RESIDENTIAL RESEARCH
US INSIGHT

Knight Frank

The US remains the dominant world economy, and trends in its housing market have significant global implications. Kate Everett-Allen examines the fortunes of this critical market as price growth begins to build momentum.

Key findings

The median price of luxury condos in New York rose by 8.2% in the first half of 2013

International buyers account for around a third of sales above $3m in New York

Miami continues to record strong price growth, attracting demand from New York professionals as well as South American and European investors

The Hamptons have seen the highest number of second quarter sales since 2006

With the fiscal cliff averted, the lack of supply has been the key narrative for the US housing market in 2013

The US economy provides a mixed picture. Four years since it was announced that the recession was over GDP growth stands at 1.8%, unemployment is hovering around 8% and wages are struggling to rise above inflation. Despite this, mainstream house prices in the US are now 9.3% higher than a year ago and new home sales are at their highest level for five years.

Economic indicators at a national level are still somewhat sluggish to the extent that the Federal Reserve has yet to withdraw its QE stimulus measures. Foreclosures are still high in historic terms and mortgage lending has yet to pick up (figure 1) but there are pockets of strong growth.

In New York and Miami – following the artificial spike in activity created by the 'fiscal cliff' at the end of 2012 – most analysts predicted, particularly at the top end of the market, a slowdown in 2013 but were proved wrong.

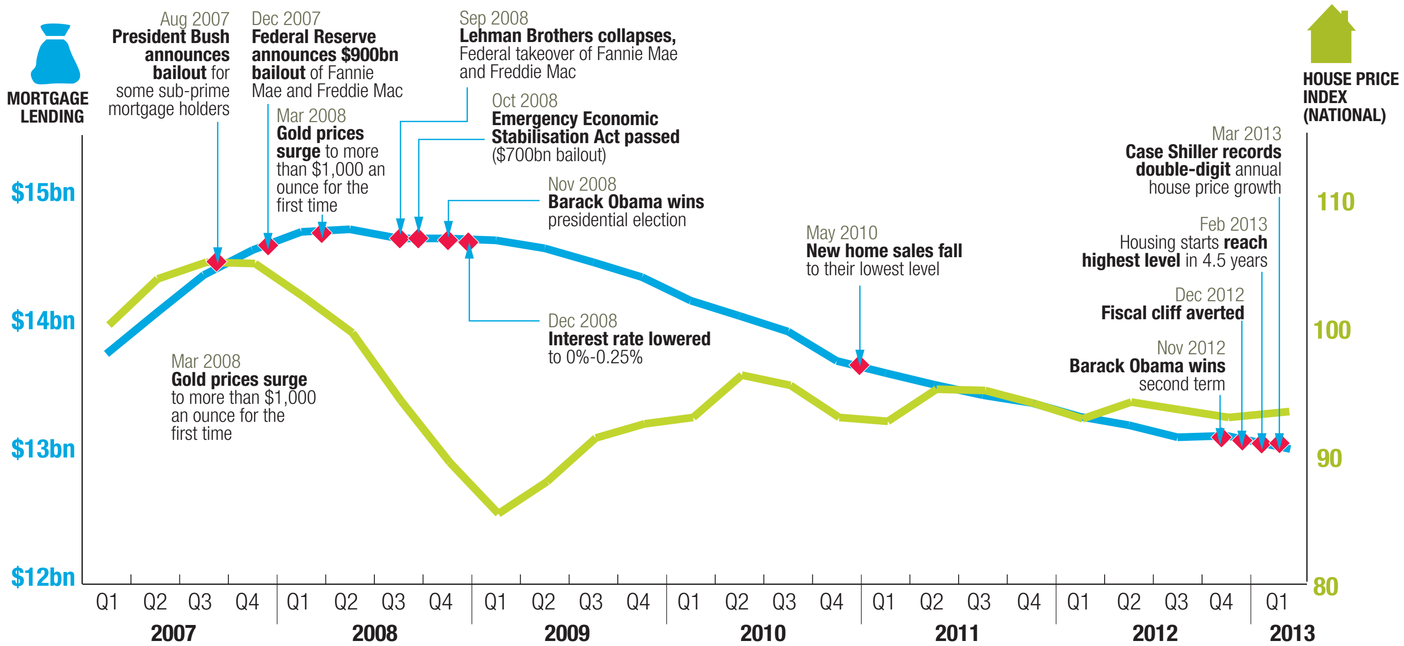
The median price of luxury condominiums in New York rose by 8.2% in the year to June, and by 5.9% in Miami. Co-operatives, by comparison, recorded little change in price due in part to the restrictions placed on international buyers by most co-operative boards.

