

INSIGHTS

| Global Cities Review |

SUMMER 2011

NEW WORLD ORDER

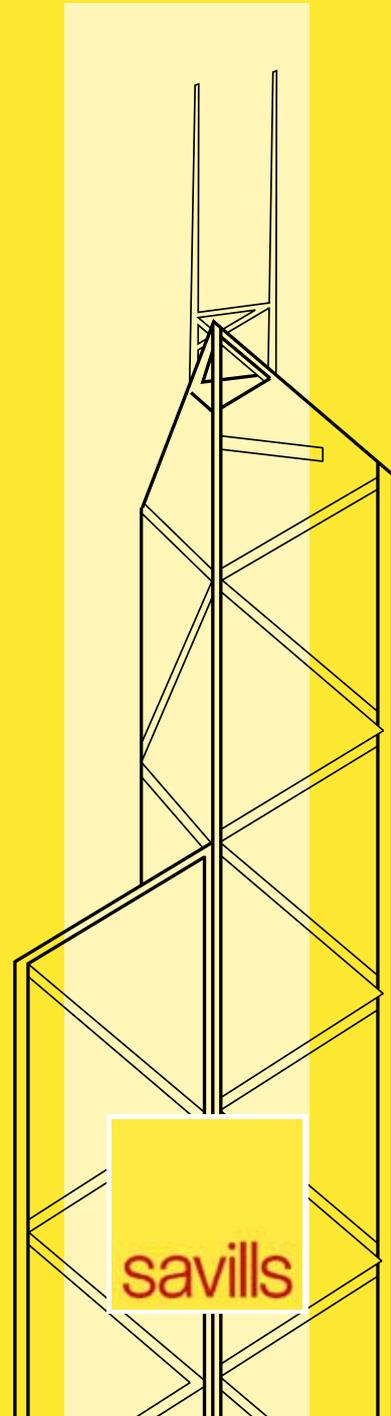
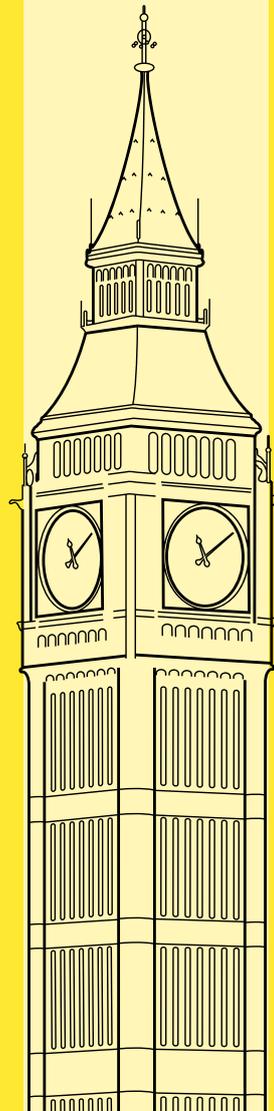
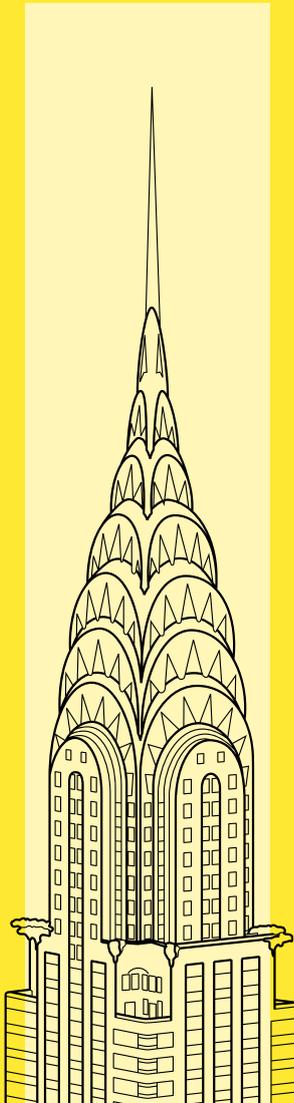
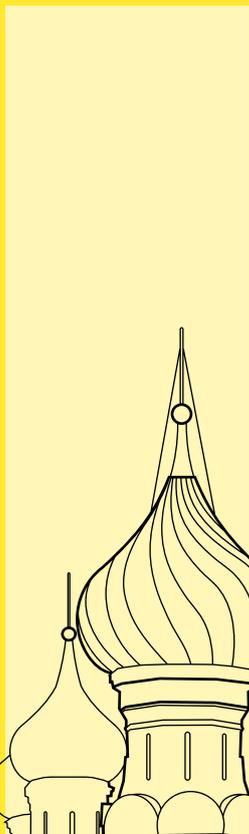
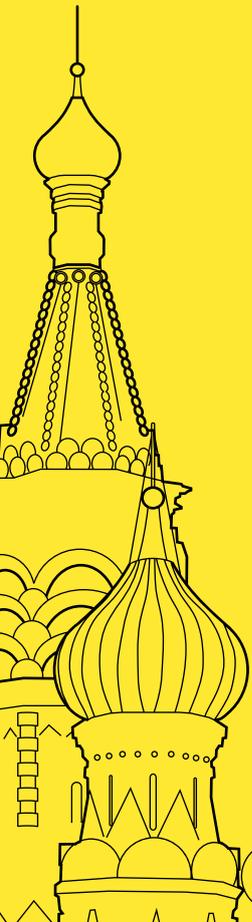
The cities at the forefront of a truly global market

