

Global Real Estate

Trends in the world's largest asset class







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▶ Introduction

Real estate is a very large asset class by value. For some people, their real estate serves not only as their home but also a repository of their life savings too. For them, their home is used not only as shelter but also as a bastion against poverty in old age, a legacy for their children and collateral which they can use for a variety of fund-raising purposes.

For the more adventurous investors and older people who are able to buy, either by leveraging existing assets or who have cash to spend, real estate is often an investment of choice. Both residential and commercial property have come into focus as a potentially rewarding source of income and capital growth. Those considering purchase will be interested in the performance and prospects for global real estate.

For others, real estate may not be uppermost in their minds but it is still important.

Many people who have been saving into pension funds and similar products will find that a large proportion of these savings are tied up in real estate – perhaps without them realising the fact. The behaviour of global real estate markets over the coming years may have a big impact on the dividends and pay-outs that these types of passive investors receive.

As more people grow wealthier in new and emerging economies across the globe, they will seek both homes and savings vehicles. From a first time home to a property for children studying overseas, real estate has never been more important to a wide segment of ordinary global citizens. This report examines it as a global asset class. It shows how local property markets are becoming part of a global phenomenon experienced by many individuals and families around the world.

► Global real estate

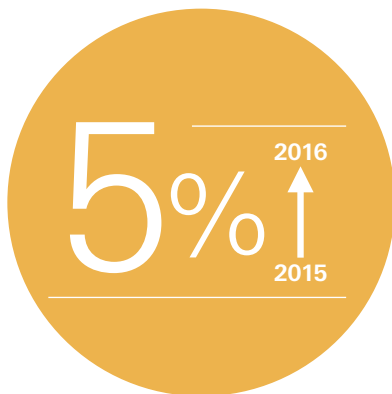
An asset class worth \$228 trillion

Real estate is the world's most important asset class, with a value totalling \$228 trillion at the end of 2016. This was an increase of 5% over 2015 after taking away the effects of inflation.

In advanced economies, real estate is a big part of personal and household wealth. It has risen significantly in value since the global financial crisis. Along with other assets like commodities, equities and bonds, real estate has performed well in a low interest rate environment. Its income-generating capability (rents) makes it attractive when compared to the interest rates available from most bonds or deposit accounts.

The threat of rising interest rates is negative for fixed income assets like bonds. Hence, the higher yields found in most global real estate markets make them an attractive alternative. We have found, for example, that most net effective yields in Prime Grade A offices in big, famous global cities, including London, New York and Sydney, are higher than local government bonds. At the end of 2016, they were remarkably similar across the globe, mostly lying in a range between 3% and 4%.

Historically, real estate investors have looked for capital growth. In the global search for income, the true value of real estate to investors is its attractive prospect for rental growth.



Real estate value increased 5% over 2015 after taking away the effects of inflation



Income-generating capability makes real estate attractive



Most net effective yields in Grade A offices lie between 3% and 4%

How does real estate compare to stocks, shares and bonds?

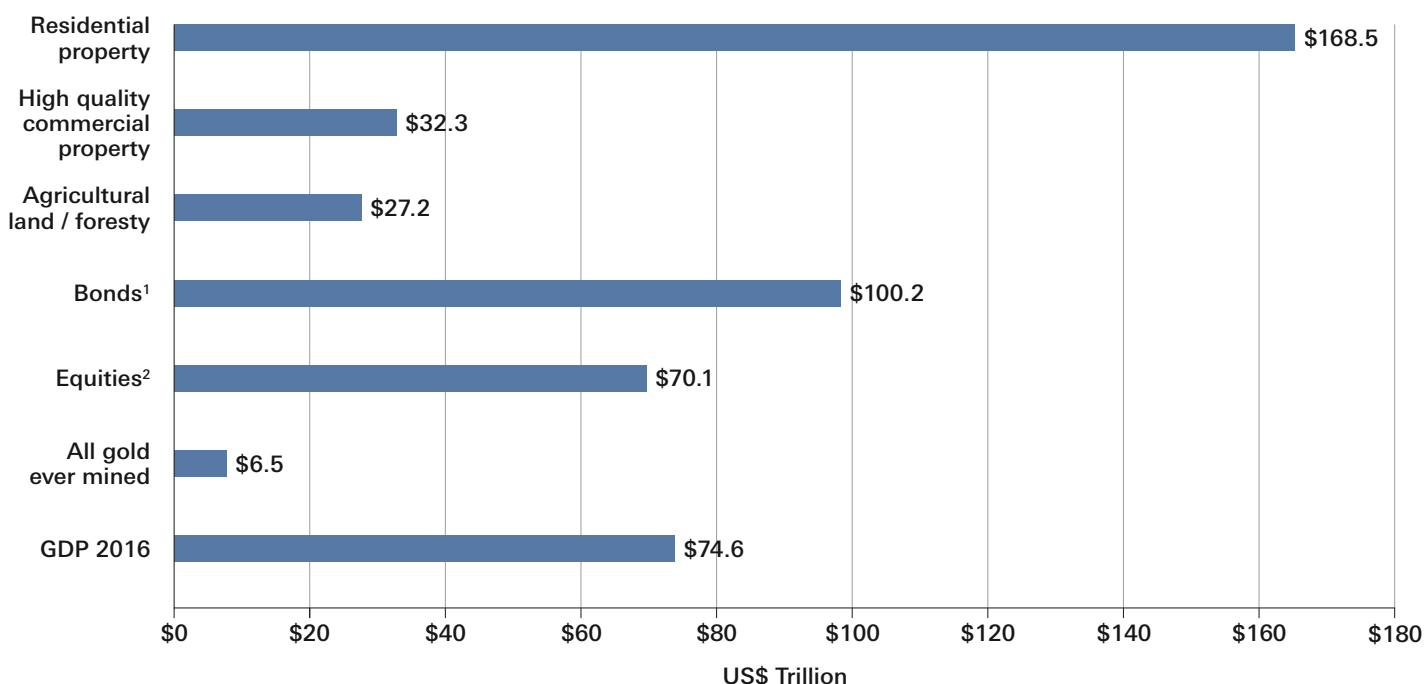
Global real estate is a more valuable asset class than all stocks, shares and bonds combined, which together amounted to a mere \$170 trillion in 2016. The value of all gold ever mined throughout history paled in comparison at only \$6.5 trillion.

World GDP (at constant prices) grew by 2.3% between 2015 and 2016 to \$74.6 trillion, so the world's real estate asset values have grown faster than all its production. The world now owns real estate assets worth more than three times the value of its overall annual output of goods and services.

Since most of the world's households are homeowners, only an estimated 34% of global residential property is 'investable'. That is, capable of being let to occupants and traded between investors.

Residential property markets in most countries and territories have seen capital growth over recent decades, often in excess of local income growth, meaning that new homeowners are paying more for housing as a multiple of their income. It is estimated that total global residential real estate value rose by 5% in 2016.

The value of asset classes compared



1. Bloomberg Barclays Global aggregate bond index
2. FTSE Global all cap index

Source: Savills World Research, December 2016

Growth in value of global asset classes over 2016 (in USD terms)



Commercial property



Gold



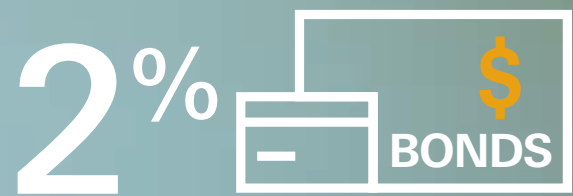
Residential property



Equities
(FTSE Global all cap index)



Agricultural & forestry property



Bonds
(Bloomberg Barclays Global aggregate bond index)

Source: Savills World Research, December 2016

Where is real estate wealth concentrated?

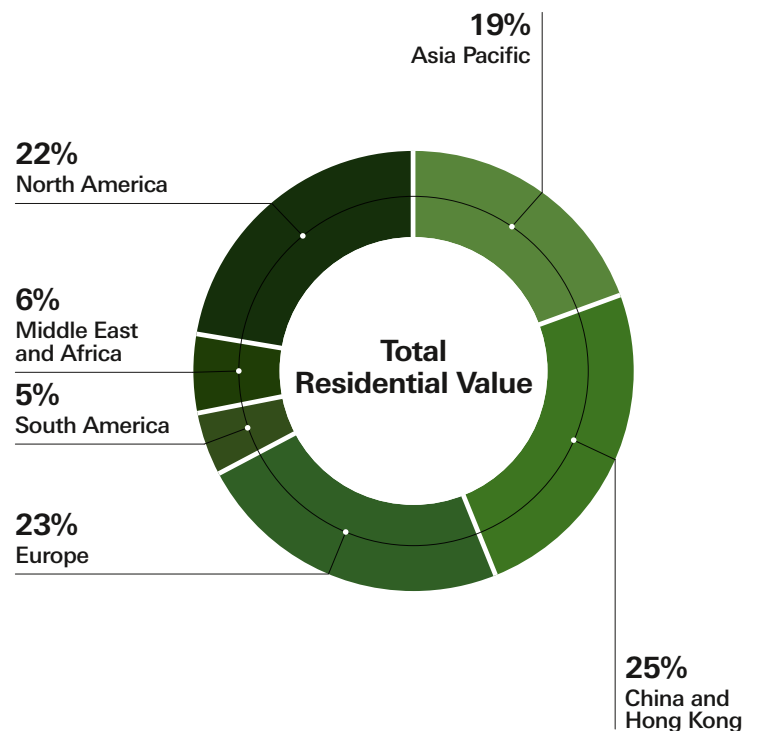
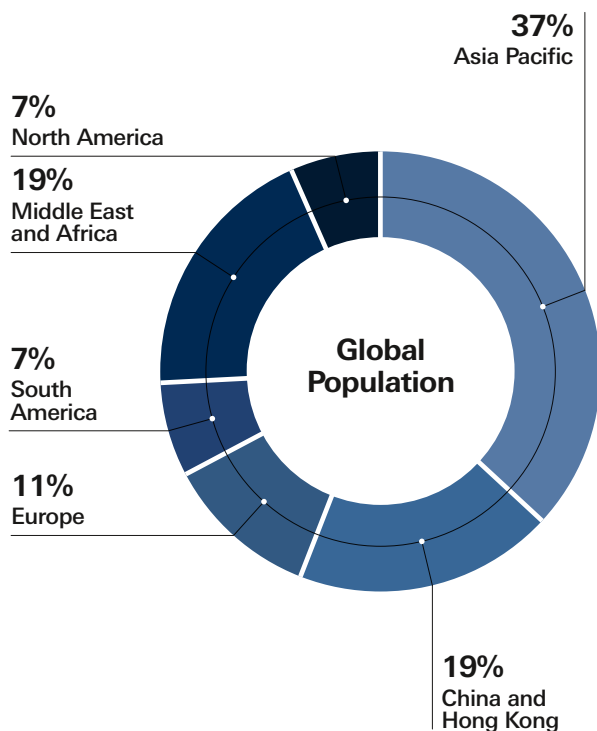
Most of the value of global real estate is in residential property. It makes up three quarters of all real estate stock and by itself totals \$168.5 trillion. With around 2.05 billion households in the world, this means the average home is valued at around \$82,000 but with a wide range around this figure. The highest value residential properties are concentrated in developed economies, mainly in North America and Europe.

North America contains only 7% of the global population but 22% of all residential property assets by value.

Europe tells a similar story, containing 11% of the world's population but 23% of residential property by value.

The greatest growth potential is in emerging or developing economies outside of Asia. Much of Asia has already seen real estate asset price growth as GDP per capita has grown. Africa appears to have the greatest potential yet for value growth as national economies and household incomes increase. The Middle East & Africa region currently contains 19% of the world population, but its residential property is disproportionately worth only 6% of the global total.

Global residential property: total value compared to population



Source: Savills World Research, December 2016



Housing ownership and mortgage debt

A large proportion of personal and household loans are secured on real estate. As much as half of all real estate globally may have loans associated with it, though this varies greatly between countries and sectors. In developed, mainly English-speaking economies, where repayment mortgages are typical, a large proportion of older residential property owners are now mortgage-free. In the UK for example, there is now more mortgage-free housing than mortgaged.

In developed economies, because more people own their home outright, without a mortgage, than in the past, this means that restrictive lending conditions and changing interest rates have less of an impact on residential property markets than they did before.

More important is the opportunity cost of the capital people are using to own houses. The opportunity cost of your house when you own it outright is whatever your money could be earning you elsewhere.

In emerging economies, new homeowners will be more indebted and therefore more susceptible to mortgage regulations and rate changes than their older counterparts in developed economies.

