Prime Residential Predictions

Dubai edition

Knight Frank's global research teams set out their prime residential price forecasts for 2023 and look back at what they got right, and wrong, in 2022

by Kate Everett-Allen

After two years in which the pandemic fuelled a surge in house prices in most global cities, the landscape is now shifting. Money is becoming more expensive, geopolitics more complex and China is no longer powering the world's economy.

Homeowners are having to grapple with the unpredictability of soaring inflation, the rising cost of debt and higher taxes.

Although prime markets are more insulated to the fallout from higher mortgage costs, they're not immune. The transition from a seller's to a buyer's market is already underway across most prime residential markets.

But prime prices would need to dip by 30-40% in some cities for prices to return to their pre-pandemic levels of 2019. And the consensus view among most economists is that we aren't in line for GFC 2.0.

THE BIG PICTURE

Across the 25 cities tracked, Knight Frank's global research network now expects prime prices to rise by 2.0% on average in 2023, down from the 2.7% we predicted six months ago.

Despite this slowdown, aggregate growth in 2023 would still be higher than that recorded in six of the last ten years across our prime residential markets.

WHAT'S CHANGED?

The short answer is not as much as one might have expected given the economic headlines. Fifteen of the 25 cities – or 60% – still expect prime prices to increase in 2023, down from the 18 (72%) we listed six months ago.

At a glance

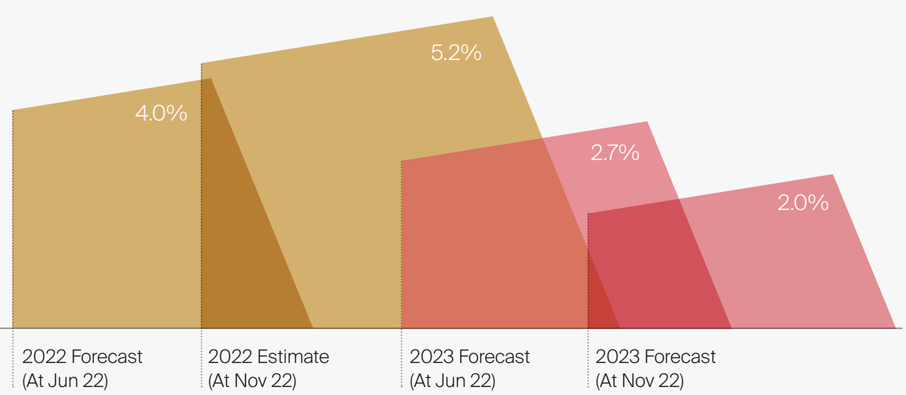
Dubai leads the prime price forecast for 2023 with 13.5% annual growth

European cities rank highly with Dublin, Madrid, Lisbon and Paris set to lead the way in 2023 with 4% annual growth

Singaporean high-net-worth individuals are the most optimistic about price growth in their market in 2023

Prime price growth is edging lower, but 2023's forecast *sits above* that recorded in six of the last ten years

25-city average



Source: Knight Frank Research, Douglas Elliman, Ken Corporation

Dubai on *top*

Safe haven capital flight and tight supply in prime markets will cushion prices in some cities in 2023

Dubai leads our 25-city forecast for 2023 with price growth expected to reach 13.5%. Still double-digit annual price growth, but at a more sustainable rate compared with the stellar performance witnessed over the past two years when the city's relative affordability came into focus.

The US cities of Miami and Los Angeles occupy second and joint third spot respectively, but the forecast rate of growth has dipped in the past six months as recessionary fears strengthen, fixed mortgage rates in the US have exceeded 7% and, in Los Angeles, a Mansion Tax is being considered for homes priced above US$5 million.

European cities rank highly in 2023, occupying six of the top ten rankings with Dublin, Lisbon, Madrid and Paris leading the way. Despite, or perhaps because of, the eurozone's impending recession, safe haven capital flight looks set to bolster prime markets in the year ahead.

