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Prime Global Forecast 2021

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WHERE NEXT?

Against a tumultuous backdrop, Kate Everett-Allen assesses the ups and downs of prime property markets in 2020 and beyond



From health to economics, 2020 saw the world upended. Our latest data however, suggests prime property markets were largely resilient.

A year ago, Knight Frank's Prime Global Cities Index, which tracks the movement in prime prices across 45

cities, was rising at a rate of 1.1% per annum, by the end of September 2020 the rate had climbed to 1.6%.

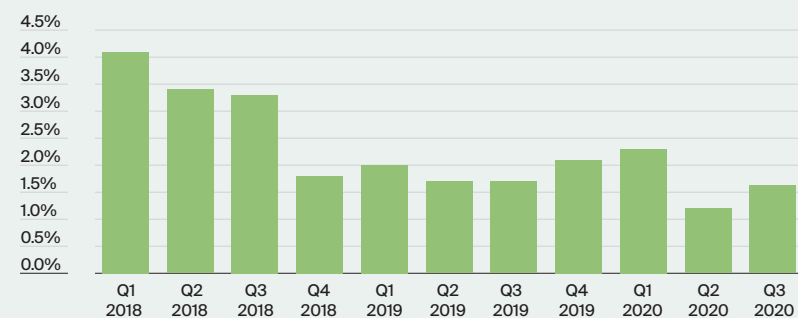
Underpinning the resilience of housing markets are the vast stimulus packages that governments and central banks have employed to support

incomes and companies, whilst keeping borrowing costs near record lows. That said the response of prime housing markets has not been uniform.

Some markets have had a helping hand from policymakers – London and Mumbai are enjoying stamp duty holidays, while others such as Vancouver and Miami are seeing a flurry of sales activity as residents

Prime price growth resilient in the face of the pandemic

Index aggregate - 45 cities (annual % change)



Source: Knight Frank Research

The prime central London market recovered strongly over the summer, and is overdue a period of house price growth. It will also benefit from a wave of international demand as travel and quarantine rules are relaxed.

TOM BILL, LONDON

There has been strong sales interest, but the top end of the market has been affected by many international buyers not being able to travel.

EDWARD DE MALLET MORGAN, MONACO

reconsider their property requirements in light of the pandemic.

A lack of prime supply is cushioning prices in some markets (Singapore, Sydney and Los Angeles) while others are benefitting from their safe haven credentials (Geneva, Auckland).

The story isn't all positive, some cities were left reeling from the economic fallout of lengthy and stringent lockdowns (Cape Town, Madrid) not to mention the scale of the pandemic (Buenos Aires).

Clearly, there are challenges ahead. Europe is locking down for a second time and most fiscal stimulus measures are set to taper off in early 2021. The concern for investors is that rents are declining in several key cities, due in part to the absence of international students, but also due to a surge in supply as landlords switched from holiday lets to long-term rentals.

We shouldn't forget taxation. All eyes are now on government plans to replenish public coffers. From proposed wealth tax changes (Spain, Canada) to higher capital gains taxes (US and UK), the tax landscape looks set to shift.

This year, as well as presenting our price forecasts for 2021 (page 4), our global research teams assess the impact of the pandemic on their markets (see panel right) and assess the prospects for demand, supply and sales in their markets (page 5).

Finally, on page 6 we look at the risks and opportunities that lie ahead and highlight eight trends set to influence prime residential markets in a post-pandemic world (page 7).

THE IMPACT OF THE PANDEMIC

24%

of respondents in our *Global Buyer Survey* said they were more likely to move in the next 12 months due to the pandemic

Are prime sales back to pre-pandemic levels?

