



# GLOBAL DEVELOPMENT INSIGHT

AN ANALYSIS OF GLOBAL DEMAND  
FOR NEW-BUILD PROPERTY, **Q3 2013**

# GLOBAL DEMAND

Growing wealth creation around the world has meant that demand for luxury residential property in key locations has continued to expand. Liam Bailey assesses who is buying where.

Since the global financial crisis took hold five years ago, private investors have looked to bricks and mortar as a means of preserving and growing their wealth. Prime real estate prices in key locations such as Dubai and Hong Kong have reflected this, rising by 63% and 81% since early 2009.

This revival in prime residential pricing has continued into 2013, with Knight Frank's [Prime Global Cities Index](#) climbing by 2.4% in the second quarter.

These price rises have in part been driven by growing international demand for prime property. In this edition of our Global Development Insight series we have taken the opportunity to explore the key players in this market, looking specifically at international interest in the new-build sector. Our results have been informed by our survey of Knight Frank's global residential development teams.

## Leading buyers

We have assessed data from across our global network to confirm the leading cross-border buyers of new-build luxury property over the 12 months to the end of July 2013. We have also looked at recent changes in buyer activity to gain an insight into the nationalities to watch for the future.

Our research, which takes into account the buying habits of high net worth individuals around the world, confirms that the **Chinese are the most influential buyer nationality** in the world's prime new-build sector. As well as being the top purchasers of new-build residential property in Sydney and Hong Kong, Chinese buyers are active in both Kuala Lumpur and Bangkok's prime new-build markets. Additionally, they are growing in strength in key western markets, particularly New York.

Chinese buyers' global presence is fuelled in part by a strong Yuan and slowing domestic economy, both of which are encouraging Chinese investors to look further afield in an attempt to diversify their investments.

Singaporean and Russian investors are the next most active buyers of new-build residential property around the world, followed by UK and US buyers.

Given the recent growth in wealth creation in Asia over the last few years, it is perhaps no surprise that buyers from this region feature strongly among our list of the top global new-build purchasers on page 5.

There is no doubt that recent residential market [cooling measures in Asia](#) have acted as a spur for many investors from that region to look further afield.

## Future demand

When we look at recent sales data from our global network and overlay this with our survey results we can point to key nationalities who will increase their investments in new-build residential property over the next 12 months.

Chinese, Russian and US-based investors are all expected to retain and grow their market share. Latin American buyers meanwhile, particularly those from Brazil and Mexico are expected to feature more prominently in global new-build markets.

China's growing importance reflects the rise of Asia as a wealth creation hub. Asia is second only to North America in terms of its billionaire population, and the number of high net worth individuals in China is forecast to rise by 137% over the coming decade, according to data contained in [The Wealth Report](#).

The US is forecast to see a 32% increase in its high net worth population over the same period while Russia, according to a separate forecast by WealthInsight, is predicted to see 37% growth in the number of individuals worth US\$30m or more by 2016.

In Latin America, the HNWI populations of Brazil and Mexico are forecast to rise by 138% and 44% respectively over the next 10 years.

Given the popularity of prime real estate as an investment in the years following the financial crisis, we expect a portion of this growing wealth will continue to be assigned to new-build property in key locations around the world.

However, the increase in activity expected from these investor markets is set against

a backdrop of limited growth in overall investment activity. Half of our survey respondents said that they believed the market share of non-local buyers of new-build residential property would remain unchanged over the next 12 months.

One key issue which will influence investor behaviour is the varying response from governments around the world to international investment, something we explore in greater detail on pages 3 and 4.

**137%**  
*Forecast growth in Chinese HNWI's between now and 2021*

As we alluded to earlier, while many Asian policymakers are increasing property taxes in a bid to deter foreign buyers, the opposite trend is being seen in Europe. Here, particularly in southern European economies, governments are actively looking to attract foreign buyers to help stimulate ailing mainstream property markets and boost economic growth.

In France, for example, President Hollande has reduced the time limit for full exemption from capital gains tax for owners of second homes from 30 to 22 years from 2014 and his previously introduced taper rates will now be set at a more favourable flat rate of 6% per annum.

