CBRE

Residential

Global living
London in an international context

Contents

Introduction

The housing market in central London rebounded quickly in the aftermath of the global financial crisis. In the following years it outperformed the rest of London and the UK, with annual average house price growth of around 10% over the past five years. As well as local influences, this performance reflects a range of global economic and geopolitical factors, with London benefitting from its role as the world's preeminent financial centre.

In our increasingly globalised society, world trends are becoming inextricably interwoven with the local markets affecting sales rates and prices. However, globalisation doesn't stop there; it also affects the type of buyers and the type of product.

In this report we review the London residential property market within its global context, and see how it competes with other world class cities. We examine a range of issues that influence property market performance. These include the broader economic backdrop, overseas buyers, tax regimes, the prominence of the private retail sector, and how our increasingly globalised way of living has influenced residential design. We then complete the circle with a brief look at commercial property as we seek to understand London in its global context.

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CBRE

A global economic overview

Despite a choppy first half of 2014, the forces acting on the advanced economies are positive and supportive of value growth in the property markets. Overall, with interest rates expected to stay low for the time being there is a promising outlook for the global economy.

The US recovery is on track with 4% growth in the second quarter of 2014, offsetting a weather related fall in GDP in Q1. Furthermore, jobs are being generated at rate of about 200,000 a month.

There was no growth across the Eurozone as a whole in the second quarter. But, this concealed the fact that a number of economies are doing well, including Spain, Portugal and the Netherlands. The UK grew strongly at 0.8%. Germany was the weak link, due, as in the US, to Q1 weather. If Germany was excluded the overall Euro area would have grown in quarter two.

If the pattern of the post global financial crisis recovery is volatile we should not be surprised, the headwinds have been strong. First, the banks had to be recapitalised and restructured. This is complete in the US, but ongoing in Europe. Second, consumers in the advanced economies have had to reduce their debt levels. Third, governments that spent their way out of the crisis had to pursue austerity measures, thankfully now largely over.

With the advanced economies restructured, apart from France and Italy, we look set for a period of reasonable growth. Low levels of inflation and plenty of spare capacity, except in the UK, means that interest rates do not have to increase that quickly. Job creation and interest rates are two of the key drivers of house prices. On a purely cyclical basis we expect this expansion to run until 2020 in Europe.

The Chinese slowdown is causing some problems in the emerging markets. GDP in these markets has been turbo charged over the last few years driven by the export of raw materials into China. However, demand for these exports has waned in line with the cooling of China's building boom.

Elsewhere in Asia, housing markets are doing well. 'Abenomics' may not be a total success, but it is positive for growth and the Japanese housing market looks very good value.

Geopolitics are a concern and can play a role in weakening economic sentiment and reducing the impetus to invest. However, the key worry for investors in the housing market should always be rising interest rates, but high levels of unemployment mean that interest rates are unlikely to move upwards in any meaningful way until 2016 or even later in the Eurozone.

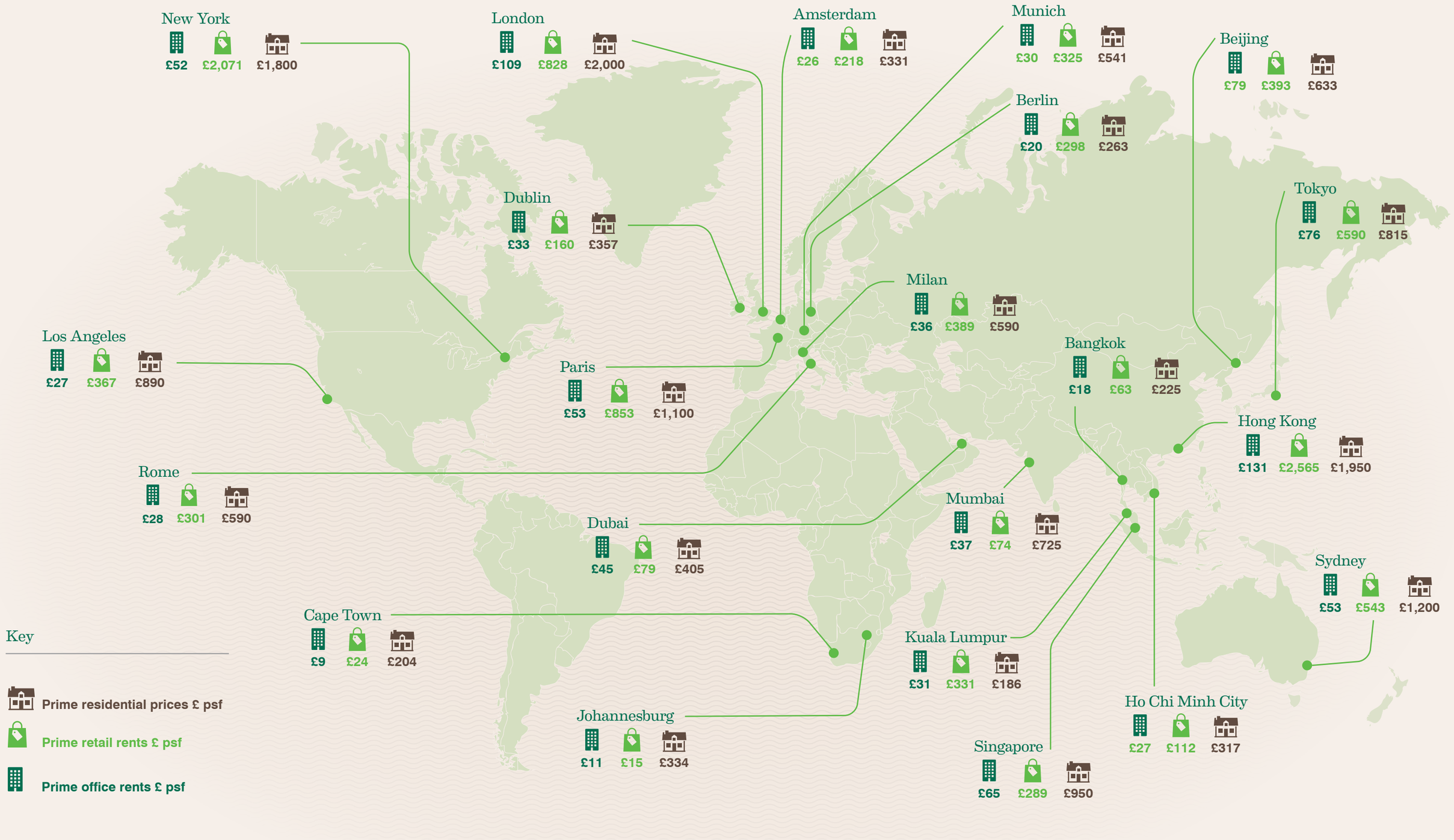
By that time the economies of the OECD will have had almost ten years of negative real interest rates. A recent IMF study analysed the long term decline in real interest rates in the global economy. It showed that both nominal and real interest rates have fallen over the last 30 years as inflation has declined. This does not really fit with economic theory which suggests that real interest rates should track the rate of GDP growth in the long term; so be about 2 to 2.5% in the US and UK.

It seems the reason for the long term decline in real interest rates, is an excess of savings over investment. As production has shifted to high savings economies such as China, global savings have risen. At the same time, not only has investment been depressed in the advanced economies, but the price of investment goods has fallen in relative terms. Consequently there is a surplus of saving over investment. This helps to explain why real estate prices, particularly in the world's most dynamic and amenity rich cities, such as London, Paris and New York, have performed so well.

The surplus of savings over investment is set to continue for some time. For example, the flow of savings that will come from China as it reforms its economy over the next five years has been estimated to be in the order of £1.3 trillion. This will depress interest rates and support real estate prices.

Global growth may lack pace, but this means the cyclical upward pressure on interest rates will be muted and the long term trend is firmly down. These are good conditions for global housing markets, particularly in the advanced economies.

World property at a glance



How does global residential real estate rank?

London prime residential prices increased by around 16% last year and now stand at around £2,000 per sq ft. London is just ahead of Hong Kong, which is in second place following a tumultuous year in the Chinese province. New York is around 10% cheaper, but still head and shoulders above fourth place Sydney.

Average prime residential new-build prices, £ per sq ft

1 London	£2,000	6 Singapore	£950
2 Hong Kong	£1,950	7 Los Angeles	£890
3 New York	£1,800	8 Tokyo	£815
4 Sydney	£1,200	9 Mumbai	£725
5 Paris	£1,100	10 Milan and Rome	£590

Top three

London

Demand for prime property in London rebounded quickly after the 2007 financial crisis. As a result, price growth has significantly outperformed the wider market, with average annual growth of around 9% for the past five years. While demand was initially buoyed by overseas buyers, we have since seen a resurgence in domestic buyers who now make up around 52% of the market. There remains a fundamental lack of new housing supply in London and this is putting continued pressure on prices. Despite talk of a possible Mansion Tax causing uncertainty in the market, we expect activity to remain strong with total house price growth of around 30% over the next five years.

Hong Kong

Depending on respective market trends, Hong Kong and London regularly oscillate between first and second place in the residential rankings. However, following the introduction of sales taxes in Hong Kong, transactions fell to a 17 year low last year. As a result, prime property prices have fallen by between 5 and 10% over the year. However, there are signs that the market could be picking up. In particular, there have been price rises in the mainstream markets. This reflects strong pent-up demand buoyed by speculation of further easing from the government. Improved sentiment related to recent capital market activity has also boosted the market.

New York

In the wider market, house price growth in New York remains relatively muted, at around 2.5% last year. However, the prime market is supported by overseas buyers and domestic high net worths, who have given this segment of the market a boost. Average prime prices are currently £1,800 in New York, which keeps it firmly in the top three, just below Hong Kong, and well above Sydney in fourth place.

How does global retail real estate compare?

Hong Kong has consistently been the most expensive global retail location. In the latest quarter (Q2 2014) rents have remained broadly stable at £2,565 per sq ft. This is 25% higher than New York in the number two spot and a third higher than Paris, which has rents of £853 per sq ft.

Prime retail rent global ranking, £ per sq ft

1 Hong Kong	£2,565	6 Zurich	£570
2 New York	£2,071	7 Sydney	£543
3 Paris	£853	8 Melbourne	£456
4 London	£828	9 Moscow	£418
5 Tokyo	£590	10 Beijing	£393

Top three

Hong Kong

In Hong Kong, domestic retailers continued to expand in the prime streets of Tsim Sha Tsui, Mong Kok and Causeway Bay. In addition, the competition among international brands for prime locations remained strong. However, retailers are increasingly cautious about rental costs and the slowing pace of retail sales growth. Retailers are increasingly preferring to expand in shopping malls rather than high streets due to lower rent, better trade mix and guaranteed footfall. While sentiment is expected to stay largely positive over the next 12 months, occupiers may become more selective on locations. Rental growth in the region of 5% is expected in tier-one streets on the back of solid demand from retailers and limited supply.

New York

There is a very limited amount of space in Manhattan's prime corridor of Fifth Avenue between 49th and 59th streets. A couple of recent deals by Ralph Lauren and Valentino further constrained supply. As a result landlords continued to raise rents on the few existing spaces that are available.

While outlets on Fifth Avenue remain the most sought after, there are other very vibrant retail corridors in Manhattan. For instance, the Times Square retail corridor also has very high rents, and would independently rank ahead of Paris on the global top 10 most expensive markets list.

Paris

The Paris market remains heavily polarized. Despite the significant cost to entry, high streets remained the top targets for international retailers. Demand has been strong for the limited supply of locations on prime streets, pushing up rents over the course of 2013. Rue des Francs Bourgeois and Rue Saint-Honoré both witnessed increasing interest from retailers, as there is a very limited supply of available space on the Champs Élysées.

How does global commercial real estate compare?

Prime office rents in Hong Kong central have increased by 2.3% over the past year, ensuring Hong Kong has both the highest office and the highest retail rents. In London, prime office rents in the West End have increased by 10.5%. Beijing comes in third with office rents of £80 per sq ft.

