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Savills World Research

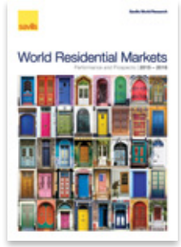
World Residential Markets

Performance and Prospects | **2015 – 2016**

This publication
This document was published in September 2015. The data used in the charts and tables is the latest available at the time of going to press. Sources are included for all the charts. We have used a standard set of notes and abbreviations throughout the document.

Savills plc
Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 600 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

Foreword
WORLD RESIDENTIAL MARKETS



Where next for global property investment? We assess the performance and prospects of residential markets across the world

Residential real estate markets are, by definition, local, rooted to the earth in a particular time and place. Most are not traded globally like gold, commodities, equities and bonds although there are global forces at work on them and shaping their future.

Success in buying homes or residential property investments abroad therefore depends on understanding which forces are local and which more universal.

This new publication contains information on a wide range of popularly invested residential real estate markets around the world. They range from small, top-end resorts through well-known regions to major world cities. While they are unusual in attracting significant amounts of cross-border money, they are all subject to underlying demand and supply factors which govern the way that markets move worldwide.

The challenge for this publication was to identify these basic factors which all markets have in common. The exercise meant that we have been able to put to one side the issues with which local commentators may be currently fixated and instead focus on the basic, longer-term market drivers which are relevant to all markets.

The three metrics that we identified as having the greatest fundamental influence on housing markets generally are detailed on pages 6-7. They determine the directions of markets but, overlaying these macro-level issues are a series of cultural, policy and even psychological factors like the reputation of some jurisdictions as 'Safe havens' which can make an enormous difference to how they perform, especially in the short term.

Location by location

Our location by location commentary on pages 20-49 covers the local news and considerations relevant to residential investment markets in 27 different places around the globe. They reveal some very different approaches in different jurisdictions to residential property issues, ranging from golden visas to cooling measures, for example.

This approach of national trends overlain by local and policy issues has enabled us to form a robust view on where the different markets may be headed in future. As most of the markets we cover are prime city or prime and 'second home' resort, we have also taken a view on how they may differ from the nation's mainstream housing market. These prognoses, a mixture of empirical analysis and qualitative evaluation, are outlined on pages 12-15.

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"Success in residential property investment abroad depends on understanding which forces are local and which more universal"

EXECUTIVE SUMMARY

Global residential property markets are driven by population growth, economic growth and wealth
See pages 06/07

Prime city and 'retreat' markets are shaped by globally mobile individuals
See pages 10/11

Successful future investment will be in secondary property, second-tier cities and resorts
See pages 12/15

Prime markets in world cities are priced at a high plateau. Other locations may offer better value for money
See pages 16/17

Favourable market conditions and growth potential can be found in the USA and parts of Europe
See page 18/19

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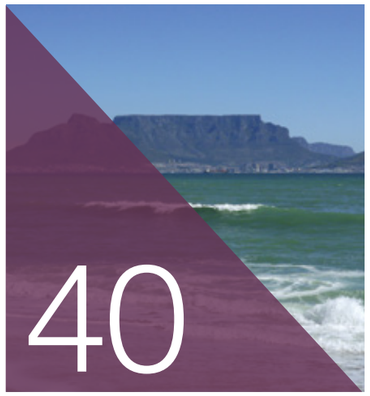

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Hong Kong, Singapore, China, Australia.

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Investors are seeking opportunities in more peripheral locations and higher yielding secondary property as an alternative to first-tier cities.

Market Overview

WHY HOUSING MARKETS DIFFER ACROSS THE GLOBE

Which markets have seen the end to the boom and bust cycle and which ones never busted?

Words: Yolande Barnes
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Across the world and through the ages, the single fundamental driver of residential property demand has always been the number of households in a population wanting a roof over their head. The price of those roofs is then a function of the number of properties and the amount of money available with which households can compete for them.

Translated into global investment property, this means the following three factors will make for house price growth in excess of general inflation:

- Growing population
- Growing affluence
- Limited land and/or housing supply

The absence of one of these variables can stall a housing market and the absence of two or more can send property values downward.

Having boiled the global housing market down to just these three variables: demographic, economic and supply-side, it is important to point out that the way these variables play out on the ground and at different times is extremely complex and results in a wide variety of market behaviours.

The combined effect of economic performance and recessionary cycles, inflation and fiscal regimes, demographic changes, the availability and cost of finance as well as land supply politics, policies and planning, not to mention cultural, legal and tenure norms means that housing markets behave in very different ways across the globe.

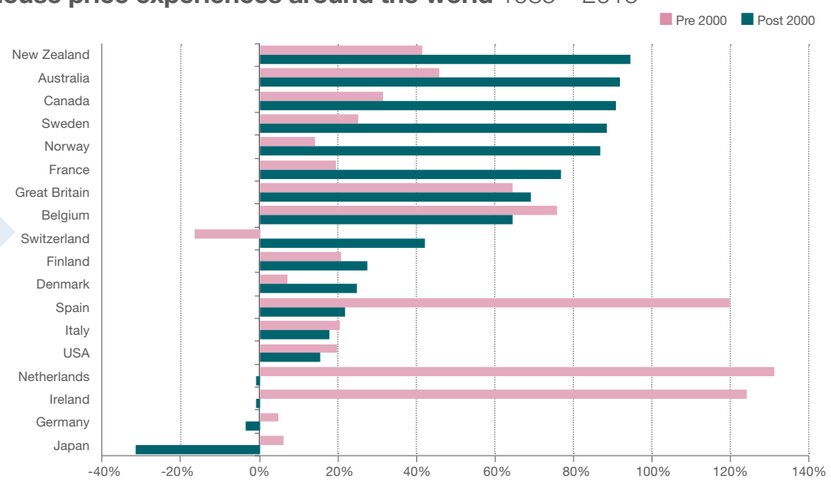
Understanding and navigating this complexity is a formidable task for any investor in their home environment, let alone on the global stage. This document is designed to provide the key information needed to understand a wide variety of world residential markets and then to home in on a few of the most internationally-invested markets in cities and resorts for a deeper look and prognosis on how they might behave in future.

FIGURE 1

Real (inflation-adjusted) house price experiences around the world 1985 – 2015

Global Housing Market Performance

Figure 1 shows just how differently housing markets have behaved over the last 30 years. It shows average house price movements in different countries, adjusted for just one of many external variables that impact them, namely, inflation. It shows that there were an enormous range of experiences in different housing markets before the Global Financial crisis of 2008, and there has been an equally enormous variety of experiences since.



Source: Savills World Research, OECD

Housing market experiences around the world

There are four ways that global real estate markets have behaved since 1985. We have divided national housing markets into four main groups:

1. **Boom-busters**
2. **Stabilisers**
3. **Deflators**
4. **High-risers**

Different demographic, economic, and supply side factors have played out in different countries – with extremely varied results.

1. THE BOOM-BUSTERS

These markets are the ones that often get most attention. All of them have seen property values fall since 2007, some of them very substantially. For two countries (the Netherlands and Ireland) real property values fell back to the level they last saw at the Millennium. They have started to recover but real, inflation-adjusted, values are still well below their former peak. France, having recovered in real terms almost to peak levels after 2008, has since double-dipped and is still below peak, though not as substantially as Spain, Italy and the Netherlands.

Three of the Boom-busters (Italy, France and Spain) saw similar real price rises and falls in the previous market cycle of the late 1980s and early 1990s. It is interesting to note, however, that Denmark, the Netherlands and Ireland were previously much less volatile than they were in the last economic cycle.

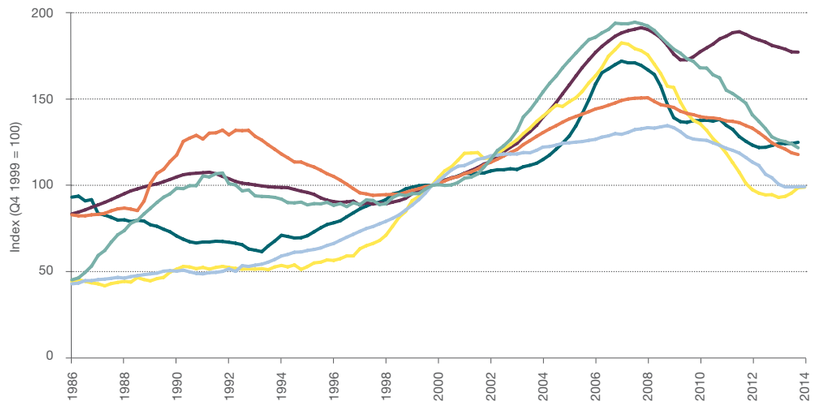
93%

Real house price growth in Spain, 2000-2007

▲ Scandinavia: home of the high risers

FIGURE 2

The Boom-busters real house prices



Source: OECD

FIGURE 3

Characteristics of the Boom-busters

Geography:	Eurozone	
Monetary/lending/fiscal policy pre recession:	Loose	
GDP growth:	Below average	Decelerating
Median household income (average):	Lower side of average	£30,198
Monetary/lending/fiscal policy post recession:	Tight	
Population growth rates:	Mixed but tending to accelerate	
Housing delivery before peak:	High	

Source: Savills World Research

2. THE STABILISERS

The Stabilisers are a mixed group that cover a range of circumstances and illustrate how different circumstances and different policies, ranging from loose credit but strong economic recovery to consistently more stable and consistent lending environment have enabled countries to get back, or remain on a more even keel.

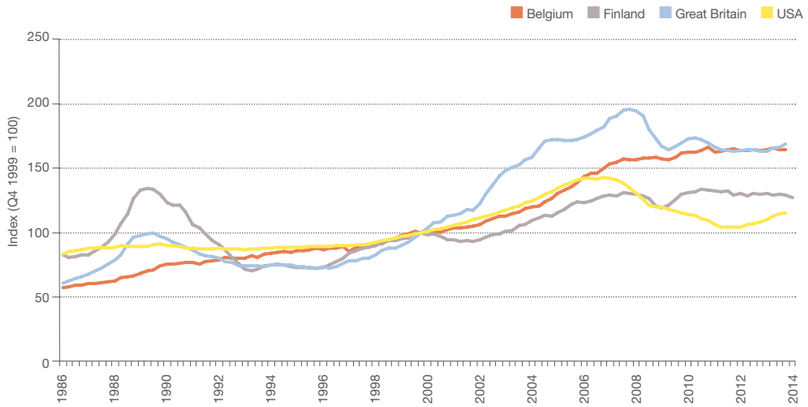
Two countries seem to have been permanently stable, though not high rising, since 2000 while some are seeing a repeat of boom-bust and recovery seen in the 1980s and 1990s. The UK and the USA looked like Boom-busters a few years ago but have been saved by population growth and economic recovery, particularly in major growth-cities.

Finland suffered only a small dip but recovered and has flat-lined in real terms since 2010. Belgium did not dip but, since 2008, has also plateaued. In the USA price falls were long lived. Only a pronounced economic recovery and significant inflation-adjusted uplift in residential property values since 2012 stops it remaining in the Boom-buster basket.

The UK's pre 2007 boom was more pronounced but subsequent falls were shorter-lived. The market as a whole has stabilised rather than recovered but the average performances of both the UK and USA disguise significant recovery in key cities.

FIGURE 4

The Stabilisers, real house prices



Source: OECD

FIGURE 5

Characteristics of the Stabilisers

Geography:	Anglophone & Scandinavian	
Monetary/lending/fiscal policy pre recession:	Loose in UK & USA Firm in Finland & Denmark	
GDP growth:	Average to above-average	Stable
Median household income (average)**:**	Average	£34,130
Monetary/lending/fiscal policy post recession:	Firm to very tight	
Population growth rates:	Mixed but tending to decelerate	
Housing delivery before peak	Low or mixed	

Source: Savills World Research

3. THE DEFLATORS

Deflators are countries that have seen continued and consistent house price falls in real terms, and sometimes in nominal terms too. The defining characteristic of the most pronounced deflators, Germany and Japan are significantly below-average or even falling rates of population growth which are continuing to decelerate. Switzerland's population growth is decelerating – and forecast to start falling in future years.

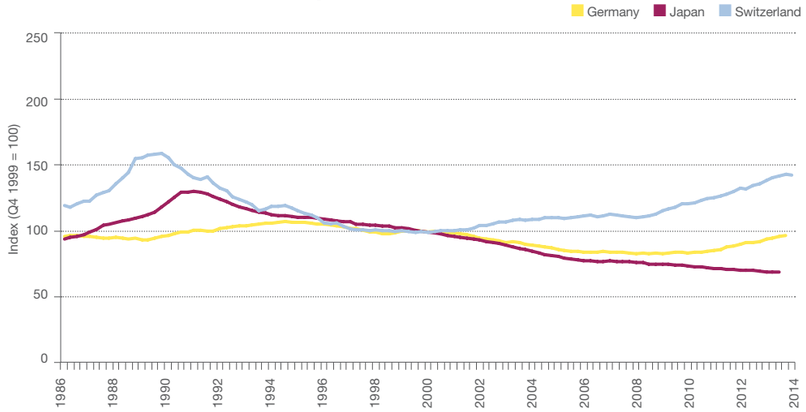
Against this, (perhaps surprisingly) rates of GDP growth have been below-average compared to the other countries under study here and median household incomes are only average when cost of living adjusted.

Switzerland clearly looks different to Germany and Japan as housing has grown in value from its very depressed millennial levels – but has still not regained its 1980s peak. Falling population will continue to depress mainstream property values but, in Alpine areas, overseas buyer demand and constrained supply is likely to boost value growth.

Specific markets within the deflator countries are very capable of bucking the downward trend. Tech industry growth and inward migration to Berlin means values are more likely to rise there while the rise of tourist and leisure resorts in Asia could boost Japan's ski resorts, for example.

FIGURE 6

The Deflators, real house prices



Source: OECD

FIGURE 7

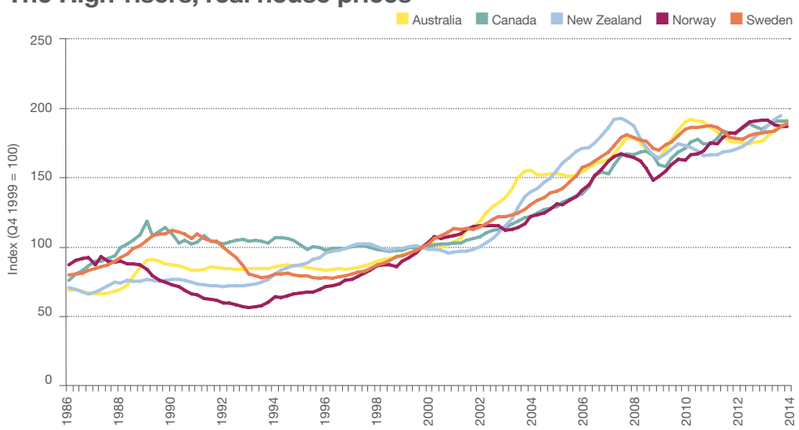
Characteristics of the Deflators

Geography:	Germany, Switzerland, Japan	
Monetary/lending/fiscal policy pre recession:	Firm to very tight	
GDP growth:	Below Average	Decelerating
Median household income (average)**:**	Average	£34,078
Monetary/lending/fiscal policy post recession:	Loosening	
Population growth rates:	Well below average	Decelerating
Housing delivery before peak:	High	Decelerating

Source: Savills World Research

FIGURE 8

The High-risers, real house prices



Source: OECD

4. THE HIGH-RISERS

For homeowners in many parts of Europe and the USA, it is difficult to imagine there are some countries that either didn't see or soon recovered from the effects of the debt crisis in 2008 and whose housing markets have continued to grow and now stand higher than they did in 2007, sometimes substantially higher. They are all either in the Commonwealth (Canada, Australia, New Zealand) or Scandinavia (Norway, Sweden).

In all these countries, the three main drivers of house price growth have continued driving. Population growth rates are high and stable or accelerating, household incomes are high by international standards and economic growth has been high and stable or accelerating. Supply conditions vary from country to country and location to location but key cities are frequently experiencing demand at a rate unmatched by supply.

