12 Cities
Real estate costs of living and working around the world

ON THE MOVE
Flows of people and real estate markets in world cities
Understanding the real estate markets of our 12 cities means getting to know their physical natures and personalities as much as their pricing regimes. Each city contains numerous layers of infrastructure that help to create city character. In our last issue we started to examine one aspect of this infrastructure – street patterns and population densities of each city. In this issue, we have put the public transport systems of our cities under the microscope. Although just one aspect of a city’s personality, these arteries play a significant role in determining the way that people interact and how they can use a city.

The extent, speed and cost of transport infrastructure can dictate very different lifestyles for citizens and shape the longer-term economy of a city, as well as affecting environmental health through factors such as air pollution, walkability and noise. Sometimes, lack of affordable transport creates long and difficult journeys to work and play. In other instances, good transport can shrink a city by putting people in touch with far-flung neighbourhoods and disparate workplaces, bringing them together and enabling a city to function at its full potential.

As we turn our eyes toward 2020 and ponder the future trends that will shape our world cities, the legacy of past infrastructure investments will either cloud the horizon or brighten it. Those responsible for shaping cities now should be aware of how their strategies will affect urban life in the future. The cities that have turned their backs on walkable and intense streetscapes, common to most pre-automobile cities across the world, may find that compensating for this loss comes at great financial, human and environmental cost. There will be additional pressures on transit systems. The cost and adequacy of these could determine a city’s longer-term prosperity.

The rest of this report looks at the shorter term. It examines how new forces have changed the ranking of real estate costs and values in our cities. It also shows what different economic, geopolitical and natural events have occurred over the time that we have been monitoring these markets, and identifies what factors may continue to shape them in the near future.

‘Lack of affordable transport creates long and difficult journeys to work and play’

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RESEARCH METHODOLOGY

In order truly to compare the cost of residential and commercial real estate across different global cities, we use the Savills Executive Unit (SEU), which measures the cost of housing an identical group of people living and working in different countries. The people who make up our SEU include one middle-aged expat CEO, one senior expat director, a locally employed director and four locally employed administrative staff. They each live in different types of household and each member of the group chooses different types of locations and different types of property in which to live.

To measure office costs, we place the same seven people in an office of a small financial services firm and again in a creative start-up – each located in the most appropriate district for their industry type.
Snapshot of three interesting global real estate trends

### STUDENT HOUSING

Student housing has grown into an exciting new global asset class

Mobile and globalised student population spawns a new investment class in student accommodation. New wealth has fuelled the numbers of Asian students seeking an English-language education worldwide and there’s pressure for limited quality accommodation in many cities, which means attractive investor returns.

In mature markets, student housing looks distinctly counter-cyclical, one of the best-performing sectors during the global financial crisis (see fig. 1).

The business of providing purpose-built, professionally rented student accommodation is established in the US and is maturing in the UK, but other countries are earlier on the investment curve. This offers investors new opportunities. Australia benefits from English language and proximity to fast-growing Asian markets. So student housing is set to continue.

Below: The student accommodation sector is expanding. Above right: Global agricultural returns are set to continue.

#### SUPERCOMMUTERS

Supercommuters are choosing to work and live in two locations

Ultra high net worth individuals (UHNWIs) fall into two distinct groups when choosing where to live. There are the ‘Dispensers’, who set up residence in glorious isolation or return to their various hometown roots. Then there are the ‘Agglomerators’, who cluster in particular hotspots around the globe, including world cities.

Most ultra-wealthy households have more than one home and their international business and leisure interests mean that these very often span continents. Consequently, commuting for this group takes on a whole new meaning.

An analysis of UHNWI real estate holdings reveals that there are five main ‘supercommuting’ routes that are well travelled by UHNWIs on a regular basis, often in private jets, as they move between homes (see fig. 2). London, thanks to its convenient time zone, culture and cosmopolitan character, is often the nexus of these home hubs.

In Europe, the London to Monaco route is a well-worn one and likely to become more so as Monaco’s status as both tax haven and leisure destination increases. Meanwhile, historic and cultural ties are apparent in the Sydney to London and London to Mumbai (or Delhi) supercommutes.

New York acts as a US hub between Europe, through London, and the Pacific rim, through LA. There are also many internal North Americans supercommutes between centres of leisure and business. That they are so contained within the US is testament to the sheer variety of environments and cities available there.

