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The World and London

2015

GLOBAL POWERHOUSE

An in-depth investigation into what makes London real estate so investable on the world stage



This publication

This document was published in July 2015. The data used in the charts and tables is the latest available at the time of going to press. Sources are included for all the charts. We have used a standard set of notes and abbreviations throughout the document.

Foreword

TOP OF THE LEAGUE



While the mayoral race begins to determine London's premier, we begin to determine what makes London a premier city.

This publication presents an in-depth examination of what makes all types of London real estate so investable globally.

It identifies and examines some of the key components driving both occupier and investor demand in London: economy, fame, education, tourism, governance, built environment, retail activity, home buying, and investability. The sheer diversity of all the factors, that help make London such a successful city, have led us to dub it the 'polymath city' (see p10).

Mythbusters

It has been particularly gratifying to analyse and write about the density of London in this issue, as well as all the forces and factors at work to make London THE premier world city, alongside New York. Gratifying because the results of our analysis may well surprise some people and even debunk a few myths.

Our findings on, density, prominence and success can be found on pages 5 to 12. We discovered that, despite lacking some super-dense core central neighbourhoods found in a few other world cities, London has above

average population densities at the metro area level.

Challenges

In the run-up to the mayoral elections next year, we compare the governance of London with other world cities. It would seem that having a recognisable leader and figurehead in the form of city Mayor is a prerequisite for world cities and, like London's, most global city mayors are publicly elected. London's new mayor will face many of the same challenges that face other top global cities which have accommodated large and growing populations over recent years.

This document examines many of London's success factors and what makes the city so globally popular, investable and successful. Understanding this and protecting what works for London while rectifying issues like pollution, transport, housing supply and affordability will keep any mayor busy for many years to come. ■



Yolande Barnes
World Research
020 7409 8899
ybarnes@savills.com
@Yolande_Barnes



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World City Ranking

LONDON'S PLACE AND FACE

London is a global powerhouse and tops Savills World City Ranking

London is one of the most diverse, globally connected, competitive, high performing cities in the world, on a wide variety of measures. We have combined four of the most widely quoted indicators of World City prominence. These measure global connectedness (GaWC), performance and potential (Kearney), power (Mori) and global

competitiveness (EIU). Together, these create the Savills World City Ranking.

London and New York stand out far ahead of other cities and illustrate how a unique combination of strengths marks them out as global powerhouses. We have dubbed London a 'polymath city' for being so pre-eminent in a wide range of aspects of city life (see page 10).

It might be worth noting, however, that although ranking high economically, London, and indeed the rest of the world cities tend not to rate so high on the 'softer' social and environmental issues.

It is also notable that none of the 20 cities rate in the top ten of the Economist's 'Liveability Ranking', for example. Numbeo's Quality of Life Index 2015 places London in 90th place out of 150 cities, ahead of Paris, Hong Kong, Shanghai, Moscow

FIGURE 1
World City Ranking

Rank	City	Global Connectedness	Performance & Potential	Power	Global Competitiveness	Composite World City Score
		GaWC	Kearney	Mori	EIU	Savills
1	London	Alpha ++	58	1,486	70	85.6
2	New York	Alpha ++	62	1,363	71	85.5
3	Paris	Alpha +	52	1,292	69	77.6
4	Tokyo	Alpha +	47	1,276	68	75.0
5	Hong Kong	Alpha +	41	1,013	69	69.0
6	Singapore	Alpha +	34	1,139	70	68.3
7	Sydney	Alpha +	32	969	63	63.2
8	Beijing	Alpha +	35	960	56	62.4
9	Los Angeles	Alpha	38	912	62	61.8
10	Chicago	Alpha	37	841	66	61.3
11	Shanghai	Alpha +	29	958	55	59.9
12	Seoul	Alpha -	33	1,118	61	59.9
13	Dubai	Alpha +	26	n/a	56	59.3
14	Frankfurt	Alpha	27	988	64	59.0
15	Madrid	Alpha	32	915	59	58.8
16	Brussels	Alpha	33	885	57	58.2
17	Amsterdam	Alpha	26	n/a	62	58.2
18	Moscow	Alpha	n/a	760	49	55.0
19	Berlin	Beta +	29	1,055	58	54.6
20	San Francisco	Alpha -	27	832	63	54.2

Source: Savills World Research, GaWC, Kearney, Mori, EIU

and Beijing but behind the other 14 cities (only Frankfurt makes it into Numbeo's top 20).

It would seem that being a top performing world city comes at a price. Pollution can be higher (though London's is slightly below average), and real estate costs in the 20 cities are significantly higher than in other global cities but, surprisingly, London's are not among the highest when mainstream housing costs are measured against average household incomes.

This dubious honour belongs to Hong Kong, Beijing, Shanghai, Moscow and Singapore. Traffic congestion and long commutes are another side effect of economic success but London does not fare too badly here, in comparison to other world cities. If Numbeo is to be believed, London's main downfall in the quality of life rankings (in common with most of the other 20 cities) is that the purchasing power of individuals is low, in relation to average incomes and consumer prices are high. ■

▼ City Hall is home to the Mayor of London

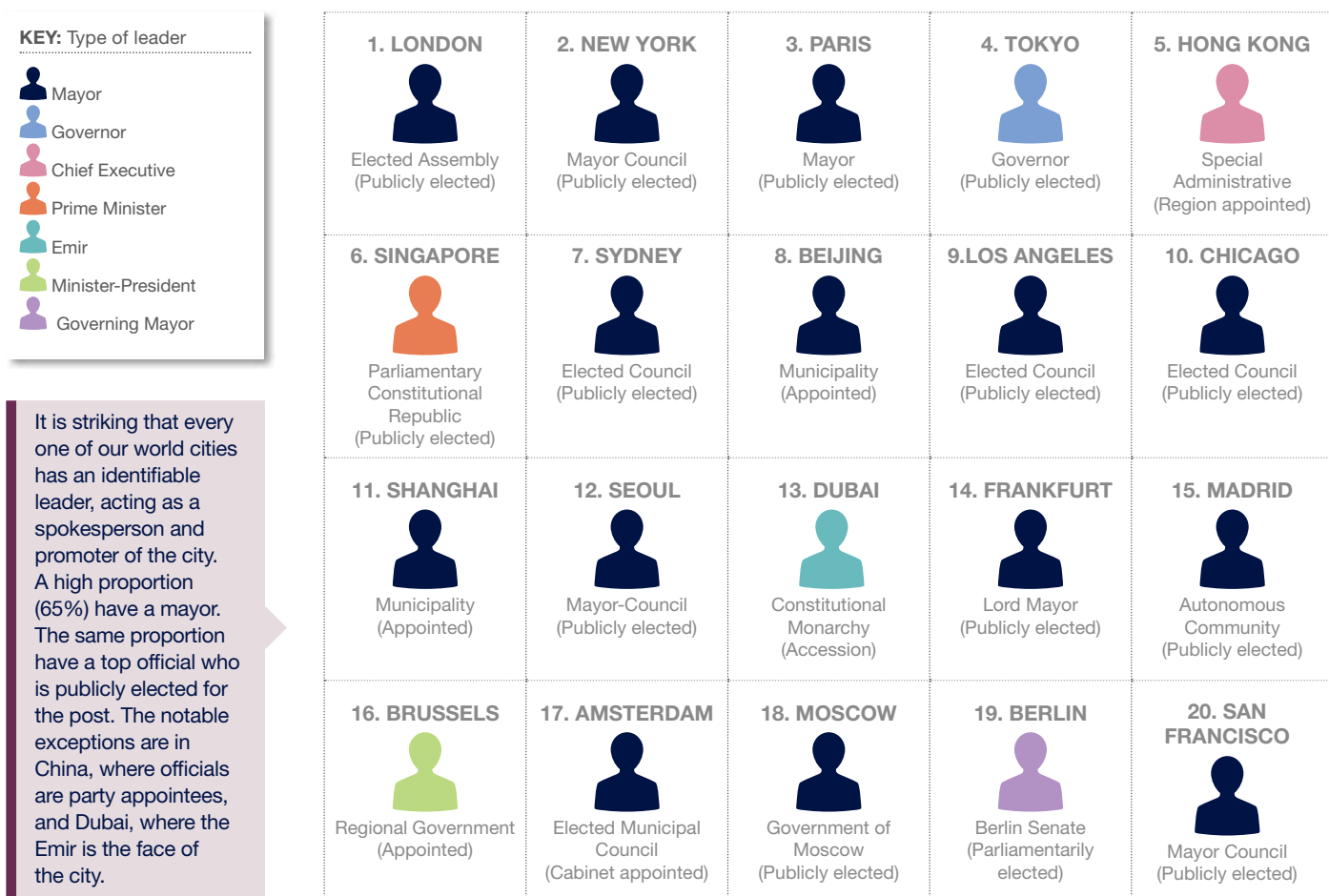


London is pre-eminent in a wide range of aspects of city life



65% of top ranking world cities have a publicly elected mayor

FIGURE 2 World City Governance



It is striking that every one of our world cities has an identifiable leader, acting as a spokesperson and promoter of the city. A high proportion (65%) have a mayor. The same proportion have a top official who is publicly elected for the post. The notable exceptions are in China, where officials are party appointees, and Dubai, where the Emir is the face of the city.

