



# New York

## Residential Market Update | January 2019

The US economy witnessed growth in the third quarter of 2018 (Q3 2018), with nominal GDP increasing 1.2% from the second quarter of 2018.

The accumulative influence of a growing labour market, higher wages, a surge in exports and strong consumer and business spending has driven the economic expansion. At a more granular level, New York City (NYC) experienced 2.8% annual growth in real GDP in Q3 2018.

Personal consumption expenditure, which saw its biggest increase since Q4 2014, was instrumental here, as it contributed 2.7% to US GDP growth. The recent tax changes may also have contributed to an increase in disposable incomes across the country. This is combined with a decrease in the unemployment rate, which stood at 3.7% in September, the lowest it has been in the US since the 1960s. In NYC, job creation has also increased, with the private sector adding 71,900 new jobs between Q3 2017 and Q3 2018.

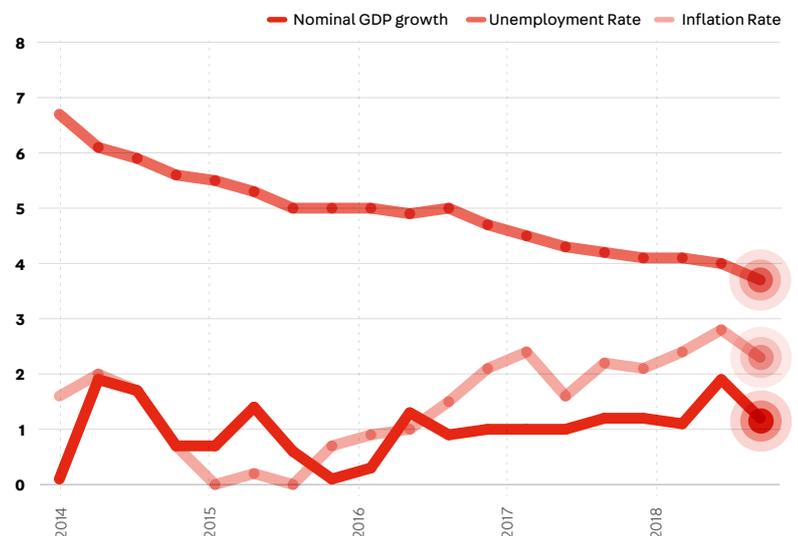
Despite the positive economic outlook, there is uncertainty surrounding the sustainability of this growth. In particular, international trade tensions are a cause for concern. Additionally, on 26<sup>th</sup> September, the US Federal Reserve raised the US interest rate for the eighth time since 2015, implementing an interest rate range between 2% and 2.25%. The increased interest rate is coupled with an inflation rate that has moderated closer to the target of 2%, standing at 2.3% in Q3 2018.

### Economic indicators

Nominal GDP quarterly growth for the US, US-wide unemployment, inflation and the Federal Funds rate

1.2%	GDP Quarter-on-Quarter Growth Q3 2018	2.25%	Federal Funds Rate September 2018
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3.7%	Unemployment Rate September 2018	2.3%	Inflation Rate September 2018
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Source: Knight Frank Research, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, Federal Reserve Bank

# New York Sales Market Insight

Current conditions in the New York City (Manhattan) sales market.

## 1.8%

Decrease in average residential price in the year to September 2018

## 9%

Decrease in sales totals in Manhattan in the last four quarters

## 13%

Of overall Manhattan sales are new developments, but they are a significant proportion of the luxury market

**After years of sales and price growth, recent declines in the volume of sales in Manhattan signal a return to long-term averages. While in Manhattan the annual change in sales totals has decreased more than 9% for the past four quarters, sales in the third quarter of 2018 were 11% above the 10-year average. Despite the drop in sales totals, this indicates a return to alignment with historical trends.**

Substantial price growth, combined with volatility in sales from 2013 to 2015, has given way to a flattening of prices. Buyer hesitancy at unrealistic asking prices, particularly within the past two years, has led to a re-adjustment of seller expectations, introducing some market alignment of prices. As a result, the average residential price for Manhattan was US\$1.14 million, a decrease of 1.8% in the year to September 2018.

