

2019

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SPOTLIGHT
Savills Research

World Cities Prime Residential Index Results

savills



Capital value price movements | Rental values | Yields | Currency impacts

Welcome

Here is the Savills World Cities Prime Residential Index 2019, which explores the latest movements within the most established prime markets around the world. We track capital and rental values, examine yields and the impact of currency.

We define the prime market as properties in the top 5% of the market by price. All our cities have a big global pull on business and visitors, and most rank highly on the numerous global measures. Their key qualification is an active and growing prime residential market, which attracts international investors and occupants.

Summary

● Price growth across the world's leading prime city housing markets slowed significantly in the second half of 2018. The Savills World Cities Prime Residential Index recorded the weakest annual increase since the global financial crisis.

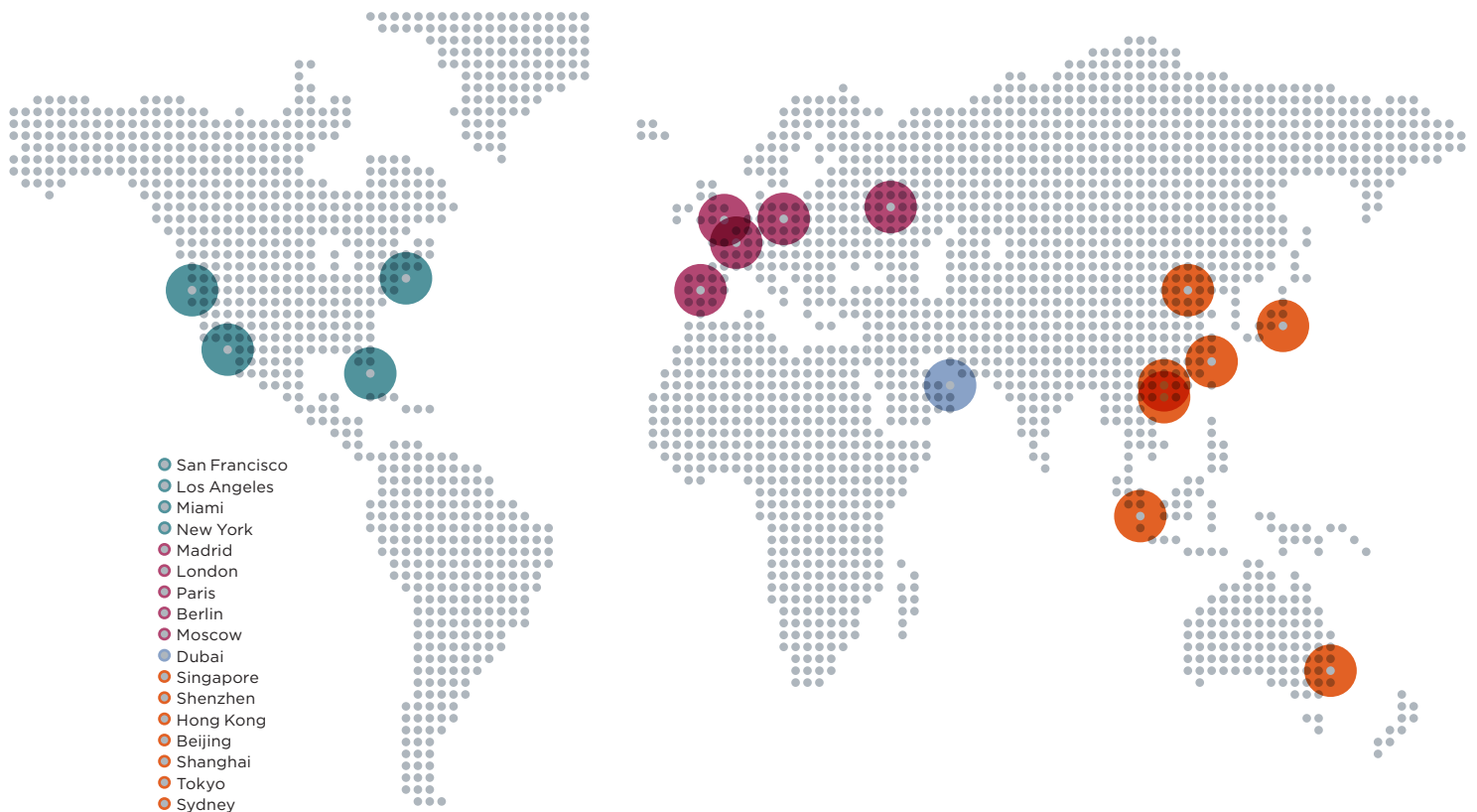
● The price of prime property across the different cities varies considerably, ranging from US\$4,670 per sq ft in Hong Kong to US\$730 per sq ft in Madrid.

● Rental growth also slowed in 2018 across the prime residential city markets. But unlike capital values, there was slightly higher growth in the second half of the year compared with the first half.

● Prime residential yields have been falling since 2011, but the rate of decreases has slowed. Chinese cities are the lowest yielding. Miami and Los Angeles are the highest.

● As cities reach maturity on the world stage, there is likely to be less potential for high price growth and we expect prime residential markets to settle into a steadier growth trend over the foreseeable future.

