HONGKONG PROPERTY PRICES:
STAND BY FOR A HARD LANDING !

Between January 2, 2004, and June 30, 2004, investors of the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) appeared to have been chasing the scrip of select, publicly listed companies, involved in property development and/or property investment in the territory.

The popular theory was, during that period of time and, even today, that, as the economy of the HKSAR improves, the residents of the territory would be more inclined to invest in bricks and mortar, with the resultant effect that publicly listed companies, engaged in this industry, directly or indirectly, would benefit, substantially, as they sold part, or all, of their properties to these hot-to-trot residents, in the case of property development companies, or whose adjusted net tangible asset value per share would increase, in the case of property investment companies.

The theory was perfectly sound, but it does not appear to have panned out that way for a number of equally valid reasons.

Trend is said to be every investor's friend, but trends can be as fickle as many friends, as history has proved.

(One is reminded of the case of Marcus Junius Brutus, the Roman politician and general, who conspired, in 44 B.C., to assassinate Julius Caesar, having previously declared himself to be one of Caesar's best friend.)

The concept, being touted by real-estate agents in the HKSAR, during the first half of this year, and, even today, was that investors of property in the territory should get in on the kill – before it was too late.

The call went out: Buy, now, because property prices are rising, fast!

Some investors were seduced by these slick, fast-talking, real-estate agents and property consultants, employed by developers … and, today, these same investors regret, having been persuaded (duped?) by them.

Many Chinese-language newspapers of the HKSAR, today, are full of advertisements of people, wanting to unload their entitlements in property developments, yet to be completed, at substantial discounts to their buying-in prices of just 6 months prior.

One such advertisement, published just last Monday, read:

> *'Bel-Air on the Peak, Second Phase, Tower 7, Unit A, Mid level unit, 1,475 square feet, complete with one car park for sale at $HK12.50 million.'*

The price for this unit is a substantial discount to the original purchase price, which ranged between $HK9,000 per square foot and $HK10,000 per square foot, with the car parks, selling at about $HK500,000.

Roughly, the above-advertised unit is being offered at a discount of about 11 percent, without factoring in the cost of the car park.

<u>Editor's Note</u>: Pacific Century Premium Development Ltd (Code: 432, Main Board, The Stock Exchange of Hongkong Ltd), the developer of Bel-Air on the Peak, which is about 79.99 percent controlled by PCCW Ltd, another Li Ka Shing company, does not know of the date that an Occupation Permit for this phase of the project will be issued, but it will not be before the first quarter of 2005, according to the company. Please see more on this project, below.

Real-estate agents of the HKSAR point to property prices, especially of the luxury grade, as examples of how prices have risen, during the first half of the year.

Some of these properties, widely mentioned in the industry, are:

Regency Royale on Bowen Road, Mid-Levels*;
Po Shan Road, Number 1, Mid-Levels*;
The Albany, Albany Road, Mid-Levels*;
Tregunter, Tregunter Path, Mid-Levels;
Dynasty Court, Old Peak Road, Mid-Levels;
Convention Plaza, Harbour Road, Wanchai; and,
May Tower, May Road, Mid-Levels.

* These properties, **TARGET** would classify as being in the super luxury class

In a survey of the above-mentioned, luxury properties, **TOLFIN** (The Computerised Online Financial Intelligence Service and Web-Based, Credit-Checking Provider) produced the following, rather enlightening statistics:

Name of Property	Price, as at January 2004 (Closest Recorded Sales and Purchase Agreement to This Date)*	Price, as at June 2004 (Closest Recorded Sales and Purchase Agreement to This Date)*	Increase in Price Over The 6-Month Period, in Percentage*
Regency Royale	$HK35.30 million	$HK45.30 million	28.33 percent
Po Shan Road Number 1	$HK16.86 million	$HK25.00 million	48.28 percent
The Albany	$HK25.89 million	$HK43.30 million	67.25 percent
Tregunter	$HK11.99 million	$HK19.80 million	65.14 percent
Dynasty Court	$HK11.38 million	$HK20.00 million	75.75 percent
Convention Plaza	$HK9.36 million	$HK12.38 million	32.26 percent
May Tower	$HK17.30 million	$HK36.28 million	109.71 percent

* This is an indication, only, and is an average price of units, with no consideration, having been given for the position of the unit in relation to the height of the building

For some property development companies, such as Henderson Land Development Company Ltd (Code: 12, Main Board, The Stock Exchange of Hongkong Ltd), they had been sitting on a substantial land bank for some years and had been having a great deal of trouble in selling completed, or partially completed, properties.

