World Research – February 2024

SPOTLIGHT
Savills Research

Savills Prime Residential Index: World Cities

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

In a year of global economic volatility, residential property has defied expectations and remained resilient, with positive capital value growth seen across many of our World Cities markets in 2023. In times of uncertainty, real estate is often viewed as a safe store of wealth.

The year ahead is the year of elections, adding an additional layer of uncertainty to the outlook. Globally, there are elections taking place in almost 70 countries, accounting for over 40% of the global population and making up over 60% of the world's economic output. As such, we are expecting lower, but still positive, levels of capital value growth in 2024. Some cities are forecast to outperform, with Sydney and Dubai leading the pack.

Turbulent times

Inflationary pressures and difficult market conditions in the prime residential markets across the globe lead to a subdued set of growth performance figures in 2023

In the face of ongoing economic uncertainty and a higher interest rate environment, prime residential markets in world cities were muted but remained resilient, with capital values and rents seeing positive growth. This growth is forecast to reduce further in 2024 as some formerly high-growth markets slow to more sustainable levels from their post-pandemic surges.

Rents outperform price growth

Continuing a trend from the past year, prime rental value growth outpaced capital value growth in 2023, increasing by 5.1% for the year and 2.3% for the second half of the year. This trend has largely been driven by lack of stock in many prime rental markets and increasing levels of demand from individuals and families who would look to purchase a property but are holding off until the economic and interest rate situations stabilise.

Lisbon, by far and away, saw the highest rental growth for the second half of 2023, with rents growing by an average of 22% over the period. Entering the purchase market has become a more protracted decision, both because of rising house prices and interest rates on loans. But the supply of houses on the rental market has not kept pace with demand, leading to a rise in the price of houses for rent throughout Portugal.

Globally, prime yields averaged 3.1% in 2023, and moved out by more than 10 basis points in seven markets across the Savills World Cities Index, led by Lisbon, Berlin, New York, and Barcelona, with each city benefitting from an increase in international and domestic demand leading to growth in their prime rental markets.

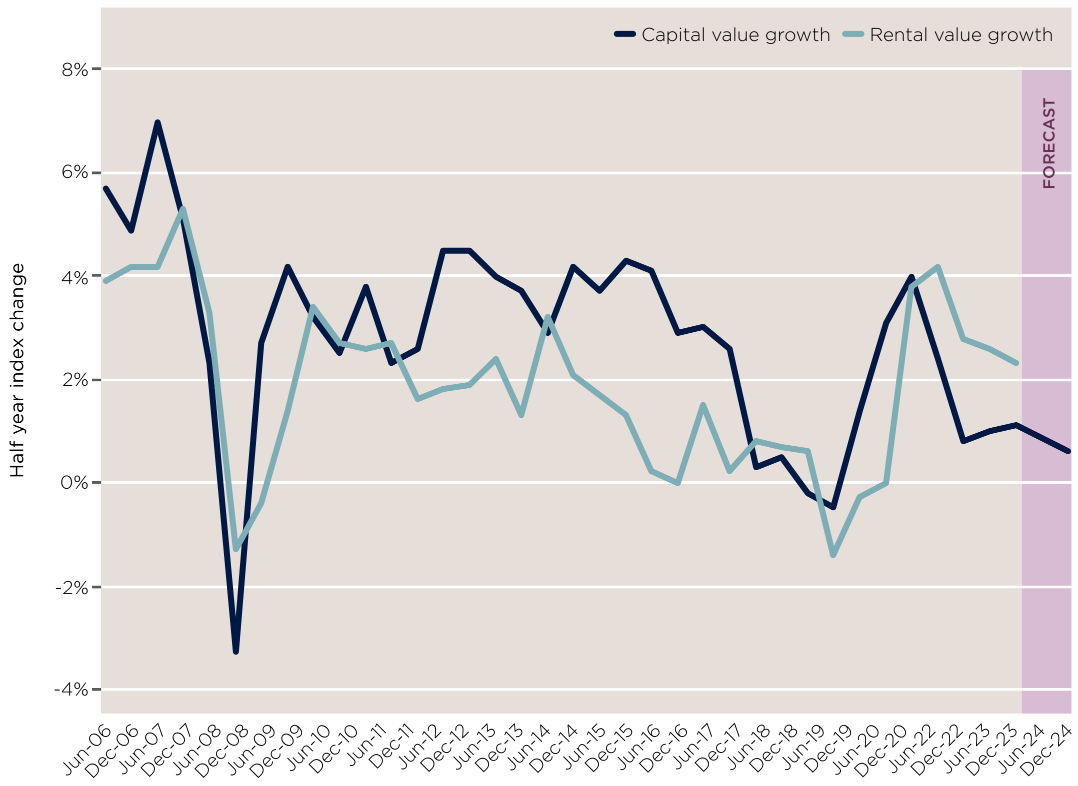
Price rises persist

In spite of economic headwinds, capital values remained in positive territory, rising by an average 2.2% across the 30 cities covered in our index in 2023, with the second half of the year recording 1.1% growth.

Dubai continues to be a hotspot for prime residential property, with capital values increasing 17.4% for the year, with 5.6% recorded in the second half. The market is still relatively competitively priced,by global standards, at $850 per square foot, offers a comparatively low cost of living, a relatively easy visa process, and warmer climate which continues to attract international and domestic buyers.

Some cities felt global economic turbulence more than others, particularly in the second half of 2023. New York and San Francisco, with the former seeing a muted return to office and the latter still weathering tech-turbulence. Hong Kong's ongoing political and economic uncertainty continued to hamper its prime residential markets. Prime prices in the city fell by -3.7% over 2023, but it remains the most expensive prime residential market in the world at $3,970 per square foot.

