World Research – July 2021

MARKET IN MINUTES

Savills Research

Savills Prime Index: World Cities

Capital Values

savills

World city: Guangzhou

Markets experience fastest growth since 2016

The resilience of the world's residential property markets has continued unabated in the first half of 2021. Across the 30 cities in the Savills World Cities Index, capital values grew by an average of 3.9% over the six months to June 2021, the fastest rate since December 2016.

Sustained record-low-interest rates, improved buyer confidence, increased transactions at higher price points, and economic stimulus measures have all contributed to the strong property price growth.

This strong growth follows a more subdued period as values from June 2018 to December 2020 only grew an average of 0.7% as a result of global uncertainty and tax and policy changes in many cities. This low growth was exacerbated by the pandemic in 2020, which had the additional effect of lockdowns shuttering property markets in many cities.

Not all cities performed equally over the past six months. Over 70% of the locations had positive capital value growth for the first half of the year.

The cities which posted negative capital value growth are unified in their historical reliance on international buyers in their prime markets, a segment which has been severely limited by travel restrictions.

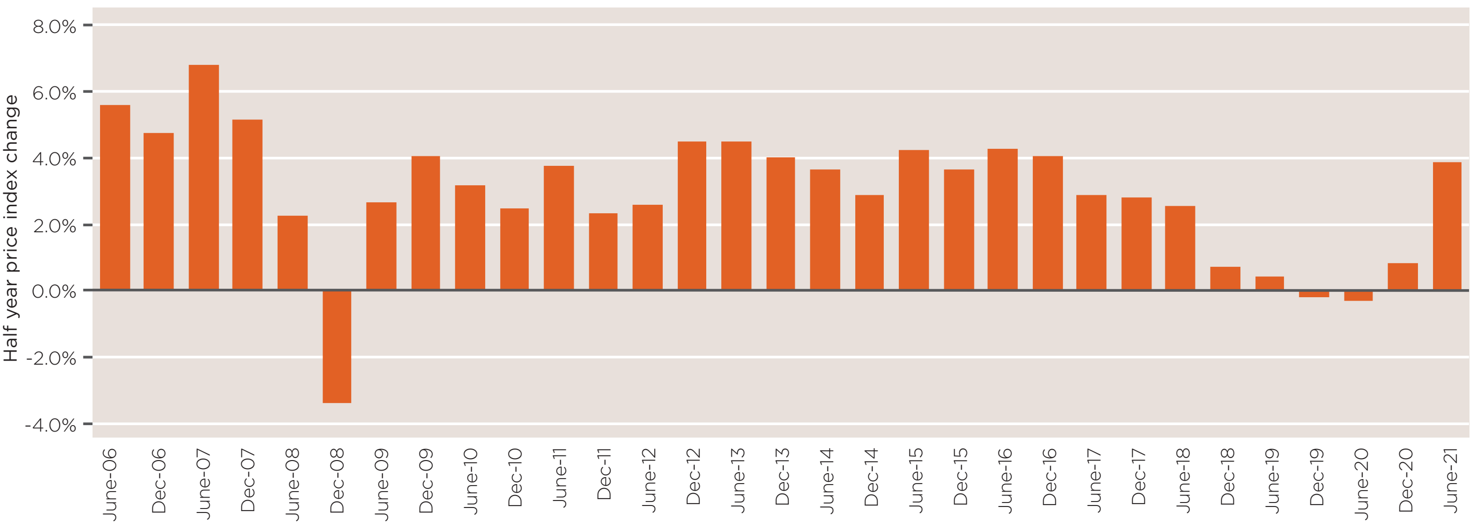
Focal points
From Dec-20 to Jun-21

3.9%
Capital value growth across all index cities

21
Cities posted positive capital value growth

13.7%
Capital value growth for Shanghai, the highest growth in the Index

Savills World Cities Index Half year change in capital values



Source Savills Research

Leaders and laggards

The highest capital value growth can be found in the Chinese cities with six month growth figures between 7.9% in Guangzhou and 13.7% in Shanghai. Price rises in China have accelerated in 2021 despite tightening of financing and local policy changes in an attempt to cool the markets. Lending-fuelled purchases have been driving Chinese property price growth in recent years, with buyers believing property is likely to remain the safest investment in China.