Many Asian supercommute pairings combine leisure or homeland with a business safe haven for newly created wealth. The Singapore to Jakarta axis is a good example of this, while Shenzhen to Hong Kong provides residents with a foothold in both mainland China and trade-friendly Hong Kong. See: Spotlight on The World in London 2014 www.savills.co.uk/research

### GLOBAL FARMLAND

Investors are looking for income in developing farmland markets

Agricultural land has long been considered a ‘safe haven’ asset, like gold, resilient during times of economic uncertainty. Investors are now broadening their horizons to new global agriculture markets with an eye on greater income returns.

Asian diets have become more westernised and this is also underpinning the demand for farmland globally.

The Savills Global Farmland Index shows capital annualised growth since 2002 of 20%, with the highest growth recorded in the emerging markets of Romania, Hungary, Poland, Zambia, Brazil and Mozambique. The star performer over the 10 years to 2012 was Romania, where average farmland values grew by almost 40% per year (see fig. 3).

These returns have encouraged investment but infrastructure is key to success. Values are highest where there is access to ports, highways and railroads, aiding distribution and maximising farm profits.

Access to a natural water supply and irrigation systems is also a key factor as is the regulatory environment which varies significantly by country.

Some western agricultural markets have been saturated with lifestyle investors and this has pushed pure agriculturalists to search for real income returns, underpinned by crop yield. We expect this search for global agricultural returns to continue.

See: Savills Internationals Farmland Focus 2014 www.savills.co.uk/research

#### FIG. 1: Annual investment into student housing (deals greater than $7.5m)

<table>
<thead>
<tr>
<th>Year</th>
<th>US</th>
<th>UK</th>
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</tr>
<tr>
<td>2009</td>
<td>$1,000m</td>
<td>$2,000m</td>
<td>$3,000m</td>
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<tr>
<td>2010</td>
<td>$2,000m</td>
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<tr>
<td>2011</td>
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</tr>
<tr>
<td>2012</td>
<td>$8,000m</td>
<td>$16,000m</td>
<td>$24,000m</td>
</tr>
</tbody>
</table>

Source: RCA

#### FIG. 2: Five major UHNWI city pairs

- London to Monaco
- Sydney to London
- London to Mumbai
- New York to London
- Los Angeles to London

Source: Savills World Research, WealthX
A question of cost

London has overtaken Hong Kong as the most expensive world city

The big story this year is that Hong Kong has ceased to be the most expensive of our 12 cities in which to rent living and working space (see fig. 4). It had previously topped the ranking for the past five years. A combination of falling residential rents and, most importantly, a weakening currency, has increased cost competitiveness in the city. This means London is the most expensive city in which to accommodate staff. Working against London has primarily been sterling’s appreciation against the US dollar, up until June 2014. This, coupled with significant increases in office rents, has pushed up London’s total costs in dollar terms.

Despite its climb in the rankings, London is still a way off the record cost of living in Tokyo. live/work costs per employee per year have risen 58% in dollar terms over the period. Modest falls in residential rents in the first part of 2014 have been offset by strong rental increases in the office markets. Paris, in spite of modest increases in costs since 2008, now sits fourth in the rankings, outperformed by London, Hong Kong and New York in recent years. However, Paris is still the most expensive city for tech companies, beating even London. Space for creatives in the French capital is simply in shorter supply than for the finance industry.

In Tokyo, improving economic conditions in Japan have spurred rental rises, pushing up Tokyo’s live/work costs by 3.6% in dollar terms over the past six months. But Tokyo’s competitive position has been helped by the depreciation of the yen, so costs for our SEU are now on a par with Singapore. Compared to 2008, Tokyo’s live/work costs have fallen 23%, pushing it from third to fifth in our rankings.

The ‘golden confluence’ of improving economy, rising rents and better competitiveness makes the city increasingly attractive to investors, especially those seeking income.

At the other end of the table, comparatively affordable Rio de Janeiro and Sydney have seen significant increases in live/work costs since 2008, up 86% and 58% respectively. Mumbai has seen costs fall 21% in dollar terms, as India’s economic growth faltered over the period.

Mid-table, Dubai, meanwhile, has seen volatile live/work costs that are currently 16% below their 2008 levels. This makes the emirate more affordable on the global stage than it was at the height of the boom.