HONG KONG

LONDON

NEW YORK

MOSCOW



savills



NEW YORK CITY
 POPULATION 8.3M
 AREA 468.9² MILES
 LATITUDE 40°42'N
 LONGITUDE 74°0'W

LONDON
 POPULATION 7.5M
 AREA 607² MILES
 LATITUDE 51°30'N
 LONGITUDE 0°7'W

MOSCOW
 POPULATION 10.5M
 AREA 417.4² MILES
 LATITUDE 55°45'N
 LONGITUDE 37°37'E

HONG KONG
 POPULATION 7.1M
 AREA 426² MILES
 LATITUDE 20°23'N
 LONGITUDE 114°6'E

WELCOME

The quality and characteristics of a city's housing stock play an important role in boosting its attraction and making it more competitive in global terms. But only a few centres have emerged as truly global cities, magnets for the world's wealthy families and their money. Our Global Cities Review looks at the prime

residential property markets of four of these key cities – London, New York, Hong Kong and Moscow – examines the forces driving these markets and looks ahead to the implications for investors in these cities.

RUPERT SEBAG-MONTEFIORE
 Head of Global Residential

PROPERTY POWER – WHERE IN THE WORLD?

THESE FOUR CITIES ARE AT THE FOREFRONT OF A TRULY GLOBAL MARKET

London, New York, Hong Kong and Moscow: all four are sought after by the world's richest households and have residential property markets that stand apart from their wider domestic markets. London and New York are long-established international hotspots, while Hong Kong and Moscow's growth and international pulling power are rooted in the dynamism of the BRIC economies.

Our research into the similarities and contrasts in their prime residential markets throws up several important factors for investors. First, it shows how these leading emerging economy cities have clearly outperformed the more established prime residential markets of the "old world" over the past five years.

But it also highlights the fact that the "new world" markets remain relatively volatile places to invest, as their dramatic growth has been accompanied by equally dramatic falls over the five-year period.

Another finding is the truly

international nature of these prime residential markets, driven by wealthy buyers using internationally generated money. "Each one significantly outperforms the broader market of its country and acts as a real funnel for wealth," says Yolande Barnes, head of Savills Research.

ISLANDS OF WEALTH

Savills survey takes a unique approach. Rather than comparing equivalent properties in each city (which in some cases can be impossible to identify), it compares a basket of seven properties for an imaginary core "executive unit", headed by a regional chief executive.

This analysis of the four property markets produced some surprises: in particular it revealed that, as of December 2010, the total cost of the basket of properties was 52% higher in Hong Kong than in London, while it was 28% cheaper in New York than in London.

Our research also emphasised how these cities are able to attract investment from a global elite of billionaires. It is their internationally generated wealth that fuels the market for the largest, most expensive properties

with the most exclusive addresses.

"Our analysis shows that these global billionaires inhabit an international realm that transcends national borders, very much detached from the rest of the market," says Yolande Barnes. That's clear from the figures: the average value of the homes owned by the super-rich is about twice that of a regional CEO, with average prices ranging from around £12 million in New York to £33 million in Hong Kong.

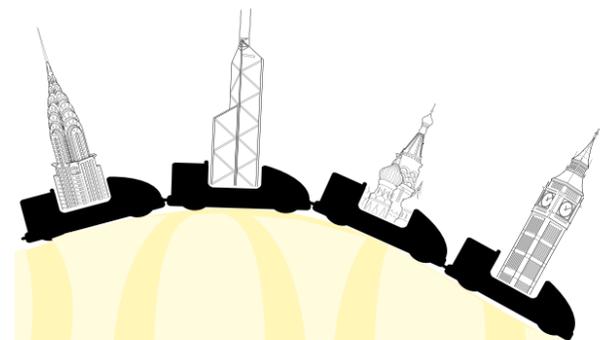
In terms of square feet, the super-rich are paying around £2,500 to £3,000 in New York, Moscow and London, and up to £6,500 in Hong Kong.