The world's top 17 cities for prime residential property



Methodology

Prices for each city are based on a sample of properties. Where appropriate, we have adjusted the sample to ensure it is representative of each city's prime market. All price movements are in local currency unless stated otherwise. Currency exchange rates are as of the 15th of the month stated.

Where is the most expensive city in the world?

In terms of price, Hong Kong remains in a league of its own, having dominated the Index over the past 10 years. Average prime residential values now stand at US\$4,670 per sq ft, 56% higher than second-ranked Tokyo. New York and London complete the top four rankings, while Shanghai takes fifth spot from Sydney, where values slipped.

In Europe, the most expensive city is London (fourth overall) followed by Paris (ninth overall) and Moscow (13th overall). Prime properties in Berlin and Madrid are relatively good value in comparison, with prices 42% and 52%

lower than Paris respectively.

Elsewhere, prices in San Francisco beat Los Angeles by 16% and both are higher than Miami. In China, Shenzhen and Beijing are on a par and are 17% lower than Shanghai.

For ultra-prime properties (the type of property an ultra-high-net-worth individual would own and use as a residence) the pattern is similar, but there are variations. London overtakes New York as the third most expensive city for ultra-prime residential. Moscow ranks four places higher than its prime residential score.

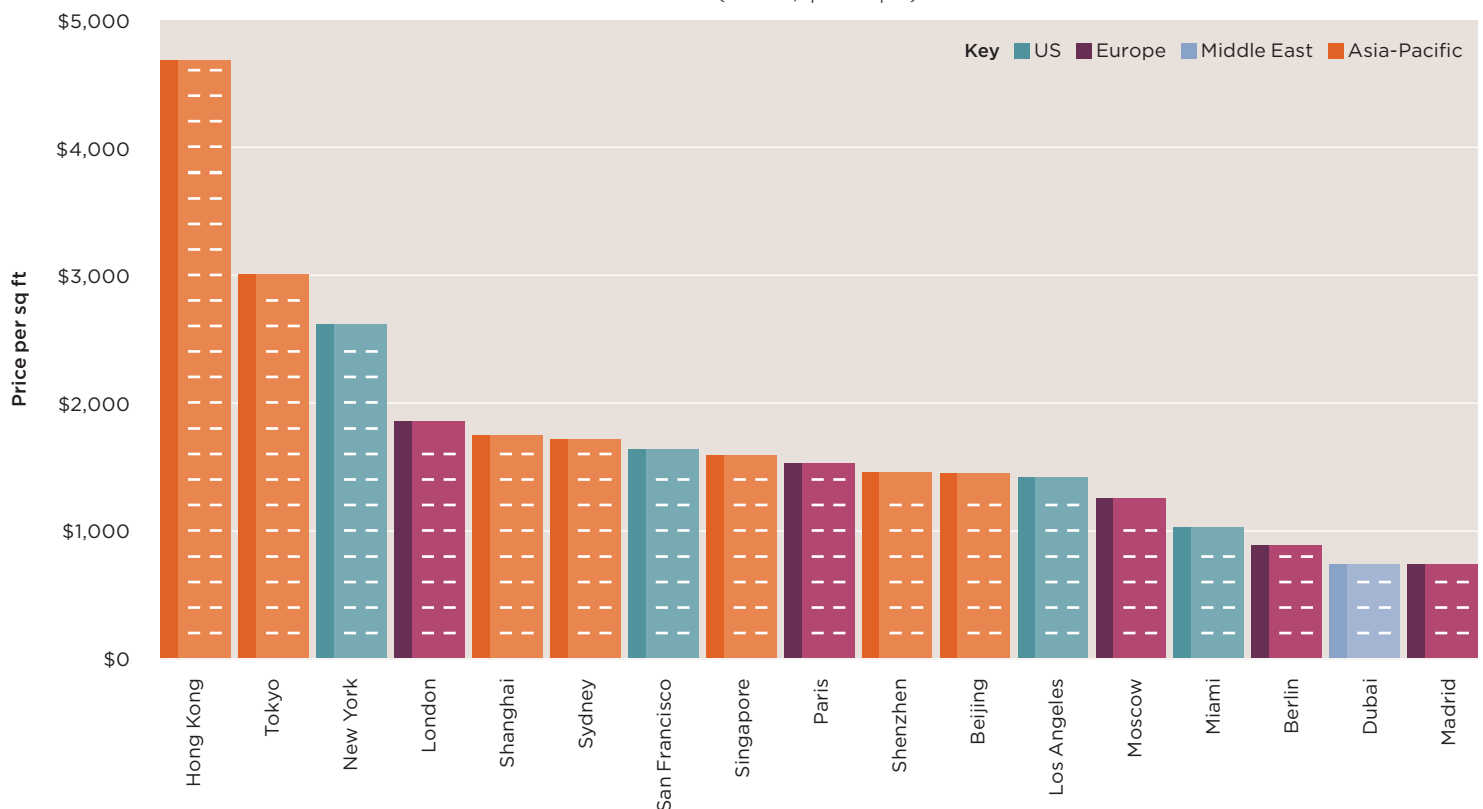


TOP 10 CITIES FOR ULTRA-PRIME RESIDENTIAL PROPERTY (in US\$ per sq ft)

1	Hong Kong	8,370
2	Tokyo	6,350
3	London	3,400
4	New York	3,220
5	Sydney	3,120
6	Shanghai	2,740
7	San Francisco	2,550
8	Paris	2,500
9	Moscow	2,410
10	Los Angeles	2,340

Source Savills Research

Prime residential values in December 2018 (in US\$ per sq ft)



Source Savills Research

What's happened to prices?

