



Leasing Residential Properties

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HOME SEARCH

Rental Amount

Rents in Hong Kong are comparatively expensive and are determined by supply and demand situation. When demand for good accommodation outstrips the supply, landlords can become less flexible where rental negotiation is concerned.

Rental amounts quoted by landlords may be exclusive of any add-on charges such as Government Rates, Management Fees, Car Parking Fees and Utility Charges. It is advisable to find out what is included in the rental amount (i.e. furnishings and appliances) and the cost of the add-on charges. This will enable you to calculate your total rent for the property.

Location

It is important to establish your priorities before starting on your property hunt. Issues to consider may include easy access to shopping facilities, access to schools, transport services and commuting time and access to recreational facilities.

As a general rule the further you live from the city centre, the more you can get for your money.

Furnished / Unfurnished Accommodation

As well as considering the size of accommodation, the number of bedroom/bathrooms and size of the general living area, another consideration is whether or not to rent a furnished or unfurnished apartment.

Most accommodation in Hong Kong are offered unfurnished. Furniture and domestic appliances can be provided with an increment of rent.

Please note that this increment will not be taken into consideration. The rent will be assessed on an unfurnished basis and your housing assistance will be calculated and based on the assessed rent.

Conditions of the Property

The standard and quality of finishes in many properties varies tremendously from dated color schemes, flimsy and cheaply made units, poor plumbing/drainage to plug sockets not working.

Improvements at the Landlord expense such as redecoration, provision of domestic appliances, floor polishing, alteration to fitting etc. are points for negotiation and must be raised at the time when the offer is made.

It is also advisable to ask your letting agent as to whether the property you intend to rent is well managed. Shoddy building standards can result in problems for the tenants. Ensure that the management of the property is good and that your Landlord is amenable to meeting relevant costs that might be incurred during the tenancy.

Letter of Offer / Provisional Agreement & Holdings Deposit

Once you have verbally agreed the rental amount and the improvements needed to the property with the Landlord, he may want you to sign a Letter of Offer/Provisional Agreement and pay a holding deposit to indicate your initial acceptance.

It is wise to only commit to an offer letter that is subject to contract whereby this initial deposit is refundable.

You should avoid signing **a binding provisional agreement** at the time the landlord agrees to the offer. This ties you to the transaction without any right to negotiate on the terms of the tenancy.

An equally binding offer is a Provisional Agreement stating all the material terms and conditions of the offer which once confirmed will bind both parties. This agreement however does not mention the conditions stated in the formal tenancy agreement containing the responsibilities of each party during the lease term. In addition the initial deposit paid to the landlord is non refundable once this agreement is executed.

In addition an equally binding offer letter eliminates your right to amend the formal tenancy agreement which in Hong Kong is normally more favorable to the landlord than the tenant and offers more protection to the landlord.

If you are required to go into a binding offer you should request to review the formal tenancy agreement first before you sign off.

The initial holding deposit is paid as a sign of good intent for the Landlord to hold the property whilst awaiting preparation and completion of the contract documents. The amount of this deposit is usually one month of the agreed rent. Whenever a holding deposit is paid, a receipt should be obtained.

Proof of Ownership

Your estate agent should provide you with a current land search of the property confirming the party executing the tenancy agreement is the legal owner of the property.

Length of Lease

The general term in Hong Kong is for 2 years and subject to negotiations, after the first 12 months of the lease a 2 or 3 month written notice may be served to the landlord to early terminate the lease (**break clause**). We strongly advise you to include a break-clause in the tenancy agreement.

Mortgagee Consent

When the property is under mortgage it is advisable to request the landlord to confirm that they have acquired the consent of the bank to lease the property out. Without this the bank have the legally right to terminate the lease and request for vacation of the occupant should they discovered the existing of a tenant mainly because the mortgage payment can be substantially different between a self use and investment property.

For cases whereby the landlord is unable to get the consent and for your protection the landlord should give you an undertaking for all the expenses incurred by your relocation.

What to expect when signing the Tenancy Agreement

You should take your passport or Hong Kong I.D. Card as proof of identity. A copy of which is necessary

The Tenancy Agreement is in duplicate and a third person must witness the signing. You should initial all pages and check that the Tenancy Agreement and the duplicate are properly signed, witnessed and dated.

Please note each party is responsible for their own legal cost. Upon execution of the Tenancy Agreement. You will also be expected to pay the security deposit as well as your share of the stamp duty.

If you use an Estate Agent to find the property, you will be expected to pay the agreed Agency Fee on signing the Tenancy Agreement.

Security Deposit

This is normally equivalent to three months rent which the landlord will hold without interest throughout the lease term. This deposit is refundable and will be returned to the tenant at the expiration of the Tenancy Agreement provided that all the terms of the lease have been complied with and all utility bills are fully settled.

Stamp Duty

This is shared equally between the Landlord and Tenant and is paid to the Government of the Hong Kong Special Administrative Region for the stamping of the Lease Agreement after it is signed. The duty on a lease must be paid within 30 days of its execution, failing which the contractual parties are liable to a penalty for lateness. If the stamping is more than two months late, the penalty is ten times the amount of duty, though the collector has power to remit some or the entire penalty.

