

LUXURY MEMO SPECIAL REPORTS

## Cities of luxury: San Francisco Luxury Memo special report

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*Exterior of The Ritz-Carlton, San Francisco*

By JOE MCCARTHY

From bustling luxury shopping districts to pristine beaches and forests, San Francisco has become one of the most sought after cities to both visit and live in for the world's affluent.

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Fueled by tech fortunes, San Francisco has the second highest per capita net worth in the United States, and a series of massive public offerings later this year is expected to greatly expand the number of millionaires living in the city. All of this wealth has caused real estate prices to surge in recent years, and has driven a renaissance in the luxury market for both niche and multinational brands.

"There have been many factors behind the huge surge in luxury home sales over the past seven years, but certainly the creation of brand new wealth, in trillions of dollars, and thousands of new millionaires around the Bay Area has played an enormous role in demand," said Patrick Carlisle, chief market analyst at the real estate firm **Compass**, San Francisco. "Many of these newly wealthy have also been relatively young, which has created new luxury markets away from the traditional high-affluence neighborhoods in the north of the city.

"The young are more casual than previous generations of the ultra-affluent, and neighborhood ambiance is of particular importance," he said.

### Top five trends

- **Tough real estate market**  
Although San Francisco's real estate market has declined in recent years, the city is expecting a boom in the luxury sector in the months ahead, driven by a surge in new millionaires. With construction prices going up in the city, new development projects increasingly skew high-end.
- **Tech wealth**

San Francisco is becoming the exclusive domain of the affluent and ultra-affluent as high costs of living are driving out everyone without a six-figure or higher salary.

- Innovation

The city's crowded and expensive nature is inspiring many young companies to consider relocating, forcing San Francisco to dig deep and regain its reputation as a beacon of innovation.

- Hospitality and tourism

San Francisco has long been a destination for travelers looking to tour California's vineyards and coastlines, but the city has become a destination in itself, with top-notch restaurants, art and experiences.

- Luxury shopping

Whether it is multinational department stores or niche local brands, shoppers can spend days visiting the city's many luxury options. As the city's wealth surges, expect more brands to open up a location in the area.

#### Tough real estate market

San Francisco's real estate market has hit something of a wall in recent years.

Although demand for new houses continues to surge, housing construction declined **41 percent** in 2018 compared to 2017. Prices throughout the luxury housing market, meanwhile, declined by 12 percent in 2018 compared to the previous year (**see story**).

Real estate experts expect the market to pick up again in the spring, especially as various technology companies make public offerings, minting thousands of new millionaires in the process.

"So far, the luxury home segment in the city has been holding up well, even though, generally speaking, the market has cooled since last summer," Mr. Carlisle said. "Spring is the big selling season in luxury homes, so now we are waiting to see what this spring brings."

[View this post on Instagram](#)

Voluminous windows allow sunshine into a Bay Area loft, highlighting perfectly-appointed design | Represented by San Francisco agent @rickteedcompass | 1 Bluxome Street

A post shared by Compass (@compass) on Mar 24, 2019 at 9:37am PDT

### *Instagram post from Compass*

The units being built across the city tend to be in the high-end market as **rising construction costs** deter other developers from gambling on new projects. As a result, the city is increasingly becoming affordable only to the ultra-affluent, with neighborhood after neighborhood boasting record sales prices.

"Recently a home sold for \$22 million in a neighborhood where the previous highest sale ever was \$7.5 million," said Max Armour, real estate agent at Compass, San Francisco.

"This equated to over \$4,000 per square foot," he said. "It was new construction, contemporary architecture and design and truly museum quality construction. The buyer was a young techie and simply had to have it."

The new properties popping up throughout the city tend to feature amenities that cater to high-net-worth consumers, whether renters or buyers.

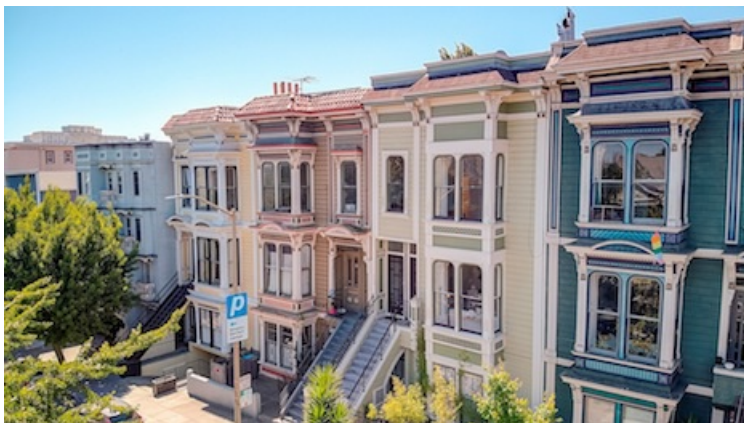
"Across the board, we have most definitely seen more discerning buyers in our luxury market," said James Testa, real estate agent at Compass. "We are seeing this in new construction and in boutique speculative development.