Prime office rent global ranking, £ per sq ft

1 Hong Kong	£131	6 Sydney	£53
2 London Central	£109	7 New York	£52
3 Beijing	£79	8 Milan	£36
4 Singapore	£65	9 Dublin	£33
5 Paris	£53	10 Kuala Lumpur	£31

Top three

Hong Kong

Despite having the highest prime rents of £131 per sq ft, when other costs such as services charges and taxes are factored in Hong Kong (Central) only ranks the second most expensive office location, after London. Hong Kong (West Kowloon), is cheaper and is home to big investment banks. It has emerged as an attractive location for cost-conscious occupiers looking for quality space near the central business district (CBD). Occupancy costs in both markets are expected to start increasing in the coming months.

London

At £109 per sq ft, prime office rents in London rank the second highest globally. However, on an occupancy cost basis, London surpasses Hong Kong at £164 per sq ft. This is a 13.5% increase over the year. This partly reflects development restrictions in the West End, which keep vacancy rates comparatively very low. In addition, the improvement in the UK economy has triggered a strong recovery in the demand for space. This demand, along with the shortage of available space, has been putting upward pressure on prime rents throughout 2013 and into 2014. We expect further growth in rents in 2014.

Beijing

Office rents in Beijing have remained broadly unchanged over the year at £79 per sq ft, and Beijing's Finance Street ranks as the third highest prime rents (and at an occupancy cost basis). In Beijing's Finance Street there has been very little new prime office supply since 2009. Meanwhile, market demand from domestic companies is growing rapidly, especially from financial institutions. Little new supply is expected in 2014 and rents in this market should hold firm, and perhaps rise, over the balance of 2014.

A tale of three cities

London

Current population **8,173,941**

Population born overseas **37%**

Average prime new-build house prices **£2,000 psf**

Owner occupied **49.5%**

House price growth, last year **17%**

House building annual average last decade **19,973**

Michelin starred restaurants **64**

Museums **240**

Share of millionaires **3.4%**

Tallest building **The Shard 1,004 ft**

Number of commuters **3.2 million**

Most popular girl's name **Amelia**

Most popular boy's name **Oliver**

International airports **Heathrow / Gatwick / City Airport / Stansted**

International tourists **16.8 million**

Hotel rooms **110,000**

Milk 1L **£0.95**

Average cost of a dinner out **£50**

Cappuccino **£2.43**

Underground stations **270**

New York

Current population **11,911,800**

Population born overseas **35.3%**

Average prime new-build house prices **£1,800 psf**

Owner occupied **38.8%**

House price growth, last year **2.4%**

House building annual average last decade **27,518**

Michelin starred restaurants **67**

Museums **83**

Share of millionaires **4.6%**

Tallest building **One World Trade Center, 1,776 ft**

Number of commuters **5.2 million**

Most popular girl's name **Sophia**

Most popular boy's name **Noah**

International airports **JFK / La Guardia & Newark**

International tourists **10.9 million**

Hotel rooms **106,000**

Milk 1L **£0.83**

Average cost of a dinner out **£44**

Cappuccino **£2.33**

Underground stations **468**

Hong Kong

Current population **7,219,700**

Population born overseas **6.4%**

Average prime new-build house prices **£1,950 psf**

Owner occupied **66.4%**

House price growth, last year **17.5%**

House building annual average last decade **12,760**

Michelin starred restaurants **73**

Museums **55**

Share of millionaires **2.6%**

Tallest building **International Commerce Centre 1,588 ft**

Number of commuters **2.8 million**

Most popular girl's name **Anya**

Most popular boy's name **Liu**

International airports **Chek Lap Kok**

International tourists **13.6 million**

Hotel rooms **68,753**

Milk 1L **£1.62**

Average cost of a dinner out **£25**

Cappuccino **£2.42**

Underground stations **152**

The long term performance of residential property

House price growth in many countries exceeds growth across a range of global asset classes. UK growth has been particularly strong, with real house prices tripling over the last thirty years, outperforming all of its international competitors.

Demand for UK property is driven primarily by domestic owner occupiers and so reflects the UK's underlying economic performance. Property price trends therefore tend to mirror the ups and downs of the economic cycle.

However, in an increasingly globalised marketplace, both in terms of real estate and alternative asset classes, there are a number of other factors that intervene to affect market performance. These include exchange rates, the relative performance of alternative locations and asset classes, as well as governmental intervention, particularly in relation to interest rates.

Residential property price volatility may provide a quick win for investors, if they correctly call the market and time their entry and exit accordingly. However, a more reliable and potentially rewarding option is to adopt a long term strategy.

232%

UK house price growth over last 30 years

We have compared real long term house price growth across a range of countries. Our analysis shows that the capital value of residential property in the UK and Australia has more than tripled over the last thirty years. This averages out at around 3.6% on an annual basis (after inflation). Growth in Ireland and Belgium has also outperformed global trends.

The UK and US economies, and therefore property markets, were boosted significantly from the shift from manufacturing to the service sector and in particular the freeing up of the financial sector, which started in the late eighties. This particularly benefited London and New York. Both cities had suffered decades of decline in the manufacturing sector, but gained a new lease of life from the era of 'hyper-finance', that lasted from 1995 to 2007. In addition, London fared much better than New York in the post-financial crash era.

The shift of the underlying economic platform helped boost London's internal wealth, as well as transformed it into a magnet for global capital. The UK gained the highest number of new millionaires in the decade up to 2013. At 114,100 this was more than double the new US millionaires.

Although many people buy a house simply to live in, it is also an asset class in its own right. The case for investing in residential property is compelling when comparing trends across a range of other assets.

We have tracked the performance across a range of global assets over the last twenty years and compared it with the uplift in UK residential property prices. UK wide prices are exceeded only by US equity prices. However, being the capital city, London outperformed the UK and its residential market significantly outperforms all the other assets.

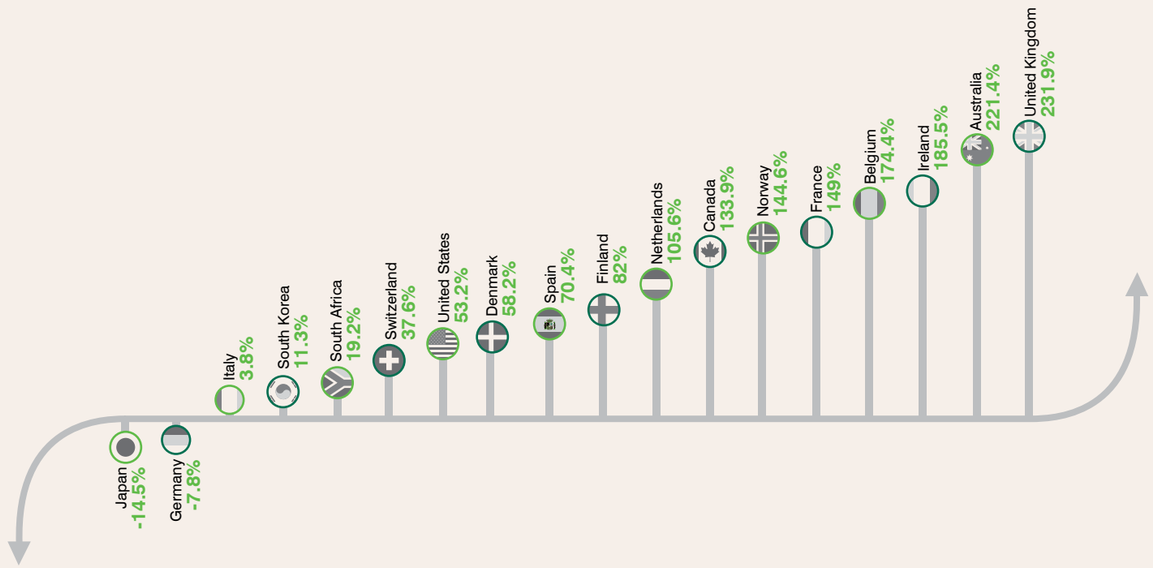
30%

UK house price growth forecast 2015-2019

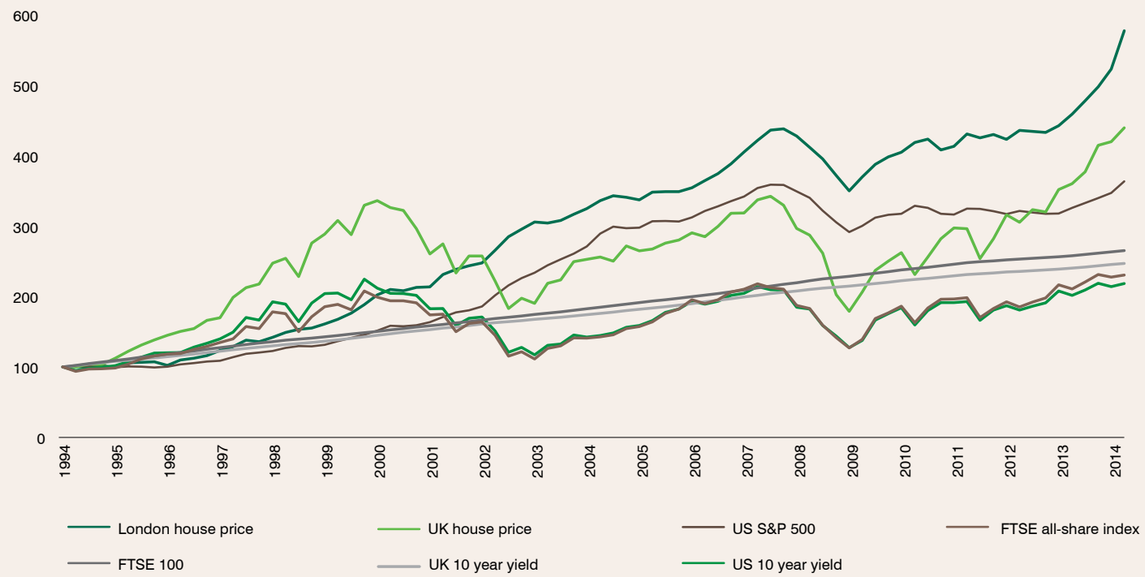
If, in 1994, £100,000 was invested in London housing it would now be worth £577,000. The next best performing asset was the US S&P index; £100,000 invested in 1994 would now be worth £440,000. London property outperformed the FTSE all share and FTSE 100 by more than double.

We expect both the London and UK residential property market to continue to outperform global markets, particularly on a long-term basis. Our forecast suggests London and UK house prices will increase by around 30% over the five year horizon from 2015.

Long term real house price growth over 30 years



Long term trends in asset prices



The supply and demand imbalance

A surge in urban living, against an increasingly globalised context, has led to heightened demand for property in key cities across the world. While in many cities the level of residential construction fulfils the increase in demand, in some cases, the level of new supply is inadequate. This has lead to upward pressure on prices. Rising prices are in turn intensifying demand, as investors recognise the acute investment opportunity.

The UK suffers from an extreme shortage of housing. Historically, the industry has delivered around 125,000 new homes per year, yet we have needed closer to 200,000. This situation has recently worsened, as the financial crisis dampened construction levels. Completions are now nearer 100,000 per year. Against a backdrop of increasing demand, this continues to put pressure on pricing, with long-term real house price growth at 2.4% per annum.

The supply and demand imbalance is much more acute in London. London's population has increased by 14% over the last decade, double the rate of change across the rest of the country. This equates to an additional 1 million people living in the city. There are now nearly 8.2 million living in London.

The most rapid growth has been in the East London boroughs, which have also experienced the most development; Tower Hamlets, Hackney and Newham are amongst the fastest growing boroughs in the entire country.

1m

Increase in London's population over last decade

Population growth has been driven mostly by natural change, with more people of child-bearing age staying in the city. In contrast to historical trends, a much smaller proportion has been moving out of London to have a family. In addition, there has been a considerable net inflow from twenty somethings, given the much greater employment prospects in the capital compared with the rest of the country.