In the short term

Price growth across the world's leading city prime residential markets slowed significantly in the second half of 2018, recording the weakest annual increase since the global financial crisis. The index rose by 2.3% across 2018 as a whole, slowing to a marginal 0.3% in the second half of the year. This compares with annual growth of 3.4% in 2017.

With the exception of Paris, cities that continued to see prime residential values rise throughout 2018 saw the rate of growth slow between July and December. This suggests values are hitting a high plateau.

At the same time, in cities where values fell, there is evidence of markets

bottoming out with the rate of decline slowing later on in 2018. Only New York saw steeper falls in the second half of the year, as a surplus of new high-end developments suppressed prices across the market. In Dubai, falls continued at a steady rate across the year.

In Europe, the impact of Brexit pausing the London market has boosted demand for lower-value mainland European cities. Berlin was the biggest riser in the Index, with annual price growth of 9.1%. Paris and Madrid continued to see growth, in contrast with London which slipped 2.6%.

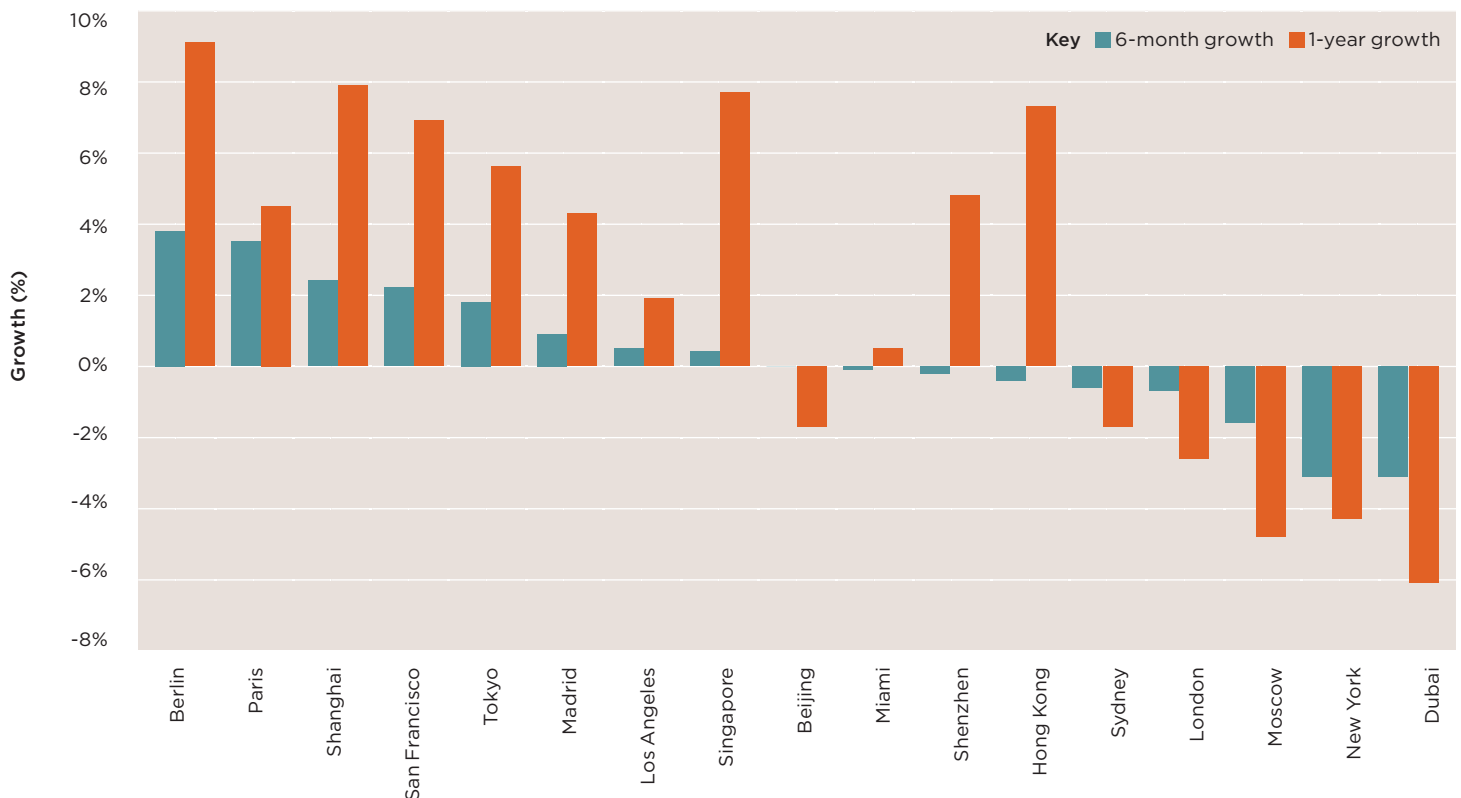
In the US, tech demand continues to drive price growth in stock-constrained

San Francisco, although concern over volatility in financial markets is putting the brakes on growth in Los Angeles.

