RESIDENTIAL RESEARCH

Douglas Elliman FINE HOMES

Knight Frank RESIDENTIAL

PRIME GLOBAL CITY MARKETS

HOW THE GLOBALISATION OF ECONOMIC ACTIVITY, WEALTH AND INVESTMENT IS SHAPING THE WORLD'S LEADING RESIDENTIAL MARKETS **SEPTEMBER 2014**

FOCUS ON NEW YORK, LONDON AND HONG KONG

KEY FINDINGS

A number of key global cities are seeing an increasingly close correlation in the performance of their prime housing markets

New York and London are set to remain the key global city economies over the next decade, attracting growing investment in their respective prime housing markets

Asia's leading cities for inward investment in prime residential property are Hong Kong and Singapore. Beijing and Shanghai will become more important over time

Los Angeles, Miami, Paris and Dubai, are all markets experiencing similar trends – with growing residential market globalisation – in terms of funding, purchase, development and investment

"Our findings are that the New York and London markets are very closely correlated."

GLOBAL CONNECTIONS

The Knight Frank Wealth Report 2014 confirmed increasingly close economic links between the world's leading cities. In this update, we explore how these links are shaping residential property investment between these cities.

One of the more high-profile property trends currently taking place in locations such as central London, downtown Los Angeles and Manhattan, is the growing presence of large Chinese, Indian, and other emerging market developers, who are competing to buy the best available residential development sites.

The drivers for these investments are varied, with geographic diversification being an obvious rationale. Perhaps less obvious is the desire to build globally recognised brands.

There is no better way to confirm to your domestic market, whether in China, India, Singapore, Malaysia or Brazil, that you are one of the globe's leading developers, than by securing the best sites, in the best locations, in the world's best cities.

With wealthy residents from emerging market economies increasingly travelling to, working in, being educated in and investing in these top tier cities, there is a growing synergy between the economies, and indeed the prime residential property markets, of cities on different sides of the world.

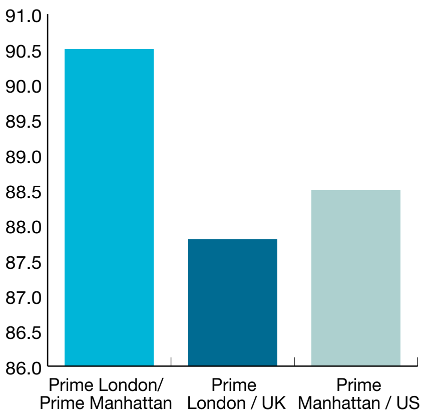
Aside from emerging market investors, the flows of wealth, economic activity and migration mean that the world's leading business and financial centres, are seeing property markets increasingly moving together.

In Figure 1, drawing on data from Knight Frank's Global House Price Index, which benchmarks the performance of mainstream national housing markets across more than 50 countries, and our unique Prime Global Cities Index, which similarly benchmarks the performance of over 30 of the world's top luxury city markets, we have been able to assess the correlation of two critical city markets – London and New York. Our findings are that the prime markets in both cities share a closer correlation between the rate and direction of residential property price change than they do with their respective national markets.

There are a small, but growing, number of cities which share the characteristics of global markets. Knight Frank's Wealth Report 2014 confirmed the cities which were held to be most important to international wealthy investors. As Figure 2 confirms, New York and London head the list. When we move to Asia, Hong Kong and Singapore appear as almost joint regional city leaders in this ranking, although Shanghai and even Beijing are becoming increasingly important cities in terms of their ability to attract investment from global UHNWIs.

Within the Americas, Miami increasingly acts as the leading investment centre for Latin American wealth. Partially as a result of this investment, prime market prices here have risen 26% over the past four years (Figure 3).

FIGURE 1
A special relationship
Best fit correlation between Prime Manhattan, Prime London, Mainstream US and Mainstream UK house prices, 100 = perfect correlation, 0 = perfect non-correlation



Source: Knight Frank Residential Research

Los Angeles, which attracts investment from across the US as well as Latin America and Asia, has seen a similar level of price growth as Miami over recent years – with a 14% uplift in the 12 months to June 2014 alone.

While London dominates the prime investment landscape in Europe, Paris is still an important city market for investors from within Europe and the Middle East. Price growth in the French capital after 2009 was positive, but this was due to relatively robust growth up to 2012. Since this time the market has weakened due to ongoing national economic concerns.

