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SAVILLS WORLD RESEARCH
H2/2014

12Cities

Real estate costs of living and working around the world

ON THE MOVE

Flows of people and real estate markets in world cities

savills

Cities on the move

Understanding the real estate markets of our 12 cities means getting to know their physical natures and personalities as much as their pricing regimes. Each city contains numerous layers of infrastructure that help to create city character. In our last issue we started to examine one aspect of this infrastructure – street patterns and population densities of each city. In this issue, we have put the public transport systems of our cities under the microscope. Although just one aspect of a city's personality, these arteries play a significant role in determining the way that people interact and how they can use a city.

The extent, speed and cost of transport infrastructure can dictate very different lifestyles for citizens and shape the longer-term economy of a city, as well as affecting environmental health through factors such as air pollution, walkability and noise. Sometimes, lack of affordable transport creates long and difficult journeys to work and play. In other instances, good transport can shrink a city by putting people in touch with far-flung neighbourhoods and disparate workplaces, bringing them together and enabling a city to function at its full potential.

As we turn our eyes toward 2020 and ponder the future trends that will shape our world cities, the legacy of past infrastructure investments will either cloud the horizon or brighten it. Those responsible for shaping cities now should be aware of how their strategies will affect urban life in the future. The cities that have turned their backs on walkable and intense streetscapes, common to most pre-automobile cities across the world, may find that compensating for this loss comes at great financial, human and environmental cost. There will be additional pressures on transit systems. The cost and adequacy of these could determine a city's longer-term prosperity.

The rest of this report looks at the shorter term. It examines how new forces have changed the ranking of real estate costs and values in our cities. It also shows what different economic, geopolitical and natural events have occurred over the time that we have been monitoring these markets, and identifies what factors may continue to shape them in the near future. ■

'Lack of affordable transport creates long and difficult journeys to work and play'

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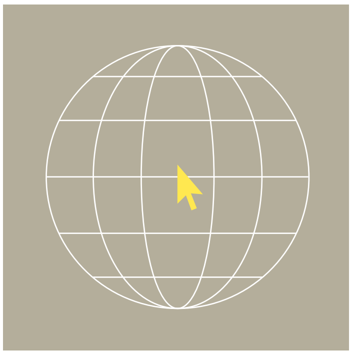

12 CITIES ONLINE
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RESEARCH METHODOLOGY

In order truly to compare the cost of residential and commercial real estate across different global cities, we use the Savills Executive Unit (SEU), which measures the cost of housing an identical group of people living and working in different countries.

The people who make up our SEU include one middle-aged expat CEO, one senior expat director, a locally employed director and four locally employed administrative staff. They each live in different types of household and each member of the group chooses different types of locations and different types of property in which to live.

To measure office costs, we place the same seven people in an office of a small financial services firm and again in a creative start-up – each located in the most appropriate district for their industry type.

Snapshot of three interesting global real estate trends

STUDENT HOUSING

Student housing has grown into an exciting new global asset class

A mobile and globalised student population spawns a new investment class in student accommodation. New wealth has fuelled the numbers of Asian students seeking an English-language education worldwide and there's pressure for limited quality accommodation in many cities, which means attractive investor returns.

In mature markets, student housing looks distinctly counter-cyclical; one of the best-performing sectors during the global financial crisis (*see fig. 1*).

The business of providing purpose-built, professionally rented student accommodation is established in the US and is maturing in the UK, but other countries are earlier on the investment curve. This offers investors new opportunities. Australia benefits from English language and proximity to fast-growing Asian markets. So student housing has expanded rapidly in the past decade, but supply and vacancy rates are low, forcing rents up. Germany, France and the Netherlands are at an early stage of development with very limited quantities of student housing provision.

We foresee the major emerging student housing markets of the Netherlands, France and Germany combined could eventually be worth an additional $0.75 billion per annum over the next 20 years.

See: *Spotlight on World Student Housing 2014*
www.savills.co.uk/research

Below: The student accommodation sector is expanding. **Above right:** Global agricultural returns are set to continue.

SUPERCOMMUTERS

Supercommuters are choosing to work and live in two locations

Ultra high net worth individuals (UHNWIs) fall into two distinct groups when choosing where to live. There are the 'Dispersers', who set up residence in glorious isolation or return to their various hometown roots. Then there are the 'Agglomerators', who cluster in particular hotspots around the globe, including world cities.

Most ultra-wealthy households have more than one home and their international business and leisure interests mean that these very often span continents. Consequently, commuting for this group takes on a whole new meaning.

An analysis of UHNWI real estate holdings reveals that there are five main 'supercommuting' routes that are well travelled by UHNWIs on a regular basis, often in private jets, as they move between homes (*see fig. 2*). London, thanks to its convenient time zone, culture and cosmopolitan character, is often the nexus of these home hubs.

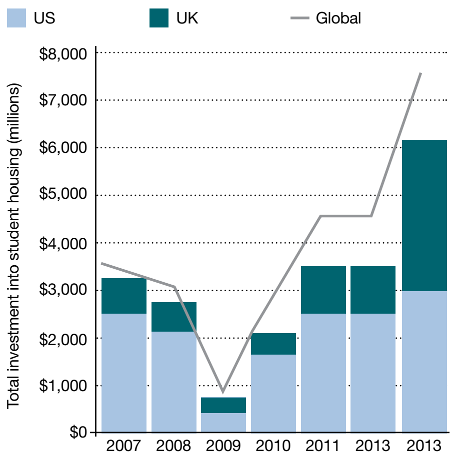
In Europe, the London to Monaco route is a well-worn one and likely to become more so as Monaco's status as both tax haven and leisure destination increases. Meanwhile, historic and cultural ties are apparent in the Sydney to London and London to Mumbai (or Delhi) supercommutes.

New York acts as a US hub between Europe, through London, and the Pacific rim, through LA. There are also many internal North American supercommutes between centres of leisure and business. That they are so contained within the US is testament to the sheer variety of environments and cities available there.

Many Asian supercommute pairings combine leisure or homeland with a business safe haven for newly created wealth. The Singapore to Jakarta axis is a good example of this, while Shenzhen to Hong Kong provides residents with a foothold in both mainland China and trade-friendly Hong Kong.

See: *Spotlight on The World in London 2014*
www.savills.co.uk/research

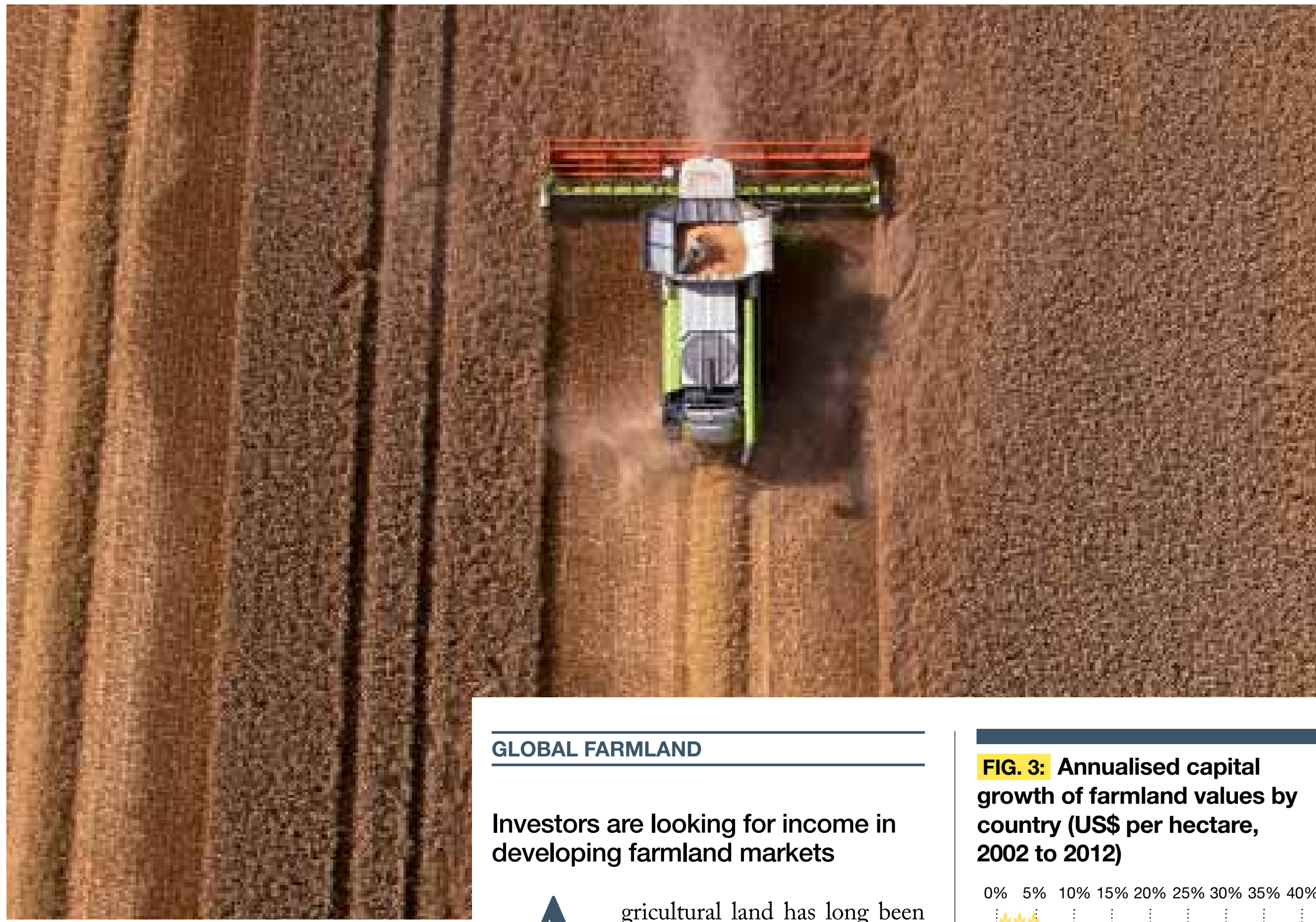
FIG. 1: **Global investment into student housing (deals greater than $7.5m)**



Source: RCA

FIG. 2: **Five major UHNWI city pairs**

Source: Savills World Research, Wealth X



GLOBAL FARMLAND

Investors are looking for income in developing farmland markets

Agricultural land has long been considered a 'safe haven' asset, like gold, resilient during times of economic uncertainty. Investors are now broadening their horizons to new global agriculture markets with an eye on greater income returns.