International buyers account for around a third of sales above $3m in the New York sales market but closer to 50% in its equivalent new homes market.

The key price determinant in 2013 has been supply, or the lack of it, brought about by tight credit conditions. The number of apartments for sale in Manhattan is currently at a 12-year low. Unable to secure finance, potential vendors are staying put, limiting the turnover of homes in all but the new homes market.

The housebuilding pipeline was effectively turned off in 2007 and both Manhattan and Miami sold only a 'shadow inventory' up until 2012 when new projects began to complete. With the development cycle lasting approximately two years we are only now starting to see these projects enter the market. Absorption levels are high, particularly in New York, even at prices of $4,000 per sq ft and above.

Figure 1
US recovery timeline
Mortgage lending ($bn) vs US house prices (Indexed, 100 = Q1 2007)



Source: Knight Frank Residential Research, US Federal Reserve, Case Shiller

Manhattan's new skyline

Home to some of the world's most exclusive neighbourhoods, below we highlight key new developments that are set to redefine luxury living in Manhattan

ONE 57

Address:	157 West 57th St
Total units:	95
Completion:	December 2013
Neighbourhood:	Midtown
Percentage sold:	65%
Price range:	$7.40m-$30m
Avge price (psf):	$5,880
Average sq ft:	3,735

THE BACCARAT

Address:	20 West 53rd St
Total units:	61
Completion:	April 2013
Neighbourhood:	Midtown
Percentage sold:	30%
Price range:	$2.65m-$20.25m
Avge price (psf):	$3,534
Average sq ft:	1,715

10 MADISON SQ WEST

Address:	10 Madison Sq W
Total units:	125
Completion:	Q4 2014
Neighbourhood:	Flatiron
Percentage sold:	Sales start Jul 13
Price range:	$1.82m-$35m
Avge price (psf):	$3,000+
Average sq ft:	3,000

