Briefing
Residential leasing

October 2018

SUMMARY

Luxury apartment rents are still seeing generally positive growth but we note the rise of serviced apartments as an increasingly popular alternative among younger renters.

- We have recorded a mild rise in luxury apartment rents and a robust increase in townhouse rents after a quiet second quarter.
- Shatin/Tai Po rents dropped during Q3 due to abundant new supply in the district while Residence Bel-Air and The Belcher's were the main drivers of rental growth in Pokfulam.
- Serviced apartments, while not new to Hong Kong, are enjoying a renewed level of interest at the moment as a relatively affordable and highly flexible option, particularly for younger tenants.
- Island East will see three new serviced apartment projects completed this year representing 314 units in total, helping to establish the area as a residential as well as a commercial hub.
- Our latest survey still ranks Hong Kong as the most expensive city in which to rent a luxury apartment or townhouse in the Asia Pacific region.

"Hong Kong's living costs remain among the region's most expensive while rents continue to rise, driven by limited availability felt most acutely on Hong Kong Island."
Simon Smith, Savills Research

Market commentary

Luxury apartment rents on Hong Kong Island rose mildly this quarter, increasing by 1.1% QoQ, while rents in Kowloon and the New Territories were up by 0.7% and 1.2% respectively. The townhouse market regained its momentum, with an increase of 3.4% during Q3/2018 as tight availability means that the sector is very sensitive to any uptick in demand.

The serviced apartment market was active as a preferred option among young people, lured by the flexibility of lease terms and the lack of outlay on things such as furniture and white goods. This format also offers great flexibility allowing the tenant to rent month-by-month, possibly while they wait to buy. Arguably these days, there is also little difference between a serviced apartment and a 'traditional' apartment as average unit sizes get smaller.

We have also observed the rise of co-living spaces which also appeal to young professionals. Both options provide furnished living spaces with flexible lease terms but serviced apartments provide dedicated and private units while co-living focuses more on promoting a collaborative lifestyle to create a community of like-minded people. Kitchens, living and recreational areas are often shared. Their monthly rates range from HK$6,000 to HK$12,000, competitive by Hong Kong standards. Dorms for adults or progressive communes? Take your pick.

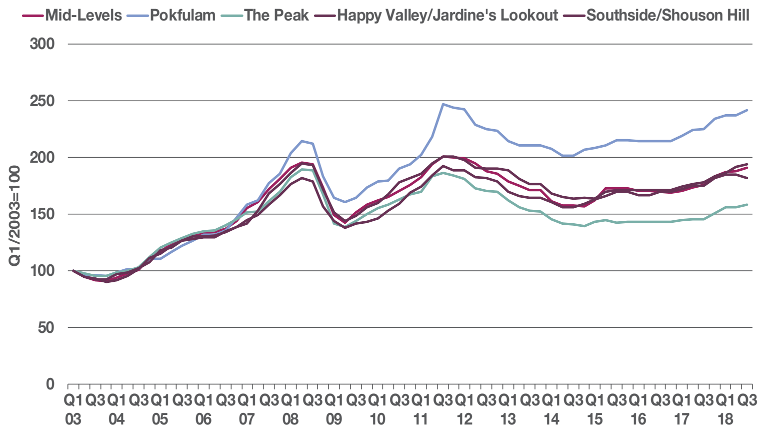
The introduction of a vacancy tax has been widely discussed as a means to cool the red-hot housing market. While details of the tax are scarce, it appears to be aimed at completed but unsold units vacant for more than six months of the year. One possible consequence of this could be to push more apartments which landlords are unable or unwilling to sell into the rental market. Other possible responses to the tax include reallocating units to serviced apartment use as was the case for Sun Hung Kai's Victoria Harbour development in North Point.

Luxury apartment rents on Hong Kong Island rose mildly this quarter, increasing by 1.1%, while rents in Kowloon and the New Territories were up by 0.7% and 1.2% respectively. The townhouse market regained its momentum, with an increase of 3.4% during Q3/2018.

