World Research – February 2022

SPOTLIGHT

Savills Research

Savills Prime Residential Index: World Cities

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Prime residential prices ● Rental values and yields ● Global cities outlook

2021 was a year of returns. Workers returned to offices in some countries, international students returned to their desks, and cities returned to being hotspots for living, work, and play. As restrictions lifted in some markets, prime residential real estate maintained its resilience and continued its trend of growth in the face of uncertainty.

Savills Prime Index: World Cities tracks the performance of 30 global cities. It illustrates what the lifting of some pandemic-related restrictions has meant for prime residential values and rents in 2021. Average prime price growth remained positive for the cities in the Index and we expect this trend to continue in 2022. Rents also had their strongest growth since 2014. As the global situation continues to improve, we also look to where we expect the strongest performers to be for the coming year.

Jelena Cvjetkovic
Director,
Global Residential
+44 (0) 20 7016 3754
jcvjetkovic@savills.com

The great revival

Prime residential markets continue to strengthen. The return to cities has caused rental values to outperform historic trends whilst capital values follow positive growth trajectory

Cities are still learning how to cope with Covid-19 and build resilience against new variants. The vaccine rollout has enabled the reopening of more borders and an injection of confidence around urban living, working, and travel. This year's prime residential markets benefitted from the price and rental falls in 2020.

Rental values and yields

The Savills Prime Residential World Cities Index reflects this trend. Rental values registered the strongest six-month performance in seven years in the second half of 2021, stronger than both the first half of the year and 2020. In New York, the number of leases signed during the second half of 2021 was among the highest on record, while London rents increased by 7.8% in 2021.

Average rental value growth was 3%, in the six months to December 2021, significantly above the half year value for June 2021. Across the 30 cities in the Index, the average gross yield over the year remained at 3%. 2021 front runners Dubai and Moscow take the lead with yields above 4.5%, whilst Asian cities hold up the rear at just under 2%.

Capital values

Aided by expansionary fiscal and monetary policy, most notably historically low interest rates, capital values across the Index are increasing as global economies recover to pre-pandemic levels and people return to cities.

Average capital values rose in the second half of 2021, increasing by 3.2%. While this was marginally lower than the previous six months, it still represented a significant increase on 2020, when capital value growth dipped into negative territory.

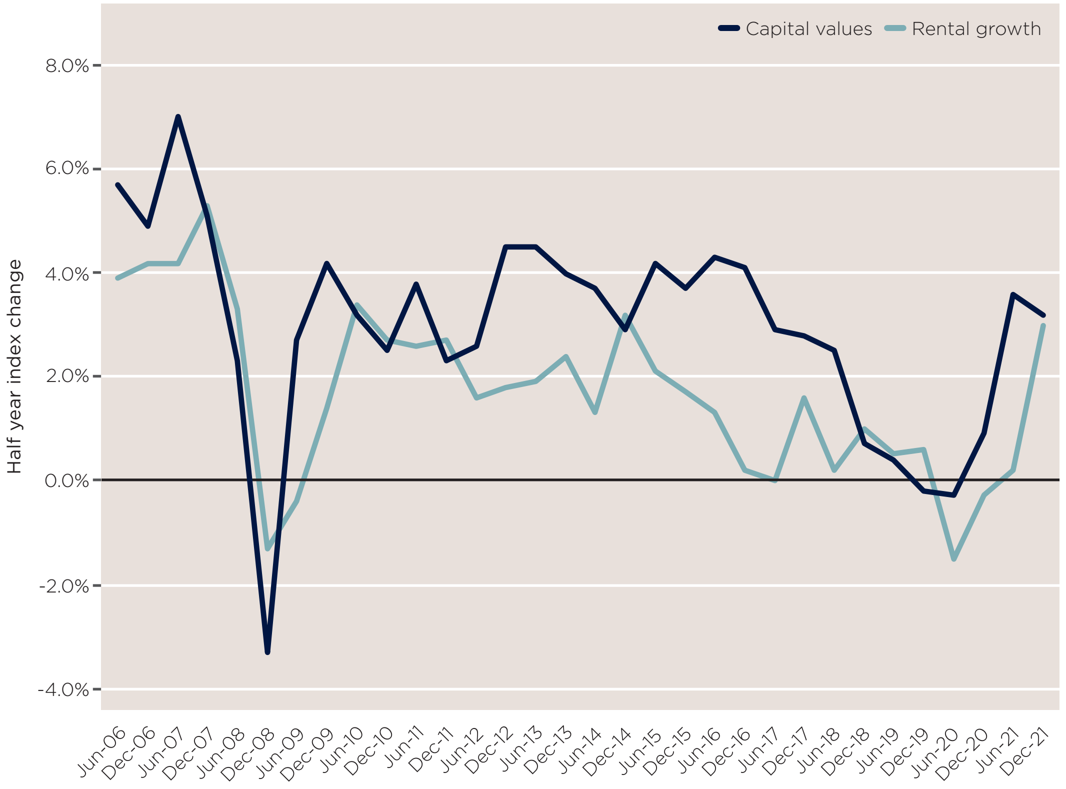
There was positive price growth across 28 of the 30 cities in the Savills Index in 2021. North America outperformed all other regions, driven by rising incomes, affluent buyers and a return of urban migration. Miami was the strongest performer; experiencing high demand because of its warm climate and quality of life, a situation echoed in Dubai's prime market.

