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With Recession Fears Abated, Luxury Housing Markets Enter 2020

Guarded optimism—it's a sentiment that applies to numerous luxury housing markets in 2020.

Rising concern over a global economic slowdown, a U.S.-China trade war and uncertainty that crescendoed into full-blown recession fears last summer have all abated to some extent. That's encouraging news for the world's luxury real estate hubs, where housing performance is closely tied to global economic growth.

"There's a good link between luxury real estate prices and [economic] growth," said Thomas Veraguth, strategist at UBS Global Wealth Management. So, there are reasons to be optimistic, he said, "if the consensus is that we are not going into recession—or even a pickup in the cycle."

For the decade between 2008 and 2018, major global economic events, from the financial crisis through the recovery, caused most luxury housing markets to fall and rise in sync.

But it's becoming harder to use a single brushstroke to map the future movement of luxury home prices from Los Angeles to Dubai, as local economic conditions and domestic policies—from inventory to tax changes—override the global forces in driving price growth and demand.

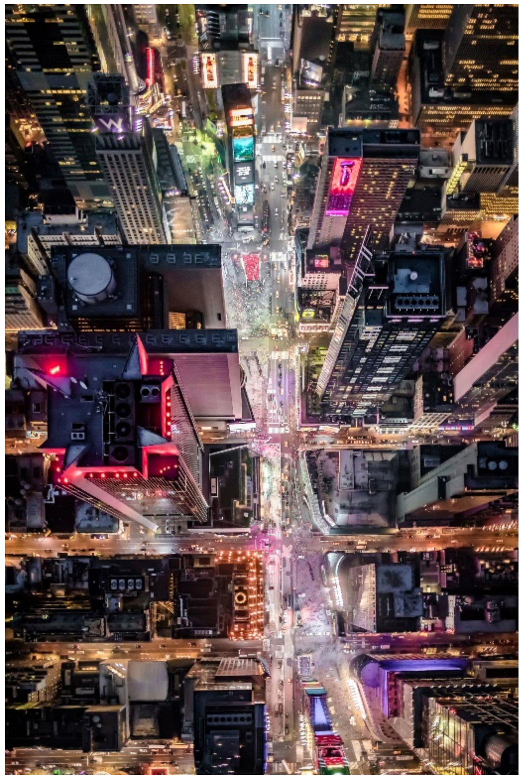
Mansion Global offers a forward look into how these factors, both global and local, could affect seven major markets in 2020.

Sentiment can't get much worse for New York City's high-end home sellers than it was in 2019—that seems to be the feeling among the city's real estate professionals.

For nearly two years, the city's housing market has felt the fallout from a handful of different economic forces, including too much luxury condo construction and the 2018 federal tax reform, which reduced key tax write-offs that hit residents of pricey, high-tax areas like New York City the hardest. But before New Yorkers could digest either of those issues, the state threw a wrench into the city's high-end housing market this year by raising property transfer taxes on homes over $2 million.

“It was a case of death by 1,000 cuts,” said Shaun Osher, CEO of New York-based CORE Real Estate. Now, he’s looking to 2020 with “guarded optimism,” he said.

Luxury home prices will likely remain flat or decline slightly as buyers and sellers continue to adjust to these various tax changes, experts said, but there are reasons to believe activity will rise. Affluent homebuyers will start to come out of the woodwork as they find rising luxury rents less appealing and sellers get even more negotiable on price.



“We’ve already seen buyers who’ve been on the sidelines for two years tread back into the market,” Mr. Osher said.

The top of the market remains the most vulnerable to further price declines in 2020 as demand fails to keep up with a glut of new luxury condo development.

Big-ticket deals have taken a particular hit since July 1, when new transfer taxes slapped home sales of $25 million or more with a 4.55% tax bill—that comes to well over $1 million in taxes, a cost of doing business that will continue to turn off affluent buyers.

Michael Rossi, CEO at Elegran Real Estate, said despite major stock indices hitting new records in recent weeks, continued uncertainty over a U.S.-China trade deal and a general election could curb sales in Manhattan’s luxury market.

“Until the end of the trade war with China, we don’t foresee the $5 million-to-$10 million segment recovering as quickly,” Mr. Rossi said in prepared comments. “We believe 2020 will be a buyer’s market and offer increased opportunities for savvy buyers to enter the NYC residential market at lower resale and new construction price points.”

The Conservative Party victory in a general election this month delivered a level of political and economic certainty the U.K. hasn't felt for at least a year, during which Britain's exit from the European Union was delayed three times.