WALKER TOWER

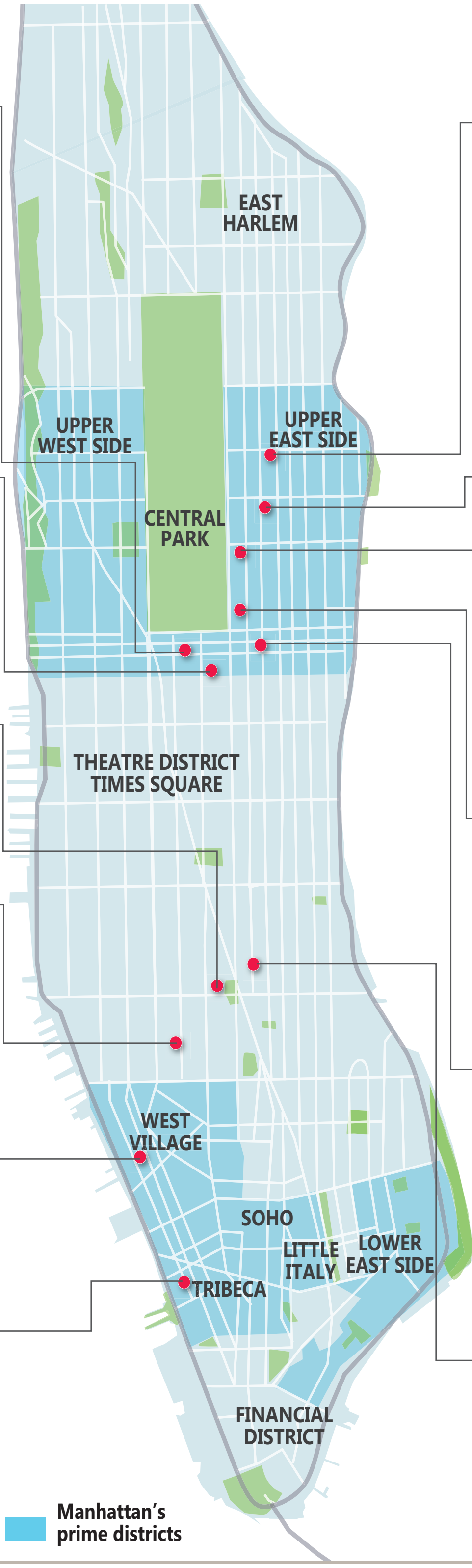
Address:	212 West 18th St
Total units:	48
Completion:	September 2013
Neighbourhood:	Chelsea
Percentage sold:	60%
Price range:	$4.20m-$33.88m
Avge price (psf):	$3,524
Average sq ft:	2,640

150 CHARLES STREET

Address:	150 Charles St
Total units:	91
Completion:	Q1 2015
Neighbourhood:	West Village
Percentage sold:	100%
Price range:	$895k-$35m
Avge price (psf):	$3,400+
Average sq ft:	2,700

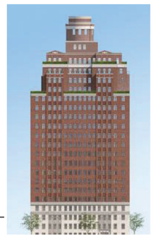
THE STERLING MASON

Address:	71 Laight St
Total units:	33
Completion:	Q3 2014
Neighbourhood:	Tribeca
Percentage sold:	Sales start Jul 13
Price range:	$3.90m-$22m
Avge price (psf):	$2,700
Average sq ft:	2,890



135 EAST 79th STREET

Address:	135 East 79th St
Total units:	32
Completion:	September 2013
Neighbourhood:	Upper East
Percentage sold:	100%
Price range:	$1.45m-$11.84m
Avge price (psf):	$2,900+
Average sq ft:	3,195



737 PARK AVENUE

Address:	737 Park Ave
Total units:	96
Completion:	July 2013
Neighbourhood:	Upper East
Percentage sold:	50%
Price range:	$4.68m-$26m
Avge price (psf):	$3,626
Average sq ft:	3,280

THE MARQUAND

Address:	11 East 68th St
Total units:	Approx 25
Completion:	Q3 2014
Neighbourhood:	Upper East
Percentage sold:	Sales start Jun 13
Price range:	Start at $15m+
Avge price (psf):	$4,000+
Average sq ft:	3,500

THE CARLTON HOUSE

Address:	21 E 61st St
Total units:	23
Completion:	July 2014
Neighbourhood:	Upper East
Percentage sold:	60%
Price range:	$2.90m-$23.50m
Avge price (psf):	$3,595
Average sq ft:	1,775

432 PARK AVENUE

Address:	432 Park Ave
Total units:	147
Completion:	Autumn 2015
Neighbourhood:	Midtown
Percentage sold:	40%
Price range:	$1.08m-$15.80m
Avge price (psf):	$6,000+
Average sq ft:	2,500

HUYS

Address:	404 Park Ave S
Total units:	58
Completion:	January 2014
Neighbourhood:	NoMad
Percentage sold:	50%
Price range:	$1.06m-$10.50m
Avge price (psf):	$2,040
Average sq ft:	1,470

