World Research – August 2020

SPOTLIGHT
Savills Research

Savills Prime Index: World Cities

savills

Prime residential prices ● Rental values and yields ● Global cities outlook

Altered landscapes

The world's prime residential markets have been disrupted by the impact of Covid-19

Covid-19 and the subsequent lockdowns have significantly disrupted global real estate markets. Prime residential markets have been no exception. From Sydney to San Francisco, markets are reacting to changes in lifestyles and economic conditions.

By tracking the performance of 28 cities, the **Savills Prime Index: World Cities** illustrates what the pandemic has meant for prime residential values and rents in the first half of 2020. As conditions ease, we look to where the bright spots will be in the future.

Our analysis looks at how average capital values have fared compared to rents, and we also break this down city-by-city to see how each market has reacted to the Covid-19 pandemic. From this, we highlight which cities have held up best in terms of capital and rental values, and predict those who are frontrunners for the remainder of the year and into the future.

Covid-19 has had a profound impact on many aspects of people's lives. The changes to people's lifestyles and working habits have led some to reassess the space they occupy and how it will look in the future. While the longer term trends are still developing, the immediate impact of the pandemic on prime residential values in cities around the world has resulted in a fall of 0.5% for capital values and 1.1% for rental values.

Capital values

Global uncertainty had been weighing on prime residential markets in 2019, with modest falls of 0.3% recorded in the six months to December 2019. Combined, the annual average price movement turned negative for the first time since 2009, down 0.8% for the year to June 2020.

The markets which have held up best in the first half of 2020 are generally characterised by higher levels of domestic demand and tight supply. These factors are particularly prevalent in a number of European cities in our index resulting in a positive average price movement of 0.4% for the region over the first six months of the year. By contrast, prices on average fell by 0.6% and 1.5% in Asia Pacific and North America respectively over the same period.

Rental values

The prime rental markets, which typically have a higher share of international and corporate tenants, have suffered as demand has dropped off as a result of the pandemic. While owners may hold onto their properties during a crisis if they do not need to sell, landlords are more likely to lower rental values in order to keep their property occupied, in turn realising price falls. As a result, average prime rental values for the cities in our index fell by 1.1% in the six months to June 2020, against the 0.5% fall seen in capital values.

Houses outperform

We are already seeing the start of the longer term impacts of Covid-19 reflected in price movements across our global index. Apartments experienced average capital values falls of -0.7% over the first half of 2020, while houses, which are on average over twice the size of the apartments in the same city, maintained a positive growth of 0.3%.

Looking ahead

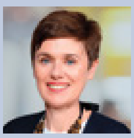
Prime residential city markets tend to prove more resilient than the wider mainstream market, although much still depends on the economic situation which is just materialising

Half year change: June 2020

	EMEA	North America	Asia Pacific	Houses	Apartments
Capital values	0.0%	-1.5%	-0.6%	+0.3%	-0.7%
Rents	-1.1%	-0.4%	-1.4%	-1.2%	-1.3%

Source: Savills Research

> **"The markets which have held up the best in the first half of 2020 are generally characterised by higher levels of domestic demand and tight supply"**



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Nearly half of all respondents to our Savills Residential Global Market Survey anticipate price increases in 2021, and 70% expect price increases in 2022

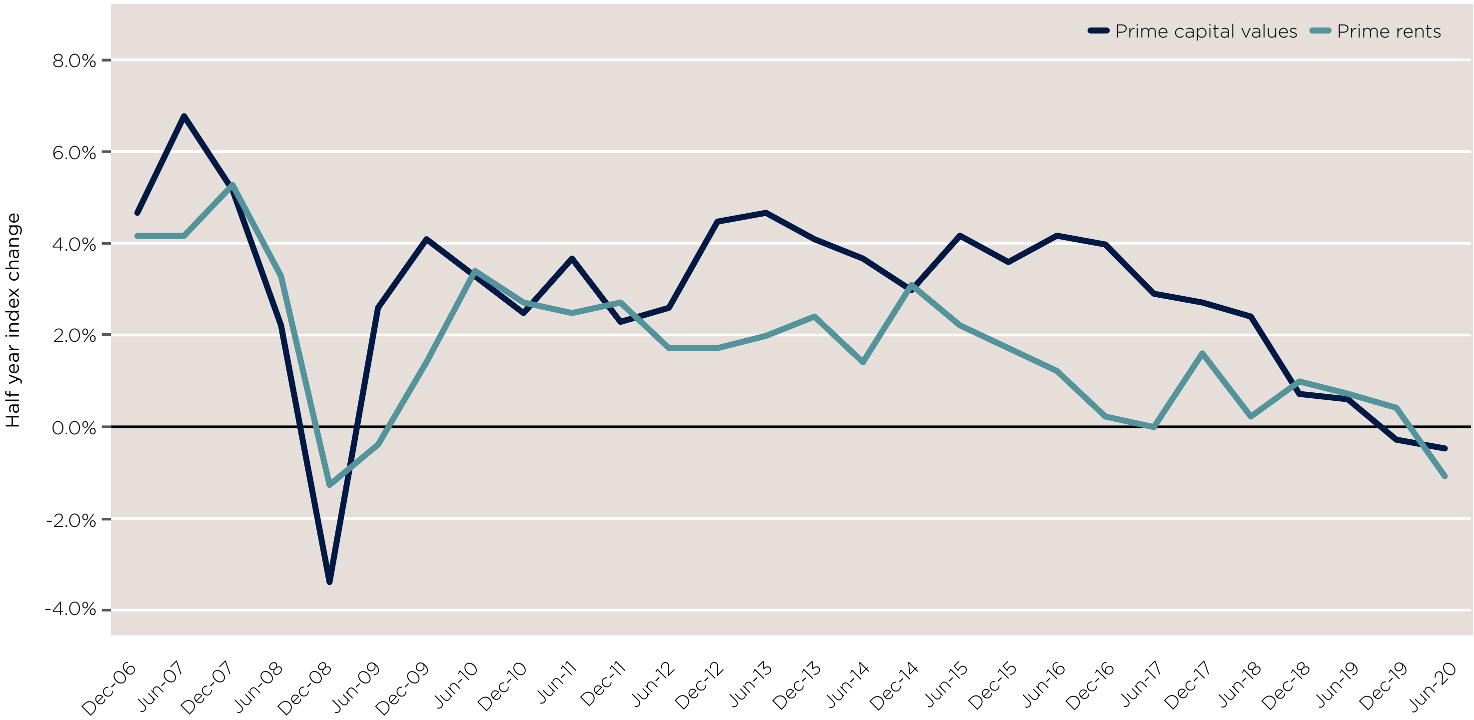
in a lot of cities. However, this is not a financial crisis as in 2008 where many property owners were highly leveraged. Few sellers are therefore being forced to sell and may choose to wait to sell rather than lowering the price.

