Hong Kong – January 2021

MARKET IN MINUTES
Savills Research

Residential Leasing

Q4 sees tighter budgets and less activity

Landlords are generally adapting to lower budgets while occupancy rates have held up well despite the downturn.

- Hong Kong Island, Kowloon and the New Territories recorded annual rental declines of 11.8%, 11.1% and 11.8% respectively in 2020.
- Landlords have been more willing to accept rent cuts requested by tenants rather than face the risk of lengthy voids.
- Discovery Bay (-15.4%) recorded the largest rental fall across all districts in 2020 largely because the district is heavily exposed to airline staff.
- Townhouse rents recorded falls of 3.1% and 10.5% in Q4/2020 and the whole 2020 respectively.
- Serviced apartments typically offered rental cuts of 10% to 20% to increase occupancy levels. More tenants are asking for more flexible lease terms given concerns over job security.
- Both luxury residential rents and townhouse rents are expected to continue to slip in the first half of 2021 while we could see rents stabilise over the second half, vaccine and travel dependent.

"The market remains locked up with few new arrivals and a trickle of leavers, a situation likely to persist into the first quarter of this year."

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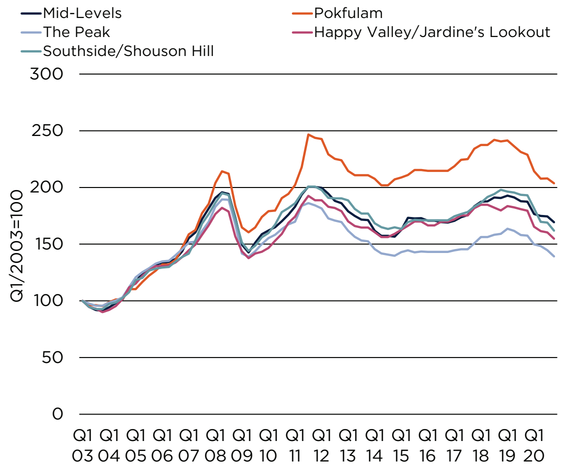
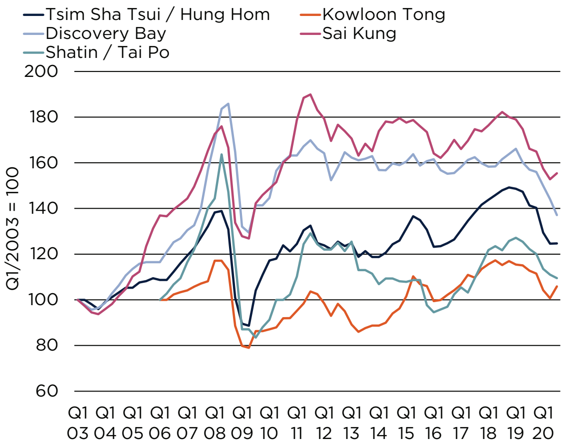
GRAPH 1: Hong Kong Island Luxury Rental Indices By District, Q1/2003 to Q4/2020



Source Savills Research & Consultancy

GRAPH 2: Kowloon and New Territories Luxury Rental Indices By District, Q1/2003 to Q4/2020



Source Savills Research & Consultancy

MARKET COMMENTARY

In a year during which most businesses have struggled and unemployment has risen above 6% (its highest level since 2009) luxury apartment rents fell by 11.5% over 2020 as a whole and by 2.6% during the fourth quarter. As corporates have cut salaries and housing allowances, tenants have had every incentive to negotiate rental terms and generally landlords have been willing to accept cuts rather than face the risk of prolonged vacancy. Travel restrictions have also slowed the flow of new arrivals to a dribble and activity has been mostly locally driven. Looking ahead, the first half is likely to see further falls in rents while the second half may see greater stability.

Overall the market was fairly flat in the final quarter of 2020, in terms of both rents and volumes, and is likely to remain so until borders reopen. We could see further minor seasonal falls in the first quarter of this year with a pick up during the traditionally active April to October period. To what extent the market returns to normal will very much depend of the progress of vaccinations and the lifting of travel restrictions.