Pokfulam (+1.9%) enjoyed the largest rental growth in the Hong Kong Island luxury apartment market, followed by Mid-Levels (+1.7%), The Peak (1.3%) and Southside/Shouson Hill (+1.3%). Rental growth in Pokfulam was mainly driven by Residence Bel-Air (+6.9%) and The Belcher's (+4.9%). Happy Valley/Jardine's Lookout

GRAPH 1

Hong Kong Island luxury rental indices by district, Q1/2003 – Q3/2018



Source: Savills Research & Consultancy

TABLE 1

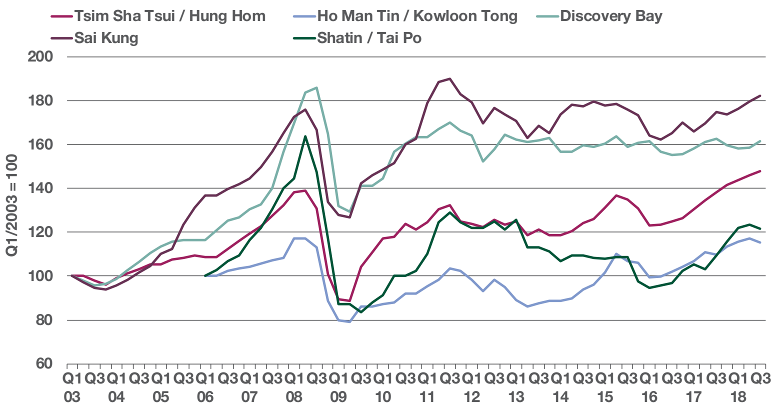
Mid-Levels, The Peak and Southside transactions, Q3/2018

District	Unit	Address	Saleable area (sq ft)	HK$ per month (incl. mgnt. & rates)	HK$ per sq ft saleable
The Peak	House	56 Peak Road	2,928	230,000	79
The Peak	House	21 Coombe Road	4,012	390,000	97
Mid-Levels	Apartment	80 Robinson Road	1,032	56,000	54
Mid-Levels	Apartment	Branksome Crest	1,767	126,000	71
Southside	Apartment	Manhattan Tower	1,999	160,000	80
Southside	Apartment	Celestial Garden	1,962	120,000	61

Source: Savills Research & Consultancy

GRAPH 2

Kowloon and New Territories luxury rental indices by district, Q1/2003 –Q3/2018



Source: Savills Research & Consultancy

(-1.4%) was the only sub-market recording a rental decrease over the quarter, mainly due to aging stock and renovation work in progress.

In Kowloon and the New Territories rents have enjoyed positive rental growth for nine and ten consecutive quarters respectively. Over the third quarter Discovery Bay (+2.0%) recorded the highest rental growth rate after resuming positive growth last quarter. Shatin / Tai Po rents declined by 1.5%, ending four consecutive quarters of growth, due to abundant new supply in Pak Shek Kok. On Kowloon-side, Tsim Sha Tsui / Hung Hom (+1.4%) remained strong despite the fact that rents in Ho Man Tin / Kowloon Tong dropped by 1.8% over the quarter.

TABLE 2

Kowloon transactions, Q3/2018

District	Unit	Address	Saleable area (sq ft)	HK$ per month (incl. mgnt. & rates)	HK$ per sq ft saleable
Tsim Sha Tsui	Apartment	The Masterpiece	1,030	45,000	44
Tsim Sha Tsui	Apartment	The Victoria Towers	791	42,000	53
Kowloon Station	Apartment	The Harbourside	1,060	63,000	59
Kowloon Station	Apartment	The Cullinan	1,128	67,000	59
Kowloon Station	Apartment	The Arch	518	33,500	65
Kowloon Station	Apartment	Grand Austin	1,126	66,000	59
Kowloon Station	Apartment	Sorrento	1,344	72,000	54

