Briefing
Residential leasing

January 2014

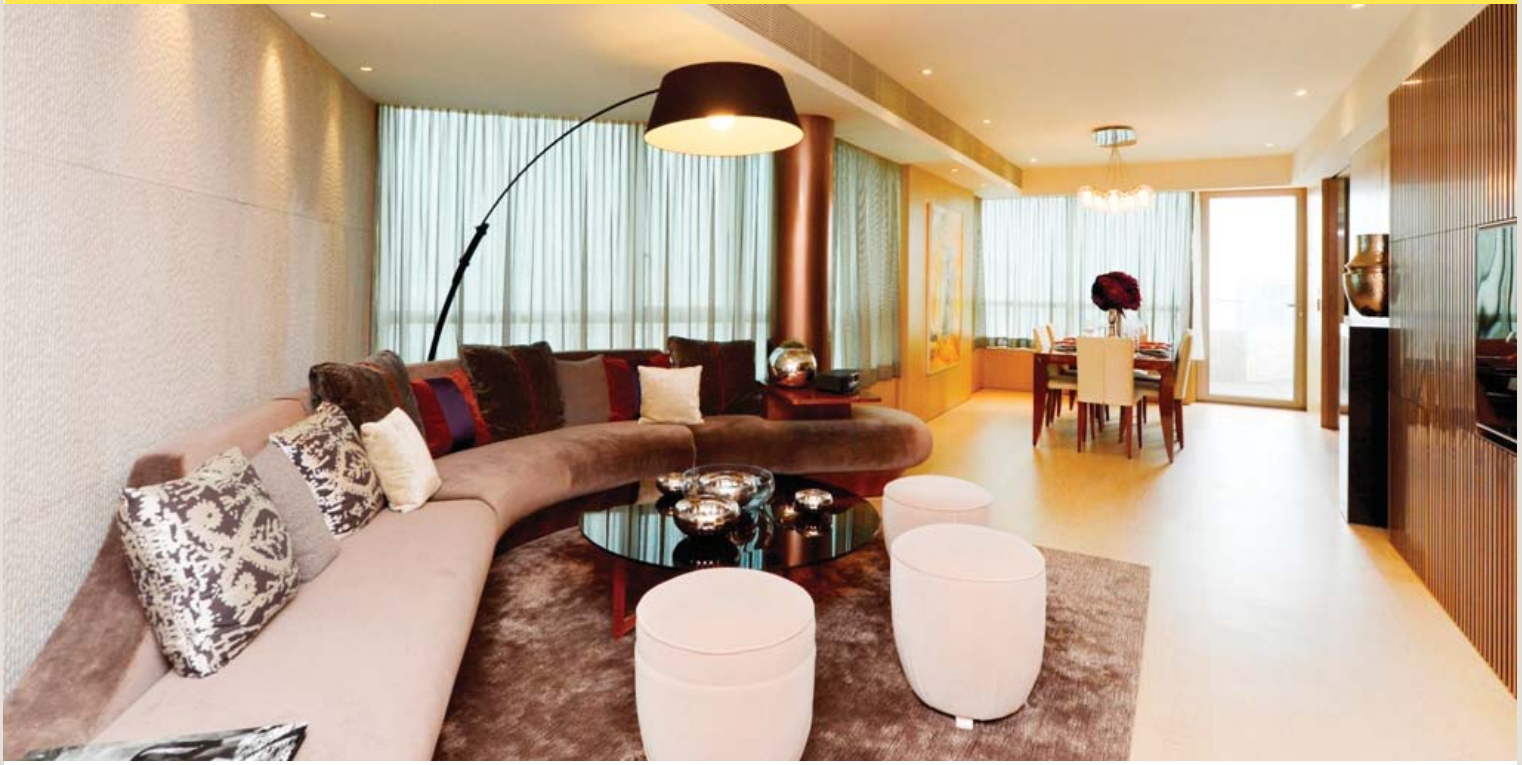


Image: 80 Robinson Road, Mid-Levels

SUMMARY

The holiday and year-end effect cooled leasing volumes in Q4/2013.

- Luxury apartment rents continued in a downward trend alongside the weakening office market, falling by 1.8% at the end of the year on the back of low leasing volumes due to the 'holiday effect'.

- Apartments in the prime districts of The Peak and Southside have been the most affected, with average rents dropping by 10.0% and 7.1% respectively over 2013.

- Rents in Kowloon were mainly supported by solid leasing markets in areas with strong school networks, for instance, Kowloon Tong.

- Looking ahead in 2014, Savills expects a 5% decline in luxury apartment rents alongside a weakening office market with no net new hiring. Given that office rents in Central are soon to bottom out, we expect to witness an upswing in the financial sector, resulting in luxury rents bottoming out in late 2014 or early 2015.

