

Residential Leasing



Rents slip on weak volumes

Landlords showed greater flexibility in negotiations towards year-end as many were keen to lease vacant units before the traditionally quiet run up to the Chinese New Year in late January.

- Luxury rents on Hong Kong Island and New Territories recorded declines of 3.1% and 1.1% respectively, while rents in Kowloon rose slightly by 0.1%.
- Luxury rents by district on Hong Kong Island all recorded declines in Q4/2022, with Mid-Levels (-3.4%), Pokfulam (-3.8%), The Peak (-2.4%), Happy Valley/Jardine's Lookout (-2.5%), Southside (-2.4%) all posting modest falls.
- Discovery Bay continues to face challenges on several fronts as demand from airline staff remains weak in terms of both numbers and budgets.
- Townhouse rents fell heavily by 5.8% over the quarter, with a 6.2% decline on the Peak and a 5.5% decline recorded in Southside.
- Looking ahead to 2023, we should see some revival in demand in the second half from businesses looking to capitalize on Hong Kong's turnaround as restrictions are loosened and the border with the Mainland reopens.

“Generally weak market conditions prevailed at the close of 2022 and looking into next year we expect to see a subdued first half with some upside risk from recovering business sentiment and a more porous Mainland border.”

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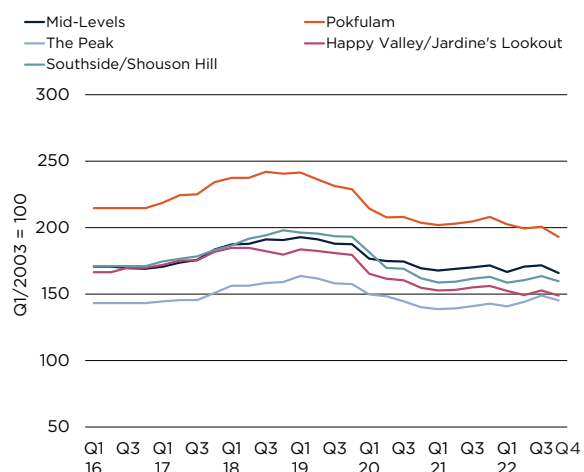


TABLE 1: Savills Residential Rental Indices, Q3/2022 vs Q4/2022

| | Q3/2022 (QOQ%) | Q4/2022 (QOQ%) |
|--------------------------------------|----------------|----------------|
| Luxury Apartments - Hong Kong Island | +1.2% | -3.1% |
| Luxury Apartments - Kowloon | +1.9% | +0.1% |
| Luxury Apartments - New Territories | +0.5% | -1.1% |
| Townhouses | +2.5% | -5.8% |
| Serviced Apartments | +5.3% | -0.8% |

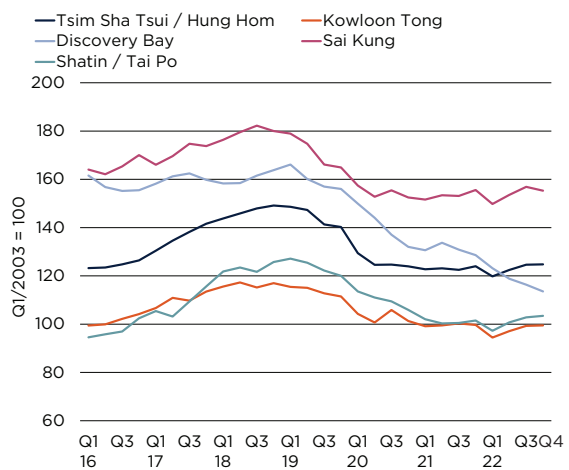
Source Savills Research & Consultancy

GRAPH 1: Hong Kong Island Luxury Rental Indices by District, Q1/2016 to Q4/2022



Source Savills Research & Consultancy

GRAPH 2: Kowloon and New Territories Luxury Rental Indices by District, Q1/2016 to Q4/2022



Source Savills Research & Consultancy

MARKET OVERVIEW

The market has seen very little change in activity levels since the third quarter, but landlords have been showing greater flexibility in negotiations towards year-end as many are keen to lease vacant units before the traditionally quiet run up to the Chinese New Year in late January.