Price growth was more varied in the Asia Pacific region. Seoul, Singapore and Sydney fared well in 2021; however, Mainland China and Hong Kong suffered from pandemic-induced uncertainty and restrictions knocked the confidence of investors and purchasers in the latter half of 2021.

Market headwinds

The momentum that we're seeing in the prime residential markets could be tapered by a number of scenarios: rising inflation may not be temporary and the historically low interest rates may rise. However, many national government supportive economic policies gave prime residential markets resilience. Most global economies are stronger than they were following the Global Financial Crisis and the forecast for 2022 is largely positive.

Average half year prime capital value and rental growth



Source Savills Research

Global city: Dubai

Prospects for 2022

Positive sentiment for the global prime residential sector

As nations learn to live with Covid-19 and economies revive, prime residential property remains a sought after asset. Despite the threat of market cooling measures, such as rising interest rates, 2022 looks on course to continue the positive trend of 2021. Expected average prime capital value growth across the cities in the index sits at 4.3%, the second highest in five years.

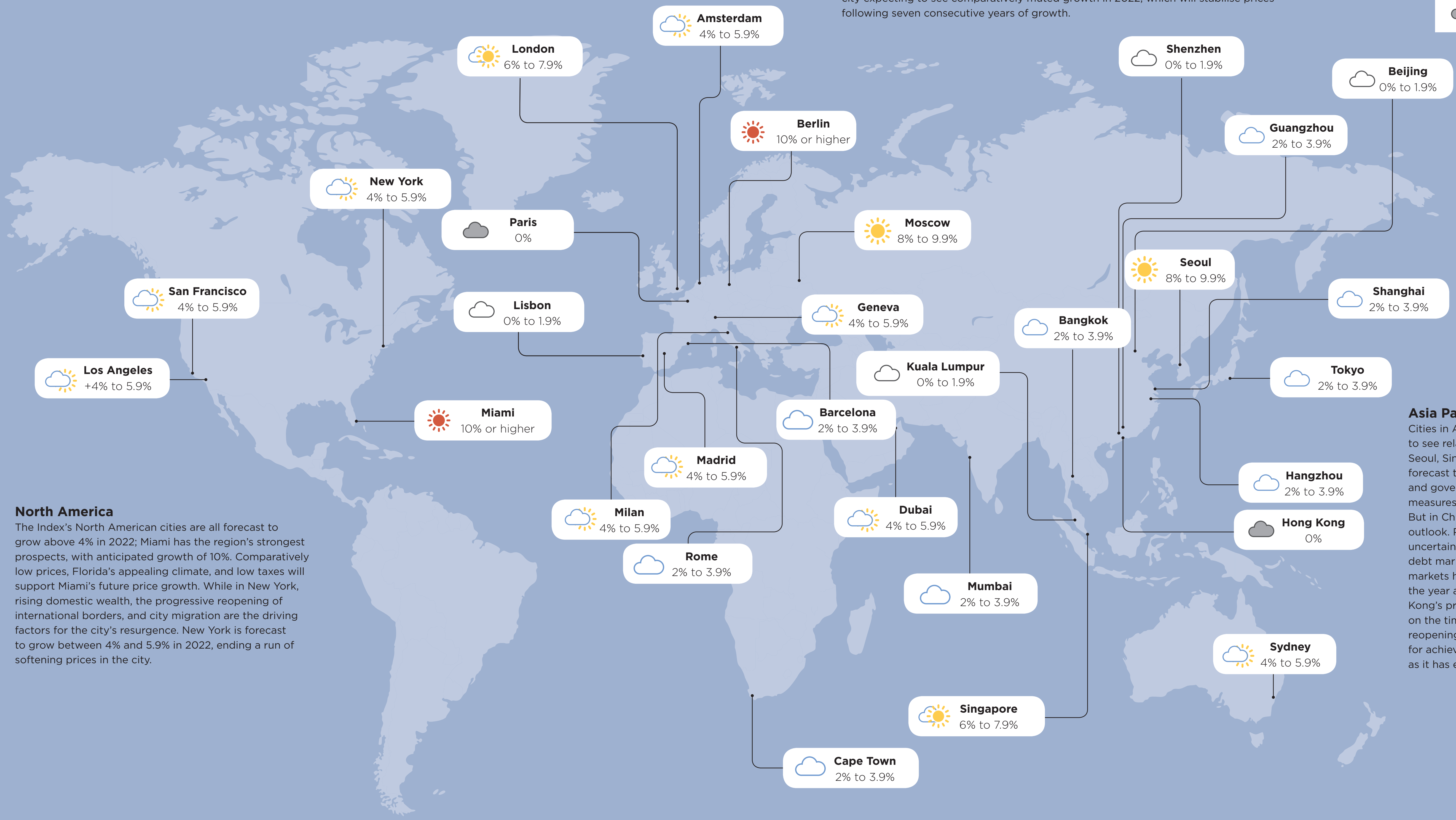
All cities, except for Hong Kong and Paris, are set for positive growth in 2022, albeit at a more moderate rate than last year. Supply and demand imbalances are driving this growth.

Low interest rates and rising incomes have increased mortgage affordability, while in some cities prices have increased due to lack of stock. Miami, Dubai, and Lisbon have benefitted from the flexibility of remote working, a change in habits, and the desire for more space.

Prime rental growth has made a staggering recovery in the second half of 2021, depleting future supply in many cities. In combination with a return to offices, education, and travel, 2022 will likely deliver further rental growth, particularly in megacities.

