Spotlight on Four global cities

Comparing London, New York, Moscow & Hong Kong




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Spotlight on
FOUR GLOBAL CITIES
London, New York, Moscow & Hong Kong

Out-performing their national markets, the cities of London, New York, Moscow, and Hong Kong are sought by the world's richest households and are at the forefront of a truly global market.

Four cities

Few world cities can count themselves among a truly global market, sought by the world's richest households and behaving almost like a separate asset class to a worldwide investor audience. London, New York, Moscow, and Hong Kong, are premier examples of such cites. Two are in 'old world' established economies and two are in the 'new world' of the emerging 'BRIC' economies. The global standing, city economy, amenities, facilities and quality of life of these cities have become more critical to their success than the strength of the economies in the countries they occupy.

Here, we focus on the residential markets in these four cities. Specifically, we are looking at the costs of occupation for personnel (see Methodology below). Both rental and capital value costs are an important component of international relocation. In addition, we are also looking at the homes occupied by an international class of footloose Global Billionaires.

Our analysis highlights the international nature of the residential markets in these cities, with occupiers who transcend national boundaries. In many respects, the residential sectors of these global cities have more in common with each other than they do their domestic markets. All four 'buck the trend' and outperform the national markets in which they sit. The research also demonstrates that residential markets in leading cities in 'new world' emerging markets have significantly outperformed the more established markets in 'old world' economies over the last five years – albeit at the expense of price stability. ➔

"The residential sectors of these global cities have more in common with each other than they do their domestic markets."
Yolande Barnes, Savills Research

Methodology

This research is derived from Savills' analysis of residential property in four global cities: London, New York, Moscow and Hong Kong. Our means of comparison across national boundaries is a consistent but imagined group of people, relocated in each of our four city locations.

This group or 'unit' consists of seven households, each with different incomes and family circumstances. One is an international expat and six are locally employed personnel. For each group we monitor the most appropriate city property (holiday home or second home), and for the top household (Regional CEO), we also track an appropriate leisure property. All values quoted are in GBP £ at current exchange rates, unless otherwise stated.

In addition, we monitor the property of a Global Billionaire, both city and leisure, in each of the four cities.

Executive unit			
City property	4 x Administrative	2 x Local Director	1 x Regional CEO
Leisure property	N/A	N/A	1 x Regional CEO
Head of household	Locally employed administrative worker, Female, aged 28, living with a university lecturer and two children.	Locally employed director, Female, aged 32, living with professional partner, no children.	Regional CEO of large corporate conglomerate, Male, aged 52, living with wife and three teenage children, housekeeper / au pair.

Global billionaire	
Head of household	Owner of large corporate conglomerate, Male, aged 60, living with wife, two children and staff.

Islands of wealth

In terms of economic output, global cities significantly outperform their home countries. A nodal point for multi-national companies and financial institutions, they generate wealth on a per capita basis well in excess of that in their respective countries (Graph 1).

This is a trend echoed in the top tiers of their housing markets. Wealth is funnelled into these cities from a global elite of multi-millionaires and billionaires who invest in real estate for different reasons and with a different source of wealth from the rest of the population.

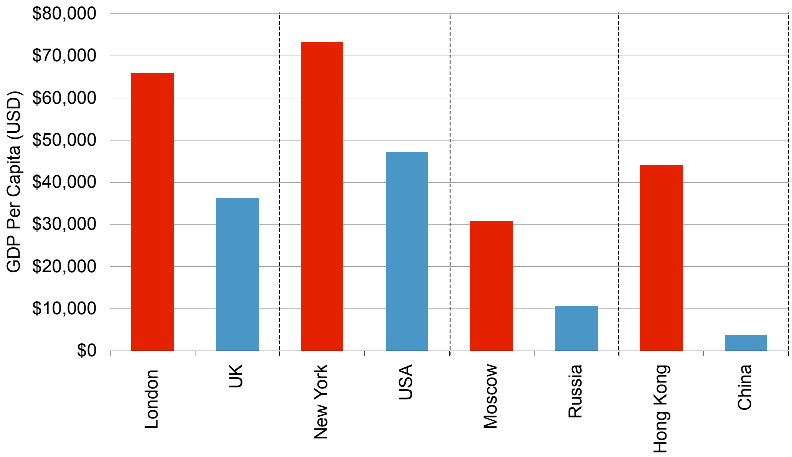
Our analysis of the properties occupied by the super-rich demonstrates that the Global Billionaire inhabits an international realm that transcends national borders, very much detached from the rest of the market. The average value of the homes occupied by the global super-rich is around double that of a Regional CEO. Unit prices range between £33 million in Hong Kong to £12 million in New York. On a standardised price per square foot measure (gross internal area), they range from almost £6,500 per square foot in Hong Kong to just under £2,500 in New York, just over £2,500 in Moscow and £3,000 in prime London (Graph 2).

