

World Research – January 2021

Q  
**SPOTLIGHT**  
Savills Research

# Savills Prime Index: World Cities



Prime residential prices ● Rental values and yields ● Global cities outlook



## 2020 was a year overshadowed by the significant impact Covid-19

has had on so many aspects of people's lives. Work and lifestyle habits have had to adapt because of the Covid-19 pandemic, disrupting global real estate markets. Prime residential markets have not been immune to this disruption, but have so far proven one of the more resilient real estate sectors.

Savills World Cities Prime Residential Index tracks the performance of 30 global cities. It illustrates what the pandemic has meant for prime residential values and rents in 2020. Average prime price growth remained positive for the cities in the index and we expect this growth to improve in 2021. As positive news of vaccine rollouts begins in many countries, we also look to where we expect the strongest performers to be for the coming year.



**Jelena Cvjetkovic**  
Director,  
Global Residential  
+44 (0)20 7016 3754  
jcvjetkovic@savills.com

# A year of change

## Prime residential markets show resilience amid Covid-19 headwinds

The resilience of prime residential markets was highlighted over the second half of 2020. Savills World Cities Prime Residential Index recorded an average capital value increase of 0.8% for the cities in the index at a time when global GDP is recovering from the impact of Covid-19 and subsequent lockdowns.

The positive capital value growth recorded in the second half of 2020 was large enough to more than offset the 0.3% decline seen in the first half of the year. Leaving annual growth at +0.5% for 2020.

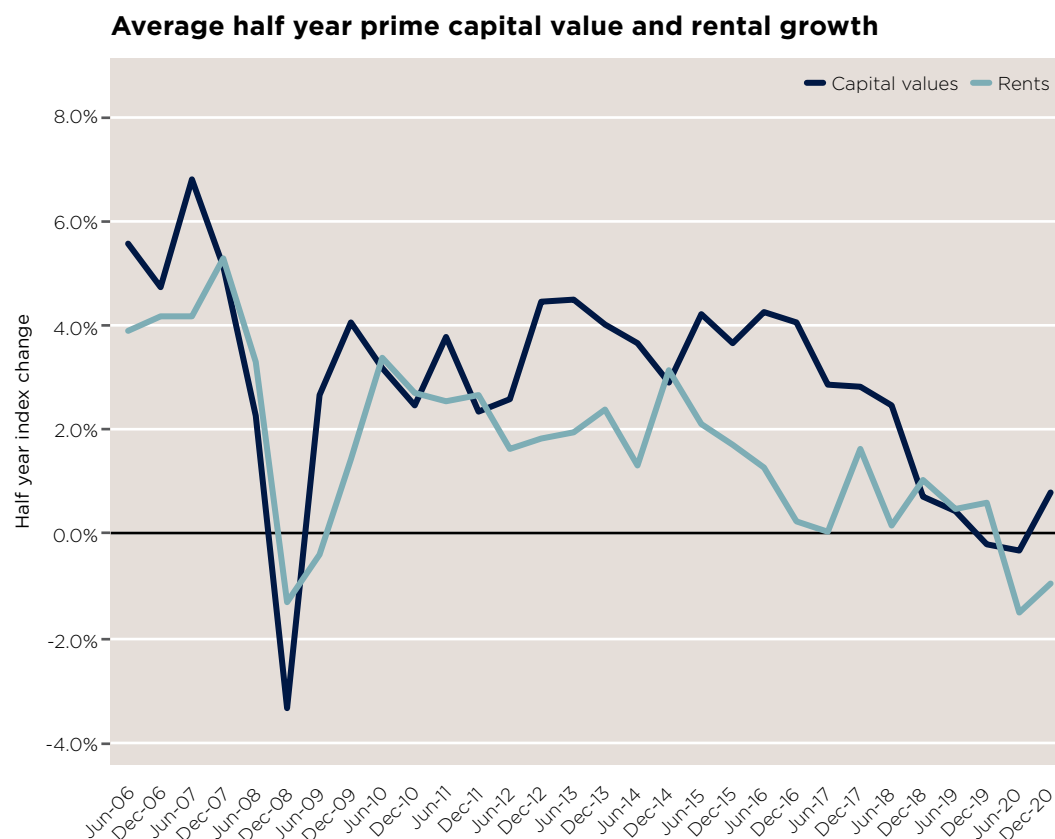
This turnaround coincided with activity returning to residential markets around the world as lockdown measures were loosened.

Bolstered by stimulus measures, low interest rates and demand for properties with more space, many residential markets experienced a robust recovery in demand.

Some of the strongest performers over the last year were cities where effective management of the virus allowed economic activity to be comparatively less impacted in the past year, such as Seoul, Hangzhou and Berlin. Supply and demand dynamics, however, also remained an ever-important driver.

### Rental values and yields

The prime rental market on average fared worse during 2020 compared with the



Global city: Hangzhou

purchaser market. Demand for prime residential rental properties is often more international and from corporate tenants. Travel restrictions have hindered these sources of demand. A fall in tourism has also led to many rental properties that were previously on the short-let market added to supply.

Prime rents in the second half of 2020 fell 1% on average for the cities in the index. This followed a 1.5% decline seen in the first half of the year, leaving total annual prime rental growth down 2.5%. Yields have, however, held relatively steady. The average gross yield for the index stood at 3.1% as of December 2020, down marginally from 3.2% a year prior.

