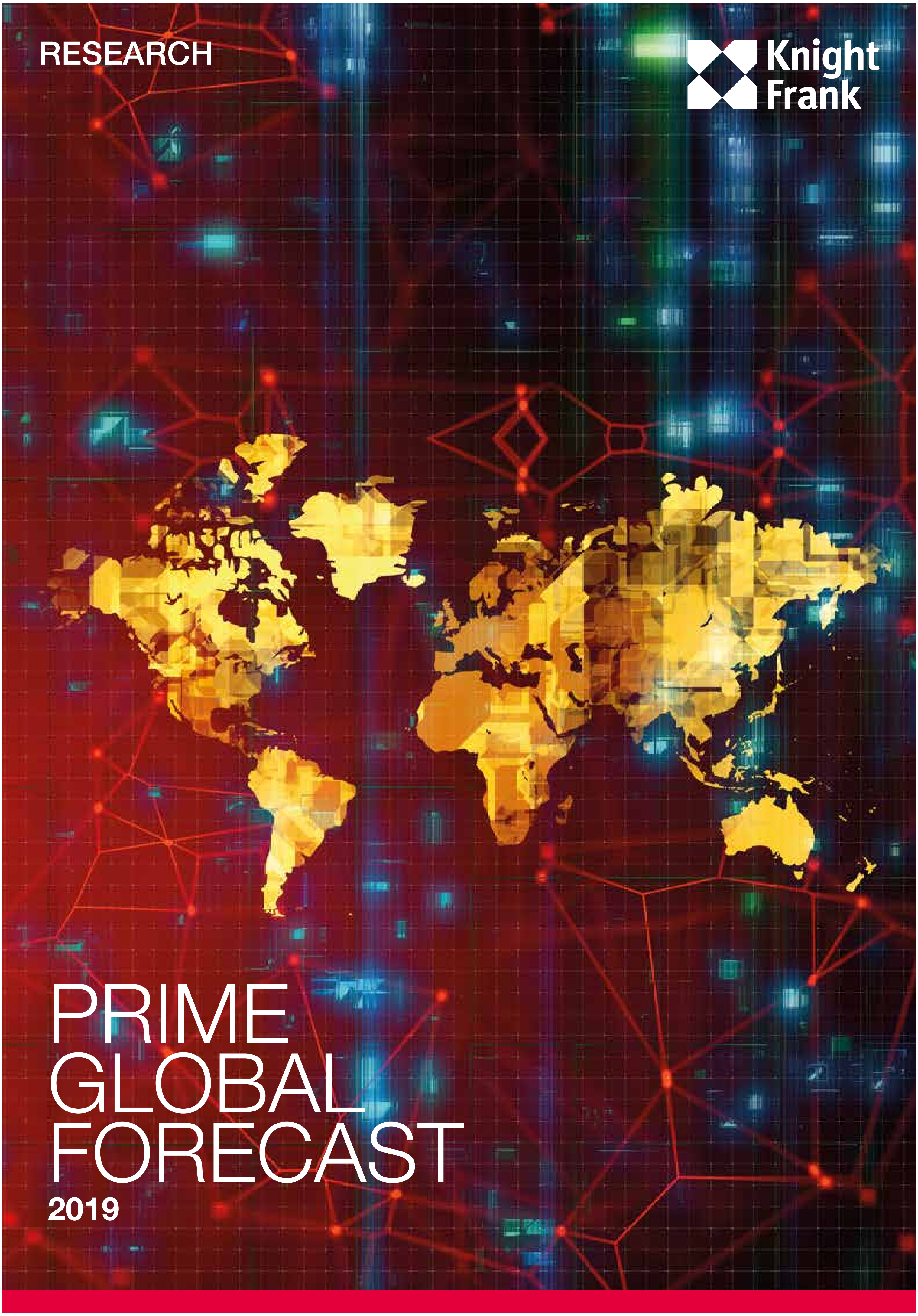
RESEARCH



PRIME GLOBAL FORECAST

2019

A NEW **CHAPTER**

The economic landscape is changing as monetary policy normalises and there are geopolitical jitters, but with risk comes opportunity.

According to our Prime Global Cities Index, which tracks the movement in prime prices across 43 cities worldwide, luxury residential prices are now rising at their slowest rate since 2012. The proliferation of property market regulations, the rising cost of finance, uncertainty surrounding Brexit and in some markets, a high volume of new supply, is weighing on prime prices.

More muted growth is the main story behind our 2019 forecast. In 2018, the gap in annual price growth between the strongest and weakest-performing markets will end the year at 25 percentage points, in 2019, we forecast this figure will shrink to 16 points as the outliers start to converge.

