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Knight Frank

Prime Global Forecast 2020

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Research

IN SEARCH OF RETURNS

With capital growth in most prime residential markets shrinking in 2019, we set out our forecast for 2020 and outline the key trends that look set to shape future performance.

KATE EVERETT-ALLEN, INTERNATIONAL RESEARCH

At the end of 2019, the global economic landscape looks markedly different from that a year ago. In 2018, economists predicted 'the new normal' – that of higher interest rates and more expensive debt – yet it failed to materialise. Instead, we have seen 144* interest rate cuts globally in the last year, with quantitative easing (QE), once an extraordinary measure, now back on the agenda in the US and the Eurozone.

With interest rates remaining lower for longer, property's attraction has been reinforced. Yet, at the prime end of the market, particularly, in the world's top tier cities, sales volumes largely drifted lower during 2019.

Prime price growth also stumbled in 2019 across many cities. The Knight Frank Prime Global Cities Index, which tracks the movement in prime prices across 45 cities worldwide, is mirroring global economic growth. The average annual rate of growth in the year to Q3 2019 was 1.1%, meaning prime prices are rising at their slowest rate in a decade (figure 1).

From the interminably tedious Brexit negotiations to the US/China trade tensions, Hong Kong protests and climate change, the level of uncertainty ramped up a gear in 2019. But what about 2020?

The Forecast

Paris leads our prime residential forecast for 2020 with price growth of 7%; economic stability, low interest rates, constrained prime supply and strong tenant, as well as second home demand, will underpin price growth. Home to Europe's largest infrastructure initiative, the Grand Paris Project, as well as the 2024 Summer Olympics, both events will provide further stimulus.

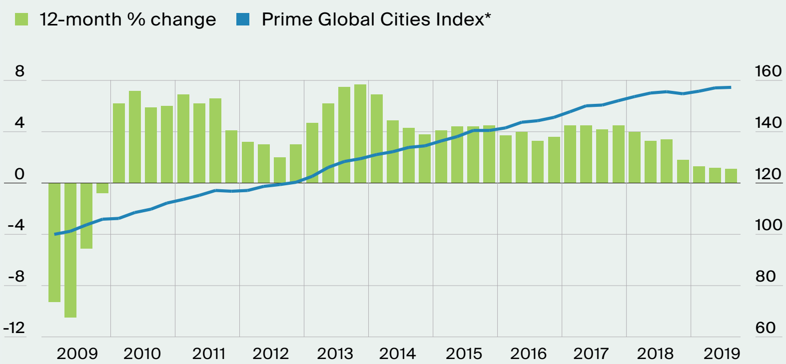
In second place, sit **Berlin** and **Miami,** we expect both markets to see prime price growth of 5% in 2020 but for different reasons. Sound fundamentals – strong demand (domestic and international) and significant regeneration – will keep Berlin high in the rankings despite the proposed rent cap. In Miami, we expect the city to benefit from the continued momentum from the State and Local Tax (SALT) tax deduction.

At 4%, **Geneva** and **Sydney** are both seeing prime price growth recover having dipped in recent years. Confidence in both residential markets has returned due to lower interest rates and a limited supply pipeline. Both cities are also the recipients of significant transport investment; the Leman Express (CEVA) in Geneva and in Sydney, the CBD & South East Light Rail.

The next grouping can be defined as steady yet sustainable. Although at different stages of their market cycles we expect **Madrid**, **Singapore** and **Melbourne**, to register price growth of 3% in 2020 with international enquiries (Madrid), redirected capital outflows (Singapore) and a lower interest rate environment (Melbourne) shoring up demand.

In **Los Angeles**, our forecast of 2% hides a complex picture. Below US$2 million the market is active with strong demand for quality properties, above US$10 million the market is slow, patchy at best, whilst the mid-segment US$2-US$10 million is registering moderate price appreciation.

Fig 1. Prime price performance



REASONS WHY

1. Mounting economic and political risks in key economies
2. Capital controls restraining outflows
3. Tighter property market regulations
4. Backlog of oversupply in some prime markets
5. Buyers sat on the side-lines waiting to call the bottom of the market

Source Knight Frank Research

*http://www.centralbanknews.info/p/eas.html

Against a tumultuous political backdrop, we expect **Hong Kong's** luxury segment to see largely static prime prices (0%) in 2020. Research by our Hong Kong team shows the Hang Seng Index leads the mass residential market by three to six months but luxury prices are largely resilient with a weak correlation to both GDP and equities. A number of high-end transactions in The Peak in 2019 would support this argument.