The government has forecast population growth to continue at this pace over the next ten years, taking the total number of people living in the capital to 9.3 million. Furthermore, household formation rates continue to outpace population growth, reflecting the increasing prevalence of smaller households, which is putting additional pressure on housing stock.

We are simply not building enough housing to satisfy demand. While the population of London has increased by 1 million over the last decade, we have only built 200,000 new homes over the same period. This compounds the already pronounced backlog that existed previously. The Mayor of London's targets indicate we should be building at least 40,000 per year to satisfy current demand.

There are simply not enough homes for Londoners as it is, even before we take into consideration the appetite for London residential real estate from overseas investors. As a result, absorption rates of new-build stock are at an all-time high, with 63% of units that are still under construction having sold off-plan. This demand is also highlighted by the ongoing house price inflation.

200,000

New homes built in London over last decade

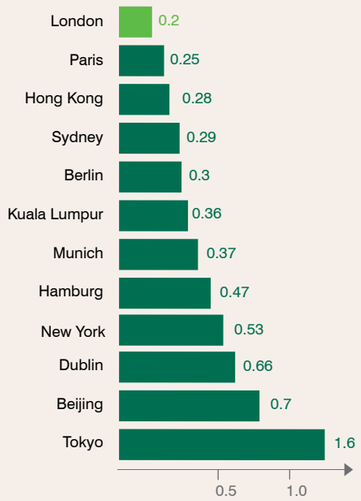
This supply and demand imbalance is at the heart of the housing debate in the UK and is something that all political parties recognise as a priority. Although house building targets exist and various governments attempt to stimulate supply, the process of housing delivery remains cumbersome, particularly given the expensive and time-consuming planning system. Finally, while the government has historically helped contribute towards the provision of low cost housing for those who are on low incomes or are unemployed, the private sector is now wholly depended upon to do this.

Parallel problems across major global cities

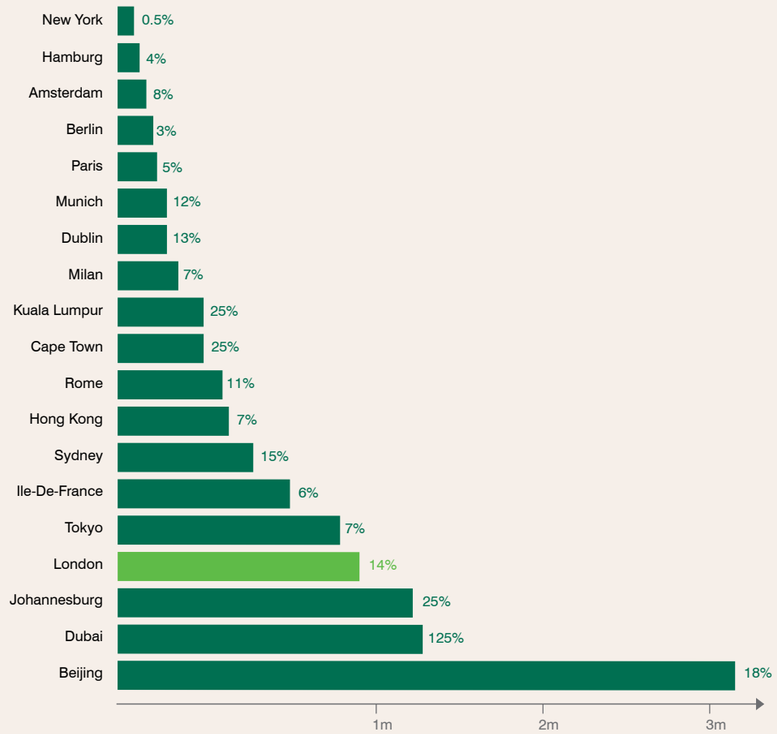
General trends in urban migration, and the subsequent massive upswing in population, are not trends that are exclusive to the UK and to London. Rather, we are seeing this trend played out across all major global cities and, in some cases, it is even more pronounced. Dubai, for example, has had the largest percentage increase in population over the last ten years, of 125%, which equates to 1.26 million more residents. Although Beijing grew by a much more modest 18%, this actually means an additional 3.3 million residents. Elsewhere in Asia, Kuala Lumpur added 25% or over 300,000 to its population. In major South African cities, the populations of Johannesburg and Cape Town have grown by an additional 1.2 million and 850,000 people respectively.

While Tokyo and Beijing managed to build an adequate level of housing, often construction rates fail to match these booms in population growth. In particular, housing delivery rates are woefully low in Hong Kong and Paris, with 1 new home built per four new residents. In some cities construction fails to provide for even a low increase in population; for example, Berlin's population grew by just 3%, but its low level of construction meant that for every house built population increased by three and a half persons. However, the supply and demand imbalance is by far the worst in London with just one home built for every five new residents.

Ratio of housebuilding to population increase



Population increase in the last decade



Overseas buyers in the London market

Overseas buyers have always played a significant role in the London real estate market. Not only is there an immense depth of demand for residential property in London, there is also considerable breadth; our recent schemes have attracted buyers from over 25 different nations. This partly reflects the cosmopolitan nature of London itself, but increasingly, it highlights the compelling investment case of its real estate.

Although the London residential market primarily draws demand from its own rapidly growing population, much has been made of the role of overseas buyers in recent years. Their prominence on new-build schemes is regularly flagged up in local media as a source of concern, particularly in light of increasing values and affordability constraints. However, the issue is often overplayed.

37%

Of Londoners born overseas

London must be viewed within its global context. London is a truly international city, attracting people from all over the world to its unbeatable business, cultural and educational environment. As a result 37% of London residents were born overseas. It is inevitable that the cosmopolitan nature of London's population is replicated in its housing market, with a huge range of nationalities owning property in London. However, it is misleading to classify non-British buyers as overseas buyers if they live and work in London, and have done for some years.

15%

Overseas buyers

We consider 'true' overseas buyers to be those who normally reside outside of the UK, and these buyers actually make up a much smaller proportion of overall sales in London than the headlines would suggest. Overseas buyers are most prevalent in Prime Central London, typically drawn towards high-end new-build stock in very central locations. This is a thin and competitive market that aligns more closely with the global luxury goods market, than it does the wider UK housing market. Non-British buyers make up around 48% of our buyers in Prime Central London. However, this share falls dramatically going out from the centre; in outer London, overseas buyers make up just 7% of all sales. Across London as a whole, overseas buyers account for just 15% of all sales.

A criticism of overseas buyers is that the homes are left empty. However, the majority of overseas buyers – 58% – rent the property out, putting the stock back 'into circulation'. A further 27% buy to live in it, and the remaining 15% buy as a second home.

Overseas buyers have been imtportant in supporting London's development market during the recession. Overseas investors have been attracted into London by the favourable exchange rate and have plugged a gap left by domestic buyers unable to get a mortgage. These buyers tend to favour new-build stock and are comfortable buying off-plan. As a result, they have played a hugely important role in the early phases of large schemes, essentially de-risking them and enabling construction to take place.

According to a report by London First, overseas buyers create additional economic benefits through the construction of these homes. Every 100 homes developed in central London contributes about £28 million to the economy and creates 550 jobs. In addition, high net worths tend to contribute a lot more to the wider economy. It has been estimated that owners of homes worth more than £15 million spend between £4 and £5 million a year in the UK, while those with homes worth more than £5 million spend between £2 and £3 million a year.

Why London?

- Cultural offering
- Currency play
- Education
- Financial centre
- Low risk profile
- Market performance
- Prestige
- Safe haven
- Supply & demand imbalance
- Time zone

Where do overseas buyers originate?

Over the last five years, the main appetite has come from South East Asia, with new-build schemes from London regularly hitting the Hong Kong – Singapore – Kuala Lumpur exhibition trail.

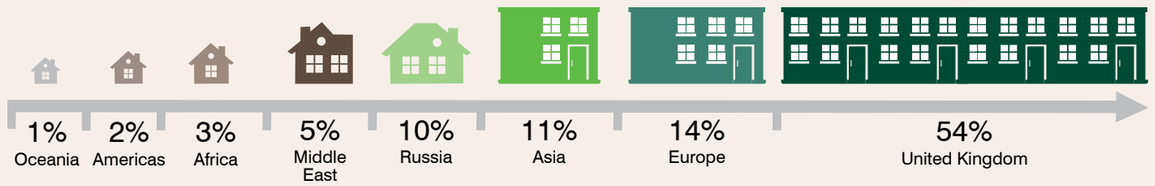
Asian buyers are active investors across a range of global cities. However, Thai buyers have tended to invest in their own market rather than overseas. London is the exception and is one of the few overseas markets they will buy in. This is because it is popular to send children to London to study; buyers tend to purchase a property to accommodate their children while studying and then resell or rent the unit out after they graduate. The most popular locations for Thai buyers are Kensington, Knightsbridge and Hyde Park. But anywhere central near a tube station will be considered.

Russian buyers, who have traditionally honed in on the most expensive and opulent end of the markets in nearly all key destinations, have quietened somewhat in the wake of recent geopolitical issues. Many are now looking at marginally more modest assets, at least by previous standards.

In contrast, the political and economic unrest in much of the Middle East continues to encourage wealth out of the area, pumping a steady flow of capital towards London. The flight to safety remains the number one priority.

Buyers from mainland China are becoming increasingly active. They have already surpassed the Russians as the largest overseas buyer group in Sydney and New York, and look poised to make a real impact on the London market. This is driven both by the sheer volume of wealthy people coming out of the country, their global aspirations, and the fear that their domestic residential market is now at saturation point in key cities.

Buyer nationalities, Prime Central London, 2014



Overseas buyers in the global market

Overseas buyers are not exclusively a London phenomenon. The global elite have an interest in a wide range of locations and types of assets. In addition, more modest Asian investors are attracted to emerging locations within global cities that provide good investment potential. This is globalisation and integration of the financial markets at work.

Overseas buyers are not just targeting London; a similar story is being played out in other cities across the world. Other locations favoured by global high net worths are New York, Paris, Hong Kong, Sydney and Singapore; all international in their demographic make up.

In addition, resort destinations remain popular where there is a sense of history and exclusivity. The French Riviera is one of the top favourites, as is Aspen, Marbella, Maui, Pebble Beach, and the Turks and Caicos Islands. However, price growth in the urban centres still outperforms that in the resorts; according to Christies, average value growth last year in the resort markets was around 18%, compared with 31% in urban markets.

80%

Of Chinese HNWs would like to send their children to study overseas

For second home buyers, the Cote D'Azur, London and Miami, remain popular and account for 90%, 48% and 45% of prime buyers respectively.

One of the increasingly significant buyer groups is the Chinese. These buyers typically favour urban locations, with well known universities, a strong economic backdrop and world-class lifestyle such as New York, San Francisco, Vancouver and Sydney. Motivations include 'quality of life' and 'children's education'.

Established and mature high net worths, typically from the Middle East and Russia, are generally interested in buying both a trophy asset, and finding a safe place for their capital. These buyers are the super prime elite and tend to focus on a limited geography. They feel more comfortable in the traditional 'golden postcodes' in robust, mature markets, so in London, close to Harrods, or in Cannes with a sea view. Both new-build and historic properties are popular to this group, so long as they are 'one of a kind', trophy assets. These super prime buyers can be attracted to both urban and resort markets, but focus on key markets only; i.e. London, New York, Paris, Cote D'azur, Aspen, Marbella etc. Buyers from India have also played a role in the super prime market.

Retirees are the new downsizers looking for a life-style change. This group are essentially empty nesters who are looking to trade grand estates for turnkey, urban condos with instant luxury amenities. Both urban and resort lifestyles appeal, but the traditional 'downsizer' approach of scaling down has been replaced by a desire for a lifestyle shift, without necessarily making a huge sacrifice on the size of the property. These buyers have been prominent in Canada for some time, with luxury condos in Toronto and Vancouver becoming increasingly popular from this new segment. They are becoming increasingly active in other key urban areas, including London.