Government's latest 'o + o' policy has had only a very minor impact on volumes, but we see falling sales prices beginning to push people into the rental market. Luxury rents on Hong Kong Island and New Territories recorded a decline of 3.1% and 1.1% respectively, while rents in Kowloon rose slightly by 0.1%.

Luxury rents on Hong Kong Island all recorded declines in Q4/2022, with Mid-Levels (-3.4%), Pokfulam (-3.8%), The Peak (-2.4%), Happy Valley/Jardine's Lookout (-2.5%), Southside (-2.4%) all posting modest falls.

Some districts have seen much steeper rental falls than others and Pokfulam in particular has been losing out to Mid-Levels West where transport options are much better. Cemetery views also tend to put off Indians, locals and Mainlanders. Even Residence Bel-Air, beyond the cemetery, is seeing high levels of vacancy right now and multiple landlords are competing for tenants. Residence Bel-Air comprises around 3,000 units in six phases launched from 2003.

In Kowloon, luxury rents remained relatively stable, with Tsim Sha Tsui/Hung Hom (+0.1%) and Ho Man Tin/Kowloon Tong (+0.2%) posting small rises, while in the New Territories, luxury apartment rents recorded marginal declines over the quarter, in particular Discovery Bay (-2.4%) and Sai Kung (-0.1%), with the exception of Sha Tin/Tai Po (+0.6%).

Discovery Bay continues to face challenges on several fronts as demand from airline staff

TABLE 2: Mid-Levels, The Peak and Southside Transactions, Q4/2022

| DISTRICT | UNIT TYPE | ADDRESS | SALEABLE AREA (SQ FT) | HK\$ PER MONTH (INCL. MGT. & RATES) | HK\$ PER SQ FT SALEABLE |
|------------|-----------|------------------|-----------------------|-------------------------------------|-------------------------|
| Mid-Levels | Apartment | Highcliff | 2,613 | 130,000 | 50 |
| Mid-Levels | Apartment | Seymour | 1,732 | 110,000 | 64 |
| Mid-Levels | Apartment | Stubbs Villa | 2,624 | 143,500 | 55 |
| Mid-Levels | Apartment | The Mayfair | 2,144 | 100,000 | 47 |
| Southside | Apartment | 9 Headland Road | 3,087 | 138,000 | 45 |
| Southside | House | Evergreen Garden | 2,843 | 135,000 | 47 |
| Southside | House | Case Del Sol | 3,047 | 116,000 | 38 |
| Southside | Apartment | Twin Brook | 2,423 | 111,000 | 46 |
| Southside | Apartment | Belgravia | 1,875 | 110,000 | 59 |

Source Savills Research & Consultancy

TABLE 3: Kowloon Transactions Q4/2022

| DISTRICT | UNIT TYPE | ADDRESS | SALEABLE AREA (SQ FT) | HK\$ PER MONTH (INCL. MGT. & RATES) | HK\$ PER SQ FT SALEABLE |
|-----------------|-----------|-----------------|-----------------------|-------------------------------------|-------------------------|
| Kowloon Station | Apartment | The Cullinan | 1,530 | 110,000 | 72 |
| Kowloon Station | Apartment | The Cullinan | 1,361 | 100,000 | 73 |
| Kowloon Station | Apartment | Grand Austin | 1,475 | 73,000 | 49 |
| Kowloon Station | Apartment | The Cullinan | 1,352 | 72,000 | 53 |
| Kowloon Station | Apartment | The Harbourside | 1,123 | 63,000 | 56 |
| Kowloon Station | Apartment | Sorrento | 1,294 | 58,000 | 45 |

