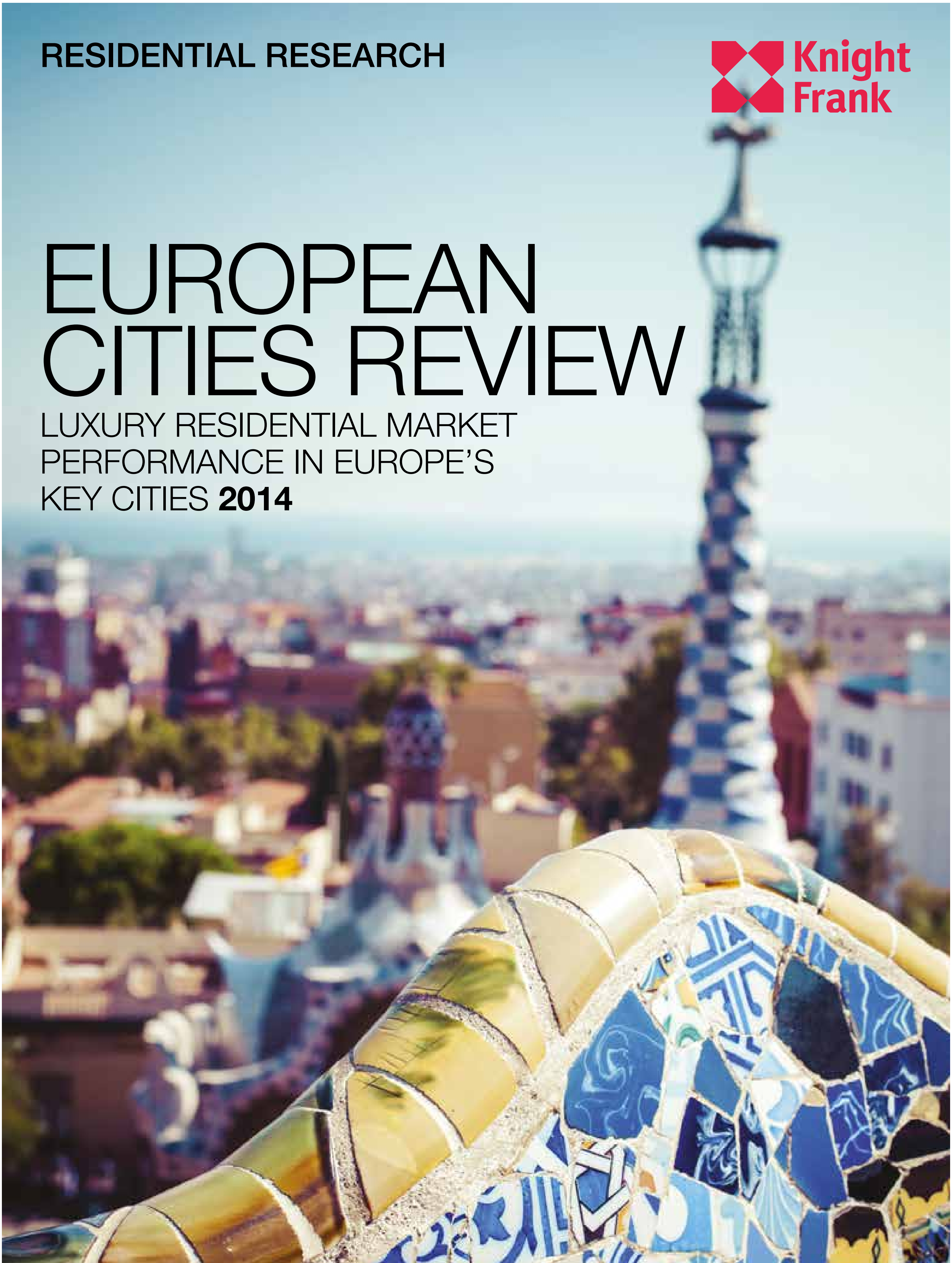
RESIDENTIAL RESEARCH

EUROPEAN CITIES REVIEW

LUXURY RESIDENTIAL MARKET PERFORMANCE IN EUROPE'S KEY CITIES **2014**



PRICE PERFORMANCE | WEALTH FLOWS | FUTURE DEMAND

KEY FINDINGS

Madrid and Dublin are the stand-out recovery markets of 2013

Paris is increasingly good value compared with other Tier 1 cities in Europe

Foreign buyers account for the largest component of demand in Monaco and Venice

Munich is forecast to see the largest increase in its population of wealthy individuals over the next decade

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"The critical question is whether prevailing wealth flows will alter now that the worst of the Eurozone crisis is over."

