SAVILLS WORLD RESEARCH
H2/2015

12Cities

Occupying and investing in world city real estate

THE RISE OF THE DIGITAL CITY

Cities on the move

This edition of *12 Cities* goes to press at a time when political, economic and social stability cannot be taken for granted in many corners of the globe. The turmoil of the 2008 financial crisis and subsequent geopolitical conflicts have given real estate investment a new role and significance. Many cash-rich investors have been putting money into real assets rather than paper ones, in safe jurisdictions with good title and political stability.

They appear to have been vindicated, judging by the daily increase of geopolitical and economic threats in vulnerable regions. We anticipate that core real estate markets will continue to be favoured for as long as this lasts.

The resulting focus of real estate money on globally recognised cities threatens to leave them fully valued and low-yielding. Which locations will perform next and what alternative real estate asset classes can be successfully invested?

Our leading article points to how the rise of the digital economy is changing geographies and property markets. The locations favoured by occupiers within cities are changing and new, small cities are increasing in importance to compete with the global giants. We explain some of the trends that we think should start changing global real estate investing criteria.

We also look at the world of income returns, recognising that some investors, fully stocked with safe-haven assets, may want to concentrate rather more on the fundamental value of income streams. Our measure of 'net of bonds effective yield' (NOBEY) makes a valid comparison between cities and countries and begins to point at markets that have become fully valued and those that may have capacity for further growth.

Meanwhile, international occupiers of offices and residential space can see which global cities look to be best value from their point of view. Our live-work index should prove a useful guide.

Our 'new and improved' World Cities Index is a response to readers' requests to include key indicators: rents, capital values, yields and basic statistics on each of our 12 cities. They show how each city has performed over time and enable direct comparisons to be made between cities. Lastly, in our regular feature 'Compass Points', we have summed up four key themes for the future of world cities. I hope you enjoy this edition and find it useful in your global real estate decision-making. ■

'Many cash-rich investors have been putting money into real assets rather than paper ones'

YOLANDE BARNES
Director, Savills
World Research
ybarnes@savills.com
Twitter: @Yolande_Barnes

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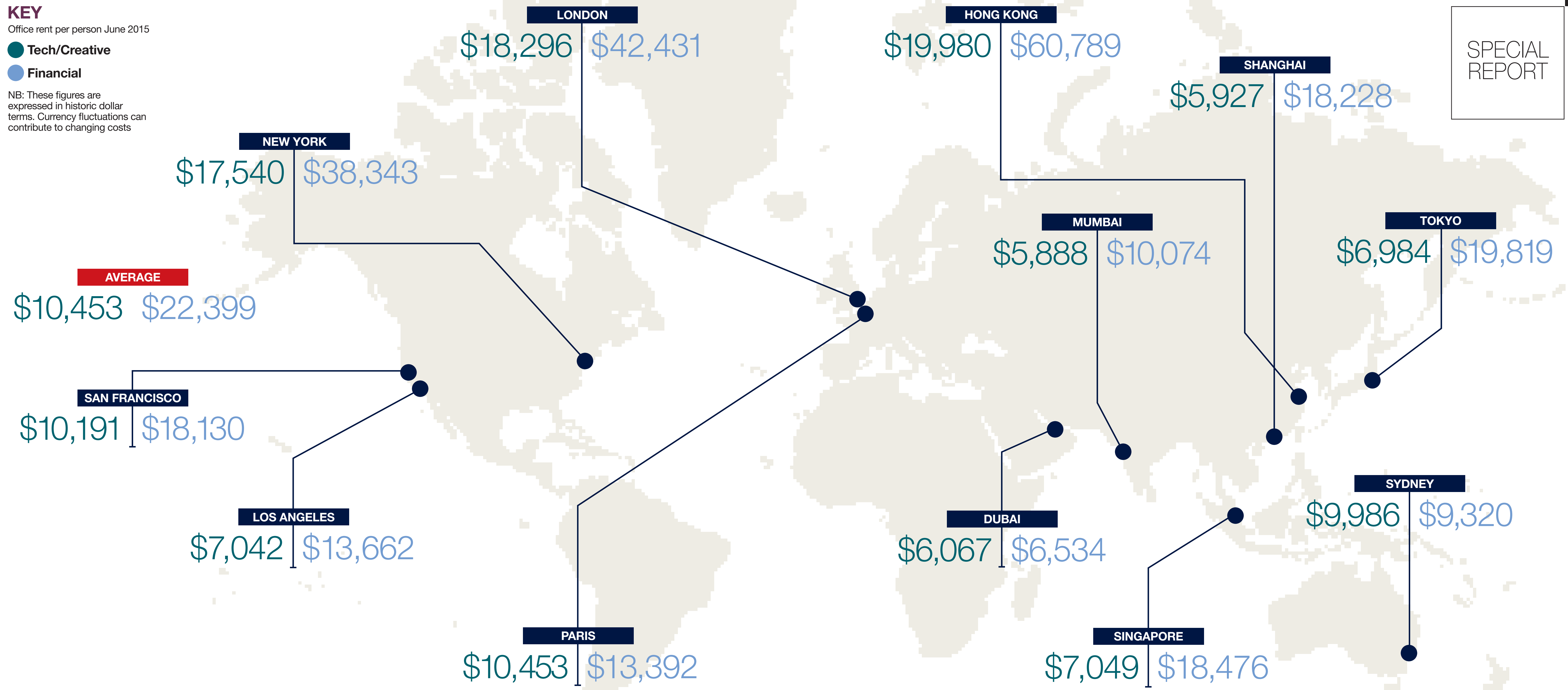
RESEARCH METHODOLOGY

In order truly to compare the cost of residential and commercial real estate across different global cities, we use the Savills Executive Unit (SEU), which measures the cost of housing an identical group of people living and working in different countries.

The people who make up our SEU include one middle-aged expat CEO, one senior expat director, a locally employed director and four locally employed administrative staff. They each live in different types of household and each member of the group chooses different types of locations and different types of property in which to live.

To measure office costs, we place the same seven people in an office of a small financial services firm and again in a creative start-up – each located in the most appropriate district for their industry type.

COVER: GETTY IMAGES



The digital catch-up

Within world cities, creative and digital businesses have been flourishing while financial corporations have been struggling to rebuild in the wake of the global financial crisis. The consequent impacts on real estates rents and growth are examined in this article

As the finance and service revolution of the 20th century gives way to the digital age of the 21st century, we examine the repercussions for real estate.

There is a big difference in most world cities between rents paid by a creative or digital scale-up and a hedge fund, although the gap is closing. In June 2015 the total annual office rent paid for each member of staff in a hedge fund averaged $22,399 across the 12 world cities covered in this report. This compares to $10,453 per person for a small digital scale-up or creative company, which represents just 47% of the financial sector office rent. This 'digital discount' has eroded since 2008. At the end of 2008 the digital and creative industry paid, on average, 42% of what a hedge fund would pay in rent.

The difference between these rents clearly reflects a different scale of revenue between a financial company and a creative company, but we expect the gap to continue to close. This is because the size of the digital and creative sector is growing faster than the finance industry in many of the world cities we monitor, meaning rental growth is higher too. Meanwhile, it takes time for the nature and location of office stock to change from the type of large, floor-plate corporate premises required for banking to smaller, flexible and altogether more dynamic spaces required by creative and digital occupiers. This means that scarcity value also increases rents.

