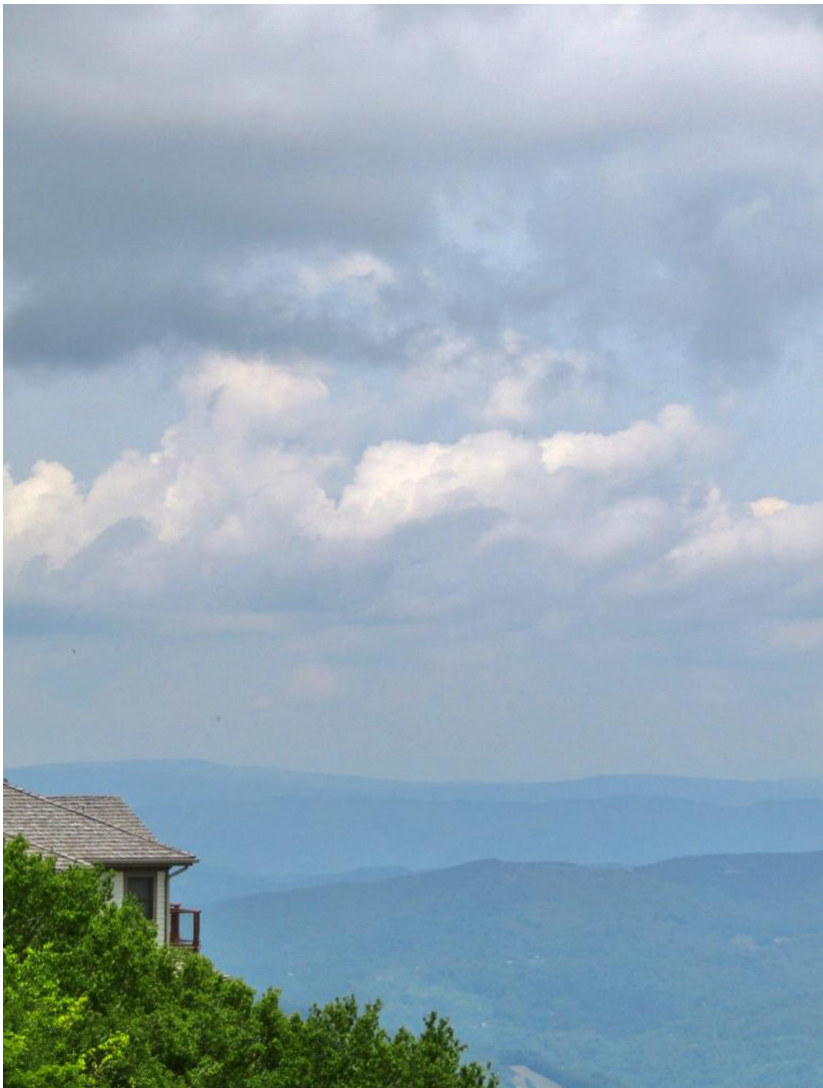


# **'HOW HAS THE PANDEMIC AFFECTED THE LUXURY REAL ESTATE MARKET?'**

**Matthew Armstrong**

**Senior Research Paper  
Saturday May 1<sup>st</sup>, 2021**



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***By Matthew Armstrong  
May 1, 2021 12:00 am ET***

## **Introduction:**

The COVID-19 Pandemic has changed the lives of everybody in one way or another, all over the world. People's livelihoods have been affected and may not return to how they once were for years to come. However, people and businesses alike have adapted, compromised, and overcome. Education has not stopped but carried on in a fully online or hybrid in-person and online combination of teaching; restaurants have not closed doors but have instead started to concentrate on delivering to customers and a curb-side pickup method; one primary thing that we have learned however is that, for the most part, consumers are still consuming. Whilst multiple high-street retailers have gone into administration as they haven't had the means to adapt to the change in demand that the pandemic has brought. The luxury real estate market is one industry that hasn't seemed to have change anything about their practices, yet has still not only thrived, but has broken records. With the definition of the luxury real estate market being properties of the price of \$1M and up, it is rare that a market with such a small demographic of buyer has boomed to such a degree. This has led me to ask the question: 'How has the pandemic affected the luxury real estate market?'

## **Literature Review:**

From multiple online articles, it is hard not to see that there is one specific demographic of the real estate market that is thriving. Many recent studies have focused on who has been buying luxury real estate and where they have been buying it, however, few researchers have taken why luxury real estate has been in such high demand during the pandemic into consideration. This is the reason why I am asking, 'How has the pandemic affected the luxury real estate market?' This question is far broader and covers more factors behind determining why this boom has taken place.

Several studies have focused on luxury real estate consumers seeking out more access to open space, particularly in the mountainous and rural areas. (Parker, W. 2020, October 2) points out that pandemic home buyers have driven up the price of real estate in Aspen as wealthy urbanities look for space and outdoor amenities during the pandemic whilst working from home. Other studies have gone even further than talking about open spaces, and have elaborated that workers are leaving built-up, metropolitan areas to escape to the mountains for a higher quality of life. (Carlton, J. 2020, August 26).