INTRODUCTION

The performance of luxury residential markets across Europe's key cities has been disparate and patchy to say the least since the financial crisis took hold in 2008.

The well-documented shift to 'safe havens' boosted some of Europe's key urban residential markets (London, Vienna, Geneva) while the economic crisis in others saw sales volumes and prices plummet (Madrid, Dublin).

Six years on from the start of the global crisis, Knight Frank's inaugural **European Cities Review** aims to take the pulse of these diverse city markets by examining price performance, demand drivers, levels of supply, and future trends. But it is also important to highlight the growing connectivity between these urban hubs as well as their increasing importance in generating and attracting wealth to their wider national economies.

To explore these issues we have created a graphical storyboard on pages 4 and 5 which compares the cities by key metrics including economic growth, mainstream and luxury prices, wealth forecasts and the varying influence of foreign buyers.

Market drivers

What is driving luxury demand in Europe's cities? The flow of wealth from outside Europe's borders in 2008-2011 into areas such as Mayfair in London, the 1st District in Vienna and Maxvorstadt in Munich was one consequence of the financial downturn as new wealth in emerging markets looked to a tangible asset class – luxury homes – which would shelter their capital whilst allowing them to enjoy the associated lifestyle benefits.

While this flow of capital grabbed the headlines there was also a similar process taking place at a sub-regional level – private wealth in the form of sovereign wealth funds, private banks and family offices transferred capital from the fragile debt-ridden southern economies to more transparent and stable cities in the north.

The critical question is whether these wealth flows will alter now that the worst of the Eurozone crisis is over. Will private buyers and investors look to second tier cities (Seville instead of Madrid or Barcelona, Florence instead of Rome or Venice) because a) prices in some cities have become prohibitive for 'entry-level' luxury buyers or b) they consider the potential for price growth in these secondary cities to be stronger than in the region's traditional core markets.

Even amongst Europe's first tier cities there is considerable disparity. With luxury prices in Paris oscillating around €12,000-€15,000 per sq m, property here is looking good value, especially when compared to London or Monaco where prime prices are closer to €30,000 or €55,000 per sq m respectively – even taking President Hollande's tax ruminations into consideration.

As economic indicators improve, the safe haven effect may not be uppermost in luxury buyers' minds. Instead, lifestyle, proximity to schools or universities and security considerations may be increasingly influential.

Geopolitical tensions around the world will continue to push wealth across borders. Similarly, changes to immigration law (Switzerland), the fluctuation of tax rates (France) or the introduction of Golden Investor Visas (Spain, Portugal etc) can lead to short term changes in buyer sentiment.

Performance

The performance of prime property, as we have established above, is still influenced by the pattern of capital flows and the priorities of the world's wealthy.

In most cases, prime prices in Europe's cities proved better insulated than the continent's rural and coastal second homes in the period since 2008.

Prime city markets rely on a broader platform of demand; a mix of domestic owner occupiers, institutional investors, private wealth and foreign second home buyers. This mix of buyers meant that when foreign buyers retreated from the market in 2008-09 there was a still a level of sales activity, albeit limited, taking place in Europe's cities.

That's not to say prime city markets did not see significant price falls, Dublin and Madrid saw falls of 45-55% peak-to-trough and even London saw prices decline by 24% in the year to March 2009. Vienna is the only exception, here prices remained static in the aftermath of Lehman's collapse and have seen growth of 5% per annum since 2012.

Paris experienced a brief growth spurt, rising 22% in the year to September 2011 as wealth from the Middle East sheltered in the French capital as the tensions surrounding the Arab Spring heightened.

2013 proved a watershed year for 'recovery cities' such as Madrid, Dublin, and to a lesser extent, Rome. Not only have luxury prices bottomed out, but confidence has improved and particularly in Madrid and Dublin's case they are firmly back on investors' radar, recording price growth of 5% and 24.6% respectively in the year to March 2014.

