

JUNE 2019
EDITION



THE WEALTH REPORT.

INSIGHT SERIES

EXPLORING TRENDS IN GLOBAL PRIME
RESIDENTIAL MARKETS



The Wealth Report Insight Series 2019

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Definitions

UHNWI

Ultra-high-net-worth individual – someone with a net worth of over US\$30 million excluding their primary residence

HNWI

High-net-worth individual – someone with a net worth of over US\$1 million excluding their primary residence

PRIME PROPERTY

The most desirable and most expensive property in a given location, generally defined as the top 5% of each market by value. Prime markets often have a significant international bias in terms of buyer profile

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Data sources

WINGX Founded in 2011, WINGX provides business intelligence for the global private jet market spanning the entire supply chain, from airports, operators and manufacturers to industry investors and financial analysts. office@wingx-advance.com



LIAM BAILEY
GLOBAL HEAD
OF RESEARCH

Welcome

Liam Bailey, Knight Frank's Global Head of Research, introduces the latest prime residential market trends

Back in 2011 I made a somewhat controversial prediction that the top of the prime London residential market would see sales reach £10,000 per sq ft within a decade. At the time, £4,000 was pretty much the limit – although a few sales were creeping towards the £6,000 mark.

A single sale in 2017 at above £11,000 per sq ft justified my optimism, and since then there have been a number of deals, albeit a trickle rather than a flood, at prices above the level of my somewhat arbitrary – yet attractively totemic – benchmark.

The impetus behind my exuberant forecast was the research that we were undertaking for *The Wealth Report*. Year-on-year, it was becoming increasingly clear just how much the growth of globalised wealth was shaping property markets and propelling demand for the very best assets to new levels.

In this edition of *The Wealth Report Insight Series*, we have taken the opportunity to focus exclusively on the world's prime residential markets, in order to understand the trends that will dominate as we move into the next decade.

Our starting point is to consider the evolution of prime residential pricing in leading world cities. Despite last year's slowdown, Hong Kong retains its position as the world's most expensive big city market. Indeed, with a top price of US\$28,154 per sq ft recorded in 2016, it makes my bold prediction for London appear rather timid.

Understanding the buyer is a critical issue for anyone considering a property sale. So in this edition we analyse the behaviour of different age groups, including the Baby Boomers, who still account for more prime London purchases than Millennials and Generation Xers combined. We also look at the locations favoured by the different age groups.

Turning our attention to more exotic climes, our investigation into private jet arrivals at the world's luxury island destinations confirms a growth market, with a 7% annual increase in flight activity, driven overwhelmingly by huge growth in Asia-Pacific.

Finally, we take a look at the residential price premiums achieved by proximity to city parks. Those lucky enough to own homes adjacent to London's Regent's Park and New York's Central Park both see an uplift of almost a third in the value of their homes compared with their near neighbours, confirming the ongoing attraction of *rus in urbe*.

I hope you enjoy reading this edition.

THE EVOLUTION OF PRIME PRICING

How relative average and top prices in ten global cities have changed over the past five years

Over the next four pages we explore the evolution of pricing in the prime market segment across a range of global cities. To establish a clear picture of how prime pricing has moved in the last five years, we have reviewed market data across ten cities, from London to Sydney and from Dubai to Miami. We not only compare the average price per sq ft and per sq m on a city-by-city basis, but also present the highest price achieved in each market.

Hong Kong, perhaps unsurprisingly, is the most expensive market that we look at, with an average prime price of US\$4,251 per sq ft (US\$45,760 per sq m) in 2018. However, analysis over a five-year period shows that the top price achieved was in 2016 at US\$28,154 per sq ft (US\$303,051 per sq m).

New York and London remain the dominant ultra-prime markets, tussling for second and third place in our rankings.