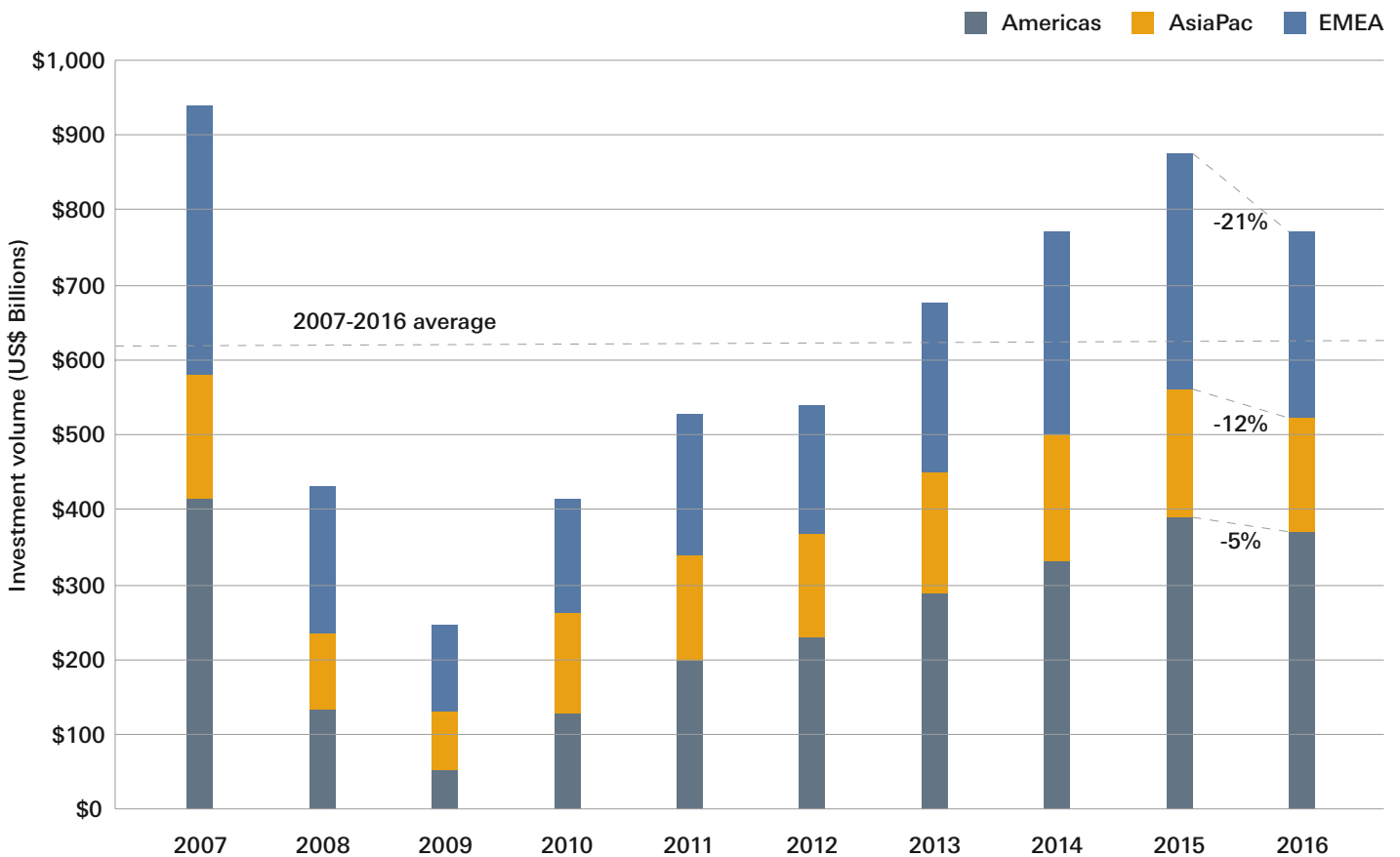
▶ Trading

Transaction volumes by value

During 2016, a total of \$780 billion of real estate was traded across the globe in big-ticket real estate deals (defined as >\$10m excluding China land deals and joint ventures). Most of this real estate was commercial and owned by large corporations and investing institutions.

The transaction value of property was down by 12% from 2015 levels and down by 15% from the record levels of \$920 billion seen in 2007. All of the three main regional markets showed a fall, but EMEA stood out, falling 21% in US Dollar terms from the previous year.

Global real estate transaction volumes by region



Source: Savills World Research using RCA, December 2016

Global trading patterns

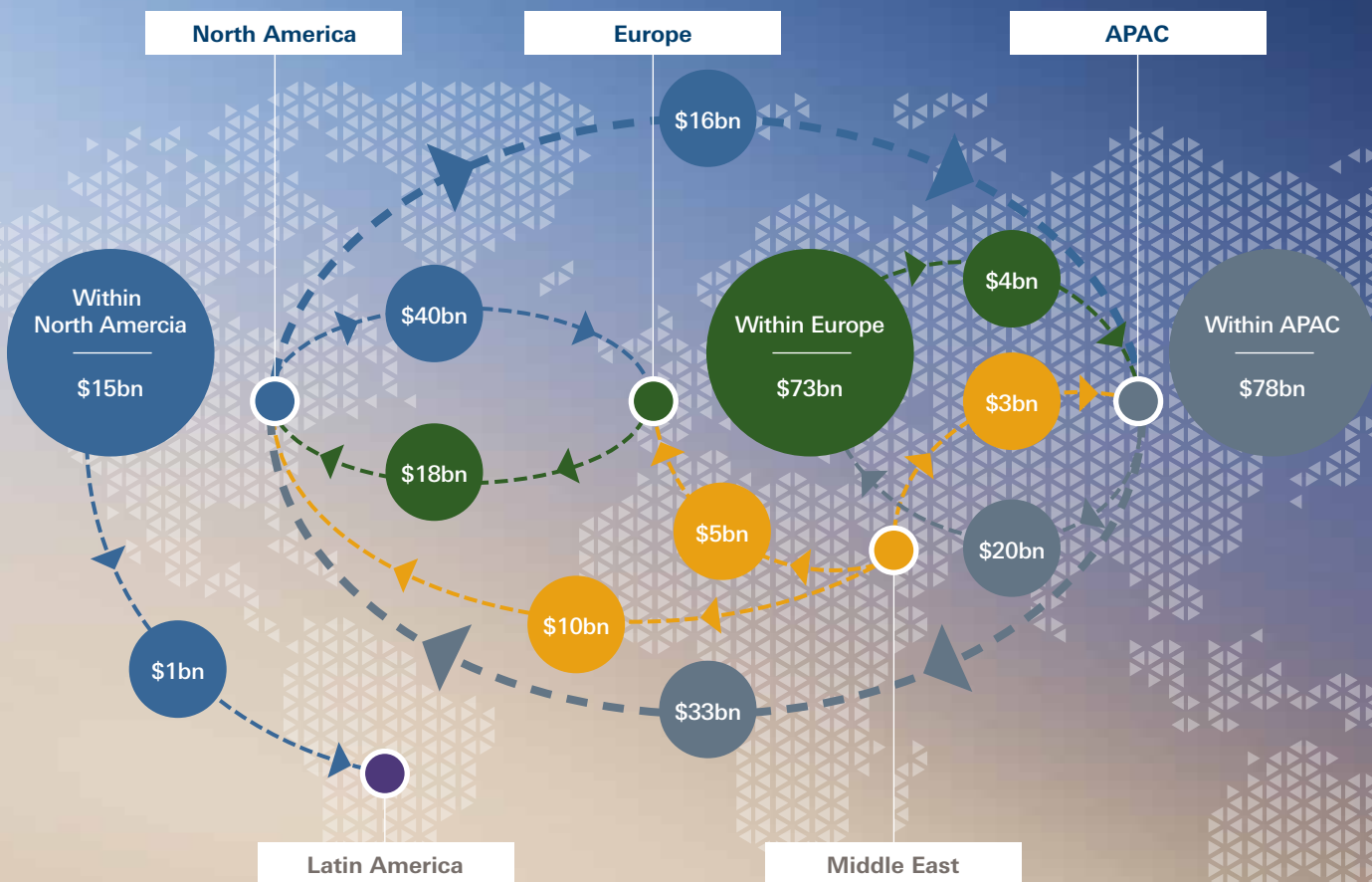
This map shows that the dominant cross-region capital flows in the world were from North America into Europe at \$40 billion in 2016.

There were also big outflows of real estate money from Asia Pacific over the same period of time; from here, \$20 billion was invested in Europe and \$33 billion into North America. Levels of trading between countries and territories within the region were also very significant, at \$78 billion, thanks to a large volume of Chinese land deals.

Much less came back to the region, just \$16 billion from North America and \$4 billion from Europe.

Trading value out of the Middle East was small with North America attracting the lion's share. Cross-border trade value involving Latin America was the smallest, but clearly has scope for growth.

Cross-border real estate investment within & between regions in 2016



(including Chinese Land)
Source: Savills World Research using RCA

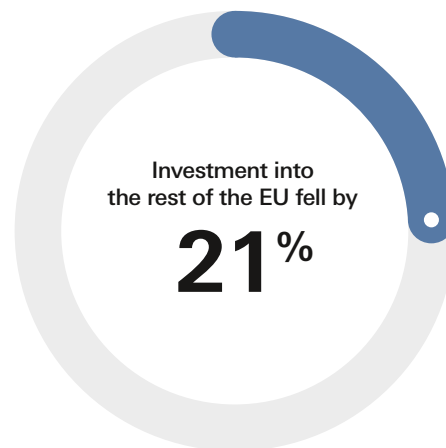
Factors influencing trading

Geopolitical issues took over from global economic conditions last year as the major driver of trading behaviour in real estate. There was a lack of appetite to trade, particularly in the second half of the year. In the UK and Europe, populism in politics and uncertainty around Brexit and other Eurozone issues increased perceived risk.

Investment into the UK fell by 38% in 2016 and investment in the rest of the European Union by 21%. Interestingly, the downturn in UK trading levels started before the referendum result was known, suggesting that London in particular, was nearing the peak of its cycle in any case.

North American cities withstood the global headwinds better, so trading in the Americas fell by just 5% in 2016.

World GDP growth, though positive, was unspectacular in 2016. Trading in all goods and services worldwide was also subdued in 2016 and real estate trade volumes have reflected this as well as the geopolitical uncertainty.



Outlook

Real estate seems to have taken on a new role in global investment portfolios and has become increasingly popular as an income-producing asset, particularly among funds that need to provide pensions to ageing investors in developed economies.

At a global level, the real estate industry is learning to live with a higher degree of risk stemming from political uncertainty.

The surprise election of Donald Trump as President in the US and the political landscape in Europe are all contributing to this uncertainty and perception of the risk environment. With so much of the world's 'big-ticket' real estate concentrated in the affected regions, this is significant for the industry and may mean that global trading will once again start tilting away from North America and Europe towards Asia again.



► Trends

Migration

At a global level, migration has flowed from rural to urban areas, from small cities to big ones. It has been strongest in the less-urbanised emerging economies rather than in the more urbanised developed economies. These migration and urbanisation patterns have been important drivers of real estate markets and real estate investment in the last two decades. Global investment has been increasingly focused on particular cities - rather than countries in general.

Not all migration crosses borders. The largest population movements, particularly in Asia, have been domestic. The key characteristic of migration over the last two decades has been to large cities from other parts of the country in which those megacities sit. This influx of human capital in turn fuels the city economy so that, in many cases, city GDP growth exceeds that of the host nation.

The map shows the extent of migration to cities around the world over the last fifteen years. It shows that the biggest gains to urban population have been made in the emerging economies of Sub Saharan Africa and Asia, particularly China and India. These countries have seen internal population shifts from rural areas to urban ones. The map also shows a tendency for the largest cities to have attracted the biggest increases in population. This is particularly evident in China where the economically diverse, first-tier megacities of Beijing, Shanghai, as well as those in the Pearl River Delta have grown strongly while some of the smaller, industrially specialised, third-tier cities have shrunk in size.

Net migration in cities



Source: Savills World Research using Oxford Economics, December 2016

In the developed countries in North America, Europe and Australasia, cities have grown very little in the main, and have sometimes slightly shrunk in size. The reason for this is partly that people are ageing in these countries and do not have the same propensity as younger generations to dwell in urban areas. Companies and enterprises in these cities, and sometimes the administrations, are increasingly focused on attracting and retaining human capital.

Fifteen years ago, economies in the developed world already had a higher proportion of urban dwellers than developing economies. This meant that they could not urbanise as rapidly as emerging economies which are catching up with the West in this aspect. City growth has been from a lower starting point, hence developing economies are showing higher urbanisation rates.

The exception to this is Japan where Tokyo seems to be drawing in younger workers at the expense of smaller Japanese cities. Also, a few stand-out cosmopolitan European cities; primarily London but also Madrid, Rome and Munich have been growing as a result of global attraction and cross-border migration.

Cities in developed countries are often fully built-out and physically constrained or constrained by anti-sprawl and conservation policies so have less room for growth than those in emerging or recently developed economies. Where demand from incoming residents, workers and visitors has been strong, this has often pushed up land and property values substantially.

Very recently, a new pattern of migration has started to appear in some of the ultra-mature cities. Young people especially have been moving from large costly cities to nearby smaller, cheaper ones. Some big, western cities are therefore becoming dispersed as small towns and cities around the big city form part of an economic ecosystem rather than a single-city economy.

High levels of city migration in already-urbanised countries can also be caused by strong economic growth. Over the last fifteen years, cities with strong petro-economies like Moscow, Houston, and Riyadh, have stood out as having attracted inward migration.

All this serves to illustrate the complex world in which some of the most popular real estate markets operate. It shows how one needs to understand underlying population trends as well as economic trends before investment decisions are made. Investor success nearly always lies in anticipating which locations will see strongest occupier demand, for all types of real estate, and in which location supply is most constrained.



Education cities

Cities with high ranking universities and top-notch schools attract a certain number of parents buying accommodation for their children. This can be either for their attendance at a particular institution or, increasingly, before they even enrol.

Such purchases will often be for large apartments suitable of being let to other students before, during and after attendance by the family members. In these circumstances, the rental yield may be a major consideration before investment is made.

Another category of 'educational purchase' is apartments and houses purchased as much for use by other family members on visits and vacations as for the student themselves. This is especially the case for students a long way from home. These purchases will likely be of a type, size and quality not often associated with lone student living and in locations not traditionally associated with low-cost student accommodation. For example, Kensington in London or Central in Hong Kong.

The most attractive cities for buying a property for education are those which are home to top-ranking universities. Even more desirable are large, world-class cities with strong economic activity and top-ranking institutions. These cities give the greatest scope to rent out the property when not in use by owners. We have selected top cities which fit both these 'global city' criteria and have universities ranked in the world top 50 by the QS World University Rankings.

World Education Cities

Top 50 QS World University Rankings 2016



Exchange rates and real estate

Fluctuating currencies can present both an additional risk and an opportunity to enhance real estate returns for people buying in foreign countries and territories. Purchasers will tend to spot buying opportunities when the purchasing currency is cheap and consequently real estate is more attractive in home currency terms. This in itself can add an additional, often countercyclical dynamic to housing markets where there are lots of overseas investors.

Bear markets caused by an economic downturn will usually coincide with a weak currency and, in these circumstances, foreign currency buyers are often the first to reinvigorate a market where they foresee sound long-term demand fundamentals. Those looking for capital growth may be further encouraged by a currency play if they believe the value of the purchasing currency is likely to rise against their home currency.

The disadvantage of this strategy occurs for those seeking regular income from their investment – in their home currency. Low exchange rates may make a property look like a bargain at point of purchase but continued poor exchange rates will diminish any rental income derived from it.

