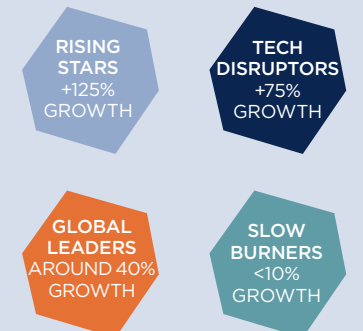


# Prime residential: the rising stars

Sophie Chick, Director, Savills World Research, considers the forces that are disrupting prime markets around the world

## WORLD CITIES

Average prime residential values (price per square foot in US\$) in key global locations. The colours show the city's 10-year growth (2009 to 2018). For more on our groupings, see the panel on p40.



Source Savills Research

Disruptive forces are at work in prime residential markets around the world, creating local and regional divergence against a backdrop of slowing global economies. From growing wealth generation and the evolving needs and preferences of prime buyers, to market-cooling measures and political uncertainty, a variety of factors are impacting values, in different ways in different locations.

The Savills World Cities Prime Residential Index reflects the price movements of prime residential real estate in key world cities. It tracks capital and rental values and gross yields of houses and apartments.

Focusing on prime residential real estate (typically, properties in the top 5% of the market by price), all the cities in the Index have active and growing prime residential markets that attract international investors

and occupiers. Overall, the Index reflects a slowing of prime residential price growth globally, as many markets enter a new stage of the cycle. Combined growth across all cities was 2.3% in 2018, and just 0.3% in the second half of the year – the lowest since mid-2009. Seven cities experienced falls in price growth in the last six months of 2018.

Two Asian cities sit at the top of the Index. Hong Kong has the most expensive prime residential city property in the world. With an average value of \$4,670 per sq ft, it is 56% more expensive than its next rival, Tokyo. Despite overall price growth of 7.3% in Hong Kong in 2018, there was a dramatic slowdown to almost zero in the second half of the year, the result of a stumbling stock market and potential weakness in both the local economy and that of mainland China. While there >

**“The effects of market-cooling tax regimes are being felt in many world cities, affecting capital value growth”**

**THE BIGGER PICTURE**

Looking back at the prime residential markets over the past 10 years, it is the rise of Asian cities that is the standout trend. There has been astonishing growth from China’s Rising Stars, which have shown a price increase of more than 125% in 10 years. For Hong Kong, this reflects its appeal as a world-class city with strong economic performance. Others, such as Shanghai and Shenzhen, are seeing strong growth off a low base and the impact of rising middle-class wealth, as well as an affinity for investing in real estate.

Behind these are the Tech Disruptors, a group of four cities that have achieved more than 75% growth, as their tech reputations are cemented. Los Angeles has a lower average cost at \$1,410

per sq ft, while San Francisco is \$1,630 per sq ft.

Coming next, with around 40% growth, are the Global Leaders, a group of cities with strong track records for luxury residential. The cheapest of these is Miami at \$1,020 per sq ft, while the most expensive is Tokyo at \$3,000 per sq ft.

This leaves the Slow Burners, three cities that have had growth of less than 10%. For Madrid (\$730 per sq ft) this has been caused by high levels of distress and supply in the residential market following the global financial crisis. Moscow and Dubai, with average prices of \$1,250 and \$730 per sq ft respectively, have been dogged by political uncertainty and lower oil prices.

have been several major deals that have continued to grab the headlines, both townhouse and luxury apartment price growth has flattened.

Dubai experienced the largest fall in prime residential prices in 2018, with a 6.1% drop to \$730 per sq ft. Here, the market has failed to bounce back from its decline, coinciding with a fall in oil prices and high stock levels.

**Where HNWIs are heading**

Top-tier world cities, such as London, New York, Hong Kong, Singapore, Los Angeles, Sydney and San Francisco, have long been the first choice for prime buyers. Now, when high-net-worth individuals (HNWIs) look to purchase prime property, Germany is an increasingly attractive location.

First, prices in Berlin (\$880 per sq ft) are substantially lower than those in prime Paris (\$1,520 per sq ft). Berlin also recorded the highest growth of any city in the Index, up 9.1% in 2018. Paris and Madrid showed price increases too, of 4.5% and 4.3% respectively.

