

SLUGGISH GLOBAL ECONOMY SLOWS PRIME RENTAL GROWTH

Although our Prime Global Rental Index increased by 2.1% in the year to September 2014, its rate of annual growth has slowed considerably. Kate Everett-Allen assesses what's behind the slowdown.

Results for Q3 2014

Prime global rents rose by 2.1% in the year to September 2014, down from 5.8% a year earlier

Dubai leads the annual rankings with rents rising by 12.4% year-on-year

Moscow and Geneva have replaced Hong Kong and Singapore at the bottom of the annual rankings

Tokyo and New York saw prime rents accelerate by 9.8% and 7.9% respectively in the 12 months to September

Of the 15 cities tracked by the index, we expect New York and London to record the strongest increase in prime rents in 2015



KATE EVERETT-ALLEN
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“Dubai holds the top spot for the second consecutive quarter, recording a 12.4% increase in prime rents year-on-year.”

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An annual rise of 2.1% in the 12 months to September represents the index's weakest rate of annual growth for almost five years.

Dubai holds the top spot for the second consecutive quarter, recording a 12.4% increase year-on-year. However, the rate of rental growth in the Emirate is slowing with no change recorded in prime rents in the three months to the end of September.

Prime rents in both Tokyo and New York accelerated over the 12 month-period, by 9.8% and 7.9% respectively. Japan, having voted this week for a second term of Abenomics, may – if Prime Minister Abe's monetary stimulus measures prove successful – start to be the target of more multinational relocations boosting prime rents further.

The index's overall slowdown becomes apparent when the results are compared year-on-year. In the year to September 2013 nearly 90% of the cities tracked saw prime rents increase on an annual basis; this figure has now shrunk to 66%.

Luxury rental demand is firmly linked to demand from corporate tenants and

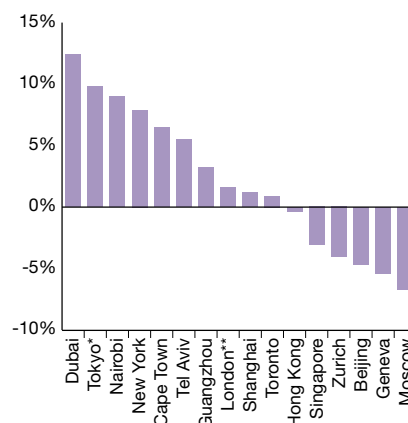
hence business sentiment. With the global economy stuttering in 2014 business sentiment has dipped, indeed Markit's Global Business Outlook Survey is now at a five-year low.

Concerns over a renewed downturn in the Eurozone, a potential interest rate hike in the US and the UK as well as tension in Ukraine and the Middle East are weighing on economic confidence.

Of the 16 cities tracked, New York continues to command the highest luxury rents in real terms with a typical two bedroom apartment in Manhattan available at around US\$8,000-US\$8,500 pcm. London and Moscow sit in second and third place with prime rents around US\$6,500-US\$8,000 and between US\$6,000 and US\$7,000 pcm respectively.

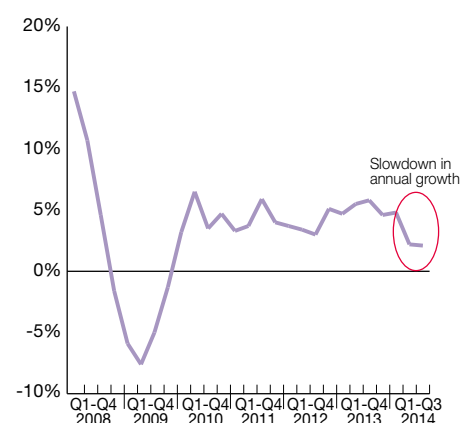
Prime rental markets often move in the opposite direction to the sales sector. With the luxury sales market now the target of both cooling measures (Asia) and a changing tax landscape (UK, US, France) we expect the Prime Global Rental Index to strengthen in 2015 with London and New York leading the way (figure 3).

FIGURE 1
Change in prime rents by city
Annual % change to Q3 2014



Source and notes: see main table of results

FIGURE 2
Index performance
Unweighted change in prime rents (average)



Source and notes: see main table of results

DATA DIGEST

The Knight Frank Prime Global Rental Index is an important resource for investors and developers looking to monitor and compare the performance of prime residential rents across key global cities. Prime property corresponds to the top 5% of the housing market in each city. The index is compiled on a quarterly basis using data from Knight Frank's network of global offices and research teams.

Knight Frank Prime Global Rental Index, Q3 2014

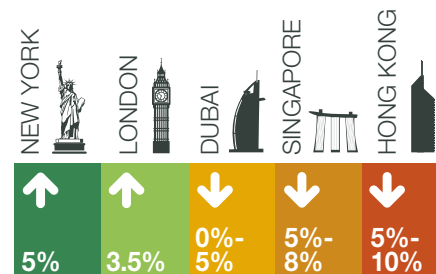
Rank	City	World region	12-month % change (Sep 13 - Sep 14)	6-month % change (Mar 14 - Sep 14)	3-month % change (Jun 14 - Sep 14)
1	Dubai	Middle East	12.4%	2.0%	0.0%
2	Tokyo*	Asia Pacific	9.8%	5.4%	2.7%
3	Nairobi	Africa	9.0%	1.4%	1.4%
4	New York	North America	7.9%	-0.1%	2.8%
5	Cape Town	Africa	6.5%	6.5%	7.3%
6	Tel Aviv	Middle East	5.5%	0.3%	-0.6%
7	Guangzhou	Asia Pacific	3.2%	1.1%	0.1%
8	London**	Europe	1.6%	2.7%	1.2%
9	Shanghai	Asia Pacific	1.2%	1.5%	1.2%
10	Toronto	North America	0.9%	1.7%	2.3%
11	Hong Kong	Asia Pacific	-0.4%	1.9%	0.9%
12	Singapore	Asia Pacific	-3.1%	-2.0%	-1.9%
13	Zurich	Europe	-4.1%	-2.7%	0.0%
14	Beijing	Asia Pacific	-4.7%	-3.1%	-3.4%
15	Geneva	Europe	-5.4%	-9.1%	-1.4%
16	Moscow	Europe	-6.7%	-5.2%	-1.2%

Source: Knight Frank Residential Research, Miller Samuel/Douglas Elliman, Ken Corporation

* Data is based on all rental contracts agreed above ¥ 300,000 or where the internal area is 30 tsubo+

** London: new prime rental data is now available

FIGURE 3
2015: Prime rental forecast
Annual % change



Source and notes: see main table of results



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