MARKET IN MINUTES
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Residential Leasing

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Luxury rents see heavy fall

The COVID-19 outbreak has frozen the market with little activity reported across most districts and rents have had to adjust accordingly.

- Leasing transaction volumes have dropped as economic activity is being widely disrupted.
- Kowloon (-7.9%) recorded the largest rental fall among all regions in Q1/2020, with rents in Kowloon Station and Olympic Station dropping by nearly 10%.
- Company landlords still have strong holding power and are not eager to offer significant rental deductions, however, rent free periods of two to three weeks are in evidence under some circumstances.
- PRC demand has all but ceased while the closure of government departments has affected expat demand as no working visas are being issued.
- Townhouse rents performed best among all residential leasing sectors, recording a fall of 4.7% over the quarter. Corporate landlords can still afford to be selective in looking for tenants with a good covenant.
- Serviced apartments experienced another challenging quarter, posting a rental decrease of 9.4%. Average occupancy rates reached 50% to 60% while prime blocks which have secured long-term leases with tenants remained 80% let.
- COVID-19's negative impact on businesses across almost all sectors, including finance and professional services, means reduced headcount and lower luxury residential leasing demand.

"Most districts are seeing little demand in or out, and what activity there is relates mostly to downsizing as employment prospects dim."

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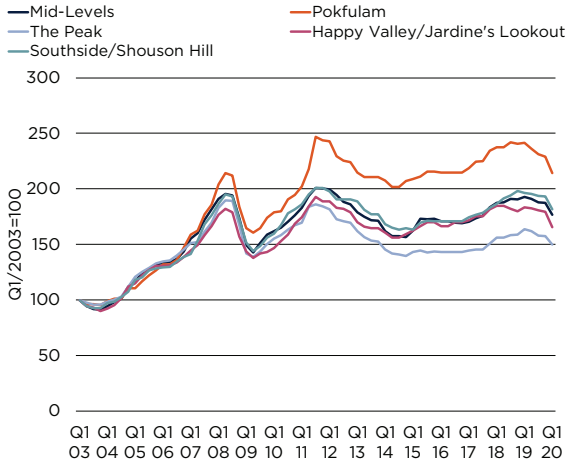
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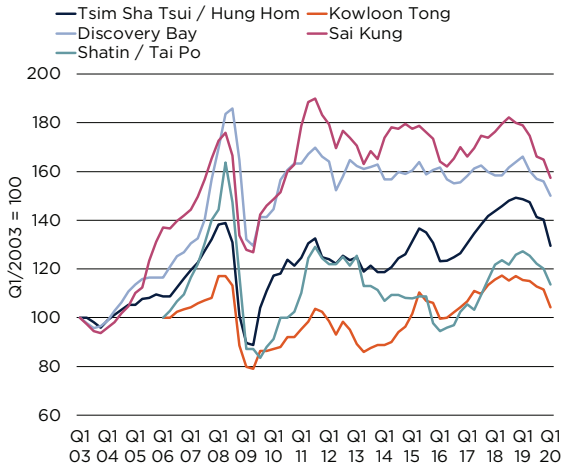
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GRAPH 1: Hong Kong Island Luxury Rental Indices By District, Q1/2003 to Q1/2020



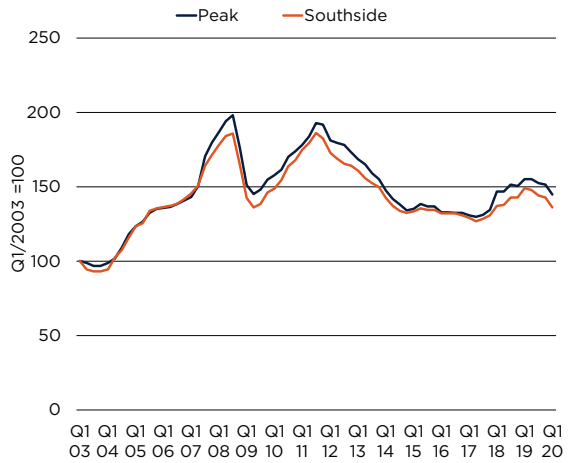
Source Savills Research & Consultancy

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



Source Savills Research & Consultancy

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



Source Savills Research & Consultancy

MARKET COMMENTARY

It has been a very tough quarter to assess where the market is right now with so little activity and a general lack of transparency, however, we have seen significant falls across all the residential leasing markets.