The polar differences between these high risers and the deflators show how critical the combination of demand and supply drivers and policy responses can be. The high-risers show the key success factors that investors need to look out for in high-performing markets: growing population, growing affluence and the constraints on urban growth that many developed countries, and a large number of emerging ones, are now prey to.

FIGURE 9

Characteristics of the High-risers

Geography:	Commonwealth and Scandinavia	
Monetary/lending/fiscal policy pre recession:	Firm	
GDP growth:	Above average	Stable or accelerating
Median household income (average)**:**	High	£45,080
Monetary/lending/fiscal policy post recession:	Firm	
Population growth rates:	Above average	
Housing delivery before peak	Average to high	

Source: Savills World Research

> "Specific markets within the deflator countries are very capable of bucking the downward trend"

Prime Market Dynamics

BUYER FLOWS SHAPE GLOBAL RESIDENTIAL MARKETS

Who's buying where around the world

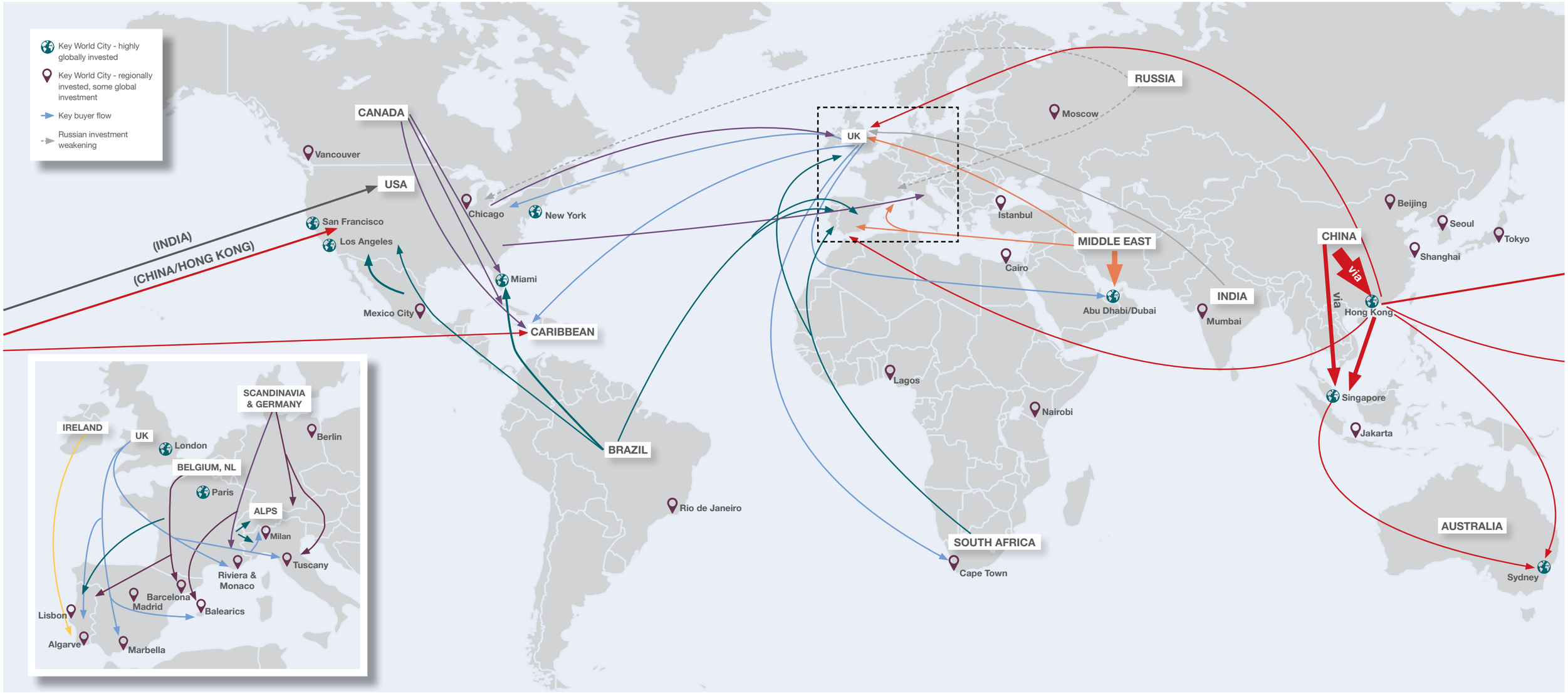
While mainstream residential markets are driven by domestic buyers, prime city and 'retreat' residential markets are shaped by globally mobile individuals relocating or buying additional homes for business or leisure purposes.

London, New York, Hong Kong and Singapore are the most globally invested, while the Chinese are emerging as the most important source market for global real estate, with capital channelled via Hong Kong and Singapore.

"London, New York, Hong Kong and Singapore are the most globally invested"

FIGURE 10

The major international buyer flows shaping prime residential markets



Source: Savills World Research

Investment Strategy

MAJOR TRENDS FOR INTERNATIONAL INVESTORS

International investors will do well to look outside of the prime markets in major cities that have been top of their shopping lists for the past six years. We suggest some alternatives.

Words: Yolande Barnes
Twitter: @Yolande_Barnes

What strategies do international investors need to adopt to take advantage of the way the world is going? We pick three major trends that we think will be important for the next decade or so.

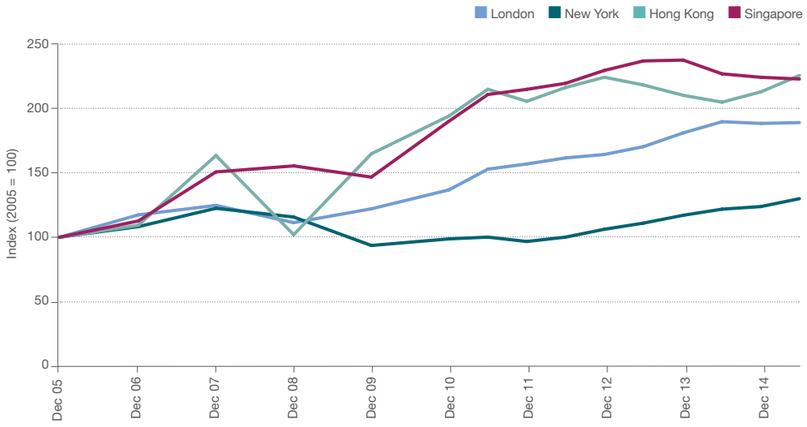
- The rise of secondary
- Growth of second-tier cities
- Rise of resorts

Prime or secondary?

In the world of global real estate investing, the prime residential markets in first-tier cities around the globe have taken the brunt of buyer interest for the last decade or so. The growing importance of private wealth in the sector, particularly after 2008, has meant that capital has been concentrated beyond the realm of institutional, commercial property owners. This means it has increasingly been focused on residential but it has still landed in many of the same locations previously favoured by the corporate investor.

FIGURE 11

Prime residential property growth in four world cities



Source: Savills World Research

The focus on first-tier cities and on the prime, central locations of these cities has partly been a result of global urbanisation and the focus by people of the world on city living. In Asia, the top cities are very often the only places where grade A investable new stock can be found. In European, American and other 'old world' developed cities though, the choice of stock is less limited but still investment is concentrated in the more prominent and best-known sectors. These have very often been considered as 'safe havens' for capital.

Looking at the handful of most-invested international cities, it is also noticeable that cross-border wealth and other investment has been concentrated in the prime core, rather than the equally investable secondary stock of more outlying districts and lower grade buildings. Sometimes it is a result of investor psychology, sticking to the famous or familiar, particularly in new and unfamiliar marketplaces. In other cases though, it directly reflects the lending policies of many financial institutions which help fund, finance or gear the purchases of private individuals. This re-imposes the corporate view on the private investor.

The impact of this seems to have been to push prime prices significantly higher than mainstream property prices in certain cities. Residential property price growth in major global cities illustrates very well what has happened to prime real estate in the most sought-after urban centres. Between 2005 and 2014, price growth for prime residential properties was high, averaging a total of 67% across all our studied world cities. This growth compares with 50% for 'mainstream' properties in the same cities.

In the most heavily invested cities like Hong Kong, London and Singapore, the effect has been even more extreme. In these key cities, growth has reached up to 140% in prime markets within the 10 year period.

This illustrates how a gap has opened up between prime and secondary real estate and how it is particularly pronounced in markets where there is the biggest differences in purchasing power between cash-rich prime investors and borrowing-reliant or renter-occupied secondary markets. The effect of this is most marked in the most globalised residential markets but seems to result in more expensive property for the wealthy, not for all occupiers.

Hong Kong is a very good example of this, where typical prime prices are ten times the level of secondary or Paris where wealthier owners are paying eight times the price that administrative employees would pay for their accommodation in the city.

By contrast, New York, other US cities and Sydney, where all purchasers are generally more domestic in origin, the multiple of prime property to mainstream is much lower – meaning that property is equally expensive for both CEOs and administrative workers.

Mainstream to prime ratio

Figure 12 shows which world cities show the greatest differences in price between their prime markets (occupied by CEOs and directors) and secondary markets (occupied by admin and other staff). It shows that those where the difference is greatest are not necessarily the most expensive markets in US $ terms (although Hong Kong is). It also shows that some cities have secondary markets that are very expensive by international comparison (e.g. Singapore and New York) even though their prime markets are not. Broadly, in the more domestically invested markets of the USA, Japan and Australia, prime property looks relatively cheap compared to secondary, while in the more internationally invested markets of Hong Kong, Paris, Dubai, London and Singapore, secondary property looks relatively cheap compared to prime.

So, have the prime real estate markets in global cities lost their lustre? Are we at a peak and facing further price falls in some markets or are values at a high plateau whence they will stabilise or grow slowly for a while? In either case, are there alternatives which will outperform in coming years?

While a resumption of substantial prime real estate price rises in global cities cannot be ruled out (a continued flight of ultra wealth capital to these

▲ Cross border wealth and other investment has been concentrated in the prime core of first-tier cities

FIGURE 12

Prime and secondary values

Global city	Mainstream to prime ratio	Prime values as a multiple of the cheapest city	Secondary values as a multiple of the cheapest city
Hong Kong	10	7.5	5.0
Paris	8	2.8	2.4
Dubai	7	2.2	2.0
Shanghai	7	2.6	2.4
London	7	4.4	4.2
Singapore	5	3.0	4.2
Tokyo	4	2.2	3.4
New York	4	2.3	4.2
Sydney	3	1.5	3.1
San Francisco	3	1.5	3.3
Los Angeles	3	1.1	3.0
Chicago	2	1.0	2.9
Miami	2	1.0	3.0

Source: Savills World Research

▲ Sanya city, Hainan Province, China

'safe haven' assets could cause such an outcome), the probability of this happening is diminishing in the face of several factors.

First, many of the global ultra-wealthy are fully invested in these trophy assets; second, prime world city assets looked fully priced against historic levels; third, prime yields in many cities are at an all-time low in many places – and near the level of 'risk-free' government bonds.

Finally, there are potentially higher-yielding, lower-price purchases with higher potential capital growth upside to be made. These could be in other types of property, other locations and other cities.

Even if property is owner-occupied and not let, we consider that yields are a good indication of the underlying value of these assets. If they cannot be let to occupiers at an economic rent (one that yields a suitable premium over bonds), and there is no immediate prospect of significant rental growth, then it is more likely that capital values are being driven by speculative investors seeking uplift rather than occupiers seeking value. The use of speculative capital by purchasers tends to make markets more volatile so this puts those markets at greater risk of inflationary bubbles.

We see that where higher income returns are available in secondary markets that these non-core markets will become more heavily invested and may very well outperform prime markets as capital values respond accordingly and yields move in.

Second-tier city uplift

For those scanning global property markets for alternative asset classes, we have identified opportunities in second-tier cities and resort locations – for different reasons.

One argument for investment in second-tier cities is similar to that for secondary locations in first-tier cities, namely higher income returns. Adding to this lure is the prospect for some small cities to economically outperform as they rise in the global hierarchy, experience regeneration, reconstruction or renaissance.

FIGURE 13

Cross-sector comparisons: Gross yields as at December 2014

Global city	Residential		Offices		10 yr govt. bonds
	Prime	Mainstream	Finance	Creative	
London	3.2%	4.2%	3.3%	4.8%	1.9%
New York	5.4%	5.9%	4.4%	4.3%	2.3%
Hong Kong	1.8%	3.4%	2.5%	3.1%	1.7%
Singapore	3.0%	4.4%	3.4%	3.5%	2.6%

Source: Savills World Research, Eurostat

We have noticed, for example, in other research projects that some small cities have performed particularly well in the creative and digital economies as they offer alternative living and working styles to this highly productive and newly wealthy sector.

The rise of resorts

Leisure resorts and retreats, both as an investment class and as locations for residential investment, also look interesting. This is partly because post-2008 price corrections make some established resorts look cheap but also because there are new opportunities on the horizon.

There are two timescales of opportunity here. For established resorts with recovering prospects, there are buying opportunities now and in this publication we have covered some key examples, like the Algarve, Marbella, and Caribbean.

Longer term opportunities arise in Asia and other fast-developing areas, including South America. The growth of wealth in emerging economies, particularly Asia, and the ageing of these populations means that there are increasing numbers of people who will be experiencing leisure time, holidays and the prospect of a relatively prosperous retirement in the near future.

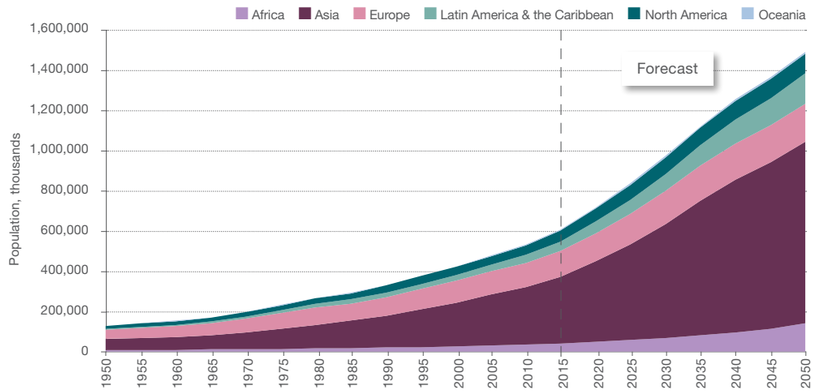
The leisure industry in Asia is nascent at present but its future can perhaps be glimpsed in experimental PRC projects like Hainan Island, the growing regional interest in Balinese and Phuket properties and the rising number of Asian skiers enjoying Japanese resorts like Niseko.

We anticipate that residential investment in the best of these emerging locations, as well as ones, not yet conceived, will show strong capital and income returns.

> "The leisure industry in Asia is nascent and fast growing. It will yield new investment opportunities in regional resorts"

FIGURE 14

Ageing global population: growth of over 65s



Source: World Bank

Value Comparisons

THE WORLD RESIDENTIAL PRICE LEAGUE

How do the prime price points compare in residential markets across the globe?

The price of prime residential property varies across world markets. In global cities, the typical price of a prime resale (rather than super prime) apartment ranges from $450,000 in Cape Town to ten times as much in Hong Kong at $4.5m. The size of that apartment varies significantly so there is a difference of 15 times in the cost per square foot between small-space Hong Kong and expansive Cape Town.

Hong Kong stands apart as the most expensive city location, on both per square foot and cost per unit. It is 61% more expensive per square foot than its nearest rival, London. Hong Kong is 45% more expensive per London unit ($3.1m) and 55% more per Paris unit ($2.5m). Other top-tier world cities Singapore ($2.3m), New York ($2.1m) and Shanghai ($2.0m) round off the top six most expensive cities globally, costing more than $2m per unit.

Dubai heads the second tranche of cities costing $1m to $2m per property. In this city, prime two bed apartments stand at $1.9m, but on a square foot basis just $800psft. This reflects the large, newly built properties that characterise this market. Good value can also be found in Milan, Sydney, Venice and Los Angeles where large space standards push the cost per square foot below $650. By contrast, San Francisco's typical prime two bed price point may only be $1.35m, but smaller space standards mean it is much more expensive on a per square foot basis, topping $1,000psft in this space-constrained city. Geneva also starts to rival the top-tier cities on a floor space basis, for similar reasons.