The fraught political climate of the past year only exacerbated London's yearslong housing slump, which began to fan out to other parts of the country and caused home price growth across the U.K. to fall to seven-year lows. But the recent election result makes a few major upsets in 2020 highly unlikely, including a messy no-deal Brexit or a redo referendum.

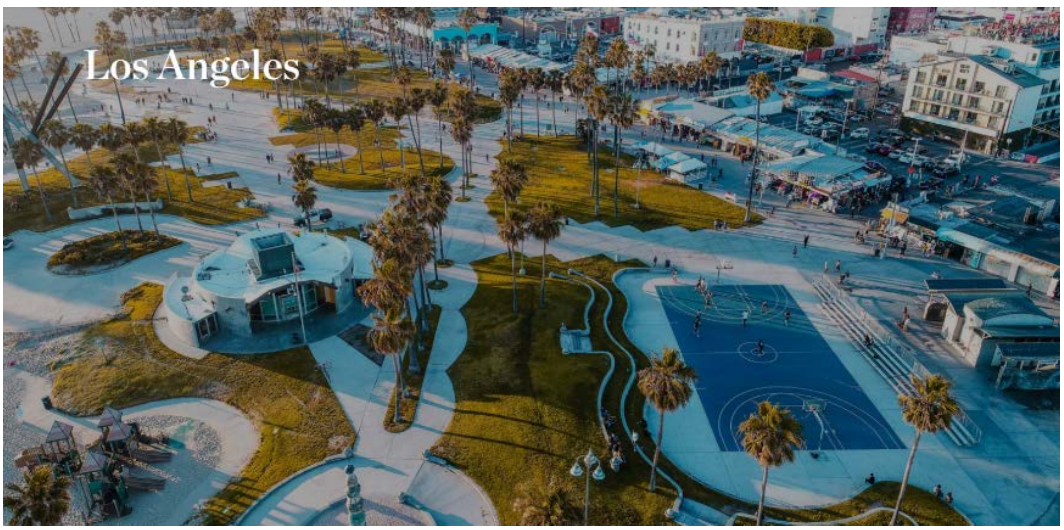
Property agents reported a spike of activity in the days following the Dec.12 vote—a trend many expect to continue through the start of 2020, as clarity fuels more confidence among buyers and sellers. Foreign buyers, in particular, are likely to come off the sidelines in the short-term before Brexit, scheduled for Jan. 31, to take advantage of the currency exchange while the pound is still weakened.

“The U.K.’s greater political stability does appear to have unlocked the logjam, at least in the short term,” said Jamie Read, director of London estate agency Tavistock Bow. “We saw an immediate upturn in enquiries the day following the election, being fully booked all day on viewings with predominantly international buyers making immediate offers, choosing to act now while the sterling conversion is still attractive.”

One overseas buyer even set a record for the biggest apartment sale of the year in the days following the vote, agreeing to pay £65 million (US$84.7 million) for a penthouse in London’s posh Belgravia neighborhood, Mansion Global reported.

The rush of interest from both buyers and sellers will bolster sales and sentiment in London’s housing market in 2020, though it’s unlikely home prices will rebound in any significant way. Knight Frank projected home prices in prime central London will inch up just 1% next year, which should be welcome news after the 20% decline the market has endured over the last four to five years.

“After a period of deadlock, this gives buyers and sellers real hope of a buoyant market,” said Edward Heaton, founder of agency Heaton & Partners.



Even in a year when Los Angeles recorded a stunning half-dozen deals over $80 million, 2019 proved La La Land is not immune to overdevelopment and overpricing.

A rip-roaring local economy, enviable climate and the sprawl of megamansions have made Los Angeles the epicenter of blockbuster home sales in recent years. Those one-off megadeals will continue to make cameo appearances—there are currently eight homes for sale over $80 million—but it will be increased negotiability and growing luxury supply that play the leading roles in the outlook for next year.

“There’s been quite a lot of supply of homes that are aspirational in pricing. That has left too much inventory,” said independent luxury broker Ben Bacal. “There are almost 200 homes on the market priced between $10 million to $30 million. That’s a big number; three years of inventory.”

The abundance of trophy homes have only served to make affluent home buyers more discerning when it comes to factors such as land, location and view. It’s also created a clear opportunity for buyers in the market for a contemporary glass-encased spec home, of which there are many.