Source: Savills Research & Consultancy

TABLE 3

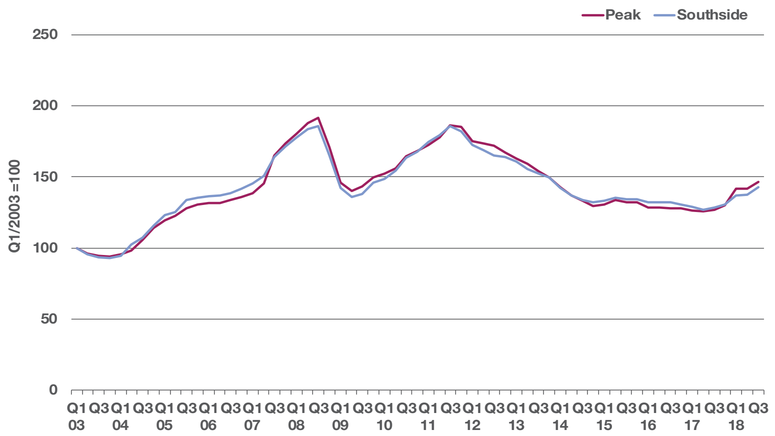
New Territories transactions, Q3/2018

District	Unit	Address	Saleable area (sq ft)	HK$ per month (incl. mgnt. & rates)	HK$ per sq ft saleable
Sai Kung	Apartment	Mount Pavilia	1,157	70,000	61
Sai Kung	House	La Casa Bella	1,842	94,000	51
Discovery Bay	House	Seabee Lane	2,403	120,000	50
Discovery Bay	House	Seabee Lane	1,406	73,000	52
Discovery Bay	Apartment	Positano	1,714	69,500	59
Discovery Bay	House	Headland Drive	2,566	110,000	43

Source: Savills Research & Consultancy

GRAPH 3

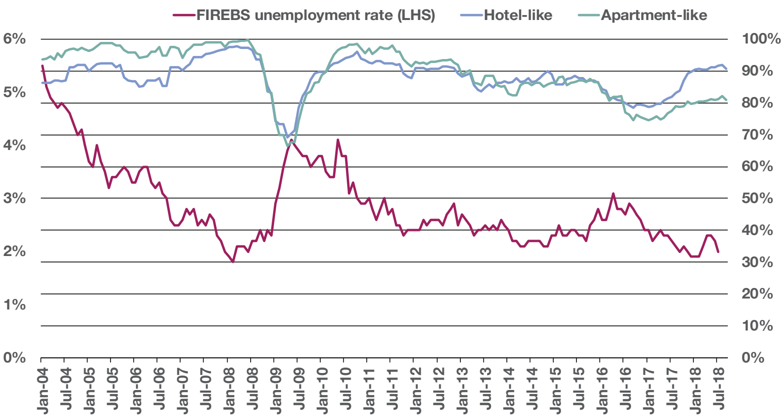
Townhouse rental indices by district, Q1/2003 – Q3/2018



Source: Savills Research & Consultancy

GRAPH 4

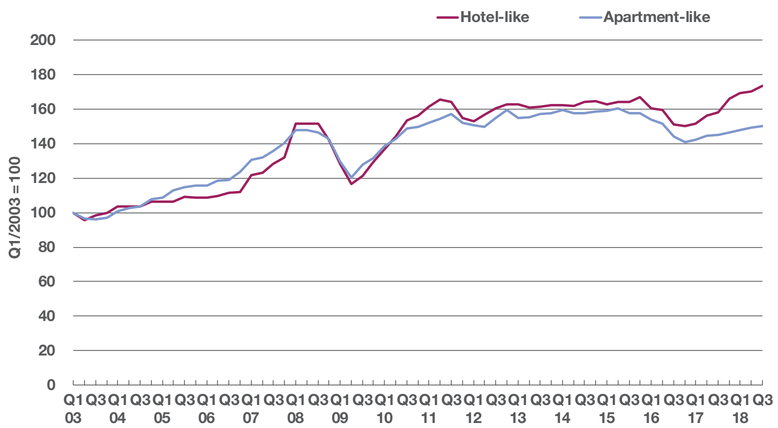
Serviced apartment occupancy rate by type and the FIREBS* unemployment rate, Jan 2013 – Jul 2018



*FIREBS: Finance Insurance Real Estate and Business Services
Source: Savills Research & Consultancy