Global cities outlook

Following a substantial year of growth in 2021 (6.9%), average prime residential price growth for cities is forecast to hit 4.3% in 2022 but this positive outlook varies from city to city



North America

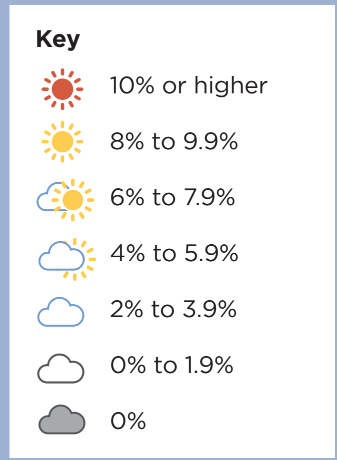
The Index's North American cities are all forecast to grow above 4% in 2022; Miami has the region's strongest prospects, with anticipated growth of 10%. Comparatively low prices, Florida's appealing climate, and low taxes will support Miami's future price growth. While in New York, rising domestic wealth, the progressive reopening of international borders, and city migration are the driving factors for the city's resurgence. New York is forecast to grow between 4% and 5.9% in 2022, ending a run of softening prices in the city.

Europe

Forecast to see the highest increase of the European cities we monitor in the Index, Berlin is expected to see prime price growth of at least 10% in 2022. It is set to benefit from a buoyant economy, strong domestic and international demand coupled with a shortage of stock. The German capital is still a comparatively less expensive prime residential location across the 30 cities in the Index.

Prime London's residential market is expected to bounce back in 2022, forecast 6% to 7.9% growth. London's cosmopolitan appeal and variety of prime property offerings will ensure affluent and international buyers return to the capital. Meanwhile in Russia, policy changes have led domestic buyers to turn to prime Moscow residential real estate. A trend set to continue in 2022, with growth of 8% to 9.9% expected.

As Europe learns to manage the ongoing pandemic, interest rates remain historically low, and economies continue their recovery. Amsterdam, Geneva, Milan and Madrid are all anticipating strong growth between 4% and 5.9% in 2022. Paris is the only European city expecting to see comparatively muted growth in 2022, which will stabilise prices following seven consecutive years of growth.



Asia Pacific

Cities in Asia Pacific are forecast to see relatively mixed growth. Seoul, Singapore and Sydney are all forecast to grow by more than 4%, and governments are implementing measures to cool their prime markets. But in China, cities face a more subdued outlook. Policy tightening, future uncertainty around the real estate debt market, and tightening mortgage markets have weakened sentiment for the year ahead. Any revival of Hong Kong's prime market will depend on the timing, and extent, of border reopening. Therefore the city looks set for achieving only muted price growth, as it has every year since 2019.

Growth continues apace

Prime capital values for the year end 2021 grew at 3.2% across all 30 cities in the Index, despite the threat of rising interest rates

Global city: San Francisco

North American cities reach historically high prices

Miami, Los Angeles, San Francisco and New York all experienced above 5% capital value growth in the second half of 2021. The West Coast cities Los Angeles and San Francisco reached historically high capital values in 2021. The increased appeal of property as an investment asset, low interest rates, the easing of pandemic restrictions, and opening of international borders in November contributed to the improvement in price performance in these cities.

Miami was the strongest performer across the Index. The city has been a popular relocation destination in the United States and this trend is predicted to continue as travel restrictions ease and hybrid working improves the mobility of affluent professionals.

The relaxation of restrictions has positively impacted New York's prime market. The mass exodus the city faced as an immediate consequence of the pandemic left the market with plentiful stock and falling prices. But as residents returned, prime residential property prices have resurged to December 2018 levels.

Economic resilience a decisive driver in Europe

Prime residential activity picked up in Europe in the second half of 2021. European cities, except for Paris, experienced positive price growth. Renowned for their international prime buyers, capital values in cities such as Amsterdam, London and Milan noticeably increased. Berlin achieved the highest capital value growth for 2021, followed closely by Lisbon and Geneva.

Proving economically resilient in 2020, Geneva and Berlin suffered minor falls in real GDP at -2% and -3% respectively, and less than 1% declines in their employment rates. Outperforming their European counterparts whose real GDP fell more than 5% and suffered steeper declines in employment. Combined with low interest rates, pent-up demand, and a lack of supply, prime residential prices in these cities were set to grow.

Russians have turned to the safe investment of their domestic prime residential markets, increasing price growth. Lisbon has made a strong recovery from its 2020 capital value decline, proving the resilience of its luxury residential sector, as the pandemic renewed buyers' desire for wanting more space and a warmer climate.

Conversely, upcoming elections, national and international pandemic restrictions hampered the Parisian prime residential market throughout 2021, with a modest 1.6% capital value decline.

Asia, a mixed picture

Chinese cities have struggled to continue the pace established during the first half of 2021. The tightening of local policy and mortgage markets, and uncertainty around real estate debt financing markets has cooled capital value growth in Shanghai, Hangzhou, Guangzhou, Shenzhen, and Beijing during the second half of 2021. Hong Kong has not evaded these economic and political destabilisations either. Peaking in June 2019, the prime residential market plateaued in 2021 as buyers and investors took greater caution over their prime property purchases.