Source: Savills World Research

Metropolitan area

HOW DOES LONDON MEASURE UP?

The population of London's metropolitan area stands at 14.5 million people

The population of the London metro area (the functional area of London within which most of its workers live) is the seventh largest of our 20 world cities and is bigger, at 14.5 million people, than the World City average of 12.4 million.

By this measure, it is the biggest city in Europe and dwarfed only by the modern giants of Asia: Tokyo, Seoul, Shanghai and Beijing, or the sprawling North American metropolises of Los Angeles and New York.

The London metro area, at 8,382km², is far smaller than any of these cities except Shanghai, and smaller than the World City average metro size of 17,521 km². This means the London Metro is much more compact than most, and, contrary to popular belief, London's population density is average for a world city across the entire functional area (see page 08).

The extent of commuting into London is great. Over one million workers commute into the centre from outside London every day, adding to London's daytime population.

In addition to the commuting population, London's daytime and overnight population is significantly increased by visitors to the capital. London has the largest number of overnight international visitors among any world city, 18.8 million last year. Between them, they spent US\$19.3 billion in 2014/15.

In addition to these international visitors are visitors from the UK. There were 13.7 million of them last year, according to Mastercard and they spent US\$4.7 billion. The total income from both domestic and international visitors was US\$139 billion, a significant contribution to the London economy.

London's overnight guests are comprised of both tourist and business visitors. Together, they add to the already considerable demand

for space in the city. To put this in perspective, we have calculated the total number of people occupying bedspaces over the course of a year in London and translated this into a 'temporarily resident' population, dubbed 'Guestershire'. The size of Guestershire, resident over the course of a year, is just under 381,000 people. This means London has to accommodate a population greater than Cardiff's, every night.

London's land use

Figure 4 shows how London's 159,000 hectares of land is utilised by different land uses and how this differs borough to borough.

In most London boroughs, the highest proportions of all land are taken, not by buildings, but by green space and water, followed by domestic gardens and roads. By this measure, London is already very much a 'garden city', and possibly this is one of the reasons it has become such a globally popular residential location.

It is notable, however, that the central London boroughs with the most built-on land (and the smallest domestic gardens) are also some of the most desirable neighbourhoods. Their desirability is composed of a number of factors including proximity to the centre, historic architectural legacy and urban form.

It must be noted that streets take on a greater importance in their proportionate land-take as generous 'streetscape' counterbalances taller, more dense properties and accommodates parking on-street via controlled parking regimes. This denser urban character is typical of many central districts in other world cities. ■

FIGURE 3 Mastercard top 20 destination cities

Rank	City	International overnight visitors (million)
1	London	18.8
3	Paris	16.1
4	Dubai	14.3
6	New York	12.3
7	Singapore	11.9
9	Seoul	10.4
10	Hong Kong	8.7
11	Tokyo	8.1
13	Amsterdam	7.4
17	Shanghai	5.9
20	Los Angeles	5.2
Not ranked	Madrid	4.7
	Berlin	4.5
	Sydney	3.4
	San Francisco	3.4
	Chicago	2.4

