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## Hong Kong Serviced Apartment Market Update

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### DISCLAIMER

## 1.0 DEFINITION & CATEGORIES OF SERVICED APARTMENTS

### 1.1 Definition

By definition, Serviced Apartment refers to residential accommodation that usually satisfies the following criteria:

1. a residential establishment held under sole ownership and with a single management providing accommodation with central or split-type air-conditioning and possibly communal amenities such as a restaurant, laundry, recreational facilities and a business centre. A Serviced Apartment is essentially a mode of residential accommodation which operates in a similar way to a hotel.
2. The Serviced Apartment unit interior is fully furnished with standardised furniture, fittings and appliances and must have a private bathroom and formal pantry/kitchenette fitted with a refrigerator and a stove or hob unit, and with linen, crockery and kitchenware, thus giving tenants the ability to prepare their own meals.
3. It must provide the occupants with housekeeping or a maid service, which includes the changing of towels and linen as well as general room cleaning. These services can be provided either on a daily basis or a few times a week. Services are often included as part of the rental package, however, they may also be provided as an optional "extra". All housekeeping or maid services are provided by the same management that runs the building.
4. The Serviced Apartment accepts lease terms from one month to longer periods, such as one year. The rental includes management fees, Government rates and Government Rent.
5. Basic utilities, namely water, gas (if any), local telephone calls and satellite or cable television are included in the rental whilst electricity and broadband internet sometimes are charged separately (note: IDD telephone calls are always at the expense of the tenants and may incur handling fees by the management).

## 1.2 Categories of Serviced Apartments

In general, there are four main categories of Serviced Apartments in Hong Kong:

- **Premier Serviced Apartment**

Refers to residential accommodation which is:

- Located in prime locations such as the main business districts and traditional luxury residential areas
- Furnished to an exceptionally high standard
- Usually the largest and the most comprehensive in terms of offering of room format amongst the four main categories of Serviced Apartment
- Offers recreational facilities and a similar range of services and amenities to a four- to five-star hotel (e.g. swimming pool, gym, babysitting, concierge, laundry and dry cleaning, business centre, shuttle bus service, etc)
- Developed as a purpose-built Serviced Apartment project and sometimes part of an existing luxury hotel or residential complex

- **Luxury Serviced Apartment**

Refers to residential properties which are:

- Usually located in the main business districts but also in less prime locations, still with a high degree of accessibility to the major business, shopping and entertainment precincts
- Furnished to a high standard but usually older than Premier level Serviced Apartments
- Generally large but also offer a variety of room for mats
- Also offer recreational facilities and a variety of services and amenities similar to those available in Premier Serviced Apartments
- Sometimes developed as part of a hotel or converted from a "residential use" development

- **Standard Serviced Apartment**

Refers to those properties that are:

- Located in secondary locations or general residential areas
- Usually smaller and offer fewer size and layout options than Premier and Luxury Serviced Apartments
- Furnished and decorated to a comfortable, but not luxurious, standard
- Less comprehensive in their provision of facilities and amenities, if any
- Serviced by a caretaker rather than a concierge
- Less expensive than Premier and Luxury serviced accommodation

- ***Boutique Serviced Apartment***

Refers to a relatively new segment of the Serviced Apartment market that has been introduced in recent years which are:

- Located in convenient locations such as central business districts and major shopping areas
- Developments which tend to be more compact in size than Premier and Luxury classes
- Finished and decorated to a relatively high standard, particularly in a trendy, cozy and contemporary theme
- Offer a customised range of services such as a concierge, newspaper delivery, breakfast and membership of exclusive “discount schemes” or links to local shops and restaurants
- Do not have on-site recreational facilities but offer membership to local health clubs or gyms
- Often converted from commercial-use buildings or purpose-built

## 2.0 MARKET OVERVIEW

The Serviced Apartment sector of the property market was very active across-the-board in 2004 and this looks set to continue. Steadily growing demand from both expatriates and local residents for residential accommodation with flexible leasing terms, coupled with low forecasts on upcoming supply, form the basis for optimism in this highly sought-after property segment.

Leasing interest surged considerably in the middle of 2004 as an increasing number of multinational companies (MNCs) expanded their operations or set up new offices in Hong Kong on the back of the global economic upturn and the advantages in proximity the SAR (Special Administrative Region) offers for the tapping of China's markets. The unfolding of these developments led to more expatriate staff, many of whom operate on a regional basis, being dispatched to Hong Kong on short- and mid-term assignments and using the SAR as a business and residential hub while also jetting around Asia. For these "execs-on-the-move", Serviced Apartments provide hassle-free accommodation on flexible terms, and additionally provide an attractive alternative to conventional hotel or apartment accommodation.