“There’s been a lot of speculative building,” said Stephen Kotler, CEO of Douglas Elliman’s Western Region brokerage. “In many cases, builders bought the dirt three years ago when pricing for the dirt was higher.”

As a result, developers in some cases set unrealistic prices and since have had to get more negotiable, Mr. Kotler added. He pointed to one of the most extreme examples: the sale of a palatial spec home with a Louis Vuitton-themed bowling alley and helipad in Bel-Air for $94 million in October, less than half its original $250 million price tag.

Nevertheless, demand for Los Angeles homes will remain strong even if luxury prices flatline in 2020. “Los Angeles is having its moment,” Mr. Kotler said.

Overbuilding in certain pockets of the Bay Area’s luxury housing market will hand savvy buyers opportunity next year.

San Francisco is coming off a robust 2019, when a series of giant market-disrupting companies from Uber to CrowdStrike went public and funneled billions into the city, including high-end real estate. That infusion of wealth will likely peter out in 2020, leaving the city with more luxury condos than buyers can readily absorb, said Patrick Carlisle, San Francisco-based chief economist at Compass.

“The weakest segment of the market is the ultra-luxury market,” said Mr. Carlisle, who defined it conservatively as condos over $3 million. “We have this expanding inventory of gorgeous magnificent condos, and there just aren’t enough buyers.”

At the moment, there are some 10 to 20 condo listings for every buyer, which “does not create a big sense of urgency,” he added. “That was unheard of two years ago.”

That’s likely to put pressure on developers to adjust pricing or offer other forms of concessions and certainly gives well-heeled apartment buyers pick of the litter.

Outside of that slice of the market, however, the Northern California city is likely to see stable but unremarkable growth in home prices—so long as the U.S. economy avoids recession, which Mr. Carlisle has not taken completely off the table.

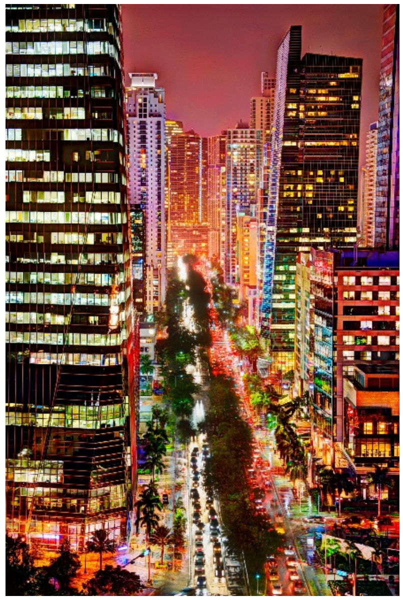
“Prices will be relatively stable and demand will remain—that’s assuming there’s not a stock market crash and that the trade war doesn’t go into a new level,” Mr. Carlisle said. “It’s impossible to predict when one of those spinning plates is going to come crashing down.”

Miami faces fiercer competition from Florida's secondary waterfront cities to its north and west, a trend that's likely to continue through 2020 as a flood of U.S. buyers from out of state look further afield for value and alternative lifestyle options.

Federal tax reform passed in late 2017 has accelerated domestic migration to Florida, where low taxes and a warm climate attract baby boomers and affluent individuals who want to preserve their wealth. The flood of incomers has driven booms in less expensive Gulf Coast communities such as St. Petersburg, and fueled activity around Jupiter Island and Palm Beach on the East Coast, according to the latest joint report from Douglas Elliman and Miller Samuel. But the influx has largely left Miami and its barrier islands out of the party.

"All along the coast, all of those markets are not just sleepy little towns," said mainland Miami-based broker Madeleine Romanello of Compass Florida.

"We have a lot more competition. I had three sets of buyers where we were competing with properties on the West Coast and the Treasure Coast," she added, using a nickname for a coastal stretch north of Miami-Dade County.



Turbulence in Miami luxury home prices, which have fallen or stagnated for most of the past three years, continues to turn off potential home buyers while an abundance of inventory leaves genuine house hunters with no sense of urgency.

“We’ve been so overpriced over the last two, three years in so many different segments people, are confused. Especially for out-of-town buyers, there’s a question of what is it really worth?” Ms. Romanello said. “Buyers only want to pull the trigger on homes that are priced correctly.”

There is plenty to signal luxury prices in Miami will eventually turn around if not in 2020, then by 2021. For one, buyers are finally absorbing a wave of new condo development that has held down prices in the city for years. Meanwhile, the city has become particularly attractive to a cohort of financial-service companies fleeing the high-tax hubs in New York City and Greenwich, Connecticut.

