.

Private aviation and remote work make it easier to own multiple homes

Total U.S. private jet flight hours (millions of hours)



Source: Argus TraqPak. Data as of December 31, 2022. *Note: 2023 data was estimated using Argus TraqPak's forecast.

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Another trend is less quantifiable but seems clearly to be pushing prices higher: new amenities and still-greater quality in top-of-the-line properties. Luxury Manhattan condos now feature Michelin-starred restaurants, for example. An upcoming luxury residence in Miami will include private elevators for a resident's multiple cars.

Crafting a strategic plan, maximizing tax efficiency

As luxury home prices continue to rise, it's especially important to ensure that you have the optimal strategy in place for all facets of a home purchase. Among the questions to consider:

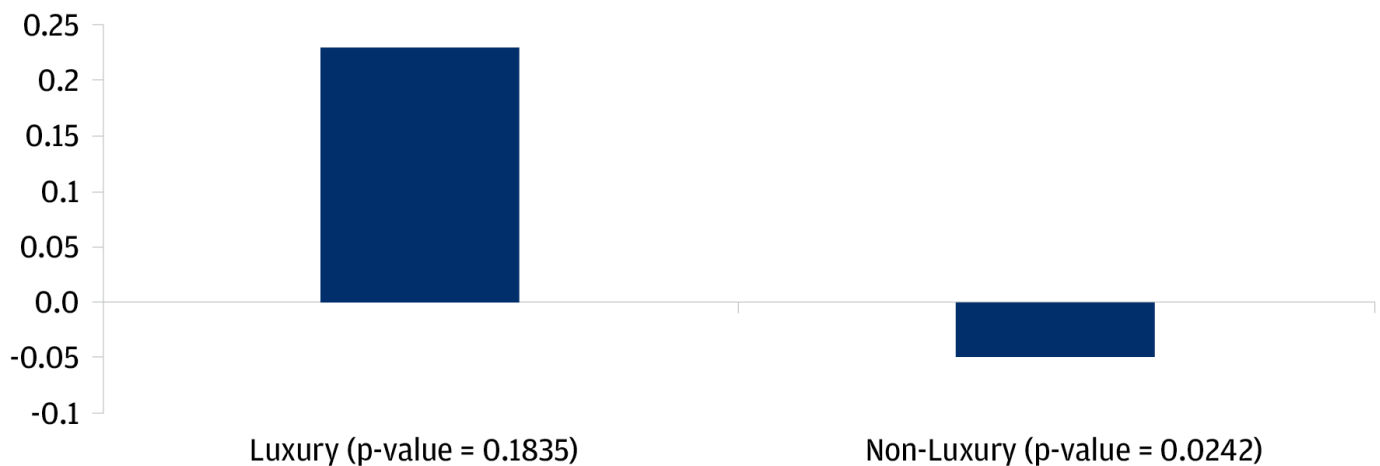
- **Have you taken the most tax-efficient approach to your real estate purchase?** There are strategies that may help you significantly increase the deductibility of your mortgage and lower the effective interest rate. This approach can materially shift the calculus of borrowing and the positive impact on your balance sheet.
- **Have you planned for the likelihood that rates will fall in the foreseeable future?** Given the expectation that rates will decrease in the foreseeable future, it is prudent to consider the probability that you'll have a near-term opportunity to refinance into a lower rate. This provides great optionality, and also may help inform the type of mortgage product you select—Adjustable Rate Mortgages have become very prevalent in this environment.
- **Do you have the optimal structure for your property ownership and borrowing?** There are a number of key considerations related to how you hold title to your home and how you borrow. These can materially impact privacy, liability and estate planning—and we can work with you to identify the most advantageous strategy to meet your goals.
- **Is the property appropriately included in your estate plan?** In buying any asset, especially a luxury home, you'll want to consider how you would like it disposed of one day. Some relevant questions: How will owning the home impact your estate tax liability and the ability of your heirs to raise the cash to pay those taxes? Should the property stay in the family or instead be sold? Where will the cash come from to pay ongoing expenses?

So yes, now is a good time to buy a luxury home. Prices have outpaced the overall market—but for very good reasons that show no signs of abating. Much as we do not see a bubble in U.S. stocks, we see no bubble building in the luxury housing market. Talk to your J.P. Morgan team about mapping out the best possible strategy for your upcoming home purchase.

