

China Dominates House Price Growth

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Summary

- Mainland Chinese cities recorded world beating house price growth in 2017
- 8 Chinese cities see values rise >10%: Chongqing the top riser at +60%
- Only two European cities - Amsterdam and Dublin – in top 10 for price growth across mainstream and prime markets
- San Francisco is the only US city to feature in a top 10, for price growth in prime
- More fallers in prime markets than in mainstream, including long-established prime markets e.g. London, New York, Moscow
- Hong Kong remains world's most expensive city for prime residential @ US\$4,000 per square foot, followed by Tokyo at US\$3,280, London US\$1,770 and New York US\$1,570

Chinese cities completely dominated the world city house price growth map in 2017, a year that saw the mainstream housing markets of the most established world cities outperform their prime markets, according to international real estate advisor, Savills.

Thirteen of the 35 global cities monitored saw double digit average house price growth, eight of them in mainland China. Only two European cities – Amsterdam and Dublin – featured in this grouping, joined by Hong Kong, Vancouver and New York.

A ranking of cities by prime residential price growth was also dominated by Chinese cities, with the top four recording price growth of at least 25 per cent in the year.

Rates of mainstream house price growth exceeded prime market growth in most cities in the Savills World City rankings. Only ten cities, half of them in China, saw prime market price growth of over 10 per cent, while a third of the cities analysed saw prime values stall or fall.

The fallers include some of the world's most established global cities, most notably New York, Stockholm, London and Moscow where average prime city house prices fell -2.7 per cent and -6.6 per cent.

"This outperformance by the mainstream housing markets across key world cities is part of a longer term global trend," says Yolande Barnes, head of Savills world research. "Prime values rose first and fastest after the global financial crisis, but some are now hitting a high plateau. It's now the turn of the mainstream markets to play catch up.

"Prime residential markets around the world reacted quickly to quantitative easing by central banks and the consequent yield shift in line with low interest rates. This was a one-off yield shift and expectations are that central banks are moving towards raising rates, reducing the potential for price growth.

"Importantly, while some cities have recorded small falls, we generally don't expect these to become significant, but we do expect prices to remain relatively stable, on a high plateau for some time, though we will continue to see volatility in oil dependent economies, for example."

The China Story

Five mainland Chinese cities saw prices rise by over 30 per cent, with Chongqing and Tianjin recording average price growth of 59 per cent and 48 per cent respectively - rates of growth unheard of in most developed countries. The two cities also dominated the prime market league table. Such growth, albeit off a low base, reflects huge demand from a growing and increasingly affluent population with a very high savings ratio and few choices of other assets into which to invest their cash.

Even after such high levels of growth, mainstream values in Chongqing, a city in South Western China with a population of 30 million, are just US\$170 per square foot, compared to the mainstream average of US\$1,430 in Hong Kong, US\$1,020 in Shanghai (the same as in London).

Prime Residential on a High Plateau?

Prime market growth was more subdued, particularly in the most established markets. Again, China dominated the top of the table, with prime residential values in four cities rising by 25 per cent or more. San Francisco, ranked 7th for prime value uplift, was the only US city to make a top 10 ranking in either prime or mainstream price growth, saw price growth of 12.3 per cent.

The prime fallers were cities like London, Moscow, New York and Stockholm, which had seen very large price increases in the years following the global financial crisis. Overall, values in these cities are still higher than they were ten years ago.

Other cities, notably Hong Kong, San Francisco, Sydney and Vancouver, which have now seen strong ten year growth, are also expected to hit a high plateau in the next year or two, Savills says.

European cities such as Amsterdam, Madrid, Paris and Dublin, where prime residential value growth ranged from 5.1 per cent to 12.6 per cent in 2017, are poised for further price growth, though they too are expected to hit a long-term peak within the next five years.

Shanghai and Shenzhen also saw price falls. These cities have seen values more than double over the past ten years (+117% and 334% respectively) and now behave more like world cities within the China context.

However, while Shanghai looks relatively fully valued, Shenzhen – the fifth most expensive city in the Savills study - is a very youthful, tech-oriented city, which looks good value, particularly when compared to Hong Kong just over the border. This juxtaposition is expected to keep the city's prices high.

In the US, while San Francisco now sits on a high plateau, Los Angeles still has potential to close the gap before it too hits the growth plateau.

Hong Kong – Still Top Priced City

Hong Kong remains the most expensive city in which to buy both standard and high-end properties. Mainstream residential space in the city costs US\$1,430 per square foot compared to London and Shanghai at US\$1,020 and New York at US\$930.

The prime price gap between Hong Kong and the rest is much wider. The city's prime residential space has hit the US\$4,000 per square foot mark, compared to the all prime London average at US\$1,770, New York at US\$1,570, Shanghai at US\$1,470, and three times the US\$1,340 in fourth place Shenzhen.

“With large amounts of capital pointed at Hong Kong from the mainland, and held at bay only by capital controls, it is difficult to see a scenario where capital values will fall significantly,” says Barnes. “Equally, unless capital flows from the mainland were dramatically relaxed, it's hard to see scope for further significant value uplifts. Prime Hong Kong residential values look set to occupy the same high plateau as many other world markets for a while.”

Tokyo, where large, centrally-located, prime properties are rare, ranks as second most expensive for prime property, with values averaging US\$3,280 per square foot after rising 10 per cent in the year. This is more than five times the mainstream average of just US\$630 – the biggest different between prime and mainstream across the Savills measures.