CHANGING WORLD ORDER

The past five years have seen some dramatic shifts in the fortunes of these cities' prime property markets. As recently as 2005, the cost of residential property in dollars, as measured by our basket of properties, was highest in London, followed by Hong Kong and New York, with Moscow looking pretty cheap by comparison.

All were enjoying the global bull run. London, Hong Kong and Moscow prices all peaked in 2007, while New York's run continued until the collapse of Lehman Brothers later in 2008.

But by the end of 2010,



“The international London market includes wealthy overseas buyers looking for an apartment as a base for their kids’ UK education, individuals looking for larger apartments for their own occasional or regular use, and investors spending up to £100 million on property portfolios”

DAVID FORBES, SAVILLS LONDON



HONG KONG
80%
RISE IN PRIME
PROPERTY PRICES
SINCE 2008



LONDON
60%
OF ALL PRIME BUYERS
ARE FOREIGN NATIONALS

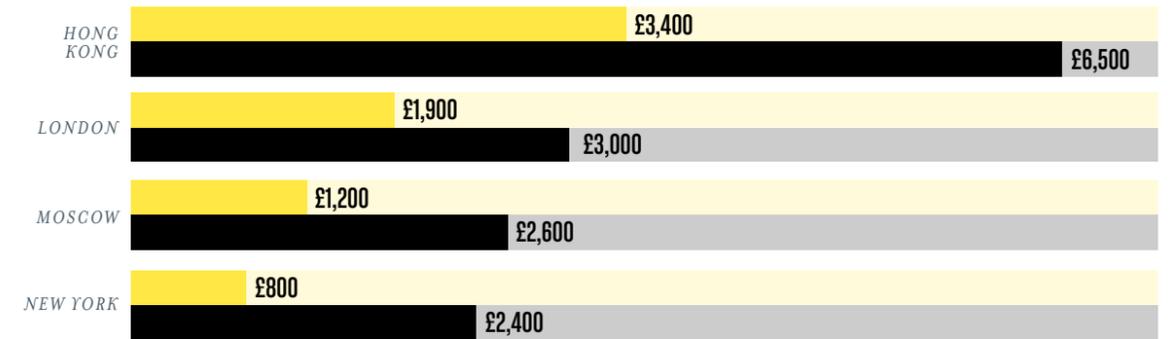


MOSCOW
110%
GROWTH IN PRIME
PROPERTY VALUE IN
FIVE YEARS



NEW YORK
0%
PRICE GAIN ON
EXECUTIVE UNIT
2005 PRICES

POUNDS PAID PER SQUARE FOOT 2010
● REGIONAL CEO ● INTERNATIONAL BILLIONAIRE



SOURCE: SAVILLS RESEARCH

a significant shift in the global order had occurred. In terms of local currency, Hong Kong residential prices were 52% ahead of London compared with December 2008; Moscow had marginally overtaken New York and was closing in on London, while New York looked good value with prices more than 28% below London.

Clearly Moscow and Hong Kong have both seen tremendous growth in residential property values over the last five years. But they have also been extremely volatile places to invest.

It's the spectacular property price rises of the emerging market economies, particularly in Hong Kong, which have really shaken up the old order, with the continuing growth in Hong Kong residential values driven by Chinese mainland investors looking for a safe haven for their wealth. The biggest price increases have been found at the top end of the market, with the price of a CEO's home gaining almost 150% in value over five years.

HONG KONG saw sharp falls of around 35% during the financial crisis in 2008 with prices for luxury properties, which would have been snapped up to rent by senior executives in the international banks, falling by well over 40%, as nervous investors temporarily backed off. But they

soon returned, and their influence was evident in the strength of the city's recovery during 2009-2010. Indeed, by December 2010 (despite government efforts to cool the market) prices had risen 80% from the low point of 2008.

MOSCOW's prime market has also seen dramatic growth over five years, with a CEO's home gaining 110% in value. However, its market is closely linked to the country's energy industry, which is prone to volatility. So when global demand for energy resources dropped off in 2008 and 2009, the value of properties fell by around 40% from the 2007 peak. The top tier of property was even more badly hit, losing over 50% during that period. But the subsequent oil price bounce led to price rises of more than 30% in the prime residential sector in 2010.