Throughout the literature, there is consistent evidence that people are making these moves in order to feel safer in their surroundings. Whilst New York City is the home to many, studies show that its inhabitants have simply felt unsafe in their city (McLaughlin, K., & Taylor, C. 2020, June 4) and it seems as if they are migrating to the mountains to stay safe from the virus. My research will fill in the gaps by contributing new knowledge on, other than feeling unsafe, who has moved to rural areas and why now, during a global pandemic, seems to be the time to do it.

However, in an era of unpredictability and 'the new normal' ever changing, different areas are seeing peaks and troughs in their luxury real estate market. The

pandemic has caused a huge shift in demand for both luxury apartments in major metropolitan areas as well as isolated mansions in luxury mountain towns. Whilst the all-to-well known demand in the mountain towns has increased and therefore increased the prices, there was a stage during 2020 when residents could barely make their way to the supermarket due to lockdown restrictions before having to return to their small and usually semi-confined spaces in the shape of a luxury apartment. As individuals flocked and sold their apartments during this crisis in the likes of New York City, many investors have seen their fear as an opportunity and have used it to buy up properties as New York's luxury real estate market has entered 2021 with confidence.

### **Research Methodology:**

I entered my methodological approach with the aim of gaining more understanding on how the pandemic affected the luxury real estate market. In order to best answer this question, I used a collection of primary research, conducted by myself, and secondary data collected from others' research.

My primary method of research and data collection was through interviews with various luxury real estate professionals and buyers. As I was an intern at an Engel & Völkers franchise during the pandemic, I had a wide network of industry professionals and luxury real estate consumers just an email away. After receiving interest in being involved in this study, I was able to interview a real estate agent within the luxury market in Banner Elk, North Carolina, Vail, Colorado, and with an individual who bought a luxury home in the height of the pandemic.

As I was interviewing two different types of individuals, the questions had to reflect this. The interviews contained questions that were unbiased and did not prompt the luxury real estate experts to talk about the pandemic and how it has

affected their market, however, I prompted them to tell me about how their market had been performing and what they thought the reasons were. Regarding the interview with the client who had purchased the luxury home during the pandemic, I also made sure that this was not bias in any way. The questions to the buyer did not specifically ask if they bought during COVID-19 for the reasons that I had already discovered due to secondary research, but they prompted the client to open up about their purchase and what factored into their decision. Both the qualitative and quantitative data recorded from these interviews combined was substantial and filled a large gap in research that has not yet been exposed.

Interviews may not seem to be the most practical research method during a pandemic, but I got around this problem by using the correct personal protection equipment, adequate social distancing and by ensuring that I followed all of the CDC's COVID-19 safety guidelines. I also used Zoom to interview in the one occasion that COVID-19 made an in-person interview impossible. I recorded the dialogue of the interviews before typing it out and using the transcript for analysis. The interview method was most suited to my objective; this approach allowed me to pick the brains of those who were the directly involved in both the buying and the selling within the luxury real estate market.

Throughout the interview process with the two market experts, as well as qualitative data, they were also able to give me some astonishing quantitative data from their markets. This data is a great backup to what the experts had verbally told me during the interviews as the qualitative and quantitative data strongly correlate with one another.

The secondary research included in this paper is a mix of qualitative and quantitative data from various online news sources. I discovered the majority of

these sources through online search; even though this is a niche topic, the information gathered that was available online was of a very high quality. The lack of secondary research that answered my question was certainly a limitation, however, it gave me the opportunity to fill the gap with knowledge obtained from my network within the industry.

From reading through my secondary research, the best data collected in my view was taken directly from industry experts. A Wall Street Journal article had interviewed Amy Alvarado, an agent with boutique real estate company Engel & Völkers. (Bindley, 2020). The quality of this data collected made me optimistic that my research would be on the same level as all of the industry professionals that feature in my research are also agents of Engel & Völkers in real estate hot spots.

### **Analysis of Research:**

The first of my interviews was with one of Engel & Völkers Banner Elk's real estate agents, Mr. Seth Herndon. In March of 2020, Seth had the same thought as every other real estate in the country, when will he receive his next commission payment? The Coronavirus pandemic brought pandemonium around the world, and it left so many people in financially uncomfortable positions due to furlough, salary reductions, and being let go completely; the uncertainty was just as great for real estate agents as it was for any other profession. However, little did Seth know that this was going to be one of the most exciting years that the luxury real estate market had ever seen.

When asked about the beginning of the real estate season here in Banner Elk, Herndon said, "The area was not quite whatsoever. There are a lot of seasonal residents in the area who have spent the quarantine period up here instead of at their primary home; if they weren't spending time up here, it seemed as if guests of

theirs were. Although the area wasn't quiet, the luxury real estate market was the whole way up until May and the beginning of June when the market is usually already in full flow." The small mountain town's initial population spike during quarantine seemed to be the perfect area advertisement, and at the perfect time. After being stuck in their own homes for so long, holiday-home owners and their guests were both discovering and re-discovering their love of the rolling hills of the Blue Ridge Mountains. "I think that people were tired of being locked down and wanted to go and see somewhere else. People felt safe coming here and could do things outside and didn't have to worry as much about Coronavirus. Avery County, in which Banner Elk is located, had 0 positive cases for a very long time - the only out of 100 counties," said Mr. Herndon who believes that this was also another draw that brought people up to Banner Elk.