Of the 15 cities that we forecast, the key European cities of Madrid, Berlin and Paris, lead our forecast for 2019 with growth of 6%. Still positive, but marginally down on 2018, the normalisation of monetary policy, weaker economic growth and a fragile political landscape post-Brexit will influence demand, but the relative value of these cities remain a key driver.

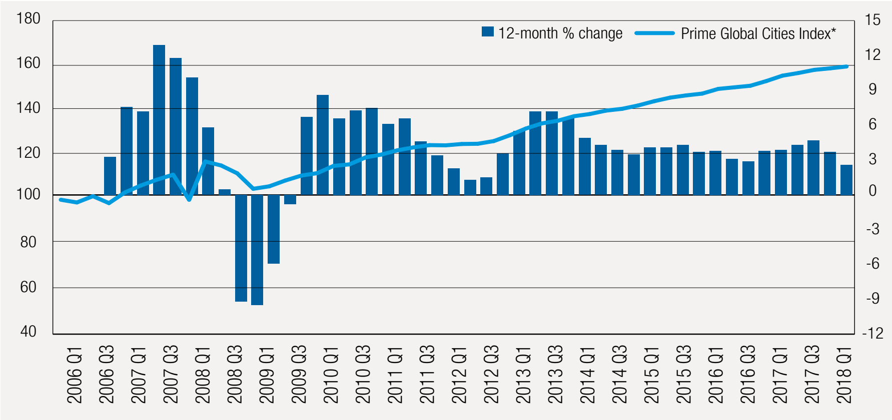
Markets that have been the recipients of new macro-prudential measures in 2018, such as Hong Kong and Singapore, will slip down the rankings as buyers and developers adjust to the new taxes. Vancouver, which also falls into this bracket, is the exception to the rule. Our weakest prime market in 2018, largely as a result of hikes to its foreign buyer tax and stamp duty in early 2018, Vancouver is expected to see prime prices stabilise in 2019 as local buyers start to identify buying opportunities.

Of the 15 cities, Sydney, London and New York sit mid-table with forecasts of 0%-2% growth. A lack of new supply is supporting Sydney's prime market. In London, changes to stamp duty have now been fully absorbed, suggesting activity could strengthen once political uncertainty in relation to Brexit starts to recede. In New York, economic growth and wealth creation are starting to cancel out the high completion rates observed in the prime market over the last few years.

Knight Frank's Prime Global Cities Index is still rising but its rate of growth is slowing

FIGURE 1

Prime price performance Indexed, 100 = Q1 2006 vs.12-month % change



Source: Knight Frank Research

Why?

(1) **Property market** regulations

(2) **Rising cost** of finance

(3) **Strong rates of supply** (in some markets)

(4) **Geopolitical landscape** (trade disputes, Brexit, Emerging Market volatility)

PROPERTY REGULATIONS IN 2018

Vancouver: 20% tax on foreign buyers and higher stamp duty

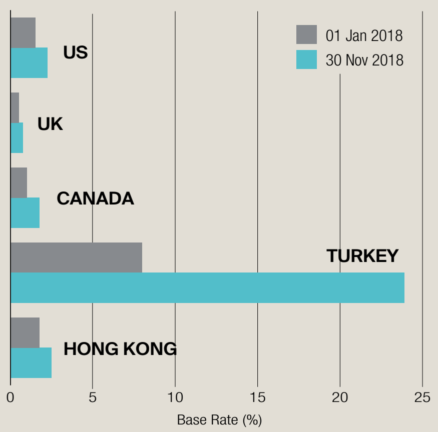
Singapore: Additional Buyer Stamp Duty increased for foreign buyers and developers

Hong Kong: Vacancy tax for developers with apartments unsold for 6 months+ (proposed)

New Zealand: Ban on overseas buyers purchasing existing homes (can still purchase new-build properties)