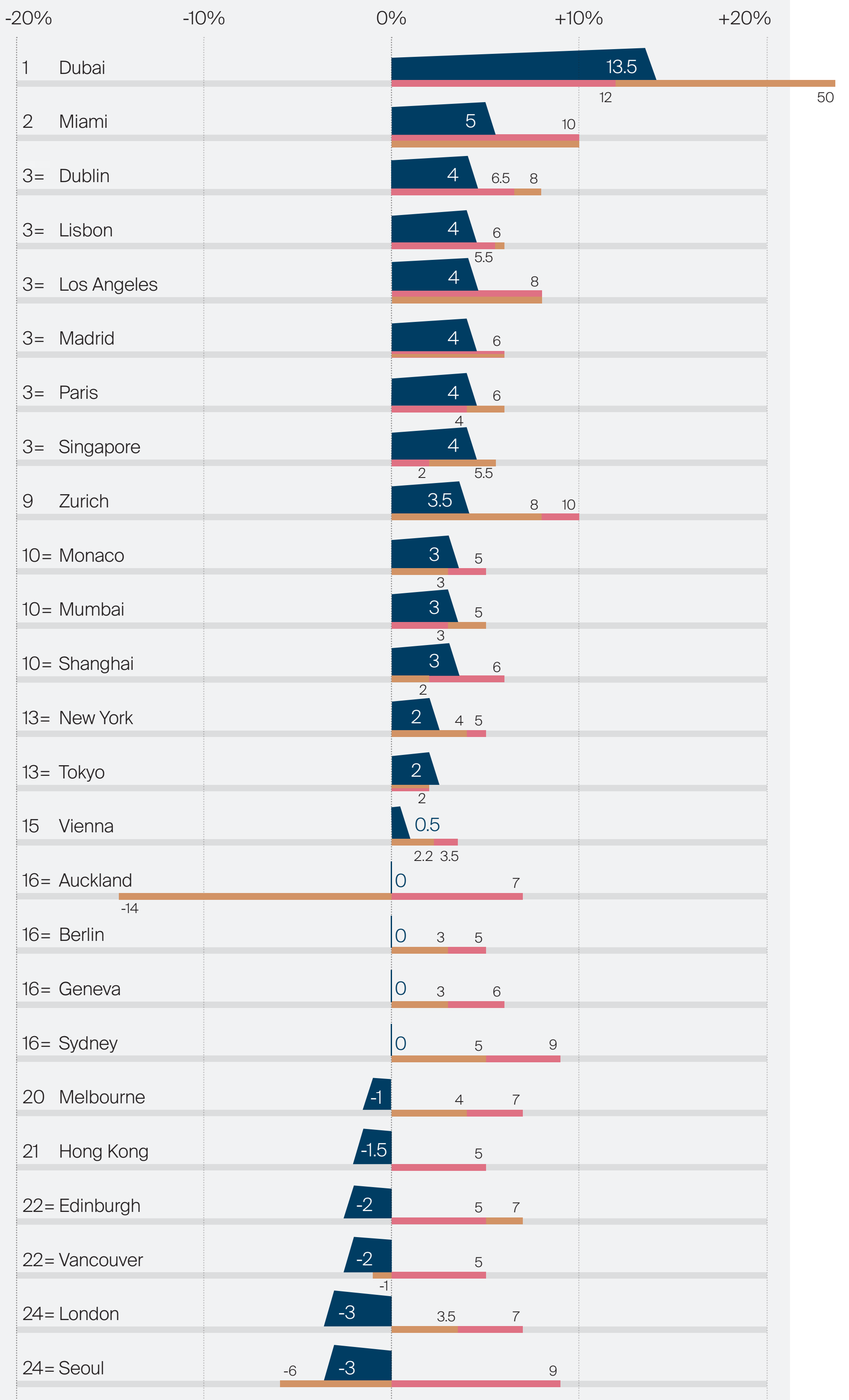
Singapore is the only Asian city in the top ten and one of only four cities whose forecast has climbed in the past six months. New visa measures and the governments' efforts to attract more family offices are helping to position the city-state as Asia's regional wealth hub.

At 2%, New York's forecast for 2023, although down on 2022's figure, remains above the rate of prime price growth recorded in nine of the past ten years. Overseas buyers are seeking more, rather than less, exposure to the US dollar as the Federal Reserve ramps up rates.

