



Economic uncertainty continues to push price of luxury bricks and mortar higher

The price of luxury homes in the world's key cities rose by 1.1% in the third quarter of 2012 and by 3% on an annual basis. While buyers await clearer signals as to the downside risks for the global economy – both in terms of the Eurozone's debt crisis and the US's impending 'fiscal cliff' – luxury bricks and mortar look to be retaining their safe haven status. Kate Everett-Allen examines the latest index results:

Results for Q3 2012

The index rose by 1.1% in the three months to September, down from 1.4% last quarter

Prime prices across the 26 cities tracked by the index increased by 3% in the 12 months to September

Cities in Europe remain the weakest performers, recording a fall of 0.5% on average in the last 12 months

Jakarta (up 28.5%) was the strongest performer in the year to September

Economic uncertainty together with few strong-performing alternative asset classes is strengthening demand for luxury bricks and mortar

Fifteen of the 26 cities tracked by the Prime Global Cities Index (58%) recorded flat or positive price growth in the year to September, but over the last quarter 20 of the 26 cities (77%) have seen flat or positive growth – indicating an improving scenario.

The index now stands 18.7% above its financial crisis low in Q2 2009 with Hong Kong, London and Beijing having been the strongest performers over this period, recording price growth of 52.9%, 45.4% and 39.5% respectively.

Five cities recorded double-digit price growth in the year to September; Jakarta, Dubai*, Miami, Nairobi and London – a city from each of the five key world regions.

Although Asia heads the pack – Jakarta recorded 28.5% annual growth – the results this quarter suggest that demand for luxury homes is only loosely linked to the strength of regional economies (Asia Pacific has only two cities in the top ten compared to Europe's three). Instead, the flow of international wealth and the attitudes of HNWIs are increasingly influential.

Cities such as Dubai, Miami, Nairobi and London are increasingly considered investment hubs for HNWIs in their wider regions. In the wake of the Arab Spring, Dubai has been seen as a relative safe haven for MENA buyers while Venezuelan and Brazilian investors have looked to Miami to limit their exposure to domestic political and economic volatility.

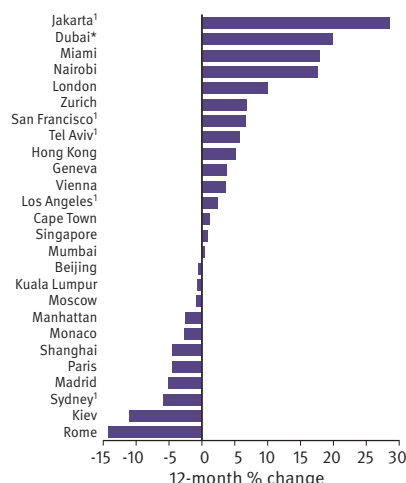
Not all prime residential markets are benefitting from the global economic uncertainty. In Paris, although prices held firm in the third quarter, sales activity was muted as buyers of all nationalities adopted a "wait and see" attitude. Vendors are unwilling to reduce prices until there is greater clarity from President Hollande and the Eurozone leaders in relation to the debt crisis.

Asia's prime markets look to be entering a period of more moderate growth due in part to the regulatory measures aimed at cooling prices and improving domestic affordability.

James Price of Knight Frank's International Residential Development team says: "Aside from London, it would appear the other strong performers are either those established international markets that experienced a lull but are now 'kicking on' again (e.g. Miami, Dubai) or those that could be described as second-tier international cities – strong established markets, but not global 'gateway' cities (e.g. Zurich, Vienna, San Francisco), where interest has driven price rises from a lower base."

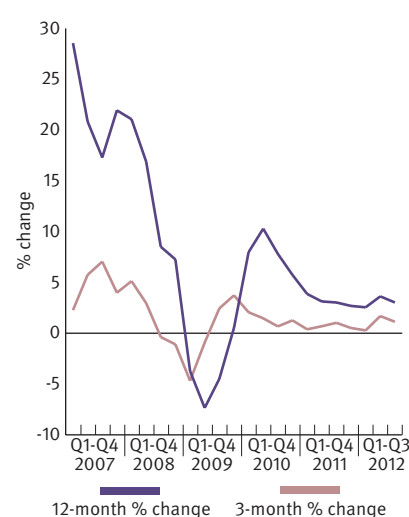
James continues: "While some of the more traditional prime second-home markets are recording negative movement, this should not disguise their long-term popularity and strength, instead it suggests a cooling from previous higher levels."