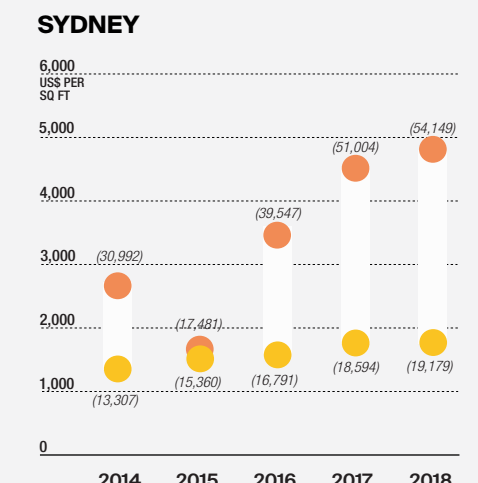
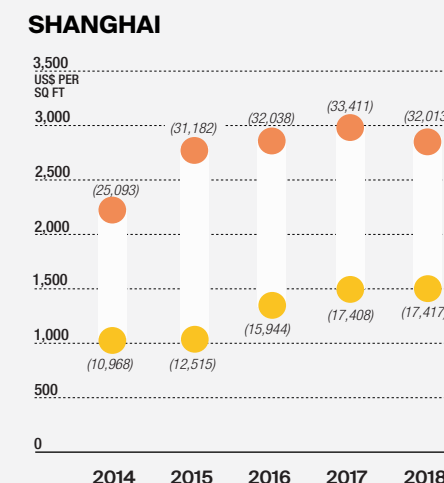
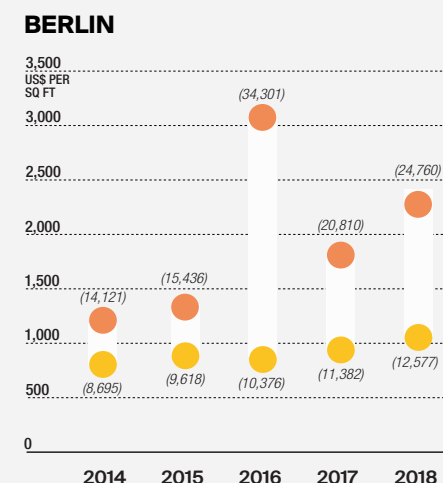
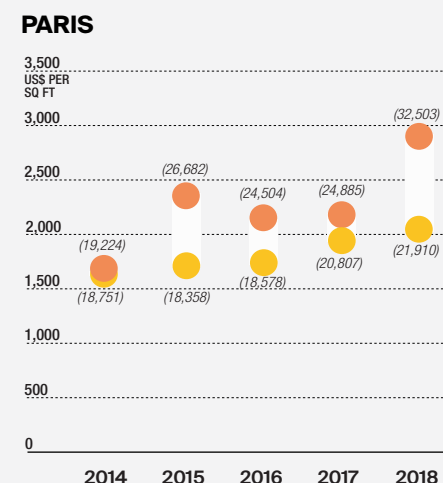
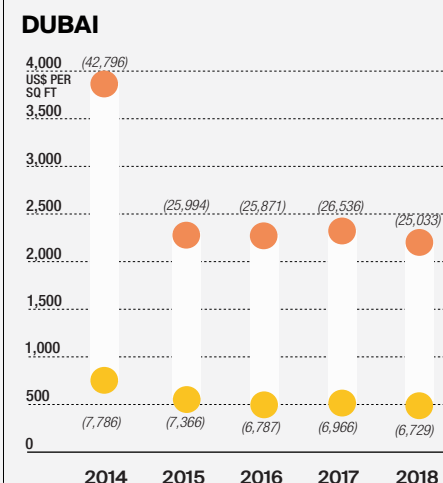
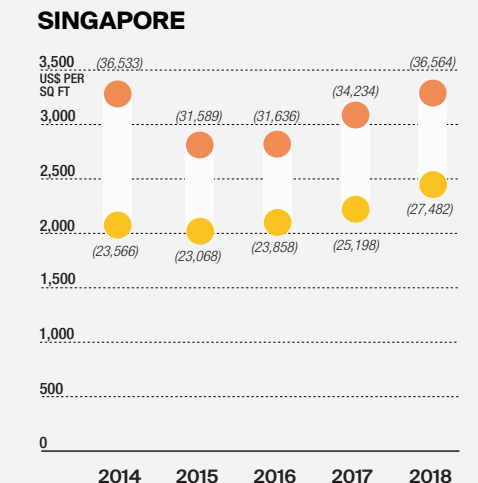
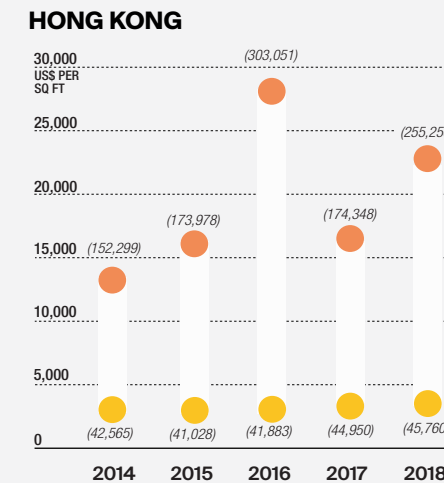
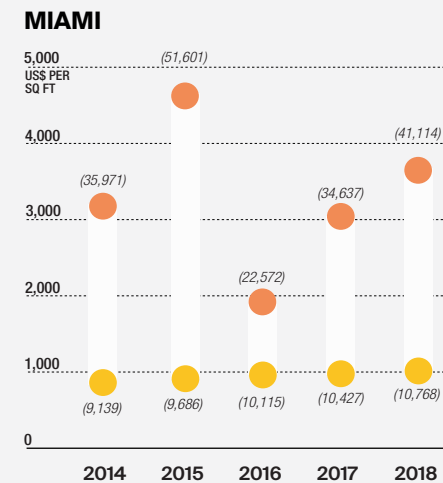
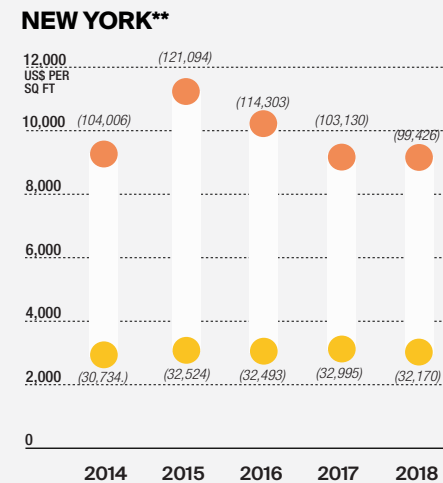
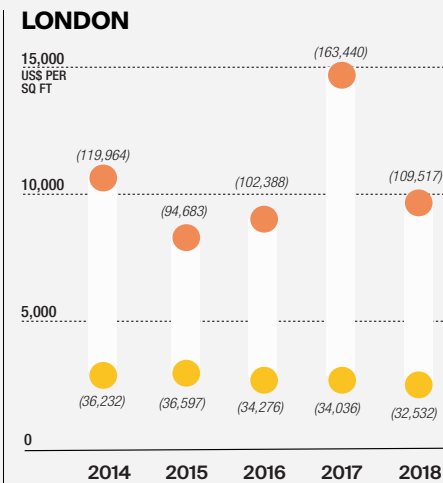
In 2011, we predicted that prices above £10,000 per sq ft (US\$137,102 per sq m) would be achieved in London this decade. This benchmark was exceeded with a price above £11,000 per sq ft (over US\$163,000 per sq m) in 2017, the second highest level of all our locations that year. As is the case for many locations, new-build developments are helping to raise the bar in terms of prices achieved.