Active budget bands in the fourth quarter include pilots (HK$70,000-HK$80,000), lawyers (HK$80,000 – HK$100,000), French bankers (HK$90,000 – HK$100,000) and IT (HK$40,000 – HK$50,000). While good quality stock is seeing little vacancy, houses of over HK$100,000 per month are struggling to find tenants. The upper Peak is also quiet with many put off by the cost, the climate, and the dearth of schools.

In the last quarter of 2020, all districts on Hong Kong Island recorded larger rental falls compared with the previous quarter. Hong Kong Island rents fell by 3.1% in Q4/2020. Southside/Shouson Hill registered the largest rental decline on Hong Kong Island, with rents dropping by 4.2% over the quarter, followed by The Peak (-3.8%) and Happy Valley / Jardine's Lookout (-3.5%). Luxury apartment rents in Kowloon and the New Territories fell by 1.5% and 3.0%. Ho Man Tin/Kowloon Tong (+5.2%) recorded the largest rental decrease in Kowloon and the New Territories after the active school season in the third quarter.

Given the well-publicized woes of the airline industry which saw Cathay lay off 6,000 employees including 550 pilots, Discovery Bay was Hong Kong's worst hit rental market, with apartment rents down by 15.4% over the year. Layoffs were supplemented by reduced terms of service and lower housing allowances and landlords have been faced with little choice but to reflect the cuts. A typical allowance was slashed from HK$100,000 to HK$70,000 per month.

The least-worst performer of the year was Sai Kung which saw a 7.5% fall in rents. Tenants in this rural district have chosen the lifestyle and are generally reluctant to move away from the greenery, the sea views and the lower development density. As a more mature market, Sai Kung also typically sees less new development and this has also helped to support rents. New roads, the bane of everyone's life over the past year or so, should complete in 2021 improving access

TABLE 1: Savills Residential Rental Indices, Q3/2020 vs Q4/2020

	Q3/2020 (%)	Q4/2020 (%)
Luxury Apartments - Hong Kong Island	-0.4	-3.1
Luxury Apartments - Kowloon	+1.2	-1.5
Luxury Apartments - New Territories	-1.7	-3.0
Townhouses	-0.8	-3.1
Serviced Apartments	-0.5	-2.5

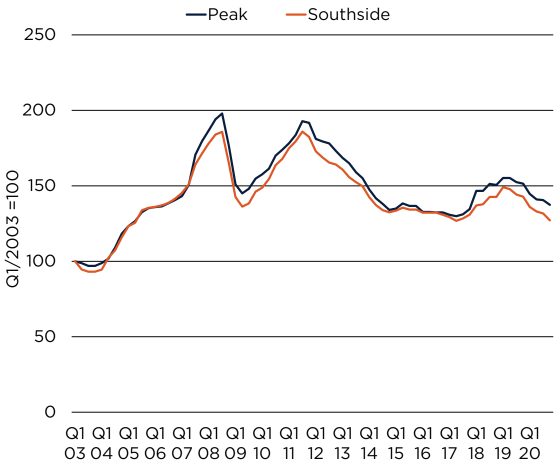
Source Savills Research & Consultancy

TABLE 2: Mid-Levels, The Peak and Southside Transactions, Q4/2020

DISTRICT	UNIT TYPE	ADDRESS	SALEABLE AREA (SQ FT)	HK$ PER MONTH (INCL. MGT. & RATES)	HK$ PER SQ FT SALEABLE
Mid-Levels	Apartment	Branksome Grande	2,279	160,000	70
Mid-Levels	Apartment	Tregunter Towers	2,887	120,000	42
The Peak	House	The Mount Austin	2,724	245,000	90
The Peak	Apartment	Interocean Court	2,665	228,000	86
Southside	Apartment	8 Deep Water Bay Drive	3,302	220,000	67
Southside	House	The Carmina	2,075	112,000	54

