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REAL ESTATE

# Geopolitical, economic uncertainty slowing luxury real estate pricing growth

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*Vancouver, Canada saw double-digit price declines. Image credit: Knight Frank*

By SARAH JONES

Affluent real estate buyer confidence is being weighed down by factors including the U.S.-China trade war and Brexit, leading the world's most expensive residential markets to see softening luxury sales prices.



New data from Knight Frank finds that in the third quarter of 2019, housing prices in the top cities have only risen 1.1 percent year-over-year, compared to a 3.4 percent bump in the same quarter of 2018. Hong Kong, New York and London were among the markets that saw a sales price decline in the quarter, pointing to the impact that geopolitical and economic uncertainty is having on sales.

"We expect muted growth over the short- to medium-term as buyers await greater certainty on the political and economic landscape," said Kate Everett-Allen, partner for residential research at Knight Frank, London.

"Despite the index's overall weaker performance, there are still a number of cities that continue to outperform, including key European markets such as Berlin, Paris and Madrid," she said.

Knight Frank's Prime Global Cities Index follows the performance of more than 40 key residential real estate markets.

Residential reckoning

In the third quarter, 76 percent of the cities in the index saw either stagnant or declining prices.

Along with geopolitical and economic tensions in key markets, real estate sales are being impacted by a number of constraints.

For instance, Seoul saw the steepest decline of the quarter, with average prices falling 12.9 percent. This was partly attributed to regulations, including a price ceiling on newly constructed homes that is set to go into effect in the fourth quarter.

In September, the South Korean government also instituted taxing policies that will increase the burden for owners of multiple homes.

Vancouver's home prices were also down by double digits, decreasing 10.2 percent year-over-year. The Canadian city's real estate market has been on a downward trend, but recent research from Sotheby's International Realty Canada projects that the market is poised for a gradual upswing this fall.

Prices in both New York and London declined, at a respective 4.4 and 3.9 percent. The United States' trade battle with China drags on, and Brexit is also leaving buyers less certain as the nation has yet to approve a deal to leave the European Union.

*London prices have fallen in the year to Q3. Image credit: Knight Frank*

While protests in Hong Kong are now into the 23rd week, the market's year-over-year pricing decline was fairly muted at 1.3 percent.

Other factors weighing down prices included an oversupply of inventory in certain markets and buyers who are waiting to purchase until prices come down.

Some governments have also instituted regulations that either curbed citizens' access to capital or restricted purchases from foreign buyers.

On the opposite end of the spectrum, Moscow saw the greatest pricing gains, with the average value rising 11.1 percent. Knight Frank notes that a number of high-end residential developments in the city have been completed, and the market has seen greater demand, pushing prices up.

Frankfurt, Germany also saw double-digit growth from 2018 of 10.3 percent.

The rest of the top 10 was comprised of cities in Europe and Asia, including Taipei, Taiwan; Manila, Philippines; Berlin; Guangzhou, China; Geneva and Zurich in Switzerland and Delhi, India.

World's wealthy
Global prime real estate prices ticked up slightly in the second quarter of 2019, with European cities remaining the most competitive.

Knight Frank's Prime Global Cities Index for Q2 2019 showed luxury home prices grew 1.4 percent year over year, a modest improvement from 1.3 percent growth in the first quarter. Although Berlin, Germany topped the index, its annual growth rate has slowed (see story).

Despite geopolitical uncertainty and tensions, a 2019 report from Knight Frank shows the population of ultra-high-net-worth individuals is projected to rise 22 percent over the next five years.

Even with Brexit on the horizon in the United Kingdom, London rose to the top of Knight Frank's city rankings in its annual Wealth Report with the most UHNW residents, making it the leading wealth center around the world. One of the top trends among the global affluent is the push for stability, as they emigrate and seek out international investments as a means to guard their families against economic volatility (see story).

"As reported in our 2019 Wealth Report, the number of ultra high net worth individuals those with $30 million in net assets excluding their primary residence is set to rise by 22 percent over the next five years," Ms. Everett-Allen said.

"In some tier one cities, evidence of pent up demand is building and once some clarity emerges we may see heightened activity," she said. "As reported in our new London Review, the ratio of new prospective buyers to new

property listings was 14 in September in prime central and prime outer London, the highest level in more than 10 years, indicating the strength of pent-up demand."