### Modest impact compared to previous recession

The impact of the pandemic on prime residential prices has, so far, been modest in comparison to the global financial crisis (see chart to left). Unlike the global financial crisis, this recession is not rooted in the banking sector. Current distress levels are much lower than compared with the previous downturn. Interest rates remain at record lows. Higher-earning professionals have also been less susceptible to income disruption to date.

Unlike the global financial crisis, this recession is not rooted in the banking sector

## Looking ahead

### The attractiveness of the prime residential sector across the globe will remain strong

Entering 2021, much still remains uncertain. Sentiment is, however, improving as the rollout of the Covid-19 vaccines begins. Despite the uncertainties that still linger, the market for prime residential property is expected to remain active.

Our prime residential forecasts for the 30 cities in Savills World Cities Prime Residential Index highlight the stability of prime residential property. Average capital value growth for the cities in the index is forecast at 1.6% for 2021.

Many of the factors which helped drive prime residential markets in the second half of 2020 are expected to continue to do so through 2021. These include the desire for more space and low levels of supply in some locations.

Historically low interest rates, which are expected to remain low for some

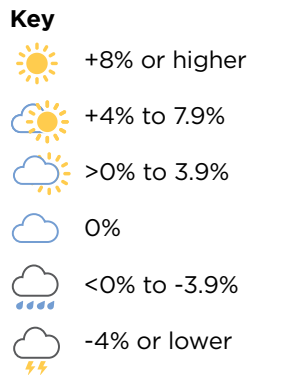
time, also make the sector attractive for wealth preservation. These factors, and the sector's strong fundamentals, mean positive price growth is expected in 19 cities in 2021, compared with nine that are expected to see small price falls.

Prime rental growth potential is likely to remain limited for many cities while travel restrictions are still in place. But with the rollout of multiple vaccines, a resumption of international mobility could occur in the not too distant future. This could help once again drive rental growth and hence yield potential.

The long-term implications of Covid-19, and what this means for the way in which people live and work, are still uncertain. That said, the attractiveness of the prime residential sector is likely to remain strong in 2021 and beyond.

# Global cities outlook

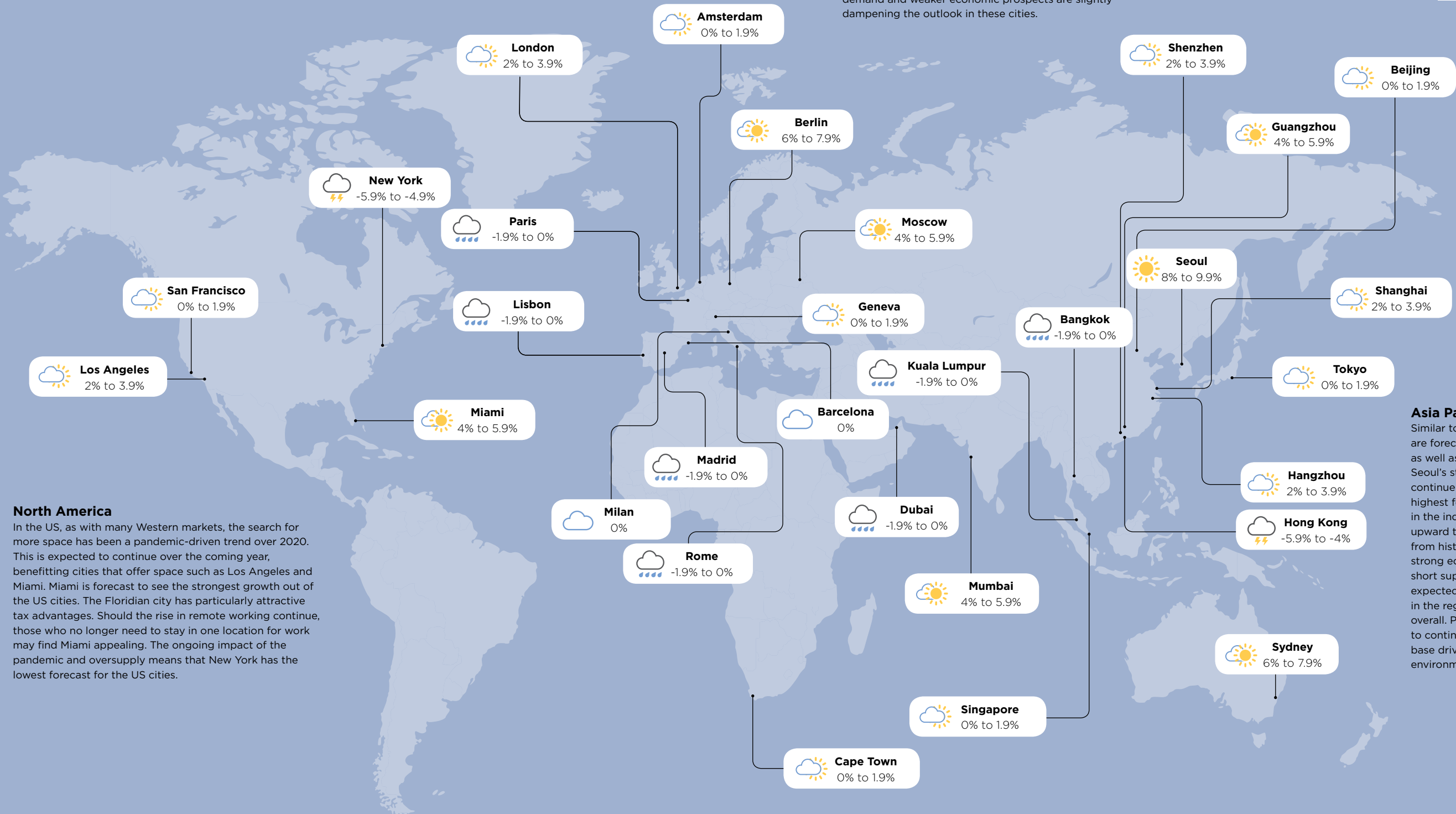
The average prime residential price growth for the cities in the index is forecast at 1.6% for 2021, against the +0.5% seen in 2020. This growth varies by city