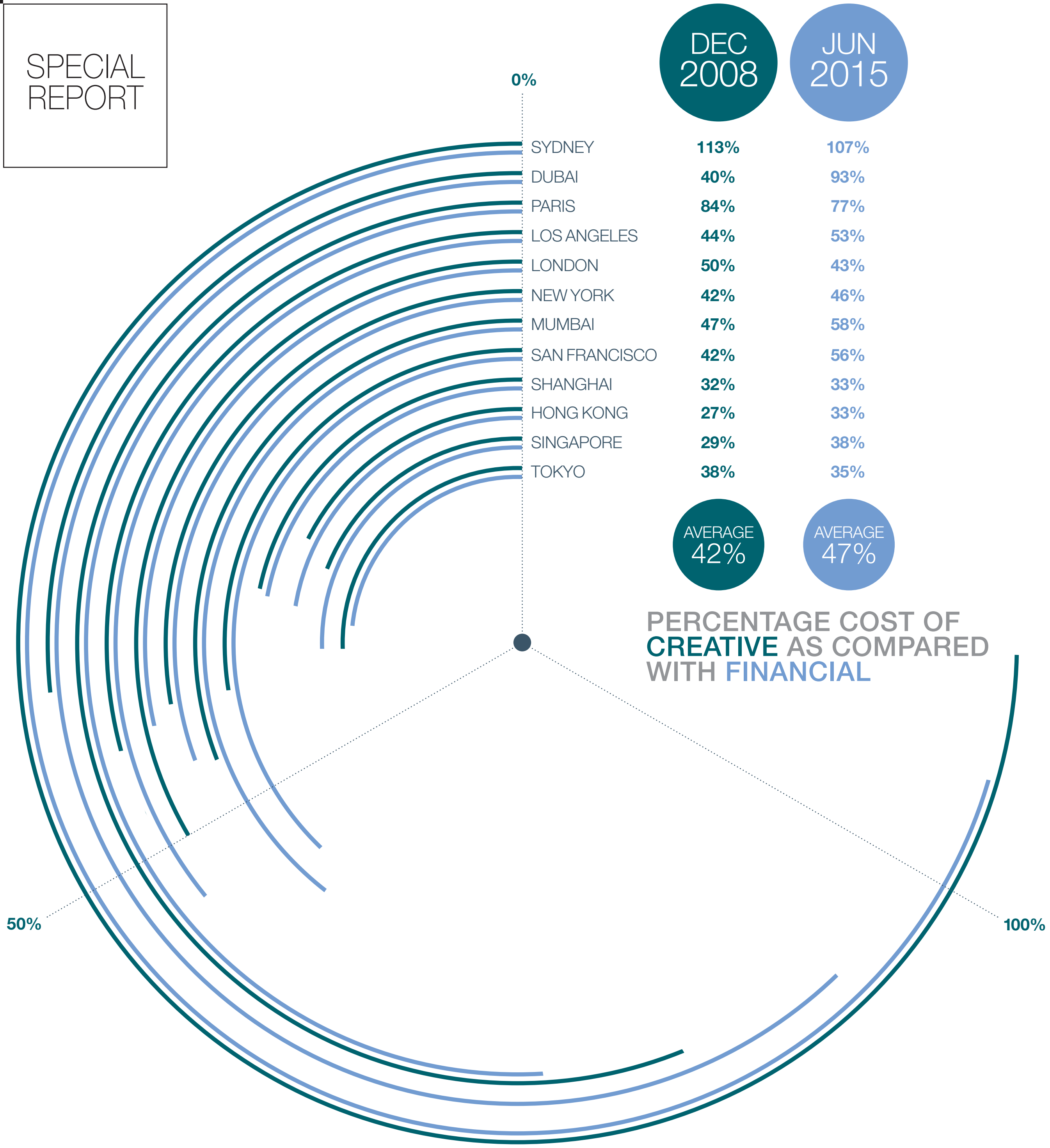
$22,399

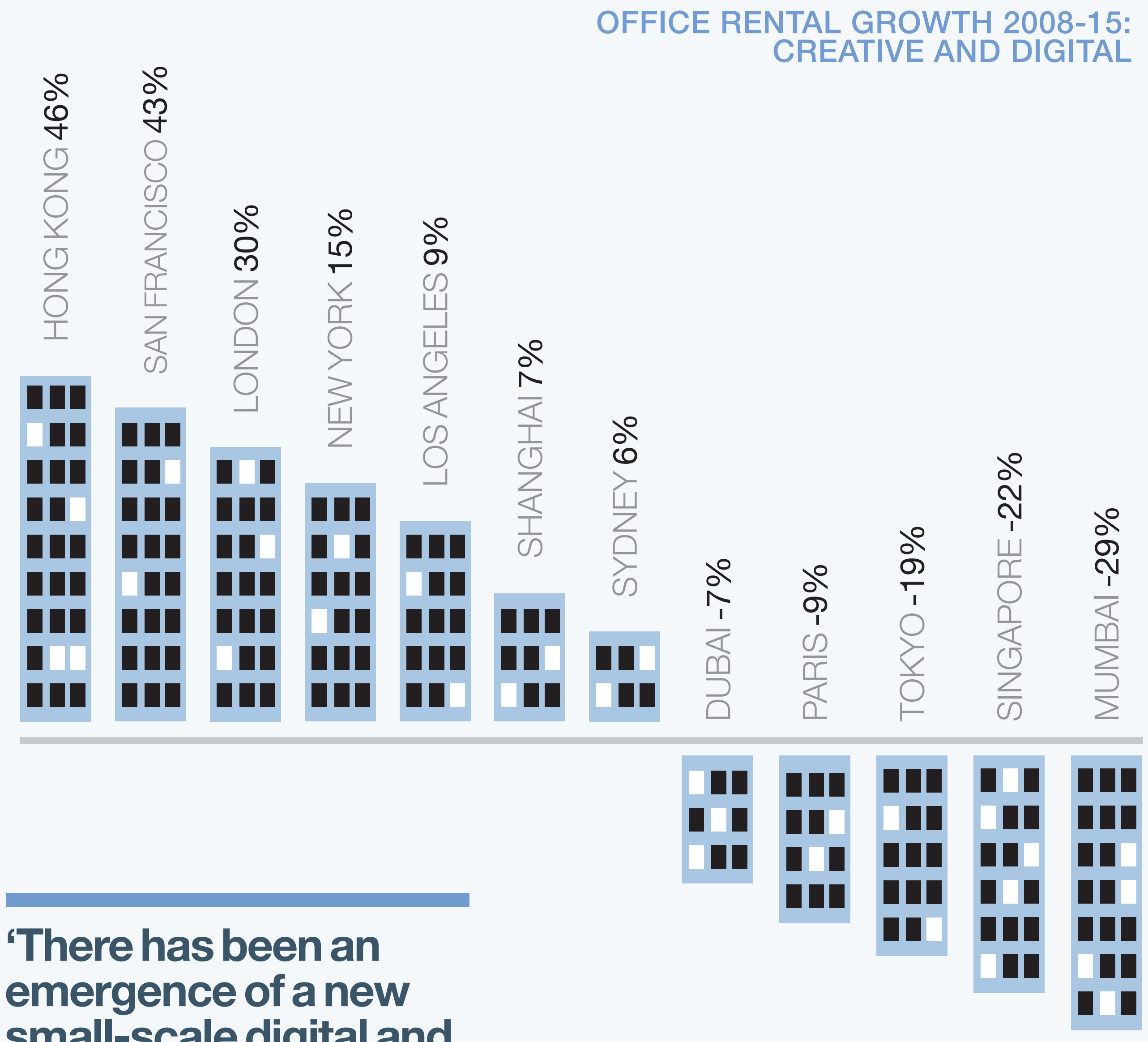
Average annual price of rent paid by hedge funds for each member of staff

In some cities the importance of the digital and creative industry would already seem to have overtaken finance. In Sydney, for example, creative industry companies are paying more per person for office rents than finance companies are. Local supply and demand factors will clearly have an impact here. Relatively low demand for financial offices in Sydney means the city has some of the cheapest rents for this sector among our world cities, paying well below the world average per person.

Globally, the average growth of office rents we monitor among our 12 cities was just 1.7% between December 2008 and June 2015. But this average disguises a big difference between the financial sector and creative and digital sector. While office rents in the financial sector fell by an average of 1.8%, the creative sector offices saw growth of 8.6% over the same period.

SPECIAL REPORT





‘There has been an emergence of a new small-scale digital and creative finance sector in London’s West End’

Some of the differences in rental growth were stark. Hedge funds operating out of Dubai can expect to pay 60% less in rent (in local currency) than they did in 2008, and in Singapore 41% less. Meanwhile, creative types in Hong Kong, San Francisco and London are paying, respectively, 46%, 43% and 30% more than they were in 2008. In San Francisco tech rents grew by 450bps more than financial rents, which grew by just 8%.

This reflects the growing supremacy of the digital and creative economy in San Francisco against a weaker financial environment. Digital and creative out-performance in Hong Kong was also significant – these companies have seen a 46% rise in commercial rents since 2008, compared with 19% in the financial sector. Over the past year though, little or no rental growth has been registered in either sector.

60%
The fall in rental price (in local currency) that the financial sector pays in Dubai since 2008

Landlords who switched from core, prime financial sector assets to fringe, secondary properties in areas catering for the growing creative digital sector may be rubbing their hands in glee, but there are some notable exceptions.

Sydney is unusual in having a financial sector where rents are lower than the creative sector. Rental growth in both sectors has not been spectacular, but financial rents have slightly outperformed creative since 2008 and continued to do so over the past year.

London has another interesting story to tell, exhibiting high rental growth in both sectors, but with hedge fund rents growing more than the creative and digital. This is because, not only are creative industries expanding into and pioneering new areas, but also because hedge funds have colonised very prime and exclusive new locations, such as Mayfair. Rents in this district have been pushed up substantially by the competition and the limited supply of small-scale, period buildings that dominate the area.

There has been an emergence of a new, small-scale ‘digital and creative finance sector’ in London’s West End which requires different space, dissimilar to the big financial corporations and banks located in the traditional banking areas of the City of London. A similar trend has also emerged in New York, where hedge funds are colonising new Midtown areas, while Wall Street still houses the big corporate institutions. In both cases it is the rents of the small, creative, digital-age hedge funds that are rising the fastest.

6.1%
Amount creative office rents rose between 2008-2015 compared to a 4.3% fall in financial rents

The digital age will continue to disrupt the industries of the occupiers in our survey and it is likely that we will continue to see changes in rental levels, according to who wins and who loses in this new marketplace.

Landlords not only need to adapt buildings to suit these new occupiers in all sectors, they also need to be aware that tenants are likely to continue to seek new locations and new ways of working to ameliorate rising rental costs in core central business district areas. Investors who spot these trends early will see the best returns. ■

How low can they go?

With property yields falling across the 12 cities, investors may have to look to secondary locations to see a better income return

Yields are the universal language of real estate, but like so many global languages they are not always easily translated between one country and another. After all, even different regions within the same country speak different dialects. Here, we try to unpick the real global picture and see where each of our 12 cities sits in comparison.

Put simply, yield is the income you receive on the capital you use in real estate (annual rent as a percentage of capital value) and this figure can speak volumes about the state of any property market.

Currently, many world city prime yields are either at, or close to, all-time historic lows in both commercial and residential property. This, in part, reflects current global monetary conditions, but could also indicate that capital values are too far ahead of rental growth, that rents have yet to catch up with capital values, that lower income returns are the new norm, or any combination of these factors.

OFFICE OCCUPIER YIELDS

Our simple measure of small office occupier costs in world cities shows that occupier yields (rents paid by tenants as a percentage of capital value) fell after 2009 *(see fig. 1)*. Yields on creative/digital properties (usually fringe locations, alternative buildings are less favoured by institutional investors) have recently stabilised, despite rental growth. Yields on financial district buildings that suit small-scale financial occupiers have continued to move in. These prime locations are becoming increasingly favoured by investors, pushing values up and cap rates down.

This means that although rents may be rising, occupiers are paying less for their property each month as a proportion of the capital cost of their building.

'Investor returns, measured by this method, are less varied than market yields'

OFFICE INVESTOR YIELDS

Yield measures vary substantially around the globe. Headline market yields are often quoted in the office markets but they don't take hidden costs and rental discounts into account.

Recent research by Savills, in conjunction with Deakin University in Australia (*see fig. 2*), looked at how tangible income returns to grade A office investors differ from quoted market yields in cities around the world. It found that a combination of investor costs and tenant incentives, such as rent-free periods or rebates, reduce the income return that an investor actually receives, in some cases quite considerably. The table opposite compares this 'net effective yield' with quoted market yields in our 12 cities.

Net effective yields in our 12 cities are, on average, 100 basis points below quoted market yields. In Sydney and downtown Los Angeles, the difference is much greater, while Tokyo, Hong Kong, Singapore and London show the greatest similarity between quoted market rents and income receivable by the landlord (*see fig. 3*).

Investor returns, measured by this method, are less varied than market yields. Heavily invested cities, such as London, Hong Kong, New York, Tokyo and Paris, are yielding in the region of 2.5% to 3.5%, while cities with lower rates of big-ticket international investment, such as Sydney and Shanghai, are being priced at around 4% to 4.5%. Mumbai is a clear high-risk outlier at an estimated 7.6%.

We have also subtracted the prevailing rate on 10-year government bonds to show the return investors receive over a local 'low risk' bond investment.

The average net of bonds effective yield currently exceeds 10-year government bonds by just 90 basis points (*see fig. 2 and fig. 3*). This gives some indication of how much further yields can move in. Cities with property yields that show lower returns in excess of bonds might be deemed more fully valued than those that offer investors a bigger surplus.

That said, a higher surplus might be expected in countries where the capital value of real estate depreciates faster – Japan, for example. Alternatively, a lower NOBEY might be expected in jurisdictions where rental growth is high, or is expected to be high, where bond yields are expected to move in further, or even where bonds may be perceived as being riskier than real estate.

