



Prime residential rents rose by 3.1% in 2011

Headlines for Q4 2011

The Knight Frank Prime Global Rental Index rose by 3.1% in 2011

Prime rents rose by just 0.3% in the final quarter of 2011, the weakest performance in two years

Nairobi was the strongest performer on an annual basis (up 10%) and New York the strongest on a quarterly basis (up 2.6%)

Luxury rents in Moscow have fallen the most by nearly 10% in 2011

Asia is the strongest performing world region. Rents rose on average by 6.8% in 2011

Prime rents across key global cities rose by 3.1% in 2011 but saw marginal growth of just 0.3% in the final quarter. Kate Everett-Allen examines the figures and looks at why the last three months of 2011 saw the index record its weakest performance in two years.

A lot has changed on the global economic stage in the last three months. In Q4 2011 Greece's debt restructuring plans hung in the balance, its southern European neighbours were revising already pitiful economic forecasts downwards and any tangible signs of a recovery in the US seemed a long way off. It is against this backdrop that prime rents across key global cities struggled in the last three months of 2011.

With the world's economy in a fragile state at the end of 2011, corporate demand declined as relocation budgets shrank reducing rental volumes in many markets. This helps to explain why the financial centres of London, Zurich and Hong Kong saw quarterly growth drop from 0.9%, 3.3% and 1.8% in the third quarter to -0.4%, -3.2% and -1.0% in the final quarter respectively.

In Asia the fluctuations in expatriate demand are proving influential. Thomas Lam, Knight Frank's Head of Research in Greater China comments "Shanghai and Beijing's rental markets remained strong in 2011 thanks to sustained demand from expatriate workers and limited supply. By comparison rents in Hong Kong softened as demand from expatriates declined and the city felt the effects of corporate cost-cutting and the downsizing of operations."

Nairobi's stellar performance, which placed it at the top of the rankings in 2011, is largely attributable to Kenya's recent economic growth and its expanding middle class, many of whom are unable to access housing loans. There are only 14,000 home loans in Kenya, a country with a population of almost 39 million.

Moscow and New York's performances were polarised in 2011. Rents in Moscow fell by almost 10% compared to a near 3% rise in New York. Moscow's downturn was largely due to a frenetic period in late 2010 which saw rents rise by more than 7% in one quarter. This correction in the market has now been fully played out and we expect rents to stabilise by the end of 2012.

New York recorded the strongest quarterly growth with rents rising 2.6%. As well as improving employment figures, landlords have the banks to thank. Jonathan Miller, our colleague in New York comments: "Rental growth has been underpinned by an irrationally tight mortgage market, unchanged from a year ago, which is pushing potential purchasers into the rental market."

Assuming the eurozone crisis plays out as the European Central Bank hopes and the global economy starts to gain some meaningful traction, we expect prime rents particularly in mainland China and North America to see continued growth. Europe's outlook is less clear-cut. Here, future growth, particularly in the key financial centres of London and Zurich, will be heavily dependent on the health of their employment markets.

Figure 1
12-month rental change
 Average % change in prime residential rents to Q4 2011

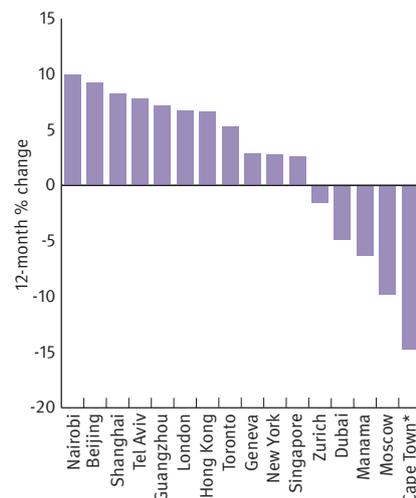
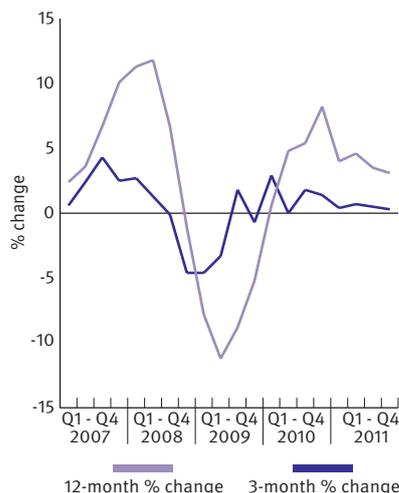


Figure 2
Aggregate performance
 Unweighted average change in prime rents



"In European cities future rental growth will be heavily dependent on the health of their employment markets."



Kate Everett-Allen, International Residential Research

Source: Knight Frank Residential Research
 * Q3 2011

Source: Knight Frank 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.

Regional analysis

Unweighted average annual rental change, by world region

World Region	12-month % change
Asia Pacific	6.8%
North America	4.1%
Europe	-0.5%
Middle East	-1.1%
Africa	-2.4%

Knight Frank Prime Global Rental Index, Q4 2011

Rank	City	12-month % change (Dec 10 - Dec 11)	6-month % change (Jun 11 - Dec 11)	3-month % change (Sep 11 - Dec 11)	Latest data if not Q4 2011
1	Nairobi	10.0%	4.5%	2.0%	
2	Beijing	9.2%	3.8%	1.0%	
3	Shanghai	8.3%	1.6%	0.3%	
4	Tel Aviv	7.8%	4.8%	1.6%	
5	Guangzhou	7.2%	4.1%	2.3%	
6	London	6.7%	0.5%	-0.4%	
7	Hong Kong	6.6%	2.1%	-1.0%	
8	Toronto	5.3%	5.3%	1.2%	
9	Geneva	2.9%	0.0%	0.0%	
10	New York	2.8%	0.1%	2.6%	
11	Singapore	2.6%	0.5%	0.1%	
12	Zurich	-1.6%	0.0%	-3.2%	
13	Dubai	-4.9%	-0.9%	0.1%	
14	Manama	-6.3%	-1.4%	-1.4%	
15	Moscow	-9.8%	-2.2%	-0.1%	
16	Cape Town	-14.8%	-14.9%	-15.5%	Q3 2011

Source: Knight Frank Residential Research

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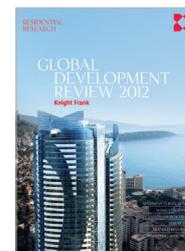
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