As global interest in the city increases, total costs have grown by 25% in the year to June 2014 alone, so Dubai’s advantages may be short-lived if this continues.
Transport is key to economic growth, especially when it comes to getting people to and from work

The development of technology and advances in engineering means newer metros run faster than older ones.

**COMMUTE TIMES**

Based on the public transport commutes of our Savills Executive Unit (SEU), the average times on older transport networks are double that of the newest on a per kilometre basis (see fig. 6).

These commutes say as much about the locations in which different employees choose to live as it does about the nature of the transport networks (see fig. 7). In New York, where staff favour living more centrally, the average commute is just 19 minutes. By contrast, the more dispersed nature of Rio, Mumbai and Shanghai means that people spend longer commuting, despite faster travel times on a per kilometre basis. Here, administration level staff live far from the centre, priced out of the best neighbourhoods and experiencing income inequality.

Dubai is characterised by relatively long average travel distances (18km on average), but journeys take less than 45 minutes on average. The Dubai metro, having opened in 2009, has significantly reduced commute times in the city. However, driving is still the favoured mode of transport because fuel is cheap.

**THE WAY TO WORK**

Not everyone in our world cities takes public transport. CEOs in Shanghai and Moscow are more likely to be chauffeur driven to the office, while their peers in New York may use a car service. Local employees in the early stages of their careers will commonly take public transport across all cities. Those working in creative industries, however, are more likely to cycle or take the bus than their counterparts in the finance sector, who tend to stick to the subway.

**TODAY’S METRO**

Today, underground or metro networks, and associated transport infrastructure, are the oil in the cogs of the world’s great cities. These systems are constantly being expanded and updated to meet the needs of dynamic modern cities. Some, such as London, Paris and New York, have well-established systems, dating back 100 years or more. Others have introduced this infrastructure in recent years as their populations have increased. Fast-growing Shanghai has only had a metro system since 1993 but is already the world’s largest by system length. The first phase of Munich’s metro only opened this year.

Despite being one of the newest systems, Shanghai’s metro is the most heavily used, with 2.5 billion journeys taken each year. The highest ridership per kilometer of track is Rio de Janeiro’s metro, where 9.8 million ride each year per km (see fig. 7). However, this small network is focused on the high-volume central districts (the entire system is just 41km in length).

**1863**

The year London’s Metropolitan Railway began operating, making it the world’s oldest underground system

The number of stations on the New York metro network, more than any other city

**538km**

The operating route length of the Shanghai Metro – the world’s longest

**421**

**Fig. 7** Average SEU public transport travel times

**Fig. 6** Public transport travel times and age of system

**Fig. 5** Metro system

More than 15 billion journeys per annum are made across the combined metro systems of our 12 cities. These are vital pieces of infrastructure that enable cities to function and grow. But the scale and function of transport systems, and the way they are used by local residents, varies significantly around the globe.

**EARLY STAGES OF THE METRO**

The first underground railway in the world, the Metropolitan Railway, was opened in London in 1863 and revolutionised transport in the capital. The network has since expanded to 270 stations over 402km of track. The system has shaped the urban fabric of London, with whole new suburbs created by the expansion of the underground into ‘metroland’, putting central London employment within reach of home-owning classes. The mobility that this infrastructure in recent years as their populations have increased. Fast-growing Shanghai has only had a metro system since 1993 but is already the world’s largest by system length. The first phase of Munich’s metro only opened this year.

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### Metro

**The operating transport networks and urban reach for our 12 world cities**

**Key**
- Central transport network
- Secondary central network
- Tertiary central network
- Rail network
- Rail network terminates

**Scale**

<table>
<thead>
<tr>
<th>City</th>
<th>Population</th>
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<tr>
<td>Hong Kong</td>
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</tr>
<tr>
<td>New York City</td>
<td>8.4m</td>
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<tr>
<td>Greater London</td>
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<td>Île-de-France</td>
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<tr>
<td>Moscow City</td>
<td>12.1m</td>
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<tr>
<td>Tokyo Prefecture</td>
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</tr>
<tr>
<td>Singapore</td>
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<td>Greater Mumbai</td>
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<tr>
<td>Greater Sydney</td>
<td>4.6m</td>
</tr>
<tr>
<td>Île-de-France</td>
<td>11.8m</td>
</tr>
<tr>
<td>Dubai Emirate</td>
<td>2.2m</td>
</tr>
<tr>
<td>Greater Sydney</td>
<td>4.6m</td>
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</tbody>
</table>
The price of residential property in world cities affects the ability of firms to attract the best staff. The residential sectors of our 12 global cities are shaped by a variety of factors. The value of mainstream residential real estate is more likely to be determined by the domestic economy, while prime property is more aligned to international forces.