We have also seen how Chinese buyers are seeking to diversify. As well as the top-tier cities, they are increasing their presence in continental Europe. In part, this is driven by a recovering economy and better availability of large new-build projects in key European cities.

**Politics and policies**

The effects of market-cooling tax regimes are being felt in many world cities, affecting capital value growth, as the Influence of Tax chart shows (see right).

“In London, higher rates of stamp duty were introduced in December 2014, there has been an additional tax of 3% for second homes, plus changes to capital gains and inheritance taxes,” says Lucian Cook, Head of UK Residential Research at Savills.

“But the gradual price decline since 2014 has been less about changes to property taxes and more about political uncertainty, such as the 2015 general election and the EU referendum in 2016.”

In mid-2016, Sydney introduced a 4% surcharge purchaser duty for foreign buyers,

**SAVILLS WORLD CITIES PRIME RESIDENTIAL INDEX**

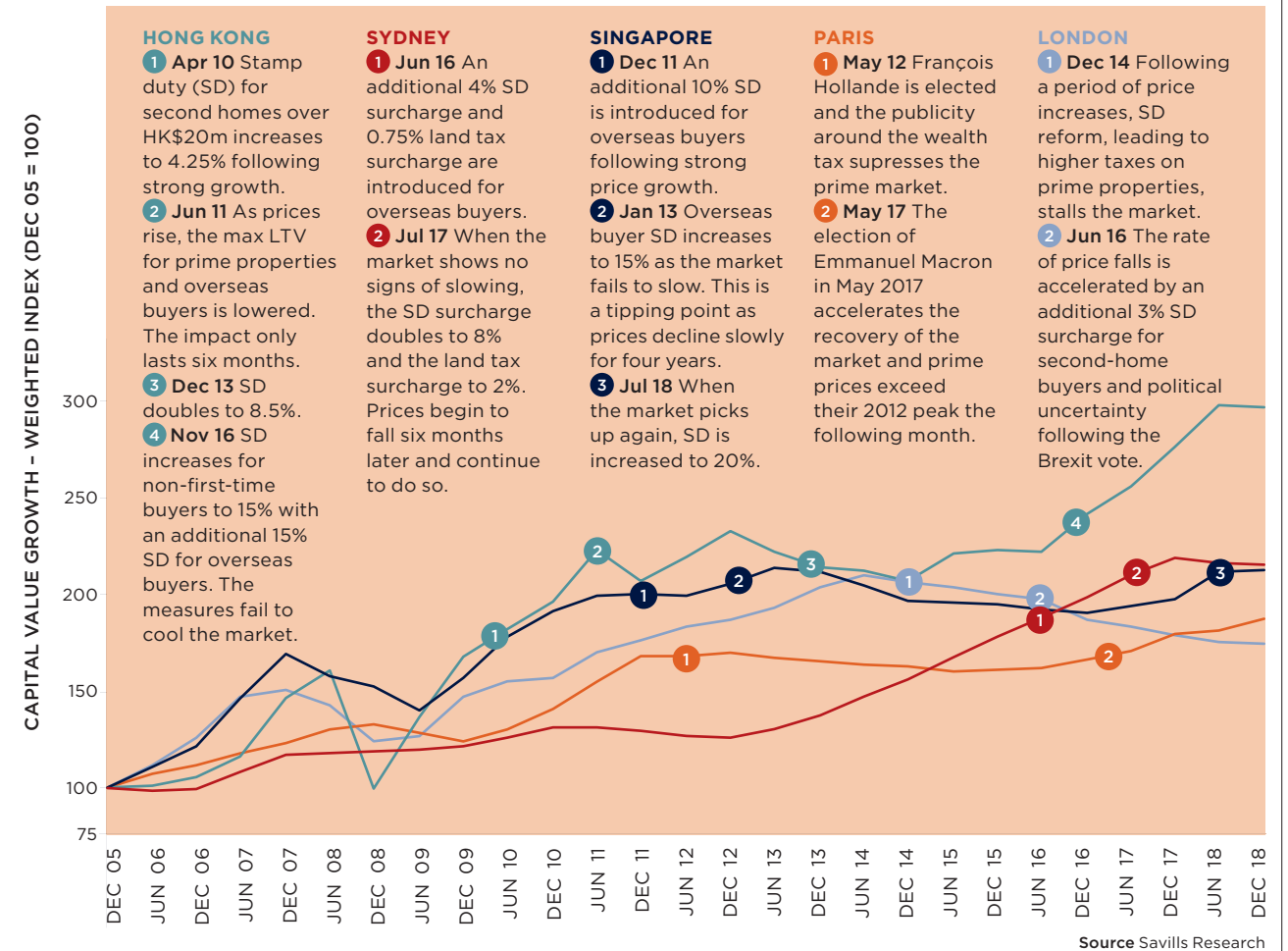
Change in values in key global locations to December 2018