For **Mumbai** (-1%) the economic environment deteriorated in 2019 influencing market liquidity, this was further exacerbated by an additional 1% stamp duty taking the total to 6%. We expect prime buyers to remain cautious in 2020.

In **London**, all eyes are on the General Election, our 2% forecast from a year ago will be updated once we know the outcome and the future timetable in relation to Brexit. For now, the indication is that pent-up demand is building – for every new property listed in prime London in September, 14 new prospective buyers registered with Knight Frank, the highest level in more than ten years.

For **Dubai** (-2%), 2020 marks a landmark year when it will host Expo 2020. Forecast to attract 25 million visitors, the city has seen significant investment in new infrastructure in the lead up to the event, such as the expansion of the Metro Line. These changes, along with the introduction of long-term visas of up to 10 years, will boost prime demand.

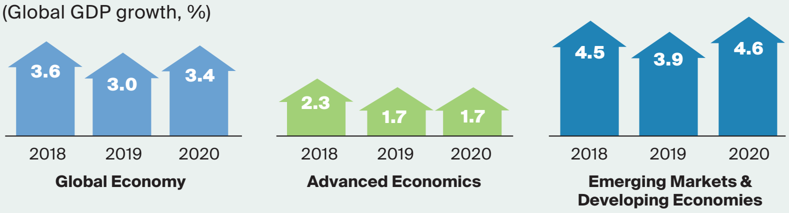
In **New York** (-3%), we expect lower mortgage rates and strong employment indicators to start to cancel out the high completion rates seen in recent years.

Despite sitting at the bottom of our rankings for 2020, **Vancouver's** -5% decline in prime prices reflects an improving scenario. Prime prices have been falling at a rate of 15% per annum but shrinking inventories, along with a gradual adjustment to the property market regulations, are seeing a slow recovery in buyer sentiment.

THE GLOBAL VIEW

1 The global economy slowed in 2019...

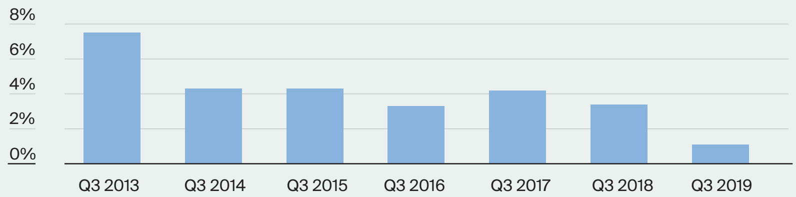
(Global GDP growth, %)



Source: IMF World Economic Outlook Oct 2019

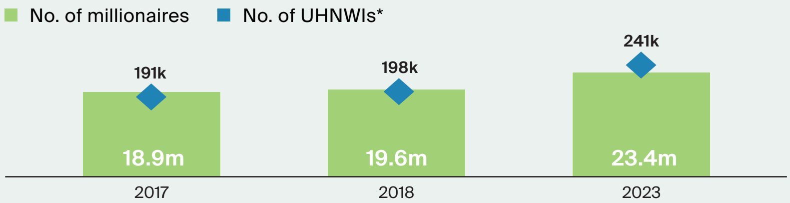
2 And prime price growth moderated...

(Annual % change)



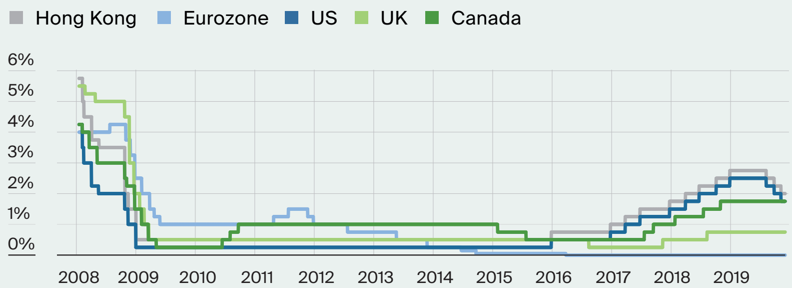
Source: Knight Frank

3 Yet global wealth is still rising...



Source: Knight Frank's Wealth Report 2019 * US$30m in net assets excluding primary residence

