

CAPE TOWN LEADS LUXURY RESIDENTIAL RENTAL GROWTH

Prime global residential rents are struggling to achieve growth, with the Knight Frank index rising by only 0.5% in the past year. Taimur Khan analyses the latest results.

Results for Q1 2017

Prime global rents rose by 0.5% in the 12 months to Q1 2017

Over 70% of the cities tracked by the index recorded an increase in prime rents in the year to March 2017

Cape Town leads the rankings with prime rents rising by 5.9% annually

Nairobi occupies the bottom ranking with rents falling by 6.2% year-on-year

On a regional basis, the Middle East saw the strongest rise in prime rents (up 1.7%) and Europe the weakest (down 0.3%)

Knight Frank's Prime Global Rental Index, which tracks luxury residential rents across 17 cities globally, recorded annual growth of 0.5% in the year to March 2017.

The number of cities where prime rents have increased on an annual basis rose from six in Q1 2016 to 12 in Q1 2017 (figure 3). Yet the general trend has been for steady, rather than spectacular growth.

Indeed, it is worth noting that while prime rents are following an upward trajectory, in recent years they have been overshadowed by prime price growth, putting pressure on investment yields. Between Q1 2007 and Q1 2015, both annual capital and rental growth averaged 3% per annum (figure 4). However, since Q1 2015 prime capital values averaged 4.1% annual growth. Prime rental growth has remained relatively flat over the same time period. Safe haven investment flows into luxury property markets and lacklustre growth in earnings have underpinned these market trends respectively.

Cape Town leads the rankings with rents rising by 5.9% in the year to Q1 2017. Growth has been underpinned by strong migration into Cape Town with potential buyers choosing to rent before committing to purchasing.

Prime rents in Nairobi fell by 6.2% in the 12 months to March. Budget cuts by

international firms have hampered demand from expats for prime rental properties. Additionally, increased supply has helped to push prime rents lower.

Prime rents in London continue to bottom out with the annual rate of falls slowing to -4.9% to March 2017. Uncertainty in the sales market following a series of tax hikes has led to an increased supply of properties for rent. However, this trend is starting to ease as the sales market stabilises. Our latest Prime Central London Rental Index can be found [here](#).

Some of the world's top financial centres have shown divergence in terms of the performance of prime rents. Annual rental values fell in New York (1.2%) and Singapore (2.3%) whereas Zurich and Hong Kong recorded a rise year-on-year of 5.1% and 0.6% respectively over the year to March 2017.

Global economic sentiment remains cautiously upbeat. The latest indicators show low unemployment in the US, positive economic growth in every European country (the first time since the global financial crisis) and the growth rate in Asia remains robust. This may spur additional business investment, increased relocation budgets and ultimately an increase in demand for rental accommodation around the world.