While relatively speaking Dubai remains the most affordable market with an average price of US\$625 per sq ft (US\$6,729 per sq m), just 15% of the average price in Hong Kong, it has nevertheless seen some of the highest premiums. In 2014 one sale achieved US\$3,976 per sq ft (US\$42,796 per sq m), the fourth highest in any of our city markets that year.

In many locations, the highest achieved price corresponds with the market overall reaching its peak. For example, Paris and Berlin have seen consistent growth since 2014, recording their highest prices yet in 2018.

PRIME PRICING

THE AVERAGE PRIME PROPERTY PRICE AND TOP PRICE ACHIEVED 2014-18, US\$ PER SQ FT (US\$ PER SQ M)*



Sources: Knight Frank Research, Douglas Elliman, ZIEGERT Research, HM Land Registry, LonRes, Databien, Memfus Wong Property Information Centre, REALIS

Note: Figures are based on publicly available data and may not reflect all sales in each market

*Exchange rates calculated as at 31 December 2018

**Manhattan only



LEVEL UP

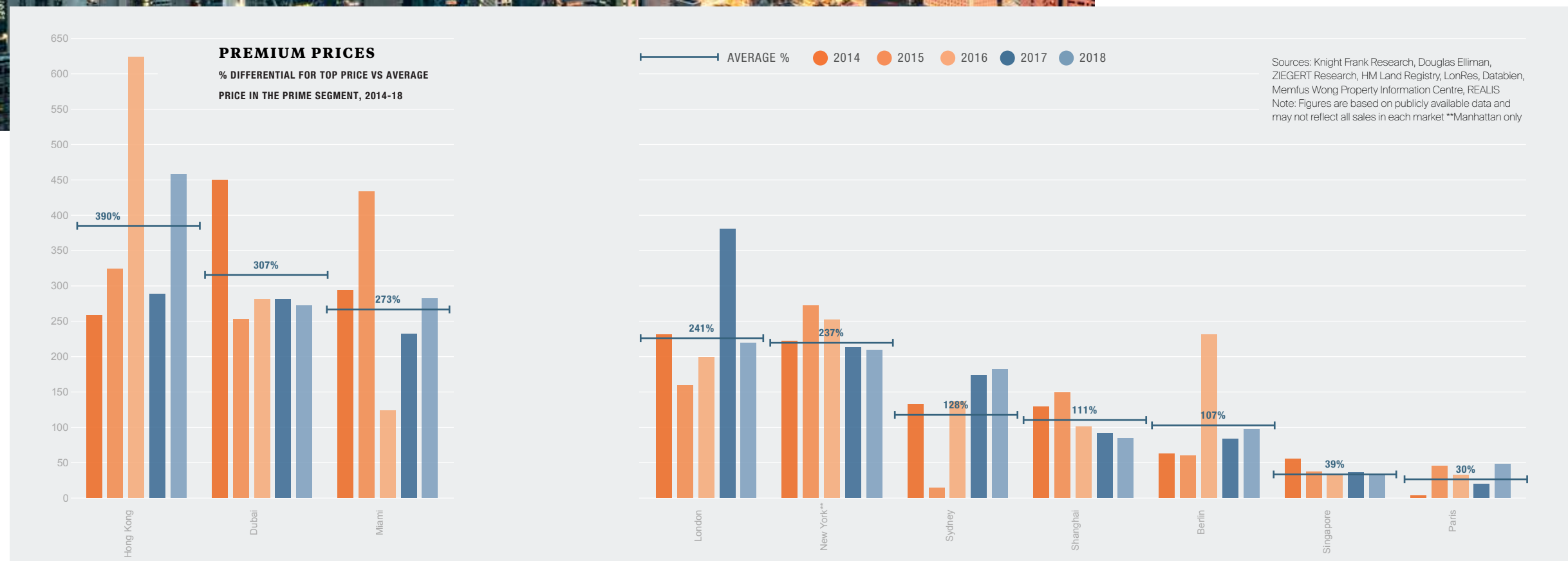
However, there are exceptions to this rule. In London, for example, the average prime price fell by 7% between 2015 and 2017, yet a record US\$15,184 per sq ft (US\$163,440 per sq m) was achieved in 2017. Singapore has seen its highest achieved price remain relatively stable year-on-year, while the average prime price has appreciated by 17% between 2014 and 2018.

While the majority of the markets we cover in this section see the highest achieved price move in tandem with the average, there are some where there is convergence and others with outliers, as shown in the figures on pages 4 and 5.

Across the ten cities surveyed, the differential between the average and top price achieved is just under 200%. Over the last five years the gap has been largest in Hong Kong, a difference of 624% in 2016. However, uplifts of a similar magnitude were echoed in Dubai in 2014 and Miami in 2015.

The uplift is lowest in Paris and Singapore, with five-year averages of 30% and 39% respectively. This may reflect the fact that these cities sit in the middle of the price spectrum while the most dramatic uplifts are typically seen at the far ends, i.e. in those cities with the lowest or highest prices. In addition, as many Singaporeans live in public housing the market for private homes is smaller, and with lower levels of demand come fewer high premiums.

“
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”



House of ages

We explore how much each generational cohort spent acquiring their slice of prime central London in 2018

When it comes to purchasing prime property, age is more than just a number. Our analysis of purchases in prime central London shows different patterns emerging between the generations in terms of location and spend.

Millennials spent a combined £3.47 billion (US\$4.42 billion) buying a piece of prime central London in 2018. Generation X, a smaller cohort, spent £3.50 billion (US\$4.45 billion) with Baby Boomers spending more than double that – £8.58 billion (US\$10.93 billion).

Baby Boomer purchasers are more aligned to market performance in relation to volumes of sales – that is, as the market rises, so does their propensity to buy. However, it may also be inferred that they are a driving force in market performance. Generation X is the least responsive to changes in the marketplace in regards to volume of sales.