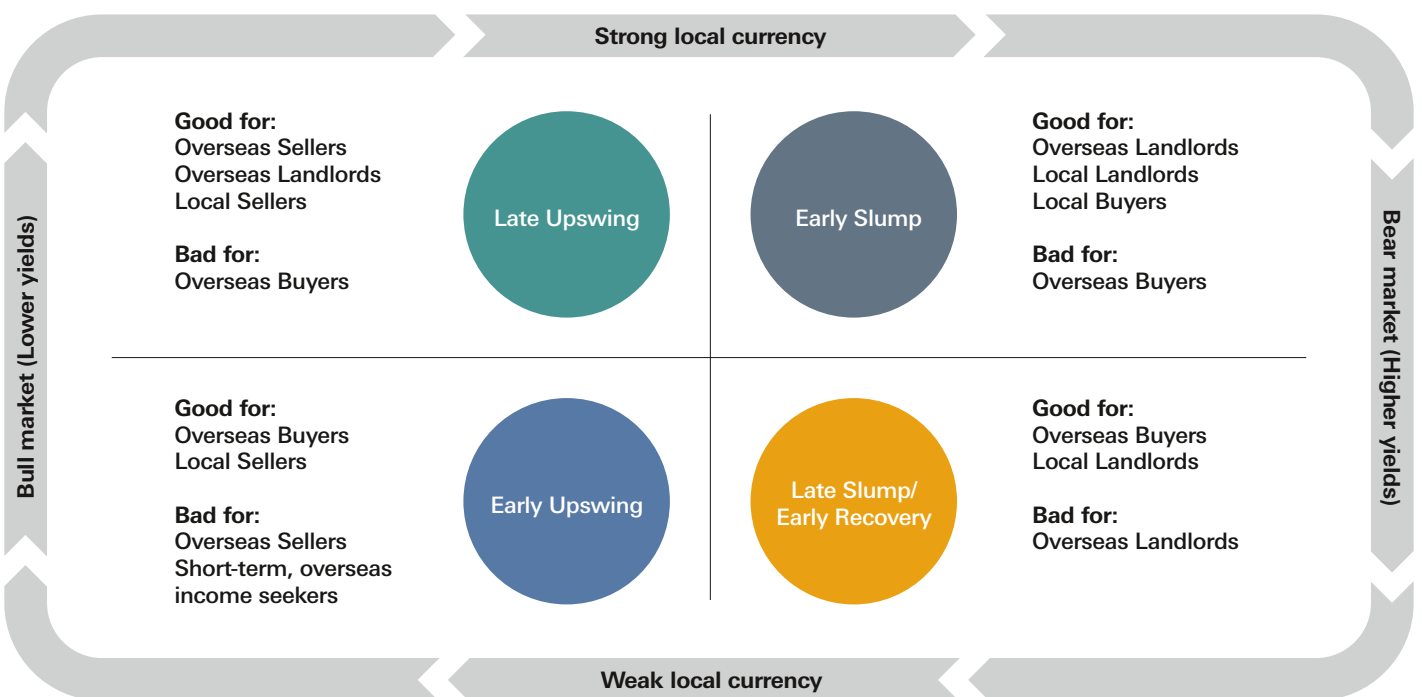
As a consequence, higher yields are often sought at this stage of the cycle by buyers – often implying that a bargain is required before this type of investor is encouraged to buy.

In bull markets where both the property and currency have gained in value, foreign owners may be more inclined to sell and take profit. This can create renewed activity in local markets which otherwise would have been stagnant at this stage of the cycle. The activity of foreign sellers then alleviates the “rarity value” created in low turnover but high-demand markets, by pushing prices down.

In the same bull markets, overseas owners investing for income rather than capital growth may be more inclined to delay profit-taking in order to enjoy a currency-enhanced income instead. This means they risk missing a selling opportunity if the market and / or the local currency turns down.

More strategic investors may be more likely to take a long-term view, holding for more than one property cycle, and the most sophisticated may consider using hedging products to reduce their currency risks.

Exchange rates and real estate: impact on buyers and sellers

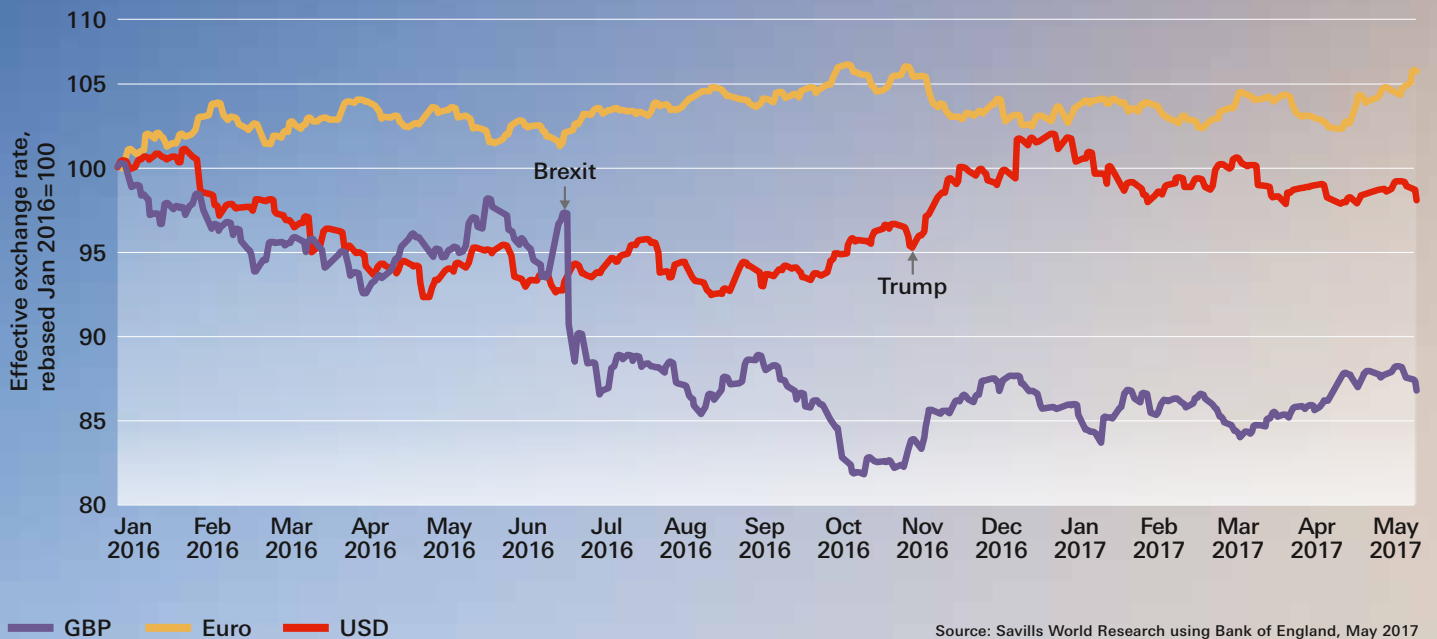


2016 FX movements

Market reactions to global political uncertainties and surprises have changed the risk profile of many assets, not just real estate. However, movements in these other assets, including foreign exchange do, in turn, impact property.

Real estate prices in this report have been given in US Dollar at constant prices and at constant exchange rates so that we can make comparisons across different jurisdictions. But of course not all deals are done in this currency. The price of real estate denominated in other currencies moved up and down against the Dollar a lot over 2016.

Effective exchange rates



Pound Sterling's fall

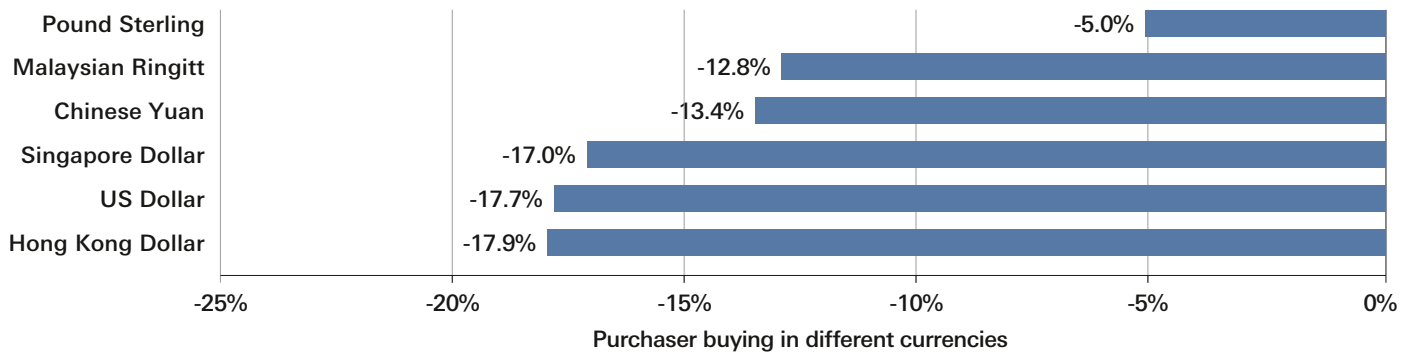
The most notable of these fluctuations was UK property. Pound Sterling fell on a trade-weighted basis by 15% against other world currencies in 2016. At one point during 2016, Pound Sterling-denominated assets looked, to the rest of the world, 19% cheaper than at the beginning of the year.

This may have been greeted as good news by potential buyers from overseas as they received an instant discount on their purchases from the currency markets.

But the news was not so good for overseas owners of UK property who saw the dollar value of their holdings fall – regardless of what happened to the underlying Pound Sterling value.

Prime London residential prices fell 5% between Q1 2016 and Q1 2017. When the devaluation of Pound Sterling is factored in, the discount is even greater for many overseas buyers. For example, Pound Sterling devalued 12.6% against the Singapore Dollar between Q1 2016 and Q1 2017, which, when added to the 5% price falls, brings the total discount to 17%.

Prime London: 2016-2017 price movements in different currencies



Cost of buying a £1m prime London property in foreign currencies in Q1 2017, accounting for FX movements when compared to Q1 2016.
Source: Savills World Research using Bank of England quarterly average spot exchange rates

Winners and losers

The clear currency loser in 2016 was Pound Sterling which fell substantially after the Brexit referendum result was known. The biggest fall was against the Japanese Yen (-11%). Despite some small gains in Pound Sterling over the last two months of 2016, movement against the US Dollar was -8% and, against the Euro, -6% during the remainder of the year after the referendum.

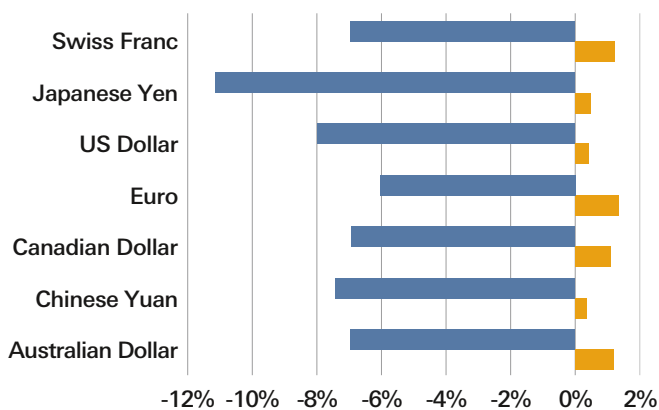
This means that Pound Sterling-denominated assets, including real estate, look particularly cheap for Japanese buyers whose strengthening currency makes them powerful purchasers in a variety of other countries and territories too.

Yen was the only major world currency to strengthen against the Dollar during 2016 so, while US real estate looks relatively expensive to others, it is still likely to feature on a Japanese shopping list, though perhaps not as prominently as UK property.

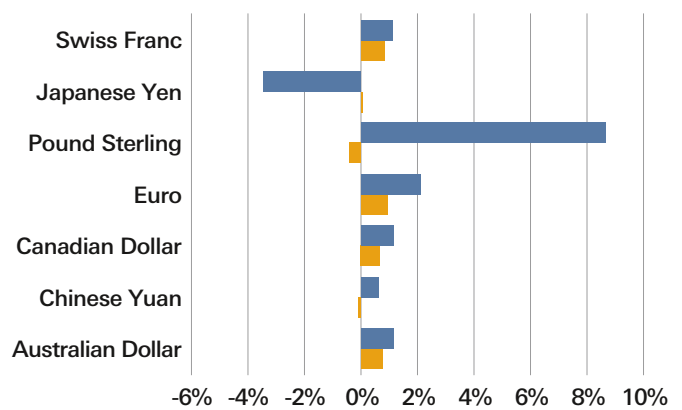
Capital controls are likely to limit investment from China into the UK despite appreciation in value of the Chinese Yuan. Countries, including Australia, which were selling real estate to China, have seen less of this activity due to tightening conditions despite more attractive prices during the year.

End 2016 relative currency positions after UK & US votes

Pound Sterling £ vs



US Dollar \$ vs




■ 23-24th June-Brexit ■ 8-9th Nov-US Elections

Source: Savills World Research using Bank of England, December 2016

Consider green

The issue of climate change and the impact of warmer temperature is a question on every investor's lips but the range of issues around this topic are numerous and varied.

Here we summarise some issues to consider before investing and the effect they may have on real estate markets - at the building, neighbourhood, city and national level.

Environmental threat	Real estate markets affected	Solution	Cost of Solution	Most resilient real estate markets
 Rainfall variability	Markets reliant on aquifers	Desalination	\$\$\$	Localities with rich water resources
	Agricultural land in marginal environments	Irrigation, water storage and rationing	\$\$	Agricultural land in high rainfall locations with good water infrastructure (reservoirs etc.)
 High CO ₂ emissions / air pollution	Car-reliant cities	Strong regulation to limit emissions	\$	Cities with efficient mass transit (especially using low emission technology)
	Cities with no mass transit	Transport infrastructure investment	\$\$\$\$	Walkable & cycle-friendly neighbourhoods
	Oil-economy cities / cities with heavy industry	Investment in renewables & no-emission energy technologies	\$\$\$	Land for renewable energy Markets with available geo-thermal energy Markets shifting to lower polluting industry
 High / rising energy costs	Out-dated buildings with poor insulation	Retrofitting old buildings with new energy-efficient technology	\$\$	New buildings with in-built and effective green technology orientated to maximise natural heating / cooling effects
	Buildings reliant on plant and services e.g. towers reliant on lifts or with high ratio of communal parts	Re-designing buildings to consider long-term energy usage	\$	Simple, efficient, lower buildings with stairs or low energy lifts & fewer communal parts to heat / cool
	Locations with climate extremes reliant on high heating or cooling requirements	Passive heating and cooling in new buildings	\$	Markets with less extreme temperature fluctuations Cold countries for data centres to minimise cooling requirements
 Extreme weather events	Ageing, fragile or inappropriate buildings	Regulation to weather-proof new buildings	\$\$	Storm & typhoon proof buildings
	Buildings, neighbourhoods & cities prone to flooding	River and other flood defences	\$\$\$	Buildings away from flood plain
	Built environments which create wind tunnel and other micro climate effects	Appropriate local regulation of built form	\$\$	Buildings designed to withstand extreme wind, rain, earthquakes and other trauma
 Scarce raw materials	Building technologies reliant on rare elements and scarce resources	Recycling building materials, low-maintenance buildings	\$	Building using local, plentiful materials
 Rising sea levels	Low-lying resort islands	Sea defences	\$\$\$\$	Mountainous resort islands
	Cities near or below sea level	Sea defences	\$\$\$	Higher altitude cities

World city residential markets

This section highlights recent trends in the residential markets of 12 global cities and shows, on a like-for-like basis how capital values, rents and yields have moved since the global financial crisis.