Younger, but still relatively wealthy buyers are much more open to new, emerging areas. They tend to lead the lower end / entry-level of the luxury market. Some have made money through tech companies, and therefore typically buy in San Francisco, or Manhattan's West Side, while others want to allocate trust funds to property. Most favour urban luxury properties, over the resort. In London this might be Southbank, Nine Elms, Canary Wharf and City-fringe, as opposed to Mayfair and Knightsbridge.

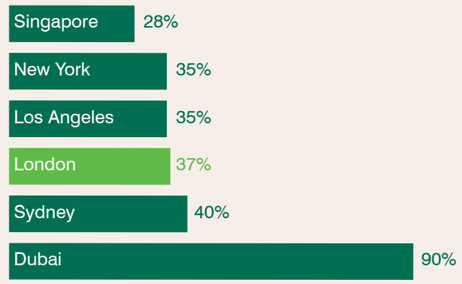
There is a growing share of middle class investors, looking for investment opportunities. These are the equivalent of the UK's buy to let buyers. Buyers from China and South East Asia have been active across the whole spectrum, depending on the purpose of the investment.

In tandem with overseas investors looking to buy in London, British buyers are also active overseas. Popular ex-pat destinations are the obvious targets, such as Hong Kong and Dubai, as well as the numerous oil industry pockets all over the world. Indeed, the Emirates real estate markets has one of the most diverse buyer profiles, with 133 separate nationalities investing in the sector in H1 2014, spending close to AED 37.5 billion (£6.31 billion) altogether. The British formed a considerable part of this spend, at around AED 5.811 (£0.97 billion) recorded, though this is likely to be much higher.

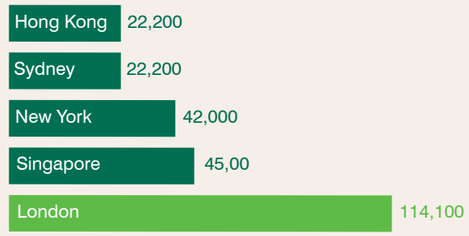
Growth areas

In terms of new markets, there is potential for a considerable surge in values in parts of the world that are undergoing substantial infrastructure improvements. Rio is an obvious example; already rich in natural resources, with a growing high net worth population, its massive infrastructure improvements related to the World Cup and Olympics will only act as a further catalyst to improve the offer in the city.

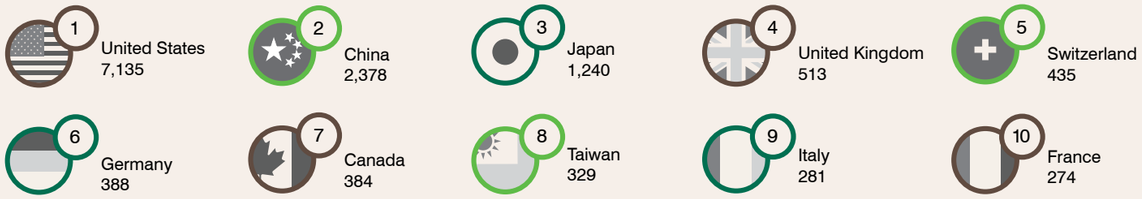
Share of population born overseas, 2014



Net gain in millionaires over the last decade



Number of millionaire households, 000s, 2014



A comparison of property taxation

In comparison with many other countries, the UK property tax regime is relatively modest. However, the inflow of overseas buyers into Prime Central London, and the subsequent surge in values, has led to substantial political pressure to change this. Additional taxes on overseas buyers have been introduced, namely a higher Stamp Duty and a Capital Gains Tax, while a further Mansion Tax is also being mooted.

Just as the political landscape varies from country to country, so does the underlying tax regime. Some countries have a favourable property tax. For example, stamp duty in Ireland is relatively low at 1% for properties under €1m. It is lower still for new homes in France, and in the Netherlands it is 2%. In contrast Stamp Duty is 4% in Dubai and in Singapore overseas buyers pay an additional 15% tax.

With some property markets in danger of overheating, local governments have increasingly turned to the tax and regulatory framework to take some heat out of their markets. To date, these have been most marked in Asia and France.

In Hong Kong, for example, higher stamp duty and resale taxes were introduced between 2011 and 2013, which led many overseas buyers (particularly Chinese) to look elsewhere. This caused some stagnation in the market, with sales levels falling by 15%. However, the top end of the market didn't suffer, with investors considering that tax changes on this scale of investment are still comparatively 'small'.

Although not designed to directly impact the property market, the raft of wealth taxes introduced by Francois Hollande ultimately made it harder for domestic buyers in France. However, overseas buyers remained relatively unaffected. As a result, international demand in key markets like Paris and the Cote D'Azur has not waned, whereas demand from French buyers in London has spiked. This illustrates how the change in a local tax can have a global impact. The temporary reprieve from tax gains that was offered in France in mid-2013 was hugely effective in stirring activity again.

New capital gains tax in the US has only had minimal impact thus far, and hasn't slowed internal or external demand for luxury property in LA, Miami, New York and San Francisco. There are some local nuances across the states; for example, in Florida, there is no income tax, which makes it perpetually attractive to wealthy investors. The Miami market therefore experienced huge falls in the wake of the global financial crisis, but also one of the strongest rebounds, highlighting the underlying attractions of the city, as well as the value for money it offers compared with many other luxury markets.

Taxation was also used to stabilise the overheating Singapore market. Altogether the government introduced eight sets of measures between September 2009 and June 2013. The first four rounds of measures were targeted at speculative activities in the residential market, involving a seller's stamp duty and mortgage restrictions. Although these measures resulted in a fall in sub-sales, an Additional Buyer's Stamp Duty (ABSD) was introduced in December 2011, targeted at reducing foreign buyers. However, the market remained strong and the government introduced the sixth set of measures in October 2012, which Loan Length capped at 35 years and a lower 40% loan-to-value (LTV) ratio for non-owner-occupier buyers.

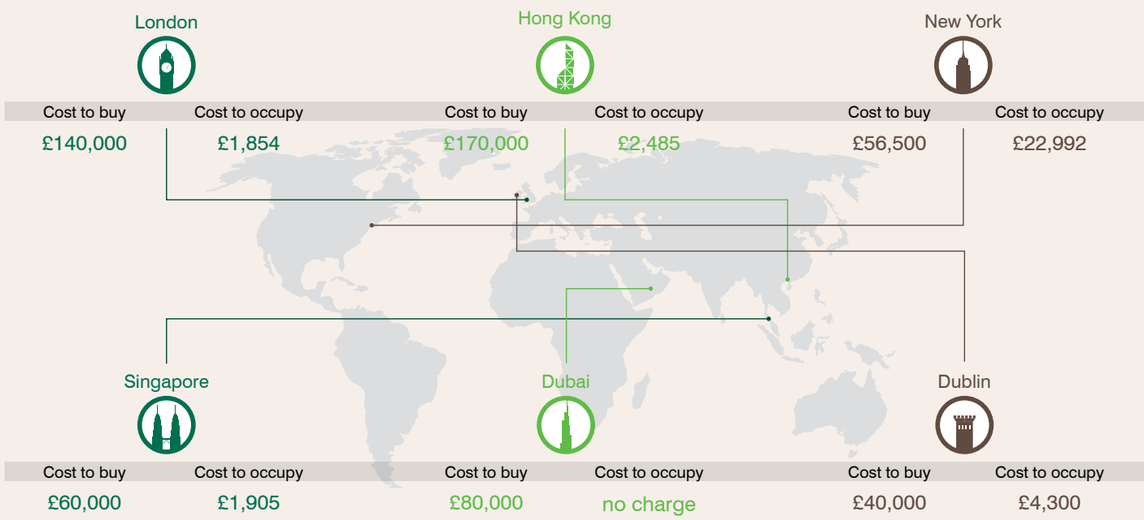
In 2013, the Singapore government implemented two further sets of measures to quell the continued heat in the residential market. It raised the ABSD and lowered the LTV ratio. Subsequently, the amount of mortgage credit that borrowers could obtain for a mortgage loan via the Total Debt Servicing Ratio (TDSR) framework was also restricted. Buyers are still digesting these raft of measures and residential transaction volumes have slowed somewhat.

In the UK, there was considerable uncertainty around the time of the changes to the Stamp Duty Land Tax (SDLT) in 2013, which affected transactions over £2 million around the time of implementation. However, these measures were later absorbed into the market, with no lasting impact. Similarly, there is now ongoing discussion around the potential introduction of a Capital Gains Tax next year for overseas buyers, in addition to the Mansion Tax debate. This is causing some uncertainty at the top end of the market.

Property taxes applicable

	Stamp Duty	Transfer Tax	CGT	Special Stamp Duty	Annual Tax
London	●		●		●
Hong Kong	●			●	
New York	●		●		●
Singapore	●				●
Kuala Lumpur	●		●		●
Dubai		●			
Dublin	●		●		●
Johannesburg		●	●		●
Tokyo	●		●		●
Sydney	●	●			●
Paris	●		●		●
Berlin		●	●		●
Rome		●	●		●
Beijing	●		●		●

