

RESIDENTIAL RESEARCH



GLOBAL CORPORATE LETTINGS REVIEW

ANALYSING DEMAND FOR PRIME
RESIDENTIAL ACCOMMODATION **2014**



GLOBAL MOBILITY

PRIME RENTS

EMERGING AREAS

KEY FINDINGS

Prime city rents in Nairobi saw the strongest rise in 2013

The UK, the US and Hong Kong saw the number of employment visas rise by 12% in 2013

The number of individuals moving abroad for work increased in 2013

Corporate tenants are increasingly taking personal leases in order to save some of their housing budgets

Jobs: Compared to New York and Hong Kong, London has a higher number of skilled workers (a key driver of prime rents)

“As the number of individuals moving overseas for work increases, so does demand for corporate relocation services.”

SUMMARY

As companies look to expand their global operations and strengthen their foothold in existing markets, demand for corporate relocation services has risen.

This report looks in detail at the need for prime residential accommodation by multinational corporate firms, analysing the different market trends and lettings practices in key cities around the world with a particular focus on markets in the UK, US, Hong Kong and Singapore.

Corporate relocation budgets have fallen since before the global financial crisis, with firms paying close attention to their bottom line, and this has had a knock-on impact on prime rental markets. However, as we reveal in more detail in

this report, corporate demand is picking up, with an increasing number of skilled workers moving abroad for work.

We have examined official government statistics on the number of employment visas issued to skilled workers in the key locations of Hong Kong, the US and the UK to obtain a detailed picture of the corporate relocation market.

Additionally, our map on pages 6 and 7, which acts as a reference point for employees and human resource teams, provides a snapshot of the corporate rental market across 12 world cities. We examine the annual change in rents, the most common property type requested and provide a summary of key practises, from tenancy lengths to typical deposits.

GLOBALLY MOBILE

The total number of employment visas for skilled workers issued in the UK, US and Hong Kong increased by 12% in 2013, compared to the previous year.

A 17% increase in the number of Tier 2 visas issued in the UK was the main driver behind the overall growth, backed up by a 12% increase in work-related visas issued in the US. In Hong Kong, the number of individuals moving for work in 2013 was broadly the same as the previous year (figure 1).

Our analysis of official government data on the number of employment visas issued in the locations indicates that corporates are more willing to send employees overseas for work. This growth follows a period, coinciding with the global financial crisis, when companies' appetite for relocations fell sharply.

As the number of individuals moving overseas for work increases, demand for relocation services rises. The corporate lettings market in cities such as New York, London and Hong Kong has picked up over the last year. A quick look at the number of tenancies agreed last year confirms this growth.

In 2013, the number of lets to corporate tenants in New York rose by 21%

compared to the previous year. The comparable figure for London and Hong Kong was 7% and 16% respectively.

However, while demand for corporate accommodation is up, cost remains an issue with corporate budgets for housing generally lower than before the financial crisis. This is partly as a result of companies keeping a keen eye on costs, and partly as a result of a shift towards personal leases as individuals opt to make savings on their housing budgets.

In Hong Kong, 87% of corporate lets agreed by Knight Frank in 2013 were personal leases.

In New York, this shift towards personal leases has resulted in a number of firms offering relocating employees cash lump sums as part of their benefits package. This has, in turn, resulted in an increase in companies offering managed lump sum programmes, whereby they take control of all aspects of the move, including housing.

Increasingly, landlords have also been more willing to negotiate on price in order

to keep void periods to a minimum, and secure good corporate tenants, many of whom are more cost-savvy than in previous years.

In last year's report we highlighted a shift away from the traditional sectors, with demand from employees working in the finance industry – a traditional mainstay of the corporate tenant market – lower than in previous years. It is a trend that has continued throughout 2013. In the UK, individuals relocating to work in the information and technology sector accounted for 42% of all Tier 2 visas. The professional, scientific and technical* sectors accounted for 18% of all UK visa approvals, followed by financial services, at 12%.

In the US, where the number of intracompany transfers increased by 6.8% in 2013 compared to the previous year, demand for accommodation from technology companies was also high.

Luxury goods, legal and financial service firms dominated the corporate relocation environment in Hong Kong.

Here, there has also been a rise in the number of tenants opting for serviced apartments, with individuals appreciating the convenience and 'turnkey' nature of such properties.

As business confidence continues to grow around the world, and firms look to increase and solidify their global presence, we expect that demand for relocation services will continue to increase. The results of the Interdean Global Mobility Survey for 2014, show that some 44.8% of respondents believe there will be an increase in global assignments in the next 12 months.