Asia-Pacific cities Shanghai, Tokyo, Singapore, Hong Kong and Shenzhen were also among the strongest performers, but in all cases growth slowed dramatically during the year as cooling measures came into effect.

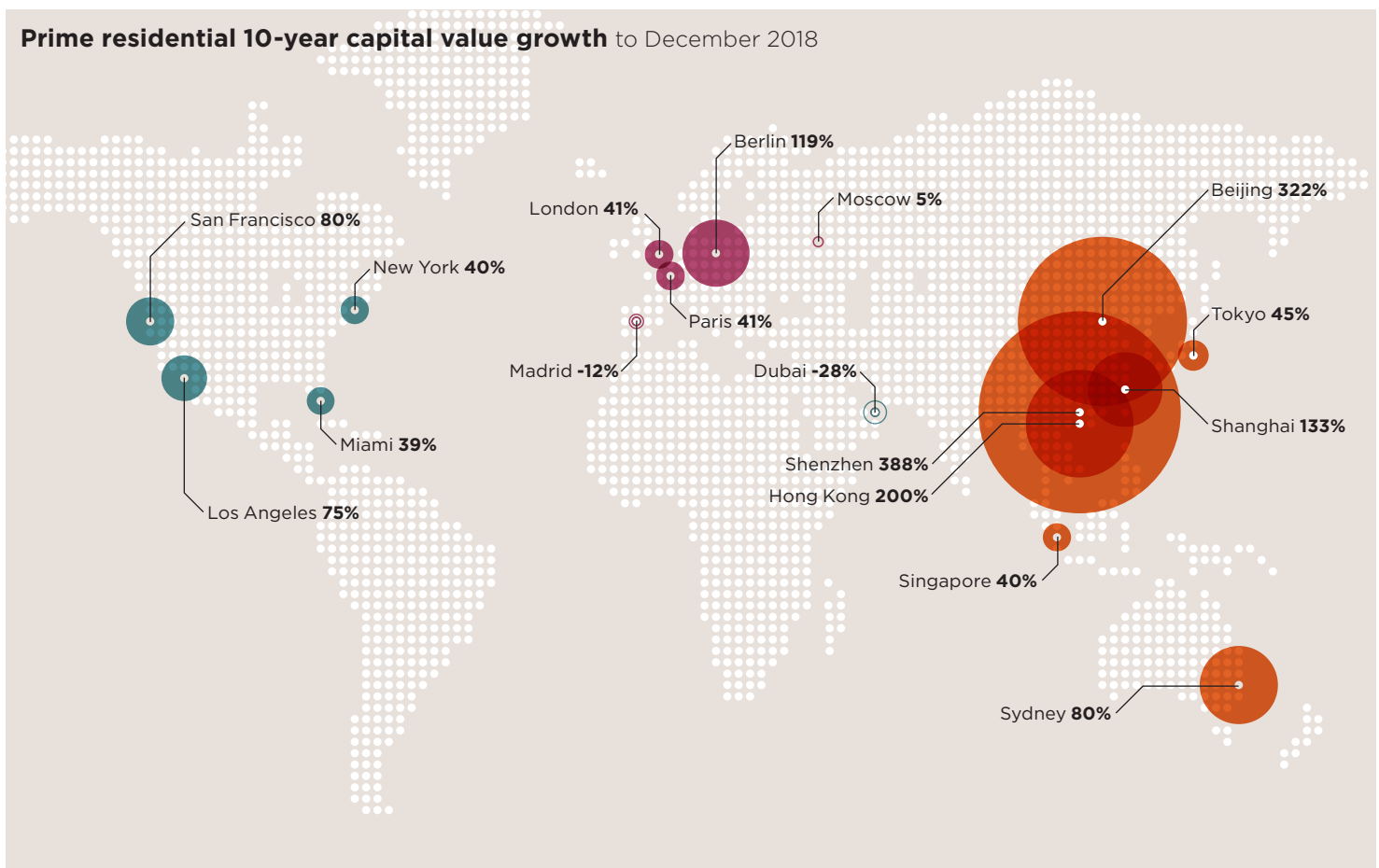
👉 Berlin was the biggest riser, with an annual price growth of 9.1% 📈

Prime residential capital value growth to December 2018



Source Savills Research

Prime residential 10-year capital value growth to December 2018



Source Savills Research

What's happened to prices?

In the long term

Over the past 10 years, the rise of Chinese cities has been the standout trend. In Shenzhen, Beijing, Hong Kong and Shanghai, prices have seen astonishing growth of more than 130% in a decade. This reflects the impact of rising middle-class wealth and urbanisation in mainland China, and Hong Kong's appeal as a world-class city.

Berlin has seen the next strongest long-term growth, with values increasing by 119%, significantly higher than anywhere else in Europe.