4 And the cost of debt remains cheap by historic standards



Source: Central Banks

A YEAR IN REVIEW

PROPERTY REGULATIONS *in 2019*

BERLIN: A new rent cap has been passed by the Senate of Berlin but awaits approval by the national court. The proposed rent cap would exclude all apartments ready for occupancy after 1 January 2014

DUBAI: The introduction of long-term visas of up to 10 years (via investment in real estate (up to five years) or for business investment (10 years). Plus, new powers for Dubai's Real Estate Regulatory Agency (RERA) – to oversee the development of a comprehensive and strategic plan for all future real estate projects

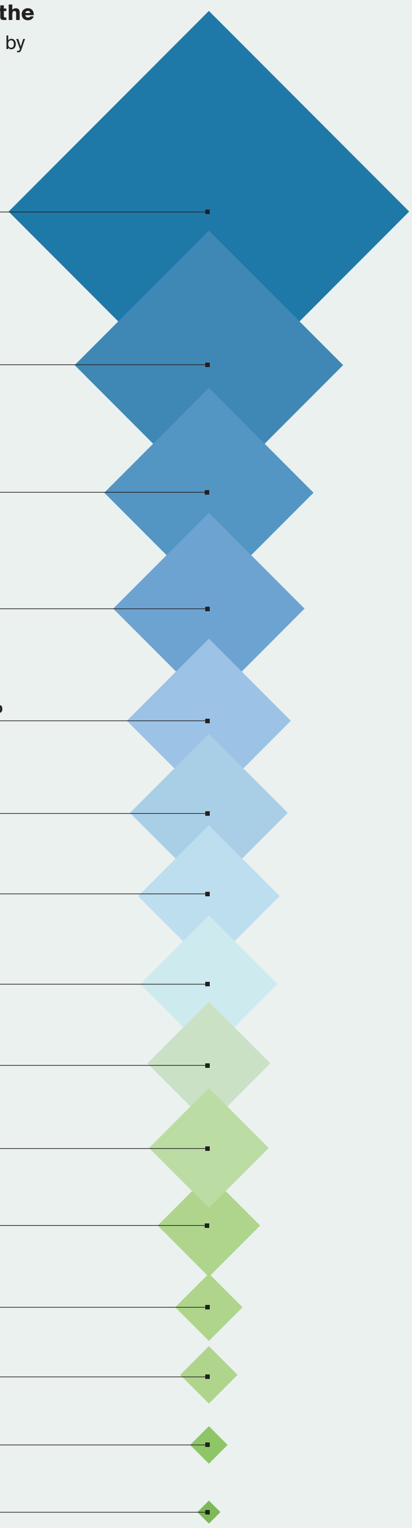
HONG KONG: Easing of lending rules for first time buyers – now able to borrow HK$8m (US$1m) with a 10% deposit

MADRID: Reforms to rent laws – rents now CPI-linked, deposits capped at two months' rents

MUMBAI: A reduction in GST rates from 12% to 5% on under-construction residential property. A 1% increase in buyer stamp duty from 5% to 6%

NEW YORK: A rise in the NY State Transfer Tax and new graduated Mansion Tax for homes above US$3m+ and revised rental law

