

Residential Leasing



Milder falls for luxury rents in Q2

The luxury residential market appeared to stabilize in Q2/2020, given that the epidemic has eased locally with reviving levels of economic activity and government agencies resuming work as normal.

- Luxury apartment rents fell in Q2/2020, with rents on Hong Kong Island, and in Kowloon and the New Territories down by 2.6%, 3.7% and 3.1% respectively.
- Expat and PRC demand was subdued due to the cross-border restrictions while local demand supported the luxury leasing market.
- Rents may fall further after cross-border restrictions are loosened later in the year as expats may be forced to leave as many firms are currently shedding staff and reducing their Hong Kong footprint.
- Townhouse rents recorded a fifth consecutive quarter of decline, registering a 2.3% decrease over Q2/2020. The rental gap between townhouses and apartments has narrowed.
- Rental falls in the serviced apartment sector slowed to 0.5% in Q2/2020 and rents are now down by 20.9% from their peak in Q2/2019. Serviced apartment occupancy continues to struggle along at 60% to 70%.
- Immigration statistics suggest that a smaller proportion of overseas and mainland professionals arriving in the territory are high-earning executives.

“An increasingly precarious employment outlook is undermining rental affordability while travel restrictions continue to limit market movement.”

SIMON SMITH, SAVILLS RESEARCH

Savills team

Please contact us for further information

RESIDENTIAL SERVICES

Aradhana Khemaney (Kimmy)

Head of Residential Services
+852 2842 4491
akhemaney@savills.com.hk

Hatty Ng

Director
+852 2378 8631
hng@savills.com.hk

Sdever Li

Director
+852 2842 4551
sli@savills.com.hk

RESEARCH

Simon Smith

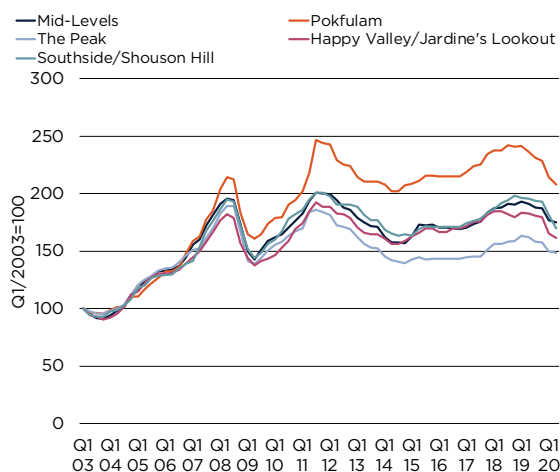
Senior Director
Asia Pacific
+852 2842 4573
ssmith@savills.com.hk

Jimmy Wong

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

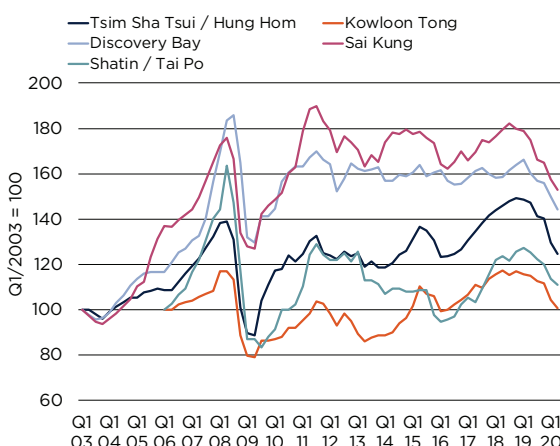
Savills plc
Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 600 offices and associates throughout the Americas, Europe, 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.

GRAPH 1: Hong Kong Island Luxury Rental Indices By District, Q1/2003 to Q2/2020



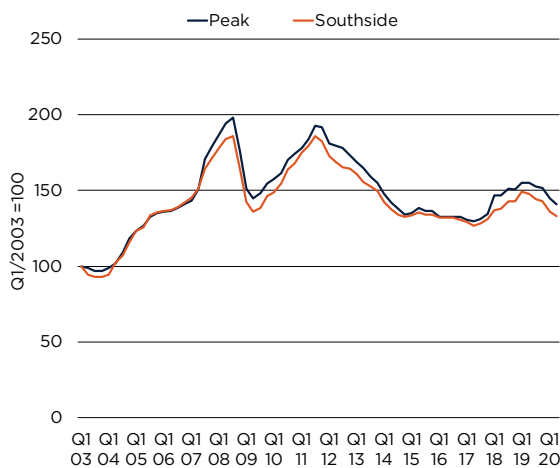
Source Savills Research & Consultancy

GRAPH 2: Kowloon and New Territories Luxury Rental Indices By District, Q1/2003 to Q2/2020



Source Savills Research & Consultancy

GRAPH 3: Townhouse Rental Indices By District, Q1/2003 to Q2/2020



Source Savills Research & Consultancy

MARKET COMMENTARY

Luxury apartment rents on Hong Kong Island, and in Kowloon and the New Territories fell by 2.6%, 3.7% and 3.1% respectively over the second quarter. All districts recorded milder rental declines compared with the previous quarter which posted the worst quarterly performance since 2010. Luxury rents are now down by over 10% on average compared with their peak in Q1/2019.

