

Market in Minutes New York Prime Residential Markets

2016



A DECADE OF CHANGE

A global powerhouse, domestic and international wealth has fuelled the expansion of New York's prime residential real estate markets

New York is one of the most diverse, globally connected and high performing cities in the world. Alongside London, it stands apart from any other city as a true global powerhouse.

A world leader in financial services, technology and media, New York hosts a large number of global company headquarters, is an important center of education and a tourism destination.

The sheer diversity of factors in the city's success make New York's residential real estate highly sought-after, from the international wealthy seeking a foothold in a global city through to local young families realizing the appeal of urban living.

Strong occupier demand and limited supply has pushed up prices so affordability is a growing issue for many.

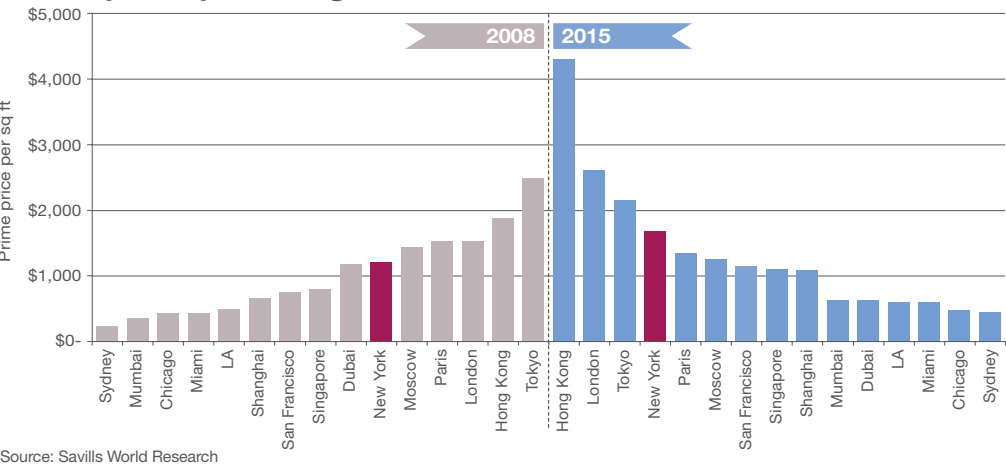
Although costly by US standards, prime New York residential real estate is still relatively good value by global levels (Figure 1). Prime prices are 35% less than London and 61% below Hong Kong, but rising, increasing by 42% from \$1,200psft in 2008 to \$1,700psft in 2015. ➔

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➔ FIVE TRENDS DEFINING NEW YORK'S PRIME RESIDENTIAL MARKETS

New York City has long been the preeminent US city and dominant on the global stage. Its population rose from 8 million to 8.5 million in the last decade and its metro population now totals 20.2 million. GDP in the metro area has grown 41% from \$1.15 trillion in 2005 to \$1.62 trillion in 2015. Rapid growth in both human and financial capital has fueled the city's real estate markets and shaped its urban fabric. The five key market trends of the last decade are: prime expansion, tech wealth, the rise of condos, new improved product, and New York as an elite global market place.

FIGURE 1 Global prime price league



Source: Savills World Research

FIGURE 2 Fastest growing \$1m+ markets (neighborhoods recording more than 100 such sales in 2015)

	District	Growth in number of \$1m+ sales 2005-2015
1	Harlem	1344%
2	Financial District	1000%
3	Williamsburg	968%
4	Park Slope	939%
5	Midtown West	528%

Source: ACRIS/Savills World Research

1. PRIME EXPANSION

The longest established prime residential markets are in Manhattan on the Upper East Side and Upper West Side, bordering Central Park. The Upper East Side is known for its large, classic New York apartments, while the Upper West Side is a somewhat more relaxed and accessible alternative. Together, these two large neighborhoods accounted for 38% of all \$1m+ transactions across Manhattan and Brooklyn in 2015, and 47% of all \$5m+ transactions in 2015.

The generation of new wealth in the city has pushed the prime markets into new neighborhoods. The Financial District saw 385 deals over \$1m in 2015, more than ten times the 35 deals recorded in 2005. Harlem, Williamsburg and Park Slope all saw increases of a similar magnitude (Figure 2). Even Downtown Brooklyn, a market where no deals over \$1m were seen in 2005, recorded 64 such deals last year.