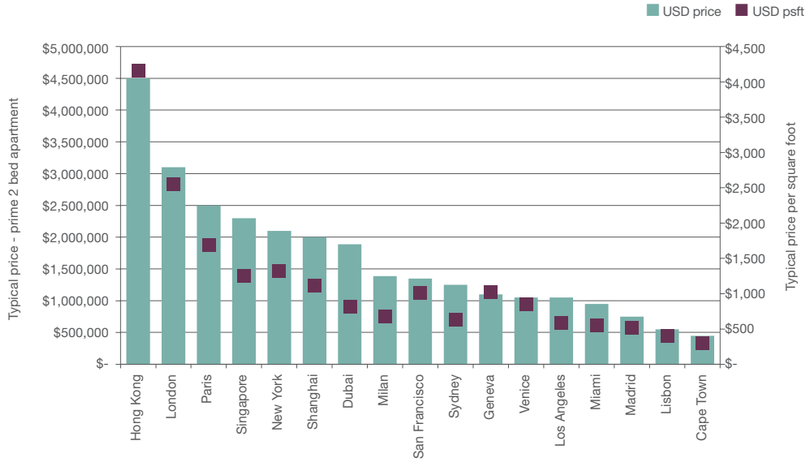
Some of the world's top resorts rival the world cities on a cost per square foot basis. Prime, four bedroom villas in the Swiss Alps and in the French Riviera are currently more expensive than apartments in Paris, Singapore and New York on a dollars per square foot basis.

The Swiss Alps is the most expensive location in which to buy a 'retreat' or leisure property. A four bed chalet here has a typical price of $4.5m. The Riviera follows at $3.75m for a well located (but not super-prime) villa property. Property here is currently costly on a US dollar per square foot basis ($1,650psft) and reflects the prevalence of more compact properties in this highly desirable location. The prime Algarve comes in third, at just over $3m but is much cheaper by area as typical villas are much larger than in the Alps or Riviera. Other prime second home markets are relatively close in pricing points, ranging from $2.1m in Barbados, to Tuscany & Umbria ($1.5m) and St Kitts & Nevis ($1.3m) at the lower end.

▼ Prime residential property in Hong Kong is ten times the price of mainstream property

FIGURE 15

City market typical prices: prime two bed apartment



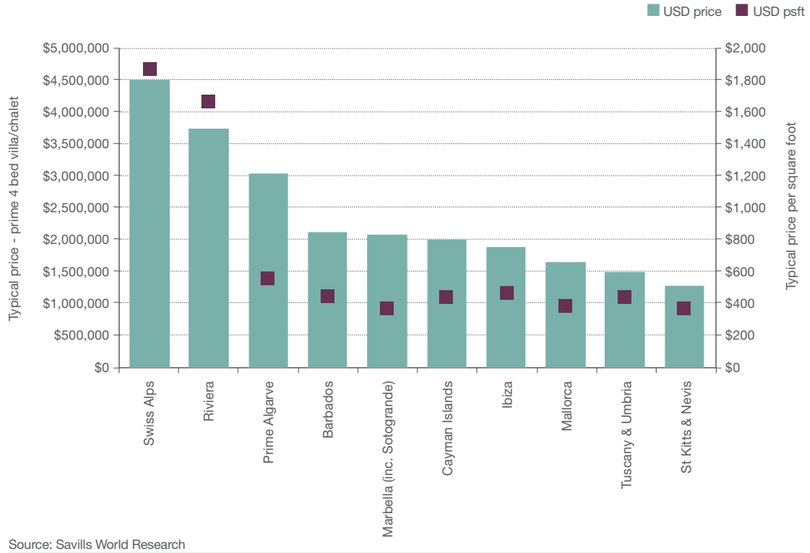
Source: Savills World Research

$4.5M
Average value of a prime 2 bed apartment in Hong Kong

$4.5M
Average value of a prime 4 bed villa/apartment in the Swiss Alps

FIGURE 16

Resort market typical prices: prime four bed villa/chalet



Source: Savills World Research

Forecasts

SAVILLS WORLD RESIDENTIAL INVESTABILITY RANKING

- Very favourable to housing prices
- Favourable to housing prices
- Neutral
- Unfavourable to housing prices
- Very unfavourable to housing prices

- High growth
- Growth
- Some growth
- Little or no growth

- Modest falls
- Falls
- Substantial falls

Figure 17 shows the countries in which our selected world markets operate and how we see various prime-city and second-home markets performing within them.

We have looked at key demand variables (population growth, wealth and economic growth) alongside supply and price levels in order to see which countries are set to perform best. We have then considered the second-home and prime-city markets, covered in this publication. We looked at each place and how they will perform relative to their country and in view of the cultural sentiment and policy considerations at work in those markets at present.

This enabled us to come up with an overall ranking and prognosis for five year growth, ranging from 'Substantial' to 'Little or no' growth. This prognosis is based on a model of household wealth, economic growth, demand and supply balance set against a whole range of tax, policy, market-cycle and other factors.

In some cases, the prospects for the specific investment markets under scrutiny in this publication, look better than for the country as a whole due to the international nature of the market and more diverse range of buyers who bring greater purchasing power to bear than domestic buyers in more local markets. Portugal and Switzerland are good examples of these markets where low and slowing population growth limits domestic demand but where low supply levels and strong international demand for Alpine homes (Switzerland) or overseas demand and discounted prices (Portugal) makes purchase prices look attractive and improves prospects for growth.

The likely top performers are those which have seen strong population growth of an affluent population which is likely to continue. Future performance of other markets will be limited by relatively high prices (compared internationally and/or in relation to historic trends) and limited or declining population growth.

Likely top performers are those which have seen strong population growth of an affluent population

FIGURE 17

Country Investability Rank	Countries	INVESTABILITY VARIABLE							5-year prognosis for country*
		Population growth		Wealth	Economic Growth		Housing		
		Recent	Forecast	GDP per head	Recent	Forecast	Supply levels	Prices relative to cycle	
1	USA	Very favourable to housing prices	Very favourable to housing prices	Favourable to housing prices	Neutral	Neutral	Neutral	Neutral	High growth
2	United Arab Emirates	Very favourable to housing prices	Very favourable to housing prices	Very favourable to housing prices	Very favourable to housing prices	Favourable to housing prices	Unfavourable to housing prices	Neutral	High growth
3	Singapore	Very favourable to housing prices	Very favourable to housing prices	Very favourable to housing prices	Very favourable to housing prices	Neutral	Neutral	Unfavourable to housing prices	High growth
4	United Kingdom	Neutral	Favourable to housing prices	Neutral	Neutral	Neutral	Favourable to housing prices	Unfavourable to housing prices	High growth
5	Spain	Neutral	Favourable to housing prices	Neutral	Neutral	Neutral	Unfavourable to housing prices	Favourable to housing prices	High growth
6	Caribbean	Very unfavourable to housing prices	Neutral	Neutral	Neutral	Neutral	Neutral	Favourable to housing prices	High growth
7	Australia	Very favourable to housing prices	Very favourable to housing prices	Favourable to housing prices	Favourable to housing prices	Favourable to housing prices	Neutral	Unfavourable to housing prices	Growth
8	Portugal	Very unfavourable to housing prices	Very unfavourable to housing prices	Unfavourable to housing prices	Unfavourable to housing prices	Unfavourable to housing prices	Unfavourable to housing prices	Favourable to housing prices	Some growth
9	Italy	Unfavourable to housing prices	Unfavourable to housing prices	Neutral	Very unfavourable to housing prices	Unfavourable to housing prices	Neutral	Favourable to housing prices	Growth
10	France	Neutral	Neutral	Neutral	Unfavourable to housing prices	Neutral	Neutral	Neutral	Some growth
11	China	Neutral	Neutral	Unfavourable to housing prices	Very favourable to housing prices	Very favourable to housing prices	Unfavourable to housing prices	Unfavourable to housing prices	Little or no growth
12	Hong Kong	Neutral	Unfavourable to housing prices	Very favourable to housing prices	Very favourable to housing prices	Favourable to housing prices	Neutral	Unfavourable to housing prices	Some growth
13	South Africa	Neutral	Unfavourable to housing prices	Unfavourable to housing prices	Neutral	Neutral	Neutral	Unfavourable to housing prices	Little or no growth
14	Switzerland	Neutral	Unfavourable to housing prices	Favourable to housing prices	Unfavourable to housing prices	Neutral	Favourable to housing prices	Unfavourable to housing prices	Modest falls

Source: Savills World Research

*For capital values in second homes & prime markets

FIGURE 18

Markets	Recent 5-year price growth	5-year prognosis for market*
Los Angeles	Some growth	Some growth
Miami	Some growth	Some growth
New York	Some growth	Some growth
San Francisco	High growth	High growth
Dubai	Some growth	Some growth
Singapore	High growth	Little or no growth
London	Some growth	Little or no growth
Balearics	Modest falls	Some growth
Marbella	Falls	Some growth
Madrid	Falls	Some growth
Barbados	Falls	Some growth
Cayman Islands	Falls	High growth
St Kitts & Nevis	Falls	Some growth
Sydney	High growth	Little or no growth
Algarve	Falls	Some growth
Lisbon	Falls	Some growth
Milan	Falls	Some growth
Tuscany & Umbria	Falls	Some growth
Venice	Falls	Some growth
French Alps	Little or no growth	Little or no growth
French Riviera	Modest falls	Some growth
Paris	Modest falls	Little or no growth
Shanghai	High growth	Little or no growth
Hong Kong	High growth	Some growth
Cape Town	Some growth	Little or no growth
Geneva	Some growth	Modest falls
Swiss Alps	Some growth	Little or no growth

Source: Savills World Research

*for capital values in second homes & prime markets

EUROPE

■ Although originating in the USA, the North Atlantic debt crisis has been amplified in Europe by the subsequent severe impacts on housing markets.

■ This presents a dilemma for investors, with euro-denominated assets appearing cheap by international standards but currency and economic risk weighs against this lure.

■ It is telling that some of the more buoyant international markets in recent years have been non-euro (UK and Switzerland) but increasing numbers of buyers are being attracted by cheap prices and stabilising economies into some markets.

■ Performance will be highly dependent on economic performance in future, not just entry price. Careful attention therefore needs to be paid to economic forecasts and the prospects of population growth and other demand factors in specific jurisdictions and cities, even neighbourhoods, if the gems are to be sifted from the rocks. ■

REGIONAL ECONOMIC STATISTICS AND TREND

COUNTRY	GDP GROWTH RATE 2014	UNEMPLOYMENT RATE	INTEREST BASE RATE
UK	2.6% ↑	5.6% ↓	0.5% →
FRANCE	0.4% →	10.3% →	0.05% →
SPAIN	1.4% ↑	22.4% ↓	0.05% →
PORTUGAL	0.9% ↑	13.2% ↓	0.05% →
ITALY	-0.4% ↑	12.4% →	0.05% →
SWITZERLAND	2.0% →	3.3% →	-0.75% →

Source: OECD, ONS, Bank of England, INSEE, European Central Bank, Eurostat, Instituto Nacional de Estadística, Istat, SECO

◀ Prime London property is regarded as a safe haven

UNITED KINGDOM

The UK is in a phase of sustained economic recovery. Unemployment continues to fall (it is among the lowest in the EU) and in 2014 GDP grew by its fastest rate since 2007. Low interest rates, coupled with a national shortage of new homes have fuelled price rises, particularly in London and the south east of the country.

The prime residential UK market was one of two halves in 2014. The improving economy and positive sentiment from the mainstream market helped drive demand in the first half of the year. An average price increase of 4.9% was recorded in the prime markets of London and 3.1% outside the capital. But momentum was lost over the summer and prices remained flat in the final six months of 2014, with small falls in prime London. Much of this was down to changes to the stamp duty regime and uncertainty ahead of the UK general election.

With the UK general election now passed, greater political certainty has gone some way to restore the fundamentals of demand in the prime markets – underpinned by a low interest rate environment and growing domestic and international wealth generation. Buyers and sellers who had adopted a 'wait and see approach' are active again, secure in the knowledge that a 'mansion tax' is off the table, but the market has not seen a marked bounce-back. Prime London property has emerged from a prolonged bull run and now looks fully priced and fully taxed. As a consequence the medium term outlook remains muted.

The mainstream markets meanwhile have been impacted by regulation on mortgage lending, but low interest rates coupled with a fundamental lack of supply across much of the country means that prices have maintained an upward trajectory.

LONDON

The safe haven credentials of London real estate are well rehearsed. Politically stable, offering security of tenure and an advantageous time zone, London is a cosmopolitan city with global appeal. Investors have long been attracted to the best residential and commercial assets, with an eye to capital growth and/or the storage of wealth. But London is first and foremost a centre of global business, and over 85% of prime buyers live and work in London, even if many of them originate from overseas.

London's prime markets outperformed those of the rest of the country in the years following the global financial crisis. But by the second half of 2014 and into 2015, prime markets were slowed by changes to stamp duty and pre election uncertainty which resulted in a lack of urgency among buyers.

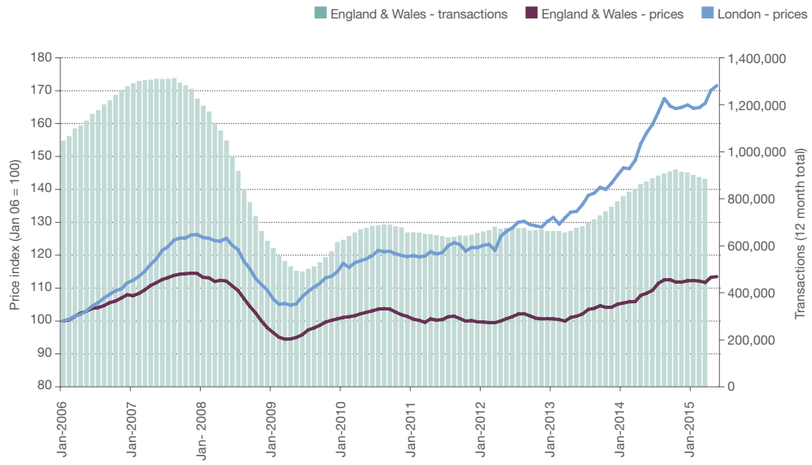
Prime central London housing markets, including areas such as Mayfair, Knightsbridge and Kensington, were particularly impacted by the increased stamp duty charges and the threat of mansion tax, and sellers had to factor in price adjustments accordingly. Values here were down 4.3% in the year to June 2015.

Opportunity lies in emerging prime markets, particularly those influenced by London's tech sector. Clerkenwell and Spitalfields in east London, for example, are benefiting from the expansion of tech and in turn demand from occupiers seeking homes within walking distance of their workplace.

Turning to the mainstream markets, price growth of 14.9% was recorded in 2014. Some 10.6% of this growth came in the first six months of 2014 alone, according to Land Registry data. The latter part of the year saw a cooling of the market, a trend which has continued into 2015. London's mainstream markets will have to bear the burden of ongoing mortgage market regulation, coupled with the prospect of interest rate rises in the medium term. This will impact affordability. Investors may take heed in London's mainstream rental markets, which will continue to benefit from a strong occupier demand. ■

14.9%
2014 mainstream London price growth

FIGURE 19
UK market performance 2006-2015



Source: Land Registry

FRANCE

The French residential market proved resilient in the years immediately following the global financial crisis. Relatively modest price falls of 9.7% were seen between 2008 and 2009. A period of recovery quickly followed, and by 2011 prices and transaction levels had exceeded their 2007 highs.

This recovery proved short lived, and the last three years has seen suppressed transaction volumes and sliding prices, set against a faltering Eurozone economy and rising national unemployment. As of March 2015, prices in France were 8.4% down on their Q3 2011 high, while transactions stood 15.7% down over the same period.

Record-low mortgage rates have improved market liquidity, and it is low interest rates that will keep any further falls modest in 2015. Challenges lie ahead in consolidating public finances, improving competitiveness and reducing unemployment. Weak economic growth is forecast, which will bear down on the city's real estate markets although a change of rhetoric in President Hollande's policies toward the wealthy has helped the prime markets.

Well located, well appointed property is selling best in the capital and elsewhere and the market is likely to remain quality-sensitive while broader economic issues persist.

