

GLOBAL RENTAL INDEX SLIPS INTO NEGATIVE TERRITORY

The Prime Global Rental Index fell by 0.9% in the year to September, its weakest performance in five years. Kate Everett-Allen analyses the latest results.

Results for Q3 2015

The index slipped 0.9% in the year to September 2015, down from a rise of 3.4% two years earlier

The Chinese city of Guangzhou leads the annual rankings with prime rents up 6.2%

On a regional basis, Africa recorded the strongest rise in rents, up 1.3% on average

The gap between the strongest and weakest performing city has shrunk from 30 to 17.5 percentage points in the last two years

The index reached its peak in Q4 2014 having increased 23% from its financial crisis low in Q2 2009

Knight Frank's Prime Global Rental Index, which tracks the change in luxury residential rents across 17 cities around the world, fell by 0.9% in the year to September 2015.

This represents the index's weakest annual performance since the first quarter of 2010. Of the 17 cities tracked by the index, nine recorded flat or falling prime rents in the last 12 months.

The gap between the top and bottom ranking city has shrunk considerably. The strongest performing city (Guangzhou) and the weakest performing city (Moscow) are separated by 17.5 percentage points. Two years' earlier the comparable figure was closer to 30 points (figure 2).

London, having recorded rental growth of only 2.4% – its lowest rate since September 2014 – now finds itself in second position, underlining the extent of the global slowdown in residential rents.

On a regional basis, Africa recorded the strongest rise in prime rents (up 1.3%) and proved to be the only world region to record positive growth (figure 3).

The overall index reached its peak in Q4 2014 having increased 23% from its financial crisis low in Q2 2009.

The strong US dollar, which is likely to be bolstered further as a result of the recent rate hike by the Federal Reserve, is driving US corporate relocations, particularly to emerging markets in Latin America and Africa. According to Mckinsey, by 2025 45% of the Fortune Global 500 companies will be based in emerging markets, compared to 5% at the turn of the century.

The strong link between economic performance and prime rental growth explains the low rankings of Singapore, Beijing and Moscow where economic output is slowing or tepid at best.

The shift in prime rents is also influenced by changes to housing policy. In Guangzhou for example, we expect prime rents to dip slightly in the fourth quarter as interest rate cuts and the relaxation of restrictions for foreign buyers filter into the market pushing demand back towards the sales market.



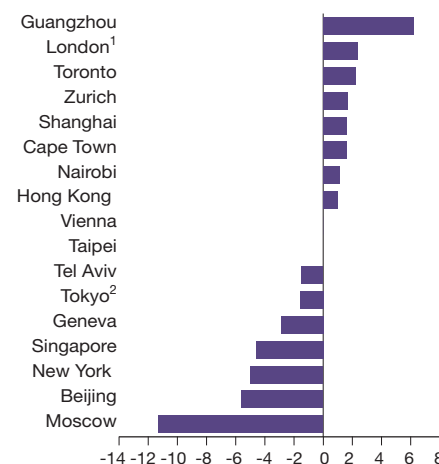
KATE EVERETT-ALLEN
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"Of the 17 cities tracked by the index, nine recorded flat or falling prime rents in the 12 months to September 2015."

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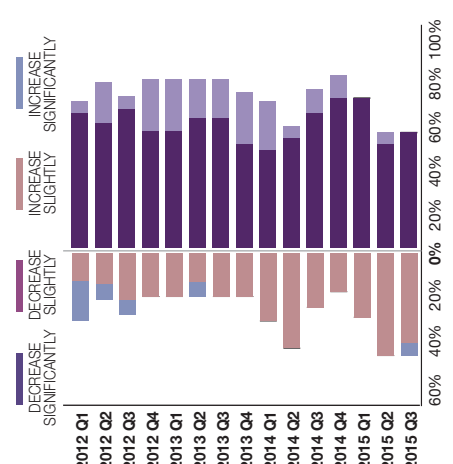
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FIGURE 1
Prime residential rental growth by city
Annual % change to Q3 2015



Source and notes: see main table of results

FIGURE 2
Shift in prime residential rents
Proportion of countries by annual change in prime rents



Source and notes: see main table of results

DATA DIGEST

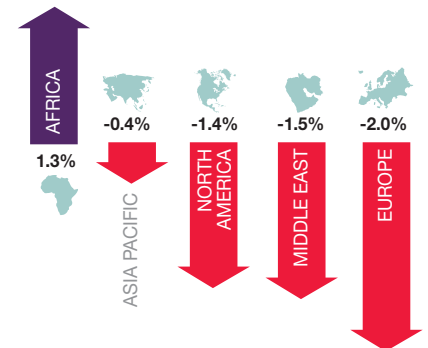
The Knight Frank Prime Global Rental Index is an important resource for investors and developers looking to monitor and compare the performance of prime residential rents across key global cities. Prime property corresponds to the top 5% of the housing market in each city. The change in prime residential rents is measured in local currency. 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, Q3 2015

Rank	City	World region	12-month % change (Sept 14-Sept 15)	6-month % change (Mar 15-Sept 15)	3-month % change (Jun 15-Sept 15)
1	Guangzhou	Asia Pacific	6.2%	5.1%	3.5%
2	London ¹	Europe	2.4%	1.2%	0.2%
3	Toronto	North America	2.2%	2.8%	0.1%
4	Zurich	Europe	1.7%	1.7%	-6.2%
5	Shanghai	Asia Pacific	1.6%	1.6%	1.3%
6	Cape Town	Africa	1.6%	0.0%	0.0%
7	Nairobi	Africa	1.1%	0.0%	0.0%
8	Hong Kong	Asia Pacific	1.0%	0.8%	-0.4%
9	Vienna	Europe	0.0%	-0.2%	1.7%
10	Taipei	Asia Pacific	0.0%	0.0%	0.0%
11	Tel Aviv	Middle East	-1.5%	-2.1%	-1.4%
12	Tokyo ²	Asia Pacific	-1.6%	-4.1%	-0.1%
13	Geneva	Europe	-2.9%	0.0%	0.0%
14	Singapore	Asia Pacific	-4.6%	-1.6%	-0.4%
15	New York	North America	-5.0%	-3.5%	0.0%
16	Beijing	Asia Pacific	-5.6%	-1.6%	-0.4%
17	Moscow	Europe	-11.3%	-2.0%	6.4%

FIGURE 3

Prime rents by world region
Average annual % change to Q3 2015



Source and notes: see main table of results

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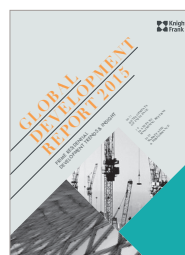
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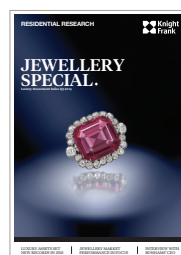
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