London joins Seoul at the bottom of the rankings with prices set to dip 3% in 2023. But, with prices in *prime central London* expected to post growth of 3.5% in 2022, values at the end of 2023 will still sit above those in December 2021.

Prime Price Forecast

Ranked by 2023 forecast



Source: Knight Frank Research, Douglas Elliman, Ken Corporation

How did we do in *2022?*

In the interest of full disclosure, we look back at what we got right – and wrong – in 2022

Twelve months ago, 2022 was due to be 'the year of the cooling measure' as governments looked to rein in phenomenal pandemic-induced price growth. Fast forward a year, and central banks are doing their job for them as an era of cheap debt comes to a close and buyer sentiment weakens.

BULLSEYE

Although we've yet to hit year-end our research teams have estimated annual price growth for 2022. Take Dubai out of the equation and we got within two percentage points for 14 of the 25 cities (56%) in 2022.

COULD DO BETTER

We plead extenuating circumstances for Dubai – few predicted the extent to which its comparative value came under the spotlight during and since the pandemic. Vancouver, Seoul and Auckland also wrongfooted us. Foreign buyer bans, and unexpected rate hikes leading to a sudden drop off in sales, eluded our crystal ball.

Top *five* risks

1. Rising mortgage rates
2. Geopolitical tensions
3. Higher taxes – income, wealth, property
4. Currency shifts
5. Undersupply of luxury homes

Top *five* opportunities

1. Safe haven capital flight
2. Infrastructure investments (new transport links)
3. Volatility in alternative assets (stock market, crypto)
4. Currency play
5. Target markets offering relative value

Source: Knight Frank Research
Based on survey responses collated from Knight Frank's research network

BIGGEST CHANGES

Of the 25 cities, 11 now expect to see weaker price growth in 2023 than predicted just six months ago, while the price forecast for ten cities remains unchanged.

Despite the mounting economic headwinds, four cities are predicting stronger price growth in 2023 than previously anticipated. The outlook for Zurich, Vancouver, Paris and Singapore has strengthened either due to a dearth of supply, policy shifts or because a weak currency is helping to attract foreign demand.

Key *trends* to monitor

Safe haven capital flight
Volatility in other asset classes will push buyers towards mature and transparent luxury markets

Strong prime rental market
Some prime homeowners will opt to become temporary landlords as a potential inflation hedge

Cash buyers will hold greater sway
Sellers will prioritise unleveraged buyers to expedite sales

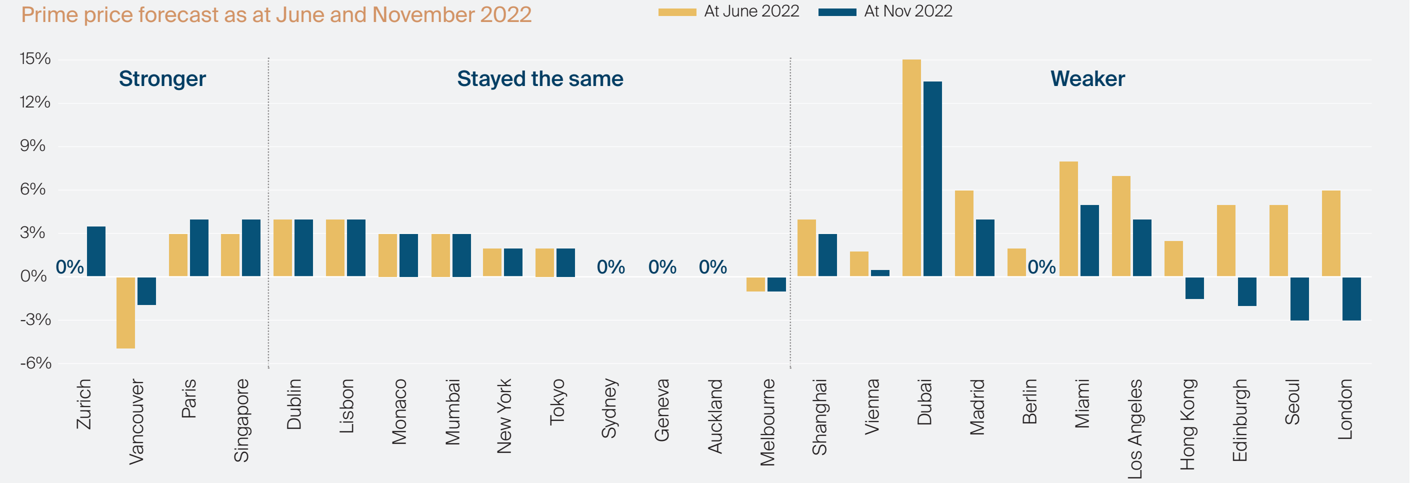
More visas for wealthy and high-skilled workers
Singapore and Hong Kong are targeting high earners and top talent via new visas, more cities will follow