Regency Royale, for instance, was completed in 1998 and is, still, not fully occupied, with Henderson Land Development, having determined to rent out one tower of the 2-tower project.

Some of the land bank of this huge property development company has been developed for some time, but the company has been unable to find buyers to take it off the company's hands – even with the assistance of slick, fast-talking, real-estate agents.

And, for Henderson Land Development Company Ltd, it, still, has not been able to move a large proportion of its completed properties, especially, the property in the super deluxe category.

There is nothing wrong with the property, as far as **TARGET** can determine, but there is something terribly wrong with the marketplace, contrary to that which certain, well-known, real-estate companies of the HKSAR maintain.

Other companies of Henderson Land Development's ilk have suffered, similarly, for no fault of their own.

When property prices in a territory rise, then, logically, it should mean that companies, in the business of developing properties for sale, ought to be able to cash in, as they sell part, or all, of their developed properties at prices, which are higher than their costs, all things considered.

Investors and end-users of property would prefer to buy into bricks and mortar when the market appears to have hit bottom, or near bottom, because few people have the stomach to buy property, as prices continue to fall from one low level to another.

As property prices rise, the theoretical market value of the scrip of publicly listed companies, engaged in the building industry and property development industry, should reflect the improved economic conditions, with gains in their share prices.

The backbone of any economy, of course, is the value of its bricks and mortar so that, as an economy improves, more money is created and consumers have more disposable income on which to allocate to a new, or up-market, home.

The family home is one of the most-prized possessions of any married couple and, when times are good, among the first purchase consideration of a married couple, especially where there is progeny, is finding a permanent home for the family unit.

Another important factor in the market price of developed property is the rate of interest, charged by banks and other lending institutions, because, if interest rates are determined to be relatively high, debt service and capital repayments can become onerous for a married couple, living on a fixed income, which is considering making the most-important investment of their married life: The purchase of a permanent home.

Conversely, when interest rates are relatively low, theoretically, property prices should rise on the premise that yields by purchasing bricks and mortar are greater than that which banks can offer on fixed deposits and other financial instruments.

Share prices of property companies, however, cannot rise, independent of the above-mentioned factors.

Also, one must remember that property prices are the last to rise in an improving economy, in most cases.

'Hot money' from Taiwan and the PRC, proper, is said to have been fuelling the property market of the HKSAR since the beginning of this year, but, as **TARGET** has discovered, some of these alleged investors, especially those, who are only property speculators, determined to make a quick turn, have been burned, very badly.

Case in point is Bel-Air on the Peak, a development of a subsidiary of PCCW Ltd (Code: 8, Main Board, The Stock Exchange of Hongkong Ltd), one of Mr Li Ka Shing's largest property developments, every undertaken in the HKSAR.

According to a number of employees of real-estate agents, present at the site on Sunday, July 4, when **TARGET**'s survey team visited this mammoth project, one would be well advised to contact those purchasers, who committed to take up residential units, earlier in the year – because they would be more than willing to offload their property commitments at discounts of between 10 percent and 20 percent of their original purchase prices.

And the Chinese Press is full of such offers, **TARGET** has confirmed.

Some of the units at this project are selling, today, at a price of about $HK12,000 per square foot, with Occupation Permits, expected to be issued by the HKSAR Government, early in 2006, at the earliest time, according to Ms Mary Tang, a Property Consultant in the employ of Pacific Century Premium Developments Ltd, the corporate entity, engaged in selling the flats in the project.

That cost, of $HK12,000 per square foot, for what Ms Mary Tang said was termed by the company as a Simplex Floor at Tower 2 on the 49th Floor, is higher than most property developments in the HKSAR, partially completed, or those developments, to which Occupation Permits have already been issued.

Buyers of middle-class, residential units cannot be found with ease in the more accessible areas on the north side of Hongkong Island where transportation is easy to obtain, let alone in the area of Bel-Air on the Peak, where there is little public transportation, today, with the Mass Transit Railway, scheduled to be running to the area by the year 2014 – at the earliest, according to Ms Mary Tang.

In fact, that price of $HK12,000 per square foot can only be bettered by properties in the super deluxe category, of which Bel-Air on the Peak is not even a starter.

TARGET's survey of property prices in the HKSAR, today, indicates that prices of $HK12,000 per square foot for property, other than the super deluxe category, is higher than all other developed properties on the market – anywhere in the territory.

But real-estate brokers, contacted by **TARGET**, today, claim that that which Bel-Air on the Peak is offering, today, is far in excess of that which most other property projects can offer, in spite of the fact that it will take, in some cases, another 24 months before Occupation Permits for completed units can be issued, dependent on such factors as weather conditions, between now and December 2005.