Your agent, landlord, solicitor or yourself will need to present the signed tenancy agreement for stamping. The duty incurred will be shared equally between you and your landlord. A separate cheque should be made payable for the duty to 'The Government of HKSAR.

How to Calculate Stamp Duty

- A. 0.25% of the total annual rent where the length of lease is unspecified or is one year or shorter;
- B. 0.5% of the annual rent where the lease is for between one and three years;
- C. 1% of annual rent where the lease is for three years or longer;
- D. Solicitor fee (if applicable);
- E. Utility deposits

MOVE IN

Hand Over of Accommodation

Keys are sometimes handed over to the Tenant after the lease has been signed a few days before commencement of the tenancy. It is not advisable for the Tenant to request access to the premises to carry out work or deliver furniture before the tenancy agreement is signed and the agreed commencement date. At the time of the handover should there be defects to the premises found they should be reported to the Landlord in writing immediately or as soon as practically possible.

It is also important to note down any inherent defects or special conditions for future references.

Arrangement of Utilities

Request for connection of utilities (water electricity gas) is your responsibility as Tenant. The agent will assist you with the application. The agent will also give you information on how to apply for telephone, internet and NOW TV.

Application forms can be obtained directly from the relevant Services Company. As the supply of services may take 7-10 days to complete, you are advised to apply at the earliest possible date.

Security Check

For your own safety and the security of your belongings in your accommodation it is recommended that you change your door locks.

It is advisable to be present when the locksmith is changing the locks and ask for all sets of keys.

It is not a requirement in Hong Kong for you to give a set of spare keys to your landlord. It is entirely at your discretion.

House Rules (Pets)

In some instances (especially in apartments of multi-storey buildings), there may be terms in the House Rules restricting the keeping dogs and cats. You should check the House Rules, if any, to clarify this issue before signing of the tenancy.

Insurance

Although the fabric of the building will normally be insured by the Landlord, the occupier is advised to take out cover for public liability and any other risks assumed under the lease in addition to normal householder insurance.

COMMON TERMINOLOGY

Here are definitions of some common expressions used in the Hong Kong leasing market.

Term

A lease or tenancy agreement is a contract between a landlord and a tenant which usually lasts for a term of two years. Sometimes landlords are prepared to grant a 'break clause' whereby, under certain carefully defined circumstances, a tenant may give early notice of termination.

Break Clause

A 'break clause' within a lease term allows the tenant to give 2 or 3 months notice of termination after a certain period of time has elapsed (usually after one year or 15 months).

Landlord

The landlord may be an individual who owns one unit in a strata-titled block or alternatively a major developer or investor who owns the entire development.

Tenant

In the case of expatriate companies taking a lease, the company is usually designated as the tenant whilst the employee is the occupant. On accessions landlords may grant a personal lease which allows an individual, as opposed to a corporation, to sign the tenancy agreement. The tenant is obliged to comply with all of his obligations under the lease, including the payment of rent and other charges.

Rent

This is the agreed monthly amount written within the tenancy agreement which remains the same for the term of the lease and which usually excludes the standard management fee for the building and government rates.

Management Fee

A monthly charge payable to the landlord or management company for the upkeep and security of the building and its common areas.

Government Rates

A property tax levied quarterly by the Hong Kong SAR Government which is usually equivalent to approximately 5 per cent of the annual rentable.

Stamp Duty

A duty payable to the government upon the signing of a lease & purchase of a property. The amount is 0.5 percent of the annual rent and is usually divided equally between both landlord and tenant for a Lease Agreement. The amount is 0.75 to 3.75 percent of the Purchase price payable solely by the Purchaser.

COMMON TERMINOLOGY

Initial Deposit

This is usually one month of the agreed rental payable when an offer is accepted for the leasing of a Property in normal cases this deposit acts as a stake holder pending on the signing of the formal Tenancy Agreement.

Any amount paid by or on behalf of the tenant to the landlord, his solicitors, or agent prior to the execution of a formal Tenancy Agreement shall be treated as a Preliminary Deposit only to be held by them as a stakeholder and shall be returnable forthwith in the event that the Tenancy Agreement is not executed by both parties.

Under this condition the terms agreed between parties are not binding until the formal Tenancy Agreement is signed.

Security Deposit

On the signing of a tenancy agreement, the tenant pays to the landlord a sum of money as security against any failure to conform with the terms of the lease. This is usually two months' rent plus two months' management fees, however for some landlords they might require this deposit can be three months' rent plus three months' management fees for personal leases.

Agency Commission

Most agents charge a fee of up to 50 per cent of one month's rent as a fee from the tenant for a successful leasing transaction and 1% of the agreed purchase price for each sales transaction. In some cases these will be negotiable. Please note that these commissions are payable upon the signing of the formal agreements i.e. tenancy agreement or the formal sale and purchase agreement.

Legal Fees

Common practice dictates that a landlord will instruct and pay his solicitor for drafting a lease and sale contract whilst a tenant or purchaser will pay his own solicitor.