

20 May 2014

Savills Research

“FUTURE OF REAL ESTATE MARKETS OF 12 WORLD CITIES”

New *12 Cities* report studies the real estate markets of the leading world cities which are shaped by fame as well as fortune. Highlights include:

- **Savills world city X-factor ranking:** New York and London = 1st, Paris and Singapore = 3rd
- **Ranking for residential real estate investment yields:** 1st Tokyo, 2nd New York, 3rd Paris, with Mumbai, Moscow, Rio offering lowest returns
- **Ranking for commercial real estate investment yields:** 1st Tokyo, 2nd Sydney, 3rd Paris; Shanghai, Mumbai, Dubai and Rio commercial all underperforming gilts
- **Office + residential costs combined measure:** 1st Hong Kong, 2nd London, 3rd Paris
- **Taking the market temperature:**
 - **Hottest markets:** Mumbai, Hong Kong, Shanghai
 - **Coollest markets:** New York, Sydney, Moscow

New York and London have today been named as leading international cities in a new report from international real estate adviser, Savills. The firm classes cities on their prominence and fame, as well as economy and size; factors that will determine the cross-border investability of their real estate and their future as well as their current ‘world class’ city status.

In *12 Cities*, the Savills ‘X-Factor’ world city characterisation looks at a combination of global competitiveness, together with measures such as connectivity, international visitors and web search data, to determine overall world city status. Behind New York and London, using these metrics, Singapore and Paris start to rival the two leaders, while Moscow, Mumbai and Rio de Janeiro are less-established leading global cities in the top tier of twelve in the study.

Savills Vietnam

Savills Vietnam is the largest and most experienced real estate practice with offices in Hanoi and Ho Chi Minh City. The company provides comprehensive property services such as: Residential Sales, Commercial Leasing, Residential Leasing, Research & Consultancy, Valuation & Feasibility Study, Banking & Corporate Services, Investment Brokerage & Advisory, Retail Consultancy & Leasing, Property & Asset Management, Tenant Advisory & Representation, Industrial Consultancy & Leasing, Marketing & Creative services. Savills Vietnam has won the Asia Pacific Property Awards 2013 for “**Best Real Estate Agency Vietnam**”, “**Best Property Consultancy Vietnam**”, and “**Best Lettings Agency Vietnam**” and “**Best Real Estate Agency Website**”. Moreover, in International Property Awards scope, Savills has been awarded “**Best Real Estate Agency Asia Pacific**”. The company consists of over 940 experienced and professional staff nationwide.

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Press Release

“Our definition of a world city is not just based on size or economic prosperity, but other less tangible factors,” says Yolande Barnes, director of Savills World Research. “These include fame, prominence, international reach and investability – all factors that are not revealed by population and GDP figures alone.

“These intangibles impact on the appeal of a city to business and wealth generators, which in turn influences the pace of residential and commercial real estate market growth and contraction and levels of market stability.

“The redrawing of the global economic map is having a significant impact on real estate markets. ‘New world’ economies, notably China and India, have recently seen weakened growth, while older industrialised economies, including the USA, UK and Japan, are now recovering more strongly than many commentators anticipated.

“As a result, the runaway real estate growth of ‘new world’ cities has abated and in some cases, such as Mumbai and prime Hong Kong, it has reversed. The strength of investment markets in new economies are personified by Dubai’s high-growth real estate centre. Its revival is indicative of a market recovering from very full price corrections after 2008.”

The indicators for real estate investment

The Savills X-Factor overall city characterisation does not necessarily reflect traditional measures of economic or real estate costs and values, it speaks to the longer term stability and attractiveness of a world city destination. The three cities with the highest X-factor also appear in the top 4 for investors in residential real estate, however, they are also in the top 4 most expensive destinations for employee live-work costs.