International businesses operating in world cities compete for a global pool of talent. For those looking to hold on to the best staff over the long term, the costs associated with purchasing or renting residential accommodation become highly relevant—as does the quality of life available in a city.

Often a city will be as much an attractor of human capital as the company itself. The number, choice and characteristics of residential neighbourhoods, accessibility to work, and the cost and affordability of accommodation will all play a part in an organisation’s ability to attract staff. The price of residential accommodation will also help to determine the size of salaries and allowances needed to retain that talent.

The first chart on the opposite page shows the average values for the homes occupied by the CEO and executive unit (SEU) on a square foot basis (see fig. 8). The homes of the CEO and directors are considered ‘Prime’, while those of the administrative, ‘Mainstream’. Our analysis highlights the difference between Hong Kong and ‘the rest’. Prime prices in Hong Kong, at just over $4,000psft, are four times those of Dubai and more than twice those of Singapore. Space, particularly prices in Hong Kong, at just over $4,000psft, are four times those of Dubai and more than twice those of Singapore. Space, particularly prices in Hong Kong, at just over $4,000psft, are four times those of Dubai and more than twice those of Singapore.

PRIME MARKET ENTRY LEVEL
While Hong Kong tops the ranking for mainstream values at $1,300psft, the gap between it and other cities in this sector is

22.8%
The price growth in Dubai’s residential markets for H1 2014

less marked, with London ($1,100psft) and New York ($1,100psft) not far behind. It is notable that in most cities there is an entry level for prime markets at or around US$1,200. Prime values rarely fall below this in developed economies. It is as if the international market and elite workforce in world cities set their own international standards. This means that domestic markets can vary from prime markets to widely differing extents.

In New York, for example, the mainstream markets are little different to prime, on the other hand mainstream values in Shanghai are relatively low by global city standards ($400psft) but prime property values are on a

par with Tokyo and New York ($1,500psft).

This means that different types of employers will find residential prices less critical than others when choosing cities in which to locate. Those employing or seeking to attract elite employees may find some cities little different compared to others, while those employing more administrative staff will find residential costs more critical.

Rio de Janeiro offers the cheapest accommodation on a price per square foot basis in both the prime ($700psft) and mainstream (less than $100psft) sectors. Properties in Rio — along with other cheaper cities — tend to be larger, thereby diluting values on a square foot basis.

Sydney ranks mid-table for mainstream values ($500psft) but ranks low for prime prices per square foot ($850), largely because prime Sydney properties tend to be much bigger than their international counterparts. Here the most desirable prime properties are often very large houses, rather than city-centre flats.

REPUTATION FOR VOLATILITY
Mid-table Dubai continues to record extremely high property growth in its residential markets, with values up 22.8% in the first half of 2014 along with fig. 9. Mortgage caps and the doubling of property transfer taxes from 2% to 4% appear to have little impact on the market, perhaps because investors are aware of the fact that prices in the emirate are still 28.2% below their 2008 peak and, at the same time, rents are rising substantially (12% in H1 2014). As current price rises are taking place against a relatively recent backslap of big price falls, Dubai is likely to retain its reputation for volatility.

Over the first half of 2014, London and New York’s residential markets performed strongly as recovery in the UK and US economies continued. Residential markets in both cities have been driven by domestic purchasers taking advantage of low interest rates. In both cities, strong prime markets have abated somewhat offsetting the gains at the lower end of these markets.

Tokyo’s residential sector continues to gain momentum after decades in the doldrums. Capital values here were up 3.3% in the first half of 2014, more than all the growth in the seven years since 2007. In Rio, residential property continues to show price growth, but at half the rates seen just four years ago. Meanwhile, inflation in Brazil is running at 6.3%, so house prices are falling in real terms.

At the other end of the spectrum, Shanghai, Paris and Singapore all posted price falls over the first half of 2014. Shanghai and Singapore are both feeling the effects of government cooling measures (as is Hong Kong, but falls in the prime sector here have been offset by gains in the mainstream market). Paris, meanwhile, continues to suffer from relatively low demand in a sluggish eurozone economy.

