US residential market insight

Q4 2024

Knight Frank's review of key trends and themes in US housing, along with our outlook for key luxury markets

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Prime US markets set to outperform

While the shift to lower rates will lead to an uptick in activity – prime markets across the US seem set to benefit ahead of the wider housing markets.

In early autumn this year New York traders arrived at their desks to find financial markets in meltdown.

The unwinding of a previously little-known ‘yen carry trade’ set off wild gyrations in global markets overnight, and fear was setting in. Investors were questioning whether the Federal Reserve had underestimated the fragility of the global economy and the risk of a domestic recession. Over the course of a few weeks, markets moved from anticipating a single 25 basis point cut from the Fed by the end of 2024 to as many as 125 basis points.

This shift is the key to unlocking the housing market across the US. Right now, homeowners remain reluctant to part with mortgages agreed during an era of ultra-low rates. National market data confirms that turnover in the first eight months of the year hit the lowest level in at least thirty years.

Despite a higher prevalence of cash buyers, elevated borrowing costs have weighed on activity in luxury markets, too. Prime buyers tend to have wealth tied up in other asset classes, many of which have been hurt by higher rates. That adds uncertainty, which has been compounded by the November election. Nationwide, just 29 properties sold for at least $50 million during 2023, down 41% in just two years, according to Miller Samuel data.

“You look at that [Fed repricing] and go’ wow, housing should just explode’, but you have to remember that mortgage rates are still double what they were before the pandemic;” says Jonathan Miller, president and CEO of Miller Samuel (Jonathan Miller authors Douglas Elliman’s quarterly closed sales and monthly signed contracts reports) “The first benefit will be an increase in sales activity, so it will have a noticable effect, but we’re not going to have some frenzied boom.”

NEW YORK CITY

Manhattan is one of the few markets where inventory is rising. There are now more than 8,000 apartments for sale, compared to the 10-year average of about 7,000. This uptick has steadied sales volumes, which are only down by 0.7% in the first three quarters of 2024 compared to the same period a year earlier. At the same time prices are stabilising, with average values only down 1.1% in the same period according to Miller Samuel/Douglas Elliman figures.

Though still subdued, higher-value markets have outperformed as buyers utilised cash to avoid taking on debt at rates north of 6%. A record 68% of transactions in Manhattan were funded by cash during the first quarter, up from the long-run average of about 50%.

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-9.8%
the saving for Swiss buyers in prime New York compared to pricing in Jan 2023

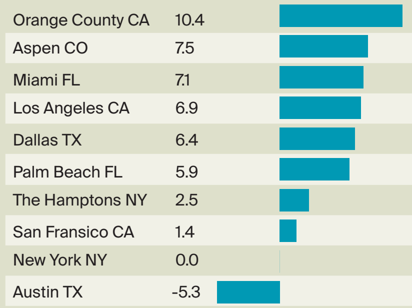
10.4%
growth in prime Orange County prices - 12 months to August 2024

57%
growth in prime rents in New York since Q1 2020

111.9%
the rise in luxury Palm Beach values since Jan 2020

US$1m
buys 34.2 sq m in prime Manhattan

US prime market performance
% change 12-months to August 24



Source: Knight Frank

Sales volumes are likely to begin recovering the week after the election, says Miller, who has parsed three decades of data to look for post-election trends.

"From the beginning of July through election day there's a slowdown, but then there's a release literally the day after the election," he says. "It doesn't appear to have any impact on prices, it's more just another variable to process for a consumer, and then there's a release. Over the next three or four months the deficit catches up."

FLORIDA

New Yorkers have fuelled their fair share of property market activity, but a lot has been funnelled into markets outside their home state.

Movers from the New York and the wider north east of the US helped Florida to become the fastest-growing state in 2022 for the first time since 1957, for example. Net population growth of almost 250,000 has driven unprecendented gains in property values in many of the state's luxury hot spots. In Palm Beach, average prices have climbed 214% in five years, according to Miller Samuel/ Douglas Elliman.