Source: Mastercard

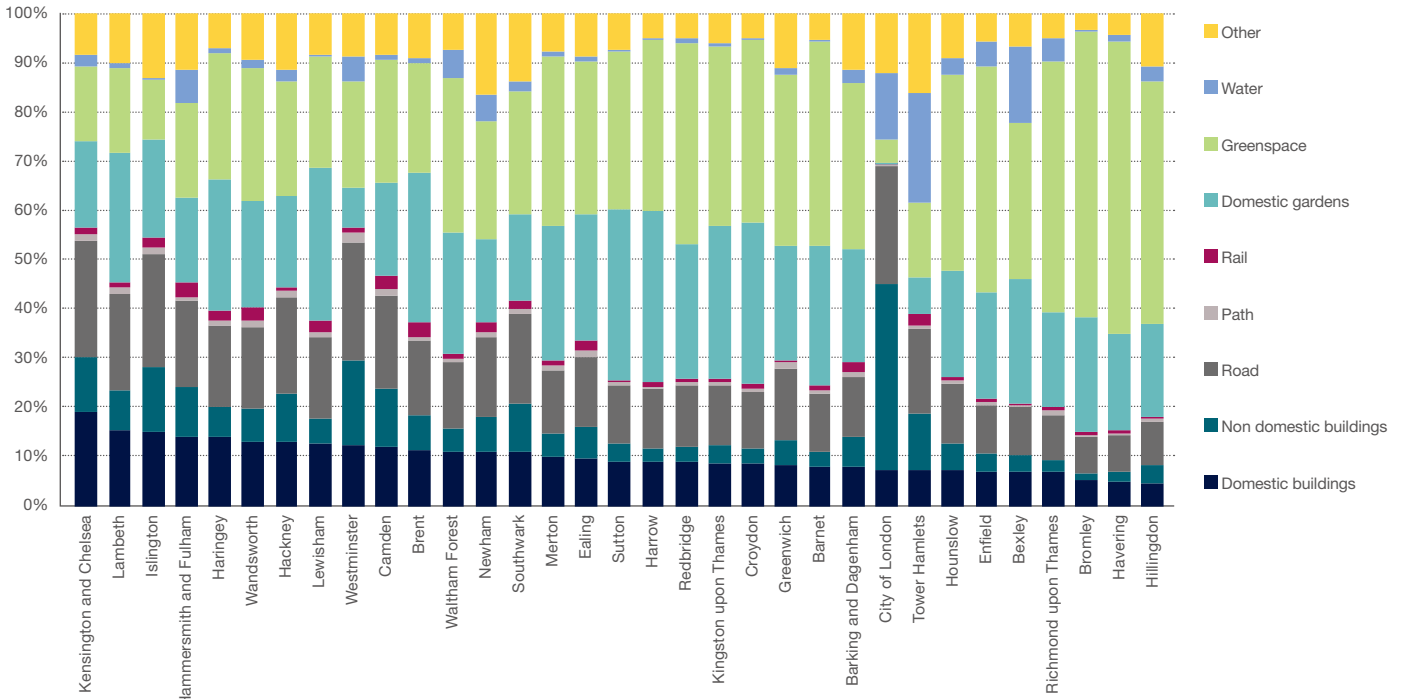


Over 1 million people commute into the centre of London every day



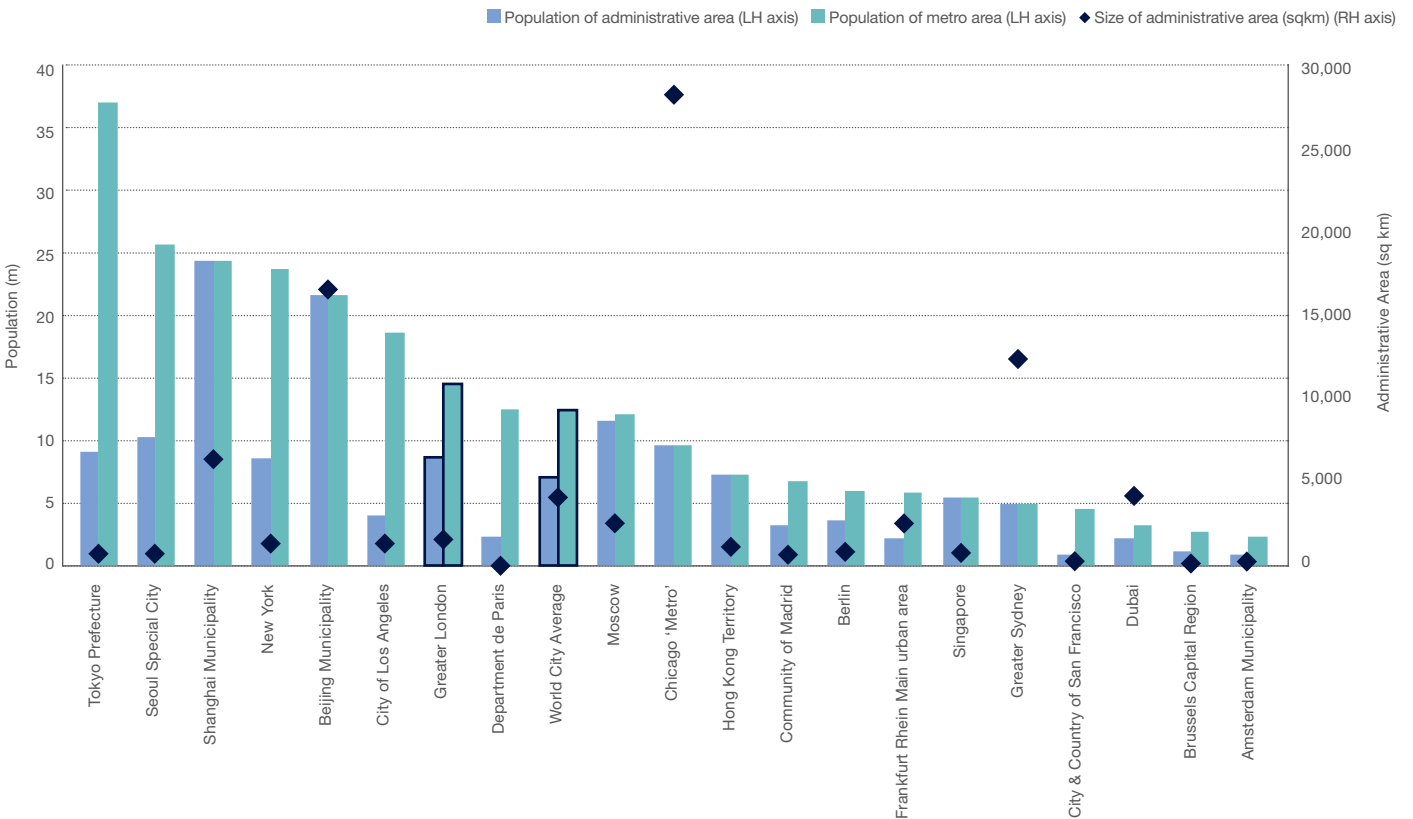
London has the largest number of overnight international visitors

FIGURE 4
London's land use by borough



Source: National Land Use Survey

FIGURE 5
Size and population of World City metropolitan areas



Source: Savills World Research

Population density

MYTH AND REALITY

London's population density is far higher than many believe, and well above the World City median

It is a commonly held belief among Londoners that their city is a dwarf on the world stage and, lacking the high rise buildings of Manhattan and Hong Kong, must be very low density. Neither of these beliefs are actually the case.

We have already shown London's population is larger than the World City average even though its area is smaller. At the metropolitan level, London's population density, expressed as the number of people per hectare, is well above the median for the World City Ranking and only behind the Asian

cities of Singapore, Hong Kong, Shanghai, Tokyo and Seoul.

London's metro has a higher population density than all the European, American and Australian cities in the ranking. Why then does the myth of London's low density city still persist?

Part of the answer lies with the size of areas studied when looking at density, and partly with the mistaken belief that cities with skyscrapers accommodate more people per unit of land than traditional mid-rise street patterns.

The urban cores of most cities are considerably higher-density than outlying areas. Because the administrative areas of different cities vary in size and definition, some cover only this urban core, while others cover the same area as the metro region. If the density of Greater London is compared with the very small urban area of Department de Paris, London looks very low by comparison, but the size of the different areas are not comparable. At the administrative area

FIGURE 6

World City Population Densities London ranks high for wide area population density

WIDE AREA DENSITY		
Rank	Metro Area	People per ha
1	Singapore	75
2	Hong Kong	65
3	Shanghai	38
4	Tokyo	27
5	Seoul	22
6	London	17
7	Madrid	14
8	Beijing	13
9	San Francisco	13
10	Amsterdam	9
	World City Median	9
11	Brussels	8
12	Paris	7
13	New York	7
14	Dubai	5
15	Frankfurt	4
16	Sydney	4
17	Chicago	3
18	Moscow	3
19	Los Angeles	2
20	Berlin	2

ADMINISTRATIVE AREA DENSITY		
Rank	Administrative area	People per ha
1	Department de Paris	213
2	Seoul Special City	169
3	Tokyo Prefecture	145
4	Singapore	76
5	Brussels Capital Region	71
6	New York City	70
7	Hong Kong Territory	66
8	Greater London	55
9	Community of Madrid	52
10	Moscow	46
	World City Median	43
11	Berlin City	40
12	Shanghai Municipality	38
13	Amsterdam Municipality	37
14	City & County of San Francisco	37
15	City of Los Angeles	30
16	Beijing Municipality	13
17	Frankfurt Rhein Main urban area	9
18	Dubai	5
19	Greater Sydney	4
20	Chicago Metro	3

Source: Savills World Research

level, Greater London still has a higher density than 12 of the other cities.

Our idea of what densities are possible in cities is often given by small-scale studies of very central areas or neighbourhoods, not the whole city. To illustrate this we have selected central neighbourhoods of varying sizes for which data is readily available in each of the 20 cities. London's central borough of Kensington and Chelsea has a population density virtually identical to the median of the 20 cities and higher than nine of them. But each of these areas differ widely in size from others.

The analysis does show that very high densities can be sustainable at neighbourhood level and central boroughs or districts are likely to be higher density than outer ones. Manhattan in New York City, for example, houses 188 people on every piece of land the size of a baseball field (equivalent to one hectare) but this is not sustained over the entire city, where densities drop to 70 people per

hectare, let alone over the entire metro area where they drop to just seven.

High density does not automatically mean high-rise. Very small, core areas like San Francisco's Chinatown accommodate 287 people per baseball field and the Centro district of Madrid, 286. Both of these districts are notable for not housing skyscrapers. Both are a mix of mid-rise, 7-8 storey buildings and lower 2-4 storey terraced city houses, perhaps with a scattering of small towers. Public open space takes the form of streets, some very pleasant and tree-lined. Both environments

achieve a higher population density than high-rise, urban Hong Kong – albeit over a much smaller area.

London's central character is very similar but over a wider range of boroughs and interspersed with a great deal of open space in the form of gardens, squares and parks. Areas of London which are being redeveloped, more in the style of Manhattan, or the centre of Asian cities are unlikely to achieve such high densities when interspersed with London-style proportions of open space. ■

6th

London's World City ranking for Wide Area Population Density

▼ London has above average densities in the metro area



CENTRAL NEIGHBOURHOOD DENSITY		
Rank	Small central area	People per ha
1	San Francisco Chinatown	287
2	Madrid Centro district	286
3	Hong Kong urban area only	263
4	Beijing Old City (Doncheng & Xicheng)	248
5	Shanghai Puxi District	241
6	Tokyo Toshima Ward	226
7	NYC Manhattan	188
8	Paris 1st to 7th Arrondissements	183
9	Seoul Gangnam District	134
10	Berlin Friedrichshain-Kreuzberg Borough	133
	World City Median	132
11	Royal Borough Kensington & Chelsea	131
12	Moscow Central Okrug	106
13	Amsterdam Centrum Borough	106
14	City of Sydney (CBD & Central area)	68
15	Bruxelles Ville District	51
16	Chicago City	44
17	Downtown LA	35
18	Frankfurt City	29
	Singapore (Data not available)	
	Dubai (Data not available)	

Economy

WORKING WELL

The UK's capital is an economically successful city and strong in a wide variety of areas

London is an economic powerhouse. It is the UK seat of government, with many associated civil service and public administration departments, a centre of finance, education, entertainment and the arts. A world leader in financial services, technology and media, it hosts a large number of company global headquarters and is a major global tourist centre.

London is a 'polymath city' strong in a wide variety of areas and quite unlike any other city bar New York in this respect.

London owes its global competitive edge to this economic, social and cultural diversity. Tech firms benefit from proximity finance and a ready pool of talent from the city's education institutions. Research universities are a catalyst for innovation in the capital's private sector. The city's unrivalled entertainment offer pulls tourists

from around the world, and attracts skilled individuals who wish to make London a permanent home in which to live and work. In a world where business competes fiercely for talent in a global job market, being based in a globally desirable city can give a commercial edge.