Currency play
With central banks hiking interest rates at different speeds, currency discounts will continue to emerge

Transparency push
Policymakers globally will redouble their efforts to track property ownership, in an effort to improve transparency and accountability as well as maximise revenue.

Risers and fallers

Prime price forecast as at June and November 2022



Source: Knight Frank Research, Douglas Elliman, Ken Corporation

HNW Property Pulse

As knowledgeable as our global researchers are, it is always valuable to understand the thoughts and motives of high-net-worth individuals (HNWIs) themselves, their attitudes to real estate and how they differ globally

This year, we polled HNWIs across four markets: the US, the UK, Singapore and the Chinese mainland. The survey was conducted between 21st and 30th September 2022.

At a glance

Singaporean high-net-worth individuals (HNWIs) are the most optimistic about the direction of house prices in their city in the next 12 months

Chinese HNWIs own the most residential property globally, 3.8 homes on average

Of the 10 cities listed, London is the city that most HNW respondents are likely to purchase in over the next one to two years

House prices

The results reveal that Singaporean HNWIs are the most optimistic about the direction of house prices over the next 12 months, with 86% of respondents expecting an increase.

Singaporean respondents may be buoyed by recent performance. According to Knight Frank's *Prime Global Cities Index*, luxury prices increased 6% in the 12 months to September 2022.

US respondents and those from the Chinese mainland have a similar upbeat outlook with 66% and 64% confident that house prices will increase in the next 12 months respectively. Yet only 59% of UK respondents, buffeted by political turmoil and recessionary fears, expect prices to climb higher.

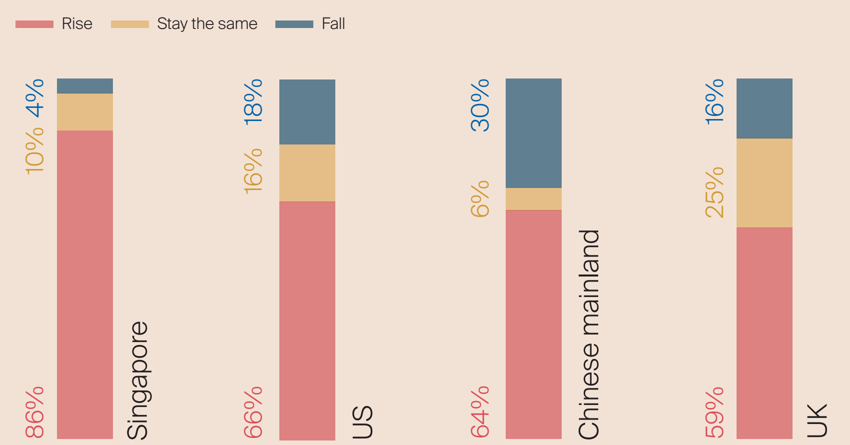
The market with the highest proportion of HNWIs expecting prices to fall is the Chinese mainland (30%), higher than their UK counterparts with 16%.

Home ownership

The number of homes owned globally varies significantly from country to country. HNWIs in the Chinese mainland top the rankings, owning 3.8 properties on average. With strict capital controls in place, it is likely the bulk of these are located domestically rather than abroad. Delving deeper into the data reveals that 68% of HNWIs in the Chinese mainland own three or more properties.