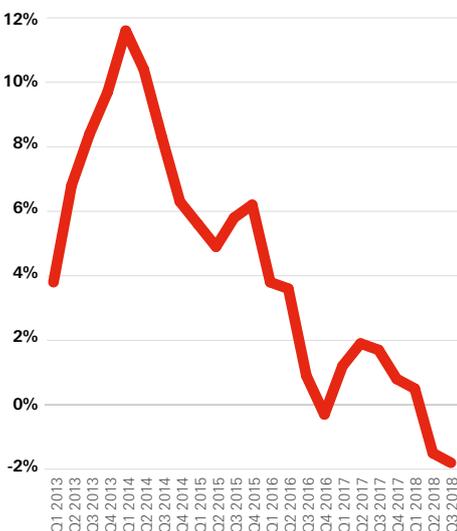
Pricing in the Manhattan sales market is heavily divided between the new development and resale markets. Despite only contributing 13% to overall Manhattan sales over the past

five years, new development prices have had an influential role in the luxury market.

The Manhattan market may be affected by the impact of recent tax-law changes, domestic and international financial market fluctuations, and interest rate increases, among other factors. However, the long-term view of Manhattan real estate as a safe haven for investment, and New York City's position as one of the top global destinations for the world's wealthy, could bolster demand from local, national and international sources.

### Residential prices

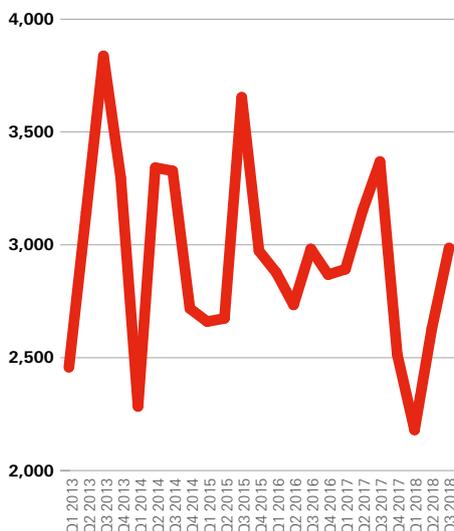
The annual percentage change in residential prices in Manhattan



Source: Knight Frank Research, StreetEasy

### Residential transactions

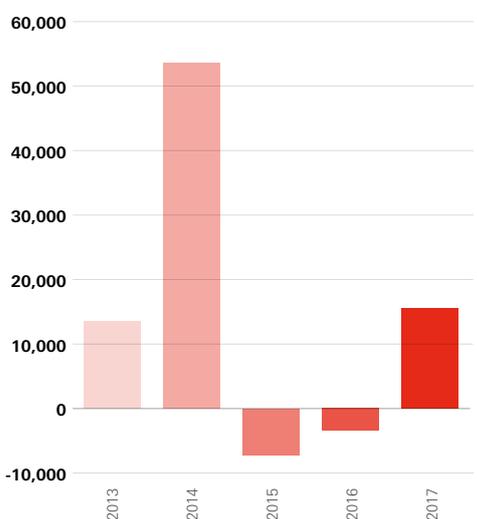
The number of residential transactions in Manhattan



Source: Knight Frank Research, Douglas Elliman, Miller Samuel Real Estate Appraisers & Consultants

### Household numbers

The annual change in number of households in New York



Source: Knight Frank Research, Macrobond, Oxford Economics

# New York Rental Market Insight

A look at recent demand in the New York City (Manhattan) rental market.

## 1.8%

Increase in average monthly rental price in the year to September 2018

## 12%

Increase in the number of new listings in the year to September 2018

## 1.5%

Vacancy rate in Manhattan in September 2018

**An influx of new development rental property, combined with sharply increasing apartment sales prices, has had a large impact on the Manhattan rental market over the past few years.**

Thousands of new luxury units entering the market have led to increases in average rent and the number of new leases. For a time, this caused increases in concessions, for example added amenities and or a month's free rent. However, some of those diverging factors have levelled during the first half of 2018, as new properties have been absorbed.

Manhattan's average monthly rental price reached US\$4,169 in September 2018, a 1.8% increase year-on-year and a 3.2% increase from the previous month. The average rental price has now remained above US\$4,000 for over four years.

However, the market share of new leases with a concession has increased, with 37% of leases needing a concession in September 2018, compared to just 27% in September 2017.

Perhaps due to the increase in concessions, the number of new leases in September 2018 increased 12% year-on-year to 5,227. In addition, after hitting a five-year high of 2.7% at the end of 2013, the Manhattan vacancy rate dropped to just 1.5% in September 2018. Meanwhile, the listing discount for new leases this quarter was just 1.7%, down from 2.6% a year ago.

Buyer perception of high apartment sale prices has driven demand to the rental market, as some potential purchasers choose to take advantage of flat rental prices and delay their purchases. This has helped to absorb some of the new rental inventory, at least temporarily, and stabilise the market.

