

Savills Prime Residential Index: World Cities Capital Values



After a strong 2021, growth continues into 2022

The prime residential market's strong performance seen at the end of 2021 continued into the first half of 2022. Across the 30 cities covered by the Savills World Cities Index capital values grew by an average of 2.4%.

North American cities have performed the strongest in 2022 so far, followed by cities in Europe. Some APAC markets are still more acutely feeling the effects of the Covid-19 pandemic, while most global cities

are experiencing the impact of geopolitical uncertainty, increasing inflation, and rising interest rates, albeit yet to materially impact pricing in the prime markets.

Hybrid working is likely here to stay, so re-evaluating priorities and a changing of lifestyle has led prime purchasers to demand greater indoor and outdoor space, as well as focusing on purchasing the right property in a central, well connected location.

Between December 2021 and June 2022, 90% of the cities in the Index reported positive capital value growth. This growth was driven by continued positive market sentiment, still relatively low interest rates, constrained supply, and the comparative attractiveness of prime residential property as an investment. In all but three cities (Cape Town, Barcelona and Mumbai) prime capital values have now exceeded pre-pandemic levels.

Focal points

From Dec 21
to Jun 22



2.4%

Capital value growth
across all index cities



90%

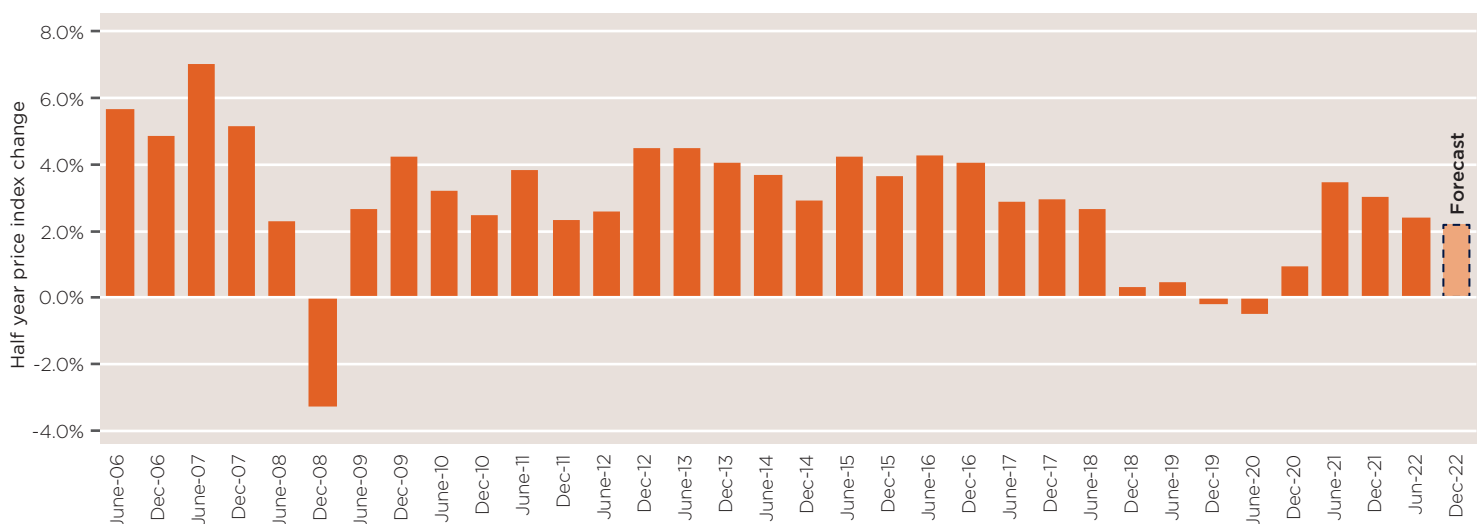
Percentage of World
Cities reporting positive
capital growth



12.5%

Miami holds the top spot
for prime capital
value growth in first half
of 2022

Savills World Cities Index Half year change in capital values



Quality of life remains a priority for buyers

Miami once again holds the top spot for prime capital value growth, recording a half year rise of 12.5%. Lower taxes and a high quality of life encouraged migration from other US locations, fuelling the city's success. In common with Miami, Dubai, Lisbon and Cape Town each also benefitted from the renewed appreciation for a warmer climate, higher quality of life, and increased desire for more space.

