US residential market insight

2024
Autumn Edition

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

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Luxury repricing leaves New York a value opportunity

While high rates are putting pressure on transaction volumes, a lack of sales inventory is supporting price growth. In prime markets, the big post-covid repricing is ending, leaving New York looking good value.

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Inflation and interest rates dominate the outlook for US housing markets. With mortgage rates hovering around the 7% level, the willingness of existing owners to transact is limited. This market inertia has affected inventory levels, which are a third below the five-year average nationally and, in markets like New York, down by more than 50%.

This squeeze on available stock has driven prices back up after they fell during late 2022 and into 2023. With prices at record highs, affordability is tight in most mainstream markets. However, with the economy continuing to expand rapidly and job growth and wage growth above trend, there appears to be room for a further uptick in prices.

Luxury US housing markets have generally seen considerable outperformance over the past four years. Prime hotspots in Florida have experienced price growth at more than double the national average, with prices in Palm Beach, for example, up by 113% since Q1 2020.

This repricing process has extended from Palm Beach and Miami to key hubs in Texas, such as Dallas and Austin, as well as Aspen in Colorado, where surging demand has pushed prices sharply higher in recent years.

While Californian prime markets lagged, both Orange County and Los Angeles still saw growth well above the average during this period.

The latest data points to more mixed price growth, with Florida's hubs seeing slower growth than key Californian markets over the past 12 months. Austin has seen prices decline.

The key outlier has been prime New York, where prices have fallen 3.3% over the past four years, following an inventory overhang that weighed on the market during 2020 and 2021, and the city missing out on the second home market boom through 2022. However, with New York listings increasing by 6.5% over the past 12 months and prices down more than 5% since early 2023 for key international buyer groups, the city is beginning to look like a buying opportunity.

> "Prime hotspots in Florida have experienced price growth at more than double the national average, with prices in Palm Beach, for example, up by 113% since Q1 2020"

-5.6%
the saving for British buyers in prime New York compared to pricing in Jan 2023

8.6%
growth in national new listing volumes over the past 12-months

-33%
US housing inventory has fallen against the five-year average

113.3%
the rise in luxury Palm Beach values since Jan 2020

US$1m
buys 34.2 sq m in prime Manhattan

The market in depth

To provide a view of current and future market performance, we have compiled key data points from across the US housing markets.

Like most developed markets, the critical issue remains the outlook for inflation. With mortgages currently sitting at a significant margin above 10-year Treasuries, the key to unlocking market activity lies in a shift in interest rates.

While the entire US market has experienced strong growth in pricing over the past four years, prime markets have faced substantial upward pricing pressure. Recent data indicates a slowing of these trends, with some markets like Austin experiencing recent price declines.

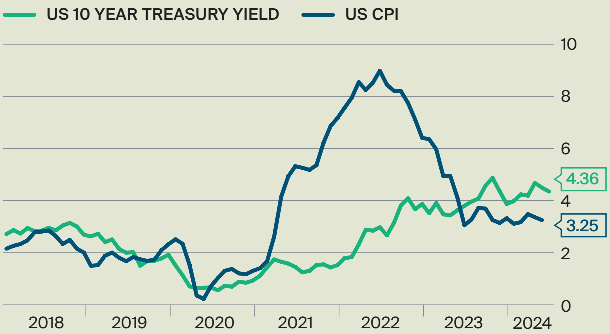
That said, the irony of weak activity is that, in the near term, upward pressure on prices remains a feature of the market as buyers contend with low inventory levels.

Macro indicators

1. Underlying economic strength across the US has kept inflation well above target, at 3.3% in May, thereby pushing out the timing for rate cuts. This has resulted in the 10-year Treasury rate holding in the 4-5% range.

