

Briefing Residential leasing

February 2016



Image: The Masterpiece, Tsim Sha Tsui

SUMMARY

Luxury leasing market rents drifted in the last few months of 2015 with little growth reported in any segment.

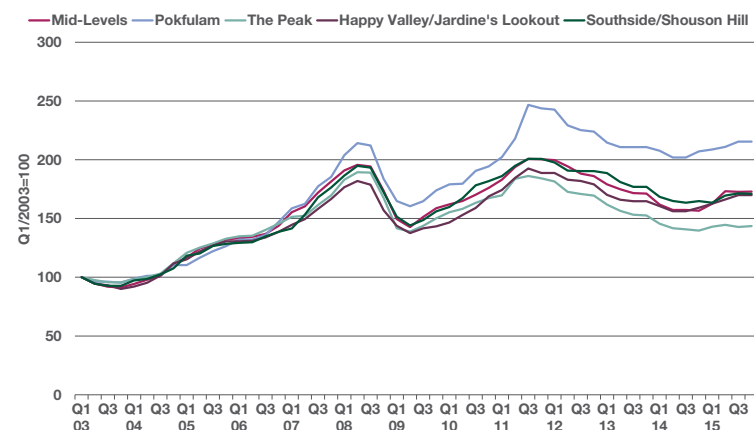
- The market has drifted with few, if any, major movements in rents in any market segment.
 - Financial services demand remains sluggish while retailers continue to feel the pinch.
 - The absence of leasing by senior MNC management from banks and financial institutions resulted in the underperformance of townhouse rents compared with apartment rents
 - Rents in Kowloon and New Territories fell by 1.7% and 1.9% respectively given the poor stock market performance and an increase in available stock from newly completed developments.
 - Although we noted some cost-saving demand from Hong Kong Island, rents are expected to fall further in 2016 especially in Yuen Long and Sai Kung
 - Demand for serviced apartments was resilient in 2015 thanks to new office market entrants and expansion demand from existing occupiers, particularly PRC firms.
 - Demand for townhouses will remain weak and we expect the trend for leasing outside traditional core areas to continue.
-
- "We expect to see rental declines in both 2016 and 2017 given weaker demand alongside an expected increase in supply." Simon Smith, Savills Research
-

➔ **Market commentary**

In the luxury residential leasing market, the reality is that little has changed since our previous briefing in October last year. The market has drifted with few, if any, major movements in rents in any market segment. Financial services demand remains sluggish (although asset management and corporate finance are still active) while retailers continue to feel the pinch. We note more leasing demand from smaller companies, often in IT or logistics. The insurance sector is noticeably quiet.

Leasing demand for luxury apartments and townhouses was strong in the first half of 2015 but started to weaken in the third quarter due to the mainland stock market turmoil. Looking at our

GRAPH 1 **Hong Kong Island luxury rental indices by district, Q1/2003–Q4/2015**



Source: Savills Research & Consultancy

TABLE 1 **Mid-Levels, The Peak and Southside transactions, Q4/2015**

| District | Unit | Address | Saleable area (sq ft) | HK\$ per month (incl. mgnt. & rates) | HK\$ per sq ft saleable |
|------------|-----------|-------------------|-----------------------|--------------------------------------|-------------------------|
| The Peak | Apartment | Interocean Court | 2,665 | 220,000 | 83 |
| The Peak | House | Oriental Crest | 2,887 | 135,000 | 47 |
| Mid-Levels | Apartment | Conduit 18 | 920 | 54,000 | 59 |
| Mid-Levels | Apartment | Century Tower | 2,792 | 148,000 | 53 |
| Southside | Apartment | The Manhattan | 1,401 | 60,000 | 43 |
| Southside | House | Redhill Peninsula | 2,836 | 108,000 | 38 |