Dubai's increasingly important role as a regional economic and wealth hub, for the Middle East and North Africa, as confirmed by the Knight Frank Global Cities Survey (Figure 2) means that investors and developers are sharpening their focus on the performance of its prime residential market. In Figure 3 we confirm the very strong level of growth in Dubai in recent years, with a rise of 73% over the past five years. It is important to note however that the market here fell by nearly 60% between the market peak in 2008 and the low point in 2010. Despite rapid growth, prime prices are still 10% lower than they were in 2008.

FIGURE 2
The cities that matter to the world's wealthy
Top ten global cities, Wealth Report Global Cities Survey

	2014	2024
1	London	New York
2	New York	London
3	Singapore	Hong Kong
4	Hong Kong	Singapore
5	Geneva	Shanghai
6	Shanghai	Beijing
7	Miami	Dubai
8	Dubai	Miami
9	Beijing	Geneva
10	Paris	Mumbai

Source: The Knight Frank Wealth Report 2014

Sustainability of investment

One of the most marked trends observed in Figure 3 is the recent weakening of prices in Hong Kong and Singapore.

We have commented in detail on the growing use of macro-prudential policies to help cool housing markets, notably in recent editions of our Asia-Pacific Residential Review. The important issue to note, in the context of global city markets, is that there has been growing activism by policy-makers to control investment, especially from foreign investors.

One of the critical questions in terms of future market performance will be the willingness of policy makers to maintain and even expand these policies.

While investors will always look for value and opportunities in less mature markets, our experience, throughout the relatively extreme market cycle over the past decade, is that a substantial portion of global residential investment remains focused on the key city markets.

This concentration of investment on the key global city leaders, is a reflection that a significant proportion of this investment is driven by economic linkages. The recent growth in high value sales in both London and New York, confirmed overleaf, has in large been part driven by employees relocating for new jobs or entrepreneurs looking for a base while they grow a business.

As knowledge-based industries crowd into central areas of the world's most economically successful cities, we expect to see a growing trend for inter-city residential investment, as the flow of employees, and business owners becomes increasingly international.

Our data analysis, overleaf, provides a snapshot of economic and demographic trends which point to ongoing strong performance from these top tier city markets, and on pages 6 and 7 we have brought together three leading experts to share their thoughts on the outlook for New York, London and Hong Kong – the three regional city leaders.

36%
CUMULATIVE PRICE GROWTH IN THE PRIME NEW YORK MARKET SINCE Q2 2009

FIGURE 3 **Prime city price growth**
Price change by city to Q2 2014

	LONDON	PARIS	NEW YORK	MIAMI	LOS ANGELES	HONG KONG	SHANGHAI	S'PORE	DUBAI
1yr	8%	-3%	18%	6%	14%	-3%	5%	-8%	6%
2yr	16%	-8%	22%	13%	21%	-1%	23%	-9%	29%
3yr	28%	-3%	9%	25%	24%	0%	12%	6%	71%
4yr	39%	15%	21%	26%	26%	16%	21%	10%	63%
5yr	66%	30%	36%	NA	19%	49%	62%	NA	73%
6yr	37%	19%	0%	NA	4%	17%	44%	NA	-10%

Source: Knight Frank Prime Global Cities Index

ECONOMIC PERFORMANCE

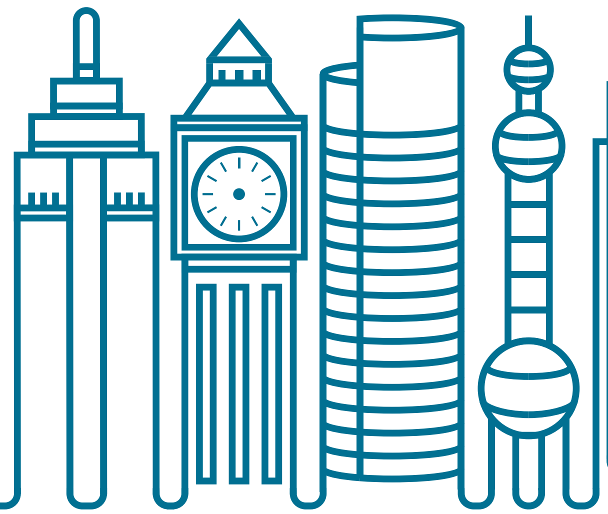
	High-income households* global rank 2013	High-income households* global rank 2030	GDP growth 2013 to 2030 (USD bn)	High-income households in 2030
New York**	2	2	874	5.3m
London	4	3	476	4.0m
Los Angeles***	5	5	522	3.1m
Paris	6	6	237	2.9m
Shanghai	69	8	734	2.3m
Hong Kong	19	18	178	1.5m
Miami****	16	20	165	1.5m
Singapore	30	34	213	1.2m