## Europe

In Europe, Berlin is forecast to see the strongest price growth in the region in 2021. The German capital is expected to continue on an upward trajectory with high levels of demand that exceed supply. London's prime market is expected to see a turn around, with forecast growth underpinned by the value on offer compared to its peak in 2014.

Of the European cities in the index expected to see price falls over the coming year, none are forecast to see significant price declines. A slight softening of prices is, however, expected in Paris, Lisbon, Madrid and Rome. A combination of lower international demand and weaker economic prospects are slightly dampening the outlook in these cities.



## North America

In the US, as with many Western markets, the search for more space has been a pandemic-driven trend over 2020. This is expected to continue over the coming year, benefitting cities that offer space such as Los Angeles and Miami. Miami is forecast to see the strongest growth out of the US cities. The Floridian city has particularly attractive tax advantages. Should the rise in remote working continue, those who no longer need to stay in one location for work may find Miami appealing. The ongoing impact of the pandemic and oversupply means that New York has the lowest forecast for the US cities.

## Asia Pacific

Similar to 2020, cities in Asia Pacific are forecast to see some of the highest, as well as the lowest, growth in 2021. Seoul's strong growth is expected to continue over the coming year, with the highest forecast growth out of the cities in the index. The market remains on an upward trend driven by high demand from historically low interest rates, strong economic performance, and short supply. Hong Kong is, conversely, expected to see the weakest growth in the region and one of the lowest overall. Prime values here are expected to continue adjusting from a high base driven by the changing political environment in the city.





A little under two-thirds (64%) of cities saw prices increase in the second half of the year, as activity increased in many locations. This compares to 39% that saw rises in the first half of the year.

#### Mixed growth in Asia

Seoul was the strongest performer for prime residential price growth in 2020. The residential market in the South Korean capital has been on an upward trend due to scarce supply and historically low interest

rates. Economic activity in South Korea was also comparatively less impacted by the pandemic in 2020, as the country avoided severe lockdown measures.

Cities in China also saw strong price performance over the past year. China saw a comparatively strong economic performance in 2020. The country's GDP increased by 2% in 2020 compared with a 4% contraction for global GDP, according to Oxford Economics. Hangzhou saw the strongest price performance out of the

Chinese cities in the index, helped by talent attraction programmes and a vibrant tech environment.

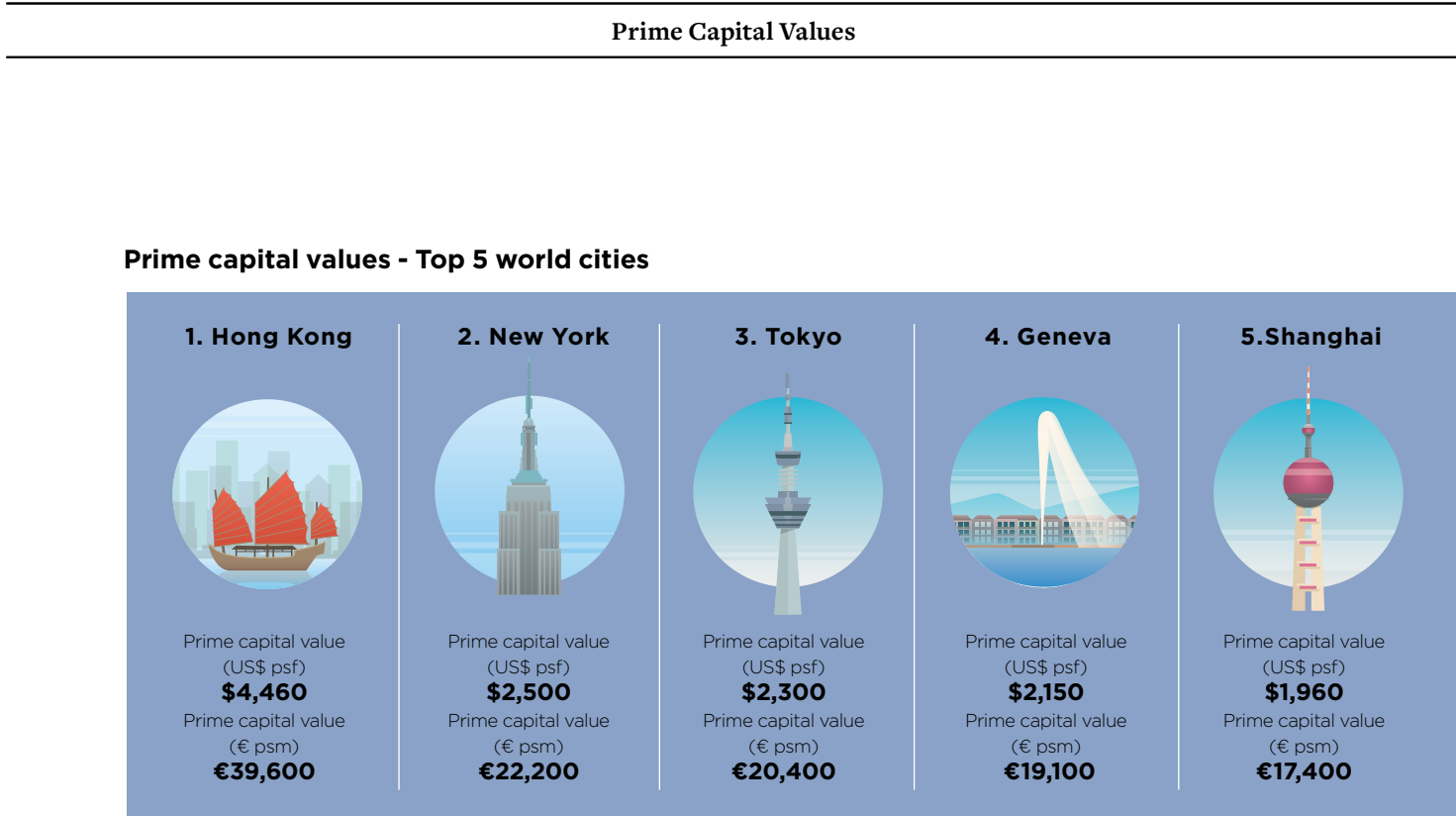
Mumbai, meanwhile, saw the largest price fall over the year. The prime market in the Indian city continued to grapple with oversupply while the country was badly impacted by the virus. Price declines, however, slowed in the second half of the year as stamp-duty reductions were introduced in September.