Cost for an overseas buyer purchasing a £2 million property



The taxation and regulatory landscape for overseas buyers

Country	Stamp duty or transfer duty	Capital gain	Annual tax	Effective stamp duty on a £1m property for purchasers
Australia	- $0 – $14,000 = $1.25 for every $100 - $14,001 – $30,000 = $175 plus $1.50 for every $100 over $14,000 - $30,001 – $80,000 = $415 plus $1.75 for every $100 over $30,000 - $80,001 – $300,000 = $1,290 plus $3.50 for every $100 over $80,000 - $300,001 – $1m = $8,990 plus $4.50 for every $100 over $300,000 - Over $1m = $40,490 plus $5.50 for every $100 over $1,000,000 - Over $3m = $150,490 plus $7.00 for every $100 over $3,000,000.	Same as income tax rates: - 0 – $18,200 = Nil - $18,201 – $37,000 = 19c for each $1 over $18,200 - $37,001 – $80,000 = $3,572 plus 32.5c for each $1 over $37,000 - $80,001 – $180,000 = $17,547 plus 37c for each $1 over $80,000 - $180,001 and over = $54,547 plus 45c for each $1 over $180,000.	Annual Land Tax. Max of 2% for property valued over AUD 2,519,000.	£40,490
China	Stamp duty – 0.05% Deed tax – 3%.	20% if second home. CGT usually included in price and so borne by the buyer.	No individual tax as yet.	£30,050
Dubai	4% (Transaction fee).			£40,000
France	- New housing – 0.715% - Second Hand – 5.09% to 5.79%.	Standard rate for second home of 33%. Digressive rate applied from 6th year, exempt after 22 years.	Based on notional rent and rate varies marginally whether main or second home. For Paris region €1,000 to € 3,000 per year.	£7,150
Germany	Real Estate Transfer Tax of 3.5% to 6.5%.	- 25%	Land tax rate is determined individually in each municipality.	£50,000
Hong Kong	- Up to $2 million – 1.5% - $2 million to $2,176,470 – $30k + 20% excess over £2 million - $2,176,470 to $3 million – 3% - $3 million to $3,290,330 – $90k + 20% excess over $3 million - $3,290,330 to $4 million = 4.5% - $4 million to $4,428,580 = $180k + 20% excess over $4 million - $4,428,580 to $6 million = 6% - $6 million to $6,720,000 = $360k + 20% excess over $6 million - $6,720,000 to $20 million = 7.5% - Over $20 million to $21,739,130 = $1.5 million + 20% excess over $20 million - Over $21,739,130 = 8.5%. Extra 15% on top of standard rates for overseas buyers.	Special Stamp Duty (although this is a capital gains tax) based on when property acquired and holding period: 1) Acquired on/after 10 Nov 2010 and before 27 Oct 2012: - 6 months or less = 15% - >6 months but 12 months or less = 10% - >12 months but 24 months or less = 5% - >24 months but 36 months or less = N/A 2) Acquired on/after 27 Oct 2012: - 6 months or less = 20% - >6 months but 12 months or less = 15% - >12 months but 24 months or less = 10% - >24 months but 36 months or less = 10%.	Rateable value of 5% based on annual rental value of property.	£15,000
Ireland	- Up to EUR 1 million – 1% - Over EUR 1 million – 2%.	- 33%	- Up to EUR 1 million = 0.18% - Over EUR 1 million = 0.25% (on value above 1 million).	£10,000
Italy	- 3% on cadastral value - 7% if luxury residential Plus Cadastral tax of EUR 168 (if first home), or 1% of price if additional homes.	33% if sold within 5 years, exempt thereafter.	Yes but negligible.	£70,000
Japan	JPY 200,000 – 600,000 depending on value: - 3% Acquisition tax - 0.4% Registration tax new-build.	- 39% if held <5 years - 20% if held >5 years.	- 1.4% to 2.1% depending on municipality - 0.3% city planning tax.	£33,000
United Kingdom	- Up to £125,000 – 0% - £125,001 – £250,000 – 1% - £250,001 – £500,000 – 3% - £500,001 – £1 million – 4% - £1,000,000 – £2 million – 5% - Over £2 million – 7% If bought by a non-natural person 15% for over £500,000.	Capital Gains Tax to be introduced.	Council Tax (variable).	£40,000
Malaysia	- First RM 100,000 – 1% - Next RM 400,000 – 2% - Above RM 500,000 – 3%.	- Ownership up to 5 yrs – 30% - Less than 5 yrs – 0%.	- Based on annual rental value. Generally 6% PA - Quit Rent of 1 – 2% (generally less than RM 100,000).	£30,000
Netherlands	- 2%		- Typically 0.1% and 0.3% of property value.	£20,000
Singapore	- First SG$180,000 – 1% - Next SG$180,000 – 2% - Over SG$360,000 – 3% Plus 15% for foreigners.	None.	Based on rental value of property: - Up to SG$8,000 – 0% - SG$8,000 – SG$55,000 – 4% - SG$55,000 – SG$70,000 – 6% - SG$70,000 – SG$85,000 – 8% - SG$85,000 – SG$100,000 – 10% - SG$100,000 – SG$115,000 – 12% - SG$115,000 – SG$130,000 – 14% - Over SG$130,000 – 16%. Foreigners pay additional 10% surcharge.	£34,500
South Africa	No Stamp Duty payable. Transfer duty paid by buyer: - R0 – R600,000 = 0% - Over R600,000 = R1,000,000 = 3% - Over R1,000,000 = R1,500,000 = R12,000 plus 5% on value above R1,000,000 - Over R1,500,000 = R37,000 plus 8% on value above R1,500,000.	- 13.3%	Payable but rates vary depending on municipality.	£75,400
Thailand	Stamp duty borne by seller: 2% Transfer tax, shared between buyer and seller.	Income tax varies on time property held and value.	Exempt when owner-occupied.	£10,000

Global influences on design

Buyers exposed to international trends are expecting ever more from their homes. The residential industry, increasingly with international capital and experience, are responding to these demands. This globalisation is having a direct influence on the end product. In London this has led to marked improvement in the underlying amenity offer.

Lifestyle living

Residents of modern developments are increasingly looking for more than an apartment, often expecting so called "lifestyle packages". These include a gym, a pool and wellness centre, with a steam room, sauna and treatment rooms. Arguably, London is behind the curve; in New York full service spa and gyms were the norm in the early 2000's. In 2003, London Albion Riverside pointed the way, but it was 199 Knightsbridge that set the new benchmark in 2005 with a five star concierge, valet parking, business facilities, a swimming pool, a gym and treatment rooms, at the time managed by The Hyatt Hotel. The developer was Hong Kong born Sammy Lee, who had the international experience to see where London could improve.

The latest trend in London is the emergence of the 'Residents Club or lounge'. Residents only access to a wide range of facilities, which might include interactive meeting rooms and business centre, a lounge, private dining rooms, cinema, crèche and roof terrace. These have been offered as the norm for some time in New York and across Asia. Many new-build developments also offer concierge services that can help with all your lifestyle requirements such as travel arrangements, restaurant bookings, theatre tickets etc. Some luxury schemes have partnered with exclusive hotels; the obvious example is Candy and Candy's One Hyde Park partnering with the Mandarin Oriental.

This trend isn't just in the super prime market. Developers in the more mainstream market are emulating the top end of the market. Some developers have provided more unique and unusual facilities, such as St George's One Blackfriars, where residents will have use of a "snow room" and "yoga terrace"; Fulham Riverside has outside badminton courts, while London Dock has a golf simulator.

It has been estimated that good facilities add significantly to the price. However, the key is to provide an offering appropriate to the scheme, its location and implicit buyer profile. If the size of the facilities is too big or too luxurious for the scheme, it could fail, particularly as facilities add to costs and therefore service charges.

Inspiration from Canada

Like London, Vancouver and Toronto also have incredibly diverse demographics, but in terms of innovative design, these cities stretch well ahead of London and provide exciting examples from which we can learn.

Most already incorporate a generous array of additional amenities, such as large private dining and billiard rooms, with adjoining professional kitchens and roof terraces, so that a 'luxury house' lifestyle can be enjoyed, without the full price tag of the luxury house itself. This is hugely popular with retirees who are looking for a lifestyle change, rather than a traditional 'downsize'. And for the younger generations, schemes like 21 Nelson Street in Toronto have stunning rooftop bars with cabanas, sofas, fireplaces, barbeque, hot tubs and private party rooms.

Globilisation greatly influences society and lifestyle through the international sharing of views, products, ideas, and culture. As individuals and their lifestyles have evolved, it is natural that our homes have too.

In addition, Canadian developers have capitalised on the unrelenting Chinese appetite for some time, being feng shui-aware on every new-build and having experts on-hand to advise in this regard, as well as omitting unlucky numbers from doors and floors. However, there is also an array of more specialised products now on the market; for example, 'Olive' on Vancouver's Cambie Street was designed for people who love to cook and entertain, so sacrificed bedrooms for amazing kitchens, and made the most of the Wholefoods at ground floor to aid the marketing campaign. Elsewhere, Festival Tower in Toronto and Brava in Vancouver were both designed to incorporate the respective Film Festival HQ's in the ground floor, providing residents access directly to the festivals but also the ability to use the cinemas as private screening rooms for the rest of the year.

City snapshot

In this section we provide an overview of key themes in a selection of global markets.

New York

Lower Manhattan, a market that used to be dominated by office buildings, has now adapted to be a 'live, work, play' environment. The area bounded by Chambers Street to the southern tip of Manhattan, and East River to Broadway constitutes Lower Manhattan. As of the first quarter of 2014, approximately 61,000 residents lived in lower Manhattan in 30,500 units. There are now 323 mixed-use and residential buildings, with 2,288 units in nine buildings under construction. These numbers are expected to rise consistently as downtown becomes a viable residential option for workers and a growing student population.

11m

Population

The projected growth for lower Manhattan residents is 63,000 residents in 31,500 units by the end of 2014 and 64,000 in 32,000 units in 2015. The luxury rental market has taken root downtown. Lower Manhattan ended the first quarter of 2014 with rent above the Manhattan-wide average with median rental rates at £2,040 per month and £33 per RSF. Lower Manhattan's vacancy rate dropped to 1.54% during this same period. Residential rental conversions have grown in the past decade in the downtown Manhattan market. This trend is largely attributed to the NYC government program, 421-g. This program provides "tax exemption and abatement for conversion of commercial buildings to multiple dwellings". It was implemented in fall of 1995 and expired in 2006. However, many residential developments are still benefitting from the program's incentives. Eligible projects include conversions in most of the areas in Manhattan south of Murray Street, City Hall, and the Brooklyn Bridge.

Office to residential conversion incentives can help meet housing demand, increase property values, and attract new neighborhood amenities. However, barriers to residential conversion include complications with zoning/planning, community conflict, and possible strain on municipal services. Issues can arise when it comes to rent stabilisation and tension can exist when developers convert historical buildings into residential uses.

However, the rate of conversion in Downtown looks likely to slow, due to rising demand for office space, and rising office rents. This is being driven by the mass of technology and creative startups moving downtown. A study released by the New York Economic Development Corporation estimates that high-growth companies will need 17 million sq ft of space by 2025. However, Class B and Class C office space is shrinking, in part because of the residential conversion boom.

£230,000

Average property price

The revitalisation of downtown makes the area more appealing for residents. New office space additions with the completion of World Trade Center buildings have drawn business and retail to lower Manhattan. The 800,000 sq ft World Trade Center Transportation Hub houses the PATH station and 350,000 sq ft retail complex. The redevelopment of the South Street Seaport (Pier 17) will add another 365,000 sq ft of retail, dining, and entertainment space in 2016. The city has also invested £25 million in a capital reconstruction project to develop the infrastructure of Broadway. There is a new appeal for families in the downtown market. Imagination Playground, an innovative space designed by David Rockwell designed to improve learning through fun, caters to this growing demographic.

Hong Kong

The residential sector in Hong Kong remains very much under the influence of market cooling measures. This has stripped out many would-be speculative buyers, and also acted as a mild deterrent for overseas buyers, thus the mass market is now mostly led by local buyers who are upgrading.

The second-hand market consists almost exclusively of Hong Kong permanent residents who intend to live in the property themselves. A large proportion has been first time buyers, reflecting the government's favourable stamp duty tax amendments for this group. With lending rates still incredibly low, buying currently makes more financial sense for many residents than renting.

Various stamp duty measures introduced last year have been aimed at dissuading overseas buyers from the market. Although this has generally worked well, many developers are now offering generous discounts on the new-build, particularly in the prime market, which has helped stir recovery in the market, especially in terms of demand from the mainland. Strong rental returns for some of the primary units now make them viable investment opportunities again. In order to continue to cool the market, particularly amongst overseas buyers, most commentators think that the government will have to roll out more serious tightening measures.

7.2m

Population

Private housing supply for 2014 is projected to increase by around 17% year-on-year, which equates to an additional 2,270 units, compared with 2013 estimates. This would bring total housing supply for the year to 15,820, which is still well below the government's target of 20,000 new units per year.

The additional supply may have limited impact on overall mass market prices this year, though its geographic concentration is likely to have a noticeable impact at a sub-market level. The New Territories are the main focus, in particular Yuen Long, Tsuen and Shatin, which combined will assume 40% of all new supply. We could see this reflected in slight price movements in these specific areas.

Looking forward, we expect the divergence between different segments of the market to continue, both in terms of sentiment and underlying dynamics. The luxury end of the market is likely to be relatively resilient, given the limitations on existing stock and future supply. In the primary market, we anticipate activity levels to increase, reflecting a pick-up in supply, as well the fact developers are still offering discounts. These discounts are reducing the traditional premium on new-builds, meaning values in the primary and secondary markets are converging. As a result, demand in the secondary market has been relatively slow and subdued.

Following the announcement of the tapering measures by the US Federal Reserve, Hong Kong's interest rates may enter an upward cycle in the second half of 2014, which could sequentially affect the residential price level. As such, we expect residential values to face a mild correction of 5-10% over the course of 2014.

£835,000

Average property price

The overall rental market in Hong Kong remains underpinned by strong occupier demand. This was particularly the case, following the cooling measures in the for-sale market. Some would-be purchasers adopted a wait-and-see mode and opted to rent while they did so, at least until effective residential values matched expectations. Rental growth in the mass market is surpassing that in the luxury market that consists of much larger properties. The latter, which is mostly driven by ex-pat demand, was relatively subdued over the last quarter, reflecting little net-change in expat hiring. This frozen demand has frozen rents over the last few years.

Bangkok

Since December 2013, the overall Bangkok condominium market has been affected by the prolonged political turmoil. There has been a slowdown in sales, new launches and re-sales in all areas in the first half of 2014.