Appendix

Luxury housing market is much less sensitive to changes in mortgage rates than the overall housing market

Regression coefficient for median sales price and mortgage rate

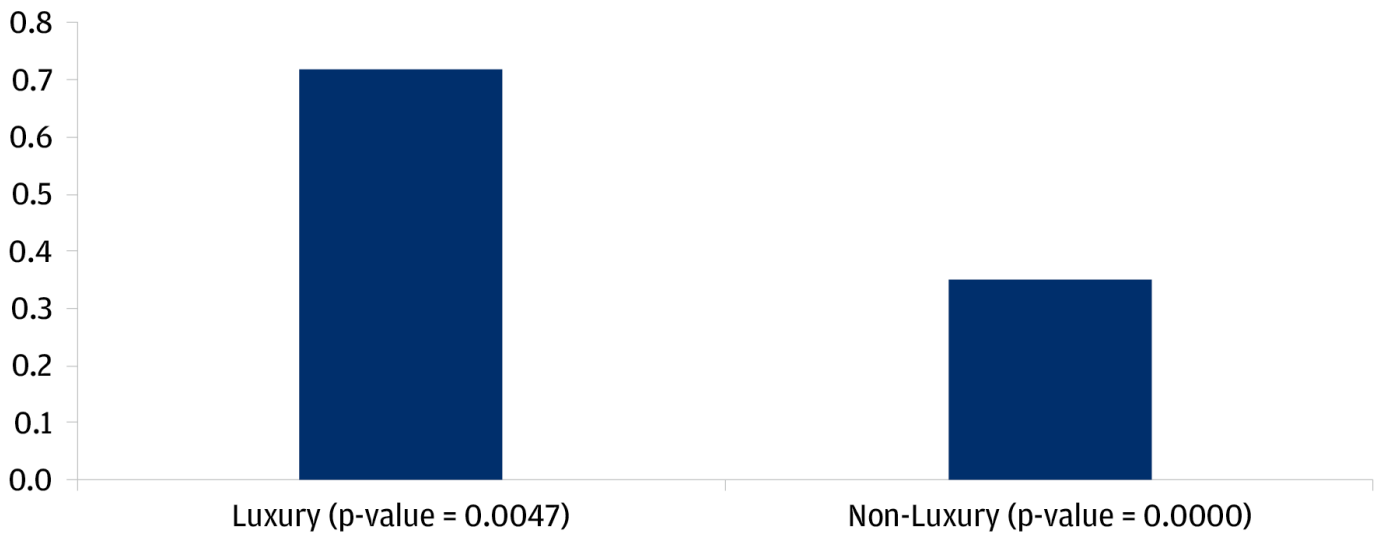


Sources: Miller Samuel, FHLMC, NAR, Haver. Data as of September 30, 2023. *Note: luxury refers to the top 10% of homes by sales price whereas non-luxury refers to the bottom 90% of homes by sales price. For luxury homes, regression is run using median sales price of Manhattan homes and the 30-year fixed rate mortgage with the p-value of 0.1835 (i.e., not statistically significant and has the wrong sign). For non-luxury homes, regression is run using median sales price of total existing homes and 30-year fixed rate mortgage with the p-value of 0.0242. For both regressions, one period % changes are utilized, and both regressions control for changes in wealth and lagged changes in home prices.

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Changes in wealth & increases in total net worth are key drivers of the luxury housing market

Regression coefficient for median sales price and wealth



Sources: Miller Samuel, FRB, NAR, Haver. Data as of September 30, 2023. *Note: luxury refers to the top 10% of homes by sales price whereas non-luxury refers to the bottom 90% of homes by sales price. For luxury homes, regression is run using median sales price of Manhattan homes and total net worth of top 1% household by wealth with the p-value of 0.0047. For non-luxury homes, regression is run using median sales price of total existing homes and total net worth of households between 50th to 90th percentiles by wealth with the p-value of 0.0000. For both regressions, one period % changes are utilized, and both regressions control for changes in mortgage rates and lagged changes in home prices.

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¹Sources: Miller Samuel, National Association of Realtors, Haver Analytics. Data as of December 31, 2023.

²In statistical terms, the coefficient on changes in wealth is more than twice as great for luxury home prices as it is for non-luxury prices. Regression results for mortgage rate and wealth coefficients are shown in the appendix.

³WFH Research. Data as of February 1, 2024.

⁴Argus TraqPak. Data as of December 31, 2022.

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