Together, those trends mean future upside for affluent buyers who buy in the coming months, while negotiability abounds.

The window of opportunity for buyers to take advantage of softened prices in Sydney is closing quickly, as the city has remarkably avoided the kind of protracted downturn that’s ongoing in London, New York and Dubai.

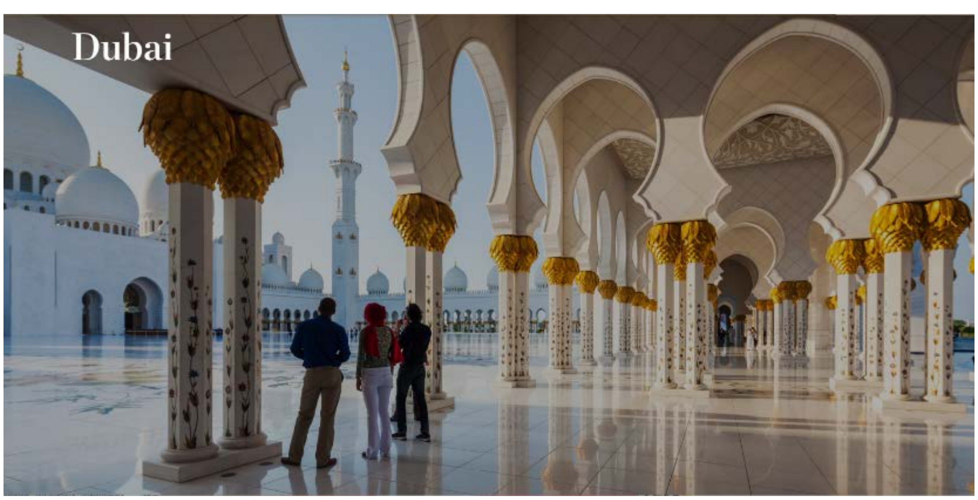
Sydney's housing market has already begun to recover from a nosedive in home prices in 2018—a dramatic free fall from years of double-digit growth—and the consensus among industry experts is that there will be a return to healthy price growth in 2020.

Financial analysts from Moody Analytics to ANZ Bank predict home prices will rise somewhere from 6% to 7% in 2020.

The luxury market, in particular, will see home values rise roughly 4% over the next 12 months, according to predictions from global property consultancy Knight Frank. At that rate, affluent homeowners in the city see their investments outperform most major luxury hubs, including Los Angeles, New York, Hong Kong and Melbourne.

"Lower interest rates and a limited supply pipeline" are driving renewed confidence in the Sydney market, said Kate Everett-Allen, head of global residential research at Knight Frank in the firm's outlook for 2020.

Downsizers help drive the uptick in demand for prime homes, said Knight Frank, particularly "easily maintainable properties close to city center locations."



Expo 2020, a world's fair expected to attract 25 million visitors to Dubai, will kick off in October, a mega-event that could eventually help turn around a yearslong slump the city's home prices.

The expo will put a global spotlight on the Middle Eastern financial hub that industry experts say will fuel demand for investment in the city in the second half of 2020 and 2021. Those buyers are poised to get a deal in Dubai, where homes are trading for a fraction of what they were five years ago. Home prices in upscale communities, such as Downtown by the iconic Burj Khalifa skyscraper and on the man-made Palm Jumeirah archipelago, are down some 25% to 30% off their 2014 peak, before a collapse in oil prices tightened the purse strings of the region's elite.

House hunters over the coming year will remain spoiled for choice. A glut of new construction, which has flooded Dubai's housing market since 2018, means buyers can snap up newly built apartments and villas at discounted prices and with concessions from developers, including competitive payment plans, said Haider Tuaima, head of real estate research at Dubai-based ValuStrat.

The run-up to and launch of the expo will drive sales activity, but competition among sellers will continue to weigh on prices. Average prices in the city will likely continue to fall for most if not all of next year and reach some kind of stasis or even growth in 2021, Mr. Tuaima said.

Meanwhile, a raft of policy changes in the emirate have laid the foundation for long-term stability, including reforms that offer long-term visas to certain expatriates, who comprise 80% of the city's population, accommodate wealthy retirees and offer a more open business environment.

"Expo 2020 will definitely affect the psychology in the market and create more trust," Mr. Tuaima said. "We don't expect to see a sudden spike or anything crazy. It will be gradual and very slow—a more common sense kind of market."