World Research – H1 2024

MARKET IN MINUTES

Savills Research

Savills Prime Residential Index: World Cities

Rents and Yields

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In a higher interest rate environment, prime rents are continuing to outperform capital values, growing by 2.2% in the first half of the year. In fact, 25 of the 30 markets in the World Cities index reported flat or positive rental growth for the first six months of 2024. Low levels of stock in many locations and higher numbers of would-be buyers are driving the trend in many prime rental markets. Renting also tends to provide international tenants with the flexibility they desire when entering a new market, which has further contributed to these increases.

The cities with the strongest rental growth for the first half of 2024 are Dubai, Bangkok, Lisbon and Athens. These markets have very strong lifestyle credentials and there is also an element of corporate relocations which are driving demand in these cities. The average gross prime yield across the 30 markets currently stands at 3.1% across the World Cities, up 10 basis points (bps) from December. Los Angeles, New York, and Dubai remain the highest-yielding cities with average yields above 5%.

The top 3 markets for rental growth in the first half of the year are Dubai, Bangkok and Lisbon. Dubai (12.1%) and Lisbon (7.5%) have been perennial leaders for growth in their prime rental markets because of excess demand for high-quality rental properties, but Bangkok is a new entrant into the top three with prime rental price increases of 9% for the first half of the year. Rental demand for prime rental property in the city has risen due to the higher interest rate environment and the return of tourism and expats to Bangkok after the pandemic.

With the residential sales market in the United States moving slowly because of higher interest rates, many prospective buyers have turned to the prime rental markets in key cities across the country. Los Angeles and San Francisco have each seen prime rental price growth of over 4% for the first half of the year. New York City is also seeing elevated rents, with increases of 3.6% from December to June.