FIG. 8 Prime and mainstream residential capital values psft

FIG. 9 Residential price growth

Source: Savills World Research

Source: Savills World Research

Source: Savills World Research
Rent markets are driven by occupier rather than investor demand and have had a far less turbulent time than the sales markets over recent years. The Savills World City Rental Index has appreciated by 55.5% since 2005, less than half the growth seen in our Residential Capital Value Index over the same period, which is up by 121.8% (see fig. 10). Sustained levels of capital value growth over and above rental growth have reduced yields, from a global average of 5.3% in 2007 to 4.4% at H1 2014.

Income-seeking investors are now targeting their activity in select markets. New York has already enjoyed increased demand for investable stock, although entry points are limited (given the dominance of cooperatives in this market). Yields in Paris are rising and canny foreign investors are taking advantage of a weak domestic market to snap up suitable properties.

In London, yields are reducing as capital values outpace rents. However, higher-yielding outer London and secondary locations are growing in attractiveness due to huge occupier rental demand for this kind of stock. Sub-3% yields in Hong Kong and Singapore failed to deter investors who chased capital value growth that, until recent years, had been spectacular (see fig. 12). With cooling measures now in full force, these days are over and we anticipate a modest upward movement in yields in coming years as occupier and investor demand re-aligns.

CORPORATE DEMAND

Some rental demand results from corporate relocation, which can be a key driver of the prime rental markets of the world’s top-tier cities. In the prime London residential market, for example, nearly half of all tenants rent due to employment relocation. The corporate market is also important to cities such as Hong Kong and Singapore, which have large financial services sectors and attract a significant number of workers and residents from overseas. In Mumbai, where foreigners are not allowed to purchase residential property, the rental market is the only option for, and closely linked to the success of, international corporations in that city.

Traditionally, the corporate relocation market has been fuelled by the financial and insurance services sector. In 2007, for example, 50% of tenants in London worked in this sector. But sector downturns in the wake of the global financial crisis, coupled with reduced relocations budgets, has seen these occupiers fall to just 39% of the market. The same is true of Hong Kong, which has seen the rapid consolidation of international banks dampening demand for prime residential property. The result is falling prime rents, which are forecast to drop by 15% by the end of the year.
World cities do not operate in isolation but are interlinked and heavily influenced by macroeconomic, political and social trends. They are particularly responsive to global events because each of them has an active international real estate market.

Our data on the top tier of global centres dates back almost 10 years. During this time we have witnessed some dramatic shifts in global real estate markets against a turbulent economic and geo-political backdrop. We saw markets peak in many western cities during the credit-fuelled boom of the Noughties and subsequently plunge after 2008 as the global financial crisis took hold. Some recovered quickly when global uncertainty pushed investors towards stable world cities, where prime real estate was seen as a safe haven commodity.

A few didn’t suffer any falls in the first place as their domestic economies continued to boom. In the ‘old world’, where domestic housing markets were particularly hard hit, some cities, most notably London and New York, held up better and outperformed their country’s domestic trends.

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The global economy stalls, Lehman Brothers files for bankruptcy, US Federal takeover of Fannie Mae and Freddie Mac

Dec 2008 Brent oil prices fall 59% in a quarter

Dec 2009 Dubai real estate bubble bursts – residential capital values fall by 56% and office rents fall by 47% in a year

Nov 2010 Special Stamp Duty implemented in Hong Kong to curb excessive property speculation. Residential values stand 81% above London’s

Jun 2011 Shanghai residential yields reach a low of 2.2% as market activity hits new highs

Jun 2012 New York residential yields peak at 6.9%

Jun 2013 Singapore private home sales fall by more than 80% in a year as cooling measures take effect

Mar 2013 Dow Jones index exceeds 2007 peak

Dec 2011 Singapore introduces additional stamp duty for foreign buyers, charged at up to 15% of the value of the property

Mar 2013 ‘Abenomics’, Japan’s economic recovery model, is initiated

Dec 2013 Dubai house prices rise 26% in the first six months of 2013

Mar 2013 Tokyo annouced as host of 2020 Olympic Games
London is arguably the most 'international' of the 12 world cities we monitor, but it risks becoming less competitive due to strong sterling and high real estate costs. Residential prices have risen 18.4% in the past year, buoyed by a strong domestic market and buyers and investors from around the world. At the heart of the UK’s economic recovery, London’s outperformance is anticipated to continue.