In contrast, prime property values in the two mature economy cities were markedly less volatile.

LONDON prime property proved its resilience to wider economic downturns, with a CEO's property rising in price by a steady 47% over five years. Having been an expensive international destination before 2008, when sterling was strong in the currency markets, London's prime property market falls were exacerbated by the subsequent

weakness of the pound in the wake of the financial crisis. It did not experience the dramatic price rises and collapses of the Hong Kong and Moscow markets, but the combination of some price falls, plus the weak pound, made it much more accessible to overseas buyers.

This new affordability, plus its strong reputation, meant the market has been supported by a steady stream of international buyers. Foreign nationals accounted for 60% of all buyers in the prime (£5m-£10m) central London market, and 70% of the super-prime (£10m plus) sector in 2010.

NEW YORK was the only city not to show any price gains over the five-year period. Indeed, the value of a CEO's home in 2010 was still down 7% on 2005 prices, following falls in the prime property sector during 2009.

New York is a less cosmopolitan market than London, with a greater focus on rental accommodation and, unlike London, the prime property sector did not benefit from the currency adjustment that took place. Consequently, there was much less support from international buyers in New York than in London. However, 2010 did see the gradual recovery of demand in the luxury market, and a shortage of supply has helped to support that.

PRIME PROPERTY HIGH PERFORMERS

THE DESIRABILITY OF THESE CITIES ATTRACTS WORLDWIDE INVESTORS

Hong Kong: CHINESE INTERFACE

Space is at a premium in the world's most vertical city, though prime properties still average well over 2,000 sq ft – markedly larger than in Moscow. The global super-rich may well buy a house in one of the prime locations, but the land constraints mean it will be relatively compact, at around 5,200 sq ft.

PRIME FACTS

The traditional prime areas of The Peak, Southside, Pokfulam, Happy Valley and Mid-Levels are all on Hong Kong Island itself and continue to be popular. "There have also been enclaves of local wealth for some years in Kowloon, as well as Shatin, Discovery Bay, Clear Water Bay and Sai Kung, and these are becoming more important as more business is done with the mainland," says Simon Smith, Savills Hong Kong. The rising cost of renting on



the Island is driving buyers across the harbour too.

- Floor area is a key factor in the definition of "luxury". But only 7% of total stock has a floor area of over 1,076 sq ft.
- Townhouses are particularly popular among wealthy buyers (average prices rose 31% in 2010 alone).

- Chinese mainlanders accounted for 17% of the luxury property transactions in 2009, compared with just 4% in 2004.
- Growing number of Renminbi millionaires in China, including 55,000 worth RMB100m plus.

AT A GLANCE

Business Key international financial centre with extensive trade and investment ties with the mainland. It has one of the greatest concentrations of corporate HQs in Asia Pacific.

Life "Living in Hong Kong is very convenient: the city is efficiently run and the rest of Asia is within easy reach," says Simon Smith. One of the safest cities in the world. Air pollution from mainland factories has become an issue. According to Mercer it is the eighth most expensive city for expatriates.

"Hong Kong and Moscow are considerably more expensive than London, and New York is a bargain"

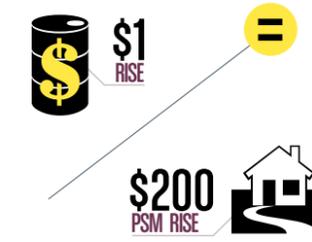
YOLANDE BARNES, SAVILLS RESEARCH

Moscow: DRIVEN BY RUSSIAN OIL

In Moscow, 95% of prime schemes are city centre based; the most expensive are in Ostozhenka (Golden Mile) and Plyushchikha streets in the central district of Arbat-Kropotkinskaya district. "Wealthy Russians prefer A-K, but they also tend to buy houses in the nearby suburbs, and apartments in brand new modern buildings," says Alexander Shatalov, IntermarkSavills.

"Senior foreign employees almost always rent, either in central apartments or in organised residential complexes and 'villages' in town, such as Rosinka, Pokrovskie Hills or Serebryany Bor," says Galina Tkach, Director of Landlord Representation at IntermarkSavills. Apartments bought by global billionaires tend to be smaller than in the other global cities, averaging just under 5,000 sq ft; but they compensate for the urban squeeze by

BLACK GOLD OIL AND PROPERTY PRICES LINKED



investing in very large country dachas, typically of 20,000 sq ft plus.