Compounding this prevailing change, many companies are making efforts to contain relocation cost for overseas staff by bringing in fewer employees with families and more singles and married couples on shorter-term contracts. Serviced Apartments, conveniently located in core business and entertainment districts, have emerged as an ideal choice of residence for these assignees, particularly those in junior and middle management positions with more moderate budgets.

Meanwhile, the Serviced Apartment sector has been witnessed gaining in popularity amongst Chinese returning to the SAR following studies or working stints overseas for employment purposes. MNCs often recruit overseas Chinese on the back of their fluency in both Chinese and English. Having experienced the Western lifestyle, many of these returnees prefer to stay in Serviced Apartment accommodation rather than moving into the "family home", and the flexible nature of the lease means they can return to stay with their family at any time they wish. Similarly, the "ready-to-go" concept attached to Serviced Apartments has also generated demand from the high-income earning group of young local residents and upwardly-mobile professionals who prefer comprehensive services rather than hiring maids and purchasing furniture as is required in conventional properties.

In light of these various demand sources, high occupancy levels of 95% to 100% as well as long waiting lists of prospective residents were witnessed at most Serviced Apartment properties throughout 2004. Within 2004 there were only a few small, new projects in centralised

areas being launched onto the market. The lack of new supply, coupled with the general growth of demand, and the occasional demand surge, particularly seen during international trade fairs and exhibitions, has led to a supply-demand mismatch, which is likely to persist over the near term. As a result, a rise in rentals across the Serviced Apartment sector is seen as inevitable over the near-term. Indeed, most Serviced Apartment properties recorded full occupancy in 2004 whilst rents increased significantly year-on-year in a range of 16.3% to 35.9%, as registered in the second quarter of 2005.

The buoyant sentiment in the Serviced Apartment segment driven by the broad-based and strong level of demand has drawn more investors and developers into the market. It is noted that, in recent years, a number of entrants comprised investors and small developers offering single-block or small-scale boutique-style Serviced Apartment buildings. Some of these new projects have been converted from residential, hotel and commercial buildings because of the more promising outlook on the Serviced Apartment market.

### 3.0 NEW SUPPLY

Between January 2004 and June 2005, there were a total of six major new Serviced Apartment developments launched onto the market providing 441 units:

<b>New Serviced Apartment Supply in 2004/05</b>		
<u>Name of Development</u>	<u>District</u>	<u>Number of Units</u>
Central 88	Central	74
338 Apartment	Sheung Wan	62
Lily Court II	Mid-Levels	50
erba	Sheung Wan	24
Regent Heights	Causeway Bay	183
shama midlevels	Mid-Levels	48
	<b>TOTAL:</b>	<b>441</b>

Source: CB Richard Ellis CBRE Research

**Table 1:** New Serviced Apartment Supply in 2004/05

Central 88 is a boutique apartment situated on Des Voeux Road, in the heart of Central. The project provides a total of 74 smartly appointed rooms in a variety of formats including studios, one- and two-bedroom units. Asking rents range from \$20,000 to \$57,200 per month. The minimum lease term is one month.

338 Apartments presents an elegant apartment block with a spacious layout located in Sheung Wan. A total of 62 one- and two-bedroom suites are provided at asking rentals starting from \$15,000 per month.

Lily Court II is located on Robinson Road in the Mid-levels. The 25-storey tower contains two units per floor in studio and one-bedroom layouts. Monthly asking rentals range from \$20,500 to \$28,000.

Located on the fringe of Central on Queen's Road Central, erba is a new radical serviced residence from the creators of ovolo. Designed by KplusK and operated by home2home, erba offers 8 studios (from HK\$18,500 per month) and 16 one-bedroom apartments (from HK\$31,000 per month), as well as self-contained serviced offices.

Regent Heights is a relatively large-scale Serviced Apartment development following its conversion from hotel-use. It offers 183 units in various layouts and sizes from studios of 218 sf to two-bedroom suites of around 688 sf. Asking rentals range from \$8,000 to \$22,000 per month. The minimum lease term is one month.