Tokyo, Paris, London, New York, Singapore and Miami have all seen roughly 40% growth over the past decade, but taken very different paths. London and Singapore saw most of their growth in the first half of the decade,

but additional taxes, plus political uncertainty in the case of London, have slowed the market. Conversely, growth was stronger in the past five years in Miami and, more particularly, in Tokyo.

In Madrid, prime residential values have barely changed over the decade, despite a recent recovery in prices, due to high levels of distress and supply in the residential market. Prices have fallen in Moscow and Dubai as political uncertainty and lower oil prices have impacted the market.



130%

plus growth in Shenzhen, Beijing, Hong Kong and Shanghai in the last decade

Do rental values follow the same pattern?

The cost of renting a prime property in different cities across the world varies significantly. A prime 4,000 sq ft house ranges from US\$7,510 per week in Hong Kong to US\$1,140 per week in Dubai.

However, when renting a prime apartment, the rankings change. New York is the most expensive city, with a weekly rental cost of US\$4,250 for a 2,000 sq ft prime apartment. This reflects the high-quality supply entering the prime market from newly completed developments.



US\$7,510

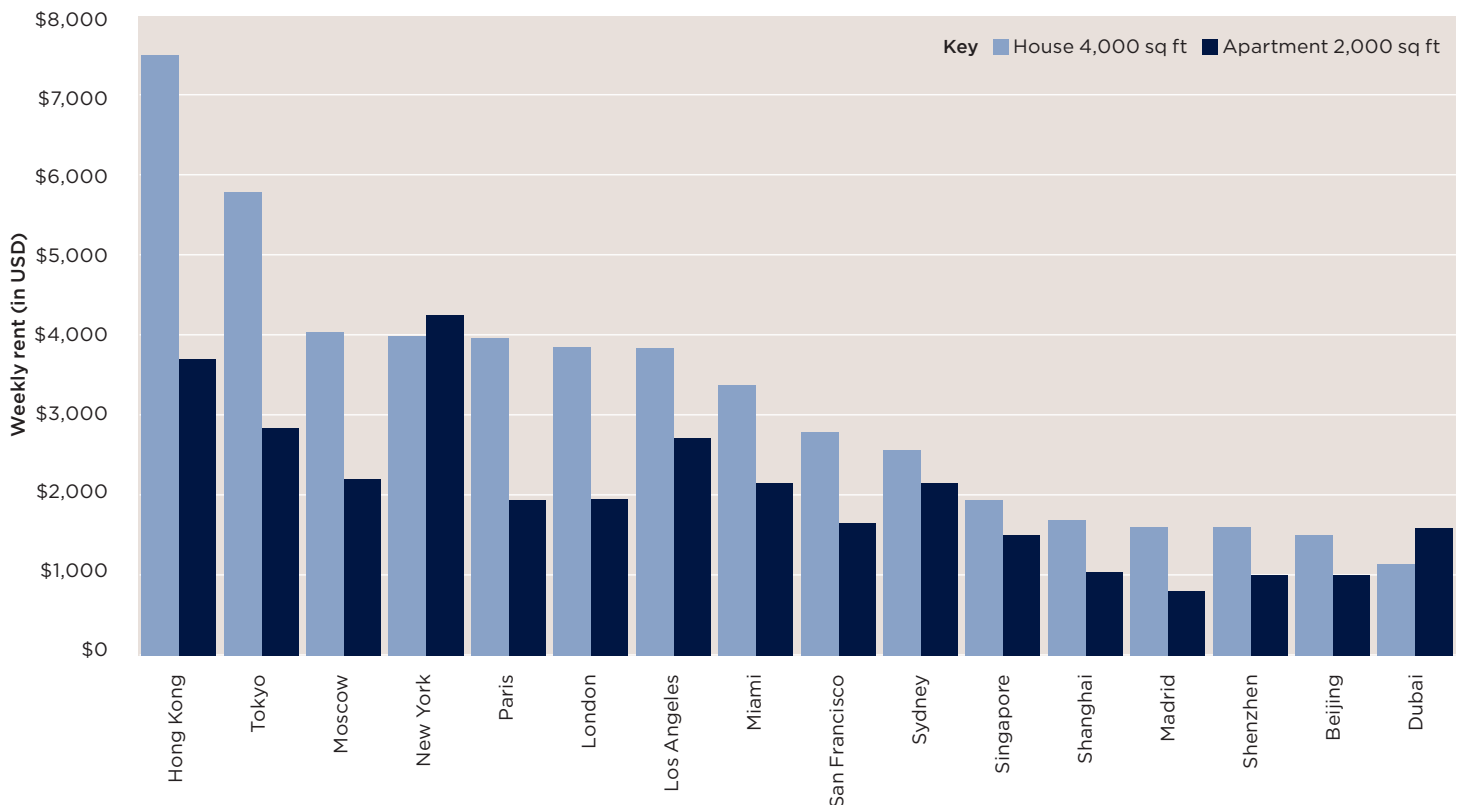
weekly rent for
a prime 4,000 sq ft
house in Hong Kong



US\$4,250

weekly rent for a
prime 2,000 sq ft
apartment in New York

Weekly rent for a prime house (4,000 sq ft) and prime apartment (2,000 sq ft) to December 2018



Source Savills Research

How have rents changed?