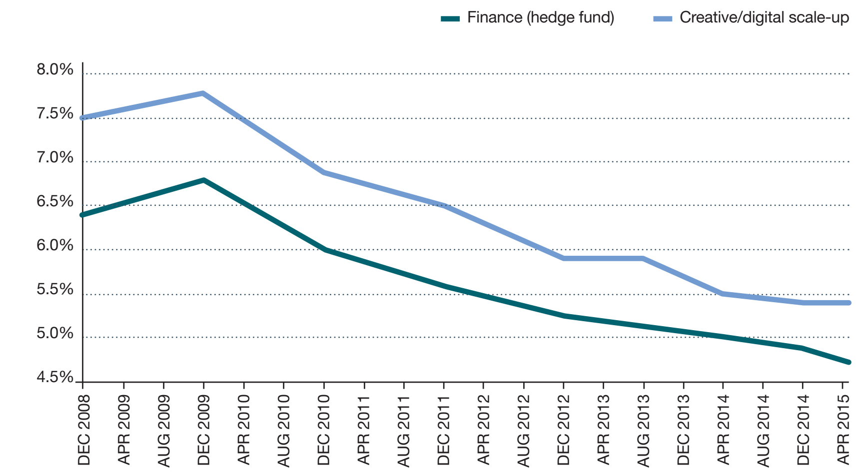
World city yields would seem to be on the low side, having moved in, on average, 26 basis points over the past 12 months.

There are sometimes significant differences in yields within the same city. These are particularly striking in New York, for example. A Midtown investment will currently yield a net income of 2.8%, while a Downtown one will yield 3.2%. Differing investor expectations of the two markets are clearly at play here, but it tends to support our view that investors seeking income may be better off exploring secondary locations and second-tier cities, unless they believe in strong rental growth prospects within low-yielding markets.

Looking forward, it would appear that substantial rental growth will be needed in most of the world city office markets covered in this report, especially if the expectation is that gilt rates will move out as base rates rise. We expect to see office yields start to stabilise in 2015/16 and they have already started to move out slightly in Sydney and Shanghai.

Further inward movement is still possible in some cities where GDP growth and job creation increases demand, speculative office building has been minimal and vacancy rates are low. In these cities, current cap rates appear sustainable – both now and in the foreseeable future – provided rental growth continues. ■

FIG. 1 World city office occupier yields compared



Source: Savills World Research

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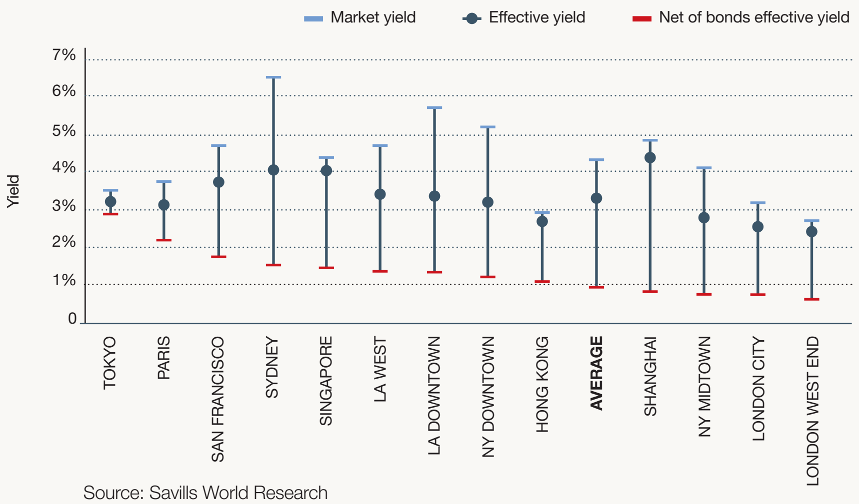
FIG. 2 NOBEY (net of bonds effective yield)

	Market yield	Effective yield	NOBEY
MUMBAI (ESTIMATES)	10.0	7.6	-0.2
SHANGHAI	4.8	4.4	0.8
SYDNEY	6.5	4.0	1.5
SAN FRANCISCO	4.7	3.8	1.7
SINGAPORE	3.9	3.5	1.0
LA (WEST)	4.7	3.4	1.4
LA (DOWNTOWN)	5.7	3.4	1.3
AVERAGE	**4.3**	**3.3**	**0.9**
TOKYO	3.5	3.2	2.9
NEW YORK (DOWNTOWN)	5.2	3.2	1.2
PARIS	3.8	3.1	2.2
NEW YORK (MIDTOWN)	4.1	2.8	0.8
HONG KONG	2.9	2.7	1.1
LONDON (CITY)	3.2	2.5	0.7
LONDON (WEST END)	2.7	2.4	0.6
DUBAI	N/A	N/A	N/A

Source: Deakin University/Savills World Research

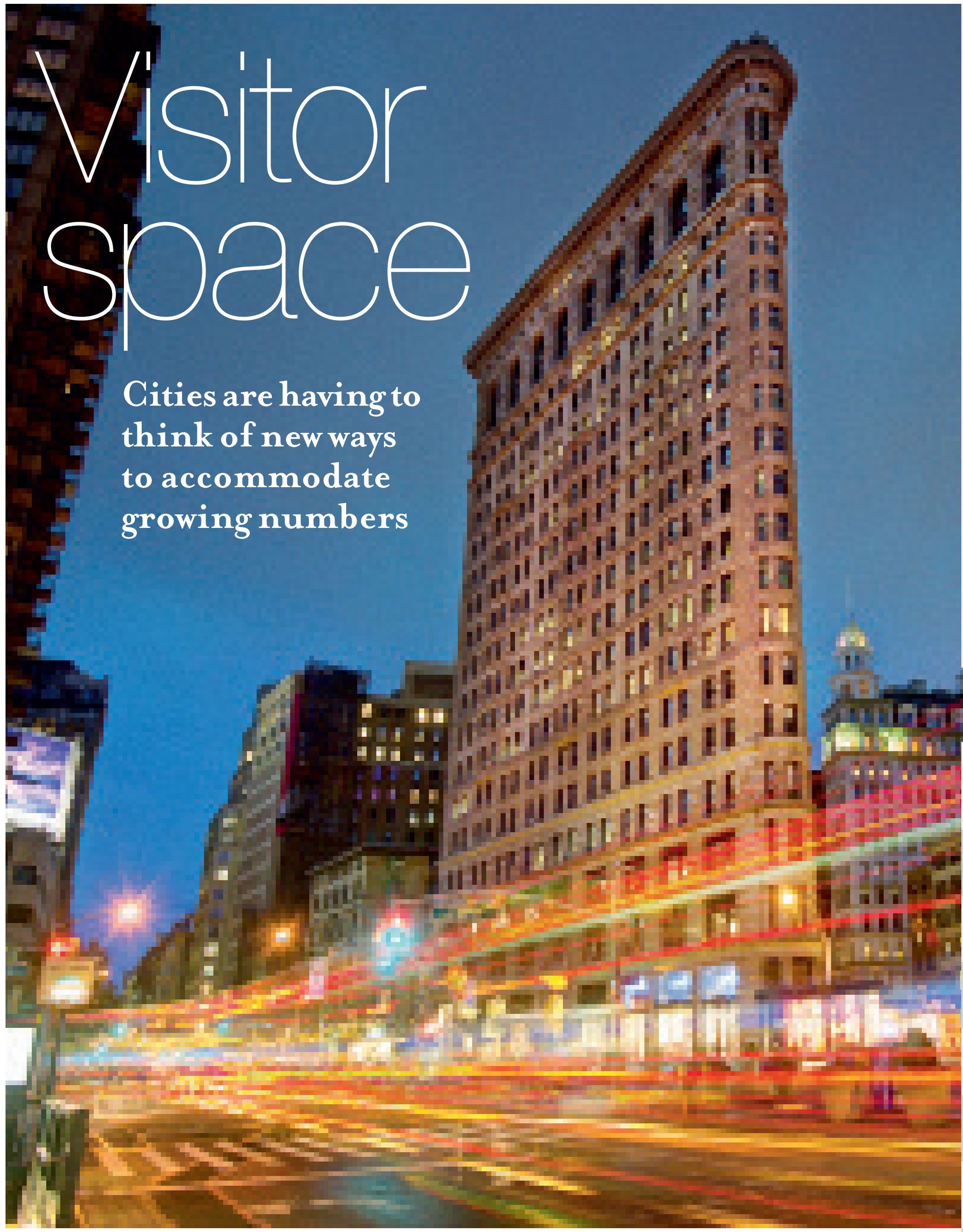
'We expect to see office yields start to stabilise in 2015/ 2016'

FIG. 3 June 2015 market yields and net effective yields compared



Source: Savills World Research

Visitor space



Cities are having to think of new ways to accommodate growing numbers

There is no better indicator of the success of a city than the numbers of people who want to visit, live and work there. But this success creates demand for space, which is increasingly hard to come by in an increasing number of world cities. This is especially the case on constrained land and historic sites, where expansion potential is limited. The consequent inability to keep pace with demand creates cost pressures, which is why rising rents are a common feature of our world cities.

The average accommodation cost per person in the Savills Executive Unit (SEU) and their household *(see definitions on page 3)* in the 12 cities featured in this report is now $74,945 *(see fig. 5)*, compared to $68,538 in December 2008. So despite the recession of 2008-2010, when average live/work accommodation costs fell by 5%, rents are rising faster than city GDP growth in most jurisdictions.

The biggest rent rises have taken place in cities where supply is at its scarcest. A good example of this can be seen in San Francisco, where live/work costs have risen by nearly 60% since 2008. Demand has been driven by businesses that want to be based in the top, high-performing, creative digital city, alongside households preferring urban living to suburban sprawl.

High live/work rental growth has also been seen in other Anglophone cities since 2008; New York, Los Angeles, London and Sydney have all seen rents spike between 18% and 28% during this time. Meanwhile, cities with more availability, such as Singapore and Dubai, have seen rents fall, so live/work accommodation rents in these cities are now 14% to 17% lower than they were in 2008. Dubai rents are now growing, while Singapore's were still falling in the first half of this year by 3.7%, along with Paris (down 2.4%).

While cheaper rents may be seen as a competitive advantage for some, and rising rents a sign of city success for others, the popular narrative in an increasing number of cities betrays a different concern. The availability and affordability of accommodation is a well-aired topic in the media of most of our world cities as more people clamour to be in the urban centres. Is the economic growth of these cities able to keep pace with rising rents?

$74,945
Average accommodation cost per employee in the SEU

Our analysis of GDP to SEU live/work ratios suggests that large amounts of city production are diverted into real estate in most of our world cities. While our measure of accommodation costs to city GDP per head is not an absolute one (our SEU will have a higher economic output per head than the city average), it is indicative of which cities may be less fully rented than others.