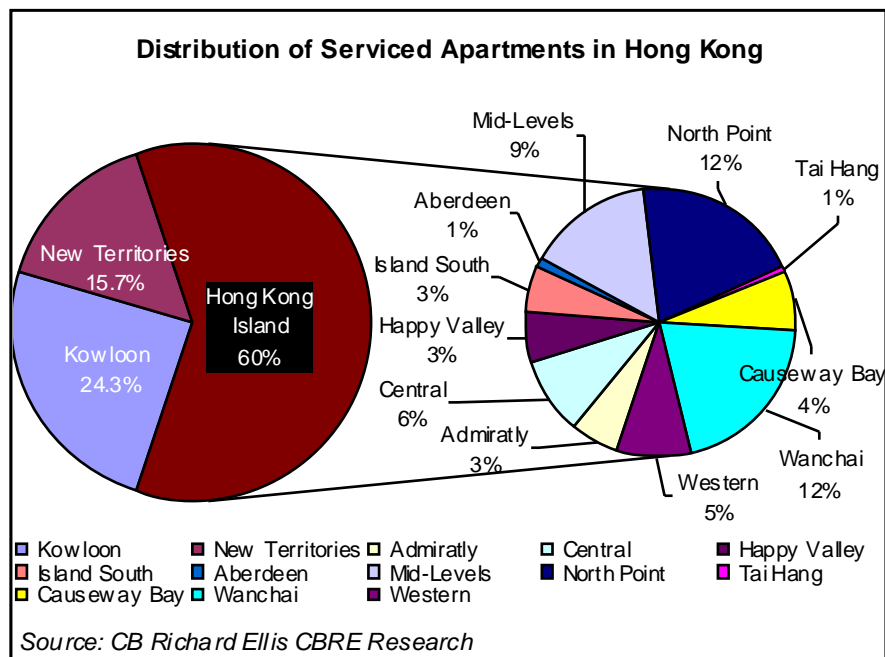
Located just 10 minutes away from the Central-Mid-Levels Escalators on Hospital Road in the Mid-Levels, shama midlevels is the latest Serviced Apartment project to come on stream in Hong Kong. Released in June 2005, it offers a total of 48 cozy suites, each sized 470 sf, which are provided at monthly asking rentals starting from \$18,000.

## 4.0 EXISTING STOCK

### 4.1 Distribution of Serviced Apartments

As of June 2005, there were a total of 68 major Serviced Apartment developments, collectively providing 7,888 units, in Hong Kong. The majority of these are located on Hong Kong Island with 4,728 units, or 59.9%, of the total. They are followed by Kowloon and the New Territories, providing 1,920 units (24.3%) and 1,240 units (15.7%), respectively.

Further breakdown of the supply on Hong Kong Island is represented by the smaller pie chart in the following diagram. The majority of space is provided in Wan Chai and North Point, which together account for 24.2% of the total supply in Hong Kong. Mid-Levels, Central and Western, meanwhile, account for 9.1%, 5.8% and 5.2% respectively, of the SAR's total supply of Serviced Apartments.



**Chart 1:** Serviced Apartment Distribution in Hong Kong

Turning to Kowloon side; Tsim Sha Tsui and Hung Hom are the districts with the highest concentration of Serviced Apartments, together providing 1,669 units, or 86.9%, of the total Kowloon stock. Meanwhile, available stock in the New Territories remains unchanged with Harbour Plaza Resort City in Tin Shui Wai alone providing 1,102 units, or 88.9%, of the total supply of 1,240 units in the New Territories.

A geographical breakdown of the Serviced Apartment stock distribution in Hong Kong is summarised in Table 2 below.

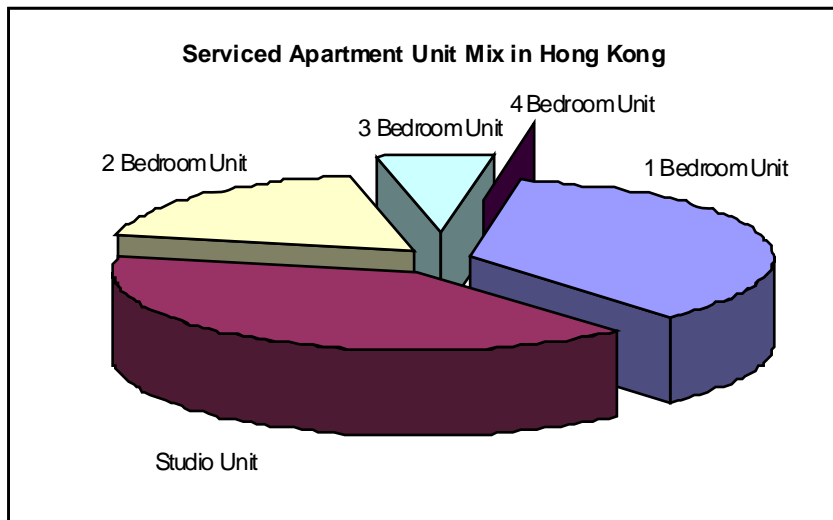
<b>Serviced Apartment Stock Distribution</b>	
<u>Hong Kong Island</u>	<i>(Units)</i>
Admiralty	271
Central	456
Happy Valley	276
Island South	268
Aberdeen	51
Mid-Levels	717
North Point	940
Tai Hang	48
Causeway Bay	316
Wan Chai	971
Western	414
<b>Sub Total:</b>	<b>4,728</b>
<u>Kowloon</u>	
Hung Hom	503
Kowloon Tong	83
Mong Kok	62
Jordan	106
Tsim Sha Tsui	1,166
<b>Sub Total:</b>	<b>1,920</b>
<u>New Territories</u>	
Shatin	138
Tin Shui Wai	1,102
<b>Sub Total:</b>	<b>1,240</b>
<b>GRAND TOTAL:</b>	<b>7,888</b>