Yes

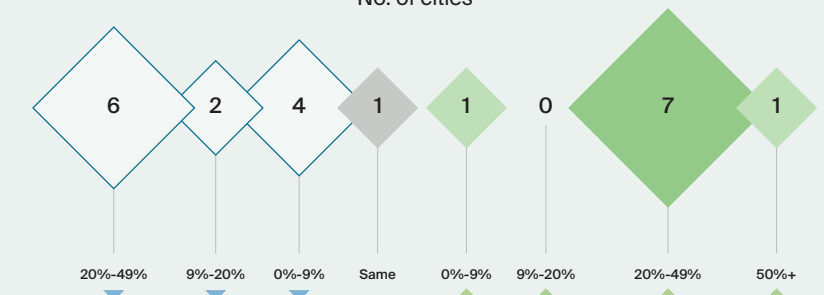
Berlin, Geneva, Lisbon, London, Los Angeles, Miami, Paris, Singapore, Sydney, Vancouver

No

Auckland, Buenos Aires, Cape Town, Dubai, Hong Kong, Madrid, Melbourne, Monaco, Mumbai, New York, Shanghai, Vienna

By the end of 2020, how will prime sales volumes compare with 2019?

No. of cities



45%

OF CITIES

say prime sales were already back to pre-pandemic levels in Q3 2020

36%

OF CITIES

have seen a city exodus with the suburbs the most popular location for those relocating

45%

OF CITIES

are seeing a large volume of expats return these include Auckland, Cape Town, London, New York, Singapore, Sydney, Vancouver

Source: Knight Frank Research

KEY PRIME MARKET DRIVERS IN 2020/21



PANDEMIC-FUELLED DOMESTIC DEMAND

Change of location or larger property



SUPPLY SHORTAGE

In some cities



CURRENCY PLAY

Strong USD, weak GBP and at the start of 2020 weak AUD and NZD



BUYING OPPORTUNITY

Several years of weak price growth in first tier cities



LOW INTEREST RATES

The number of economies with negative rates is set to rise



TAX CHANGES

Stamp duty holidays



FISCAL STIMULUS

Mortgage holidays and furlough schemes

THE FORECAST

Knight Frank's analysts provide their prime residential price forecasts for 2021 and assess future market drivers

In 2021, we expect 20 of the 22 cities to see prices remain flat or increase, a slight reversal of the trend seen in 2020 when we expect nine cities to end the year with lower prices.

In 2020, prime prices across the 22 cities are, on average, expected to remain static, before rising by 2% in 2021.

Shanghai and Cape Town lead the forecast for 2021 with annual price growth of 5% forecast.

Three broad groups look set to emerge in 2021. Firstly, those markets where prime prices are expected to rebound, assisted by low interest rates, pent-up demand, tax holidays or because of

firm market fundamentals, these include London, Sydney, Paris, Berlin and Madrid.

New York is also expected to register an improvement, largely because excess inventory is being absorbed and buyers are recognising its relative value. Furthermore, a Biden administration could lead to a reversal of the State and

Local Tax (SALT) deduction which led to higher taxes in states such as New York and California.

Secondly, there are some markets where the pandemic will have little impact on prime pricing, in some cases because growth was already weak and will remain so (Buenos Aires), because

In 2021, we expect 20 of the 22 cities to see prices remain flat or increase, a slight reversal of the trend seen in 2020 when we expect nine cities to end the year with lower prices.

the market has already picked up where it left off prior to the pandemic (Shanghai) or because prime prices were accelerating and are expected to do so again due to strong investment in infrastructure (Lisbon).

Finally, there are a handful of markets that unexpectedly saw activity surge

in 2020 as residents looked to upgrade to larger properties with more outdoor space, these include Auckland, Vancouver, Geneva, Los Angeles and Miami. Here, prime price growth will moderate slightly on the back of a frenetic 2020, but still remain in positive territory.

PRIME GLOBAL FORECAST 2021

Annual % change (Dec 20-Dec 21)

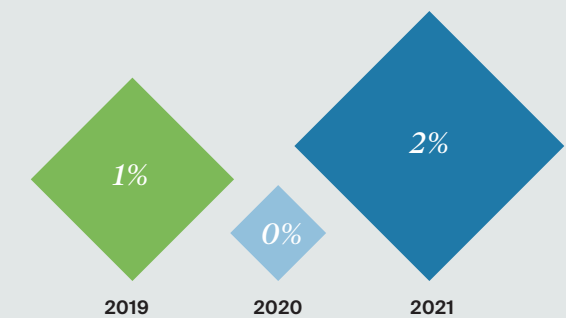


2021 EVENTS



Past, present and future

Prime price performance - 22-city average



FUTURE DIRECTION

How will demand, supply and sales volumes change in 2021?

