

RESIDENTIAL
RESEARCH



GLOBAL CORPORATE LETTINGS REVIEW 2012

Knight Frank

LETTINGS SURVEY RESULTS

GLOBAL MOBILITY

PRIME RENTS

CORPORATE SERVICES

OUTLOOK

WELCOME

Our first Global Corporate Lettings Review looks in detail at the increasing demand for prime rental properties by international assignees working for multinational firms. With corporate demand estimated to account for up to 85% of prime lets in some cities, we look at how the sector has grown, the effects of the global economic crisis and assess how prime rents are performing across 11 key cities from New York to Tokyo.

As well as revealing the results of our Global Corporate Lettings Survey, which represents the views of Knight Frank's residential lettings experts around the world, the report also includes case studies of ex-patriates who have recently relocated (page 07), looks at how prime rents are performing across our 11 key cities (page 06) and assesses what risks and opportunities lie ahead for the sector (page 07).









We hope you enjoy the review and should you have any questions or would like to know more about our Corporate Lettings services please see the back page for contact details.

TRENDS & PRACTISES

Overlaying this map are snapshots of the different market trends and lettings practises in key cities around the world*. Acting as a reference point for employees and HR teams alike, each city's data box provides an indication of the annual change in rents, the most common property type requested by corporate clients and a summary of key practises, from tenancy lengths to typical deposits.

A more detailed analysis of rental performance can be found on page 06.

KEY

-  Prime rental growth (12-month % change to Q1 2012)
-  Most common property requirement
-  Preferred maximum commute
-  Typical length of tenancy (months)
-  Notice period (months)
-  Typical deposit (months)
-  % of furnished lets
-  Annual school fee – day student (US\$ per annum)***

Source: Knight Frank Residential Research

*The above data is based on our interpretation of standard market practises only









**Hong Kong: The minimum commitment is a 12+2 break option (14 months) but the actual lease term is 24 months.

***Estimate only

***In Tokyo the term of a single landlord/tenant contract is 24 months. However in Japan, a tenant's legal status is comparatively strong, so the contract is usually renewed meaning the actual length of tenancy is typically 48 months.

NEW YORK

Market snapshot:

-  ▲4.3%
-  1 or 2-bedroom apartment
-  1 hour or less
-  12 or 24
-  1-3
-  1-3
-  n/a
-  Unavailable









LONDON

Market snapshot:

-  ▲1.2%
-  2-bedroom apartment
-  45 mins or less
-  12
-  2
-  1.5
-  1-bed 90% to 5-Beds 10%
-  \$25,000-\$30,000

PARIS

Market snapshot:

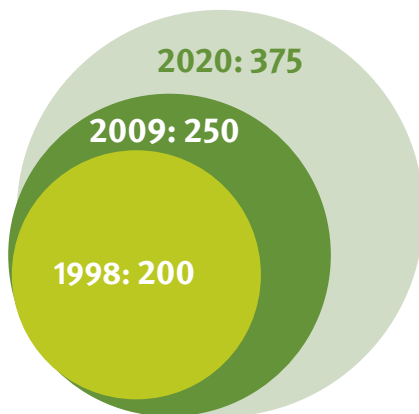
-  ▲2.3%
-  3 or 4-bedroom apartment
-  30 mins or less
-  24
-  1
-  1 (unfurnished), 2 (furnished)
-  50%
-  \$23,000-\$28,000



SURVEY RESULTS

GLOBAL CORPORATE LETTINGS SURVEY

Figure 1
International assignees
The average number of internationally mobile employees in large organisations



Source: PwC international mobility database

Defining corporate lettings

Knight Frank established the Residential Corporate Services department in 2006 in direct response to the rising number of enquiries our London lettings offices were getting from overseas executives and their HR teams. Most lacked the deep local market knowledge we naturally refine and update every day and were not sure how to advise their employees on the best areas to live and what a competitive rent was.

There is no 'one-size-fits-all' approach to corporate lettings. Some organisations deal with all arrangements in-house, others outsource each requirement to local specialists, be it accommodation needs, school searches or transport hire. Another group will provide their employee with a budget and payments are settled and leases signed direct by the tenant with no corporate involvement.

