

Briefing Residential leasing

July 2017



SUMMARY

Corporate landlords continue to report low vacancy levels and demand from local and PRC tenants is holding up reasonably well. Cost-conscious expats are finding fringe-island and New Territories locations more appealing than ever.

- Low supply levels and sustained demand from the likes of securities, property and PRC asset management firms are the main factors behind the uptick in Hong Kong Island luxury apartment rents during the first quarter.

- Expats are generally more willing to live off Hong Kong Island, moving to areas such as Discovery Bay, Shatin, Tai Po and Tung Chung in search of

lower cost apartments, good schools and a better quality of life.

- Despite limited supply and high rates of owner-occupation, townhouses are facing stiff competition from newer larger apartments.

- Demand in the serviced apartment market remains fragile in spite of a slight rebound in average rents and occupancy rates.

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"The luxury leasing market remains broadly stable with little notable in-bound or out-bound traffic."
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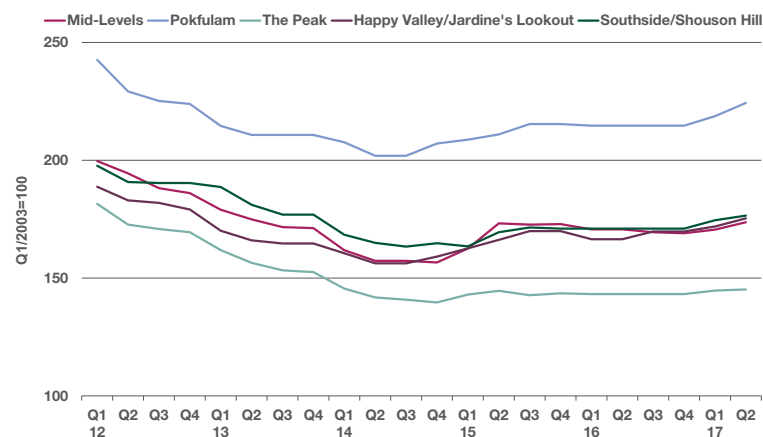
Simon Smith, Savills Research
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➔ **Market commentary**

The luxury leasing market proved to be slightly more active in Q2/2017 than during the same period last year. Low supply levels and sustained demand from the likes of securities, property and PRC asset management firms are the main factors behind the rise in Hong Kong Island rents during the first quarter.

We continue to observe that expats are generally more willing to live off Hong Kong Island than previously, moving out to areas such as Discovery Bay, Shatin, Tai Po and Tung Chung in search of lower cost apartments, good schools and a better quality of life. On Hong Kong Island, fringe locations are also attracting budgets challenged by

GRAPH 1 **Hong Kong Island luxury rental indices by district, Q1/2012–Q2/2017**



Source: Savills Research & Consultancy

TABLE 1 **Mid-Levels, The Peak and Southside transactions, Q2/2017**

| District | Unit | Address | Saleable area (sq ft) | HK\$ per month (incl. mgnt. & rates) | HK\$ per sq ft saleable |
|------------|-----------|-----------------|-----------------------|--------------------------------------|-------------------------|
| The Peak | Apartment | Chelsea Court | 2,535 | 160,000 | 63 |
| The Peak | Apartment | Barker Villa | 1,414 | 80,000 | 57 |
| Mid-Levels | Apartment | The Summit | 2,390 | 145,000 | 61 |
| Mid-Levels | Apartment | 39 Conduit Road | 2,351 | 210,000 | 89 |
| Southside | House | 33 Island Road | 5,578 | 430,000 | 77 |
| Southside | House | The Beachfront | 2,526 | 155,000 | 61 |