All prices in US dollars
Source: Miller Samuel, Douglas Elliman

NEW YORK SNAPSHOT

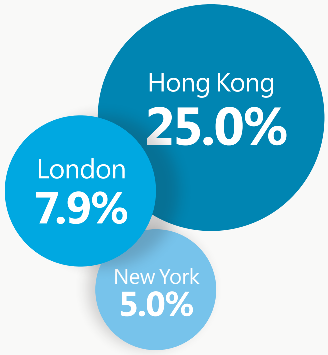
The final three months of 2012 saw the highest number of fourth quarter sales in 26 years, fuelled in part by the threat of the 'fiscal cliff'. The predicted slowdown in 2013 failed to materialise, instead, sales in New York in the second quarter of 2013 were at their highest level for six years. All sectors of the market saw strong activity but the key narrative was the lack of supply.

New York's inventory has not fallen because demand has strengthened significantly, supply has been falling for three years yet sales have only picked up recently. Instead, homeowners are biding their time. Around 44% of US homeowners with mortgages have low or negative equity and due to tight credit conditions a large number no longer qualify for finance.

New York's luxury market is defined as the top 10% of the housing market. For the past two years this has largely corresponded to the $3m+ price threshold. It is perhaps no coincidence therefore that the starting price of the majority of new developments in Manhattan is now around $3m.

Soho, TriBeCa, Upper West Side, Upper East Side and Little Italy represent the markets targeted by luxury buyers. The 57th Street Corridor is increasingly a focus of new development activity and is already home to One57 and 432 Park Avenue.

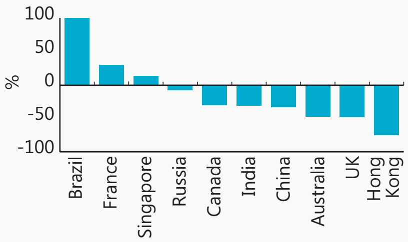
Figure 2
Purchase costs compared
Typical cost of purchasing a US$3m property for a non-resident (% of property price)



Source: Knight Frank Residential Research
Note: Includes Stamp Duty, Mansion Tax, Legal Fees, Transfer Taxes and Registration fees

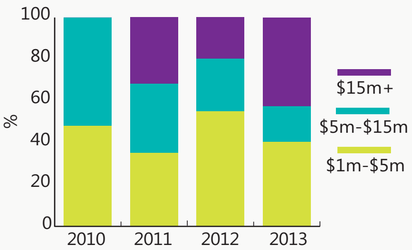
Knight Frank's Global Property Search website (GPS) receives up to 700,000 hits per month making it a unique barometer of the demand for prime international property. The following charts highlight the key trends in the prime New York market.

Figure 3
New York's key foreign buyers:
Which have been the most active nationalities in the last six months?



Above we have selected those foreign nationals that have been most active in the prime New York market since the financial crisis. Searches undertaken by those in Brazil, France and Singapore increased the most in the first half of 2013 compared to the same period in 2012.

Figure 4
New York searches by price bracket
Jan 2010-Jun 2013



Between 2010 and 2013 the inventory of properties above $15m has increased in the high-end trophy buildings. This has triggered a large number of search volumes at this level. As the world's wealthy continue to focus on New York so the average search level is likely to climb.

Figure 5
Average property price searched in New York
Jan 2010-Apr 2013

The volume of searches for properties in New York rose sharply in October and November 2012. Homeowners researched the market as the fiscal cliff and potential changes to capital gains tax approached.

Source: Knight Frank Residential Research

Miami update

The price of luxury homes in Miami rose by 5.9% in the year to June. The city was significantly impacted by the housing market downturn, but has redefined itself in the last two years. Sales volumes are up 20.6% year-on-year and supply is down 18.8% over the same period.

Two key trends have emerged in 2013. Firstly, while capital flows from South America and Europe are highly influential, the volume of purchasers from New York has increased, many looking for a second home rather than a property to retire to.

