Serviced apartments are starting to pay off for owners

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Hong Kong residents seem to like the flexibility of serviced apartments, particularly now that they are able to offer daily rates. For instance, one successful boutique brand of apartments opposite Times Square shopping mall blazons the statement across its storefront – "Now offering short stays".

It wasn't always so. Parkview, the development overlooking the country park that leads down to the Tai Tam reservoir, was one of the first serviced apartment developments in the city. Early in the industry's development, Parkview started offering a daily rate, but the government told it to stop. Parkview's sales office confirmed that they used to offer a daily rate but have now stopped offering anything less than a 28-day stay because of the government policy.

Serviced apartments were once set aside as a formal category of property in the city, according to the zoning plans drawn up by the Town Planning Board. But the board dropped all reference to serviced apartments from the rules and regulations in 2000.

The Home Affairs Department said the Parkview issue was simply about licensing – if serviced apartments offered accommodation for a minimum of 28 continuous days they were exempt from having to get a hotel or guesthouse licence. Parkview didn't have the hotel permit.

But not all serviced apartments with guesthouse licences have chosen to offer daily rates. If they did, it was typically only to their biggest customers or by special arrangement. That's all changed with the financial downturn. Now if there is a market niche to fill, developers will fill it.

Jones Lang LaSalle recently released a 19-page paper on serviced apartments in Hong Kong. It noted that serviced apartments offered better yields than similar categories of real estate, making it attractive for developers to take over office buildings and transform them into living space.

The report broke the numbers down for a 50,000 sq ft space. Using the building as Grade C office space, a landlord can command a first-year rental of HK$15 per square foot and generate a rate of return of 4.6 per cent, meaning the project will pay back the cost of outfitting in 19 years. By comparison, using the same space for boutique serviced apartments commands a first-year rental of HK$35 per square foot, an 8.3 per cent rate of return – and the project will pay for itself after 11 years.


Parkview was one of the first serviced apartment developments in the city.

Serviced apartments first appeared in Hong Kong in the 1980s when the city was changing from an industry base of light manufacturing to a financial and business-services centre. The New World Apartments in Tsim Sha Tsui was one of the first purpose-built serviced apartment complexes, followed by Convention Plaza Apartments in Wan Chai and Hong Kong Parkview.

The largest company to focus exclusively on serviced apartments is Shama, which has 450 units in eight locations around the city. It has spawned competitors such as Kush Concept, Home2Home Lifestyles Management and Chi International, that each have three or four serviced-apartment developments that sometimes feel like hotels for the chic and trendy.

Although serviced apartments weren't initially much different from hotel rooms, Shama, Chi and Kush go for various themes incorporating concepts from Zen Buddhism, yoga, lounge chic and minimalist that help make their tenants feel relaxed and at home.

"The feel and image of staying in a serviced apartment can sometimes charm tenants," the Jones Lang LaSalle report authors noted. "In addition to providing a basic sheltering function, serviced apartments are typically associated with an iconic lifestyle, which requires tailored designs, furnishings and facilities."

Jones Lang LaSalle tracks 21 major developers of serviced apartments in the city. By far the largest is Cheung Kong's Horizon Hotels and Suites, which has 4,770 serviced apartments in Kowloon, Hung Hom and the New Territories. The next-largest is Hang Lung Properties, with 890 units in Kornhill Apartment Serviced Suites on Hong Kong Island and The Bay Bridge, near Tsuen Wan, followed by Sun Hung Kai Properties with nearly 790 serviced apartments in HarbourView Place in West Kowloon and Four Seasons Place next to the International Finance Centre.

The three biggest serviced-apartment operators are three of Hong Kong's biggest property developers. New World Properties, Wharf Holdings and Hopewell Real Estate are major players.

"It is now a big business with growing investment demand from institutional investors," Marcos Chan, Anne-Marie Sage and William Lai wrote in the Jones Lang LaSalle report. "The sustained leasing demand, coupled with the positive impact from chained operations, helped safeguard serviced apartment rents from falling too drastically in the aftermath of the financial crisis last year – at least they have fared much better than the ordinary residential leasing market."

There are 56,000 hotel rooms in Hong Kong, four times as many the number of serviced apartments. But future competition is likely to be fierce, with serviced apartments benefiting from the unstable work conditions produced by the recent downturn, the high mobility of employees and the large number of regional headquarters in the city.