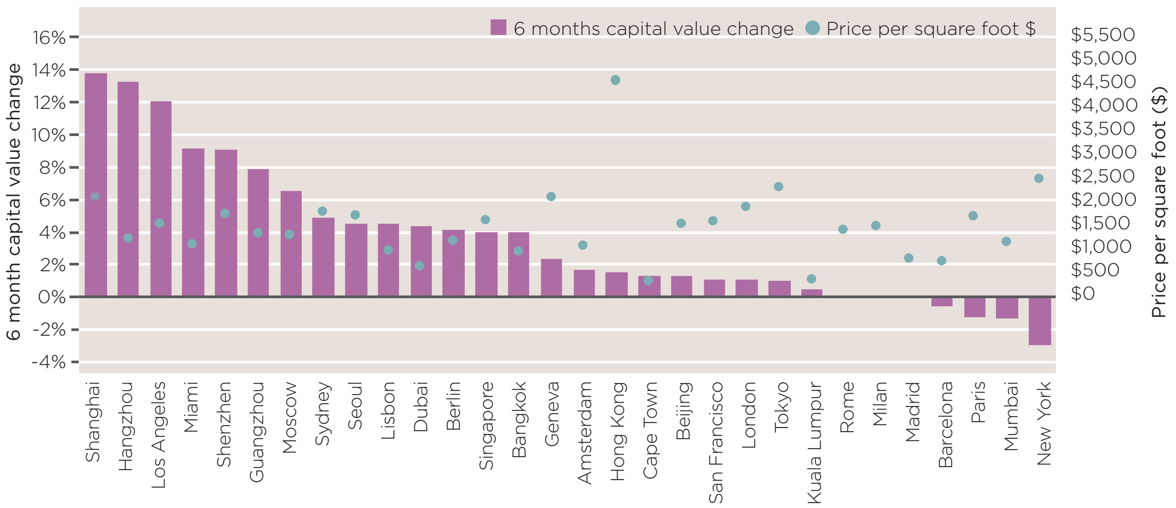
In the United States, Los Angeles and Miami lead with growth above 9% in the first half of 2021. Both locations offer an abundance of space and hospitable climates. Miami has benefitted from domestic migration to the city as a result of increased remote working, favourable local taxes, an influx of tech and finance companies, and the enhanced buying power from low-interest rates.

For markets which are still recording negative capital value growth, such as Paris and Mumbai, lower transaction volumes over the past year have played a significant role. These cities suffered prolonged lockdowns which dampened sales and damaged buyer confidence. In New York, prices have declined for over four years because of oversupplied markets but signs point to prices stabilising this year as transactions increase.

A turning point?

The most expensive location in our index, Hong Kong, had seen declines in prices from 2019 through the first half of 2020 as a result of uncertainty in the region. However, capital values increased 1.9% in the year to June 2021. The increasing strength of sales can be attributed to low interest rates, and growth would likely be stronger, were international travel to resume.

Capital value growth and prices by city



Source Savills Research

Some cities have seen price changes go from negative to positive territory in the first half of 2021. Singapore, Bangkok, and Kuala Lumpur benefitted from increased demand for decreased supply. The work-from-home boom and resulting increased need for space helped to increase capital values in Dubai, Cape Town, Moscow, and Lisbon. In London, following six years of falls, values remained flat in 2020 then recorded an increase of 1.1% in the first six months of 2021 as the city looks good value.

It's not just prices that are rising, transaction volumes are increasing in many cities too, especially when compared to the first half of 2020 when many cities were in lockdown. In London, sales of properties above £5 million were up 61% year on year and were the highest half year figure since 2014. In New York City, sales volume of properties priced above $5 million in May 2021 was the second highest for month since 2017 and 15 times higher than in May 2020.

Outlook

- The return of international travel to world cities is likely to provide an increased supply of buyers for prime properties in some locations. More demand is also expected as cities continue to open up and buyers are attracted to the employment and cultural offerings.
- The drive for increased space in prime residential property looks set to continue. Although more cities are seeing workers return to offices, the persisting work from home trend, particularly in Europe and North America, is predicted to sustain the desire for additional floor-space in properties.
- The low-interest rate environment looks set to continue and will likely contribute to sustained higher sales volumes across most cities as buyers are attracted to the sector both for wealth preservation and capital value increases in many cities.
- Sustained economic recovery globally is forecast to further support buyer confidence and boost demand across many cities. Though a degree of pandemic-related uncertainty remains, the prime residential sector is likely to remain strong through the rest of the year.

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MARKET IN MINUTES
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Savills Prime Index: World Cities
Rents and Yields


World city: Dubai

Are rental values turning a corner?

In the first half of 2021, rental prices across the 30 cities in the Savills World Cities Index posted an average increase of 0.5%. This follows a fall of -1.8% over 2020 as global restrictions on travel reduced demand due to the absence of corporate relocations, and increased supply of property with former tourist short let apartments, moving to longer term rentals. Though rents seem to have stopped falling, the level of rental growth remains significantly lower than capital value growth in the World Cities Index, which grew at an average rate of 3.9% over the six months to June 2021, the fastest rate since December 2016.