Local demand has become a more important driver in the luxury residential leasing market over Q2/2020 as new PRC and expat demand has fallen heavily due to the cross-border restrictions, which require newcomers to self-quarantine for 14 days. Another reason is the worsening business environment which has seen downsizing and redundancies. In some good news, because Government departments have returned to work, working visa issuance has returned to normal. We note that a majority

of the recent newcomers are from the US and Europe, working in the finance and I.T industries.

We haven't seen too many expats leaving town yet. Even though they may have been laid off, many have chosen to remain and renew with landlords on a month-to-month basis due to the quarantine hurdles they face in their home countries. In the second half of 2020, if the cross-border restrictions are loosened, we expect more expats to leave given the state of the global economy and the prospect of rising corporate insolvency. The unemployment rate in Hong Kong rose to a 15-year high of 5.9% in May.

Corporate landlords are eager to keep tenants with a good covenant and are willing to negotiate. They prefer to stand firm on face rents but are prepared to offer rent free periods to lower effective rents and ease the burden on tenants. Corporate landlords typically offer

TABLE 1: Savills Residential Rental Indices, Q1/2020 vs Q2/2020

	Q1/2020 (%)	Q2/2020 (%)
Luxury Apartments - Hong Kong Island	-6.1	-2.6
Luxury Apartments - Kowloon	-7.5	-3.7
Luxury Apartments - New Territories	-4.5	-3.1
Townhouses	-5.6	-2.3
Serviced Apartments	-9.4	-0.5

Source Savills Research & Consultancy

TABLE 2: Mid-Levels, The Peak and Southside Transactions, Q2/2020

DISTRICT	UNIT TYPE	ADDRESS	SALEABLE AREA (SQ FT)	HK\$ PER MONTH (INCL. MGT. & RATES)	HK\$ PER SQ FT SALEABLE
Mid-Levels	Apartment	Kenne Mansion	1,560	120,000	77
Mid-Levels	Apartment	Highcliff	2,703	138,000	51
The Peak	House	7-15 Mount Kellett Road	5,700	500,000	88
The Peak	Apartment	Interocean Court	2,665	198,000	74
Southside	Apartment	Fairwinds	2,687	170,000	63
Southside	House	63 Deep Water Bay Road	2,838	200,000	70

Source Savills Research & Consultancy

TABLE 3: Kowloon Transactions Q2/2020

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	1262	70,000	55
Kowloon Station	Apartment	The Cullinan	670	35,000	52
Kowloon Station	Apartment	Grand Austin	580	27,000	47
Kowloon Station	Apartment	The Arch	845	42,250	50
Kowloon Station	Apartment	Sorrento	632	31,000	49

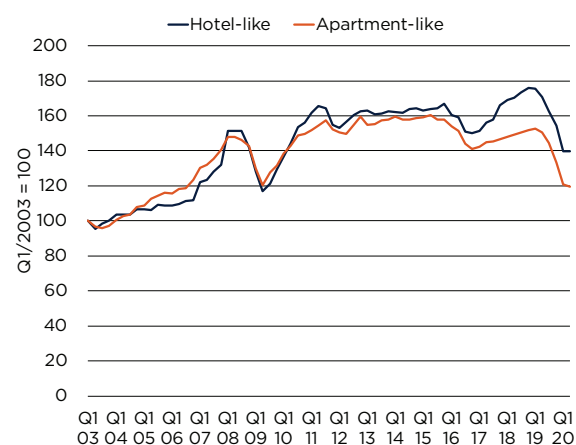
Source Savills Research & Consultancy

TABLE 4: New Territories Transactions, Q2/2020

DISTRICT	UNIT TYPE	ADDRESS	SALEABLE AREA (SQ FT)	HK\$ PER MONTH (INCL. MGT. & RATES)	HK\$ PER SQ FT SALEABLE
Sai Kung	Apartment	Mount Pavilia	1,732	65,000	38
Sai Kung	Apartment	Mount Pavilia	1,066	45,000	42
Discovery Bay	Apartment	Chianti	977	32,500	33
Discovery Bay	Apartment	Amalfi	714	27,000	38
Discovery Bay	Apartment	Chianti	915	35,500	39
Discovery Bay	Apartment	Greenvale Village	876	22,000	25

Source Savills Research & Consultancy

GRAPH 4: Serviced Apartment Rental Indices By Type, Q1/2003 to Q2/2020



Source Savills Research & Consultancy

1.5 to 2 months rent free for a 2-year lease in today's market.