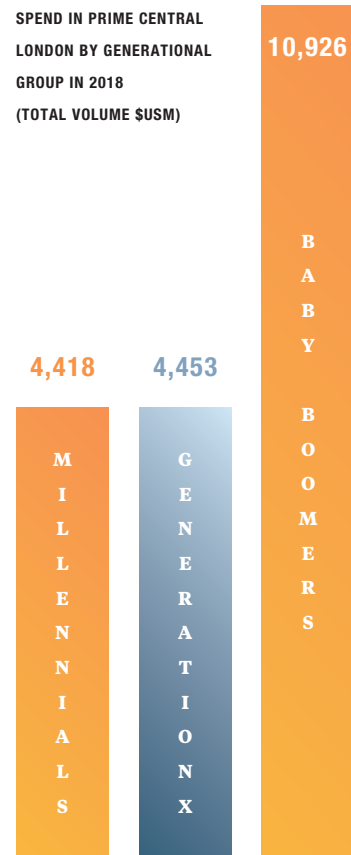
However, the average spend of both Baby Boomers and Generation Xers remains impervious to market movements. One potential explanation is that budgets remain stable despite market conditions, and so when

the market falls purchasers are able to acquire properties that would previously have been out of reach.

WHERE ARE THEY ALL GOING?

For volume of transactions, Islington takes top spot for both Millennials and Generation X. James Marshall of Knight Frank in Islington notes that the area “is a trendy, busy and fun place to be, with healthy restaurants, cool bars and independent shops as well as green open spaces, all within a 30-minute walk of central London.” Marylebone is a popular destination for all ages, coming in third for Millennials and Generation Xers, and second for Baby Boomers. Baby Boomers are more inclined to look towards the traditional “golden” postcodes, with Kensington in first place and Knightsbridge third.

However, when we look at the top spot in regard to the proportion of sales made up by each cohort, Millennials favour Riverside, Aldgate and Tower Bridge, while Generation X looks to Wapping, South Kensington and Tower Bridge and the Baby Boomers once again favour the traditional prime areas of Belgravia, Knightsbridge and Kensington.



LOCATIONS FOR THE AGES

	MOST POPULAR AREAS BY VOLUME	LARGEST PROPORTION OF COHORT BY AREA
Millennials	<ul style="list-style-type: none"> ISLINGTON TOWER BRIDGE MARYLEBONE MAYFAIR ALDGATE 	<ul style="list-style-type: none"> RIVERSIDE, ALDGATE, TOWER BRIDGE WAPPING, ISLINGTON
Generation X	<ul style="list-style-type: none"> ISLINGTON KENSINGTON MARYLEBONE NOTTING HILL TOWER BRIDGE 	<ul style="list-style-type: none"> WAPPING, SOUTH KENSINGTON, TOWER BRIDGE ISLINGTON, NOTTING HILL
Baby Boomers	<ul style="list-style-type: none"> KENSINGTON MARYLEBONE KNIGHTSBRIDGE ISLINGTON NOTTING HILL 	<ul style="list-style-type: none"> BELGRAVIA, KNIGHTSBRIDGE, KENSINGTON ST JOHN'S WOOD, MARYLEBONE

Definitions

We use The Center for Generational Kinetics definitions of different generations:

- Millennials: born 1977–1995
- Generation X: born 1965–1976
- Baby Boomers: born 1946–1964

For the purposes of this report we have included those born after 1995 in the Millennial category and those born prior to 1946 in the Baby Boomer category