### 2020 Vision

- **Saturation of prime:** The safe haven credentials of London real estate are well rehearsed and its best residential and commercial assets have attracted investors seeking capital growth and/or the storage of wealth. But we anticipate that investors will be motivated by income returns as prime looks fully valued. This means greater interest in higher-yielding secondary locations in Greater London.

- **Affordability:** London now tops our live/work index by costs of renting commercial and residential property. Rising rents are putting pressures on affordability, which is a threat to London’s global competitiveness. For example, the availability of low-cost office space in and around Silicon Roundabout, coupled with affordable residential accommodation, helped put the capital on the technology map.

- **Infrastructure:** Crossrail 1 will provide a 10% increase in London’s transport capacity, but with London’s population set to grow by another million by 2021, Crossrail 2 cannot come soon enough. Crossrail 1 has already unlocked a slew of large development sites in east London and Crossrail 2 will do the same for parts of north and south London.
HONG KONG

Becoming more competitive as real estate costs and the HK$ fall

Hong Kong remains by far the most expensive city in which to buy residential property – 40% more expensive than London – but the gap is narrowing. Prime residential values have been hit hardest as cooling measures take effect, while rents are sliding due to weakening demand from the corporate sector. In the office markets, finance-focused Hong Kong has suffered as firms downsize and consolidate. As rents have risen much less than capital values, a period of consolidation is required if yields are to stabilise.

2020 VISION

Saturation of prime: Despite a recent record listing of a Victoria Peak property, at HK$2,660/sqft, prime prices fell by 2.7% in H1 2014. However, the market is polarised and the value of mainstream property has increased by 8.5%, a trend we expect to continue.

Infrastructure: The government’s capital spending between 2013 and 2018 is estimated to reach more than HK$70 billion per year, far exceeding the average annual capital expenditure of about HK$40 billion. A 26-mile Hong Kong-Zhuhai-Macao Bridge, subway extensions and a new high-speed rail link are planned.

Economy: If and when China opens up economically, Hong Kong may lose its role as China’s bridge to the wider world. There are calls to diversify Hong Kong’s economic base, dominated by financial services, tourism, trading and logistics, and professional services.

NEW YORK

Rents exceed former highs, but rising taxes could be a burden

New York rode out the global financial crisis better than much of the rest of the US. Prime residential prices are at 2007 levels, while rents have exceeded former highs, underpinned by solid occupier demand (68% of households rent). New York is a key global tech city and a shift in occupier demand is shaping its corporate office market.

2020 VISION

Rising costs: In the medium term, rising mortgage rates will dampen price growth in the residential markets. Rising taxes will also put a burden on the city’s real estate sector. New York’s mayor, Bill de Blasio, has pledged to tackle income inequality in the city and is proposing overhauling the property tax system to shift the burden to higher value property.

TOKYO

Abenomics halted fall in asset prices and real estate gains momentum

Tokyo’s real estate markets continue to gain momentum after years in the doldrums. Residential capital values alone were up 3.1% in the first half of 2014 (more than all the growth in the previous seven years), while office rents grew 5.4% over the same period. Tokyo’s main attraction is still income streams rather than capital growth, the latter limited by global standards.

2020 VISION

Foreign investment: Foreign investors, attracted by Japan’s revived growth, will help finance new projects in the city. Cross-border investment made up 14% of investment in Tokyo’s office market in 2013, up from just 5% in 2011. Residential schemes are also attracting higher levels of foreign investment from Asian neighbours.

Real estate in Paris has been hampered as a euro-denominated asset in a country posting relatively poor economic performance. Unlike London, the city hasn’t been able to buck the trend of its hinterland and price growth has been subdued, although office rents have continued to increase due to a lack of supply in central locations.

2020 VISION

Investment: Investor dislike of Holland’s government continues to be a factor in current market under-performance, but this means there are significant opportunities for international buyers to take advantage of a weak domestic market. Prime property remains cheap compared to London and prices have room to grow. Limited development opportunities in historic central Paris will keep supply constrained.

Economy: Challenges lie ahead in consolidating public finances, improving competitiveness and reducing unemployment. Weak economic growth is forecast, which will bear on the city’s commercial real estate markets.