Asian diets have become more westernised and this is also underpinning the demand for farmland globally.

The Savills Global Farmland Index shows capital annualised growth since 2002 of 20%, with the highest growth recorded in the emerging markets of Romania, Hungary, Poland, Zambia, Brazil and Mozambique. The star performer over the 10 years to 2012 was Romania, where average farmland values grew by almost 40% per year (*see fig. 3*).

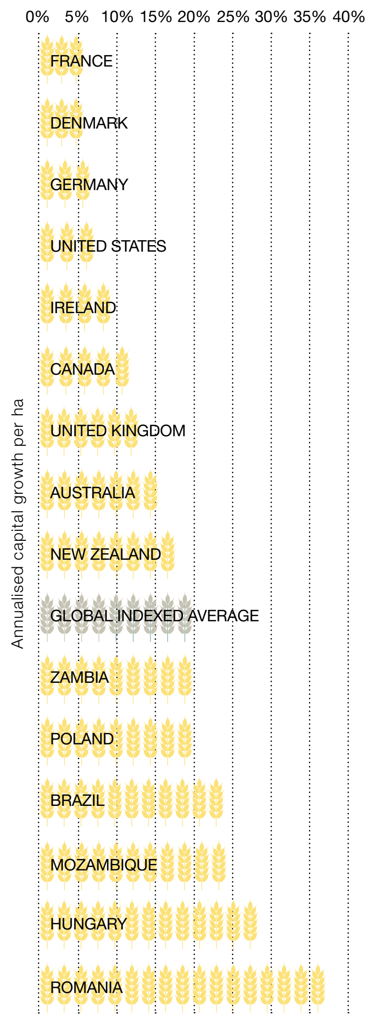
These returns have encouraged investment but infrastructure is key to success. Values are highest where there is access to ports, highways and railroads, aiding distribution and maximising farm profits.

Access to a natural water supply and irrigation systems is also a key factor as is the regulatory environment which varies significantly by country.

Some western agricultural markets have been saturated with lifestyle investors and this has pushed pure agriculturalists to search for real income returns, underpinned by crop yield. We expect this search for global agricultural returns to continue.

See: *Savills Internationals Farmland Focus 2014*
www.savills.co.uk/research

FIG. 3: **Annualised capital growth of farmland values by country (US$ per hectare, 2002 to 2012)**



Source: USDA, Eurostat and various data estimates

LIVE
WORK

A question of cost

London has overtaken Hong Kong as the most expensive world city

The big story this year is that Hong Kong has ceased to be the most expensive of our 12 cities in which to rent living and working space (*see fig. 4*). It had previously topped the ranking for the past five years. A combination of falling residential rents and, most importantly, a weakening currency, has increased cost competitiveness in the city. This means London is the most expensive city in which to accommodate staff. Working against London has primarily been sterling's appreciation against the US dollar, up until June 2014. This, coupled with significant increases in office rents, has pushed up London's total costs in dollar terms.

Despite its climb in the rankings, London is still a way off the record live/work cost set by Hong Kong in 2011 at $128,000 per annum.

New York stands third, up one spot over 2008. Modest falls in residential rents in the first part of 2014 have been offset by strong rental increases in the office markets. Paris, in spite of modest increases in costs since 2008, now sits fourth in the rankings, outperformed by London, Hong Kong and New York in recent years. However, Paris is still the most expensive city for tech companies, beating even London. Space for creatives in the French capital is simply in shorter supply than for the finance industry.

In Tokyo, improving economic conditions in Japan have spurred rental rises, pushing up Tokyo's live/work costs by 3.6% in dollar terms over the past six months.

But Tokyo's competitive position has been helped by the depreciation of the yen, so costs for our SEU are now on a par with Singapore. Compared to 2008, Tokyo's live/work costs have fallen 23%, pushing it from third to fifth in our rankings.

The 'golden confluence' of improving economy, rising rents and better competitiveness makes the city increasingly attractive to investors, especially those seeking income.

At the other end of the table, comparatively affordable Rio de Janeiro and Sydney have seen significant increases in live/work costs since 2008, up 86% and 58% respectively. Mumbai has seen costs fall 21% in dollar terms, as India's economic growth faltered over the period.

23%
Fall of Tokyo's live/work costs since 2008

Mid-table Dubai, meanwhile, has seen volatile live/work costs that are currently 16% below their 2008 levels. This makes the emirate more affordable on the global stage than it was at the height of the boom.

As global interest in the city increases, total costs have grown by 25% in the year to June 2014 alone, so Dubai's advantages may be short-lived if this continues. ■

SAVILLS LIVE/WORK INDEX

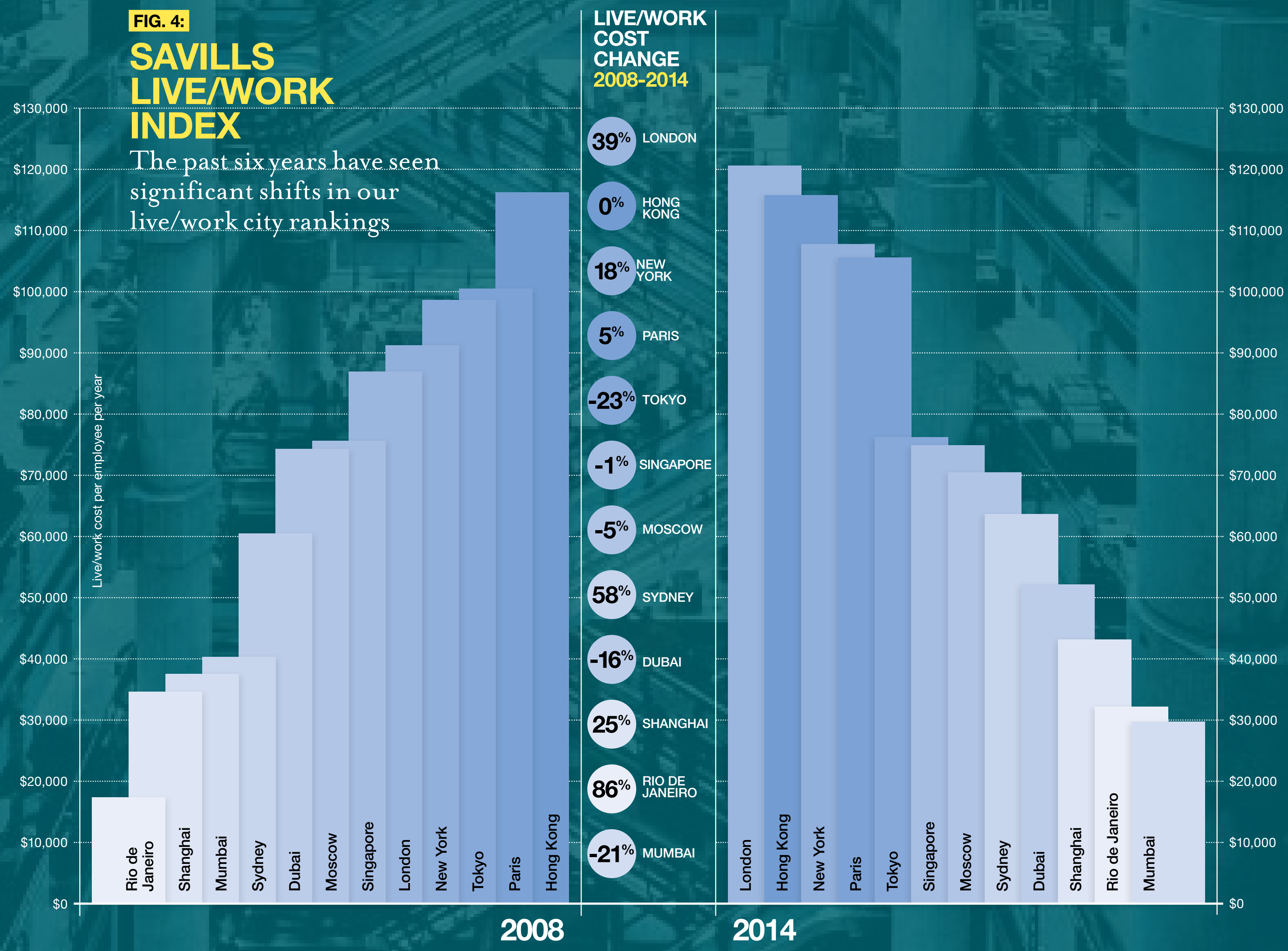
Businesses occupy different spaces in different buildings and these change from city to city – even if they are occupied by the same company. Similar-sized companies in different industries may also occupy very different spaces in the same city. This means that headline comparisons of grade A rents per square metre are inadequate. Office workers in the finance sector are more likely to be densely packed into a small unit in Tokyo, but take far greater space in Dubai, for example. To build a true picture, a variety of property and locations should be taken into consideration.