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FIGURE 1

Prime Global Rental Index Q1 2017

Annual performance over the last five years 12-month % change

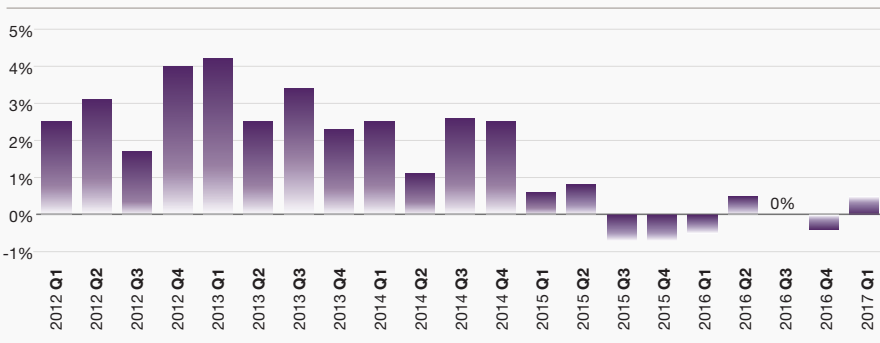
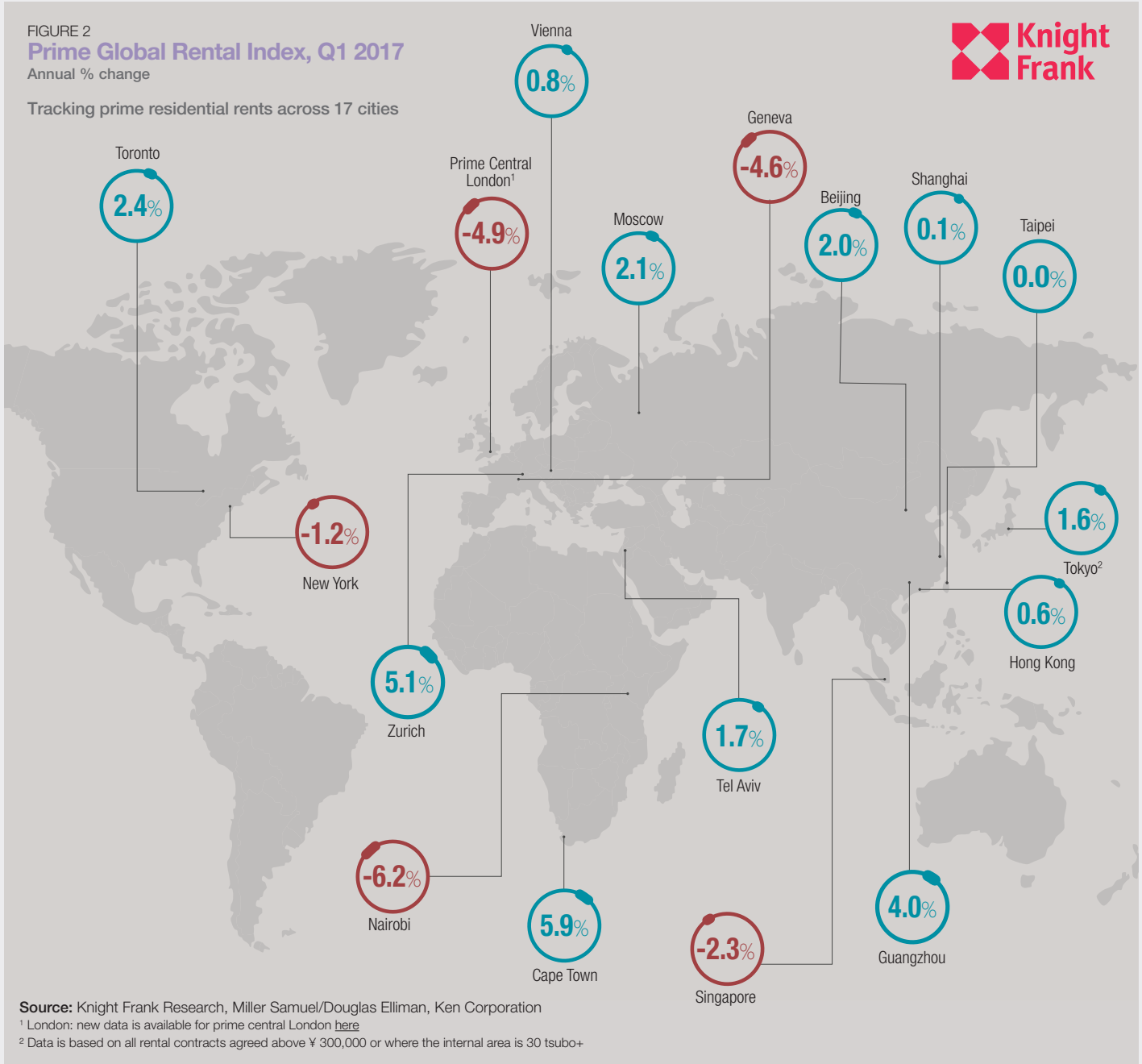