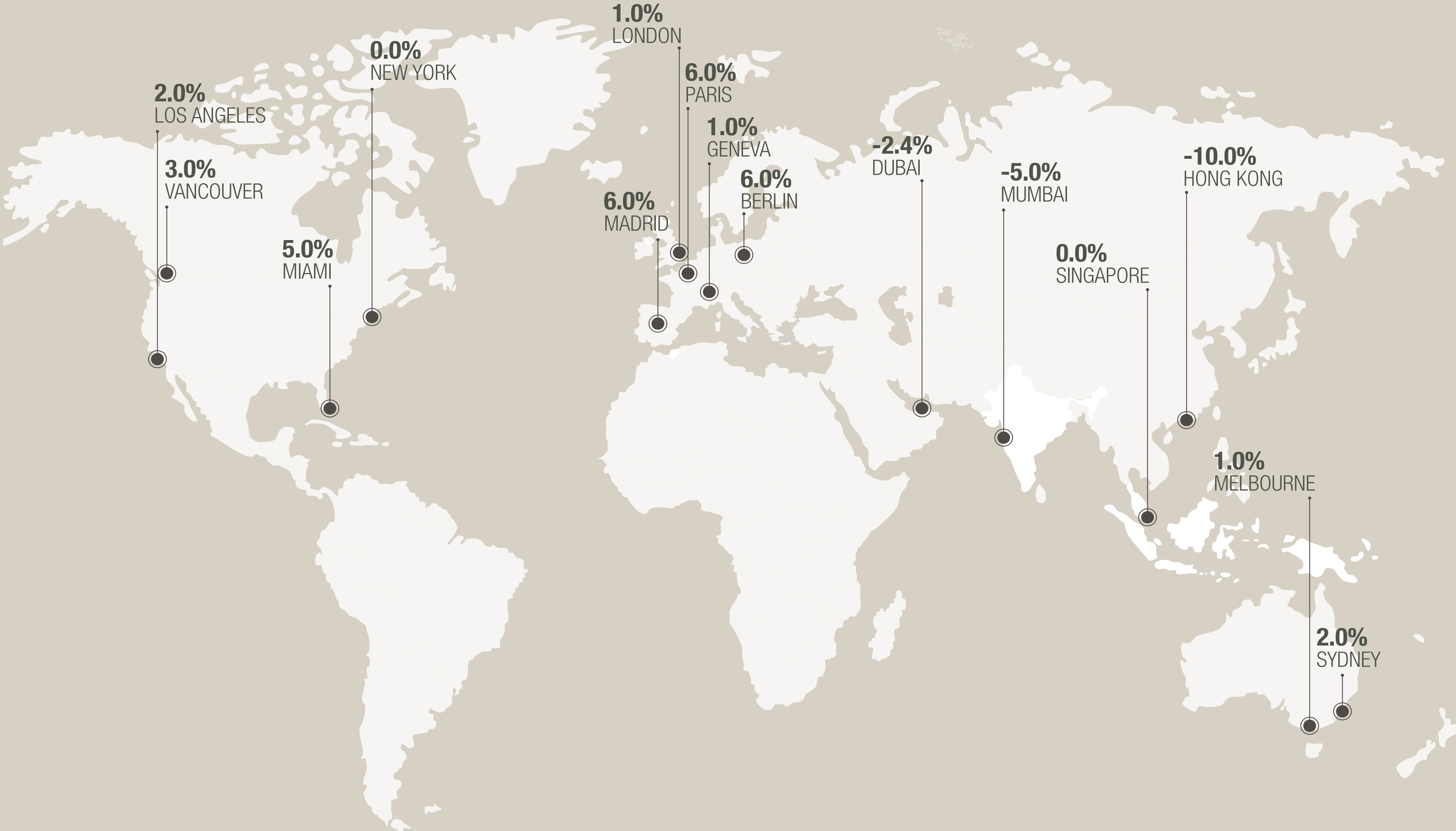
Malaysia: Stamp duty increased

RATE RISES IN 2018



PRIME GLOBAL FORECAST **2019**

Knight Frank's analysts provide their prime price forecast for 2019, taking account of the latest economic indicators, supply, demand and sales trends



EVENTS 2019

UK: Foreign buyer SDLT consultation starts Jan 2019. UK leaves EU on 29 March 2019.

Dubai: New five to 10-year investment visas and five-year retirement visa for 55 yrs+.

Mumbai: Developer tax on unsold inventory.

Hong Kong: Stamp duties unlikely to change but loan-to-value ratios could be relaxed.

US: The full implications of State and Local Tax (SALT) deductions will be understood (Apr 2019 tax deadline).