To understand the true appeal of residential and commercial real estate as an asset class in each city, Savills has again compared gross rental income to the income available from 10 year government bonds in each country, creating a ‘net of gilt’ yield. This, they say, gives a true measure of the performance of real estate compared to the local risk environment.

By this measure, Tokyo provides the highest returns in relation to bonds and has started to be favoured by more adventurous investors who understand the singular character and

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risks of Japanese real estate markets. New York too provides some compelling gross yield levels which have encourage increasing investor interest.

THE CITY X-FACTOR RANKING		RESIDENTIAL INVESTMENT RANKING*					COMMERCIAL INVESTMENT RANKING*			COST OF ACCOMMODATING BUSINESS	
Savills Overall World City characterisation		Resi cap growth H2 2013	Resi rental growth H2 2013	Gross resi yield	Gross resi yield net of 10 year Govt Bond Yield ('net of gilt')	World city ranking for resi investors <i>(based on net of gilt measure)</i>	Office yield	Office yield net of 10 year Govt Bond Yield ('net of gilt')	World city ranking for office investors <i>(based on net of gilt measure)</i>	Live-work space cost per employee per year	Live-work cost ranking
1=	New York	3.7%	1.0%	6.1%	3.1%	2	4.8%	1.8%	4	\$112,000	3
1=	London	7.1%	2.3%	4.5%	1.5%	4	3.5%	0.5%	7	\$115,000	2
3=	Paris	-0.8%	0.4%	5.0%	2.4%	3	5.0%	2.4%	3	\$107,000	4
3=	Singapore	0.4%	-0.3%	3.8%	1.2%	5	4.1%	1.6%	5	\$76,000	5
5	Hong Kong	-3.6%	-1.1%	2.9%	0.5%	6	2.7%	0.3%	8	\$123,000	1
6	Tokyo	2.8%	0.4%	4.6%	3.9%	1	4.2%	3.5%	1	\$74,000	6
7	Shanghai	2.7%	-1.1%	2.3%	-2.3%	10	4.3%	-0.2%	9	\$44,000	10
8	Dubai	20.4%	28.7%	5.5%	0.1%	8	4.1%	-1.3%	11	\$72,000	7
9	Sydney	5.2%	3.5%	4.8%	0.5%	7	7.5%	3.3%	2	\$60,000	9
10	Mumbai	-5.0%	-9.2%	3.3%	-5.5%	11	8.5%	-0.3%	10	\$28,000	12
11	Moscow	2.2%	2.6%	5.8%	-2.0%	9	9.3%	1.4%	6	\$70,000	8
12	Rio de J	7.1%	0.0%	5.1%	-9.6%	12	8.5%	-6.2%	12	\$30,000	11

Source: Savills World Research

Taking the market temperature (based on GDP to residential capital values measure)

In *12 Cities*, Savills identifies Hong Kong, Shanghai and, most notably, Mumbai residential real estate values as looking most vulnerable to correction. New York and Sydney look to be markets with greatest scope for growth, while London and Dubai residential prices appear on the higher side of average, particularly the cities' prime markets, but are still some way off the hottest cities.

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“Non-prime mainstream housing stock is now an attractive buy for investors,” says Barnes. “On a world stage, London’s mainstream values look cool, while Dubai and Hong Kong look more fully valued. We now expect that secondary and even tertiary markets in our world cities could offer superior growth compared to prime over the next five years.”

As the tapering and eventual demise of quantitative easing takes effect, the global growth in asset prices will inevitably slow. We expect to see rental growth and capital growth eventually realign.

With bond yields and interest rates likely to rise soonest in Asia, rather than the industrialised West, it is in this region that we expect to see the most stress in overstretched markets in the short term.

Some second tier cities, not yet in our index of twelve leading world cities, represent good value alternatives and could start to rise in popularity with investors. Barnes names Istanbul, Hanoi, Kuala Lumpur, Jakarta and Bangkok as cities to watch, plus many large, second-tier cities in the same countries (that few in the West will ever have heard of).

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