

PRIME RESIDENTIAL RENTAL GROWTH WEAKEST IN WORLD'S TOP FINANCIAL CITIES

Prime residential rental growth in emerging markets such as Nairobi and Dubai continues to outpace that of the traditional financial centres of London and Hong Kong. Kate Everett-Allen examines the latest index results.

Results for Q1 2014

The index rose by 4.7% in the year to March 2014

Nairobi topped the annual rankings for the fourth consecutive quarter

Prime rents declined in Singapore, London and Hong Kong in the year to March 2014

Dubai and Tokyo recorded the strongest rise in prime rents in the first quarter of 2014

Rising interest rates could push would-be buyers into prime rental markets in cities such as London and New York in 2015

Nairobi leads our annual rankings for the fourth consecutive quarter. Prime rents in the Kenyan capital increased by almost 26% in the year to March, but there are signs the market is cooling with growth of only 2.1% recorded in the first three months of 2014.

Some of the world's top financial centres – Singapore, London and Hong Kong – are positioned at the bottom of the rankings with annual falls of -0.3%, -2.0% and -6.3% respectively.

However, we expect prime rental growth in these key cities to strengthen over the remainder of 2014.

In London, the rental recovery looks to be taking hold as price growth starts to slow. New registrations are up 17% year-on-year and tenant demand is coming from a diverse set of industries – oil and gas, mining and IT.

In Hong Kong, although there has been a relaxation of the Double Stamp Duty rule, a number of stringent cooling measures remain in place. With foreign buyers facing purchase costs of 25% of the sales price, the luxury rental market is attracting those deterred from buying, which should help support future rental growth.

Dubai and Tokyo recorded the strongest rates of growth with prime rents rising by 6% and 5% respectively in the first three months of the year.

In Dubai, prime rents continue to outpace wage inflation. This is raising concerns about affordability and is leading domestic and expat buyers alike to consider purchasing a home. However, the introduction of a mortgage cap and higher transfer fees at the end of 2013 has led some to defer this decision.

Whilst prime rents around the world rose by 4.7% in the year to March, they were outperformed by prime capital values which increased by 6.1% over the same period. We expect the gap to narrow as corporate tenant demand – a key driver of prime rents – strengthens on the back of improving economic and business sentiment.

The key risks for the world's sales markets could emerge as catalysts for growth in terms of prime rents.

The withdrawal of stimulus, along with the expected rise in interest rates in influential economies such as the US and the UK, is likely to boost rental demand as mortgage costs rise over time.



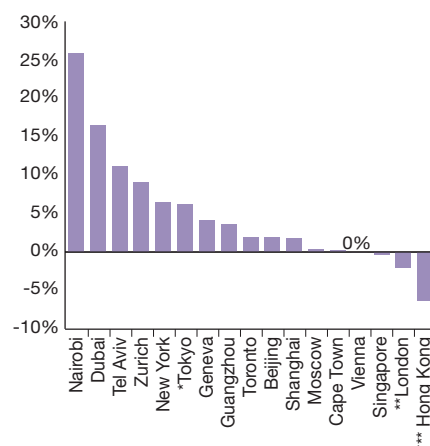
KATE EVERETT-ALLEN
International Residential Research

“The key risks for the world's sales markets could emerge as catalysts for growth in terms of prime rents.”

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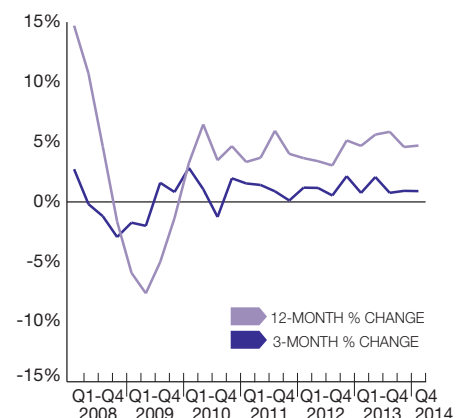
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FIGURE 1
Change in prime rents by city
Annual % change to Q1 2014



Source and notes: see main table of results

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



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 mainstream 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, Q1 2014

Rank	City	World region	12-month % change (Mar 13 - Mar 14)	6-month % change (Sep 13 - Mar 14)	3-month % change (Dec 13 - Mar 14)
1	Nairobi	Africa	25.8%	7.5%	2.1%
2	Dubai	Middle East	16.4%	10.2%	6.0%
3	Tel Aviv	Middle East	11.1%	5.2%	2.7%
4	Zurich	Europe	9.0%	-1.4%	0.0%
5	New York	North America	6.5%	8.0%	-0.7%
6	Tokyo*	Asia Pacific	6.2%	4.2%	5.0%
7	Geneva	Europe	4.1%	4.1%	4.1%
8	Guangzhou	Asia Pacific	3.6%	2.0%	0.2%
9	Toronto	North America	1.9%	-0.8%	-0.5%
10	Beijing	Asia Pacific	1.9%	-1.7%	0.2%
11	Shanghai	Asia Pacific	1.8%	-0.3%	0.8%
12	Moscow	Europe	0.2%	-1.6%	-4.5%
13	Cape Town	Africa	0.1%	0.0%	0.0%
14	Vienna	Europe	0.0%	0.0%	0.0%
15	Singapore	Asia Pacific	-0.3%	-1.1%	-0.6%
16	London**	Europe	-2.0%	-1.1%	0.1%
17	Hong Kong***	Asia Pacific	-6.3%	-2.3%	0.2%

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

***Provisional

FIGURE 3

Middle East and Africa on top
Average annual % change in prime rents by world region



Source and notes: see main table of results



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RESIDENTIAL RESEARCH

Liam Bailey

Global Head of Research

+44 20 7861 5133

liam.bailey@knightfrank.com

Kate Everett-Allen

International Residential Research

+44 20 7861 1513

kate.everett-allen@knightfrank.com

PRESS OFFICE

Astrid Etechells

+44 20 7861 1182

astrid.etchells@knightfrank.com



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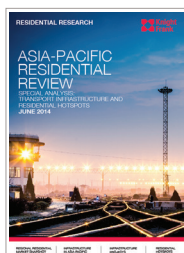
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