Employers are also interested in the cost of living accommodation for their workers. This is particularly relevant as upward pressure on wages may be stronger in locations where the residential cost of accommodation is high. It will also be easier to attract the best staff in the most liveable, vibrant and stimulating living spaces.

The Savills Executive Unit (SEU) measure of accommodation costs takes all this into account, as well as additional costs such as local taxes and rates. We think this is a more effective measure of city competitiveness and value for real estate.

GALLERY STOCK

FIG. 4:
SAVILLS LIVE/WORK INDEX
The past six years have seen significant shifts in our live/work city rankings



On the move

Transport is key to economic growth, especially when it comes to getting people to and from work

More than 15 billion journeys per annum are made across the combined metro systems of our 12 cities. These are vital pieces of infrastructure that enable cities to function and grow. But the scale and function of transport systems, and the way they are used by local residents, varies significantly around the globe.

EARLY STAGES OF THE METRO

The first underground railway in the world, the Metropolitan Railway, was opened in London in 1863 and revolutionised transport in the capital. The network has since expanded to 270 stations over 402km of track. The system has shaped the urban fabric of London, with whole new suburbs created by the expansion of the underground into 'metroland', putting central London employment within reach of home-owning classes. The mobility that London's underground network provides has been integral in transforming London into a pre-eminent world city.

TODAY'S METRO

Today, underground or metro networks, and associated transport infrastructure, are the oil in the cogs of the world's great cities. These systems are constantly being expanded and updated to meet the needs of dynamic modern cities. Some, such as London, Paris and New York, have well-established systems, dating back 100 years or more. Others have introduced this infrastructure in recent years as their populations have increased. Fast-growing Shanghai has only had a metro system since 1993 but is already the world's largest by system length. The first phase of Mumbai's metro only opened this year.

Despite being one of the newest systems, Shanghai's metro is the most heavily used, with 2.5 billion journeys taken each year. The highest ridership per kilometre of track is Rio de Janeiro's metro, where 9.8 million ride each year per km (*see fig. 5*). However, this small network is focused on the high-volume central districts (the entire system is just 41km in length).

The development of technology and advances in engineering mean newer metros run faster than older ones.

COMMUTE TIMES

Based on the public transport commutes of our Savills Executive Unit (SEU), the average times on older transport networks are double that of the newest on a per kilometre basis (*see fig. 6*).

These commute times say as much about the locations in which different employees choose to live as it does about the nature of the transport networks (*see fig. 7*). In New York, where staff favour living more centrally, the average commute is just 19 minutes. By contrast, the more dispersed nature of Rio, Mumbai and Shanghai means that people spend longer commuting, despite faster travel times on a per kilometre basis. Here, administration level staff live far from the centre, priced out of the best neighbourhoods and reflecting income inequality.

Dubai is characterised by relatively long average travel distances (16km on average), but journeys take less than 45 minutes on average. The Dubai metro, having opened in 2009, has significantly reduced commute times in the city. However, driving is still the favoured mode of transport because fuel is cheap.

THE WAY TO WORK

Not everyone in our world cities takes public transport. CEOs in Shanghai and Moscow are more likely to be chauffeur driven to the office, while their peers in New York may use a car service. Local employees in the early stages of their careers will commonly take public transport across all cities. Those working in creative industries, however, are more likely to cycle or take the bus than their counterparts in the finance sector, who tend to stick to the subway. ■

GALLERY STOCK, GETTY IMAGES

421

The number of stations on the New York metro network, more than any other city

1863

The year London's Metropolitan Railway began operating, making it the world's oldest underground system

538km

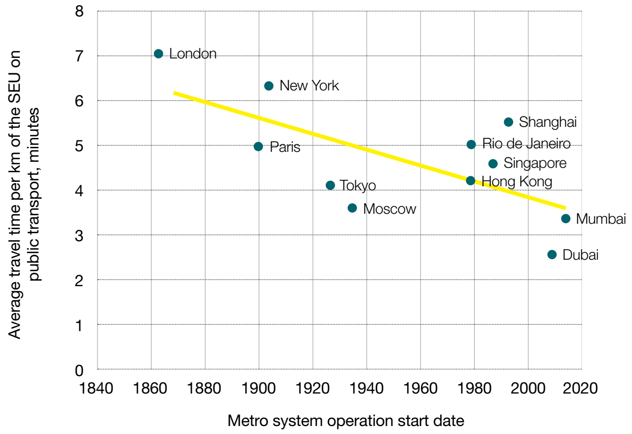
The operating route length of the Shanghai Metro – the world's longest

FIG. 5 Metro system

City	System length (km)	Annual ridership (billions)	Ridership per km of track (millions)	Began operation
Shanghai	538	2.5	4.6	1993
London*	436	1.3	2.8	1863
New York	373	1.7	4.5	1904
Moscow	325	2.5	7.6	1935
Tokyo	304	2.4	7.7	1927
Paris	214	1.5	7.2	1900
Hong Kong	175	1.6	9.1	1979
Singapore	153	1.0	6.6	1987
Dubai	75	0.1	1.4	2009
Rio de Janeiro	41	0.4	9.7	1979
Mumbai	11	N/A**	N/A**	2014
Sydney	0	N/A***	N/A***	N/A***

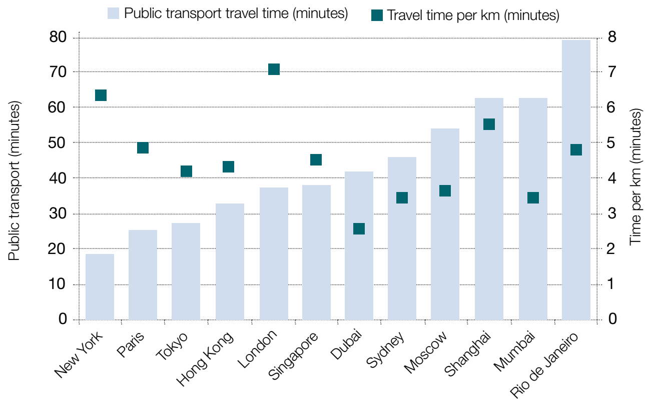
*Including the DLR
**Mumbai's metro system opened in 2014, full-year stats unavailable
***Sydney does not have an underground rail system
Source: City transport authorities / Savills World Research

FIG. 6 Public transport travel times and age of system



Source: Savills World Research

FIG. 7 Average SEU public transport travel times



Source: Savills World Research

SPECIAL REPORT

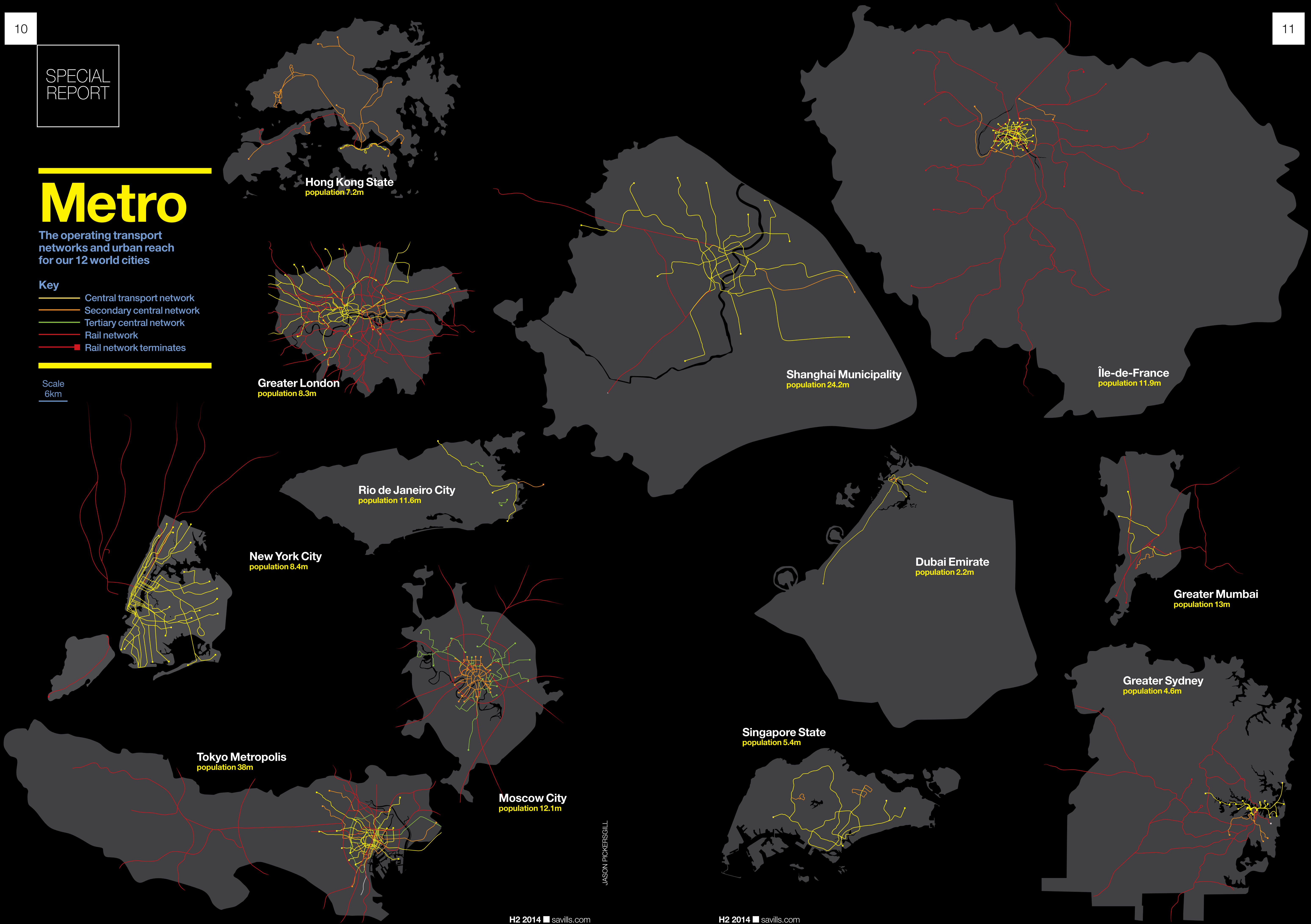
Metro

The operating transport networks and urban reach for our 12 world cities

Key

- Central transport network
- Secondary central network
- Tertiary central network
- Rail network
- Rail network terminates

Scale 6km



JASON PICKERSGILL

Capital values

The price of residential property in world cities affects the ability of firms to attract the best staff

The residential sectors of our 12 global cities are shaped by a variety of factors. The value of mainstream residential real estate is more likely to be determined by the domestic economy, while prime property is more aligned to international forces.

