



Economic uncertainty fails to knock prime rental market off course

Headlines for Q3 2011

The Knight Frank Prime Global Rental Index rose by 4.3% in the 12 months to September

During the third quarter of 2011, rents fell in only three of the cities monitored by the index and average rental growth was 0.4%

Geneva has been the strongest performer. Rents have risen by 18% in the past 12 months

Rents in Cape Town have fallen the most by nearly 15% in the past 12 months

The Middle East is the weakest performing world region. Rents fell on average by 5.3% in the past 12 months

Rents for prime property across key global cities rose on average by 4.3% in the year to September 2011. Kate Everett-Allen assesses whether the shaky state of the global economy is starting to affect luxury rental markets worldwide.

The increase of 4.3% represents the index's strongest annual performance since Q3 2008. The overall index is now 19% higher than its recessionary low in Q1 2010, but still 18% lower than its pre-recessionary peak in Q3 2008.

In contrast to its robust annual growth, the index saw just 0.4% growth in the three months to September. This could suggest a new phase of weaker growth due in part to the worsening global economy. However, if we omit Cape Town from the index, quarterly growth was a respectable 1.6% indicating sovereign debt issues and the fragile state of the global economy have yet to weaken either tenant demand or investor sentiment.

In terms of rental performance there are some stark regional and city-based variations, a gap of 33 percentage points splits Geneva, the highest ranked city, and Cape Town the lowest. The top end of the South African rental market is largely corporate-driven and Cape Town has suffered from large cuts in relocation budgets.

Unlike in previous quarters there is little homogeneity on a continent-by-continent basis. African cities Nairobi and Cape Town,

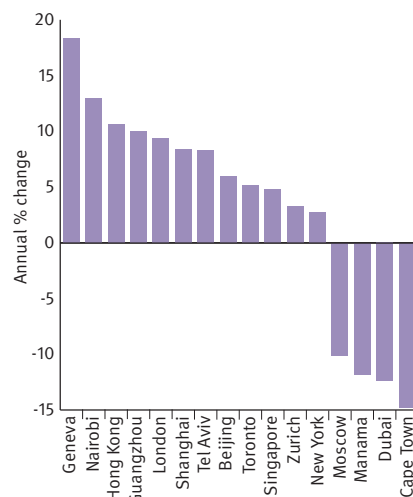
for example, are positioned at opposite ends of the rankings and so too are Geneva and Moscow in Europe. Each city's performance is being driven by a unique set of variables, from local supply-and-demand dynamics to economic growth and, crucially for the prime rental market, employment conditions.

Geneva's strong performance can in part be attributed to the strength of the Swiss economy, which has ridden the economic storm better than most European countries. It remains untouched by the current debt crisis, which has helped boost its credentials as a safe-haven.

In London's case the prime rental market has benefitted from the weak pound, which has attracted both overseas investors and foreign tenants in large numbers. In 2011*, 59% of all properties let by Knight Frank in London were let to international tenants of over 61 nationalities.

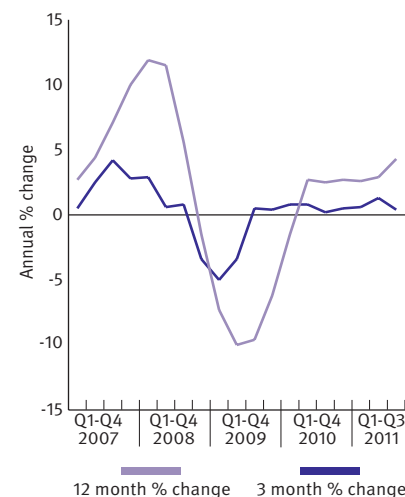
Asia provides a mixed picture with Hong Kong and Singapore recording more muted growth. In the past 12 months, annual rental growth has shifted from 18.1% to 10.6% in Hong Kong and from 17% to 4.8% in Singapore. China's main cities of Beijing and Shanghai by comparison are seeing the rate of rental growth rise, although it remains to be seen whether the government-imposed regulatory measures that are having the desired effect of softening prices will filter through to rents.

Figure 1
12-month rental change
 Average % change in prime residential rents to Q3 2011



Source: Knight Frank Residential Research

Figure 2
Aggregate performance
 Unweighted average change in prime rents



Source: Knight Frank Residential Research

“The Prime Global Rental Index is now 19% higher than its recessionary low in Q1 2010.”



Kate Everett-Allen, International Residential Research



Data digest

The Knight Frank Prime Global Rental Index established in 2011 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.

Regional analysis

Unweighted average annual rental change, by world region

World Region	Annual % change
Asia Pacific	8.0%
Europe	5.3%
North America	3.9%
Africa	-0.9%
Middle East	-5.3%

Knight Frank Prime Global Rental Index, Q3 2011

Rank	City	Annual % change (Sep 10 - Sep 11)	Six-month % change (Mar 11 - Sep 11)	Quarterly % change (Jun 11 - Sep 11)	Latest data if not Q3 2011
1	Geneva	18.3%	9.2%	0.0%	
2	Nairobi	13.0%	7.0%	3.0%	
3	Hong Kong*	10.6%	6.2%	1.8%	
4	Guangzhou	10.0%	4.4%	1.8%	
5	London	9.4%	2.0%	0.9%	
6	Shanghai	8.4%	4.3%	1.3%	
7	Tel Aviv	8.3%	4.4%	3.2%	
8	Beijing	6.0%	7.1%	2.8%	
9	Toronto	5.2%	4.0%	4.0%	
10	Singapore	4.8%	1.3%	0.4%	
11	Zurich	3.3%	-4.6%	3.3%	
12	New York	2.7%	12.1%	5.2%	
13	Moscow	-10.1%	-4.3%	-2.1%	
14	Manama	-11.8%	-2.6%	0.0%	
15	Dubai	-12.4%	-4.0%	-2.0%	Q2 2011
16	Cape Town	-14.8%	-14.9%	-15.5%	

Source: Knight Frank Residential Research
* Provisional data

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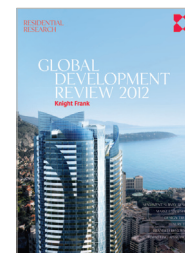
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