Source: Savills Residential Services, Savills Research & Consultancy

TABLE 2 **Kowloon transactions, Q2/2017**

| District | Unit | Address | Saleable area (sq ft) | HK\$ per month (incl. mgnt. & rates) | HK\$ per sq ft saleable |
|-----------------|-----------|--------------------|-----------------------|--------------------------------------|-------------------------|
| Tsim Sha Tsui | Apartment | The Masterpiece | 1,033 | 50,000 | 48 |
| Tsim Sha Tsui | Apartment | The Victoria Tower | 926 | 41,000 | 44 |
| Kowloon Station | Apartment | The Cullinan | 999 | 64,000 | 64 |
| Kowloon Station | Apartment | The Cullinan | 1,117 | 61,000 | 55 |
| Kowloon Station | Apartment | The Cullinan | 1,942 | 188,000 | 97 |
| Kowloon Station | Apartment | The Harbourside | 1,801 | 110,000 | 61 |
| Kowloon Station | Apartment | Sorrento | 1,403 | 68,000 | 48 |

Source: Savills Residential Services, Savills Research & Consultancy

what's on offer in the traditional core luxury enclaves.

Luxury apartment rents rose across all districts in Q2/2017, with rents in Hong Kong Island, Kowloon and the New Territories up by 1.7%, 3.3% and 1.4% respectively over the quarter. Townhouse rents continued to flounder, falling by 1.5%, while we saw the rebound in serviced apartment rents which began in Q1/2017 continue, with rents up by 2.5% in Q2/2017.

We saw a larger rise in Pokfulam (+2.6%) and Happy Valley / Jardine's Lookout (+2.0%) because rents are relatively more affordable in these areas and leasing activity has been strong as a result. We have also noticed that renters are starting to look at Hong Kong East, where rental budgets (HK\$40,000 – HK\$50,000) are better value. Popular locations include Causeway Bay Road, Tai Hang Road, Quarry Bay and Sai Wan Ho. University-owned blocks (HK\$20,000 – HK\$80,000 per month) and Residence Bel-Air (HK\$35,000 – HK\$120,000 per month) in Pokfulam are also offering some good cost-saving alternatives for the more budget conscious.

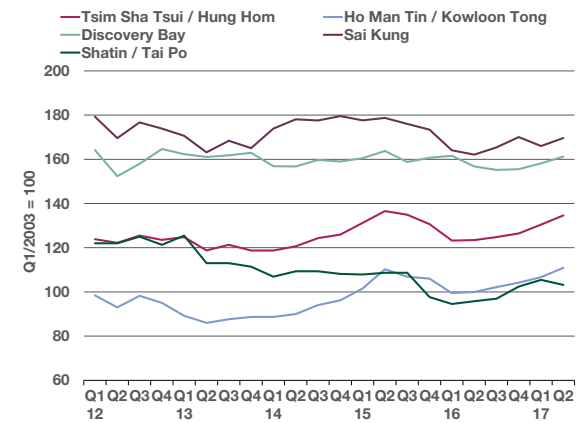
Ho Man Tin / Kowloon Tong (+3.9%) recorded the most resilient rents in the Kowloon & New Territories luxury apartment market, driven by new supply and the opening of Ho Man Tin MTR station. Discovery Bay is

still a popular choice due to its wide range of affordable rental budgets and 25-minute ferry commute to the CBD, arguably more so than Sai Kung which has lost some of its appeal recently. A house in Discovery Bay can be had for as little as HK\$90,000 per month, representing far better value than anything available on Hong Kong Island. Also on Lantau Island, for much lower budgets of HK\$20,000 per month and below, Tung Chung has plenty of small apartments on offer, some for as little as HK\$6,000 per month.

In contrast to the apartment sector, townhouses had a relatively weak quarter and Peak and Southside townhouse rents fell by 0.7% and 1.9% respectively in Q2/2017. Despite limited supply and high rates of owner-occupation, townhouses are facing stiff competition from new apartments. Owners of un-renovated townhouses need to cut rents to remain competitive given the availability of newer larger units of 2,000 sq ft plus with ample facilities. Recent examples include Cluny Park by Sino, 53 Conduit Road, Mid-levels (2016) – 20 units, 55 Conduit Road by New World and Chinese Estates (Late-2015) – 19 units, and Altamira by Majestic Elite (2017) – 38 units. The fact remains that in the current market, budgets of HK\$200,000 per month and above are extremely rare.

