

## Emerging markets saw strongest rental growth in 2012

**Prime rents in key cities worldwide rose by 5.1% in 2012, up from 3.5% a year earlier. A tight mortgage market along with limited supply (in the established markets) and rising property prices (in the emerging markets) pushed many would-be purchasers into rental accommodation. Kate Everett-Allen assesses the latest data:**

### Results for Q4 2012

**The Knight Frank Prime Global Rental Index rose by 1.6% in the final quarter of 2012** and by 5.1% over the course of the year

**The index now stands 20% above its post-financial crisis low** in Q2 2009

**Nairobi saw the largest increase in prime rents**, rising 17.9% in 2012

**Since Q2 2009, Hong Kong has seen the largest increase in prime rents** (up 42.2%) and Moscow the lowest (up 3.3%)

**In 2012, of the cities tracked, only London recorded a fall in prime rents**, down 3.2% in the 12 months to December

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“Despite the fragility of the global economy only London, out of the 16 cities tracked by the index (which includes Tokyo for the first time this quarter), recorded a decline in rents in 2012.”



**Kate Everett-Allen**, International Residential Research

The Prime Global Rental Index, which compares the performance of high-end lettings markets across key global cities, stands 20% above its financial crisis low in spring 2009. Since this time prime rents in Hong Kong have recorded the strongest growth (up 42.2%) while Moscow has seen the smallest rise (up 3.3%).

Despite the fragility of the global economy only London, out of the 16 cities tracked by the index (which includes Tokyo for the first time this quarter) recorded a decline in rents in 2012. The UK capital saw rents fall by 3.2% in 2012 as the Eurozone's on-going turbulence, combined with the uncertainty in the financial sector, kept activity muted.

Attempts to cool some of Asia's luxury sales markets by increasing transaction costs and interest rates is in turn fuelling demand for the best rental properties. Prime rents in Hong Kong, Singapore and Beijing rose by 4.9%, 0.7% and 2.5% in the final quarter of 2012, compared to -5.9%, 0.1% and 1.0% in the last three months of 2011.

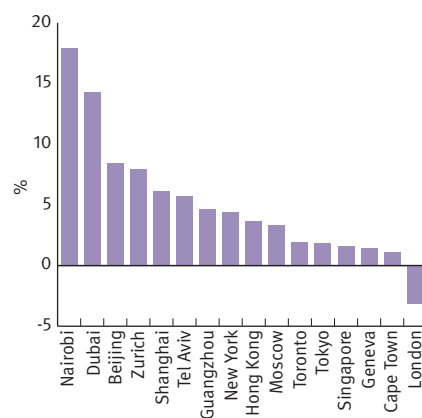
Foreign buyers purchasing in Hong Kong can now face purchase costs of c.25% (including

8.5% stamp duty for property over HKD 2 million plus an Additional Buyers Stamp Duty of 15%) and in Singapore non-residents now pay approximately 18% in purchase costs (an Additional Buyers Stamp Duty of 15% plus the standard rate of approximately 3%). For newly-arriving ex-pats the case for renting as opposed to buying is an increasingly strong one.

That said, the challenging business environment is affecting housing allowances for expatriates around the world, not just in Europe and North America. Consequently, corporate tenants are opting for smaller units given budget constraints. In Shanghai for example, homes available at less than RMB 20,000 a month are currently enjoying strong demand.

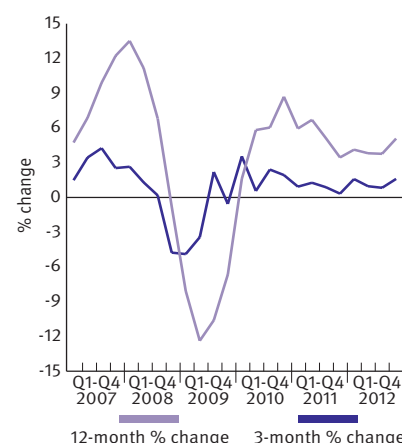
Although the emerging markets of Nairobi, Dubai and Beijing topped the rental rankings in 2012 we expect prime rents in the more established markets of London, New York and Zurich will see renewed growth in 2013 as supply constraints and the tight mortgage market prop up tenant demand.

Figure 1  
**12-month rental change**  
Average % change in prime residential rents to Q4 2012



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

Figure 2  
**Aggregate performance**  
Unweighted average change in global prime rents



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

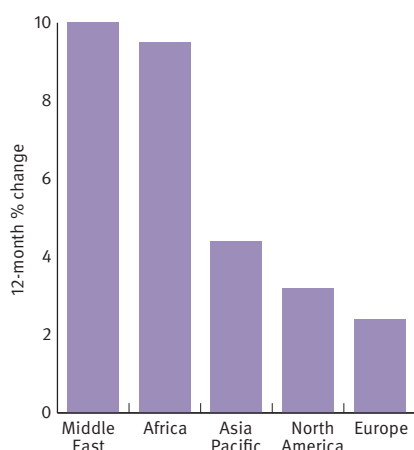
## Data digest

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 change in prime rents by world region, 2012



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

### Knight Frank Prime Global Rental Index, Q4 2012

| Rank | City      | World region  | 12-month % change<br>(Dec 11 - Dec 12) | 6-month % change<br>(Jun 11 - Dec 12) | 3-month % change<br>(Sep 12 - Dec 12) |
|------|-----------|---------------|--|---------------------------------------|---------------------------------------|
| 1    | Nairobi   | Africa        | 17.9%                                  | 6.2%                                  | 5.2%                                  |
| 2    | Dubai     | Middle East   | 14.3%                                  | 9.9%                                  | 6.4%                                  |
| 3    | Beijing   | Asia Pacific  | 8.5%                                   | 6.6%                                  | 2.5%                                  |
| 4    | Zurich    | Europe        | 7.9%                                   | 7.9%                                  | 4.6%                                  |
| 5    | Shanghai  | Asia Pacific  | 6.1%                                   | 1.2%                                  | 0.2%                                  |
| 6    | Tel Aviv  | Middle East   | 5.7%                                   | 2.3%                                  | 1.7%                                  |
| 7    | Guangzhou | Asia Pacific  | 4.7%                                   | 0.7%                                  | 0.5%                                  |
| 8    | New York  | North America | 4.5%                                   | -2.6%                                 | 0.1%                                  |
| 9    | Hong Kong | Asia Pacific  | 3.7%                                   | 0.9%                                  | 4.9%                                  |
| 10   | Moscow    | Europe        | 3.4%                                   | 4.4%                                  | -1.2%                                 |
| 11   | Toronto   | North America | 1.9%                                   | 0.0%                                  | -0.4%                                 |
| 12   | Tokyo     | Asia Pacific  | 1.9%                                   | 1.8%                                  | 1.8%                                  |
| 13   | Singapore | Asia Pacific  | 1.6%                                   | 1.2%                                  | 0.7%                                  |
| 14   | Geneva    | Europe        | 1.4%                                   | 1.4%                                  | 0.0%                                  |
| 15   | Cape Town | Africa        | 1.1%                                   | 0.0%                                  | 0.0%                                  |
| 16   | London    | Europe        | -3.2%                                  | -2.6%                                 | -1.3%                                 |

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

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