However, following the coup on 22 May 2014, there have been signs of recovery in the downtown condominium market with the successful launch of the Magnolias Riverfront Residence project, where more than 150 of 379 units have been booked at a price over THB 200,000 per square metre, even before the presales event. This proves that sentiment in the luxury condominium market has begun to rebound after a six-month slowdown.

10.5m

Population

There are two separate condominium markets in Bangkok: downtown and the midtown/suburban market. We are not significantly concerned about the downtown market since there is limited new supply and a low level of built-but-unsold inventory; our concern is focused mainly on the midtown/suburban market, where developers have been building similar one-bedroom products. The completion of more than 100,000 condominium units in 2014 and 2015 in this area will be a crucial stress test for the midtown/suburban market at a time of reduced demand.

The key indicator will be the number of units transferred compared to units sold. In the first half of 2014, many well-known listed developers reported a higher default rate, where buyers do not proceed with a purchase on completion of the building – because of both speculators leaving the market and the tightening of lending criteria for property buyers by banks.

Typically, buyers pay 10-30% of the purchase price during construction and 70-90% on completion of the building; this payment structure makes condominiums more affordable but also attracts speculators hoping to resell before completion.

£120,000

Average property price

Resale units from speculators and existing unsold inventory from developers in the midtown/suburban market will restrict the possibility of prices rising in the midtown and suburban areas. By contrast, the dynamics in the downtown market have been very different because of limited new supply.

About 80% of the buyers of luxury downtown properties are Thai, whereas the midtown and suburban markets are almost 100% driven by Thai buyers. The dominance of domestic purchasers means that the Bangkok market is very resilient and although the market may experience a slowdown during periods of political unrest, prices have not fallen. In fact, prices have continued to rise for the most popular properties. Prices for new projects and resale prices for the best condominiums in the best downtown locations are expected to continue to rise.

Ho Chi Minh City

The real estate market in Vietnam is relatively immature. The market was essentially kick-started by a surge of foreign investment following the lifting of US embargo in 1994. Although the first modern development project was launched in 1994, the market didn't become firmly established until 2000, once Vietnam had recovered from the Asia financial crisis. Subsequent to this the market grew strongly, peaking with massive house price growth of 30% in 2007/8. In response, tighter monetary policy was introduced; the mortgage rate was 22% by the end of the year. This, coupled shortly after with the financial crisis caused the market to slow with a 3.6% price fall in 2009. Despite a buoyant 2010, largely thanks to the economic stimulus packaged employed by the government, the market stagnated in 2011-2012.

8.1m

Population

The market is now in recovery mode. The downward trend in residential prices has slowed down and sales have picked up strongly.

There is huge demand for smaller more affordable units. Estimates suggest around 300,000 people are looking to buy property in Ho Chi Minh City. In addition, around 150,000 immigrants arrive annually for work or study. The majority of these potential buyers will look for affordable houses sized between 50-70 sq ft and with a price below US$50,000. However, supply remains focussed at the high-end of the market and demand in the mass market outstrips supply. In contrast there are approximately 17,000 unsold condominiums. Most of them have the unit price above US$50,000. In response to the changing market, some developers have quickly adjusted their project designs and unit layouts. In-house amenities i.e. swimming pools, retail areas, unit sizes and unit types are taken into account. Unit areas have been reduced by 10-20 sqm per unit for the same unit type with the aim of meeting buyers' tightening budgets. In addition, each bedroom often has a window to maximise natural light, wind and fresh air. Overseas buyers only make up a modest share of purchasers. Most of which are recorded at a few projects developed by foreign developers i.e. Singapore and Korea. The key barriers discouraging foreign buyers are legal issues which allow certain eligible people to own a condominium, limit the period of ownership to 50 years maximum and do not allow foreign owners to sub-lease or re-sell their apartments. In addition, procedures take time and are often complicated. As a result, 95% of expatriates working in Vietnam prefer renting than buying a house unless they are married to a Vietnamese person.

Looking forward, the residential market will continue to show gradual improvements as mortgage costs have now reached five year lows while the Government's support package for the social and affordable housing market starts to feed through. The proposal of Foreign Ownership has been reviewed. If it passed, the residential market is expected to attract more foreign buyers given their relatively equal rights as local people. However, the full recovery is expected to gather pace only in 2015 as macroeconomic conditions improve while prices for real estate projects will take even longer to recover.

£71,000

Average property price

Sydney

The Sydney residential market is undergoing a prolonged period of strength, with many parallels to other key global cities, such as London and New York. At a macro level, the wider Australian economy has proven resilient, interest rates remain low, and the political landscape is typically benign. The world class English-speaking education system also adds to the appeal, which altogether continue to attract overseas investors, particularly from China. At the same time, domestic demand is being driven by huge population growth. The population of Sydney is expected to continue to grow at 1.7% per year up to 2029, or 25% in total over this period. This is 0.2% per year above previous historic levels, putting further pressure on housing.

4.8m

Population

Mounting demand for housing is set against a backdrop of limited supply. Although there are over 26,600 apartments currently under construction across the city, this is set against a considerable back-log. The city is notably restricted by land availability through geographical limitations, zoning, planning restrictions and suitable infrastructure. These are all barriers to increasing the delivery of residential supply. However, as the market gathers pace, interest from Asian developers such as of Greenland and SP Setia are helping to increase the amount of units delivered to the market.

The increase in supply is also being aided by developers finding more lucrative uses for obsolete commercial sites, as the supply of new office space surges and tenant demand remains stable. With values for residential increasing, and demand for city centre living growing, the best and most viable use for outdated office buildings has been the conversion to apartments. Although construction levels are now making some inroads, it is some way off satisfying demand and thus the familiar story of rising values prevails. Buyer and renter activity has remained strong. However there remains a scarcity of stock. As a result, the apartment market has recorded strong levels of both capital and rental growth over the past 12 months, with increases of over 12% and 5% recorded respectively.

£301,000

Average property price

Significant increases in capital values, following rapid improvements in buyer demand, has made entry into the residential market very difficult for first time home owners. Just 7.8% of all owner occupier purchasers are made to first home buyers, considered against the added encouragement from the Governments First Home Owner Grant Scheme. Affordability remains the biggest issue for first time buyers with high pricing continuing to lock out new entrants.

Amsterdam

The Dutch residential market is undergoing considerable structural and regulatory change. Traditionally, government policies have focussed on stimulating home ownership and facilitating housing corporations in the social housing sector. As a result, the private rented sector has been marginalised, unregulated and difficult for commercial investors to access. However, this is now changing. The global economic crisis, austerity measures and the increasing demand for private rented accommodation has encouraged a shift in policy to boost this segment of the market.

1.25m

Population

Amsterdam is considered the fifth most important economic region in Europe. Consequently it is listed amongst the most attractive cities for business activity in Europe and almost 2,500 foreign companies are located in Amsterdam. In addition, due to its cultural amenities, favourable living environment and relatively high standard of living, Amsterdam has attracted a young and lively population. Therefore, there is increasing demand from relatively young and well educated people for private rented accommodation. However, although construction volumes in the capital are increasing overall, and most of this is being delivered for private accommodation, there still remains a substantial shortage.

Investor appetite for residential property in Amsterdam is already significant: 15% of the total residential investment volume in the Netherlands is invested in residential projects in Amsterdam. Most of these are within the private rented sector.

Nonetheless, the market for unregulated rental housing remains tight. In the past, the unregulated rents in Amsterdam have increased disproportionally compared with the other major European cities. Residential yields have been, and remain, relatively high. This, coupled with stable cash flows from rental income and positive growth prospects, is attracting foreign investors.

£185,000

Average property price

Overseas buyers are a new phenomenon in the Amsterdam residential markets. Until recently, the market was the exclusive playing field of Dutch institutional investors and a group of large private property companies and family offices. Generally, the institutional funds have been targeting new developments and portfolios in the core regions, whereas the private property companies often took up the disposition of the institutes, creating value by selling off vacant individual units to owner-occupiers.

The recent widening of the commercial segment has created liquidity and openings for foreign buyers. Recently, investors have acquired large residential portfolios. The most striking transaction – and largest residential deal to date, was the purchase of a 5,500 unit portfolio from a distressed housing corporation.

Munich

Munich ranks among the most successful and most dynamic business locations in Europe. The city and its periphery offer extremely attractive labor and living conditions. Furthermore, Munich is also known for its excellent education skills and the above-average level of education of the local population. Munich is the third largest city in Germany behind Berlin and Hamburg. The unemployment rate is at 5.1%, well below the Germany average of 6.6%.

1.4m

Population

The population of Germany has been in marginal decline. However, there is a wide regional disparity, with rural areas loosing populations and key cities are undergoing substantial growth. Munich is one of the strongest growing cities, with a 12% increase in its population in the last decade.

£325,000

Average property price

Reflecting its increasing population, there is extremely high demand for residential property in Munich. Despite many residential new developments throughout the city, demand is not being satisfied by the residential supply. The city has set housing targets of 7,000 units per year, and has tried to zone large development areas to try and help stimulate activity. However, construction levels are still below where they need to be. As a result, rents and prices in Munich are among the highest anywhere in Germany, and residential investments in Munich are often considered 'crisis-resistant' as a result.

Berlin

Berlin has one of the fastest growing economies in Germany. It has a broad and increasingly stable foundation. Tourism is one of the largest employment sectors; Berlin now ranks the third tourist destination in Europe, behind London and Paris. It is also proving incredibly fertile for new start-up companies. The good employment prospects and rising incomes means Berlin is becoming an increasingly popular place to live. Supply has not been able to keep up with the growing demand. There is a healthy supply pipeline, but even if everything planned is actually built, the number of households is expected to increase four times faster than supply. In addition, new supply appears to be mostly targeting the luxury end of the market.

3.4m

Population

Against this supply and demand backdrop, the owner occupation sector is currently performing well, and looks likely to continue to do so. Despite increasing prices and rents in Berlin are favourable compared with most other major cities in Germany. This partly reflects lower earnings.

£174,000

Average property price

Until August 2006, there was a uniform 3.5% rate of Grunderwerbsteuer (land transfer tax). Since September 2006, the federal states have been able to determine their own tax rates. Following the change in the law, the state of Berlin was the first to raise its tax rate to 4.5% in 2007. It further increased the tax in 2014 to 6% – among the highest tax rate in Germany. Agents costs are also among the highest at up to 6% net.

Hamburg

Hamburg is another one of Germany's key economic hubs. It is its most active foreign trade and transit location, as well as being home to the most publishing houses, and media and advertising companies. As measured by population, Hamburg is Germany's second largest city, with around 1.8m people. The population is expected to increase by another 1.1% to 2018, and household growth is outstripping this, at 2.3% growth. This is putting even more pressure on an already strained housing market.

