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'NEW WORLD' RESIDENTIAL MARKETS SHOW HIGH RISK HIGH REWARD COMPARED TO 'OLD WORLD' STABILITY

The characteristics, type and quality of a city's residential stock are a key component of its global competitiveness. A small number of world cities can count themselves among a truly global market, sought by the world's richest households and behaving almost like a separate asset class to a worldwide investor audience.

International property adviser, Savills, has piloted a new Global Cities survey that examines four of these key cities. It very clearly demonstrates that leading cities in 'new world' emerging markets have significantly outperformed the more established prime residential markets in 'old world' economies over the last five years – but at the expense of greater volatility.

Savills survey is unique in comparing residential property prices, not on the basis of equivalent properties in each city (which are sometimes impossible to find) but on the basis of equivalent households. Their total value and rent measures are based on a group of people who might typically relocate or be employed in any one of the cities studied.

On this basis, **Hong Kong was found to be 55 per cent more expensive, and New York 15 per cent cheaper than London on current sterling values.** The analysis also reveals that these so-called global cities all significantly outperform the broader market of their countries and act as a real funnel for wealth, particularly internationally-generated wealth.

The Savills study put the spotlight on four global cities – two established, two emerging – and found the cost of a comparable 'basket' of properties was now significantly higher in the emerging global cities. Instead of the usual standard price per square foot measure used by other indices, the company has analysed the cost of an 'executive unit' or basket of properties comprising the typical homes of a regional chief executive, two local directors and four locally employed administrative staff.

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Explaining the methodology, Yolande Barnes, head of Savills Research said, “We believe it is more meaningful to compare global centres based on the total cost of property for a core executive group since this is a key measure of competitiveness and a vital consideration for corporate global decision makers.”

In Hong Kong, the total cost of the basket of seven properties is now £15 million, compared to just over £10 million in Moscow, £9.6 million in London and just £8 million in New York.

Hong Kong most expensive for all; London offers value to some

“Our analysis reveals that these four global cities each significantly outperform the broader market of their countries and act as a real funnel for wealth,” says Barnes. “They do this by attracting money from a global elite of billionaires who invest in real estate for different reasons and with a different source of wealth from the rest of the population. Our analysis of the properties occupied by the super-rich demonstrates that the global billionaire inhabits an international ‘Richistan’, very much detached from the rest of the market.”

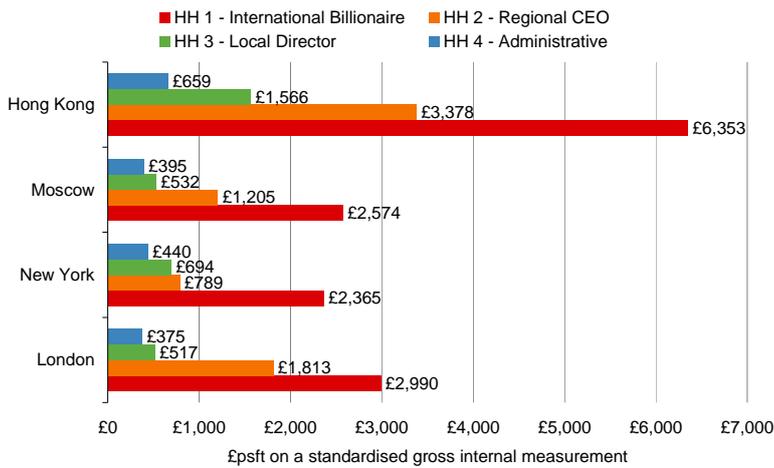
The average value of the homes occupied by the global super rich is around double that of a regional CEO on a standardised price per square foot measure, ranging from almost £6,500 per square foot in Hong Kong to almost £2,500 in New York, just over £2,500 in Moscow and £3,000 in prime London.

Hong Kong is the most expensive centre for every household type, including the global billionaire. Surprisingly, for those working at administrative and director levels, London looks to offer good value housing in a global city context. It is the cheapest location for local employees at this level, who are likely to occupy the more far-flung ‘metroland’ suburbs which characterise most of the outer boroughs.

