

ARE PROPERTY PRICES TOO HIGH ?
PROBABLY NOT, STATISTICS INDICATE

At a recent dinner party in the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC), the hostess, the wife of the consul general of a certain, Middle Eastern country, remarked that she was shocked at the cost of renting a flat in Mid-Levels.

As for The Peak, she said, trying to obtain a suitable flat in that swanky area was far and away from the budget that her government had determined could be spent on the family of the consul general while on a 2-year tour of duty in the territory.

'I can't believe that anybody would be willing to pay about \$US30,000 per month to rent a comparatively little flat', she remarked during the soup course.

'I just find it too crazy!'

But it is not crazy.

And it would appear that prices of real estate in the HKSAR will continue to be, in the words of this lady, 'crazy'.

The reasons:

1. The investment climate in the HKSAR is such that it lends itself, strongly, to investments in bricks and mortar: The value of property, after all, is the very backbone of any economy;
2. The strong economic growth of the HKSAR of late has spilled over into the commercial sector of the real-estate market;
3. Consumer confidence continues to rise and this bodes well for the retail sector of the property market of the 416 square miles that constitute the territory;
4. Tourism continues to power up, once again, with hotels, experiencing high occupancy levels; and,
5. The PRC, proper, as opposed to the HKSAR of the PRC, is well expected to continue to be one of the fastest-growing economies of Asia and, as such, the HKSAR stands to benefit, greatly, from its economic growth.

In the US and Europe, there are so many imponderables that investors in these 2 areas of the world are looking more and more to the East to make sizeable investments.

Nearly every day, now, one hears of this US company or that European company, setting up new entities and/or joint ventures in the PRC, proper.

The HKSAR was once a stepping stone to the PRC, but, today, it has lost that position and, in its stead, the territory has evolved as one of the financial powerhouses of Asia, its bubbling equity markets, being second in Asia only to that of The Land of The Rising Sun.

The PRC sees the HKSAR as a place where hundreds of billions of dollars can be raised via the good offices of The Stock Exchange of Hongkong Ltd.

With every successful flotation of a PRC-Government entity, hundreds of millions of dollars are emptied into the coffers of HKSAR finance companies, banks, finance companies, etc, etc, etc.

According to Hongkong Exchanges and Clearing Ltd, The Stock Exchange of Hongkong Ltd stood in fifth place in the world in terms of the amount of money, raised by corporate entities in 2005: \$US38.30 billion (about \$HK299 billion).

On June 1, 2006, Bank of China Ltd (Code: 3988, Main Board, The Stock Exchange of Hongkong Ltd) tapped the HKSAR 'money well' to the extent of \$US11.12 billion (about \$HK86.74 billion).

Bank of China Ltd was the fourth-largest Initial Public Offering in the world when it determined to float in the HKSAR.

According to HKSAR Government statistics, renting a suitable space in a Grade A private office in the Central Business District of Hongkong Island rose by about 7 percent in the first 5 months of 2006, from \$HK44.50 per square foot per month to \$HK47.57 per square foot per month.

In the retail sector of the property market of the HKSAR, on Hongkong Island, rents rose, on average, by about 3 percent between January and May, this year, from about \$HK74.79 per square foot per month to about \$HK77.11 per square foot per month, according to the HKSAR Government.

According to The Land Registry of the HKSAR Government, in the first 5 months of 2006, there were sales of 27,486 domestic residences, the value of which was about \$HK88.84 million.

In the first 5 months of 2005, 51,429 domestic residences were sold for a total value of about \$HK157.93 million.

Statistics can, at times, be confusing, but with the help of a simple calculator, one discovers that the average value of a domestic unit, during the first 5 months of 2006, was about \$HK3.23 million, versus \$HK3.07 million during the like period in 2005.

That is an increase of about 5 percent, Year-On-Year.

According to Savills (Hongkong) Ltd (0):

'In core areas rent rises have continued, forcing some tenants to look at downgrading or moving to peripheral locations, Rents in the Kowloon market have stabilised, however, as tenants begin to take advantage of new stock in areas such as Hung Hom, Mongkok and Kowloon Bay ...

'Despite some slow down in rental growth in decentralised areas, underlying demand remains strong. The recently released Hudson Report on employment expectations suggests rising headcounts across all major sectors over the next quarter, and this is currently being reflected in take-up figures.'

Turning To Trade

The Census and Statistics Department of the HKSAR Government reported that, in June, this year, the value

of total exports and imports of goods both showed Year-On-Year increases.

The value of total exports (including re-exports and domestic exports) was about \$HK202.20 billion, up about 6.70 percent, Year-On-Year, and the value of imports was about \$HK216 billion, up about 9.90 percent, Year-On-Year.

On July 27, 2006, The Census and Statistics Department released its survey of business expectations for the third quarter of this year.

The results concluded that the respondents *'expected their business situation to be better, as compared to those expecting it to be worse ...'*

The Census and Statistics Department went on to state:

'Regarding selling price/service charge, respondents in all except the manufacturing; wholesale and retail; and import and export trade sectors expect it to increase in Q3 (Third Quarter) 2006 over Q2 (Second Quarter) 2006.'

'Analysed by sector, more respondents in the construction; restaurants and hotels; transport and related services; real estate; business services; and banks, financing and insurance sectors expect their selling price/service charge to increase, as against those expecting it to decline in Q3 2006 over Q2 2006.'

Recently, the Hongkong Tourism Board released its statistics with regard to tourist arrivals between January and June, this year.

This is that which the Hongkong Tourism Board reported:

'Visitor arrivals to Hong Kong in the first six months of 2006 reached above 12.19 million, the Hong Kong Tourism Board (HKTb) announced today (28 July). This is an 11.1% increase over the same period last year. The figure includes more than 1.88 million arrivals to the city in June, which represents a year-on-year rise of 8.3%.'

'Of the January-June total, some 7.56 million (62.0%) were classified as overnight visitors, with the remainder of over 4.63 million (38.0%) classified as same-day visitors. The overnight and same-day totals for June were more than 1.15 million (61.3%) and over 730,000 (38.7%) respectively.'

'Arrivals from every regional source market increased in January-June, with Mainland China showing a 14.0% gain. South & Southeast Asia grew by 11.0%, Europe, Africa & The Middle East by 9.7%, Australia, New Zealand & South Pacific by 9.5%, North Asia by 8.6%, The Americas by 4.6% and Taiwan by 2.4%. However, several individual markets that delivered double-digit growth in 2005 slowed to single-digit or even negative figures in the six-month period, reflecting the high base of visitors achieved in previous years. These include Australia (+9.7%), France (+6.0%), Germany (+5.9%) and Singapore (-0.3%).'

'Of the more than 6.70 million Mainland visitors in the first six months of the year, some 47.1% (over 3.16 million) travelled to Hong Kong under the Individual Visit Scheme (IVS). This is a 24.4% increase over the same period last year. Some 44.0% (more than 422,000) of June arrivals travelled under the IVS, which represents year-on-year growth of 20.0%.'

So, perhaps, HKSAR prices of property are not so crazy, after all?

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