From the interview, one of the main things that I took was that all roads pointed towards Banner Elk during the period of lockdown. "With people not traveling internationally or to larger metropolitan areas nationally this summer, people are seeing an opportunity to visit our small mountain town and spend some time here." Herndon had spoken to so many clients and other real estate agents over the summer, and they are also all agreed that it was not one factor that brought this wave of luxury real estate buyers up to the mountains, but it was a series of events that had naturally brought them up. "I think that for people who have talked about it (buying luxury real estate in Banner Elk) for a while, the pandemic has been the straw on the camel's back. I think that for other people it kind of became more of an impulsive decision which made demand increase even more!"

Banner Elk, North Carolina, could not differ any more than it does to metropolitan, built up areas such as: Charlotte, Savannah, New York City, Austin,

and Birmingham, however, this is where the majority of buyers were coming from, but why? Herndon said that the typical client in the area comes up from Florida to enjoy the milder climate of the mountains, but this year, other than New York, the new cliental consistently included the “young urban south.” “A big factor for the clients that I have worked with during the pandemic is that they don’t have to go into the office to work as they can work from home. I’ve had specific clients that were young professionals who have kids who are able to learn online and they can therefore come here and still be active and go into restaurants and feel comfortable and play golf and tennis and hike. I think a lot of people came here because they have an active lifestyle and still want to stay active.” Herndon brings up a good point here as the flexibility that the pandemic has brought to work schedules has allowed so many professionals to alternate their standard workdays and transform them into what they want them to be, and where they want them to be. And the pandemic has seemingly given these professionals even more flexibility as kids’ schooling had also made the transition to online learning and has allowed the entire family to make their dream move up to the mountains.

Another factor that comes into play that Herndon brought up that has not yet been touched on by any of my secondary research sources is the fact that the summer of 2020 consisted of so much civil unrest, particularly after the death of George Floyd. “I think that not only the pandemic, but the amount of unrest that has been in cities this year has contributed to people wanting to move out of cities. As they move into rural areas such as Banner Elk, they have more freedom and more control over their own lives and don’t have to worry about government mandates or curfews.” The mountains of North Carolina can be seen as a safe haven from all



that was going on in the world in 2020 and maybe this was a key factor of the purchasing decision for many of these luxury buyers.

So, what says this year was unique for sales? The demand for luxury real estate in Banner Elk from June to October was extremely high when compared to other years. Herndon added, “I definitely saw a lot more home sales this year compared to other years, specifically in September and October. Both of those months were almost double what home sales were in 2019 and 2018. July and August also did very well. June is when things started to pick up a little bit. The clients were not just people who wanted to look at homes either, but they were all putting in offers and buying property looking for a quick move-in.” From the data that Herndon had provided from the High Country MLS, the increase in luxury real estate sales from 2019 to 2020 was 79% and a further 297% increase from 2018.



**Banner Elk Historic Sales by Year**

Sale Price	2017	2018	2019	2020
\$600,000 - \$700,000	47	45	61	109
\$700,000 - \$800,000	21	30	43	77
\$800,000 - \$900,000	17	22	33	52
\$900,000 - \$1,000,000	10	18	24	45
\$1,000,000 +	44	36	80	143

(Data provided from Mr. Seth Herndon, Engel & Völkers, Banner Elk).

Whilst the data that Herndon has provided answers to many questions, it also opens up a few others... Prior to the time of interview, all of Herndon's clients have been cash buyers who want to get moved in as soon as possible. With demand this high, how has it affected supply and therefore the price equilibrium? Whilst high demand is usually a good thing for somebody working on a commission-based salary, Herndon voiced his frustration that the demand exceeded the supply; "I would do the research and find the homes that my clients wanted, but on several occasions the targeted listings would go under contract before my clients could even get up and view them." With the price equilibrium shifting upward, it made for a true seller's market. Homes in the area that had been on the market for years were also shifting all of a sudden, the lack of supply made these properties more desirable than ever prior to the pandemic.

So, all in all, what can we take out of this interview with Engel & Völkers' Seth Herndon? With a slightly busier than usual off-season of sales in Banner Elk and a far higher rate of footfall throughout the town over the winter, where does this leave us coming into the peak season of 2022? Herndon added, "I think it'll be interesting to see what happens during the rest of this year (2020) and what happens into next spring and summer and see if these trends are going to continue or if this was just a boost over the pandemic. Personally, I think that a lot of people who have discovered our small mountain towns for the first time are not going to forget and tell their friends and families and I expect to see a lot of growth in the luxury real estate market in the next few years." To follow up from this, from spending the final months of 2020 in Banner Elk, Herndon told me further that judging off how busy the ski resorts in the area have been, and how many out-of-state license plates have been

flooding the local roads, he confirms that he stands by his comment regarding future growth within the luxury real estate market in the area.

The next location of luxury real estate market analysis is Vail, Colorado. I was fortunate enough to be able to interview Mr. Jay Baiel from Engel & Völkers' Vail location. Baiel is an associate broker and has also experienced the rural luxury real estate boom firsthand. In September 2020, the average price for a single-family home throughout Eagle County was \$1.6M which was up by 21% from the previous year; when average prices are already this high, 21% is a very significant increase.