PARIS

Paris is a top-tier world city that enjoys a steady flow of foreign investment into its property markets. The city has many characteristics that make it favourable for buyers from around the globe: a major centre of business and finance, quality cultural institutions, luxury retail and celebrated architecture and urban environment.

The prime Paris market is driven by French buyers, while international purchasers are present at the very top end. Paris continues to see a flow of buyers from the Middle East seeking a safe haven in light of continued unrest in their home region. The city boasts the kind of large, lateral apartments favoured by such buyers, at cheaper prices than London.

The price of Paris flats, as recorded by INSEE, have fallen by 6.3% since their peak of Q3 2012. Small, easy to let apartments in good locations have held their value, while larger apartments suited to families have seen price corrections of up to 15%.

Paris would be competing much more strongly with London for inward investment in prime real estate were it not for ongoing economic wand Eurozone jitters. Given a weak euro, the suppressed market represents a window of opportunity for non-euro denominated buyers. Supply is up and prime property remains cheap compared to London with room for price growth. Limited development opportunities in historic central Paris will keep the supply of new build property constrained.

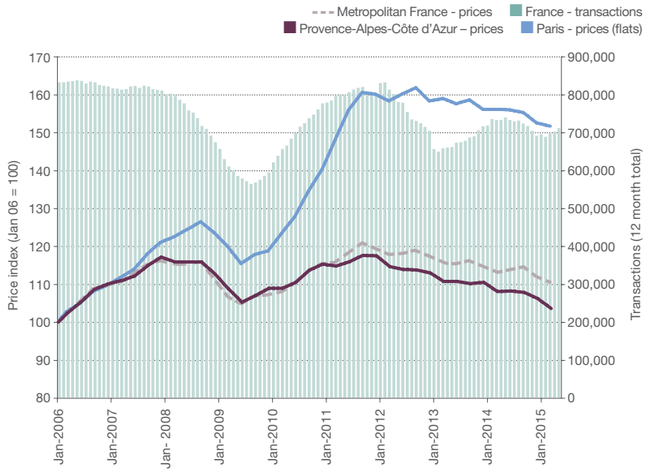
Buyers now recognise value in the prime markets and 2015 has seen renewed market activity, aided by low interest rates and for international buyers, a weak euro.

One area that Paris outcompetes almost every other location is tourism: it is one of the world's most popular tourist destinations, attracting 32 million visitors per year, half from overseas. Big spending Chinese visitors are second only to Americans and money spent during their stay is directly on shopping. This has fuelled huge investment in the luxury retail sector, which will remain important in coming years. If even a small part of this can be translated into real estate purchase, Paris may find itself with a large demand base.

▲ Prime market in Paris is driven by French buyers

FIGURE 20

France market performance 2006-2015



Source: INSEE, CGEDD

FRENCH RIVIERA

The French Riviera, or Côte d'Azur, remains among the world's most exclusive and desirable destination for second home ownership. Including the towns of St Tropez, Cannes, Antibes and Nice, the stretch of coast was one of the first modern resorts, tracing its origins as a winter retreat for the British upper class at the end of the 18th century.

Today, the Riviera is a popular additional home location for the global super-rich. The region offers many of the most desirable characteristics of an established resort, such as marinas and coastal property, but also has many city-living benefits with high-end retail, restaurants and a full social calendar. This means it is especially appealing to the new wave of young, globally-mobile high-net-worths.

Like the rest of France, prices have fallen in the region and the market is a buyers' one. The most desirable spots, such as Saint-Jean-Cap-Ferrat, a peninsula of land east of Nice, are characterised by extremely limited supply. There are around 500 properties on the Cap, and only a handful come onto the market in any single year. Supply is kept low and prices high by wealthy buyers who are not generally forced to sell.

Russian buyers have been active in the region, especially in Cap Ferrat, where they have accounted for 65% of buyers in the last four years, followed by the British, at 14%. Russian activity has slowed as economic sanctions restrict these buyers' international ambition. St Tropez, by contrast, is a more domestic market. Even at the super-prime end of the market here 45% of purchasers are French.

New development opportunities on the coast are extremely limited. Some developers have taken advantage of weaker market conditions to buy properties on large plots and subdivide into smaller, multiple units.

The expansion of tourism, driven by improved connections across Europe via low-cost airlines, has had the effect of expanding the second-home market into lower price points. Smaller, higher yielding units in Nice and Cannes, for example, have gained favour with investors given depressed sales prices but stable rents. In the mainstream markets websites such as Air BnB broadcast short-term rental opportunities.

▼ The Riviera is a home location for the global super-rich

FRENCH ALPS

The French Alps are home to some of the world's most exclusive residential markets. Courchevel 1850 attracts UHNWI purchasers from around the globe, benefiting from quality skiing across 150km of pistes and six Michelin star restaurants. Ultra prime prices here exceed €34,000psm. Val d'Isère is another a long established ultra-prime French resort attracting 'old world' money. These resorts proved relatively resilient during the global economic crisis. Transaction levels slowed somewhat as finance-reliant purchases fled, but prices held firm.

A rising star in the French Alps is St Gervais, an affordable alternative to the better known Megève. This resort benefits from a strong summer season, attracting visitors to its thermal spa along with mountain biking and hiking activities.

Prospective purchasers in the region may turn their attention to typical ski conditions. French resorts compare favourably to their Swiss and Austrian counterparts, with average season lengths but higher levels of snowfall, resulting in reliable skiing. High snowfall resorts such as Val-d'Isère enjoy a peak season that runs well into April. Resorts with strong summer seasons are less reliant on skiers to occupy accommodation and pose greater rental potential. Chamonix attracts a large number of summer climbers, Mont Blanc tourists, hikers and glacier skiers.

SPAIN

Underlying economic conditions remain challenging in Spain. Unemployment stands at 22.4%, slightly down from a high of almost 27% in 2013. In spite of this, at the national level the Spanish residential market appears to have stabilised. Prices stand 28.6% below their 2008 peak and by the first quarter of 2015 the rate of falls had slowed to 0.3% on an annual. A rapid rebound is unlikely given the high volume of new housing, delivered prior to the crisis, still being worked through (see panel).

While the domestic market is still suppressed, there are opportunities for homebuyers and investors from abroad. A weak euro makes Spanish property especially affordable to GBP and USD buyers, giving greater purchasing power. Meanwhile, the Middle East is a rapidly growing source market for residential investment in the country – particularly at lower price points.

This has been supported by the rapid expansion of air routes to and from the Middle East with summer capacity up 36.6% over 2014, according to airport operator Aena.

Non-EU nationals have a route into the market via the country's golden visa scheme, which attracted 530 foreign nationals between September 2013 and December 2014. A €500,000 investment in real estate means the visa holder is automatically granted residence and working rights in the country. Investors may also invest in public debt or share purchases but, so far, the vast majority (92%) have taken the real estate route. The recent stability of nominal house prices and transaction levels may be due at least in part to the golden visa market boost. Investors will do well to consider how vulnerable the market will be to the cessation of this policy.

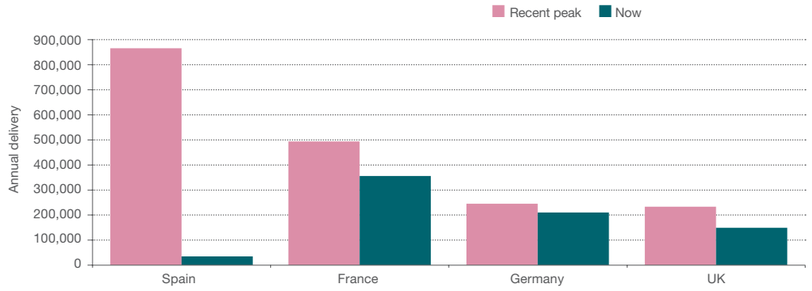
Housebuilding in Spain

Spain experienced extremely high levels of new development in the run up to the market peak, much of it aimed at second home buyers in coastal resorts. Housing starts peaked at 865,500 in 2006 – almost four times that of recent peak delivery the UK, in spite having a quarter less population. The withdrawal of buyers during the financial crisis put a halt to these high levels of development, but the stock overhang remains. In 2014 just 34,900 units were started in the country.

The national picture disguises some resilient sub markets. The Balearics saw much lower net additions to housing stock, and a dearth of new development in recent years means quality new units are now in short supply. Just 1,186 dwellings were completed in the Balearics in 2014, for a region with in excess of one million inhabitants. It is no coincidence that this region has emerged as one of the best performing in the country, with prices now just 11.8% below their 2008 high, compared to 28.6% below at the national level.

FIGURE 21

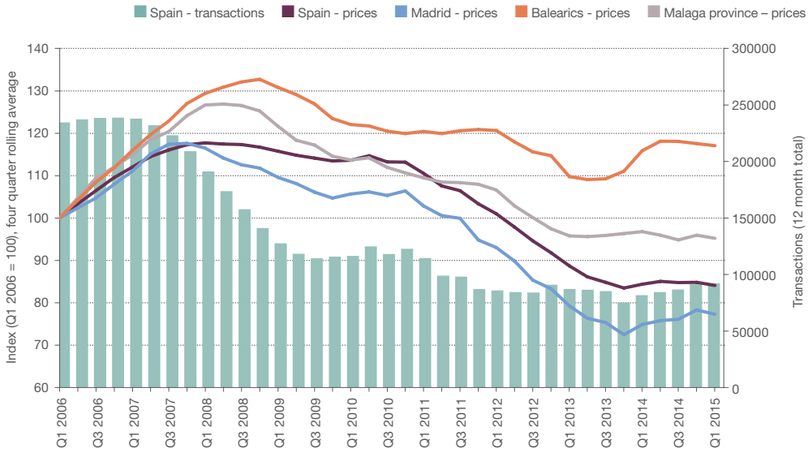
Peak and current house-building rates



Source: Ministry of Development, Observation et Statistiques, Federal Statistical Office, DCLG

FIGURE 22

Spain market performance 2006-2015



Source: Ministeiro de Fomento

BALEARICS

Prices across the Balearics have been broadly flat in the last year, after rises of 8.1% in the year to Q2 2014. They now stand just 11.8% below their 2008 highs, having seen relatively modest price falls by Spanish standards during the downturn.

The residential markets in the Balearics have been much more resilient than those of the mainland thanks to a diverse demand base and limited new supply. During the depths of the recession in 2012, one in every four Spanish properties that were sold to foreigners was in Mallorca.

Germans have dominated the market in recent years, accounting for up to half of all buyers, although the British have recently regained their position as the largest foreign buyer group. Seven of the top ten busiest international air routes at Palma airport are to Germany. Mallorca was one of the better performers through the global economic downturn.

Ibiza has also proved resilient, having refined its image in recent years. The island offers high-end entertainment, retail and restaurants, attracting a diverse range of European buyers. Buyers of second homes here are among the youngest globally, 22% of buyers are aged under 40. Unlike Mallorca, British buyers dominate the Ibiza market, but Spanish buyers are present in the additional home market too.

▲ Residential markets in the Balearics have been more resilient than mainland Spain

MARBELLA & SOTOGRANDE

Marbella enjoys a position as a prime tourist destination, attracting visitors from Europe and beyond, year round. Economic revival in key markets, most notably the UK, has renewed demand so transactions numbers grew by 28% in 2014 alone.

Prices in the Malaga region, in which Marbella is located, are 24.4% below their 2007 high, but the market has realigned and vendors in prime locations are no longer accepting deep discounts on asking prices. The British, followed by French and Russian buyers, are the largest foreigner purchasing groups. There has also been growing activity among Middle Eastern purchasers, though at lower price points than they have historically brought.

Carefully managed, well established resorts such as Sotogrande, close to Malaga have enjoyed renewed demand. With a permanent onsite resident community of approximately 7,000 people (which doubles in number during the summer) and an international school for 620 students, half of its residents are Spanish. The balance is made of British, Scandinavian, German and other nationalities. This 'small town' nature of the population can support urbanism and a wide variety of facilities, including golf courses, polo facilities and a marina.

The development received a boost at the end of 2014 when it was sold to US investment fund Cerberus Capital Management.

It is anticipated this will result in more investment into Sotogrande in the short-term, and underlines wider confidence in the scheme. Quality, modern properties in general are in short supply after a dearth of new development in recent years.

▲ Marbella remains a prime tourist destination

MADRID

Madrid, the capital of Spain and important urban centre in its own right, is primarily a domestic market. Well under 1% of all properties transacted in the city in 2014 were sold to foreigners not already resident in Spain. This figure is largely unchanged in the last decade.

This means its residential market is much more closely driven by the national economy and domestic factors. Prices here fell further than the Spanish average – some 33.7% between 2007 and the lowest level at the end of 2013. However, in common with the rest of Spain, stability has returned and 2014 saw prices appreciate 8.1% off their very low base.

Prime Madrid offers the best of city living, with good access to shops, bars and restaurants and cultural attractions. In spite of being the third largest city in Western Europe, prime property is a fraction of the cost of its counterparts in London or Paris – although it is does not attract close to the same levels of international investment – yet.

PORTUGAL

Portugal is seeing a tentative economic recovery. GDP growth stood at just 0.92% in 2014, but it still represents a steady improvement over previous years' performance. Unemployment is falling, and at 13.2% it is significantly lower than that of neighbouring Spain, at 22.4%. Without the same levels of over-development, its residential markets fared better too.

Portugal's residential market saw price falls of 10.3% between 2010 and 2014, according to data from Instituto Nacional de Estatistica (adding to falls already seen since 2008). Since then, transactions have been on a modest upward trajectory and 2014 was characterised by stability in prices, posting a modest 2.2% year on year increase.

Portugal is friendly to foreign investment. There are no restrictions on property ownership, while transaction costs are low. The golden visa scheme (see panel below) has proved successful in stimulating prime residential markets, particularly among the Chinese. For others, the government's Non-Habitual Residents (NHR) regime offers people moving to Portugal for the first time reduced tax rates or tax exemption for 10 years on certain incomes. It has proved particularly attractive to EU residents, notably those from France.

In addition, Portugal has overhauled its leasing laws. Rents in urban areas had previously been heavily controlled by law and had become detached from market reality. While they remain pro-tenant, they have made residential investment for long-term income a more appealing proposition. A slowly improving economy means stronger occupier demand too. All these factors, taken together, have contributed to the recent stabilisation of Portugal's housing market.

Golden Visa Buyers

Portugal launched one of the world's most successful golden visa schemes in 2012. A minimum investment in real estate of €500,000 grants the non-EU buyer a visa and longer term, a route to an EU passport. Foreigners need only be resident in Portugal for seven days in the first year of residency.

By June 2015, the scheme has brought Portugal €1.46 billion investment. More than 1,500 visas were issued in 2014 alone. The Chinese accounted for an overwhelming majority, more than 80%, and have favoured apartments in Lisbon, at the minimum investment mark. Such was its popularity with the Chinese it has spawned an industry specialising in the sale and investment of Portuguese property to Chinese clients. The scheme was paused in July 2015 amid allegations of corruption, but reinitiated soon after.

The Portuguese scheme faces competition, particularly as the minimum investment threshold is pushed downwards in other jurisdictions. Cyprus, Greece, Malta and Spain all offer programmes. Montenegro and Hungary are to follow. The Caribbean market is particularly competitive. Grenada and Dominica offer citizenship by investment programmes in real estate for as little as $200,000.

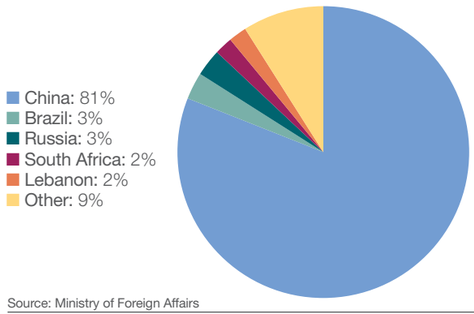
There are around 20,000 applicants for golden visas annually across the globe, a market that is growing rapidly. While there are no shortage of applicants, the challenge is attracting inward investment into a country's real estate market without distorting it. Purchasers of real estate via such schemes are required to spend relatively little time in the host country, and many use it as a cheaper route into major European cities such as London.