The properties of Global Billionaires are as impressive in their size as they are in their price (Graph 3). The largest urban, billionaire properties in these global cities were in London. Here the wealthiest individuals would typically occupy a house (while in Moscow and New York it would be an apartment). These houses have the largest floorspace in this tier (some 7,900 sqft). Global Billionaires in New York enjoy the second largest amount of space, typically occupying a large modern condo (6,500 sqft). Condos offer more flexibility and fewer restrictions than a more traditional co-operative unit.

Moscow city billionaires occupy the smallest amount of space when in the city of the four studied, but this is compensated in the size of the accompanying 'leisure' property. The Russian Dacha is a long established part of national culture, and Moscow's rich invest significant sums in these dwellings. As a consequence, these leisure properties were found to be →

GRAPH 1

Global city wealth generation

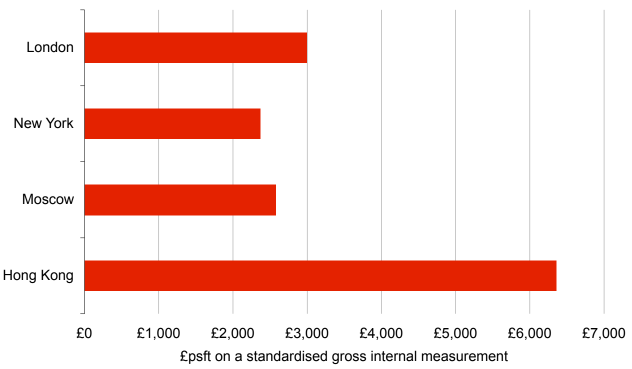


Graph source: Savills Research / PriceWaterhouseCoopers

Left: Thai leisure properties are popular second homes for Hong Kong residents

GRAPH 2

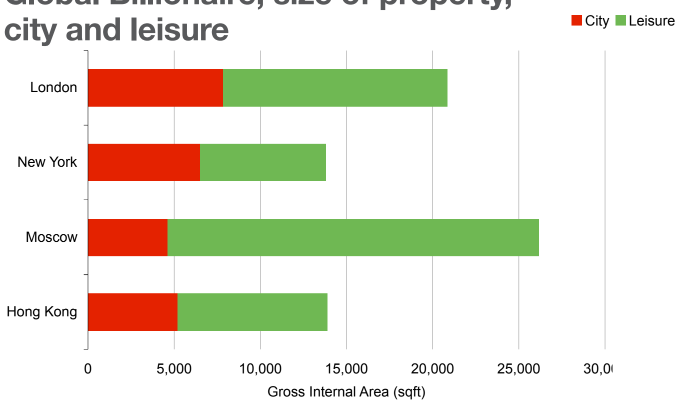
Global Billionaire, £psft city property



Graph source: Savills Research

GRAPH 3

Global Billionaire, size of property, city and leisure



Graph source: Savills Research

Left: High-end condo developments are popular with Global Billionaires in Manhattan

the largest among the countries under study. A second home outside Moscow occupied by a Global Billionaire will typically span in excess of 20,000 sqft.

Hong Kong's prime properties, despite their high-price tags, are almost as compact as Moscow's, but still significantly larger than the national stereotypes might suggest. In Hong Kong, space is at a premium. A city of steep terrain and limited developable land means that large houses are rare. So a Global Billionaire's house on the Peak or in Shek-O Road might typically span 5,200 sqft. As in Moscow, the leisure property in Thailand somewhat compensates for this, typically covering more space. Beach-front properties, located in resorts such as Phuket and Krabi, would offer floorspace of around 8,600 sqft.