Luxury apartment rents in Hong Kong Island, Kowloon and the New Territories slumped by 6.1%, 7.4% and 4.5% respectively over the first quarter of 2020. All these three districts recorded their worst quarterly performance since 2010. Compared to Q1/2019 when the market began to turn down, luxury rents have fallen by around 10% or more.

In traditional luxury districts on Hong Kong island, rents have held up slightly better than elsewhere. Apartment stock in these markets (Peak, Southside and Mid-levels), particularly in the baskets of buildings we track, is dominated by company landlords with strong holding power and most are not under any financial pressure to discount rents heavily. Equally, there is more of a preference to maintain face rents by offering longer rent-free periods of between two to three weeks in some instances.

In Pokfulam and Happy Valley/Jardine's Lookout where individual landlords are more common and lump sum rents are lower, we have seen slightly higher rental falls of 6.3% and 7.9% respectively while rent free periods are limited to one or two weeks.

PRC demand is down around 80% from last year while expat activity has also fallen heavily. Even with the prospect of employment in Hong Kong, besides the travel restrictions, the Government has closed the Visa Section so no working visas are being issued for now. Given the damage being done to business prospects, many companies are

TABLE 1: Savills Residential Rental Indices, Q1/2020 vs Q4/2019 vs 2019

	Q1/2020 (%)	Q4/2019 (%)	2019 (%)
Luxury Apartments - Hong Kong Island	-6.1	-0.5	-2.1
Luxury Apartments - Kowloon	-7.5	-0.8	-5.6
Luxury Apartments - New Territories	-4.5	-1.0	-6.0
Townhouses	-5.6	-0.9	0.2
Serviced Apartments	-9.4	-6.4	-12.3

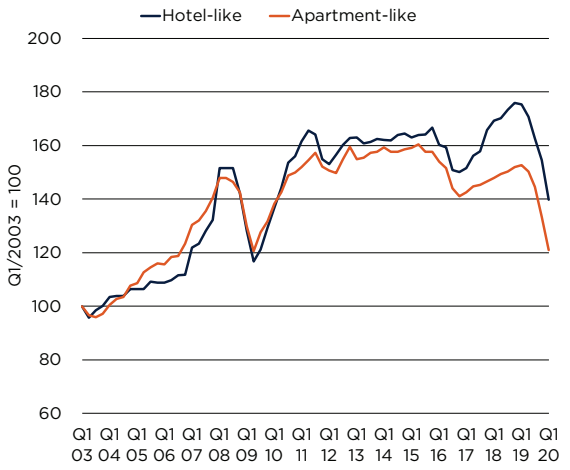
Source Savills Research & Consultancy

TABLE 2: Mid-Levels, The Peak and Southside Transactions, Q1/2020

DISTRICT	UNIT TYPE	ADDRESS	SALEABLE AREA (SQ FT)	HK$ PER MONTH (INCL. MGT. & RATES)	HK$ PER SQ FT SALEABLE
Mid-Levels	Apartment	The Legend	1,104	65,000	59
Mid-Levels	Apartment	Alassio	927	70,000	76
The Peak	House	Strawberry House	2,903	170,000	59
Southside	Apartment	Hong Kong Parkview	1,045	43,000	41
Southside	Apartment	The Repulse Bay	1,437	81,633	57
Southside	Apartment	37 Repulse Bay	1,199	68,000	57

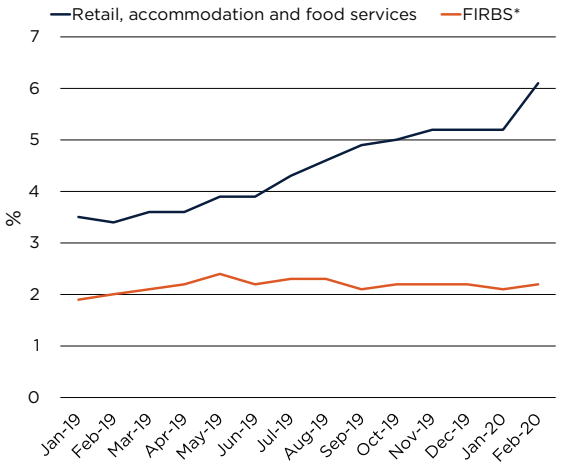
Source Savills Research & Consultancy

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



Source Savills Research & Consultancy

GRAPH 5: Unemployment Rates By Sector, January 2019 to February 2020



Source Census and Statistics Department, Savills Research & Consultancy
*FIRBS represents Financing, insurance, real estate, professional and business services