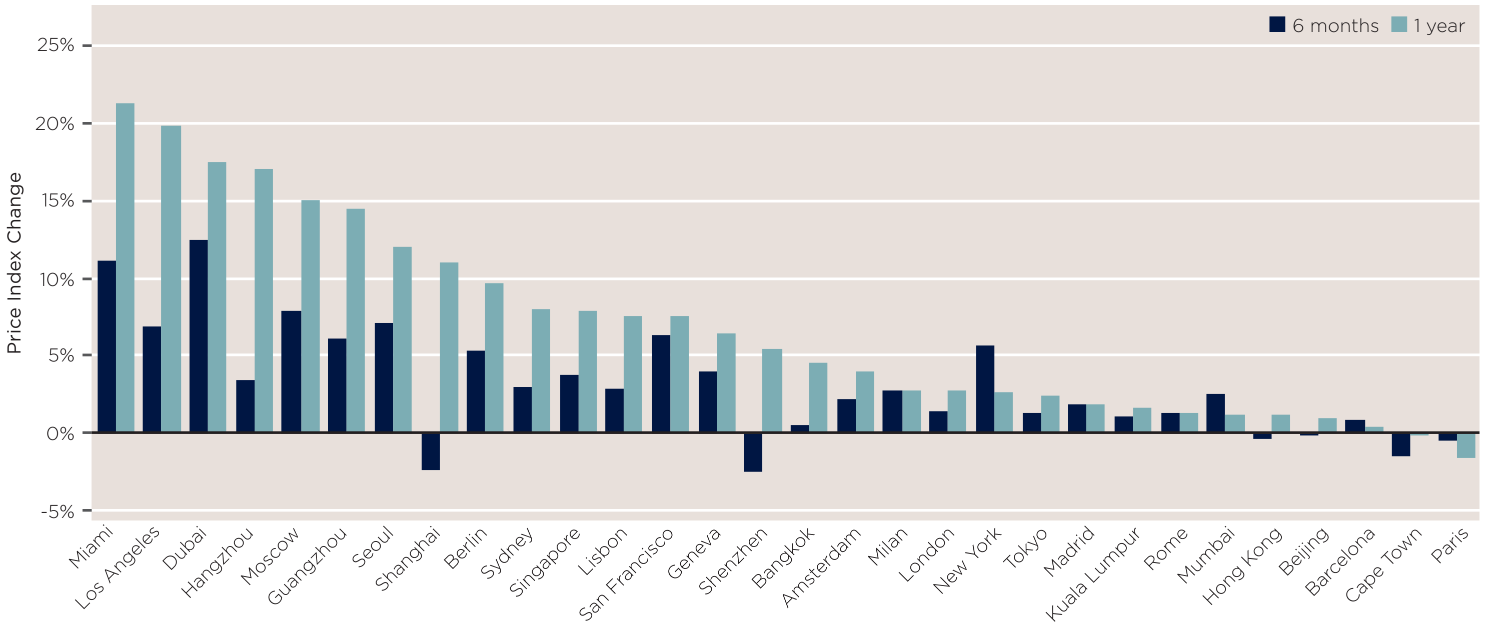
Meanwhile Seoul, Singapore, Tokyo, and Sydney experienced positive price growth throughout 2021. In Seoul, domestic buyers spent more on singular property purchases following a new government taxation scheme to curb speculative buying on multiple properties. Growth has also been buoyed by the fact that over 80% of South Korea's population is vaccinated, prime property is scarce, and interest rates are low.

The 'City of Gold'

Dubai experienced astonishing price growth in the second half of 2021 – levels not seen since before the 2008 financial crash. Rising from a relatively low base, at $630 per square foot, Dubai's prime residential buyers have flocked to the city for its competitive pricing, quality of life and warm climate.

Although December 2021 capital values were below the market high of December 2014, demand outstripping supply, a successful vaccination program, opening of international borders, and other national government measures have led the city to an impressive performance in 2021.

Prime capital value growth to December 2021



Source Savills Research

Prime capital values - Top 6 world cities

Prime capital values around the world

City	Prime capital value December 2021 (US$ psf)	Prime capital value December 2021 (€ psm)
Hong Kong	$4,530	€40,220
New York	$2,580	€22,910
Geneva	$2,250	€20,010
Tokyo	$2,220	€19,730
Shanghai	$2,200	€19,520
London	$2,090	€18,590
Sydney	$1,990	€17,690
Seoul	$1,910	€16,970
Shenzhen	$1,820	€16,190
Paris	$1,730	€15,390
Singapore	$1,670	€14,870
San Francisco	$1,620	€14,400
Beijing	$1,610	€14,250
Milan	$1,570	€13,900
Los Angeles	$1,560	€13,880
Guangzhou	$1,520	€13,480
Rome	$1,470	€13,070
Moscow	$1,330	€11,810
Hangzhou	$1,330	€11,770
Berlin	$1,250	€11,110
Mumbai	$1,170	€10,400
Miami	$1,150	€10,250
Amsterdam	$1,090	€9,690
Lisbon	$1,010	€8,930
Bangkok	$890	€7,880
Madrid	$790	€6,980
Barcelona	$730	€6,440
Dubai	$630	€5,620
Cape Town	$310	€2,740
Kuala Lumpur	$280	€2,470

Source Savills Research

Time of revival

Average rental values for Savills Prime Index cities bounce back, achieving their strongest half-year performance in seven years, silencing negative sentiments over urban living

Rental values across the Index increased by 3.0% in the six months to December 2021, and over 85% of cities saw positive rental growth over the period. Driven by the great revival of megacities New York, London, and Singapore, as well as buyers' desire for the lifestyle on offer in the likes of Dubai and Miami.