Source: CB Richard Ellis CBRE Research

**Table 2:** Serviced Apartment Existing Stock

## 4.2 Unit Mix

An analysis of Serviced Apartment size indicates that a significant proportion of the existing stock belongs to units providing smaller gross area. Studio units, usually below 500 sf, currently account for 35.8% of the total stock while one-bedroom units account for 39.7%. There are significantly fewer units providing larger accommodation, as demonstrated by the relatively smaller number of two-bedroom units and three-bedroom units, which account for 18.4% and 6.0% of total Serviced Apartment units, respectively.



Source: CB Richard Ellis CBRE Research

**Chart 2:** Serviced Apartment Unit Mix in Hong Kong

### 4.3 Examples of Serviced Apartment Developments

A selection of major projects representing each of the four categories in the Serviced Apartment market in Hong Kong is listed as follows:

#### 1. Premier Serviced Apartments

- *Parkside*

Located at Pacific Place, Parkside provides serviced and furnished suites ranging from one-bedroom units of 1,220 sf to Pacific Place Apartments' first ever three-bedroom units of 2,650 sf. Themed under contemporary and oriental schemes, all the apartment units at Parkside offer the latest facilities such as a concealed plasma TV behind sliding artwork, a home theatre system with DVD player and a limestone bathroom with rain-shower fitting. Meanwhile, some one-bedroom units are fitted with a unique sliding partition that allows access to the bathroom from the living room whilst retaining the privacy of the bedroom.

Following the reconfiguration and refurbishment of about 4,000 sf on each floor of 16,400 sf, Parkside's new layout will offer five choices of one-bedroom categories per floor with views of the city's skyline, the harbour, Hong Kong Park or the Peak. Meanwhile, the new three-bedroom category, inclusive of two bedrooms furnished with king size beds and a third bedroom with two single beds, is the only Serviced Apartment in Hong Kong capable of comfortably accommodating up to six people.

Parkside completed renovation works on its 135-unit west wing in early 2005. The remaining apartments in the east wing, currently under renovation, are scheduled for release by August 2005.



Parkside

Source: Swire Properties

## 2. Luxury Serviced Apartments

- *The Ellipsis*

Located within walking distance of numerous entertainment and F&B venues in the bohemian-esque Happy Valley, and Causeway Bay nearby, The Ellipsis is a great option for those valuing convenience in a laid back and one-of-a-kind setting. The elliptically-shaped building, in vicinity of the racecourse, is cleverly designed to maximise the view and penetration of light into each of its spacious units, the result of which is a comfortable and relaxed living environment. Transportation is also convenient with bus and tram terminals, as well as taxi stands and minibuses linking The Ellipsis with other parts of the city. All of the 79 units on offer in the complex, ranging in size from 622 to 1,235 sf, are equipped with high-end private entertainment systems such as plasma TVs with cable, satellite and local wireless TV channels, as well as CD, VCD and DVD playing equipment. Free broadband internet access is also standard in all rooms. In addition, a communal swimming pool and a mini-gym are available for the exclusive use of the residents.



The Ellipsis  
Source: Dorfit Properties Limited

### 3. Standard Serviced Apartments

- *Regent Heights*

The 12-storey high Regent Heights Serviced Apartment is positioned as a residence designed to offer a trendy and dynamic lifestyle to those urbanites seeking to stay in the heart of Hong Kong's vibrant retail and business district, Causeway Bay. Its 183 rooms offer the choice of four formats, namely Standard Suite (studio units sized from 218 to 303 sf), Superior Suite (one-bedroom units from 515 to 628 sf), Superior Two-bedroom (688 sf in size) and Deluxe Suite (spacious studio units at higher floors sized 383 to 475 sf). Further to comfortable furnishings and contemporary home entertainment provisions such as LCD televisions and mini AV systems including a DVD player, which comes as standard in all rooms, the development also features a clubhouse, which offers a swimming pool and a fitness centre to its residents (to be opened in due course).