Hong Kong also saw one of the largest price falls in 2020. Prime values in Hong Kong have been moving downwards since their June 2019 peak as the market adjusts to a changing political landscape in the city. Price falls stabilised in the second half of the year, as the recent decline in prices attracted some buyers looking to benefit from the better value on offer.

#### Supply impacts Europe

Despite the impact of the pandemic, supply and demand dynamics remained an important driver for prime residential values. Many cities where supply levels are low continued to see positive price growth. This was the case for a number of European cities, including Berlin, Amsterdam and Paris.

Prime prices in London remained flat over 2020. Activity in the prime residential market picked up when the housing market reopened in May, fuelled by those looking for more space in all locations. There has remained a core of underlying demand, but restrictions on international travel dampened the ability for overseas buyers to purchase.



Source Savills Research

Lisbon saw the largest price falls in 2020 of the European cities in the index. Travel restrictions hindered the market here, which is driven by international buyers. Tourism is also an important driver for the local economy.

#### Improvement in US

Prime price performance for all the US cities in the index improved in the second half of the year compared with the first half. Factors such as loosening Covid-19 restrictions, attractive interest rates and a strong stock market gave the prime market a boost over this period.

Los Angeles saw the strongest growth through the year, followed by Miami. Both cities saw strong activity in the second half of the year driven by demand for detached homes. Prime values in San Francisco remained slightly up for the year, as supply levels in the city remain low. New York was slightly down for the year, as the prime market here faces existing oversupply.