TAKE ME TO THE ISLANDS

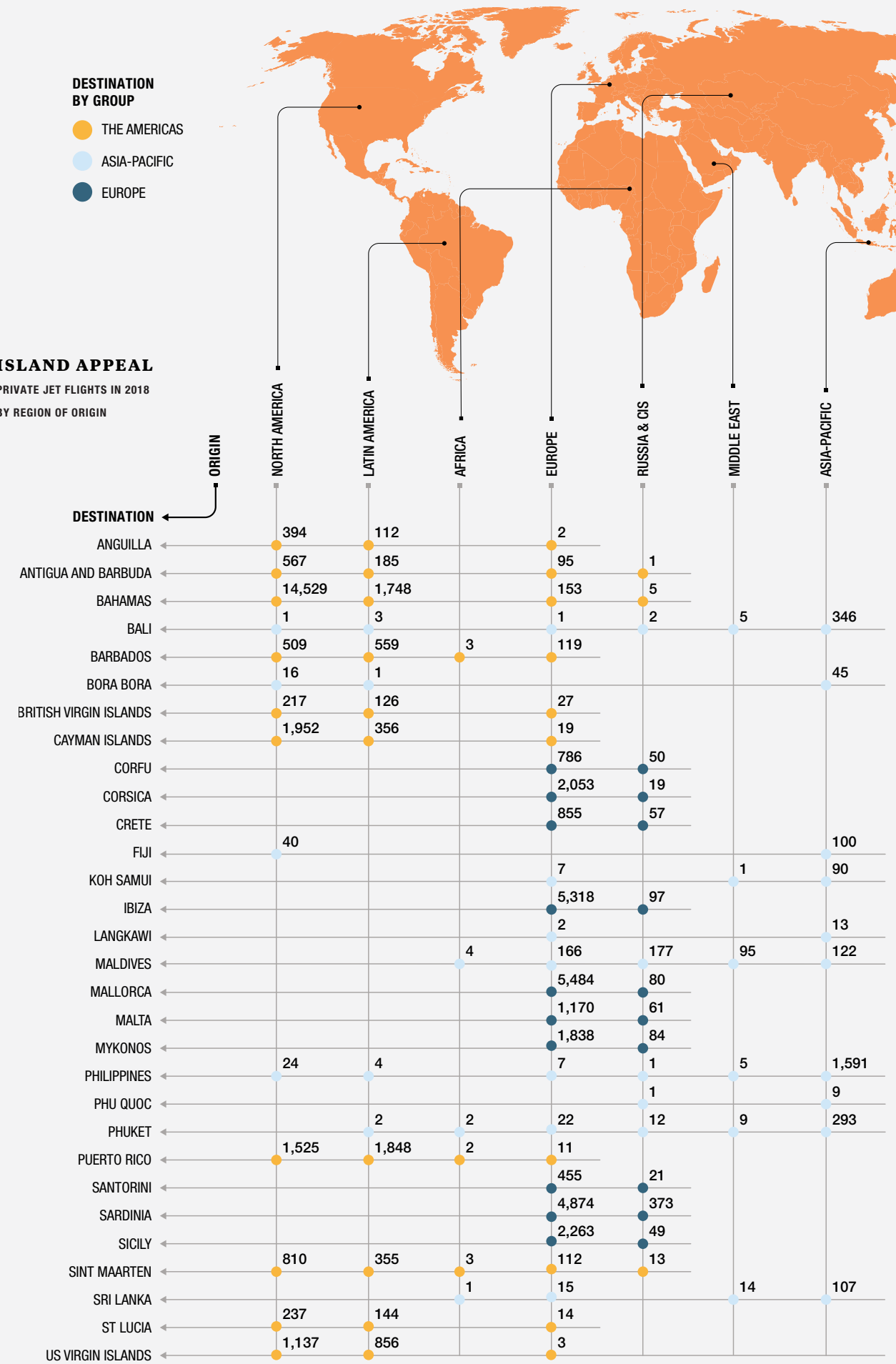
Over the next three pages we look at trends in private jet travel to a selection of popular islands across the globe



Through our global network we have identified ten prominent island destinations for three world regions: Europe, the Americas and Asia-Pacific. Working with data provided by global private jet specialists WINGX, we have picked out the most popular of these and established some of the major routes and biggest private jet users.

Overall, the number of private jet flights to our 30 island locations increased by 7% to 58,091 from 54,093 in 2017. Although traffic increased to all island groups, this was driven largely by an 80% increase in traffic to islands in Asia-Pacific. As much private jet traffic is fairly localised, this trend reflects the fast pace of wealth creation in Asia as highlighted in the 2019 edition of *The Wealth Report*.

ISLAND APPEAL
PRIVATE JET FLIGHTS IN 2018
BY REGION OF ORIGIN



Sources: Knight Frank Research, WINGX

The most popular of the 30 islands, or collections of islands, we look at is the Bahamas with almost 16,500 private jet arrivals in 2018, a 23% increase on the previous year. European islands occupy second, third and fourth places with Mallorca, Ibiza and Sardinia seeing 5,564, 5,415 and 5,247 landings respectively. San Juan (Puerto Rico) rounds out the top five with 3,386. However, when looking at those destinations with the biggest international draw, flights from 48 countries landed in San Juan and the Bahamas followed by 46 in Sardinia.

In terms of rising popularity the Bahamas again come out on top with an additional 3,084 flights heading there in 2018. However, islands in Asia-Pacific are seeing the biggest proportional increase in the number of private jet arrivals. The Philippines alone saw an annual increase of 158% with 1,632 arrivals in 2018 compared with 632 in 2017. Bora Bora and Koh Samui also saw their private jet arrivals double in 2018. Other islands experiencing a significant rise in popularity were Barbados, where traffic rose 35% year-on-year, and Mallorca and Ibiza which saw an additional 500 landings between them.