It shows that world city governors will have to continue to look at ways to sustainably develop and densify their cities, and extend their reach, or a combination of the two. This means construction and transport infrastructure are likely to remain high on the list of priorities for some time to come. ■

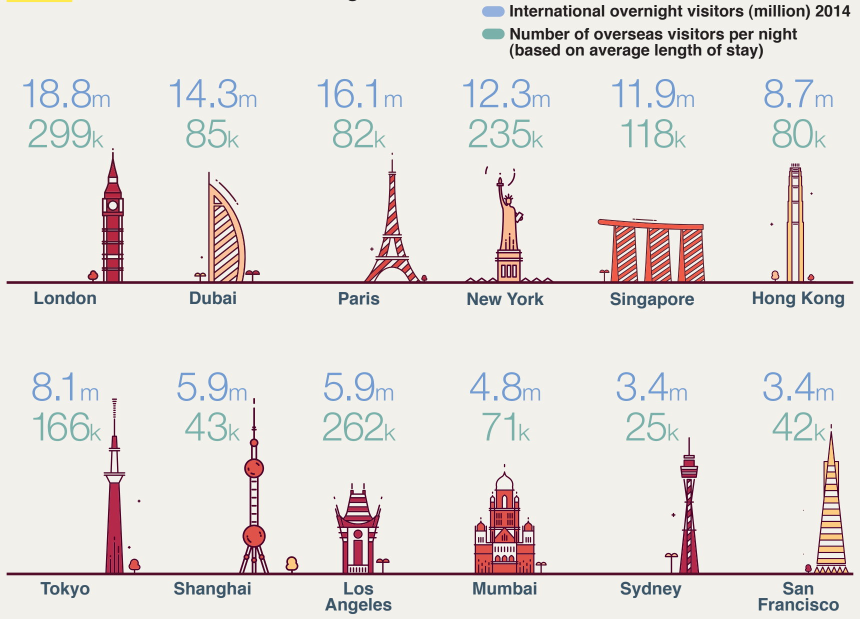
DEMAND FOR VISITOR SPACE

Often lost in the debate regarding the expansion of living and working space in world cities is the question of how to accommodate visitors. Nine of our 12 cities are in the top 20 worldwide for international overnight visitors and, for five of them, these visitors constitute a nightly population of more than 100,000 people *(see fig. 4)*. In London, this number is close to 300,000 – nearly the same size as the population of its two most central residential boroughs.

Cities that limit overseas residence owners (Sydney, for example) still have to consider how to accommodate visitors. International business people, if they continue to invest in a city, will want to spend time there. The quality, availability and convenience of accommodation – owned or rented – is an important component of city investability and economic success.

CITY VISITOR OVERNIGHT POPULATIONS

FIG. 4 **MasterCard worldwide insights**



Source: Savills World Research, MasterCard

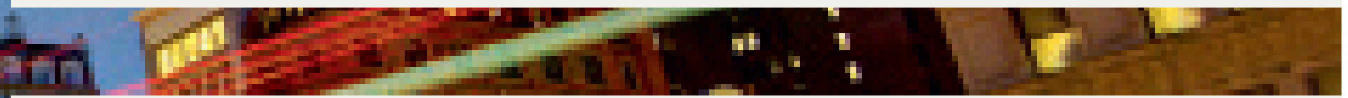


FIG. 5 **Live/work accommodation costs**

City	Cost per employee	2014 city GDP per head	Accommodation costs as multiple of GDP per head	Live/work cost change since 2008
SYDNEY	$52,994	$73,748	0.7	18.0%
LOS ANGELES	$53,192	$65,346	0.8	21.3%
SAN FRANCISCO	$88,177	$90,481	1.0	59.8%
SINGAPORE	$67,491	$57,451	1.2	-16.6%
TOKYO	$71,296	$55,697	1.3	8.0%
PARIS	$84,343	$67,326	1.3	3.2%
AVERAGE	$74,945	$53,973	1.4	9.3%
DUBAI	$59,426	$42,006	1.4	-13.9%
NEW YORK	$114,208	$74,436	1.5	28.4%
LONDON	$118,425	$60,418	2.0	20.7%
SHANGHAI	$44,043	$16,256	2.7	15.6%
HONG KONG	$116,661	$38,733	3.0	0.4%
MUMBAI	$29,088	$5,781	5.0	2.4%

Not all city populations are housed in the international standard housing that we measure in this report and neither is their economic productivity as high as the SEU. Consequently, the measured accommodation costs are a higher multiple of GDP per head in cities like Shanghai and Mumbai than they are elsewhere.

Source: Savills World Research, Oxford Economics

RESIDENTIAL
COST

The cost of city living

Rising capital costs for homes in world cities have pushed many households toward renting

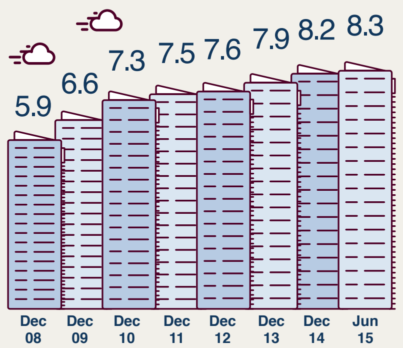
The cost of home ownership has grown significantly in our 12 cities since 2008. The average capital value of properties occupied by the Savills Executive Unit (SEU) has grown by 41% over the past seven years. Meanwhile, average household disposable incomes have grown by an average of 9% over the same period across the same cities.

It is no wonder then that in many of our world cities there is an increasing interest in housing affordability. In 2008 the average home occupied by staff members of the SEU and their households cost 5.9 times the average household disposable income of those cities. By June 2015 that figure had risen to 8.3 (*see fig. 6*).

Rising capital costs for homes in world cities have pushed many households toward renting rather than owning. This has become cheaper relative to owning as yields have moved in, but our SEU mainstream rents have risen by an average of 25% since 2008 (*see fig. 7*). Although less than capital values on the same properties, this is still faster than household incomes, which grew by an average of 9% across the 12 cities.

SEU staff and their households now pay 31% of the city average household income on rent, compared to 28% in 2008

FIG. 6 SEU mainstream capital values as a multiple of average household disposable income



Source: Oxford Economics

(*see fig. 8*). In some cities, such as Shanghai and Mumbai, the proportion is higher because employees in the SEU earn more than the city average income.

Overall, the ratio helps to demonstrate how occupier demand relates to the supply of suitable housing units in a city. Where investment in residential property has been channelled into multi-family housing (primarily in US cities), it would appear that residents are paying a lower proportion of income on rents in markets that are better supplied (*see fig. 8*).

Generally speaking, those cities that are experiencing the highest jobs and population growth have seen the highest rent rises. This can therefore be seen as the real estate consequence of urbanism in action, although it is not forecast to continue at the same rate in all cities. Pressure on rents will ease in cities that are experiencing economic slowdown or population decline, but will be buoyed in others by a continuing or increasing preference by people to live in urban areas and/or in particular cities.

The extent to which cities can expand or regenerate land and create desirable urban residential neighbourhoods will determine the rate of future rent rises. Over the longer term, given the land constraints in most of our cities and their attraction for workers, residents and visitors, we expect city rent growth to be higher than in surrounding areas.

GALLERYSTOCK

PRIME TIME

Of our 12 cities the most expensive for mainstream residential property are Hong Kong, New York and London respectively (*see fig. 9*). They are all high-level centres of global investment generally, and real estate, both commercial and residential, is no exception.

This investment has been blamed in some cities for pushing up house prices for ordinary residents. Our data suggests that this is not the case, however, as both New York and Sydney have seen high price rises in recent years, despite restrictions on foreign ownership. Instead, the signs are that investment pushes up prime property values rather than mainstream values.

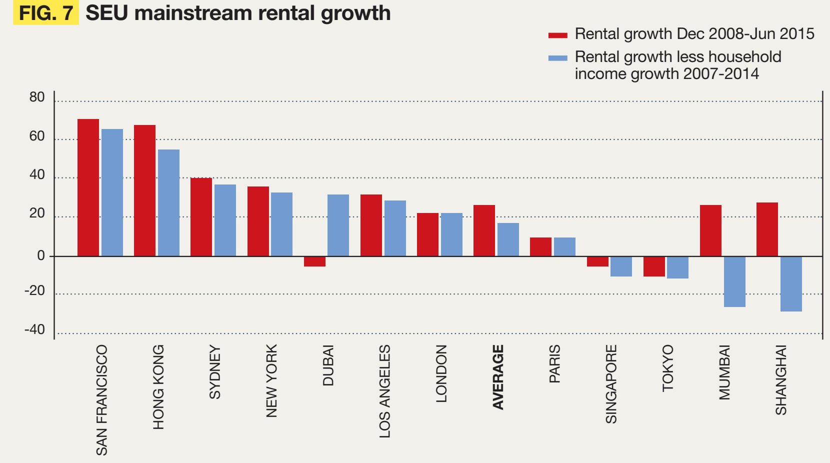
Mainstream properties generally have, on average, seen growth of 58% across the 12 cities since December 2008. Most of this growth has been associated with economic recovery in the second half of that period, with 33% occurring between December 2011 and June 2015.

Growth in prime markets has actually been lower across the 12 cities, growing by an average of 37% over the past seven years. The highest growth (19%) took place in the first half, before 2011, when buyers were more likely to invest capital rather than financing from income.

Mainstream property values are, on average, 19% of prime property values in our 12 cities (*see fig. 9*) and are most heavily discounted in internationally invested cities such as Hong Kong, Dubai, Paris and London. US cities have the smallest gap between prime and mainstream values, alongside locally invested cities such as Sydney and Tokyo.

It would appear that international investment is concentrated in prime markets and tends to push up prices in the most expensive echelons of the market. High levels of commercial real estate investment in US cities do result in international investment in multi-family housing, but this would appear to have had a moderating effect on rental growth rather than contributing to price growth in mainstream markets. ■

FIG. 7 SEU mainstream rental growth



Source: Savills World Research, Oxford Economics

FIG. 8 SEU mainstream rents as percentage of average household disposable income in the city

Source: Savills World Research, Oxford Economics

FIG. 9 SEU mainstream capital values

City	Capital values	Growth Dec 2011-Jun 2015	Mainstream as a proportion of prime capital values
Hong Kong	$910,478	53%	10%
New York	$707,738	40%	27%
London	$699,485	49%	15%
Singapore	$642,499	5%	20%
Sydney	$571,165	70%	33%
San Francisco	$565,620	74%	34%
Tokyo	$555,771	16%	24%
Average	$537,537	33%	19%
Los Angeles	$493,339	56%	39%
Shanghai	$397,689	9%	14%
Paris	$349,249	-5%	14%
Dubai	$299,464	81%	14%
Mumbai	$257,949	16%	19%

Source: Savills World Research

NEW YORK

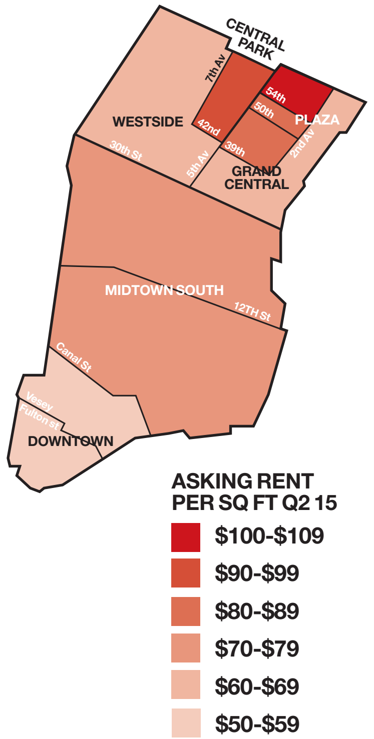
New sub-markets rise with the digital economy

Manhattan is in the midst of its biggest office development surge since the 1980s. Between 15 and 25 million sq ft of new office development is set to be added in the coming years. Hudson Yards, the biggest private real estate project currently under construction in the US, together with surrounding projects, will alone add roughly 10 million sq ft to Manhattan's skyline.