> "The properties of Global Billionaires are as impressive in their size as they are in their price." Paul Tostevin, Savills Research

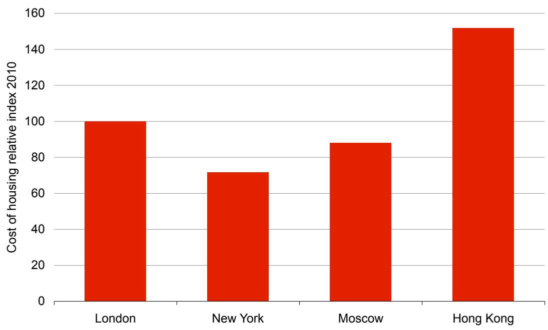
The executive unit

At the locally employed, lower end of the market, our comparative measure tracks the total cost of housing a basket of employees the 'executive unit' – in the four cities (see methodology box-out on page 2). The comparative cost of housing the executive unit at December 2010 is shown in Graph 4. Hong Kong stands out as the most expensive, with the total cost of property a third more than London and Moscow, and double that of New York.

For those working at administrative and director levels, London offers good value housing in a global city context (Graph 5). London is the cheapest location for local employees at this level, who are likely to occupy the more far-flung 'metroland'

GRAPH 4

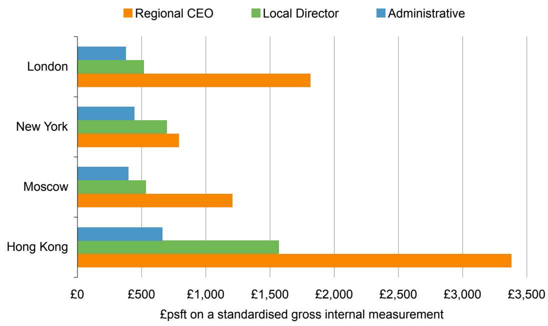
Comparative cost of housing 2010, executive unit



Graph source: Savills Research

GRAPH 5

£ per square foot 2010 in local currency constant prices



Graph source: Savills Research

suburbs which characterise most of the outer boroughs.

The reluctance of ordinary home-owning London families to occupy flats, as well as a preference to own freehold plots with gardens also pushes this population into the house-dominated suburbs. This relatively cheap (by global standards) housing may of course come at the price of longer and costlier commuting times.

The unique characteristic of London is perhaps the opportunity to trade size and cost for travel. Meanwhile the high-rise and more compact characteristic of Manhattan, coupled with the willingness of families to occupy apartments offers ordinary New York workers an opportunity to live in quite central areas of Manhattan – albeit in smaller units by global standards (Graph 6 & Graph 7)

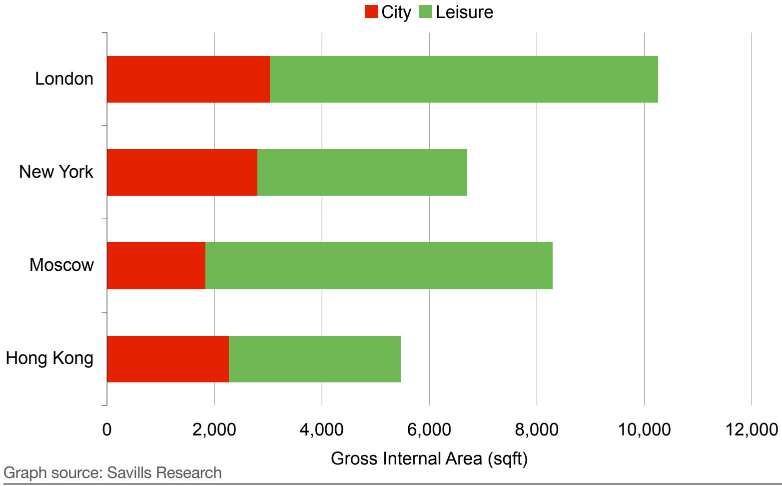
The type of properties occupied by a Regional CEO in London are large by global standards, reflecting the likelihood of this occupier living in a house. By contrast, this tier of occupier in the other cities would be more likely to live in an apartment (Graph 6). In Moscow, small city properties are again compensated by larger leisure properties. The leisure property of a Regional CEO on the outskirts of Moscow might typically span 6,500 sqft.

