

SLOWDOWN IN EMERGING MARKETS HITS PRIME RENTAL INDEX

Our Prime Global Rental Index recorded marginal growth of 1.3% in the year to March, its slowest rate of growth since the first quarter of 2010. Kate Everett-Allen examines what's behind the slowdown.

Results for Q1 2015

The index rose by 1.3% in the year to March 2015, down from 3.5% a year earlier

Tokyo leads the annual rankings for the second consecutive quarter with prime rents up 8.1%

Cities in emerging markets such as Nairobi and Dubai have seen a slowdown in rental growth

Africa and North America recorded the strongest rise in prime rents of the world regions, rising on average by 4.3% and 3.2% respectively on an annual basis

Dubai recorded its first quarterly fall in prime rents since 2011, down 0.6% in the first three months of 2015



KATE EVERETT-ALLEN
Partner, Residential Research

“A year ago prime rents globally were rising on average by 3.5% per annum but the global average has now slipped to 1.3%.”

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A year ago prime rents worldwide were rising on average by 3.5% per annum but this figure has now slipped to 1.3%. The number of cities recording flat or positive growth however has stayed much the same (14 of the 18 cities).

The change is due to the slowdown in emerging markets such as Nairobi and Dubai which were seeing double-digit annual increases a year ago.

In Moscow, prime rents have historically been US Dollar denominated but the weakness of the Rouble against the US Dollar has led an increasing number of landlords to swap their rents into Roubles. In US Dollar terms prime rents fell 42% on an annual basis but by only 5% in Rouble terms. For the index's purposes we track the movement in prime rents in local currency.

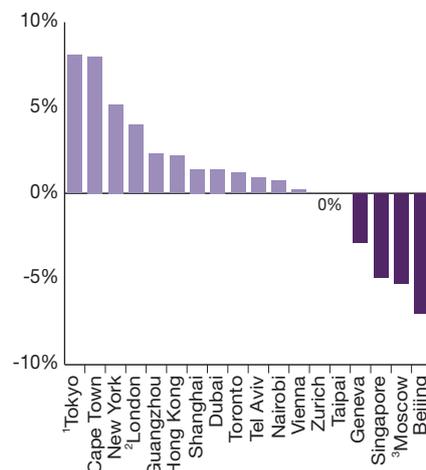
Prime residential rents in Dubai inched down 0.6% quarter-on-quarter in the first

three months of this year, the first fall since mid-2011. This was broadly in line with the UAE's non-oil economy which grew at a notably weaker pace in the first quarter of 2015. This is likely to have hit confidence, and thus tenant demand for luxury residential properties in the emirate.

The synergy between the global economy and luxury residential rents is increasingly clear. Prime rents proved a lead indicator of the downturn in 2008 and apart from a brief divergence in 2011 have remained closely tied (figure 2).

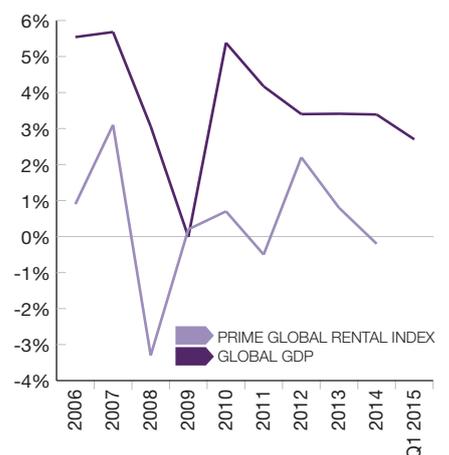
On this basis, the health of the global economy will determine the future direction of the index. The immediate concern is how the Greek crisis plays out but in the long term the problem will be finding a new engine to stimulate growth, be it the US, China or recovering emerging markets.

FIGURE 1
Change in prime rents by city
Annual % change to Q1 2015



Source and notes: see main table of results

FIGURE 2
Close ties: GDP v Prime Rents
Annual % change



Source: Knight Frank Residential Research, IMF

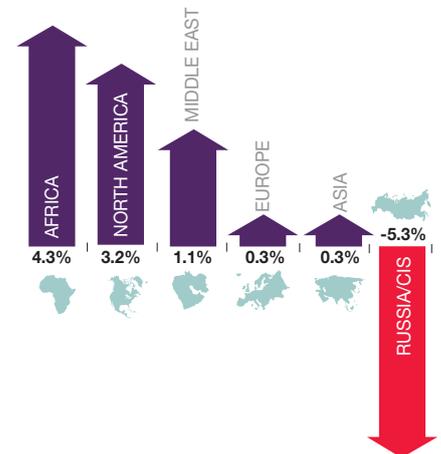
DATA DIGEST

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 change in prime residential rents is measured in local currency. 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, Q1 2015

Rank	City	World region	12-month % change (Mar 14 - Mar 15)	6-month % change (Sept 14 - Mar 15)	3-month % change (Dec 14 - Mar 15)
1	Tokyo ¹	Asia Pacific	8.1%	2.6%	2.2%
2	Cape Town	Africa	8.0%	1.5%	1.4%
3	New York	North America	5.9%	3.6%	7.9%
4	London ²	Europe	4.0%	1.2%	0.7%
5	Guangzhou	Asia Pacific	2.3%	1.1%	0.1%
6	Hong Kong	Asia Pacific	2.2%	0.2%	0.7%
7	Shanghai	Asia Pacific	1.4%	-0.1%	0.1%
8	Dubai	Middle East	1.4%	-0.6%	-0.6%
9	Toronto	North America	1.2%	-0.5%	0.7%
10	Tel Aviv	Middle East	0.9%	0.6%	-1.3%
11	Nairobi	Africa	0.7%	0.7%	0.0%
12	Vienna	Europe	0.2%	0.2%	-1.4%
13	Zurich	Europe	0.0%	0.0%	-3.2%
14	Taipei	Asia Pacific	0.0%	0.0%	0.0%
15	Geneva	Europe	-2.9%	-2.9%	-2.9%
16	Singapore	Asia Pacific	-4.9%	-3.0%	-1.9%
17	Moscow ³	Russia & CIS	-5.3%	-9.5%	-31.6%
18	Beijing	Asia Pacific	-7.0%	-4.0%	-0.5%

FIGURE 3
Prime rents by world region
Average annual % change to Q1 2015



Source and notes: see main table of results

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

¹ Data is based on all rental contracts agreed above ¥ 300,000 or where the internal area is 30 tsubo+

² London: new prime rental data is now available

³ Moscow's percentage changes are based on local currency. In US dollars prime rents have declined by 42% over the 12-month period to Q1 2015

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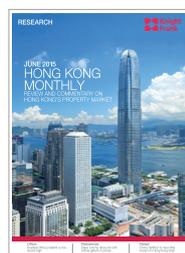
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