● Rise Significantly ● Rise Slightly ● Remain the same ● Fall Slightly ● Fall Significantly

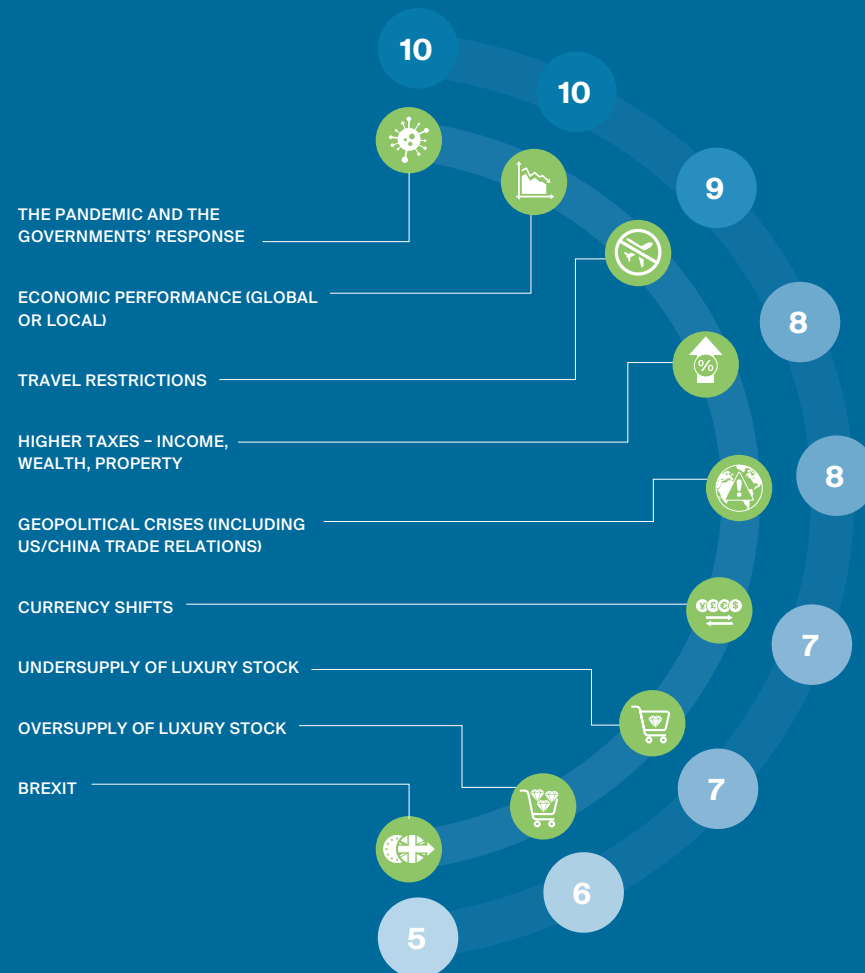
	PRIME DEMAND	PRIME SUPPLY	PRIME SALES		PRIME DEMAND	PRIME SUPPLY	PRIME SALES
AUCKLAND	●	●	●	MELBOURNE	●	●	●
BERLIN	●	●	●	MIAMI	●	●	●
BUENOS AIRES	●	●	●	MONACO	●	●	●
CAPE TOWN	●	●	●	MUMBAI	●	●	●
DUBAI	●	●	●	NEW YORK	●	●	●
GENEVA	●	●	●	PARIS	●	●	●
HONG KONG	●	●	●	SHANGHAI	●	●	●
LISBON	●	●	●	SINGAPORE	●	●	●
LONDON	●	●	●	SYDNEY	●	●	●
LOS ANGELES	●	●	●	VANCOUVER	●	●	●
MADRID	●	●	●	VIENNA	●	●	●

Source: Knight Frank Research

RISK MONITOR

Despite uncertainty reaching new heights in 2020, there are opportunities on the horizon in the form of currency shifts, investment visas and property tax holidays. We asked our global research teams to give us their take on the biggest risks to their prime residential markets

10 = Most influential, 0 = Least influential



FLORA HARLEY
ASSOCIATE, GLOBAL
RESIDENTIAL RESEARCH

Silver Linings?

