

Investment in world's major cities pushes up prime property values

Research by Savills indicates that international investment in some of the world's major cities pushes up prime property values rather than ordinary mainstream values.



© Leung Cho Pan – 123RF.com

Of 12 cities surveyed, the most expensive for mainstream residential property are Hong Kong, New York and London. Both New York and Sydney have seen high price rises in recent years, despite restriction on foreign ownership. The 12 cities surveyed are Hong Kong, New York, London, Singapore, Sydney, San Francisco, Tokyo, Los Angeles, Shanghai, Paris, Dubai and Mumbai.

Mainstream properties generally have, on average, seen growth of 58% across 12 cities surveyed since December 2008. Most of this growth has been associated with economic recovery in the second half of that period, with 33% occurring between December 2011 and June 2015.

Growth in prime markets has actually been lower across the 12 cities, growing by an average of 37% over the past seven years. The highest growth took place before 2011, when buyers were more likely to invest capital rather than financing from income.

Heavily discounted

Mainstream property values are, on average, 19% of prime property values in the 12 cities. They are most heavily discounted in internationally invested cities such as Hong Kong, Dubai, Paris and London. US cities have the smallest gap between prime and mainstream values, alongside locally invested cities such as Sydney and Tokyo.

It would appear that international investment is concentrated in prime markets and tends to push up prices in the most expensive echelons of the market. High levels of commercial real estate investment in US cities do result in international investment in multi-family housing, but this would appear to have had a moderating effect on rental growth rather than contributing to price growth in mainstream markets.

South African residential sales to international buyers remain low as a percentage of total sales -- approximately one percent for South Africa as a whole, and 3% for Pam Golding Properties nationally in 2015. However, residential sales to international buyers can reach peaks in excess of 15% during the summer peak months of January to April, said Pam Golding Properties (Western Cape) Atlantic Seaboard area manager, Basil Moraitis.

Bolstered by favourable currency exchange rates, international investors have played a strong role in supporting record sales for prime properties on the seaboard and in the V&A Waterfront and central city precincts.

Active foreign buyers

Foreign buyers (particularly German investors) have been very active since December, said Moraitis. The group has recently concluded two sales in excess of R20m in Camps Bay to global investors. The Yacht Club development in the harbour at the V&A Waterfront has also attracted significant interest from foreign buyers wanting to secure a holiday home close to the central city, but also offering a waterfront position.

| Savills Executive Unit mainstream capital values | | | |
|--|----------------|-----------------------------|--|
| City | Capital values | Growth (Dec 2011-June 2015) | Mainstream as a proportion of prime capital values |
| Hong Kong | \$910,478 | 53% | 10% |
| New York | \$707,738 | 40% | 27% |
| London | \$699,485 | 49% | 15% |
| Singapore | \$642,499 | 5% | 20% |
| Sydney | \$671,165 | 70% | 33% |
| San Francisco | \$565,620 | 74% | 34% |
| Tokyo | \$555,771 | 16% | 24% |
| Average | \$537,537 | 33% | 19% |
| Los Angeles | \$493,339 | 56% | 39% |
| Shanghai | \$397,689 | 9% | 14% |
| Paris | \$349,249 | -5% | 14% |
| Dubai | \$299,464 | 81% | 14% |
| Mumbai | \$257,948 | 16% | 19% |

Source: Savills World Research, 12 Cities

For more, visit: <https://www.bizcommunity.com>