Questions have also been raised over setting 'false floors' in the market at the entry price point, whereby properties worth less are artificially priced to the investment minimum. This could have ramifications upon resale, distorting the domestic market.

▼ Lisbon is witnessing investment from China

FIGURE 23

Golden visa buyers: nationalities Oct 2012 – Jan 2015



Source: Ministry of Foreign Affairs

LISBON

Lisbon is enjoying a new wave of investment into its residential markets. While new development is limited, existing building renovations are increasingly common. Dilapidated townhouses are being redeveloped into high end retail, offices and apartments.

US developer Eastbanc has been active in Lisbon's Principe Real, a prime district within reach of key shopping districts. It is redeveloping buildings here into high-end apartments. In other real estate sectors, investment fund Blackstone has been particularly active in Portugal, obtaining retail and logistics assets.

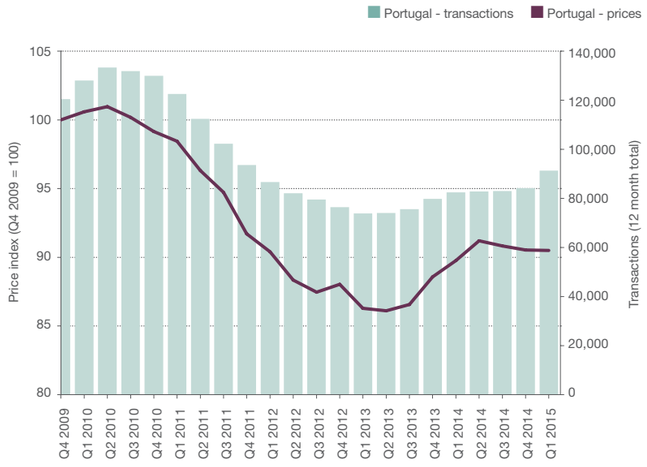
Buying activity generated from the golden visa scheme has seen demand concentrated in central parts of Lisbon, such as Principe Real, Portugal's historic heart. The Chinese, the major recipients of the country's golden visa programme, have mainly bought in Lisbon, reflecting their preference for city property. Other active international buyers include South Africans, Brazilians and, to a lesser extent, Russians.

Lisbon's prime real estate looks good value by European standards – roughly half the price of that in Madrid, and less than a tenth of London prime prices.

▲ The Algarve is a well established second home location

FIGURE 24

Portugal market performance 2009-2015



Source: Instituto Nacional de Estatistica

THE ALGARVE

The Algarve is the southernmost region of mainland Portugal. A popular tourist destination, it is a well established second home location for northern Europeans, notably the British and Irish. The French are a growing force in the region, attracted by the tax breaks on offer under the government's Non-Habitual Resident regime.

In common with other Eurozone markets, dollar and sterling buyers have the upper hand, and this has helped to revive demand from the UK market in particular.

One of the most established enclaves for prime property in the region is Quinta do Lago, a high-end golf and residential community, comprising of more than 1,200 villas. The resort saw the beginning of a sustained recovery in 2014, with sales increasing by 34%. A testament to the strength of the market is that offers being made on properties there are now at, or close to, asking price. 'Turnkey' properties remain popular, but investors are also active. Older villas are typically redeveloped for today's market, complete with the latest technological innovations.

Quinta do Lago represents the kind of prime, well managed developments with strong amenity offer that are leading the recovery in depressed national markets. In addition to new French buyers, British, Irish, Belgian and other Europeans are returning to the region in greater numbers.

Outside the prime resorts, the Algarve market remains challenging, but a rapidly improving tourist market bodes well longer term. Tourist arrivals were markedly higher in 2014 than the prior season.

ITALY

The Italian market is weak, but could be on the cusp of improvement. Unemployment stands at 12.4%, while youth unemployment is much higher at over 40%. While 2015 is likely to see further price falls, a modest improvement in economic performance may put a floor in price falls next year, starting with prime markets and major cities and encouraged by a cheap euro. A mortgage guarantee scheme launched in January aims to stimulate the lower end of the market. Transaction levels are already recovering in the major cities.

The Italian market is underpinned by an exceptionally high rate of owner occupation, with 75% of the population living in mortgaged or outright owned properties, compared to 67% in the UK and 64% in France. By contrast, the rental market is small and low-yielding.

In spite of weak domestic market conditions, a weak euro is attracting US and UK buyers to the second-home hotspots of Tuscany, Umbria and the Italian Lakes.

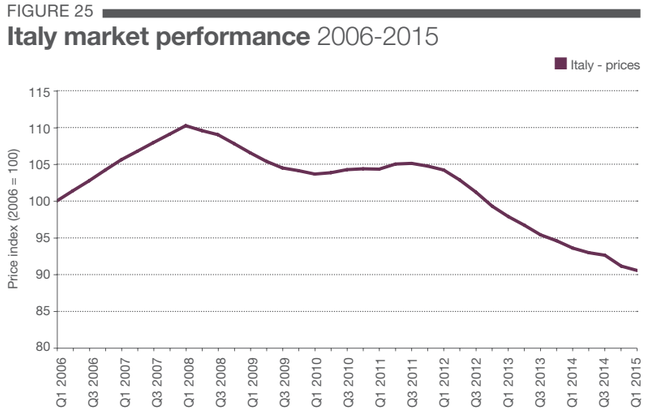
Germans are the dominant international buyer group, accounting for 45% of non-Italian buyers across the whole country, according to Scenari Immobiliari. American buyers are returning having largely withdrawn from the market in recent years. Interest has also picked up from British buyers, along with those from Scandinavia, Switzerland and Benelux countries. Russians, previously active in coastal resorts such as Forte del Marmi have largely disappeared given issues in their home market.

Italy's prime, second-home markets are some of the world's most desirable, characterised by their built heritage and natural beauty. In Lake Como's rarefied residential market traditional properties with lake views are in limited supply and have continued to trade well when they become available, sustaining prices.

History, heritage and the natural environment will sustain Italy's appeal as an international destination for retreat property over the longer term even if some domestic real estate markets continue to languish.

FIGURE 25

Italy market performance 2006-2015



Source: Eurostat, OECD

▲ Milan is one of Italy's most expensive cities

MILAN

Milan, alongside Rome and Venice is one of Italy's most expensive cities. Prime property in Milan is concentrated in the city centre neighbourhoods of Quadrilatero, Palestro, Castello, and Manzoni, and characterised by elegant historic buildings.

Much of Milan was destroyed in WWII, so property here, in what is left of Milan's historic centre, is in especially high demand and especially rare. As Italy's fashion capital, Milan offers extensive luxury retail, but it is also a major financial centre and home to Italy's stock exchange.

According to Nomisma, property prices in Milan fell by -1.6% in 2015. This is slightly better performance than Rome and Venice (-3.4% and -2.7% respectively) over the same period. However, the rental market is strong by Italian standards, although yields are relatively low, between 3% and 4%.

As Italy's fashion capital, Milan offers extensive luxury retail

▲ Venice is a much sought after prime location

VENICE

Venice remains a sought after destination for its exceptional and unique characteristics.

Its real estate is highly prized and integral to the city's character. Buyers in Venice are often familiar with the city and invest in a property to occupy for part of the year themselves whilst renting it out at other times, often during the peak summer tourist season, when the city is at its busiest and rents are highest.

The resident population is now outnumbered by the number of visitors the city receives daily, which is estimated to exceed 60,000. Rentals are underpinned by solid tourist demand, and yields of 5% are achievable.

Venice is also a popular second home destination for Italians, who make up approximately a quarter of the market. Other major buyer groups include the French and the British.

▲ Tuscany offers potential for holiday rentals

TUSCANY & UMBRIA

Properties in Tuscany have seen price falls of between 15% and 30% from their former highs, but most would-be vendors have 'held tight', so few properties have traded. The Chianti represents the classic Tuscan landscape of rolling hills and cypress trees and residential properties come at a premium here.

This visually stunning region is the most internationally invested, with some high profile sales of vineyards to Russian buyers in recent years, although the Russian market is less active at present.

Tuscany offers strong potential for holiday rentals with both rural and city properties in high demand from tourists. Birthplace of the Renaissance, Florence is the region's major city and is one of Italy's most visited.

Tuscany is governed by strict planning laws which have helped maintain its character, but also mean that modern properties are rare. Early foreign investors in the region did well with farmhouse conversions, but such opportunities are now few and far between.

Umbria lies directly to the south of Tuscany, and was a little later to receive wide scale foreign investment than its neighbour. Characterised by hill towns, there are many opportunities for restoration of historic buildings, and prices are lower here.

"Umbria lies directly to the south of Tuscany, and was a little later to receive foreign investment"

SWITZERLAND

Switzerland experienced sustained levels of residential price growth between 2008 and 2013 (the price of houses grew by 28%), running counter to many other European markets. Economic expansion, low interest rates, growth in real wages and immigration of wealthy individuals all supported housing demand. The strengthening Swiss franc also raised their price in comparison to other currencies.

Price growth is now slowing, amid government efforts to cool the market by introducing stricter lending requirements. The decoupling of the Swiss Franc with the Euro has seen its value appreciate and make Swiss exports more expensive, slowing the economy in general. Foreign buyers with Swiss Franc denominated mortgages have been especially hit.

Switzerland has one of the world's strictest citizenship systems. Qualification requires 12 years of permanent, legal and notated residency, fluency in one of the official languages and integration into Swiss culture and community. Switzerland introduced new quotas for EU citizens in 2013. Foreign buyers are also heavily restricted on residential property purchase – just 1,500 permits are released a year – although the rules vary significantly by Canton.

GENEVA

Geneva is very much a rental city (some 80% of the population is estimated to rent) and the rental market is strongly pro-tenant. Geneva is an expensive city in which to live and there is especially strong demand for city-centre apartments – which are in short supply.

Demand is fuelled in part by employees of the finance and business services sector on generous relocation packages.

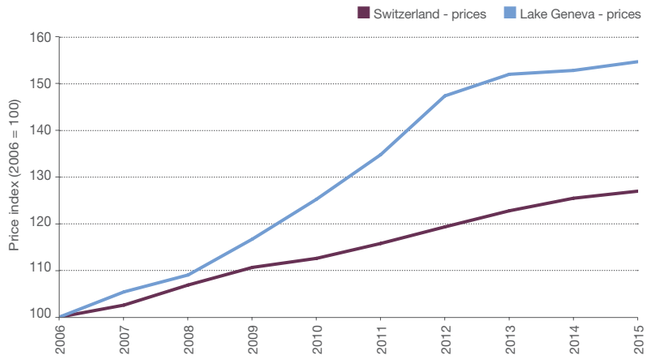
Property prices in Geneva have grown 55% since 2006, compared to 27% across Switzerland. These rates of growth are echoed in the rental market. High prices have put property purchase and even rent out of reach of many locals in Geneva, which counts itself alongside Zurich and Zug as one of the most expensive locations in the country. Each day 90,000 workers commute from neighbouring France to the city, a number that has doubled over the last decade.

For those who can afford it (and, non-nationals who can obtain a permit to purchase), Geneva offers attractive property in a safe, secure environment. The most desirable property enjoys lake or mountain views.

55%
House price growth in Geneva since 2006

▲ Geneva is an expensive city in which to live

FIGURE 26
Switzerland market performance 2006-2015



Source: INSEE, CGEDD

SWISS ALPS

The Alps are the world's largest ski market, and attract second-home buyers from across the globe. The Swiss Alpine resorts of Gstaad, St Moritz, Zermatt and Verbier are among the world's most exclusive, and expensive, with ultra-prime prices ranging from €20,000 to €30,000 per sqm ($1,650 to $2,500 per sqft).

These resorts have diversified beyond skiing to cater to many of the other demands of the super-rich. Designer shopping, Michelin starred restaurants and polo are all part of the offer.

These ultra-prime resorts proved relatively resilient during the global economic crisis. Transaction levels slowed, but values were supported by restricted supply and the absence of forced sales.

In the prime markets, holiday home buying peaked in the 2007-08 season, and fell away significantly during the recessionary years. Discretionary second-home buyers, reliant on mortgage finance withdrew from the market after the credit crunch. Following a period of stabilisation, prices are now on the rise again although buyers continue to expect a discount, particularly for second hand properties.

Analysis of sales data suggests more sales are now taking place at lower price points. The resilience of the ultra-prime markets has started to ripple down the market ladder. The average purchase price of prime property transacted across core Alpine resorts was €1.5m in 2011, when only the very best properties were transacting. By 2014, this had fallen to just under €1m, with British buyers, in particular, purchasing again at lower levels.

The markets are also seeing an expansion in the breadth of buyers they attract. Prior to the global recession, British buyers dominated the market, accounting for the vast majority of foreign buyers in many Swiss resorts. Today, a much wider variety of buyers are present. These include a wide range of European buyers, particularly those from northern Europe and the Nordics, as well as those from further afield.

The premier Swiss ski resorts have been among the first to attract Chinese skiers outside of their homeland. Chinese skiers numbered just 10,000 in 1996, and now exceed five million. Switzerland is now second only to Japan as a recipient of these high-spending ski tourists. The Chinese have yet to make Alpine home purchases in any volume, but other Asian buyers are increasingly active in Switzerland, notably those from Malaysia, Singapore and Hong Kong.

▼ The Swiss Alps attract second-home buyers from across the globe

NORTH AMERICA AND THE CARIBBEAN

■ The USA's housing market or, more specifically, its sub-prime mortgage market, was the source of the North Atlantic debt crisis. It is therefore unsurprising that America's housing markets were perhaps the hardest-hit among developed nations and remained suppressed for longest.

■ US housing market recovery has been underway for the last three years or so but is polarised between the high growth, high-powered first cities like San Francisco and New York and other high-supply, slower recovery and lower demand centres, for example, the Mid-West.

■ The US housing market story is currently of high growth reflecting economic growth which, according to most forecasters, is set to continue; this time driven by cash purchasers rather than high gearing.

■ The US market is primarily a domestic one. The largest US cities enjoy foreign investment into their residential markets, but at lower levels than those seen in other top-tier cities such as London or Singapore.

■ The Caribbean is the northern hemisphere's playground and, as such, suffered alongside those housing markets. In common with the USA, discounted values in the Caribbean now make it look attractive for both second-home and income investors. ■

REGIONAL ECONOMIC STATISTICS AND TREND

COUNTRY	GDP GROWTH RATE 2014	UNEMPLOYMENT RATE	INTEREST BASE RATE
USA	2.4% ↑	5.3% ↓	0.25% →

Source: OECD, Federal Reserve, US Department of Labor

◀ Prime property prices are back to 2007 levels in New York

USA

The US economy is in its fifth year of recovery and the housing market has now seen three years of growth from its lows of 2009. At a national level, as of April 2015 prices were up 31.2% from their 2009 trough, and stand within 12.9% of their 2006 high. The prime markets of cities such as San Francisco and New York have already exceeded their former peaks.

The US residential market is among the world's largest. Some 5.49m properties changed hands in the year to June 2015, (a figure down by 24% on 2005 numbers). The market is largely domestic but foreign buyers are present in key locations. According to the National Association of Realtors, international buyers make up 7% of the market in dollar terms (an increase of 35% over 2013 levels). These are evenly split between resident and non-resident foreigners. The Chinese are the largest group of foreign purchasers in dollar terms, at 24%, up from 19% in 2013. Canadians are top by sales number with those from Mexico, India and the UK rounding off the top five.

US cities have been undergoing a renaissance in the last few decades, a trend accelerated by the rise of new technologies and creative classes attracted to vibrant urban environments. Cities actively provide the human experiences and interactions that allow for the inception, nurturing, funding and development of new ideas and products. New York and San Francisco, both with large and growing tech sectors, have seen their markets moved by this trend. Existing run-down neighbourhoods and districts have been colonised by artists and tech entrepreneurs and reinvigorated. Established neighbourhoods have also benefited and values have been pushed to new highs.

NEW YORK

New York rode out the global financial crisis better than much of the rest of the US. Prime residential prices are back at 2007 levels, while rents have exceeded former highs, underpinned by solid occupier demand (68% of households in New York rent).

New York is a major global tech city and a shift in occupier demand is shaping its corporate office market, and bringing more young renters to the city. As a result, gross mainstream rental yields are relatively high, at 5.9%.