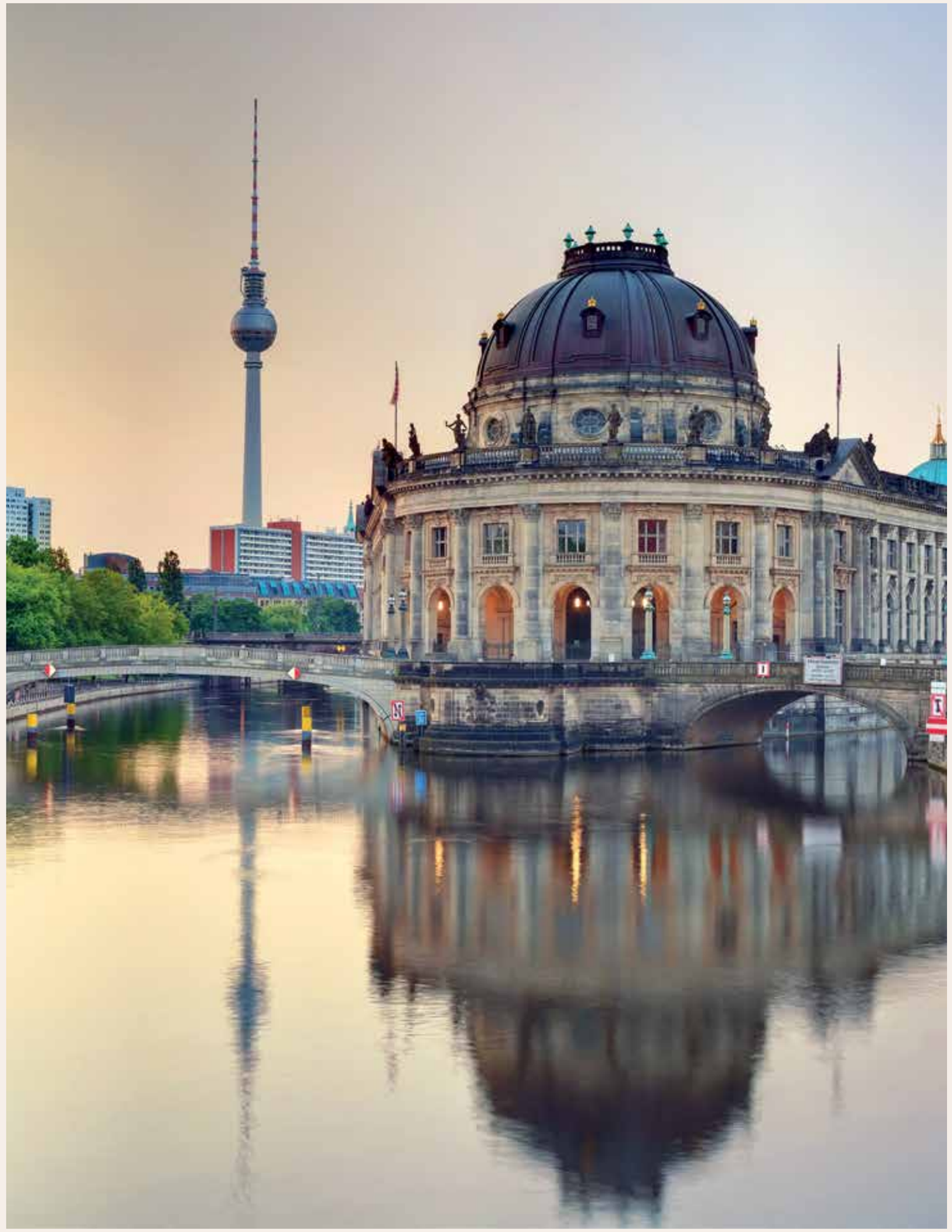
1.7m

Population

£229,000

Average property price

Hamburg has one of the lowest vacancy rates in Germany, at 0.7%, and it undisputedly ranks among the most sought after residential locations in Germany. Reflecting this and the supply and demand imbalance, rental levels have increased consistently over the last few years. Currently, rent average for existing stock is around 10 EUR per sqm per month. Condo apartments are on offer at an average of 2.950 EUR per sqm. Compared to 2011 this is a further strong rise of 5%. Given the bright outlooks regarding development of the economy and demography, rents and sale prices of apartments will continue to increase in the short to medium term. Although this trend can be particularly expected in the preferred neighborhoods, a further strong increase of rents and sale prices will occur also in locations of medium-quality.



A comparison of the private rental sector

The private rented sector has been one of the most talked about parts of the UK property market in recent years. Its rapid growth is opening up huge investment opportunities for the development and ownership of professionally-run, service-driven rental blocks.

Over the last decade there has been huge growth in the private rented sector, with 1.5 million more renters across the UK. It now accounts for 25% of all households in London and the majority of new households forming are in the private rented sector. This rise is the result of demographic changes, combined with affordability and mortgage constraints. However, it is also underpinned by an increasingly discerning renter making a lifestyle choice, who are keen to live in good quality, well managed rental stock. The size of the private rental market in the UK is now in excess of £900 billion which is similar to the size of the entire commercial market. However, only a very small proportion, around 2% is in institutional hands. The majority is in fragmented ownership with poor management, often of poor standard and specification and generally with no amenity or services available. However, institutions and other property companies are now seeing the market potential.

17%

Of households rent privately in England

The opportunity

Investor demand for residential income stock lies behind the 'core' nature of the income stream; it correlates very strongly with RPI, wage price inflation and pension fund liabilities. It is also relatively low in volatility, and instead highly sustainable through the peaks and troughs of the economic and property cycles.

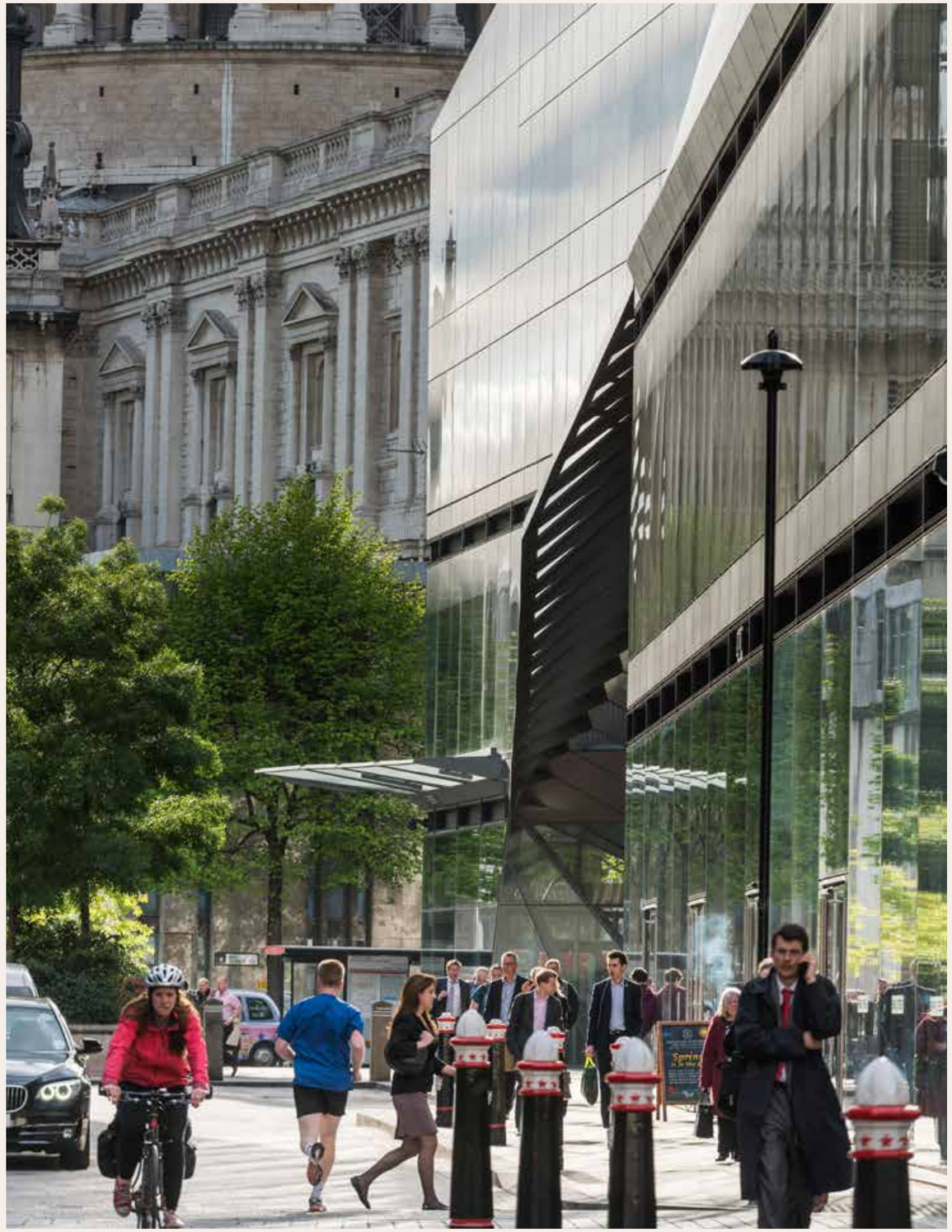
Most funds now seem to be looking seriously at a way into this new market. There is every likelihood that prevailing investment yields will compress, premium rental pricing could be sustainable, and additional income could be received for services offered to rental customers. These factors could drive up the value of newly built and let assets quite considerably, albeit at present, and quite sensibly, they are not taking into account the current underwriting of joint ventures and fundings. These factors, together with the nature of this income, are now driving a £20 billion plus wall of capital towards the UK resi-investment market.

24%

Of households rent privately in London

The opportunity to deploy major capital into the residential investment market over the last few decades has only really materialised in the last 3 or 4 years. This is due to the change in balance sheets of house builders and property companies, banking arrangements and the international drive for core and annuity style income streams. The main source of capital is currently coming from the US, Canada, mainland Europe and the Middle East. However, the domestic funds are also catching up fast.

The main hurdle in the market is the lack of stock. Large apartment blocks work best, given the potential for greater efficiencies and the economies of scale. However, there are few to none unbroken blocks available to purchase. Hence the real opportunity lies in funding and developing this kind of stock.



Current market developments

Reflecting the strong fundamentals, momentum in the market is now growing. Over the last eight months, CBRE has seen £2.1 billion of funding for PRS projects, and there is £4 billion more in the pipeline. In London alone, there are now 90 PRS developments. This has been in the form of bespoke development, but also as block sales in new large, multi-phased schemes; PRS has typically provided the forward-sales on schemes that are, on the whole, for sale, or it has helped wrap up large schemes towards the end of the sales period. This helps accelerate the consumption of land, and therefore enables developers to realise land values much faster.

Some of the new stock is being delivered by registered housing association providers, such as Places for People, Genesis, London & Quadrant, and A2Dominion. These established providers now often add a significant PRS component to their in-house developments, or otherwise forward-purchase off other developers to bolster their own holdings.

In addition, specialist management companies, such as Get Living London, Be Here and Fizzy Living, have been successful, both in terms of brand creation, and securing institutional investment from overseas to facilitate the schemes.

The most significant project to date has been the conversion of the Athlete's Village at Stratford's Olympic Park, into a substantial 1,500 PRS units. This was delivered by Delancey and Qatari Diar, with Get Living London managing the development, securing rapid take-up rates over its first few months. The scale of this project highlights the scale of the greater opportunity, both in London and in UK's regional cities.

The PRS has also received full endorsement from the government, which recognises build for rent as an obvious solution to the housing shortage. In terms of funding support, the government has allocated £3.5 billion to the Private Rental Guarantee Scheme, as well as £54 million towards the London Projects under 'The Build to Rent Fund'.

Based on current trends, the number of private rental households in England could rise to around 5.5 million over the next decade. Much of this growth would need to be supported by new development, which could at least in part need to be funded by institutions. Growth in the market is not unprecedented; thirty years ago, institutions made up just 2% of the US multi-family housing market, today they allocate 25% of assets.

Global comparisons at a glance

As the UK market is evolving we look for inspiration from overseas, where this market tends to be much more mature and well established as an asset class.

Type of stock

In the Anglo-Saxon countries, PRS stock typically tends to be in houses. However, in the US and continental Europe most PRS stock is flats. Large blocks of flats are crucial to enabling economies of scale, hence these blocks are forming the bulk of PRS development in the UK.

The size of the PRS sector has shifted dramatically in many countries over the last twenty years, growing significantly in the UK, Australia, Ireland and New Zealand. However, the one exception is Germany, where it has remained consistently large. PRS has been in long-term decline in Belgium and the Netherlands.

Security of tenure

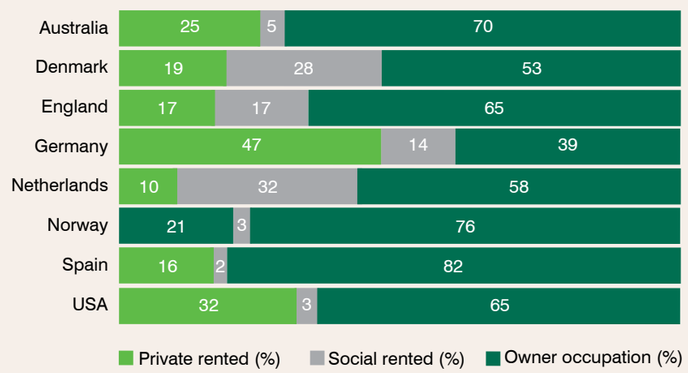
The private rented sector has evolved in a variety of ways across the world, typically in very different regulatory, tax and cultural environments.