The diversity of London's economic offer means it makes a large contribution to the nation's GDP. Figure 8 shows the city share (taken as the metro area) of national GDP across top-tier world cities. The London metro area (Greater London including its near commuter towns) contributes 33.6% of national GDP, but hosts just 22.7% of the total UK population.

The dominance of London within the UK is comparable to that of Tokyo to Japan (33.7%), and Paris to France (30.8%). By contrast, New York, Berlin and Shanghai are one of many major economic centres in their respective countries, and all contribute under 10% to their national GDP.

The supremacy of London over the rest of the UK, as the economic and political hub, means that it puts a disproportionate pressure on a limited pool of resources (housing, physical and social infrastructure). Better regional transport connections, more cross-country business cooperation, and stronger links with UK suppliers

FIGURE 7
Polymath City Index

Strength & specialism  Not a strength & specialism

City	Financial Services (Depth of offer)	Technology & Media (Tech, media, creative)	National Government (Capital city / Administrative)	Higher Education (University Rankings)	Culture & the Arts (Theatre, Music, and Art)	Global Tourism (Number of Tourist Arrivals)	Logistics (Major Ports, Transportation)
London	Dark Purple	Dark Purple	Dark Purple	Dark Purple	Dark Purple	Dark Purple	Dark Purple
Hong Kong	Dark Purple	Dark Purple	Dark Purple	Dark Purple	Dark Purple	Dark Purple	Dark Purple
Singapore	Dark Purple	Dark Purple	Dark Purple	Dark Purple	Dark Purple	Dark Purple	Dark Purple
New York	Dark Purple	Dark Purple	Light Pink	Dark Purple	Dark Purple	Dark Purple	Dark Purple
Tokyo	Dark Purple	Dark Purple	Dark Purple	Dark Purple	Dark Purple	Dark Purple	Dark Purple
Paris	Dark Purple	Dark Purple	Dark Purple	Dark Purple	Dark Purple	Dark Purple	Dark Purple
Shanghai	Dark Purple	Dark Purple	Light Pink	Dark Purple	Dark Purple	Dark Purple	Dark Purple
Berlin	Light Pink	Dark Purple	Dark Purple	Dark Purple	Dark Purple	Dark Purple	Dark Purple
Dubai	Dark Purple	Dark Purple	Light Pink	Dark Purple	Dark Purple	Dark Purple	Dark Purple
Sydney	Dark Purple	Dark Purple	Light Pink	Dark Purple	Dark Purple	Dark Purple	Dark Purple

Source: Savills World Research

would help to make London's position as a global economic hub a catalyst for the entire country.

London's diversified economy helped its job markets to bounce back quickly from the global economic downturn and have subsequently enjoyed rapid growth. Across the London metro area, more than one million jobs were added between 2004 and 2014.

Employment growth is forecast to slow in the next decade, but London will still generate new jobs at a faster pace than its major global rivals (Figure 9). London will see its workforce grow by 10% in the 10 years to 2024. Paris will see its workforce grow by 3.1%, while Hong Kong's will fall by 0.8% over the same period.

Impact on real estate

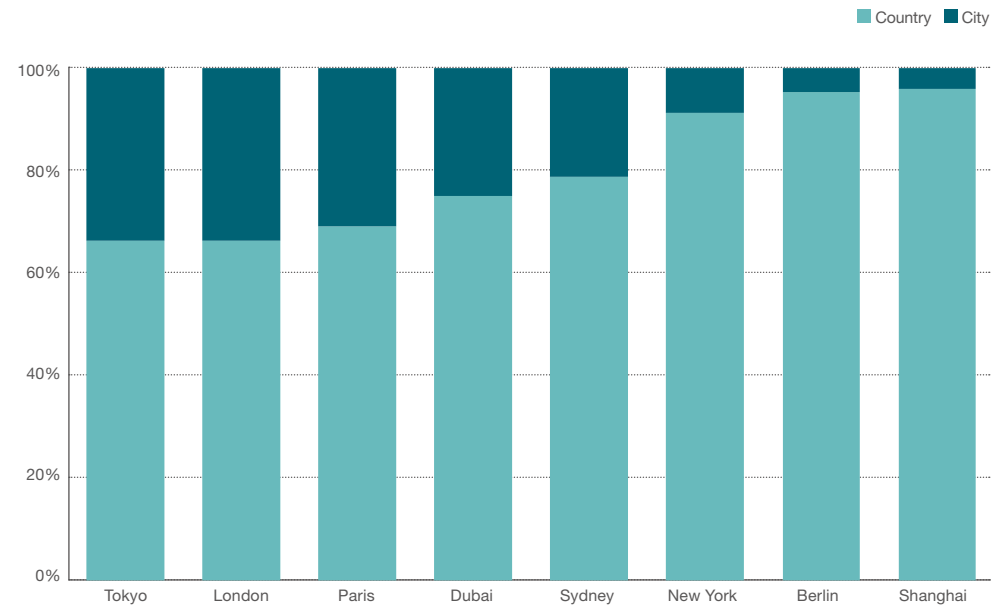
A rapidly expanding employment base is underpinning a new wave of expansion in London's office markets. New records were set in the leasing markets in 2014, with 8.2m sq ft leased in the City of London. Reaffirming London's status as one of the most important global centres for the creative, media, entertainment and tech industries, the capital has seen a general shift in occupier demand from west to east.

This in turn has been reflected in fast-rising office rents. The proportion of office take-up by creative and technology companies in the City of London was 17% in the year to June 2015, the same as the proportion taken by insurance and financial service companies.

However, it is worth noting that the banking sector has started to recover this year, and this means banking and finance companies currently account for 38% of current requirements across central London. A buoyant occupier market underpins record investment – London is the number one destination for cross-border investment into offices globally.

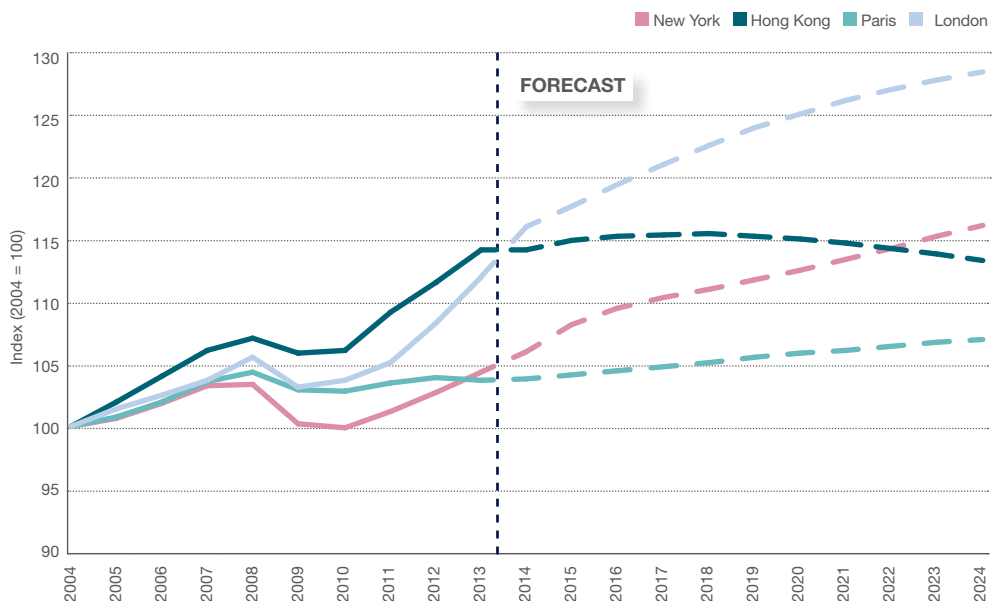
Rapid employment growth puts further pressure on London's housing market. New housing supply has failed to meet the need and the pressure on living costs has continued to build. House prices in London have risen by 43%, and private sector rents by 19% over the last five years according to the ONS. Investment in transport improvements is essential to open up new parts of the city for housing development. Crossrail, an upgrade to Thameslink services and an extension

FIGURE 8
City metro area share of national GDP



Source: Oxford Economics

FIGURE 9
London employment set to outgrow global competition



Source: Oxford Economics

to the Northern Line, is unlocking new development in the near term.

The focus of London government at present is ensuring that sufficient and affordable accommodation is provided to house London's growing population. There is concern that a combination of high land prices, low industry capacity and a historic undersupply backlog will continue to thwart these intentions.

In this case, it seems likely that London's travel to work area will expand as the population seeks accommodation further afield.