The reawakening of love for New York's charm

New York outpaced other North American cities achieving 11.5% rental value growth in the last six months of 2021. The easing of restrictions proved fundamental in driving positive net migration into the city: offices reopened, in-person education returned, and the revival of restaurants, entertainment and the arts helped to attract prime residential buyers. Most importantly, the lack of activity in 2020 created plentiful stock and relatively low prices, facilitating the strong growth in the final six months of 2021.

Miami, Los Angeles and San Francisco all experienced positive rental growth. While Miami attracts buyers for space and quality of life, the appeal of metropolitan life in Californian cities has attracted high-income professionals.

International tenants prove vital for Europe

In global megacity London, professionals, higher education students, and affluent international buyers rekindled their love for the British capital. Increased rental values across the capital recovered from their lowest value since June 2009.

Despite the pandemic, Moscow's depleted prime rental stock and growth in demand for 'elite' apartments drove significant rental value growth in 2021. Conversely, the lack of international tenants in Amsterdam and Paris due to international travel restrictions, negatively impacted their 2021 rental markets.

Singapore outpaces Asian counterparts

Severe international travel restrictions had widespread but varied effects on the prime rental markets in Asian cities. Top performer Singapore enjoyed 4.5% of rental value growth for the half year end of 2021, supported by foreign and domestic demand. However, the rental markets of Bangkok, Shenzhen, and other Asian cities that maintained national and international pandemic restrictions fared poorly in 2021.

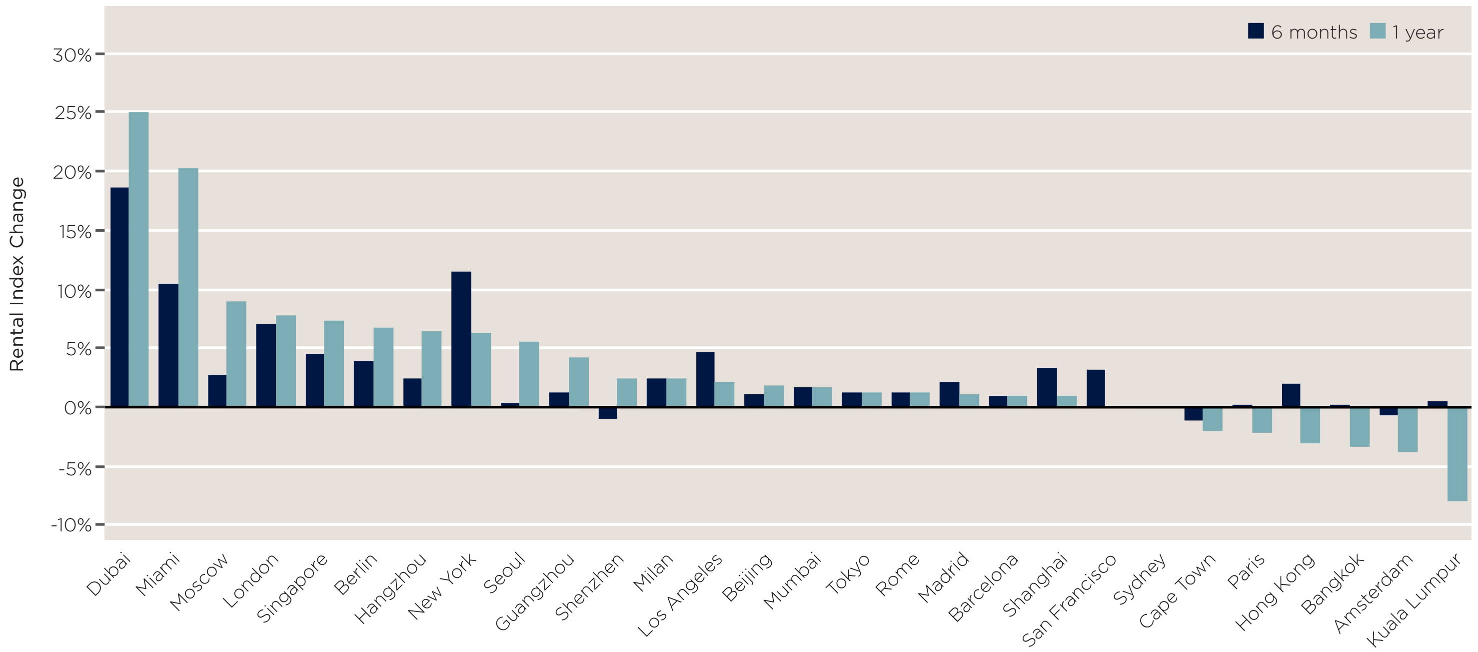
Hong Kong's rental market is substantially lower than its 2019 peak as strict quarantine measures, political uncertainty and net outflows of migration took effect.

Stand out cities

Along with the prime sales market, Dubai has experienced significant rental growth fuelled by national government measures and the return of professionals to the city.

Conversely, an oversupplied prime rental market and the ongoing effects of the pandemic hampered demand, particularly from international tenants, causing Kuala Lumpur's prime rental values to suffer in 2021.