Inflation vs treasuries

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

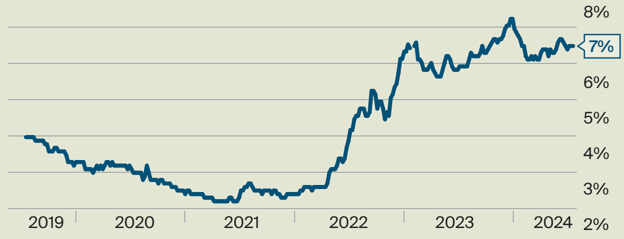


Source: Macrobond

2. With mortgage margins remaining elevated – at 2.5% above 10-year Treasuries, compared to the long-run average of 1.75% – the 30-year mortgage rate stayed stubbornly high at 7% at the end of June. While above the 6.6% recorded in December, the current rate is below the 7.8% peak reached last October.

US mortgage lending rate

Freddie Mac PMMS, 30-year fixed rate mortgage



Source: Macrobond

3. Taking a US$2m residential property today and adjusting its price historically in line market price movements, a 75% LTV repayment mortgage would require a monthly payment of US$10,630, up 111% on the recent low seen in August 2020.

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

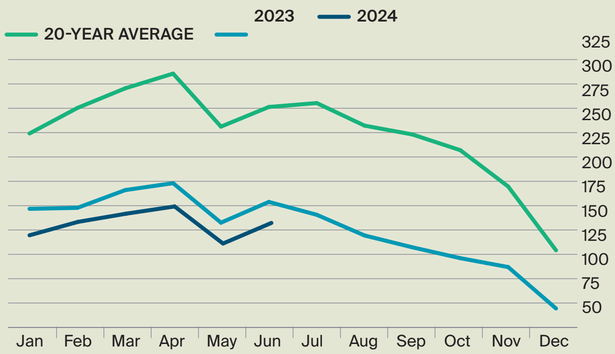
Assume $2m value today, 75% LTV, 30 year repayment mortgage

Source: Knight Frank, Macrobond

4. Higher mortgage costs have fed through to reduced demand for mortgage borrowing, with 2024 volumes running around 11% below 2023 levels – and 43% below the 20-year average.

Mortgage applications

Home purchase mortgage applications, indexed at 100 in 1990



Source: Macrobond

Market performance

5 Lower mortgage demand points to a fall in potential home movers, meaning that despite a year-on-year rebound, inventory for sale is sharply down compared to the long-run average, 33% at a national level, with some markets like Los Angeles and New York lower by 40% to 50%.

Inventory

12-month and 5-year changes in home sales volumes up to May 2024

	12-month % change	5-year % change
US	18.5	-33.0
Colorado	19.4	-22.7
Los Angeles	21.1	-41.0
Miami	43.5	-21.9
New York	-4.6	-54.1
Texas	14.7	38.1

Source: Knight Frank, Macrobond

6 It's a similar story for new listings, with a 9% uptick on an annual basis nationally, yet this still leaves the pace of new listings around a fifth lower than long-run levels.

New listings

12-month and 5-year changes in the volume of new listings of homes for sale to May 2024

	12-month % change	5-year % change
US	8.6	-22.2
Colorado	12.9	-18.9
Los Angeles	14.6	-24.8
Miami	9.0	-12.9
New York	6.5	-21.5
Texas	16.8	4.0

Source: Knight Frank, Macrobond

7 All these themes have fed through to lower transaction volumes which are running marginally below the level seen at the same time last year, but at around a third below the pre-pandemic norm.

Sales activity

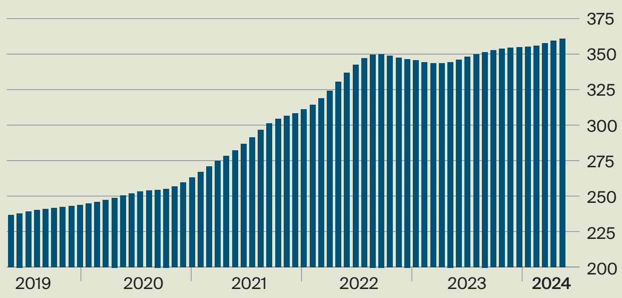
US monthly pre-closure activity, pending transactions (000s)

Source: Macrobond

8 Despite the drop in transactions, the lack of stock means that buyers have bid prices higher, meaning prices have ticked up in recent months – with prices now up by 3% from the August 2022 high and 5% from the March 2023 low.