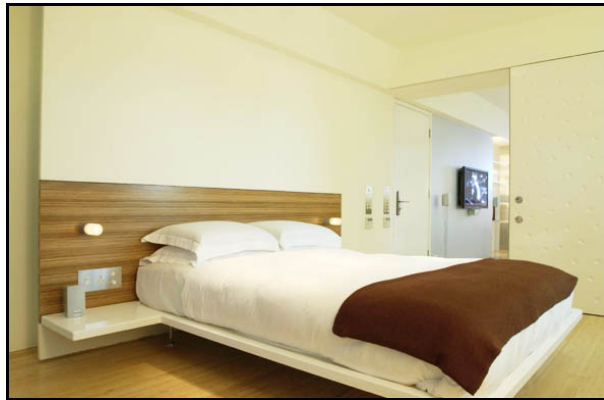
Regent Heights

Source: E. Lite Property Management Limited

#### 4. Boutique Serviced Apartments

- *ovolo*

Developed by home2home, these Manhattan-style one-bedroom apartments are conveniently located just a few minutes' from the upmarket bar and restaurant districts of Lan Kwai Fong and Soho, as well as the Central CBD, at 2 Arbutnot Road. With one exclusive apartment of 1,200 sf per floor, featuring contemporary design and luxury furnishings and fittings, these chic downtown apartments are inclusive of the latest hi-tech home entertainment facilities such as plasma TVs and surround sound home theatre systems. Aside from providing modern, stylish accommodation, *ovolo* bills itself as an apartment that seeks to provide a personalised service to its residents. The sleek development located a stone's throw from the beating heart of Central is targeting professional singles and couples.



*ovolo*

Source: *home2home*

- *erba*

From home2home, the creators of ovolo, *erba* is a brand new fully furnished Serviced Apartment located on the major downtown artery of 284 Queen's Road Central. The New York-style apartments embrace ultra-contemporary design, elegant furnishings and high-tech facilities, all provided at the heart of the city within walking distance of the commercial core of Central and the high-end and diversified entertainment precincts of Soho and Lan Kwai Fong. *erba* is flexible on short- and long-term leases, offering 8 studios of 500 sf and 16 one-bedroom apartments of 1,000 sf. Besides the fully equipped kitchen, all units at *erba* are technologically well-appointed with AV systems and large flat screen TVs with DVD players. At the same time they offer queen-sized beds with feather mattress covers, down duvets and pillows and bamboo wood flooring. More than just a place to live, *erba* is also the home of a 24-7 business centre, which is one of the first furnished and socket-ready business centres with 24-hour access to be made available within a Hong Kong Serviced Apartment development.



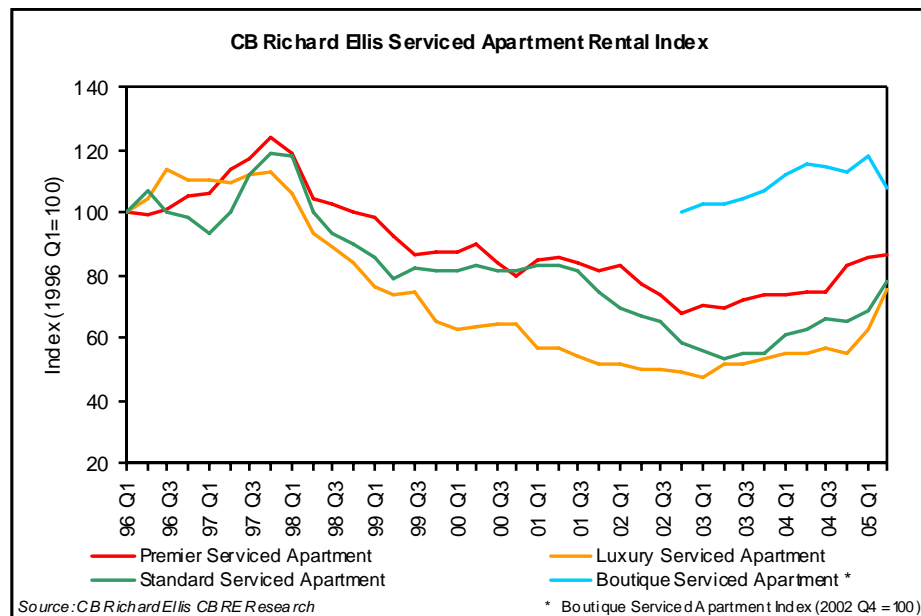
*erba*

Source: *home2home*

## 5.0 RENTAL VALUES

As a general practice, rentals for Serviced Apartments are usually inclusive of Government rates and rents, management and service fees, air-conditioning, electricity and other utilities (except international telephone calls).