The performance of prime lettings markets worldwide is increasingly influenced by corporate demand. We surveyed the opinion of our global lettings teams to establish what effect the global economic downturn has had on their corporate market's activity and on their clients' relocation budgets. We also asked our global teams for their views as to what risks and opportunities lie ahead for the sector

According to our lettings agents around the world the global downturn saw prime rental markets benefit from rapidly-weakening sales markets. However, as rental demand strengthened this was counterbalanced by new stock entering the market as would-be vendors became forced landlords. Competition for tenants pushed rents lower and void rates higher.

Respondents reported that demand from the corporate sector softened in 2008/09 as businesses worldwide took stock of economic events and re-evaluated strategies and budgets. This was evident as much in the old world cities of Europe and the US as in the new emerging markets of Asia and the Middle East.

When asked whether they felt relocation budgets had shrunk since the credit crunch only 50% of respondents agreed they had. A further 40% felt they had stayed the same but perhaps most surprisingly 10% reported an increase in relocation budgets, with Mumbai in particular noting a 20% increase.

In contrast to five to 10 years ago, HR executives are now more focussed on managing employee expectations rather than increasing budgets according to our global teams. Faced with a budget-conscious board and an employee with high aspirations, our lettings teams report that many HR executives are handing responsibility to the employee allowing them to take ownership of their own home search.

Many international assignees are unaware of the recent appreciation in rents. Although prime rents softened in the immediate aftermath of the Lehman Brothers collapse in Q3 2008, they have since risen significantly, stretching relocation budgets. Prime rents in London and Hong Kong hit their lows in Q2 2009, while rents in New York kept falling until Q4 2009. However, London, Hong Kong and New York have since seen rental growth of 26%, 16% and 38% respectively.

Another trend being observed is a growing willingness among younger executives to expand their search to more peripheral locations to secure a larger one or two-bedroom apartment at a lower rent. Strong rental growth triggered by a scarcity of supply in cities such as London, New York and Geneva is largely responsible. In Inner London for example new-build completions stood at 7,690 in 2008 – by 2011 this figure had fallen to 4,182.

All survey respondents felt confident that the long-term outlook for the corporate lettings market is positive. Global mobility among multinational firms is forecast to increase significantly. The number of international assignments worldwide is estimated to have increased by 25% between 1998 and 2009 and is forecast to rise by a further 50% by 2020 (see figure 1).

Risk and opportunities

Opportunities and risks vary widely from city to city. Hong Kong and Singapore have benefitted from an upturn in expatriate demand from new industry sectors and emerging markets in the last two years. Shanghai has also seen its expatriate community increase, from 110,000 in 2005 to over 170,000 in 2011, an increase of 54% in six years. Competition amongst tenants with a rental budget of between RMB 10,000-RMB 25,000 is set to increase in line with the rising number of multinational companies relocating to the city.

In Mumbai rules preventing foreign home ownership have created a thriving prime rental market driven by an expanding expatriate community. In Beijing the vacancy rate currently stands at a 10-year low (13%) which signals a strong market but it also means high rental expectations from landlords.



Average rents in New York have reached their highest level since the start of the credit crunch. Here, an improving regional economy combined with a tight lending environment and escalating prime prices are pushing potential buyers into rental accommodation. The same is true of prime London.

Despite healthy demand, the potential risks to the sector however are not to be overlooked. Talent management and global mobility are dependent on a company's performance, which in turn is reliant on the health of the global economy. Nearly all our respondents cited economic instability, and more specifically the Eurozone's debt crisis, as critical to their future demand.

The new world cities have yet to rival their old world counterparts in terms of the volume of corporate lets being secured. Developing markets will however see volumes increase as the focus of growth shifts further south and east across the globe in the next decade.

The Olympic effect

Concerns that rental accommodation in prime London could be in short supply due to this summer's Olympic Games have been over-exaggerated. There is little evidence of hikes in rents and LOCOG, the London Organising Committee has released a further 600,000 hotel room nights which were set aside for officials and the media but are no longer required, reducing the pressure on the city's private rented sector.