International businesses operating in world cities compete for a global pool of talent. For those looking to hold on to the best staff over the long term, the costs associated with purchasing or renting residential accommodation become highly relevant – as does the quality of life available in a city.

Often a city will be as much an attractor of human capital as the company itself.

The number, choice and characteristics of residential neighbourhoods, accessibility to work, and the cost and affordability of accommodation will all play a part in an organisation's ability to attract staff. The price of residential accommodation will also help to determine the size of salaries and allowances needed to retain that talent.

The first chart on the opposite page shows the average values for the homes occupied by different household members of the Savills Executive Unit (SEU) on a square foot basis (*see fig. 8*). The homes of the CEO and directors are considered 'Prime', while those of the administrative, 'Mainstream'.

Our analysis highlights the difference between Hong Kong and 'the rest'. Prime prices in Hong Kong, at just over $4,000psft, are four times those of Dubai and more than twice those of Singapore. Space, particularly prime space, is at such a premium in this high-rise city that units are particularly small and expensive. The pressure of Chinese money on the market has pushed prices to high levels in recent years – particularly in the prime markets. Although cooling measures have slowed the top end of the market recently, Hong Kong still hosts the world's most expensive residential real estate.

PRIME MARKET ENTRY LEVEL

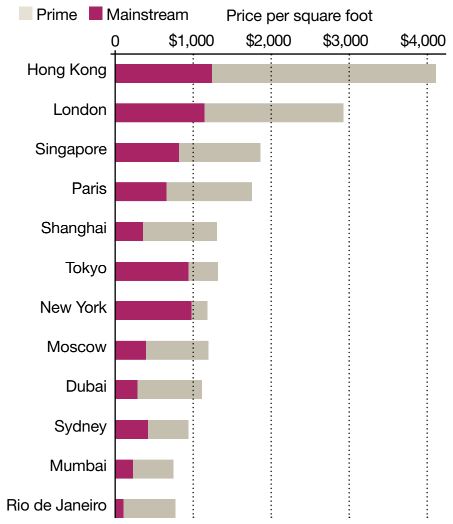
While Hong Kong tops the ranking for mainstream values at $1,300psft, the gap between it and other cities in this sector is less marked, with London ($1,100psft) and New York ($1,000psft) not far behind.

22.8%
The price growth in Dubai's residential markets for H1 2014

It is notable that in most cities there is an entry level for prime markets at or around US$1,000. Prime values rarely fall below this in developed economies. It is as if the international market and elite workforce in world cities set their own international standards. This means that domestic markets can vary from prime markets to widely differing extents.

In New York, for example, the mainstream markets are little different to prime, on the other hand mainstream values in Shanghai are relatively low by global city standards ($400psft) but prime property values are on a par with Tokyo and New York ($1,500psft).

FIG. 8 Prime and mainstream residential capital values psft



Source: Savills World Research

This means that different types of employers will find residential prices less critical than others when choosing cities in which to locate. Those employing or seeking to attract elite employees may find some cities little different compared to others, while those employing more administrative staff will find residential costs more critical.

Rio de Janeiro offers the cheapest accommodation on a price per square foot basis in both the prime ($700psft) and mainstream (less than $100psft) sectors. Properties in Rio – along with other cheaper cities – tend to be larger, thereby diluting values on a square foot basis.

Sydney ranks mid-table for mainstream values ($500psft) but ranks low for prime prices per square foot ($850), largely because prime Sydney properties tend to be much bigger than their international counterparts. Here the most desirable prime properties are often very large houses, rather than city-centre flats.

REPUTATION FOR VOLATILITY

Mid-table Dubai continues to record extremely high price growth in its residential markets, with values up 22.8% in the first half of 2014 alone (*see fig. 9*). Mortgage caps and the doubling of property transfer taxes from 2% to 4% appear to be having little impact on the market, perhaps because investors are aware of the fact that prices in the emirate are still 28.2% below their 2008 peak and, at the same time, rents are rising substantially (12% in H1 2014). As current price rises are taking place against a relatively recent backdrop of big price falls, Dubai is likely to retain its reputation for volatility.

Over the first half of 2014, London and New York's residential markets performed strongly as recovery in the UK and US economies continued. Residential markets in both cities have been driven by domestic purchasers taking advantage of low interest rates. In both cities, strong prime markets have abated somewhat offsetting the gains at the lower end of these markets.

Tokyo's residential sector continues to gain momentum after decades in the doldrums. Capital values here were up 3.1% in the first half of 2014, more than all the growth in the seven years since 2007. In Rio, residential property continues to show price growth, but at half the rates seen just four years ago. Meanwhile, inflation in Brazil is running at 6.5%, so house prices are falling in real terms.

At the other end of the spectrum, Shanghai, Paris and Singapore all posted price falls over the first half of 2014. Shanghai and Singapore are both feeling the effects of government cooling measures (as is Hong Kong, but falls in the prime sector here have been offset by gains in the mainstream markets). Paris, meanwhile, continues to suffer from relatively low demand in a sluggish eurozone economy.■

FIG. 9 Residential price growth

City	Capital values H1 2014	Rental values H1 2014
Dubai	22.8%	12.0%
London	9.1%	0.9%
New York	6.5%	-0.1%
Rio de Janeiro	5.1%	3.8%
Hong Kong	3.7%	-2.4%
Mumbai	3.1%	2.0%
Tokyo	3.1%	1.4%
Moscow	1.4%	1.5%
Sydney	1.1%	1.0%
Shanghai	-0.4%	0.6%
Paris	-1.7%	0.1%
Singapore	-4.2%	-3.5%

Source: Savills World Research

PLAINPICTURE

Yielding to change

Vibrant city experiences and employment relocations are helping to drive prime residential rental markets

Rental markets are driven by occupier rather than investor demand and have had a far less turbulent time than the sales markets over recent years. The Savills World City Rental Index has appreciated by 55.5% since 2005, less than half the growth seen in our Residential Capital Value Index over the same period, which is up by 121.8% (*see fig. 10*). Sustained levels of capital value growth over and above rental growth have reduced yields, from a global average of 5.3% in 2007 to 4.4% at H1 2014.

Income-seeking investors are now targeting their activity in select markets. New York has already enjoyed increased demand for investable stock, although entry points are limited (given the dominance of cooperatives in this market). Yields in Paris are rising and canny foreign investors are taking advantage of a weak domestic market to snap up suitable properties.

In London, yields are reducing as capital values outpace rents. However, higher-yielding outer London and secondary locations are growing in attractiveness due to huge occupier rental demand for this kind of stock.

Sub-3% yields in Hong Kong and Singapore failed to deter investors who chased capital value growth that, until recent years, had been spectacular (*see fig. 11*). With cooling measures now in full force, these days are over and we anticipate a modest upward movement in yields in coming years as occupier and investor demand re-aligns.

CORPORATE DEMAND

Some rental demand results from corporate relocation, which can be a key driver of the prime rental markets of the world's top-tier cities. In the prime London residential market, for example, nearly half of all tenants rent due to employment relocation. The corporate market is also important to cities such as Hong Kong and Singapore, which have large financial services sectors and attract a significant number of workers and residents from overseas. In Mumbai, where foreigners are not allowed to purchase residential property, the rental market is the only option for, and closely linked to the success of, international corporations in that city.

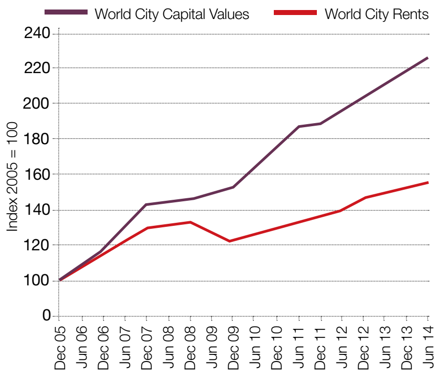
Traditionally, the corporate relocation market has been fuelled by the financial and insurance services sector. In 2007, for example, 50% of tenants in London worked in this sector. But sector downsizing in the wake of the global financial crisis, coupled with reduced relocations budgets, has seen these occupiers fall to just 39% of the market. The same is true of Hong Kong, which has seen the rapid consolidation of international banks dampening demand for prime rental property. The result is falling prime rents, which are forecast to drop by 15% by the end of the year.

