



LUXURY PORTFOLIO
INTERNATIONAL®

THE NEW RULES
OF LUXURY LIVING

EACH YEAR LUXURY PORTFOLIO INTERNATIONAL® SPONSORS A LARGE syndicated research project called The Survey of Affluence and Wealth, produced by Time Inc. and YouGov. This decade-long study of affluent people,¹ now in 14 countries, looks to uncover the truth about how they live, work and play in and around the world of luxury. The research includes more than 6,000 interviews carried out online, plus in-person focus groups that provided direct consumer feedback.

Dr. Jim Taylor and Chandler Mount of YouGov are well known experts in the field of luxury branding and marketing and have written this paper for those with an interest in understanding the new rules of luxury.

THE JOURNEY OF LUXURY

POSSESSION WAS EVERYTHING. Archeological findings of the oldest known hand-worked gold, found in Bulgaria, prove that as early as 4,600 B.C.E² humans were enamored with the idea of possessing luxurious things. The same trend was spotted all over the world, in Egypt with the Pharaoh's tombs; Asian trade routes carrying silk, spices and technology; and ancient Latin American societies, such as the Inca in Peru whose palaces and temples were adorned with gold and silver, later only to be stolen by Conquistadors in search of riches. While each of these societies were very different in regard to their cultural background and norms, they all independently realized there was a value to special, rare objects and that by owning them they conferred status, power and authority over others in their society.

BUT HOW DID THEY KNOW WHAT WAS LUXURY? The first principle of luxury were the medium had to be malleable because, for example, technology to heat and shape metals like gold was limited. The object had to be transportable because if it was too large it couldn't be traded or plundered after war. It also had to be beautiful because of our innate desire to possess beautiful things. The second principles of luxury were based on rarity, ownership and industry. In the beginning, objects of beauty were unevenly distributed to those with the birthright to possess them—the genesis for both trade and wars of theft. Possessions of the powerful separated the leaders from the followers but not leaders from one another, thereby creating similarities among the leader-class across geographies. The desire to protect possessions ultimately led to the creation of fortresses, the weapons industry and walled cities. In a very real way, simple objects of luxury became the driving force behind much of the global development of societies, culture and even real estate.

TODAY'S AFFLUENCE IS MOSTLY SELF-MADE. The leader-class of the past would describe luxury as a birthright, the possession of which was proof of their rank. Today, luxury consumers describe their access to luxury in a very different way. In fact, luxury today is most commonly a result of a lifetime of work, strong desire and no longer something that simply divides, but rather is a signal to one's self that they are victorious over the challenges of life.

¹ Affluent and wealthy includes three distinct groups, based on total household income: Upper Middle Class (\$125,000 to \$199,999), Core Affluent (\$200,000 to \$449,999) and One Percenters (\$450,000 or more)

² Varna Museum of Archeology, Permanent Exhibition of the Eneolithic necropolis, www.archaeo.museumvarna.com

THE LUXURY MARKET WENT INTO OVERDRIVE IN THE 1980s. At that time the U.S. tax rate on passive income shifted from capital gains tax to the ordinary income tax rate. The result was an increase in the number of millionaires from an estimated 574,000 in 1980 to more than 14 million millionaires in 2015.³ The boom in high-net-worth Individuals (HNWI) is not limited to the United States. The personal wealth boom has been a worldwide phenomenon. Globally since 2010 the annual growth rate of HNWI is 6.85%, according to research by Credit Suisse.⁴ Indeed, worldwide personal wealth has grown as well. Looking back to the year 2000, global personal wealth reached \$130 trillion compared to 2015 when personal wealth topped \$250 trillion, an annual growth rate of 4.86%. China has been a growth leader in personal wealth thanks to a 10.37% growth rate in personal wealth. Chinese consumers are thought to represent about one-third of the global luxury market—up from about one-fifth in 2010 and just 1% in 2000.⁵

Worldwide Personal Wealth

Source: Credit Suisse Global Wealth Report, at constant exchange rates



THE NEW RULES OF LUXURY LIVING

Living a luxury lifestyle in today's day and age—post the Great Recession and in a fast-paced, global world—looks very different from the past. As a result of the most significant financial event to impact those of means since the explosion of personal wealth, this demographic has been fundamentally altered.