“In future, investors will pay more attention to occupier fundamentals: not just the quantum but also the quality of demand,” says Barnes. “The biggest value differences will not be between world cities so much as between different neighbourhoods and different types of property within those cities. Tokyo is an early case in point.”

Definitions

In the context of Savills world cities study, prime properties are those occupied by company CEOs and directors and their families while mainstream is property occupied by the households of administrative and other staff”.

Mainstream Residential properties					Prime residential properties				
City	Typical mainstream price per square foot	% 1 year change to Dec 2017	% 5 year change to Dec 2017	% 10 year change to Dec 2017	City	Typical prime price per square foot	% 1 year change to Dec 2017	% 5 year change to Dec 2017	% 10 year change to Dec 2017
1 Chongqing	\$170	58.9%	63.3%	131.7%	1 Chongqing	\$290	48.5%	82.1%	144.4%
2 Tianjin	\$500	48.4%	137.0%	283.2%	2 Tianjin	\$830	39.4%	154.7%	331.7%
3 Guangzhou	\$540	47.9%	120.2%	160.5%	3 Wuhan	\$600	25.5%	67.5%	183.5%
4 Wuhan	\$370	35.0%	109.1%	181.2%	4 Hangzhou	\$820	25.0%	27.6%	63.9%
5 Hangzhou	\$540	30.1%	38.7%	119.3%	5 Vancouver	\$820	16.0%	69.6%	98.7%
6 Amsterdam	\$450	20.9%	77.0%	58.6%	6 Dublin	\$860	12.6%	81.8%	-5.0%
7 Hong Kong	\$1,430	19.4%	45.3%	187.8%	7 San	\$1,390	12.3%	72.9%	78.0%
8 Vancouver	\$520	16.0%	69.6%	98.7%	8 Guangzhou	\$990	12.2%	37.7%	62.0%
9 Chengdu	\$220	13.4%	51.9%	133.6%	9 Amsterdam	\$650	10.7%	70.4%	53.6%
10 Dublin	\$370	12.3%	79.9%	-7.9%	10 Tokyo	\$3,280	10.2%	61.9%	39.5%
11 Nanjing	\$410	12.2%	104.5%	216.5%	11 Beijing	\$1,500	8.1%	118.7%	328.4%
12 New York	\$930	11.7%	60.2%	68.6%	12 Sydney	\$810	7.7%	72.8%	85.5%
13 Shanghai	\$1,020	10.7%	123.2%	331.3%	13 Singapore	\$1,580	7.1%	-1.8%	46.4%
14 Paris	\$870	8.3%	6.8%	21.6%	14 Chengdu	\$420	6.8%	25.1%	61.9%
15 San Francisco	\$760	7.9%	81.1%	74.4%	15 Hong Kong	\$4,000	6.4%	8.4%	140.7%
16 Berlin	\$400	7.6%	44.1%	113.7%	16 Paris	\$1,460	6.0%	-4.8%	25.8%
17 Beijing	\$800	6.5%	91.5%	260.1%	17 Madrid	\$630	5.1%	7.9%	-13.3%
18 Tokyo	\$630	5.9%	39.6%	26.9%	18 Brussels	\$370	4.3%		
19 Sydney	\$870	5.8%	61.8%	129.5%	19 Berlin	\$600	4.3%	29.2%	58.5%
20 Los Angeles	\$730	5.6%	60.3%	29.5%	20 Nanjing	\$650	4.1%	54.7%	88.5%
21 Madrid	\$390	4.5%	12.2%	-10.7%	21 Los	\$730	3.6%	48.3%	45.3%
22 Brussels	\$230	4.3%			22 Frankfurt	\$690	3.0%	21.2%	
23 Chicago	\$400	3.9%	35.9%	22.6%	23 Chicago	\$550	2.3%	24.8%	9.4%
24 Frankfurt	\$410	2.9%	38.4%		24 Mumbai	\$680	0.0%	11.1%	138.2%
25 Miami	\$400	2.5%	39.7%	13.4%	25 Warsaw	\$300	0.0%		
26 London	\$1,020	2.3%	47.7%	84.2%	26 Shenzhen	\$1,340	-2.0%	123.5%	334.1%
27 Moscow	\$220	2.3%	-50.4%	-49.4%	27 New York	\$1,570	-2.7%	25.5%	38.3%
28 Singapore	\$510	1.8%	-4.5%	38.1%	28 Stockholm	\$890	-3.0%		
29 Mumbai	\$220	0.0%	19.7%	154.4%	29 London	\$1,770	-3.3%	-1.5%	53.6%
30 Warsaw	\$180	0.0%			30 Miami	\$600	-3.7%	35.3%	29.7%
31 Rio de Janeiro	\$70	-4.4%	14.4%	200.7%	31 Rio de	\$190	-4.4%	14.4%	200.7%
32 Stockholm	\$870	-5.2%			32 Shanghai	\$1,470	-5.7%	29.9%	117.4%
33 Shenzhen	\$880	-6.3%	160.5%	369.0%	33 Moscow	\$1,050	-6.6%	-26.4%	-23.8%
34 Johannesburg	\$70	-6.3%	9.2%	34.1%	34 Dubai	\$520	-6.8%	3.7%	-58.1%
35 Dubai	\$230	-7.9%	38.0%	-35.0%	35 Johannesburg	\$70	-9.1%	5.8%	29.9%