Tourism: Paris is one of the world’s most popular tourist destinations, attracting 32 million visitors per year, half from overseas. In 2013, 1.4 million Chinese tourists visited Paris, with 1.8 million expected in 2014 and 47% of money spent during their stay being directly on shopping. This has fuelled huge investment in the luxury retail sector, which will remain important in coming years.

PARIS

Current market under-performance means opportunities for international buyers

Like Hong Kong, Singapore’s prime residential markets have slowed, while the mainstream market has continued to grow, driven by domestic owner-occupier demand. Economic growth has slowed in the city state, but Singapore’s diversified economic base underpins a robust office sector. Rents increased by 7.3% in H1 2014, second only to Dubai among the cities we monitor.

2020 VISION
Market controls: Cooling measures continue to bear on Singapore’s prime residential markets and the outlook remains challenging for the rest of 2014. Market controls are set to be a feature of Singapore over the coming years as it battles market movements and the outlook remains challenging for the rest of 2014. Office markets were flat in the first half of 2014, after a strong 2013. Affordability in the mainstream residential market is stretched, dampening price growth but continue to record small increases. Meanwhile, investor speculation continues to push values in the prime sector, with strength in the prime residential markets continuing to push values in the prime sector.

Moscow’s real estate markets are increasingly reliant on domestic demand and investment as Russian finance is self-marginalised. The residential markets posted modest price increases, while the office sector, hit by falling demand from foreign occupiers, saw price falls of 8.6% in the first half of 2014.

2020 VISION
Domestic demand: Moscow will face an increasing reliance on local money at a time when wealth generation in the country is slowing. A small pool of static, domestic, ultra rich may result in stagnation in the real estate markets. Moscow will face an increasing reliance on local money at a time when wealth generation in the country is slowing. A small pool of static, domestic, ultra rich may result in stagnation in the real estate markets.

Regeneration: The legacy of industrial areas in central parts of Moscow present opportunity for redevelopment to both residential and office use. This will help to support an expansion of the city’s prime residential markets.

Sporting events: The 2018 FIFA World Cup will put international eyes on Moscow and will be a catalyst for some major infrastructure improvements in the city. Nevertheless, opportunities for overseas inward investment will remain limited.

Sydney’s real estate markets enjoyed growth at a time when many other western markets were falling. As a consequence, recent price movements are off a high base. Office markets were flat in the first half of 2014, after a strong 2013. The test will be whether Sydney opens up its real estate market further to attract overseas money.
Dubai has had a turbulent time over the past decade, experiencing a boom and bust of an almost unparalleled scale. But as the city matures and finds itself better established on the world stage, its long-term prospects are looking more positive.

**2020 VISION**

Geopolitics: Dubai is establishing itself as a safe haven in the Middle East. In the office sector, general political instability in the region has pushed more occupiers to Dubai, resulting in lower vacancy rates in the prime districts. But the emirate also benefits from investment from the west and is a popular second-home destination.

Market regulation: Dubai may have experienced extraordinary price growth in recent years, but property values are still substantially less than in other major world centres. The Federal Mortgage Cup (off-plan purchases are now limited to 50% of loan-to-value), coupled with a doubling of the property registration fee (albeit to a still modest 4%) is translating into a slowdown in the number of transactions recorded, bringing some market stability.

Mega projects: Dubai will host World Expo 2020, which is anticipated to generate 277,000 new jobs and inject US$40 billion into the economy. This has instilled confidence in the real estate markets and has kick-started major projects shelved during the global economic downturn. Palm Deira has been rechristened Deira Island, providing residential, hospitality and retail development opportunities. New schemes will be supported by major infrastructure investment, including an extension to the Dubai metro and new river crossings.

**SHANGHAI**

Waning construction activity means an era of slower expansion

Shanghai’s real estate markets have been in limbo between huge demand from domestic investors, tighter credit conditions and cooling measures designed to check the rate of price growth. As a consequence, price growth has been flat.

**2020 VISION**

Economic liberalisation: A free trade zone has been established as a testing ground for a number of social and economic reforms. Change has been slow to materialise and questions remain as to how it will develop longer term. Economic growth is reliant on construction and waning activity in this sector is a risk. Longer term, the taming of construction ‘monsters’ will bring with it a slower rate of expansion.