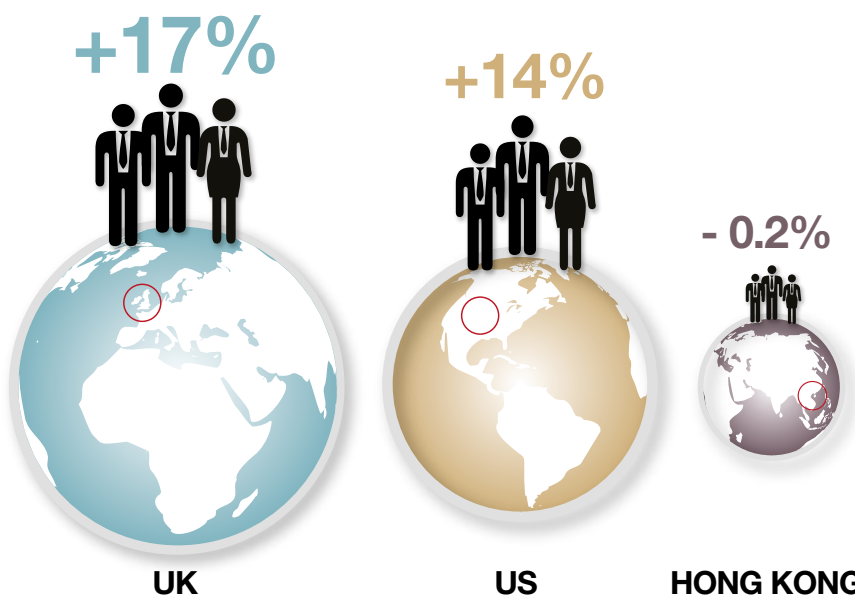
For those being sent on assignments this year, they are likely to end up in either the US or China. The survey suggests that 12% will be heading to the USA whilst 11% will be destined for China. Some 7% of relocaters are expected to end up in the UK.

In Dubai and Nairobi we expect strong demand from corporates, governments and embassies for secure rental accommodation to continue throughout the year. However, a renewed focus on cost means that it is important for firms, and individuals, to consider new, more affordable areas in order to stretch budgets further. As a result, a trend which has been observed over the last year is a growing willingness among younger executives to expand their search to more upcoming locations to secure a larger apartment at a lower rent. We have taken a detailed look at this, as well as the emergence of new business districts, on page 4.

42%

of Tier 2 visas issued in the UK in 2013 were to those working in the information and technology sector

FIGURE 1
Visa approvals Annual change in work-related visa approvals in 2013



Source: Home Office Immigration Statistics / US Department of State / Hong Kong Immigration Department
For the UK visa numbers relate to the total number of Tier 2 visas issued in 2013. In the US and Hong Kong all skilled work-related visas are included. This excludes investor visas.

*includes employees in the aerospace, pharmaceutical and automotive sectors

KEY CITIES: EMERGING AREAS

NEW YORK

Prime residential rents in New York have risen by 32% since Q4 2010. As a result, junior executives have been targeting some of the city's outer boroughs. While central Manhattan may be out of reach for those with lower budgets, there are new developments springing up in areas slightly further afield.

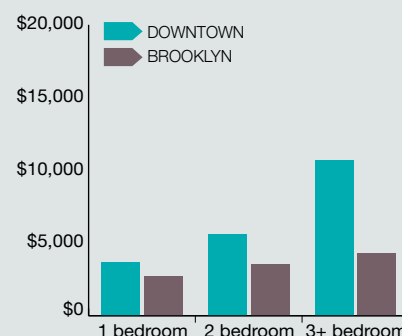
For those working in central New York, a commute of just under an hour is preferable. This means that areas benefiting from excellent transport links into the central business district have seen a spike in interest in recent years as corporate tenants take advantage of lower rents and larger properties. This is

particularly evident in markets including Long Island and Brooklyn.

In terms of new commercial developments, into which tenants may find themselves commuting (with the exception of 1 World Trade Center) no major buildings are due for completion until late 2015, when 1045 Avenue of the Americas along with 10 Hudson Yards should come on the market.

Next up will be 3 World Trade Center in 2017, followed by 30 Hudson Yards and 425 Park Avenue. After 2018, there is the potential for approximately 10m sq ft of new office construction, with about 78% of that either in Midtown South or Downtown Manhattan.