GRAPH 5

Serviced apartment rental indices by type, Q1/2003–Q3/2018



Source: Savills Research & Consultancy

TABLE 4

New serviced apartment supply, 2018

Development	Location	Owner/developer	No. of units
CM+ (South Tower)	Sheung Wan	CM Land	81
Victoria Harbour Residence	North Point	SHKP	140
Rosewood Residences	Tsim Sha Tsui	New World	199
The Mercury	Tin Hau	GHC Asia	99
1 Oi Tak Street	Shau Kei Wan	Wing Tai Properties	75
		Total supply 2018	**594**

Source: Savills Research & Consultancy

Townhouse rents in The Peak and Southside districts increased by 3.2% and 3.5% in Q3/2018, up from 0.4% and unchanged from the previous quarter. Overall townhouse market rents were up by 3.4%. After Q1/2018, Q3/2018 saw the second highest rental growth rate since Q2/2011.

In Q3/2018, serviced apartment rents started to pick up again with Hotel-like and Apartment-like rents increasing by 1.9% and 0.7% respectively. Occupancy rates have been generally stable, maintaining a level above 80%, as the FIREBS unemployment rate remains low (2.0% in July 2018).

We expect 594 serviced apartments to be completed in 2018 with Rosewood Residences (199 units) the only new project on Kowloon-side. The market focus will be on Hong Kong Island and Island East will be the area with the largest volume of new supply, with three projects and 314 mostly small to medium sized units (one to three beds).

The (considerable) cost of living in Hong Kong

According to Savills research undertaken in July 2018, Hong Kong was ranked number one in terms of total occupancy costs for luxury apartments and villas/townhouses across all major Asia Pacific cities.

For luxury apartments, the average Hong Kong occupancy cost recorded was US$99.3 per sq m net per month in 1H/2018, inclusive of management fees and government rates/tax, followed by Tokyo (US$77.6), Seoul (US$61.1), Shanghai (US$40.9) and Singapore (US$38.9). Hong Kong has ranked number one for luxury apartments since 2H/2012.

For villas/townhouses, in 1H/2018, the occupancy cost in Hong Kong were US$108.1 per sq m net per month, inclusive of management fees and government rates/tax, around double second placed Sydney (US$53.7). Since our survey began in 2H/2007, Hong Kong has been ranked number one in this market segment.

Surveys by other organizations confirm that Hong Kong is one of the most expensive cities in the world in terms of living costs, covering more than just accommodation.

A Cost of Living Survey 2018 by Mercer ranks Hong Kong as the world's most expensive city for expatriates in 2018 while Tokyo and Zurich are in second and third places. The survey ranks 209 cities globally by measuring the comparative costs of over 200 items in each city, such as housing, transportation, food, clothing, household goods and entertainment.

Hong Kong is ranked as number four in a survey by The Economic Intelligence Unit (EIU) – Worldwide Cost of Living 2018, which ranks Singapore as the most expensive city in the world, followed by Paris, Zurich and Hong Kong. This survey is a ranking of over 130 cities worldwide based on their relative cost of living by measuring 400 individual prices across 160 products and services, which consist of home rents, transport, utility bills and private school fees.

TABLE 5

Total occupancy cost (top 10 average) - luxury apartment

	City	US$ per sq m net per month (Inclusive of management fees and government rates/tax)
1	Hong Kong	99.3
2	Tokyo	77.6
3	Seoul*	61.1
4	Shanghai	40.9
5	Singapore	38.9

Source: Savills Research & Consultancy
*Seoul's rent = (Security deposit x Interest rate) / 12 + Monthly payment

TABLE 6

Total occupancy cost (top 10 average) - villas/townhouses

	City	US$ per sq m net per month (Inclusive of management fees and government rates/tax)
1	Hong Kong	108.1
2	Sydney	53.7
3	Shenzhen	38.8
4	Guangzhou	33.2
5	Singapore	30.9

Source: Savills Research & Consultancy

Please contact us for further information

Savills Residential Services

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

Savills Research

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

Jimmy Wong
Assistant Manager
+852 2842 4287
jtmwong@savills.com.hk