55.5%
Appreciation of Savills World City Rental Index since 2005

In the place of finance sector workers are tenants employed in the information, technology, telecommunications, media and advertising sectors. In London, the same trend is evident in the growth of the tech industry around Silicon Roundabout and the recent regeneration of King's Cross (which has attracted Google as a major tenant). The same is true of New York, where there has been vibrant tech industry growth in and around the Flatiron District, SoHo, Tribeca and Dumbo.

This has fuelled both office and residential rents in these areas (Tribeca is now more pricey than Manhattan's upper east and west sides). For tenants in these creative industries, the live/work balance is often blurred. As a result, the whole city experience has become a major driver of the success of these tech and creative hubs. The continued attractiveness, vibrancy and lure of the urban environment, as well as the availability of cheap workspace, will remain critical to the continued success of these locations. ■

FIG. 10 Residential rents and capital values of 12 cities



Source: Savills World Research

GALLERY STOCK

World City luxury hotel rates

For those working in world cities for shorter periods, hotels and serviced apartments are an important part of a city's residential offering. Short stay and medium business trips are particularly important to the luxury hotel market, in some cases competing with the prime residential rental sector.

Paris has the most expensive luxury hotel rates ($836 per day) (*see fig. 12*). As the world's number one tourist destination, hotel rooms here are at a premium and priced accordingly.

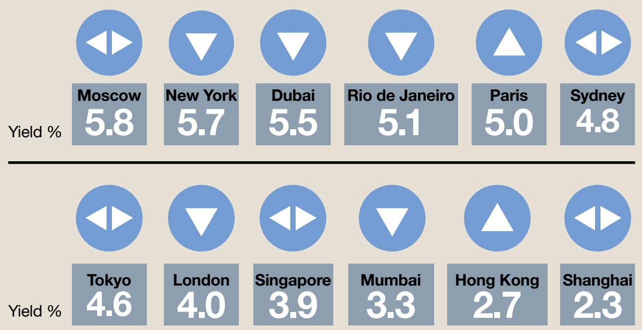
Rio de Janeiro, which has the cheapest prime rents among our world cities, ranks fourth by luxury hotel rates ($408 per day). Demand for hotel accommodation has been driven by a fast-growing offshore oil industry, attracting large numbers of short-term employees. This, coupled with the city's high-profile international sporting events, notably the World Cup, has inflated prices for quality hotels in recent times.

$836
Average rate per day of luxury hotels in Paris

The same is true of Dubai, which has a major tourism and conference industry, fuelling high luxury hotel rates, third only to Paris and London. Prime rents are low by global standards, reflecting the nascent nature of that sector.

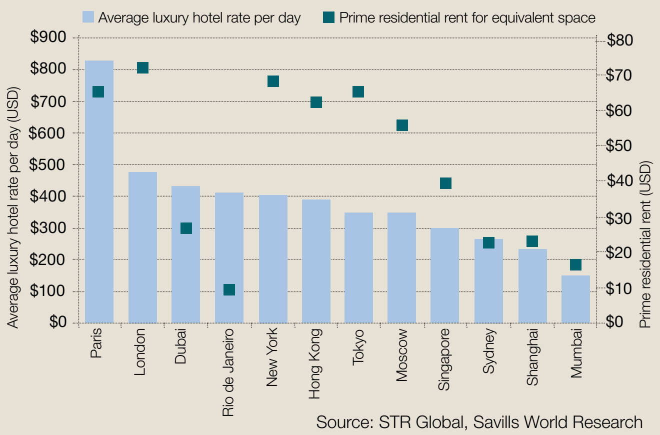
At the other end of the spectrum, Shanghai has both low prime rents and low luxury hotel rates ($234 per day). Tourism here is a small sector compared with our other world cities, and hotels are targeted mainly at the price-sensitive domestic market.

FIG. 11 Residential yields



Source: Savills World Research

FIG. 12 Average luxury hotel rate and prime rent



Source: STR Global, Savills World Research

Global trends

The past 10 years have seen the real estate markets being interlinked and shaped by global

GETTY IMAGES

World cities do not operate in isolation but are interlinked and heavily influenced by macroeconomic, political and social trends. They are particularly responsive to global events because each of them has an active international real estate market.

Our data on the top tier of global centres dates back almost 10 years. During this time we have witnessed some dramatic shifts in global real estate markets against a turbulent economic and geo-political backdrop.

We saw markets peak in many western cities during the credit-fuelled boom of the Noughties and subsequently plunge after 2008 as the global financial crisis took hold. Some recovered quickly when global uncertainty pushed investors towards stable world cities, where prime real estate was seen as a safe haven commodity.

A few didn't suffer any falls in the first place as their domestic economies continued to boom. In the 'old world', where domestic housing markets were particularly hard hit, some cities, most notably London and New York, held up better and outperformed their country's domestic markets in the early recovery phase. The other big story from the past decade has been the rise – and cooling – of Asia.

The most globally significant cities in the region, namely Hong Kong, Singapore and Shanghai, experienced a huge property boom, fuelled by rapid wealth generation, particularly from mainland China, at rates never seen before.

The rising moneyed class sought out real estate as a repository for its new-found wealth, driving some markets to record highs. Hong Kong was a major recipient of this mainland wealth and saw residential values double between 2008 and 2012.

-59%

Fall in Brent oil prices in Q4 08

Property market cooling measures, including additional stamp duties on foreign buyers, mortgage caps and restrictions on additional home ownership, have since slowed these former boom towns.

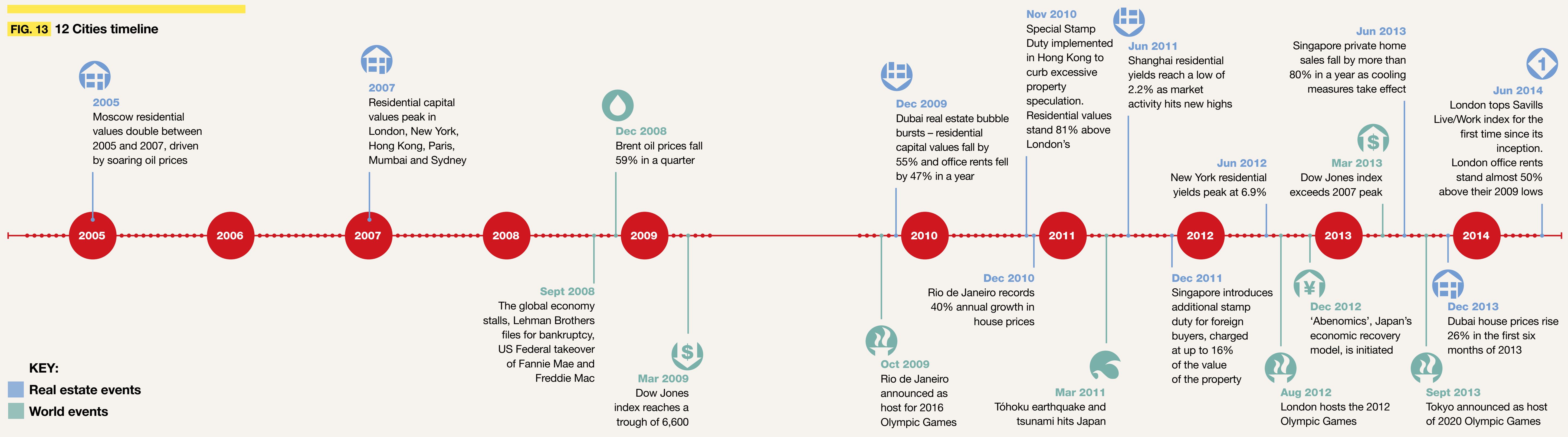
The rise of Asia has coincided with a global real estate sector shaped increasingly by private wealth. This wealth has driven the prime residential markets of top global cities and it has shaped the commercial sectors, too. Private buyers and funders stepped in at a time when traditional forms of bank lending were unavailable.

Private wealth (including privately funded property companies and REITs) is now the leading form of finance used in half of the world's biggest property transactions – each worth at least US$10 million.

Our timeline below sets out some seminal events in the real estate markets of the top tier of global cities over recent years (*see fig. 13*). It paints a picture of interlinked markets shaped by global forces – a trend that is set to continue.

The following pages look at the future of the real estate markets in each of our 12 cities as we consider some of the factors that may be shaping them in the run-up to 2020. ■

FIG. 13 **12 Cities timeline**



2020 Vision

What does the future hold for the rapidly changing global real estate market? We take a look at how our world cities will perform in 2020

EXPERT VIEW

‘We expect greater interest in higher yielding secondary locations’

PAUL TOSTEVIN
Savills World Research
ptostevin@savills.com

	H1 2014	Since 2008
Residential capital values	9.1%	67.0%
Residential rents	0.9%	19.4%
Office rents	2.9%	31.1%

1 LONDON

Heart of the UK economic recovery, but rising rents put pressure on affordability

London is arguably the most ‘international’ of the 12 world cities we monitor, but it risks becoming less competitive due to strong sterling and high real estate costs. Residential prices have risen 18.4% in the past year, buoyed by a strong domestic market and buyers and investors from around the world. At the heart of the UK's economic recovery, London's outperformance is anticipated to continue.

2020 VISION

Saturation of prime: The safe haven credentials of London real estate are well rehearsed and its best residential and commercial assets have attracted investors seeking capital growth and/or the storage of wealth. But we anticipate that investors will be motivated by income returns as prime looks fully valued. This means greater interest in higher-yielding secondary locations in Greater London.