Perhaps surprisingly, among homes for Local Directors, Hong Kong provided the largest properties (Graph 7). Modern apartments in the Mid-Levels district of Hong Kong targeted at this group are comparatively spacious, at around 1,500 sqft. However, it is far less likely that this group would own a second, country cottage or cabin as they might in say London or New York.

> "The rate of price growth in the residential markets of Moscow and Hong Kong has been spectacular."

GRAPH 6

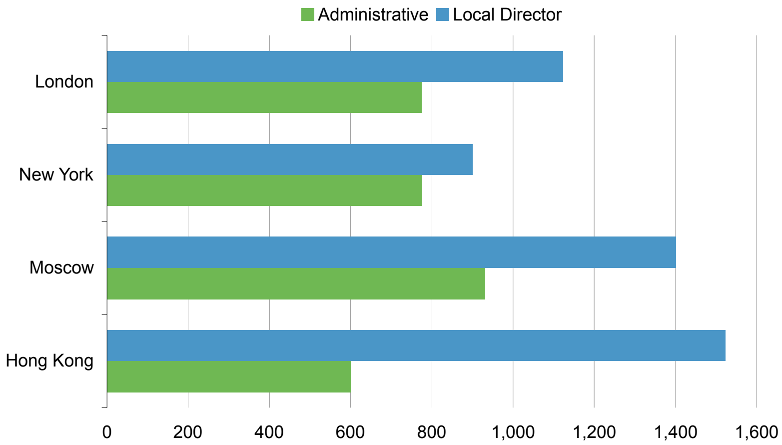
Size of property, Regional CEO



Graph source: Savills Research

GRAPH 7

Size of property, Local Director, Administrative



Graph source: Savills Research

Only at the bottom tiers of the Hong Kong market does space here become limited. An administrative worker and their family here would typically occupy an apartment of just 600 sqft.

Five year performance

The cost of accommodation has been increasing in the last five years everywhere but New York which now looks 'good value' against other cities. As short a time ago as 2005, the costs of residential accommodation in each of the four cities looked broadly similar, with Moscow particularly cheap by comparison.

By the end of 2010 however, Hong Kong is considerably more expensive than London, Moscow fast catching up, and New York is now the most affordable city.

Graph 8 (overleaf) shows the cost of accommodation indexed in local currency, as a constant price index. In local currencies, there is a notable volatility in the Hong Kong and Moscow markets. All markets peaked in 2007, with the exception of New York which saw continued growth into 2008, only suffering falls after the collapse of Lehman Brothers.

The rate of price growth in the residential markets of Moscow, and in particular, Hong Kong has been spectacular. In Hong Kong, on a GDP £ per square foot basis, the type of property occupied by a Local Director increased in value 73% from 2005 to 2010. Growth was even more substantial at the very top of the market, where super-prime property suitable for the Global Billionaire grew 148%.

Above: Super-prime property in Hong Kong, in locations such as The Peak (pictured) and Shek-O saw impressive value growth between 2005 and 2010

This rapid increase in Hong Kong residential values has been fuelled by Chinese mainland investors. These equity rich purchasers have high levels of capital to invest, and Hong Kong property is seen as a safe deposit of wealth. Mortgages too, have remained affordable with low interest rates set by a Hong Kong dollar pegged to the US dollar.

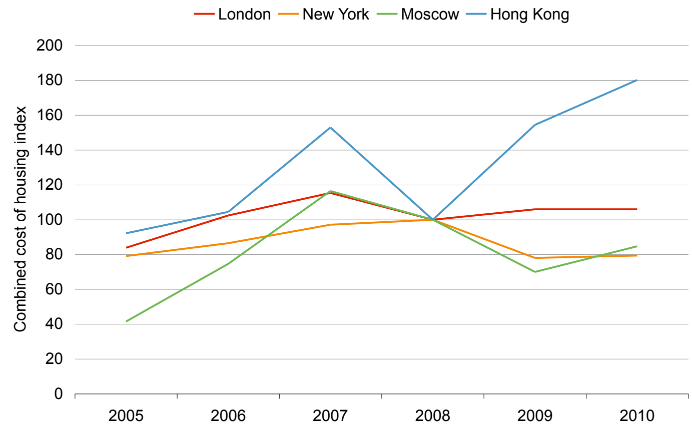
Viewed in local currency London Prime markets have not seen such spectacular value growth, but have proved comparatively resilient to the global recession.