There is a marked difference in security of tenure across various countries, which has a considerable impact on the type of people attracted to the sector; naturally, where there is strong security of tenure, as there is in Germany, families feel more comfortable settling into rental accommodation. Where this is not the case PRS has tended to be a residual form of housing; either for young adults who want short-term flexibility, or for those of any age who cannot afford to buy.

In Austria, Belgium, Denmark, Germany, the Netherlands, Sweden and Switzerland, tenants have the right to remain while they comply with their lease terms and can be evicted only on very limited grounds. In Finland, France, Ireland and Norway, tenants have more limited security at the end of the initial lease period. In Australia, Spain and the US, security is minimal after an initial lease.

Reflecting the greater shifts in this market in the UK, traditional lease terms are also undergoing change, with institutional landlords offering up to three years, in contrast to the traditional 1 year with a six month break.

Tenure profile, global comparison



Rent controls

There are some countries that exercise rent regulations, primarily aimed at improving affordability for low-income households, but there is no clear evidence to confirm that this keeps average rents down overall. Typically, rent controls are relevant in relation to increases, (i.e. as an index), rather than in relation to the initial rent. However, they can provide another layer of security, reducing uncertainty in relation to future housing costs.

Although intuitively many think that strict rent controls would depress demand in the private rental sector, there appears to be little correlation between countries with strict regulations and a large PRS; examples include Sweden, Germany and the Czech Republic. Rent controls also exist in 200 cities in the US, including New York City, but it only covers roughly 4% of the stock and 10% of the households living in the sector.

Tax regimes

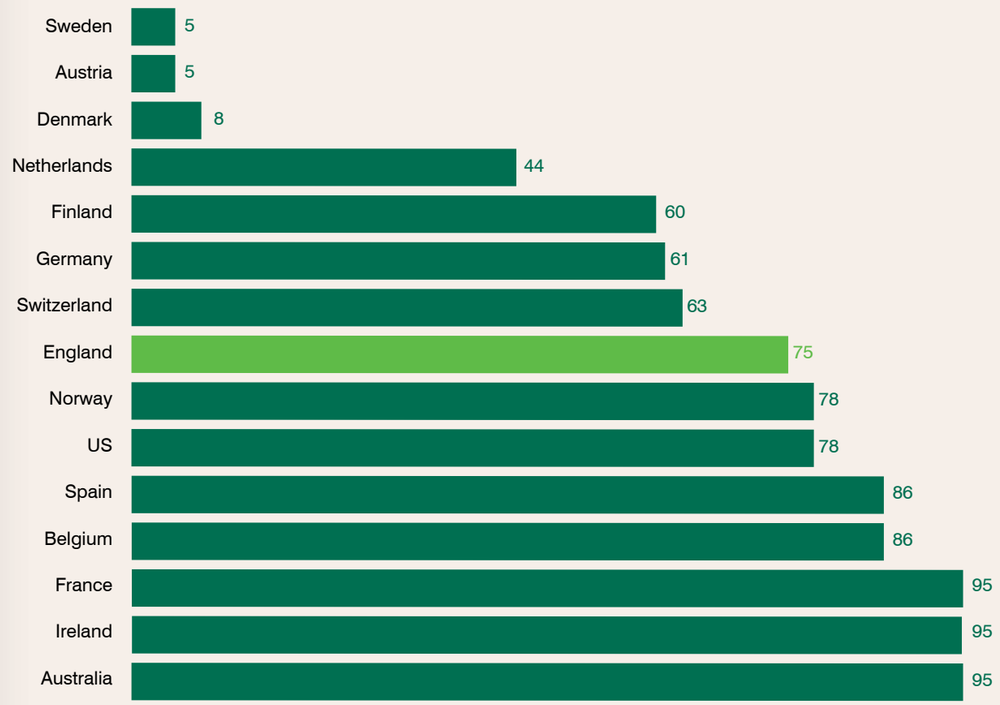
The UK tax regime currently appears to be the least favourable towards private landlords, as they do not receive depreciation allowances, they must pay capital gains tax when dwellings are sold, and they may not offer any revenue losses against other taxable income (known as 'negative gearing'). This is in stark contrast to many other countries; for example, depreciation and negative gearing is permitted in Australia, France, Germany and the US. Naturally, countries with large PRS tend to have tax regimes that support investment, particularly in relation to depreciation allowances and negative gearing. Some commentators feel that large-scale supply increases are not realistic without some tax allowances.

Investor profile

In Germany, Austria, Sweden, the Netherlands and the US, there is a strong institutional presence. Investment is motivated by long-term income returns, and the opportunity to diversify assets.

In contrast, investors in the UK and Australia are typically individual buy-to-letters. These landlords tend to be attracted by the potential for capital gains. In the UK institutional investment is starting to come forward from domestic and overseas opportunity funds, pension funds and sovereign wealth funds.Where there is a strong presence from institutions and companies, as there is in Germany, Austria, Sweden, the Netherlands and the US, investment is motivated by long-term income returns, and often, the opportunity to diversify assets.

Proportion of PRS stock owned by individuals



London rides the global retail wave

In the period following the global financial crisis, luxury retailers embarked on a wave of international expansion. This largely reflected a need by retailers to diversify away from low growth western economies and to tap cross-border opportunities. This retail globalisation is being accelerated by online brand exposure and price comparison.

Europe drives expansion

Europe has been a driving force behind the recent expansion of the luxury retail market. This is partly because the bulk of the world's luxury brands originate in Europe. But it also reflects retailers taking advantage of open EU borders, which has effectively generated a "super expanded" EU retail market. However, European luxury brands are also pushing further afield, with a large flow to Asia.

In contrast, there has been less incentive for Asia Pacific retailers to expand into highly competitive western markets. Domestic markets have been supported by strong and continued rapid growth; brand saturation is not yet an issue, with few markets in Asia even close to retail maturity. As a result, the flow of Asian luxury brands into Europe and the US remains small.

Despite the rapid expansion, there is still significant growth opportunity for international brands as the globalisation process continues. In the past, cultural and regulatory differences, difficulties securing retail property and tariff barriers made the successful cross-border transfer of brands extremely challenging. As a result most overseas investment was in local chain acquisition. Although the online marketplace brings its challenges for retailers, it has allowed retailers to increase brand exposure and reach a wider spectrum of consumers, making it easier to introduce brands into overseas markets.

Retailers seeking international representation usually start with a flagship store in a foreign capital city before opening a small number of stores in provincial cities or regional shopping centres. Once the required representation has been achieved, they then move onto another country, eventually building up a global network of stores.

With high cross-border fertilisation many global cities share the same international brands. What were once exclusive luxury brands are now commonplace in many major global cities and airports. Although, it may be true that overexpansion has led to some loss of brand cachet, the increasing commoditisation has resulted in an overall increase in the quality of retail offerings: a key benefit of luxury brand expansion globally.

London is the pick of the bunch

London, Paris and New York remain the unchallenged global retail triumvirate; they are the world's pre-eminent leisure shopping attractions. Milan follows together with Frankfurt, Singapore and Hong Kong. Following aggressive marketing, and a weakening yen, Japan has begun to emerge as a new shopping hotspot too, attracting both Asian and European visitors in large numbers.

160m

Shopper visits to the West End

But, London is the world's single most popular shopping attraction with a greater range of international retailers than any other city. It is the cosmopolitan nature of London's shopping population that has propelled the city to number one in the global retail rankings. If a retailer is not in London they are not considered truly global. London is also the primary springboard for new non-European retail entrants into Europe.

London's growth resurgence has coincided with the completion of two giant cutting-edge shopping centre schemes by Westfield. These two schemes have proved magnets for international retailers seeking top-quality purpose-built shopping centre environments.

21%

Of these are overseas visitors

Crossrail will further boost new retail entrant levels when it opens in 2018. This new main-line railway service, crossing from west to east has triggered a wave of adjacent stock renewal in the West End. Partly reflecting the additional connectivity from Crossrail, West End shopper visits are expected to increase by 20%, or 30 million people, by 2023. This will clearly boost activity and in turn rents.

With the very high levels of international representation in London comes intense competition. Central London is already one of the most highly rented markets in the world. With little in the way of new space in the pipeline the city looks set to get a lot more expensive in the future, driving a ripple out and stock renewal into currently secondary shopping areas.

The prestige and premiums of office towers

There is a strong correlation between a city's ranking as a global financial centre and the number of office tower schemes, with New York, Hong Kong, Singapore and Tokyo high up the list on both counts. The anomaly in this scenario is London.

Despite being regarded as the world's preeminent financial centre and possessing more towers than any other European city, London is only 35th in the global list, with New York in the top spot. This partly reflects the restricted opportunities to develop towers because of tight planning laws and a scarcity of suitable development land in London. Within Asia a high density of tower buildings is viewed as synonymous with being a successful financial hub. As a result, authorities in a number of Asian cities have tried to boost their international profile by building speculative tower schemes en masse, in the hope that this will attract financial occupiers. In contrast, London, as the established financial centre does not need to attract the large financial occupiers by building tower schemes.

London's growing stock of world class office towers

London's stock of tower buildings has been enhanced over recent years, with the addition of world class tower schemes such as 20 Fenchurch Street, The Leadenhall Building, Salesforce Tower and The Shard.

18%

Rental premium for top floor office building

These schemes mark a new phase in London's tower development, offering more efficient floorplates, facilitated by smaller cores. New towers have also been designed to reduce occupational densities, with 20 Fenchurch Street the first tower scheme in Central London to utilise a density of 1:8 compared with the standard 1:10. Further innovations to modern ways of working such as intermittent atria at the Salesforce Tower to increase natural light into the deeper areas of a typical floor, and a concierge style menu of service options have been more commonplace. Whilst towers in London had been obligated as part of planning consents to include public space at the top or bottom of the building, these amenities have largely turned out to be of substantial value to prospective occupiers. The best examples have been at the Salesforce Tower and 20 Fenchurch Street.

Prestige and prime locations help towers command premium rents.

Towers are often highly sought after due to their iconic architecture and associated prestige. Indeed, occupiers frequently use tower addresses as a marketing tool to boost their corporate image and branding. As is the case in other cities, London's towers are located in core areas close to transport links, making them prime buildings for blue-chip firms.

As in the residential market, these factors often enable tower buildings to command a rental premium over other grade A office buildings in the same market. In the City, the trend is particularly strong in new towers where the average rental premium has risen sharply since 2011, rising to 12% above the prime headline rent in 2013.

Unsurprisingly, the rental premium varies within different zones of the building. On lower to mid-level floors, the premium on new London towers averages around 3% above the prime rent. Meanwhile, upper floors can command an 18% premium, due to high demand for the most prestigious space in the building. Residential towers achieve a premium of around 36% over the local embedded value.

Tenant mix becoming broader

The tenant mix in London's towers share many similarities with those in major US and Asian cities. Given its association with finance, it is unsurprising that the banking and finance sector has accounted for 51% of the total office space acquired in tower buildings in central London over the past 20 years, with the professional and insurance sectors accounting for 15% and 10% respectively.

However, the financial crisis has resulted in a shift in emphasis away from financial occupiers in recent years as the sector consolidated. This has seen the proportion of banking and finance tower take-up fall to 37% in the past five years. Indeed, since the leasing market entered its recovery phase in 2013, the proportion has fallen to just 18%. Meanwhile, insurance and creative industries have become more prevalent, increasing to 25% and 23% respectively. The latter is particularly interesting as it demonstrates a greater willingness for creative industries to consider tower space.

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