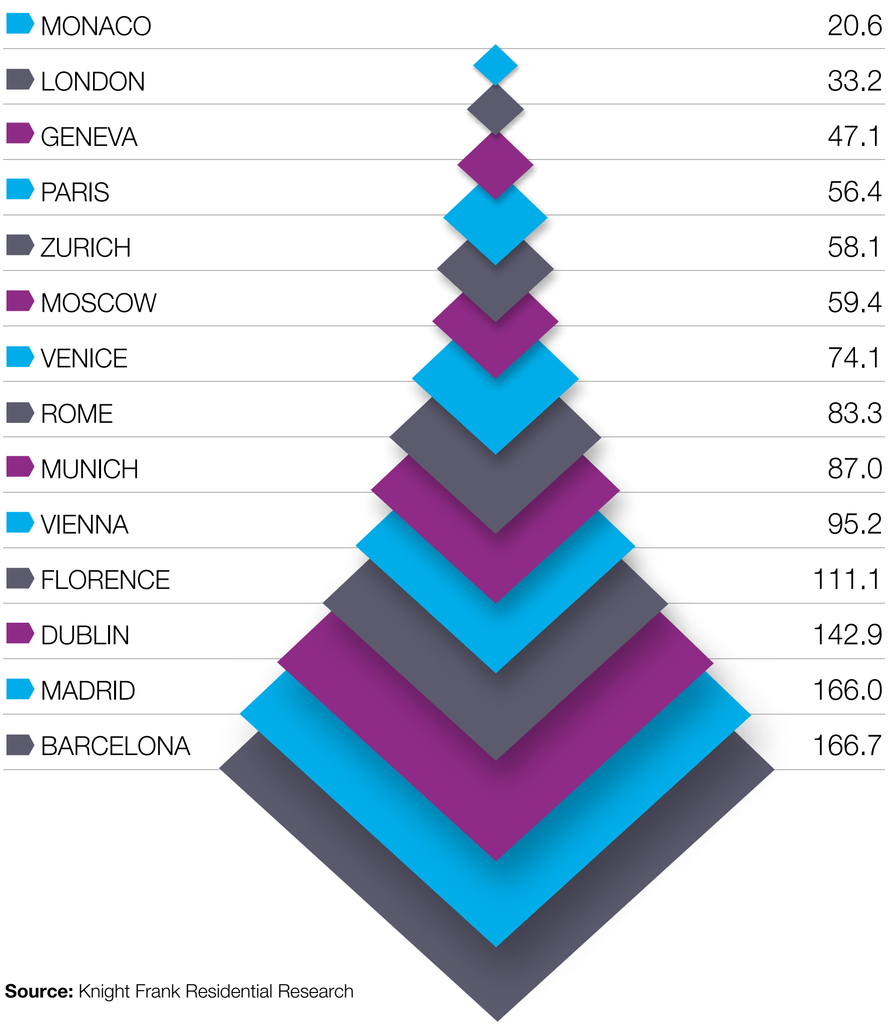
15,668

The number of UHNWIs* living in Europe's 14 key cities by 2023

FIGURE 1

How much space does €1m buy you in…?

