RESIDENTIAL RESEARCH

PRIME GLOBAL RENTAL INDEX

PRIME RESIDENTIAL RENTS DRIFT LOWER AT A GLOBAL LEVEL

Prime global residential rents are struggling to achieve growth, with the Knight Frank index rising by only 0.2% in the past year, the slowest rate of growth since Q1 2010. Kate Everett-Allen analyses the latest set of results.

Results for Q2 2015

The index rose by 0.2% in the year to June 2015, down from 3.2% two years earlier

Cape Town and Zurich lead the annual rankings with prime rents up 10.2% and 8.3% respectively

On a regional basis, Africa and Europe recorded the strongest rise in prime rents

Moscow trails behind with prime rents 11% lower year-on-year

Restrictions on foreign buyers in Zurich and Hong Kong are propping up rental demand

KATE EVERETT-ALLEN
Partner, Residential Research

"The index's performance closely mirrors global GDP and with sluggish growth considered "the new normal" the heady days of 5% annual growth look unlikely to be repeated for some time."

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Despite the index's muted growth, 10 of the 18 cities tracked by the index saw rents rise during the 12 months to June 2015.

Cape Town leads the rankings with prime rents ending the year to June 10.2% higher. A shortage of rental stock coupled with the introduction of tighter credit regulations has led to a spike in demand as potential homebuyers find themselves having to look for rental accommodation instead.

Although sales markets in cities such as Singapore, London and Nairobi are pausing for breath (in most cases due to policy intervention be it via taxes or mortgage regulation) the commonly-held perception that prime rental markets will, in contrast, start to accelerate isn't holding true.

Instead, the performance of our Prime Global Rental Index closely mirrors global GDP and with sluggish growth considered "the new normal" the heady days of 5% annual growth look unlikely to be repeated for some time (figure 2). This is good news for high end residential tenants, in particular those relocating to the US where the strong dollar could be mitigated by slower rental growth.

According to Worldwide ECR, 45% of global multinationals expect international assignments to increase but this figure rises to 54% amongst those with headquarters in the US. A stronger dollar means US companies are expanding once again, to some extent filling the void left by the retraction of emerging markets in recent years.

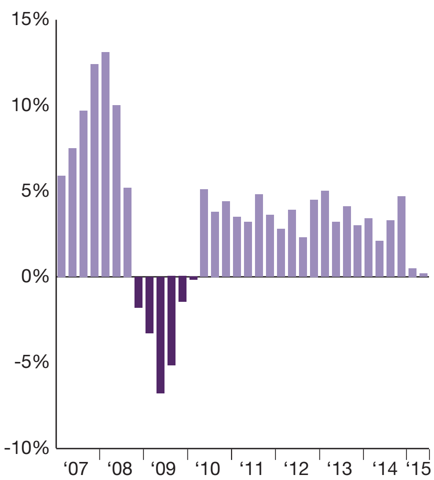
Zurich and Hong Kong are two exceptions to the sales/rental relationship described above. Here, restrictions on foreign buyers (Lex Weber in Zurich, Buyer Stamp Duty in Hong Kong) have strengthened rental demand in these two key financial centres.

Moscow occupies the bottom ranking for the third consecutive quarter. Based on Knight Frank's basket of properties which reflects the current 78%/22% split between Rouble and USD set rents, prime rents have slipped 11% over the last year.

FIGURE 1
Change in prime rents by city
Annual % change to Q2 2015

Source and notes: see main table of results

FIGURE 2
Prime Global Rental Index
Annual rental growth (%)



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, Q2 2015

Rank	City	World region	12-month % change (Jun 14 - Jun 15)	6-month % change (Dec 14-Jun 15)	3-month % change (Mar 15-Jun 15)
1	Cape Town	Africa	10.2%	1.4%	0.0%
2	Zurich	Europe	8.3%	4.8%	8.3%
3	Toronto	North America	4.5%	3.4%	2.7%
4	London[1]	Europe	3.4%	1.7%	1.0%
5	Guangzhou	Asia Pacific	2.8%	1.6%	1.5%
6	Hong Kong	Asia Pacific	2.4%	1.9%	1.2%
7	Nairobi	Africa	1.4%	0.0%	0.0%
8	Shanghai	Asia Pacific	1.4%	0.4%	0.3%
9	Tokyo[2]	Asia Pacific	1.1%	-1.9%	-4.0%
10	Taipei	Asia Pacific	0.0%	0.0%	0.0%
11	Dubai	Middle East	-0.4%	-0.4%	0.2%
12	Tel Aviv	Middle East	-0.8%	-2.1%	-0.8%
13	Vienna	Europe	-1.7%	-3.3%	-1.9%
14	New York	North America	-2.3%	-6.0%	-3.5%
15	Geneva	Europe	-2.9%	-2.9%	0.0%
16	Singapore	Asia Pacific	-6.0%	-3.1%	-1.3%
17	Beijing	Asia Pacific	-8.4%	-1.7%	-1.2%
18	Moscow	Russia & CIS	-11.0%	-41.9%	-15.0%

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

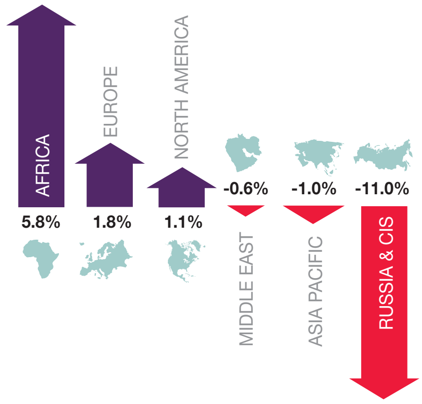
[1] London: more recent data is available for Prime Central London here

[2] Data is based on all rental contracts agreed above ¥ 300,000 or where the internal area is 30 tsubo+

FIGURE 3

Prime rents by world region

Average annual % change to Q2 2015



Source and notes: see main table of results

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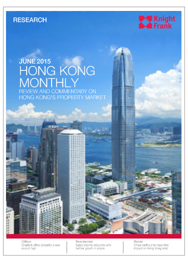

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