Savills Residential Global Market Survey* (see back page), a survey of experts across the Savills global residential network, found that 46% of respondents expect to see slight price falls in the second half of 2020, compared to just 5% who anticipate price rises.

Looking to 2021 and beyond, respondents are positive about prices. Nearly half of all respondents anticipate price increases in 2021, and 70% expect price increases in 2022. For more details on our forecasts for individual cities, see pages 10 and 11.

Global city: Moscow

Average half year prime capital value and rental growth The immediate impact of the pandemic has resulted in a fall of 0.5% for capital values and 1.1% for rental values in the first six months of 2020



Source Savills Research

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. We define prime as the top 5% of the market by price. Currency exchange rates are as of the middle of month stated.

> **Seoul and Moscow recorded the strongest price rises in the first half of the year, with an increase of 5.5%**

A mixed picture

Just nine out of the 28 cities in our index saw positive prime capital value movements over the first six months of 2020

Seoul and Moscow recorded the strongest price rises in the first half of the year, with an increase of 5.5%. South Korea largely avoided a lockdown and hence any significant associated disruption to the market. Seoul's housing market has been on an upward trend for the past few years, driven by historically low interest rates and government policies that have also limited new supply further driving price increases.

In Moscow, the prime residential market is driven predominately by domestic demand and fluctuations in prices are influenced by domestic factors. Covid-19 caused the price of oil and the value of the Russian ruble to fall sharply, driving capital into the property market which is viewed as a secure investment. The fall in the ruble also provided a good opportunity for Russian buyers who hold other currencies to purchase property.

In Europe, the best performers were Berlin, Amsterdam and Paris. These European capitals have seen high levels of demand and limited supply in recent years, driving price growth even during the pandemic and associated lockdowns.

In China, pent-up demand and credit easing from the Chinese central bank (PBoC) saw values in some Chinese cities rise marginally in the first six months of the year, with Shenzhen, Hangzhou and Shanghai experiencing marginal price rises over this period.

Meanwhile, Beijing and Guangzhou saw minimal price falls. Beijing was disproportionally hit by lockdown measures, while prime values in Guangzhou had already started to plateau prior to the crisis, having previously seen some fast gains.

Tokyo was the only other city in Asia to see positive price movement in the first six months of the year, driven by tight supply and domestic demand.