Rentals in all main categories of Serviced Apartment registered increases in 2004, driven by the robust level of demand witnessed in the market. According to figures from the CB Richard Ellis Serviced Apartment Rental Index for the second quarter of 2005, Luxury Serviced Apartments registered the greatest increase in rentals of almost 36% over the same period in 2004. The spike in rentals in this class was backed by the fact that some Luxury Serviced Apartments launched major refit programmes with a view to capitalising on the buoyant sentiment prevalent in the market, which is leading to tenants displaying an increased willingness to pay higher rentals for quality accommodation. Rentals in this category were seen outperforming others at the start of 2005, with quarter-on-quarter increases of 12.0% and 21.3%, in the first and second quarters, respectively. Meanwhile, as more new players entered the Boutique Serviced Apartment sector, intensifying the competition, rentals in this segment underwent a spell of consolidation. As a result, the Boutique sector registered a dip of 6.7% in rental in the second quarter of 2005 over the same period last year.



**Chart 3:** CB Richard Ellis Serviced Apartment Rental Index

A summary of the latest monthly asking rentals for the four Serviced Apartment categories is as follows:

- Premier Serviced Apartments, with a wide selection of size formats, starting from about 940 sf, range from \$33 to \$59 psf.

- Luxury Serviced Apartments, also with an extensive range of size formats, starting from 650 sf, range from \$30 to \$50 psf.
- Standard Serviced Apartments, with sizes ranging from about 470 to 710 sf, are currently asking \$22 to \$52 psf.
- Boutique Serviced Apartments, consisting of units from 570 to 1,200 sf, are commanding \$25 to \$50 psf.

Tables 3A-D below illustrate achieved rentals for various types of Serviced Apartment in the second quarter of 2005.

<b>Premier Serviced Apartment Achieved Rentals</b>		
<u>Name of Development</u>	<u>District</u>	<u>Average Rents (HK\$ psf)</u>
The Atrium	Admiralty	56
Parkside	Admiralty	53
Parkview Suites	Tai Tam	40
De Ricou	Repulse Bay	34
Gateway Apartments	Tsim Sha Tsui	38

*Table 3A: Premier Serviced Apartment Achieved Rentals*

<b>Luxury Serviced Apartment Achieved Rentals</b>		
<u>Name of Development</u>	<u>District</u>	<u>Average Rents (HK\$ psf)</u>
Convention Plaza Apartments	Wan Chai	35
Harbour Plaza	Hung Hom	37
New World Apartments	Tsim Sha Tsui	30
The Royal Tower Hillsborough Court	Mid-Levels	44
The Ellipsis	Happy Valley	42

*Table 3B: Luxury Serviced Apartment Achieved Rentals*

<b>Standard Serviced Apartment Achieved Rentals</b>		
<u>Name of Development</u>	<u>District</u>	<u>Average Rents (HK\$ psf)</u>
Lily Court II	Mid-Levels	39
Peach Blossom	Mid-Levels	45
Eaton House	Happy Valley	29
The Elgin	Central	26
Century Court	Wan Chai	35
Regent Heights	Causeway Bay	30

*Table 3C: Standard Serviced Apartment Achieved Rentals*

<b>Boutique Serviced Apartment Achieved Rentals</b>		
<u>Name of Development</u>	<u>District</u>	<u>Average Rents</u> <u>(HK\$ psf)</u>
ovolo	Central	39
Central 88	Central	49
The Plaza	Central	27
Shama Causeway Bay	Causeway Bay	40
Shama Central	Central	38
erba	Central	31

**Table 3D:** Boutique Serviced Apartment Achieved Rentals

## 6.0 DEMAND

In line with the buoyancy experienced last year in the wake of the more positive global economic performance and business expansion, many MNCs continue to despatch more staff to Hong Kong. As many of these new staff are single people on short- to mid-term business assignments, they have generated a consistently high level of demand for Serviced Apartments in line with Hong Kong's economic upswing. Meanwhile, the "all-inclusive" and flexible packages, which Serviced Apartments offer, provide tenants a "hassle-free" residential option particularly suited to living aboard on a temporary basis. In addition the flexibility one is granted on leasing terms expunges the need for a long-term commitment such as is required on a traditional lease, while deposits are also lower.