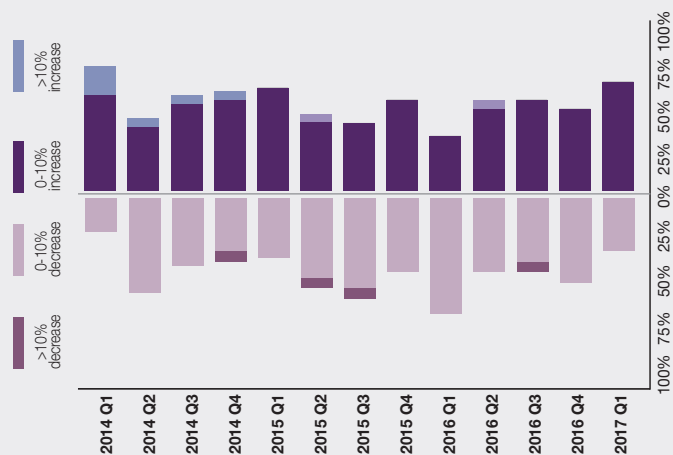
FIGURE 2
Prime Global Rental Index, Q1 2017
Annual % change

Tracking prime residential rents across 17 cities



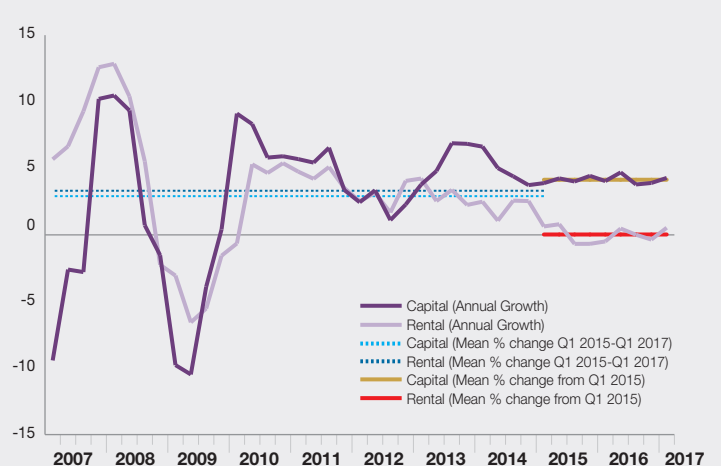
Source: Knight Frank Research, Miller Samuel/Douglas Elliman, Ken Corporation
¹ London: new data is available for prime central London [here](#)
² Data is based on all rental contracts agreed above ¥ 300,000 or where the internal area is 30 tsubo+

FIGURE 3
Proportion of cities by annual change in prime rents
12-month % change



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

FIGURE 4
The divergence of capital growth and income growth
Annual % change



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

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, Q1 2017

Ranked by annual % change

Rank	City	12-month % change (Q1 2016-Q1 2017)	6-month % change (Q3 2016-Q1 2017)	3-month % change (Q4 2016-Q1 2017)	Market direction*
1	Cape Town	5.9%	4.0%	1.1%	↑
2	Zurich	5.1%	0.0%	0.0%	↔
3	Guangzhou	4.0%	2.2%	0.2%	↔
4	Toronto	2.4%	0.5%	0.7%	↑
5	Moscow	2.1%	0.3%	0.1%	↔
6	Beijing	2.0%	0.7%	0.8%	↔
7	Tel Aviv	1.7%	1.5%	0.6%	↑
8	Tokyo ²	1.6%	-1.4%	-1.0%	↔
9	Vienna	0.8%	3.3%	1.6%	↔
10	Hong Kong	0.6%	1.6%	1.9%	↔
11	Shanghai	0.1%	-1.5%	-1.3%	↑
12	Taipei	0.0%	0.0%	0.0%	↔
13	New York	-1.2%	-1.5%	-1.2%	↑
14	Singapore	-2.3%	-1.0%	-0.7%	↔
15	Geneva	-4.6%	-3.1%	0.0%	↑
16	London ¹	-4.9%	-2.3%	-0.7%	↔
17	Nairobi	-6.2%	-3.2%	-3.2%	↑

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

¹ London: new 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+



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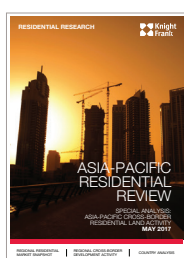
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