House prices

Average US prices (US$ 000s)



Source: Knight Frank, Macrobond

9 Since the pandemic, luxury residential price growth has yielded positive returns in nearly every major prime market. Key markets in Florida and Texas experienced significant repricing, with prices in Palm Beach more than doubling since 2020.

US prime market performance

% change Jan 2020 to Q1 2024

Palm Beach FL	113.3
Miami FL	81.7
Dallas TX	72.4
Austin TX	70.1
Aspen CO	62.8
Orange County CA	58.6
Los Angeles CA	54.1
The Hamptons NY	44.2
San Francisco CA	27.1
New York NY	-3.3

Source: Knight Frank

10 The recent rebound in price growth observed at the national level has been mirrored across most prime markets. Californian markets, such as LA and Orange County, which had lagged in recent years, have moved higher up our table.

US prime market performance

% change 12-months to Q1 2024

Orange County CA	12.9
Dallas TX	9.4
Los Angeles CA	8.5
Miami FL	7.5
Palm Beach FL	6.7
Aspen CO	4.8
San Francisco CA	3.3
The Hamptons NY	2.1
New York NY	-0.3
Austin TX	-3.6

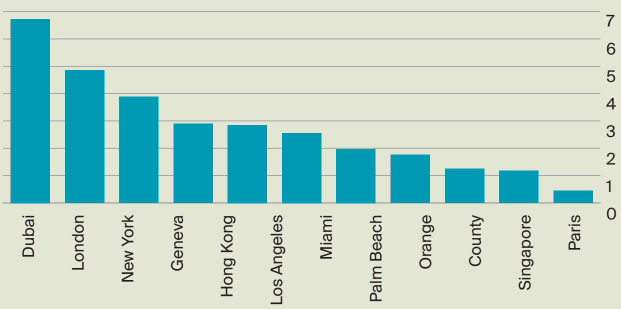
Source: Knight Frank

Prime focus

11 Despite slower price growth compared to other US luxury markets, New York remains the country's leading super-prime (US$10m+) sales hub, with total sales values reaching US$3.9 billion in the 12 months leading up to the end of Q1 this year.

Value of super-prime sales

Aggregate value of residential sales over US$10 million, 12 months to end of Q1 2024 (US$ Billions)

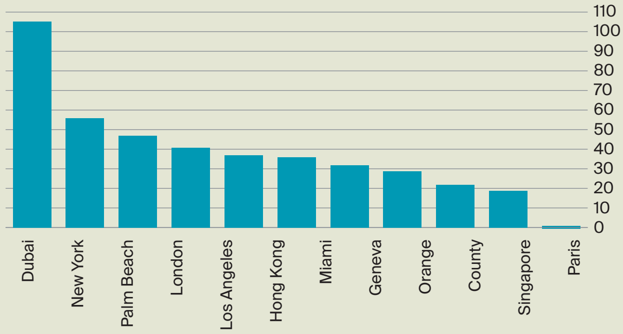


Source: Knight Frank Super-Prime Intelligence

12 The Florida wealth boom propelled Palm Beach into third place on our super-prime (US$10m+) sales tracker in the first quarter of this year, the highest position this rising market has reached since the survey began in 2019.