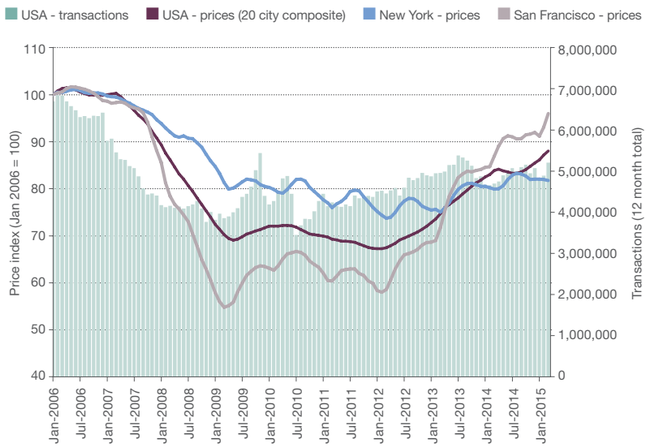
At the very top end of the market, New York is one of a handful of global cities (including London and Hong Kong) in which the global super-rich most commonly hold residential property. This reflects the city's status as one of the most important world cities. Super-prime price records have been set at $13,000psft. A raft of new condominium development catered to this group has been delivered in recent years, delivered in iconic residential towers that include One57 and 432 Park Avenue.

There are, however, some possible impediments to investment in New York. These fall into two main categories: associated costs and housing tenure. In common with the rest of the US, the entry, holding and exit costs associated with property are relatively high.

New York's prevalence of co-operative apartments which foreigners find more difficult to buy pushes investors toward the relatively restricted 30% of stock that is condominium tenure. ■

FIGURE 27

USA market performance 2006-2015



Source: S&P Case Shiller, National Association of Realtors

Buying a property as a non-resident in the US

There are no restrictions on buying and owning real estate in the US, and property may be occupied as a second home if the purchaser's passport permits. For longer stays, residency may be achieved via a work visa, while immigrant investor visas can be obtained with a minimum investment of $500,000 – $1,000,000.

In markets like New York, where there is a high proportion of cooperative buildings, prospective purchasers require the approval of the building's board (in common with domestic buyers). This involves sharing financial statements and tax returns and a face-to-face interview. Restrictions may also be placed on owners ability to let their property. This often places a practical barrier in the path of an overseas investment purchaser. Condominium purchase can be almost as rigorous.

Property taxes are punitive by global standards, comprised of a variety of local and country levies that can cost around 8% of the assessed value over a five year hold. Sales costs are high with agent fees at around 6%.

MIAMI

Miami is a cosmopolitan city and gateway to and from Latin America. A major centre of finance and international trade, it attracts a range of business and leisure buyers. Prime property is concentrated in Miami Beach (technically a separate city) an area famous for its art deco buildings.

Miami was a hotspot of the US housing market boom, the recipient of a huge amount of condominium development. Completions peaked at 16,220 units in 2007 and fell to a low of just 1,140 in 2011. When the market crashed, prices fell by more than half, one of the most severe price corrections in the US. Since this low, the market has rebounded strongly. Of a pipeline of 17,000 of units, 70% have been pre-sold.

The fact that Miami is dominated by condominiums makes it appealing to international buyers, and it is this group that drove recovery in the city. In contrast to the pre-2006 boom, Miami's recent real estate recovery has been built on equity rather than credit, and a new wave of condominium development has emerged, fuelled by equity-driven Latin American buyers. As of June 2015, prime prices in Miami stand just 2.9% below their former high, according to Savills figures.

Rental vacancy rates are some of the lowest in the US. Over half of Miami's population is from Latin America, a group which represents 70% of all overseas purchasers. Buyers from South America view Miami as a home from home and a stepping stone into the rest of the United States.

Top countries of origin are Venezuela (16%), Argentina (13%), Brazil (8%), Colombia (8%) and Peru (8%). Buyers from Europe, notably the United Kingdom, are also present in the upper tiers of the market. Immigration is helping to fuel population growth which is forecast to increase 15.2% by 2030.

> "The fact Miami is dominated by condominiums makes it appealing to international buyers, and it is this group that drove recovery in the city"

▲ A new wave of condominium development has emerged in Miami

LOS ANGELES

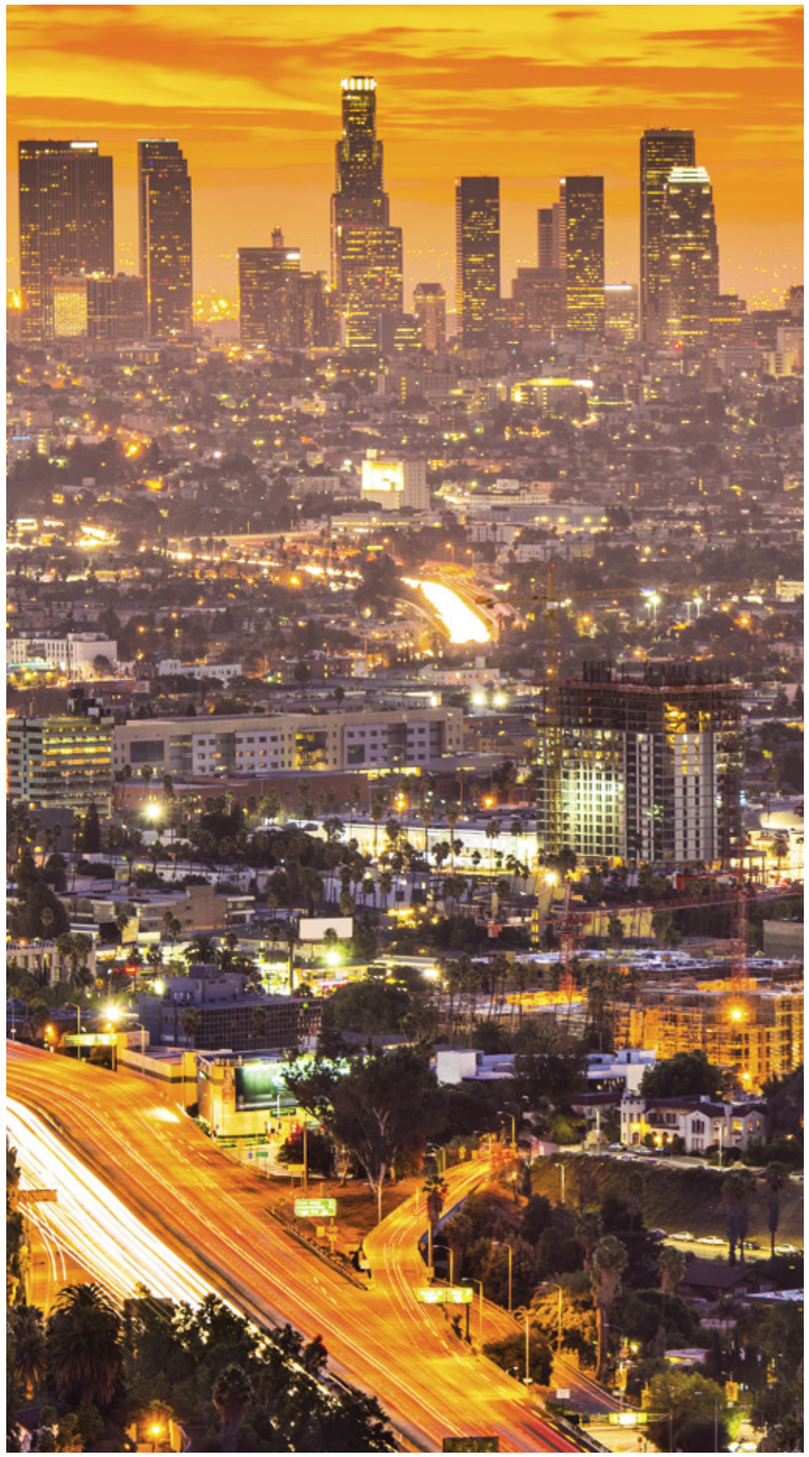
The Los Angeles prime markets are characterised sprawling suburbs of large detached homes. Bel Air, Beverly Hills and Holmby Hills are the best known and most expensive, in the north of LA, with many high-profile residents. These are quiet, spacious, manicured neighbourhoods, with relatively few amenities. Other prime neighbourhoods, such as Palos Verdes Estates, Rancho Palos Verde and Manhattan Beach are coastal communities with views of the Pacific, coastal cliffs and access to beaches.

Urban living is undergoing a revival in Los Angeles, with Downtown LA experiencing gentrification in recent years, fuelling a surge of new condominium development. Luxury condominium buildings are concentrated in Downtown Los Angeles, Century City, the Wilshire Corridor, and at Marina del Rey. Outside these areas, residential development is typically restricted by height, depending on the city and ordinances, to a maximum of 3-6 stories. LA saw a strong demand for condominiums in the first part of 2015, with sales up 13.5% on a year-on-year basis, compared to just 1.1% increase for single family homes.

As a west coast city, Los Angeles is strategically positioned to attract Asian buyers. Major overseas buyer groups in the LA prime markets include the Chinese, Koreans, Japanese, Singaporeans, and Malaysians. Europeans, including the British, are present alongside Australians, a relative minority.

Los Angeles is especially attractive on the world stage, given its high global profile due to the entertainment industry. Prime prices in the city grew by 5.2% in the year to June 2015 and now stand just 2.2% below their former high. The city is second only to New York for the amount of cross-border investment it receives into its commercial real estate (11%).

5.2%
Prime house price growth in Los Angeles year to June 2015



▲ Los Angeles is especially attractive on a world stage

SAN FRANCISCO

San Francisco is thriving and fast-growing attracting large numbers of young professionals, tech entrepreneurs and other creative people. It has seen an increasing number of successful people migrating out of Silicon Valley in search of an urban, rather than suburban, lifestyle.

A small city, just 46 square miles in size, its compactness and walkability is central to its appeal, but also means that new housing delivery is restricted by a very limited supply of land.

Strong demand fuelled by a buoyant local economy, coupled with this restricted supply has put upward pressure on prices. Prime prices grew by 25.7% in the two years to June 2015, bringing values to 27.9% above 2007 levels, outperforming New York, Los Angeles, Miami and Chicago over the same period.

San Francisco districts on the rise include Hayes Valley, the Mission District and Mid-Market – the latter having seen an influx of tech firms setting up business in the neighbourhood.

Established prime neighbourhoods include Nob Hill, Pacific Heights (townhouses and apartments) and Sea Cliff (single family homes). All markets are characterised by very low levels of supply, with inventory at its lowest level since 2009.

San Francisco's rental market is especially strong, with occupier demand driven by well-paid young professionals. Rents for mainstream property in the city have recently overtaken New York and are now among the most expensive in the United States.

With rental growth outpacing capital value growth,mainstream gross yields in excess of 7% are achievable, although investors face high transaction and holding costs.

"San Francisco's rental market is especially strong, with occupier demand driven by well-paid young professionals"

▶ Demand for property in San Francisco is buoyed by a buoyant local economy

THE CARIBBEAN

The Caribbean is a diverse region and home to 30 territories that include sovereign states, overseas departments and dependencies. The region's real estate markets are just as varied, but the prime markets are dominated by second home buyers from overseas.

Some of the world's most exclusive residential markets can be found in the Caribbean. Saint Barthélemy, or St Barts has long been a playground of the rich and famous, while the Barbados Platinum Coast has a global reputation among the ultra wealthy. For the ultimate trophy asset, the Caribbean also offers private islands. Richard Branson's Necker Island is one of the most famous.

Tourism is all-important to the Caribbean economy and the region is a popular overwintering destination for the northern hemisphere. As a consequence, the prime residential markets of the Caribbean are closely tied to the success of North American and European economies. Residential values fell by up to 30% across the Caribbean during the North Atlantic debt crisis, but recent years have seen a return of buyer interest in the Caribbean's second home markets.

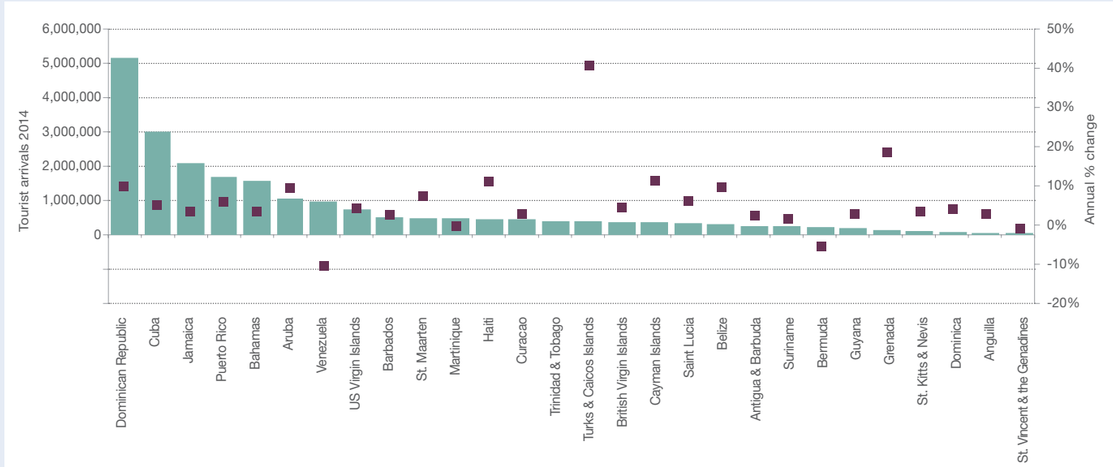
This has been largely due to the turnaround in the US economy and a more positive outlook from American buyers as a result, coupled with the return of some UK and European buyers. Prices in the Caribbean seem now to have bottomed out and transactions are beginning to pick up.

While tourism is important, some island markets benefit from more diversified economies. In both the Cayman Islands and British Virgin Islands more than half of GDP is generated by the financial services sector and they are both ranked in the top 40 financial centres globally. This brings with it high paid jobs and residents relocating for business and employment thus supporting a prime residential market for long-term residents.

Some Caribbean islands are more reliant on mass tourism than others. Figure 28 shows that none of the islands we look at in more detail here fall into the mass tourism category, even though overseas buyers are important in their prime property markets. Tourism comprises 36.2% of the economy in Barbados, 26.2% in the Cayman Islands, and 24.5% in St Kitts and Nevis, according to the World Travel and Tourism Council.

FIGURE 28

Tourist arrivals and growth



Source: Caribbean Tourist Organisation

BARBADOS

Barbados is an independent state and member of the Commonwealth, home to 285,000 residents. Tourism is the mainstay of the Barbados economy, with the UK being the largest source market and accounting for a third of all arrivals (there are direct flights to ten UK cities and Concorde previously served the island). It also benefits from a position outside the principle Atlantic hurricane belt.

Both the tourist market and in turn the market for additional homes is mature and well established. More than half the holiday homes available in Barbados (more than 1,500) are located in specially developed residential communities. These offer a range of amenities including polo grounds, golf courses, water sports, marinas, spa centres, restaurants and boutique shopping.

Buyer preferences are generally for turnkey properties. Interest in properties that are more difficult to manage and maintain, especially the renovation or rebuild markets, is now substantially smaller than prior 2008.

Property prices fell by up to 20% during the global economic downturn, but the best properties held their value and the island remains one of the most expensive markets in the Caribbean. The prime Barbados market is well established and occupiers tend to hold their properties long term. Most foreign buyers are British, followed by Americans, but other European buyers are growing in presence, along with Canadians.

The island's Platinum Coast has international cache and is the haunt of UHNWIs from around the globe. Exclusive, world famous resorts such as Sandy Lane are located here, as is the Green Monkey, reported to be one of the most expensive golf courses ever built. Royal Westmoreland is another popular high-end development on the island.

▼Barbados has one of the most expensive golf courses ever built

CAYMAN ISLANDS

Cayman offers its residents a secure, low-crime environment, coupled with good infrastructure and international schools making it appealing for families. With a population of just 57,000, 96% live in Grand Cayman, the largest of the three islands, the remainder on Cayman Brac and Little Cayman, 89 miles to the northeast. It is one of the richest countries in the Caribbean.

