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REAL ESTATE

Hong Kong remains most expensive market for prime rentals

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Hong Kong has tens of thousands of UHNW residents. Image credit: Knight Frank

By KATIE TAMOLA

Even through the midst of the COVID-19 pandemic and political division, Hong Kong remains the most expensive city to rent a luxury apartment, according to new findings from Knight Frank.

At the end of 2020, prime rents in Hong Kong averaged $6.70 per square foot, meaning an affluent tenant with a budget of $10,000 per month would be able to rent less than 1,500 square feet there. While prime rent prices in some cities did dip at the start of the pandemic as residents left for more spacious accommodations, urban markets are seeing recoveries.

"As soon as the passenger numbers return via the main transport hubs, we will see a fairly rapid correction of the recent rent reductions," said David Mumby, head of prime central London lettings at Knight Frank, in the report. "Stock will return to the short-term Airbnb rental market and with a normalization of office occupancy, the undersupply of prime property will drive rents upwards."

Global luxury apartment rentals

Knight Frank evaluated rental prices across eight cities, ranking which offer the largest space in return for a monthly budget of $10,000. The comparisons are based on three-bedroom apartments in central locations, with the caveat that detached homes in some markets can have higher premiums.

New York is the second most expensive luxury rental market, with a monthly budget of $10,000 providing an average of 2,250 square feet.

Hong Kong is one the most expensive markets to buy or rent. Image credit: Ruslan Bardash/Unsplash

Hong Kong and New York are followed by Singapore, London and Sydney where a $10,000 budget can afford prime rentals between 2,500 and 3,000 square feet.

Dubai and Madrid offer the largest space in return for $10,000 per month, at 4,800 and 5,000 square feet, respectively.

Although rents in central London and Manhattan both fell 14 percent in the year to Feb. 2021, Knight Frank reports that the rate of rental declines is slowing and that new lease signings are recovering in both markets.

This is largely motivated by significant discounts and tenants moving back into city centers to reduce work commutes once pandemic restrictions are lifted.

The lessening of travel restrictions post-pandemic will also be crucial to the rental market bouncing back.

Knight Frank also identified four main reasons why affluents choose to rent.

A luxury apartment rental in Mayfair, London. Image credit: Knight Frank

Flexibility is the first reason, as rental properties give consumers who are uncertain about their future living plans more freedom without being tethered to a lengthy sales process. Familiarization is also an enticing aspect of renting to consumers, offering tenants the ease of familiarizing themselves with the market so they have a better understanding of what and where they wish to buy.

Tenants also consider positioning, considering where prices are falling and which are expected to do so from the short to medium term. Prohibitive purchase taxes are also considered, with the report citing that foreign buyers looking to purchase in markets in Hong Kong and Singapore would have to pay between 15 and 20 percent in additional stamp duties, making renting a more attractive option.

Future renting

Although Hong Kong continues to face political unrest, it still home to a large number of affluents and ultra-affluents and continues to provide enticing purchase and rental opportunities.

According to Knight Frank, Hong Kong super-prime sales, those real estate transactions of $10 million and above, fell 27 percent in 2020 year-over-year. However, the market also saw 23 ultra-prime sales of $25 million and above (see story).

Meanwhile, luxury apartment searches are also at an all-time high.

Google data shows that a substantially higher number of people are purposely searching for luxury rentals. In the U.S. alone, there were 313,000 searches for luxury apartments in January 2021, up 46 percent year-over-year nearly twice as many as in 2019 (see story).

While domestic demand looks to be strengthening in some cities, the easing of travel restrictions will be the key determinant for the recovery of prime rental markets globally, per Knight Frank.

"We are already seeing this starting to materialize in certain areas for the very best properties and it's only a matter of time before this feeds through to the wider market," Knight Frank's Mr. Mumby said.