World city prime residential capital and rental growth
Average half year performance



Source Savills Research

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

Global city: Dubai

Looking ahead

2024 promises to bring an easing of inflationary pressures and with it a 'wait and see' environment

Economists, policymakers, and market participants broadly agree on the outlook for next year: inflationary pressures will gradually abate – with the easy gains largely now behind us – necessitating 'higher for longer' interest rates and the likelihood of a sustained period of weak global growth. This is the basis of the 'soft landing' narrative that has now become the consensus.

Even though prime residential property is less mortgage-reliant than mainstream residential property, weaker macroeconomic conditions will dent sentiment; many potential buyers and sellers will adopt a 'wait and see' approach in a higher interest rate environment. A less active sales market will continue to boost prime rental markets, with rental value growth expected to exceed capital value growth once again this year.

Demographic changes, urbanisation and the global economic outlook will all continue to have effects on global property markets, changing the type and location of properties desired by buyers and renters.

Countries which account for approximately 40% of the global population will go to the polls this year, and housing will likely be front of mind for many voters and policymakers alike.

We expect an average prime residential price growth of 0.6% across our 30 cities, some way down on the 2.2% achieved last year. This is largely the result of some markets which had been outperforming returning to historic average trends. The rarefied nature of prime residential, coupled with a general lack of stock in many cities, will likely prevent a sharper slowdown.

The potential for central bank interest rate cuts during mid to late of 2024 may boost activity across prime property markets and could surprise on the upside for pricing in the latter part of the year.

Capital values outlook for 2024

Growth forecasts

Prime residential property has shown resilience against depressed economic outlooks worldwide, but it is not immune from challenges. Of the 30 major global cities Savills monitors, 17 will record slower capital value growth than in 2023. However, 13 cities are forecast equal or even slightly enhanced growth in 2024

Average prime residential capital value growth

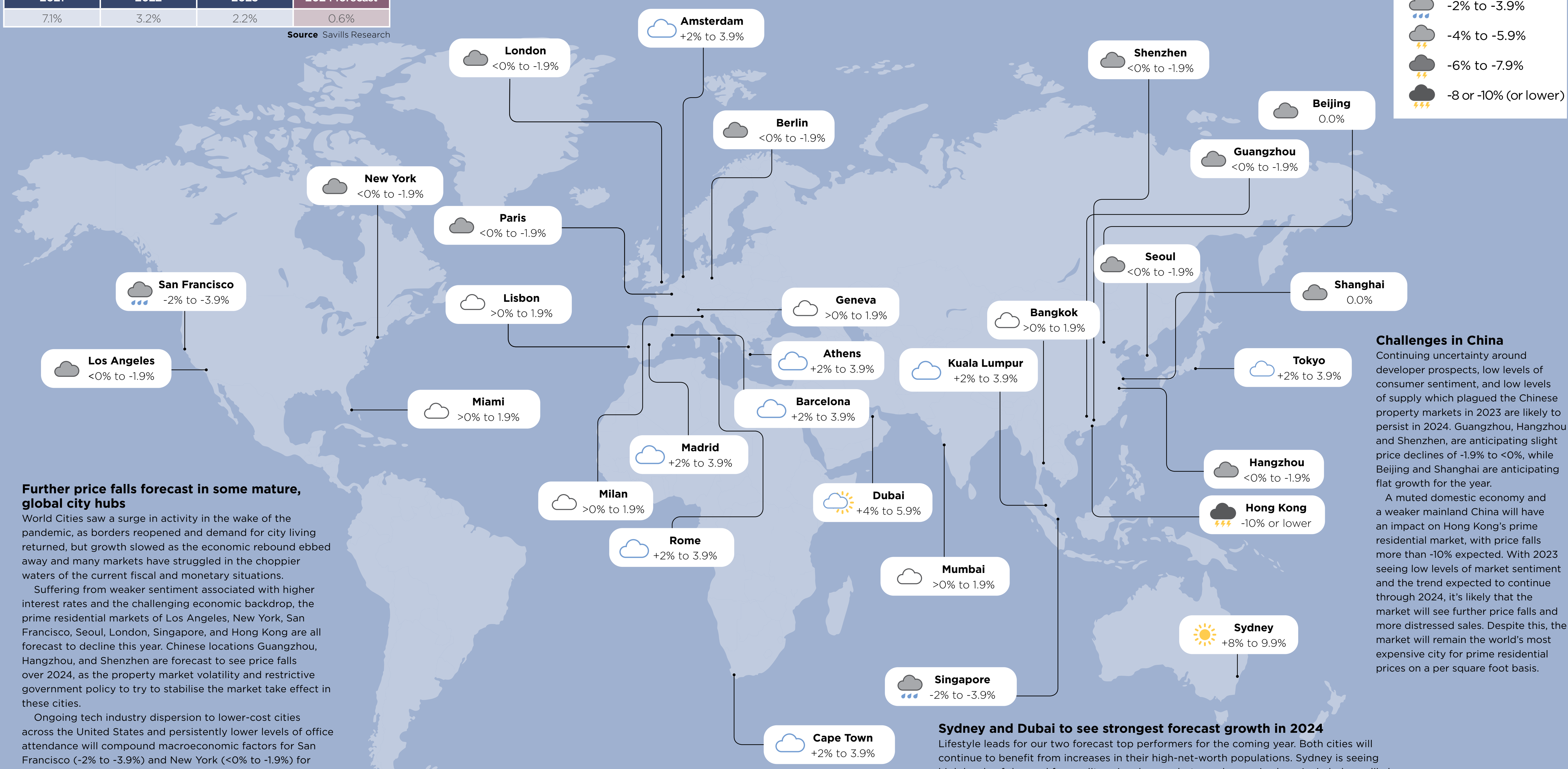
2021	2022	2023	2024 forecast
7.1%	3.2%	2.2%	0.6%

Source Savills Research

Price points take priority

Markets with comparatively lower price points relative to other world cities look likely to perform well over the coming year. Cape Town, Barcelona, Madrid, and Kuala Lumpur each boast prices per square foot below $800, and comprise the next four forecast highest growth markets.

