

**INVESTING IN LUXURY ACCOMMODATION:
A LIKELY 2007 WINNER**

It seems inevitable that the market price of new, luxury accommodation in the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) will start to rise, during the first half of 2007.

There are, already, signs of this happening, in fact.

There is not one reason for TARGET's prognostications with regard to an increase in the price of luxury accommodation in the HKSAR, but an entire raft of reasons.

It is a well-known and acknowledged fact the economy of a territory can be gauged by the value of its real estate: Real estate is, nearly always, the backbone of any economy.

Further, property prices and rentals nearly always move in similar fashion to 2 horses when they are harnessed together, one horse, encouraging the other.

The **Gross Domestic Product (GDP)** of the HKSAR – GDP, being the gross value of goods produced and services provided in a country/territory, excluding transactions with other countries – is unreliable and, at best, it can only be considered the merest indication of the growth of the economy of these 416 square miles, which is closely linked to the economic health of the PRC, proper, as opposed to the HKSAR of the PRC.

**For more about the GDP and its shortcomings, please refer to
[TARGET Intelligence Report, Volume VIII, Number 234,](#)
published on Friday, December 8, 2006.**

According to The (HKSAR) Census and Statistics Department, in the third quarter of 2006, the GDP increased by 6.80 percent, Year-On-year, and compared favourably with the GDP's 5.50-percent growth in the second quarter.

Private consumption in the third quarter of 2006 grew by about 4.40 percent in real terms, Year-On-Year, moderating from the 5.10-percent increase in the second quarter.

But the statistics, produced by The Census and Statistics Department, also, noted that building and construction decreased by about 5.70 percent in real terms in the third quarter of 2006, compared with the second quarter.

In the second quarter of 2006, it was noted that there had been a decline in building and construction of about 3.70 percent, also in real terms.

According to the HKSAR Buildings Department, in the third quarter of 2006, there had been very little price activity at the higher end of the territory's property market as investors determined not to engage in new financial commitments.

This was in spite of a spike in the wealth effect in the HKSAR due to the number of new Initial Public Offerings on The Stock Exchange of Hongkong Ltd, most of which were highly successful in terms of

investor acceptance.

Although it is now history, the HKSAR Government's threat of introducing a Goods and Services Tax (GST) created a great deal of anxiety in the minds of many investors in the third quarter of 2006.

(The HKSAR Government, officially, announced, last week, that it would not, at this time, introduce a 5-percent GST)

Also, **TARGET** () notes that, in the third quarter of 2006, the HKSAR unemployment rate was about 4.90 percent, which was a drop of about 9.26 percentile points, Year-On-Year.

Nevertheless, property price movements were restricted, to a great extent, to the mass residential market in areas, such as Tokwawan and Tseung Kwan O.

What took place in the HKSAR in the third quarter of 2006, also, was that retail investors slowly discovered that margins of profit were being squeezed.

This came about due, inter alia, to increases in rentals, coupled by demands from labour for increased wages/salaries.

In addition, there was, and still is, a very real fear that interest rates could rise further before the year is out.

In the Macau Special Administrative Region (MSAR) of the PRC, which is just 45 minutes away from the HKSAR by jetfoil, there is growing competition in the mass residential market as the gambling bosses, needing staff to man their new hotel complexes and casinos, and spurring, directly and indirectly, developers to construct large residential composite entities, replete with shopping centres on the lower floors, with the upper floors, reserved for living accommodation, are funding very large building projects.

Meanwhile, in the PRC, proper, Beijing is trying to cool down its property market lest prices rise too high, too quickly.

This, undoubtedly, has caused consternation in the minds of certain property developers of the HKSAR.

In the third quarter of 2006, also, the number of consummated property sales in all levels actually fell by about 11 percent, Quarter-On-Quarter.

In the luxury property area, sales of units in the third quarter of 2006 were off by about 26 percent, Quarter-On-Quarter, according to HKSAR Government statistics.

By the end of August 2006, it was noted that luxury residential property prices had risen by not more than 1.30 percent, Quarter-On-Quarter.

The Future

The above statistics might, on the face of them, look frightening, but, actually, for the future of luxury resident property in the HKSAR, especially in the second quarter of 2007, things look promising, all things, being equal.

With the Government, having back-tracked on its determination to introduce a 5-percent GST, and with equity trading, continuing to be hot, it is quite likely that the money, earned from trading in stocks and shares on The Stock Exchange of Hongkong Ltd, will be spread around.

The so-called wealth effect, brought about by successful equity trading, could well be the spur in the flanks of the HKSAR property 'horse'.

The HKSAR, to be sure, is experiencing a solid economy; and, as long as the PRC, proper, continues to prosper, there is every reason to believe that the economy of the HKSAR will move in tandem.

Merchant bankers and securities companies are gearing up for a bumper 2007-year.

That is quite likely to mean that, as more, highly priced executives are brought in from overseas in order to beef up international companies with offices in the territory, so rentals, especially in the luxury end of the

market, will rise.

This should cause increased investment activity in the luxury end of the residential market as investors will want to get in while the going is good since yields from rentals will be able to compete with interest rates, offered at banks.

According to The Buildings Department of the HKSAR Government, between January and September 2006, there were 27 Occupation Permits, issued for newly completed domestic premises.

That figure compared with the issuance of 42 Occupation Permits, issued in the 12 months of 2005, ended December 31, for newly completed domestic premises.

The total number of domestic units for new buildings, for which Occupation Permits had been issued in 2005, was 17,321.

In the 9 months, ended September 30, 2006, the total number of domestic units for new buildings, for which Occupation Permits had been issued by the HKSAR Government, numbered 12,105.

As for Consent to Commence Work on prospective new buildings, in 2005, foundation works on 65 projects was granted.

In the first 9 months of 2006, Consent was granted in respect of new buildings' foundation works on 56 projects.

And, with regard to general building and super-structural works, The Buildings Department issued Consent for 191 projects in 2005, but only 130 projects for the 9 months, ended September 30, 2006.

In September 2006 alone, The Buildings Department approved 15 building plans, 3 for Hongkong Island, 7 for Kowloon, and 5 for the New Territories.

The approved plans were:

Apartment and apartment/commercial developments	5 projects
Commercial developments	2 projects
Factory and industrial developments	4 projects
Community services developments	4 projects

In summary, therefore, there could well be a shortage of luxury accommodation for sale before the end of next year and, hence, prices could rise, smartly.

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