Maturings wealth: Demand for branded luxury goods in China is showing signs of decline as tastes mature and ‘logo fatigue’ sets in. In Shanghai’s real estate market, big, bold and bling are still seen as desirable. In the longer term a demand for property that focuses on more authentically Chinese architecture may develop.

City-led policy: Chinese central government is allowing local governments to play a bigger part in deciding city policy. We expect to see more of this as China tests the waters with economic reform.

**RIO DE JANEIRO**

The excitement of the World Cup is over, property markets wait for 2016 Olympic fever

The real estate market in Rio de Janeiro experienced stratospheric levels of price growth in the past decade (residential values increased by more than 200% since 2008 alone), fuelled by an expansion of the credit markets, growing middle classes, new employment and foreign investment. But this has slowed and government discontent is increasingly visible.

**2020 VISION**

Social change: Brazil saw 40 million people join the middle classes between 2005 and 2011, bringing with them huge demand for products, services and real estate. The success of the next decade will depend on meeting the needs of this group and their demands on healthcare, education, city services and, importantly, housing. Crowded Rio is finding new development land in its pacified favelas, but at the expense of existing residents.

Infrastructure: With the World Cup over, Rio is key to the Olympics in 2016. Accelerated infrastructure projects, which include a revitalisation of the city’s historic port district, extension of the metro system and sanitation improvements, will be a benefit.

Economy: Brazil continues to suffer inflation and stagnant growth. Rising interest rates will stretch affordability in the residential markets and limit price growth. However, substantial price falls would appear unlikely given strong credit control and low levels of mortgaged indebtedness.

**MUMBAI**

Improved confidence in real estate markets stems recent price focus

Stability is returning to the Mumbai real estate market following May’s election. The Bharatiya Janata Party’s pro-development stance has brought solidity to the markets and eased uncertainty among the expat community. This has translated into confidence in the real estate markets and modest price increases.

**2020 VISION**

Supply: The Mumbai market has been characterised by high levels of new supply in recent years. We anticipate a rebalancing as occupier demand picks up with an improving economic outlook.

Infrastructure: The first phase of the Mumbai metro opened in June 2014 and carried 18.5 million passengers in its first two months. When complete, the system will comprise three high-capacity metro railway lines, spanning a total of 63km. The scheme has the potential to change the dynamics of real estate in the city, and there has already been an impact on prices in neighbourhoods that will benefit from improved connectivity.

Market liberalisation: The government is attempting to make India a more appealing investment destination. Limits on foreign investment in some sectors are to be lifted, while privatisation of state-held companies may be on the cards. The Indian finance ministry may introduce a regulatory framework to enable REITs to be listed in India. This would bring a new wave of capital into commercial real estate markets.
All the fun of the fair

Will the next five years be a white-knuckle ride or a gentle circulation for real estate owners and investors?

Our World Cities have had some very different experiences over the past five years and stand at different points in the property market cycle. Some ‘Old World’ cities like London and New York crashed after the North Atlantic financial crisis while others, like Sydney and Singapore continued to grow steadily. Others still, like Shanghai and Rio, were not only unaffected but positively boomed. This variety of market experiences means that there are a variety of prospects for real estate owners and investors in each city. These prospects vary between commercial and residential property and between prime and mainstream residential but in general, real estate prospects for the next five years fall into five categories of varying price movements and degrees of volatility.

**ROLLER COASTERS**
Potentially over-valued with weak or falling rents, trending down, volatile. Some further price falls expected in next few years but following very strong recent growth. Capable of further significant rental and capital growth in the long term – provided the fundamentals of economic growth return.
Shanghai
Moscow
Mumbai

**BIG WHEELS**
Fully valued, static prices or trending down but fundamentally stable. Lower and slower growth expected over next five years, especially in locations held back by cooling measures or weak economy/currency.
London
Singapore
Hong Kong
Paris

**WALTZERS**
Becoming fully valued but still rising – at slowing rates, stable. Slower growth expected over next five years.
New York
Sydney

**ROUNDBOUTS**
Recovering, still trending modestly upward. Stable. Good income returns expected over next five years with some, but not spectacular, capital growth.

**SWINGS**
Growing strongly but volatile. Gains in the short term but risk of falls over the next five years.
Dubai
Rio de Janeiro

**Tokyo**
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