Under these circumstances, pressure will mount on transport systems. If not acted on, this may mean a decanting of talent to other UK towns and cities, or to overseas competitors, especially of the most footloose citizens. ■

Education

A QUESTION OF DEGREES

London enjoys an unrivalled reputation as a global centre of education

London is one of the world's most important centres of education. It is host to the largest number of highest-ranking universities in the world and more than 360,000 higher education students. London also offers world-class primary and secondary education, with quality state schools and private institutions, along with international schools.

Primary and Secondary Education

Private primary schools and prep schools in London are especially highly regarded and act as feeder institutions for some of the country's best private schools. Some of these

schools are now effectively drawing from a global catchment. The Good Schools Guide recently published a London edition, for the first time in its 28-year history, in response to demand from overseas parents.

Since 2007, private school pupil numbers in Greater London have increased by 7%, the highest rate of growth in any UK region, according to the Independent Schools Council. At the national level, 8.5% of pupils at private schools are from outside the UK (a third of whom have parents living in the UK). Those from China and Hong Kong account for 26% of all foreign pupils.

Higher Education

London is also home to some of the world's most highly regarded universities (Figure 10), along with medical schools, business schools, arts and performing arts institutions and music colleges. Some 27% of higher education students in London hail from outside the UK. The capital accounts for 17% of the total UK student population, but 23% of the country's foreign student population.

Students at the city's universities, meanwhile, must balance the opportunities a London education

▼ London accounts for 17% of the UK student population



offers against its high living costs. Student living and accommodation costs in London are as expensive as those in New York and Sydney (around \$2,000 per month), but double the cost of Amsterdam, Berlin and Milan. Happily, once tuition fees are factored in, London is cheaper to foreign students than US and Australian competition (Figure 12).

With 70,000 purpose built student beds in the capital (40,000 university managed and 30,000 privately managed), the sector houses just 20% of London's 367,000 full-time students. Many recent developments have targeted premium rents, with pricing comparable to studio and one bed apartments in the open market.

London enjoys an unrivalled reputation as a global centre of higher education. This esteemed standing will continue to see it attract students from around the globe. However, in order to avoid it becoming the preserve of the wealthy more must be done to expand student housing into lower value markets and compete against an already stretched HMO sector. ■

7%

% increase in private school pupils in Greater London since 2007

367k

Number of full-time students in London

70k

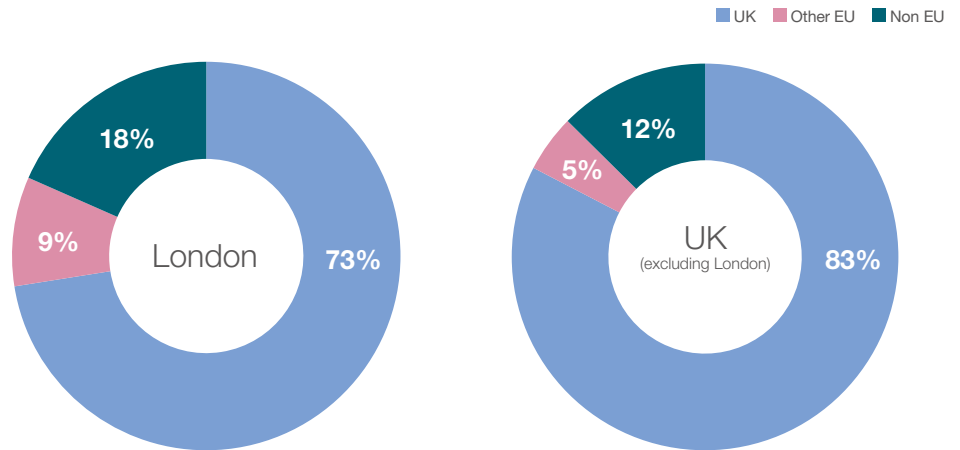
Number of purpose built student beds in London

FIGURE 10 Times World University rankings Top 50 aggregate

City	No. of institutions in Top 50	Combined score in Top 50	Institutions in Top 50
London, UK	4	307	Imperial, UCL, LSE, Kings
Boston, USA	2	185	Harvard, MIT
San Francisco (area), USA	2	182	Stanford, Berkeley
Los Angeles, USA	2	180	Caltech, UCLA
Chicago, USA	2	166	U of Chicago, Northwestern
New York, USA	2	154	Columbia, NYU
Durham, USA	2	146	Duke, U of NC at Chapel Hill
Beijing, China	2	130	Peking, Tsinghua
Oxford, UK	1	93	University of Oxford
Cambridge, UK	1	92	University of Cambridge

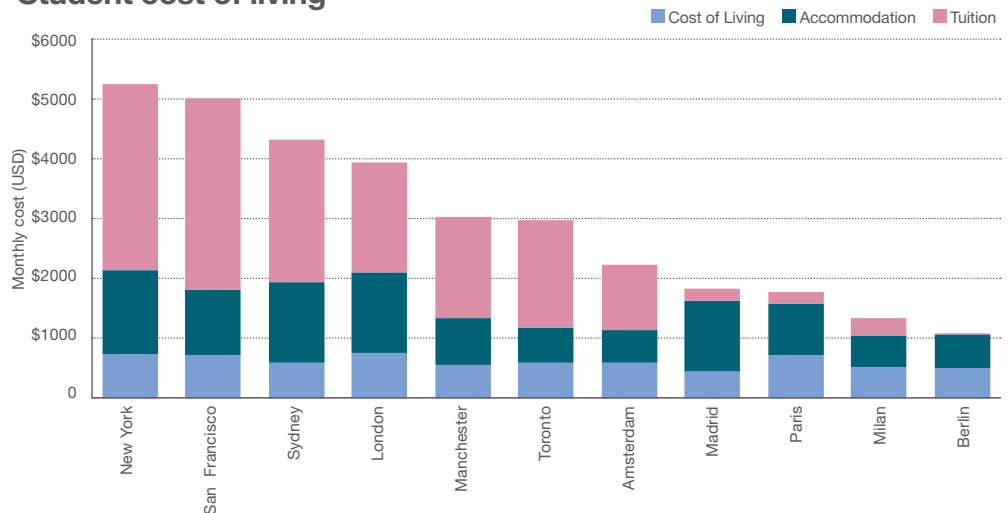
Source: Times World University Rankings

FIGURE 11 Student composition of London Universities



Source: HESA

FIGURE 12 Student cost of living



Source: Savills World Research

*Assumes foreign student in purpose built student accommodation

Overseas buyers

RULES OF ATTRACTION

Overseas-born buyers are shaping London's prime housing markets, here are three key trends

London is a cosmopolitan city which has built its success on immigration and international trade. Some 37% of all Londoners were born overseas. As long as London remains an attractive place to live, work, invest and learn, it continues to draw people from across the globe.

It is, therefore, no surprise that overseas-born buyers of all kinds are shaping London's housing markets. This is particularly the case in London's highly visible (but comparatively small) prime markets, where budgets are higher and purchasing habits dictated by discretion as well as need.

Reading some headlines, however, you may be forgiven for thinking that swathes of London's housing stock are being bought absentee, buy-to-leave landlords from abroad.

These stories draw on figures on the very upper echelons of London's housing markets – a tiny proportion of London as a whole. They also overlook London's role as a global city and the people from around the world that choose to make London their home.

While non-UK buyers made up 40% of the prime London resale market in 2014, prime London accounts for just 8% of the total London residential market. Therefore, taking the market in its entirety, non-UK buyers of prime property made up just 3.2% of all London transactions in 2014. Of these, 84% were purchasing their main residence, a figure not dissimilar to UK buyers also active in the prime market, at 91%.

The world in prime London: three trends

We have analysed our data on the purchasers of prime London property and highlighted three key trends.

Our findings illustrate how people from other countries bring their lifestyle preferences and home market characteristics into London.

The prevalence of new build, high-rise apartments in Asia, for example, means those buyers feel comfortable with the same product in London. Extended families and generous space standards at home mean that a lot of Middle Eastern buyers seek something quite different.

It is interesting to note those nationalities with a long tradition of buying in London, notably North Americans and Europeans, tend to buy properties most similar to those favoured by many Londoners.