FIGURE 2 **New York**
Comparison of monthly prime residential rental costs



Source: Douglas Elliman / Miller Samuel

HONG KONG

Rents have fallen through most of Hong Kong as corporate employers continue to reduce both their cost and liability by providing cash allowances for employees to enter into personal rather than corporate leases, and significantly increased stamp duties for purchasers have impacted on sales, thereby encouraging potential vendors to let out.

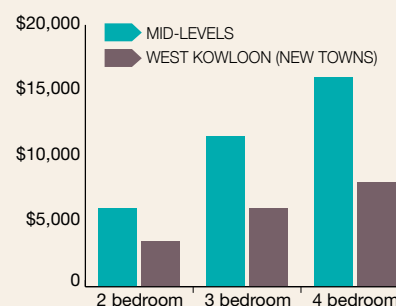
Junior executives on tighter budgets have widened their property search with Tai Kok Tsui and Tseung Kwan O emerging as popular residential areas. Both are well served by the MTR (metro) and bus routes, home to a variety of shops and

entertainment facilities and house several large residential developments.

Olympian city is a mixed-use complex at West Kowloon and consists of several private housing estates. Surrounding these are several other estates ranging from moderately priced to more luxurious options such as those at One Silver Sea and Imperial Cullinan.

Tseung Kwan O is a bay in Sai Kung District. The Tseung Kwan O New Town, one of the nine new towns in Hong Kong, houses new luxury residential developments including The Wings and the more moderately priced Lohas Park.

FIGURE 3 **Hong Kong**
Comparison of monthly prime residential rental costs



Source: Knight Frank Residential Research

LONDON

Traditionally London's commercial real estate market has been concentrated around the West End and the City.

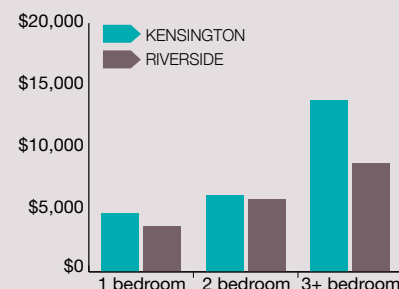
While these areas remain the focus of businesses relocation searches, in the last few years new markets have emerged creating new business lusters, employment opportunities and residential schemes.

The next decade will see the emergence of more new markets as occupier demand strengthens and working practices evolve.

The redevelopment of King's Cross has secured tenants including Google and BNP Paribas. In Battersea, foreign Embassies including the US and the Netherlands are relocating, with China believed to be following to join them in Embassy Quarter. These areas offer more than an office location; their mix of commercial, residential and retail makes them a destination and a place to 'work, rest and play'.

In the northern City fringe, planning permission is in place for residential and commercial schemes, driven by demand from London's growing creative industries.

FIGURE 4 **London**
Comparison of monthly prime residential rental costs



Source: Knight Frank Residential Research

EMPLOYMENT V RENTAL COSTS

The performance of the world’s prime rental markets is intrinsically tied to the health of each city’s respective employment market, in particular the business, financial services and tech sectors.

As firms continue to keep a keen eye on the costs associated with relocation, it is important to consider the performance of prime rental markets in key cities. A closer examination of the markets in London, New York and Hong Kong highlights the relationship further.

The contrasting fortune of London and New York’s jobs market explains their differing results. Manhattan saw luxury rents increase by 3.5% in 2013 at a time when Wall Street bonuses rose by 15% year-on-year and the number of people employed in the business, financial services and tech sectors increased by 1.4%.

By comparison, in London, the number of financial service jobs was 2.3% lower at the end of 2013 compared to the same time a year previously. However, overall employment for skilled jobs in the city did rise last year, driven by increases in the business services and technology sectors. Although a decline in financial services jobs contributed to a 2.3% fall in London prime rents in 2013, the pick-up in overall employment is expected to have a positive impact on rents this year, with growth of 2% forecast.

In Hong Kong, a fall in prime rents of 6.2% in 2013 was attributable to a reduction in housing allowances. However, a growing financial services sector in Hong Kong may go some way to reversing the recent slowing of prime rental growth in the region.