³1980: *The Politics of Rich and Poor* (New York: Random House, 1990), Appendix A, p. 239. 2015: Credit Suisse Global Wealth Report, October 2015.

⁴Credit Suisse Global Wealth Report, 2010–2015

⁵Bain & Company Global Luxury Report 2015

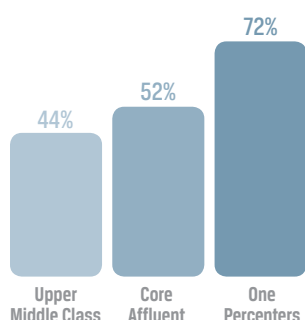
People learned to be financially responsible, resourceful shoppers who worked to secure their family's happiness and quality of life. For affluent families worldwide the number one goal in life has become *fulfillment*—at work, at home and in their personal development. This evolution in personal goals has impacted the market for fine objects, real estate, experiences and services. A renaissance of what luxury means has emerged, and there are five primary trends that make up the foundation of luxury living.

TREND 1: THE DESIRE TO BE VICTORIOUS. Throughout history, luxury has been reserved for the social, political and economic elite. As affluence becomes increasingly available to regular people, so too does the pursuit of luxury living. Luxury purchases represent, among other things, the owner's victory over the challenges they have overcome.

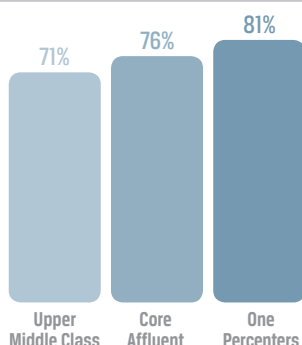
The increasingly victorious luxury real estate consumer is one who can afford to focus on the answer to the question "what makes my home happy?" For most, the primary residence serves many purposes: it is a comfortable refuge from the day, a place to entertain guests, a place to raise successful children, and, ideally, an investment that pays off in the long run.

TREND 2: THE ABILITY TO DISCERN. Luxury is a part of a lifelong journey, and as successful people often do, they learn from their experiences. As luxury participation increases, so too does the ability to tell the difference between *very good* and *excellent*.

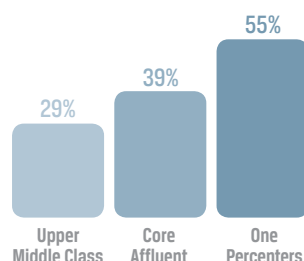
I Find There is a Significant Difference Between the Experience of Staying at a 4-Star Hotel and a 5-Star Hotel



I Find There is a Significant Difference Between Luxury and Non-Luxury Automobile Brands



I am Willing to Spend More for Designer Brands Because They are the Most Stylish and Fashionable



Details begin to stand out as hallmarks of artistic metric and high quality materials. For example, the one percenters can innately recognize the above and beyond, personalized service that only a true 5-star hotel delivers and "feel" the difference between that and the spectacular service of a great 4-star property. The ability to discern is based on interest in the category and is the product of knowledge, experience and taste. In real estate, many buyers know about current trends and easy-to-research details; however they rely on agents of worth to communicate special attributes about a property, neighborhood or area.

TREND 3: LUXURY IS INCREASINGLY INDEPENDENT. More and more, high-net-worth people prefer brands that work independently from the mainstream. The trend is popular because of a commonly held belief that independent companies rely on their ability to provide better service, better training for staff and deeper local connections that big-market, big-brand companies don't always provide.

Affluent consumers are also embracing their independence through the so-called “shared economy” by participating with brands like Airbnb or VRBO for vacation accommodations (22%), Uber or Lyft for on-demand transportation (12%) and newcomers like Turo.com which allows them to rent a luxury vehicle for less than the standard models found at airport car rentals around the country. The model is impacting fashion too, with companies like 11James.com, a subscription-based luxury watch service that enables participants to exchange watches every few months while diffusing the cost of ownership.