Spanish cities Madrid and Barcelona have seen an influx of buyers from Latin America and the United States in recent years while also seeing lower levels of supply. This imbalance between supply and demand will likely continue to push prices up, with both cities predicting growth of between 2% to 3.9% for 2024. This will build on already robust price growth seen by Madrid and Barcelona over the course of 2023, with capital value increases of 4% and 3.4%, respectively.



Further price falls forecast in some mature, global city hubs

World Cities saw a surge in activity in the wake of the pandemic, as borders reopened and demand for city living returned, but growth slowed as the economic rebound ebbed away and many markets have struggled in the choppier waters of the current fiscal and monetary situations.

Suffering from weaker sentiment associated with higher interest rates and the challenging economic backdrop, the prime residential markets of Los Angeles, New York, San Francisco, Seoul, London, Singapore, and Hong Kong are all forecast to decline this year. Chinese locations Guangzhou, Hangzhou, and Shenzhen are forecast to see price falls over 2024, as the property market volatility and restrictive government policy to try to stabilise the market take effect in these cities.

Ongoing tech industry dispersion to lower-cost cities across the United States and persistently lower levels of office attendance will compound macroeconomic factors for San Francisco (-2% to -3.9%) and New York (<0% to -1.9%) for 2024, while Seoul and London will see falls, they will be more modest than those expected in their mainstream markets due to a shortage of prime supply.

Challenges in China

Continuing uncertainty around developer prospects, low levels of consumer sentiment, and low levels of supply which plagued the Chinese property markets in 2023 are likely to persist in 2024. Guangzhou, Hangzhou and Shenzhen, are anticipating slight price declines of -1.9% to <0%, while Beijing and Shanghai are anticipating flat growth for the year.

A muted domestic economy and a weaker mainland China will have an impact on Hong Kong's prime residential market, with price falls more than -10% expected. With 2023 seeing low levels of market sentiment and the trend expected to continue through 2024, it's likely that the market will see further price falls and more distressed sales. Despite this, the market will remain the world's most expensive city for prime residential prices on a per square foot basis.

Sydney and Dubai to see strongest forecast growth in 2024

Lifestyle leads for our two forecast top performers for the coming year. Both cities will continue to benefit from increases in their high-net-worth populations. Sydney is seeing high levels of demand for quality prime homes, but supply remains low. An imbalance likely to persist through 2024, pushing up prices in the city, forecast to increase between 8% and 9.9%. Dubai has been a global leader for capital value appreciation in recent years. Prices have increased by 17.4% over the year; however, it is likely that this rate of growth will slow over the course of 2024 to around 4% to 5.9% as we see a return to a more 'normal market'.

Showing resilience

In the face of economic uncertainty, prime residential pricing proved resilient in 2023, though at lower levels of price growth than seen in the immediate aftermath of the pandemic, with average increases of 2.2% across the index

Global city: Tokyo

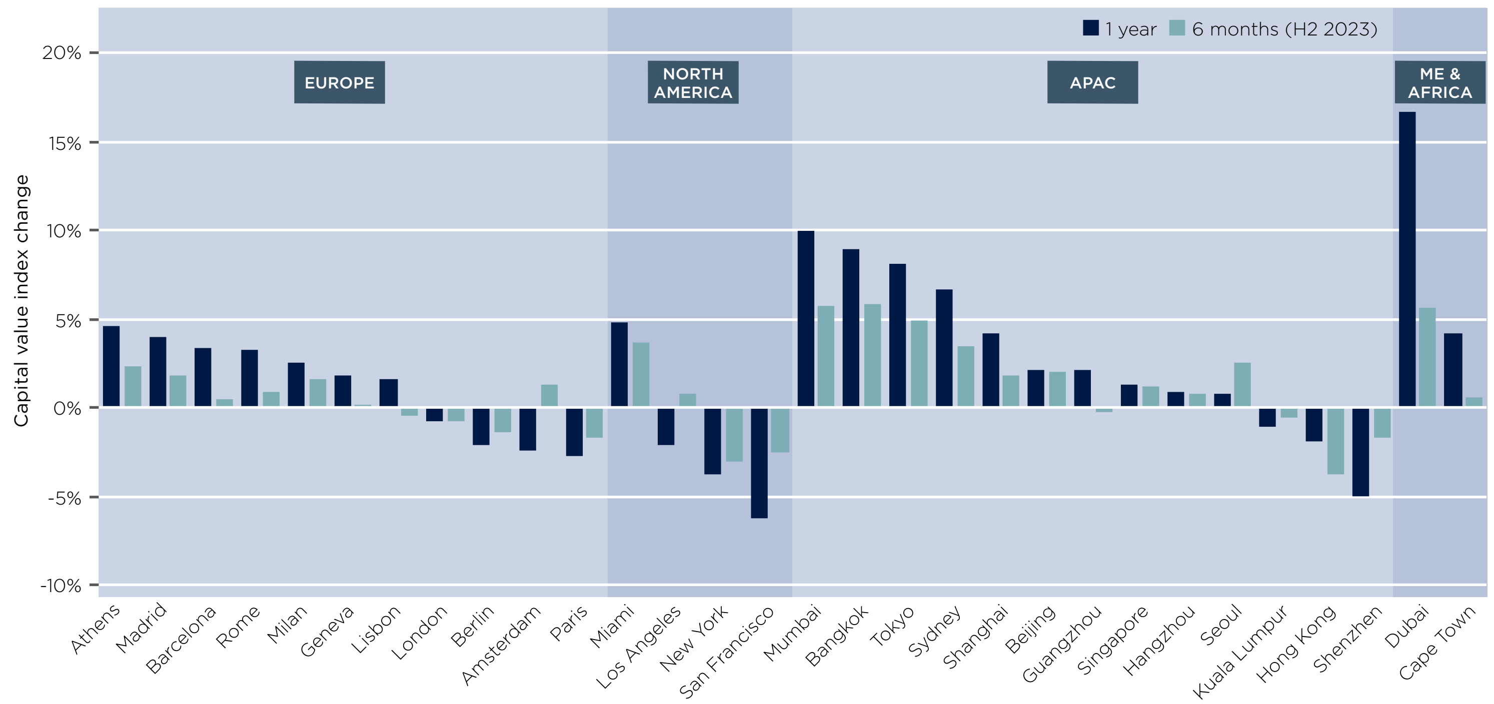
Dubai continues run of growth, Asian locations round out top five