This is an important strategy for buyers of all nations to consider when it comes to resale. A distinctly 'London' product is more likely to find a second-hand market than something designed specifically for one particular overseas market. ■

FIGURE 13 London transactions 2014, source of buyers in resale property

Mainstream (all buyers)	92.0%
Prime (UK buyers)	4.8%
Prime (Western Europe inc Nordic Countries)	1.3%
Prime (North America)	0.4%
Prime (Eastern Europe and The CIS)	0.3%
Prime (North Africa and the Middle East)	0.3%
Prime (China)	0.3%
Prime (Pacific Asia)	0.3%
Prime (South Asian sub-continent)	0.2%
Prime (Africa)	0.1%
Prime (Latin America)	0.02%

Source: Savills Research

1. BRITS ARE THE NUMBER ONE BUYER GROUP EVERYWHERE

British buyers are the dominant purchasing group in every prime London region. Taken across the whole of the London market, non-UK buyers of prime property made up only 3.2% of all London transactions in 2014. National groups cluster for a multitude of reasons. French buyers are concentrated in South West London, particularly around the lycées of Kensington and Fulham, for example. For the wealthy Russian buyers, address is paramount and prime central London locations are favoured.

FIGURE 14 Top nationalities by London region (2007-2015) (resales)

Rank	Prime Central London	Prime East	Prime North	Prime North West	Prime South West
1	UK	UK	UK	UK	UK
2	Russia	China	Ireland	India	France
3	USA	Singapore	Italy	Russia	USA
4	France	Russia	USA	South Africa	Ireland
5	India	France	Australia	France	Italy

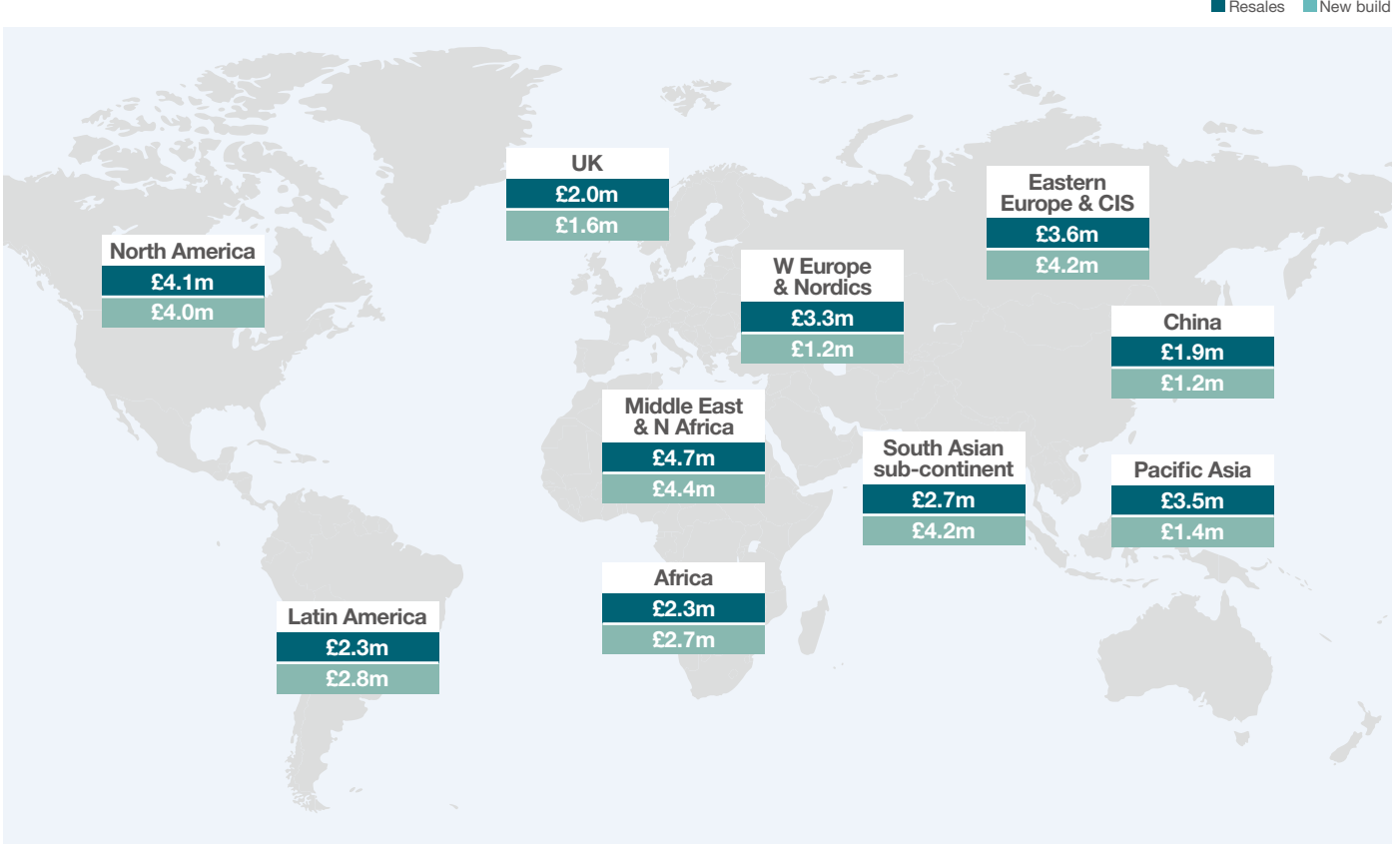
Source: Savills Research

2. PURCHASING POWER VARIES BY GLOBAL REGION

Buyers from Middle East and North Africa spent the most on average on prime London resale property (£4.7m per property) and prime new build (£4.4m per property), and in 2014/15.

The average purchase price of prime London resale property among UK buyers – who make up the majority of prime London – was £2.0m in 2014/15, and £1.6m for new build.

FIGURE 15 Average purchase price in prime London by global region, 2014/15



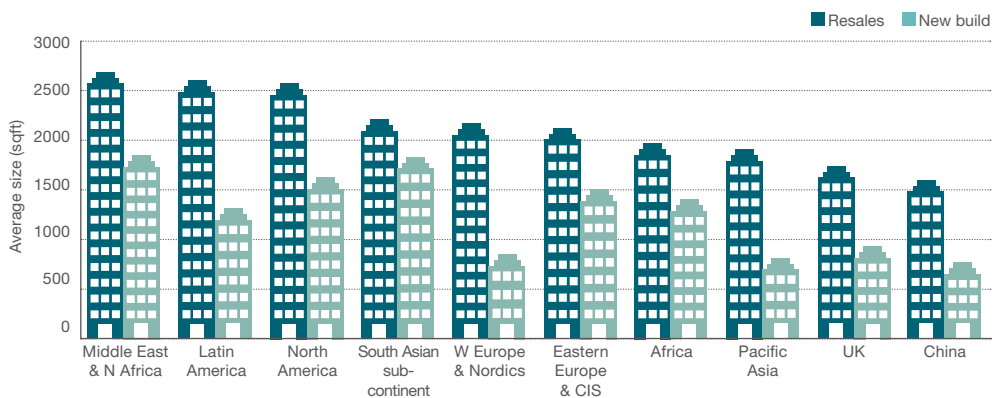
Source: Savills Research

3. MENA BUYS BIG, PACIFIC ASIA BUYS SMALL

Those used to large properties at home seek more space in London. Buyers from the Middle East and the Americas purchase the biggest homes in prime London on average.

Buyers from Pacific Asia and China bought smaller properties on average. City-living in the home markets is characterised by high-rise apartments.

FIGURE 16 Prime London property purchase size by global region, 2014/15



Source: Savills Research

Residential market

HIGH PLATEAU

Private, international investment impacts on prime residential property, and not mainstream

Global urbanisation and the focus by people on city-living has meant that international investment activity has also been focused in this way. Worldwide, prime city property has appreciated in value but mainstream property has not grown by so much. This is as true of London as any other global city.

The impact of overseas investment by private individuals in world cities seems to have pushed up prices for wealthy people in the prime markets, but not so much for mainstream property in secondary markets.

London's prime residential real estate is seven times more expensive than its mainstream housing, compared to New York's, for example, which is only four times the price. The higher incidence of overseas property buyers in London has created an international market in prime property but London's mainstream property is about the same price as New York's.

At a global level, mainstream London property prices are on a

par with Singapore and New York and cheaper than Hong Kong's (all of these cities have growing populations and constrained land supply). This still makes London one of the most expensive locations in which to buy property globally, but the issue seems to be one of high demand against near-static supply, rather than the weight of money pressing on prime markets.

