

World City Residential Rents

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Summary

- San Francisco is the world's most expensive city for mainstream residential rents, New York for prime
- Chinese cities enter top 10 for prime, but don't rank for mainstream
- London fourth for mainstream rents, below San Francisco, New York and LA, but second for prime
- Tokyo world number two most expensive for prime, not ranked for mainstream rents
- Hong Kong tipped to overtake London to become third most expensive for prime

High capital values do not guarantee high returns for global investors

A booming tech sector has made San Francisco the most expensive world city for the average renter, at a cost of £460 per week, ahead of New York and Los Angeles. London ranks fourth most expensive for mainstream rents, at an average of £350 per week, £90 cheaper than San Francisco, after a marginal 0.6% fall last year.

Hong Kong, alongside London, is known for having the world's highest capital values and now ranks ninth for mainstream rents, at an average of £320 per week, but with a rental growth of 13.2% last year, Hong Kong could join the top five this year.

Paris continues to represent relative value on the world stage, with average rents a third cheaper than San Francisco. In the context of Europe, it is 14% cheaper than London and 12% cheaper than Dublin.

The top ten world cities ranked by prime rental values looks very different. New York is the most expensive, with an average £2,300 per week, around five times the mainstream average and almost £400 per week more expensive than second place Tokyo. Like Tokyo, China does not feature in the mainstream list, but two cities – Beijing and Shenzhen – appear in the prime listing. Amsterdam also makes the prime list, having seen prime rents rise by almost a fifth over the past year.

Top 10 Residential Rents for Mainstream and Prime

Mainstream rank	City	Mainstream rent per week	2017 growth	Prime rank	City	Prime rent per week	2017 growth
1	San Francisco	£460	0.70%	1	New York	£2,300	5.40%
2	New York	£400	0.40%	2	Tokyo	£1,940	7.70%
3	Los Angeles	£390	2.00%	3	London	£1,700	-2.90%
4	London	£350	-0.60%	4	Hong Kong	£1,690	2.70%
5	Dublin	\$340	5.70%	5	Amsterdam	£1,370	19.80%
6	Chicago	£340	1.70%	6	Dubai	£1,350	-11.00%
7	Sydney	£330	1.40%	7	Dublin	£1,270	5.40%
8	Miami	£320	-2.10%	8	Beijing	£1,200	2.20%
9	Hong Kong	£320	13.20%	9	San Francisco	£1,020	-3.10%
10	Paris	£300	0.90%	10	Shenzhen	£1,020	13.40%

Source: Savills Research

Our analysis tells us, perhaps counter-intuitively, that the cities which are most expensive to buy in are not necessarily the most expensive to rent in. Hong Kong mainstream house prices are now around £1,070 per square foot, almost double the San Francisco average, but its mainstream rents are some 30% cheaper.

San Francisco's story is one of increasingly high demand from tech-savvy millennials who continue to flock there against a market that struggles for stock because rent controls act as a deterrent to new landlords. Ironically, the controls that are advantageous for existing tenants actually contribute to rising rents for new tenants.

The story in Dublin, New York and Los Angeles is also one of strong demand from a growing population and limited supply. In Dublin, a buoyant domestic economy and constrained sales market during 2017, drove mainstream rents up by 5.7%, making this the fifth most expensive city for the average mainstream market household rent. At £340 per week rents are now 40% above their 2011 low and, perhaps surprisingly, on par with the average rent in London.

Investors and occupiers would do well to note the anomalies in the rental market. Some cities are 'investor markets' having seen strong rental growth and high rents but relatively low capital values. Rental yields are high in these cities.

Others are low yielding. This is good for tenants in cities such as Hong Kong, as they will likely pay less for rent than for a mortgage, but not so good for investors unless there is a prospect of capital growth.

Where yields are still relatively high, in Paris and Chicago for example, there is the prospect of further yield compression and consequent asset growth. Lower net yields in Sydney, Hong Kong and London make capital growth less likely without rental growth.

Prime Rents a Different Order

New York tops the table for prime, or luxury, rentals at £2,300 per week (over five times the mainstream rent). A raft of new supply in the prime segment has boosted the quality of prime rental markets in New York and so boosted rents overall, but concessions are increasingly offered to fill new buildings.

Tokyo, which doesn't appear at all in the top ten for mainstream rents is second most expensive global city for prime rents, at £1,940 per week. London and Hong Kong follow, at £1,700 and £1,690 per week, respectively and are higher up the table for prime than mainstream. Savills expects Hong Kong to overtake London in 2018 as rents are rising there but falling in London.

Amsterdam and Dubai also feature in the prime top ten, but not in the mainstream. This reflects demand for prestigious properties from global renters in these cities and the fact that a premium is being paid for relatively rare stock. Amsterdam's prime rents increased by 19.8% in 2017, putting it fifth at £1,370 per week. A major and growing hub for the European headquarters of multinational companies, rents have been driven up by relocating expats coupled with a shortage of stock.

Two Chinese cities feature in the top ten, Beijing and Shenzhen, with prime rents of £1,200 and £1,020 per week respectively. They also attract global, premium tenants (particularly as overseas residents are unable to buy) and prime stock remains relatively rare enough to command a premium. Dubbed China's Silicon Valley, Shenzhen's population has risen from 300,000 in 1980 to 12 million today. Expats together with a rising number of wealthy domestic tenants have fuelled prime rental demand.

Methodology

Comparable rental values for each city are obtained by comparing the properties occupied by the same group of people but in different properties in each world city. Prime property is occupied by CEOs and directors and their families. Mainstream property is that occupied by administrative workers in the same company and their households.