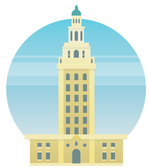
The picture is not the same across the world. Suburban locations and cities that have been less impacted by lockdowns have experienced stronger rental growth. Across the World Cities Rental Index, 39% of cities reported positive rental growth in the six months to June 2021 - this figure stood at 25% in 2020.

The average prime residential yield across the 30 cities stands at 2.9% in June 2021 compared to 3.1% in December 2020. This is the lowest average yield since Savills began tracking the data in 2005. There is still significant variation in yields across the different world cities, ranging from 1.3% in Shanghai to 4.7% in Moscow.

Focal points
From Dec-20 to Jun-21

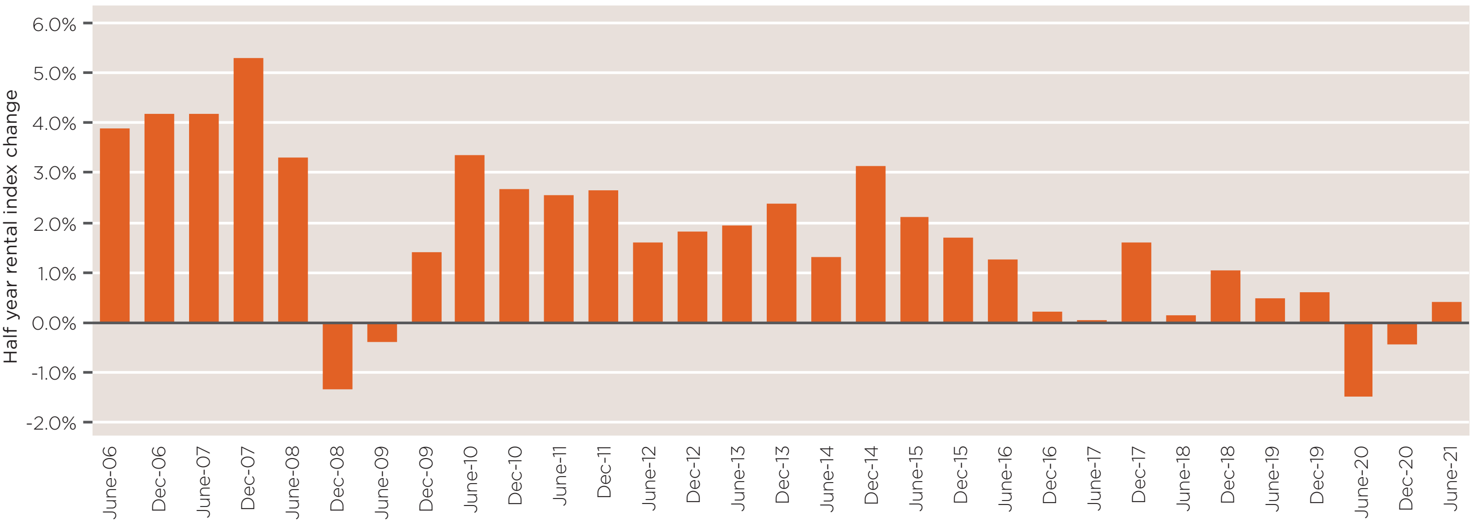
0.5%
Rental growth has turned positive for the first time in a year