To get straight into the data that shows just how the Vail market performed, I asked Baiel what from the data that he knew of instantly stuck out in his head. “ ‘There were two really big things. First of all, before 2020, before this summer, the biggest dollar transaction volume in Eagle County, per month, was in 2008 and it was \$318m in transactions and then in August of 2020 we smashed that record with \$418m and in September of 2020 smashed that record again with \$515m, so half a billion dollars in a month is crazy for our market, just the total historical volume has been record shattering this month.” After Herndon from Banner Elk telling me that their peak season came far later in the year than usual, I learnt that the correlation between Banner Elk and Vail were very similar regarding the timing of closings. It was during the interview with Baiel that I learnt why this may be: “Sales are taking a while right now, especially with appraisals and inspections, everybody's been too busy to do a two-week close unless they want to waive inspections etc. It's going to take around 6 weeks before sales will close and that's why we are seeing the numbers pushed back as you go under contract in July and that number is processed in August or September and there is that six-week lag on top of that. I think that it is due to the lag of the whole real estate market, it just takes a while and

that's why Septembers numbers are so strong." Baiel's point here is representative of both markets as they have followed a very similar sales trend over the course of the pandemic.

Another point of comparison between Banner Elk and Vail's luxury market analysis is the fact that it has taken the pandemic to get some of the houses that have been on the market for years to sell. "We are now seeing the big houses move, some of them have been on the market for 2 years, 3 years, and now the \$10m, \$15m, \$57m houses are being sold." Following this response, I asked Baiel what he thought the reason behind this sudden push of sales was. "Personally, and from what I hear around my office, what we've been seeing is that people want to move from the cities. We have seen a lot of people from Texas buy here, California and New York, those have been the big three that have bought in Vail this summer who aren't from Colorado. Minus everybody from Colorado who buys up here and lives up here, those are the big three cities that we see everybody spilling in from." This response from Baiel brought me back to when Herndon had explained that New York and Texas were where a lot of his clients had also come from. This qualitative data backs up the point that those who have the financial means are looking to leave built up areas and escape to the mountains so to speak. To dive deeper into this point, we have to ask why it is that people are making the move now, is it all down to being in the midst of a global pandemic? "I think that most of it is all the work from home and the kids who are taking school from home, I mean do you want to be in a condo in New York where you can't go outside or in the mountains? That is how everybody seems to be justifying their decision," Baiel explained. Once again, we are seeing a parallel trend alongside the information passed on to me by Seth Herndon from Banner Elk's Engel & Völkers office.

A phrase that has come up quite a lot when talking about what is making these luxury real estate consumers decide to make the move is, 'the straw on the camel's back.' Baiel explained that the pandemic has pushed buyers into a 'why not' reasoning; it has gotten people thinking that life is too short and so many of these buyers have always thought about buying in a tertiary location, and all of factors that the pandemic has brought about have just been the final push to making that decision to buy.

Regarding inventory, Vail and Banner Elk had a similar trend once again, however, Vail's lack of inventory was far more extreme than Banner Elk's. When I asked Baiel what his office's inventory levels were looking like, he provided a shocking answer; they had absolutely nothing left when we spoke on November 2<sup>nd</sup>, 2020. "If you were looking to purchase a house for under \$2M and it was priced well, it'll be on the market for no longer than 24 hours." Whilst Herndon commented that on many occasions his clients couldn't even view the property by the time, they had decided to make the trip up to the mountains as they would already be under contract, Baiel's clients scenarios were even more extreme. Baiel said, "I was working with a buyer in a neighbourhood where we looked at two places. The house was on the market at one in the afternoon, I leave work, go preview the house, call my client, get her in there at 3PM, we are talking, trying to put a number (bid) into her head and she is thinking through financing and everything and then I get a call at 5AM the next morning to find out that that house is already under contract. It's literally so fast that you can't get a deal up here, people are always searching for a deal but right now you have got to buy it instantly if you want it. Supply of property in the Vail valley will always be limited and the demand this year has again pushed the luxury real estate prices up even further due to a shift upwards in the price

equilibrium, a trend that I see continuing as the years go on; emerging from the pandemic, Vail has accelerated its growth rates and is on route to be one of the America's most expensive multiplicities as the years go on.

The quantitative data collected from the interview with Baiel was also substantial and stands by everything that he had to say verbally. In September of 2020, there were 18 sales over \$5M which has never been done before in Eagle County. The average sales price was \$9M which breaks down to 35% of dollar volume in September. This figure is usually around 1%. The Engel & Völkers Vail office record for this summer was another shattering record coming in with \$24M worth of sales. The Vail valley record was also smashed at \$57M worth of sales. Baiel commented that these were, "big, big weeks for real estate."

Here's a look at some more of the data from the record-breaking year that was 2020:

- **\$57,250,000**; the highest priced home sale ever in Eagle County (both sides of duplex in Vail Village)
- **\$533,346,131**; Increase in year-end dollar volume over the next best year (2007)
- **\$601,738,961**; Highest total dollar volume in a single month (October), ever
- **447**; Number of transactions in October - the most in any given month, ever
- **\$1,489,028**; Average sales price of a residential home
- **123**; Properties sold in Cordillera - the most in 20 years
- **21%**; Average price increase for a single-family home throughout Eagle County
- **248**; Number of vacant residential land sales
- **83**; Homes that sold for \$5M or more

- **201**; Total properties sold to buyers from Texas
- **30**; Percent of buyers from out of state
- **\$229,361,229**; Total dollar volume for commercial sales
- **\$4,481**; Highest price per square foot for a residential home (one side of Vail Village duplex mentioned above)
- **\$2,809**; Average PPSF for a single-family home in Vail Village
- **14%**; Percent increase in multifamily homes per square foot over 2019
- **218**; Total number of new home sales
- **23**; Land Title employees in Eagle County to assist you with your next transaction!