Source: Savills Residential Leasing, Savills Research & Consultancy

TABLE 2 **Kowloon transactions, Q4/2015**

| District | Unit | Address | Saleable area (sq ft) | HK\$ per month (incl. mgnt. & rates) | HK\$ per sq ft saleable |
|-----------------|-----------|-------------------|-----------------------|--------------------------------------|-------------------------|
| Ho Man Tin | Apartment | Celestial Heights | 1,985 | 68,000 | 34 |
| Tsim Sha Tsui | Apartment | Harbour Pinnacle | 688 | 40,000 | 58 |
| Kowloon Station | Apartment | The Austin | 1,002 | 37,000 | 37 |
| Kowloon Station | Apartment | The Arch | 849 | 46,000 | 54 |
| Kowloon Station | Apartment | The Waterfront | 794 | 30,000 | 38 |
| Tsim Sha Tsui | Apartment | The Masterpiece | 939 | 50,000 | 53 |
| Ho Man Tin | Apartment | Parc Palais | 1,288 | 44,000 | 34 |
| Tsim Sha Tsui | Apartment | Victoria Towers | 802 | 31,000 | 39 |
| Kowloon Station | Apartment | The Harbourside | 1,015 | 49,000 | 48 |
| Kowloon Station | Apartment | The Cullinan | 672 | 36,000 | 54 |

Source: Savills Residential Leasing, Savills Research & Consultancy

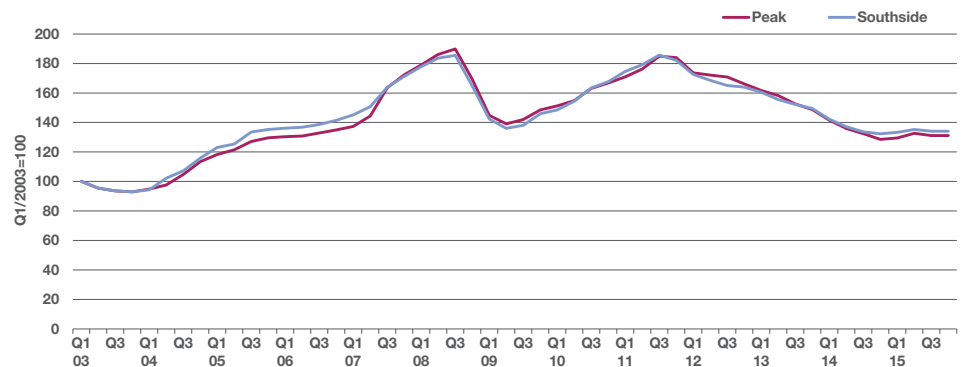
market indices, the fourth quarter leasing market was stable without significant movement resulting in a 6.4% increase in luxury apartment rents in 2015 as a whole. Rents in Mid-levels and The Peak rose 0.1% and 0.5% respectively in Q4/2015. We witnessed a rental decline of 0.3% in the Southside while rents in Pokfulam and Happy Valley/Jardine's Lookout remained stable.

Luxury apartment rents grew across all districts in 2015 particularly in Mid-Levels (+10.4%), followed by a 6.8% and a 4.0% increment in rents in Happy Valley/Jardine's Lookout and Pokfulam respectively. In the Peak and Southside rents rose by a mere 2.2% and 4.0% respectively over the year, due to a lack of demand for top tier apartments.

The absence of leasing by senior MNC management from banks and financial institutions resulted in the underperformance of townhouse rents compared with apartment rents, although we witnessed a few leasing deals by executive directors from newly listed companies. Townhouse rents rose by 1.6% in 2015.