Source Savills Research & Consultancy

GRAPH 3: Townhouse Rental Indices By District, Q1/2003 to Q4/2020



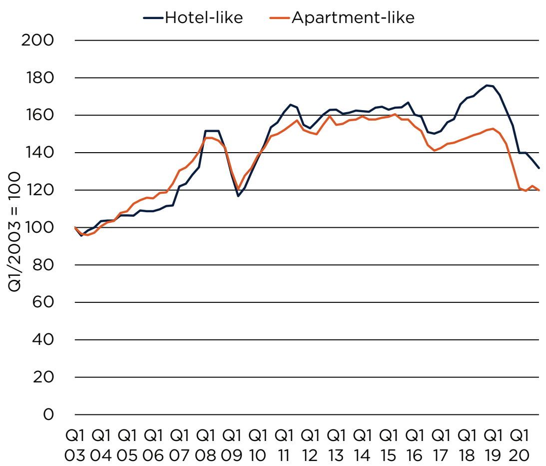
Source Savills Research & Consultancy

TABLE 3: Kowloon Transactions Q4/2020

DISTRICT	UNIT TYPE	ADDRESS	SALEABLE AREA (SQ FT)	HK$ PER MONTH (INCL. MGT. & RATES)	HK$ PER SQ FT SALEABLE
Tsim Sha Tsui	Apartment	The Harbourside	1,051	58,000	55
Tsim Sha Tsui	Apartment	The Harbourside	1,015	40,800	40
Kowloon Station	Apartment	The Cullinan	1,301	80,000	61
Kowloon Station	Apartment	The Cullinan	1,262	67,000	53
Kowloon Station	Apartment	Grand Austin	928	40,000	43
Kowloon Station	Apartment	The Waterfront	934	35,000	37
Kowloon Station	Apartment	Grand Austin	1,127	58,000	51

Source Savills Research & Consultancy

GRAPH 4: Serviced Apartment Rental Indices By Type, Q1/2003 to Q4/2020



Source Savills Research & Consultancy

TABLE 4: New Territories Transactions, Q4/2020

DISTRICT	UNIT TYPE	ADDRESS	SALEABLE AREA (SQ FT)	HK$ PER MONTH (INCL. MGT. & RATES)	HK$ PER SQ FT SALEABLE
Sai Kung	House	Silver Crest Villa	1,890	70,000	37
Sai Kung	Apartment	Habitat	1,561	83,000	53
Discovery Bay	House	Headland Drive	2,094	100,000	48
Discovery Bay	House	Bijou Hamlet	1,556	85,000	55
Discovery Bay	Apartment	Poggibonsi	1,200	56,000	47

Source Savills Research & Consultancy

to the area, especially on weekends when traffic is particularly heavy.

Townhouse rents fell by 3.1% in Q4/2020, compared with -0.8% in Q3/2020. The sector has experienced rental declines for seven consecutive quarters, the longest run of rental falls after the 13 quarters between Q4/2011 and Q4/2014. Townhouse rents are down by 13.7% from their recent peak in Q1/2019 while rents fell by 10.5% over 2020 as a whole.

SERVICED APARTMENT MARKET

Serviced apartment rents recorded a decline of 2.5% over Q4/2020, continuing a seventh consecutive quarter of rental decline since Q2/2019. Apartment-like rents and hotel-like rents fell by 3.2% and 1.9% respectively. In 2020, serviced apartment rents recorded a fall of 12.5%.

With no new arrivals, operators are offering rental reductions of 10% to 20% on longer leases and free upgrades to larger units. In some extreme cases we have heard of 50% reductions. Upscale serviced apartments now have more room for negotiation and many tenants are bargaining for shorter leases of 12 months given concerns over job security. Most turnover in the sector is from the existing tenant base. Although still dominated by expats, there is some evidence that local Hongkongers are taking more of an interest in this market, particularly young professionals lured by the cheaper rents.