Affordability: London now tops our live/work index by costs of renting commercial and residential property. Rising rents are putting pressures on affordability, which is a threat to London's global competitiveness. For example, the availability of low-cost office space in and around Silicon roundabout, coupled with affordable residential accommodation, helped put the capital on the technology map.

18.4%

Rise in residential prices in last year alone, according to our World Cities Index

But gentrification has priced out new start-ups and the vitality of central London locations are at risk as they become too expensive for the types of occupiers that made them attractive in the first place.

Infrastructure: Crossrail 1 will provide a 10% increase in London's transport capacity, but with London's population set to grow by another million by 2021, Crossrail 2 cannot come soon enough. Crossrail 1 has already unlocked a slew of large development sites in east London and Crossrail 2 will do the same for parts of north and south London.

JASON HAWKES

WORLD CITIES INDEX

Previous page: Pressure on affordability in London.
Top: Hong Kong remains expensive. **Below:** New York rents exceed former highs.

	H1 2014	Since 2008
Residential capital values	3.7%	113.3%
Residential rents	-2.4%	21.0%
Office rents	0.7%	32.3%

2 HONG KONG

Becoming more competitive as real estate costs and the HK$ fall

Hong Kong remains by far the most expensive city in which to buy residential property – 40% more expensive than London – but the gap is narrowing. Prime residential values have been hit hardest as cooling measures take effect, while rents are sliding due to weakening demand from the corporate sector. In the office markets, finance-focused Hong Kong has suffered as firms downsize and consolidate. As rents have risen much less than capital values, a period of consolidation is required if yields are to stabilise.

2020 VISION

Saturation of prime: Despite a recent record listing of a Victoria Peak property, at $22,600psft, prime prices fell by 2.7% in H1 2014. However, the market is polarised and the value of mainstream property has increased by 8.5%, a trend we expect to continue.

Infrastructure: The government's capital spending between 2013 and 2018 is estimated to reach more than HK$70 billion per year, far exceeding the average annual capital expenditure of about HK$40 billion. A 26-mile Hong Kong-Zhuhai-Macao Bridge, subway extensions and a new high-speed rail link are planned.

Economy: If and when China opens up economically, Hong Kong may lose its role as China's bridge to the wider world. There are calls to diversify Hong Kong's economic base, dominated by financial services, tourism, trading and logistics, and professional services.

3 NEW YORK

Rents exceed former highs, but rising taxes could be a burden

New York rode out the global financial crisis better than much of the rest of the US. Prime residential prices are back at 2007 levels, while rents have exceeded former highs, underpinned by solid occupier demand (68% of households rent). New York is a key global tech city and a shift in occupier demand is shaping its corporate office market.

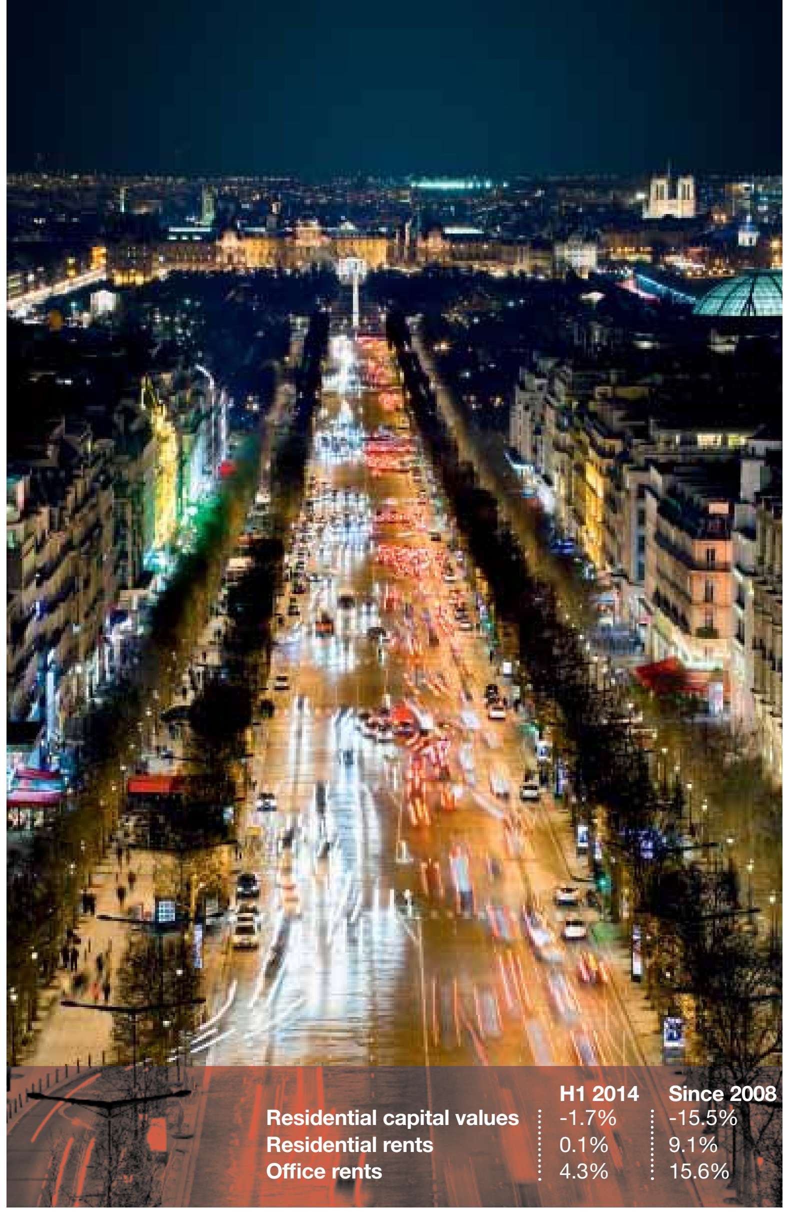
2020 VISION

Rising costs: In the medium term, rising mortgage rates will dampen price growth in the residential markets. Rising taxes will also put a burden on the city's real estate sector. New York's mayor, Bill de Blasio, has pledged to tackle income inequality in the city and is proposing overhauling the property tax system to shift the burden to higher value property.

Land supply: With more people choosing to live and work in New York, the city faces growing pressure on its limited land. The Big Apple is investing in urban renewal, supported by investment in new infrastructure. Hudson Yards, providing 12.7 million sqft of office, residential and retail space, is estimated to complete in 2018.

Demographic change: New York's population is changing as the city appeals to empty nesters and families, complementing the growing ranks of young professionals. No longer a stop-gap until a move to the suburbs, occupiers are now looking for new standards of amenities. For example, there is a growing trend toward dedicated space for pets in Manhattan's new condo schemes.

	H1 2014	Since 2008
Residential capital values	6.5%	35.5%
Residential rents	-0.1%	15.7%
Office rents	5.4%	10.9%



	H1 2014	Since 2008
Residential capital values	-1.7%	-15.5%
Residential rents	0.1%	9.1%
Office rents	4.3%	15.6%

Left: Paris real estate hampered.
Below: Japan sees gain in momentum.

4 PARIS

Current market under-performance means opportunities for international buyers

Real estate in Paris has been hampered as a euro-denominated asset in a country posting relatively poor economic performance. Unlike London, the city hasn't been able to buck the trend of its hinterland and price growth has been subdued, although office rents have continued to increase due to a lack of supply in central locations.

2020 VISION

Investment: Investor dislike of Hollande's government continues to be a factor in current market under-performance, but this means there are significant opportunities for international buyers to take advantage of a weak domestic market. Prime property remains cheap compared to London and prices have room to grow. Limited development opportunities in historic central Paris will keep supply constrained.

Economy: Challenges lie ahead in consolidating public finances, improving competitiveness and reducing unemployment. Weak economic growth is forecast, which will bear on the city's commercial real estate markets.

Tourism: Paris is one of the world's most popular tourist destinations, attracting 32 million visitors per year, half from overseas. In 2013, 1.4 million Chinese tourists visited Paris, with 1.8 million expected in 2014 and 47% of money spent during their stay being directly on shopping. This has fuelled huge investment in the luxury retail sector, which will remain important in coming years.

5 TOKYO

Abenomics halted fall in asset prices and real estate gains momentum

Tokyo's real estate markets continue to gain momentum after years in the doldrums. Residential capital values alone were up 3.1% in the first half of 2014 (more than all the growth in the previous seven years), while office rents grew 5.4% over the same period. Tokyo's main attraction is still income streams rather than capital growth, the latter limited by global standards.

2020 VISION

Foreign investment: Foreign investors, attracted by Japan's revived growth, will help finance new projects in the city. Cross-border investment made up 14% of investment in Tokyo's office market in 2013, up from just 5% in 2011. Residential schemes are also attracting higher levels of foreign investment from Asian neighbours. The number of these investors is set to grow and will remain focused on income.

Urban renewal: The 2020 Tokyo Olympics will help to maintain the momentum of Abenomics through the medium term. The majority of new infrastructure will be located in the Tokyo Bay area, a local catalyst for new condominium and commercial development.

Domestic market: The economy in Japan is projected to follow a moderate growth trend for the foreseeable future and demand for top-quality office space is expected to remain high. An upward trend in rents is supported by robust demand across all the major industry sectors, coupled with restricted availability in many submarkets.

	H1 2014	Since 2008
Residential capital values	3.1%	-11.4%
Residential rents	1.4%	-13.4%
Office rents	5.4%	-15.7%

GETTY IMAGES, PLAINPICTURE

Below: Challenging outlook for Singapore. **Right:** Russia finds itself marginalised. **Far right:** Sydney's prime sector values.