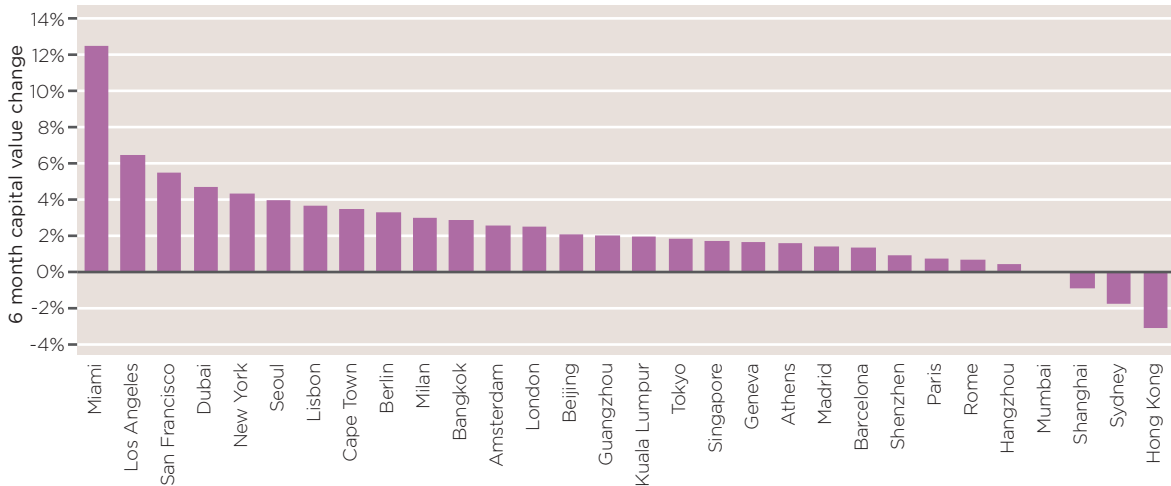
In Dubai, prime prices grew by 4.7% during the first half of the year and the city is forecast to see strong capital growth continue for the remainder of 2022. Aided by the inflow of high net worth individuals and success of its Golden Visa scheme, the UAE is predicted to receive 4,000 millionaires relocating to the country in 2022, four times the pre-pandemic norm of 1,000 per annum, according to Henley & Partners. Dubai continues to channel investment into the city's infrastructure,

improving its leisure and tourism offering with the aim of retaining and attracting talent and businesses.

North American cities: Los Angeles, San Francisco, and New York, all saw capital value growth in excess of 4% in the six months to June 2022. San Francisco and Los Angeles prime capital values have surpassed their pre-pandemic price levels, whilst New York City is yet to reach its 2017 peak. Low stock levels, coupled with the connectivity and economic opportunity that Los Angeles offers all helped to boost its prime residential prices.

Turning to Europe, the prime residential markets of Berlin and Milan have benefitted from diversified economic and cultural offerings, supporting a broad buyer base. Amsterdam and London, meanwhile, both characterised by a lack of stock, have continued to see growth, though fewer than expected international buyers

Capital value growth six months to June 2022



Source Savills Research

slowed that growth in the first half of 2022. In Paris, prime residences with large floor plans in central locations are performing best. Paris also offers comparative value in a global context, with prime property prices at \$1,600 per square foot (€15,500 per square metre), 25% less than Geneva and 15% less than London.

Seoul was the strongest performer in the Asia Pacific region, despite headwinds in the form of rising interest rates that increased to 1.75% in May, the highest level since summer 2019. Prime prices have risen by more than 10% in the South Korean capital in the last 12 months, and are forecast to continue growing for the remainder of 2022.