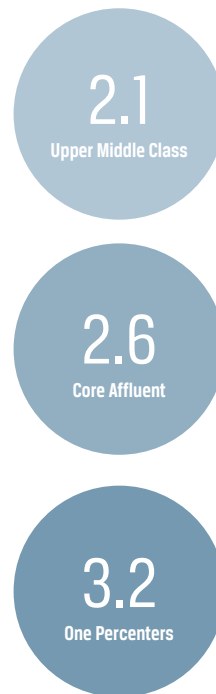
The fact is today's affluent are mindful of the way in which they spend their hard-earned money and want to participate in luxury, while also avoiding waste. The increasing popularity of these independent providers is proof that consumers prefer companies that take the time to organize choices to maximize the number of desirable choices and minimize the time invested.

TREND 4: THE DESIRE TO COLLECT IS PASSION BASED.

Collections are the expression of a passion and a desire to possess the best a category has to offer. The goal is not to collect a lot of things, but rather, to collect the best of things. So, even among the most luxury-oriented people, their focus is acute, and their selection is intentional. This is true for watches as much as it is true for real estate where the average top “one percenters” family own four homes for personal use, often in multiple states and even multiple countries.

Collections also extend beyond objects and increasingly today include collections of experiences, memories and even networks of people. On the experience front, travel is the #1 discretionary spending category for affluent families today. The top echelon of travelers—those spending \$1,500 or more per night on a hotel room—take seven vacations per year. The value of these vacations is the experiences collected, the stories that can be shared and the quality family time, as luxury hotel stayers are more likely to use these vacations and weekend getaway trips as a way to connect with their spouse and family.

NUMBER OF COLLECTIONS



My spouse/significant other and I take vacations to improve our relationship

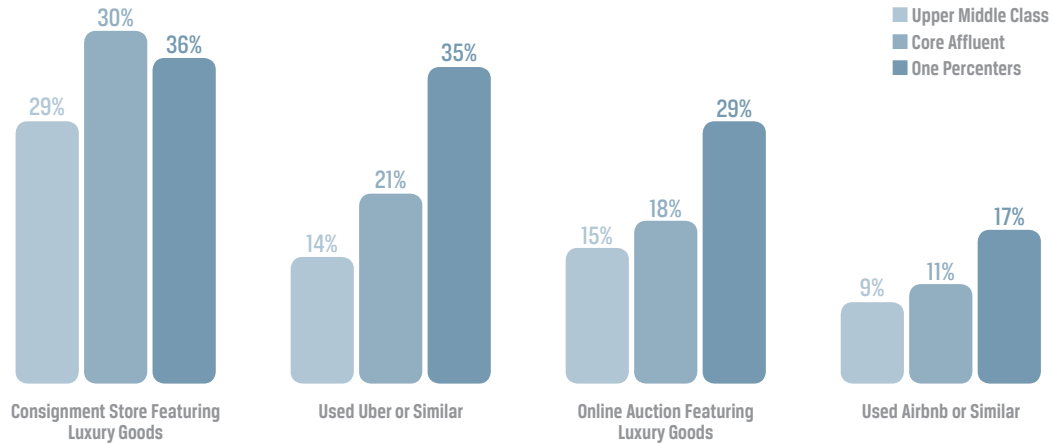
84% Spend \$1,500+ per night on a hotel room

Vacations are a way for my family and I to feel closer to each other

57% Spend \$1,500+ per night on a hotel room

As tastes mature, luxury consumers find themselves collecting objects and experiences that are best appreciated only after they possess uncommon knowledge. Objects gain real value when certain factors are understood: the provenance, the artistic merit, the beauty in craftsmanship (often observed as symmetry) and the harmonious connection with a larger collection of objects.