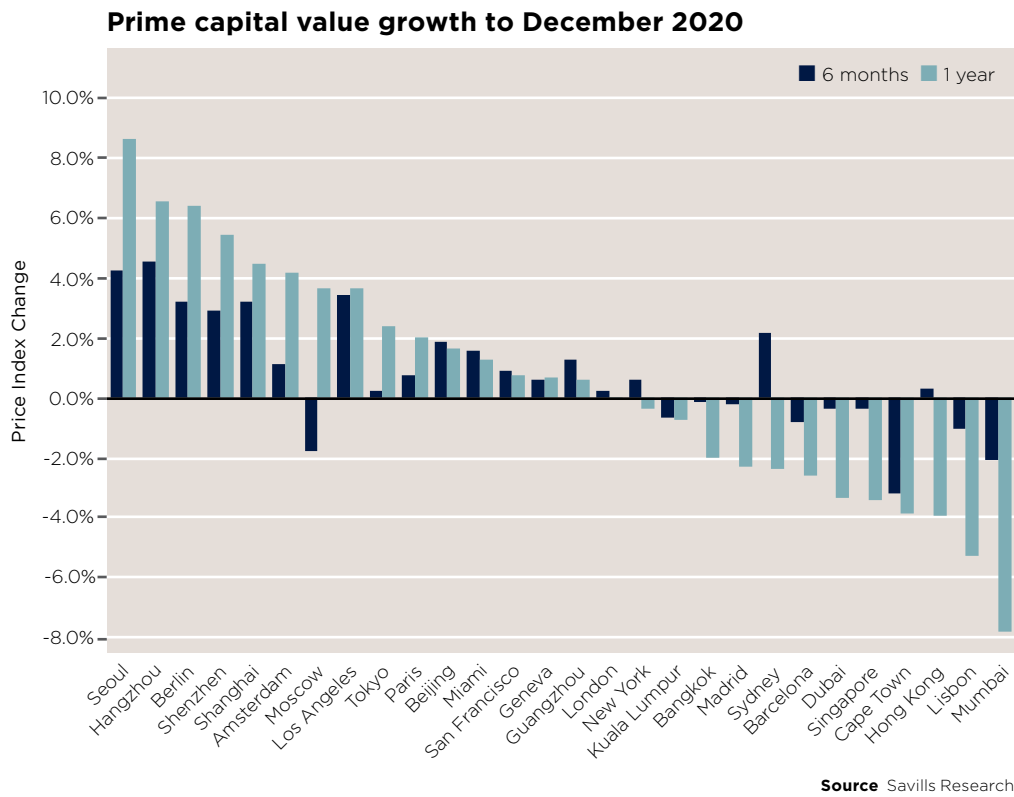
#### Price falls seen elsewhere

Elsewhere, Cape Town and Dubai also saw prime values decline over the past year. Cape Town's market was already adjusting to a weaker economic environment prior to the pandemic. Meanwhile, Dubai's market has been inhibited by oversupply in recent years. Dubai is a highly international market with a large expat population. Price falls slowed in the second half of the year, however, helped by high demand for villas.

#### Prime capital values around the world

City	Prime capital value December 2020 (US\$ psf)	Prime capital value December 2020 (€ psm)
Hong Kong	\$4,460	€39,600
New York	\$2,500	€22,200
Tokyo	\$2,300	€20,400
Geneva	\$2,150	€19,100
Shanghai	\$1,960	€17,400
London	\$1,920	€17,000
Sydney	\$1,790	€15,900
Paris	\$1,760	€15,600
Seoul	\$1,760	€15,600
Shenzhen	\$1,630	€14,500
Beijing	\$1,560	€13,900
San Francisco	\$1,540	€13,700
Singapore	\$1,530	€13,600
Milan	\$1,530	€13,500
Rome	\$1,450	€12,900
Los Angeles	\$1,330	€11,800
Guangzhou	\$1,260	€11,100
Moscow	\$1,200	€10,600
Berlin	\$1,140	€10,200
Mumbai	\$1,140	€10,100
Hangzhou	\$1,110	€9,890
Amsterdam	\$1,050	€9,330
Miami	\$970	€8,610
Lisbon	\$950	€8,390
Bangkok	\$870	€7,750
Madrid	\$770	€6,850
Barcelona	\$720	€6,410
Dubai	\$550	€4,910
Cape Town	\$290	€2,530
Kuala Lumpur	\$280	€2,460

Source Savills Research





Seoul witnessed the strongest prime rental growth of the cities in the index in 2020

# Period of adjustment

Prime rental growth has on average performed worse than price growth, hindered by travel restrictions and lower demand in urban centres

Just 31% of cities saw positive rental growth in the second half of 2020. An increase, however, from the 19% that saw rent rises in the first half.

## Reduced travel impacts some European cities

Reduced mobility has dampened prime rental values in cities around the world, including many in Europe. Amsterdam and Berlin, however, proved resilient with prime rents increasing over the past year. Both cities have limited supply. Berlin's rental regulation has also further reduced the supply of rental properties as landlords increasingly move rental apartments onto the sales market. This has left availability on the rental market at record lows.

Tourism is an important driver for many European city markets, an industry which has been hard hit by the

pandemic. Some European markets have felt the impact of rising rental supply levels as properties previously let on the short-term market have added to supply. This led to rent declines in Paris, Madrid and Barcelona over the past year.

An increase in supply, from both short-lets and completing new build stock, also impacted prime rents in London. The UK capital saw the largest rent declines of the European cities in the index through 2020.

## Rental falls in Asia Pacific, but Seoul bucks the trend

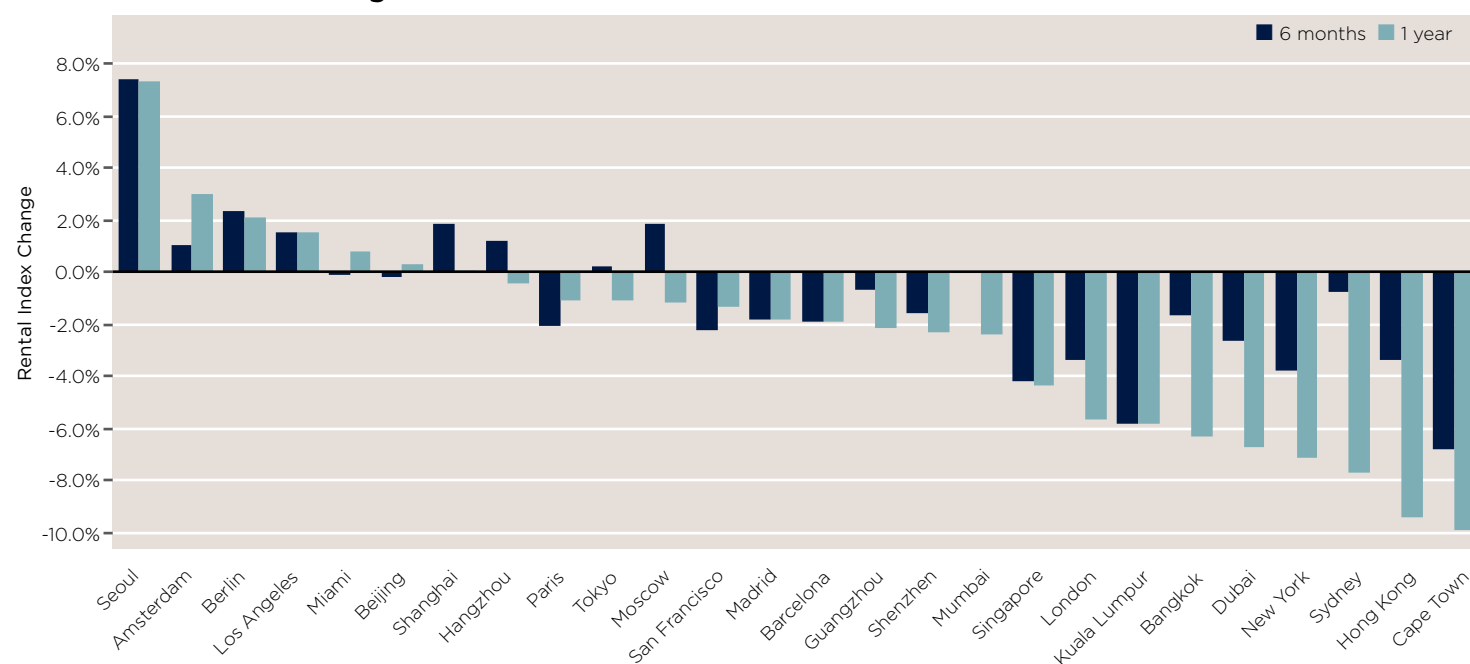
Hong Kong saw the largest prime rent declines of the Asia Pacific cities in the index in 2020, followed by Sydney. Prime rents in both cities have been badly impacted by lower international and corporate demand as a result of