FUTURE DIRECTION

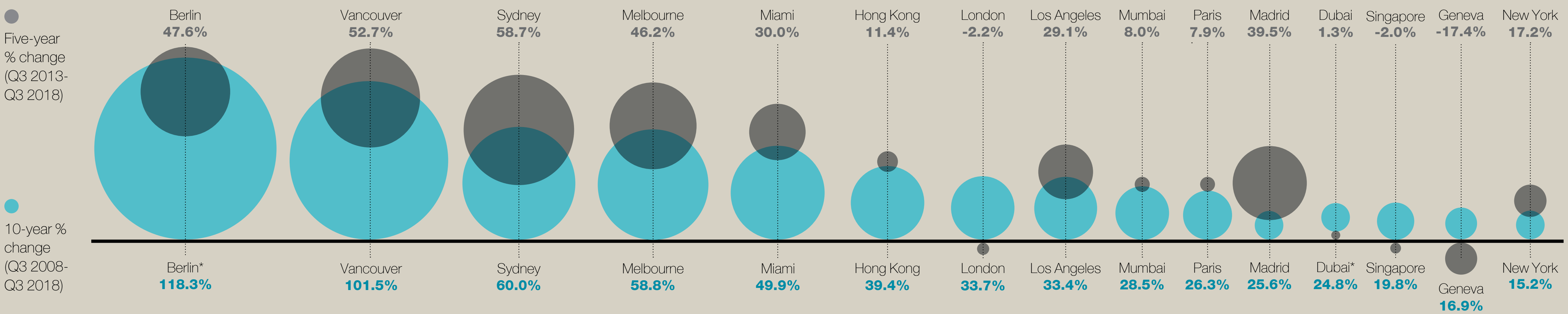
How will demand, supply and sales volumes change in 2019?

▲ Rise slightly ◀▶ Remain the same
▲▲ Rise significantly ▼ Fall slightly

	PRIME SALES	PRIME DEMAND	PRIME SUPPLY
Berlin	▲	▲	▲▲
Dubai	▲	▲	▲▲
Geneva	▲	▲	▲
Hong Kong	▼	▼	◀▶
London	▲	▲	▲
Los Angeles	▼	▼	▲
Madrid	◀▶	◀▶	◀▶
Melbourne	▼	◀▶	▲
Miami	▲	▲	▲
Mumbai	▲	▲	◀▶
New York	▲	▲	▲
Paris	▲	▲▲	▲
Singapore	▼	▼	▲
Sydney	▼	◀▶	◀▶
Vancouver	▲	▲	▲

FIGURE 2

Prime price performance over the last decade Ranked by 10-year % change



*Data corresponds to Q1 2009-Q3 2018

RISK MONITOR

How important will the following factors be to your city's prime residential market in 2019?

Our global research teams share their views as to which factor or event, assuming it were to occur, would influence their luxury market the most.

The score reflects the average for all 15 cities (high = most important, low = least important).

