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REAL ESTATE

Prime real estate set to grow tepidly in 2021: Knight Frank

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Shanghai is set to be one of the two top growth markets for prime real estate in 2021.

By ELLEN KELLEHER

Prime real estate prices in a number of cities are set to rebound slightly next year, with Shanghai and Cape Town forecast to top the charts in terms of growth, according to a new report from Knight Frank.

Twenty of the 22 global cities analyzed in Knight Frank's Prime Global Forecast for 2021 are expected to see prime prices either increase or remain flat in 2021, with an average rise of 2 percent forecast. This trend compares favorably to 2020 when nine cities are predicted to close the year with lower prices.

"On average, price growth is expected to be largely static, 0 percent, in 2020 for 22 cities and a rebound of 2 percent is forecast in 2021," Kate Everett-Allen, head of international residential research at Knight Frank, London, said. "Fiscal stimulus measures and support packages are protecting jobs and homes."

Knight Frank tracks the top 5 percent of housing sales in 45 cities around the world for its quarterly Prime Global Cities Index.

Prime real estate shows tepid strength

There is cause for optimism, but challenges still lie ahead in 2021. Europe is in lockdown in important markets and government stimulus measures in many countries are set to taper off in early 2021.

Another key concern for property investors is that rents are declining in several cities due to the dearth of international students as well as a surge in supply as landlords lock-in long-term rentals.

Taxation presents yet another issue as the current landscape looks set to shift, with higher capital gains tax expected in the United States and the United Kingdom, which leaves the European Union on Jan. 1, and wealth tax changes on the horizon in Spain and Canada.

London's prime property market is projected to see yearly price growth of 4 percent in 2021. Image courtesy of Knight Frank

Despite this uncertainty, low interest rates, pent-up demand, tax holidays and solid market fundamentals are likely to encourage the rebound of prime prices in London, Sydney, Paris, Berlin and Madrid. These five cities' prime markets are all forecast to keep pace with Cape Town and Shanghai and see yearly price growth of 3 percent or higher in the year to December 2021.

After a difficult few months, New York is also set to register some improvement in prime prices as buyers are likely to recognize its value in the wake of its slump. Helping matters is the arrival of president-elect Biden who could slash property taxes in a number of states with his administration's planned reversal of the state and local tax (SALT) deduction.

On the list of cities where the pandemic will have little impact on prime pricing next year are Buenos Aires, where growth remains weak, and Shanghai, where the market has already reached pre-pandemic growth levels. Lisbon is seeing a surge in prime prices due to investment in infrastructure.

Cities where prices unexpectedly surged in 2020 such as Auckland, Vancouver, Geneva, Los Angeles and Miami, are set to continue to hold their own in 2021, though prime price growth may dip slightly after last year's frenzy.

Cities where prime sales have bounced back to pre-pandemic levels include Berlin, Geneva, Lisbon, London, Los Angeles, Paris, Singapore, Sydney and Vancouver, according to Knight Frank.

Prime Global Forecast

Annual % change Dec 20 – Dec 21

	2021
Shanghai	5%
Cape Town	5%
London	4%
Lisbon	4%
Miami	4%
Auckland	3%
Paris	3%
Berlin	3%
Singapore	3%
Monaco	3%
Madrid	3%
Sydney	3%
Vancouver	3%
Los Angeles	3%
Geneva	3%
Vienna	2%
Melbourne	1%

The rise of green and ethical investing in the wake of the pandemic is also likely to have an impact on property markets in 2021. The differences between cities and suburbs is also taking on new meaning as remote work is encouraging more residential stock in city centers and more amenities in the suburbs.

The line between primary and secondary residences is blurring too as people spend more time at vacation homes within driving distance of their primary residences. Lastly, while mortgage rates are set to remain low, lenders are expected to grow more cautious and raise loan-to-value ratios, which will make financing more costly for highly-leveraged clients.

2020 could have been worse

At the moment, what is underpinning housing markets are the vast stimulus packages that governments and central banks have introduced to support the economy.

Prime real estate property prices have proved fairly resilient during the coronavirus pandemic, particularly in Asia and the Pacific, thanks to a surge in demand from homeowners reassessing where they want to live.

According to Knight Frank's Prime Global Cities Index for Q3 2020, prime residential real estate prices jumped by 1.6 percent on average in the year to September 2020, a rise from 0.9 percent in June. Prime prices rose the quickest in Auckland, New Zealand, but Manila, Shenzhen, Seoul and Shanghai all saw annual price growth exceed 5 percent (see story).

The third quarter results for 2020 represent an improvement from the second quarter of the year when prime real estate prices reached their lowest rate of annual growth since the worst of the global financial crisis in Q4 2009 as the coronavirus pandemic became widespread.

Per Knight Frank's Q2 2020 report, prime residential real estate prices increased by 0.9 percent on average in the year to June 2020, a fall from 2.3 percent in March. At the time, the five cities which experienced the weakest growth were all in Asia, the continent first affected by COVID-19 (see story).

One of the biggest influencers on the future of the prime real estate market is the arrival of Pfizer's COVID-19 vaccine, which has just been authorized for emergency use in the United Kingdom.

"The speed and effectiveness of a vaccine will be key to the recovery of markets which would see the return of corporate tenants and potentially international students to prime cities, boosting letting markets once more," Ms. Everett-Allen said.