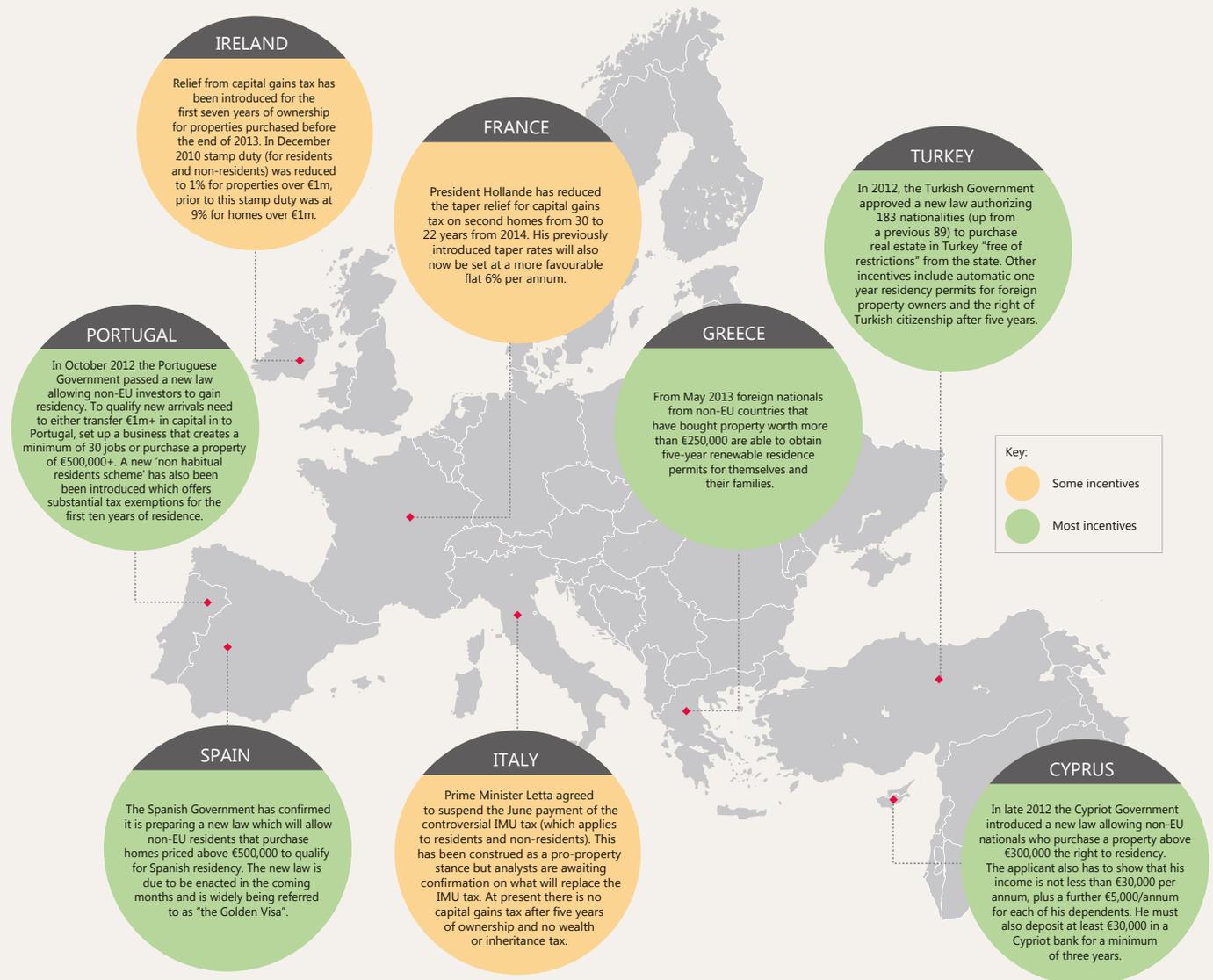
Elsewhere, the Spanish Government recently approved a new law to fast track residency permits for investors from outside of the European Union who spend €500,000 or more on property in the country. The law is expected to be enforced by 2014.

One change which may impact on future cross-border investment is governments looking at restricting money flowing out of countries – The Reserve Bank of India, for example, recently announced that no resident will be allowed to buy an immovable property abroad as part of a move to curb foreign exchange outflows.