Singapore HNWIs are the most *optimistic* on price growth over next 12 months

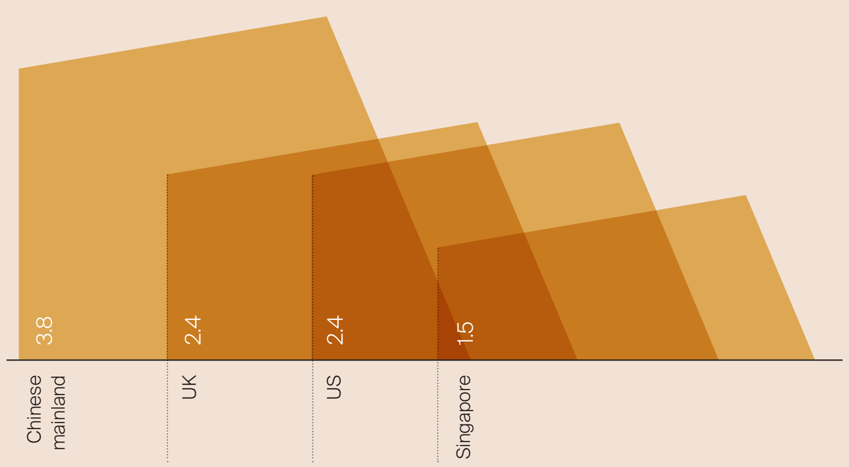
In your view, how will the price of your main home change in the next 12 months?



Source: Knight Frank Research

Chinese mainland HNWIs own the most residential properties worldwide

How many residential properties do you currently own worldwide?



Source: Knight Frank Research

UK- and US-based HNWIs sit jointly in second place, owning 2.4 homes on average. Ranking the lowest out of all markets are HNWIs in Singapore, with an average of 1.5 properties per person.

Purchase plans

Most motivated purchasers are HNWIs based in the Chinese mainland, with 94% planning to buy a property in 2023. The data suggests economic headwinds are weighing on UK- and US-based respondents with 54% and 49% respectively considering a purchase. Singaporeans are the most cautious, with only 44% of respondents looking to add to their real estate portfolios in 2023, and this despite them being the most optimistic on future price performance.

Most popular cities

When asked which city they are most likely to purchase a home in over the next one to two years, London comes out on top overall.

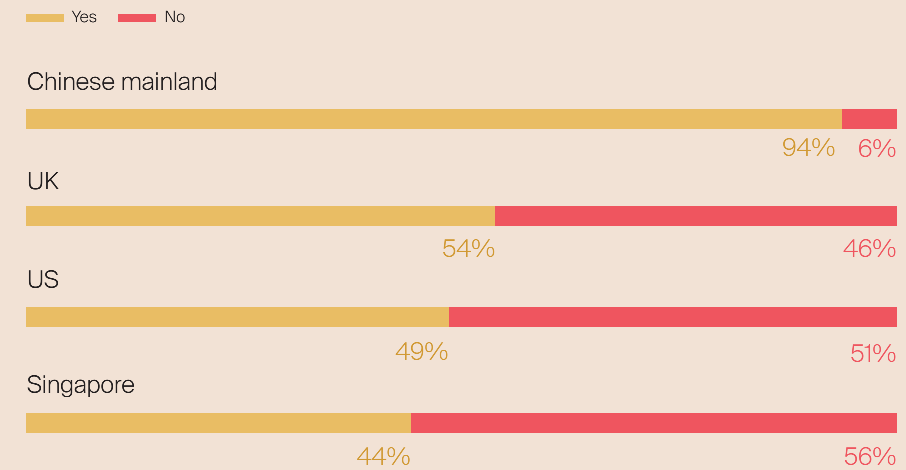
New York sits in second place but ranks highest with HNWIs in the UK and US. Dubai sits in third place and is most popular with HNWIs based in the Chinese mainland.

Key concerns

Rising mortgage rates and higher taxes are considered by the HNWIs polled to be the biggest threat to house prices. Higher taxes are the main concern for the wealthy in the Chinese mainland, while those in the UK, US and Singapore are most troubled by rising mortgage rates.