As with capital values, prime residential rental growth slowed in 2018, recording an increase of 0.4% over the year compared with 1.6% in 2017 on average across all cities. However, unlike capital values, there was slightly higher growth in the second half of the year (0.3%) compared with the first half (0.1%).

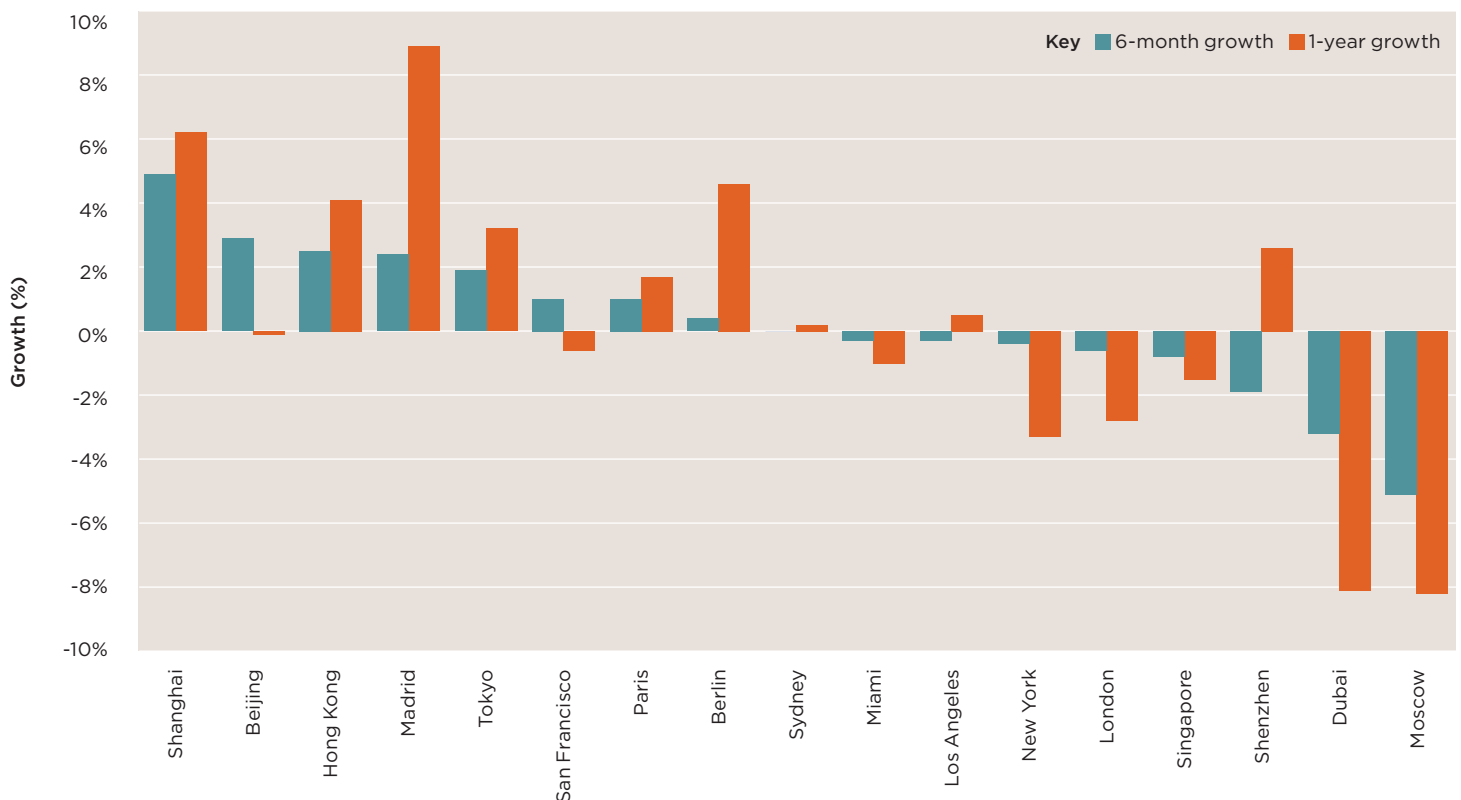
Madrid saw the highest rental growth in 2018 (8.9%), but the rate of increases slowed over the year, with the second half recording a rise of just 2.4%. Between July and December 2018, the strongest prime rental growth was in

Shanghai and Beijing. Both cities saw rental growth accelerate over the year. By contrast, prime rental values fell in Shenzhen over the same period due to the uncertain economic environment and the withdrawal of overseas employees during the December holiday season.



“Madrid saw the highest rental growth in 2018 at 8.9%”

Prime residential rental value growth to December 2018



Source Savills Research

How do the returns stack up?

The strong capital value growth seen in the prime residential city markets across the world since the global financial crisis has driven yields. The average prime residential yield stood at 3.2% in December 2018, a fall from 4.1% between December 2008 and December 2011. However, the rate at which yields are decreasing has slowed as capital value growth steadies.

Yields are becoming more important to investors in this market now they can no longer expect double-digit growth. Instead, they are making a more concerted search for income worldwide.