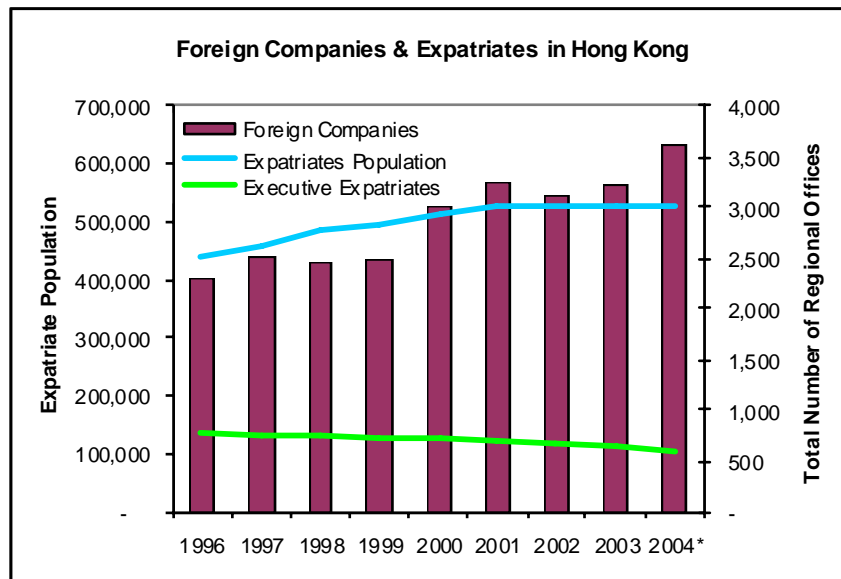
In general, there are three main sources of demand for Serviced Apartments:

- ***Expatriates coming for work***

Demand for Serviced Apartments has remained robust in recent years as Hong Kong continues to attract business travellers for conventions and exhibitions as well as short-term assignments. As of June 2004, there were a total of 3,609 foreign companies with regional operations in Hong Kong, representing a 12.5% increase as compared with the same figure a year earlier. This sizeable presence of MNC offices in the SAR continues to create a significant base for Serviced Apartment demand.

Whilst the long-staying expatriate population has remained relatively stable for quite some time, a gradual decline in the number of executive-level expatriates has been noted in recent years. As of the end of 2004, the overseas executive population in Hong Kong was recorded at 105,620, a drop of 6.8% year-on-year, according to the Immigration Department. This continuing decline in long-staying expatriate executives is most likely a reflection of MNCs' sustained efforts to minimise costs by bringing in more junior- and middle- management ranked personnel on more moderate budgets on short-term assignments as opposed to long-term relocations.

The sustained MNCs focus on cost saving, by replacing long-term relocations with those on short-term assignments, have supported an increasingly robust level of demand for Serviced Apartments in Hong Kong. The confluence of this trend with the limited supply and high occupancy rates currently being witnessed across the sector has driven an imbalance of demand and supply which has resulted in an increase in both asking and achieved rentals for Serviced Apartments.



Source: Immigration Department; InvestHK & CB Richard Ellis CBRE Research

\* Foreign Companies are updated as of June 2004

**Chart 4:** Number of Foreign Companies & Expatriate Population in Hong Kong

- **Returning Chinese from Foreign Countries**

Serviced Apartments are popular with returning Chinese from foreign countries who come back to Hong Kong to seek employment opportunities. There has been a significant increase in the number of returning Chinese due to the fact that many MNCs are eagerly looking for overseas Chinese who can speak both Chinese and English fluently.

In addition, returning Chinese first arriving in Hong Kong will often select a Serviced Apartment rather than staying in a hotel. Offering greater space, a range of bedrooms, full cooking facilities and convenience, Serviced Apartments allow families to create a semblance of their normal lifestyle thereby permitting a smoother transition to the work-place.

- **Local residents**

Due to the relatively higher occupancy costs compared with a conventional apartment, Serviced Apartments have not been overly popular with local Hong Kong residents in the past. Local people generally consider moving into Serviced Apartments only when their own homes are being renovated or decorated.

However, in recent years, there has been emerging demand for Serviced Apartments from local residents, particularly those in the high-income group of young upwardly-mobile professionals. They are often attracted by the "ready-to-go" nature of serviced suites, with preference for comprehensive services over all the hassles associated with hiring domestic help and purchasing furniture, which are obviously required when one takes up residence in an ordinary apartment.

## 7.0 FUTURE SUPPLY

In June 2000, the Town Planning Board deleted the category of Serviced Apartments from its land-use list. Under the new system, developers cannot apply to build such properties in the form of land-use conversion. However, they can incorporate serviced suites into hotel or residential projects. The measures run parallel with the Lands Department's decision not to draft land leases for Serviced Apartment developments for fear of difficulties if serviced flats were allowed to be sold on a strata-title basis. This means there will only be residential leases, which allow strata-title sale of the finished properties or hotel leases under which the finished products have to be sold as a whole.