	H1 2014	Since 2008
Residential capital values	-4.2%	44.6%
Residential rents	-3.5%	4.6%
Office rents	7.3%	-31.2%

6 SINGAPORE

Outlook remains challenging for rest of 2014 as market controls set to feature

Like Hong Kong, Singapore's prime residential markets have slowed, while the mainstream market has continued to grow, driven by domestic owner-occupier demand. Economic growth has slowed in the city state, but Singapore's diversified economic base underpins a robust office sector. Rents increased by 7.3% in H1 2014, second only to Dubai among the cities we monitor.

2020 VISION

Market controls: Cooling measures continue to bear on Singapore's prime residential markets and the outlook remains challenging for the rest of 2014. Market controls are set to be a feature of Singapore over the coming years as it battles market affordability in a bid to remain competitive on the global stage.

Restricted land: Limited space, increasing wealth and a growing workforce will put pressure on land. There may be more relocation of lower value industry to Malaysia, where land, property and wages are cheaper. Singapore is set to become more rarefied, with Singaporeans protected by government access to housing. Employers will find it more difficult to attract and retain young talent from abroad because of the high cost of real estate.

High-tech infrastructure: With high-tech infrastructure and close proximity to some of Asia's key growth markets, Singapore is a world leader in business and has a growing reputation in the biotech and energy sectors. According to the World Bank, Singapore ranks as number one for the ease of doing business.

EXPERT VIEW

'Moscow will face an increasing reliance on local money'

YOLANDE BARNES
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7 MOSCOW

Dependence on local ultra rich market

Moscow's real estate markets are increasingly reliant on domestic demand and investment as Russia finds itself marginalised. The residential markets posted modest price increases, while the office sector, hit by falling demand from foreign occupiers, saw price falls of 8.6% in the first part of 2014.

2020 VISION

Domestic demand: Moscow will face an increasing reliance on local money at a time when wealth generation in the country is slowing. A small pool of static, domestic, ultra rich may result in stagnation in the real estate markets.

Regeneration: The legacy of industrial areas in central parts of Moscow present opportunity for redevelopment to both residential and office use. This will help to support an expansion of the city's prime residential markets.

Sporting events: The 2018 FIFA World Cup will put international eyes on Moscow and will be a catalyst for some major infrastructure improvements in the city. Nevertheless, opportunities for overseas inward investment will remain limited.

	H1 2014	Since 2008
Residential capital values	1.4%	9.4%
Residential rents	1.5%	-3.9%
Office rents	-8.6%	-2.3%

8 SYDNEY

Investor speculation continues to push values in the prime sector

Sydney's real estate markets enjoyed growth at a time when many other western markets were falling. As a consequence, recent price movements are off a high base. Office markets were flat in the first half of 2014, after a strong 2013. Affordability in the mainstream residential markets is stretched, dampening price growth but continue to record small increases. Meanwhile, investor speculation continues to push values in the prime sector, with strength in the super-prime market.

2020 VISION

Demographic change: While apartments have been a popular choice with downsizing and empty nesters seeking to release equity, Generations X and Y are seeing apartments as a more permanent living option, supporting the rise of owner-occupier demand.

33.4%
Rise in Sydney's residential rents since 2008

Densification: 'City' Sydney, or high-rise property, is set to perform best over the next five years. A strong residential market is creating the expectation of capital gains, buoyed by low vacancy rates, historically low interest rates and relatively attractive yields for investors. Development investment opportunities will be focused on an intensification of the centre.

Economy: Australia's economy has cooled in recent years as Asia has slowed and global demand for raw materials has declined. Interest rate rises are on the horizon and, coupled with a slowdown in occupier demand, the market is likely to see lower levels of growth. The test will be whether Sydney opens up its real estate market further to attract overseas money.

	H1 2014	Since 2008
Residential capital values	1.1%	36.9%
Residential rents	1.0%	33.4%
Office rents	0.0%	3.1%

CORBIS, GETTY IMAGES

9 DUBAI

City's long-term prospects more positive after a decade of boom and bust

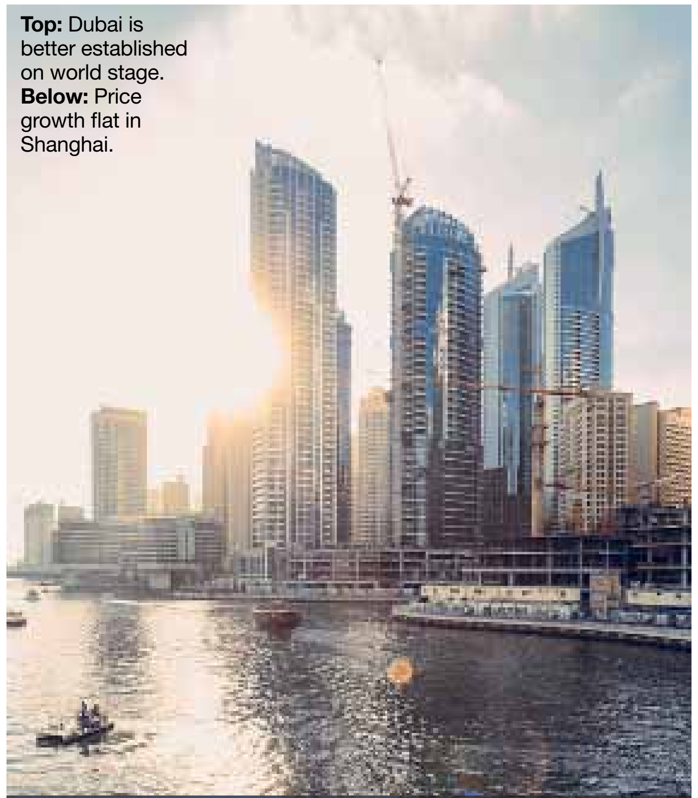
Dubai has had a turbulent time over the past decade, experiencing a boom and bust of an almost unparalleled scale. But as the city matures and finds itself better established on the world stage, its long-term prospects are looking more positive.

2020 VISION

Geopolitics: Dubai is establishing itself as a safe haven in the Middle East. In the office sector, general political instability in the region has pushed more occupiers to Dubai, resulting in lower vacancy rates in the prime districts. But the emirate also benefits from investment from the west and is a popular second-home destination.

Market regulation: Dubai may have experienced extraordinary price growth in recent years, but property values are still substantially less than in other major world centres. The Federal Mortgage Cap (off-plan purchases are now limited to 50% of loan-to-value), coupled with a doubling of the property registration fee (albeit to a still modest 4%) is translating into a slowdown in the number of transactions recorded, bringing some market stability.

Mega projects: Dubai will host World Expo 2020, which is anticipated to generate 277,000 new jobs and inject US$40 billion into the economy. This has instilled confidence in the real estate markets and has kick-started major projects shelved during the global economic downturn. Palm Deira has been reborn as Deira Island, providing residential, hospitality and retail development opportunities. New schemes will be supported by major infrastructure investment, including an extension to the Dubai metro and new river crossings.



Top: Dubai is better established on world stage. **Below:** Price growth flat in Shanghai.

	H1 2014	Since 2008
Residential capital values	22.8%	-28.2%
Residential rents	12.0%	-10.9%
Office rents	14.0%	-38.1%

11 RIO DE JANEIRO

The excitement of the World Cup is over, property markets wait for 2016 Olympic fever

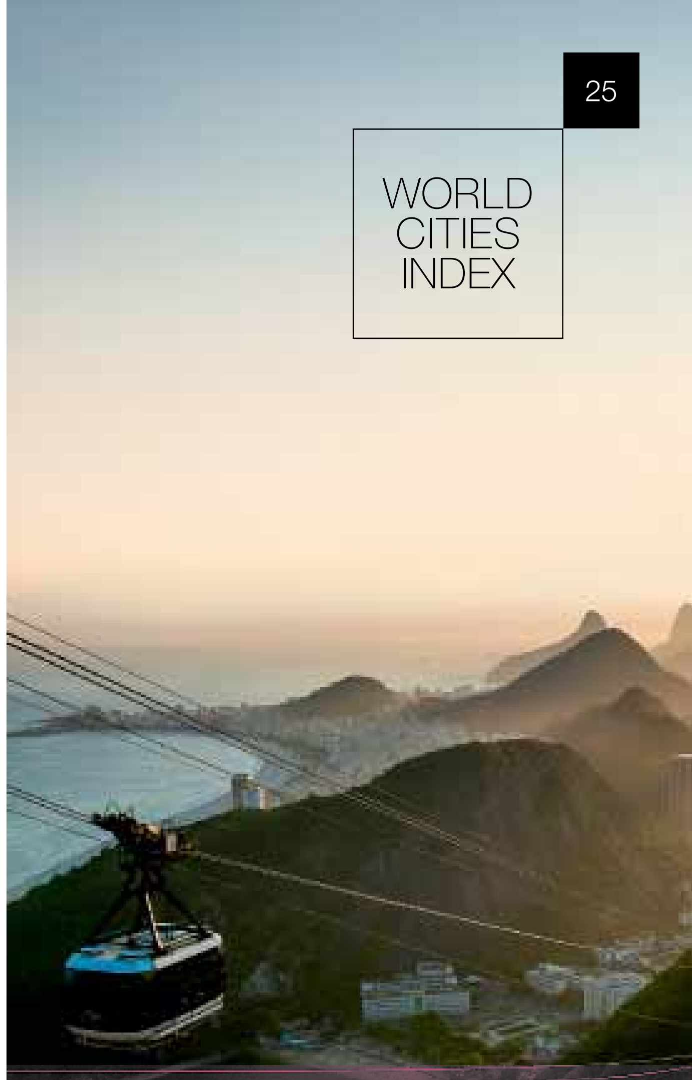
The real estate market in Rio de Janeiro experienced stratospheric levels of price growth in the past decade (residential values increased by more than 200% since 2008 alone), fuelled by an expansion of the credit markets, growing middle classes, new employment and foreign investment. But this has slowed and government discontent is increasingly visible.