(Data provided by Jay Baiel, Engel & Völkers, Vail).

As well as interviewing two luxury real estate experts who sold property throughout a global pandemic, I also interviewed an individual who bought luxury real estate in one of these rural, real estate hotspots. The interviewee is a professional from Savannah, Georgia, who said that he first started to think about how he would love to one day buy a property in Banner Elk when he was just 20 years old. The two main attractions both then and now are the mild summer climate that Banner Elk offers and the vast amount of stunning golf courses. The interviewee added, “There are more golf courses in Avery County than there are stop lights.”

Although Banner Elk is classed as a rural area, the constant flow of individuals migrating to the mountains seasonally, for retirement, or to live here full-time has meant that there is an abundance of different activities to do whilst in the area. When I asked the interviewee why he chose Banner Elk out of all places, he

informed me: “Banner Elk is higher, it has a cooler climate, and there’s a lot to do here. Lee’s-McRae College hosts a series of summer concerts, it has two ski mountains, and endless hiking trails. Being so close to Blowing Rock and the city of Boone and also great attractions. It is also unique to be so close to a lake the size of Watauga Lake whilst being in the mountains, this was also a big attraction for myself and my family.” After talking about buying in Colorado for a few years, the interviewee and his family decided that it was just too far away from their home in Savannah and that they wouldn’t get the usage out of it. “I didn’t want to buy a place that I would rent.” The interviewee added. From talking to both Herndon and Baiel, the consensus is that buyers were in this for the long run; they were not buying property to rent, or to sell again within the next few years. The interviewee added when asked if he could see himself selling the property within the foreseeable future; “Knock on wood, absolutely not, no way. We did not buy to sell.” These properties that have been bought during the pandemic seem to be less of a monetary investment for the future, but more of an investment in quality of life and something that these buyers have to enjoy for themselves.

Whilst the real estate experts who were interviewed have agreed that there have been so many factors that aided the purchasing decision, I asked the buyer what factors influenced his decision to buy a luxury property during a global pandemic. “Some people are pandemic shopping; we didn’t shop for the pandemic at all. We didn’t buy to flee from the pandemic. We were just trying to acquire a property that we thought we’d use and enjoy. We were trying to find the ‘little cabin in the woods’ so to speak, but the problem is that we couldn’t find a property like this around Banner Elk that was even decent and that is why our mind-set expanded to looking for something a little bigger, nicer and more sophisticated.” Although the



interviewee wasn't buying for safety, to flee from the pandemic, he did go on to talk about other factors that influenced his decision that can be indirectly brought back to results of the pandemic. In such a town like Banner Elk, it is more difficult to find a property of true quality without it falling into the category of luxury real estate. As a seasonal, resort town, there are so many gated communities such as Elk River Club, Linville Ridge, and Diamond Creek, or there are smaller, mostly part-time rental properties on the likes of Beech Mountain and Sugar Mountain, it is very difficult to find that middle ground without having to do a lot of work to satisfy what these luxury buyers are usually looking for. The properties that do exist that would be considered to be in the 'middle' have all already been taken up by those who have lived here full-time for multiple years and are in professional jobs within the area. For this reason, neighbouring up-and-coming towns such as Newland are seeing a spike in sales of mid-range priced houses.

So, what did influence the decision to buy a luxury property in the North Carolina's section of Appalachian Mountains? Both the interviewee and his wife work professional jobs in Savannah, Georgia. When COVID-19 struck, workplaces were hit hard as employees had to be sent home and transition their work to an online, work-from-home format. It turns out that for this interviewee this was a very influential factor that allowed them to make the purchase. "I've been looking for a property in this area for about a year on the computer at night, and my wife felt like we could actually spend some time up here because she realised with the pandemic that she didn't have to be sitting behind a desk all the time because there was more flexibility than she had realised. For me, I could've worked elsewhere because I talk to people on the phone a lot, I also see them face to face, but I have no problem telling them I'm working from the mountains now, but she would feel guilty about

that... She had more flexibility than she thought and that freed us up to buy a place.” From this I took that they did not buy to flee a pandemic, but they bought thanks to the pandemic. The pandemic opened up possibilities for this couple and helped them to buy a home that they have always dreamt of owning.