Sq m



Source: Knight Frank Residential Research

*individuals with net assets of $30m+
Source: Wealth Insight

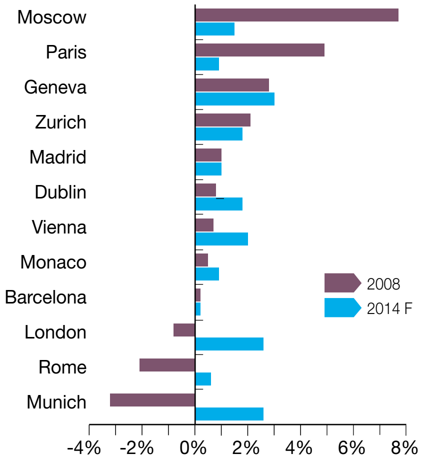
-6.1%
Q4 2009

2.1%
Q1 2014

Average annual change in prime prices across our 14 luxury European city markets

CITIES SNAPSHOT

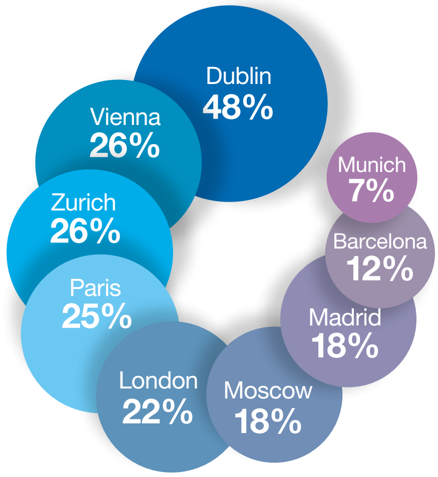
FIGURE 2
The economic landscape is picking up…
GDP growth (Annual %)



Source: Experian, Eurostat, JP Morgan, Morgan Stanley
*Latest data

- Munich, Rome and London are forecast to see the largest rise in GDP growth in 2014 compared with 2008
- Only three cities are forecast to see their rate of GDP growth in 2014 fall below that of 2008

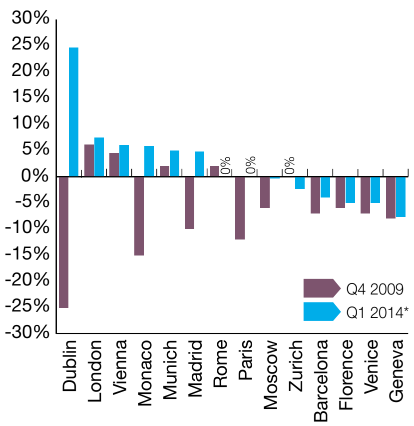
FIGURE 3
….and cities are increasingly important to their national economies
City GDP as a % of Country GDP*



Source: Brookings Institution, ONS
* As at 2012

- Some cities like Dublin, Vienna and Zurich are emerging as powerhouses of their national economies
- London is responsible for generating 22% of the UK's GDP, in 1997 this figure was closer to 19%

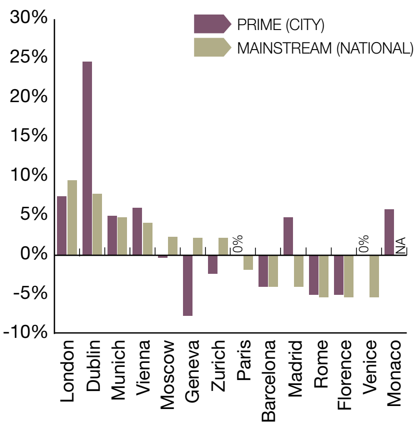
FIGURE 4
Prime markets are recording stronger price growth…
Annual price growth*



Source: Knight Frank Residential Research
*or latest available

- Dublin and Madrid's turnaround in luxury price growth is most evident…
- ...but Monaco, Paris and Moscow have also seen an improvement

FIGURE 5
...but some mainstream markets are catching up
Annual price growth to Q1 2014*



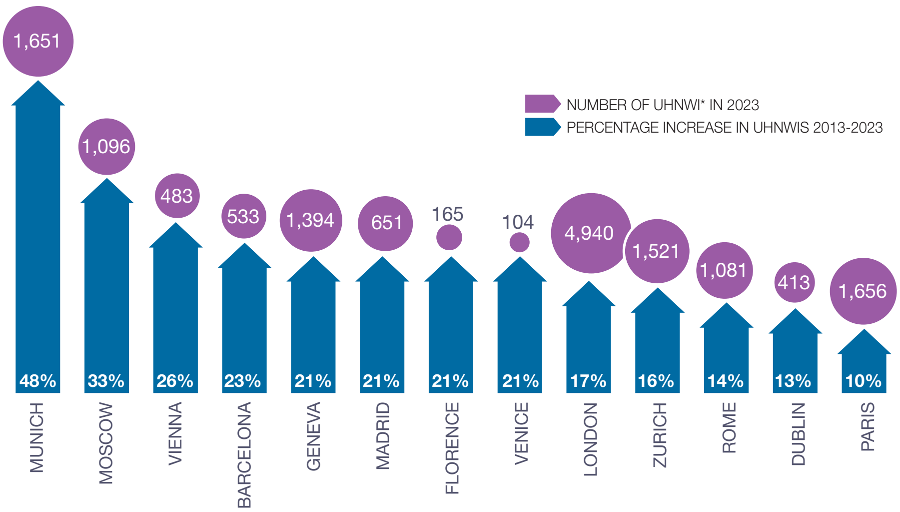
Source: Knight Frank Residential Research, National Statistic Offices
*or latest available