It is when new development is overly concentrated in prime markets that these supply problems are exacerbated. London has been able to grow the size of its prime stock but has been less successful at growing its mainstream housing supply. London has several possible solutions to its issues of high home prices:

- **Densify and make better use of land, especially in central and transport-accessible neighbourhoods**
- **Open up new areas with new transport infrastructure**
- **Regenerate low-grade and low-density land, both publicly and privately owned**
- **Intensify neighbourhoods by mixing residential into low-intensity retail and workspace uses**
- **Expand beyond political boundaries, a significant proportion of London's workforce lives outside Greater London already.**

FIGURE 17 Mainstream to prime ratio

World City	Mainstream to prime ratio
Hong Kong	10
Paris	8
Dubai	7
Shanghai	7
London	7
Singapore	5
Tokyo	4
New York	4
Sydney	3
San Francisco	3
Los Angeles	3
Chicago	2
Miami	2

Source: Savills World Research



Growth of prime city property has outstripped the mainstream market

“London has been able to grow the size of its prime stock but has been less successful at growing its mainstream housing supply”

Until most or all of these solutions start to change the supply of housing in London, the city is likely to remain among the world's most expensive. ■

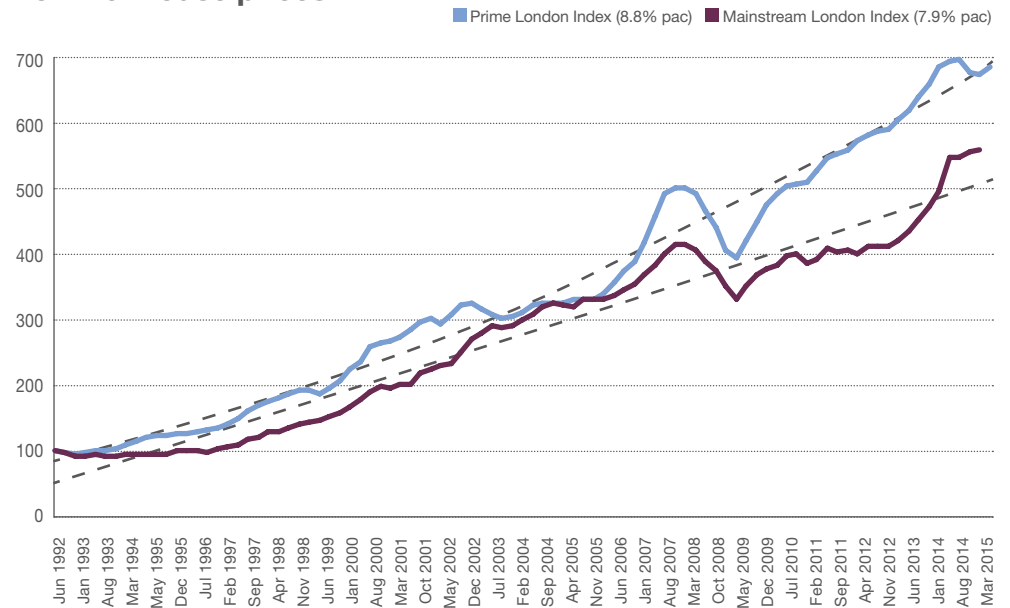
7x

London's prime property is 7x more expensive than its mainstream housing



London's mainstream property prices are on a par with New York

FIGURE 18
Nominal house prices



Source: Land Registry, Savills Research



Retail

SALES IN THE CITY

London's ability to attract high spending tourists has established it as a global retail destination

Words: Marie Hickey

▼ London is world famous for its shopping



London, unlike many former hosts of the Olympic Games saw both visitor numbers and spend increase in its post Olympic year, a trend that has continued. London is expected to welcome 18.8m international overnight visitors in 2015, and has topped the Mastercard's Global Destination Index in four out of five years, except 2013, when Bangkok held the lead position. London also topped the rankings for tourist spend at \$20.2bn, with a significant chunk of this spent shopping.

London's world famous shopping streets and its variety of international brands, including home grown ones such as Burberry, have helped to increase international tourist spend. But it has been London's ability to attract high spending tourists that has really established it as a Global retail destination.

The biggest spenders have been those coming from the UAE and China. They each have an average spend per transaction of over £1,000 (US\$1,600). The fact that China is now the largest consumer market of luxury products globally, with an increasing proportion of this spend taking place overseas, means that they are an attractive target consumer group – particularly for luxury brands.

At present Chinese tourists account for only a small proportion of total overseas spend in the UK. According to official data from the ONS 233,000

mainland Chinese tourists came to the UK last year with a total spend of £559m. This represents only 2.6% of total overseas spend.

In contrast France attracted over 1 million Chinese visitors. The difficulties experienced by Chinese visitors in obtaining visas has been cited as an issue contributing to these lower visitor numbers. Improvements to the visa application process, introduced last year, are expected to improve these numbers.

VisitBritain is hoping it will help to attract 650,000 Chinese visitors by 2020, with spending power of almost £1.1bn (US\$1.7bn).

London's position as one of the largest city markets for international tourists, and the potential upswing in Chinese visitor numbers, has attracted increasing numbers of international brands.

Since 2012, 98 international brands have opened their first UK store in London with another 11 expected by the end of the year.

New entrants

The majority of these new entrants have come from Europe (64%), with another 25% originating from North America are now also, largely reflecting the existing international mix of retailers on London's key shopping streets.

However, retailers from Asia Pacific and South America have established a presence in London, reflecting the increasing globalisation of London's retail landscape and its visitor profile. This influx of new retailer entrants, combined with availability constraints on the traditional key pitches, have helped to open up new retail 'destinations' within London.

Figure 19 details the retail areas where these 98 new entrants have located since 2012. Historically, any new retail brands to London would have tended to concentrate within



98 international brands have opened first UK store in London since 2012

18.8m
Number of international overnight visitors in London expected in 2015

a relatively narrow selection of pitches. The scale of new entrants and existing demand, combined with improvements and enhanced 'curation' by a number of existing and emerging landed Estates within Central London has widened the variety of retail 'destinations' available to both occupiers and shoppers.

The top locations of choice for new overseas retailers to London since 2012 are Westfield (West London and Stratford), Covent Garden and Bond Street.

This influx of international spend has not been solely confined to consumers and occupiers. Investment by international investors into Central London retail property has also intensified.

Total acquisition activity by overseas investors totalled £1.5bn in 2014. This represented 59.2% of total activity levels. This investor behaviour is changing the ownership landscape of some of London's key shopping streets. And it is not just international investors that have become increasingly acquisitive. International retail brands themselves have also been on their own shopping spree.

Overseas ownership

Close to half (45.2%) of all retail units on Bond Street are now owned by overseas entities, up by 10% in January 2013. But around a third of these international owners are in fact international retailers, not investors. While retailer owner-occupation is nothing new on Bond Street, the change has been the increase in acquisition by retailers irrespective of whether they are occupiers or not.

Retailer ownership has increased by 28% since early 2013, but, only half of these retailer owned units are owner-occupied.

Purchaser motivations seem to be in part competitive and in part a way to future proof themselves against further rental growth following the strong rental uplift seen over the last three years (prime Zone A rents on New Bond Street have increased by an average of 20.8% per annum). This trend appears relatively unique to London and is facilitated by the city's transparent and open real estate market.

On the flip side, this investment appetite from brands has also contributed heavily to competitive

tension in yields and retailers becoming landlords to their competitors.

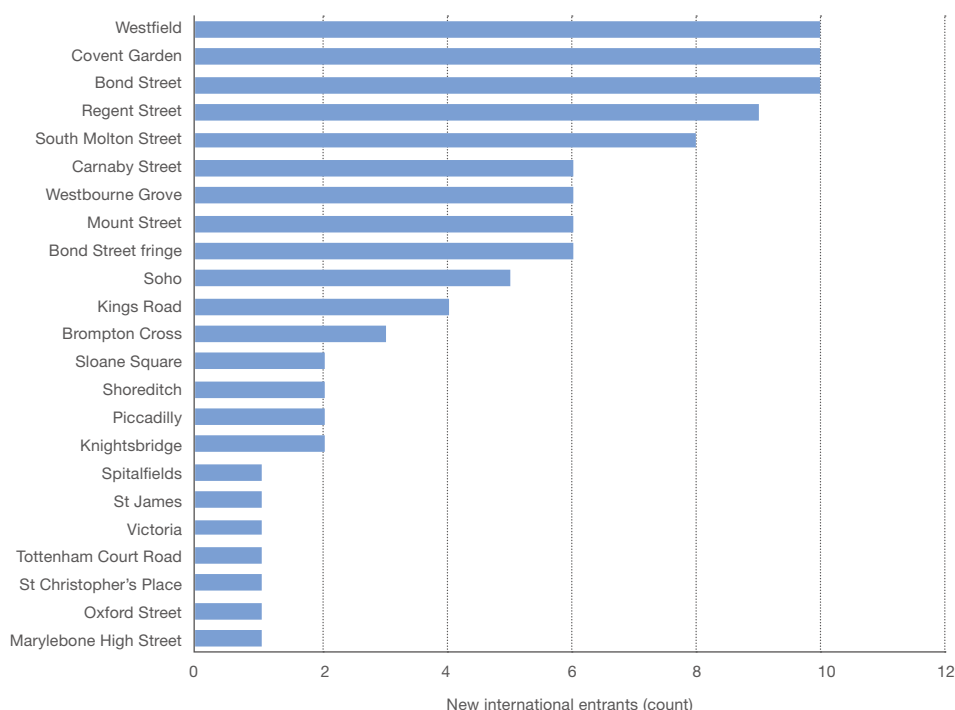
In the case of Oxford Street, where the need for protectionism is less acute, overseas retailer ownership is lower, accounting for 10.0% of all units on the street.