## Rents

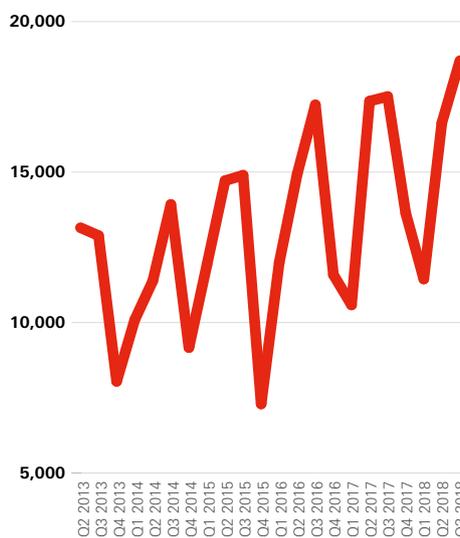
The annual percentage change in rents in Manhattan



Source: Knight Frank Research, Douglas Elliman, Miller Samuel Real Estate Appraisers & Consultants

## Rental leases

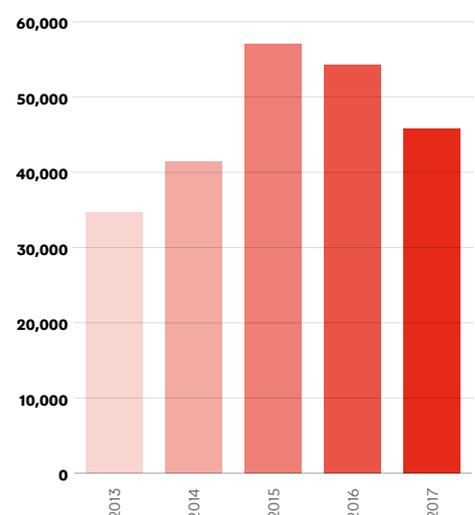
The number of leases agreed per quarter in Manhattan



Source: Knight Frank Research, Douglas Elliman, Miller Samuel Real Estate Appraisers & Consultants

## Financial & business services

Annual change in employment in financial & business services in New York



Source: Knight Frank Research, Macrobond, Oxford Economics

## Local Performance

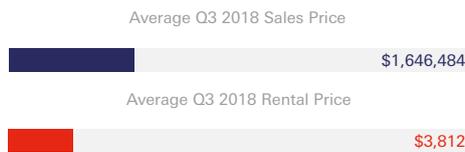
# Local Residential Market Performance

A look at market performance on a district (Manhattan) level for the third quarter of 2018.

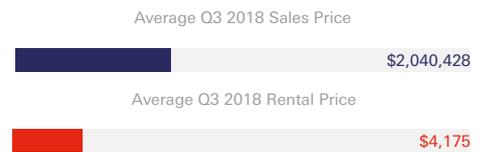
## 1 Financial District



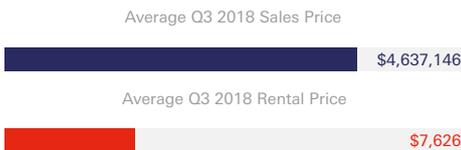
## 6 East Village



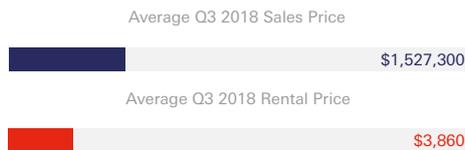
## 10 Upper West Side



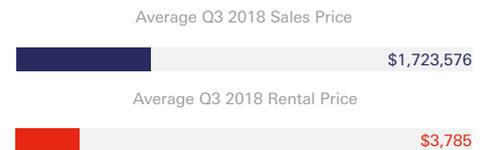
## 2 TriBeCa



## 7 Lower East Side



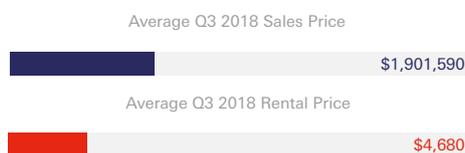
## 11 Hell's Kitchen / Clinton / Midtown West



## 3 & 14 SoHo / NoLIta



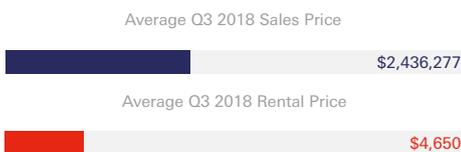
## 8, 15 & 16 Gramercy / NoMad / Flatiron