- Mainstream prices in the UK, Russia and Switzerland are outperforming luxury prices in their key cities
- On average luxury prices rose 2.1% while mainstream national prices rose 0.6% in the year to March 2014

FIGURE 6

Munich is forecast to see largest increase in its wealth population*…

UHNW population*

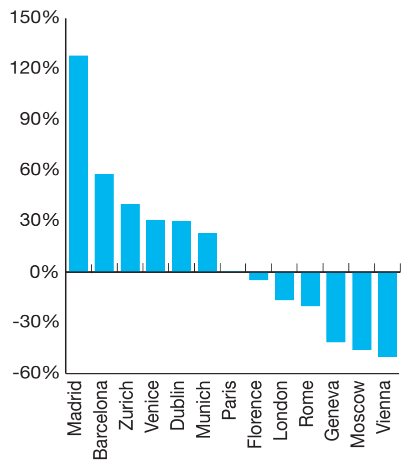


Source: WealthInsight *Individuals with net assets of $30m+ Monaco – forecast unavailable

- London will be home to 4,940 UHNWIs in 2023, more than the figure forecast for Paris, Geneva and Zurich combined
- Of the smaller cities, Vienna and Barcelona are forecast to see a significant increase in UHNWIs, up by 26% and 23% respectively

FIGURE 7

….but Madrid and Barcelona have seen the largest increase in prime property searches Q1 2013 v Q1 2014



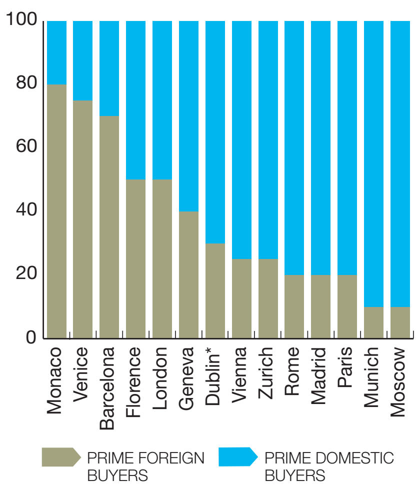
Source: Knight Frank Global Property Search

- Low search activity in some locations such as Munich, Geneva and Vienna is due not to a quiet market but a shortage of supply

FIGURE 8

Monaco, Venice and Barcelona have the highest proportion of prime foreign buyers…

% of foreign buyers in the prime market by city



Source: Knight Frank Residential Research

* inc Irish expats

- From Moscow at 10% to Monaco at 80% the proportion of foreign buyers to each city's luxury market varies significantly

FIGURE 9

…and demand originates from a diverse set of countries

Top foreign nationalities purchasing by city

	1	2	3
Barcelona	UK	US	France
Venice	France	UK	Germany
Vienna	CIS	Germany	Saudi Arabia
Rome	UK	US	N European mix
Madrid	Venezuela	Colombia	UK
Munich	Russia	Saudi Arabia	UAE
Florence	UK	US	N European mix
Monaco	Russia	Italy	Belgium
Dublin	Singapore	UK	Malaysia
Geneva	France	Russia & CIS	UK
Zurich	Germany	Russia & CIS	UK
Paris	UAE	Singapore	US
London	China	Russia	Singapore
Moscow	CIS	France	UK