"Tenants are no longer favouring The Peak over all other districts, with an increasing number expressing a preference for the Southside or even Sai Kung." Simon Smith, Savills Research

Market commentary

In Q4/2013, the luxury residential leasing market mirrored the 'zombie' office market. Given that there was no new hiring and little firing, housing demand was frozen. The residential market is expected to fall by 5% in 2014 as this 'stale-mated' market will continue into next year, unless a clear turnaround is seen in the financial services sector.

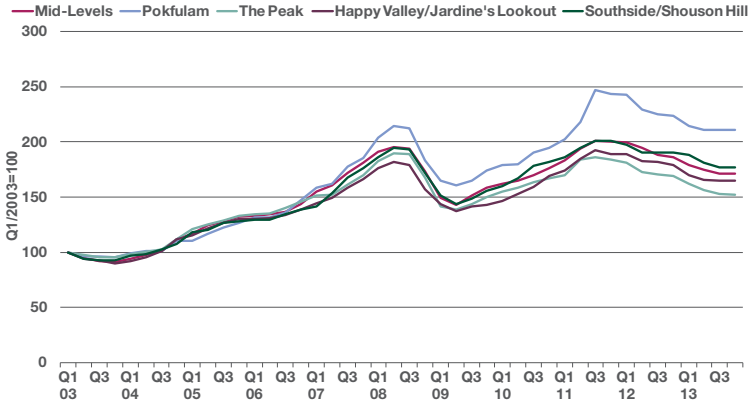
Luxury apartment rents continued in a downward trend alongside the weakening office market, falling by 1.8% at the end of the year on the back of low leasing volumes due to the 'holiday effect'. Rents fell by 7.8% over for the whole of 2013.

Apartments in the prime districts of The Peak and Southside have been the most affected, with average rents dropping by 10.0% and 7.1% respectively over 2013. Mid-Levels, which is popular with senior executives in the financial industry, recorded a drop of 8% in 2013, alongside the weakening financial sector in Central. Leasing transactions in Mid-Levels included a unit in a high zone (3,347 sq ft gross) of Estoril Court for HK$140,000 per month or HK$42 per sq ft gross per month, while on the Southside, a house at 16A South Bay Road (4,675 sq ft gross) was leased for HK$350,000 per month (HK$75 per sq ft gross per month).

A shift in preference from The Peak to the Southside was noted in 2013. Weather conditions on The Peak are rever ideal and have become more of a concern, with the vacancy rate gradually climbing, while schooling opportunities have increased the attractiveness of the Southside and Sai Kung. Townhouse rents moved in line with apartment rents and declined by 8.4% in 2013.

GRAPH 1

Hong Kong Island luxury rental indices by district, Q1/2003-Q4/2013



Source: Savills Research & Consultancy

TABLE 1

Transactions – The Peak and Southside, Q4/2013

District	Unit	Address	Sq ft gross	Sq ft net	HK$ per month	HK$ per sq ft gross	HK$ per sq ft net
Mid-Levels	Apartment	Estoril Court	3,347	2,888	140,000	42	48
Mid-Levels	Apartment	Tavistock	4,860	3,838	240,000	49	63
Southside	House	16A South Bay Road	4,675	3,513	350,000	75	100
Southside	House	Circle Lodge	4,000	2,622	230,000	58	88
The Peak	House	42 Plantation Road	4,761	3,537	359,250	75	102
The Peak	House	La Hacienda	3,013	2,358	170,000	56	72

Source: Savills Residential Leasing, Savills Research & Consultancy

TABLE 2

Luxury apartment rental movement by district, Q4/2013 vs 2013

	Q4/2013 (%)	2013 (%)
Mid-Levels	-0.3	-8.0
Pokfulam	0.0	-5.9
The Peak	-0.5	-10.0
Happy Valley/Jardine's Lookout	0.0	-8.1
Southside/Shouson Hill	0.0	-7.1
Overall	**-0.2**	**-7.8**

Source: Savills Research & Consultancy

Rents in Kowloon and the New Territories performed relatively well in 2013, with rents falling by a mild 4.5% and 4% respectively. Rents in Kowloon were mainly supported by solid leasing markets in areas with strong school networks, for instance, Kowloon Tong. The shift in preference towards Sai Kung and Discovery Bay was a key support in the New Territories market.

Transactions in Kowloon Station were mainly driven by mid- to high-ranking executives at investment banks in ICC, and included an apartment at The Cullinan (1,382 sq ft gross) leased for HK+$63,000 per month by an investment banker.

Serviced apartment rents remained stable in Q4/2013, supported by temporary housing demand from expat bachelors. Serviced apartment demand is strong in the traditional districts, eg, Wanchai/Causeway Bay and Tsim Sha Tsui.