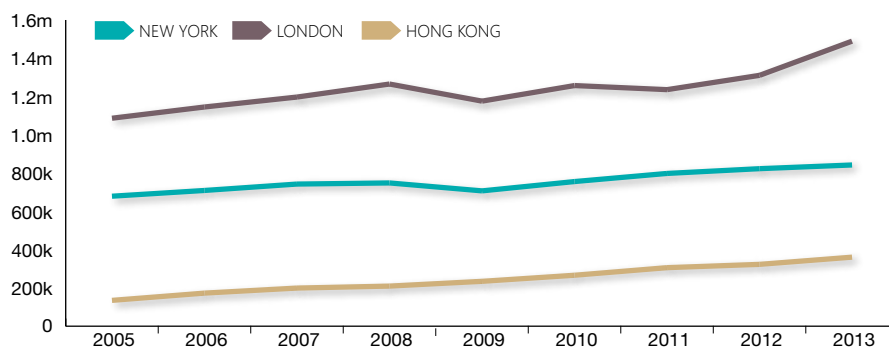
According to forecasts by the Centre of Economic and Business Research (CEBR), Hong Kong’s financial sector is expected to grow by 7.2% in 2014 and by over 5% per annum in the years until 2017. The reasons for this growth are mixed. Many of the Asian markets have gained critical mass, which has enabled firms to take on functions and services previously carried out only in the West.

But the main reason for the shift to the East is the more dynamic growth of the Asian economies, which has created a booming demand for financial services, and in turn boosted the jobs market. According to the Hong Kong Census and Statistics Department, around 213,000 individuals were employed in the financial and insurance sector in Hong Kong at the end of 2013, a 45% increase over the last decade.

7.2%

Forecast growth in Hong Kong’s financial sector in 2014

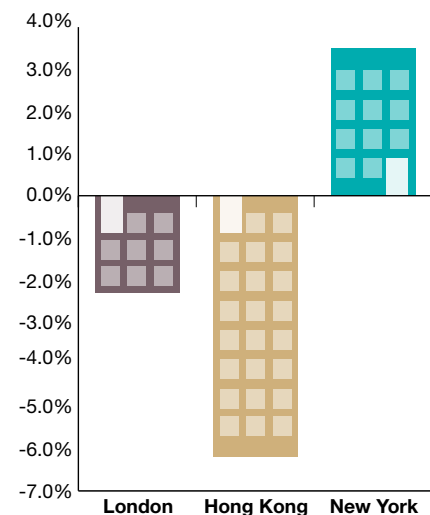
FIGURE 5
Employment rising Total number of individuals employed in skilled* jobs



Source: Knight Frank Residential Research / ONS / New York State Department of Labor / Hong Kong Census and Statistics Department

*finance, information and technology and professional and business service sectors

FIGURE 6
Prime rental change
Annual % change in prime rents (Q4 2012 - Q4 2013)



Source: Knight Frank Residential Research

GLOBAL LETTINGS TRENDS



LONDON

Market snapshot:

- Prime rental growth: ▼ 2.3%
- Most common property requirement: 1 or 2-bedroom apartment
- Preferred maximum commute: 30 mins or less
- Typical length of tenancy (months): 12
- Typical deposit: 6 weeks
- % of furnished lets: 85%
- Annual annual school fee – day student (US\$ per annum)**: \$30,000

NEW YORK

Market snapshot:

- Prime rental growth: ▲ 3.5%
- Most common property requirement: 1-bedroom apartment
- Preferred maximum commute: 1 hour or less
- Typical length of tenancy (months): 12 or 24
- Typical deposit: 4-12 weeks
- % of furnished lets: <5%
- Annual annual school fee – day student (US\$ per annum)**: \$40,000

MADRID

Market snapshot:

- Prime rental growth: ▲ 2.0%
- Most common property requirement: 3-bedroom apartment
- Preferred maximum commute: 30 mins or less
- Typical length of tenancy (months): 12-24
- Typical deposit: 4-8 weeks
- % of furnished lets: 50%
- Annual annual school fee – day student (US\$ per annum)**: \$10,000

HOME COUNTIES

Market snapshot:

- Prime rental growth: ▼ 4.3%
- Most common property requirement: 4+ bedroom house
- Preferred maximum commute: 1 hour or less
- Typical length of tenancy (months): 24
- Typical deposit: 6 weeks
- % of furnished lets: 10%
- Annual annual school fee – day student (US\$ per annum)**: \$22,600

TRENDS & PRACTISES

Overlaying this map are snapshots of the different market trends and lettings practises in key cities around the world. Acting as a reference point for employees and HR teams alike, each city's data box provides an indication of the annual change in rents, the most common property type requested by corporate clients and a summary of key practises, from tenancy lengths to typical deposits.