Buoyed by a steady flow of international buyers and favourable exchange rates, the value of property suited to a Regional CEO fell just -9% between December 2007 and December 2008. Such stability in values reflects London's continuing appeal as a 'safe deposit' for international buyers.

Conversely, residential property in New York was the only city to see overall value falls in some property categories in the last five years. The value of prime and mid-tier property, that suited to a Regional CEO and a Local Director, was down -7% and -5% respectively.

GRAPH 8

Cost of housing measure in local currency (constant prices index)



Graph source: Savills Research

TABLE 1

5 year performance, cities (executive unit) versus countries (national house price index)

	London / UK	New York / US	Moscow / Russia	Hong Kong / China
City	26%	0%	104%	95%
Country	6%	-27%	94%	59%

Data source: Savills Research, Nationwide, Case-Schiller, Russia Federal State Statistics Service, Hong Kong Ratings and Valuation Department

The US housing market has suffered badly since 2006, as mortgages dried up and the housing market bubble deflated. Nonetheless, New York, as a global city, significantly outperformed the national average over the same period, which recorded falls of -27% according to the Case-Schiller 20 city index, compared to 0% across our executive unit measure (Table 1).

New world volatility

While Moscow and Hong Kong saw huge overall capital value growth over the last five years, this came at a time of significant price volatility.

The performance of the Moscow residential markets, particularly among prime property, is closely related to Russia's oil and energy industry. As a consequence, Moscow's residential markets suffered in 2008 and 2009 as global demand for the country's energy resources plummeted and the economy went into recession.

Values across our basket of properties fell by 40% in Moscow from a 2007 peak to a 2009 trough (Graph 9). This trend was even more pronounced in the top tiers of the market, where values fell by -51% between 2007 and 2009. These markets then bounced back following oil price rises during 2009, and by 2010, values in these prime residential categories rose some 31%. This equates to high volatility, as illustrated in Graph 10.

In Hong Kong, residential markets experienced sharp price falls during the global financial crisis of 2008, with values dropping some -35% (Graph 9). A key global financial centre, occupier demand and buyer confidence was hit in those parts of the market driven by expat demand – the 'Regional CEO' property category fell by -44% over the period.

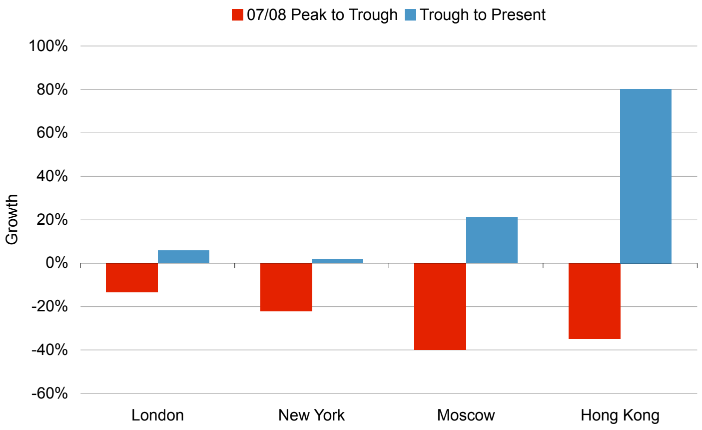
By December 2009, prices in Hong Kong had returned to 2007 levels, and by December 2010, they had increased some 80% from their 2008 low. This was despite government measures to cool the market, aiming to tighten mortgage requirements, guard against speculation, and increase land supply. Any impact this had was marginal and limited to the mainstream market. As a consequence, price growth volatility is high, especially at the top tiers of the market (Graph 10).