The reluctance of ordinary home-owning London families to occupy flats, as well as a preference to own freehold plots with gardens also pushes this population into the house-dominated suburbs, says Barnes believes. This relatively cheap (by global standards) housing may of course come at the price of longer and costlier commuting times. The unique characteristic of London is perhaps the opportunity to trade size and cost for travel. Meanwhile the high-rise and more compact characteristic of Manhattan, coupled with the willingness of families to occupy apartments offers ordinary New York workers an opportunity to live in quite central areas of Manhattan.

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£psf by household type bar chart



Old world stability plays new world high risk/high reward

“By looking at a basket of properties by occupier type we gain insights into the fluctuating costs of housing - a vital component cost of doing business in a given location,” says Barnes. It is clear that that cost of accommodation has been increasing in the last five years everywhere but New York. As short a time ago as 2005, the costs of residential accommodation in each of the four cities looked broadly similar, with Moscow looking a bit of a bargain. **By the end of 2010 though, Hong Kong and Moscow are considerably more expensive than London, and New York is the bargain.**

In Moscow, the cost of buying homes for an ‘executive unit’ has doubled and in Hong Kong, it has nearly doubled. This very high growth in the ‘new world’ cities has been accompanied by much more volatility (greater variation of annual returns) than in the old world where growth (or lack of it) has been more stable. “It would appear that both the price growth and its volatility may have something to do with the emerging nature of the country’s economy while the more evolved markets are more stable,” says Barnes.

Values in £m	London	New York	Moscow	Hong Kong
2005	7,622,310	7,938,255	5,110,751	7,781,558
2010	9,619,800	8,047,965	10,327,426	14,928,745
5 year change	26%	1%	102%	92%

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The variation in 5 year returns between cities is even more striking in the prime markets of the cities studied. The growth in the price of a CEO's home in Hong Kong has been 148% over the past 5 years, while the price in New York has fallen by -7%.

Regional CEO home	5 year growth	
London	47%	
New York	-7%	
Moscow	110%	
Hong Kong	148%	

To rent or to buy?

By contrast, rental values have fluctuated less than capital values in all cities. Despite some falls in recent years associated with lower corporate activity in the global economy, rents have generally held up better than capital values.

City	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10
London	6.0%	5.3%	4.8%	5.2%	4.6%	4.7%
New York	4.3%	4.3%	4.0%	4.4%	5.1%	5.0%
Moscow	8.4%	8.2%	6.6%	6.7%	5.6%	5.8%
Hong Kong	4.0%	3.8%	3.4%	4.3%	2.8%	2.6%

The recent high capital value growth has suppressed yields everywhere but in New York. Here, average rental returns to investors buying a portfolio of properties for the group of people comprising our 'executive unit' have moved out from 4.3% to 5% over the 5 year period. In Hong Kong by contrast, gross rents now only account for a 2.6% return, compared with 4% in 2005. This makes renting a distinctly cheaper option than buying when relocating between cities.

London, too, has relatively low rental returns averaging 4.7% across the weighted basket of properties while Moscow enjoys the highest yields of 5.8%. This means that the capitalised cost of renting in this city is closer to buying.

"To summarise this research, I would say that we have uncovered a virtual global continent where billionaires move markets," says Barnes. "Among the capital cities on this continent are Hong Kong, London, New York and Moscow. The real estate markets in these cities may have more in common with each other than they do with those of the geographical country in which they sit.

"Global flows of equity are key to the health of these markets and the creation of wealth in emerging markets over the next decade will ensure that they grow – regardless of domestic market conditions."

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NOTE RE METHODOLOGY: Household Details – Description of the ‘executive unit’

Our means of comparison across national boundaries is a consistent group of imagined people, relocated in different world cities/locations. This group or ‘unit’ consists of four households, each with different incomes and family circumstances. Two are international expats and two are locally employed personnel.

The index comprises of the following ‘basket of properties’:

	4 x Administrative	2 x Local Director	1 x Regional CEO
Head of household	Locally employed administrative worker, Female, aged 28.	Locally employed director, Female, aged 32.	Regional CEO of large corporate conglomerate, Male, aged 52.

We have also monitored the property of a Global Billionaire

	Global Billionaire
Head of household	Owner of large corporate conglomerate, Male, aged 60.