**New York/Newark/Jersey City

***Los Angeles/Long Beach/Anaheim

****Miami/Fort Lauderdale/West Palm Beach

* $70,000 non-PPP 2012 prices and exchange rates (Source: Oxford Economics)



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Key market indicators for leading

THE IMPACT OF CURRENCY MOVEMENTS

Prime residential price movements allowing for market price

(Source: Knight Frank)

Domestic currency	New York	Miami	LA	Lon
US Dollar	18%	6%	14%	2
British Pound	5%	-6%	4%	8
Euro	12%	1%	8%	1
Chinese Renminbi	20%	8%	15%	2
Singapore Dollar	16%	5%	13%	2
Hong Kong Dollar	18%	6%	14%	2
Emirati Dirham	18%	6%	14%	2

PRIME MARKET PERFORMANCE

USD1m invested in prime residential property in 2010 would be now worth...

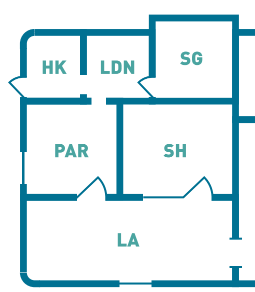
(Source: Knight Frank)

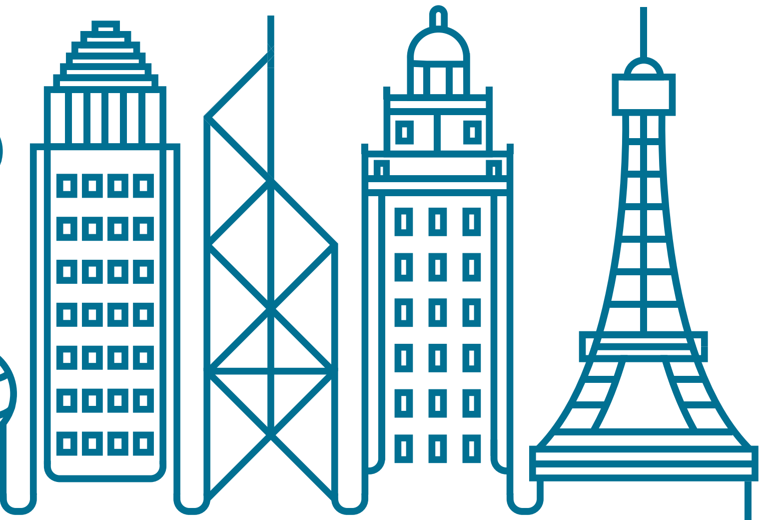
London	1.54m
Miami	1.26m
Hong Kong	1.16m
Paris	1.28m
Los Angeles	1.26m
Shanghai	1.32m
New York	1.22m
Singapore	1.23m
Dubai	1.63m

PRIME MARKET

How many m^2 would U

(Source: Knight Frank)





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ding global residential markets, Q2 2014