Prime rental value growth to December 2021



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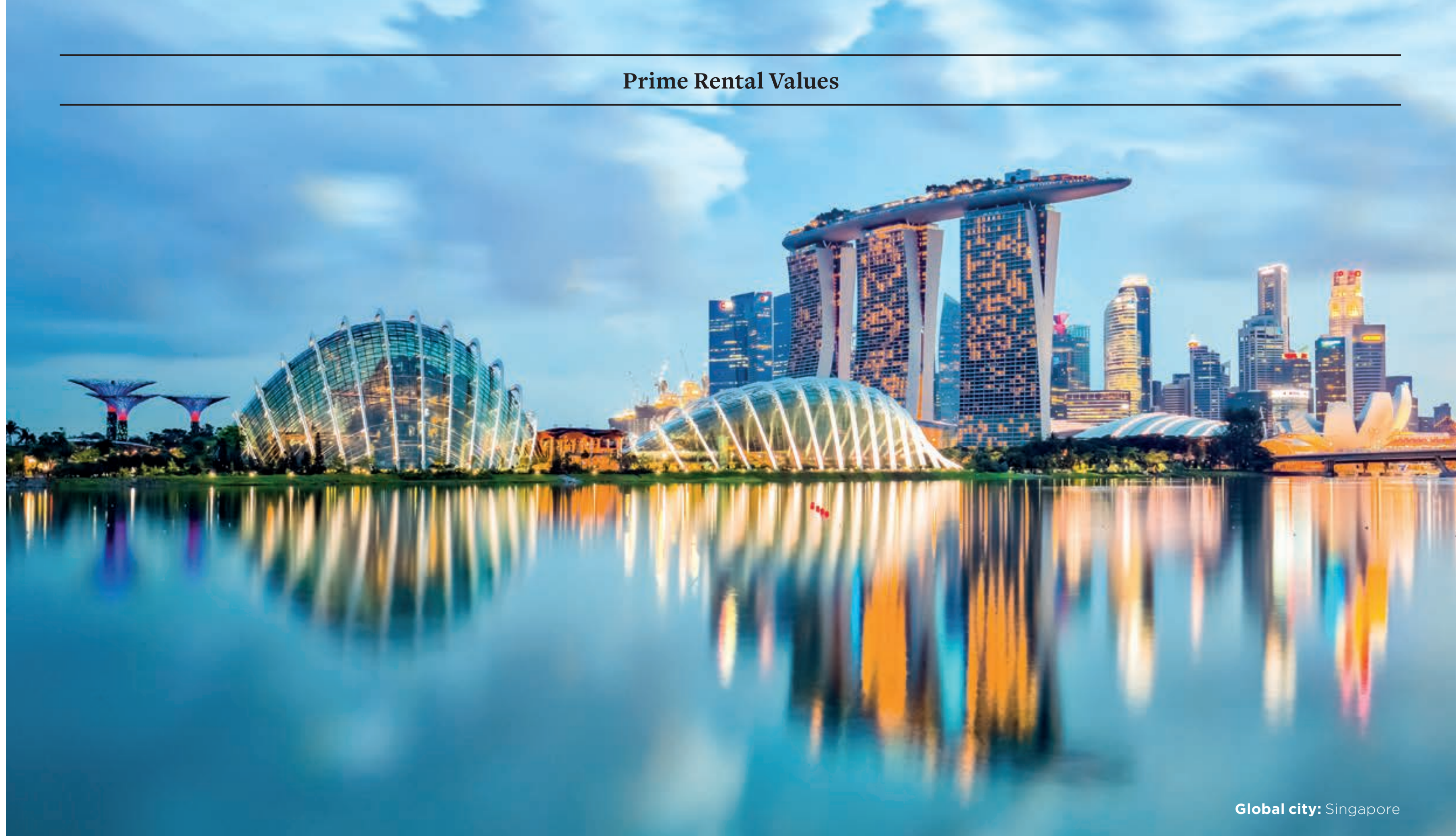
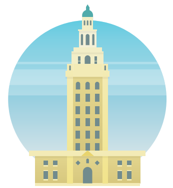