KEY

- Prime rental growth (12-month % change 2013)
- Most common property requirement
- Preferred maximum commute
- Typical length of tenancy (months)
- Typical deposit
- % of furnished lets
- Annual annual school fee – day student (US\$ per annum)**

*The above data is based on our interpretation of standard market practises only **Estimate only

Source: Knight Frank Residential Research

GENEVA

Market snapshot:

- ▲ 2.8%
- 2-bedroom apartment
- 30 minutes or less
- 12
- 12 weeks
- 2-5%
- \$30,000-\$35,000

MUMBAI

Market snapshot:

- ▲ 5%*
- 3+ bedroom townhouse
- 30 mins or less
- 12-24
- 12-24 weeks
- 45%
- \$9,500

*provisional

HONG KONG

Market snapshot:

- ▼ -6.2%
- 3 or 4-bedroom apartment/house
- 30 mins or less
- 24
- 2 months
- 5%
- \$15,000-\$20,000

DUBAI

Market snapshot:

- ▲ 13.6%
- 1 and 2 bedroom apartments / 3 bedroom villas or townhouses
- 1 hour or less
- 12
- 5% of annual rent (equivalent to about 2.5 weeks)
- 5%
- \$15,000

BEIJING

Market snapshot:

- ▲ 3.5%
- 2 or 3-bedroom apartment
- 1 hour or less
- 12
- 8 weeks
- 100%
- \$22,500

PARIS

Market snapshot:

- ▲ 0.6%*
- 3 or 4-bedroom apartment
- 30 minutes or less
- 24
- 4 weeks (unfurnished)
8 weeks (furnished)
- 50%
- \$23,000-\$28,000

*Source: INSEE (figure for France)

SINGAPORE

Market snapshot:

- ▲ 1.1%
- 2-bedroom apartment
- 1 hour or less
- 24
- 8 weeks
- 20%
- \$23,500

SHANGHAI

Market snapshot:

- ▲ 1.5%
- 2 or 3-bedroom apartment / 4+ bedroom house
- 1 hour or less
- 12
- 8 weeks
- 70%
- \$22,000



SPOTLIGHT ON SINGAPORE

Singapore's rise as a global financial hub has been rapid. The city-state has cemented itself as a thriving financial centre that serves not only its domestic economy but also Asia Pacific and the wider world.

As a result, Singapore's workforce has grown at a fast rate in recent years – official statistics show a 21.2% rise in the number of workers in the financial and insurance sector since 2009, with the sector attracting a significant number of highly-skilled foreign employees from all over the world, as well as local talent.

The availability of a large pool of finance professionals in Singapore is a key reason why global financial institutions operate there (over 200 banks), and use Singapore as a regional or global hub.

However, growth has not been limited to just one sector. Alongside Singapore's escalation as a banking and finance centre, strong growth has also been seen in the manufacturing, construction and service industries.

Advanced estimates by the Ministry of Trade and Industry show that Singapore's economy expanded by 5.1% in the year to Q1 2014. The city-state's manufacturing sector led this growth expanding 8% year-on-year. The construction sector grew by 6.5% on an annual basis, while growth in the services producing industries was 4.7% over the same time period.

All of this has contributed to a rise in the numbers of high-skilled foreign workers relocating to Singapore. Indeed, the number of foreign professionals working in managerial, executive or specialised jobs has increased by 53% since 2009.

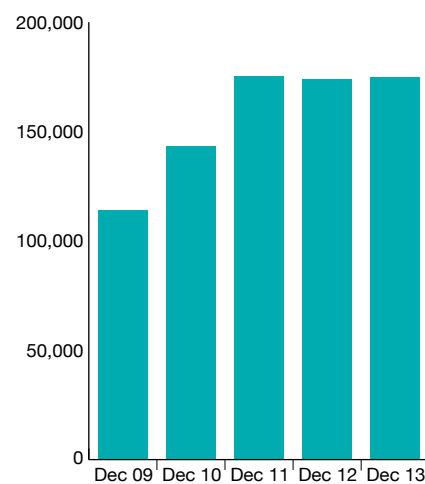
In the second half of 2013, the rental market in Singapore softened. This was mainly attributable to the increased supply of properties on the market and, as is the case in other markets explored in this report, lower housing budgets for expatriates.

As a result of the increased supply, tenants had more bargaining power, while landlords have started to review their asking rents in light of the more competitive market and were happier to accept lower rents for now in order to sustain cash flow.

FIGURE 7

Singapore: growing foreign workforce

Number of foreign nationals granted an Employment Pass



Source: Singapore Ministry of Manpower

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