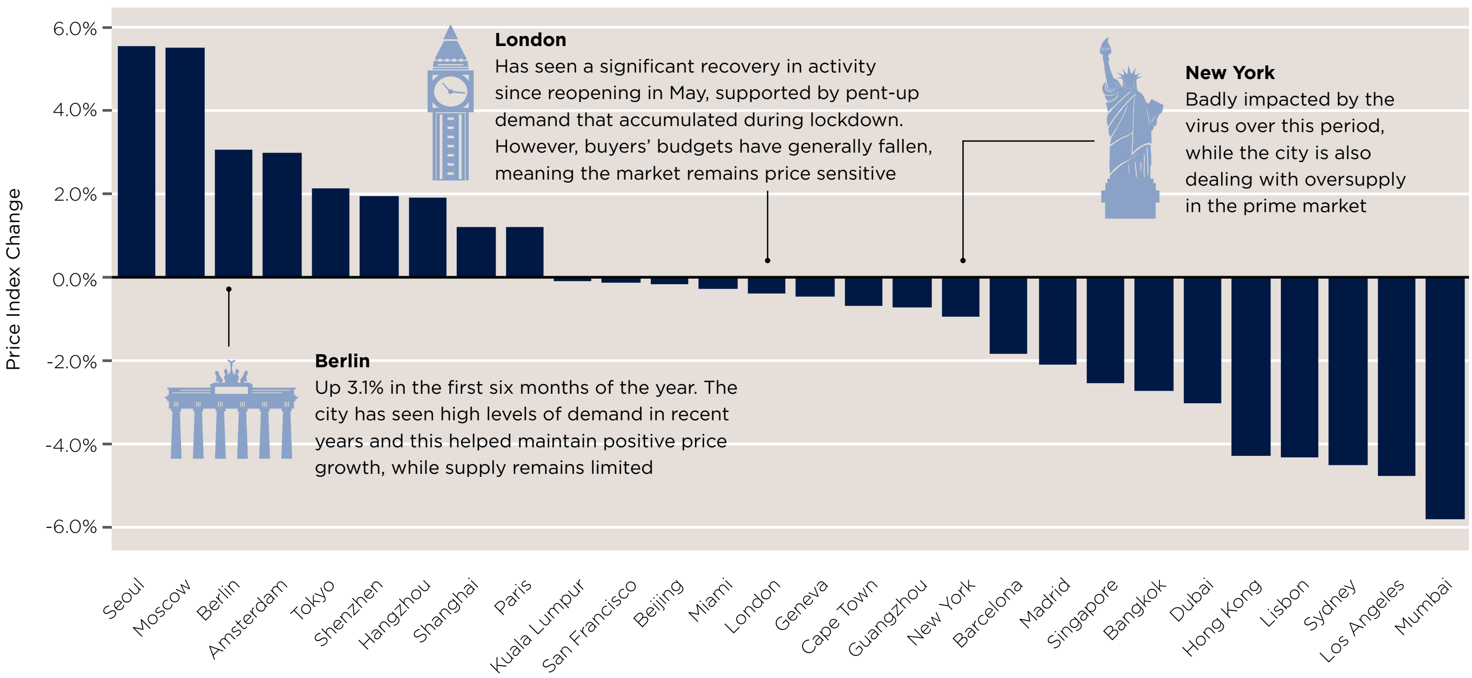
Prices fall fastest in Mumbai

Mumbai saw the largest decline over the first half of 2020, down 5.8%. The Indian city is grappling with oversupply in the prime market and has been badly impacted by lockdown measures.

Elsewhere in Asia Pacific, Sydney, Hong Kong and Bangkok also experienced the next largest falls for the first six months of the year, as the impact of Covid-19 weighed on the market.

Prior to the crisis, Sydney's market had been performing well, supported by lower interest rates, increasing immigration, and growth in demand. Meanwhile, Hong Kong and Bangkok had

Prime capital value growth December 2019 to June 2020



Source Savills Research

seen price declines due to political uncertainty and oversupply respectively.

Weakening demand characterises US cities

In the US, Los Angeles experienced the largest falls in the first six months of the year. The city was badly impacted by the coronavirus pandemic over this period, and unemployment rose to 20.6% in May, up from just 4.6% in February. New York was also badly impacted by the virus over this period, while the city is also dealing with oversupply in the prime market and values had already been moving downward over the past few years as a result. Miami and San Francisco saw comparatively smaller falls. Florida had initially been less impacted by the pandemic, compared to California and New York in the first half of the year, while supply remains tight in San Francisco.

Mixed picture in Europe

While Berlin, Amsterdam and Paris continued to see price rises in the first half of 2020, other cities recorded falls. Lisbon saw the largest decline in the first six months of 2020. As well as the impact of Covid-19, there had been uncertainty over the city's continuing participation in the country's golden visa programme, although due to Covid-19 the changes to the scheme have been put on hold. In Spain, prime prices in Madrid and Barcelona fell 2.1% and 1.8% respectively over this period. Spain was hard hit by the pandemic and stringent long-lasting lockdown measures, but prime supply in both cities remains scarce, preventing larger price falls.

London and Geneva both experienced similar, albeit marginal, price falls over this period. The housing market in Switzerland is generally a stable market and sellers in Geneva held relatively steady on price, despite a fall in international demand.

In London, some certainty had returned to the market prior to the crisis as there had been more clarity over Brexit. The market here has seen a significant recovery in activity since reopening in May, supported by pent-up demand that accumulated during lockdown. However, buyers' budgets have generally fallen, meaning the market remains price sensitive.

Where do values currently stand?

Despite seeing prices falls since June 2019, Hong Kong remains the most expensive city in the world for prime residential property, with values 78% above second ranked New York, and 99% above third ranked Tokyo as of June 2020.

Geneva ranks fourth and is the highest valued European city in the index, 9% above London in fifth place and 23% above Paris, which ranks seventh.

Kuala Lumpur and Cape Town are the best value cities in the index, and the only cities where prime values are under $300 per square foot. Madrid and Barcelona offer value at a European level, where prime prices are 64% and 66% below Geneva, respectively.

City	Prime capital value June 2020 (US$ psf)	Prime capital value June 2020 (€ psm)
Hong Kong	$4,440	€42,400
New York	$2,490	€23,800
Tokyo	$2,230	€21,300
Geneva	$2,000	€19,100
London	$1,830	€17,500
Shanghai	$1,750	€16,800
Paris	$1,630	€15,500
Sydney	$1,590	€15,200
San Francisco	$1,540	€14,800
Seoul	$1,540	€14,700
Singapore	$1,490	€14,200
Shenzhen	$1,480	€14,100
Beijing	$1,410	€13,500
Los Angeles	$1,410	€13,400
Moscow	$1,250	€11,900
Guangzhou	$1,150	€10,900
Mumbai	$1,130	€10,800
Berlin	$1,030	€9,870
Hangzhou	$990	€9,410
Amsterdam	$970	€9,230
Miami	$960	€9,150
Lisbon	$880	€8,440
Bangkok	$840	€7,980
Madrid	$720	€6,870
Barcelona	$680	€6,470
Dubai	$560	€5,350
Kuala Lumpur	$270	€2,550
Cape Town	$260	€2,450

Source Savills Research

In the US, the demand for space has been a significant driver of rental values in both directions

Rental values react

While Seoul bucked the trend, other locations have witnessed falls in prime rental values in the first half of 2020

A total of seven cities saw rental values increase in the first six months of 2020. Seoul stands out with the highest rental growth of the cities in our index, up 8.5% in the first six months of 2020. South Korea has a unique leasing arrangement, known as the Jeonse system. Tenants pay the landlord a refundable deposit, equivalent of 70-80% of the property value, often borrowed from a bank, and then use the property rent-free. The recent low interest rates, combined with limited supply, have caused rent rises.

