

Briefing Residential leasing

February 2017



SUMMARY

Extremely limited availability of luxury apartments is supporting rents which could start to rise again if tenant activity resumes later in the year.

- Vacancy in major landlord portfolios remains extremely low, from Nan Fung and China Resources on the Peak to Kerry, Sun Hung Kai and Henderson in Mid-Levels.
- In terms of tenant demand there has been very little movement into or out of Hong Kong.
- The only single owned luxury apartment block for rent due to hit the market this year is Harmony at 44 Stubbs Road.

- Kowloon will see abundant supply in 2017, but mostly comprised of small units of 300 to 600 sq ft
- Things are looking less robust in the serviced apartment market where weaker demand is causing rising vacancy and softening rents.
- We are expecting a supply peak in the townhouse market in the Peak and Southside in 2017 and 2018, adding to downward pressure on rents.

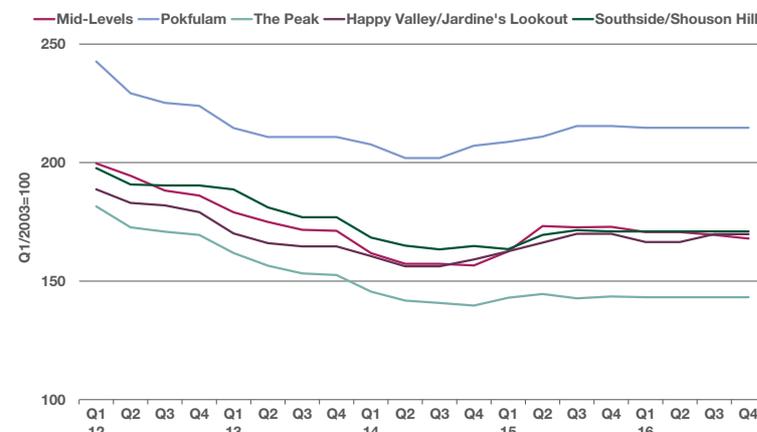
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 "Townhouse rents will come under pressure this year and next as a wave of new completions will be available for lease." Simon Smith, Savills Research

➔ **Market commentary**

Echoing previous briefings, vacancy in major landlord portfolios remains extremely low, from Nan Fung and China Resources on the Peak to Kerry, Sun Hung Kai and Henderson in Mid-Levels. In terms of tenant demand there has been very little movement into or out of Hong Kong – with limited supply this year rents have ample support and any increase in demand over the second or third quarters (even a modest uptick) should result in rents beginning to creep up again.

The only single owned luxury apartment block (see townhouses later) for rent due to hit the market this year is Harmony at 44 Stubbs

GRAPH 1 **Hong Kong Island luxury rental indices by district, Q1/2012–Q4/2016**



Source: Savills Research & Consultancy

TABLE 1 **Mid-Levels, The Peak and Southside transactions, Q4/2016**

District	Unit	Address	Saleable area (sq ft)	HK\$ per month (incl. mgnt. & rates)	HK\$ per sq ft saleable
The Peak	Apartment	6 Mansfield Road	2,551	70,900	33
The Peak	House	28 Gough Hill Road	4,715	300,000	64
Mid-Levels	Apartment	Splendour Court	1,362	51,000	37
Mid-Levels	Apartment	55 Conduit Road	2,452	145,000	59
Southside	Apartment	Pine Crest	1,917	120,000	63
Southside	House	Stanley Court	2,049	110,000	54

Source: Savills Residential Services, Savills Research & Consultancy

TABLE 2 **Kowloon transactions, Q4/2016**

District	Unit	Address	Saleable area (sq ft)	HK\$ per month (incl. mgnt. & rates)	HK\$ per sq ft saleable
Tsim Sha Tsui	Apartment	The Masterpiece	1,474	120,000	81
Tsim Sha Tsui	Apartment	The Victoria Towers	792	36,000	45
Kowloon Station	Apartment	The Cullinan	900	50,000	56
Kowloon Station	Apartment	The Arch	1,022	65,000	64
Kowloon Station	Apartment	Grand Austin	1,228	51,000	42
Kowloon Station	Apartment	The Waterfront	1,076	44,000	41
Kowloon Station	Apartment	The Austin	1,478	60,000	41

Source: Savills Residential Services, Savills Research & Consultancy

Road. The development will yield 18 units from 2,200 to 3,900 sq ft net (4-5 bedrooms) and will come to market in March. Rents haven't been set yet. Kowloon meanwhile will see abundant supply, but mostly comprised of small units of 300 to 600 sq ft. No help to the luxury tenant.

Rents across districts were down marginally in 2016, with luxury apartment rents in Hong Kong Island, Kowloon and the New Territories off by 1.1%, 2.9% and 1.4% respectively over the year as a whole. While luxury apartment rents have traditionally relied on the finance and banking sectors for support, demand today comes from a much broader base of smaller companies involved in a wide range of businesses.

In the fourth quarter, which is traditionally quiet, we still saw some rebound in rents in Kowloon (+1.5%) and the New Territories (+2.2%) while Hong Kong Island rents retreated by 0.3%, reflecting more resilient demand in the lower-end market driven by smaller budgets rather than in the luxury segment.

We maintain our forecast for luxury apartment rents in 2017 when we expect a 5% rise over the year.

