



Emerging markets bolster prime rental index

Prime rents in key cities worldwide rose by 2.3% in the year to June. Corporate demand, particularly in the world's emerging markets, is driving rents higher, helping to offset Europe's fragility. Kate Everett-Allen examines current market conditions:

Results for Q2 2012

The Knight Frank Prime Global Rental Index rose by 2.3% in the year to June and by 1.0% over a three month period

The index now stands 12% above the recession low in Q2 2009

Rental growth is strongest in emerging markets

Prime rents in Europe rose by just 0.5% in the 12 months to June due to sluggish employment markets

Prime rents in London, New York and Hong Kong have risen by 25.7%, 23.9% and 35.6% respectively since their recessionary lows

Although the index recorded annual growth of 2.3% in the year to June, this modest performance remains some way off the double-digit growth seen pre-2008, suggesting that the prevailing economic conditions continue to impede growth.

The performance of prime rents across global cities is intrinsically linked to employment, business confidence and recruitment.

At the top end of the world's rental markets corporate demand is increasingly influential, accounting for up to 85% of prime rental demand in some cities.

As in the prime sales market, it is those cities that generate strong foreign demand that have seen the strongest uplift in rents since the global recession hit in 2008. Prime rents in London, New York and Hong Kong have risen by 25.7%, 23.9% and 35.6% respectively since their recessionary lows. While the latest results show prime rents continue to push higher in New York, rental growth is weaker in London and Hong Kong.

Jemma Scott, Knight Frank's Head of Corporate Services said: "London's current weakness in headline rents is not due to a wider downturn in demand from tenants. Instead, affordability constraints and the weaker performance of London's economy are limiting the scope for rental growth."

Ms Scott adds "Lettings volumes were strong in the second quarter as the Olympic Games

prompted some corporate tenants to arrive early to secure the best properties. Demand from US and French tenants proved particularly strong."

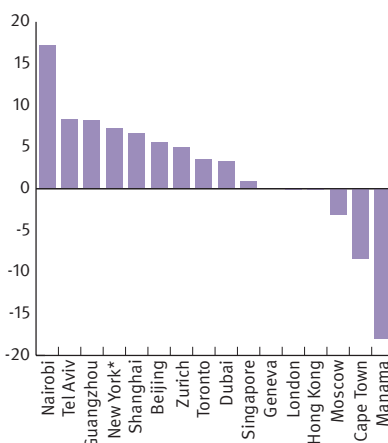
In Manhattan prime rents are at their highest since the recession. An improving regional economy, rising employment and strict bank lending has helped drive rents upwards as potential buyers have opted to rent until mortgage lending rules are relaxed.

In Hong Kong and Singapore a heated sales market in recent years has seen prime prices rise by 76.5% and 31.2% respectively from their recessionary lows. Affordability pressures accompanied by rising interest rates and growing demand from foreign tenants have boosted prime rents. But rents in Hong Kong and Singapore still trail prices, with growth of 35.6% and 20.6% respectively over the same period.

Future rental growth is likely to be focussed on the world's developing markets as business globalisation increases. Nairobi, Tel Aviv and Guangzhou's positions at the top of the rankings this quarter are not incidental. In sharp contrast to many western economies, Kenya, Israel and China are forecast to see chunky GDP growth of 4.7%, 2.3% and 7.8% respectively in 2012, due in large part to a surge in foreign investment.

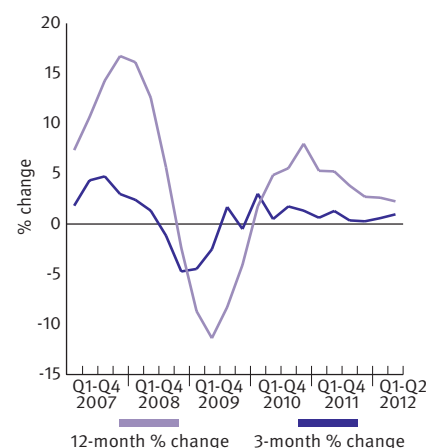
For a detailed overview of the corporate lettings market and for rental forecasts on a city-by-city basis please read Knight Frank's [Global Corporate Lettings Review](#).

Figure 1
12-month rental change
Average % change in prime residential rents to Q2 2012



Source: Knight Frank Residential Research
* Manhattan

Figure 2
Aggregate performance
Unweighted average change in prime rents



Source: Knight Frank Residential Research

"Future rental growth is likely to be focussed on the world's developing markets as business globalisation increases."



Kate Everett-Allen, International Residential Research



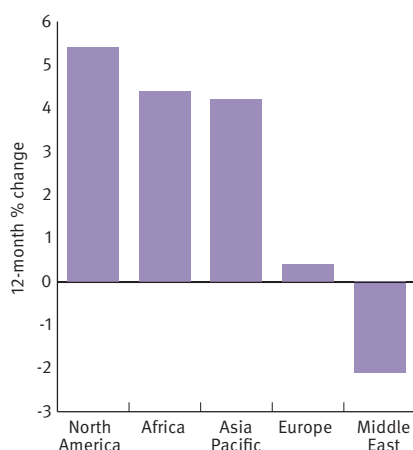
Data digest

The **Knight Frank Prime Global Rental Index** is the definitive means for investors and developers to monitor and compare the performance of prime rental markets 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.

Figure 3

Regional analysis

Unweighted average annual rental change, by world region



Source: Knight Frank Residential Research

Knight Frank Prime Global Rental Index, Q2 2012

Rank	City	World region	12-month % change (Jun 11 - Jun 12)	6-month % change (Dec 11 - Jun 12)	3-month % change (Mar 12 - Jun 12)
1	Nairobi	Africa	17.2%	11.1%	5.0%
2	Tel Aviv	Middle East	8.3%	3.3%	1.8%
3	Guangzhou	Asia Pacific	8.2%	4.0%	1.9%
4	New York*	North America	7.3%	7.2%	7.0%
5	Shanghai	Asia Pacific	6.6%	4.9%	1.3%
6	Beijing	Asia Pacific	5.6%	1.8%	3.4%
7	Zurich	Europe	5.0%	5.0%	0.0%
8	Toronto	North America	3.6%	1.3%	0.0%
9	Dubai	Middle East	3.3%	3.3%	2.0%
10	Singapore	Asia Pacific	0.9%	0.4%	-0.1%
11	Geneva	Europe	0.0%	0.0%	-1.4%
12	London	Europe	-0.1%	-0.6%	-0.2%
13	Hong Kong	Asia Pacific	-0.2%	-0.1%	1.7%
14	Moscow	Europe	-3.2%	-1.0%	-6.8%
15	Cape Town	Africa	-8.4%	1.1%	0.0%
16	Manama	Middle East	-18.1%	-16.9%	-0.2%

Source: Knight Frank Residential Research, Miller Samuel/Prudential Douglas Elliman
* Manhattan

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