travel restrictions. Both cities, however, saw a larger fall in rents in the first half of the year following the initial impact of the pandemic.

Economic activity in China largely returned to normal in the second half of the year. Travel restrictions remain in place, which has greatly reduced international arrivals and stifled demand in the rental market. Prime rental growth has, therefore, remained below price growth.

Seoul remains an exception, with the strongest prime rental growth of the cities in the index in 2020. Historically low interest rates combined with South Korea's unique Jeonse system, where tenants pay the landlord a refundable deposit equivalent of 70-80% of the property value, make the rental market more attractive for tenants. Jeonse listings are now

Prime rental value growth to December 2020



Source Savills Research

## Prime Rental Values - Top 5 cities

Weekly rent comparison December 2020



Source Savills Research

becoming harder to find as landlords wish to move to regular rental contracts due to the low interest rates.

## Desire for space drives US city rental growth

As seen in many Western markets, the desire for space was seen to have an impact on the rental market in the US. As many people opted to move away from densely populated areas over the past year, the cities in the index where space is on offer have performed better.

Los Angeles and Miami both maintained positive rental growth as a result of this search for more space. The more densely populated San Francisco, meanwhile, experienced small rent falls. New York experienced the largest decline, as an apartment-orientated market with higher levels of supply.

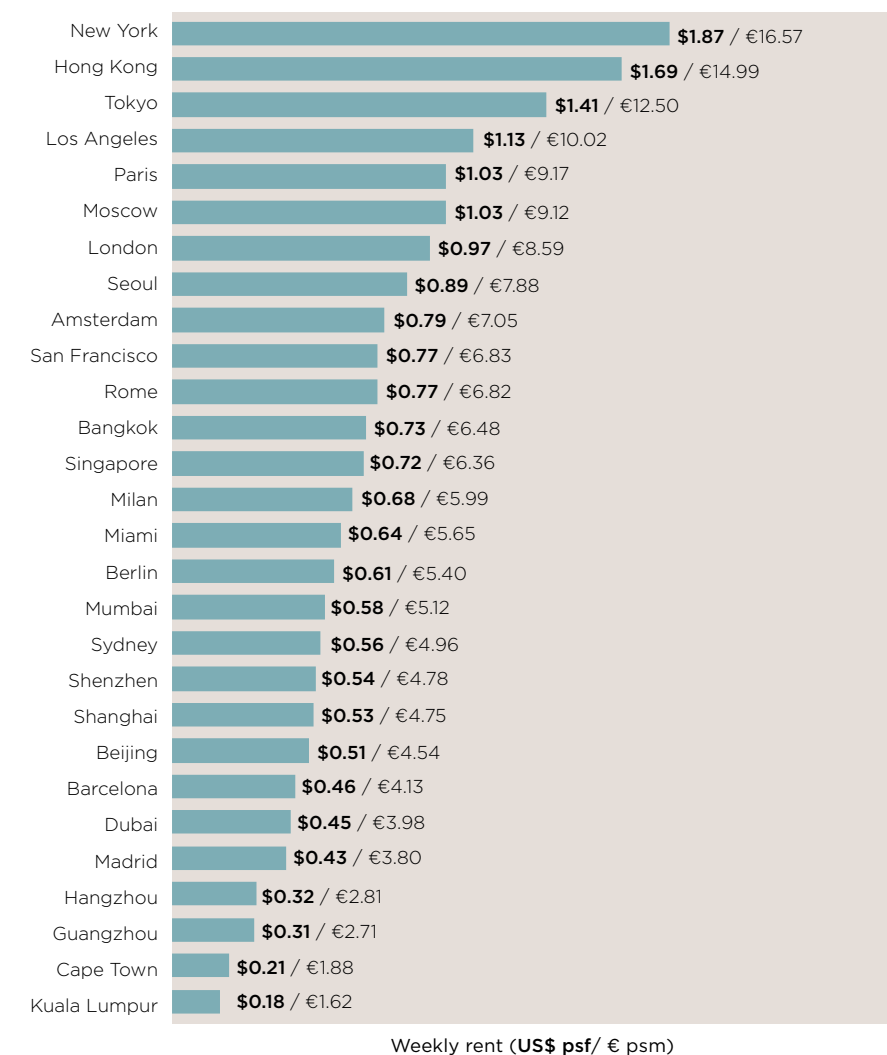
## Supply and demand dynamics take a toll

Cape Town experienced the largest fall in prime rental values out of the cities in the index over the past year. As a fall in tourism has led to a rise in supply of properties previously let on the short-let market.