2020 VISION

Social change: Brazil saw 40 million people join the middle classes between 2005 and 2011, bringing with them huge demand for products, services and real estate. The success of the next decade will depend on meeting the needs of this group and their demands on healthcare, education, city services and, importantly, housing. Crowded Rio is finding new development land in its pacified favelas, but at the expense of existing residents.

Infrastructure: With the World Cup over, Rio is looking to the Olympics in 2016. Accelerated infrastructure projects, which include a revitalisation of the city's historic port district, extension of the metro system and sanitation improvements, will be a benefit.

Economy: Brazil continues to suffer inflation and stagnant growth. Rising interest rates will stretch affordability in the residential markets and limit price growth. However, substantial price falls would appear unlikely given strong credit control and low levels of mortgaged indebtedness.



	H1 2014	Since 2008
Residential capital values	5.1%	218.5%
Residential rents	3.8%	116.4%
Office rents	0.0%	32.8%

	H1 2014	Since 2008
Residential capital values	-0.4%	61.6%
Residential rents	0.6%	21.4%
Office rents	0.9%	5.0%

10 SHANGHAI

Waning construction activity means an era of slower expansion

Shanghai's real estate markets have been in limbo between huge demand from domestic investors, tighter credit conditions and cooling measures designed to check the rate of price growth. As a consequence, price growth has been flat.

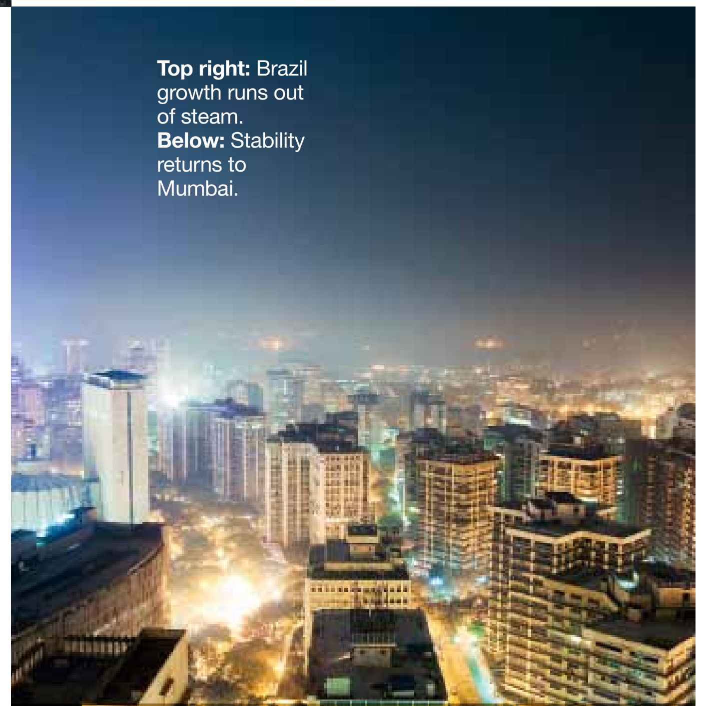
2020 VISION

Economic liberalisation: A free trade zone has been established as a testing ground for a number of social and economic reforms. Change has been slow to materialise and questions remain as to how it will develop longer term. Economic growth is reliant on construction and waning activity in this sector is a risk. Longer term, the taming of construction 'monster' will bring with it a slower rate of expansion.

Maturing wealth: Demand for branded luxury goods in China is showing signs of decline as tastes mature and 'logo fatigue' sets in. In Shanghai's real estate market, big, bold and bling are still seen as desirable. In the longer term a demand for property that focuses on more authentically Chinese architecture may develop.

City-led policy: Chinese central government is allowing local government to play a bigger part in deciding city policy. We expect to see more of this as China tests the waters with economic reform.

GALLERY STOCK, PLAINPICTURE



Top right: Brazil growth runs out of steam. **Below:** Stability returns to Mumbai.

	H1 2014	Since 2008
Residential capital values	3.1%	116.4%
Residential rents	2.0%	30.0%
Office rents	1.2%	-37.9%

12 MUMBAI

Improved confidence in real estate markets stems recent price focus

Stability is returning to the Mumbai real estate market following May's election. The Bharatiya Janata Party's pro-development stance has brought solidity to the markets and eased uncertainty among the ex-pat community. This has translated into confidence in the real estate markets and modest price increases.

2020 VISION

Supply: The Mumbai market has been characterised by high levels of new supply in recent years. We anticipate a rebalancing as occupier demand picks up with an improving economic outlook.

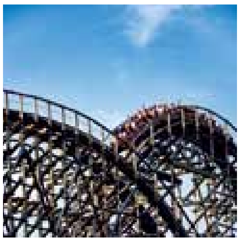
Infrastructure: The first phase of the Mumbai metro opened in June 2014 and carried 18.5 million passengers in its first two months. When complete, the system will comprise three high-capacity metro railway lines, spanning a total of 63km. The scheme has the potential to change the dynamics of real estate in the city, and there has already been an impact on prices in neighbourhoods that will benefit from improved connectivity.

Market liberalisation: The government is attempting to make India a more appealing investment destination. Limits on foreign investment in some sectors are to be lifted, while privatisation of state-held companies may be on the cards. The Indian finance ministry may introduce a regulatory framework to enable REITs to be listed in India. This would bring a new wave of capital into commercial real estate markets.

All the fun of the fair

Will the next five years be a white-knuckle ride or a gentle circulation for real estate owners and investors?

Our World Cities have had some very different experiences over the past five years and stand at different points in the property market cycle. Some 'Old World' cities like London and New York crashed after the North Atlantic financial crisis while others, like Sydney and Singapore continued to grow steadily. Others still, like Shanghai and Rio, were not only unaffected but positively boomed. This variety of market experiences means that there are a variety of prospects for real estate owners and investors in each city. These prospects vary between commercial and residential property and between prime and mainstream residential but in general, real estate prospects for the next five years fall into five categories of varying price movements and degrees of volatility.



ROLLER COASTERS

Potentially over-valued with weak or falling rents, trending down, volatile. Some further price falls expected in next few years but following very strong recent growth. Capable of further significant rental and capital growth in the long term – provided the fundamentals of economic growth return.

Shanghai
Moscow
Mumbai

BIG WHEELS

Fully valued, static prices or trending down but fundamentally stable. Lower and slower growth expected over next five years, especially in locations held back by cooling measures or weak economy/currency.

London
Singapore
Hong Kong
Paris

WALTZERS

Becoming fully valued but still rising – at slowing rates, stable. Slower growth expected over next five years.

New York
Sydney

ROUNDABOUTS

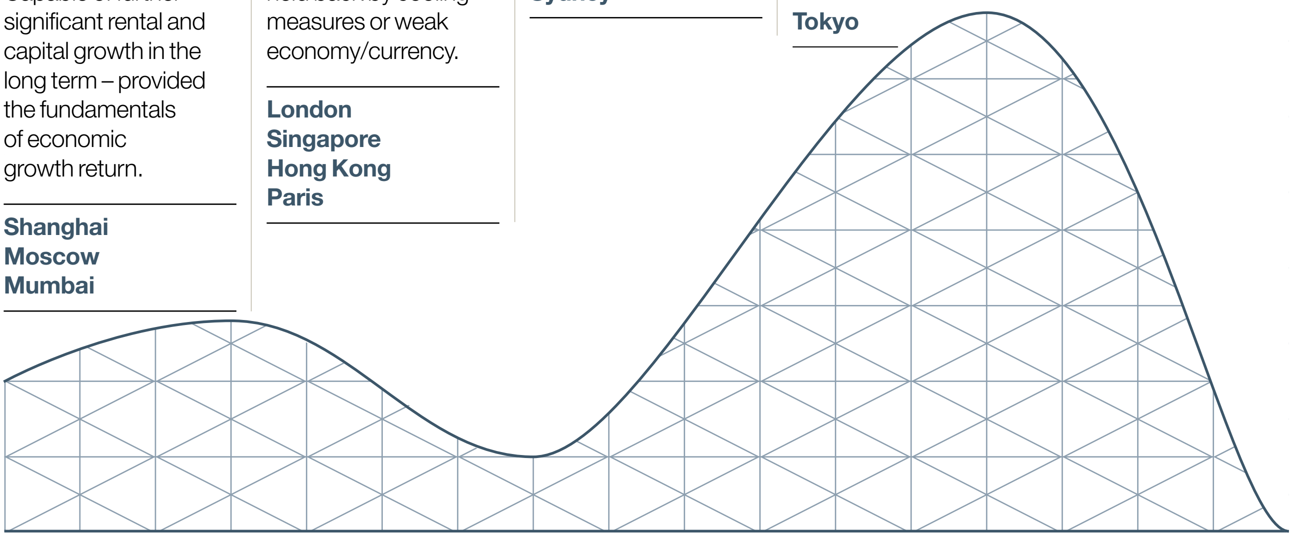
Recovering, still trending modestly upward. Stable. Good income returns expected over next five years with some, but not spectacular, capital growth.

Tokyo

SWINGS

Growing strongly but volatile. Gains in the short term but risk of falls over the next five years.

Dubai
Rio de Janeiro



ALAMY, GALLERY STOCK, GETTY IMAGES

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