Source: Knight Frank Residential Research

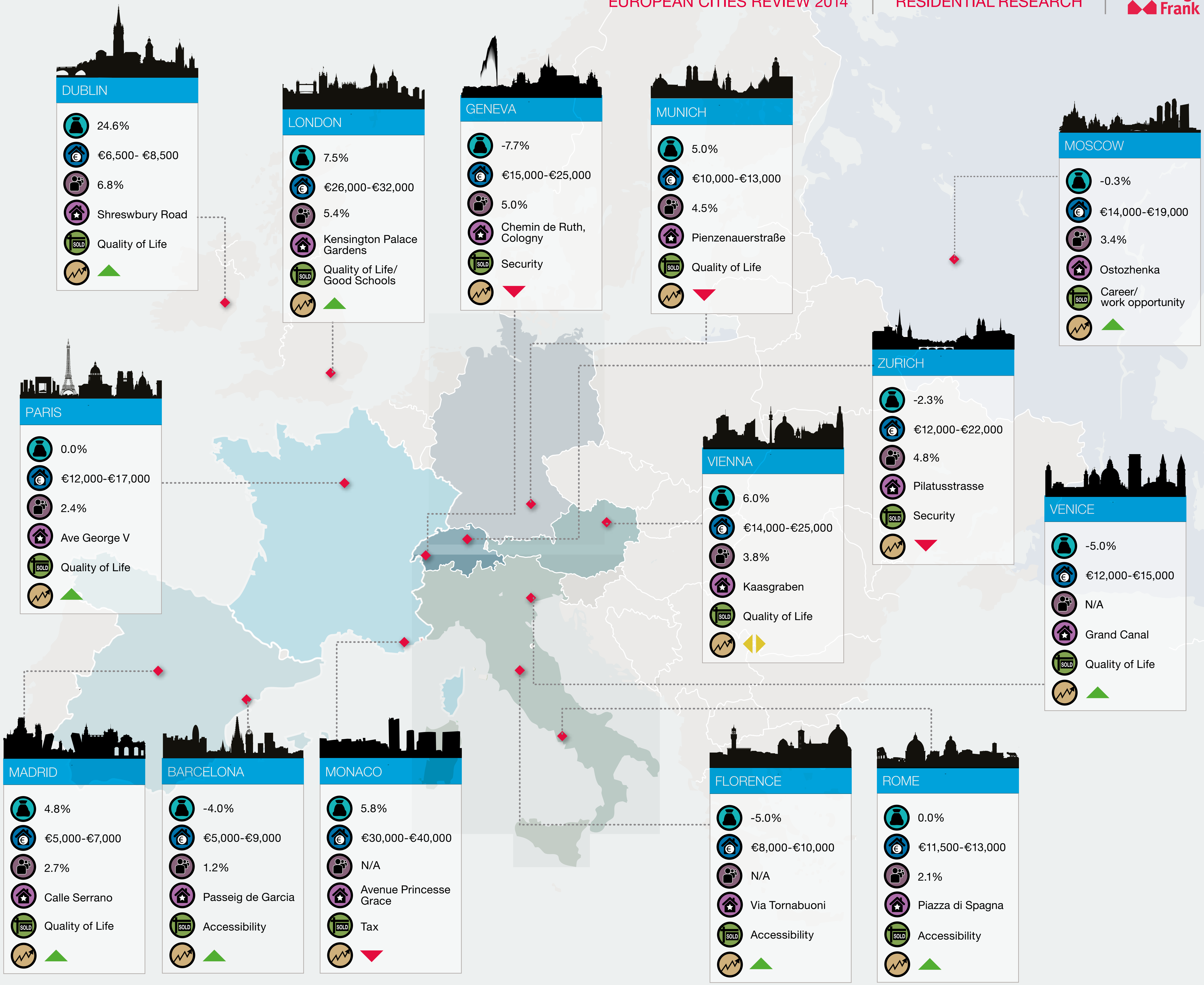
EUROPE IN NUMBERS

Europe's cities represent a diverse mix of metropolises, all within 2,200 miles, or a maximum three hour flight, of each other. Yet, the geographies, economies and demographics are wide ranging and complex for buyers from inside the region let alone for those from further afield.

Alongside we highlight some of the key indicators to help understand these 14 cities' luxury residential markets; from prices to population forecasts and from buyer motivations to the most aspirational street we provide a snapshot for those considering a purchase but unsure of how Europe's top cities compare.