Supply and demand dynamics

A handful of cities saw rental values remain fairly resilient in the first six months of the year, experiencing a small rise in rental values. Some rental markets continued to be driven by tight supply, including Amsterdam, Paris, and San Francisco. Meanwhile, other markets were driven by a change in demand during the pandemic, which was the case for Singapore. Here, there has been increased demand for smaller prime units as the co-living providers fell out of favour with tenants in the current climate.

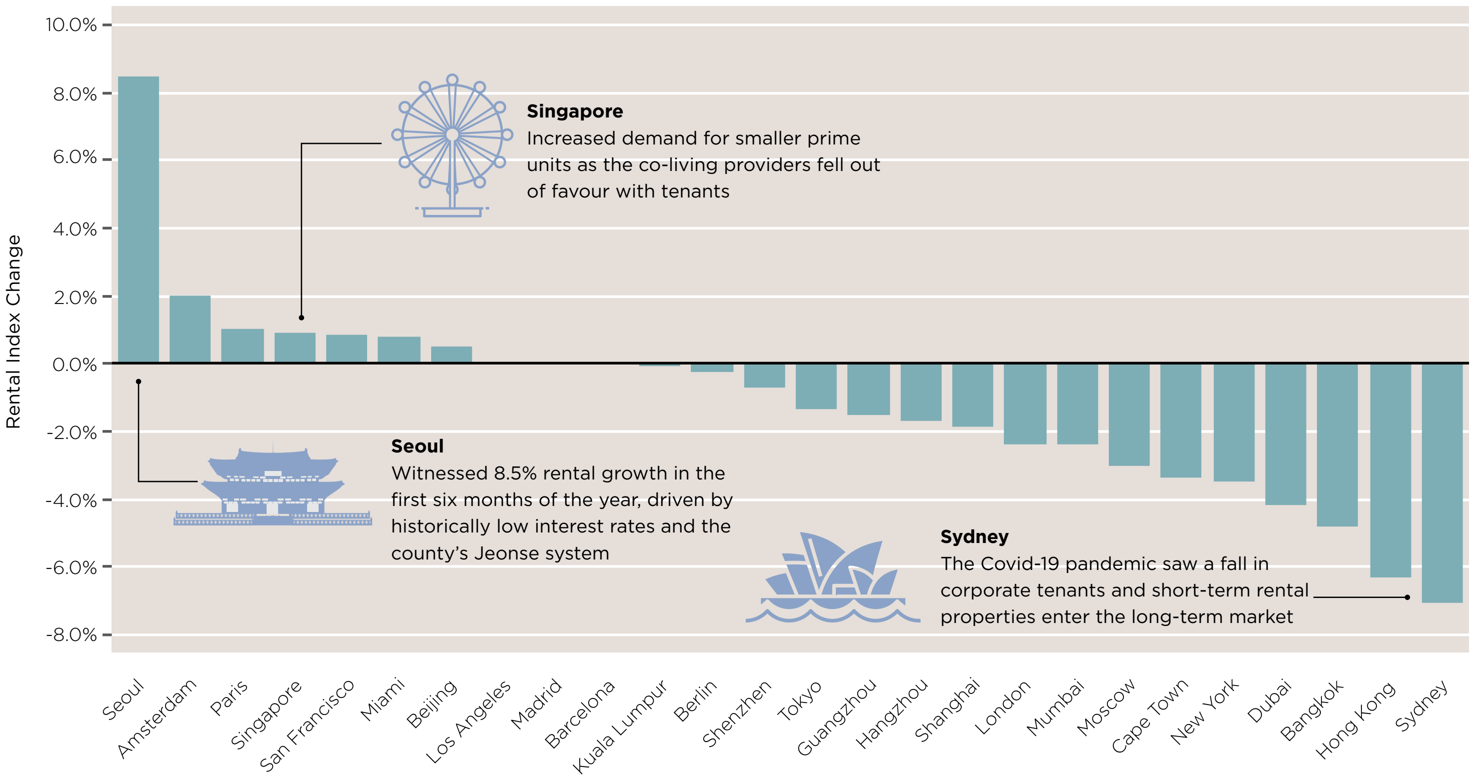
In the US, the demand for space has been a significant driver of rental values in both directions. As tenants generally looked for properties with more space, away from densely populated areas, Miami and Los Angeles benefited while demand in New York fell where there is already an oversupply of properties.

In addition to New York, a number of other cities are also grappling with existing supply outstripping demand, including the likes of Bangkok, Dubai and Mumbai which all saw prime rental values fall in the first half of the year.

Sydney falls the most

Sydney saw the largest fall in prime rental values for the first half of 2020, down 7.1%. There is an oversupply of rental properties on the market here,