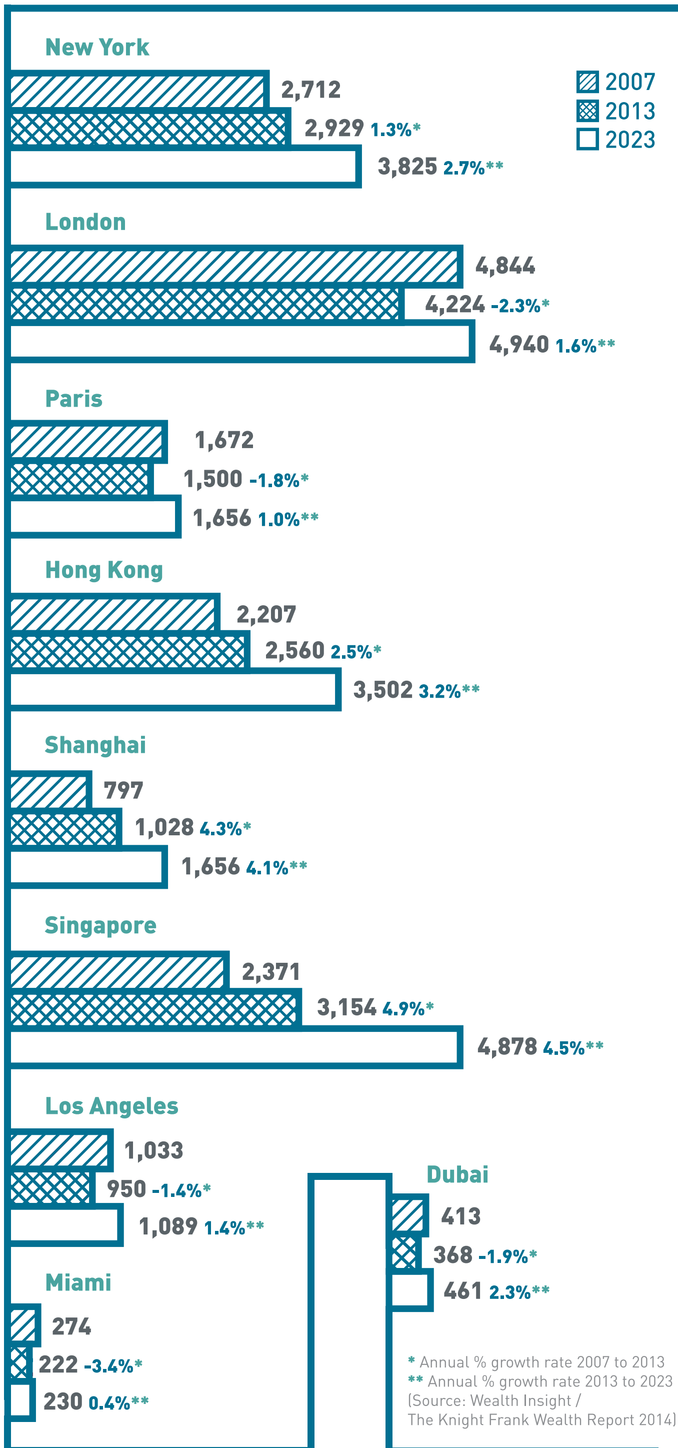
TS ON FOREIGN INVESTORS

price change and currency shifts, Q2 2013 to Q2 2014

London	Paris	Shanghai	Singapore	Hong Kong	Dubai
22%	3%	4%	-6%	-3%	6%
8%	-9%	-8%	-17%	-14%	-6%
16%	-3%	-2%	-11%	-8%	1%
23%	4%	5%	-5%	-2%	8%
20%	1%	2%	-8%	-5%	4%
22%	3%	3%	-6%	-3%	6%
22%	3%	4%	-6%	-3%	6%

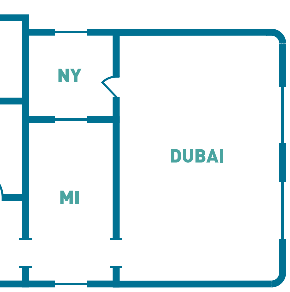
WEALTH

Count of UHNWI ($30m+ personal wealth) population



ET BENCHMARKING

ld USD1m buy if invested in prime residential property?



Hong Kong 21m²
London 24m²
Singapore 35m²
New York 40m²
Paris 42m²
Shanghai 46m²
Miami 53m²
Los Angeles 61m²
Dubai 144m²

PRIME SALES

Count of prime residential sales by city (Source: Knight Frank, Miller Samuel)

City	Period	$2m-$5m	$5m-$10m	$10m+
Central London	12 months to Q2 2009	1,656	334	109
	12 months to Q2 2014	5,047	1,002	336
Manhattan	12 months to Q2 2009	1,511	288	140
	12 months to Q2 2014	2.580	561	229

CITY FOCUS

Three leading experts share their thoughts on current market conditions and the potential outlook for their city markets.

NEW YORK

Jonathan Miller, President/CEO of Miller Samuel Inc.

In early 2013 I stated at the New York launch of the Knight Frank Wealth Report that the Manhattan market was set for a five year upswing in both demand and pricing. Since then we have seen steady price growth.

I anticipate further gains in New York house prices for the remainder of 2014 and through 2015. After five years of relatively low to modest house price growth, the pace of gains has increased over the past three quarters. With chronically low inventory levels, unyielding interest from foreign investors and an improving economy, I fully expect additional price increases over the next six quarters.