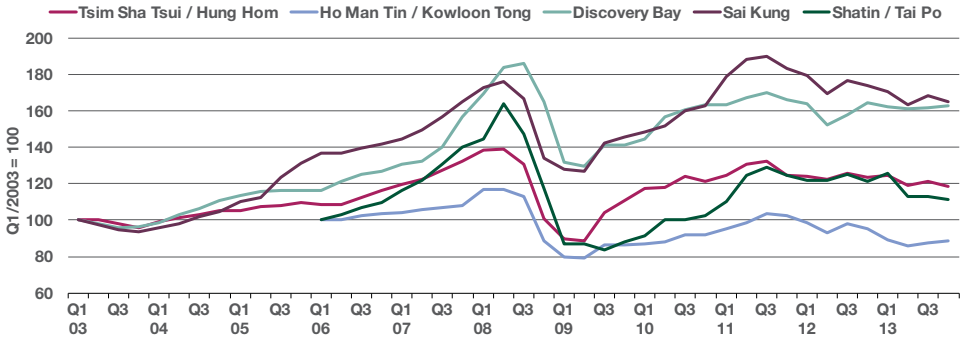
GRAPH 2

Townhouse rental indices by district, Q1/2003–Q4/2013

Source: Savills Research & Consultancy

GRAPH 3

Kowloon and New Territories luxury apartment rental indices by district, Q1/2003–Q4/2013



Source: Savills Research & Consultancy

TABLE 3

Transaction of Kowloon, Q4/2013

District	Unit	Address	Sq ft gross	Sq ft net	HK$ per month	HK$ per sq ft gross	HK$ per sq ft net
Kowloon Station	Apartment	The Cullinan	1,382	1,037	63,000	46	61
Kowloon Station	Apartment	The Arch	1,247	950	62,000	50	65
Tsim Sha Tsui	Apartment	The Masterpiece	1,124	817	45,000	40	55

Source: Savills Residential Leasing, Savills Research & Consultancy

TABLE 4

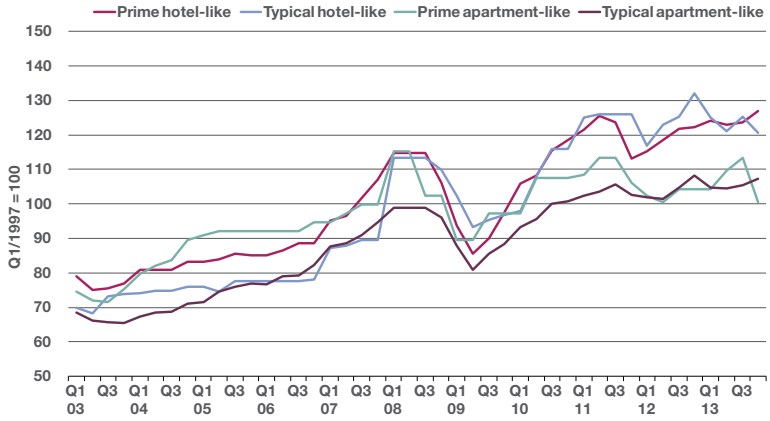
Transaction of Sai Kung and Discovery Bay, Q4/2013

District	Unit	Address	Sq ft gross	Sq ft net	HK$ per month	HK$ per sq ft gross	HK$ per sq ft net
Sai Kung	House	Las Pinadas	2,152	1,739	81,994	38	47
Sai Kung	House	Hebe Villa	2,568	2,414	160,000	62	66
Discovery Bay	House	Headland Drive	2,099	–	130,000	62	–
Discovery Bay	House	Seabee Lane	1,642	1,406	70,000	43	50

Source: Savills Residential Leasing, Savills Research & Consultancy

GRAPH 4

Serviced-apartment rental indices, Q1/2003–Q4/2013



Source: Savills Research & Consultancy

Looking ahead in 2014, Savills expects a 5% decline in luxury apartment rents alongside a weakening office market with no new hiring. Given that office rents in Central are soon to bottom out, we expect to witness an upswing in the financial sector, resulting in luxury rents bottoming out by late 2014 or early 2015.

TABLE 5

Two-year rental movement, Q4/2011–Q4/2013

	From Q4/2011 to Q4/2013 (%)
Mid-Levels	-15
Pokfulam	-14
The Peak	-17
Happy Valley/Jardine's Lookout	-13
Southside	-12
Tsim Sha Tsui	-5
Ho Man Tin/Kowloon Tong	-13
Discovery Bay	-2
Sai Kung	-10
Shatin/Tai Po	-10

Source: Savills Research & Consultancy

Please contact us for further information

Savills Residential Leasing

Edina Wong
Senior Director
+852 2842 4283
ewong@savills.com.hk

Savills Research

Simon Smith
Senior Director, Asia Pacific
+852 2842 4573
ssmith@savills.com.hk

Ken Ma
Manager
+852 2842 4281
kma@savills.com.hk

Savills plc
Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 500 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.