Changed world order

From the perspective of the international purchaser, a new world order is emerging among these global cities. For those purchasing in USD, London was the most expensive destination for the footloose individual prior to the 2008 downturn, but

GRAPH 9

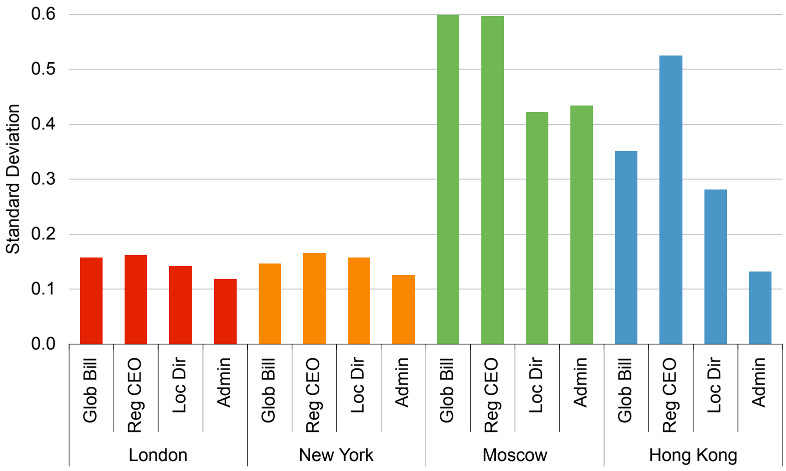
Change in value from peak to trough, and through to present (local currency)



Graph source: Savills Research

GRAPH 10

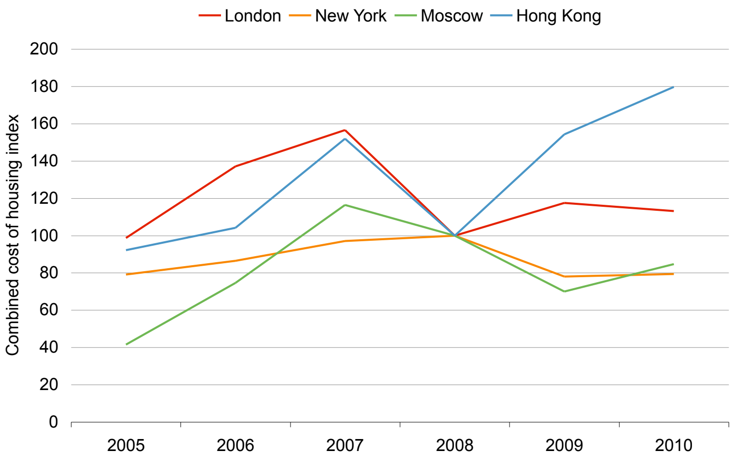
Standard deviation by household type, 5 year growth (local currency)



Graph source: Savills Research

GRAPH 11

Cost of housing measure in US$



Graph source: Savills Research

exchange rate fluctuations mean it has dropped behind Hong Kong in cost terms, now, with Moscow fast catching up.

The strength of the pound made London an expensive international housing destination prior to the global economic crisis of 2008. The subsequent weakness of the pound heightened London's falls in dollar terms, making it good value for overseas buyers. A large proportion of London's value was removed by a weakening of sterling rather than in nominal price terms (Graph 11). This new affordability has seen overseas equity increasingly dominant in higher value London markets, with foreign nationals accounting for 60% of all buyers of central London property between £5 million and £10 million and 70% over £10 million.

By contrast, New York did not suffer (or enjoy) the same currency adjustment and, being a less cosmopolitan market than London with a strong rental market. New York has not benefited from the same influx of overseas money as some other global cities.

Rental markets

Drivers of rental values in the upper tiers of the market tend to be corporate allowances, and these global cities are left exposed when expats return home. All cities experienced rental value falls between 2007 and 2009, fuelled in part by a contraction of corporate occupier demand following the fallout in the global financial services sector (Graph 12). Nonetheless, rental values fluctuated less than capital values between 2005 and 2010, the exception being Moscow, which suffered in the sharp recession it experienced in 2009.

All markets are currently experiencing a bounce-back in rental value growth, especially in Moscow, reflecting wider economic recovery. In London, rental growth remained relatively subdued in the corporate sector reflecting low activity, but there area signs of increased stock shortage and upward pressure on rents.

These changes leave Hong Kong the most expensive of the four cities for renting, based on comparative analysis of the cost of housing the executive unit. Hong Kong is 12% more expensive to rent than London, and 35% more than New York, and double the cost of Moscow (Graph 13). The total cost of renting can in part be attributed to the strength of the multi-national institutions that operate in these cities, and the corporate demand they bring, coupled with limited supply.