TABLE 3: Kowloon Transactions Q1/2020

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	1,088	64,000	59
Tsim Sha Tsui	Apartment	Masterpiece	1,030	44,000	43
Kowloon Station	Apartment	The Cullinan	635	35,000	55
Kowloon Station	Apartment	The Cullinan	1,530	90,000	59
Kowloon Station	Apartment	Grand Austin	851	44,000	52
Kowloon Station	Apartment	The Austin	905	42,800	47
Kowloon Station	Apartment	Sorrento	973	44,000	45

Source Savills Research & Consultancy

TABLE 4: New Territories Transactions, Q1/2020

DISTRICT	UNIT TYPE	ADDRESS	SALEABLE AREA (SQ FT)	HK$ PER MONTH (INCL. MGT. & RATES)	HK$ PER SQ FT SALEABLE
Sai Kung	Apartment	Mount Pavilia	1,841	63,000	34
Sai Kung	Apartment	The Mediterranean	667	28,000	42
Discovery Bay	House	La Costa	1,215	53,000	44
Discovery Bay	House	Seabee Lane	2,403	100,000	42
Discovery Bay	Apartment	La Serene	1,193	40,000	34
Discovery Bay	Apartment	Le Bleu Deux	1,055	32,500	31

Source Savills Research & Consultancy

cutting costs and reviewing headcount, and this has now extended to financial and professional services, traditionally a strong demand driver for luxury residential apartments. The hurdles of quarantine and school closures among many other things will keep activity levels low but for how long is very difficult to tell at this stage.

Over the quarter, luxury apartment rents in Kowloon were hit harder than the New Territories largely because Tsim Sha Tsui / Hung Hom and Kowloon Tong recorded rental falls of 7.7% and 6.5% respectively while Shatin/Tai Po, Sai Kung and Discovery Bay experienced milder rental declines of 5.4%, 4.5% and 3.9% respectively.

In Kowloon and the New Territories transactions volumes are down around 50% and what activity there is, is coming from local downsizers from HK$80,000 pm to HK$40-60,000 pm. Areas such as Kowloon Station and Olympic Station have been hardest hit by the lack of PRC demand and rents in these locations are off by nearer 10%.

Townhouse rents have been coming off since Q3 last year and took another leg down with little movement in the market currently, either in or out. Corporate landlords can afford to wait to fill vacancy and many know that a good tenant covenant is key as mistakes can be costly. Townhouse rents in the first quarter were down by 4.7%, posting their worst quarterly performance since Q2/2012.

Not surprisingly, serviced apartments have been hard hit by the COVID-19 outbreak but fortunes vary widely from block to block. At the top of the market, prime serviced apartments on Hong Kong Island have seen far lower rates of rental decline while less prime blocks elsewhere have been hit much harder, by 10% to 15%. It is a similar story with occupancy where an average rate of 50% to 60% masks wide variance, with some prime blocks with long-term tenants continuing to report 80%.

Serviced apartment rents fell heavily by 9.4% in Q1/2020, representing a decline of 20.6% from a peak in Q1/2019 and the worst quarterly performance since Q2/2009.

A TURBULENT FIRST QUARTER

Hong Kong has had a troubled recent history with an unresolved trade war, simmering social unrest and the COVID-19 outbreak combining to derail the economy in the first quarter. While the worse effects were initially felt in the retail and hospitality sectors last year, this has broadened and important residential demand drivers including finance and professional services are now also being affected, although this has not yet been reflected in employment data. Whether this is a temporary hiatus or a longer term trend is for landlords to grapple with but the lack of demand looks set to continue into the second quarter and rents are expected to to consolidate further. The shape of any rebound in residential rents will depend on corporate prospects in the second half and the rate at which the local economy rebounds. With so many uncertainties this is too tough to call.