# A WORLD APART: DIFFERING APPROACHES TO INWARD PROPERTY INVESTMENT

## European incentives

Over recent years, European governments have been increasingly looking at ways to entice foreign investment from outside the EU. It is likely this competition for non-EU investment will intensify in the future.



Source: Knight Frank Residential Research

The information contained in this report with regard to buyer incentives and restrictions is correct to the best of our knowledge and belief at the time of going to press. It is written as a general guide only and we recommend that specific professional legal and tax advice is sought.

While European governments tempt international investors with the promise of residency and a reduced tax bill, it is important to consider the wider picture. Many of the measures announced by policymakers are designed to attract foreign buyers to help stimulate struggling mainstream property markets and boost economic growth.

In Spain, Portugal and Greece, for example, large amounts of stock remains unsold as a result of property booms that came to

an abrupt halt in 2008. In Spain, estimates suggest that at the end of last year there were around 700,000 new homes unsold on the market.

According to official data, mainstream property prices in Greece, Spain and Portugal are now 31%, 29% and 19% below their respective market peaks.

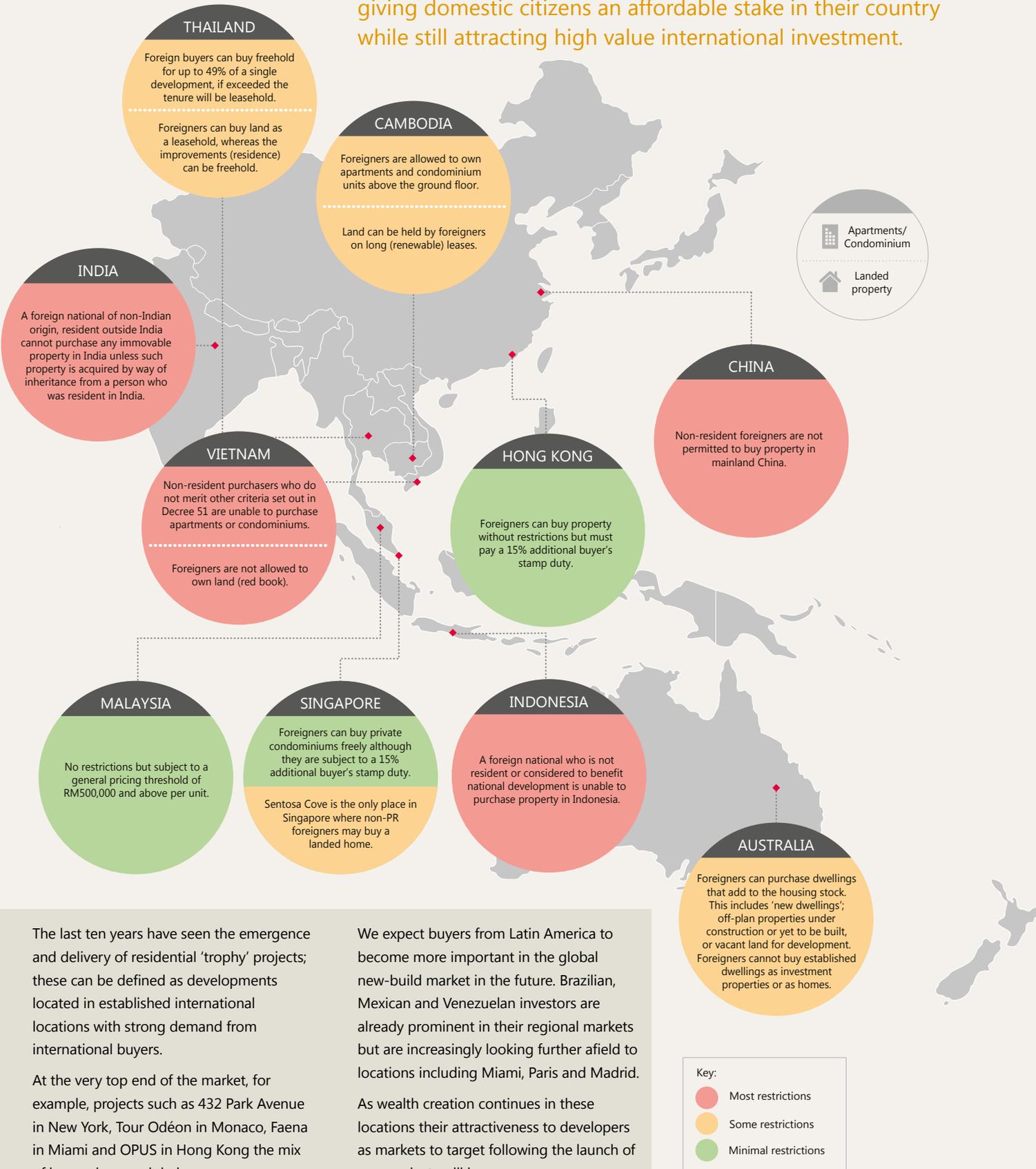
On page 5 we have listed the nationalities who are the most important buyers globally. Based on our research and the expertise