At the upper end of the prime market, Chelsea, Greenwich Village, Tribeca and Midtown have all seen rapid growth in the number of \$5m+ sales. From just a handful each in 2005, all these neighborhoods recorded more than 50 in 2015. This comes as new condominium stock is delivered to appeal to the super-prime market. Price growth has been especially apparent in Midtown where many super prime condo schemes are concentrated. The average sales price here rose by 193% to \$3.8m in the ten-year period.

2. TECH WEALTH

The priming of new markets comes as wealth is generated in new industry sectors. Historically, Wall Street has been a key driver of the luxury markets, but has now declined in importance as bonuses have fallen by 9% in 2015 alone. Tech is the new wealth generator, and jobs in professional, scientific and technical services grew by 29% between January 2010 and January 2016. Financial service jobs grew by just 8% over the same period.

New York has a huge advantage in the digital age because of its high 'millennial to boomer' ratio. Young creative talent is attracted to its vibrant, urban environment. This human capital is the most important asset for growing tech and creative businesses and cities such as New York are better attractors of it than suburban campuses and business parks.

New wealth is bringing with it new property demands. Tech companies, flush with venture capital, are operating with a unique set of guidelines that were not previously representative of the typical corporate occupier. For these tenants, the cost of space is secondary to being in the 'right' location. Work locations overlap with where the tech talent wants to live and so rents and prices have been fueled in the markets of 'Silicon Alley' around the Flatiron District, and in DUMBO in Brooklyn. The rise of the digital economy in New York City will continue to go hand in hand with rising real estate prices in these and other new emerging neighborhoods.

3. CONDOS RISING

New York's prime residential market is dominated by two property types: cooperatives and condominiums (condos). Condos have historically been in short supply compared to coops, constituting only 25% of the market, but are effectively the only type of apartment building that is freely available to foreign buyers.

High demand from a broad base including foreign buyers (who plugged the gap left by domestic purchasers during the economic downturn) means that new condominium delivery has expanded rapidly since the late 1990s and early 2000s. Most has been targeted at the upper tiers of the market and has led to a widening in the price differential between coops and condos. Average condo prices have grown by 82% since 2005, compared to growth of 47% in cooperatives. In 2015, Manhattan condominiums were on average 92% more expensive than cooperatives (Figure 3) with an average sales price of \$2.4m, compared to the average coop sales price of \$1.23m.

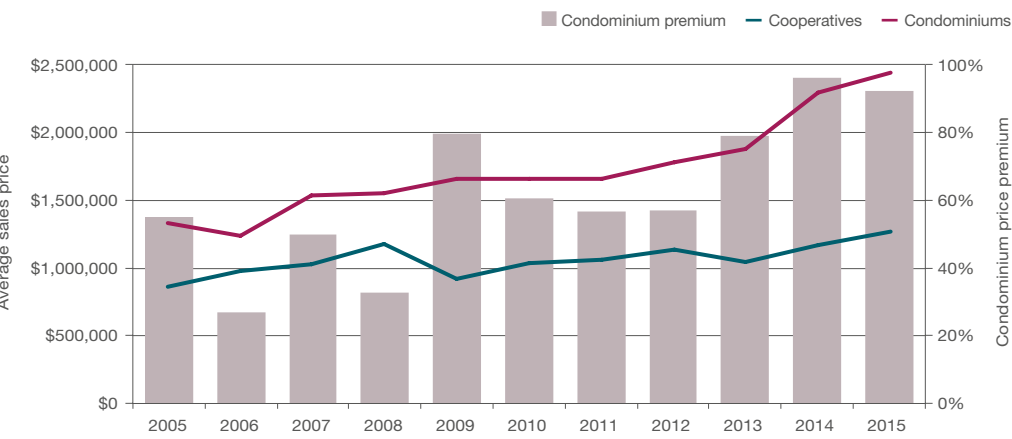
The rapid condo growth may have peaked, though. In 2015, for the first time since 2011, cooperatives outperformed condominiums, with price growth of 8% and 6% respectively. With the luxury condominium sector now looking fully supplied, we anticipate that the gap between coops and condos will close a little in the next few years.

4. NEW IMPROVED PRODUCT

Manhattan's new high-end condos sold at a significant premium to the resales market, at between \$2,000psft and \$7,000psft. Individual sales have set new price records for the United States on a dollar per square foot basis and distinct clusters of new product have emerged, establishing new prime areas in their own right.