These are cities that people want to live, work and play in. Many of these global cities have grown faster than the countries in which they are located, driven by migration and demand for city living. All are facing the challenge of accommodating fast-growing populations, many are having to do so with limited available land.

In general, the themes that emerge are of capital values rising faster than rents, a trend that has been most acute in the UK, Australia and Asia. In the US and Europe, rental growth has generally kept pace with capital value growth, meaning that yields in these cities are higher.

Vancouver

Vancouver is Canada's most expensive real estate market – but still cheaper than global rivals.



San Francisco

A booming tech sector has fuelled rapid growth in San Francisco's residential market.



Los Angeles

Los Angeles is known for its sprawl, but a revival in urban living is bringing growth to its core.



Toronto

In Toronto, new taxes on foreign buyers have been introduced to cool a booming residential market.

New York

New York is a big rental city, and its rise as a major tech centre has changed the geography of demand.



Miami

Latin America's gateway to the US, Miami, is cooling after a strong recovery.





Paris

A top-tier city that offers value on a global stage after several years of underperformance.



Hong Kong

One of the world's most expensive residential markets is Hong Kong. Prices are rising in spite of cooling measures.



Dubai

Dubai has emerged from a dramatic boom and bust and growth is now being driven by occupier demand.



Sydney

The Sydney residential market never felt the downturn. After a decade of growth, affordability is an issue.



London

The prime residential markets of London have slowed, but pressures on the mainstream markets remain.




Singapore

The residential market has cooled in Singapore, a land-constrained, island city-state.

Dubai

Dubai has emerged from a dramatic boom and bust and growth is now being driven by occupier demand.

Dubai residential market at a glance

	Price per square foot (USD)	Yield	Trend (2016)
Prime	\$590	4.3%	Capital values -2.7% 
Mainstream	\$280	8.1%	Rents -8.9% 

Examples of prime areas: Palm Jumeirah, Downtown Dubai

Source: Savills World Research, December 2016



Dubai enjoys a strategic position in the Middle East and is a city of superlatives: it boasts the world's tallest building (Burj Khalifa); the largest mall (The Dubai Mall); man-made islands and huge logistics hubs. Its population has more than tripled since 1995 as the city has pursued a strategy of reducing reliance on oil and energy to position itself as an international centre of trade and business, as well as tourism.

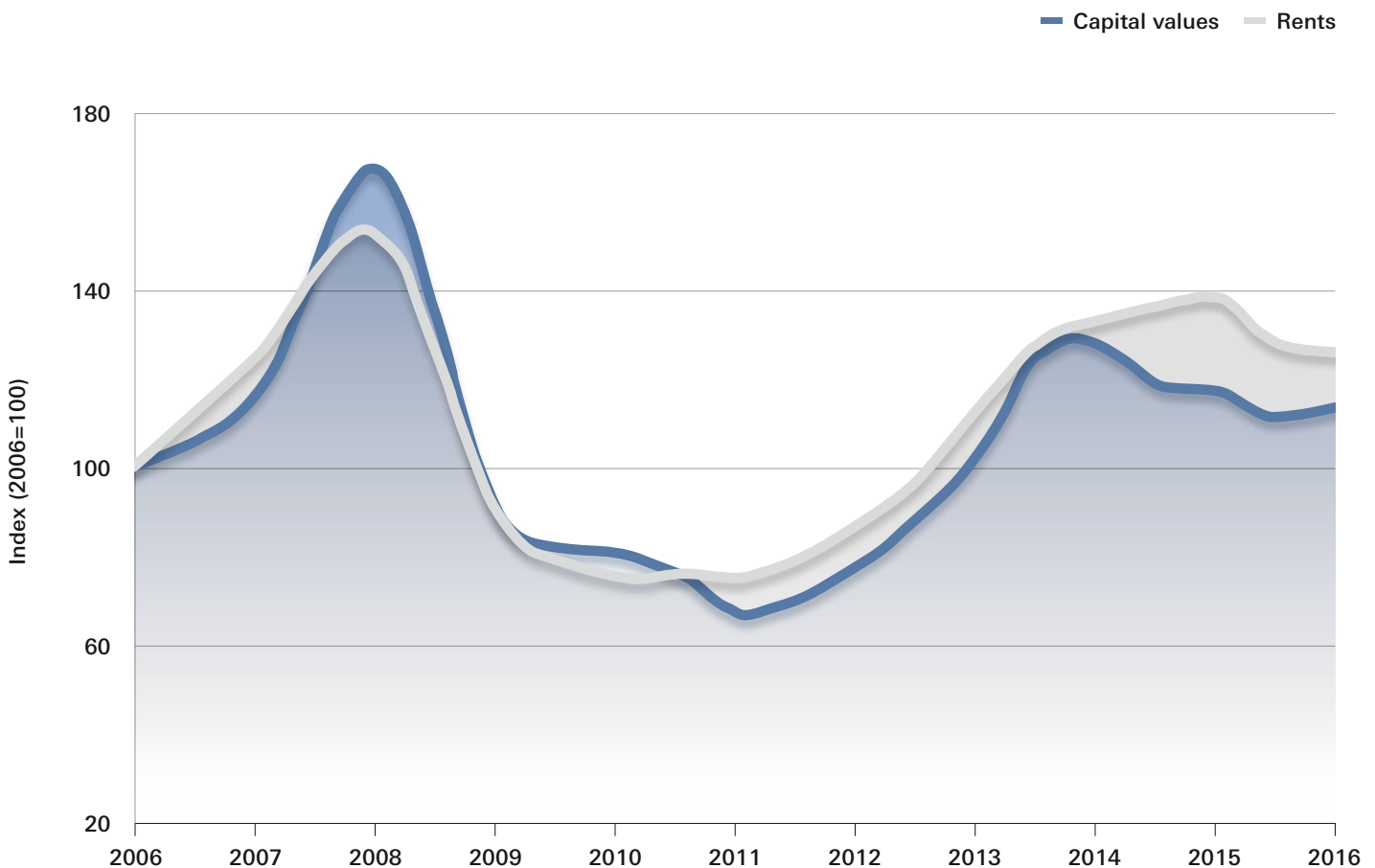
Dubai's property boom and bust has been well documented. The emirate was opened up to foreign property ownership in 2006. Fuelled by cheap credit and speculation, prices more than doubled. But the market was hit hard by the credit crunch.

Like many global city markets, the most highly inflated segments fell first and furthest. Prime capital values fell by 65% and mainstream properties by 55%. The nadir was reached in 2011. After this time, capital values climbed at rapid rates so that much of the losses of the previous three years were reversed. Values are now around 70% of their 2008 high and seem to have stabilised on a 'high plateau'.

Much of the capital growth since 2011 has been driven by occupier demand. This is evidenced by the healthy rental growth which has now recovered to near-peak levels. Low yields in the prime markets suggest that this sector is still very fully priced in relation to the mainstream markets where much higher income returns are available.

Dubai is the most internationally invested city for residential real estate in the Middle East. Much of its success is down to its multi-layered appeal as a business and leisure destination for a range of European and Middle Eastern markets. The city has won the bid to host the World Expo 2020, which is anticipated to generate 277,000 new jobs and inject US\$40 billion into the economy. As Dubai establishes itself as a confident world city, underlying economic growth will drive the emirate's real estate markets going forward.

Dubai: 10-year capital value and rental growth



Hong Kong

One of the world's most expensive residential markets is Hong Kong. Prices are rising in spite of cooling measures.



Home to a university
in the QS top 50
World Rankings

Hong Kong residential market at a glance

	Price per square foot (USD)	Yield	Trend (2016)
Prime	\$3,800	1.8%	Capital values -2.8%
Mainstream	\$1,200	3.2%	Rents 5.2%

Examples of prime areas: The Peak, Mid-Levels

Source: Savills World Research, December 2016

Extremely high capital values make Hong Kong by far one of the most expensive world cities in which to buy a residential property. Hong Kong did not experience a residential property market downturn after the global financial crisis. Values in both prime and mainstream markets continued to grow rapidly, fuelled by domestic and mainland Chinese demand.

As a consequence, the government introduced cooling measures, including high levels of stamp duty on foreign purchasers and second home owners. The '3D' policy, a triple-whammy of Double Stamp Duty, Buyer's Stamp Duty and Special Stamp Duty, suppressed housing transaction volumes and slowed the rate of house price growth.

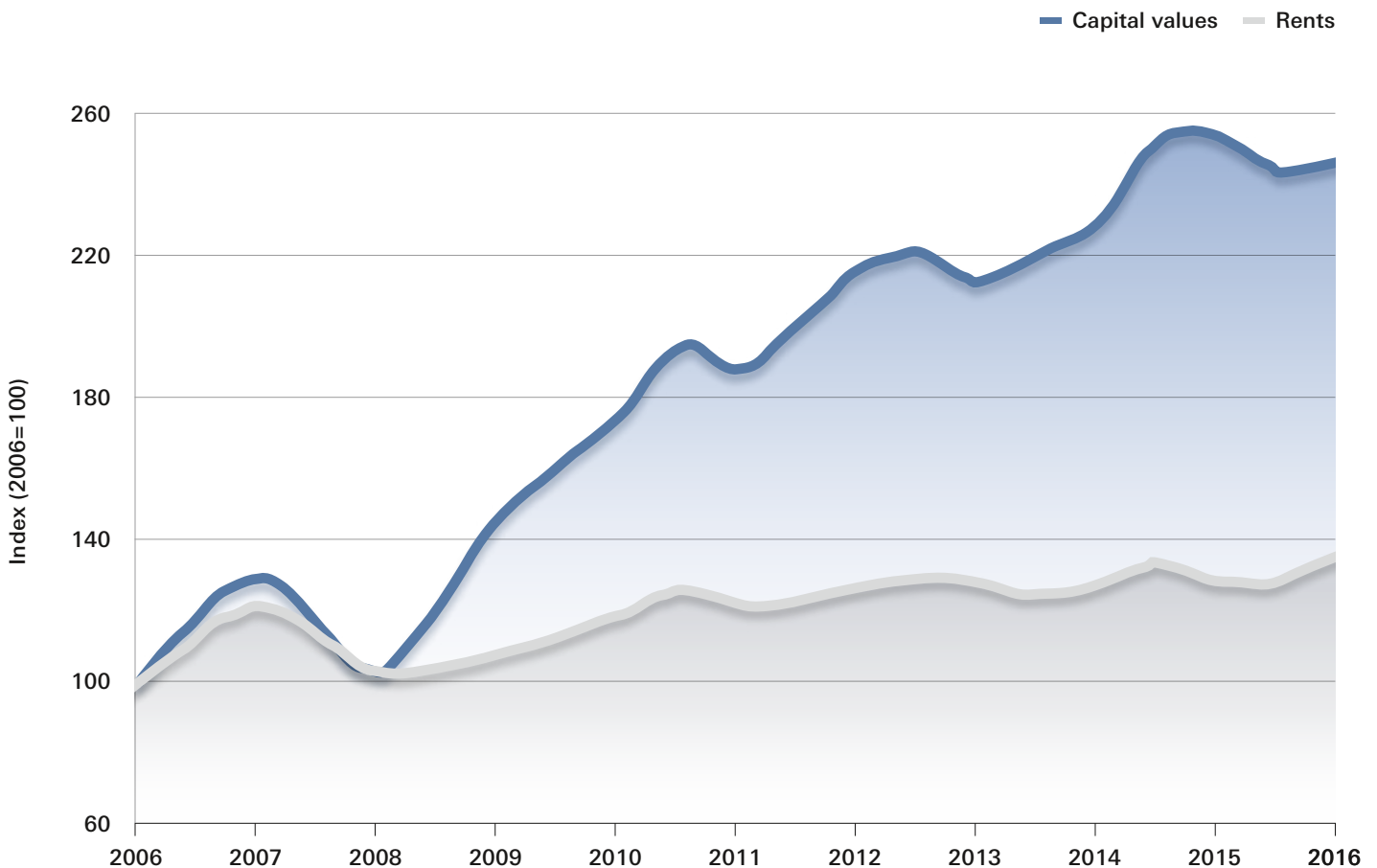
But demand in this land-constrained city soon outstripped supply, and capital values continue to rise – albeit at a slower pace.

Wealthy Hong Kong and mainland Chinese buyers have sought out luxury properties, with new price records set on The Peak, Hong Kong's most exclusive address.

Rental growth in the prime markets has been more or less static over the last eight years. This leaves prime residential property in Hong Kong among the lowest-yielding markets in any global region, at 1.8%.

By contrast, mainstream rental values have grown by 42% in the last ten years. However, capital values have grown even faster, so yields are now lower for this segment too (now at 3.2%). Low interest rates coupled with strong first time buyer demand has supported the mainstream sales markets.

Hong Kong: 10-year capital value and rental growth



London

The prime residential markets of London have slowed, but pressures on the mainstream markets remain.



Home to a university
in the QS top 50
World Rankings

London residential market at a glance

	Price per square foot (USD)	Yield	Trend (2016)
Prime	\$1,700	3.2%	Capital values 0.8%→
Mainstream	\$930	3.9%	Rents -2.5%→

Examples of prime areas: Chelsea, St John's Wood

Source: Savills World Research, December 2016

London regularly vies with New York for the title of premier global city. A major centre of commerce, culture, tourism and higher education, people from around the world come to London to work, study and play.