As the urban environment becomes the unit of value rather than purely an area of office space available, a retail setting that appeals to both office tenants and residents is increasingly seen as essential for drawing both audiences to property. Hudson Yards will dramatically expand the residential and commercial base of the Far Westside, adding several thousand more residential units to those that have already been built in the past few years. Luxury retail, along with entertainment venues such as the 'Culture Shed', will provide added attractions.

Lower Manhattan, or LoMa, once the domain of daytime office workers, is now considered a desirable place in which to live and work – the residential population of the area has doubled in just a decade. More business occupiers have also been drawn to the area, not just because of lower rents and tax incentives, but also because of a vastly improved retail and hospitality offering.

FIG. 10 Manhattan office asking rents



While the financial sector has scaled back its floorspace requirements, the tech industry has come to the forefront of occupier demand. Tech firms are paying top dollar for space that may be lacking in modern amenities purely to be in the 'right location' *(see fig. 10)*. In New York, this means Union Square, Williamsburg, Bushwick and Dumbo. Recognising that the appetite for space has become more geographically flexible, developers are scrambling to meet demand. In Brooklyn, for example, Industry City will turn a late 19th-century manufacturing facility into 6 million sq ft of space for the innovation economy.

These new occupiers covet non-traditional office locations that are part of wider, mixed-use environments that often include independent retailers, cafes, bars and homes. This is extending to other industries too, as employees rediscover the appeal of city living and a shorter commute. This will continue to have repercussions for old, traditional business districts and property types. We expect to see many of these districts reinvent themselves for the digital age.

DUBAI

Building difference into a maturing market

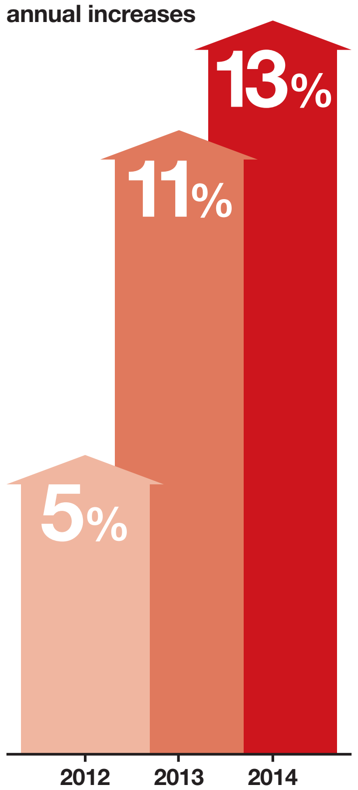
Modern Dubai is a late-20th-century zoned automobile city. While the tech sector has been drawn to cities such as New York, Dubai has attempted to zone and build for the tech industry in specific locations.

Dubai Internet City and Dubai Silicon Oasis are free economic zones that have been successful in attracting established foreign tech companies seeking to do business in the region. More business park than city, they are tailored to international corporate occupiers.

In an industry where chance meetings and collaborations can add so much value, many of the more creative global tech occupiers are moving away from the single-use environment and toward high-quality urban environments. This is at odds with the single-use out-of-town approach of the free-trade zones of Dubai. It is perhaps telling that many of Dubai's own grass-roots creative companies are concentrated around the inner streets of old Deira, characterised by its souks, shisha cafes and grocers.

Dubai is coming out of a period of very high office supply delivery (*see fig. 11*), which has contributed to falls in rental values. Rents of the type of property occupied by financial firms fell by 6.7% in H1 2015, and further falls are anticipated over the next 18 months.

FIG. 11 Dubai office supply annual increases



Developers in Dubai seeking a point of difference in a high supply market have now picked up on trends in US and European cities. They have increasingly turned to pedestrian-friendly granular developments that provide an authentic urban experience. Citywalk, a low-rise retail and residential development built around streets, is an early example.

As the city matures, occupiers will demand more from the urban environments in which they are based. Dubai is responding to these challenges, moving away from the planned zoning of the city and big buildings. Downtown Dubai and Business Bay achieve this at a city level, enabling residents to live, work and play within a single district.

A more human-scale Dubai will help foster a more sustainable city and, in turn, encourage interaction and innovation. This will require more mixed-use streetscapes. The challenges here will come from Dubai's climate, which makes life outside of air-conditioning difficult for much of the year, although inspiration from traditional architecture may help. ■

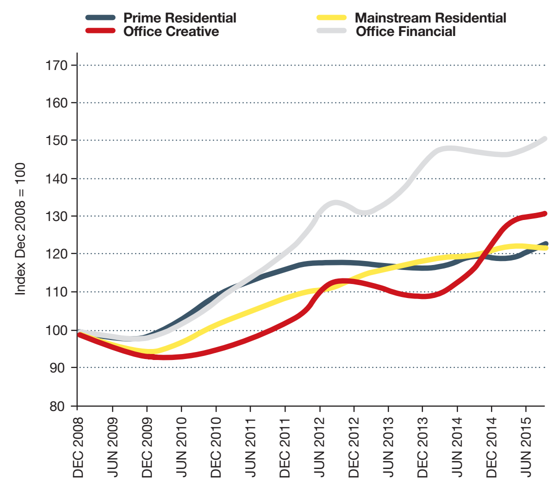
WORLD CITIES INDEX

Working space

All the key facts and figures behind the performance of the real estate markets in each of our 12 cities

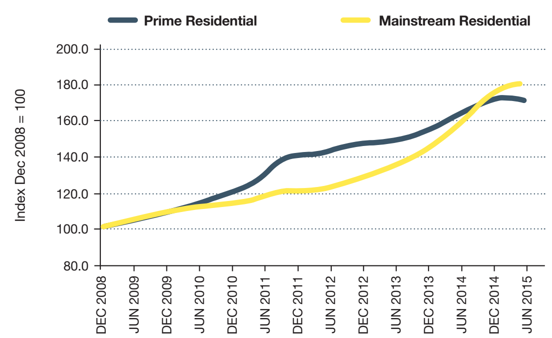
1 LONDON

Rents



SEU RESIDENTIAL YIELDS		OFFICE YIELDS	
CEO and Directors	3.83%	Financial	3.25%
Staff	4.21%	Creative	4.75%
		Grade A Effective Yield	2.48%

Residential Capital Values

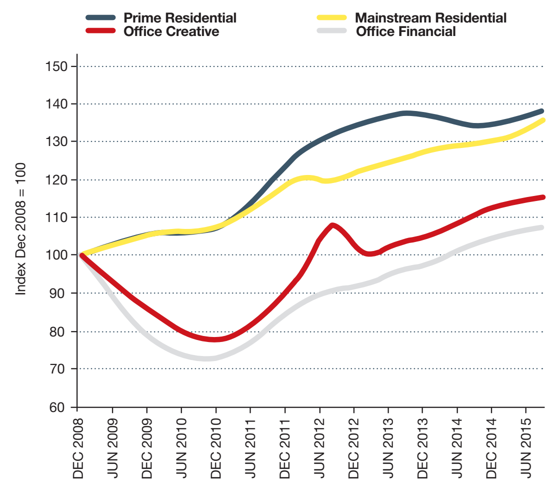


Metro Population 2014	14,620,400
Population Growth since 2008	7.51%
SEU Live/Work per person	$118,425
GDP Growth 2014	3.67%
GDP Growth since 2008	8.33%
GDP per capita 2014	$59,143
Average Annual Disposable Household Income 2014	$78,292

RESIDENTIAL YoY GROWTH JUNE 2015	CAPITAL VALUES	RENTS
Prime	-0.55%	2.73%
Mainstream	3.13%	1.53%

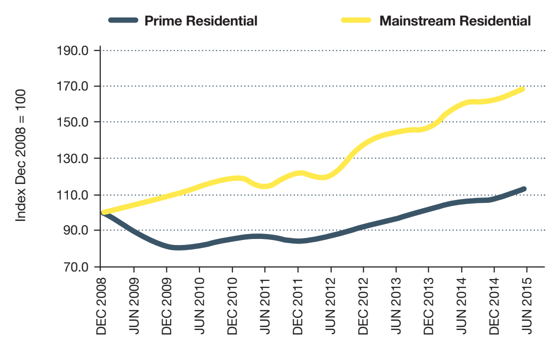
2 NEW YORK

Rents



SEU RESIDENTIAL YIELDS		OFFICE YIELDS	
CEO and Directors	5.21%	Financial	4.20%
Staff	5.93%	Creative	4.30%
		Grade A Effective Yield	2.99%

Residential Capital Values



Metro Population 2014	20,103,130
Population Growth since 2008	3.94%
SEU Live/Work per person	$114,208
GDP Growth 2014	1.42%
GDP Growth since 2008	7.86%
GDP per capita 2014	$73,056
Average Annual Disposable Household Income 2014	$141,295

RESIDENTIAL YoY GROWTH JUNE 2015	CAPITAL VALUES	RENTS
Prime	7.02%	2.77%
Mainstream	5.51%	4.76%

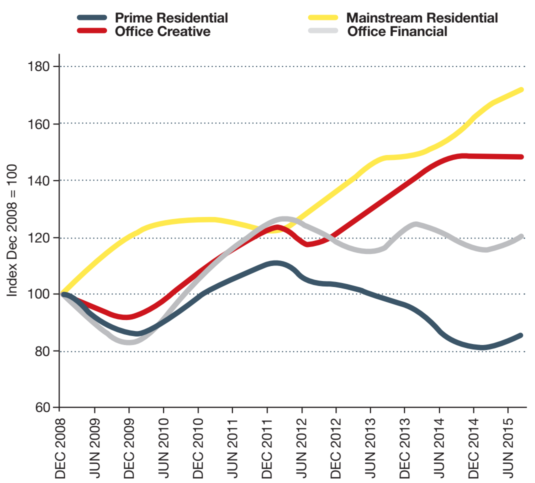
PLAIN PICTURE, SHUTTERSTOCK

Source: Savills World Research, Oxford Economics

WORLD CITIES INDEX

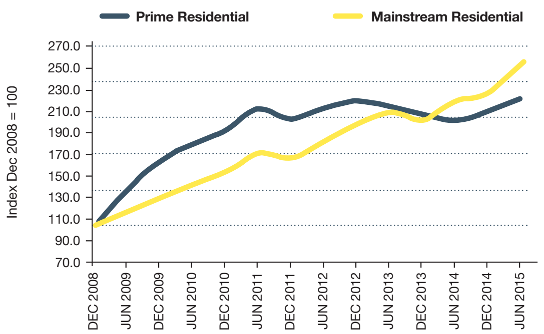
3 HONG KONG

Rents



SEU RESIDENTIAL YIELDS		OFFICE YIELDS	
CEO and Directors	1.80%	Financial	2.50%
Staff	3.10%	Creative	3.10%
		Grade A Effective Yield	2.69%