There is a possibility that multinationals will delay home searches until after the Olympics. In doing so there is a risk that employees being relocated to the capital will miss out on the best properties. They may also find it difficult to register their children at their preferred school in time for the start of the academic year in September. London's foreign university students (estimated to total c.102,000) will also start to arrive in August to secure their accommodation for the new term.

Jemma Scott, Head of Knight Frank's Residential Corporate Services team in London, refers to the Olympic phenomena as a "bubble within a bubble". She adds "The wider prime central London rental market functions along a diverse set of parameters and although influential the Olympics are not affecting stock levels or rents. In our experience thus far Olympic landlords have overwhelmingly been homeowners keen to take advantage of the tourist influx rather than professional London landlords."

Jemma adds that "We were approached by many of our concerned corporate tenants 12 to 24 months ago and we advised that clear renewal clauses or 'options to renew' would provide greater protection in securing their accommodation over this summer period. This was happily accepted in most cases by our professional landlords who wisely kept the long-term view."

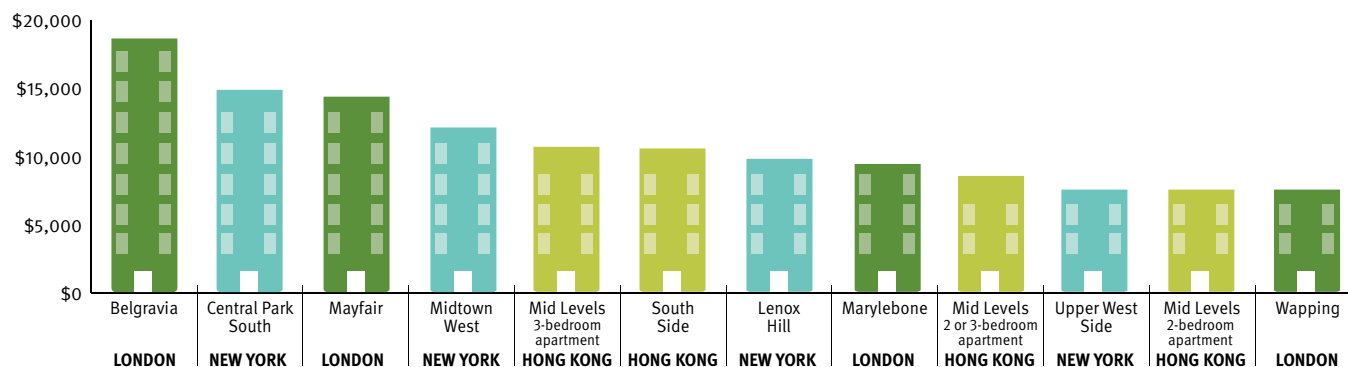
Figure 2 **Relocating a CEO and his/her family**

The monthly rent payable (US\$) for a 3,000 sq ft family home in selected locations within London, New York and Hong Kong



Figure 3 **Relocating a single executive**

The monthly rent payable (US\$) for a 1,500 sq ft apartment in selected locations within London, New York and Hong Kong



Source: Knight Frank Residential Research

How are prime rents performing?

According to Knight Frank's Prime Global Rental Index, which monitors the performance of prime rents in key cities around the world, rents rose for eight consecutive quarters from Q4 2009, but the rate of growth started to decline in 2011, with the final quarter of 2011 recording only 0.3% growth

The latest results show Shanghai and Beijing topped the index's rankings, recording rental growth of 8.2% and 6.4% respectively in the year to March 2012. Rents declined in Hong Kong over the same period, with a 3% fall. Here, demand from expatriates has declined as the city felt the effects of corporate cost-cutting and the downsizing of operations.

New York's rents continue to rise, largely due to improving employment figures combined with an irrationally tight mortgage market.

