

Air Pollution and House Price

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Recent reports in the news media indicated that concern for air pollution is on the rise. Environmentalists claim not only is polluted air bad for one's health, it also deters investors coming from abroad. At the same time, there was a report quoting the business community saying investors rarely back away from investing due solely to air pollution. There seems to be some contradiction here yet it is not our intent to discuss the merits of each stance. Rather, granted that house price is a reflection of the economic-social-administrative well being of an economy, it may be of interest to **explore whether air pollution is an important factor in determining house (residential) price levels.**

Our inclination, based on past information, suggests that **so far air pollution has NOT been an important factor** (at least for Hong Kong):

- a) **Based on global observation** = despite the financial crisis, the average price for a private home (generally a 600 square foot – gross basis – apartment unit) still sells for around HK\$2,500,000 = US\$310,000. This is still higher than / on par with the average home in most cities in the 1st World or Western economies e.g. London, Toronto, Sydney etc except for perhaps a few exceptions such as Tokyo. **It seems cities with (relatively) cleaner air do not necessarily have higher house prices.** No strong correlation here.
- b) **Based on local observation** = air pollution does not occur overnight and for those who have been around Hong Kong for the past 8 or 10 years would have noticed that air quality has been by and large steadily deteriorating. During the same period, however, and except for the last 2 years, house prices had only been going up. Again, **no strong correlation here** (a strong positive correlation if you count only the years before the crisis i.e. more pollution, higher house prices yet it must be pointed out that two correlated items do not necessarily imply a cause and effect relationship).

Will air pollution become an important factor in deciding house prices then? Probably. This depends however on **a societal change in "priorities"** e.g. in wealth versus health. So far, the stress seems to be more on the "w" word though a maturing society may gradually place more emphasis on the "h" word (by way of spending more on health personally and/or environmental improvements collectively). It may also gain importance **IF air pollution gets too out of hand** causing even the most adventurous investors to hesitate. To

date, the **only noticeable impact** caused by air pollution / environmental concern relates mostly to the expatriate community where some had decide to leave despite their companies had actually wanted them to stay on in Hong Kong. This by and large has some bearing on parts of the residential rental market and the companies would have to sweeten the compensation package to entice others to fill in (or hire a local staff if this is feasible).

Nonetheless, we also need to differentiate between **two types of air pollution: (a) comprehensive** and **(b) localized**. By **“comprehensive”** we mean the air pollution affects most if not all districts in Hong Kong, such as the current situation. By **“localized”** we refer to the days when e.g. only industrial areas were polluted and fresh air was available if you were living say 1,000 feet above sea level such as the Mid-levels or better still at the Peak. **The former type has a “canceling out effect”** i.e. air pollution is generally NOT an important differentiating factor when you decide to live in the Mid-Levels or Wanchai, as both districts suffer from some form of air pollution. **The latter type does contribute more to differentiating neighborhoods** and in explaining their price/rent gaps.

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