Growth has cooled as inventory has risen and buyers have resisted record prices. Sales volumes eased 4.5% in the six months through Q2 compared to the same period a year earlier. Average prices dipped 0.1%.

This is less an unwinding of a pandemic-era boom than it is the dust settling on a permanently enlarged luxury property market. Though inventory is rising, it could take years to catch up with demand. Where Miami was once the primary business hub of Latin America, it is now a serious competitor to established finance hubs like Chicago. Citadel, the $38 billion hedge fund run by Ken Griffin, moved its headquarters from Chicago to Miami in 2022, birthing a trend known as the "Citadel effect".

ASPEN

Imbalances between supply and demand are likely to linger in most markets that saw the biggest increases in pricing and activity during the pandemic.

Between Q1 2020 and Q3 this year Aspen saw prices increase by 67.3%. This has been one of the critical prime markets which has undergone a substantial recent upwards repricing.

The Aspen market can be divided into three tiers, each with different drivers, says Riley Warwick, co-founder of Aspen-based brokerage team Saslove & Warwick at Douglas Elliman. Similarly to Miami, a permanently enlarged population means the market below US$10 million could be undersupplied for years. Between US$10 million and US$25 million, sales rates have slowed as buyers look for value after sharp recent price growth.

At $25 million and above, inventory remains extremely low for homes that are almost irreplaceable. Land is limited and building bespoke homes takes many years, so buyers are happy to pay record prices

"It takes about a year to design a home, another year to get permits, only then can you put a shovel in the ground to begin the three to four-year build process," Warwick adds. "People are willing to pay for instant gratification."

OTHER MARKETS

Other rising markets don't share the same land scarcity problems. Developers are ramping up output in Dallas and Austin to match supply with new residents who have flocked to take advantage of generous tax incentives.

Dallas is issuing permits for about 40,000 homes a year, and while that represents an increase compared to previous years, it's not going to satisfy demand from the 150,000 to 160,000 new residents moving to the city each year, says Concho Minck, executive manager of sales at Douglas Elliman, Dallas Fort Worth.

Luxury developers are now seeking to build homes more commonly found in New York and Los Angeles in a bid to attract the city's new wealthy residents. Both the Four Seasons and Rosewood have branded developments underway.

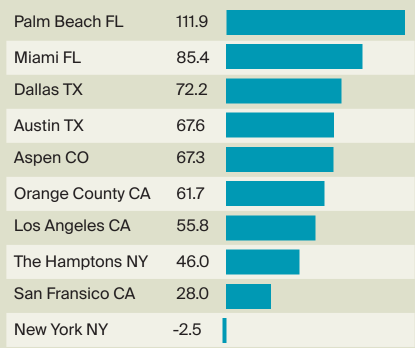
"That's going to be a dynamic shift because these are luxury products that this market hasn't seen before," says Lynda Villarreal, a broker at Douglas Elliman in Dallas Fort Worth.

Developers will be hoping to mirror their success in Los Angeles, where full-service and brand residences have been a bright spot in a sluggish market, says Cory Weiss of Douglas Elliman in LA.

"We are starting to see a bit of a turn and it's definitely being led by the fully serviced market," says Weiss, who is advising on the Century Plaza development Park Elm. "We've had ten offers of three million plus in the last forty-five days, mostly local buyers, so for the right schemes we're seeing a lot of activity."