One of Asia Pacific's most important cities, Seoul's resilient economy supports a strong domestic purchaser base.

Capital values in Chinese cities we monitor peaked in June 2021, and have since softened as the country deals with the Covid-19 pandemic, coupled with wider economic uncertainty, impacting buyer sentiment, despite government stimulus measures. Economic headwinds and the high ratio of debt within the real estate industry are proving difficult to counteract from a policy level. Of our 30 global cities, Hong Kong has suffered the most and a challenging outlook alongside rising construction costs has led developers to pause new projects.

Outlook

- Inflation and rising interest rates will weigh negatively on buyer sentiment, but prime residential property is less reliant on debt financing, and remains an attractive asset for wealth preservation and capital growth prospects.
- Growth is set to continue, but at a lower average rate. Capital value growth across the 30 global cities we

monitor is forecast to average at 2.2% in H2 2022, slightly lower than the 2.4% recorded in the first half of 2022.

- Dubai is set to perform the strongest for the remainder of 2022, followed by Madrid, Barcelona and Milan. Despite rising interest rates, Seoul and Singapore's economies remain resilient and benefit their

prime residential sector, while the opening of Thailand's international borders will boost Bangkok's prime market in the second half of 2022.

- The outlook is more muted for Hong Kong, Sydney, Kuala Lumpur, Shanghai and Hangzhou, where local economic conditions will weigh more heavily on prime markets.

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Savills Prime Residential Index: World Cities Rents and Yields



Rents outpace capital value growth

Rental growth outpaced capital values in the first half of 2022, increasing by an average of 3.1% across the Savills World Cities Index, set against a 2.4% increase in capital values.

Stock shortages and pent-up demand following migration to cities with the re-opening of international borders at the end of 2021 continued to fuel growth. A revival of corporate travel, purchasers 'trying before they buy', and a prioritisation of the home thanks

to more remote working are all factors driving the growth in the prime rental markets of the world's leading cities.

New York, Singapore, London and Los Angeles led growth, all recording prime rental increases in excess of 5%, benefitting in particular from the return of international travel. By contrast, Asian cities such as Hong Kong, Shenzhen and Hangzhou saw more muted performance, still contending with challenges related to Covid-19.

In the six months to June 2022, the average gross prime yield across the 30 cities within the Index remained at 3%. Dubai, New York and Los Angeles are the highest yielding cities, above 4.5%, though these have moved on since June 2021.

At the other end of the spectrum, Asian Pacific cities dominate. In Sydney, Seoul and Beijing prime yields range from 1.5% to 2%.

