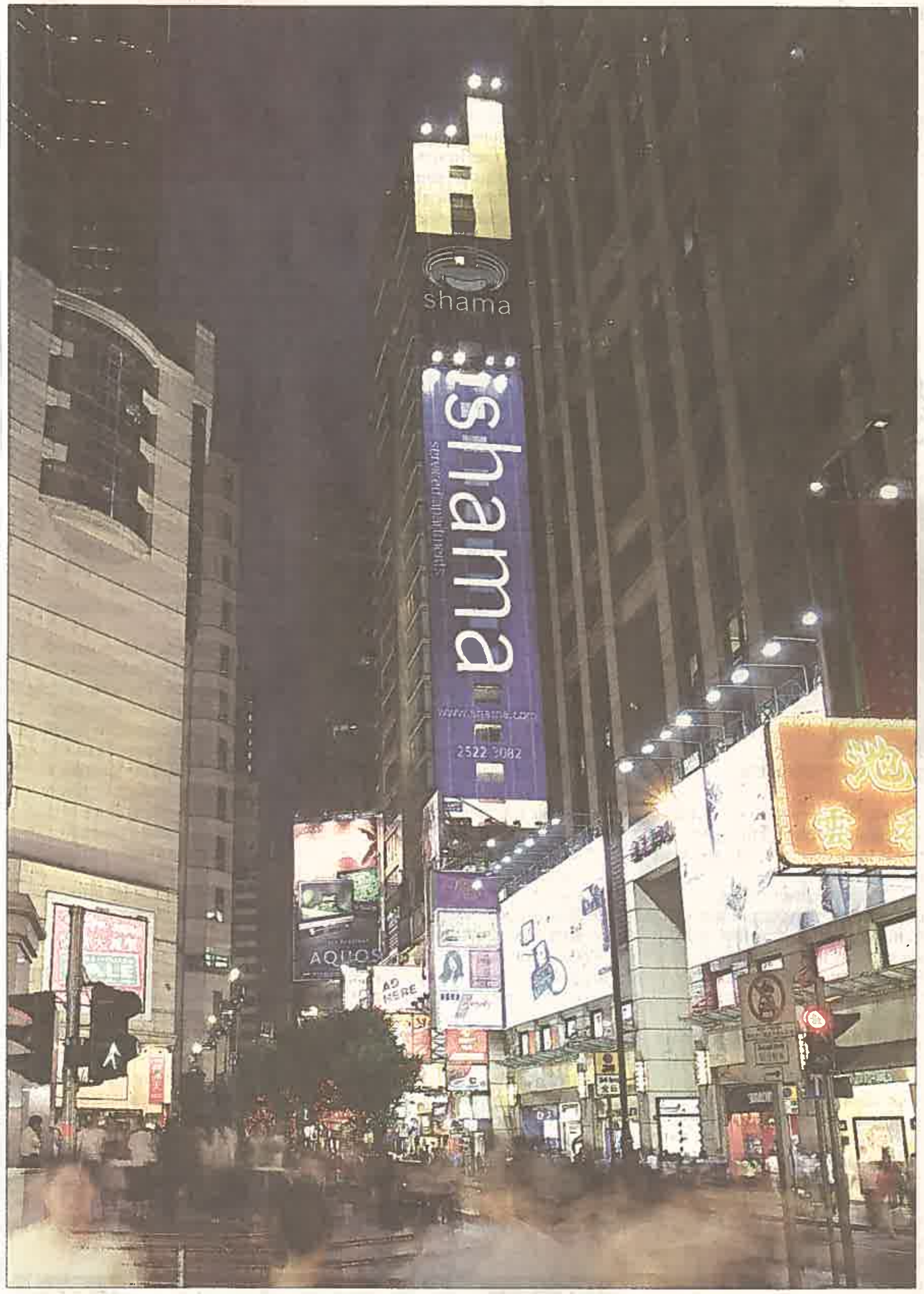
Demand and rents are bouncing back



Rates at Shama serviced apartments are almost back to pre-financial crisis levels.

After a slump due to the financial crisis, things are looking up, writes **Alex Frew McMillan**

Hong Kong's serviced apartments were buffeted by the cross-winds of the financial crisis. When the finance sector was knocked hard, the effects were felt in most of the sectors that drive demand for serviced flats.

That produced a significant drop in rents in the second half of last year. But the downturn was short-lived.

"Occupancy is back, we are at over 90 per cent in all our Hong Kong properties," Elaine Young, CEO of serviced-apartment management company Shama, wrote in an e-mail. "Rates are almost back to pre-[financial crisis] levels."

Units in Shama's flagship Causeway Bay building were renting for HK$21,800 for a 380 sq ft studio in the first quarter, according to Jones Lang LaSalle, up 10 per cent from the end of last year. A one-bedroom, 620 sq ft apartment was going for HK$32,110, up 9 per cent.