Over 90% of *HNWI respondents* in the Chinese mainland say they plan to buy a property in 2023

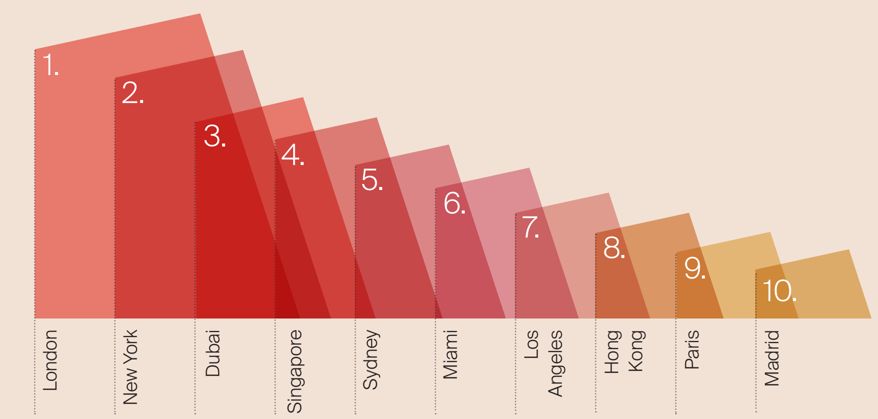
Do you plan to buy a property in the next 12 months?



Source: Knight Frank Research

London is the most popular city to purchase a home in the coming years

Of the following cities, which are you most likely to purchase a home in over the next 1-2 years?



Source: Knight Frank Research

Rising *mortgage rates* and higher taxes are the biggest concerns for HNWIs in relation to future house price performance

What do you consider to be the biggest risk to house prices in your market?

1. Rising mortgage rates
2. Higher taxes – income, wealth, property
3. Cost of living
4. Lingering travel restrictions
5. Geopolitical tensions

Source: Knight Frank Research

IN FOCUS: *Dubai*

Price rises to moderate in 2023 but strong fundamentals persist

by By Faisal Durrani

Residential values in Dubai's prime markets, which encompass the neighbourhoods of the Palm Jumeirah, Emirates Hills and Jumeirah Bay Island, continue to strengthen, growing by 29% in the third quarter of 2022 alone. A shortage of new supply and strong inflows of ultra-high-net-worth individuals (UHNWI) who are targeting second homes in Dubai's premier districts are behind the price rises.

This trend marks a significant departure to the emirate's two previous market cycles, where the overriding flavour of buyers was linked to buy-to-let or speculative purchases.

Palm Jumeriah, one of Dubai's most exclusive addresses, has registered prime price growth in excess of 100% since the start of the pandemic. Prime residential prices across Dubai's top neighbouhoods increased 89% in the last 12 months but prices are rising from a low base. Average transacted prices stand at AED 3,220 psf, or around US$ 800 psf, making Dubai one of the most 'affordable' luxury residential markets in the world.

NEW ULTRA-PRIME SALES RECORD

Ultra-prime homes sales, i.e., homes priced at over US$10 million have had a record year in 2022.

152 ultra-prime sales were agreed in the first nine months of the 2022, eclipsing last year's record of 93.

Of Dubai's three prime residential districts, the Palm Jumeirah, with an average transacted price of AED 3,054 psf, remains the most affordable, relative to Emirates Hills (AED 5,220 psf) and Jumeirah Bay Island (AED 6,345 psf).

THE SUPPLY CHALLENGE

Dubai's perennial challenge has been its 'build-it-and-they-will-come' mantra, which has resulted in more homes being built than the market is capable of absorbing. In this cycle however, the number of new high-end homes planned is failing to keep pace with demand.

At first glance, with nearly 81,000 units due by the end of 2025, the city appears well supplied. However, closer analysis reveals that just eight new villas are due in Dubai's prime residential areas between 2023 and 2025, all of which are on Jumeirah Bay Island.

Despite strong demand, developers are not delivering new projects at a faster rate as we have seen in the past.