While I don’t expect an expansion of already heavy participation by international investors, I anticipate the current level of interest to remain for the next few years. There is no doubt that New York’s business links to other global cities is aiding inward investment at the current time.

In terms of areas which are set to benefit from new high-end development, the Midtown central business district has already emerged as a new sub-market for super luxury real estate with several significant new projects anticipated. The new development space has focused on height, which has allowed expansive views over Central Park and the city skyline. Sales rates in the leading schemes in this market have been very strong.

While investors from around the world have been increasingly targeting the New York market, there is an active reverse flow of investment. New Yorkers are still domestically focused, and are competing with international investors in Miami and San Francisco, but at the same time we are seeing locations in Spain and the Caribbean rising in terms of their interest to New York-based investors.

The shift to higher interest rates over the next few years will limit longer term price growth here as everywhere, but I remain positive on the outlook for demand in the city.

HONG KONG

David Ji, Head of Research & Consultancy, Knight Frank Greater China

There is no doubt that the various rounds of cooling measures, which have been introduced in Hong Kong over the past few years, have directly contributed to a noticable decline in transaction volumes, as well as a dip in prime market pricing. Although sales volumes have begun to recover in recent months.

Demand for new-build residential properties has been a key driver of the sales market recovery. With several new developments launching last month, 7,792 homes were sold in July this year, an increase of 96% year-on-year.

This strong performance was not replicated in the resales market, where limited supply of small homes and sellers standing firm on prices meant that activity was more limited.

In the luxury residential market, several major transactions were seen in July, including the sale of the third flat at Opus in Mid-Levels East for HK$430 million (£33m). Luxury residential prices increased by 0.4% month-on-month, but in general the market remains slow, due to the government's various cooling measures and economic uncertainty.

I expect residential prices to drop 3-5% during the second half of 2014. Ongoing market weakness may continue into 2015 if the US raises interest rates at an unsustainable rate. While the biggest risk to prices remains interest rate policy, rising stock volumes and the potential for additional government cooling measures can't be ignored.

Despite some short-term risks to the Hong Kong market, I am positive about the future performance of the luxury residential market in the medium to long term. In particular, areas with a limited supply of new projects, such as traditional luxury residential districts like the Mid-levels on Hong Kong Island, and new luxury districts that are supported by rail projects such as West Kowloon.

One of the key trends we have seen over the past decade has been the growth of investment by Hong Kong investors into markets like London, key Australian cities, New York, Los Angeles and Thailand. Some of these flows have has been led by simple investment motivations, but increasingly education and business links have been taking centre stage.

LONDON

Tom Bill,
Head of London Research,
Knight Frank

Annual price growth in central London has slowed in recent months, although at 8% annual growth has remained more robust than we anticipated at the beginning of 2014. Our central scenario is for prices to rise by around 2% or 3% over the second half of 2014, with weaker growth in 2015. Our full year forecast for 2015 is for zero growth across the prime central London market – the UK general election, should act to put a brake on growth.

The most obvious risk to future growth is past growth. Prices in London are high by historical standards and there is less scope for strong growth over the next few years. At the same time we are undoubtedly moving into a period of higher interest rates which will weigh on future growth prospects.

These trends mean that investors in London are increasingly focussing on micro-markets where they believe there is scope for outperformance. In most of these areas attention is being driven by infrastructure – especially Crossrail. As a result, markets like Bayswater, Fitzrovia, Midtown, and the City Fringe are seeing considerable activity from developers and investors.

As London has increased its economic lead over other European cities, in areas like technology and media, in addition to finance and business services, and with the concomitant expansion in employment, demand for prime residential accommodation has risen, which helps to explain at least some of the growth in prices since 2009.

The hope is that with a growing pipeline of developments coming through in central London, price growth will be constrained to a degree over the next five years helping to at least partially alleviate affordability concerns across the city.

96%

YEAR-ON-YEAR GROWTH IN NEW HOMES SALES IN HONG KONG IN JULY 2014

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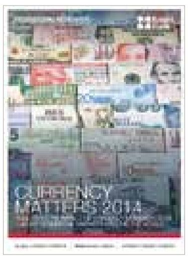

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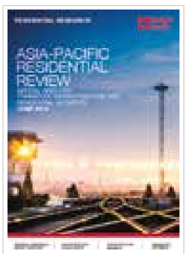

Asia Pacific Residential Review June 2014

Global House Price Index Q1 2014

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