City	6-month change	1-year change	10-year change
Berlin	3.8% ↑	9.1% ↑	119.1% ↑
Paris	3.5% ↑	4.5% ↑	41.4% ↑
Shanghai	2.4% ↑	7.9% ↑	133.3% ↑
San Francisco	2.2% ↑	6.9% ↑	80.4% ↑
Tokyo	1.8% ↑	5.6% ↑	44.6% ↑
Madrid	0.9% ↑	4.3% ↑	-12.4% ↓
Los Angeles	0.5% ↑	1.9% ↑	75.2% ↑
Singapore	0.4% ↑	7.7% ↑	40.2% ↑
Beijing	0.0% –	-1.7% ↓	321.7% ↑
Miami	-0.1% ↓	0.5% ↑	38.8% ↑
Shenzhen	-0.2% ↓	4.8% ↑	387.5% ↑
Hong Kong	-0.4% ↓	7.3% ↑	200.0% ↑
Sydney	-0.6% ↓	-1.7% ↓	80.3% ↑
London	-0.7% ↓	-2.6% ↓	41.4% ↑
Moscow	-1.6% ↓	-4.8% ↓	5.2% ↑
New York	-3.1% ↓	-4.3% ↓	40.4% ↑
Dubai	-3.1% ↓	-6.1% ↓	-28.5% ↓

Source Savills Research

**THE INFLUENCE OF TAX AND POLITICS ON CAPITAL GROWTH**

The impact of taxation policies and political events



doubling it to 8% just a year later when the market failed to show any signs of slowing down. From late 2017, prices for prime residential did start to fall. This was in line with the wider mainstream market, which has also slowed through affordability issues for buyers and tighter lending policies.

The Singapore Government was keen to slow price growth, introducing a 10% additional buyer’s stamp duty (ABSD) for non-Singaporeans in late 2011. This was later increased to 15% in 2013 as it had not had the desired effect of slowing prices. The market had a gradual price decline for

around four years, but picked up in late 2016. As growth accelerated in early 2018, the ABSD was raised again to 20%.

**Looking ahead**

Despite forecasts that show global economic growth will slow modestly, demand for prime residential real estate is expected to continue to be supported by a growing population of HNWIs. Locations that are considered a safe haven to store wealth and offer a secure income stream are forecast to be top of buyers’ lists, with mainland Europe poised to benefit from its ability

to offer lower entry prices and greater potential for growth.

The US prime residential market is likely to continue to slow after eight years of sustained growth, as interest rate rises impact purchaser activity, and major markets such as New York and Miami grapple with high supply of new stock. While the prime markets in some of the most internationally invested cities have largely taken cooling measures in their stride, slowing growth means further taxes on overseas buyers are less likely in the near term. ■

**San Francisco**

As with other US cities, holding and selling costs are high, while buying costs are low. Over a five-year hold, property taxes amount to almost 6% of the purchase price, while selling costs are a little over 6%.

**New York**

Although buying costs are low, New York has the highest disposal cost of these cities, at close to 8%. This is driven by high agency fees, a factor for other US cities too. In addition, for foreign sellers, 10% of the sales price is withheld until all taxes are paid.