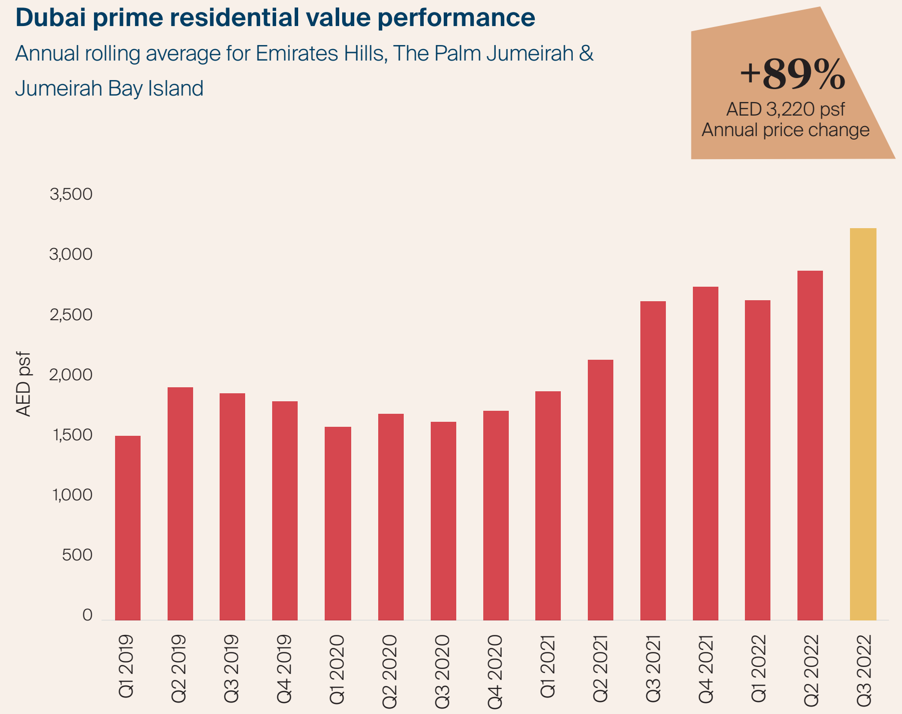
Bulgari Lighthouse on Jumeirah Bay Island (31 apartments) and Alpago's Palm Flower on the Palm Jumeirah (11 apartments) account for the bulk of new high-end homes coming to the market.

The Six Senses development on the Palm Jumeirah is one exception. Here, 100 apartments have been sold this year, accounting for 11% of all prime sales between January and September 2022.

The overriding challenge for the emirate is the shortage of waterfront homes. The revival of Deira Islands as The Dubai Islands should help to alleviate the drought of ultra-prime homes once the development plans are finalised, albeit it is likely to be a few years yet before the first homes are ready to move into.

Dubai prime residential value performance

Annual rolling average for Emirates Hills, The Palm Jumeirah & Jumeirah Bay Island



Source: Knight Frank, REIDIN

"The overriding challenge for the emirate is the shortage of waterfront homes"

MARKET OUTLOOK

The mainstream market is expected to register price increases of 5-7% by the end of 2022 and a similar rate of growth is expected in 2023.

For prime Dubai, prices are likely to end the year around 50% higher than 2021.

In 2023, we expect annual growth to moderate to 13.5% – still the highest growth rate for prime markets globally. The fundamentals remain unchanged however and a return to steady and sustainable growth will instil confidence in homeowners and investors alike. Overall, city-wide prices remain 21.4% below the last peak in 2014.

Cash purchasers are on the rise, currently accounting for c. 80% of the total value of all transactions. Rising interest rates are clearly going to impact mortgaged buyers in the mainstream market. However, with cash purchasers dominating Dubai's luxury residential market, it's unlikely we will see demand ebb, and this is despite the UAE's long-standing program of mirroring of US fiscal policy.

RISKS

Our outlook is not without its risks. Dubai is a world city and as such is to an extent vulnerable to global macroeconomic conditions.

With increasing global economic uncertainty, Dubai is once again emerging as a safe haven destination, just as it did during the height of the Covid-19 pandemic.

The demand-supply imbalance, the government's world-leading response to the pandemic, one of the most business-friendly environments anywhere and arguably some of the world's best beachfront real estate is what underpins our outlook.