2.9%
Yields have fallen to 2.9%, the lowest ever in our index



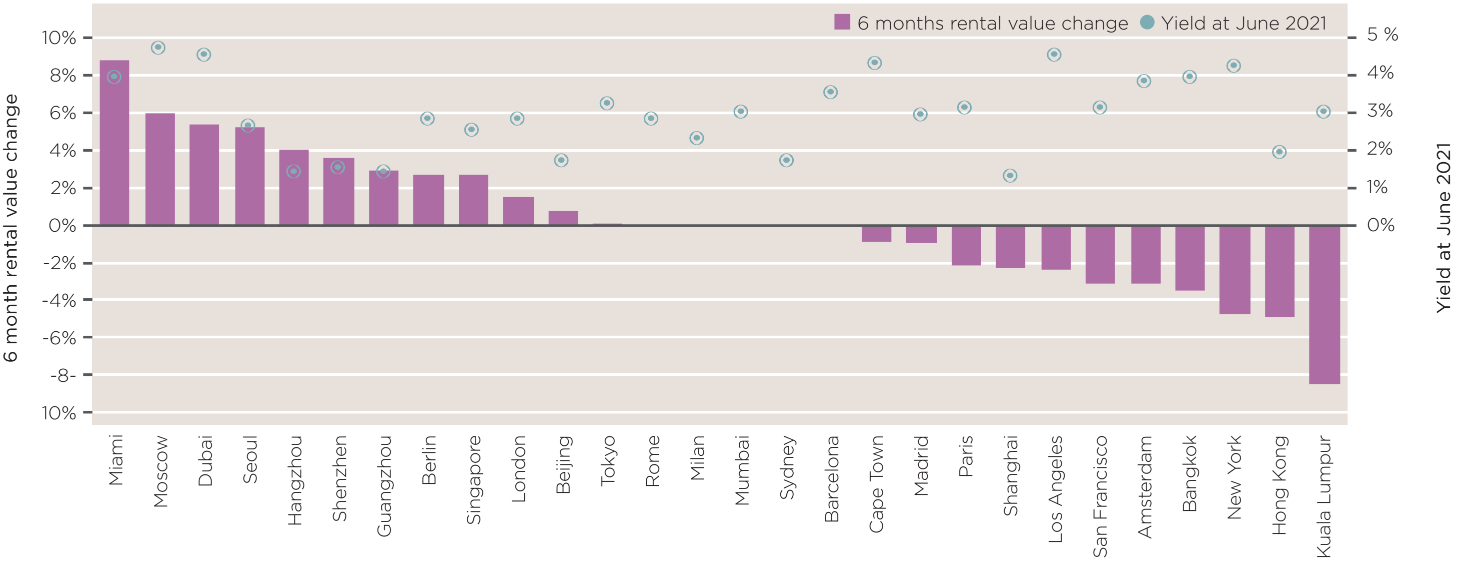
8.8%
rental price growth in Miami, the highest

Savills World Cities Index Half year change in rents



Source Savills Research

Rental value change and yields by city



Source Savills Research

Leaders and laggards

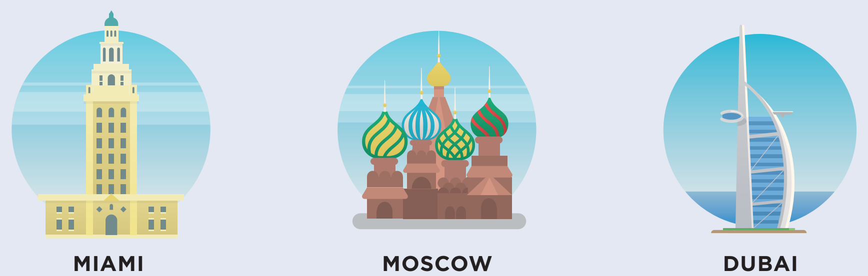
At the top of the scale, Miami, Moscow, and Dubai recorded the highest levels of rental growth over the first half of 2021. Each of these markets offer larger units, even in city centre areas, compared to locations like Hong Kong or New York.

Miami's rental market has experienced an increase in demand over the past year from domestic migration, seeing high rental prices and tight supply for single family homes. New projects continue to come to the market, but have been unable to meet the demand for prime rental properties in the city.

In Moscow, the level of demand observed over the past half year is comparable to the pre-crisis levels seen at the end of 2019 as Russian residents return to the city. After a decline in prime and ultra-prime rents in the second half of 2020, rental prices for these properties are increasing again, especially for large apartments with outdoor space in key areas of the city.

The Dubai market appears to be reaching a turning point after six years of negative rental growth resulting from oversupply in the market. Prime rental prices increased by 5% in the six months to June, driven by a 20% increase in rents for villas as residents prioritise space and shift away from apartment living in the wake of the pandemic.

Locations such as Kuala Lumpur, Hong Kong, New York, and other cities experiencing negative rental price growth have in common the importance of international tenants in their prime rental markets. As travel restrictions have persisted in the last six months, these markets have continued to face rental price falls.



Miami, Moscow, and Dubai recorded the highest levels of rental growth over the first half of 2021

Source Savills Research

Outlook

- Rental markets look set to be subdued for the rest of 2021 while travel restrictions remain in place in many locations causing rental prices to recover more slowly than the capital value markets, which are less reliant on international demand.
- Longer term, as vaccinations continue and travel restrictions lift, the outlook is more positive as corporate relocations resume and the increase in tourism means supply from the long-term rental markets can return to the short-term market, lowering available supply.
- Sentiment is stronger in North American cities where domestic migration is playing a key role in rental markets and contributing to rental price growth in markets with tighter supply of prime properties.
- In many cities supply shortages have the potential to boost rental prices in prime areas, particularly in cities which offer larger-sized properties such as Moscow, Barcelona, Madrid, and Cape Town.

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