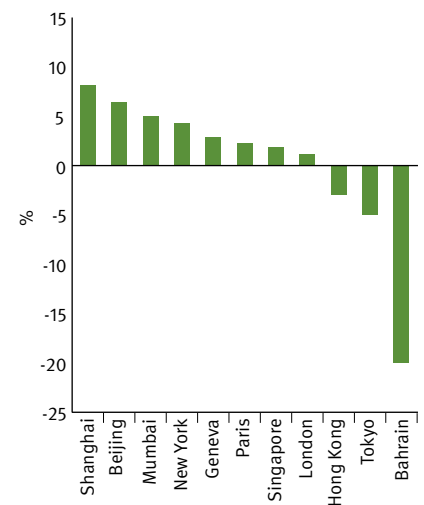
The Prime Central London Rental Index shows rents peaked in September 2011, with six consecutive monthly falls recorded since, albeit marginal ones. Low hiring activity and weakening job prospects in the City's financial and business services sector were largely responsible. Rents in March 2012

were 1.2% higher than a year earlier but 0.8% below their September 2011 peak.

A comparison of the aggregate performance of our Prime Global Rental Index with our Prime Global Cities Index, which tracks the performance of sales prices, shows rents outperformed prices from Q2 2011 onwards (figure 5). We expect this trend to continue throughout 2012 as measures to control price inflation in Asia remain in place, removing the key stimulus from the prime sales indices.

Future rental performance will be dependent on what shape the world's key employment and financial markets are in once the uncertainty surrounding the Eurozone's future has subsided.

Figure 4
Prime rental growth by city
% change in prime rents in 12 months to Q1 2012



Source: Knight Frank Residential Research

Asian protectionism to boost rental demand?

In Asia Pacific escalating prices in the prime sales market have pushed would-be purchasers into rental accommodation in recent years. Beijing, Mumbai and Hong Kong's luxury homes have seen prices rise by 94%, 64% and 61% respectively in the last five years.

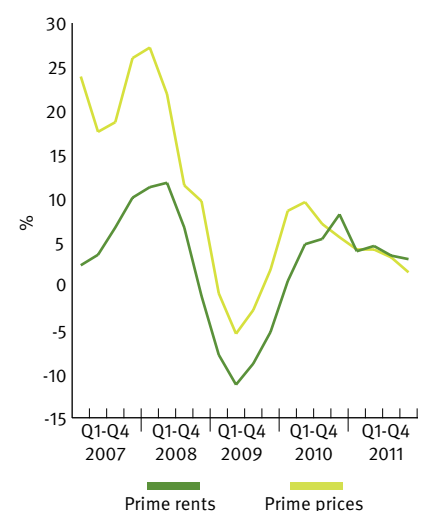
Price growth is now slowing due to the efforts of Asian governments to cool demand (by restricting finance) and improve affordability (by embarking on large-scale housebuilding programmes) but the rental markets may yet receive a further boost from a new trend – a more protectionist stance among Asian policymakers.

The Indian housing market has long been off-limits for foreigners, but steps by other Asian countries, often hotbeds of foreign investment, to deter speculative foreign investment from inflating house prices are now gathering pace.

Singapore introduced an Additional Buyer's Stamp Duty of 10% for foreign buyers at the end of 2011 for example and Australia has removed the 50% capital gains tax discount for non-residents on capital gains accrued after 8th May 2012. The Chief Executive-elect of Hong Kong, which is arguably the most open and developed of the Asian markets, has also signalled his intention to restrict purchases of certain classes of new housing developments to residents only.

For Asia's rental markets the above steps suggest demand will strengthen as purchasing becomes more costly and strong capital appreciation less assured. This reinforces the outlook of our team for 2012 in which the top three performing cities are all expected to be Asian cities (see table 1). Beijing, Shanghai and Mumbai are forecast to see rental growth of 10%, 8% and 5% respectively.

Figure 5
Prime rents vs. prime prices on a global level
Aggregate 12-month % change



Source: Knight Frank Residential Research



CASE STUDY: Heading East

Moving house can be stressful, but moving continents and jobs can bring with it an entirely new set of challenges – where does Knight Frank fit in?



THE VIEW FROM THE PHILLIPS' APARTMENT

Who: Robin and Tracy Phillips

Why: Business relocation – Group General Manager at HSBC

Moved from/to: London/Hong Kong

When: November 2011

THE BRIEF Knight Frank is HSBC's sole provider for corporate lettings in Hong Kong. Renu Budhrani, Executive Director at Knight Frank was appointed by Global Mobility to assist in the relocation of Robin and Tracy Phillips from London to Hong Kong.