In most cases, working remotely comes with having to work from home. It depends on who you ask but they will tell you that it is either amazing, and they never want to go back to an office again, or they will tell you that they are counting down the days until they can get back into a designated place of work where they can leave it all behind when it is time to clock out for the day. “We don’t love working from our house because the problem is, you never get away from it and it’s constantly in front of you, you might work 8 or 9 or 10 hours when you’re at work but when it’s here it’s like you’re working for 24 hours a day. It’s always in your face and it’s no fun to have your office in your bedroom. There’s a big argument about productivity or not productivity; what I’d say is that when you’re working from home there’s plenty of responsiveness, but I don’t know that it’s more productive. It saves a lot of people commuting time and everything else, but I wouldn’t say that it’s more productive. If anything, it is more annoying because you’re working from your bedroom.” The interviewee and his wife had his first experience of working from their new mountain home during the summer and saw a lot of the cons alongside the pros that it brings. He then further commented about his potential plans on how to improve his work-life balance. “There’s a mind-set, if I knew that I could have an office here and could work here next summer with a small office down beside the barbershop, have a small amount of money and have an office here to work in where your life is segmented, departmentalised, I’d much rather do that. I’d rather drive down there and spend a day working there than having a home office. It’s nice to

have a home office don't get me wrong, but not to work in all day every day." Whilst working from home in the mountains stimulates the local economy to a certain degree, it is brought to an entire new level when those who have come to the mountains to work seasonally then lease office space and, literally, set up shop in the heart of town.

After spending an evening talking to the interviewee, a lot was taken out of the discussion. A lot of information could be compared to what the market experts had told me, and the interviewee was also able to add a lot of interesting information that they had not yet picked up on. The primary outtakes from the interview were the fact that the property was not bought to flee from the pandemic, however, the pandemic did indirectly add incentives to buy. Working from home is not for all, however, there are ways around it, especially as so many of these buyers are not buying in and selling out as they are here for the long run. Although they would prefer to be working in a designated place for work, working from home has been a very influential part of their purchasing decision, the fact that the couple's daughter is also attending school virtually due to the pandemic has also helped in this decision as they could all spend more time together due to the 'new normal' that COVID-19 has brought about.

The secondary research that is available through the form online articles has not only been hugely informative, but it has allowed for a comparison between my primary research and theirs. Correlations were strong between many trends, but it also allowed me to help explain why some of the parallel trends in my research were actually happening. The 'Wall Street Journal' was a fantastic source of information for me as they seemed to cover a lot of this topic, as niche as it may be, it must have

been appropriate for their demographic of reader as a particular interest. Will Parker's article, 'Pandemic Home Buyers Drive Aspen's New Gold Rush,' highlights some key points that line up particularly from the data from Vail, Colorado. 'Anything that's rectangular, flat roof... anything that's contemporary and new, or like new goes.' (Parker, W. 2020, October 2). This point correlate with Baiel's comment regarding properties selling within 24 hours of being on the market. A couple of reasons for such strong correlation between these two towns are that they are so close to each other, and they are both so similar; both towns are ski resort towns that attract the rich and famous over the winter, and summer, holidays. Both Aspen and Vail are both very exclusive Colorado towns. Parker's article also mentioned that a lot of buyers were coming from Texas to escape the heat over summer; this is something that I had previously heard from both of our market experts from Banner Elk and Vail.

Jim Carlton's article, 'Lake Tahoe, Vail Aren't Just for Vacation Anymore as Homebound Families Move In', also shows a strong correlation to the qualitative data that was taken from my interview with the luxury real estate buyer. This article shares a lot of the information that I obtained as Carlton focuses on why people are moving and doesn't over-concentrate his focus solely on the pandemic. Carlton wanted to get behind the question of why the pandemic has led to these sales, not has the pandemic led to these sales. Just like my interviewee, Carlton's were "Huge into the outdoors." (Carlton, J. 2020, August 26). 'Residents of expensive metro areas around the U.S., who can now work remotely and no longer want to deal with urban ills, are fuelling real estate booms in smaller cities and resort areas.' (Carlton, J. 2020, August 26). This comment is applicable for Banner Elk as well as Vail and it is something that Herndon, the real estate expert from Banner Elk also entirely

agreed with. It is a consensus and something that has been mentioned by all three of my interviewees, and now Carlton's article, and that is that people who are buying these properties are seeking more open spaces, and that has also been a huge factor in picking out these rural, mountainous areas.

From my research, we now know that the majority of buyers are coming from built up, metropolitan areas, but Katherine Bindley's article, 'Tech Workers Take to the Mountains, Bringing Silicon Valley with Them', gets into far greater detail regarding the demographic of these buyers in places such as Boise, Idaho, and Park City, Utah. 'Employers including Facebook Inc., Twitter Inc. and Stripe Inc. have liberated their staffers, allowing them to work from wherever they want. As a result, some are leaving the Bay Area to live in Western mountain communities that they have already been drawn to.' (Bindley, K. 2020, November 1). The final words in this sentence are very important as they back up my repeated point of the pandemic being 'the straw on the camel's back.' Herndon had also said that so many of his clients had been looking at the area and dreaming of buying a mountain property for years, our interviewee included. After studying this article, it is clear that we can add these specialist tech workers into this category that have finally taken the plunge and made the purchase. "Amy Alvarado, an agent with boutique real-estate company Engel & Völkers AG, said that around 95% of her clients since the pandemic hit are coming from the Bay Area. Many make all cash offers." (Bindley, K. 2020, November 1). We now have three different Engel & Völkers agents from three different mountain towns all claim that they are having far more all-cash offers than they would usually see. Buying with cash can be seen as desirable for multiple reasons such as not having to pay interest on a loan or any closing rates.