In Dubai, existing oversupply continued to have an impact on prime rental values. Rent declines, however, slowed in the second half of the year as economic activity picked up.

## Where do rents currently stand?

Weekly rent comparison December 2020



Weekly rent (US\$ psf / € psm)

Source Savills Research



# What has happened to yields?

Average prime residential gross yields across our prime cities stand at 3.1% as of December 2020, slightly down from 3.2% at the same point the year prior

Global city: New York

Average prime price growth for the index outpaced rental value growth in 2020. As factors such as lower corporate demand, rising supply from short-lets, and a move away from urban environments have impacted prime rental growth in many cities. The outperformance of prices has,

however, been modest meaning we have not seen a significant shift in average residential yields.

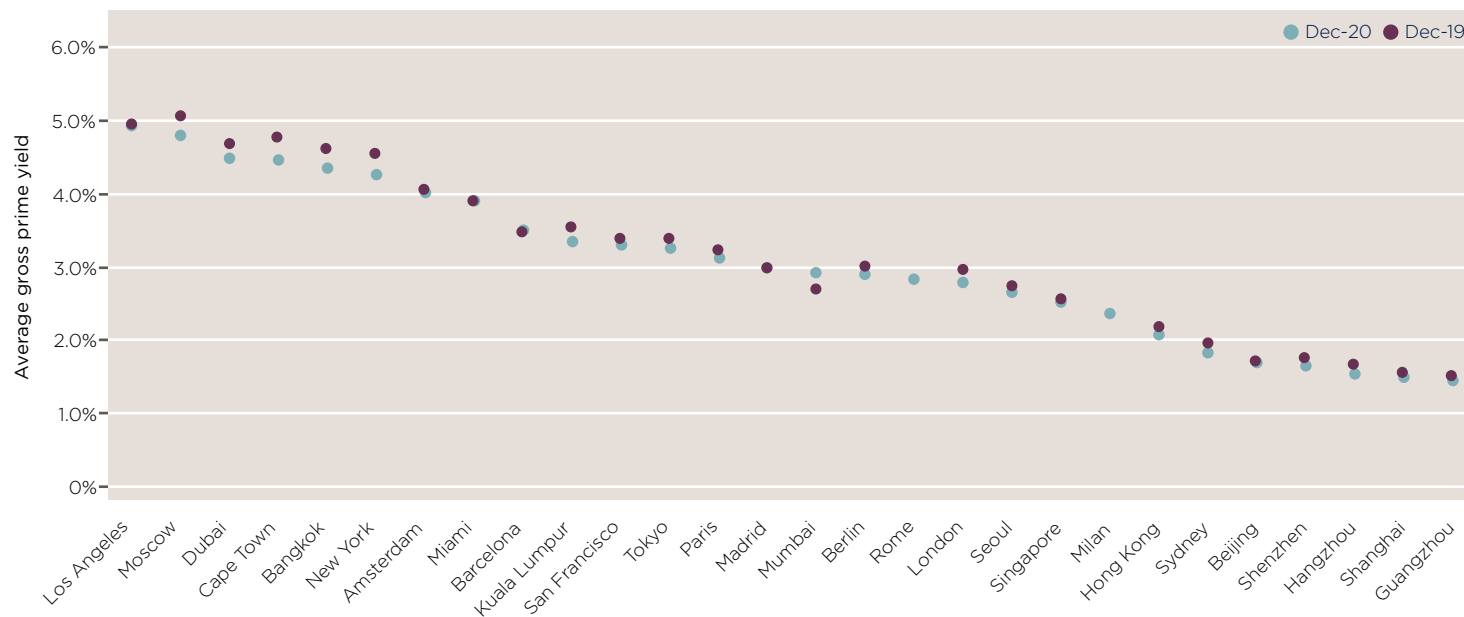
New York experienced the largest yield shift of the cities in the index. The average yield here stood at 4.2% in December 2020, compared with 4.5% a year prior. Dense

urban living fell out of favour as a result of the pandemic and this has impacted New York's residential market. Rental values have, however, seen a larger fall over the past year. While owners may hold onto their properties during a crisis if they do not need to sell, landlords are more likely

to lower rental values in order to keep their property occupied.

Moscow saw the largest shift of the European cities in the index moving to 4.8% in December 2020 from 5.0% in December 2019. Unlike the purchaser market, international and corporate tenants drive the prime rental market in the Russian capital. In Asia Pacific, Bangkok saw the largest change over the same period, falling to 4.3% from 4.6%. The prime rental market in the Thai capital has a high level of supply, while demand is predominantly driven by international tenants.