Meanwhile, investment activity by other international investors has picked up significantly. With availability on Bond Street

some overseas investors have looked to other retail streets to satisfy demand. For example, overseas ownership on Oxford Street has increased by 24.4% since early 2013.

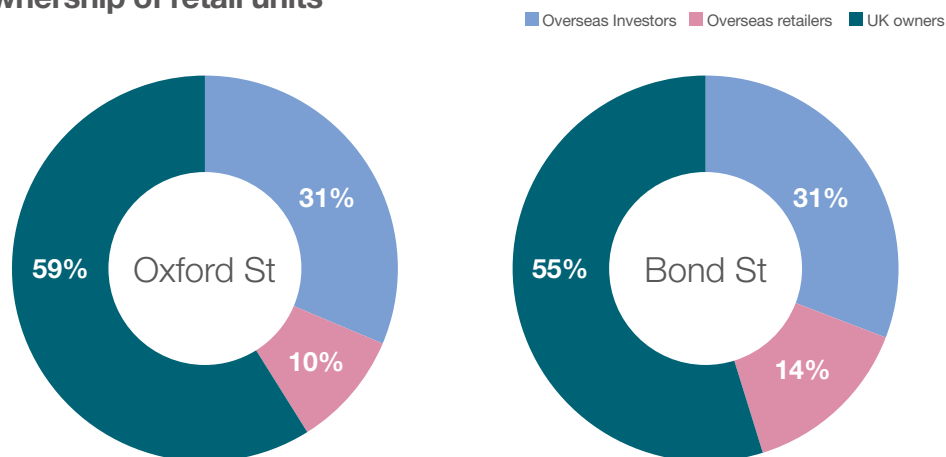
Going forward, activity from overseas investors is expected to continue but is likely to focus on those key retail destinations where current ownership profile offers opportunity. ■

FIGURE 19 **New international retailer entrants by location (since 2012)**



Source: Savills Retail Research

FIGURE 20 **Ownership of retail units**



Source: Savills Retail Research

Investment

THE WEIGHT OF MONEY

With large-scale institutions and private investors all looking to invest in real estate, is there too much money pointing at the city?

The weight of money pressing on real estate in world cities is a widely reported phenomenon. London was the second most invested world city after New York by large-scale investors in the year to June 2015 according to Real Capital Analytics.

But it is not just institutions and corporations who are focused on real estate as an investment class. The type and range of players in the market has increased substantially since 2008 with Sovereign Wealth and private individuals entering the fray to a much greater extent.

A recent survey of global wealth advisers by Savills/Wealth Briefing showed that private wealth is very active in real estate with 45% investing more than a fifth of wealth in direct property holdings and

37% investing an additional sum amounting to more than 10% of their wealth in indirect property holdings (property companies and REITs for example). Only 9% of these survey respondents said their clients were planning to decrease their exposure to direct property and 13% to decrease their indirect holdings.

Much of the recent buying activity in real estate has been directed at prime property in world cities, and buying behaviour has been focused on London and top US cities. Our survey of private wealth property holdings in 2014 shows few signs of activity abating. According to the Savills/Wealth Briefing survey, 67% of high net worth private clients want to buy more real estate in North America and 63% in the United Kingdom. This compares with only 37% who are looking to buy in China and Hong Kong, for example.

One characteristic of private wealth is that it is focused on different sectors of property to institutional money. Residential property, development land and agricultural land are the three top buys on private clients' shopping lists (72% of all respondents say their clients are looking at this sector). But offices also feature prominently, with 50% looking to buy in this sector.

FIGURE 21 **Most active markets (\$10m+ deals) in 12 months to June 2015**

Rank	Market	Volume (bn)
1	NYC Metro	\$89.70
2	London Metro	\$58.67
3	Tokyo	\$38.78
4	Los Angeles Metro	\$35.79
5	Shanghai	\$32.34
6	San Francisco Metro	\$32.16
7	Beijing	\$28.07
8	Paris	\$24.58
9	Hong Kong	\$20.08
10	Dallas	\$19.95
11	Chicago	\$18.93
12	DC Metro	\$17.64
13	Boston	\$16.63
14	South Florida	\$16.57
15	Seoul	\$16.54
16	Sydney	\$16.34
17	Nanjing	\$16.27
18	Houston	\$15.73
19	Chongqing	\$15.63
20	Atlanta	\$15.40

Source: RCA



The implications of this for London are that money will likely continue to press on the city's real estate markets. For those seeking the best income returns from day one, the extent to which this weight of money suppresses yields and increases prices means for them, too much money is pointing at the city.

Consequently, we anticipate that the smart, income-seeking money will increasingly move away from the prime centre to the higher-yielding periphery and even outside of London. Some of it already is, with high-quality city markets like Oxford, Cambridge and Edinburgh already seeing significant investment activity.

Those seeking capital growth will do well to look at the underlying fundamentals of rental growth and the prospects of its continuance, as there is very little scope for further investment yield reductions to boost prices.

Meanwhile, trophy properties, such as mansions, farms and sporting estates, are also beginning to see increased activity and we expect this to grow. Access to London, even from these more far flung retreats, will still be important, so the western corridor with access to Heathrow and the world beyond will likely continue to be a favoured location. ■

FIGURE 22 **Most favoured residential property ownership locations by UHNWI**

Rank	UHNWIs from Europe	UHNWIs from Asia	UHNWIs from Middle East
1	London	Hong Kong	Dubai
2	New York	Singapore	Abu Dhabi
3	Moscow	Jakarta	Doha
4	Monaco	Mumbai	Riyadh
5	Geneva	Delhi	Tel Aviv
6	Paris	London	London
7	Los Angeles	Los Angeles	Beirut
8	Singapore	Shanghai	Los Angeles
9	Vienna	New York	Jeddah
10	Zurich	Kuala Lumpur	Muscat

Source: Savills World Research / Wealth X



London is the second most invested city by large-scale investors in the year to June 2015



Much of the recent buying activity in real estate has been directed at prime property in world cities

▼ London is a favoured destination for UHNW property ownership and institutional investment



Outlook

LOOKING TO THE FUTURE

London's growth and diversity will continue to set it apart from other world cities



London's pre-eminence as a global city is undisputed, but threats to this status may be in its liveability and affordability. London's competition in the next decades is more likely to come from small cities at home and abroad, particularly those that are punching above their weight in the creative and digital economies.



London's growth and diversity will continue to set it apart from other world cities, particularly western ones where populations are shrinking. London's 'polymath' attractions will continue to act as a magnet for human capital which will be a key competitive factor in the tech age.



Even as a compact mid-rise city, London has capacity for further densification and intensification to accommodate a larger population. Its own central areas present a good model of how a high-quality city can be achieved with higher densities.



London's ability, as a world city, to attract international investors will provide a competitive edge in increasing its capability to develop and accommodate growth. ■

Savills team

World Research



Yolande Barnes
World Research
+44 (0) 207 409 8899
ybarnes@savills.com



Paul Tostevin
World Research
+44 (0) 207 016 3883
ptostevin@savills.com

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London



Stephen Down
Central London Investment
+44 (0) 207 409 8001
sdown@savills.com



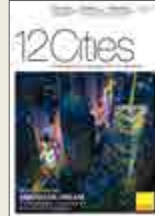
Jonathan Hewlett
London Residential
+44 (0) 207 824 9018
jhewlett@savills.com



Dominic Grace
London Residential Development
+44 (0) 207 409 9996
dgrace@savills.com

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33 Margaret Street
London W1G 0JD
+44 (0) 20 7499 8644

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