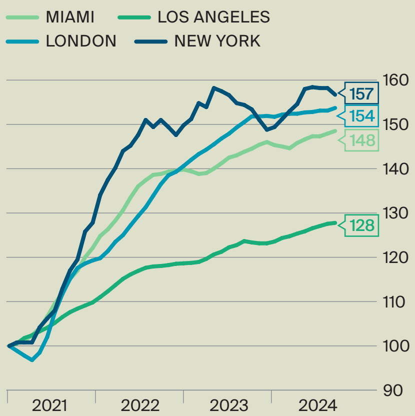
US prime market performance

% change January 2020 to August 2024



Source: Knight Frank

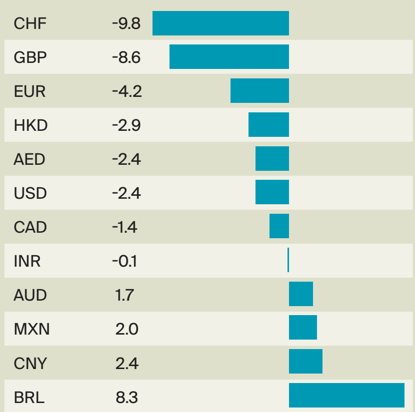
Prime rents



Source: Knight Frank

Currency impact

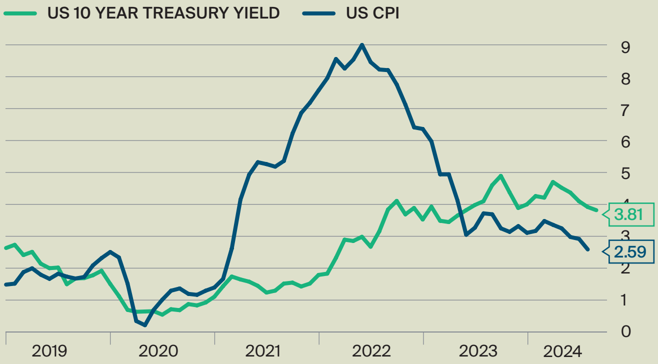
Prime New York price change since Jan 2023 to Aug 2024, adjusted for currency movement



Source: Knight Frank, Macrobond

Inflation vs treasuries

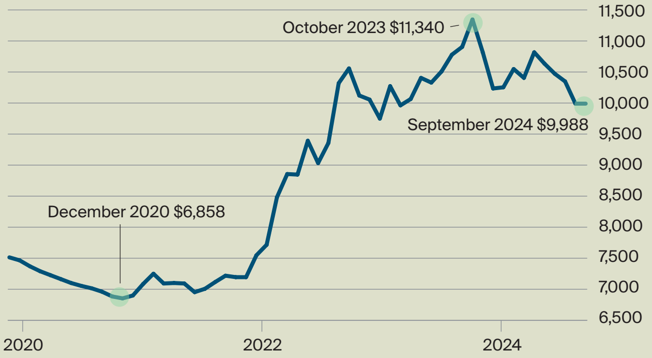
US CPI 12-month change and US 10-year treasury yield



Source: Macrobond

Monthly mortgage cost on US$2m house (US$)

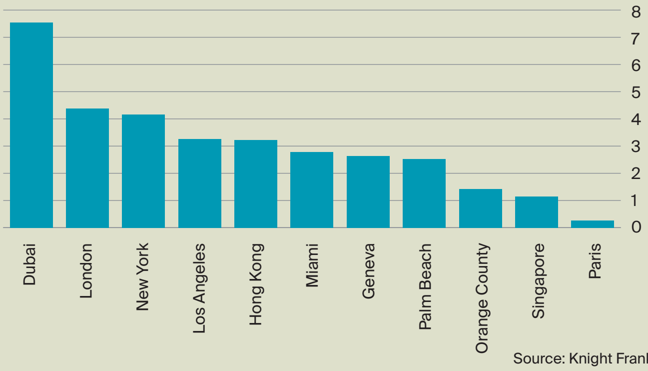
Assume $2m value today, 75% LTV, 30 year repayment mortgage



Source: Knight Frank, Macrobond

Value of super-prime sales

Aggregate value of residential sales over US$10 million, 12 months to end of Q2 2024 (US$ Billions)



Source: Knight Frank

US$1 million buys me...

Square metres of prime property per US$1 million in selected markets, Q2 2024

Monaco	16.4	Paris	41.2
Aspen	19.0	Sydney	42.9
Hong Kong	22.2	Shanghai	43.5
London	31.7	Miami	57.3
Singapore	31.9	Tokyo	69.6
New York	34.2	Dubai	94.1
Los Angeles	35.8	Madrid	96.5
Geneva	35.9	Mumbai	99.1

Source: Knight Frank

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