Prime Global Rental Index

Knight Frank

2023 Q1 Edition

Knight Frank's Prime Global Rental Index provides a quarterly snapshot of trends in luxury lettings markets across 10 key world city markets

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Surging demand pushes prime global residential rents to record highs

- Rents in global luxury residential markets are continuing to see strong growth. The Knight Frank Prime Global Rental Index rose by 8.5% in the 12 months to March this year - with rents in a majority of markets hitting new records.

While the rate of annual growth in Q1 2023 slipped back from the 10.2% recorded in the previous quarter, globally rents are still rising at a rapid clip - continuing the trend that started in 2021 as city economies recovered from the pandemic.

Prime rents are now 14% above their pre-pandemic high (Q3 2019) and 21.7% above the pandemic low (Q1 2021).

Of the 10 markets tracked, growth is being led by Singapore, which saw rents rise 31.5% over the past 12 months, with 6.4% in the last quarter alone. London follows with rents higher by 16.9% over the year to March. Sydney, Toronto and New York also recorded double digit growth.

Auckland and Hong Kong recorded negative annual growth, although rents in both cities have risen in the past three and six month periods.

Strong rental growth since the pandemic has been driven by: limited supply, as construction was disrupted during lockdowns and as a strong residential sales demand took stock out of the market; and a resurgence in demand as workers moved back to cities as economies reopened.

CITY FOCUS

Rents in Singapore have surged across all market segments, the catalyst was the reopening of borders from late 2022 which led to international workers returning to the city. Additionally, successive hikes in stamp duty rates, up to 60% for some foreign buyers, have raised the cost of property purchases meaning many are now reliant on rental properties.

A stronger construction pipeline in Singapore, with over 2,000 prime units to be delivered in 2023 could see rental pressures ease by the year end in the city.

While Hong Kong languishes at the bottom of our table for annual growth, the luxury market has picked up here in recent months, with 1.9% growth in the first quarter of the year. Leasing demand has rebounded as more expats returning to the city given the border fully reopened in early January this year.

The Hong Kong government launched a talent attraction scheme last December to attract high-earners and foreign graduates from top universities. At the end of March, the government had granted approval to some 12,000 applicants which is expected to further support the rental market in the near term. Our view is that rents in Hong Kong will rise by up to 5% in 2023 as a whole.

Strong growth in rents in markets like Sydney, New York and London relate to chronic undersupply of existing rental properties as well as low new construction volumes. New York's prime market is experiencing record rents in Manhattan and Brooklyn, and with the busiest rental season yet to come, tenants are facing limited options and higher costs in a competitive market.

52%

growth in prime rents in New York since the pandemic low (Q1 2021)

8 out of 10

markets are experiencing record rental levels

14%

the amount that average prime global rents stand above the pre-covid peak

1st

for three-month, six-month and 12-month rental growth: Singapore

16.9%

London's 12-month rental growth

Strong rental growth in many markets has raised the possibility of governments taking policy action to protect renters from sharply higher costs. However, the arguments against rent caps – that they disrupt markets, weaken incentives to invest in new-build accommodation, and ultimately make a bad situation worse – seem to be winning out. In May of this year, the opposition Labour Party in the UK appeared to reject the policy.

Governments are increasingly promoting investment in the build-to-rent sector as a solution to reduce rapid rises in rents. Knight Frank predicts that the build-to-rent sector will become the world's largest investable real estate sector within the *next ten years*.

"Despite a slowdown in the rate of growth, rental prices are hitting new records as workers return to city economies. With housing construction volumes remaining low due to material shortages and high build costs, rents are expected to continue to rise well above trend through 2023. The key question for investors is how governments will react to higher rental costs. For now, rent caps seem to be off the table in most markets, and policy focus is shifting to encouraging a surge in new build-to-rent accommodation."

Liam Bailey, Knight Frank's global head of research

Prime property definition: The most desirable and expensive property in a given location, generally defined as the top 5% of each market by value. Prime markets often have a significant international bias.

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.

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KNIGHT FRANK PRIME GLOBAL CITIES INDEX

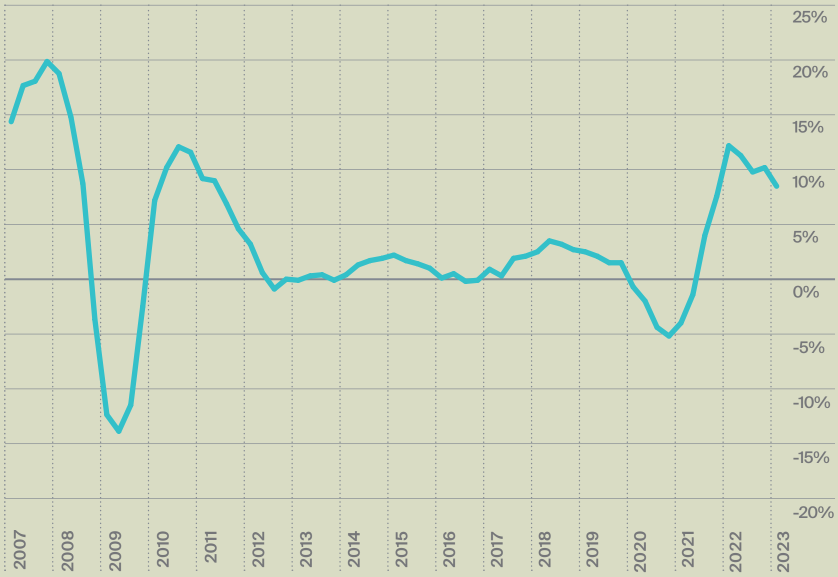
Changes to 2023 Q1

Rank	Location	12-month % change	6-month % change	3-month % change
1	Singapore	31.5%	14.2%	6.4%
2	London	16.9%	5.7%	2.7%
3	Sydney	11.7%	9.2%	5.3%
4	Toronto	10.3%	-0.7%	-0.5%
5	New York	10.3%	2.4%	2.7%
6	Monaco*	8.1%	0.0%	0.0%
7	Tokyo	4.8%	4.5%	0.6%
8	Geneva	3.4%	2.0%	1.0%
9	Auckland	-0.8%	6.6%	1.2%
10	Hong Kong	-3.6%	0.5%	1.9%

Source: Knight Frank Research. *Data is for 2022 Q4

Fig 1: Knight Frank Prime Global Cities Index

Global average annual change in prime rents



Source: Knight Frank Research

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