Cayman is a British Overseas Territory but enjoys strong links to the US, the major tourist source market (accounting for more than three quarters of tourist arrivals) and one of the largest foreign resident groups. The government plans to leverage this link by establishing 'Health City', a medical tourism facility aimed at the North American market. The government has also established 'Cayman Enterprise City', a special economic zone planned to attract new technology, finance and education investment. This is hoped to diversify the islands' economy, which is dominated by the financial services sector, which currently accounts for 55% of the island's GDP. Cayman is ranked 39 in the Global Financial Centres index.

Tourism is the island's other major economic contributor, which grew by 10.8% in 2014, among the fastest rate in the region. The industry is supported by flight links to 12 North American cities, and London, as well as regional destinations. It is also one of the most popular stopovers for cruise passengers in the region.

The Cayman Island residential markets are a mixture of condominiums and single family homes. Seven Mile Beach is characterised by condominiums popular with second home owners seeking lock-up-and-leave property.

Cayman's strong financial services sector means there is a buoyant relocation market. Those moving to the island may rent initially, but for those staying longer term single family homes are favoured, particularly in the north of the island. While the island's real estate markets suffered during the global economic downturn, reaching their lowest point in 2010, they saw some improvement in 2013 and 2014.

Development plot sales are enjoying a resurgence, as are condominium developments on Seven Mile Beach. Watercolours, a 60 unit development with direct beach frontage and hotel style-amenity, is representative of the continued shift up-market in island real estate.

ST KITTS & NEVIS

St Kitts and Nevis is a twin island federation with a combined population of some 55,000 inhabitants. The islands' economy traditionally depended on the growing and processing of sugar cane. This has been replaced by tourism and financial and business services in recent years. A large new Marriott resort and casino opened in St Kitts 2003, the first facility of its scale on the islands. The main airport, Robert L Bradshaw International, was upgraded to accommodate wide-bodied aircraft in 2006 and now attracts scheduled flights to London.

The global financial crisis came late to the islands and the residential markets remained largely unaffected until 2010. After this, transactions slowed and price falls of 20% were reported in the prime sector. The two islands have different market characteristics, St Kitts the busier of the two islands with easy airport access, Nevis being quieter and more expensive. Villa schemes attached to hotels are popular among additional home buyers, as are secluded stand-alone properties.

The islands' residential markets have for many years been supported by the St Kitts & Nevis citizenship by investment programme. Initiated in 1984, the scheme was designed to accelerate the transformation of the country from a sugar-based economy to a service-based one and stimulate economic growth more broadly.

For the real-estate route, foreigners must purchase a property of at least $400,000 in an approved real estate development (along with various other government fees). In return recipients are granted visa-free travel to 130 countries including the UK, Schengen area countries, Hong Kong and Singapore.

Overseas buyers have traditionally hailed from the UK, US, Canada and Europe, but the visa investment programme has seen the Chinese, Russians and those from the Middle East rise in prominence. While many will invest the minimum $400,000, the super-prime market is growing, catered for with the recent addition of a private jet terminal at the main airport.

Tourism plays an important role in the economy of St Kitts & Nevis

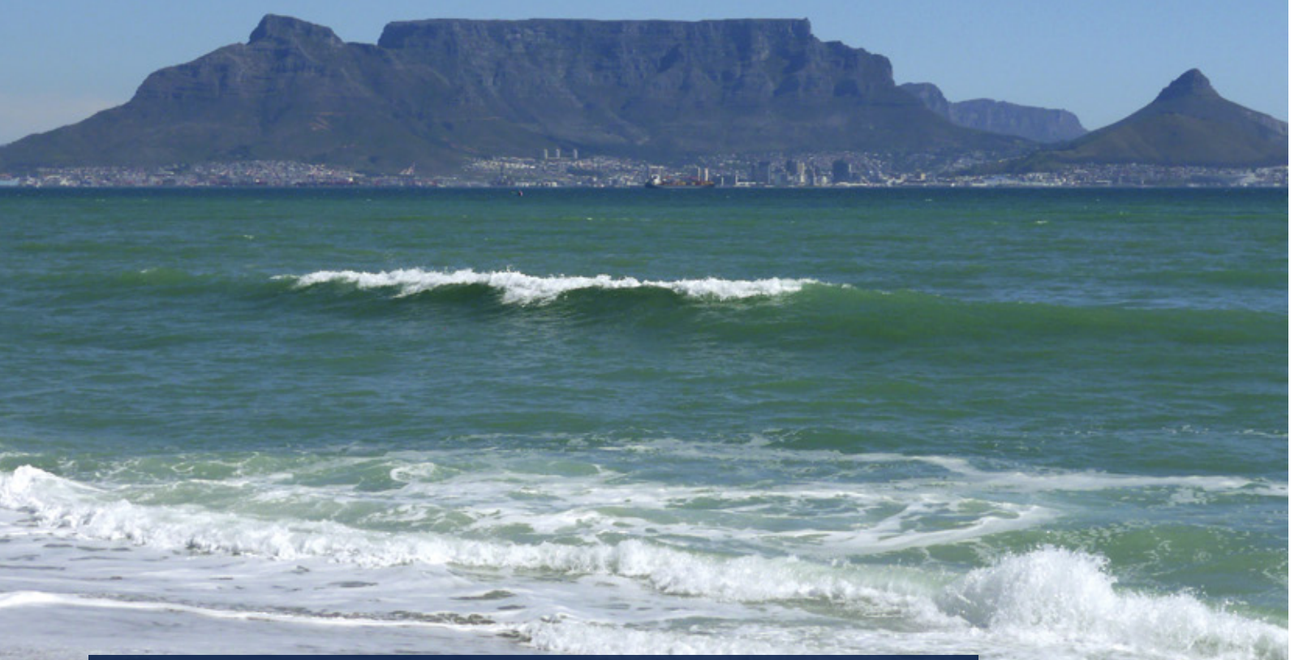
AFRICA & THE MIDDLE EAST

■ Africa and the Middle East is still considered a distinctly high-risk region by most global investors so only a few locations stand out as investible.

■ The potential of this region for real estate investment is vast given the size of population and rate of urbanisation and economic development.

■ The main barrier will continue to be fear of geo-political issues and conflict but key cities and resorts as diverse as Dubai and Cape Town make themselves accessible and friendly to the international market.

■ We expect the bulk of overseas investment into Africa to remain in large infrastructure projects and agricultural land but these will gradually open up more of the region to other types of real estate. Resorts serving the wealthy of the region are the next most likely to rise in popularity and prominence for real estate investors. ■



REGIONAL ECONOMIC STATISTICS AND TREND

COUNTRY	GDP GROWTH RATE 2014	UNEMPLOYMENT RATE	INTEREST BASE RATE
SOUTH AFRICA	1.5% ↓	25% ↑	6% ↑
UNITED ARAB EMIRATES	4.5% →	4.2% ↓	1.0% →

Source: OECD, IMF, Statistics South Africa, South African Reserve Bank, Central Bank of United Arab Emirates

SOUTH AFRICA

South Africa enjoys a diversified economy. A constituent of the 'BRICS' association (Brazil, Russia, India, China, South Africa), it is characterised by comparatively wealthy cities and poor hinterlands. Cape Town accounts for 6.9% of South Africa's population, but generates 10.6% of the country's GDP.

At the national level, GDP grew by 1.5% in 2014 and unemployment is high, at 25%. In spite of challenging economic conditions, the property market is robust and house prices remain buoyant. The domestic residential market quickly recovered from the downturn caused by the global financial crisis and steadily gained momentum from 2011.

A weak Rand puts dollar and sterling buyers in an especially strong position. Since a 2011 peak it has dropped some 52% to the dollar, and 56% to sterling as of July 2015 making the South African residential market particularly appealing to these purchasers.

Foreign investment has been seen across all sectors, notably in farmland where it has led to the introduction of the Land Holdings Bill, which limits the length of long-term leaseholds available to foreigners. Recent government rhetoric around more extensive reforms has led to uncertainty in the market. Around 7% of land in South Africa is currently owned by foreign nationals, up from less than 5% a decade ago.

Low interest rates, a modest improvement in household disposable income and a marginal strengthening of the overall economy suggest average house price inflation will be in high single digits this year.

CAPE TOWN AND THE WESTERN CAPE

Cape Town is South Africa's seat of National Parliament, and also the legislative capital of the country. The city, dominated by Table Mountain, is a global tourist hotspot with a distinctly European feel. Cape Town is located within the wealthy Western Cape. An important centre of finance and business services, it is a region characterised by low unemployment (by national standards), fertile land, and wine of worldwide renown.

The Western Cape's residential real estate markets have outperformed the rest of the country in the last three years, but very recent performance suggests the rate of price growth is slowing. Annual residential price growth in the Western Cape of 7.3% was posted in the year to June 2015. This compares to national increases of 5.3% according to the Pam Golding Price index.

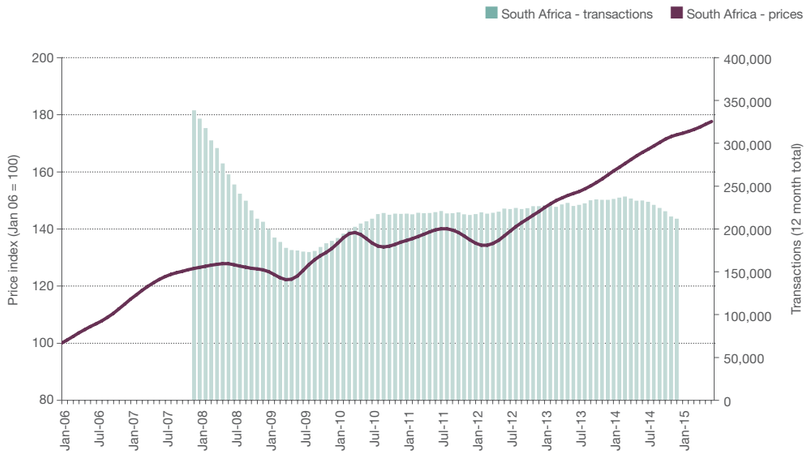
The Cape benefits from a strong holiday rental market between November and January, but high capital values mean that yields, typically under 5%, are significantly lower than those in Johannesburg.

Gated developments are commonplace in South Africa, albeit less so in the Western Cape as the area is perceived to be safer. Atlantic seaboard properties are particularly desirable given beach access and ocean views. Prime coastal areas are hemmed in between the ocean and the mountains, so land supply is limited and stock levels in these locations are restricted, sustaining inflating house prices. ■

▲ Land supply is limited in Cape Town

FIGURE 29

South Africa market performance 2006-2015



Source: URA

5%

Annual rate of economic growth in the UAE since 2011

UNITED ARAB EMIRATES

A federation of seven emirates, the UAE is home to the world's third largest oil reserves, but is undergoing transition into a diversified economy. Tourism, transportation and financial and business services, alongside pharmaceuticals and technology, are important and growing sectors. Dubai, with comparatively smaller oil reserves, has been boldest in this transition and has reduced the portion of its GDP based on oil and gas output to 25%.

The UAE has also capitalised on its location as the mid-point between Europe and Asia, developing hub airports in Dubai and Abu Dhabi. Dubai International Airport is now the world's busiest by international passenger traffic. The Dubai International Financial Centre, one of many free trade zones in the UAE, provides a platform for business and financial institutions to operate in the region.
Consequently, the UAE stands out as a 'safe haven' for both local and international investors in the Middle East, attracting businesses and capital from across the region and into the region.

Overall, the UAE's economy has shown volatile growth over the last three decades, but the highs and lows have become less extreme in recent years. Following a sharp contraction of economic growth in 2009, when the economy shrank by 5.2%, economic growth is currently strong, having resumed in the region of 5% per annum since 2011.

DUBAI

Dubai was opened up to foreign property ownership in 2006, although not all sectors of the city are available for foreign purchase. Fuelled by cheap credit and speculation, prices in the Emirate more than doubled by 2008, but were hit hard by the global financial crisis when debt dried up. Residential values fell by 60% between 2008 and 2011. Almost half of the construction projects in the UAE at the time were put on hold or cancelled.

After a few years of stagnation, 2013 saw recovery, bringing prices within 39% of their former highs. Lessons do appear to have been learned from the previous boom and bust. The government introduced cooling measures in the second half of 2013 in a bid to reduce speculation in property, including mortgage caps and a clampdown on 'flipping'.

The first half of 2015 brought with it price falls of 7.7% and lower transaction volumes, amid a wave of new supply and a fall in speculative investment. Rental growth is slowing too, but occupier demand remains as the economy continues to strengthen.

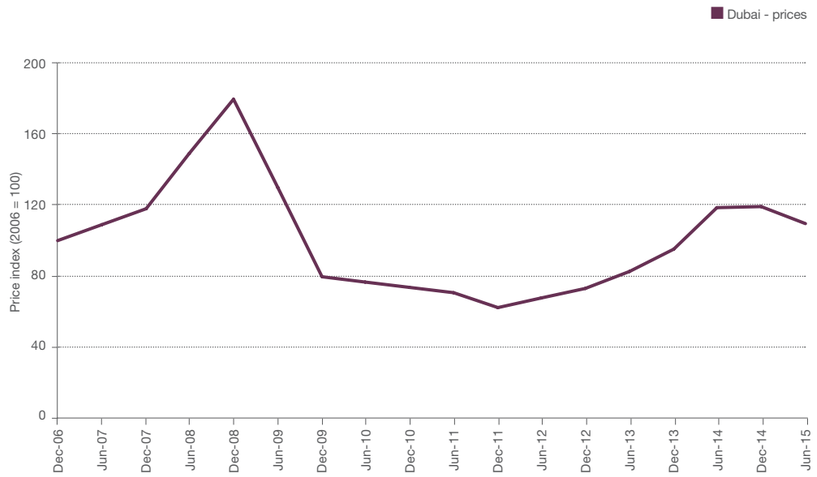
Dubai is the most internationally invested city for residential real estate in the Middle East and much of Dubai's success is down to its multi-layered appeal as a business and leisure destination for a range of European and Middle Eastern markets.

In spite of the slowdown, what makes Dubai's long term prospects stronger than many other centres in the region is its reputation as a global centre of business. This has been underpinned by the city's hosting of the World Expo in 2020.

Strides are being made in improving the city's infrastructure in this car-reliant city. The Dubai tram opened in 2014, complete with air conditioned tram stations.

FIGURE 30

Dubai market performance 2006-2015



Source: Savills World Research

▲ Dubai is an established global centre of business

ASIA PACIFIC

■ In a bid to limit house price growth, Asia Pacific stands out among global real estate markets as being particularly regulated.

■ Price cooling measures in the form of stamp duty hikes and taxation has had the effect of reducing transaction levels in the prime markets, most notably in Hong Kong and Singapore.

■ Prospects for future growth in the region will be significantly driven by China's economy, which is currently slowing but likely to receive further stimulus and whose population will be a significant and growing market force for decades to come.

■ World cities in the region are supply constrained so supply-demand imbalances are likely to increase. Sydney faces the challenges of densification and mass transit, Hong Kong and Singapore face the need for 'new territories' further north to form commuter zones for already dense or fully-developed areas of the city.

■ Asia Pacific presents huge opportunities as a result of ageing population and growing consumer affluence for growth in leisure resorts. We predict that real estate value growth in the newly emerging resorts will match that seen in the region's global cities of late and could be where the 'smart money' heads next. ■

REGIONAL ECONOMIC STATISTICS AND TREND

COUNTRY	GDP GROWTH RATE 2014	UNEMPLOYMENT RATE	INTEREST BASE RATE
HONG KONG	2.5% ↓	3.3% →	0.5% →
SINGAPORE	2.8% ↓	2.0% →	1.01% ↑
CHINA	7.4% ↓	4.1% →	4.85% ↓
AUSTRALIA	2.7% ↑	6.0% ↓	2.0% ↓

Source: OECD, Hong Kong Census and Statistics Department, Hong Kong Monetary Authority, Statistics Singapore, Monetary Authority of Singapore, Ministry of Human Resources and Social Security, The People's Bank of China, Australian Bureau of Statistics, Reserve Bank of Australia

◀ Singapore's market cooling measures have been effective on a global level

HONG KONG

Hong Kong enjoys a position alongside London and New York as a top-tier world city. With a time zone between the US and Europe, home to the sixth largest stock market in the world it is a major financial centre, third to New York and London in the Global Financial Centres Index.