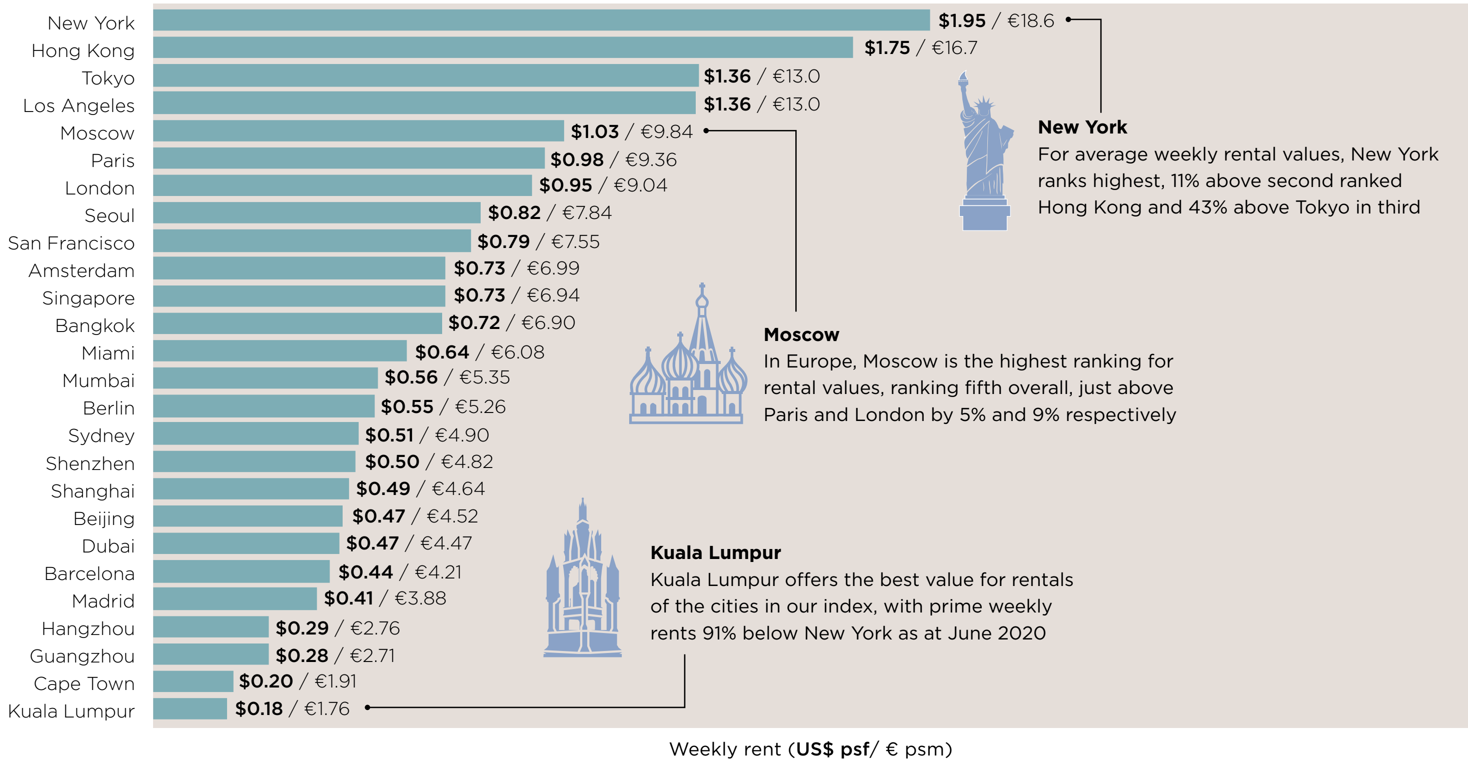
Prime rental growth December 2019 to June 2020 Prime rents fell, on average, -0.8% in the year to June 2020, suffering from a lack of international and corporate demand



Source Savills Research

Global city: Seoul

Weekly rent comparison by city: June 2020



Source Savills Research

while the Covid-19 pandemic saw a fall in corporate tenants and short-term rental properties enter the long-term market, further worsening the supply and demand imbalance. The same factors also drove falls in other cities, with the likes of Cape Town seeing an influx of rental properties previously on the short-term market. Moscow also saw a fall in demand from corporate tenants, unlike the purchaser market, international and corporate tenants drive the prime rental market here, demand from these groups has consequently fallen sharply as a result of Covid-19.

In Mainland China, rental values generally held up less well than prices in the first half of the year as demand fell on the back of decreased mobility within the country. In Hong Kong, prime rental values saw the second largest fall for the first half of the year, after Sydney. Economic activity in the city has been widely disrupted by Covid-19, additionally political uncertainty is also dampening values.

> Los Angeles is the highest yielding city in the index, with an average gross yield of 5.6% in June 2020

Potential returns

North American cities attract higher yields than Europe & Middle East and Asia Pacific

A consideration for many buyers of prime property is often the potential returns from owning that property. Average global prime residential yields have moved in from a high of 3.8% in December 2010, to 2.9% in June 2020, following a decade of capital value growth outpacing rental growth up until 2019, the average yield has held relatively steady since then.