PRIME FACTS

- Relatively small city properties at the top end of the market are compensated for by large second homes.
- The luxury market is driven mainly by

Russian buyers, though there are a few international players. Oil price movements are a key factor influencing the cost of prime property in Moscow: a \$1 increase in the price of a barrel of oil pushes up prime residential values by \$200 per sq m.

AT A GLANCE

Business Moscow is the main financial centre of Russia and home to the country's largest banks and many of its largest companies, including Gazprom. However, crime and corruption continue to remain a problem hindering business development.

Life Based on Forbes 2011, Moscow has 79 billionaires, displacing New York as the city with the greatest number. It's a major political, economic, cultural and educational centre of Russia. It ranks 4th on Mercer's list of most expensive cities.

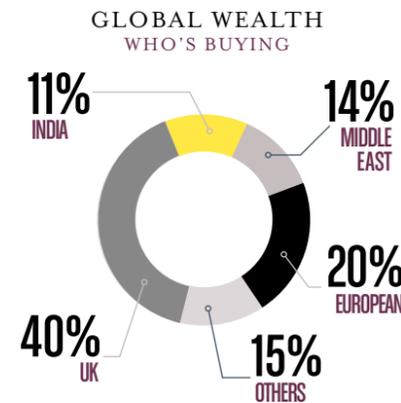
London: THE INTERNATIONAL LEADER

London's wealthy residents, whether they rent or own, are likely to live in a house; in the other cities they're much more likely to occupy an apartment. As a consequence, they do well for floor space in London, compared with the other cities, averaging around 3,000 sq ft. For the global super-rich, too, houses are the most common choice, with floor space averaging around 7,900 sq ft.

PRIME FACTS

Traditional hunting grounds remain popular: Belgravia, Holland Park, Regent's Park, Chelsea, Mayfair.

- Only 40% of £5m plus purchases were made by British buyers in 2010.
- European buyers, including those from the former USSR, accounted for another 20%, followed by the Middle East at 14%



and India at 11%.

- Indian, Eastern European and American buyers are expected to become more prevalent in the next two years.
- Sales of £5m plus housing correlate closely with movements in the gold price: as Yolande Barnes of Savills Research

says: "Ultra-prime London is a store of global wealth."

AT A GLANCE

Business The world's largest financial centre alongside New York. Home to the Bank of England, London Stock Exchange and Lloyds of London. Most of the world's top companies have their headquarters or offices here and there are more overseas banks than any other international city.

Life The most visited city in the world – Heathrow is the world's busiest airport. It has a diverse range of people and cultures, with more than 300 languages spoken. A world leader for education, media, fashion and the arts. Mercer's 2010 Cost of Living Survey, covering 214 cities across five continents, ranks London as the 17th most expensive city in the world.

New York: A BUYING OPPORTUNITY

Manhattan is a much more high-rise and compact environment than central London, though that squeeze on space is not so evident in the size of city properties at the upper end of the market. The global super-rich tend to buy large, modern condominiums (which offer more flexibility and fewer restrictions than the more traditional cooperative unit), averaging around 6,500 sq ft.

PRIME FACTS

Favoured enclaves among high net worth residents include the Upper East and West sides, and "Downtown for the young and hip, and even for empty nesters," says Elizabeth Stribling, Stribling & Associates.

- Three quarters of Manhattan occupants rent rather than own their homes.

"Global billionaires in New York enjoy the second largest amount of space, typically occupying a large modern condo of 6,500 sq ft"

- Only 1% live in townhouses rather than apartments.
- Even at the \$5m plus level, most of the housing stock is apartments. "Townhouses require full-time staff and so foreigners, except for the super-rich, often shy away from them," says Elizabeth Stribling.

- Foreign buyers account for only 15% of the prime (\$5m plus) market, mainly because it's so hard to bring money into the US.
- The majority are Europeans, though Asians are also in evidence.