Purchase of Hong Kong property by mainland Chinese nationals has been a major driver of the city's stratospheric price rises as has strong economic growth.

Hong Kong is now the most expensive major world centre in which to buy a residential property. Prime values are almost double those in London and New York, although the gap is narrowing.

Prime residential values have been hit hardest as cooling measures continue to have an effect, primarily on transaction levels in the prime market, while rents are also depressed due to weaker demand from the corporate sector. In common with Singapore, Hong Kong levies an additional 15% stamp duty on foreign residential property purchasers.

Mortgage insurance is required on mortgages of more than 70% LTV, while lending is limited to 40% for purchasers with more than one property. In a bid to dissuade market speculation 'Special Stamp Duty', levied at between 20% and 10%, applies for properties re-sold within six and 36 months.

Turnover was the main casualty of these measures, declining 66.7% from a high in December 2010 to a low in March 2014. Transaction numbers since have seen some recovery, growing 53.7% to May 2015, but still remain 48.8% below their former high. Prime and mainstream prices, meanwhile, have also gained traction, growing by 4.9% and 7.2% respectively in the first half of 2015.

"Hong Kong is now the most expensive major world centre in which to buy a residential property"

While the prime sector has slowed, the value of mainstream property increased by 13.5% in 2014. This was the result of low interest rates and sustained domestic demand set against restricted supply in this land-constrained city. Cooling measures, directed at speculative foreign purchasers, affect prime markets rather than mainstream ones.

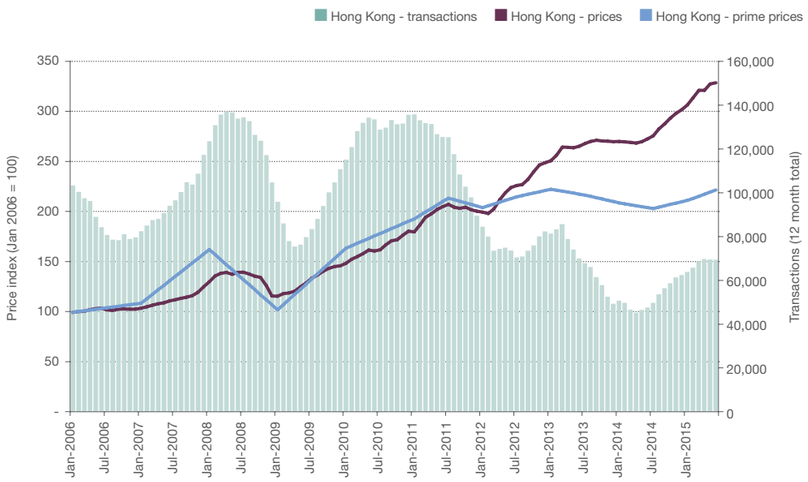
If cooling measures are not repealed in the near-term and with a possible rise in interest rates on the horizon, it is unlikely that prime prices will resume their former upward trend. Savills estimates luxury apartment prices in 2015 will remain largely stable.

In the longer term, structural reforms in China will open up the country further to outflows of investment, and directly into other world city real estate calling into question Hong Kong's position as the pre-eminent destination for Chinese capital. ■

7.2%
Increase of mainstream property in Hong Kong during the first half of 2015

▲ Prime residential values in Hong Kong are almost double those of London

FIGURE 31
Hong Kong market performance 2006-2015



Source: Rating and Valuation Department, Savills World Research

SINGAPORE

Singapore's market cooling measures have been among the most effective on a global level. An Additional Buyer's Stamp Duty (ABSD) of 15% must be paid by foreign buyers, while Singapore's permanent residents are levied an additional 5% for their first property and 10% for their second and subsequent properties. Singapore citizens face additional duties of 7% for their second and 10% for their third properties and subsequent properties. In a bid to prevent market speculation and the 'flipping' of properties, a Seller's Stamp Duty applies, at up to 16% of the consideration value if sold within one year, falling to 4% if sold in year three.

These measures, coupled with a general slowing in Singapore's economy has resulted in a significant reduction in transaction levels and falling prices in the prime residential market. In common with high-end markets across the globe, Singapore's prime market has been the one most favoured by international buyers while average mainstream property remains predominantly domestic.

At the end of Q2 2015, prices are down 6.7% among all private property from a high of Q3 2013, while total annual transaction levels are down 53.8% over the same period.

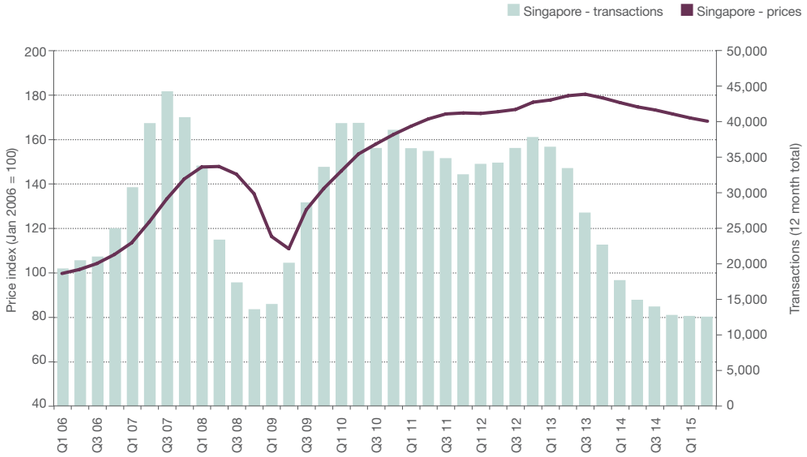
By contrast the mainstream market has continued to grow, driven by domestic owner-occupier demand. Singapore is unusual in that 80% of the resident population live in publically governed and developed housing, managed by the Housing and Development Board (HBD). Unlike most social housing in the developed world, which is rented, 95% of HBD properties are owner-occupied and sold on 99 year leases. They may be re-sold freely on the open market (to citizens) once minimum occupation requirements have been met.

With no changes to the current government curbs or cooling measures on the horizon, the private residential market is expected to remain soft. Further falls may be seen in the prime markets. This could present buying opportunities as underlying demand for real estate is strong, as evidenced by commercial property markets.

The prime office market in Singapore remains buoyant (the result of a dearth in new supply since 2005) and prime office rents are forecast to increase by 3% in 2015 as a result.

FIGURE 32

Singapore market performance 2006-2015



Source: URA

15%

Rate of Additional Buyer's Stamp Duty in Singapore

▲ Singapore's prime property is favoured by international buyers

CHINA

Residential property investment in China is dominated by Chinese nationals and has been extremely active, because real estate has always been viewed as a reliable store of wealth. Savings rates in China are exceptionally high by global standards. Gross savings as a percentage of GDP stand at 51%, according to World Bank Data (the figure is 17% in US and 13% in UK).

This, and the rapid growth of Chinese wealth, fuelled a massive wave of investment into residential real estate over the last two decades. Between 2003 and 2010 the Chinese economy enjoyed close to double digit annual growth, and the average price per square metre of new dwellings in China more than doubled.

In efforts to curb this rapid growth and keep affordability levels in check, the government introduced a series of policies to curb investment purchases. First tier cities, such as Shanghai, have seen high levels of both local and inward investment from other regions. The city has attracted some of the strictest of the new controls, which include higher deposit requirements and limitations on second property purchases.

Recent slowing economic growth meant price growth fell to very low rates by Chinese standards across the country, just 1.4% in 2014. However, consecutive interest rate reductions and a pick up in sentiment have stoked transactional activity in leading cities and resulted in strong price growth. 27 out of 70 cities tracked by the National Bureau of Statistics recorded a month-on-month increase in new build residential prices in June 2015 (compared to only one city Shenzhen seeing price growth at the beginning of 2015). The outlook remains positive as the pick up in sales volumes and a stabilisation of pricing are expected to lower the inventory level. This should result in a healthier market in the mid to long run.

SHANGHAI

Shanghai is China's largest city and a global financial centre. It is host to the world's busiest container port and plays a key role in China's industry. The city attracts migrants from across the country looking to take advantage of its job opportunities. These factors have driven its success in recent decades and continue to underpin its prospects for the future as the Chinese workforce becomes increasingly mobile at the national and international level.

While Shanghai is an international city, it is still dominated by domestic businesses, investors and occupiers. This means its residential markets are driven mainly by domestic factors. The average price of apartments in the city rose from RMB9,313 per sq m ($138psft) in January 2006 to a high of RMB30,016 per sq m ($446psft) in December 2014, an increase of 222% in just eight years. As at June 2015, average prices stood 14% above this level, the result of easing policies and improving sentiments. Rental growth has failed to keep pace with capital value growth, and gross yields have been pushed down to 2.3%.

The government is taking steps – directly or indirectly – to support the market by easing policies such as giving priorities to mortgages for first-home buyers and relaxing the definition of ordinary housing. Sentiment has improved due to lower borrowing costs and taxes.

Against this, new supply is likely to continue to be delivered but at a slower rate than previously, meaning prices are likely to hold up much more than in regions where building has been unfettered. Developers' confidence in the Shanghai residential market, and the general wariness of investing in lower-tier cities, means demand for new land plots will likely remain fierce. This means Shanghai is unlikely to see the oversupply that is said to dog some Chinese cities.

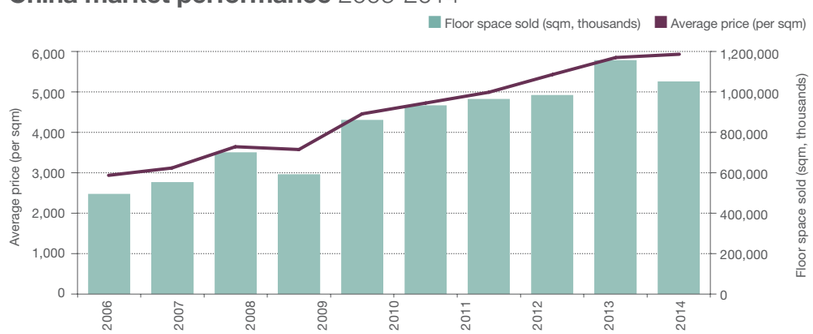
Shanghai has seen strong growth in the value of small apartments as large numbers of young professional migrants seek city-centre living. A shortage of this type of unit has pushed up prices and forced this group into secondary locations. To combat this, Shanghai is using large scale infrastructure investment to unlock these decentralised business districts as it strives to meet the demands of a rapidly expanding population and economy.

One of the most successful infrastructure investments has been the Shanghai metro. Despite being one of the newest systems – the line only opened in 1993 – it is one of the most heavily used, with 2.5 billion journeys taken each year.

Such pressure on transport has led to a trend toward decentralisation in Shanghai. Investors are looking to locations such as Hongqiao Transportation Hub, at the centre of which the largest railway station in Asia by floor space, linking together local, high-speed intercity rail and metro. New mixed-use developments also anchor these decentralised communities, providing employment centres and ancillary community and shopping facilities.

FIGURE 33

China market performance 2006-2014



Source: National Bureau of Statistics

7.2%
Australia's annual export growth 2014

◀ Land availability in Sydney is restricted through geographical limitations

AUSTRALIA

Australia avoided a house price crash like those of Western economies because of its high and growing economic wealth at a time when developed economies were contracting. At the same time it avoided a credit boom by retaining strict lending requirements. Australia's geographic position also helped, supplying a booming Asia with raw materials, goods and services.

The government response was timely too, it introduced a generous scheme to support first time buyers in 2008. This, and continued immigration fuelled demand against a shortage of new supply which helped to keep prices growing.

Australian GDP grew by 2.7% in 2014, which was higher than 2013's 2.1%, but down on the 3.7% growth achieved in 2012.

The unemployment rate is comparatively high, at 6.0%, in part due to a slowing of the country's mining industry, which had supported the economy for two decades. Australia's slowing economy is in part due to its strong ties with cooling Asian markets and global demand for raw materials has declined.

In spite of this, residential prices have continued to grow. Interest rates are at a record low of 2%, having been cut 25 basis points in May 2015. The market is further supported by foreign nationals, notably the Chinese, who need approval from the Foreign Investment Review Board (FIRB) to purchase property (in common with all overseas buyers), and are restricted to new property or vacant land.

SYDNEY

Prices in Sydney grew by 12.2% in 2014, according to ABS, compared to an average of 6.8% across the eight capital cities as a whole. Rents are among the highest in Australia – but rising at a slower rate than capital values so yields are diminishing. (Currently Sydney's residential gross yields stand at 4.1% which is lower than other Australian cities and asset classes).

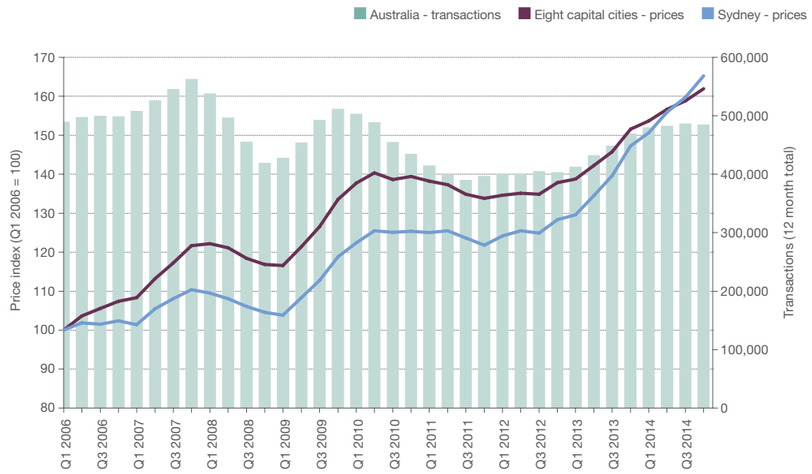
Sydney, in common with most mature world cities, is restricted by land availability through geographical limitations, zoning restrictions and limited land release. As a consequence, the city suffers from the same supply/demand imbalances of many of its global contemporaries though it has far fewer international buyers competing in its local markets.

Recently, the strong residential market has created an expectation of capital gains which has encouraged domestic investors and increased rental supply, particularly in the new build sector. This has suppressed rents and yields, suggesting that the market may have become overly speculative.

While, in the longer term, we expect strong occupier demand on the back of a strong economy and immigration from Pacific Asia, it seems likely that there will be some adjustment in the near term. Slower capital growth will likely start to redirect investors to other Australian cities or asset classes, thereby correcting any letting oversupply and putting capital values more on a par with rents. Sydney seems set for a period of slower capital growth while owner occupier and rental occupier markets readjust in line with each other.

In the medium to long term, prospects for the city still look good. Demand for city centre locations is still strong, particularly from younger generations. This means that 'City' Sydney is set to perform best over the next five years and development opportunities will continue be focused on an intensification of the centre.

FIGURE 34
Australia market performance 2006-2015



Source: Australian Bureau of Statistics

▲ Demand for property remains high in Sydney

Outlook
A SENSE OF ADVENTURE

Investors are seeking opportunities in more peripheral locations and higher-yielding secondary property as an alternative to first-tier cities

Overall, we sense the global market cycle is now moving on a stage. Both occupiers and investors have been clinging to first-tier cities and prime property like limpets to a rock in times of global turmoil and economic uncertainty but, as this abates, they are becoming more adventurous.

Investors are now beginning to peel away from the expensive centre and seeking alternatives in more peripheral locations and higher-yielding secondary property.

They are also looking at cheaper and higher yielding second-tier cities, especially in Europe and the USA, where there may be prospects of economic outperformance and high population growth. Non-city property such as resorts that were popular in the nineties and noughties are also regaining their attraction, particularly at the discounted values of the post 2008 market.

Those looking at the longer term will find an increasing number of new opportunities in resort property, both established locations in which Asians start buying and in new locations and leisure property types within Asia.

We foresee an increasingly diversified global residential property market offering considerable opportunity and we have covered some of its more important markets and market trends in this report.

Resorts are regaining attraction to investors

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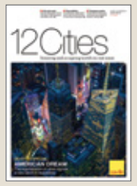

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