CHANGES TO PROPERTY MARKET REGULATIONS

GLOBAL ECONOMIC SLOWDOWN

LOCAL ECONOMIC SLOWDOWN

GLOBAL TRADE DISPUTES

CURRENCY VOLATILITY

CHANGE IN GOVERNMENT

GEOPOLITICAL CRISES

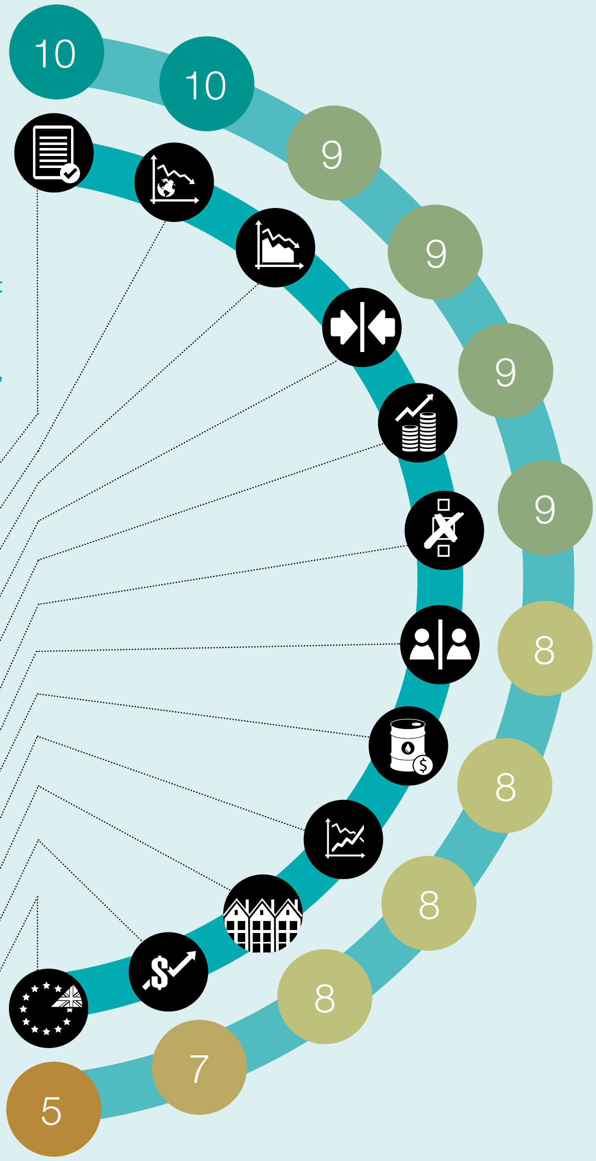
COMMODITY PRICES

EMERGING MARKET VOLATILITY

OVERSUPPLY OF LUXURY HOMES

US FED RESERVE RATE RISE/S

BREXIT



Source: Knight Frank Research

TOP RISKS BY WORLD REGION

Europe
1. Change in national government
2. Brexit

Asia Pacific
1. Change to property market regulations
2. Local economic slowdown

North America
1. Global trade disputes
2. Oversupply of luxury homes

Middle East
1. Commodity prices
2. US Federal Reserve rate hikes

OPPORTUNITIES & DRIVERS

Below we highlight what motivates prime buyers and what is fuelling demand globally

1 Robust global economic forecast

The IMF forecasts 3.7% growth in 2019 and 2020.

2 The world is getting smaller and property remains highly rated asset class

In 2017, 32% of all commercial and residential transactions (by volume) involved cross-border purchases, up from 25% during 2009-2011 (Real Capital Analytics).

3 Wealth creation hotspots

The number of high net worth individuals with US$5m+ in net assets is forecast to rise by 43% to 3.6 million by 2022, according to Knight Frank's Wealth Report. Asia is forecast to see a 61% increase over the same period.

4 Value still to be found

For some, where currency and price performance combine, discounts exist. A Euro and USD buyer purchasing in prime central London in Q3 2018 have seen a 29% and 25% discount compared with the market's peak in August 2015.

5 Lifestyle remains a key motivator

✔ Security
✔ Education
✔ Tax

6 Taking stock

The extent to which prime markets are influenced by stocks, shares and commodities, in particular oil, varies globally. There is a close correlation between the Hang Seng Index and Hong Kong's prime residential market, whilst oil prices are influential in Dubai. Knowledge of local drivers is critical.

TRENDS TO MONITOR

Knowing what to track, and when to act can be the difference between a low or high return on your investment.

Market fundamentals such as demand and supply indicators as well as political stability, quality of life and accessibility are on the basic checklist for most prime buyers. Below, we go one step further to highlight some of the trends we think deserve closer attention over the next year:

1 Follow the tech

The knowledge economy – universities, start-up industries and technology parks – will be key drivers of future growth.

2 USD all powerful?

Although USD-denominated buyers are enjoying stronger purchasing power abroad, we've yet to see a strong flow of outbound capital into prime residential markets. 2019 may be the year USD buyers increase their market share, or it may be we see it being invested closer to home.

3 Demographics dictate

In established western markets, non-traditional real estate sectors will be under the spotlight – student accommodation, retirement living and build-to-rent will outperform the wider market.

4 Detachment of ultra-prime

The US$25m+ market saw a total of 155 transactions in six leading urban markets in the 12-months to August 2018, up 13% year-on-year. We expect more cities to enter this select club with San Francisco, Chicago, Dallas, Beijing and Shanghai all vying for contention.

5 Greater synchronicity

The property cycles of first-tier world cities are more in sync as their financial markets have become more integrated. Low interest rates, greater institutional investment and rising wealth have left their mark on most prime markets but it also means policy responses in one market may have broader ramifications globally.

6 Multi-tiered markets

A city's housing market is far from homogenous. Whether driven by policy, supply or demand, we are seeing stronger mainstream sectors in some cities (Hong Kong, London) and stronger prime markets in others (Sydney). The divergent performance of different market tiers will become more evident as affordability constraints deepen.

NEW BUYER **TRENDS**

Which buyers were responsible for the largest rise in enquiries in your city in 2018?
Selected cities

PARIS
Middle East, US, China

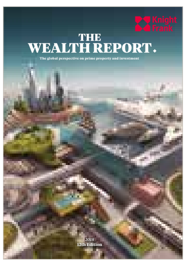
DUBAI
Europe, US, China

MADRID
France, Germany, Middle East

SYDNEY
Expats (with USD)

SINGAPORE
China, Australia, SE Asia

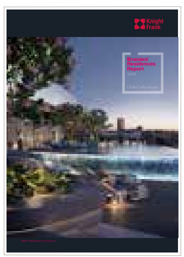
RECENT MARKET-LEADING RESEARCH PUBLICATIONS



The Wealth Report – 2018

UK Housing Market Forecast - November 2018

Australian Prime Residential Review – 2018



Global Branded Residences – 2019

Knight Frank Research Reports are available at **KnightFrank.com/Research**

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