Townhouse market

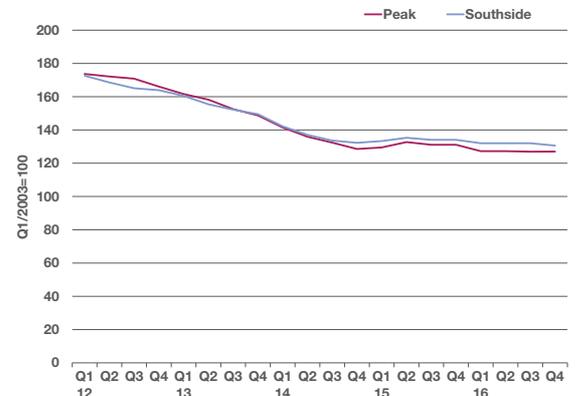
Leasing demand for townhouses has been weak, especially in the traditionally quiet season and the

focus has been on the sales market where a number of significant deals were closed. The average townhouse rent fell by 0.7% in Q4/2016 as a result. In 2017, there will be up to 40 townhouses for lease completed on the Peak, adding to the downward pressure on rents there.

Things are looking less robust in the serviced apartment market where weaker demand is causing rising vacancy and softening rents. Even the most established names are feeling the lack of 'blue chip' demand. In 2016 vacancy rates in the hotel-like and apartment-like sector increased by 7.3 ppt and 11.4 ppt respectively.

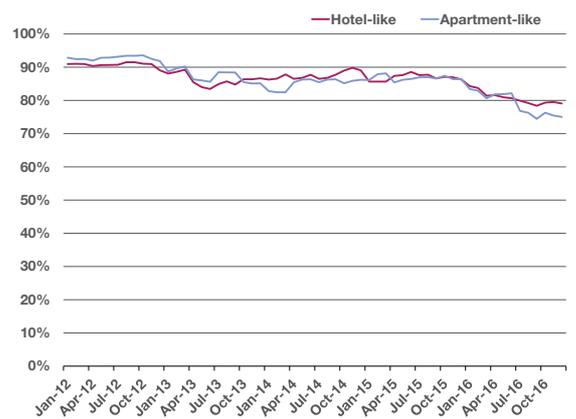
To secure a healthy level of occupancy landlords are now adopting a more flexible approach to asking rents and our serviced apartment rental index fell by 10.2% in 2016 as a result. The market focus in the short-term will be on Rosewood Residences, 199 luxury units for longer stays located on the top 19 floors of the New World Centre Redevelopment in Tsim Sha Tsui. Completion should be late this year. ■

GRAPH 2 **Townhouse rental indices by district, Q1/2012–Q4/2016**



Source: Savills Research & Consultancy

GRAPH 3 **Serviced apartment occupancy rates by type, Q1/2012–Q4/2016**



Source: Savills Research & Consultancy

TABLE 3 **New Territories transactions, Q4/2016**

District	Unit	Address	Saleable area (sq ft)	HK\$ per month (incl. mgnt. & rates)	HK\$ per sq ft saleable
Sai Kung	House	Rainbow Villas	1,790	104,000	58
Sai Kung	Apartment	The Portofino	1,992	90,000	45
Discovery Bay	House	Bijou Hamlet	1,556	66,000	42
Discovery Bay	House	Seabee Lane	1,409	65,000	46
Discovery Bay	Apartment	Seahorse Lane	1,995	95,000	48
Discovery Bay	Apartment	Seahorse Lane	1,626	85,000	52
Discovery Bay	Apartment	Coastline Villa	1,903	64,000	34

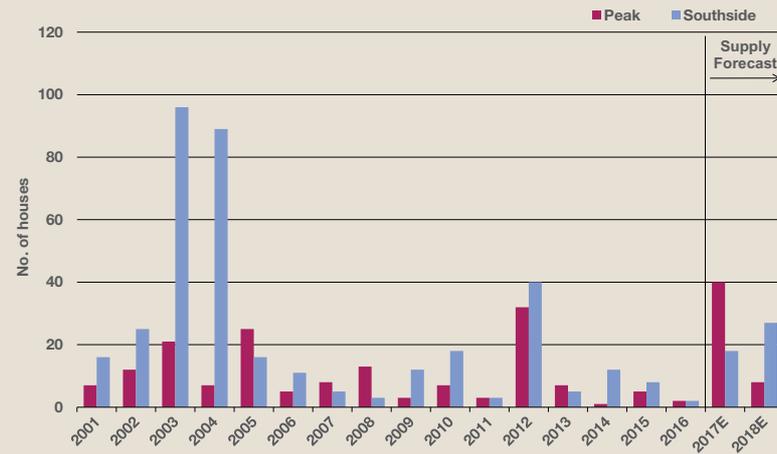
Source: Savills Residential Services, Savills Research & Consultancy

Townhouse supply, Peak and Southside

We are expecting a supply peak in the townhouse market in the Peak and Southside districts in 2017 and 2018. Due to increased land supply from the government and an increase in the speed of redevelopment of some landlord portfolios, we expect to see completions of 48 and 45 townhouses in the Peak and Southside districts respectively in 2017 and 2018.

Compared with projects completed in previous years which have mostly been for owner-occupation or for sale, we find that the share of new stock for lease has increased significantly. Given generally weak demand in this market segment, we expect rents in the townhouse market to come under more pressure in 2017 and 2018 as availability rises.

GRAPH 4 **Annual townhouse supply and completions, Peak and Southside, 2001–2018E**



Source: Buildings Department, Savills Research & Consultancy

Please contact us for further information

Savills Residential Services

Savills Research



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



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



Ron Mak
Senior Manager
+852 2842 4287
rclmak@savills.com.hk

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