The concentration of super-prime product around West 57th Street, including One57, 111 West 57th Street, 252 East 57th Street, 53W53, ➔

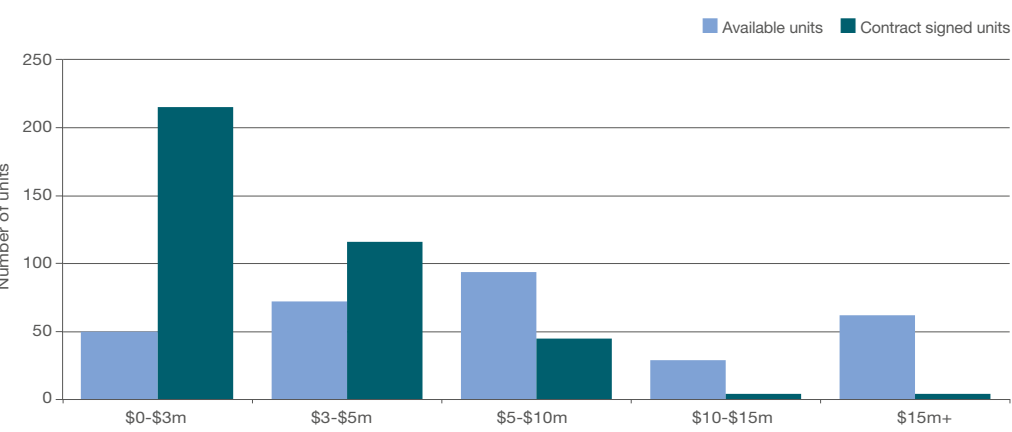
FIGURE 3 Condominiums vs cooperatives, price premium (Manhattan)



Source: ACRIS/Savills World Research



FIGURE 4 Midtown condominium availability and absorption



Source: Stribling Marketing Associates

→ 432 Park Avenue and 520 Park Avenue have led this Midtown location, historically known for its corporate headquarters and retail, to be dubbed 'Billionaires Row'. Prices on these projects have topped \$9,000psft, making Midtown one of the fastest growing prime markets in the last ten years. The upper end of this sub-market is now fully supplied relative to recent absorption (Figure 4).

The High Line, a linear park built on a disused railway spur, has been a catalyst for new development on the West Side. Projects include Jardim and 520 West 28th Street, by the late Zaha Hadid. Downtown, the Financial District is seeing a wave of new condominium product, including One Seaport, a 60-storey super-prime tower.

Elsewhere, Hudson Yards, the largest private real estate development in US history, is set to establish the far west side as a luxury residential location. It has already raised \$600m from foreign investors via the EB5 investor visa programme.

5. ELITE GLOBAL MARKETPLACE

Alongside home-grown talent, New York also attracts a diverse

range of international buyers looking not just for a place to live and work but also to invest, led by those from Asia and Latin America.

New York City is one of the few US markets to attract international buyers of ultra-prime property.

It is one of three global cities, along with London and Hong Kong, that has seen record deals in excess of \$13,000psft, namely the sale of a penthouse at 15 Central Park West in 2011 to a Russian billionaire.

New York City is home to the greatest concentration of billionaires on the planet (Forbes). Hong Kong's 53 billionaires, and London's 19, compared to 74 in New York.

The US is a huge wealth generator and it is this that is now helping fuel the top end market. In 2015, Chicago-based hedge fund manager Ken Griffin signed a contract on a yet-to-be completed triplex penthouse at 220 Central Park South for \$200 million – a new record in absolute terms.

Both American and global ultra-high-net-worths seek out New York property for investment and a gateway world city base. ■

OUTLOOK

■ New York City is set to add another million residents by 2025 according to forecasts. Housing delivery at lower market levels and the renewal of more city districts will be needed to meet demand. Expect residential price growth in Queens, Jersey City and Brooklyn.

■ We anticipate future outperformance of any buildings that are distinctly 'New York' in style. This may include townhouses, a product in limited supply.

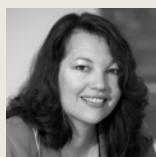
■ In a Savills/Wealth Briefing Survey of real estate investment intentions among wealthy individuals, New York emerged as a 'net hold'. As a strong US dollar will weaken the purchasing power of international buyers, domestic purchasers (and coops) will become increasingly important again.

▼ The city is a true global powerhouse



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