Dubai led capital value growth again for 2023, as international buyers continued to flock to this Middle Eastern hub. For 2023, Dubai saw capital value increases of 17.4%, more than seven percentage points ahead of the second place market, though the rate of growth slowed to 5.6% in the second half.

Mumbai claims second place for capital value growth over 2023, as the market witnessed increased traction in the luxury segment. Large bungalows and prime residences were preferred, especially by domestic high-net-worth individuals with newer properties commanding higher prices.

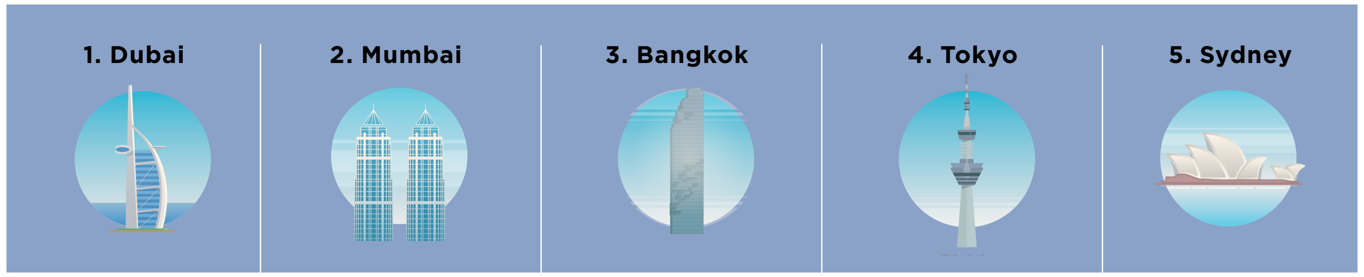
Bangkok, Tokyo, and Sydney round out the top five locations with highest price growth over 2023, with each market seeing demand outstrip supply over the course of the year. Tokyo is a notable standout with increasing in-migration to the city in the post-pandemic era, new prime developments are attracting more buyers, and the market has proved remarkably resilient as one of the only leading global markets which hasn't seen rising interest rates, further underpinning the residential markets.

Prime residential capital value growth, 2023



Source Savills Research

Top five World Cities with highest price growth in 2023



Source Savills Research

Sunny southern Europe

Markets in southern European locations showed resilience in the face of economic volatility, high inflation, and rising interest rates. Athens saw the highest growth in prime residential prices, increasing 4.6% for the year. Cities in Spain and Italy also performed well, with capital values increasing in Madrid (4.0%), Barcelona (3.4%), Rome (3.3%), and Milan (2.5%).

These locations are comparatively lower priced than some northern European counterparts, and coupled with their status as more 'lifestyle' locations with warmer climates, they have been able to attract buyers from all over the world. Stock of prime properties in each market remains limited as well, which continues to support pricing.

Northern European locations tended to see lower levels of capital value appreciation over the course of 2023. In Amsterdam, capital values increased by 1.3% in H2, offsetting price falls recorded in the first half of the year. This rebound is likely to continue as the market remains undersupplied and potential buyers are seeing increasing wages across the Netherlands.

North American trends

Miami was the strongest performer of the North American markets Savills monitors in the World Cities index in 2023. Capital values grew by 4.9% as the city continues to attract residents from across the United States, and beyond.

San Francisco and New York continue to suffer fallout from the ongoing turbulence in the tech industry, as well as from high mortgage rates, recession fears and financial market uncertainty across the country which sapped market confidence to drive sales, inventory, and prices lower. Los Angeles prices continued to fall during the first half of the year, though a slight positive increase in pricing of 0.8% during the second half of 2023 and forecast growth between -1.9% to <0% may mean that its darkest days are behind it.