Yields by region

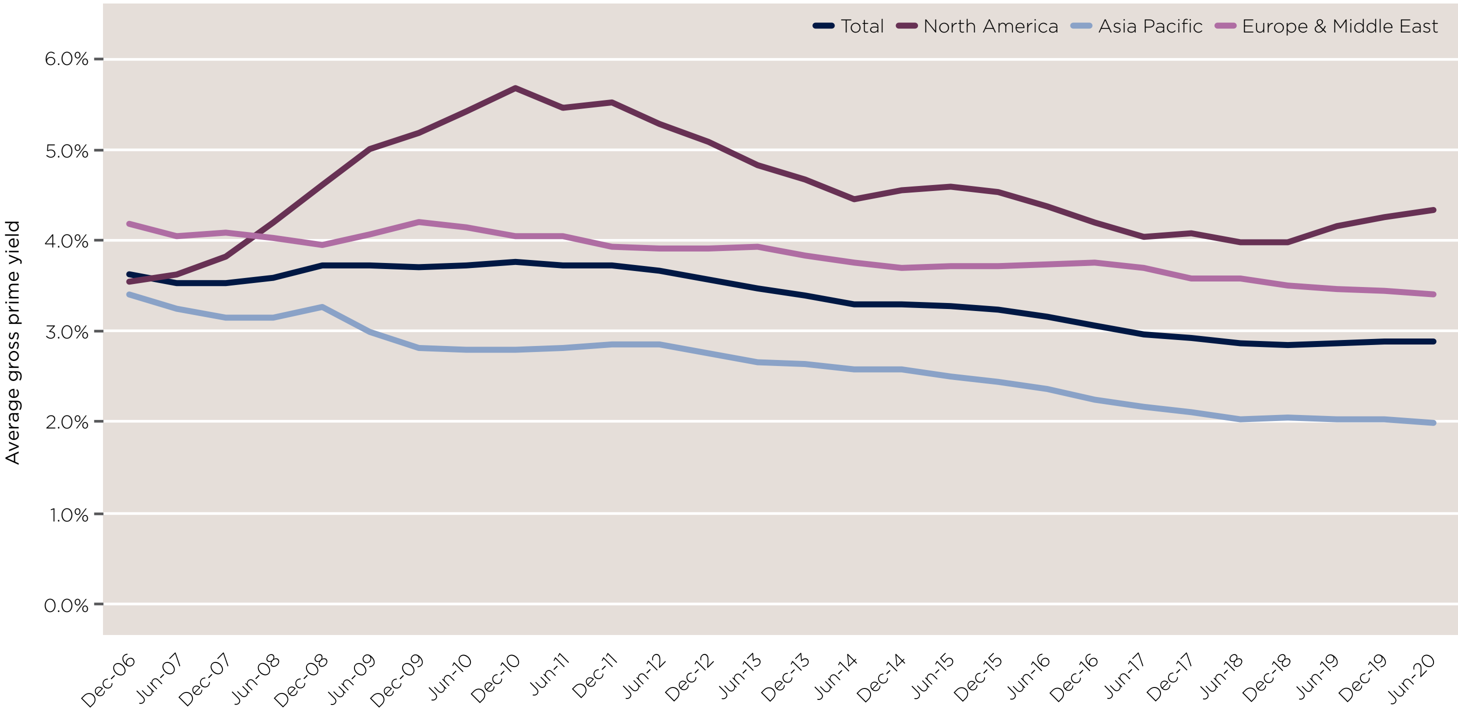
North American cities are the highest yielding region, with an average yield of 4.3% in June 2020, up from a low of 4.0% in June 2017 as rental growth outpaced capital value growth for the first time since 2014. Los Angeles is the highest yielding city in the index, with an average gross yield of 5.6% in June 2020. The rental market here remained resilient in the first half of the year, while prices fell, pushing up the average yield slightly.

Elsewhere in the US, yields in New York stand above Miami and San Francisco. New York has generally seen yields tick upwards since 2017 as oversupply in the market has led to rental values outperforming capital values.

At the other end, cities in Asia Pacific are the lowest yielding out of the cities in our index on average, with an average yield of 2.0% in June 2020 and the bottom ten cities located within this region. Yields here have moved downwards over the past decade as capital value growth has outpaced rental growth, this is particularly true for the cities in China which have seen some of the highest capital value growth over the past decade. Chinese cities in the index yield between 1.5% and 1.7% as of June 2020.

European and Middle Eastern city yields average 3.4% as of June 2020 and have been gradually declining over the past decade. Moscow and Dubai are the highest yielding cities in the region, with an average gross yield of 4.6% as of June 2020. Meanwhile, London and Berlin are the lowest yielding in the region, both with an average gross yield of 2.9%.

