

# A bite of Big Apple

New York City property fundamentals are sound and will continue to be a strong allure



**SWEET PICKINGS**  
(Clockwise from main picture) 432 Park Avenue; artist impression of 15 William; interiors of Fifty Third and Eighth, a 25-storey luxurious condominium located in one of Manhattan's most vibrant communities, Hell's Kitchen



**Tay Kah Poh**  
Executive Director & Head of Residential, Knight Frank Singapore

**Linda Chern**  
Director of International Project Marketing, Knight Frank Singapore

**N**EW York City boasts of some real estate superlatives. In January this year, an 11,000 square foot penthouse at One57 along West 57th Street reportedly sold for US\$100.5 million. In September, press reports revealed a US\$200 million deal involving multiple penthouses in 220 Central Park South. What is it about New York City (NYC) that supports such superlatives?

For one thing, NYC is the home of Wall Street, ranking alongside the City of London in importance as a global hub for banking and finance. The city also boasts some of the world's most enduring icons, drawing 50 million visitors year after year – Central Park, the Statue of Liberty, Times

Square and the Museum of Metropolitan Art, among others.

New icons are emerging all the time, including One World Trade Center, the elevated High Line Park and the new Whitney Museum. NYC is a hub for art, culture, shopping, fine dining and entertainment, and throbs with colour, life and excitement.

NYC has a population of over eight million as at 2014, spread across five boroughs – Queens, the Bronx, Brooklyn, Staten Island and Manhattan. Packed into an area of a mere 20 square miles (51 square kilometres), Manhattan's real estate is the fourth most expensive in the world, after Monaco, Hong Kong and London. By one probably conservative measurement, it is worth over US\$700 billion. Manhattan is divided into multiple neighbourhoods broadly labelled: Uptown, Upper East Side (of Central Park), Upper West Side (of Central Park), Midtown and Downtown.

NYC's economy has grown strongly. Half a million jobs have been created over an uninterrupted six-year period since the end of the global financial crisis in 2009. The city's population growth is rising faster than projections, and will reach the 2020 forecast of 8.55 million people. Buoyed by this and the safe haven status of the

strengthening US dollar, NYC's real estate has enjoyed strong growth.

Indeed, London and New York were among the first few markets to recover from the global financial crisis. A Consumer Expectations Survey conducted by the Federal Reserve Bank of New York in May this year revealed that over 60 per cent of the 1,205 NYC resident households surveyed think that buying a property in their zip code is a good or very good investment. About half the respondents also think that prices will increase by 10 per cent over the next 12 months.

Data from Knight Frank's US partner, Douglas Elliman, shows the extent of the rebound since the end of the global financial crisis (see Chart). Sales volume and average prices have grown at an average CAGR (Compound Annual Growth Rate) of 6 per cent per annum and 5 per cent per annum, respectively.

This performance has been aided by a depletion of inventory. As at the second quarter of this year, listing inventory remains 19.4 per cent below the 10-year average of 7,114 units. The vacancy rate for rental properties remains low – averaging just above 2 per cent – over the past five years, and rental activity has increased 172 per cent between 2010 and 2015. Put



another way, supply has not kept pace with demand.

The combination of record employment gains and faster than projected population growth have placed upward pressure on rental and sales price growth. A lot of demand is coming from foreign buyers seeking to diversify their assets to safe haven markets such as the US.

The foreign presence in NYC real estate has grown, fed by excess liquidity around the world. At the top end of the market, buyers pay significant sums of money for trophy assets in super prime developments such as 220 Central Park South, One57 and 432 Park Avenue.

According to Douglas Elliman and appraisal firm Samuel Miller, half of these buyers pay for their multi-million dollar purchases in cash. The limited use of debt financing reduces the risk of a bubble forming despite the stratospheric prices these properties command.

The Chinese have in recent years been key buyers of NYC real estate. The recently launched Qualified Domestic Individual Investor (QDII2) programme allows Chinese individuals with at least one million yuan (US\$220,000) from six cities – Shanghai, Tianjin, Wuhan, Wenzhou, Chongqing and Shenzhen – to invest overseas directly. This new programme would further spur up the Chinese's appetite for NYC real estate.

The current stock market turmoil has injected some uncertainty into the trajectory of Chinese purchases. Investors who suffered losses may need to patch up their losses by divesting some of their overseas assets, or they may curtail overseas buying.

But equally true, the volatility could reinforce the resolve of the wealthy Chinese to take even more cash overseas into safer markets. It is a good bet that the road charted by the Chinese government to rebalance their economy – long fed on a diet of investment-led growth – towards more domestic consumption is a rocky one.

This may well lead to even greater interest in NYC real estate.

Not all purchases break price records. There are also many projects priced at the comfortable range of US\$1 to 2 million. Some of these projects include Fifty Third and Eighth, 135 West 52nd Street and 15 William.

## US taxes

Concerns about US taxation have sometimes been raised by foreign investors, and probably with good reason. The US tax code is notoriously complex. Typical taxes include a one per cent mansion tax (for home sales above US\$1 million), transfer tax of approximately 1.825 per cent, 1.925 per cent mortgage recording tax (loan amount only), tax on rental income, and property tax.

When a foreigner sells the property, there are also federal capital gains tax at 15 per cent of net gain, and what is known as the FIRPTA (Foreign Investment in Real Property Tax Act), which is a withholding (not an additional tax) at 10 per cent of the gross sales price. The good news is that good tax lawyers can help foreign buyers to significantly and legitimately minimise the tax liability through proper tax planning.

Notwithstanding this, NYC residential

property remains an attractive asset for overseas investors. Vast infrastructure improvements, especially in lower Manhattan, will help to support the market even further. The Alliance for Downtown New York reports that there will be a staggering US\$20 billion of investment in public transit improvements. Midtown subway lines will also be extended to link east and west.

The massive US\$20 billion Hudson Yards project located between Tenth and Twelfth Avenue from West 30th to West 34th Street, will bring 17 million square feet of office, retail and residential space to Midtown and transform NYC into an even more vibrant and attractive city for residents to work, live and play.

NYC real estate fundamentals are sound for the foreseeable future – limited supply and strong demand. So long as the US economy grows steadily and the US dollar remains firm, the Big Apple will continue to be a strong allure. ■

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