

PRIME GLOBAL RENTAL INDEX STALLS

Global economic and political uncertainty has contributed to a slowdown in prime global rents, with rental growth stalling in the year to September 2016.

Results for Q3 2016

The global index recorded 0% growth in the year to September 2016

Some regions have outperformed, with prime rents in North America rising by 5.1% on average

Toronto leads the rankings with prime rents increasing by 7.9% on an annual basis

The annual rate of growth has slowed in 10 of the 17 cities tracked by the index

Nairobi occupies the bottom ranking with prime rents falling by 10.8% year-on-year

Prime rental performance across the 17 cities tracked by Knight Frank's Prime Global Rental Index has ground to a halt recording 0% annual growth in the year to September 2016, down from 0.7% last quarter.

Despite this slowdown in aggregate performance, the number of cities where annual rental growth is positive remains the same as last quarter (10); however, the rate of growth has slowed in 10 of the 17 cities.

Toronto leads the rankings with prime rents rising by 7.9% year-on-year. Annual population growth of 9% in 2015 and a low and stable rate of unemployment (6.6%) have contributed to increased demand for rental properties. Rising homeownership costs (12% year-on-year price growth and higher mortgage rates) and a narrowing vacancy rate have pushed prime rents higher.

Tokyo's prime rents increased annually by 7.3% with the fundamentals driving this performance being similar to those witnessed in Toronto (Figure 3).

Oversupply of prime rental properties and lower demand from corporate clients due to a prolonged period of low oil prices has led to prime rents in Nairobi falling by 10.8% in the year to September 2016.

London's prime rental market continues to absorb higher stock levels; this has put downwards pressure on prime rents which fell by 4.7% in the 12 months to September 2016. Although uncertainty remains, primarily due to the UK's decision to leave the EU, Knight Frank has agreed a record number of tenancies in the year to September. Our latest Prime Central London Rental Index can be found [here](#).

North America continued to be the strongest-performing world region with average annual prime rental growth of 5.1%. Africa registered the weakest performance with prime rents falling 3.7% on average in the year to September 2016.

Whilst uncertainty remains over the form of Brexit and the stance on global trade which President-elect Trump is likely to take we can be more confident that a US rate hike is imminent. However, any rise may have significant knock on effects particularly for emerging markets. Record levels of sovereign debt in some emerging markets means that even a small increase in interest rates may suppress corporate activity, which in turn could hinder economic growth and prime rental market performance.