Even before the pandemic took its toll we were nearing the end of the economic cycle, Covid-19 hit reset and 2021 could mark a wave of renewed growth.

As our Risk Monitor shows the pandemic and governments' response to it, combined with economic performance remains at the forefront. The widespread roll-out of an effective vaccine would be the biggest boost for economic recovery. Equity markets and government bond yields both jumped in response to Pfizer's vaccine results, demonstrating investor sentiment. Brighter prospects are shifting preferences from 'safe haven assets' such as bonds and gold towards opportunities that offer the potential of higher returns, including property. We could see the US dollar weaken which will shift the buying power of international investors. However, international travel could remain limited as there will be a staggered roll-out of any vaccine globally and Oxford Economics estimates it could be 2023 before international travel returns to 2019 levels.

With the potential for a quicker return to 'normal' this could limit unemployment and support housing markets, plus interest rates look set to remain at record lows for the foreseeable future. The US Federal Reserve has indicated it will not raise rates until at least 2022.

TRENDS TO MONITOR

Below we highlight some of the trends set to influence prime property markets in 2021 and beyond

01.

ESG TAKES OFF

Green and ethical investing is set to filter all aspects of global property markets as the pandemic and a Biden Presidency push purpose-led investment up the global agenda.

02.

THE BLENDED CITY

With a five-day commute a distant memory, and digital working the new norm, there will be an online and offline approach to work and our lifestyles, leading to more residential stock in city centres and more retail and amenities in suburbs.

03.

ACCESSIBLE BOLTHOLES

With many unable to reach their second homes in lockdown, and others decamping for much longer periods than usual, the location and specification of second homes is set to change, as many look for a bolthole

within driving distance and the line between primary and secondary residences becomes blurred.

04.

DIGITAL NOMADS

First Barbados, then Bahamas and Dubai, policymakers are acknowledging the global workforce has gone mobile and are introducing short-term visas in an effort to boost their pandemic-hit economies. Expect more of this.

05.

ALTERNATIVE SECTORS

From data centres to retirement homes, and from healthcare to the private rented sector, investors are widening their net given the opportunities in the medium to long term.

06.

RESORT MARKETS

Overshadowed by escalating prices in prime cities since the last financial crisis,

resorts, be they ski or sun locations, from Aspen to Cannes, are seeing demand strengthen.

07.

DEBT HARDER TO COME BY

With more countries expected to join the negative rates club in 2021, finance looks set to remain cheap, but lenders are taking a more cautionary stance, raising loan-to-value ratios and making finance costlier for highly-leveraged clients.

08.

A CHANGING TAX LANDSCAPE

Will governments look to raise property taxes in a post-pandemic world to replenish lost revenue or will foreign buyer taxes and bans be rolled back to help attract overseas investment? The next few months should give us some indication as to the route governments plan to take.

INFRASTRUCTURE & REGENERATION SELECTED PLANS



BERLIN

Siemensstadt 2.0 in North-West Berlin: Siemens Group is investing €600 million and converting its old HQ into a campus for research and start ups



HONG KONG

Hong Kong International Airport's third runway is due to be operational in 2022



LISBON

The city's new Montijo Airport opens in 2022 and a new rail-link between Lisbon and Porto has been mooted



LONDON

Crossrail's trial running will commence in Spring 2021 and should be fully operational by mid-2022



MADRID

The redevelopment of Madrid Nuevo Norte centred around Chamartín train station will deliver more than 10,000 new homes during the 2030s



MUMBAI

The Navi Mumbai International Airport is likely to be open in May 2021



PARIS

Le Grand Paris Project (4 new trainlines, 68 new stations) & 2024 Summer Olympics



SINGAPORE

Mass Transit Rail Line extensions - Circle Line, North-East line and a rail extension to Changi Airport



SYDNEY

Circular Quay Renewal, Sydney Metro City & Southwest, New Barangaroo Railway Station



VANCOUVER

A new underground rail line to the University of British Columbia.

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.

Prime property definition: The most desirable and 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.

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