The Phillips' were looking for a house or apartment with 4-bedrooms preferably on the Peak or upper Mid-Levels in reasonably close

proximity to the city centre. The property's specification needed to be of the highest quality as Robin and Tracy would occasionally be entertaining at home.

THE SEARCH After an introduction, Knight Frank set up a personalised relocation portal providing Robin and Tracy with information on various aspects of the move as well as select home options meeting their criteria and budget.

Over the course of an intensive three day home search program, not only were the Phillips able to identify The Peak as their preferred area and secure a property that met their criteria, they also visited Clubs that they could potentially join, met and instructed interior designers, visited furnishing outlets and placed orders for custom beds for their new home.

THE PROPERTY The rental of a 5-bedroom, 3,844 sq ft apartment at InterOcean Court was agreed within a week. Knight Frank negotiated a competitive rent with the landlord as well as the installation of a new fully fitted kitchen, and brand new air conditioning units throughout.

The property is an excellent Peak address, located 15-minutes from the city centre in a private and secure development. There is one unit per floor each enjoying its own private entrance lobby and The Phillips have use of the communal gym and pool. Crucially, the apartment sits below the fog line enabling the 270° views to be enjoyed year-round.

GOING THE EXTRA MILE Knight Frank's commitment to the client continues well beyond the signing of the rental contract. In the case of the Phillips family, Tracy appointed an interior designer and Knight Frank helped coordinate access, arranged for storage of the new furniture and coordinated all set up arrangements so the Phillips could move into a completely ready apartment.

THE NETWORK With New York and Sydney high on the Phillips' wish list of cities they'd like to sample, Knight Frank's global network of offices will hopefully be able to assist them again in the future.

Outlook

Lettings agents are upbeat about the direction of their prime rental markets, as shown in table 1. Eight of the 11 cities included in our survey are expected to see prime rents remain the same or rise in the remainder of 2012 and most felt that activity would increase in the coming two to three years

This positive outlook is compounded by recent research undertaken by PricewaterhouseCoopers which, aside from suggesting international assignments are on the increase, also indicates that the millennial generation view overseas assignments as a rite of passage, with 80% of those surveyed wanting to work abroad during the course of their career.

Cross-border opportunities are likely to become more flexible in nature and possibly a pre-requisite for promotion.

Should another post-Lehman scenario occur, we may see rents soften initially as surplus stock emerges but ultimately demand would strengthen as buyers retract from the sales market. There

would be a flight to quality and the most desirable properties would be harder to find as tenants opt to renew their leases. The most resilient markets are likely to be those reliant on a broad cross-section of industry types.

The key in volatile economic times is local knowledge.

Our Residential Corporate Services teams know for example that before identifying a home in Hong Kong international assignees need to register and secure a school for their child due to the lack of places. We know that there is no standardised rental system in New York which means the length of tenancy, deposit required and break clauses can vary from building to building. We also know that even the well-established markets of Geneva and Shanghai can suffer from a lack of quality stock or poorly-maintained properties making a home search all the more challenging.

To find out how Knight Frank's Corporate Residential Services Team can help with your executive home search please email Jemma.Scott@knightfrank.com or email Kate Everett-Allen to sign up to receive our quarterly Prime Global Rental Index to keep track of prime rents across the world's key cities.

Table 1
Prime rents
2012 Forecast

12-month % change (Dec 11-Dec 12)	
Beijing	Rise by 10% or more ↑
Shanghai	Rise by 5-10% ↑
Mumbai	Rise by less than 5% →
London	Rise by less than 5% →
New York	Rise by less than 5% →
Singapore	No change →
Hong Kong	No change →
Paris	No change →
Geneva	Fall by less than 5% ↓
Tokyo	Fall by less than 5% ↓
Bahrain	Fall by less than 5% ↓

Source: Knight Frank Residential Research

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Front cover image: Shanghai waterfront

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