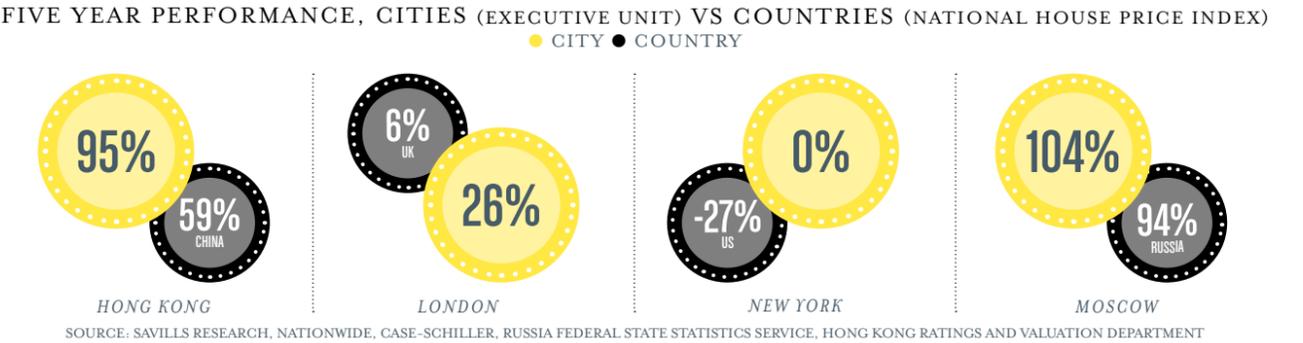
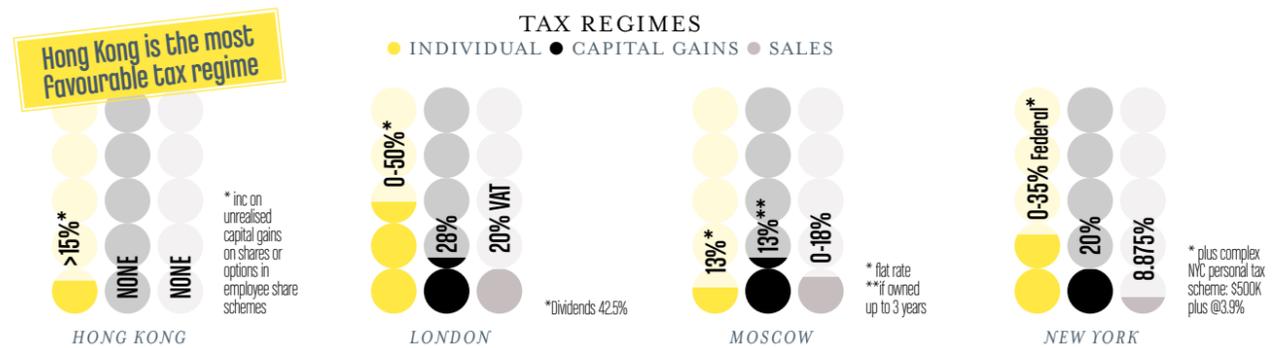
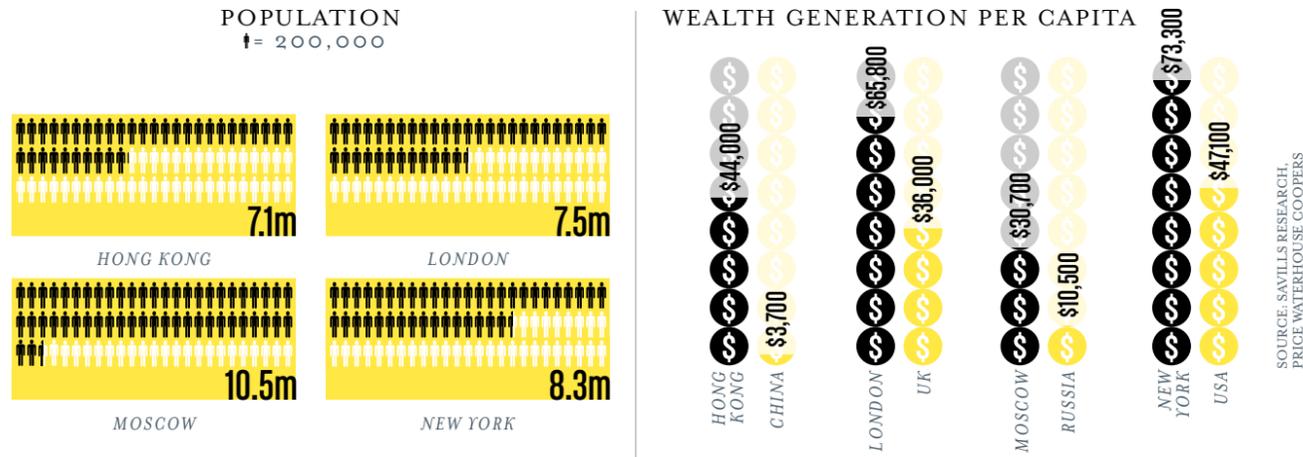
AT A GLANCE

Business New York is a global hub of international business. Home to the New York Stock Exchange and NASDAQ, the world's first and second largest stock exchanges. Many major corporations, including the United Nations, are headquartered in the city.