Prior to the Town Planning Board's decision in 2000, many developers were granted approval to convert commercial and industrial land into Serviced Apartment use through land-use conversion. These approved applications formed the basis of the Serviced Apartment supply during 2002-2006. The following table is a summary of projects that are planned to complete in 2005 and 2006:

<b>Future Serviced Apartment Supply in 2005/06</b>			
<u>Name of Development</u>	<u>District</u>	<u>Estimated Completion Year</u>	<u>Number of Units</u>
Four Seasons Place	Central	2005	519
Lanson Place Boutique Hotel and Residence	Causeway Bay	2005	194
MTR Kowloon Station	Tsim Sha Tsui	2006	910
Hanoi Road	Tsim Sha Tsui	2006	383
116-122 Yeung Uk Road	Tsuen Wan	2006	452
29-51 Wo Yee Hop Road	Kwai Chung	2006	924
Cheung Wing Road	Kwai Chung	2006	648
		<b>TOTAL:</b>	<b><u>4,030</u></b>

Source: CB Richard Ellis CBRE Research

**Table 4:** Future Serviced Apartment Supply in 2005/06

Amongst the more significant future Serviced Apartment projects planned and committed, Sun Hung Kai Properties will develop one each at the MTR Airport Express Stations of Hong Kong and Kowloon.

Of these two projects, Four Seasons Place is a part of the International Finance Centre complex developed by a consortium led by Sun Hung Kai Properties and Henderson Land Development atop of Hong Kong Station. Operated by the world-renowned Four Seasons Hotels & Resorts, the development offers a total of 519 premier serviced suites as well as exclusive club facilities. The first phase of its 180 units, ranging from studio units of 547 sf to two-bedroom units of 1,490 sf, will be launched in September 2005 with asking rentals varying from \$27,600 to \$73,000 per month. Tenants are already committing to leases to start in the Autumn. Meanwhile, the Kowloon Station

development, which is still under construction, is scheduled for completion in 2006 with a total provision of about 910 units.

Furthermore, the Tsuen Wan and Kwai Chung areas will be the key areas to benefit from future Serviced Apartment supply, with 116-122 Yeung Uk Road, 29-51 Wo Yee Hop Road and the former Tung Chung Soy Sauce Factory on Cheung Wing Road, all to be developed into Serviced Apartments with the first supply scheduled to come on stream in 2006. These developments will release 452, 924 and 648 units, respectively, to the market.

The recent shift of Serviced Apartment development focus from Hong Kong's primary metropolitan areas to Tsuen Wan district is a result of the re-alignment of the former industrial precinct into an office sub-market. This re-zoning is supported by an efficient transportation system infrastructure in the district, which comprises the MTR Tung Chung and Tsuen Wan Lines, the Airport Express and KCRC West Rail as well as an efficient road network. The ease of flow in traffic and the area's geographic proximity to the airport, in particular, are considered as its primary attributes and are features that cater to the needs of a broad base of potential international tenants, all of which are factors that lend support to the area's position as a growing decentralised Serviced Apartment node of Hong Kong.

## 8.0 OUTLOOK

The general outlook on the Serviced Apartment sector is optimistic both in 2005 and over the foreseeable future, backed by the fast-growing demand for serviced suites together with the limited amount of new supply forecast to come on stream in the next few years. As demand in the Serviced Apartment market tends to be less affected by trend cycles than the luxury residential market, more and more investors and developers have opted to take a stake in the segment with a view to capturing the more stable revenue streams.

It is noted that, in recent years, the market has witnessed the entrance of a number of smaller investors and developers, whilst some existing operators, such as the Shama Group and home2home, have been expanding their portfolios by opening new projects in prime areas. The development trend is leaning in favour of smaller projects in the boutique-style category, offering small numbers of serviced units in single-block buildings. These projects are often conversions from conventional residential or commercial towers.

With competition in the Serviced Apartment market set to harden with the release of Four Seasons Place in September 2005, many Premier and Luxury Serviced Apartments were seen launching major upgrading programmes in preparation. Developments such as the Parkside, the New World Apartments and De Ricou at The Repulse Bay have been refurbishing their apartments with a view to increasing their competitiveness in a more challenging environment, whilst capitalising on the time gap between the present and the release of the new project to capture higher rents. From the perspective of these operators, the interior refit programmes would represent a large investment, but they would also generate significantly improved rental returns. These facelift strategies enable operators to take advantage of the buoyant market sentiment stemming from the recovery of the economy that has seen more discerning tenants now willing to pay more for “the right environment”.

Viewed overall, the prospects for the Serviced Apartment sector are optimistic. The buoyancy of the majority of economies in the Asia region and the growth of economic relations between the East and West has perpetuated the prevalence of large numbers of “execs-on-the-move”. Business-people who lead this lifestyle embrace the flexibility and quality of living that Serviced Apartments offer and this source has been witnessed leading demand for the Serviced Apartment segment. Meanwhile, the relatively low new supply forecast to hit the market in the coming few years is seen as supporting investor optimism over this segment over the medium-term. Hence, the leasing performance of the Serviced Apartment sector in Hong Kong is expected to continue to outshine that of the conventional luxury residential segment over the next 12 months.

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