**London**

Brexit aside, this is one of the most accessible cities. Although buying costs are close to 10% of the purchase price, low holding (0.7%) and selling costs (2.3%) make London 12th overall. There is an additional 3% stamp duty tax for second homes payable by domestic and foreign buyers alike.

**Paris**

Buyers in Paris face a more evenly weighted split of taxes. Purchase and selling costs are 7% and almost 5% respectively. With holding taxes over five years of 4.2% (only Madrid beats that in Europe at 5.5%), Paris ranks seventh overall.

**Berlin**

Driven by a property transfer tax of 6% and agency costs of 7%, Berlin is the third most expensive city in which to buy a second residential property. However, the exit is easier. There are no costs to sell as the agency fee is fully covered by the buyer.

**Moscow**

With no stamp duty and just a \$65 registry fee, Moscow is the cheapest of our global cities in which to buy a second residential property. The main costs come when it is time to sell, with the 3.5% agency fee paid by the seller.

**Dubai**

International buyers will find a low overall cost to buy (5%) and sell (1%) in Dubai. With holding costs of 0% (as is the case with Beijing and Shenzhen), Dubai ranks 14th in overall costs.

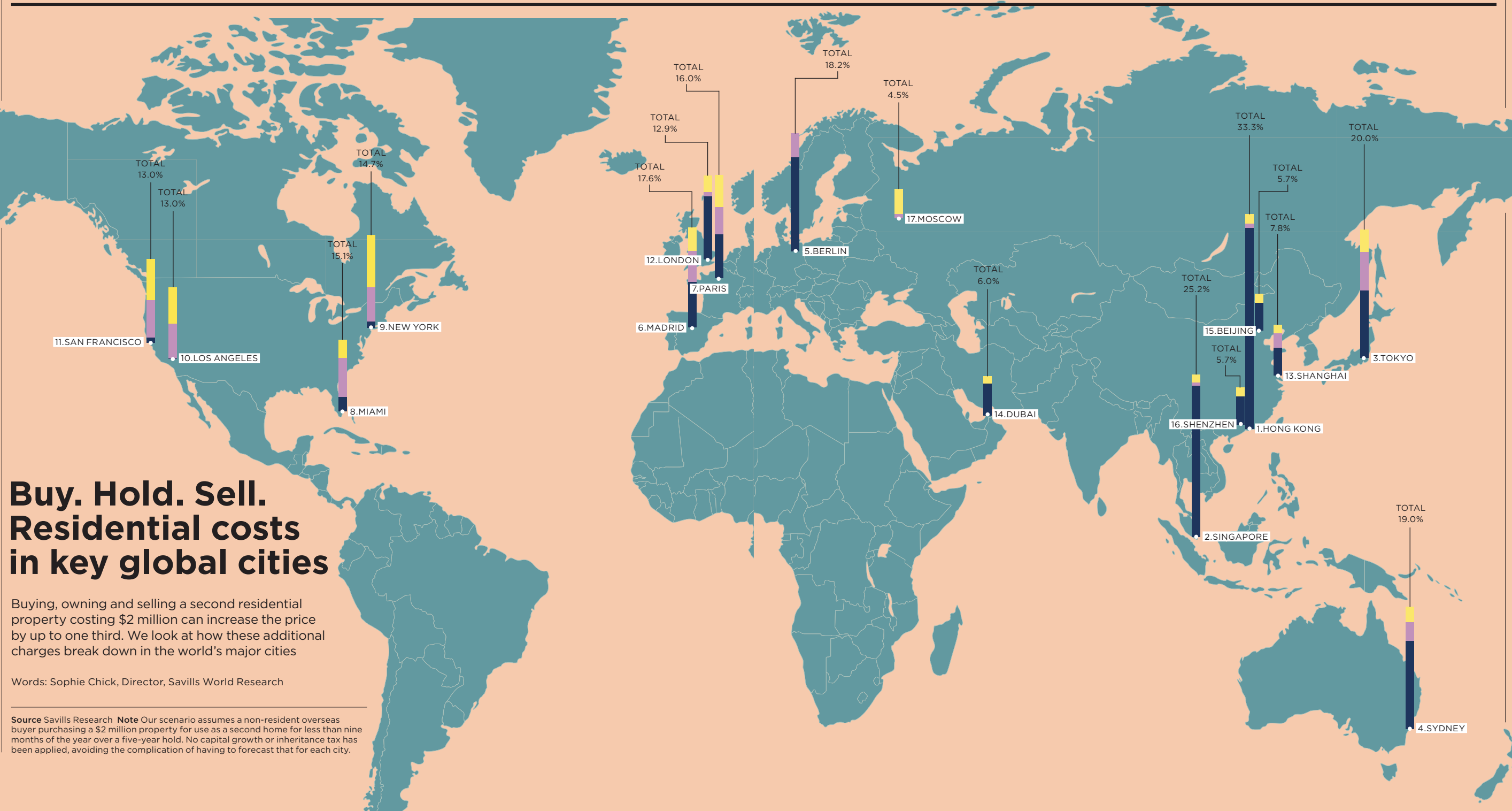
**Hong Kong**

Overseas buyers face an additional 30% stamp duty charge, making Hong Kong the most expensive city for overseas buyers. There is also a penalty of between 10% and 20% for speculators who try to sell within three years of purchase.

**Sydney**

In 2017, New South Wales doubled stamp duty for foreign buyers from 4% to 8% in an effort to cool price rises in Sydney. The city is the fourth most expensive place to buy and fourth for overall costs.

Key ■ Cost of buying ■ Holding cost (5 years) ■ Cost of selling



# Buy. Hold. Sell. Residential costs in key global cities

Buying, owning and selling a second residential property costing \$2 million can increase the price by up to one third. We look at how these additional charges break down in the world's major cities

Words: Sophie Chick, Director, Savills World Research

**Source** Savills Research **Note** Our scenario assumes a non-resident overseas buyer purchasing a \$2 million property for use as a second home for less than nine months of the year over a five-year hold. No capital growth or inheritance tax has been applied, avoiding the complication of having to forecast that for each city.

# The global flow of wealth

Globally mobile individuals shape prime residential markets around the world, but activity is changing