Life Has a significant impact on global media, culture, art, fashion, research and entertainment. One of the lowest crime rates of large US cities. In the Mercer Cost of Living Survey for expatriates it comes in at 27th – the lowest of all the four cities.

ALL IN THE NUMBERS

FROM THE EASE OF DOING BUSINESS TO TAXATION AND GDP, WE LOOK AT THE FACTS AND FIGURES THAT MAKE LIVING AND WORKING IN THESE FOUR CITIES A REALITY



LEISURE HOMES

A SPACIOUS HOLIDAY BOLTHOLE CAN EASE THE PACE OF CITY LIVING

Particularly for those living in city apartments without access to much private outside space, a quieter, more spacious weekend and holiday bolthole for the family can play an important role. Indeed, as the graph below shows, they are likely to be considerably larger than even the most desirable city homes. So where, and what, do wealthy buyers favour?

LONDON Jonathan Bramwell, Savills Country Department, says the Cotswolds (two hours' drive from central London) is a popular destination, though predominantly for UK CEOs with an international remit.

"Ease of access to London is vital and ideally proximity to an airfield too. Buyers want country houses with good entertainment space, acreage, views and perhaps stabling. They will pay £5m to

£15m for a house with 50 acres." Non-UK buyers may look in the South of France or the Alps for a holiday home.

NEW YORK Elizabeth Stribling, Stribling & Associates, says wealthy New Yorkers looking for beaches and a good social life get away to the Hamptons (two hours' drive from NYC), where a substantial house will cost from \$6m to \$40m. For horses or shooting, they're more likely to go to Millbrook (1.5 hours) or to the Connecticut villages (up to two hours), where estates range from \$6m to \$25m.

HONG KONG To get away from the crowds, Hong Kong residents have traditionally bought homes in Phuket, Thailand (three hours' flight), or Bali (4.5 hours' flight). "Villas in Phuket can run up to \$30m, but typically cost around \$2-3.5m," says Simon Smith, Savills Hong

Kong. "In addition, Niseko in Japan is becoming an increasingly popular ski resort, aiming to compete with Whistler in Canada."

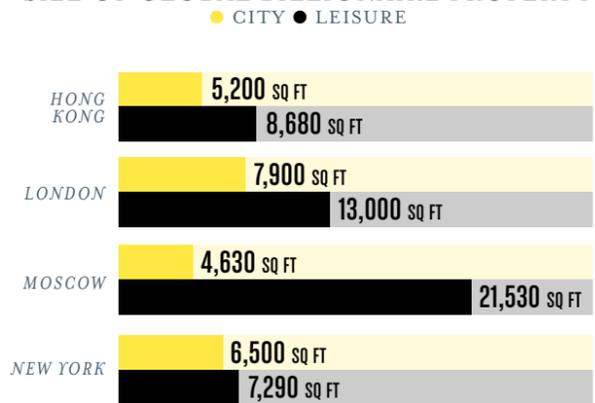
MOSCOW Country dachas may be all-season, by water for summer use or in a nearby ski resort for the winter. Alexander Shatalov, IntermarkSavills, suggests Rublevo-Uspenskoe Shosse (one hour's drive) for all year round use; New Riga (one to 1.5 hours) for summer swimming or sailing, and Yaroslavskoe (1.5 hours) for skiing. Typical rents vary from \$630 to \$2,200 per month, though the biggest may rent at up to \$16,000 per month.

Popular locations to buy a dacha include Rublevo-Uspenskoe Shosse, where houses of 8,500 to 15,000 sq ft cost £2.8 to £3.7 million, and New Riga, where house sizes range from 2,000 to 27,000 sq ft and cost up to £6 million.

THE TAXI RIDE FROM THE CITY CENTRE TO INTERNATIONAL AIRPORTS



SIZE OF GLOBAL BILLIONAIRE PROPERTY



SIZE OF REGIONAL CEO PROPERTY



SOURCE: SAVILLS RESEARCH

SOURCE: SAVILLS RESEARCH

THE RENTAL DIVIDEND

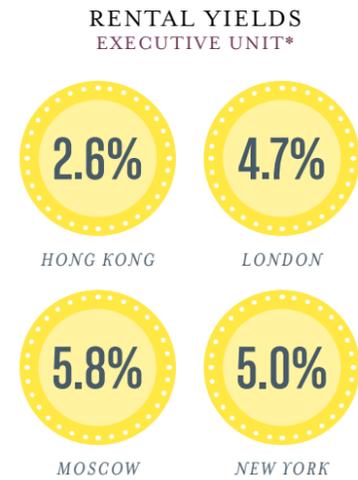
THE PRIME RENTAL MARKET IS NOW EXPERIENCING A BOUNCE-BACK

These global cities have strong residential rental markets. They are driven in part by demand from the big multinationals operating there (which require good-quality accommodation for incoming international employees), coupled with limited supply of suitable properties.