Residential Capital Values

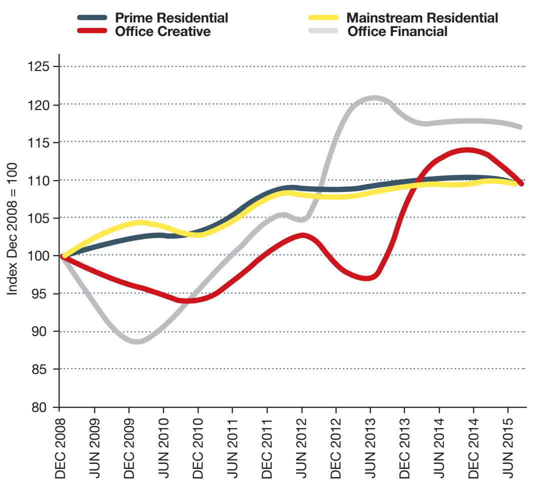


Metro Population 2014	7,267,864
Population Growth since 2008	4.11%
SEU Live/Work per person	$116,661
GDP Growth 2014	1.97%
GDP Growth since 2008	16.32%
GDP per capita 2014	$37,926
Average Annual Disposable Household Income 2014	$52,026

RESIDENTIAL YoY GROWTH JUNE 2015	CAPITAL VALUES	RENTS
Prime	10.07%	1.76%
Mainstream	17.62%	10.58%

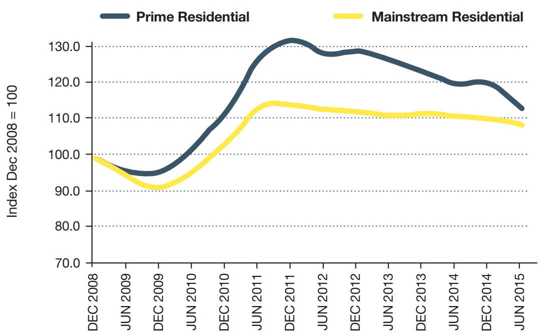
4 PARIS

Rents



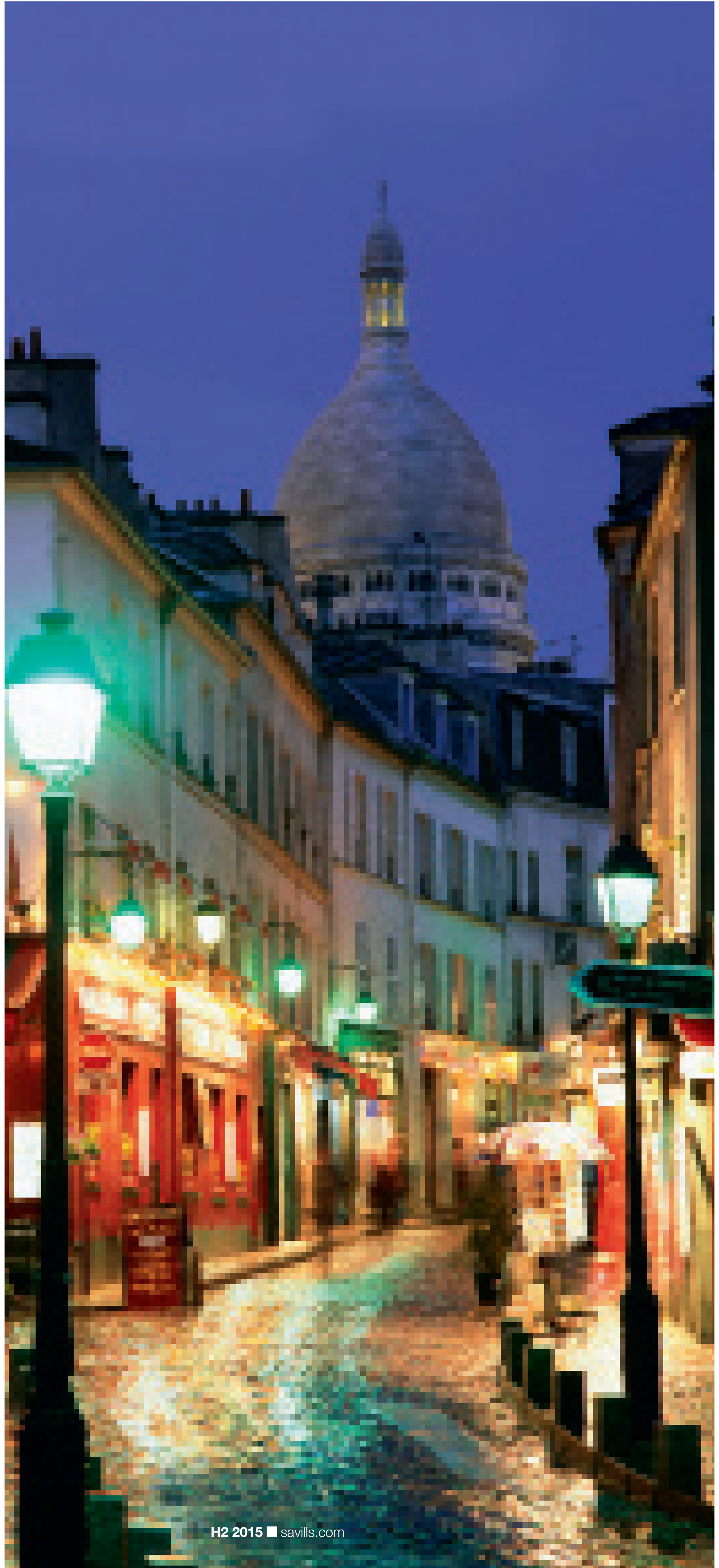
SEU RESIDENTIAL YIELDS		OFFICE YIELDS	
CEO and Directors	4.44%	Financial	4.50%
Staff	5.81%	Creative	4.50%
		Grade A Effective Yield	3.13%

Residential Capital Values



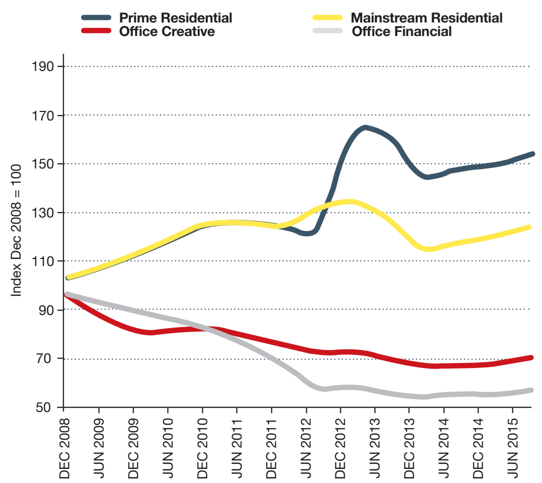
Metro Population 2014	12,492,519
Population Growth since 2008	3.16%
SEU Live/Work per person	$84,209
GDP Growth 2014	0.78%
GDP Growth since 2008	3.86%
GDP per capita 2014	$66,740
Average Annual Disposable Household Income 2014	$73,731

RESIDENTIAL YoY GROWTH JUNE 2015	CAPITAL VALUES	RENTS
Prime	-5.69%	-0.22%
Mainstream	-1.80%	0.36%



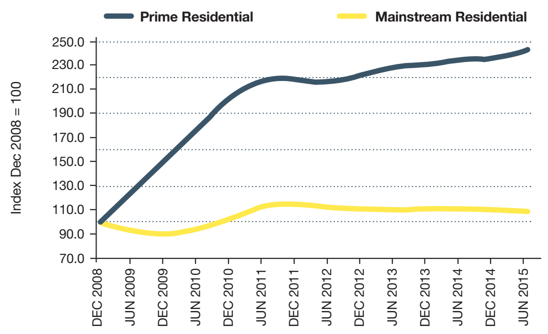
5 MUMBAI

Rents



SEU RESIDENTIAL YIELDS		OFFICE YIELDS	
CEO and Directors	3.02%	Financial	10.00%
Staff	3.37%	Creative	10.50%
		Grade A Effective Yield	N/A

Residential Capital Values



Metro Population 2014	19,369,339
Population Growth since 2008	10.41%
SEU Live/Work per person	$29,088
GDP Growth 2014	4.85%
GDP Growth since 2008	49.76%
GDP per capita 2014	$5,584
Average Annual Disposable Household Income 2014	$18,547

RESIDENTIAL YoY GROWTH JUNE 2015	CAPITAL VALUES	RENTS
Prime	3.64%	4.21%
Mainstream	8.87%	5.58%

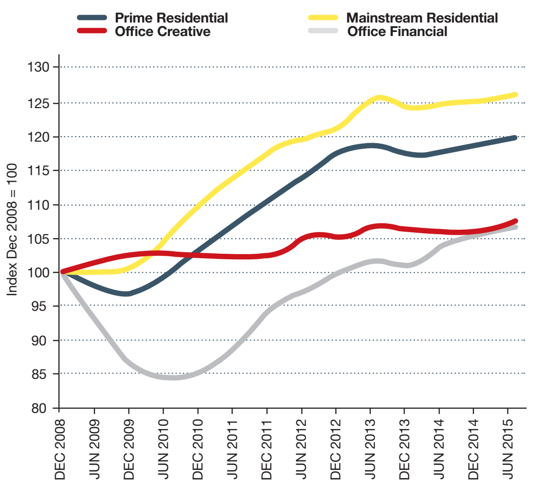
GALLERY STOCK, PLAIN PICTURE, GETTY IMAGES

Source: Savills World Research, Oxford Economics

WORLD CITIES INDEX

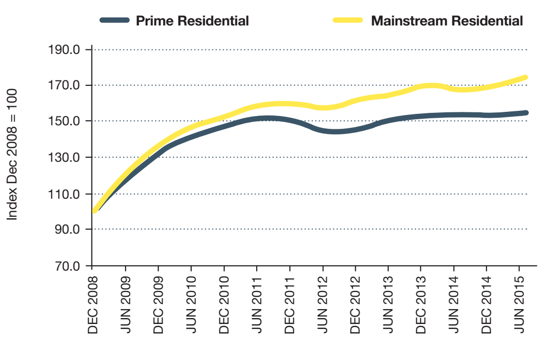
6 SHANGHAI

Rents



SEU RESIDENTIAL YIELDS		OFFICE YIELDS	
CEO and Directors	2.22%	Financial	5.30%
Staff	2.35%	Creative	5.70%
		Grade A Effective Yield	4.36%