Overall, the islands in the Americas saw the largest decline in private jet landings. Despite San Juan's popularity, there were over 800 fewer landings in 2018 when compared with 2017. Both the US Virgin Islands and the

British Virgin Islands saw the number of arrivals drop by more than 300; a fall of 46% in the case of the British Virgin Islands. One potential reason for this could be the time taken to recover from Hurricane Irma in late 2017 as discussed in our latest *Caribbean Insight* report. In Europe, Malta and Corsica saw the largest decline in private jet landings with 139 and 199 fewer landings respectively in 2018.

WHO'S FLYING?

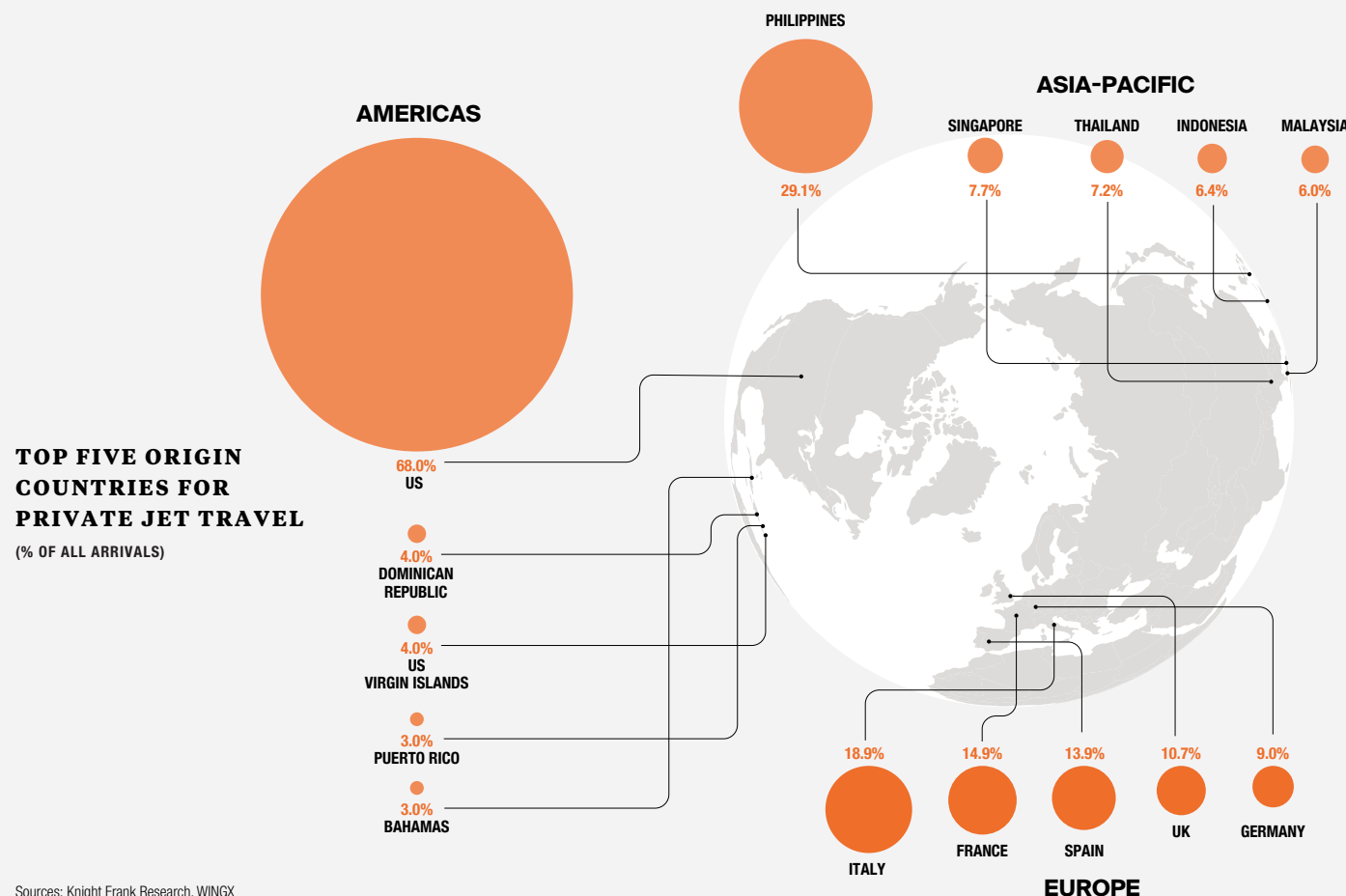
According to *The Wealth Report 2019*, North America has more than five times the number of private jet registrations than the next highest region, Europe, Russia & CIS. So it comes as no surprise that more than a third of the flights we look at originate there.