Number of super-prime sales

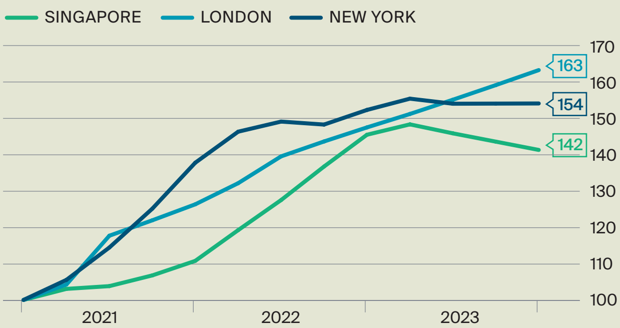
Count of sales over US$10m in Q1 2024



Source: Knight Frank Super-Prime Intelligence

13 One of the most dramatic recent market shifts has been the boom in key city rental levels. Over the three years leading up to Q1 2024, New York experienced a remarkable 54% growth in rents, a rate only matched by London and Singapore.

Prime rents

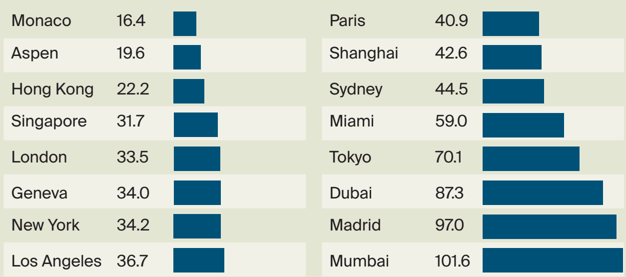


Source: Knight Frank

14 Examining the top 1% of key luxury residential markets in Q1 of this year, US$1 million will purchase 34.2 sq m in prime New York, compared to 36.7 sq m in LA and 59 sq m in Miami. In Aspen, the same amount buys just under 20 sq m.

US$1 million buys me...

Square metres of prime property per US$1 million in selected markets, Q1 2024

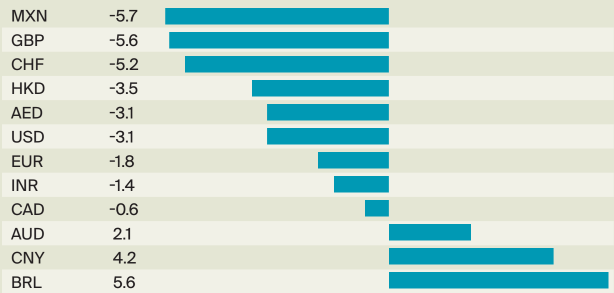


Source: Knight Frank, Macrobond

15 Market and currency shifts have impacted prime New York prices for global buyers. Since January 2020 – the big winners have been Mexican, British and Swiss buyers.

Currency impact

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

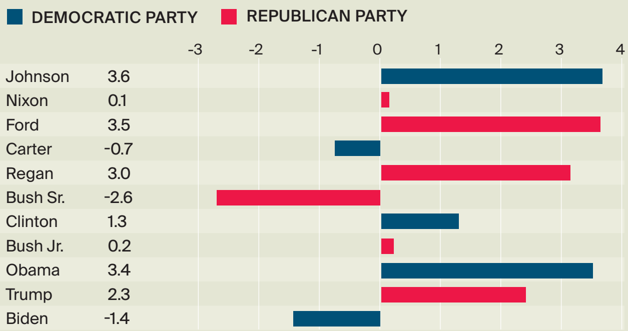


Source: Knight Frank, Macrobond

16 Its election year, so which administration leads to higher house price growth, Democratic or Republican? Our analysis of real (inflation adjusted) house price growth reveals no pattern – so take your pick!

US house price by president...

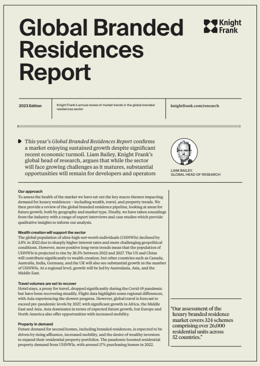
Average annual % real house price growth



Source: Macrobond

Recent market-leading research publications

The Wealth Report 2024



Global Branded Residences Report 2023

Prime Global Cities Index Q1 2024

Prime Global Rental Index Q1 2024

Global House Price Index Q1 2024

Global Residential Cities Index Q4 2023

Global Super-Prime Intelligence Q1 2024

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We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.

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