Prime residential capital values around the world

City	Prime capital value Dec 2023 (US$ psf)	Prime capital value Dec 2023 (€ psm)
Hong Kong	$3,970	€39,100
New York	$2,560	€25,300
Geneva	$2,550	€25,100
Shanghai	$2,060	€20,400
Tokyo	$1,950	€19,200
London	$1,920	€18,900
Sydney	$1,830	€18,000
Singapore	$1,800	€17,800
Seoul	$1,730	€17,100
Paris	$1,550	€15,300
Los Angeles	$1,550	€15,300
Shenzhen	$1,530	€15,100
Milan	$1,520	€15,000
Beijing	$1,520	€15,000
Guangzhou	$1,510	€14,900
Miami	$1,510	€14,800
Rome	$1,410	€13,900
San Francisco	$1,400	€13,800
Lisbon	$1,330	€13,100
Hangzhou	$1,230	€12,100
Berlin	$1,150	€11,300
Mumbai	$1,140	€11,300
Athens	$1,130	€11,200
Bangkok	$1,050	€10,300
Amsterdam	$960	€9,500
Dubai	$850	€8,400
Madrid	$750	€7,400
Barcelona	$680	€6,700
Kuala Lumpur	$250	€2,500
Cape Town	$250	€2,400

Source Savills Research

Rents set the pace

Rents outpaced capital values in 2023 with 28 of the 30 cities tracked in the World Cities index experiencing positive rental growth. Rents increased by an average of 5.1% compared to the average capital value growth of 2.2% for 2023

Lisbon leads

Over the course of 2023, prime residential rents in Lisbon grew by an average of 39%, with 22% growth recorded in the second half of the year alone. The legislation implemented by the Portuguese government at the end of 2022, stating that landlords could not increase rents over 2%, among other housing regulations, has reduced the supply of rental properties in a market which was already experiencing a supply and demand imbalance.

While the city has seen an influx of lifestyle purchasers, attracted to the city's climate and quality of life on offer, supported by strong business environments, it remains competitively priced compared to other rental markets in Europe, and will likely continue to attract new renters and investors over the coming year.

Appeal of business hubs

Rents in the global hubs of Singapore, Hong Kong, and New York outperformed capital values in 2023. Tight supply in the purchase and rental markets, influxes of expats, and strong business environments have helped attract renters to these global cities.

Singapore saw the highest rental growth across the Asia Pacific region, at 12.3%, albeit down on 2022 levels. This growth was concentrated in the first half, with rents falling by -1.2% in the six months to December – the first fall in rental pricing since the beginning of 2021. This is largely due to more homes being completed from the pandemic-induced construction backlog in 2022, a weaker labour market and poorer business sentiments.

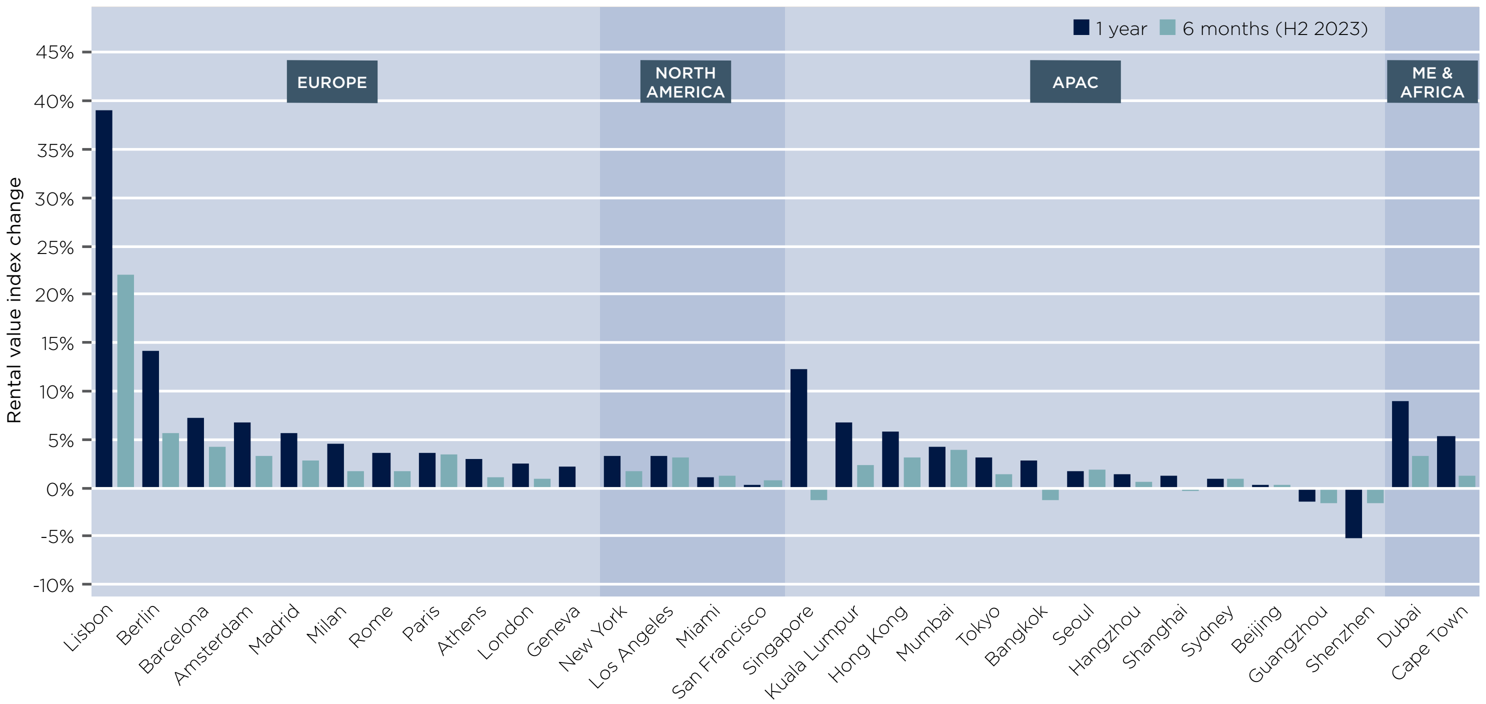
In Hong Kong, high deposit requirements and elevated interest rates, coupled with uncertain home price prospects, pushed some cash-rich buyers into the leasing market. An influx of Mainland talent via a number of different admission schemes has induced strong leasing demand. All of this combined has pushed up rental values for 2023, increasing by 5.9% for the year.