Within the prime residential city markets, there are significant variations. Some cities have seen strong rental

growth and high rents but relatively low capital values. Rental yields are high in these cities. Miami, Los Angeles, Moscow and Dubai all have relatively high yields.

At the other end of the scale, Beijing, Shenzhen and Shanghai all have a prime residential yield below 2%. This is due to rental value growth not keeping pace with the high capital value growth.

Weighted yields over time
(17 city average)

3.9%

December 2007

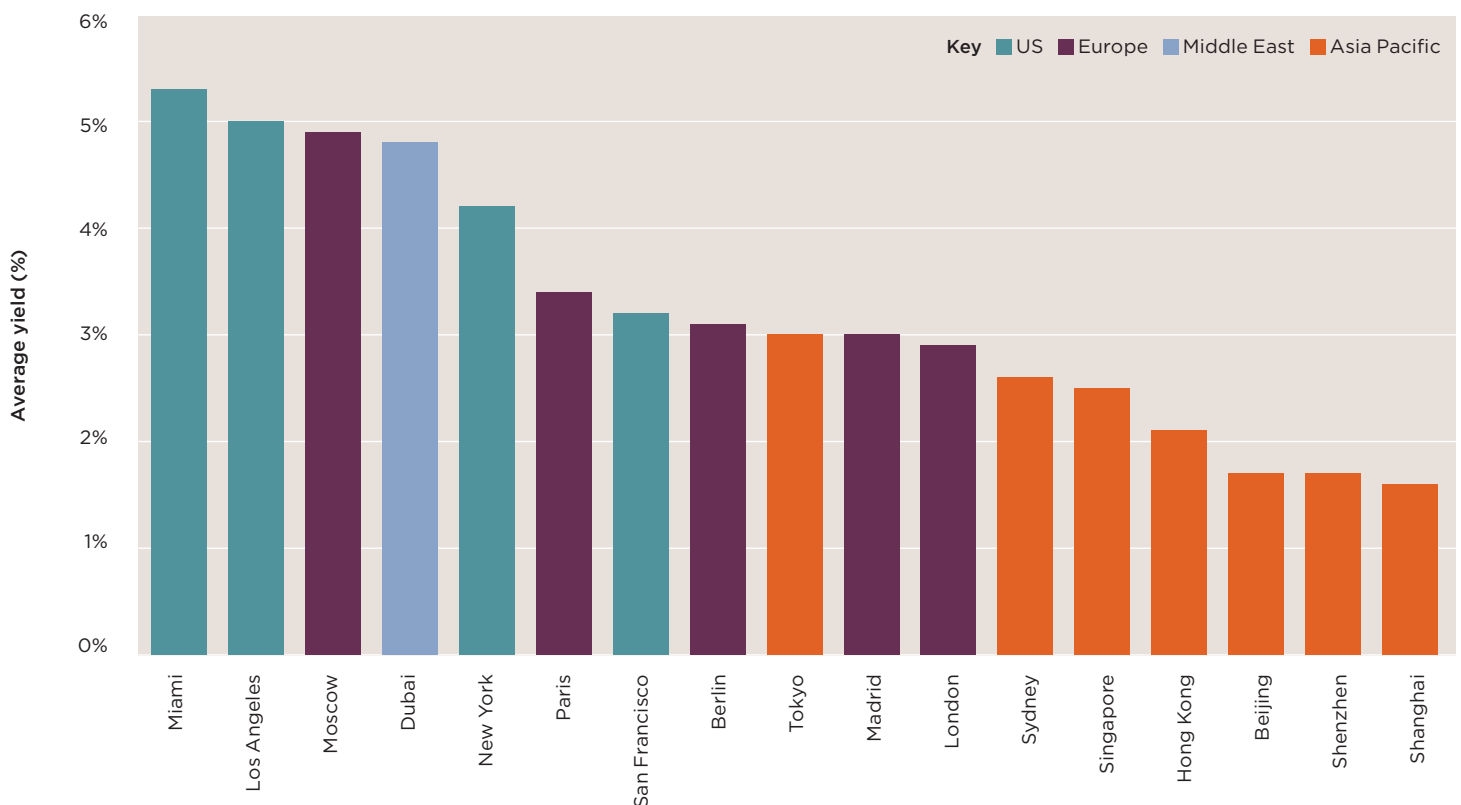
4.2%

December 2011

3.2%

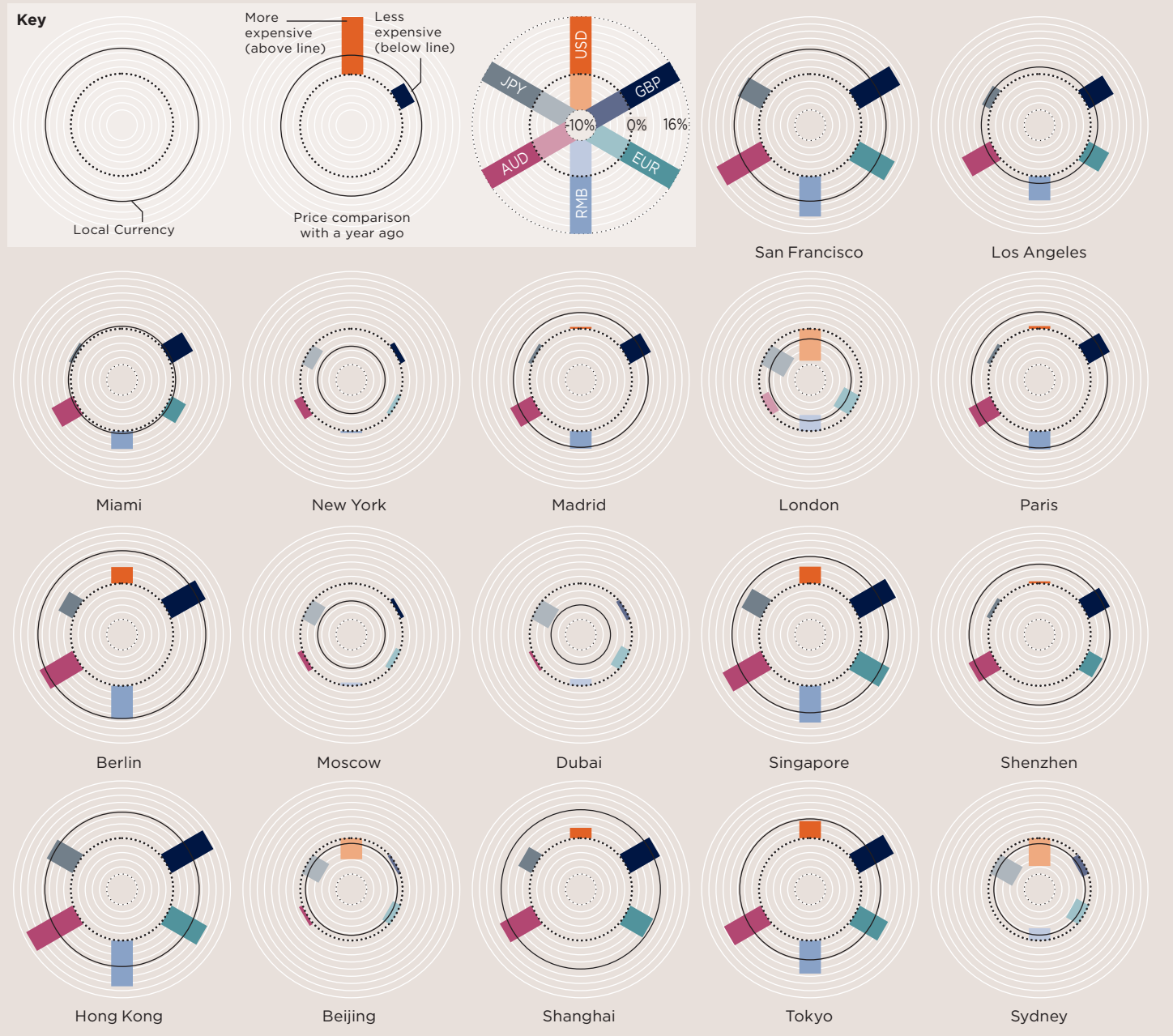
December 2018

Average rental yields in December 2018



Source Savills Research

The impact local currency can play in prime property prices



Source Savills Research Note Price movement from December 2017 to December 2018

What impact can currency play?

Top-tier world cities have long been the first choice for prime buyers from across the globe, and currency can have a major impact on pricing and perceived value. Throughout this report, price movements have been shown in local currencies, but this section examines how cities compare when currency fluctuations are taken into account.

For example, if you're buying a property in euros, prices in Sydney fell 4.0% in 2018 rather than a fall of 1.7% in Australian dollars, making it more appealing. However, property prices in Hong Kong have become more expensive for a euro buyer, increasing to 11.8% over 2018 compared with 7.3% in Hong Kong dollars.

Prime property increase in Hong Kong

11.8% vs **7.3%**
Euros Hong Kong dollars