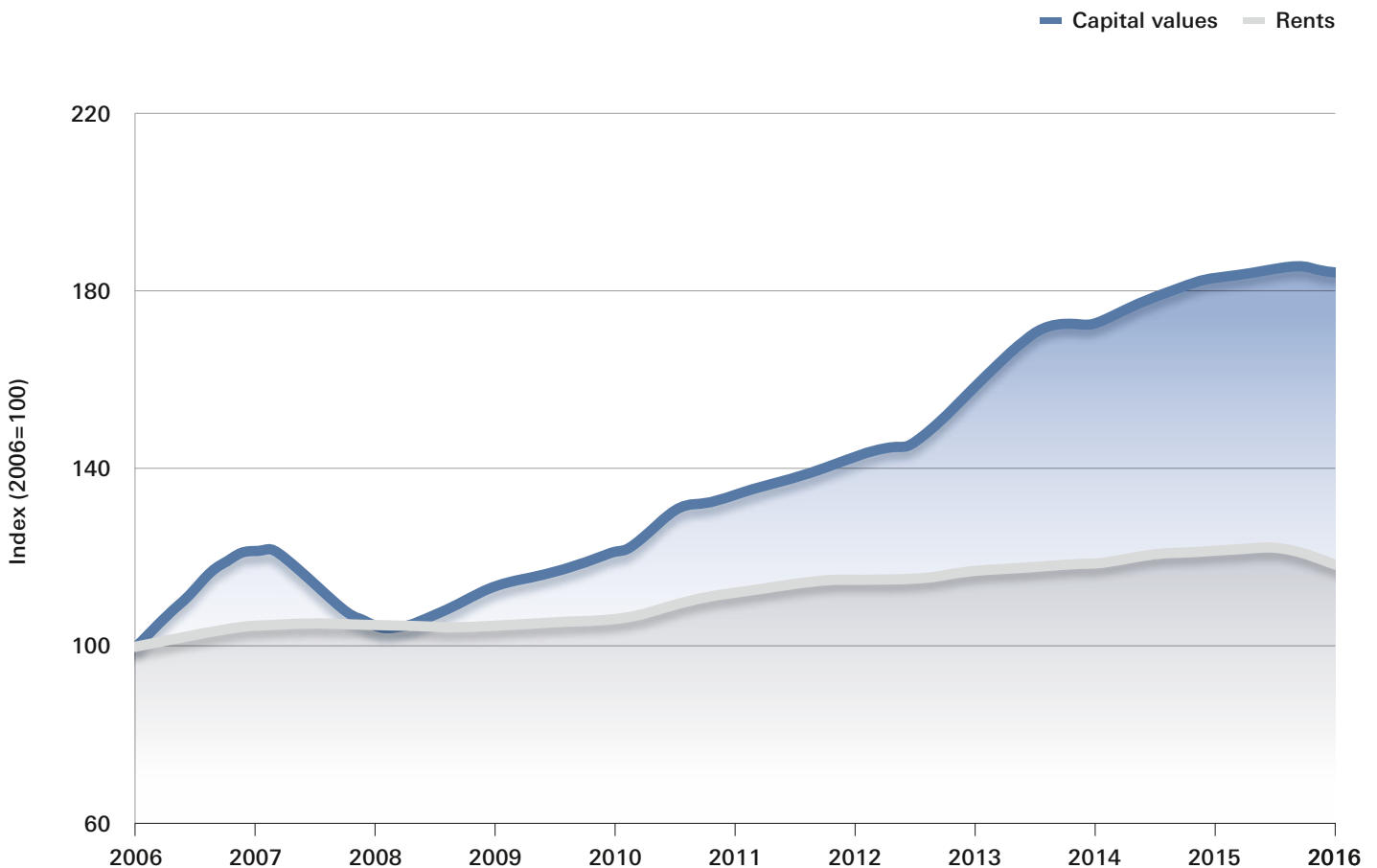
London, unlike the rest of the UK, saw very modest downward price adjustment in the aftermath of the global financial crisis. With London's economy rebounding quickly, prime property grew first and fastest, up 75% between 2008 and 2014.

Growth in luxury property has since slowed to a 'high plateau'. The introduction of higher rates of stamp duty and a 3% surcharge for additional homes cooled the prime market.

Increased exposure to capital gains tax for international buyers slowed prime central London, while Brexit uncertainty compounded this effect across the prime London market as a whole. Prime rents are falling too, the result of growing stock levels and weaker demand from corporate relocations.

Mainstream markets, growing later, are now outperforming prime. Mainstream values grew by 5% in 2016, with prices rising fastest in the more affordable East London boroughs. Like many global cities, housing market pressures are huge. To meet strong demand from London's growing economy and workforce, more affordably priced homes are needed.

London: 10-year capital value and rental growth



Los Angeles

Los Angeles is known for its sprawl, but a revival in urban living is bringing growth to its core.



Home to a university in the QS top 50 World Rankings

Los Angeles residential market at a glance

	Price per square foot (USD)	Yield	Trend (2016)
Prime	\$700	4.3%	Capital values 8.4% ...→
Mainstream	\$680	5.3%	Rents 6.7% ...→

Examples of prime areas: Beverly Hills, Pacific Palisades

Source: Savills World Research, December 2016



Los Angeles is especially attractive on the world stage, given its high global profile due to the entertainment industry. Like many US cities, Los Angeles has experienced a prolonged period of falling prices in both prime and mainstream markets after 2008. Values were down by around 32% before they started rising in 2012. Both prime and mainstream values have grown by over 63% in the past five years so that values now stand 12% above their former peak.

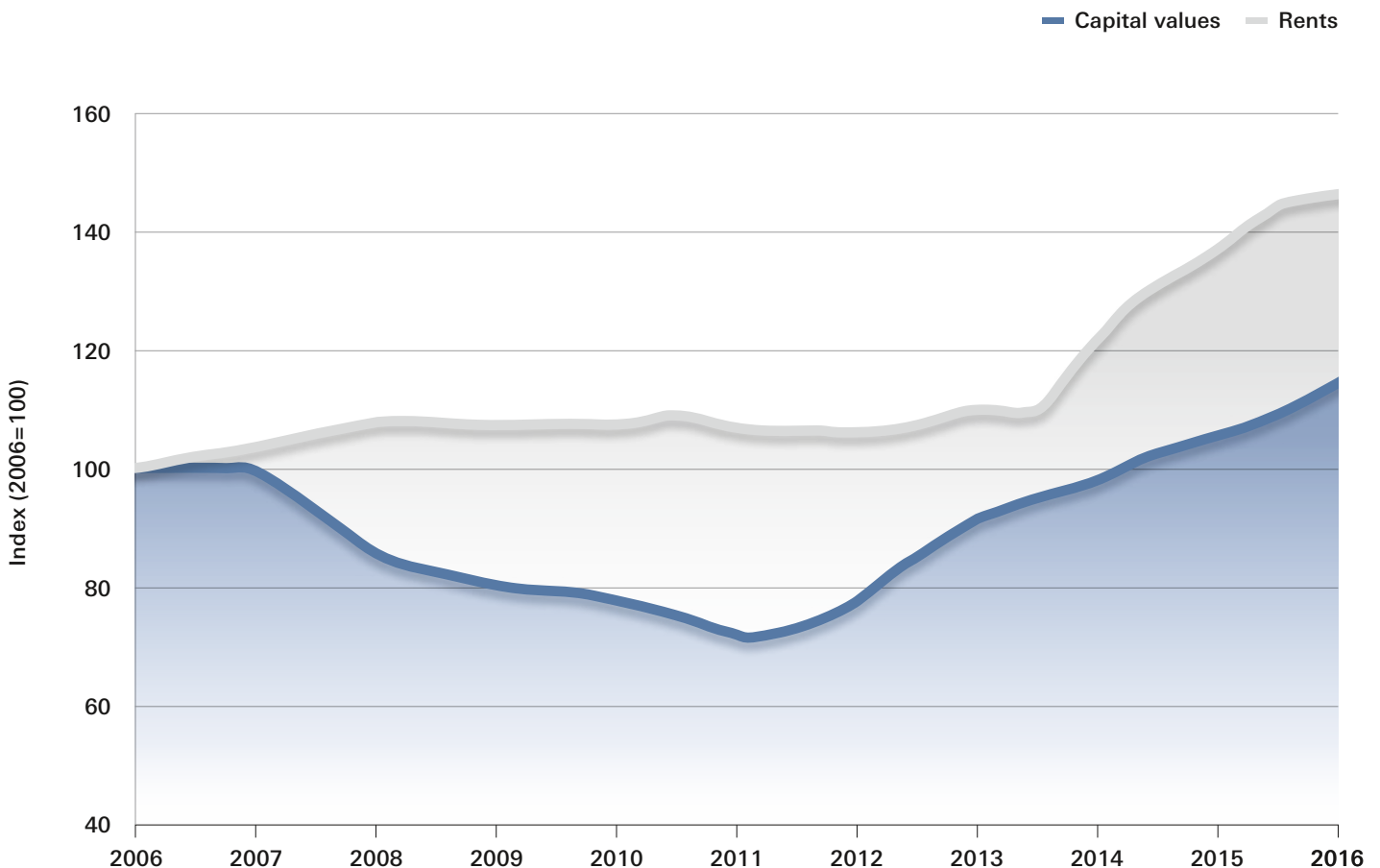
A city best known for its suburbs, properties here are larger than the global average, contributing to relatively low values on a per square foot basis.

Urban living is undergoing a revival in Los Angeles. Downtown LA has been experiencing gentrification in recent years, fuelling a surge of new condominium development. Luxury condominium buildings are concentrated in Downtown Los Angeles, Century City, the Wilshire Corridor, and at Marina del Rey. Outside these areas, residential development is typically restricted by height, depending on the city and ordinances, to a maximum of 3-6 storeys.

As a west coast city, Los Angeles is strategically positioned to attract Asian buyers. Major overseas buyer groups in the LA prime markets include the Chinese, Koreans, Japanese, Singaporeans, and Malaysians.

Recent capital growth has been in line with rental growth, fuelled by economic recovery, job growth and rising residential demand. With mainstream yields exceeding 5%, there may still be scope for some further capital growth despite a very recent tailing off in rental growth. Investor yields still have room to come in, despite Fed interest rate hikes.

Los Angeles: 10-year capital value and rental growth



Miami

Latin America's gateway to the US, Miami, is cooling after a strong recovery.

Miami residential market at a glance

	Price per square foot (USD)	Yield	Trend (2016)
Prime	\$610	5.3%	Capital values 0.4% →
Mainstream	\$380	5.9%	Rents 1.2% →

Examples of prime areas: South Beach, Venetian Islands

Source: Savills World Research, December 2016



Miami is a cosmopolitan city and gateway to and from Latin America. A major centre of finance and international trade, it attracts a range of business and leisure buyers. Prime property is concentrated in Miami Beach (technically a separate city), an area famous for its art deco buildings.

Miami was a hotspot of the US housing market boom, and the recipient of a huge amount of condominium development. Completions peaked at 16,220 units in 2007 and fell to a low of just 1,140 in 2011. When the market crashed, prices halved, one of the most severe price corrections in the US. Since this low, the market has rebounded strongly. Prime property values have now exceeded their 2006 peak, while mainstream is still 9% below.

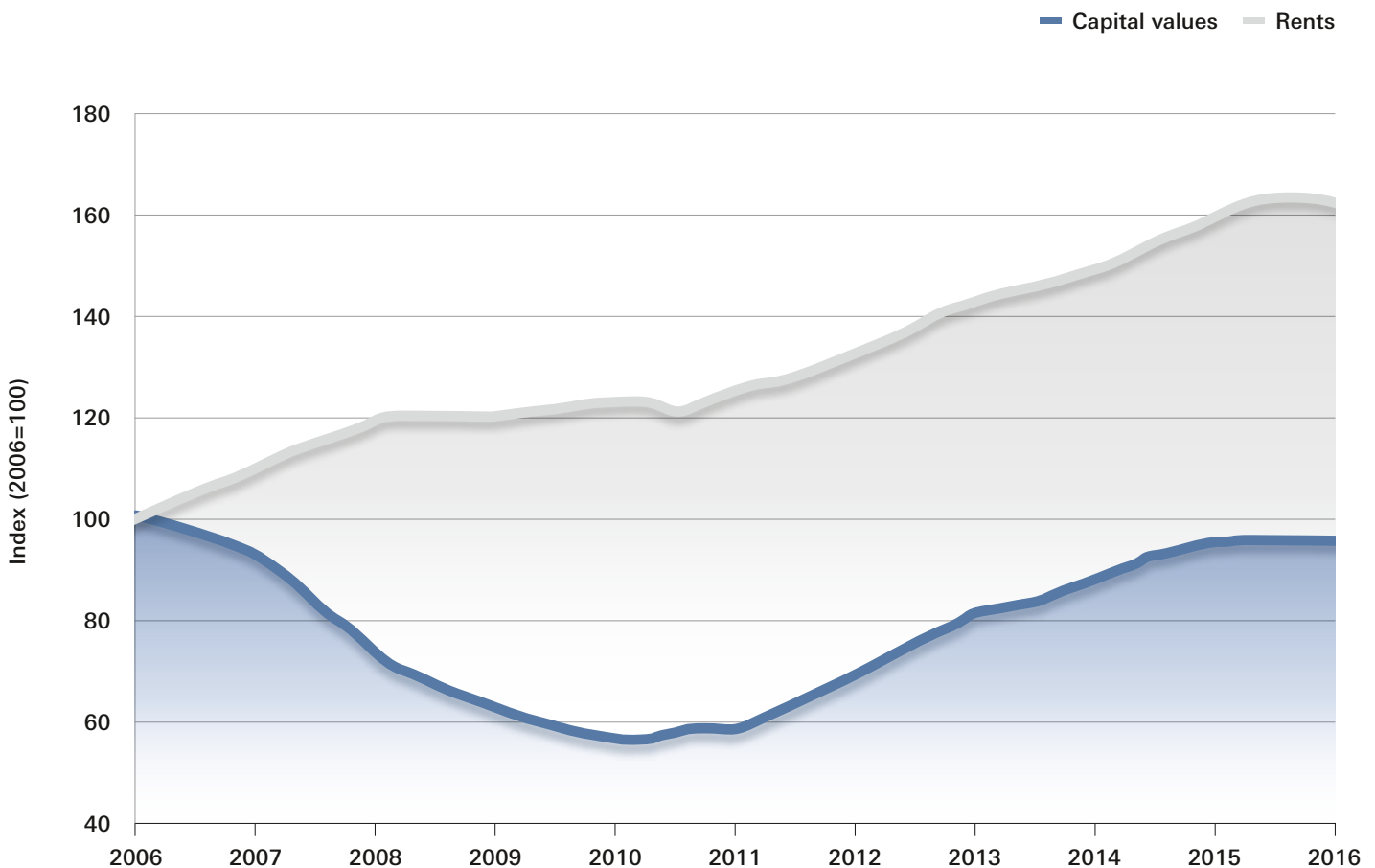
The fact that Miami is dominated by condominiums makes it appealing to international buyers, and it is this group that drove recovery in the city. In contrast to the pre-2006 boom, Miami's recent real estate recovery has been built on equity rather than credit, and a new wave of condominium development has emerged, fuelled by equity-driven Latin American buyers.

Immigration is helping to fuel population growth across the metro area, forecast to increase 14% by 2030.

Across the wider Miami – Fort Lauderdale – West Palm Beach area, the biggest foreign buyer groups in 2016 were Canadians (13% of foreign buyers), followed by Venezuelans (12%), Brazilians (12%), and Argentineans (9%).