Rental market outlook

In a higher interest rate environment, would-be buyers will continue to turn to the prime rental markets. For 2024, prime rental prices are forecast to post a slight increase for the 30 cities covered in the World Cities index, but this growth will likely remain below the historic average. Amsterdam is forecast to lead the index for rental growth in 2024 with predicted increase from 6% to 7.9% on average. The market has seen a surge in demand coupled with a limited supply and increased regulations on the private rented sector which will likely continue to support price growth over 2024.

Markets which are anticipated to see slight rental price falls include London, Kuala Lumpur, Shenzhen, Hangzhou, and Guangzhou. Each of these markets is forecast to see rental prices decline by an average of between -1.9% to <0% for 2024.

Prime residential rental value growth, 2023



Source Savills Research

Index standouts

Lisbon
Rents in the Portuguese capital rose by 39% in 2023, the strongest increase in Europe

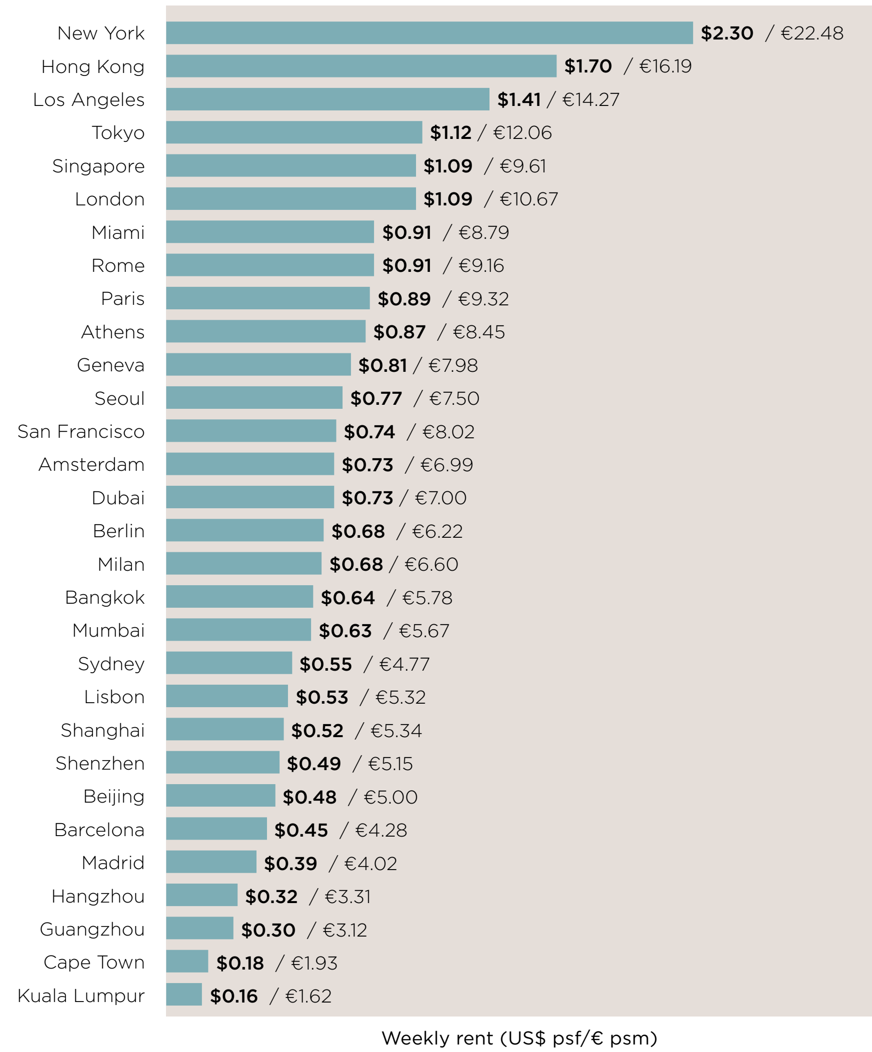
Singapore
Singapore saw the highest rental growth across the Asia Pacific region

