Prime Global Rental Index

2023 Q2 Edition

Knight Frank's Prime Global Rental Index provides a quarterly snapshot of trends in luxury lettings markets across 10 key world city markets

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Global residential rents surge at three times their pre-pandemic rate

Knight Frank's Prime Global Rental index confirms average prime rents in key world cities are running hot with annual 7.5% growth in the 12 months to June.

24.5%
annual growth in Singapore to June 2023

-1.3%
Hong Kong rents falling at a slower pace than last quarter

56%
growth in rents in New York since Q1 2021

2.2%
the PGRI pre-pandemic average annual rental growth

7.5%
the current PGRI average annual rental growth

The 10 cities covered by the Prime Global Rental Index saw rental values rise 7.5% in the year to June. While this rate was down from the 8.2% seen in Q1, and lower still than the 12.2% growth reached in the first quarter of 2022 – which marked the peak of the post-pandemic rental boom, current growth remains well above trend.

Pre-pandemic, the ten years to 2020, saw average annual growth at 2.2%. Since the beginning of 2021 as the market recovered from the initial shock from Covid the index has seen average growth of 6.6%, with current growth almost three times above the pre-pandemic average.

The recovery in rents in the past two years has been remarkable. The overall index has risen 23% from Q1 2021 to date. Growth in specific cities has been even stronger – with New York, Singapore and London seeing rental growth of 56%, 53% and 51% respectively over the same period.

Key drivers for rental growth are led by strong demand as residents return to cities following lockdowns, the affordability squeeze as prospective buyers are priced out of sales markets following rate hikes, and weak new supply following construction disruption through the pandemic.

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Some of the PGRI growth hubs have seen a moderation in the pace of rent rises. In Singapore, annual growth eased from 31.5% last quarter to 24.5%; in London growth has decreased from 16.9% to 14.4%; and in New York, it has dropped from 10.6% to 6.2%.

While the index overall shows a fall in the pace of rental growth, certain cities are seeing the opposite trend. For instance, Sydney's annual growth has surged from 11.7% to 13.1% compared to the previous quarter. Similarly, Auckland, which had experienced a decline in rents last quarter, is now undergoing a yearly increase of more than 7%.

Hong Kong saw an annual rental decline of -3.6% last quarter ease to -1.3% this quarter. This positive shift is attributed to a rebound in rental demand as more expats return to the city following the full reopening of the border in early January this year, as we discussed last quarter. The Top Talent Pass Scheme launched last December – targeting high-earning expats and foreign graduates from leading global universities – has enhanced rental demand – alongside a range of similar schemes aimed at attracting talent and workers. Hong Kong's population is estimated to have risen by 2% in the past 12-months – adding further pressure on rents.

New York's slowing in growth is attributed to affordability constraints – a process likely to be replicated in other growth cities. Despite the scarcity of available rental properties, the ability of tenants to keep bidding rents higher is beginning to wane as rental payments hit an ever-higher share of household income.

New York is an interesting case study in the potential offered by supply side solutions to the rental market. There is much talk of office to residential conversions, especially of older office stock. However, the viability of many projects looks uncertain due to material and labour costs – which have experienced rapid inflation in recent years. Similar barriers to the delivery of rental property are present in many other key city markets. Sydney, for example, has experienced severe material and labour shortages in the construction industry, resulting in expensive renovations and long wait times for project delivery.

While the rate of growth in many cities will undoubtedly slow – lack of progress on new delivery means that tenants will face high rents for the foreseeable future.

> "Housing rents have risen by more than 50% in key global cities in just two years, and are continuing to rise at three times their pre-pandemic rate. Affordability of housing is set to become the leading political issue within the next 12 months. The need for honest conversations about real supply-side solutions is becoming critical."

Liam Bailey, Knight Frank's global head of research

Prime property definition: The most desirable and expensive property in a given location, generally defined as the top 5% of each market by value. Prime markets often have a significant international bias.

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.

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KNIGHT FRANK PRIME GLOBAL RENTAL INDEX

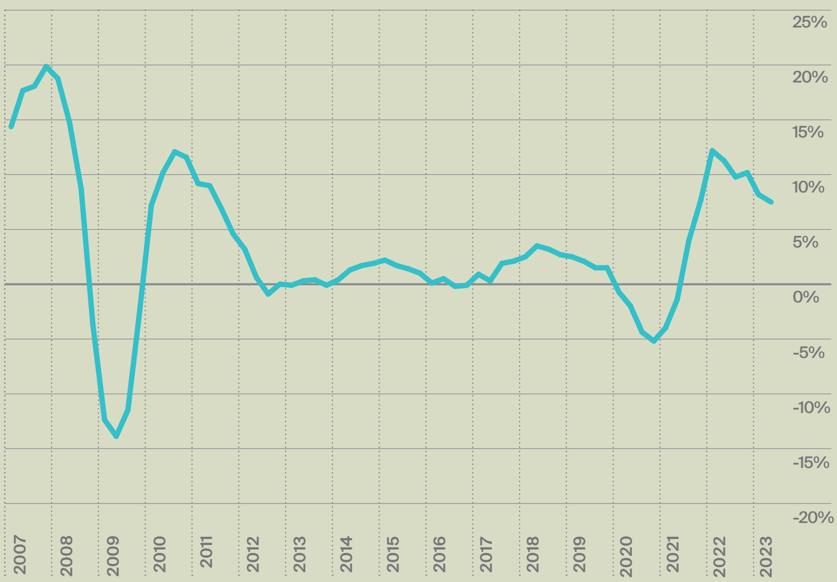
Changes to 2023 Q2

Rank	Location	12-month % change	6-month % change	3-month % change
1	Singapore	24.5%	8.5%	2.0%
2	London	14.4 %	5.2%	2.5%
3	Sydney	13.1%	8.7%	3.2%
4	Toronto	9.6%	2.7%	3.2%
5	Auckland	7.2%	5.0%	3.8%
6	New York	6.2%	4.8%	2.0%
7	Geneva	2.0%	1.1%	0.1%
8	Tokyo	0.8%	-3.7%	-4.3%
9	Monaco	–	–	–
10	Hong Kong	-1.3%	2.0%	0.1 %

Source: Knight Frank Research

Fig 1: Knight Frank Prime Global Rental Index

Global average annual change in prime rents



Source: Knight Frank Research

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