Focal points

From Dec 21
to Jun 22



3.1%

Rental growth value
across all index cities



3.0%

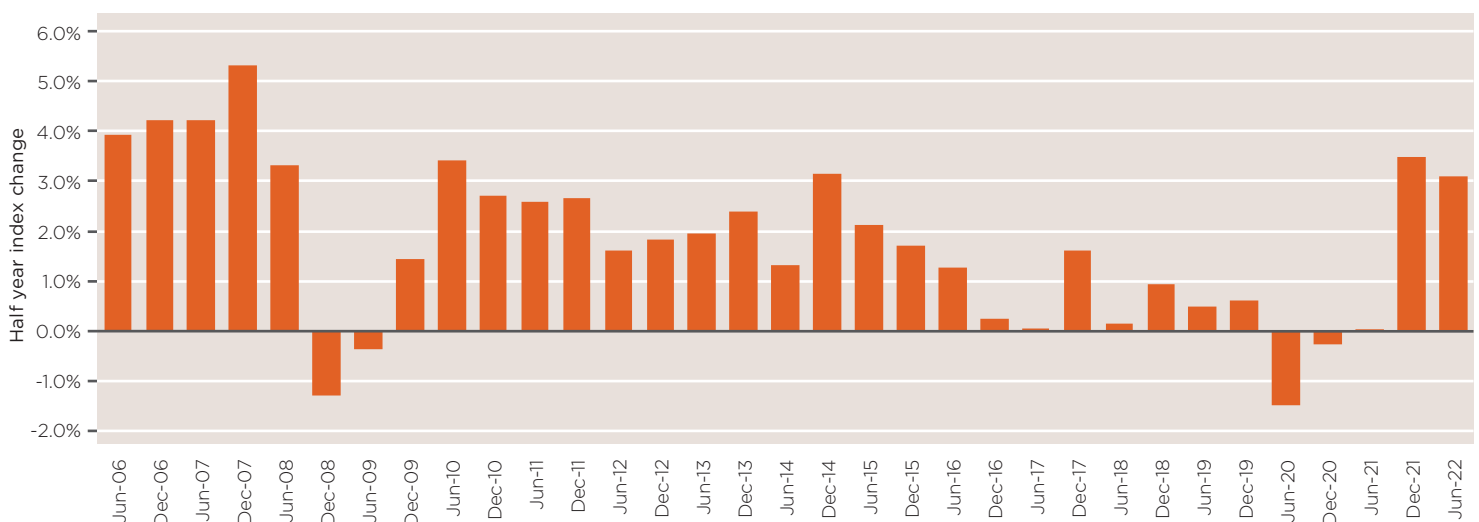
Yields hold steady
at 3.0%



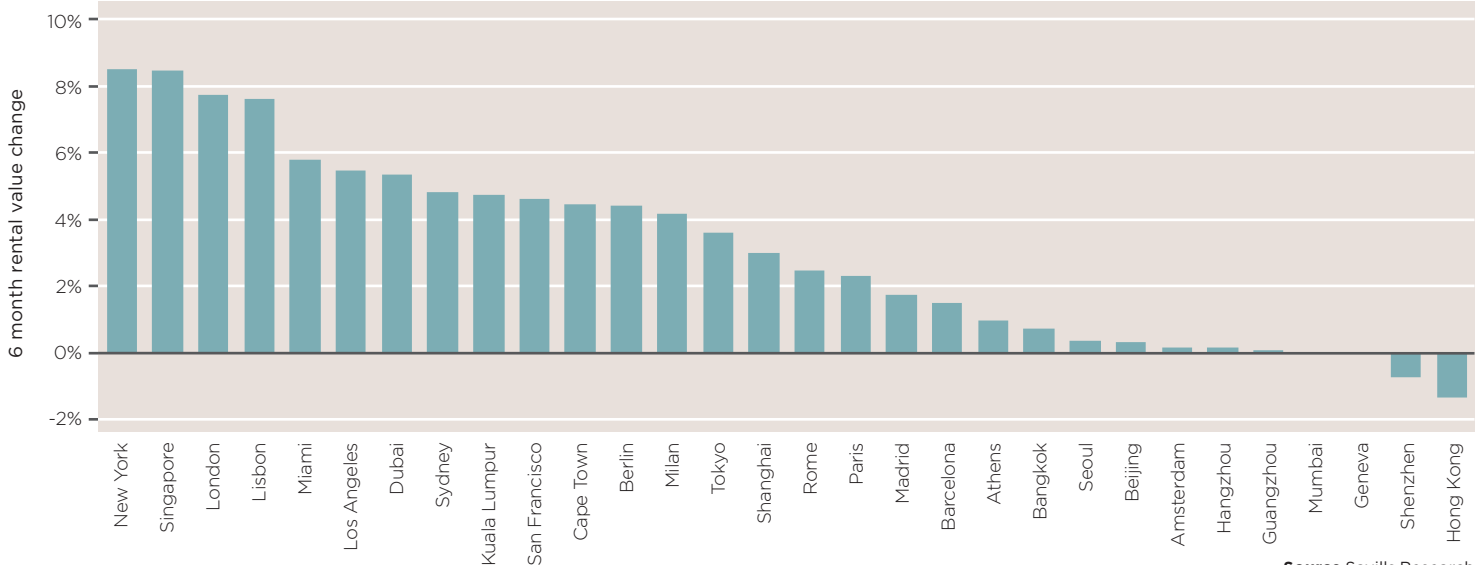
1st

New York rents reach
historic high

Savills World Cities Index Half year change in rents



Savills World Cities Index Rental value change



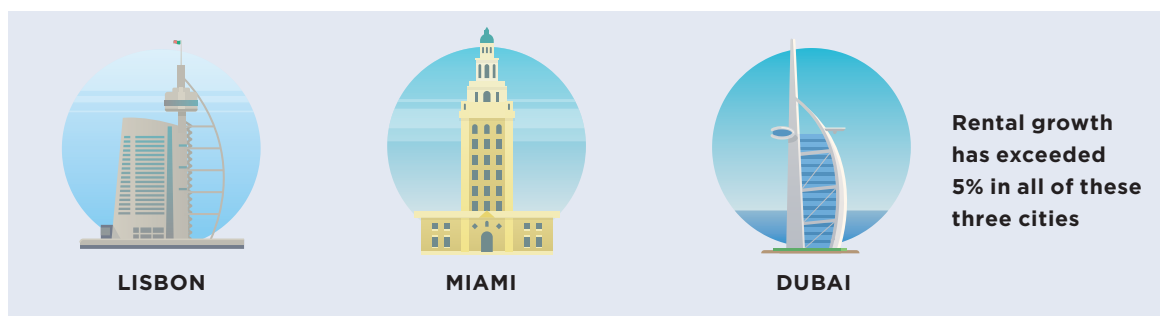
Source Savills Research

Megacities are once again thriving as tenants are drawn to the urban living they offer. New York reached the highest rents on record, driven by tight inventory and demand for larger spaces, for which renters are willing to pay a premium. Despite a broader US trend of migration to smaller cities, the Big Apple continues to draw from a deep demand base, and is forecast to maintain low vacancy rates over the summer, its strongest season for rentals.

Singapore and London fully recovered their pandemic-induced rental falls in the first half of 2022. In Singapore, migration from Hong Kong has been a factor, the Singaporean tourism board recorded double-digit month-on-month growth in new arrivals from the area in the first three months of 2022. Prime residential rents in London saw their strongest annual growth in over 20 years, surpassing even the recovery following the global financial crisis of 2008.

In Lisbon, Miami and Dubai rents have grown apace, benefitting from the wider lifestyle trends seen in other markets, all exceeding 5%. Topping the Savills Executive Nomad Index, demand for prime residential in Lisbon remains strong, with tenants attracted to a comparatively affordable global location, offering a high quality of life, more space and lower living costs.

Still commanding the highest prime weekly rents, Hong Kong's rental market has contracted as pandemic restrictions and weak residential investment sentiment prevail, akin to other Chinese cities. Hong Kong has suffered from negative net migration since 2020. By contrast, rents have outperformed capital values in Sydney (up 4.8% and down -1.7%, respectively). The opening of the international border in November 2021 was fundamental to their rental market and growth is expected to continue despite economic headwinds.



Outlook

● Two thirds of the cities we monitor have seen rents recover to their pre-pandemic levels. International tenant demand has been fundamental in the return to growth. Prime rents have only returned to pre-pandemic levels in half of the Asia Pacific cities we monitor. In Europe, which has

been open for longer, only Paris and Amsterdam are yet to see average prime rents return to pre-pandemic highs.

● While corporate tenants have begun to return, remote work and virtual meetings led firms to re-think business travel. Companies and employees are also reevaluating

the need to travel given the climate crisis, and this may have some impact on demand longer term.

● A lack of inventory will continue to fuel growth in the near term, especially for the type of residences prime tenants are demanding: centrally located, quality units with larger floor plates.

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