TAIMUR KHAN
Senior Research Analyst

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FIGURE 1

Prime Global Rental Index Q3 2016

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

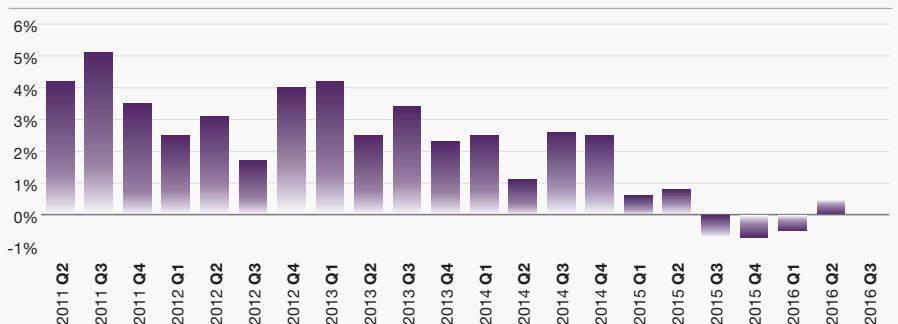


FIGURE 2
Prime Global Rental Index, Q3 2016
Annual % change

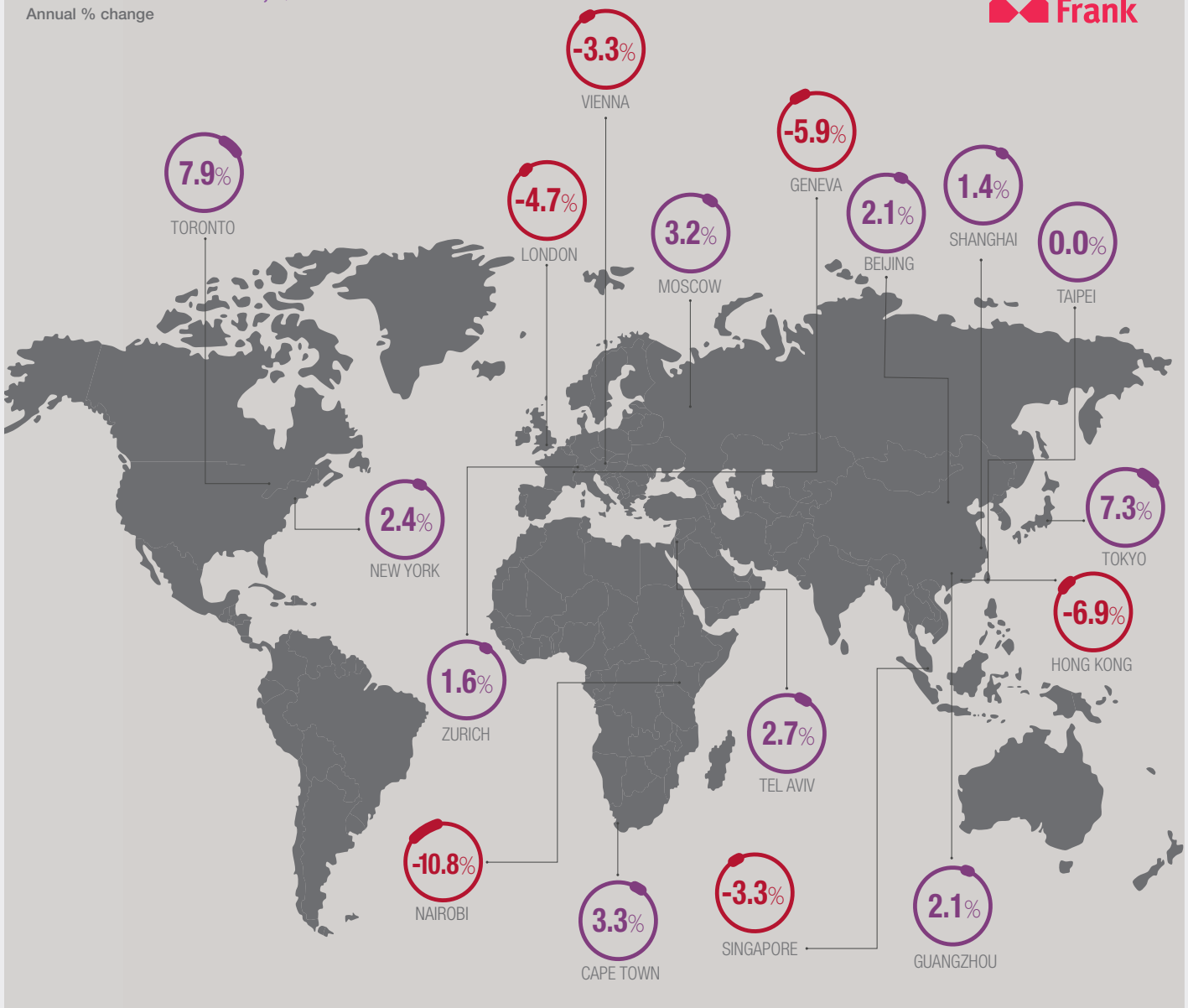
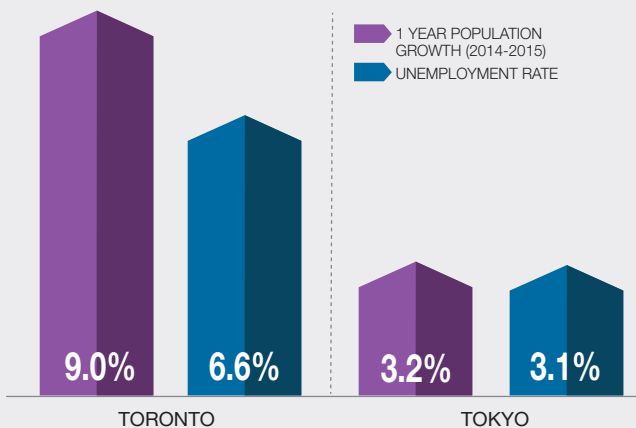


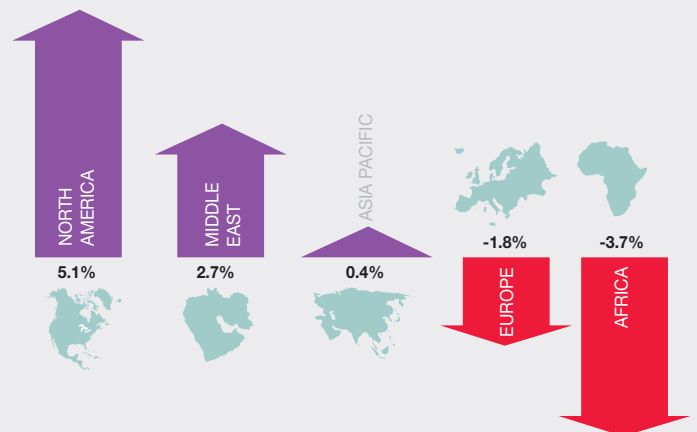
FIGURE 3
Performance contributors
Falling unemployment and rising population



Source: Knight Frank Research, United Nations Department of Economic & Social Affairs (UNDESA), Statistics Canada, Statistics Japan.

Unemployment Data Note: Toronto Data to Nov 2016, Tokyo data is for the Southern-Kanto Region, data as at Sept. 2016

FIGURE 4
Prime rents by world region
Average annual % change to Q3 2016



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 Global House Price Index, Q3 2016

Ranked by annual % change

Rank	Country	12-month % change (Q3 2015-Q3 2016)	6-month % change (Q1 2016-Q3 2016)	3-month % change (Q2 2016-Q3 2016)	Market direction*
1	Toronto	7.9%	1.9%	3.8%	▲
2	Tokyo ²	7.3%	3.1%	-1.6%	▲
3	Cape Town	3.3%	1.8%	1.8%	●
4	Moscow	3.2%	1.8%	-1.0%	●
5	Tel Aviv	2.7%	0.3%	1.1%	▲
6	New York	2.4%	0.3%	-3.0%	●
7	Beijing	2.1%	1.3%	1.1%	●
8	Guangzhou	2.1%	1.8%	0.8%	●
9	Zurich	1.6%	5.1%	3.3%	●
10	Shanghai	1.4%	1.7%	1.1%	●
11	Taipei	0.0%	0.0%	0.0%	●
12	Vienna	-3.3%	-2.4%	-2.1%	●
13	Singapore	-3.3%	-1.3%	-1.4%	▲
14	London ¹	-4.7%	-2.6%	-1.5%	●
15	Geneva	-5.9%	-1.5%	-4.5%	▲
16	Hong Kong	-6.9%	-1.0%	0.0%	●
17	Nairobi	-10.8%	-3.2%	-1.7%	▲

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

¹ London: latest 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+

* Direction of price growth compared to previous quarter



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