Residential Capital Values

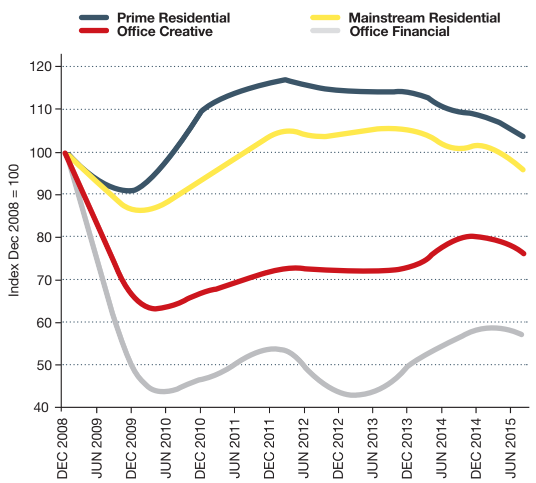


Metro Population 2014	24,683,380
Population Growth since 2008	14.30%
SEU Live/Work per person	$44,043
GDP Growth 2014	7.54%
GDP Growth since 2008	60.70%
GDP per capita 2014	$15,574
Average Annual Disposable Household Income 2014	$18,975

RESIDENTIAL YoY GROWTH JUNE 2015	CAPITAL VALUES	RENTS
Prime	0.40%	1.55%
Mainstream	4.12%	1.01%

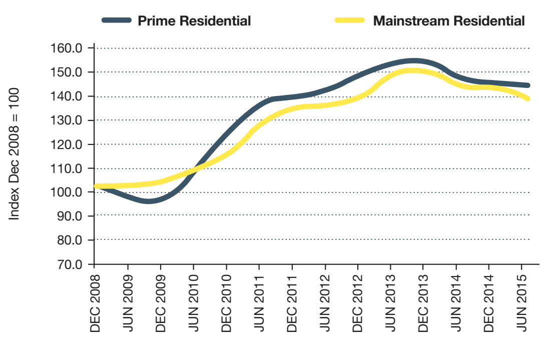
7 SINGAPORE

Rents



SEU RESIDENTIAL YIELDS		OFFICE YIELDS	
CEO and Directors	2.96%	Financial	3.35%
Staff	4.42%	Creative	3.50%
		Grade A Effective Yield	3.54%

Residential Capital Values

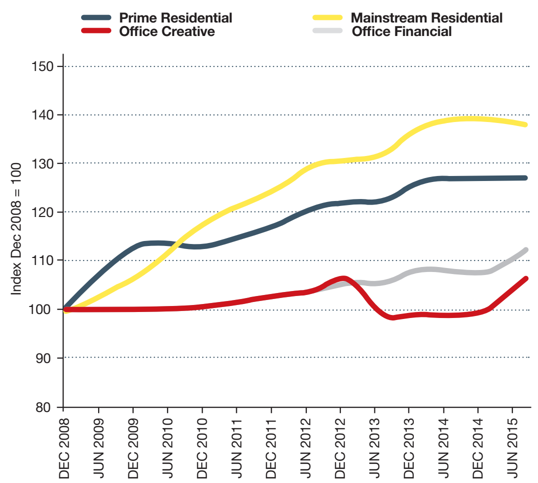


Metro Population 2014	5,472,650
Population Growth since 2008	13.09%
SEU Live/Work per person	$67,491
GDP Growth 2014	3.17%
GDP Growth since 2008	33.42%
GDP per capita 2014	$56,172
Average Annual Disposable Household Income 2014	$82,860

RESIDENTIAL YoY GROWTH JUNE 2015	CAPITAL VALUES	RENTS
Prime	-1.80%	-5.21%
Mainstream	-3.62%	-4.64%

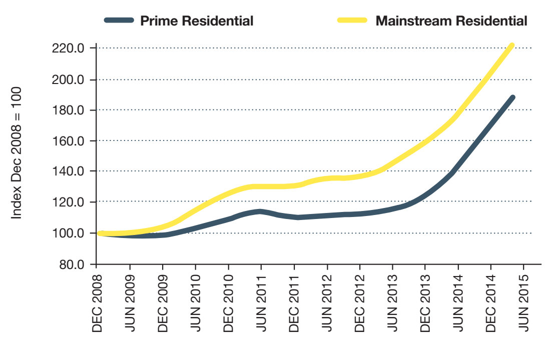
8 SYDNEY

Rents



SEU RESIDENTIAL YIELDS		OFFICE YIELDS	
CEO and Directors	4.11%	Financial	6.50%
Staff	4.05%	Creative	8.25%
		Grade A Effective Yield	4.03%

Residential Capital Values



Metro Population 2014	4,820,664
Population Growth since 2008	8.10%
SEU Live/Work per person	$52,994
GDP Growth 2014	2.26%
GDP Growth since 2008	13.38%
GDP per capita 2014	$72,651
Average Annual Disposable Household Income 2014	$125,763

RESIDENTIAL YoY GROWTH JUNE 2015	CAPITAL VALUES	RENTS
Prime	36.35%	0.00%
Mainstream	29.92%	-0.61%

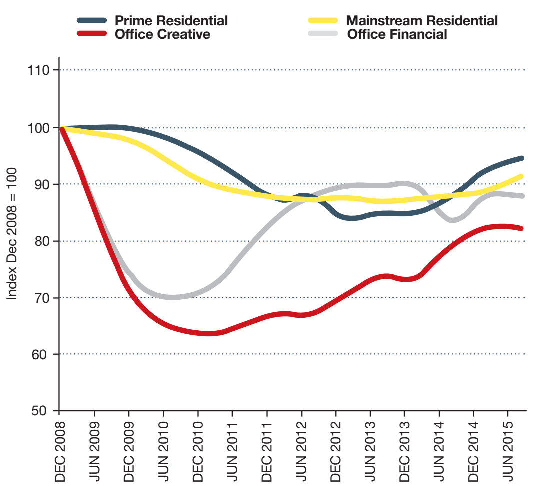
GALLERY STOCK, CORBIS, WILLIAM DANIELS/PANOS PICTURES

Source: Savills World Research, Oxford Economics

WORLD CITIES INDEX

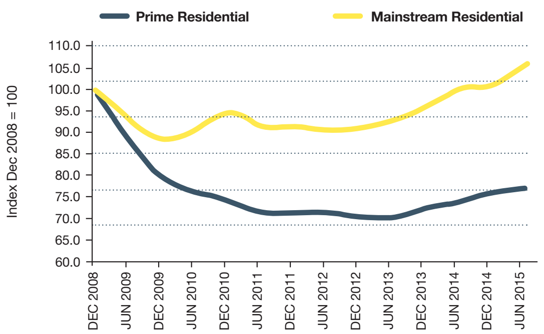
9 TOKYO

Rents



SEU RESIDENTIAL YIELDS		OFFICE YIELDS	
CEO and Directors	6.31%	Financial	3.20%
Staff	2.85%	Creative	4.00%
		Grade A Effective Yield	3.22%

Residential Capital Values

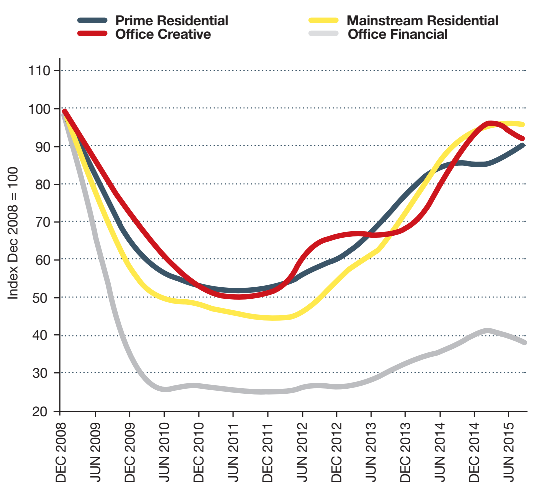


Metro Population 2014	37,027,830
Population Growth since 2008	2.28%
SEU Live/Work per person	$71,296
GDP Growth 2014	0.94%
GDP Growth since 2008	4.82%
GDP per capita 2014	$55,025
Average Annual Disposable Household Income 2014	$75,674

RESIDENTIAL YoY GROWTH JUNE 2015	CAPITAL VALUES	RENTS
Prime	4.28%	8.61%
Mainstream	5.57%	4.27%

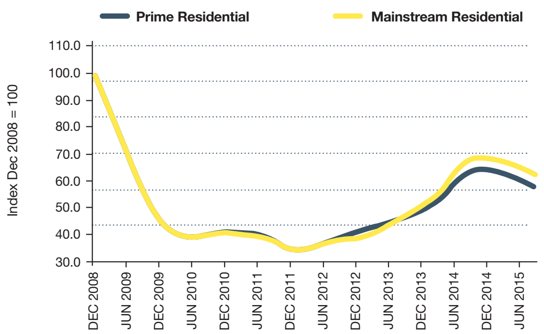
10 DUBAI

Rents



SEU RESIDENTIAL YIELDS		OFFICE YIELDS	
CEO and Directors	4.37%	Financial	N/A
Staff	8.17%	Creative	N/A
		Grade A Effective Yield	N/A

Residential Capital Values

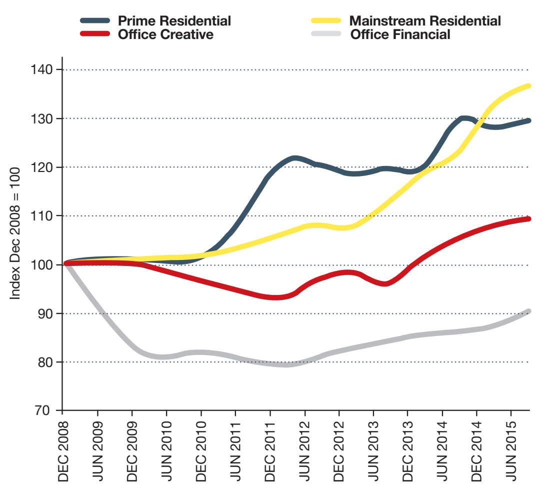


Metro Population 2014	2,287,244
Population Growth since 2008	45.33%
SEU Live/Work per person	$59,426
GDP Growth 2014	6.52%
GDP Growth since 2008	12.93%
GDP per capita 2014	$42,312
Average Annual Disposable Household Income 2014	$143,682