of Knight Frank's residential development teams around the world it is clear that Asia should be viewed as an important market for developers to showcase new projects, with the region home to five of the top ten leading buyers.

In terms of pricing, our research indicates that the leading international buyers for prime new-build residential property spend between \$1.8m and \$3m and typically look for apartments with 2-3 bedrooms.

## Asian barriers

Governments across Asia are trying to strike a balance between giving domestic citizens an affordable stake in their country while still attracting high value international investment.



The last ten years have seen the emergence and delivery of residential 'trophy' projects; these can be defined as developments located in established international locations with strong demand from international buyers.

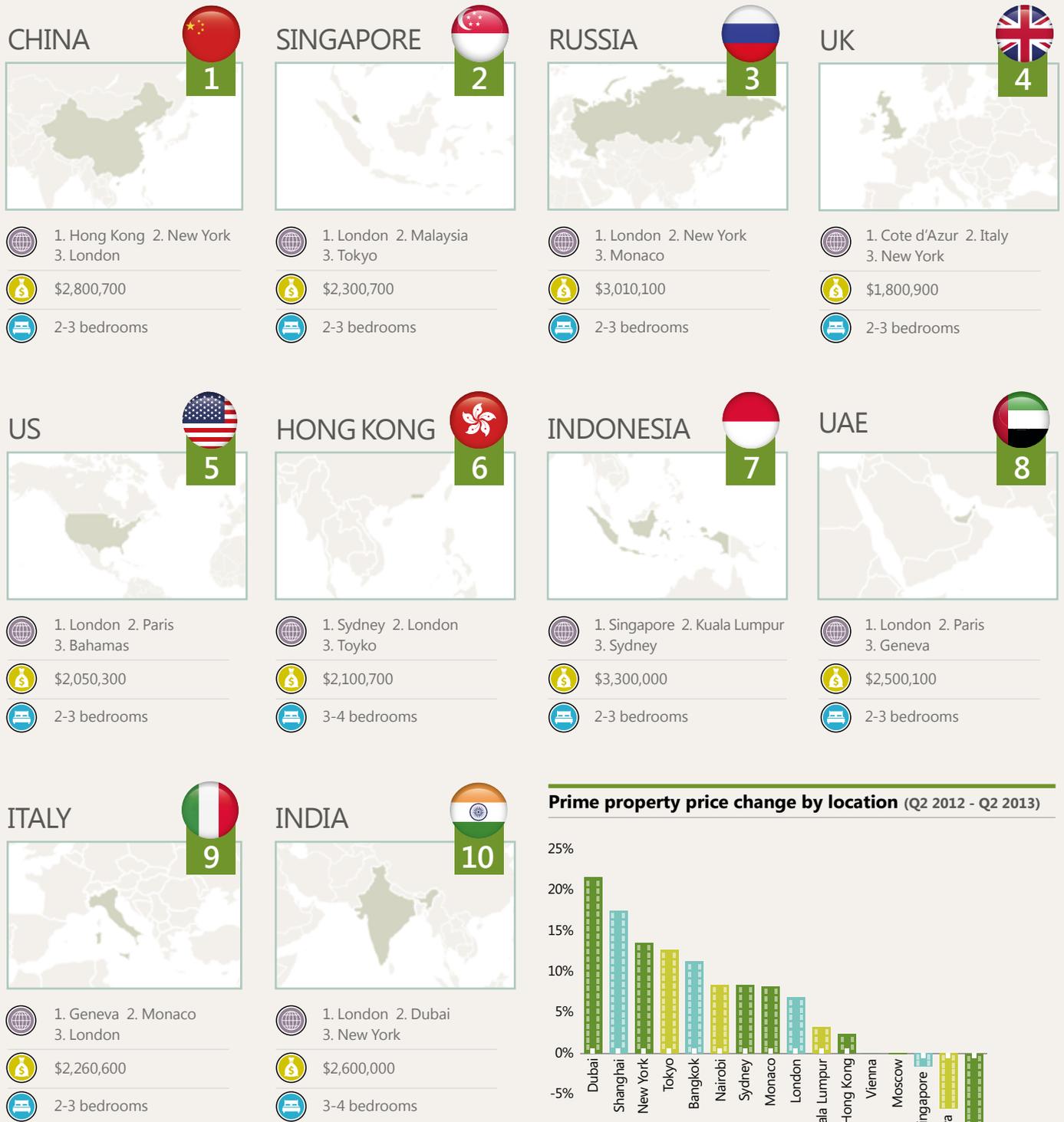
At the very top end of the market, for example, projects such as 432 Park Avenue in New York, Tour Odéon in Monaco, Faena in Miami and OPUS in Hong Kong the mix of buyers is very global.