So many luxury properties in rural areas seem to be located in gated, golf club communities. However, the golf aspect is one part of the attraction for these luxury buyers. 'They offer myriad options for outdoor sports, dining and socializing when Covid has curtailed many other forms of entertainment. Clubs' ability to limit access to their facilities makes residents feel insulated from the virus.' (Taylor, C. 2020, December 9). The same article goes on to say that such private clubs were very appealing to 'somebody in their 60s who is fearful of Covid.' (Taylor, C. 2020, December 9). The article goes on to say that a survey conducted by 'Golf Life Navigators' found that 63% of respondents said that they want to live inside a gated golf community versus outside it, which was up from 51% pre-pandemic. A big attraction of the area to my interviewee who had bought real estate in Banner Elk was also the golf courses, in fact, the property in which he bought was also within a gated golf community.

After considering deeply how the pandemic has affected the luxury real estate market in rural area, attention will now be focused to the other end of the spectrum, Metropolitan, built-up areas. We have talked about luxury buyers coming from Texas, New York, and California and taking to the mountains, but as they flee, how are the markets in which they are fleeing from being affected? An article that puts great focus on luxury real estate markets in cities like New York City, Atlanta, and San Francisco is Katy McLaughlin and Candace Taylor's 'Coronavirus Is Sending Luxury Rental Markets on a Rollercoaster Ride', which was published in the 'Wall Street Journal' on June 4<sup>th</sup>, 2020. After what Baiel and Herndon had said about cities feeling unsafe, the duo of McLaughlin and Taylor collected some primary research through interview of a New York City resident, Ms. Kofoed. 'New York is

our home, said Ms. Kofoed, but the city feels unsafe right now because she has an autoimmune condition.’ (McLaughlin, K., & Taylor, C. 2020, June 4).

The impact of the pandemic on monthly effective rent\*\* of luxury apartments that are the 25% most expensive per square foot in selected cities.

CITY:	4L30/2019	4/30/2020	% CHANGE FROM PRIOR YEAR
Atlanta	\$1,651	\$1,634	-1.02%
New York	\$4,859	\$4,831	-0.58%
San Francisco	\$4,018	\$3,936	-2.04%

(Data taken from McLaughlin and Taylor, ‘Coronavirus Is Sending Luxury Rental Markets on a Rollercoaster Ride’).

Although the percentage decrease is relevantly low within these three major U.S. cities, it strengthens the as wealthy individuals move out of luxury apartments in cities, they migrate to the mountains. We know this as prices in these highly developed areas are decreasing in their buyer’s markets, and the prices of seller’s markets in the likes of Banner Elk and Vail are on the up due to their high demand. McLaughlin and Taylor also mention how Twitter are allowing their tech workers to work from home, even if that home is out of state. This is a direct link to the fact that so many tech workers are moving to mountain towns such as Boise, Park City, and Vail; not only does it mean that they are finding a new office in a luxury home out of the cities, but it means that they have contributed to a drop in the rental price of these luxury apartments, therefore the percentage drop that we see in the data above. As property prices in New York City also drop, real estate investors have seen the fear as others who are looking to get out and sell while they can as an

opportunity to get in and buy at a low price. The luxury market in NYC has already begun to rebound as of 2021.

### **Hello? Anybody There?**

Change in number of online luxury apartment searches between March 15-May 20, compared with the same year-earlier period.

<u>CITY</u>	<u>CHANGE*</u>
Chicago	-51%
Boston	-99%
Atlanta	-55%
Miami	-65%

Showing 1 to 4 of 4 entries

\*Data set includes 25% most expensive, per square foot, in each city

Source: Rental Beast

(Data taken from McLaughlin and Taylor, 'Coronavirus Is Sending Luxury Rental Markets on a Rollercoaster Ride').

This data sourced from 'Rental Beast' by McLaughlin and Taylor shows a different perspective of luxury rental demand in four major cities. We have discovered that many are moving out and going elsewhere during the pandemic, but this data above shows a vast change in the amount of people searching for luxury apartments online. So, to conclude from this data, not only are people moving out, but it seems that nobody wants to move into a luxury apartment during the pandemic.

As New York City's luxury real estate market recovers, Candace Taylor has investigated what type of homes are coming out strong and which are struggling. 'Townhouses are outperforming co-ops and condos as New York City's real-estate



market begins to reawaken, data show. Their priorities reshuffled by Covid-19, buyers who once coveted doorman buildings with panoramic views are now seeking out townhouses for their private entrances, gardens and multifloor living that facilitates simultaneous Zoom calls, real-estate agents said. The trend is a microcosm of one that has played out across the country, as families look for more space shelter from the rampaging virus.’ (Taylor, C. 2020, November 18). Taylor’s point here shows that those who are staying in New York City are in search of the same things in a property that those moving to the mountains are looking for, just in a smaller scale. The data in which she sourced from Douglas Elliman shows some remarkable results when comparing the spike in townhouses when compared to co-ops and condos:

### **Townhouse Sales Spike in Manhattan**

In Manhattan, signed contracts for single-family homes outpaced both co-ops and condos in October 2020 compared with the same time last year.

PROPERTY	OCTOBER 2019	OCTOBER 2020	% CHANGE
Co-op	531	510	-4%
Condo	440	317	-28%
Townhouse	9	13	44%

Douglas Elliman

(Data Sourced from Candace Taylor’s: ‘As New York Real Estate Emerges From Covid Crisis, Townhouses Come Out on Top’. 2020.)