Global city: Singapore

Index standouts

New York
New York achieved 11.5% rental value growth in the last six months



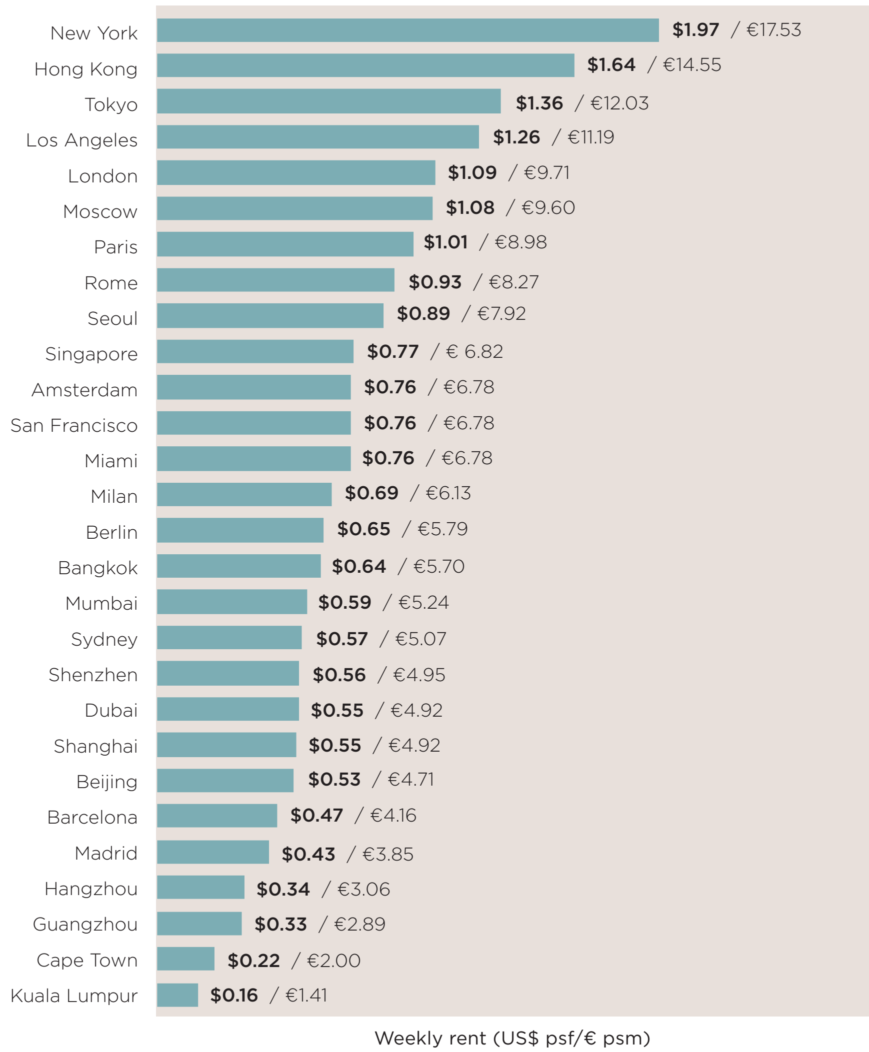
Miami
Miami attracts buyers for space and quality of life

London
Professionals, higher education students and international buyers have returned

Dubai
Professional expatriates have driven prime rental growth

Where do rents currently stand?

Weekly rent comparison December 2021



Source Savills Research

Why are yields holding firm?

Average prime residential gross yields held steady at 3.0% in 2021 despite significant prime rental market growth during the last six months

Global city: New York

Average prime rental value growth for the Index caught up with prime price growth in 2021 as renters flocked back to cities in the latter half of 2021.

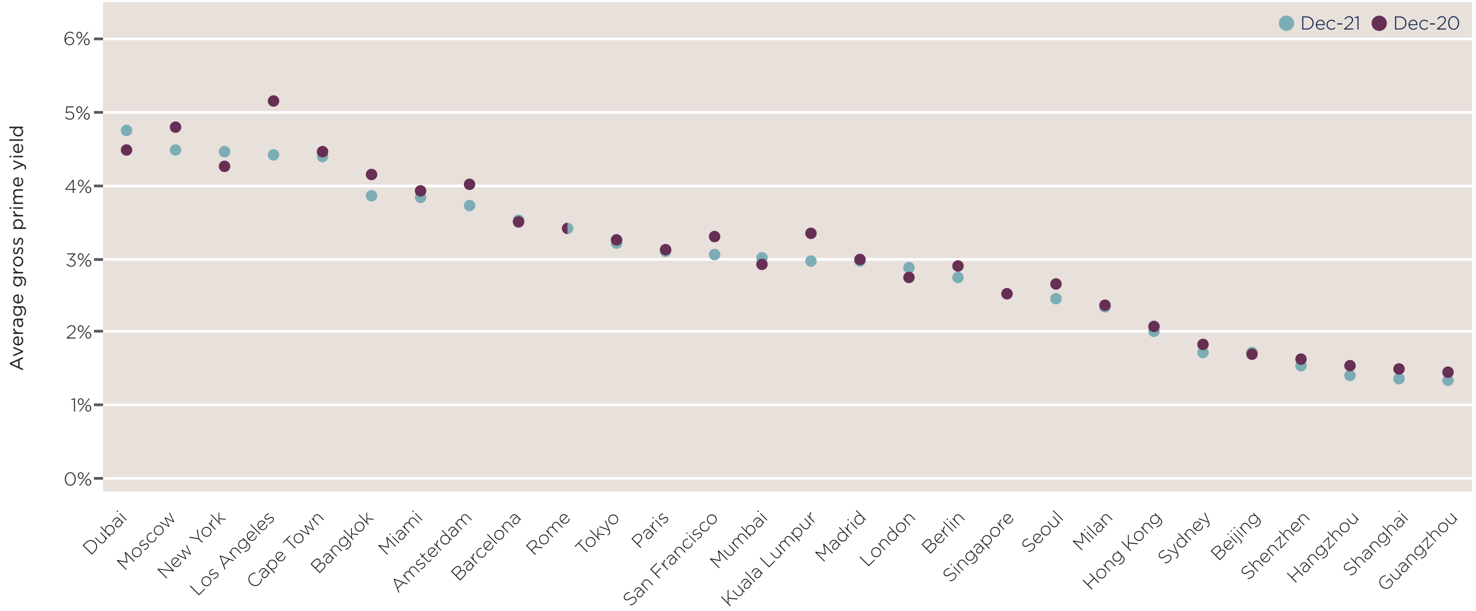
The easing of pandemic restrictions and opening of international borders drove the growth in global prime city rental markets as professionals, students, and international tenants were once again able to cross borders.