## 12 Harlem



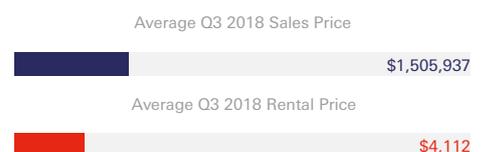
## 4 West Village / Greenwich Village



## 9 Upper East Side



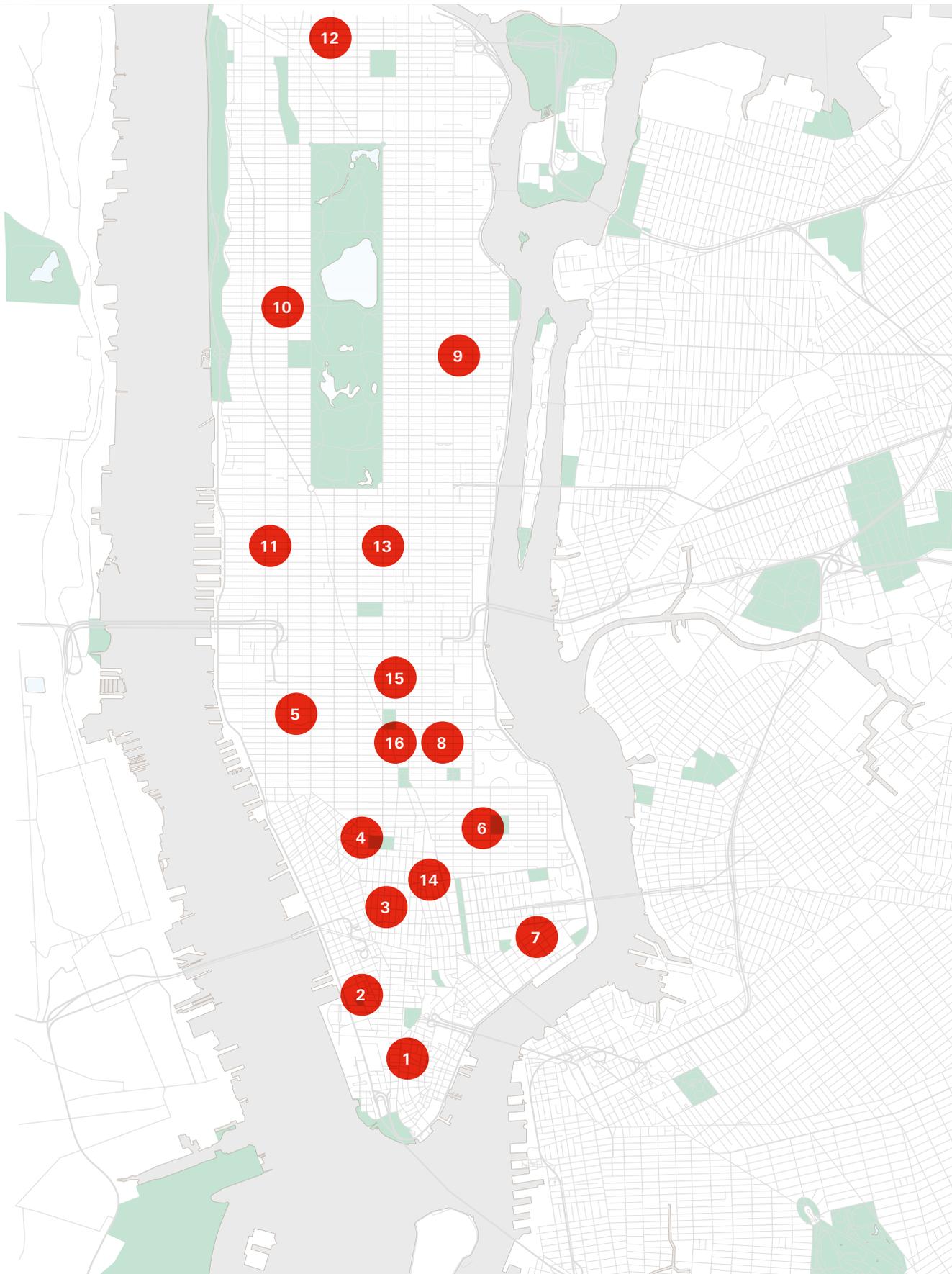
## 13 Midtown

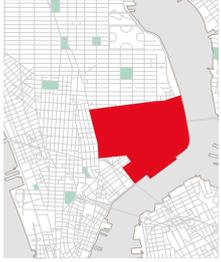


## 5 Chelsea / West Chelsea



Some of the districts are grouped together to reflect the way the data was aggregated





# The Lower East Side

Considered one of the trendiest neighbourhoods in Manhattan, the Lower East Side pulses with energy. With its historic roots, the worlds of art, music and literature have collided here for years.