A Chinese buyer will find American cities have become more expensive over the year, with prices in San Francisco increasing 11.7% compared with 6.9% in local currency. On the other hand, London prices fell marginally more for a RMB buyer than a local currency buyer.

What's next?

As cities reach maturity on the world stage there is likely to be less potential for rocket-fuelled price growth. We therefore generally expect a steadier growth trend to prevail across world city prime residential markets for the foreseeable future.

While growth is expected to slow, we believe the search for security of tenure and title in cities where high-net-worth individuals wish to live and do business will underpin values. The world's wealthy are expected to continue to want to hold one or more world city prime residential properties as part of their portfolio, both as a store of wealth and as a base for work and leisure.

There will be exceptions as new global cities emerge or economic conditions improve. In the short term, it's the European cities that are likely to see the highest rates of price growth, benefiting from Brexit, lower prices, and renewed confidence in markets such as Spain.

In the long term, demographics, wealth generation and political stability will each play a crucial role in determining the changes in the prime property markets across the globe.



“In the short term, it's the European cities that are likely to see the highest rates of price growth”



Savills World Research

We monitor global real estate markets and the forces that shape them. Working with our teams across the globe, and drawing on market intelligence and published data, we produce a wide range of market-leading publications, as well as providing bespoke research to our clients.

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