Like many other world city markets, Miami too seems to have hit a high plateau in capital values even though yields are high by world city standards. A strong Dollar has slowed the flow of international buyers. New inventory levels are high. That said, capital value growth has been almost entirely in line with rental value growth since 2008, so yields have not fallen like they have in other world cities like London. There may yet be enough demand from investors in Miami to push yields down and capital values higher even if rental growth weakens.

Miami: 10-year capital value and rental growth



New York

New York is a big rental city, and its rise as a major tech centre has changed the geography of demand.



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New York residential market at a glance

	Price per square foot (USD)	Yield	Trend (2016)
Prime	\$1,600	3.7%	Capital values 12.7%
Mainstream	\$850	4.9%	Rents -0.2%

Examples of prime areas: Tribeca, Upper East Side

Source: Savills World Research, December 2016

New York rode out the global financial crisis better than much of the rest of the US. Both mainstream and prime prices stand around 50% higher than they did in 2008. Unlike London and Hong Kong, however, this growth has been entirely in line with rental growth and stable yields.

Already established as a leader in financial services, New York has emerged as the major 'Tech City' on the US east coast. New wealth generated in the sector is bringing with it new property demands. Young talent wants to live close to work, fuelling demand in the markets of 'Silicon Alley' around the Flatiron District, and in DUMBO in Brooklyn.

Some 68% of households in New York rent. Gross mainstream rental yields are relatively high, at 5.9%. Rents dipped at the end of 2016, as a decade of rents growing well above incomes squeezed affordability and more supply came to market.

New York's real estate market is the most globally invested city in the US, but there are impediments to buying residential property in New York.

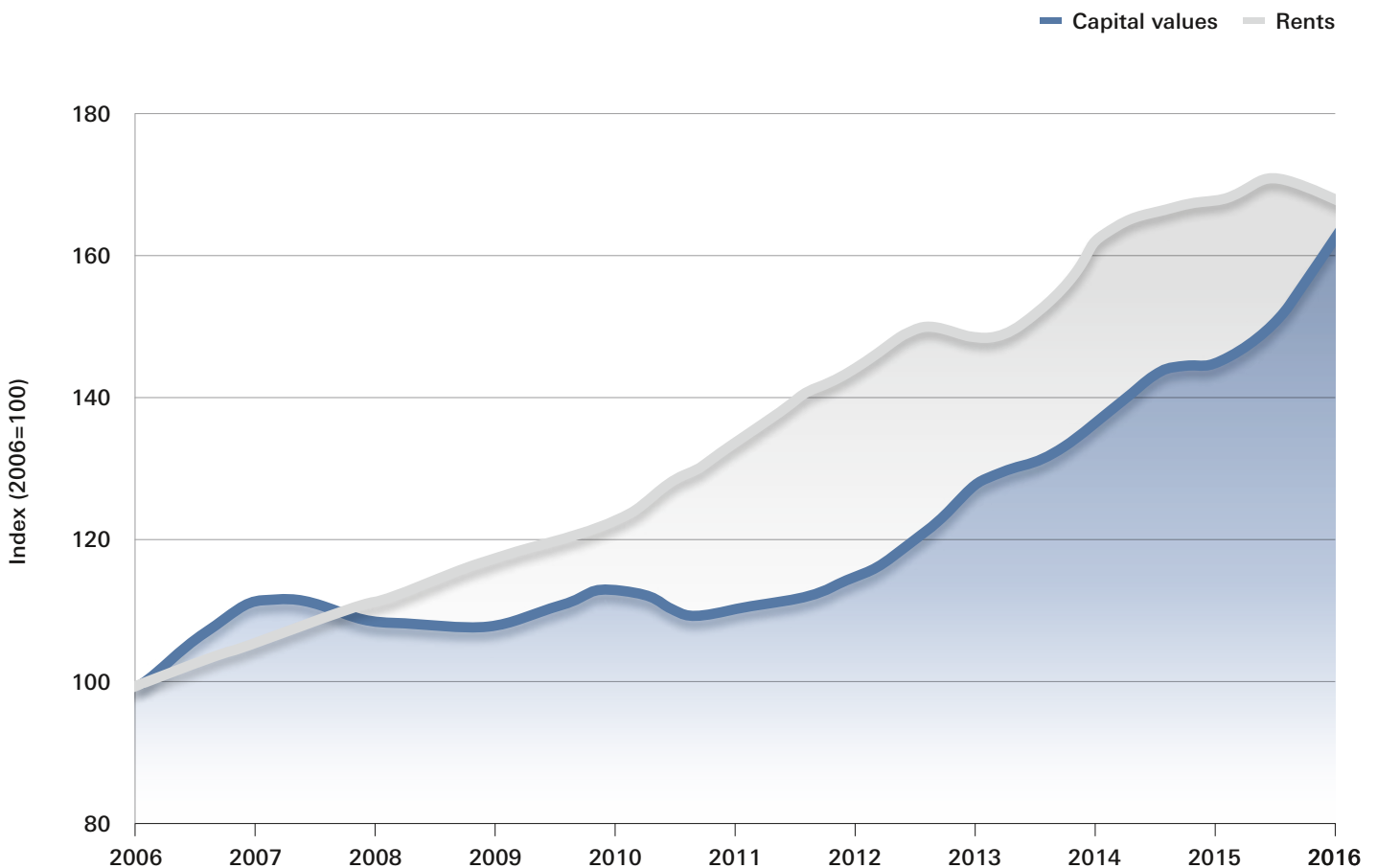
These fall into two main categories: associated costs and housing tenure. In common with the rest of the US, the entry, holding and exit costs associated with property are relatively high. New York's prevalence of co-operative apartments which foreigners find more difficult to buy pushes investors towards the relatively restricted 30 of stock that is condominium tenure.

Cooperatives vs condominiums

In New York, an apartment in a cooperative building is bought through shares of the corporation that owns the building. Prospective purchasers require the approval of the building's board. The process involves sharing financial statements and tax returns and a face-to-face interview. Restriction may also be placed on owners' ability to let their property.

Condominiums differ in that the actual deed to the property is transferred, so it is owned outright. There is flexibility in the use of the property (such as letting out), although the purchase process can sometimes be as rigorous as those of cooperatives.

New York: 10-year capital value and rental growth



Paris

A top-tier city that offers value on a global stage after several years of underperformance.



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Paris residential market at a glance

	Price per square foot (USD)	Yield	Trend (2016)
Prime	\$1,150	4.1%	Capital values 2.2%→
Mainstream	\$570	5.6%	Rents -0.3%→

Examples of prime areas: 4th arrondissement, 7th arrondissement

Source: Savills World Research, December 2016



Paris is a major centre of business and finance, offering quality cultural institutions, luxury retail and celebrated architecture & urban environment. It is also one of the world's most popular tourist destinations.

Parisian capital values looked as if they were on the same trajectory as other world cities until 2011 when they slid by 10%. With the election of Emmanuel Macron, historically low interest rates and building consumer confidence, the residential market has now turned.

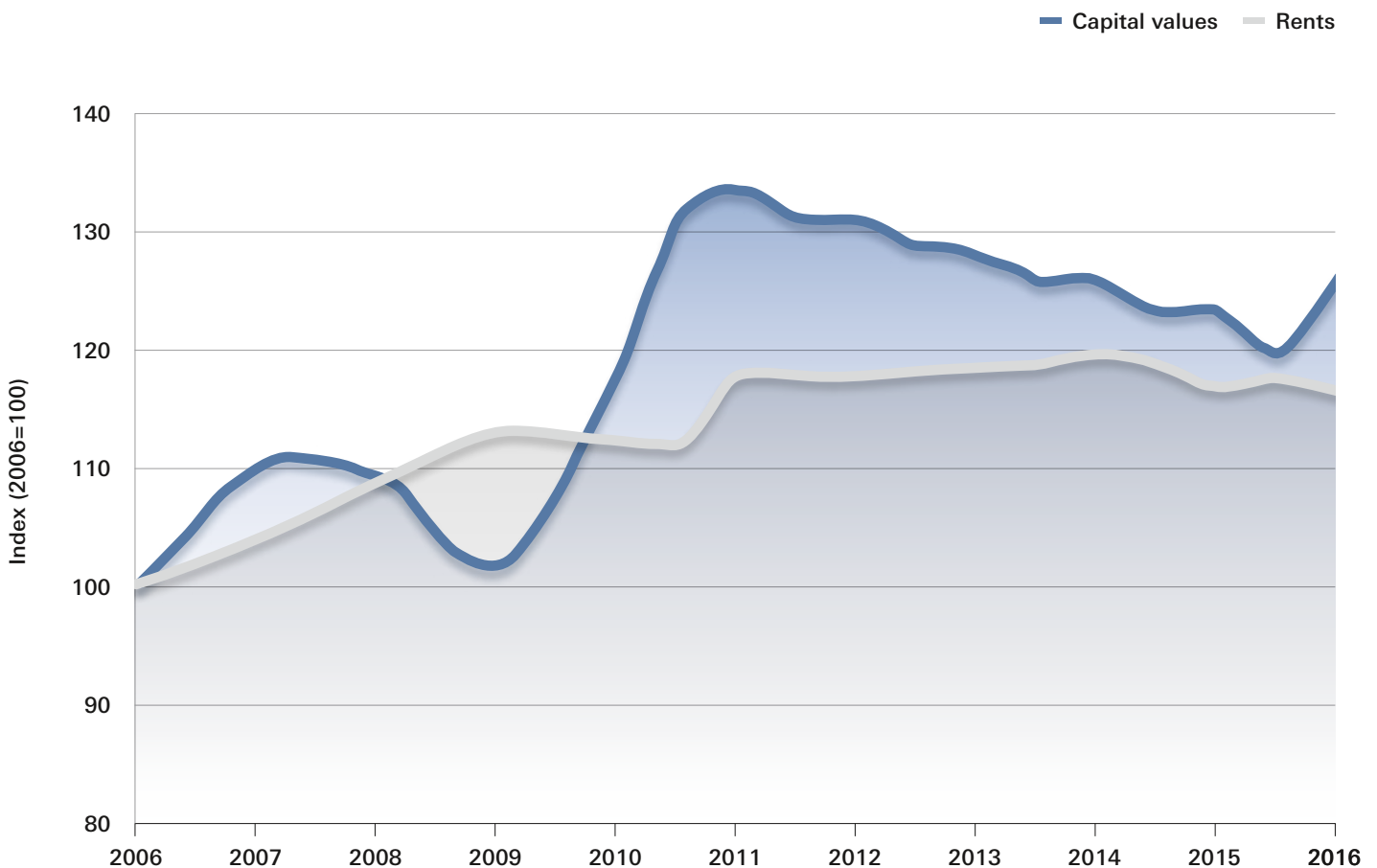
Recent recovery is being driven by domestic demand. Foreign buyers accounted for just 9% of the prime market in 2016 (of which those from other parts of Europe are the largest group), but the new government offers a period of relative stability.

This could encourage foreign buyers who have been waiting on the sidelines to act.

Reliant primarily on domestic wealth, prime prices on a square metre basis stand 32% below those of London, and some 69% below those of Hong Kong. This represents value on a global stage, with room for capital growth. Limited development opportunities in historic central Paris keep the supply of new build property constrained.

Rents have remained largely flat in the last five years, partly due to rent caps on certain types of rentals. This is at a time when (until recently) capital values have been falling. This increased rental yields, which now stand at 4.1% for prime property, just above London and New York.

Paris: 10-year capital value and rental growth



San Francisco

A booming tech sector has fuelled rapid growth in San Francisco's residential market.



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San Francisco residential market at a glance

	Price per square foot (USD)	Yield	Trend (2016)
Prime	\$1,200	3.6%	Capital values 2.8%→
Mainstream	\$690	6.4%	Rents -1.7%→

Examples of prime areas: Pacific Heights, Nob Hill

Source: Savills World Research, December 2016



San Francisco is attracting large numbers of young professionals, tech entrepreneurs and other creative people. It has seen an increasing number of successful people migrating out of Silicon Valley in search of an urban, rather than suburban, lifestyle. People from all over the world choose to make San Francisco their home.

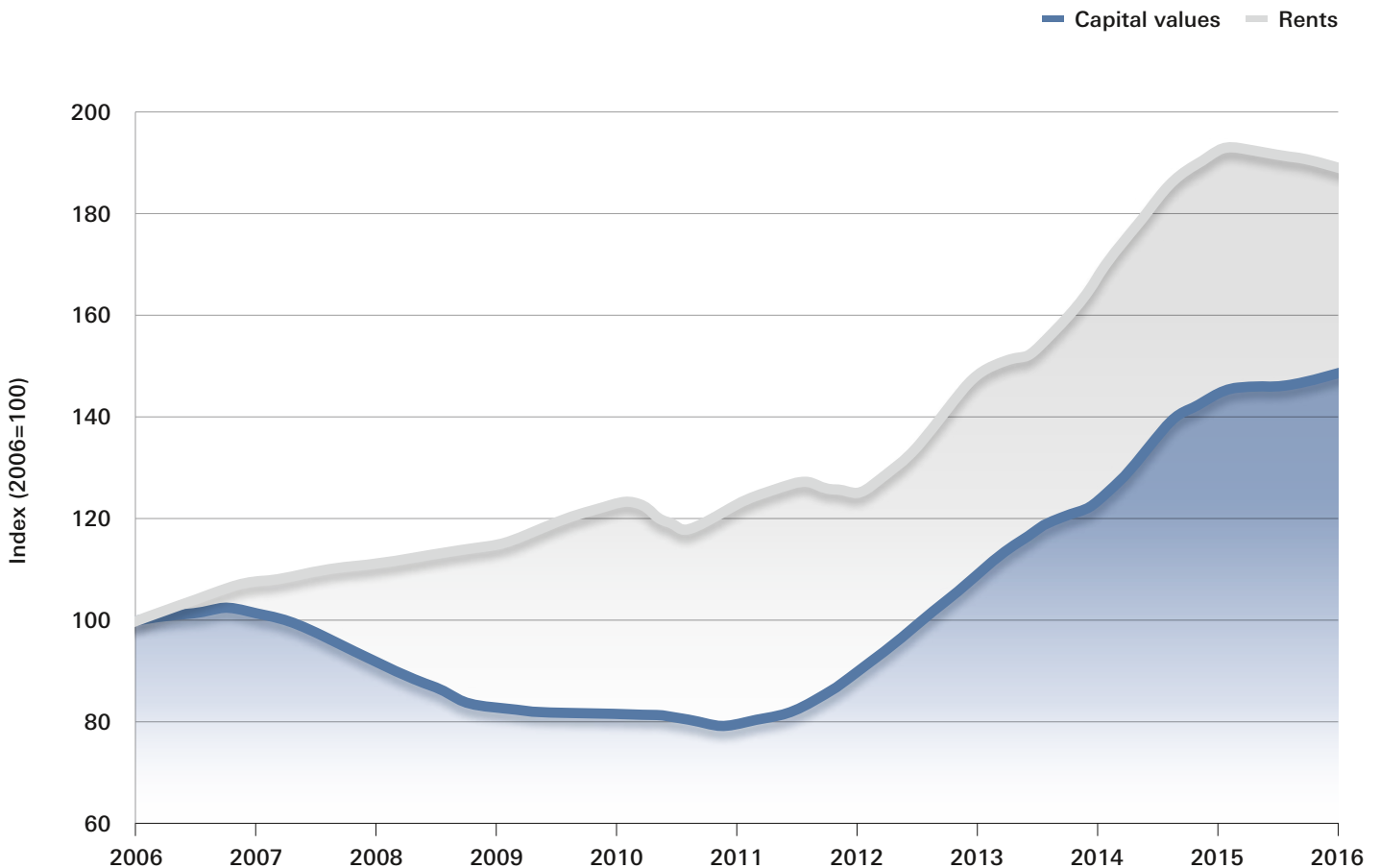
A small city, just 46 square miles in size, its compactness and walkability is central to its appeal, but also means that new housing delivery is restricted by a very limited supply of land. Hayes Valley, the Mission District, Mid-Market and SoMa have seen an influx of tech firms, pushing up commercial rents and in turn demand for residential property.