"Luxury buyers are looking for ease," he said. "Luxury buyers are looking for properties that are finished with little to no work needed.

"They are also looking for five-star amenities within easy reach. Things like easy access to premier fitness facilities, restaurants, proximity to good schools and most of all service. Properties that are known for providing built in service are highly sought after."

The average rental price in the city has reached an all-time high. The median price for a one bedroom reached \$3,650 a month in November 2018, the highest level in the country.

Because of the challenges facing new developments, existing buildings often get extreme makeovers and real estate brokers often experiment with marketing campaigns, open houses and technology to reach high-net-worth consumers (**see story**).



*Image credit: Redfin*

"San Francisco's building stock is varied and no two places are the same," Mr. Armour said. "There are so many micro climates, neighborhoods, architectural styles, traffic patterns, hills and noise corridors to think about. You really need an agent who is super familiar with these nuances."

Although the city is expecting a strong year in the luxury housing sector, it has also been hemorrhaging wealthy citizens to other cities for years. This trend is also expected to intensify as more local residents come into wealth and look for more space to settle down (**see story**).

### Tech wealth

To be considered wealthy in San Francisco in 2017, you would have needed a net worth of \$4.2 million, according

to a survey by Charles Schwab. In the rest of the U.S., those polled in the survey said \$2.4 million represented wealth at the time.

Wealth is relative, to be sure, but the higher standard of affluence in San Francisco compared to the rest of the country reflects how the city has become a magnet for billion dollar companies over the past decade.

Since 2017, per capita wealth in the city has increased, and it shows no sign of slowing down.



*Zenith-branded classic car, provided by Uber for Baselworld*

Google, Uber, Facebook and AirBnB are all headquartered in or around San Francisco, and new tech companies are **receiving major seed investments** all the time.

"This year we are waiting to see what the effect of high-tech unicorns going public will mean for the market. Right now Lyft and Pinterest are scheduled for April," Mr. Testa said. "That is very hard to quantify in advance, but one can only assume that there will be increased buyer demand.

"Luxury and ultra-luxury condo construction has taken off in recent years, which means that especially in the \$3 million-plus range, buyers have a greater choice of properties than ever before," he said. "In that segment, supply has increased much faster than demand, and buyers have the most negotiating leverage."

Over the next few months, multiple tech companies such as Uber, Airbnb, Slack, Postmates and Lyft are expected to make public offerings that will create thousands of new millionaires.

In the immediate aftermath of this wealth creation, wealth managers expect to see a rise in **extravagant parties and conspicuous consumption**. Luxury brands in particular will likely see a rise in major purchases from furnishings for new homes to high-end automobiles for new garages.



*Tesla's Model Y. Image courtesy of Tesla*

Once the excitement subsides, wealth managers also expect their services to become more highly in demand as new millionaires look to open restaurants, invest in companies and make philanthropic commitments (**see story**).

Because the majority of the newly wealthy will be millennials, wealth management firms are adapting to anticipated generational trends. For example, millennials want easily accessible wealth management advice on a need-to-know basis and many firms have begun investing in artificial intelligence to provide immediate service 24/7 (**see story**).

#### Innovation

A big part of San Francisco's charm as a city of luxury is its historic commitment to innovation. As the city faces

unprecedented displacement, however, it is having to reckon with this core value.

In the past, the city's ability to foster tech talent has differentiated it from other major metropolitan areas. But as young tech companies look for less crowded areas to set up shop in, San Francisco may see its entrepreneurial reputation decline.

Millennials in particular are looking for a new set of values in the companies they work for, including environmental sustainability and social progressivism ([see story](#)).

One way the city can maintain its status is by encouraging businesses to incorporate artificial intelligence and other recent technological breakthroughs into stores and throughout everyday life. For example, the city can champion the use of blockchain to improve security and transparency throughout the business community ([see story](#)).



*Alibaba has opened up an artificial intelligence-enabled concept store. Image Credit: Alibaba*

Luxury brands are already beginning to enhance the retail experience with the latest technology as consumers demand seamless multichannel experiences ([see story](#)).

One area where San Francisco is ahead of the curve is environmental sustainability. The city began to [phase out plastic](#) before many other U.S. cities and states and has committed to phasing out fossil fuels.

Many luxury brands are following this lead by reducing their ecological footprints, and San Francisco can help to encourage this by giving incentives to stores that adopt energy saving and other measures ([see story](#)).