Proximity is a key factor when considering the origin of flights. For destinations in the Americas, the US alone accounted for 68% of flights with the Dominican Republic and the US Virgin Islands rounding out the top three. The majority of private jet journeys to European islands originated from within Europe with Italy, France and Spain accounting for 48% of flights, and the UK and Germany combined accounting for another fifth of the total. In Asia-Pacific, the Philippines, Singapore and Thailand were the busiest departure locations.



GREEN SPACE
THE AVERAGE UPLIFT FOR PARK FACING PROPERTIES VS THOSE WITHIN 150M

- 29% CENTRAL PARK, NEW YORK
- 29% REGENT'S PARK, LONDON
- 18% HYDE PARK, LONDON



Sources: Knight Frank Research, WINGX

Park life

Proximity to city parks adds a considerable premium to urban property prices

Green space in a city is a highly sought-after commodity. The idea of escaping the hustle and bustle and enjoying natural scenery is an attractive one: but how much more are buyers prepared to pay to live facing a park compared with being up to 150m away? When it comes to values for a flat, the answer, based on an analysis of the average value of homes around two major parks in London and one in New York, is significant.

It is important to note that it is not only easy access to green space that can enhance a property's value. There are many factors at play, including the size and quality of housing stock close to parks as opposed to further away and the amenities on offer at a particular residence, as well as external factors such as proximity to quality schools. Yet average prices clearly reflect the fact that for many, being close to green space is worth a considerable premium.

Using our own and third party data combined with geospatial analytics, we compared average sales prices for park-facing properties with neighbouring properties

around three of the world's most famous parks, Hyde Park and Regent's Park in London and Central Park in New York. Central Park and Regent's Park came out on top for the highest premiums, commanding 29% more for park-facing properties. Hyde Park's average uplift was somewhat lower but still significant at 18%, perhaps reflecting the availability of garden squares in the immediate vicinity, which can, particularly in Mayfair and Knightsbridge, command some of the highest premiums in central London.

In assessing the data for Central Park, we have focused specifically on newly built developments on the Upper East Side and Central Park South. Andrew Wachtfogel, Senior Vice President of Research & Analytics for Douglas Elliman, notes that the premium for Central Park South "is driven not only by proximity but by the views being offered from the newer high-rise buildings." He continues that "the Upper East Side, however, holds one of the most historic links as a prime area."

The Regent's Park and Hyde Park analysis included assessing the current value of all flats, both new and existing, surrounding each park. Declan Selbo, from Knight Frank's St John's Wood office, says that "living in close proximity to Regent's Park offers security, privacy, unique architecture and incredible views, not to mention the occasional opportunity of seeing a giraffe". Something you are unlikely to get in any other area.

Sources: Knight Frank Research, Douglas Elliman, HM Land Registry

Lifestyle cities

There is a growing trend for more prime and super-prime developments in lifestyle cities

Service provision has become a staple in prime and super-prime developments across global cities such as London and New York as buyers become increasingly more global and far more transient. Statistics from *The Wealth Report* support this with 42% of UHNWIs already owning a second home outside their country of residence. Furthermore, 36% of UHNWIs have a second passport or dual nationality, and 29% are considering acquiring one.

As Rupert des Forges, Knight Frank’s Head of Prime Central London Developments, notes, “buyers now benchmark their homes against the best global hotels they stay in. They know what service really is and will pay for it. They expect lifestyle support and it is no surprise that concierge businesses are a growing breed, designed to manage homeowners’ busy lives in the days between touching down for London time and flying out of the country again.”

However, this style of development is now spreading into other cities which are seeing

increasing level of overseas interest and investment. The likes of London, New York, Hong Kong and Singapore will always exert a powerful global draw. However, factors such as a favourable climate and access to innovative medical care are becoming increasingly important.

Madrid, for example, is now home to a Four Seasons Private Residences. Lisbon is another city which has seen its popularity grow with a significant uptick in sales volumes, price growth and market liquidity over the last year as we explore in our *Lisbon Insight* report.

As wealthy individuals become more globally connected and more mobile, they are not only planting roots in traditional urban powerhouses but looking for a well-rounded offering. High quality amenities and support facilitate a transient lifestyle, and so prime, super-prime and ultra-prime developments will become increasingly common – and increasingly sought after – in these “lifestyle cities”.



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