Of all the world-class US cities, San Francisco has experienced the highest growth since 2008. Despite falling and staying down for much longer, the last five years saw capital growth to rival London.

San Francisco's prime market appears to have hit that high plateau following a very fast bull run, coinciding with a similar cessation in rental demand. This may result from a pause in corporate expansion, particularly in the tech sector, following frantic levels of activity during 2013 and 2014.

Rents in San Francisco have grown even higher than capital values over the last ten years. Prime yields in San Francisco are on a par with other world cities but mainstream yields are still high by global standards, at 6.4%. The rental markets are supported by strong occupier demand, although rent controls are in place.

San Francisco: 10-year capital value and rental growth



Singapore

The residential market has cooled in Singapore, a land-constrained, island city-state.



Home to a university in the QS top 50 World Rankings

Singapore residential market at a glance

	Price per square foot (USD)	Yield	Trend (2016)
Prime	\$990	2.9%	Capital values -5.6%
Mainstream	\$460	5.8%	Rents -7.5%

Examples of prime areas: Orchard/River Valley, Bukit Timah

Source: Savills World Research, December 2016



As a land constrained city-state, Singapore's residential market is tightly managed. Some 80% of the resident population live in publicly governed and developed housing, managed by the Housing and Development Board (HDB). Unlike most social housing in the developed world, which is rented, 95% of HDB properties are owner-occupied and sold on 99-year leases. They may be re-sold freely on the open market (to citizens and permanent residents) once minimum occupation requirements have been met. The remainder of the population own or rent private homes.

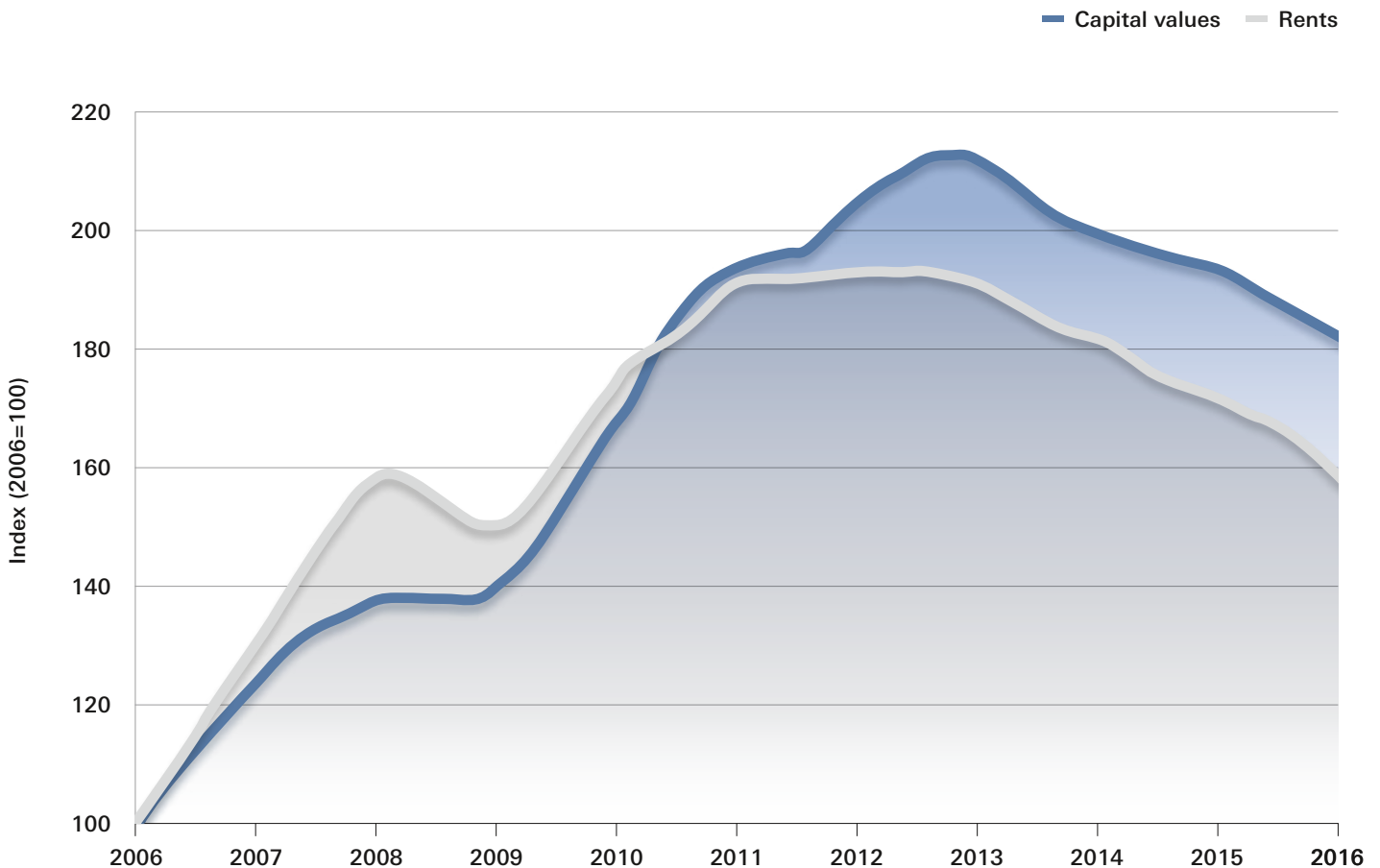
Capital values more than doubled between 2006 and 2013. In response to this, the government introduced taxes designed to cool the market. These have been among the most effective on a global level, and include an Additional Buyer's Stamp Duty (ABSD) of 15% paid by foreign buyers.

Singapore citizens face additional duties of 7% for their second and 10% for their third properties and subsequent properties. In a bid to prevent market speculation and the 'flipping' of properties, a Seller's Stamp Duty applies too, at up to 16% of the sales price depending how soon it is re-sold.

These measures have contributed to a fall in capital values, which, coupled with a slowing Singaporean economy since 2013, are now 14% below their peak of the same year.

Rents, meanwhile, grew less than capital values in the expansion phase, and have contracted more severely too. Mainstream rents are now barely above 2008 levels, while prime rents, compounded by weaker demand from corporate relocations, are nearly 8% lower. Prime yields stand at 2.9%.

Singapore: 10-year capital value and rental growth



Sydney

The Sydney residential market never felt the downturn. After a decade of growth, affordability is an issue.



Home to a university
in the QS top 50
World Rankings

Sydney residential market at a glance

	Price per square foot (USD)	Yield	Trend (2016)
Prime	\$620	3.3%	Capital values 8.0%
Mainstream	\$670	3.7%	Rents 1.6%

Examples of prime areas: Bellevue Hill, Double Bay

Source: Savills World Research, December 2016



Australia avoided a house price crash like those of Western economies because of its growing economic wealth when other developed economies were contracting. At the same time, it avoided a credit boom by retaining strict lending requirements. Australia's geographic position also helped, supplying a then-booming Asia with raw materials, goods and services.

Sydney is Australia's largest city. In common with most mature world cities, it is restricted by land availability through geographical limitations, zoning restrictions and limited land release. As a consequence, the city suffers from the same supply/demand imbalances of many of its global contemporaries.

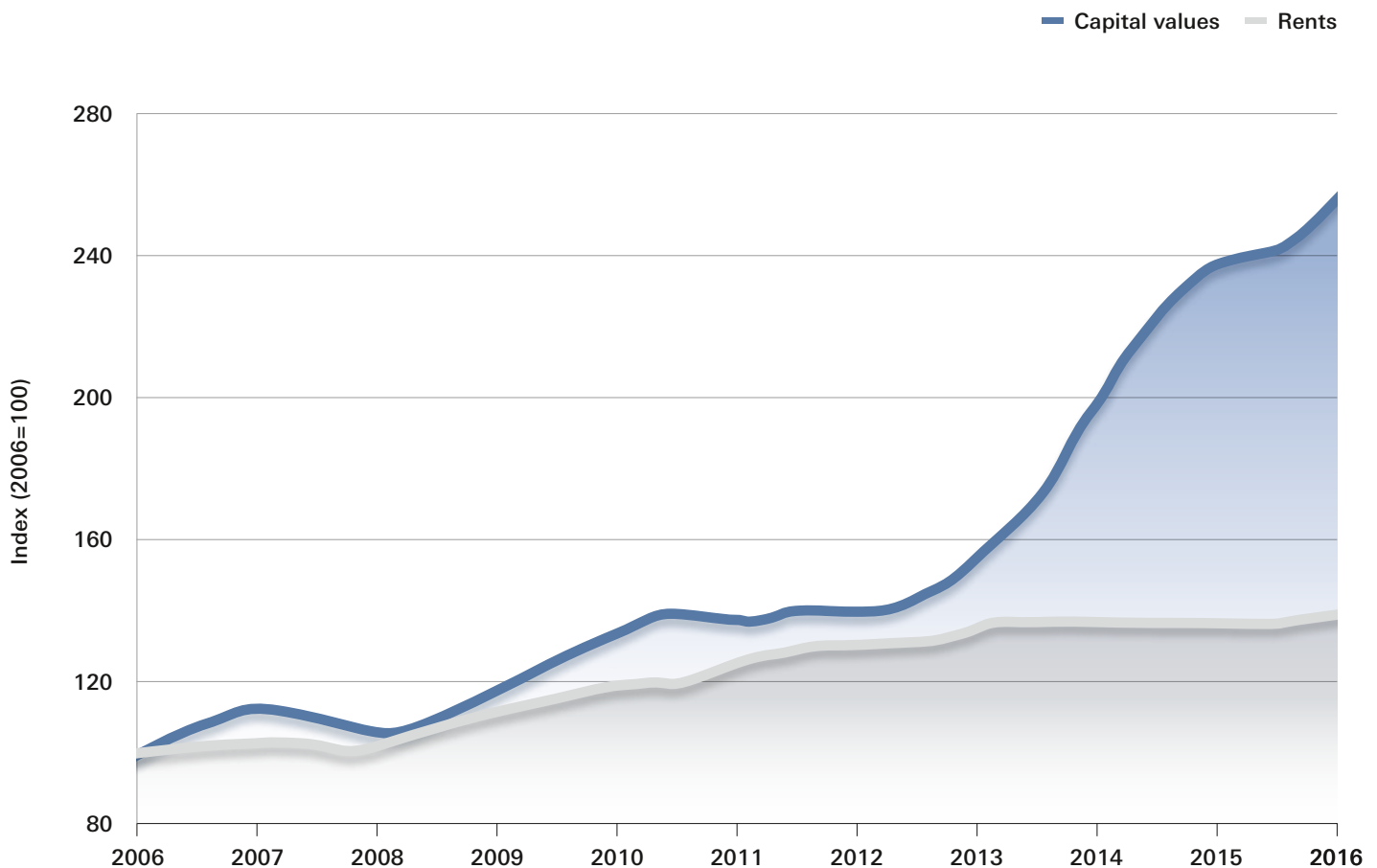
These economic and physical characteristics set the scene for strong demand for residential property. Sydney's capital values increased by 156% between 2006 and 2016, outperforming even Hong Kong over the period. Properties in Sydney are large by global standards, and this means lower price per square foot values.

Rents, by contrast, have grown nowhere near as fast, up just 39% over the same timeframe. This means that yields are low, at 3.3% for prime and 3.7% for mainstream.

Sydney has been a popular destination for buyers from Asia, for education purchase, or as an investment. Foreign buyers are restricted to buying newbuild property or vacant land. In July 2017, the foreign investor stamp duty surcharge in New South Wales rose from 4% to 8% (in addition to the usual NSW stamp duty levied).

Sydney is a sprawling city, characterised by its suburbs, but demand for city centre locations is still strong, particularly from younger generations. New infrastructure investment in the form of the Sydney Metro will improve connectivity, opening up densification opportunities in other parts of the city.

Sydney: 10-year capital value and rental growth



Toronto

In Toronto, new taxes on foreign buyers have been introduced to cool a booming residential market.



Home to a university
in the QS top 50
World Rankings

Toronto residential market at a glance

	Price per square foot (USD)	Yield	Trend (2016)
Prime	\$530	4.1%	Capital values 19.7%
Mainstream	\$360	5.0%	Rents 3.0%

Examples of prime areas: Forest Hill, Rosedale

Source: Savills World Research, December 2016

Toronto is Canada's most populous city. It is a financial capital, international centre of business and the most multicultural city in Canada. Almost half the population is foreign born.

