

Economic uncertainty curtails prime rental growth

Prime rents in key cities worldwide rose by 1.5% in the third quarter of 2012. Thirteen of the 16 cities included in the index saw rents rise in the three months to September. Although tight lending conditions in western markets and an increase in stamp duties in some Asian markets are fuelling tenant demand the fragile economic climate is keeping a lid on rental growth. Kate Everett-Allen examines the figures

Results for Q3 2012

The Knight Frank Prime Global Rental Index rose by 2.7% in the year to September and by 1.5% in the third quarter

The index now stands 13.5% above its financial crisis low in Q2 2009

Nairobi and New York saw the largest increases in prime rents, up by 17.2% and 7% respectively over a 12 month period

In regional terms, North America saw the strongest growth in prime rents and the Middle East the weakest in the year to September

Since Lehman Brother's collapse in late 2008 prime rents in Toronto, Guangzhou, Shanghai have risen the most; by 11.2%, 10.3% and 9.3% respectively

How did we get here?

Following the collapse of Lehman Brothers in late 2008 the world's multinational companies trod water for several months with recruitment budgets being frozen. This 'wait-and-see' attitude left many of the world's global cities devoid of their key prime tenants – corporate assignees. Prime rents in London, New York and Hong Kong fell by 19.8%, 16% and 28.3% respectively from their 2008 peak to a trough, which was reached in 2009.

Corporate demand started to strengthen again in early 2010 and at the same time prospective vendors, who had chosen to become landlords to weather the economic storm, transferred their properties back to the sales market narrowing the gap between supply and demand in the rental sector.

What's happened in 2012?

Prime rental markets in cities such as London and New York have benefitted from the continuation of tight mortgage conditions which has pushed some potential new-entrants into rental accommodation while they save for a larger deposit to improve their loan-to-value ratios.

The link between the health of employment markets on a city-by-city basis and the performance of their respective prime rental markets and has become more apparent in 2012. The fragile state of Europe's economy has left its

financial jobs market in a weakened state. London, which saw prime rents fall by 1.3% in the third quarter, is, by the end of 2012, expected to see the number of City jobs fall by 30,000 compared to the level in 2011.

In Singapore the rate of rental growth slowed due to more constrained budgets on the part of expatriates and a rise in newly-completed supply.

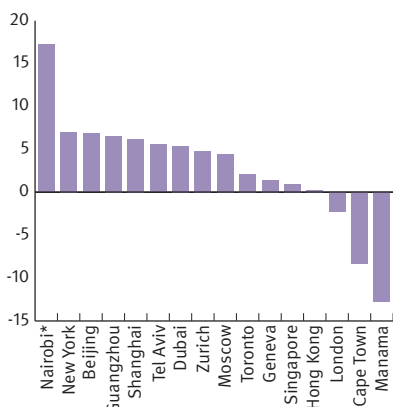
In Hong Kong prime rents increased by 2% in the third quarter. We expect this upward trajectory to continue following the introduction of a new Buyers Stamp Duty in October (15% for non-permanent residents as well as foreign and local companies). This, along with the extension and tightening of the existing Special Stamp Duty, is likely to push more would-be buyers into rental accommodation.

In New York the vacancy rate for rental properties stands at 1.59% down from 2.32% a year earlier. This trend is evident across the Downtown, East Side and West Side regions. However, despite low vacancy rates the slowing rate of rental growth in the third quarter indicates that market rents may be nearing their peak.

Where next in 2013?

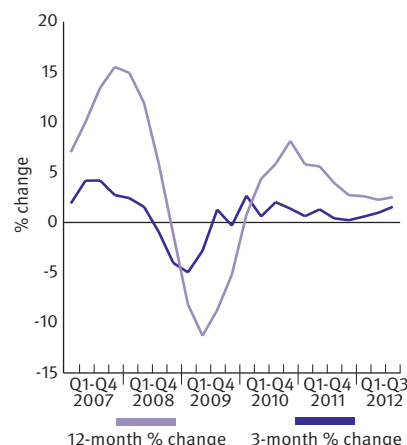
The fortunes of prime rental markets are largely dependent on the future growth (or contraction) of the global economy, employment growth at a city level and the performance and regulation of each city's corresponding residential sales market.

Figure 1
12-month rental change
Average % change in prime residential rents to Q3 2012



Source: Knight Frank Residential Research, Douglas Elliman/Miller Samuel Inc
* annual % change to Q2 2012

Figure 2
Aggregate performance
Unweighted average change in global prime rents



Source: Knight Frank Residential Research

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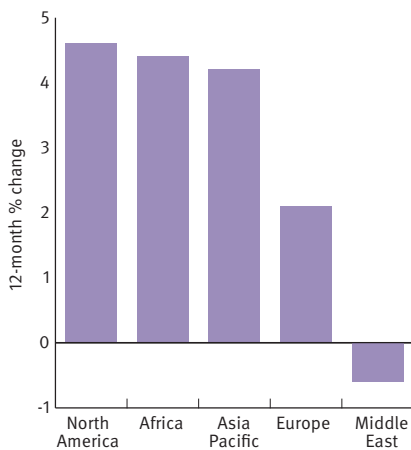


Kate Everett-Allen, International Residential Research

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, Q3 2012

| Rank | City | World region | 12-month % change (Sep 11 - Sep 12) | 6-month % change (Mar 11 - Sep 12) | 3-month % change (Jun 12 - Sep 12) | Data if not Q3 12 |
|------|-----------|---------------|-------------------------------------|------------------------------------|------------------------------------|-------------------|
| 1 | Nairobi | Africa | 17.2% | 11.1% | 5.0% | Q2 |
| 2 | New York | North America | 7.0% | 4.2% | -2.6% | |
| 3 | Beijing | Asia Pacific | 6.8% | 7.6% | 4.0% | |
| 4 | Guangzhou | Asia Pacific | 6.5% | 2.1% | 0.2% | |
| 5 | Shanghai | Asia Pacific | 6.2% | 2.3% | 0.9% | |
| 6 | Tel Aviv | Middle East | 5.6% | 2.3% | 0.6% | |
| 7 | Dubai | Middle East | 5.4% | 4.0% | 2.0% | |
| 8 | Zurich | Europe | 4.8% | 3.2% | 3.2% | |
| 9 | Moscow | Europe | 4.5% | -1.5% | 5.7% | |
| 10 | Toronto | North America | 2.1% | 0.4% | 0.4% | |
| 11 | Geneva | Europe | 1.4% | 0.0% | 1.4% | |
| 12 | Singapore | Asia Pacific | 1.0% | 0.4% | 0.5% | |
| 13 | Hong Kong | Asia Pacific | 0.2% | 3.7% | 2.0% | |
| 14 | London | Europe | -2.3% | -1.5% | -1.3% | |
| 15 | Cape Town | Africa | -8.4% | 1.1% | 0.0% | |
| 16 | Manama | Middle East | -12.7% | 6.2% | 6.5% | |

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

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