In the 19th century, the Lower East Side was a destination for immigrants arriving from Europe, creating a rich mix of cultures in New York. This heritage continued into the 20th century, and in the 1980s the neighbourhood's edginess and affordability began attracting students, artists and the adventurous. In the early 2000s, pricing pressure from trendy nearby Downtown neighbourhoods began to elevate the area into a luxury destination.

Now, instead of pushcart vendors lining Orchard Street, as they did in the 1920s, the road is filled with upscale boutiques and numerous eateries, with *New York Magazine* describing it as "the hippest restaurant row" on the Lower East Side.

Those who are attracted to the district are often seeking authenticity. The area is not typically a tourist destination, but is more popular with New York residents and those in the know.

The Lower East Side has always been an incubator for innovation and this is especially true in the culinary world. Ivan Ramen, a Japanese restaurant in the neighbourhood, offers an American twist on the dish, attracting noodle-lovers from far and wide.

However, you will still find places such as Katz's Delicatessen, an icon of downtown New York since 1910; their pastrami and corned beef sandwiches have remained the same for over 100 years.

Staying true to its arty roots, the Lower East Side is also home to Manhattan's only dedicated contemporary art museum, The New Museum. Music venues abound too – from the legendary Bowery Ballroom to smaller clubs such as Arlene's Grocery.

The properties in the district, including mid-19th-century apartment buildings, retain a hint of New York's edgy past, but there are also newer condominium buildings, typically less than 10 storeys high. Residents benefit from having some of the best public schools in the state on their doorstep, while New York University (NYU) is only a 15-minute walk away.

The Lower East Side is also incredibly accessible, with the Williamsburg and Manhattan Bridges connecting the district to Brooklyn. There are multiple New York City Subway stations in the neighbourhood, which between them span the B, D, F, J, M and Z trains.

The lifestyle this district offers its residents, including its cultural and culinary advantages, makes the Lower East Side the envy of the rest of Manhattan. If that was not enough, in Q3 2018, average new-build prices for the district were roughly half that of the US\$4.3 million Manhattan average.



## What you could buy for...

**\$1,425,000**

A one-bedroom, one-bathroom condominium on Orchard Street

**\$2,775,000**

A two-bedroom, two-bathroom condominium on Broome Street

**\$5,100,000**

A three-bedroom, three-and-a-half bathroom condominium on Kenmare Street



# Property Snapshot\*

In this section, Knight Frank highlights certain characteristics of properties that appear to be driving demand. Using data collected from Douglas Elliman Development Marketing between Q3 2017 and Q3 2018, it is possible to derive patterns of property characteristics that help readers better understand the local market.

Douglas Elliman Development Marketing data shows that in the 12-month period ending in Q3 2018, there were **1,471 signed condominium contracts** in new developments within Manhattan, south of 96th Street.

## Downtown West

The Downtown West submarket accounted for the largest share of new development signed contracts in Manhattan over the past year, claiming nearly 33% of all sales. This submarket contains some of New York City's most popular residential districts, including West Chelsea, Greenwich Village, TriBeCa and SoHo, known for their excellent dining and entertainment options. A property located in Downtown West is shown on the right.



## Two-Bedroom Apartments

Two-bedroom apartments have seen the most transactions in the Downtown West new development market over the past year, accounting for more than 34% of all new development sales. The average price for two-bedroom signed contracts in Downtown West new developments over the past year was US\$3.67 million and the average size of sold apartments was 1,569 square feet. An example of a development that offers two-bedroom properties is shown on the right.



## West Chelsea

One of the most sought-after Downtown Manhattan neighbourhoods is West Chelsea, with a reputation as the art centre of New York. New residential condominium developments in the neighbourhood follow the trend, with many designed by internationally known architects. Over the past year, the average price of signed new development contracts in this neighbourhood was US\$6.77 million, compared to US\$4.40 million in Manhattan overall. The most recent new development, The XI, illustrated to the right, is a collaboration between Bjarke Ingels, Gabellini Sheppard, Gilles & Boissier, Enzo Enea, Es Devlin and HFZ Capital Group. Completing the offering, Six Senses Hotels Resorts Spas will open their first US destination at The XI.



\*The property listed in this section is for reference only. HSBC does not hold a view of the property and is not soliciting, advising or recommending any reader to buy or sell the property. Readers should be aware of changes to the price of the property and exercise proper due diligence before entering into any property transaction.

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