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Real Estate

World's Priciest Cities To Own A Home

Chavon Sutton 02.09.09, 11:02 AM ET

Those living in Monte Carlo may enjoy the Côte d'Azur's beaches, glamorous nightlife and status as a tax haven, but they pay for it.

For the second consecutive year, the resort area tops a list of the world's most expensive housing markets, boasting average prices of $4,420 per square foot.

"Monte Carlo is a city of the rich, small and concentrated," says Matthew Montagu-Pollock, publisher of Globalpropertyguide.com, the online real estate research firm that released the report Monday. "The primary reasons for such high prices are related to a shortage of space and tax havens."

In Depth: World's Priciest Cities To Own A Home

Moscow ($1,937 per square foot) and London ($1,928 per square foot) ranked second and third. Moscow's one-spot jump to the top three was propelled by strong economic growth, partly a result of recent high oil prices, and a rise in residential real estate prices in the first three quarters of the year. Last year, the country experienced gross domestic product growth of 6%, according to the CIA's *World Factbook*.

A surprising turn was New York's drop to No. 6, from No. 2, as growth in Asian markets pushed Hong Kong and Tokyo to the top five. Residential apartment prices in Hong Kong and Tokyo were as high as $1,373 and $1,103 per square foot, respectively, in last year's survey. In New York, the average price per square foot was $1,384.1.

Mumbai, India, rounds out the top 10, with prices averaging $851 per square feet.

Such high property values are surprising during this global economic crisis, but they are a sign of historically high real wealth and global growth.

"Even in these trying economic times, there is still tremendous wealth out there," says Nikki Field, senior vice president of Sotheby's International in New York. What drove down New York's rank was, in part, a "hesitancy for conspicuous consumption. The need and ability still exists to buy at the upper tier, but people are scared to publicly spend."

This pullback in spending, coupled with historically high property values, is expected to cause further correction.

"Across the board, we still see property values are too high in terms of gross rental yields," says Montagu-Pollock. "Markets got ahead of themselves and eventually will collapse."

The report appears to support this notion. Gross rental yields, the ratio of yearly rents to purchase price and a measure of value used in the U.K., are between 4% and 5% in major cities such as Brussels, Belgium; Tokyo; Moscow; New York; and London. The lower the gross rental yield, the more overvalued the property. This is compared with an historical average of 5.5% to 8%, which Montagu-Pollock deemed "more reasonable."

Only six cities currently have rental yields of more than 10%. Topping the list is Chisinau, Moldova, with a 14.17% gross rental yield, and Cairo, Egypt, the least expensive property market, with an average price per square feet of $574 and gross rental yield of 12%.

This suggests that it will take much more time to close the gap and return to normal averages.

"We're in a correcting market, and we're still moving down," says Field. "While transfers are at a 15-year low, we're still seeing values in New York and other major international cities steady, because we have a lot of situational sellers in the upper tier who don't need to sell and are therefore not negotiating prices."

Bottom line: It will take far more economic pain to bring these boom cities, the beneficiaries of tremendous economic growth, back to real estate reality.

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