Hong Kong
Strong leasing demand in the city pushed up rental values in 2023

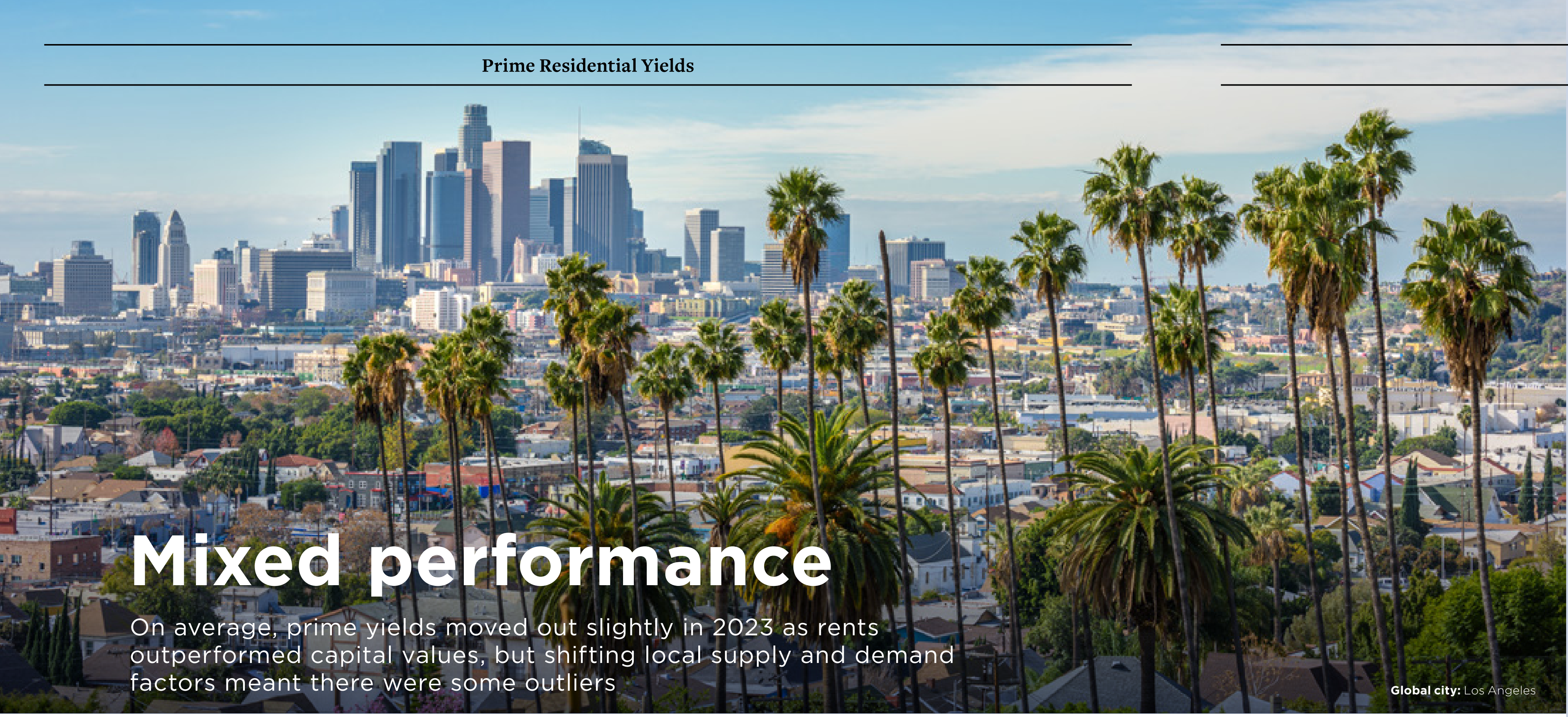
Amsterdam
The Dutch capital's rental market is forecast to have a strong 2024

Where do rents currently stand?

Weekly rent comparison December 2023



Source Savills Research



Mixed performance

On average, prime yields moved out slightly in 2023 as rents outperformed capital values, but shifting local supply and demand factors meant there were some outliers

Global city: Los Angeles

Across all world cities, prime gross yields moved out by 10 basis points in 2023 to 3.1% as global rental markets recorded stronger growth than the sales markets.

Yields moved out fastest in Lisbon, to 2.6% (+70 bps), driven by an acute shortage of ultra-prime rental properties, and Berlin, to 3.3% (+50bps), where more would-be purchasers in the city are choosing to rent and competing for a limited amount of stock.

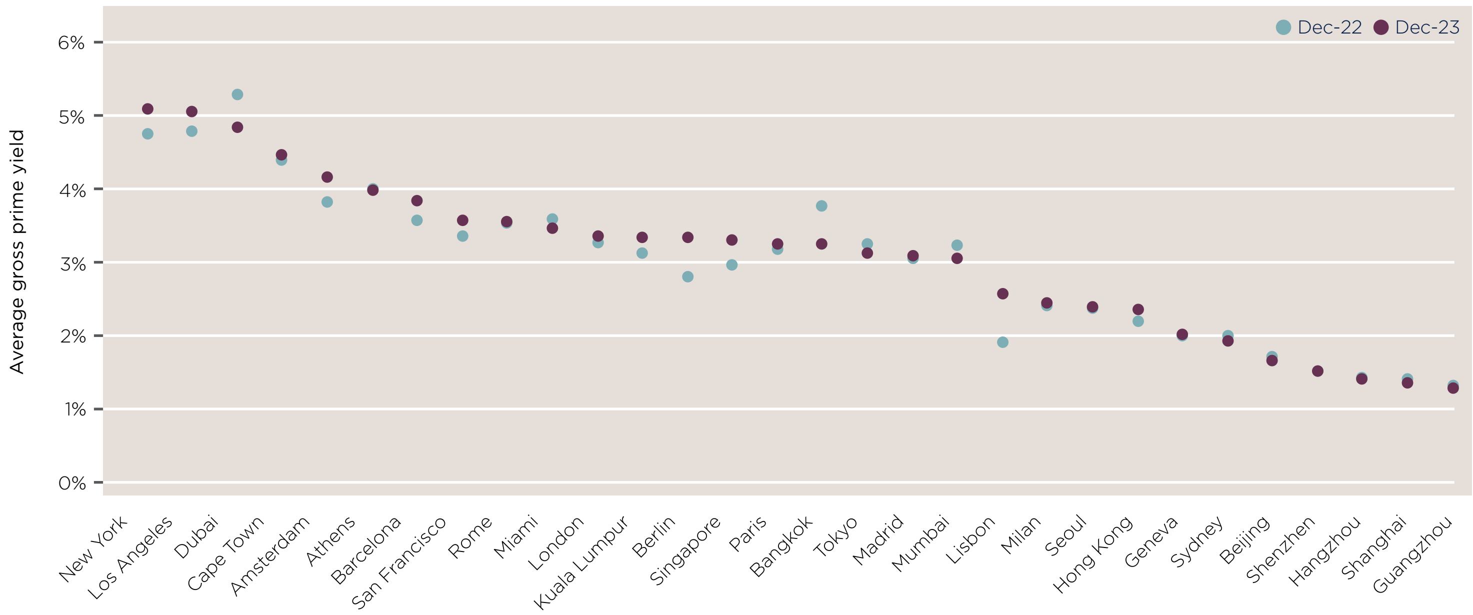
The gateway US cities of New York and Los Angeles remain high yielding by global standards, with diverse economic bases they benefit from deep pools of rental demand, though market conditions have weakened. Gross yields stand at 5.1% (+25 bps) and 5.0% (+35 bps) respectively, as sales markets have slowed faster than rental markets.