Figure 1
12-month price change
Prime property price change by city



Source: Knight Frank Residential Research, Miller Samuel/Prudential Douglas Elliman
¹Data to Q2 2012 *Villas only

Figure 2
Aggregate performance
Unweighted average change in prime property prices



Source: Knight Frank Residential Research

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Kate Everett-Allen, International Residential Research



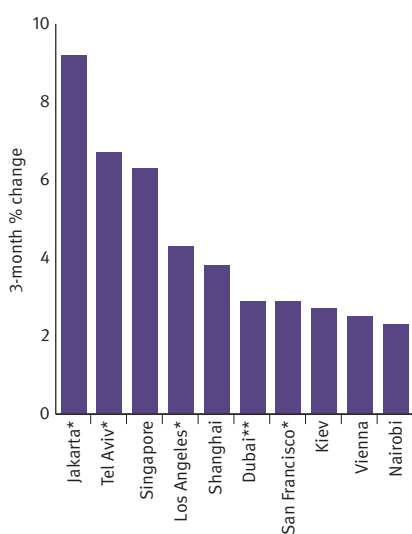
Data digest

The **Knight Frank Prime Global Cities Index** established in 2011 is the definitive means for investors and developers to monitor and compare the performance of prime sales markets across key global cities. Prime property corresponds to the top 5% of the mainstream housing market in each city. The index is compiled on a quarterly basis using data from Knight Frank's network of global offices and research teams.

Figure 3

Growth markets

Top 10 cities by 3-month prime price growth



Source: Knight Frank Residential Research

* Data to Q2 2012

**Villas only

Knight Frank Prime Global Cities Index, Q3 2012

Rank	City	World Region	12-month % change (Sep 11-Sep 12)	6-month % change (Mar 12-Sep 12)	3-month % change (Jun 12-Sep 12)	Latest data if not Q3 2012
1	Jakarta	Asia Pacific	28.5%	20.4%	9.2%	Q2
2	Dubai*	Middle East	19.9%	11.1%	2.9%	
3	Miami	North America	18.0%	14.5%	-4.4%	
4	Nairobi	Africa	17.6%	5.4%	2.3%	
5	London	Europe	10.0%	4.4%	1.7%	
6	Zurich	Europe	6.8%	2.2%	0.0%	
7	San Francisco	North America	6.6%	5.9%	2.9%	Q2
8	Tel Aviv	Middle East	5.7%	6.9%	6.7%	Q2
9	Hong Kong	Asia Pacific	5.1%	6.1%	2.2%	
10	Geneva	Europe	3.7%	-6.9%	-2.0%	
11	Vienna	Europe	3.5%	2.8%	2.5%	
12	Los Angeles	North America	2.4%	3.6%	4.3%	Q2
13	Cape Town	Africa	1.2%	0.0%	0.0%	
14	Singapore	Asia Pacific	0.8%	0.3%	6.3%	
15	Mumbai	Asia Pacific	0.3%	0.3%	0.3%	
16	Beijing	Asia Pacific	-0.5%	1.4%	1.6%	
17	Kuala Lumpur	Asia Pacific	-0.6%	-0.4%	0.0%	
18	Moscow	Europe	-0.8%	-2.9%	-1.1%	
19	Manhattan	North America	-2.6%	-2.5%	-4.4%	
20	Monaco	Europe	-2.7%	0.0%	0.0%	
21	Shanghai	Asia Pacific	-4.5%	3.8%	3.8%	
22	Paris	Europe	-4.5%	0.0%	0.0%	
23	Madrid	Europe	-5.1%	-3.0%	-2.1%	
24	Sydney	Asia Pacific	-5.9%	-0.8%	0.0%	Q2
25	Kiev	Europe	-11.0%	-4.0%	2.7%	
26	Rome	Europe	-14.3%	-7.7%	-7.7%	

Source: Knight Frank Residential Research, Miller Samuel/Prudential Douglas Elliman

*Villas only

Residential Research

Kate Everett-Allen

International Residential Research
+44 (0)20 7861 1513
kate.everett-allen@knightfrank.com

Press Office

Bronya Heaver

+44 (0)20 7861 1412
bronya.heaver@knightfrank.com

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