Fig 2. Prime price performance over the last decade Ranked by 10-year % change*



BERLIN **145.7%**
1-year % change: 6.5%

VANCOUVER **85.3%**
1-year % change: -10.2%

SYDNEY **69.8%**
1-year % change: 2.6%

MELBOURNE **64.1%**
1-year % change: 2.0%

LOS ANGELES **53.0%**
1-year % change: 0.7%

MIAMI **51.4%**
1-year % change: 1.5%

PARIS **47.1%**
1-year % change: 4.2%

HONG KONG **45.8%**
1-year % change: -1.3%

SINGAPORE **41.6%**
1-year % change: 1.2%

LONDON **40.9%**
1-year % change: -3.9%

MADRID **35.4%**
1-year % change: 4.2%

NEW YORK **23.5%**
1-year % change: -4.4%

GENEVA **19.6%**
1-year % change: 5.6%

MUMBAI **12.7%**
1-year % change: 0.8%

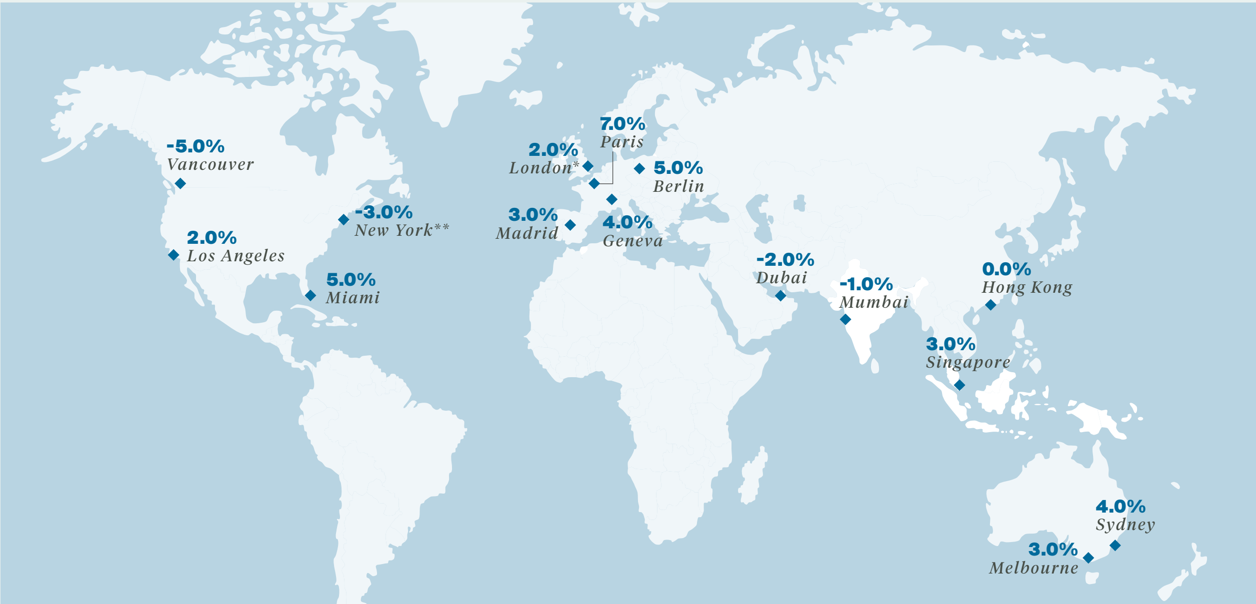
DUBAI **-7.8%**
1-year % change: -3.7%

* Data corresponds to Q3 2009-Q3 2019

THE YEAR AHEAD

PRIME GLOBAL FORECAST 2020

Knight Frank's analysts provide their prime price forecast for 2020, taking account of the latest economic indicators, supply, demand and sales trends



* Forecast as at Dec 2018, new forecast available post UK election ** Manhattan

EVENTS *2020*

UK
A Budget post the General Election and Brexit – by 31 January?

US
Presidential Election – 3 November

Dubai
Expo 2020 – first to be held in a Middle Eastern city

Singapore
Possible General Election

Tokyo
2020 Summer Olympics

FUTURE DIRECTION

How will demand, supply and sales volumes change in 2020?

Rise Significantly · Rise Slightly · Remain the same · Fall Slightly · Fall Significantly

	PRIME SALES	PRIME DEMAND	PRIME SUPPLY
Berlin	Rise Slightly	Rise Slightly	Rise Slightly
Dubai	Rise Slightly	Rise Slightly	Rise Significantly
Geneva	Rise Slightly	Rise Slightly	Remain the same
Hong Kong	Fall Slightly	Fall Slightly	Remain the same
London	Rise Slightly	Rise Slightly	Rise Slightly
Los Angeles	Fall Slightly	Fall Slightly	Rise Slightly
Madrid	Fall Slightly	Fall Slightly	Fall Slightly
Melbourne	Remain the same	Remain the same	Rise Slightly
Miami	Rise Slightly	Rise Slightly	Remain the same
Mumbai	Fall Slightly	Fall Slightly	Fall Significantly
New York*	Fall Slightly	Fall Slightly	Rise Slightly
Paris	Rise Slightly	Remain the same	Fall Slightly
Singapore	Rise Slightly	Rise Slightly	Fall Slightly
Sydney	Remain the same	Rise Slightly	Remain the same
Vancouver	Rise Slightly	Remain the same	Rise Slightly

Source: Knight Frank Research * Manhattan

RISK MONITOR

In a late-cycle, low-yield environment prime buyers are monitoring risk carefully – many with a heavy dose of realism. However, where sound demand/ supply fundamentals outweigh short-term political or regulatory risk many are identifying opportunities. We asked our global research teams to give us their take on the biggest risks to their prime residential markets in 2020.

