

THINKING ABOUT BUYING PROPERTY IN HONG KONG?



Buying property here is a straightforward process. But before you reach for your checkbook, there are a few things you should know. Let's start with the bad news.

1. **Hong Kong real estate is expensive.**

It's no secret that properties on the Peak are among the world's priciest. But even a small apartment in a less desirable place, like Sha Tin or Tsuen Wan, can cost more than US\$1 million. That's expensive by any standard. And that's before you pay stamp duty or have the apartment renovated.

2. **Hong Kong real estate can be volatile.**

After the collapse of the Thai baht in July 1997 and the subsequent Asian financial crisis, some property prices dropped nearly 70%. While the luxury market is now booming, other sectors have still not recovered fully.

3. **The market is managed.**

The Hong Kong government owns virtually all the territory's land. By carefully controlling the supply, the government maintains an artificial property shortage, which keeps prices high. Zoning regulations, which create an often artificial distinction between residential, commercial and industrial property, also prop up values.

4. **Construction quality can be poor.**

Builders frequently use the least expensive materials they can find. This problem is compounded by ugly architecture and questionable interior design choices. You may have just bought a multimillion-dollar apartment, but you'll probably need to spend several million more to make it habitable.

5. You may be seen as a rube.

Some market participants will interpret your outsider status as an indication that you have more money than sense. Because this is almost certain to be a one-off transaction, vendors have few incentives to negotiate or offer concessions.

6. The market is biased against old property.

Despite recent changes, it is still much easier to buy and arrange a mortgage for a new property than for an old one.

7. Barriers to entry are high.

Recently, mortgages for 95% of a property's purchase price have become available. But a 30% down payment remains the norm, and "interest-only" mortgages and other creative financing techniques that are common elsewhere remain unavailable in Hong Kong. High costs can lead to high levels of stress, particularly among first-time buyers.

If all of this hasn't put you off, there is some good news.

8. Prices elsewhere have caught up with Hong Kong.

Before the Asian financial crisis, Hong Kong property was among the most expensive in the world in absolute terms. London, New York and other cities have now caught up with and, in some instances, surpassed Hong Kong. Although life offers no guarantees, Hong Kong valuations are now more sustainable than they were before 1997.

9. Everyone here is in the real estate business.

Property plays such a large role in the local economy that the government has a powerful incentive to maintain an orderly market. In the years after 1997, Hong Kong survived a property rout that would have caused the banking system to collapse in many other places. Our financial system and most of our property owners weathered the storm.

10. Hong Kong is benefiting from China's growth.

The China boom cannot go on forever, but for the near term it should continue to deliver a steady stream of buyers from the Mainland who will continue to exert upward pressure on Hong Kong real estate prices. Hong Kong's growing integration with China's economy is enriching local people and attracting expatriates from around the world, many of whom choose to live in Hong Kong. All of these factors benefit our property market.

11. Mortgages are accessible.

Lenders are awash with liquidity and, with Hong Kong's high down payment requirements, mortgages are a secure, desirable way to recycle that cash. If you meet their requirements, banks and other lenders are keen to compete for your business.

12. The rule of law is one of our greatest assets

You don't want to go to court—ever. But if a court appearance is unavoidable, Hong Kong's legal system is among the cleanest, most transparent in Asia. Ten years after the change in sovereignty, the rule of law remains one of Hong Kong's greatest advantages.

13. Real estate is a proven path to wealth.

From new immigrants to the middle class and the city's wealthiest families, many of Hong Kong's fortunes were made with real estate. The territory's property industry is well established, competitive and generally transparent. You don't have to reinvent the wheel to participate.

14. The market is accessible to expatriates.

Contracts are commonly executed in English, and English-speaking real estate agents and solicitors are relatively easy to find. Buying here is well within your grasp.

Convinced? Then let's look at how property is bought and sold in Hong Kong.