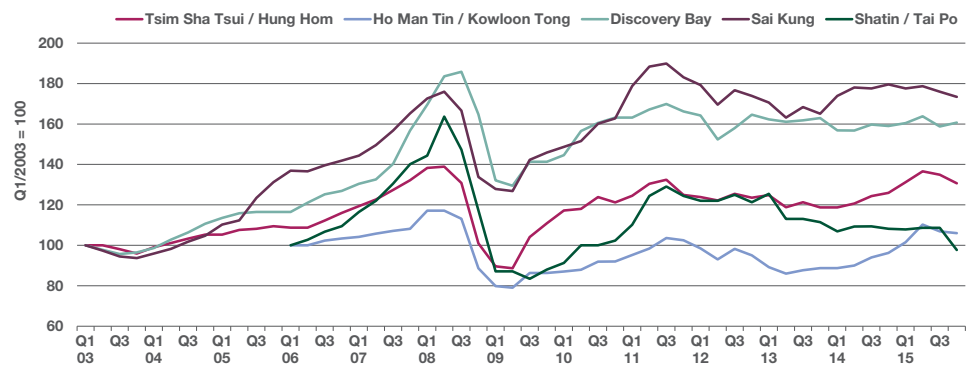
In Q4/2015 rents in Kowloon and New Territories fell by 1.7% and 1.9% respectively given the poor

GRAPH 2 **Townhouse rental indices by district, Q1/2003–Q4/2015**



Source: Savills Research & Consultancy

GRAPH 3 **Kowloon and New Territories luxury apartment rental indices by district, Q1/2003–Q4/2015**



Source: Savills Research & Consultancy

TABLE 3 **Luxury apartment rental movement by district, 2014 and 2015**

| | 2014 (%) | 2015 (%) |
|--------------------------------|-------------|-------------|
| Mid-Levels | -8.5 | +10.3 |
| Pokfulam | -1.7 | +4.0 |
| The Peak | -8.4 | +2.7 |
| Happy Valley/Jardine's Lookout | -3.4 | +6.8 |
| Southside/Shouson Hill | -6.9 | +3.7 |
| Hong Kong Island | -6.3 | +6.4 |
| Tsim Sha Tsui/Hung Hom | +6.1 | +3.8 |
| Ho Man Tin/Kowloon Tong | +8.5 | +10.2 |
| Kowloon | +6.6 | +5.2 |
| Discovery Bay | -2.4 | +1.1 |
| Sai Kung | +8.8 | -3.4 |
| Shatin/Tai Po | -3.0 | -9.7 |
| New Territories | +2.3 | -2.8 |

Source: Savills Research & Consultancy

stock market performance and an increase in available stock from newly completed developments. Although we noted some cost-saving demand from Hong Kong Island, rents are expected to fall further in 2016 especially in Yuen Long and Sai Kung where 1,400 and 500 luxury units are to be completed this year respectively.

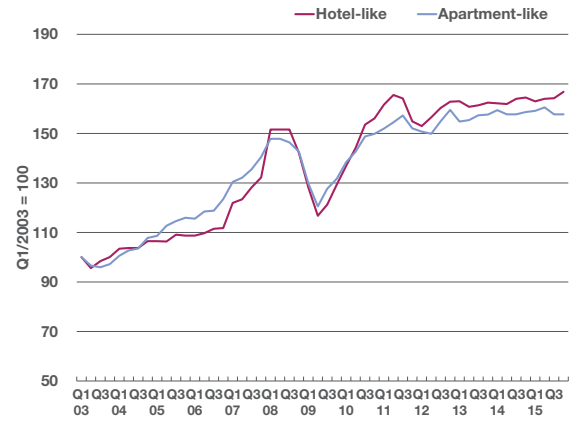
Demand for serviced apartments was resilient in 2015 thanks to new office market entrants and expansion demand from existing occupiers, particularly PRC firms. Hotel-like serviced apartments were more sought-after than apartment-like units given the quality of management and flexible leasing terms. In 2015 serviced apartment

rents rose by 0.5% while hotel-like serviced apartment rents grew by 1.4%. Meanwhile the vacancy rate stood at a high level of 87%.

Outlook

We expect to see rental declines in both 2016 and 2017 given weaker demand and the expected increase in supply. Demand for townhouses will remain weak and we expect the trend for leasing outside traditional core areas to continue. ■

GRAPH 4 **Serviced apartment rental indices, Q1/2003–Q4/2015**



Source: Savills Research & Consultancy

Please contact us for further information

Savills Residential Leasing

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
Manager
+852 2842 4287
rclmak@savills.com.hk

Savills plc

Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 700 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.