We expect buyers from Latin America to become more important in the global new-build market in the future. Brazilian, Mexican and Venezuelan investors are already prominent in their regional markets but are increasingly looking further afield to locations including Miami, Paris and Madrid.

As wealth creation continues in these locations their attractiveness to developers as markets to target following the launch of new projects will increase.

# LEADING BUYERS

Analysing sales data from our global network, as well as the results of our survey of Knight Frank's residential development teams around the world, we have ranked the most important buyers of new-build residential property globally. Our examination of property search data from KnightFrank.com/search has uncovered trends in buyer requirements:



Prime property price change by location (Q2 2012 - Q2 2013)



Source: Knight Frank Residential Research

**KEY**  
 Where do they buy? Average price\* Size\*

\*based on data from KnightFrank.com/search All figures in US dollars

## SAFE AS HOUSES

As well as understanding buyer trends, our survey of Knight Frank's global residential development experts looked at the reasons which underpin the decision to buy new-build residential property around the world.

The ramifications of the financial crisis are still being felt around the world, and the political instability that emerged after the Arab Spring is still evident in many countries. Amid this uncertainty the overall trend in global property investment over the past year has been a search for safe havens by investors.

According to the results of our survey, buyers are increasingly drawn to cities they perceive to be sheltered from wider economic issues. In fact, some 47% of respondents noted that the 'safe haven effect' was the biggest draw for their respective markets.

Locations including New York, Monaco and Dubai fulfil this requirement and, accordingly, international buyers account for a growing share of their respective new-build markets. As well as offering a shelter from wider economic troubles, these locations are felt to offer the potential for long-term capital appreciation. In Monaco

and New York prices have increased by 8.2% and 13.6% respectively over the 12 months to June 2013.

Political and economic risk in a buyer's home market was also named a key driver of international demand by 39% of respondents. The euro crisis, for example, has encouraged more buyers resident in the eurozone to look further afield in order to diversify their investments and move at least a portion of their wealth out of euros.

More punitive wealth taxes within countries like Italy, France and Spain have also encouraged some buyers resident in these markets to look elsewhere.

Business and currency issues were highlighted as other key factors in a wealthy individual's decision to buy new-build property overseas. In the past year the South African rand has taken a tumble, particularly against sterling, giving certain international buyers an effective discount on property.

Government policy can also have an impact. In Barbados, where purchasers are primarily lifestyle driven, recent adjustments to the residency rules that favour high-net-worth individuals have resulted in a spike in property enquiries, particularly at the top end of the market.

# 47%

*said the 'safe haven effect' was the biggest draw for their market*

Finally, respondents noted that education and lifestyle are playing an increasingly important role when it comes to cross-border property investment. Cities which are home to world-class schools and universities, as well as offering a high quality of life and safe environment, stand to benefit in the long-run.

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