Average gross prime yield by region



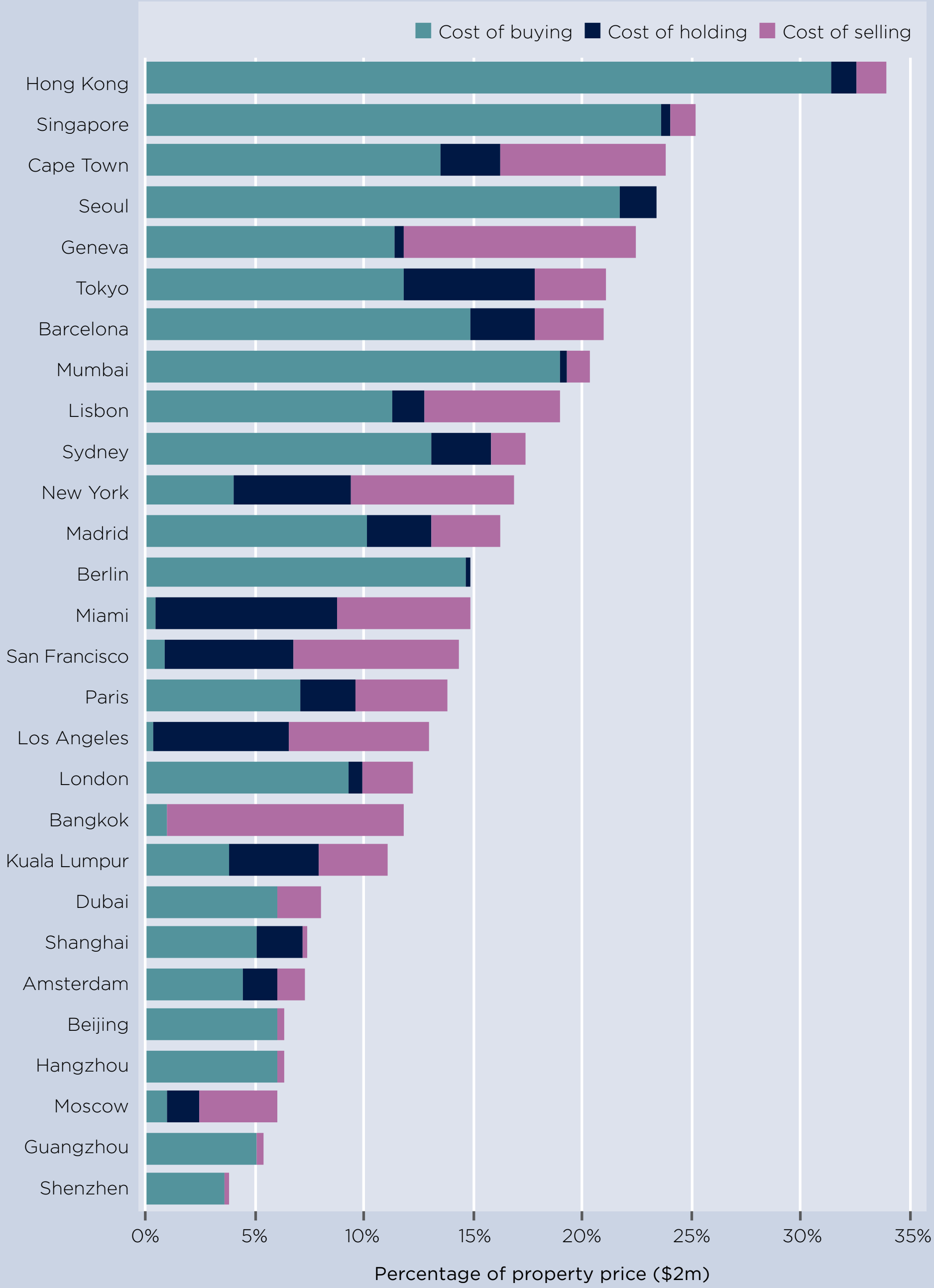
Source Savills Research

Singapore and Hong Kong have particularly high stamp duty for overseas buyers, standing at 20% and 15% respectively

Paying the price

For those buying a property abroad, a key consideration is not just the price, but the associated costs of buying, holding and, subsequently, selling that property

The cost of buying, holding and selling a $2m property



Source Savills Research

Our scenario assumes a non-resident overseas buyer purchasing a $2 million property. This is for use as a second home for less than nine months of the year over a five-year hold. No capital growth has been applied, avoiding the complication of having to forecast that for each city. London purchase costs reflect stamp duty changes announced on 8th July.

For a $2 million property, the top three cities in our index with the highest overall transaction costs are Hong Kong, Singapore and Cape Town. Here, an international investor would be looking at costs relative to the purchase price of 33.9%, 25.1% and 23.8% respectively.

Singapore and Hong Kong have particularly high stamp duty for overseas buyers, standing at 20% and 15% respectively.

By contrast, markets across the US such as Miami, San Francisco and Los Angeles have the lowest costs to purchase the property, with costs less than 1.0% of the purchase price. New York stands out amongst its neighbours with a higher purchasing cost at 4.0%. This is due to the 'Mansion Tax' introduced in the city in July 2019 which saw a change from a flat 1% surcharge on properties over $1 million to a progressive rate starting at 1.25% on homes between $2 million and $3 million and up to a maximum of 3.9% for homes above $25 million.

In terms of holding costs, Miami and Los Angeles are most expensive with occupancy taxes over a five-year period running at 8.3% and 6.3% of the purchase price respectively.

Bangkok has the highest selling cost out of the cities in the index, with costs standing at 10.8% of the price at the point of selling. Geneva is close second, and the only other city in the index where selling costs exceed 10%, standing at 10.7%.

It is the Chinese cities along with Moscow which have the overall lowest costs of buying, holding and selling a property. In China, with the exception of Shanghai, there are only buying costs to consider in this scenario.