Rents for serviced apartments tend to behave much like the market for luxury residential properties. They typically lag property prices by six to nine months, but have rebounded quicker this time around.

They also aren't showing any of the weakness that purchase prices started showing this spring. Thanks in part to the government's promise to boost supply, luxury home prices dropped 2 per cent to 3 per cent last month, according to Knight Frank. That constitutes a healthy cooling off after a drastic 49.6 per cent surge during the previous 16 months, from their lowest point in December 2008, at the height of the turmoil produced by the credit crunch.

"It's a good development for the market to see a short-term consolidation after a strong rally," says Xavier Wong, head of research at Knight Frank's Hong Kong office.

The brokerage predicts prices could fall another 5 per cent this year. The main force behind the correction in luxury residential prices is the government's efforts to step up the supply of new sites for development.

Together with new measures forcing developers to change how they promote new properties, developers have gone on something of a strike. Results at land auctions have been weak. Picking up on the chill in the wind, residential buyers are waiting to see if prices drop.


Rents at Shama's Causeway Bay flagship have risen 9 to 10 per cent.

SERVICED APARTMENTS

Rents for luxury housing are likely to continue rising, taking serviced apartment prices with them. They climbed 8 per cent in the first four months of this year, Knight Frank says, and the brokerage predicts a further increase of 7 per cent to 12 per cent for the rest of the year.

In Hong Kong, speculators and investors can drive property-purchase prices upwards surprisingly fast in boom times and cause it to correct when they exit the market. Demand for serviced apartments and luxury rentals depends more on the flow of overseas executives moving to the city, which is driven by long-term economic trends.

"Rents are less affected by short-term sentiment," Wong says. "The rents are the result of solid demand, and supply, which is quite tight."

Hong Kong is heading into the peak season for serviced-apartment demand.

The summer months are the most popular time for executives to relocate, and they are also when schools decide which students get places. Families then tend to pick the part of town they want to call home, often inking a contract on a serviced apartment in a neighbourhood near their child's school if they are new to town.

Though there have been few new serviced-apartment launches in recent months, there have been some noteworthy deals on the business side of the industry.

Hind Hotels & Properties, which owns the Ovolo chain of serviced apartments and manages them under its sister company home2home, bought two serviced apartment buildings on Hollywood Road that were run by Kush.

"Kush fits what we're doing very well," says Girish Jhunjhnuwala, founder and managing director of Hind Hotels. "We bought out someone who was very close to what we're doing in terms of design, space and layout."

Kush is exiting the serviced-apartment industry, but won't disappear as a brand. The company has broken ground on a hotel at 33-41 Des Voeux Road West and is working with British designer Thomas Heatherwick, who was behind the British pavilion's "Seed Cathedral" at the Shanghai World Expo, to design the hotel. It is due to open in the second quarter of 2012. Hind Hotels has changed the name of its other serviced apartment buildings, Erba and Abeo, so all the residential units are now called Ovolo. It still operates a serviced-office building on Hollywood Road under the name Izi, but is likely to convert it into a 48-unit serviced apartment building.

The company has applied to the government to convert an industrial building it owns in Wong Chuk Hang, near Aberdeen, into a hotel. Hind Hotels expects to complete the Izi conversion and the Wong Chuk Hang project by the end of next year.

Elsewhere, Chi Residences bought the residential portion of a redevelopment project, at 130-136 Johnston Road in Wan Chai, for HK$350 million. It plans on turning it into a 20-storey building, with retail outlets on the first three floors and serviced apartments from the fourth floor up. That conversion is due for completion in 2013.

One of the newest entrants to the serviced-apartment market is The Lily, Chinachem's project in Repulse Bay. The building, designed by Norman Foster, stood empty for eight years while its developer tried to work out how to profit from the site.

It believes it can now, through a mix of luxury rentals and serviced units. There will be 34 serviced apartments overlooking Repulse Bay, ranging from 1,800 to 3,900 sq ft, and 100 units in the whole development.

Rents are high, ranging from HK$90,000 to HK$400,000 per month, but it will add some high-end supply on the south side of Hong Kong Island, where demand is tight.

Developer Lucky Land is also slated to open two serviced-apartment buildings, a 50-unit building of 300 sq ft studios at 217-218 Gloucester Road and an 18-unit block of 500 sq ft studios and one-bedroom apartments at 100 Queen's Road East, in the second quarter.

In the second half of the year, Simatelex is expected to unveil a 122-unit serviced apartment project at 478-484 Lockhart Road, with a range of studios up to two-bedroom apartments. Those will range from 300 to 700 sq ft.

VCC Land has a luxury project called the V Midlevels in the works at 1 Castle Road, a project with 20 to 22, 900 sq ft serviced apartments due to be completed in the fourth quarter.

There are 56,000 hotel rooms in Hong Kong, four times the number of serviced apartments.

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