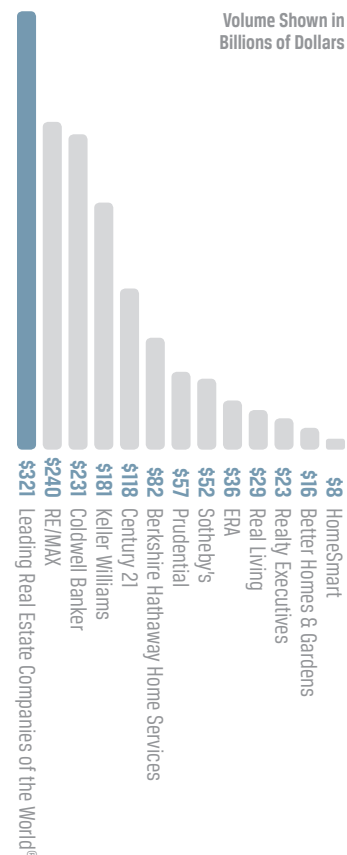
TREND 5: THE DECLINE IN BRAND POWER. Brands are losing their power to influence purchases on name alone. Affluent buyers are increasingly comfortable participating in **non-traditional markets**. For example, 62% like to stay at new or independent hotels; 52% participate in auctions for art, antiques or other goods; and 31% like to shop at consignment stores.



This shift away from brand importance occurs in the residential real estate world too, with the independent real estate companies that make up Luxury Portfolio International® currently representing over 20,000 luxury properties in 50-plus countries. The significant luxury market share of the members of Luxury Portfolio proves that in this space affluent consumers understand that the power of a strong, local brand coupled with the global reach of a network like Leading Real Estate Companies of the World® is a win-win for them. The strength of independent real estate brokerages is further evidenced by the growth in year-over-year total sales of LeadingRE members, who doubled their lead over the largest franchises or “big-name brands” from \$47 billion to \$80 billion more sales last year.

Clearly, consumers understand that quality, connections and independence are a winning combination.

More U.S. Home Sales Volume Than Any National Real Estate Brand*



*Actual member statistics for LeadingRE and estimates for other networks using average sales units per agent and average sales price for firms in each respective network from published sources.

FINAL THOUGHTS

Successful people start out a lot like everyone else. For the vast majority their affluence came as the result of education, hard work, seizing opportunity and pursuing passions first and financial gain second.

MONEY AMPLIFIES THE CAPACITY TO ABSORB LUXURY, BUT NOT THE APPRECIATION OF LUXURY. There is a clear connection between the ability to buy and the acquisition of luxury. However in the end, luxury is in the eye of the beholder, which means it can be measured both objectively (e.g., merits of the design and construction) and subjectively (e.g., how it relates to other choices). When an affluent family or individual is living a luxury lifestyle, the focus is based on personal needs and preferences.

TO THAT END, THERE ARE LIMITATIONS ON THE ABILITY OF INDIVIDUALS TO SPEND, BUT NO LIMITS ON THE DESIRE TO OWN LUXURY. Someone living a luxury lifestyle today recognizes there are two critical aptitudes to managing their lifestyle: resourcefulness and worthiness.

RESOURCEFULNESS WAS LEARNED from the impact of the Great Recession, leaving today's high-net-worth individuals with a better understanding of how to manage risk, how to maximize the value of purchases and how to focus on due diligence, in large part made possible by online research. They can buy almost *anything* they want but not *everything* they want, so they must make smart choices.

WORTHINESS IS THE DIFFERENTIATING FACTOR. Affluent consumers are increasingly sophisticated in their ability to discern luxury from imitation, and they focus on details that signal the difference. They engage with brands and products, take risks and delight in the process of uncovering the unknown and understand what makes a purchase "worth it" in the end—that is they might reflect on a purchase and say, "I know I spent a lot, but it was worth it."

There are limitations on the ability of individuals to spend, but no limits on the desire to own luxury.

We leave you with one last thought on what luxury means to its owner. The economist and later diplomat, John Kenneth Galbraith said it well:

"In the affluent society no useful distinction can be made between luxuries and necessities."

Luxury living today is simply living with motivation, experience, and means.

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