The fact that both co-ops and condos are still trying to recover, and townhouses have been put under contract more than they had been in 2019 is

incredible and shows that the pandemic has made more spread out, open space more desirable than ever.

As the wants and needs of luxury real estate clients have changed over the course of the pandemic, property developers are having to take this into consideration to cater for the future buyer in built up, metropolitan areas. Katy McLaughlin's article, 'Covid is Forcing Real-Estate Developers to Rethink Buildings', gets into great detail with property developer, Gregg Covin, about how the pandemic has impacted the future of luxury condominiums. The article quotes that private outdoor space requests have jumped by 20% and that Covin now thinks that buyers will pay \$350,000 to \$750,000 for units that can be used as second homes. (McLaughlin, K. 2020, August 10). Covin states: "There are going to be long-term changes because of this," (McLaughlin, K. 2020, August 10) referring to how he will have to change his designs to cater for more 'pandemic friendly' condominiums, starting with bigger kitchens and more access to outdoor space, improved air quality and even the layout of stairs which will be 'wider and carpeted, with air and natural light,' Covin mentioned to McLaughlin. 'The pandemic has made some developers re-evaluate the economics underpinning their projects. Mr. Covin said that after a long career developing luxury projects in downtown Miami, he is switching to North Carolina because he believes there will be heavy demand for second homes at the midpoint of the East Coast—and less interest in dense city living.' (McLaughlin, K. 2020, August 10). Covin's point here connects back to the soaring level of demand that Herndon had previously mentioned in Banner Elk, also situated in North Carolina. From all of this information considered, we can take that the pandemic hasn't only shaken up the luxury real estate market in terms of its prices and sales during 2020, but it has affected the market in ways that most of us wouldn't even

think of that will last for many years to come; it has set a new standard of how shared living is designed and thought of.

### **Conclusions:**

All in all, this has been a fascinating topic to research as it has been such a wild year for the luxury real estate market all over the world, and a year that the market will probably not see again for a very long time. From my primary research and my secondary research, a lot of different conclusions can be taken away, however, so much of the information from the interviews with market experts, luxury real estate buyers, and secondary research in the shape of articles has such a strong link that it can be used to strengthen the conclusions taken from each and form a new, broader conclusion.

After taking this all into consideration, I refer back to the point that has brought up on multiple different occasions throughout this paper; the pandemic has been the straw on the camel's back that has pushed people into buying that luxury property that they have always dreamed of buying. For so many, this meant that the pandemic allowed all roads to point to a dream mountain home in the likes of Park City, Vail, Boise, or Banner Elk. The conclusion of why these areas in particular have done so well is that buyers have been able to work from home, they've had kids learning virtually, and they have used this (hopefully) once in a lifetime opportunity to follow their dream home. People may say that these buyers are fleeing the pandemic out of fear, which many are, but for the majority, my research points more to the side of the pandemic allowing them to purchase luxury real estate in a place that they never would have been able to buy pre-pandemic for so many different reasons.

On top of all of this, the fact that the market has recovered in an atypical 'K' shape rather than a 'V' has meant that the wealthier, professionals within society have emerged from this pandemic relatively financially unscathed. In an economic downturn, the market usually falls and rises as one, and therefore follows the typical 'V' shape recovery. As the wealthy in society could make the transition of work with relative ease compared to unprofessional workers who were put on furlough or ended up unemployed completely, it meant that society's professionals came out on top and therefore the economy recovered in a 'K' shape where the professionals followed the incline line and the workers in non-professional jobs are still recovering and therefore followed the declining line.

#### **Research Limitations:**

In regard to research limitations, I was quite lucky not to encounter too many. As I have an expansive network of luxury real estate agents available through my Engel & Völkers email address that connects me to the entire Engel & Völkers network, it enabled me to contact them directly and explain to them that I was writing a research paper and ask them if they would be willing to answer a few questions. I believe that this really assisted me as they saw it coming from another member of their network and from somebody in whom they could trust. However, the main research limitation that I did come across was not being able to get in contact with a real estate agent in New York City that was willing to be interviewed by me. As we learnt throughout this paper, the New York City luxury real estate market was going through a 'rollercoaster' ride and being part of an interview was probably not at the top of these agents' agendas, which I can accept. I was fortunate that so much incredible research had already been done on the New York City market by the likes of McLaughlin and Taylor with the 'Wall Street Journal'.

Whilst I expected COVID-19 to cause some research limitations due to all restrictions in place, I was lucky that I could take advantage of Zoom to interview Jay Baiel in Vail. However, my plan was to interview all of my interviewees in person as well as interviewing an agent in person in New York City, but unfortunately, due to travel restrictions, this was not possible.

**Next Steps:**

This journey is by no means over. This research has been incredibly interesting to carry out, especially whilst working as an intern within the luxury real estate market during this boom in Banner Elk, NC. My next steps are to monitor all three of the primary markets that I focused on; Banner Elk, Vail and New York City, especially over this upcoming selling season to see how these trends change or continue. At the end of this coming season, I will compare the results to mine and I plan on speaking to both Herndon and Baiel and find out if their seasons went as expected. Although I am not planning on working within the luxury real estate market this year, my keen interest will never allow me to get too far away from it.

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Special thanks to Seth Herndon of Engel & Völkers, Banner Elk and Jay Baiel of  
Engel & Völkers, Vail.