And, according to Ms Mary Tang, the Property Consultant of Pacific Century Premium Developments Ltd, who spent some time with **TARGET**'s team on July 4, the entire project is unlikely to be fully completed until at least one decade later: That is 2014!

Stock Market Prices

Statistics, compiled by **TOLFIN,** suggest that people, who bought scrip in some of the largest property companies, listed on the Main Board of The Stock Exchange of Hongkong Ltd, have not been very lucky, at all.

It would appear that they only had a 40-percent chance of making a profit between January 1, 2004, and June 30, 2004, by purchasing shares in 10 of the largest property development companies in the HKSAR.

The following table is compiled by **TOLFIN** and is reproduced by permission of this agency. It shows, conclusively, that the property hype was, just that, hype, and little else:

Name of Company	Stock Code Number	Share Price, as at January 2, 2004	Share Price, as at June 30, 2004	Increase/(Decrease)
Cheung Kong (Holdings) Ltd	1	$HK62.75	$HK57.50	(8.37 percent)
Hang Lung Group Ltd	10	$HK9.85	$HK10.50	6.60 percent
Henderson Land Development Company Ltd	12	$HK35.20	$HK33.60	(4.55 percent)
Hopewell Holdings Ltd	54	$HK11.90	$HK15.70	31.93 percent

Hysan Development Company Ltd	14	$HK12.30	$HK11.60	(5.69 percent)
Kerry Properties Ltd	683	$HK10.20	$HK11.85	16.18 percent
New World Development Company Ltd	17	$HK6.40	$HK5.75	(10.16 percent)
Sino Land Company Ltd	83	$HK4.525	$HK4.35	(3.87 percent)
Sun Hung Kai Properties Ltd	16	$HK66.25	$HK64.00	(3.40 percent)
Swire Pacific Ltd	19	$HK48.40	$HK50.50	4.34 percent

Between January 2, 2004, and June 30, 2004, the Hang Seng Index, the gauge of blue chips, traded on the Main Board of The Stock Exchange of Hongkong Ltd, has gone from 12,575.94 points to 12,285.75 points.

That is equivalent to fall of about 2.31percent.

And on Monday, the Hang Seng Index ended the trading day at 12,191.01 points.

TARGET has not taken into consideration, in this survey, the public opinion as to the efficacy of the Administration of the Government of the HKSAR, under the control of its Chief Executive, Mr Tung Chee Hwa, because that is a given, in any event: Mr Tung Chee Hwa's Administration is not, generally, held in high esteem, also for good and valid reasons.

The price of residential property in the HKSAR is likely to fall to much lower levels before the year is out because there would appear to be little reason that it should have risen to the current levels in so far as the luxury market is concerned, at least.

There are ample indications that property moguls of the HKSAR are *'talking up'* the price of property in the territory in order that they may unload their holdings to unsuspecting investors and speculators.

It is well known that vested interests are buying up their own shares on the Main Board of The Stock Exchange of Hongkong, or are using friends to churn their counters in order to give the suggestion of great interest in their shares, due in large part to the ever-increasing price of luxury property market.

Even some of the biggest property wheelers and dealers in the territory are trying to offload part or all of their portfolios, **TARGET** has discovered.

In a conversation with an employee of one of the largest real-estate brokerage companies of the HKSAR, **TARGET** was assured that Mr Freddie Wong Kin Yip, Chairman of Midland Realty (Holdings) Ltd (Code: 1200, Main Board, The Stock Exchange of Hongkong Ltd) is trying, somewhat anxiously, to sell a house at Number 12, Henderson Road, Jardine's Lookout, for $HK96 million.

Mr Freddie Wong Kin Yip purchased this luxury property as a speculation, just last year, for about $HK66 million, **TARGET** was told.

Another of last year's property speculations of Mr Freddie Wong Kin Yip is Number One, Leighton Hill Road, Causeway Bay.

This is a residential unit, measuring about 1,600 square feet, which was purchased in 2003 for about $HK12 million and which is being offered, today, at about $HK16.60 million.

<u>Conclusion</u>: It would appear that, if the current situation in the property market of the HKSAR continues, there could be a rather hard landing before the year is over.

That being the case, purchasing shares in property companies, listed on the Main Board of The Stock Exchange of Hongkong Ltd, except in the case of special situations, would appear to be unwise at this juncture.

Further, one may be well advised not to buy any residential property as an end user at this time, because it would appear, prima facie, that prices should fall between now and December 31, 2004.

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