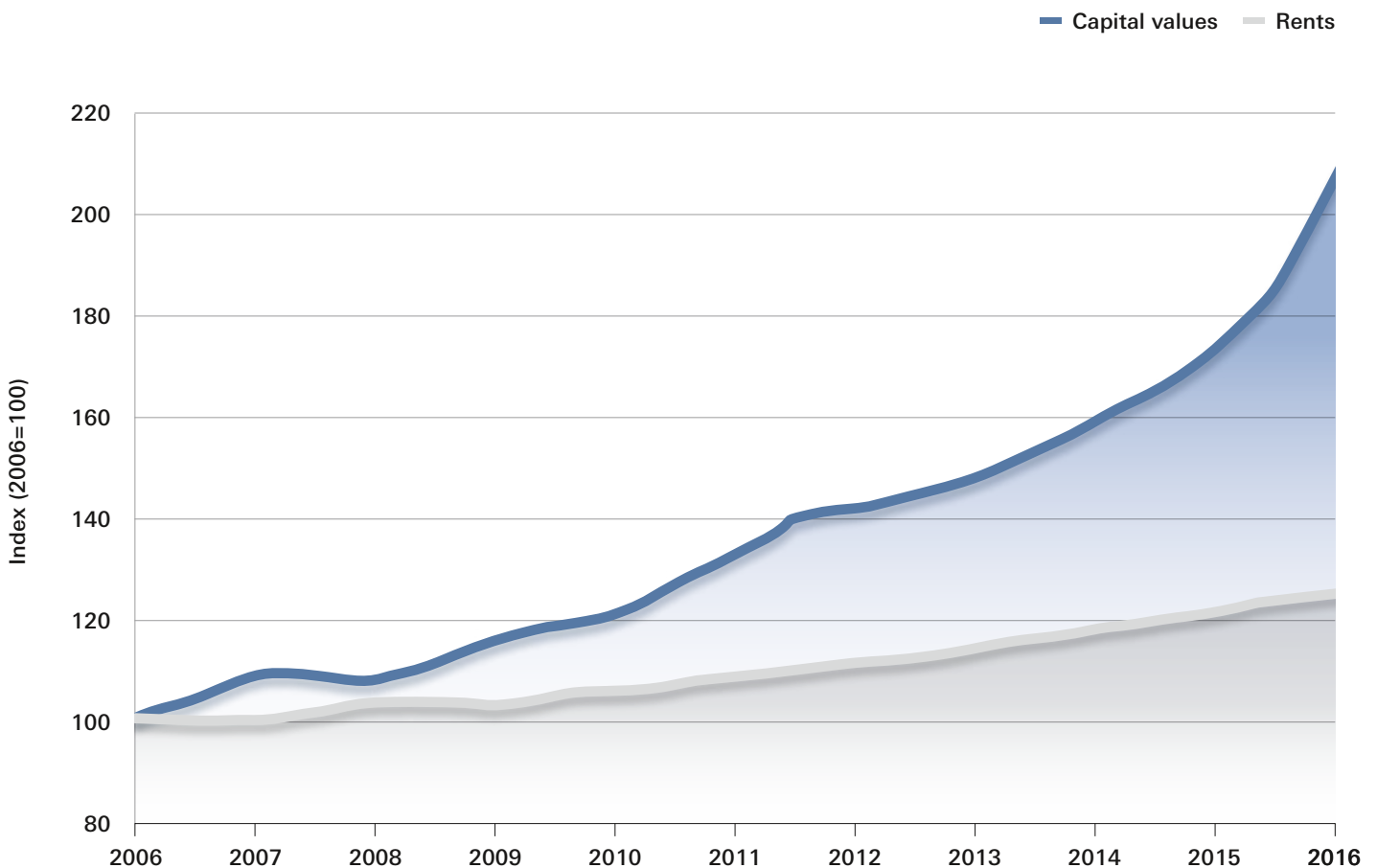
The city has two distinct prime residential markets. Toronto North is suburban and attracts families, while urban Toronto offers downtown living for professionals – singles and couples – with easy access to entertainment and employment.

Apart from a brief hiatus in 2008, Canada's housing markets continued to grow at a similar rate as their pre-crisis trajectory in the years immediately following the global financial crisis. This means that the Canadian residential market stands in deep contrast to that of the US, its neighbour to the south.

Prices are slightly lower than those of Vancouver, but growth has been just as strong. Low interest rates coupled with economic expansion saw capital values more than double between 2006 and 2016. Prices increased by 20% in 2016 alone. With affordability a growing constraint, Toronto followed Vancouver and introduced a 15% stamp duty on foreign buyers, effective in April 2017.

Rents have grown nowhere near as quickly as capital values, up 24% over the last ten years. As a consequence, yields have fallen significantly, standing at 5.0% for mainstream property, and 4.1% for prime.

Toronto: 10-year capital value and rental growth



Vancouver

Vancouver is Canada's most expensive real estate market – but still cheaper than global rivals.



Home to a university
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World Rankings

Vancouver residential market at a glance

	Price per square foot (USD)	Yield	Trend (2016)
Prime	\$670	3.9%	Capital values 17.0%
Mainstream	\$510	4.8%	Rents 3.7%

Examples of prime areas: Shaughnessy, Kerrisdale

Source: Savills World Research, December 2016



Surrounded by water on three sides, Vancouver enjoys a spectacular waterfront setting. Offering easy access to the neighbouring mountains and ski resorts, residents enjoy a range of leisure pursuits on their doorstep. Growth, restricted by the city's position between the Strait of Georgia to the west and mountains to the north and east, has pushed new development – and prices – skywards. Vancouver is Canada's most expensive real estate market.

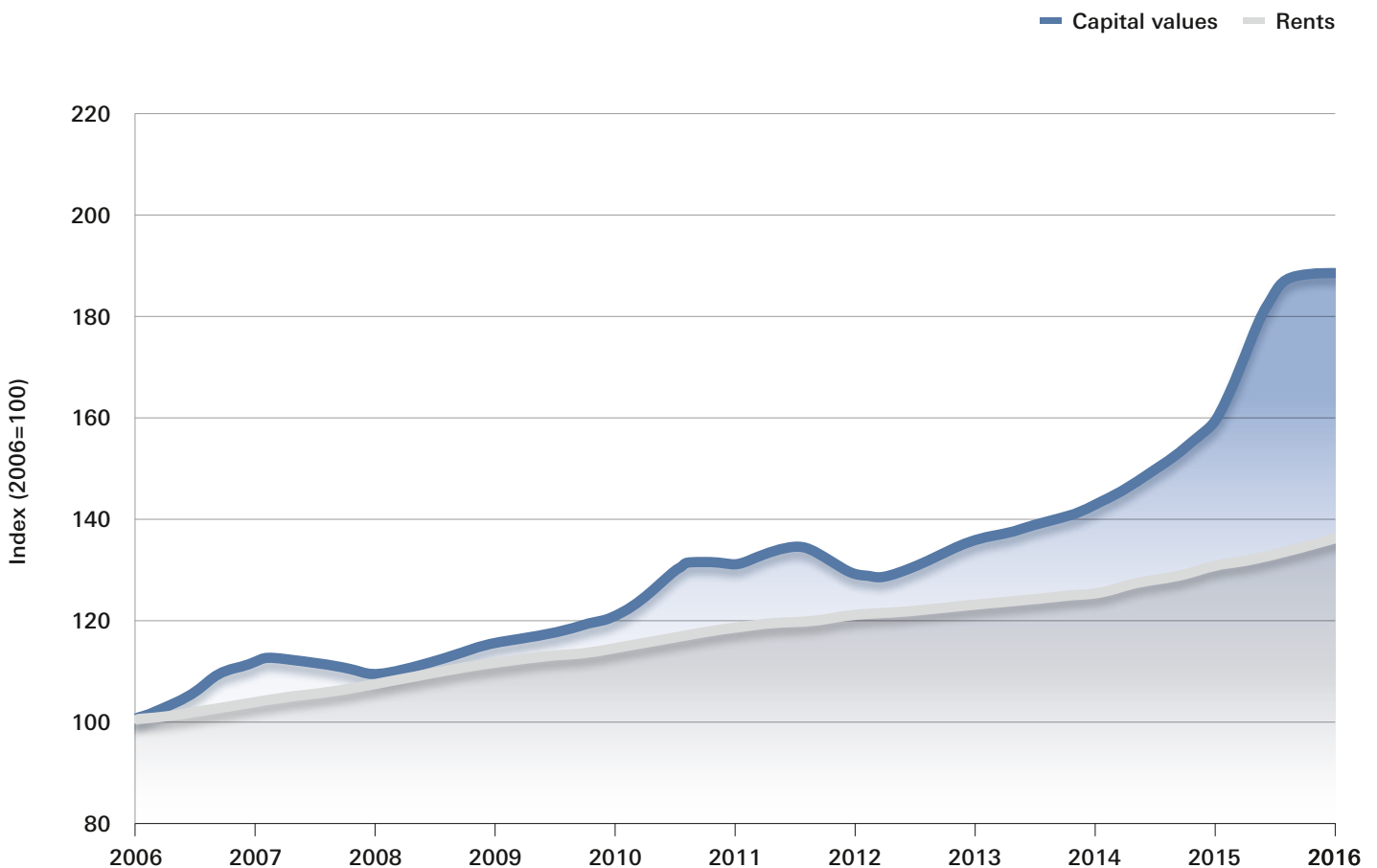
Canada weathered the global financial crisis better than many other industrialised countries, supported by a well-regulated financial services sector and global demand for its natural resources. Capital values in Vancouver barely fell in 2008, going on to increase by 70% between 2008 and 2016, as investment flowed into the city's residential real estate.

Pacific-facing Vancouver has a long history of Asian immigration, with large Chinese diaspora. Chinese buyers have been behind much of the new investment in the city in recent years. These buyers favour the city's modern, high-rise condominiums, as well as single family homes, with the West Side the most desired area and commanding the highest prices.

In August 2016, following the likes of Hong Kong and Singapore, Vancouver introduced a 15% stamp duty payable by foreign buyers. This has contributed to slower price growth, up just 1.4% in the second half of 2016.

Rental growth has not kept pace with growth in capital value, with average annual growth of 3%. Prime yields stand at 3.9%, with mainstream yields at 4.8%.

Vancouver: 10-year capital value and rental growth



► Prospects

Real estate has taken on a new role in investment portfolios across the globe. Here are some themes to consider for the years to come:



The search for income

As the world has adjusted to low interest rates and yields in the aftermath of the global financial crisis, the appetite for real estate has grown. The initial bounce back after the downturn has been followed by a more concerted search for income worldwide. This is likely to continue as more investors are looking for income rather than just growing capital.



The rise of alternatives

Income yields on prime properties in the most famous and popular cities have fallen rapidly since 2010. Therefore, the most commonly invested asset classes now look fully valued and some markets look expensive.

This has pushed more investors to 'alternative' property classes which have, in the past, been perceived as more risky than conventional asset classes. Hospitality and student housing are good examples of 'alternative' assets, some of which have recently seen record levels of global investment activity. Some types of alternative real estate are very good at producing substantial and stable income streams. The move to 'alternatives' has increased activity in this sector, and consequently rental yields have fallen as demand has increased.



Value is the new quality

There will be less distinction between what is considered 'core', 'value-add' or 'opportunistic' as occupier demand changes and investor appetite shifts. If investors pay attention to demand and occupier fundamentals rather than old conventions, there is no reason why these investments should be any more risky than conventional asset classes, with performance to match.



Wobbly plateau

In these uncertain times, the lure of real estate remains strong. In developed economies, real estate is a solid, real world asset, not easily confiscated or devalued. In some emerging economies, real estate is becoming an increasingly transparent and secure asset class. This means it is gaining in popularity among a growing number of investors.

In spite of geopolitical uncertainties, the established real estate of developed economies is still a reliable, transparent and safe place to store value. We think 2016 is likely to be the onset of a 'wobbly plateau' in transaction levels rather than the start of a steep decline.



The legacy of the western 'baby-boomer'

The large baby-boomer generation (born 1946 to 1964) are becoming pensioners and are no longer mass savers. Investing institutions like pension funds and insurance companies are no longer just focused on receiving savings premiums to grow funds. They now have to generate income to pay pensions and their focus has broadened to include stable, long-term income streams – notably those generated by real estate.



The rise of new cities on the global stage

The locations in which to invest are changing too. Smaller cities are rising on the global stage to compete with the global megacities. Driven by expanding tech industries, Austin, Tel Aviv, Berlin, San Francisco and Melbourne, for example, are all on the rise. Offering their residents a high quality of life, lively social scenes and lower costs than top-tier global cities, they have been successful in attracting globally mobile talent. This, in turn, is fuelling demand for real estate.

22 tech cities at the forefront of the global tech industry



Things to note when buying a physical property

Whether your intention is to buy a property for investment, retirement or providing a second home for your children studying abroad, there are a number of things to take into consideration:

- Knowledge is key. Consider underlying political, economic and demographic trends. Do your research or get an independent expert to do it for you.
- Be clear on what you want from your real estate investment. Do you want income, capital growth or a mixture of both – or do you just want a property to be kept over the long term?
- Don't forget about running costs. Will you be paying too much to own, run and repair the property? Understand how interest rate changes may impact your mortgage repayment.
- Compare mortgage types and rates. Some mortgage types may include fixed rates and / or variable rates. Be aware of the difference between interest only and capital repayment.
- When buying an overseas property, be aware of the impact of foreign exchange rates on your purchase.
- Talk to your bank or a professional finance adviser about the best way to structure the purchase. Make sure that finance is in place before making offers. Get legal and tax advice to understand your obligations.
- Consider employing your own buying agent, valuer (appraiser) and / or negotiator (broker) to act for you if you are not a confident negotiator.
- Consider your exit strategy. Who will buy when you come to sell? How much will it cost you to exit?
- Don't forget about insurance. Talk to your bank or an insurance adviser about the best way to protect your mortgage repayment, your legal liability and your property and household content.
- When seeking an adviser, find a company with both international coverage and a global understanding but also a strong local network and expertise. Securing these two elements will give you a great advantage.

Useful real estate terms & their meanings

Yield	Annual rental income as a percentage of capital value or purchase price
Prime	The best, most desirable and usually most expensive properties in a particular market
Mainstream	Ordinary non-prime properties. The quality of their locations or property types may be referred to as 'secondary'
Gateway cities	The most famous, big, global cities
Conventional asset classes	Those most frequently and commonly invested. In real estate: Commercial (offices) / Retail (shops and malls) / Industrial (big sheds) / Hospitality (Hotels) / Development land / Multi-family housing (purpose built apartment blocks for rent)
Alternative asset classes	Those which have not been so frequently invested in the past but now more popular e.g. Student housing, Social housing or Single-family housing, Logistics sites / premises, Food and beverage, Small industrials, Small high street shops and business premises, Co-working space, Mixed use buildings
Core	Investments commonly traded especially among investing institutions & considered low risk (e.g. Prime, Grade A offices in gateway cities)
Value-add	Higher risk investments, less commonly invested. For example, secondary, Grade B in second-tier cities
Opportunistic	Higher yielding, higher risk investments like development projects or alternative assets

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