

Weekly Flash

Luxury Architecture & Design meets Global Investment Boutique – Summary of VSWA's Livestream

MARKET PERFORMANCES (as of June 25, 2021 – 14:20 CET)

	CURRENT	CHANGE 1 WEEK	CHANGE YTD		CURRENT	CHANGE 1 WEEK	CHANGE YTD
S&P 500 Index	4'266.49	1.06%	13.59%	Gold	1'784.87	1.20%	-5.94%
S&P/Toronto Stock	20'215.12	1.08%	15.96%	Silver	26.17	1.59%	-0.81%
EuroStoxx 50	4'118.05	0.85%	15.92%	Oil WTI	73.09	2.02%	50.64%
SMI Index	11'995.10	0.45%	12.07%	EUR/USD	1.1950	0.78%	-2.15%
DAX Index	15'578.57	0.84%	13.56%	EUR/CHF	1.0956	-0.17%	-1.39%
Nikkei Index	29'066.18	0.35%	5.91%	USD/CHF	0.9168	0.27%	3.52%
Emerging Market Index	76'286.17	0.46%	6.41%	USD/JPY	110.65	-0.43%	6.78%
Yield 10Y US Treasuries	1.487	0.0478	0.5719	CAD/USD	0.8134	-1.43%	-3.47%
Yield 10Y German Bund	-0.175	0.0283	0.3996	USD/CNY	6.4551	-0.04%	-1.10%

[Source: Bloomberg]

Real estate as an asset class

Over the past 40 years, many countries saw a persistent trend of falling inflation, falling interest rates, and rising bond prices. As interest rates are the key factor impacting the valuation of other asset classes, this massive bond bull market of the past was also a major driver of real estate prices across the world. During the past 40 years, residential real estate prices rose by 8.0% per year in Hong Kong, by 6.7% in Australia, by 6.4% in the U.K., by 4.3% in the U.S., by 3.0% in Switzerland, and by 2.1% in Germany. Including the running property yield, this resulted in double-digit total returns in several countries over a very long period of time. In contrast to residential real estate, commercial real estate saw lower price increases, delivered higher running yields, and was faced with much higher price volatility.

Key drivers of real estate prices

Residential as well as commercial real estate markets are driven by interest rates and credit conditions. If interest rates fall, it becomes easier to finance or refinance real estate projects. The same is true for easier credit conditions. If credit conditions ease, banks and other lenders demand a lower credit spread on mortgages. This effect is very similar to falling interest rates. What about other factors impacting real estate markets? Residential real estate is much more driven by the consumer. How high is population growth? Are there supply constraints in certain areas? How is disposable income developing? Building costs also play a major role, which makes residential real estate a very good inflation hedge. Commercial real estate, on the other hand, is much more driven by the general macroeconomic environment. Key factors are real GDP growth, risk sentiment and capital flows of large institutional investors.

On the road to recovery

The pick-up in economic activity should – in our view – have a positive impact on real estate markets. Mortgage rates are

still very affordable, institutional money is still searching for income opportunities and savings rates among private investors are very high. All those factors are supportive for real estate markets across the world. Current prime residential yields are as low as 1.7% for Switzerland, between 2.9% and 3.3% in Europe and around 4.2% in the U.S., which still seems attractive given a current yield of approximately 1.5% for treasuries with 10 years maturity.

Evolution of luxury real estate

According to Montalba Architects, COVID-19 increased the importance of the environment where we spend time and accelerated trends, which already existed in luxury real estate markets before the pandemic. Very important in that respect is the trend to a holistic design with wellness in mind, where all facets of a project – architecture, interiors, landscape, and environment – should complement each other. The development of larger projects, which combine living, workspace, home office space, and hospitality elements are another strong trend. The demand for these kinds of living environments with pretty much everything integrated to serve the resident's needs accelerated due to the pandemic and will likely remain high in the future. Clients increasingly focus on high impact projects, which can adapt to fluctuating needs and are often dual purpose. The preservation of natural resources through the use of eco-friendly materials and manufacturers, as well as through functional design elements plays an ever-increasing role. The ultimate opportunity from a sustainability perspective is the repurposing and reuse of old buildings.

Conclusion

Residential real estate investments represent a high proportion of most people's wealth. Continuously rising prices, low volatility and a positive correlation to inflation are just a few of many positive characteristics, with immaterial aspects certainly being most relevant.

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