Source Savills Research & Consultancy

GRAPH 3: Townhouse Rental Indices, Q1/2016 to Q4/2022

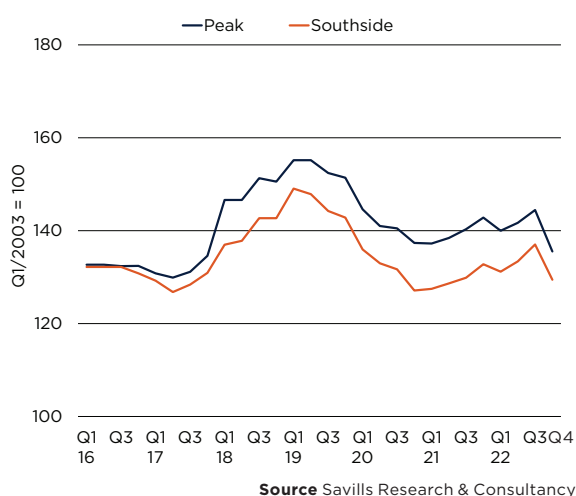
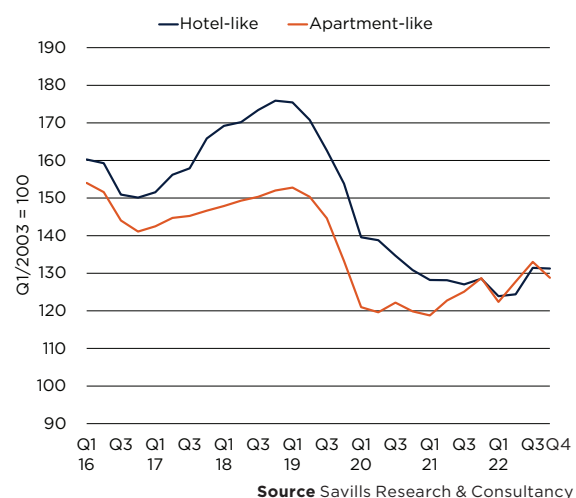


TABLE 4: New Territories Transactions, Q4/2022

| DISTRICT | UNIT TYPE | ADDRESS | SALEABLE AREA (SQ FT) | HK\$ PER MONTH (INCL. MGT. & RATES) | HK\$ PER SQ FT SALEABLE |
|---------------|-----------|----------------|-----------------------|-------------------------------------|-------------------------|
| Sai Kung | House | Habitat | 1,561 | 74,000 | 47 |
| Sai Kung | Apartment | Mount Pavilia | 1,836 | 65,000 | 35 |
| Sai Kung | House | Ocean Court | 1,460 | 61,750 | 42 |
| Discovery Bay | Apartment | Seahorse Lane | 1,995 | 65,000 | 33 |
| Discovery Bay | House | Seabee Lane | 1,406 | 53,000 | 38 |
| Discovery Bay | Apartment | Parkland Drive | 1,183 | 51,000 | 43 |

Source Savills Research & Consultancy

GRAPH 4: Serviced Apartment Rental Indices by Type, Q1/2016 to Q4/2022



remains weak in terms of both numbers and budgets. The ferry service is also regarded as inconvenient and expensive while new areas including Tung Chung and Tseung Kwan O present viable alternatives to the enclave. The Sai Kung and Clearwater Bay markets are also quiet at the moment with fewer expats in town. The Kowloon market remains quite stable with areas such as Tsim Sha Tsui and Hung Hom popular among arriving Japanese expats.

Townhouse rents fell heavily by 5.8% over the quarter, with a 6.2% decline on the Peak and a 5.5% decline recorded in Southside. Landlords have been willing to reduce rents in order to lease their townhouses before the end of year.

SERVICED APARTMENTS

In the serviced apartment market, rents for hotel-like and apartment-like units also fell by 0.1% and 3.2% respectively, and overall occupancy is at 62%. The shift to ‘0+3’ in October lifted demand for a while but while onerous restrictions around PCR tests and mask wearing (with the possibility of fines) remain, it is difficult to see any turnaround.

December and January are traditionally the low season for this market anyway.

LOOKING AHEAD TO 2023

Hong Kong Island Luxury apartment rents are now 17% below peak levels in 2019 while townhouses are down by around 13%. While rates of decline slowed in 2022 (-3.6% and -3.4% respectively), the market is on shaky ground and vacancies have persisted at year-end.

Looking ahead, the fortunes of the luxury residential leasing market are closely tied to core office demand which is currently weak after a prolonged period of disruption from the social unrest of 2019 and two years of COVID restrictions.

Next year should hopefully see some revival in demand from businesses looking to capitalize on Hong Kong’s turnaround as restrictions are loosened and the border with the Mainland reopens. With this in mind, we expect luxury apartment rents to remain subdued through the first half of 2023 with the possibility of a modest rally in the second half to end the year 0% to 5% up.