Investors in prime residential property are typically targeting senior expatriates with generous housing allowances paid by their employers. Of course, that means that when the expatriate community shrinks, as it did during the financial crisis, the prime rental market suffers.

Between 2007 and 2009, financial institutions all over the world buckled under the impact of the crisis and laid off or called home expatriate employees. All four cities were hit by falls in rental values during that time, followed by a bounce back in rental value growth. Moscow rents in particular picked up well as Russia's wider economy recovered after tough times in 2009. London has seen least improvement as corporate activity has remained subdued.

From the point of view of housing our "executive unit", Hong Kong is now the costliest city in which to rent. "Hong Kong



“Hong Kong is 12% more expensive to rent than London and 35% more than New York, and double the cost of Moscow”

is 12% more expensive than London, 35% more than New York and double the cost of Moscow,” says Yolande Barnes, Savills Research.

For investors, the recent rises in residential property capital values have reduced yields in every city – with the exception of New York, where sluggish recovery in prices, plus rental growth, have kept yields on the properties in the employee basket at around 5%. That’s as high as they have been at any time over the past five years.

But the highest rental returns for 2010 are to be found in Moscow, where Savills basket of employees’ properties yields an attractive 5.8%.

In contrast, London’s rental returns have fallen over the past five years, from 6% to 4.7%. Hong Kong’s extreme property price rises have also knocked rental yields back – in this case to just 2.6%, compared with 4% in 2005.

However, says Simon Smith, Savills Hong Kong: “We expect rents in the luxury residential sector to rise faster than prices in 2011.” He anticipates price increases of 5-10%, while rents could rise by around 15%, which will help to improve yields at the top end.

*SOURCE: SAVILLS RESEARCH, NATIONWIDE, CASE-SCHILLER, RUSSIA FEDERAL STATE STATISTICS SERVICE, HONG KONG RATINGS AND VALUATION DEPARTMENT

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SAVILLS IS AT THE HEART OF THE GLOBAL PROPERTY MARKET



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WHERE ARE THE MARKETS HEADING?

OUR EXPERTS LOOK TO THE FUTURE

HONG KONG

“The long-term prospects for the market are positive as Hong Kong continues to benefit from even closer integration with the mainland”

SIMON SMITH

LONDON

“Over the five years to 2015, prime central London prices will rise by a third”

YOLANDE BARNES

MOSCOW

“Demand for luxury properties will return to pre-financial crisis levels, and price growth will remain steady at 10-15% a year for the next couple of years”

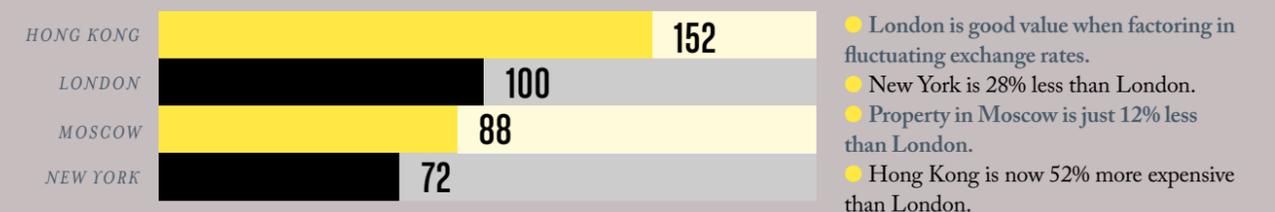
ALEXANDER SHATALOV

NEW YORK

“The current problem is the shortage of inventory, from family apartments in the \$5-\$10m category to the trophy segment over \$20m, especially those in mint condition”

ELIZABETH STRIBLING

RELATIVE COST OF HOUSING 2010
TOTAL COST OF HOUSING FOR AN EXECUTIVE UNIT OF HOUSEHOLDS, WITH LONDON AT 100 AS THE BASE VALUE



SOURCE: SAVILLS RESEARCH

“Cross border investment into residential property, whether for lifestyle, business or stability reasons, is a growing trend amongst the world’s super rich, which we believe is set to continue. As a well established global brand, with over 200 offices and associates in some of the world’s largest and emerging cities, we are well placed to help you with your global residential needs”

RUPERT SEBAG-MONTEFIORE
HEAD OF GLOBAL RESIDENTIAL

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