Dubai stands out as another high yielding city by world city standards, with returns of 4.8%. Prime yields here have moved in by 40 bps in the last year, during a period in which capital values rose by 17.4% and rents by 8.9%. We can expect to see yields move in further in Dubai this year as capital values growth is forecast to continue to outpace rent rises.

Prime yields average just 2.8% across Asia Pacific world cities, unchanged in the last year. This is a region where home ownership is especially coveted as a store of wealth, a trend that has fuelled capital value growth and kept yields low over the last two decades. Yields in Singapore saw the greatest increase in the region in 2023, moving out by 30 bps to 3.3%. Here too we are likely to see a decline in returns in 2024 as rental markets are forecast to soften amidst increasing completions of new housing supply, coupled with weaker international demand.

Average prime residential yields by city

December 2023 compared to December 2022



Source Savills Research

Global city: Singapore

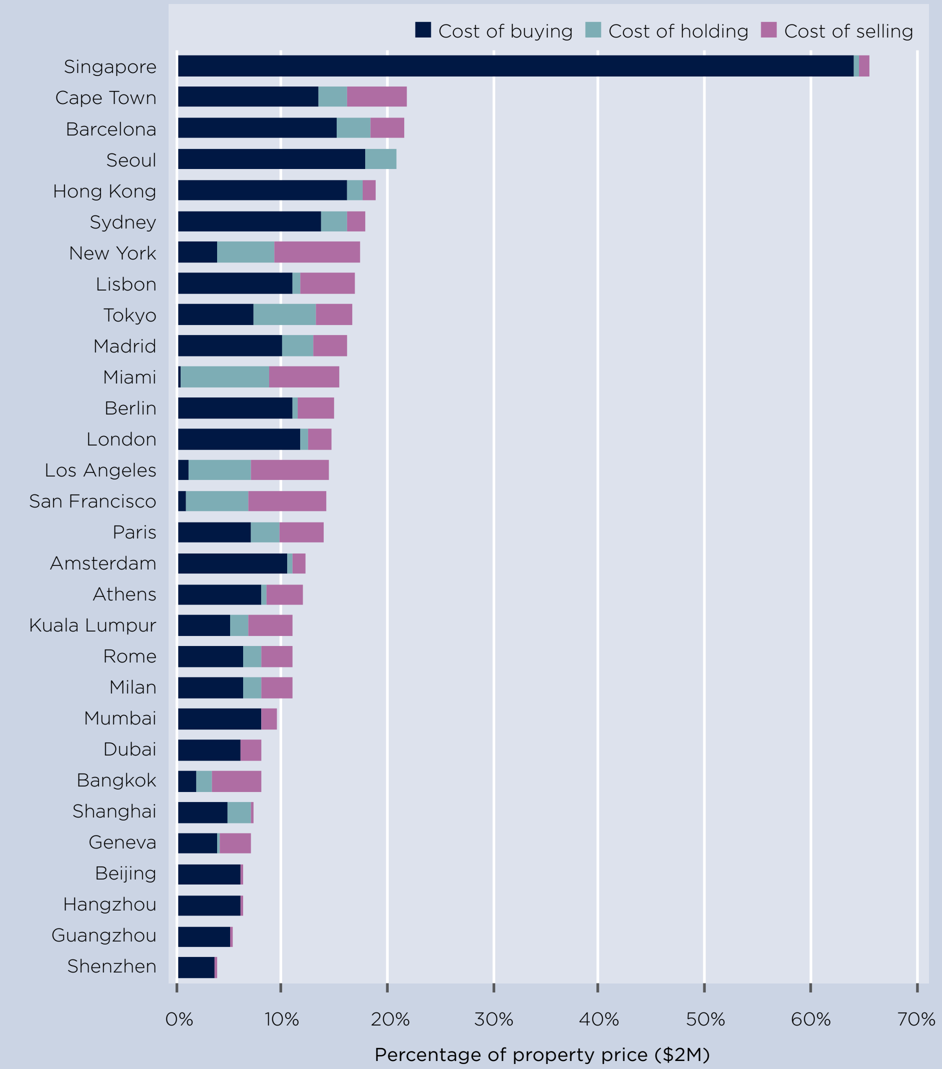
Buy. Hold. Sell.

For international buyers a property's purchase price is only part of the cost equation.

The cost of buying, holding, then selling a prime residential property stands at 15% of purchase price, on average, across our 30 global cities. This ranges from just 6% in our Chinese cities, to 65% in the case of Singapore.

Last year, in a bid to manage demand, Singapore doubled its Additional Buyer's Stamp Duty (ABSD) for overseas buyers from 30% to 60%. By contrast, Hong Kong halved its stamp duties for non-permanent residents, bringing its costs in line with the world city average. This marked the first time in over a decade that such measures have been cut, and aim to stimulate a market that has cooled significantly in the last five years.

Cost of buying, owning and selling a US$2 million residential property



Source Savills Research

Note Our scenario assumes a non-resident overseas buyer purchasing a $2 million property (or local currency equivalent). 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.

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

Paul Tostevin
Director
World Research
+44 (0) 20 7016 3883
ptostevin@savills.com

Kelcie Sellers
Associate
World Research
+44 (0) 20 3618 3524
kelcie.sellers@savills.com

Global Residential

Justin Marking
Head of Global
Residential
+44 (0) 20 7499 8644
jmarking@savills.com

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