



Prime property rents grow at their fastest rate since Q2 2008

Headlines for Q2 2011

Rents for luxury homes rose by 8.9% in the year to June 2011, this represents the fifth consecutive quarterly rise in global rents

Zurich and London continue to top the rankings table, recording 18.2% and 15.2% annual growth respectively

Hong Kong and New York recorded the strongest quarterly growth, with rents rising by 4.6% and 4.1% respectively in the three months to June 2011

The global Index now stands 36.5% higher than its lowest point in Q1 2010 but still 30.0% below its market peak in Q3 2008

Europe recorded the strongest performance of all continents over the 12-month period at 10.5% and the Middle East the weakest at -4.3%

Rents for prime property across key global cities rose by 1.7% in the second quarter of 2011 which represents the index's eighth consecutive quarterly rise.

In annual terms rents increased by nearly 9%, the index's strongest performance since Q2 2008 when rents rose by 14.7%. The recent growth represents a significant recovery, only two years ago prime rents were declining at an average rate of 17.2% per annum.

The rental markets' changing fortunes can largely be explained by the global economic climate, the changing nature of employment conditions and in particular the health of a city's financial service sector. It is no coincidence that the traditional financial centres of Zurich, London, Hong Kong and Geneva currently top the rankings for rental growth.

Given the close relationship observed between a city's financial markets and its prime rental sector the recent renewed concern over EU debt, stock market volatility and weakening consumer confidence raises the question have prime rents peaked?

At the moment it seems there is still some room for additional growth. In many of the main financial centres available stock levels are severely constrained. A number of western cities have low vacancy rates (Geneva's currently sits below 2%) here, demand will need

to weaken significantly before rents come under real pressure.

Who rents prime property?

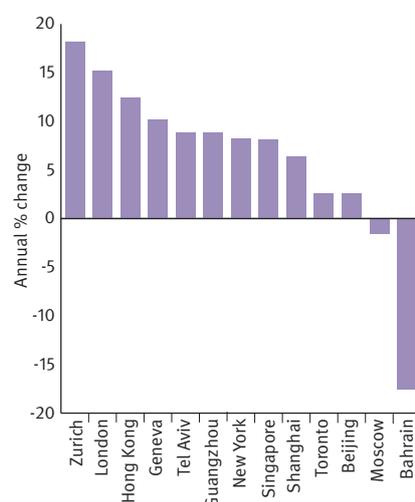
Most tenants are wealthy individuals who are owner-occupiers themselves, but their need to rent is usually borne out of a job relocation, changing family circumstances, the need to accommodate children who are studying or with the aim of getting to know an area before deciding to buy.

There are other tenants – more evident in boom sales periods – who rent when a competitive sales market means they need to act fast and be chain-free to secure the best property. These prime tenants have been most evident in parts of Asia Pacific in recent years where capital growth has exceeded rental growth, although the margin is starting to shrink as deflationary measures start to take effect.

In our view, rents particularly in the Asian cities have further to go, rental growth here has been outstripped by average earnings growth in recent years.

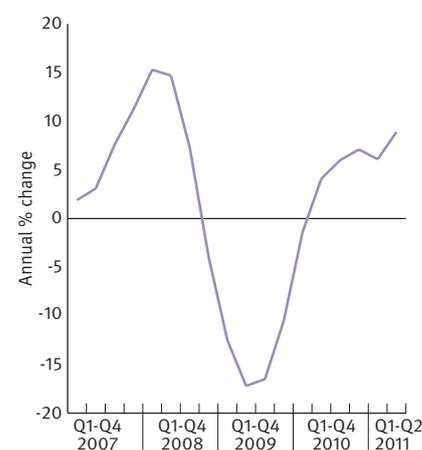
The risks in the western economies come in the form of worsening economic and financial news. Landlords and investors remain broadly confident with many now relying on investment yields as much, if not more than, capital value growth but their confidence will wane if employment markets weaken.

Figure 1
12-month rental change
Average % change in prime residential rents to Q2 2011



Source: Knight Frank Residential Research

Figure 2
Aggregate performance
Unweighted average change in prime rents



Source: Knight Frank Residential Research



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Data digest

The Knight Frank Prime Global Rental Index established in 2011 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.

Regional analysis

Unweighted average annual rental change, by world region

World Region	Annual % change
Asia Pacific	7.7%
Europe	10.5%
Middle East	-4.3%
North America	5.4%

Knight Frank Prime Global Rental Index, Q2 2011

Rank	City	Annual % change (Jun 10 - Jun11)	Six-month % change (Dec 10 - Jun 11)	Quarterly % change (Mar 11 - Jun 11)
1	Zurich	18.2%	4.8%	0.0%
2	London	15.2%	6.2%	1.1%
3	Hong Kong	12.4%	7.5%	4.6%
4	Geneva	10.2%	8.3%	0.0%
5	Tel Aviv	8.9%	2.8%	1.2%
6	Guangzhou	8.9%	3.0%	2.6%
7	New York (Manhattan)	8.2%	2.8%	4.1%
8	Singapore	8.1%	2.1%	0.9%
9	Shanghai	6.4%	6.6%	2.9%
10	Toronto	2.6%	0.2%	0.0%
11	Beijing	2.6%	4.0%	2.7%
12	Moscow	-1.6%	-7.8%	-2.2%
13	Bahrain	-17.6%	-5.0%	-2.6%

Source: Knight Frank Residential Research

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