Throughout the city, citizens are increasingly opting for public transit and low-carbon alternatives to cars, and brands such as Tesla have been received with open arms ([see story](#)).

#### Hospitality and tourism

As the birthplace of Airbnb, it is no surprise that San Francisco has become a top tourism destination in recent years. More than 26 million tourists [visited the city in 2018](#), and collectively they spent more than \$9 billion during their stays.

But it is not the home-sharing model that attracts the world's affluent travelers. Instead, San Francisco's broad range of luxury hotels, from major international companies to small boutique brands, continue to dominate the city's high-end hospitality market.

For example, the Waldorf-Astoria capitalized on the city's growing tourism by opening a property on the famed Mission Street in 2016. The property is close to the city's main shopping districts and features business amenities to cater to San Francisco's many conferences ([see story](#)).

Other luxury hotels have been sold to investment firms in recent years that have sensed a market opportunity.

In the case of the Ritz-Carlton San Francisco, a hospitality investment firm bought the property because of its rising real estate value ([see story](#)). St. Regis San Francisco, meanwhile, was sold to Qatar Investment Authority, which has been building its hospitality portfolio ([see story](#)).





*St. Regis San Francisco lobby*

Luxury properties in San Francisco have prioritized sustainable offerings in recent years. For example, the Ritz-Carlton has stopped serving plastic straws in response to growing concern around plastic pollution, according to a representative over email.

"[Our guests] visit museums and city landmarks all within close proximity to the luxury Nob Hill hotel, dine at famous restaurants," the representative said. "They enjoy the wine country within 45 minute drive, play on the bay using the ferry to visit small town such as Sausalito [and visit] national parks such as historic Muir Woods."

Other hotels use locally grown ingredients in their restaurants, organic cleaning supplies and energy-saving practices.

As the city's concentration of ultra-wealthy citizens increases, the number of attractions for high-net worth travelers has also grown.

San Francisco has always been known for its proximity to vineyards, beaches and forests, but the city itself has become a prime destination for luxury shopping, cuisine and art.

When it comes to fine dining, San Francisco **has the most Michelin stars** in the U.S., and eight restaurants with three Michelin stars, also a national record.

"The dining scene in San Francisco is booming at the moment and our inspectors were especially impressed with the choice of cuisine styles, the levels of consistency and the overall high quality of the food they found in the city," said Gwendal Poullennec, international director of the Michelin Guides, in a statement.

High-end restaurants with deep legacies are also moving to the city. Department store chain Barneys recently brought its iconic New York restaurant Freds to San Francisco, adapting the menu to include local ingredients (**see story**).



*Freds new location in San Francisco*

### Luxury shopping

For both locals and tourists, San Francisco provides ample opportunities for luxury shopping clustered throughout multiple neighborhoods.

By Union Square, consumers can find department store such as Barneys and Nordstrom, and high-end fashion brands such as Louis Vuitton, Valentino and Jimmy Choo.

The luxury consignment retailer TheRealReal opened a location in the neighborhood in 2017, where customers can find Herms Birkin bags, luxury shoes and an assortment of clothes ([see story](#)).

Not far away, the luxury automaker Tesla opened its first San Francisco showroom in 2016. The three-floor, 65,000-square-foot showroom is considered to be its global flagship ([see story](#)).

British fashion label Alexander McQueen staged its fall/winter 2018 campaign throughout San Francisco, highlighting the city's emergence as a top luxury player. The effort's emphasis on the city's diversity showed how different neighborhoods are becoming luxury destinations in their own rights ([see story](#)).

For example, there is Jackson Square, which boasts a range of small luxury [shops](#), and Sacramento Street, which is home to clothing and home furnishing [boutiques](#).

The Silicon-Valley based Ada Diamonds opened its first showroom in SoMa, where it features diamonds that are grown rather than mined, appealing to the growing preference for ethically and environmentally sustainable luxury goods ([see story](#)).

"San Francisco is more like a conglomeration of small villages than a single urban entity," Compass' Mr. Carlisle said.

#### Best practices for San Francisco

- James Testa, real estate agent at Compass
  - "Luxury buyers should be aware of the pitfalls [in the real estate market]."
  - "Good real estate is still good real estate. The basics always apply, like having a great location, livable floor plan and unique views. These are things that cannot be underestimated."
  - "Start with a good broker. Especially in the luxury market where some of the best inventory can be found off-market."
- Gina Blancarte, real estate agent at Compass
  - "People moving to San Francisco often underestimate the length of time it takes to get across the city - from point A to point B. SF is only 7 miles x 7 miles square. However, in traffic, it could take more than 30 minutes just to go a few miles. Therefore, many buyers are opting to live either near a freeway entrance or, if they work for one of the big tech companies, near a tech shuttle bus stop."