

REAL ESTATE

## Prime housing prices surpass mainstream for first time since 2020

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*Toronto experienced the fastest growing prime prices in the quarter, year-over-year. Image credit: Knight Frank/Unsplash*

By NORA HOWE

Despite leading the pandemic-fueled housing boom, growth of mainstream market prices has fallen behind prime prices, which saw an 8.2 percent year-over-year increase in June 2021, according to Knight Frank.

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In Q2 2021, Toronto recorded the fastest-rising prime prices year-over-year. Of the 46 cities tracked for Knight Frank's Prime Global Cities Index, 13 registered double-digit annual price growth.

"Both the mainstream and prime market segments are seeing strong price growth," said Kate Everett-Allen, partner and head of international residential research at **Knight Frank**, London. "At both ends of the market, we have seen homeowners reassess their housing needs and lifestyles which has led to a surge in transactions.

"Due to travel restrictions, demand [for the prime market] has been predominantly domestic-focused, meaning pent-up demand from overseas buyers has been building for several prime city markets," she said. "This may lead to a second wave of activity for tier one cities in late 2021 and early 2022 once we see restrictions start to ease."

The Index is a valuation-based index tracking the movement in prime residential prices across more than 45 cities worldwide using data from Knight Frank's global research network.

### Prime market surges

Across 150 cities, mainstream market prices increased by 7.3 percent in Q1 2021, per the latest data available. By comparison, prime cities saw annual price growth of 8.2 percent in Q2 2021 the strongest performance since 2008.

Toronto recorded annual prime price growth of 27 percent, driven by strong buyer appetite and low inventory levels.



*Shanghai saw significant growth in prime prices. Image credit: Getty*

The Canadian city was followed by Shanghai at 21 percent, Guangzhou and Seoul at 20 percent and Miami at 19 percent, rounding out the top five for the quarter.

Additionally, prices in prime central London recorded positive annual growth for the first time since May 2016.

While the proportion of cities registering prime price growth has increased marginally to 76 percent, the scale of growth amongst the top-performing cities is driving the index's acceleration.

Other hotspots include Canadian and U.S. cities which, on average, registered annual price growth of 16 percent over the 12-month period.

Knight Frank identified a multitude of factor driving this price surge.

Travel rules are easing in some markets, domestic buyers are increasingly looking to purchase "safe havens" and there is an overall reassessment of lifestyles and commuting patterns. These factors are also all set against low interest rates.



*Knight Frank predicts New York will move up in the rankings later this year. Image credit: Fifth Avenue Association*

"We've seen a rise in demand for co-primary' residences, homes that owners plan to spend 3 to 6 months per year working from if they have the option to work remotely," Ms. Everett-Allen said. "These homes need to have the same high end specification as their primary residences.

"For prime buyers, property as a tangible asset class delivers on multiple levels: it enables wealth preservation, acts as a potential income generator and adds to one's lifestyle," she said. "This explains why we're seeing more safe haven purchases."

What's next for prime real estate?

Knight Frank expects the prospect of rising interest rates, government intervention and the withdrawal of stimulus measures to rein in the market's growth in the second half of 2021.

The Index suggests there may be additional cooling measures coming as policymakers grapple with the affordability issue.

Knight Frank anticipates London, New York, Paris and Dubai will move up the rankings in Q3 2021 as travel restrictions ease and international buyers start to recognize the relative value in these cities.

Even towards the end of 2020, London prime real estate was seeing an influx of French buyers, who accounted for 11 percent of all transactions involving overseas buyers ([see story](#)).

New York's luxury real estate market had been losing steam prior to the COVID-19 pandemic, and during the worst of the crisis, many affluents left the city. Residential property sales have since begun recovering, and the market has become more competitive as schools and offices reopen amid improving vaccination rates and falling COVID-19 cases ([see story](#)).

Ms. Everett-Allen advises prospective buyers to research the market thoroughly and understand what prices are being achieved, factoring in purchase, ownership and sales costs.

"Housing policy and tax is set to change in a number of markets as governments look to plug the gaps in their finances," she said. "It is important to understand what repercussions these could have in [a specific] market."

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