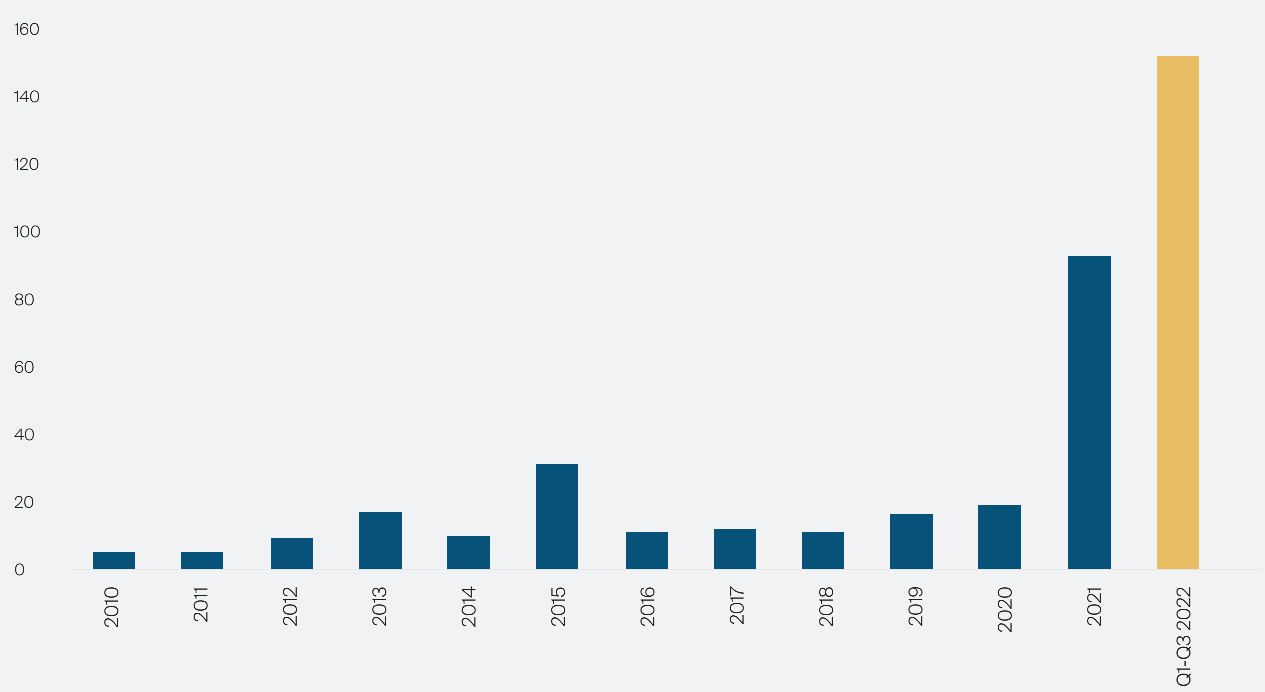
The UAE, along with its neighbour Saudi Arabia, is forecast to have one of the world's fastest growing economies in 2022, with growth of 6-7%. This strong growth is echoed by the UAE's non-oil sector Purchasing Managers' Index readings which have remained in expansionary territory for two-years, highlighting the depth of nationwide business confidence.

And finally, with the US dollar strengthening against a range of currencies over the last six months, the UAE dirham's fixed peg to the greenback may impact Dubai's relative affordability for buyers from markets such as the UK, or EU, long-time stalwarts in the emirate's buyer nationality league table. Any impact however thus far appears to be negligible.

For now, buyers and investors from locations across South America and Eastern Europe are joining the diverse mix of second-home buyers and investors from countries such as Monaco, Austria, Switzerland, India, Singapore, Hong Kong, the UK, the US and the GCC.

Ultra - prime sales

Number of US$10 million+ transactions in Dubai



Source: Knight Frank, REIDIN

"With increasing global economic uncertainty, Dubai is once again emerging as a safe haven destination"

THE WEALTH REPORT

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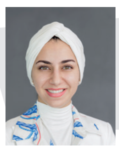

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