We believe that the serviced apartment market remains fragile

GRAPH 2 Kowloon and New Territories luxury rental indices by district, Q1/2012–Q2/2017



Source: Savills Research & Consultancy

GRAPH 3 Townhouse rental indices by district, Q1/2012–Q2/2017



Source: Savills Research & Consultancy

TABLE 3 New Territories transactions, Q2/2017

| District | Unit | Address | Saleable area (sq ft) | HK\$ per month (incl. mgnt. & rates) | HK\$ per sq ft saleable |
|---------------|-----------|-----------------|-----------------------|--------------------------------------|-------------------------|
| Sai Kung | House | Bayside Villas | 1,547 | 78,750 | 51 |
| Discovery Bay | House | Siene One | 2,069 | 95,000 | 46 |
| Discovery Bay | House | Siene Two B | 1,711 | 85,000 | 50 |
| Discovery Bay | Apartment | Middle Land | 1,520 | 56,000 | 37 |
| Discovery Bay | Apartment | Greenery Court | 1,132 | 38,000 | 34 |
| Discovery Bay | Apartment | Crystal Court | 1,090 | 35,000 | 32 |
| Discovery Bay | Apartment | Coastline Villa | 1,903 | 67,600 | 36 |

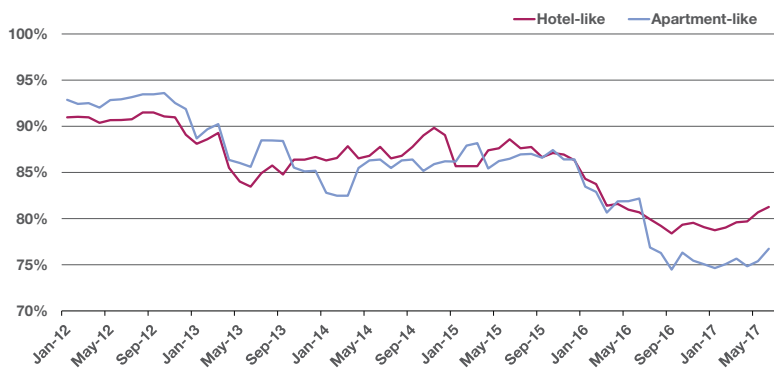
Source: Savills Residential Services, Savills Research & Consultancy

GRAPH 4
Serviced apartment rental indices by type, Q1/2012–Q2/2017



Source: Savills Research & Consultancy

GRAPH 5
Serviced apartment occupancy rate by type, Q1/2012–Q2/2017



Source: Savills Research & Consultancy

TABLE 4
New supply of major serviced apartments, 2017–2018

| Development | Location | Owner/ developer | No. of units | Expected year of completion |
|--------------------------------|---------------|-------------------|--------------|-----------------------------|
| The Staunton Suites | Central | Sino | 57 | 2017 |
| Little Tai Hang | Tai Hang | Cornes Properties | 91 | 2017 |
| CHI 138 | Wanchai | Chi Residence | 107 | 2017 |
| Rosewood Residence | Tsim Sha Tsui | New World | 199 | 2018 |
| Total supply 2017-2018: | | | 397 | |

Source: Savills Research & Consultancy

despite a rebound in rental levels and occupancy rates. Hotel-like and apartment-like serviced apartment rents are up by 3.1% and 1.6% respectively in Q2/2017 while the overall occupancy rate reached 79%, a slight improvement from 78% in Q1/2017. Serviced apartments with two bedrooms or more are more in demand right now than 1 bedroom or studio units, which are facing greater competition. We note that Garden East and One Wan Chai are both popular among renters currently because of their low rents (HK\$25,000 per month or less) and their proximity to the CBD. ■

Please contact us for further information

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