KEY

- Price (% change in prime prices to March 2014)
- Price range (typical prime price in €/sq m as at March 2014)
- Population = (Forecast growth 2014-2021)
- Top address = (best/most expensive street)
- Main reason for purchase cited by prime buyers
- Market activity = (direction of prime sales volumes in 2013)



City	Price	Price range	Population	Top address	Main reason for purchase	Market activity
DUBLIN	24.6%	€6,500- €8,500	6.8%	Shreswbury Road	Quality of Life	▲
LONDON	7.5%	€26,000-€32,000	5.4%	Kensington Palace Gardens	Quality of Life/ Good Schools	▲
GENEVA	-7.7%	€15,000-€25,000	5.0%	Chemin de Ruth, Cologny	Security	▼
MUNICH	5.0%	€10,000-€13,000	4.5%	Pienzenauerstraße	Quality of Life	▼
MOSCOW	-0.3%	€14,000-€19,000	3.4%	Ostozhenka	Career/ work opportunity	▲
PARIS	0.0%	€12,000-€17,000	2.4%	Ave George V	Quality of Life	▲
ZURICH	-2.3%	€12,000-€22,000	4.8%	Pilatusstrasse	Security	▼
VIENNA	6.0%	€14,000-€25,000	3.8%	Kaasgraben	Quality of Life	◀▶
VENICE	-5.0%	€12,000-€15,000	N/A	Grand Canal	Quality of Life	▲
MADRID	4.8%	€5,000-€7,000	2.7%	Calle Serrano	Quality of Life	▲
BARCELONA	-4.0%	€5,000-€9,000	1.2%	Passeig de Garcia	Accessibility	▲
MONACO	5.8%	€30,000-€40,000	N/A	Avenue Princesse Grace	Tax	▼
FLORENCE	-5.0%	€8,000-€10,000	N/A	Via Tornabuoni	Accessibility	▲
ROME	0.0%	€11,500-€13,000	2.1%	Piazza di Spagna	Accessibility	▲

Source: Knight Frank Residential Research, Oxford Economics

OUTLOOK

A lack of new supply, a widening pool of buyers and the movement of wealth away from geopolitical tension will determine the future performance of Europe's luxury residential markets.

Despite the recent economic upturn, the Eurozone crisis is far from over. Only 12-18 months ago we were placing bets on the lifespan of the Euro and while the immediate concerns have been allayed, the Eurozone's one-size-fits-all approach to monetary policy is likely to force some countries to introduce regulation to counter deflationary conditions.

Six years of slow sales activity means the choice and availability of prime homes is at its best for several years. However, while London's prime development pipeline is relatively strong there is little planned or under construction in many of Europe's historic and high density cities such as Paris, Monaco and Vienna.

If market activity strengthens and only limited new supply is added, the luxury stock that is on the market may take two to three years to be absorbed, with the potential for further price growth thereafter.

It is likely that Rome, Barcelona and possibly Paris will join Dublin and Madrid as growth markets in 2014.

The profile of luxury buyers is expected to change. Private wealthy individuals will still comprise a significant component of demand in Europe's cities but family offices, sovereign wealth funds and private investors will increasingly compete for the best properties. Growing interest from institutional investors – pension funds, hedge funds and insurance companies – is already evident in Barcelona, Madrid and Dublin.

The continued tapering of QE in the US and the removal of stimulus measures by governments in both the East and West means the global growth in asset prices will slow. Lifestyle purchasers of luxury homes are likely to be less concerned, but investors may start to look at rental returns and gross yields rather than focusing solely on capital appreciation.

Key to attracting the world's rich will be accessibility and infrastructure. New flight routes or the introduction of a winter timetable from key buyer destinations can be sufficient to have a significant impact on demand levels.

Although wealth creation is forecast to be strongest in emerging markets in Asia and Latin America, the appeal of Europe's luxury bricks and mortar will – due to its history, diverse cultures, architecture and climate – mean it will remain the location of choice for the world's wealthy.

Knight Frank Residential Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs.

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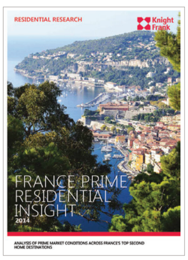

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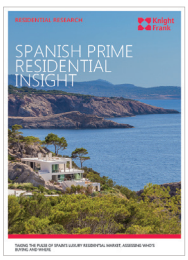

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