10 = Most influential, 0 = Least influential

GLOBAL ECONOMIC SLOWDOWN

GLOBAL TRADE WAR

LOCAL ECONOMIC SLOWDOWN

CHANGES TO PROPERTY MARKET REGULATIONS

GEOPOLITICAL CRISES

CHANGE IN GOVERNMENT/ UPCOMING ELECTION

EMERGING MARKET VOLATILITY

OVERSUPPLY OF LUXURY HOMES

CURRENCY INSTABILITY

BREXIT

US FED RESERVE RATE CHANGES

COMMODITY PRICES

TOP RISKS TO PRIME PROPERTY MARKETS BY WORLD REGION

EUROPE
1. Change in government
2. Brexit

ASIA
1. Change to property market regulations
2. Local economic slowdown

NORTH AMERICA
1. Global trade disputes
2. Oversupply of luxury homes slowdown

MIDDLE EAST
1. Commodity prices
2. Geopolitical crises

AUSTRALASIA
1. Global economic slowdown
2. Local economic slowdown

INFRASTRUCTURE OPPORTUNITIES

Key projects 2020-2025

BERLIN

Brandenburg Airport scheduled to open in October 2020. Plus, Berlin named as Tesla's chosen location for its European factory

GENEVA

The Leman Express (CEVA) trainline is due to open in December 2019, assisting those commuting to Geneva from France

HONG KONG

Two major roads are under construction: the Tuen Mun-Chek Lap Kok Link and the Tuen Mun Western Bypass both connecting to the HKZM Bridge

LONDON

Crossrail Line ($18 bn) expected to open in 2021

MADRID

Madrid Airport modernisation (Terminals 1, 2 and 3)

TRENDS TO MONITOR

We outline some of the events, trends and regulations that look set to influence prime residential markets in the coming years

1

Golden Visas: Portugal looks set to shift the focus of its Golden Visa from property investment to job creation.

2

NYLON bounce: Some Brexit clarity and a cooling of trade tensions ahead of the US Presidential Election could see London and New York's prime markets spurred on.

3

Florida in focus: With the SALT deductions underlining Florida's benign tax structure and with US mortgage rates almost at their historic low, South Florida is likely to see demand strengthen.

4

Europe's PRS sector appeals: In a late-cycle, low-yield environment, Europe's private rented sector has come under the spotlight as investors look to cities offering connectivity and liquidity.

5

Downsizing down under: Sydney and Melbourne are seeing strong demand from downsizers seeking easily maintainable properties close to city centre locations.

6

A small world: In November 2019, Qantas tested its new 19-hour nonstop flight from London to Sydney which may be operational by as soon as 2022. Improved connectivity has the potential to reshape second home markets.

7

Holiday homes targeted: Expect greater regulation of the holiday homes rental market in those cities that attract a high volume of tourists.

8

Negating negatives: Where negative rates persist (Switzerland, Japan, Eurozone, Sweden), property will increasingly appeal as a means of generating a return.

9

Climate action: Developers and lenders are reducing their carbon footprints and overhauling their commitments to sustainability, whilst ESG principles are being prioritised by institutional investors.

MUMBAI

New metro lines, coastal road, Mumbai Trans Harbour Sea Link and opening of the Navi Mumbai International Airport

NEW YORK

La Guardia Airport Upgrade (US$8 bn) to be fully operational by late 2021

PARIS

Grand Paris Project & Summer Olympics 2024

SYDNEY

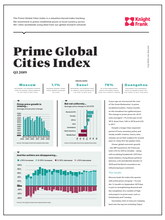
CBD & South East Light Rail (AU$1.5 bn), WestConnex road programme (AU$16.8 bn) and the Sydney Metro City & Southwest (AU$12.5 bn)

VANCOUVER

The new SkyTrain's Millennium Line Broadway Extension

Wealth Report 2019

Prime Global Cities Index



Luxury Investment Index

London Review Q4 2019

Report compiled November 2019

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.

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