In Q2/2020, luxury apartment rents in Kowloon (-3.7%) again fell harder than in the New Territories (-3.1%) given luxury rents in Tsim Sha Tsui / Hung Hom and Kowloon Tong dropped by 3.7% and 3.4% respectively while Discovery Bay, Sai Kung and Shatin/Tai Po saw rental falls of 3.9%, 2.9% and 2.2% respectively.

The economic slump caused by the pandemic as well as local and global political uncertainties has squeezed the rental budgets of high-end renters, who are choosing to either downsize or relocate to areas offering cheaper alternatives. We observe that high-end renters on Hong Kong Island now prefer downsizing in order to stay in the traditional luxury enclaves rather than moving to Kowloon or the New Territories.

Townhouse rents fell by 2.3% in Q2/2020, and have now registered five consecutive quarters of decline, their longest period of consolidation since Q1/2015. The rental gap between luxury apartments and townhouses

has narrowed given that townhouse rents are now down by 10.2% from their recent peak in Q1/2019. We observe that there are renters moving from newer apartment blocks to older townhouses, which are now much more affordable, to trade for larger living space.

Serviced apartment rents fell by only 0.5% in Q2/2020 as rents have already come off heavily, recording a decline of 20.9% from their peak in Q2/2019. The serviced apartment market has recorded rental falls for five consecutive quarters, their longest period of decline since Q4/2013.

Serviced apartment occupancy remained at 60% to 70%, the lowest it has been since 2004. The occupancy rate was dragged down by the dire performance of the hotel sector, which is filling rooms by offering long-stay packages, since the cross-border restrictions are still in place. Prime blocks, such as Four Seasons Place, are still able to maintain 70% to 80% occupancy rates since they have typically already secured long term leases with tenants.

RENTAL AFFORDABILITY OF NON-LOCAL PROFESSIONALS

Expatriates and Mainland Chinese have traditionally been the main leasing demand drivers for luxury apartments in Hong Kong. If we look more broadly across the leasing market, however, a majority of non-local employees are applying for work visas from the following three admission schemes, namely, General Employment Policy (GEP), Immigration Arrangements for Non-local Graduates (IANG) and Admission Scheme for Mainland Talents and Professionals (ASMTTP).

According to figures by the Immigration Department, there were 56,022 overseas and mainland professionals admitted via these three admission schemes in FY 2019/20 (until Feb 2020). About 70% of them were earning a monthly salary below HK\$40,000 in FY 2019/20, up from 60% in FY 2015/16. The proportion of non-local professionals earning over HK\$40,000 per month was down from 40% in FY 2015/16 to 31% in FY 2019/20. Given that housing allowances are seldom provided in today's market, monthly salaries of non-local professionals are the key determinant

of their rental affordability. We therefore believe that smaller accommodation, such as co-living environments and more traditional serviced apartments in Kowloon and the New Territories, with lower lump sum budgets will grow in popularity over the coming years.

While the need for budget rental accommodation may be growing, the customer base for the high-end market is likely to remain expats and increasingly PRC professionals engaged in finance and technology.

TABLE 5: Salary Ranges of Non-local Professionals from Three Admission Schemes*, 2015/16 to 2019/20

SALARY RANGE	FY2015/16		FY2016/17		FY2017/18		FY2018/19		FY2019/20 (UNITL FEB 2020)	
	Count	%	Count	%	Count	%	Count	%	Count	%
Below 20,000	14,969	28.1%	16,304	28.2%	17,840	27.5%	22,272	33.1%	20,193	36.0%
20,000-39,999	16,931	31.8%	18,537	32.1%	22,000	33.9%	22,795	33.8%	18,893	33.7%
40,000-79,999	14,386	27.0%	14,679	25.4%	14,542	22.4%	14,065	20.9%	10,972	19.6%
80,000 or above	6,972	13.1%	8,278	14.3%	10,458	16.1%	8,250	12.2%	5,964	10.6%
Total	53,258	100.0%	57,798	100.0%	64,840	100.0%	67,382	100.0%	56,022	100.0%

Source Immigration Department, Legislative Council, Savills Research and Consultancy
 *General Employment Policy (GEP), Immigration Arrangements for Non-local Graduates (IANG) and Admission Scheme for Mainland Talents and Professionals (ASMTTP)