Average yields by city: December 2020 vs December 2019



Source Savills Research

Note: Rome and Milan are new additions to the index and therefore historical data is not available



Hong Kong retains its top slot as the most expensive city for both purchase price and the associated costs

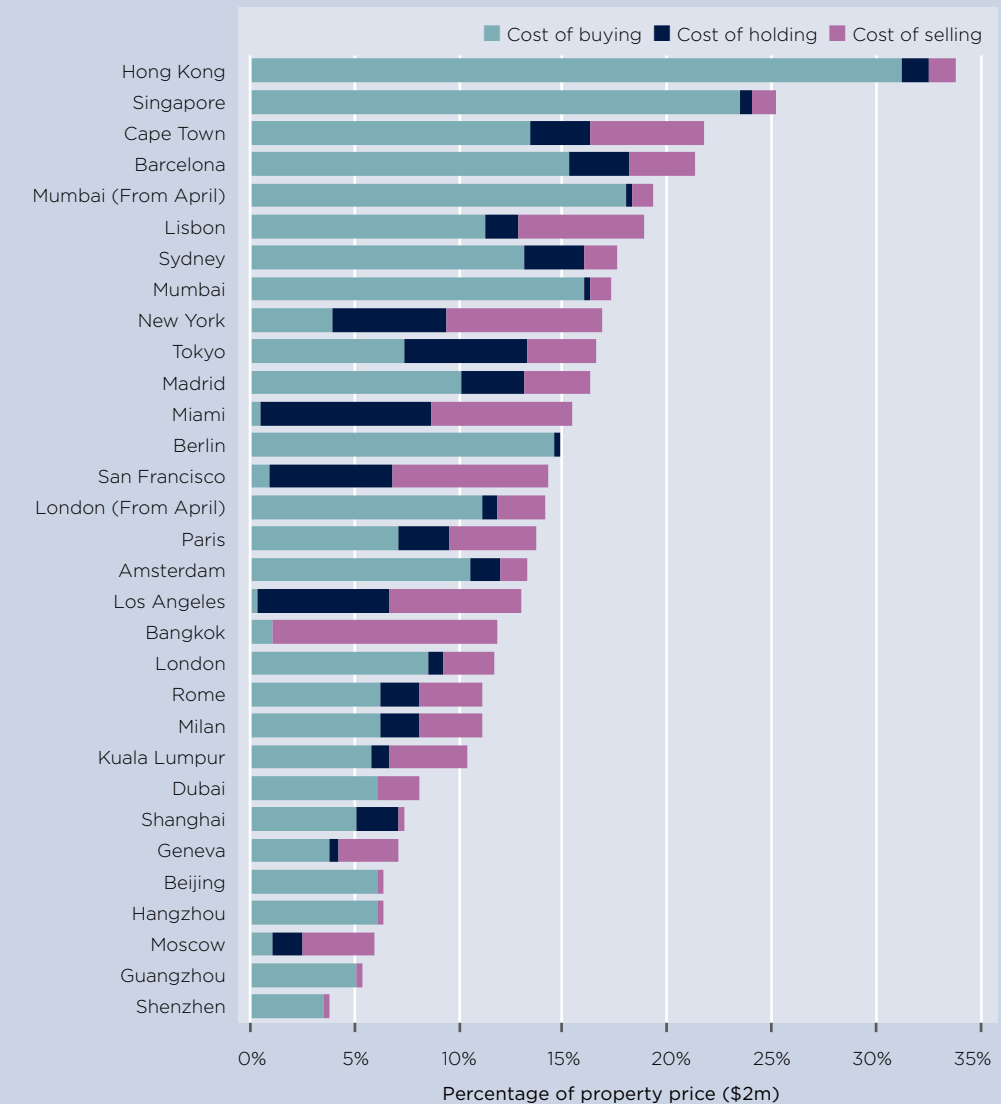
## Buy. Hold. Sell.

For those looking to purchase a property abroad, the associated costs are often a key consideration

The associated costs with buying, owning and selling a property can influence buyer decisions. Property taxes are also often used as a tool by governments to influence residential markets. Since the pandemic, we have seen tax reductions be used as a tool to drive growth in residential

Hong Kong, meanwhile, remains the most expensive city in the World Cities Index for both the purchase price and the associated costs for an overseas buyer. On the other hand, Shenzhen has the cheapest associated costs but has the tenth most expensive purchase price.

Buying, owning and selling a US\$2 million property



Source Savills Research

Note: Our scenario assumes a non-resident overseas buyer purchasing a \$2 million property (which in the UK equates to £1.5 million). This is for use as a second home for less than nine months of the year over a five-year hold. No capital growth has been applied, avoiding the complication of having to forecast that for each city. London (April) buying costs include the SDLT increase which takes effect 1 April 2021 and assumes the current SDLT holiday ends on 31 March 2021. Mumbai (April) assumes the current stamp duty reduction ends on 31 March 2021.



## Savills Research

We're a dedicated team with an unrivalled reputation for producing well-informed and accurate analysis, research and commentary across all sectors.

---

### Research

**Sophie Chick**

Director

World Research

+44 (0)20 7535 3336

sophie.chick@savills.com

**Sean Hyett**

Analyst

World Research

+44 (0)20 7409 8017

sean.hyett@savills.com

### Global Residential

**Justin Marking**

Head of Global

Residential

+44 (0)20 7499 8644

jmarking@savills.com

**Hugo Thistlethwayte**

Head of Global

Residential Operations

+44 (0)20 7409 8876

hthistlethwayte@savills.com

**Jelena Cvjetkovic**

Director

Global Residential

+44 (0)20 7016 3754

jcvjetkovic@savills.com