

## PRIME RESIDENTIAL RENTS RECORD WEAKER GROWTH GLOBALLY

Although overall our index weakened in the second quarter, the world's key financial centres rose up the annual rankings. Kate Everett-Allen discusses whether this trend can be sustained.

### Results for Q2 2014

**The index rose by 2.2% in the year to June 2014**, down from 4.7% in March

Despite occupying the top two rankings, **Dubai and Nairobi saw the rate of prime rental growth soften in the second quarter**

**Although London, Singapore and Hong Kong saw prime rents decline in the year to June**, the rate of decline is slowing

Of the 17 cities tracked, **nine saw flat or rising prime rents in the year to June**

**We expect some of the key prime rental markets to benefit from quieter activity** in the world's luxury sales markets during the remainder of 2014



**KATE EVERETT-ALLEN**  
Partner, Residential Research

'Of the 17 cities tracked, nine saw flat or rising prime rents in the year to June'

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Annual growth recorded by our index fell from 4.7% in the year to March to 2.2% in the year to June.

Dubai holds the top spot this quarter, having recorded a 14.1% increase in prime rents in the year to June. The emirate leapfrogged Nairobi which had enjoyed four consecutive quarters at the top.

Both cities recorded weaker growth in the last quarter which largely explains the index's more sluggish performance over the three months to June.

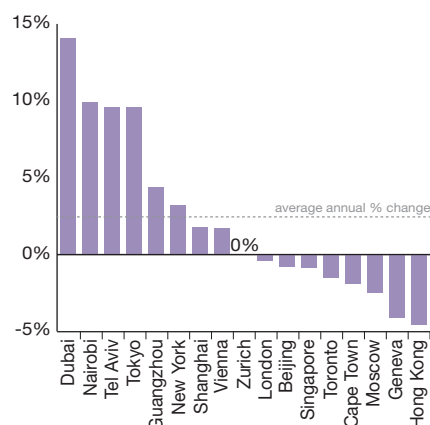
Annual rental growth in Nairobi more than halved from 25.8% in March to 9.9% in June. Dubai's step change was less stark, from 16.4% to 14.1% over the same time period.

In Nairobi, asking rents for key tenants such as the diplomatic community look to have reached their ceiling. This, combined with security concerns help explain the slowing pace of growth.

In Dubai, prime rents continue to outpace wage inflation which is raising concerns about affordability, leading some to consider buying instead of renting.

Of the 17 cities tracked, nine saw flat or rising prime rents in the year to June.

FIGURE 1  
**Change in prime rents by city**  
Annual % change to Q2 2014



Source and notes: see main table of results

The gap between the strongest and weakest performing cities over the last 12 months shrank from 32 percentage points in March to 19 points in June suggesting the performance of the world's top luxury rental markets is converging.

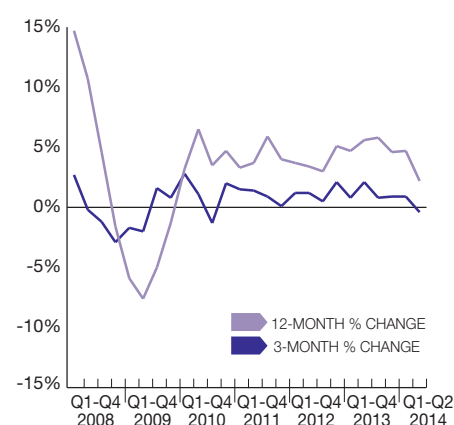
As economic conditions in the world's top financial centres improves, prime rental demand is likely to accelerate due in part to the upturn in corporate relocations.

Prime rents in London began their recovery at the start of the year and recorded monthly growth of 0.9% in June, a three-year record.

In Hong Kong rental demand for luxury homes picked up towards the end of the second quarter as expatriate families sought homes prior to the start of the new school year.

With interest rates likely to rise in the US and UK in 2015, economic growth largely stagnant in Europe and stringent cooling measures still in place across much of Asia, we expect prime rental markets will benefit from quieter activity in the world's luxury sales markets during the remainder of 2014.

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, Q2 2014

Rank	City	World region	12-month % change (Jun 13 - Jun 14)	6-month % change (Dec 13 - Jun 14)	3-month % change (Mar 14 - Jun 14)
1	Dubai	Middle East	14.1%	8.1%	2.0%
2	Nairobi	Africa	9.9%	2.1%	0.0%
3	Tel Aviv	Middle East	9.6%	3.6%	0.9%
4	Tokyo*	Asia Pacific	9.6%	7.7%	2.7%
5	Guangzhou	Asia Pacific	4.4%	1.6%	1.4%
6	New York	North America	3.2%	-3.6%	-2.9%
7	Shanghai	Asia Pacific	1.8%	1.2%	0.3%
8	Vienna	Europe	1.7%	1.7%	1.7%
9	Zurich	Europe	0.0%	-2.7%	-2.7%
10	London**	Europe	-0.4%	1.6%	1.5%
11	Beijing	Asia Pacific	-0.8%	0.5%	0.3%
12	Singapore	Asia Pacific	-0.9%	-0.7%	-0.1%
13	Toronto	North America	-1.5%	-1.1%	-0.6%
14	Cape Town	Africa	-1.9%	0.0%	0.0%
15	Moscow	Europe	-2.5%	-8.4%	-4.1%
16	Geneva	Europe	-4.1%	-4.1%	-7.8%
17	Hong Kong***	Asia Pacific	-4.6%	1.3%	1.0%

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+

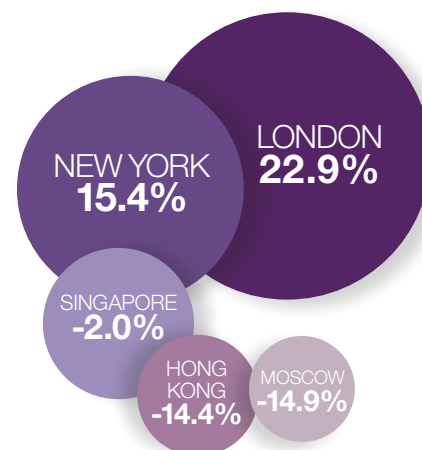
\*\* London: new prime rental data is now available

\*\*\*Provisional

FIGURE 3

## Post-Lehman

% change in prime rents since Q3 2008



Source and notes: see main table of results



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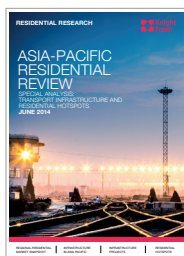
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