

Prime rents rise as global economic sentiment improves

Prime rents around the world rose by 6.4% in the year to September, the index's strongest annual performance since Q2 2008. Kate Everett-Allen examines the latest results and looks at what 2014 holds for the world's top rental markets.

Results for Q3 2013

The index rose by 6.4% over a 12-month period and by 1% in the three months to September

Nairobi topped the annual rankings for the second consecutive quarter

Zurich and Moscow recorded the largest rise in prime rents over the third quarter

The financial centres of London and Hong Kong were the weakest performers

We expect modest rises in prime rents in cities such as London and New York in 2014 due to rising borrowing costs and improving employment prospects

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"Knight Frank's Prime Global Rental Index looks to be mirroring the upturn in global economic sentiment; it now stands 22.4% above its low in Q2 2009."

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Prime residential rents across the world's key cities recorded only weak growth up until the last year. The only exceptions have been a few emerging markets such as Nairobi and Dubai which have seen rents accelerate.

With borrowing costs at historic lows in many countries, and stimulus measures still in place in much of Europe and the US, potential buyers have taken advantage of these conditions to buy as oppose to rent.

However, with the expected tapering of QE in 2014, potential interest rate rises, and improving global economic confidence (and hence employment prospects) we expect the index's upward trajectory to continue in 2014.

According to the World Bank the global economy is at a turning point and is forecast to grow at its fastest pace for four years.

Our index looks to be mirroring this upturn in global economic sentiment; it now stands 22.4% above its low in Q2 2009 and 11% above its pre-crisis high in Q2 2008.

There is a strong link between employment markets and prime rental growth given the strong market share of corporate lets and relocations.

The latest results show Nairobi topping the annual rankings for the second consecutive quarter. Recent security concerns mean demand for secure accommodation – be it apartments or gated compounds – is strong and supply is limited.

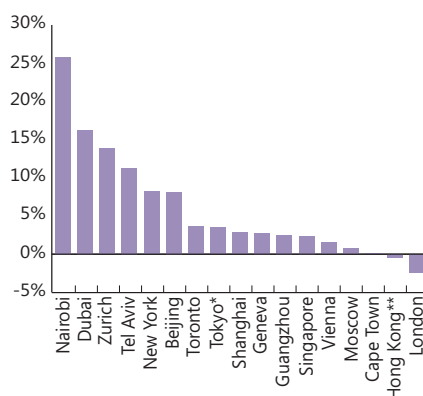
New York has risen up the rankings this quarter as employment levels increased, boosting tenant demand.

Of the Chinese cities tracked, Beijing recorded the strongest annual increase in the year to September, with rents ending the period 8.1% higher.

Prime residential rents in Hong Kong declined by 0.5% in the year to September and are forecast to slip a further 5-10% in 2014, as supply increases due to the numerous cooling measures suppressing the sales sector.

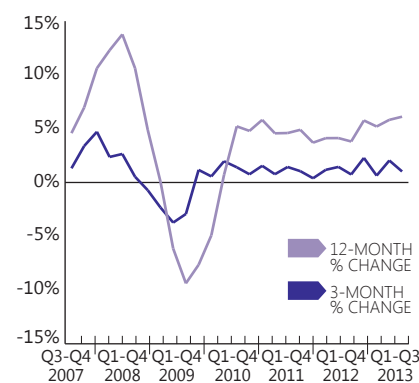
In central London, prime rents have underperformed the national average, with an overall decline of 2.5% in the 12 months to September 2013. The weakness of the financial sector has been the main cause of this downward movement. Our view is that rents will begin to rise modestly in 2014, as renewed job creation and optimism, especially in the City, creates increased demand from tenants.

FIGURE 1
Change in prime rents by city
Annual % change to Q3 2013



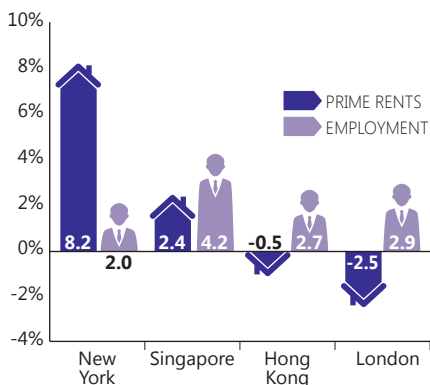
Source: Knight Frank Residential Research, Miller Samuel/Douglas Elliman, Ken Corporation, Hong Kong Rating and Valuation Dept
* Data is based on all rental contracts agreed above ¥ 300,000 or where the internal area is 30 tsubo+ **Provisional

FIGURE 2
Index performance
Unweighted average % change in global prime rents



Source: Knight Frank Residential Research, Miller Samuel/Douglas Elliman, Ken Corporation, Hong Kong Rating and Valuation Dept

FIGURE 3
Prime rents v employment
% change, year to Q3 2013



Source: Knight Frank Residential Research, NY Department of Labor, ONS, HK Census and Statistics Department, Singapore Ministry of Manpower

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 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.

Knight Frank Prime Global Rental Index, Q3 2013

Rank	City	World region	12-month % change (Sep 12 - Sep 13)	6-month % change (Mar 13 - Sep 13)	3-month % change (Jun 13 - Sep 13)
1	Nairobi	Africa	25.8%	17.0%	2.3%
2	Dubai	Middle East	16.3%	5.6%	1.5%
3	Zurich	Europe	13.8%	10.4%	4.2%
4	Tel Aviv	Middle East	11.3%	5.6%	3.2%
5	New York	North America	8.2%	-1.4%	-1.6%
6	Beijing	Asia Pacific	8.1%	3.6%	0.5%
7	Toronto	North America	3.6%	2.8%	0.0%
8	Tokyo*	Asia Pacific	3.5%	1.8%	2.4%
9	Shanghai	Asia Pacific	2.9%	2.1%	1.7%
10	Geneva	Europe	2.8%	0.0%	0.0%
11	Guangzhou	Asia Pacific	2.5%	1.5%	1.0%
12	Singapore	Asia Pacific	2.4%	0.8%	0.4%
13	Vienna	Europe	1.5%	0.4%	0.0%
14	Moscow	Europe	0.7%	1.8%	3.3%
15	Cape Town	Africa	0.1%	0.1%	-1.9%
16	Hong Kong**	Asia Pacific	-0.5%	-1.3%	0.1%
17	London	Europe	-2.5%	-0.9%	-0.7%

Source: Knight Frank Residential Research, Miller Samuel/Douglas Elliman, Ken Corporation, Hong Kong Rating and Valuation Dept

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