Words: Paul Tostevin, Director, Savills World Research

While mainstream residential markets are driven by domestic buyers, prime property is affected by the world's high-net-worth individuals, who relocate and buy additional homes for business and leisure. London, New York, Hong Kong and Singapore remain among the most globally invested cities, but buyer demand is diversifying. Here are three key trends.

## 1. Iberia is back in vogue

A recovering housing market has put Spain back on the map for a broad range of international buyers. Once dominated by the British, other Northern Europeans are now active – Germans and Scandinavians particularly so. Madrid and Barcelona have global appeal, with demand from Russia and the Middle East, and there is rising activity from Spanish-speaking South Americans. In Portugal, international buyers have transformed the Lisbon market, attracted to its historic centre. Many entrants – particularly those from Brazil, South Africa, Russia and Turkey – took advantage of Portugal's golden visa programme. Other EU citizens, notably the French, are attracted by its non-habitual residency scheme.

## 2. International activity declines in the US

Overseas buyers accounted for 8% of all home sales in the US in the

12 months to March 2018, with total activity down 6% from a 2017 peak. For the sixth consecutive year, the Chinese were the top purchasers – they spent \$30.4 billion in 2018 – and still account for 15% of overseas buyers, despite tighter regulations on outbound capital from China. They are most active in California, where they compete against other international buyers from South Korea and Singapore, particularly in Los Angeles. In New York, the international base is broader, and also includes purchasers from Europe, Russia, the Middle East and South America.

## 3. The Chinese spread their wings

The Chinese are rapidly maturing as residential investors and are more diverse in their buying activity than ever. Heavily investment driven, education is also a key determinant. The UK and US, home to the world's best universities, are the top destinations for this reason. Premier world cities have long been the first choice for Chinese buyers, led by London, New York, Hong Kong, Singapore, Los Angeles and San Francisco. Historically, Australian and Canadian cities were also important, but international demand has softened following increased restrictions in these markets. As the demand base has deepened, Berlin and Frankfurt are on the radar, with investors attracted by lower entry points and secure income streams. ■