Secondly, around 73% of all non-distressed condo purchases were cash-funded in the second quarter of 2013 and have been at a similar level for the last two years. Miami's boom is not credit-financed suggesting that, while double-digit annual price growth is not sustainable long term, the recovery does have a firm footing.

The Hamptons update

The median price of luxury homes in The Hamptons rose by 8.2% in the year to June underlining the market's recovery.

The Hamptons remains the location of choice for wealthy New Yorkers looking for a second home, as a result the market suffered post the financial crisis when luxury prices fell approximately 30% from peak to trough.

Waterfront properties continue to attract a premium of 30% with areas around Wainscott, Water Mill, Sagaponack, Bridgehampton and Quogue amongst the main markets targeted.

In the second quarter of 2013 the Hamptons market recorded its second highest number of sales since 2006, increasing by 25.2% compared to the same period a year earlier, although sales above $5m declined.

Knight Frank

US property highlights

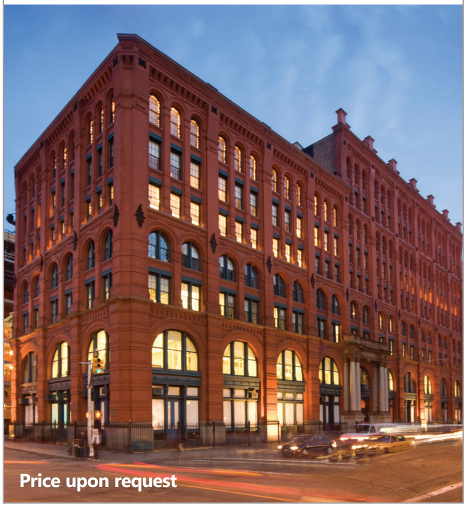
NEW YORK
10 Madison Square West

Price: US$1.825m - US$35m

NEW YORK
11 East 68th Street, The Marquand

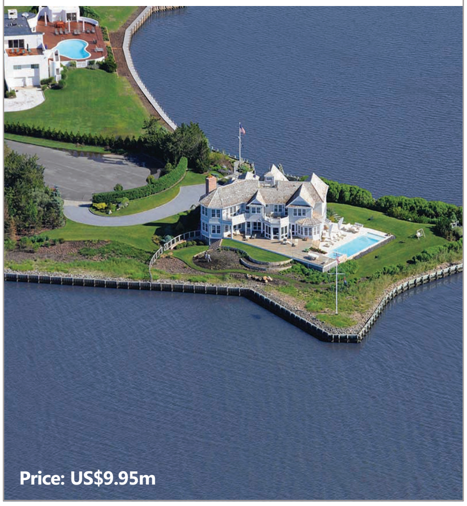
Price: US$15m+

NEW YORK
Puck Penthouses



Price upon request

THE HAMPTONS
Remsenburg

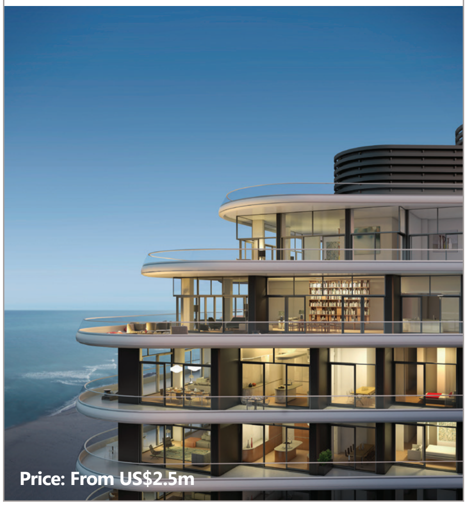


Price: US$9.95m

MIAMI BEACH
The Residences at The Miami Beach EDITION

Price: From US$2.39m

MIAMI BEACH
Faena House



Price: From US$2.5m

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Report produced with input from Miller Samuel and Douglas Elliman

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Data correct at July 2013