FOCAL POINTS

+2.2%

Average prime rents growth in the first half of the year

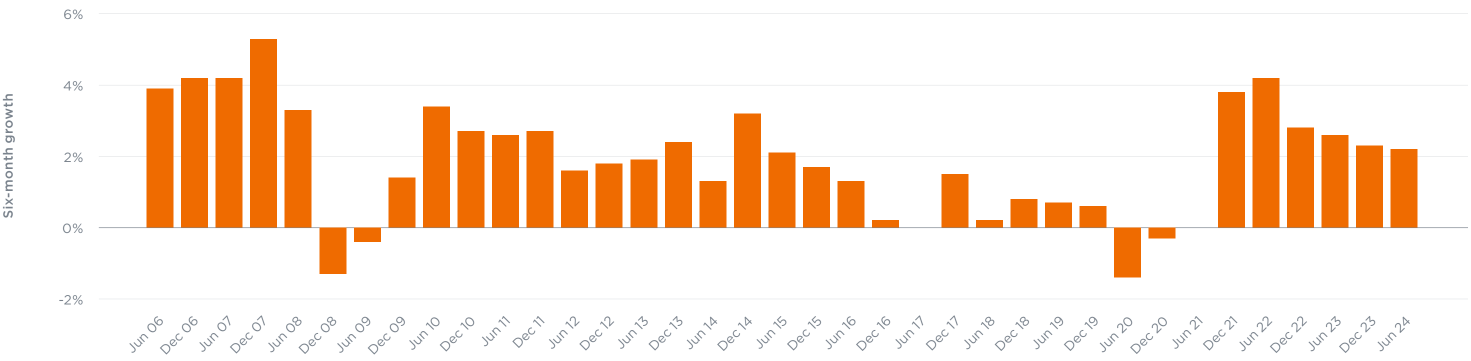
25

Cities from the 30 index locations have positive rental growth

Dubai, Bangkok & Lisbon

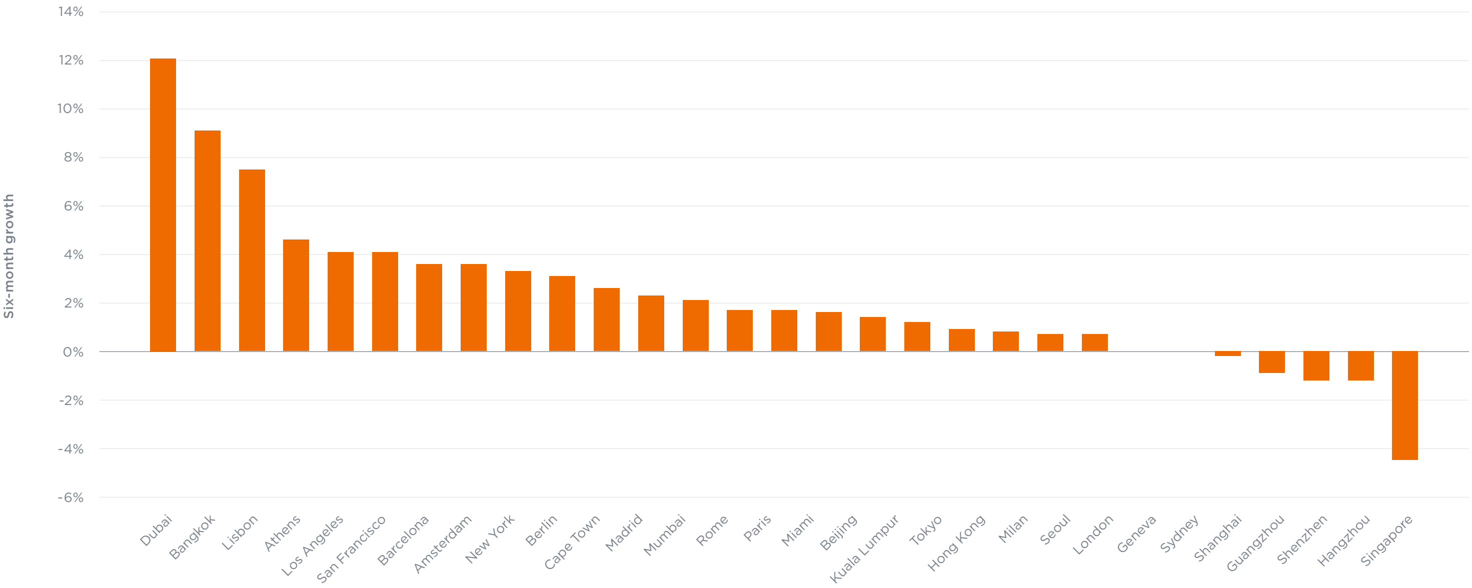
Top 3 markets for rental growth in the first half of the year

PRIME RENTAL VALUE INDEX GROWTH



Source: Savills Research

PRIME RENTAL VALUE CHANGE SIX MONTHS TO JUNE 2024



Source: Savills Research

Across many EMEA markets, demand continues to outstrip supply of prime rental properties which is supporting prime rental price growth across the region. In fact, no EMEA market tracked in the World Cities Prime Residential Index saw rental prices fall from December 2023 to June 2024. Athens, Barcelona, Amsterdam, Berlin, and Cape Town have all seen prime rental prices rise by more than 3% over the first half of 2024, with Athens seeing rental prices increase by 4.6% during the six-month period.

Chinese markets saw mixed performance in the past six months. Rents in Beijing were up 1.6% in the first half of the year as economic uncertainty and the changing attitudes towards renting vs. buying has led to an increasing number of individuals choosing to lease residential properties. Shanghai saw modest declines in its rental pricing of -0.2%, while Guangzhou, Shenzhen, and Hangzhou saw rental price falls between -0.9% and -1.2% as the wider economic slowdown affects sentiment around the residential markets.

Singapore's slide in its prime rental market continued in the first half of the year, as leasing demand in the prime districts slowed down alongside moderation in both economic growth and employment expansion. As such, rents continued to decline, falling -4.5% over the last six months and are down -5.6% year-on-year.

Yields

Across the 30 world cities, prime gross yields moved out by 10 bps in 2023 to 3.1% as global rental markets recorded stronger growth than the sales markets. Yields climbed the fastest in Los Angeles, to 5.5% (+44 bps), driven by a combination of rising rents and falling capital values in the wake of the local 'mansion tax'. Dubai saw a similar trend, rising to 5.0% (+30 bps), where strong rental growth is pushing yields up.

Outlook

We expect rents to continue to outperform capital values for the remainder of 2024 and in the medium-term as supply continues to remain scarce in many world cities. High interest rates are continuing to contribute to caution in the sales markets and are pushing more would-be buyers into the prime rental markets. This trend will continue to support demand, and in turn, rental price growth for the remainder of the year. However, the potential for interest rate cuts in the second half of the year may encourage would-be buyers who are currently renting to re-enter the sales market, easing price pressures for prime rental markets.

Supply is expected to remain tight in many world cities due to several factors, such as high construction costs and development challenges. These factors contribute to the limited availability of prime residential rental stock and the upward pressure on rental prices.

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