TABLE 2

Yields, executive unit

	Dec 05	Dec 06	Dec 07	Dec 08	Dec 09	Dec 10
London	6.0%	5.3%	4.8%	5.2%	4.6%	4.7%
New York	4.3%	4.3%	4.0%	4.4%	5.1%	5.0%
Moscow	8.4%	8.2%	6.6%	6.7%	5.6%	5.8%
Hong Kong	4.0%	3.8%	3.4%	4.3%	2.8%	2.6%

Data source: Savills Research, Nationwide, Case-Schiller, Russia Federal State Statistics Service, Hong Kong Ratings and Valuation Department

Yields

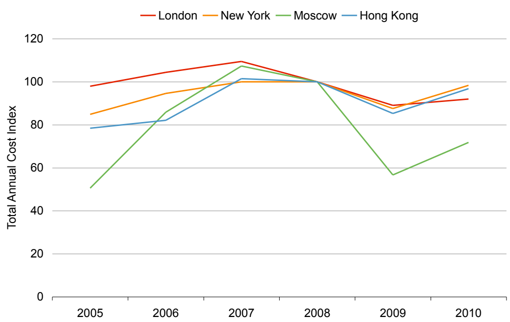
The recent high capital value growth has suppressed yields everywhere but in New York where suppressed capital values, combined with rental growth has kept yields at over 5% (Table 2). Here, average rental returns to investors buying a portfolio of properties for the group of people comprising our 'executive unit' moved out from 4.3% to 5% over the 5 year period. In Hong Kong by contrast, extreme capital growth means that gross rents now only account for a 2.6% return, compared with 4% in 2005. This makes renting a distinctly cheaper option than buying when relocating between cities.

London, too, has relatively low rental returns averaging 4.7% across the weighted basket of properties while Moscow enjoys the highest yields of 5.8%. This means that the capitalised cost of renting in this city is closer to the costs of buying.

"Hong Kong is 12% more expensive to rent than London and 35% more than New York, and double the cost of Moscow." Yolande Barnes, Savills Research

GRAPH 12

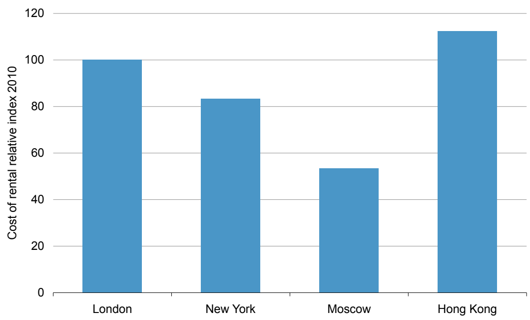
Cost of rental measure, local currency (constant prices, indexed 2008)



Graph source: Savills Research

GRAPH 13

Comparative cost of renting 2010, executive unit



Graph source: Savills Research

SUMMARY

The key findings in this document

■ The global residential markets of London, New York, Moscow and Hong Kong display some unique qualities, particularly apparent when viewed on the lines of those from the 'old world' and those from the 'new'. The mature residential markets of the old world offer stability and security of investment, while those in the new provide potential for huge capital value growth, albeit at the risk of volatility.

■ Nonetheless, the residential real estate markets of these four global cities seem to have much more in common with each other than they do with the geographical country in which they sit. Global flows of equity are key to the health of the residential markets of these leading cities, while the creation of wealth in emerging markets over the next decade will ensure that the residential markets of the new world cities will continue to grow – regardless of domestic market conditions.

■ The migration of this wealth across the globe has the biggest impact on the billionaire markets, which operate quite separately from their 'home' markets. It is telling that, in each of these four cities, the international billionaire occupied a home three times more valuable than the other three household levels combined.

Above: The performance of prime property in Moscow is closely related to the oil markets

■ By attracting the super-rich the luxury tiers of residential markets in these four global cities have been more resilient than the rest of the property market in the surrounding countries. Equally, these markets are vulnerable to wealth destruction in these tiers and may suffer at times when their domestic markets are thriving, such counter cyclical behaviour may be seen as beneficial to some investors.

■ At a broader level, the success of the 'rich list' markets in these cities also depend on them continuing to compete as desirable places. Within the virtual global continent of 'Richistan', it is important to be seen in the right places. These cities will need to continue to be seen as 'the right place' by the global elite who inhabit the premier streets if they are to continue their outperformance of local markets. ■

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