RESIDENTIAL YoY GROWTH JUNE 2015	CAPITAL VALUES	RENTS
Prime	-8.04%	5.58%
Mainstream	-6.71%	6.34%

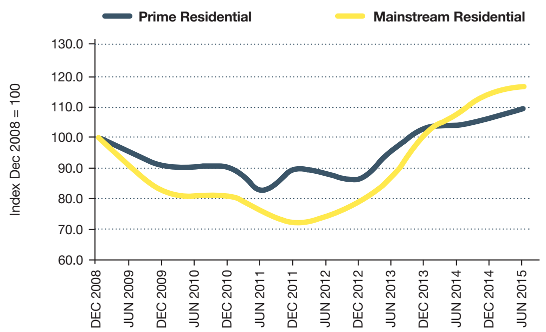
11 LOS ANGELES

Rents



SEU RESIDENTIAL YIELDS		OFFICE YIELDS	
CEO and Directors	4.94%	Financial	4.70%
Staff	6.56%	Creative	6.00%
		Grade A Effective Yield	3.37%

Residential Capital Values

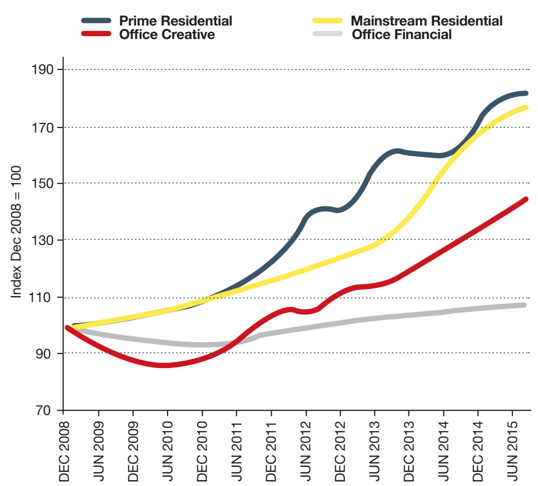


Metro Population 2014	13,201,302
Population Growth since 2008	4.26%
SEU Live/Work per person	$59,426
GDP Growth 2014	3.01%
GDP Growth since 2008	1.73%
GDP per capita 2014	$63,581
Average Annual Disposable Household Income 2014	$127,707

RESIDENTIAL YoY GROWTH JUNE 2015	CAPITAL VALUES	RENTS
Prime	5.22%	0.01%
Mainstream	9.37%	11.02%

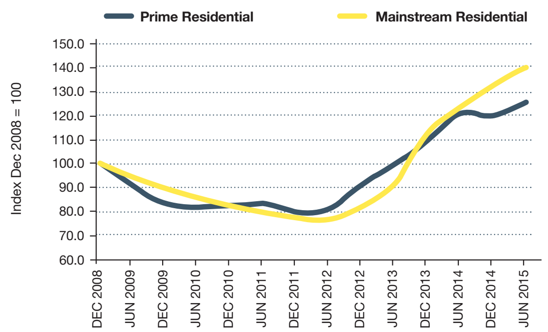
12 SAN FRANCISCO

Rents



SEU RESIDENTIAL YIELDS		OFFICE YIELDS	
CEO and Directors	6.21%	Financial	4.20%
Staff	7.19%	Creative	4.80%
		Grade A Effective Yield	3.75%

Residential Capital Values



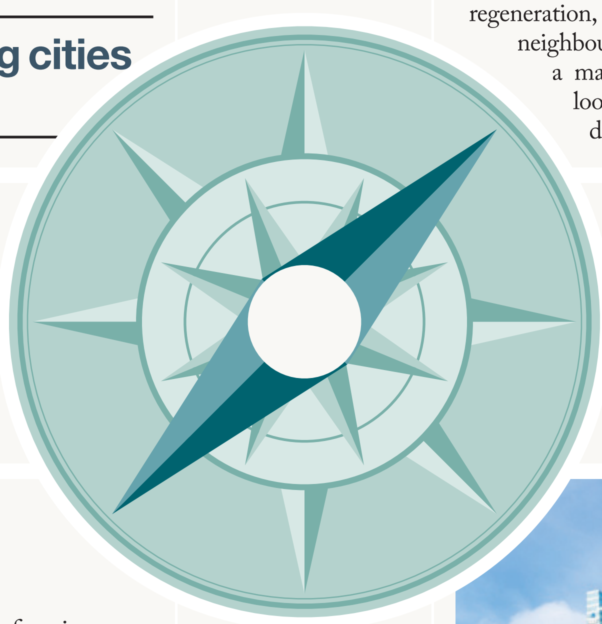
Metro Population 2014	4,554,563
Population Growth since 2008	7.79%
SEU Live/Work per person	$88,177
GDP Growth 2014	3.6%
GDP Growth since 2008	8.70%
GDP per capita 2014	$87,829
Average Annual Disposable Household Income 2014	$164,268

RESIDENTIAL YoY GROWTH JUNE 2015	CAPITAL VALUES	RENTS
Prime	3.68%	12.22%
Mainstream	13.05%	10.43%

GALLERY STOCK, GETTY IMAGES/NATIONAL GEOGRAPHIC

Source: Savills World Research, Oxford Economics

Compass points



Where is global real estate heading? Four pointers for the future

This edition of Compass Points continues to cover the themes of: urbanism; the rise of secondary property, alternative asset classes and second-tier cities; continued US growth; and recovery prospects in key locations.

1 WILD WEST

The new creative tech sector is emerging as the fastest-growing real estate class *(see page 4)*. The disruption caused by the digital age will extend to cities, especially those that are unable to provide the environments that are needed in order for creative industries to thrive. Not only are we seeing multi-speed cities and slower urbanisation in some cases, but also the potential for accelerated growth in new, small, perhaps unexpected, cities.

Some of the fastest-growing cities may be hitherto overlooked (who would have foreseen the rise of Austin, Texas 20 years ago?), but characteristics such as skills, lifestyle, people, environmental quality, low costs and favourable business environments will enable them to compete in the digital age in ways that would have once been impossible in the industrial age.

We have already seen the emergence of new employment and residential areas in tech cities, where new neighbourhoods and property-owning classes have sprung up. We now expect to see the start of a re-ranking of city investability and growth over the coming decades that will see some places relegated, while others emerge from obscurity behind the red line of investing institutions.

'The fastest-growing cities may be small'

2 HEADING SOUTH?

Turmoil in China's stock markets, coupled with the threat of significant economic slowdown, is threatening the liquidity of China and poses the risk of contagion to the rest of Asia. The main question is whether losses on the Shanghai stock exchange will lead to the liquidation of real-estate assets, or whether investment will be diverted away from volatile stocks and into more tangible assets.

On balance, we think the latter course is more likely. Limited share ownership and low interest rates in China should help to avert an asset sell-off, especially as there are few alternative asset classes for domestic investors to switch to.

Within China, the level of debt linked to real-estate land, development and built assets must be of concern to both investors and governments. We expect real-estate investors with equity to sit tight in major markets such as Shanghai, waiting for population growth and the low level of new developments to push up rents. Meanwhile, we expect levels of real-estate development and the rate of urbanisation in second- and third-tier cities to slow considerably as debt financing, for both corporations and individuals becomes scarcer.

It may take a number of years before income returns in first-tier cities reach compelling levels for overseas entrants, but Chinese investment has been very much about growth so the weight of domestic money looking for a home, even in a recession, makes it hard to foresee prolonged periods of price falls in all but the most grossly oversupplied, speculative markets.

'We expect real-estate investors with equity to sit tight in major markets'

Chinese investors are almost certainly going to continue favouring real estate and it seems likely that they will favour overseas projects over domestic ones. Although the Australian economy has been impacted by the slowdown in China, its real-estate markets are potentially well-placed to capture investment from China in the longer term. In future, the absence of growth at home and the global search for income-producing assets will likely impact the type of real estate sought by Chinese and other Asian investors.

3 MOVING NORTH

Our tips for real-estate growth continue to be small and second-tier cities, and higher yielding properties. There is scope for further recovery in Europe, although there is still a world of difference between countries, and between different cities within countries.

'The USA is now expected to perform'

The USA, although disappointing in Q1, is now expected to perform. However, there are big differences between expectations for different cities. Good regeneration, renewal and redevelopment of specific neighbourhoods within cities will continue to be a major driver of excess growth for those looking for longer term exposure and some development risk.

GALLERY STOCK, GETTY IMAGES

4 HEAD EAST

We continue to foresee that growing, ever-more affluent populations in Asia will continue to have an impact on real-estate development and investment in the region. With India now likely to outperform China economically in the near future, we anticipate more interest in the sub-continent. Singapore, positioned towards India and with prospects for recovery and rental growth, looks set for resurgence within the next few years, particularly as yields are higher than other world cities, meaning income flows will be more attractive to investors.

Emerging Asia-Pacific countries will continue to be of interest, especially those that are more insulated from the woes of China. With lower levels of debt and starting from a lower value base, Indonesia, the Philippines and Vietnam are the ones to watch in the medium to long term. The potential for new resorts in the Asia-Pacific region also continues to be of interest.

'We anticipate more interest in the sub-continent'

Savills global presence

30,000 EMPLOYEES ACROSS A NETWORK OF OVER 600 OFFICES IN MORE THAN 60 COUNTRIES

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IRELAND
JERSEY
SCOTLAND
WALES

CONTINENTAL EUROPE
AUSTRIA
BELGIUM
CROATIA
DENMARK
FINLAND
FRANCE
GERMANY
GIBRALTAR
GREECE
ITALY
LUXEMBOURG
MONACO
MONTENEGRO
NETHERLANDS
NORWAY
POLAND
PORTUGAL
RUSSIA
SERBIA
SPAIN
SWEDEN
SWITZERLAND

ASIA PACIFIC
AUSTRALIA
CHINA
HONG KONG
INDIA
INDONESIA
JAPAN
MACAU
MALAYSIA
MYANMAR
NEW ZEALAND
PHILIPPINES
SINGAPORE
SOUTH KOREA
TAIWAN
THAILAND
VIETNAM

MIDDLE EAST & AFRICA
BAHRAIN
KENYA
MAURITIUS
MOZAMBIQUE
NAMIBIA
OMAN
QATAR
SEYCHELLES
SOUTH AFRICA
UNITED ARAB EMIRATES
ZAMBIA
ZIMBABWE

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BARBADOS
CAYMAN ISLANDS
GRENADA
MEXICO
PANAMA
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ST LUCIA
US

SAVILLS WORLD RESEARCH TEAM

Yolande Barnes
Director
+44 (0) 20 7409 8899
ybarnes@savills.com

Paul Tostevin
Associate Director
+44 (0) 20 7016 3883
ptostevin@savills.com

Vladimir Tikhnenko
Research Analyst
+44 (0) 20 7299 3043
vtikhnenko@savills.com

For more information, please visit: www.savills.com

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