Tenants' desire for New York's city life was revitalised. Average yields returned to pre-pandemic levels of 4.5%, recording one of the highest number of leases signed in six months for June to December, depleting rental stocks.

In the Middle East, Dubai's prime residential rental markets have performed incredibly well in 2021. Although average yields have not reached highs of 2012, a steady increase in professional expatriates relocating to the city has been driving prime rental market demand.

Conversely, Moscow has struggled to return to pre-pandemic yields. The Russian's capital prime rental market is driven by corporate and international tenants and these remained largely absent in 2021.

Average yields by city: December 2021 vs December 2020



Source Savills Research

Global city: Berlin

Singapore's government is attempting to cool its housing market

Buy. Hold. Sell.

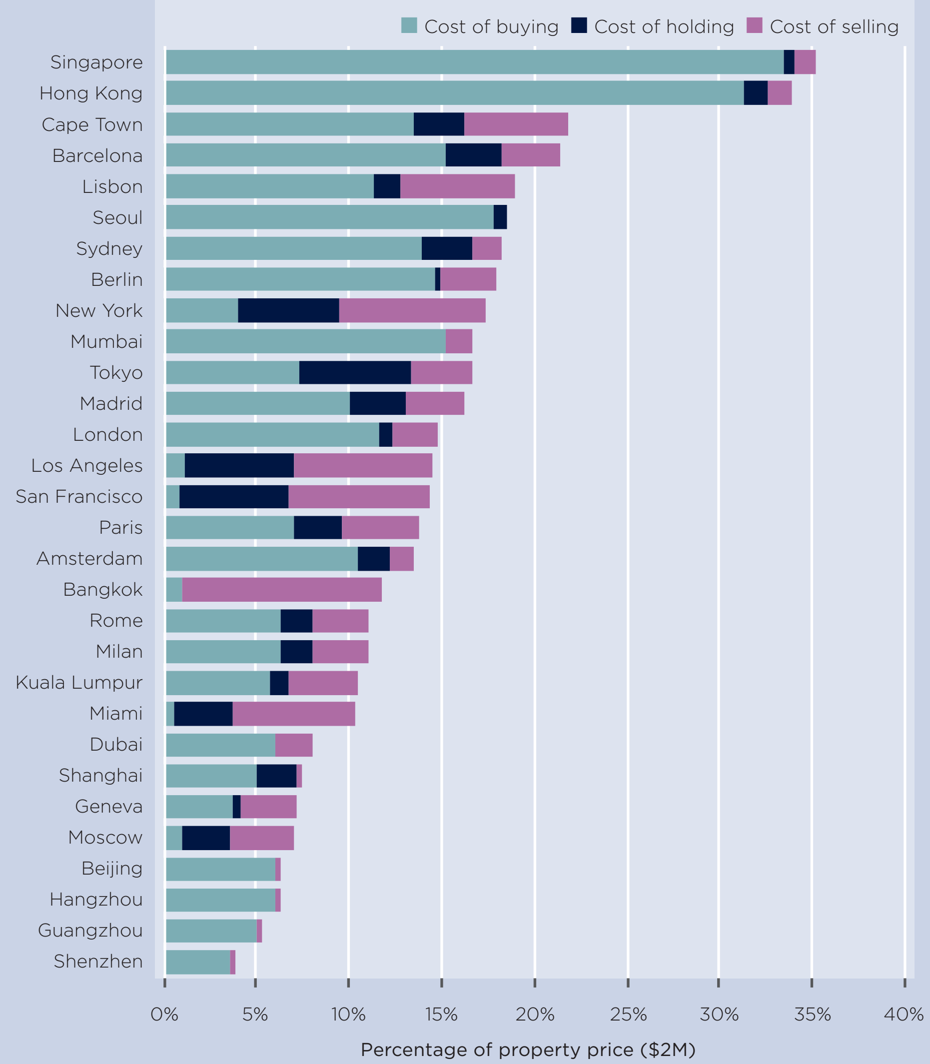
Associated costs are a key consideration for prime property purchasers

Prime residential purchasers can also be influenced by the associated costs of buying, owning and selling a property. In the latter half of 2021, the Covid-induced tax reductions national governments enacted were withdrawn as residential markets evaded crises and economies outperformed predictions.

Singapore and Hong Kong are the two most expensive cities for an overseas buyer of a US$2 million property. Singapore's government is attempting to cool its housing market.

From December 2021, the Singaporean government increased Additional Buyer's Stamp Duty (ABSD) rates for foreign buyers purchasing any residential property from 20% to 30%, alongside other rate increases. Despite large price tags for prime property purchases, Shenzhen - China's growing tech city - has the lowest associated property costs.

Buying, owning and selling a US$2 million property



Source Savills Research

Note Our scenario assumes a non-resident overseas buyer purchasing a $2 million property. This is for use as a second home for less than nine months of the year over a five-year hold. No capital growth has been applied.

Savills Research
We're a dedicated team with an unrivalled reputation for producing well-informed and accurate analysis, research and commentary across all sectors.

Research

Paul Tostevin
Director
World Research
+44 (0) 207 016 3883
ptostevin@savills.com

Lucy Palk
Analyst
World Research
+44 (0) 20 7409 8017
lucy.palk@savills.com

Global Residential

Justin Marking
Head of Global Residential
+44 (0) 20 7499 8644
jmarking@savills.com

Jelena Cvjetkovic
Director
Global Residential
+44 (0) 20 7016 3754
jcvjetkovic@savills.com