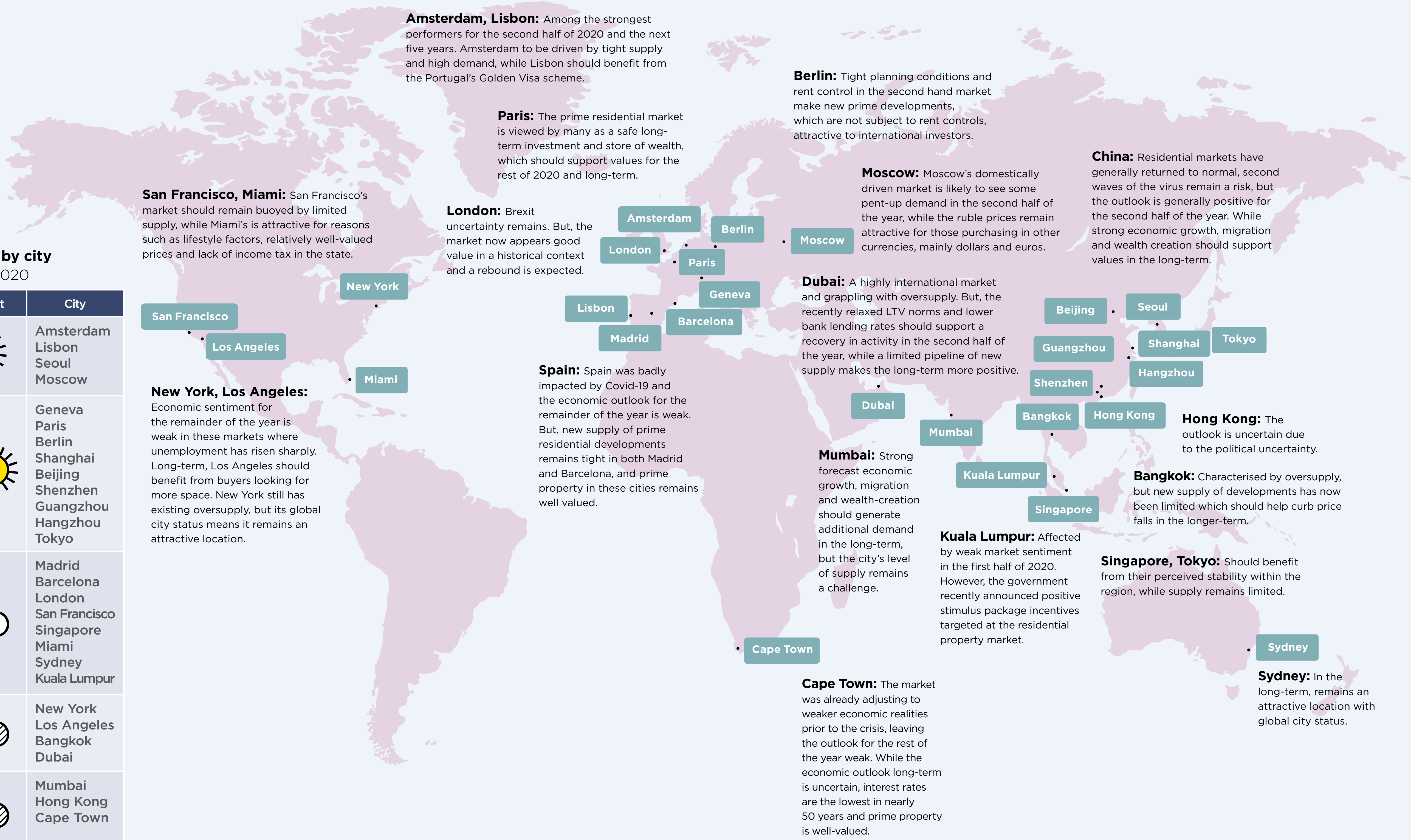
Global cities outlook

Covid-19 has impacted prime residential markets around the world, but the outlook for the near and long-term varies by city. Here, we forecast how each city compares in the future

Outlook by city
Rest of 2020

Forecast	City
	Amsterdam Lisbon Seoul Moscow
	Geneva Paris Berlin Shanghai Beijing Shenzhen Guangzhou Hangzhou Tokyo
	Madrid Barcelona London San Francisco Singapore Miami Sydney Kuala Lumpur
	New York Los Angeles Bangkok Dubai
	Mumbai Hong Kong Cape Town

Source Savills Research



Amsterdam, Lisbon: Among the strongest performers for the second half of 2020 and the next five years. Amsterdam to be driven by tight supply and high demand, while Lisbon should benefit from the Portugal's Golden Visa scheme.

Paris: The prime residential market is viewed by many as a safe long-term investment and store of wealth, which should support values for the rest of 2020 and long-term.

San Francisco, Miami: San Francisco's market should remain buoyed by limited supply, while Miami's is attractive for reasons such as lifestyle factors, relatively well-valued prices and lack of income tax in the state.

London: Brexit uncertainty remains. But, the market now appears good value in a historical context and a rebound is expected.

New York, Los Angeles: Economic sentiment for the remainder of the year is weak in these markets where unemployment has risen sharply. Long-term, Los Angeles should benefit from buyers looking for more space. New York still has existing oversupply, but its global city status means it remains an attractive location.

Spain: Spain was badly impacted by Covid-19 and the economic outlook for the remainder of the year is weak. But, new supply of prime residential developments remains tight in both Madrid and Barcelona, and prime property in these cities remains well valued.

Berlin: Tight planning conditions and rent control in the second hand market make new prime developments, which are not subject to rent controls, attractive to international investors.

Moscow: Moscow's domestically driven market is likely to see some pent-up demand in the second half of the year, while the ruble prices remain attractive for those purchasing in other currencies, mainly dollars and euros.

China: Residential markets have generally returned to normal, second waves of the virus remain a risk, but the outlook is generally positive for the second half of the year. While strong economic growth, migration and wealth creation should support values in the long-term.

Dubai: A highly international market and grappling with oversupply. But, the recently relaxed LTV norms and lower bank lending rates should support a recovery in activity in the second half of the year, while a limited pipeline of new supply makes the long-term more positive.

Hong Kong: The outlook is uncertain due to the political uncertainty.

Mumbai: Strong forecast economic growth, migration and wealth-creation should generate additional demand in the long-term, but the city's level of supply remains a challenge.

Bangkok: Characterised by oversupply, but new supply of developments has now been limited which should help curb price falls in the longer-term.

Kuala Lumpur: Affected by weak market sentiment in the first half of 2020. However, the government recently announced positive stimulus package incentives targeted at the residential property market.

Singapore, Tokyo: Should benefit from their perceived stability within the region, while supply remains limited.

Cape Town: The market was already adjusting to weaker economic realities prior to the crisis, leaving the outlook for the rest of the year weak. While the economic outlook long-term is uncertain, interest rates are the lowest in nearly 50 years and prime property is well-valued.

Sydney: In the long-term, remains an attractive location with global city status.

Outlook by city
Long-term (next five years)

Forecast	City
	Amsterdam Lisbon Berlin Paris Miami San Francisco
	Geneva Moscow Kuala Lumpur Sydney London Madrid Barcelona Singapore Shanghai Beijing Shenzhen Guangzhou Hangzhou Tokyo Los Angeles
	New York Cape Town Mumbai Seoul
	Dubai Bangkok
	Hong Kong

Source Savills Research

* **Savills Global Residential Sentiment Survey** is designed to take the pulse of residential property markets worldwide. The findings provide a snapshot of current market conditions and future trends based on an internal survey of 41 experts across the Savills global residential network. The results displayed are an aggregate of all replies, unless otherwise stated.

The survey was conducted from 27th May to 2nd June 2020. Responses come from markets within the following countries: Antigua, Austria, Australia, Bahrain, Barbados, Cayman Islands, China, Croatia, Czech Republic, Egypt, England, France, Gibraltar, Italy, Monaco, Montenegro, Portugal, South Africa, Spain, Switzerland, Thailand, The Turks and Caicos Islands, United Arab Emirates.

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Savills Research
We're a dedicated team with an unrivalled reputation for producing well-informed and accurate analysis, research and commentary across all sectors of the UK property market.

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