

Is Hong Kong Real Estate Really Very Expensive?

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Much has been said about the pricey real estate in Hong Kong and how that affects our overall business competitiveness. No doubt Hong Kong real estate is expensive, yet the real question is whether the price level has gone beyond all **“explainable” parameters**.

To throw some light on the subject, we have randomly selected the 4 other cities for a very rough **“Order of Magnitude” comparison**: Seoul, Kuala Lumpur, San Francisco and Toronto. Only the residential sales market is dealt with and at 2 levels: the average / typical home level and the luxury condominium level. The GDP / Capita is used and to reflect the (presumed) higher productivity of a city, a percentage factor is added to the national GDP/Capita figures collected. Moreover, there is a subjective element in determining the typical gross floor area of an average home unit / luxury condominium unit and their corresponding price levels in different cities. Data and information used were obtained from published sources including economic journals and newspaper, government publications, relevant websites and our own professional network.

4 ratios were calculated and can be used for brief comprehension: (A) Average unit Price to GDP/Capita = i.e. how many GDP/Capita is needed to acquire one unit = roughly gives a sense of how difficult home purchase can be. Please note though this is just one way to look at it as a high ratio may be achieved by say a low personal tax rate allowing more disposable income; (B) Hong Kong’s GDP/Capita versus the others’; (C) Hong Kong’s Unit Price versus the others’; and (D) Hong Kong’s \$/Square Foot Gross Floor Area versus the others’. The results are listed in the tables as follows: (Figures are rough)

Table (1) Cities :	Hong Kong	Seoul	Kuala Lumpur	San Francisco	Toronto
GDP / Capita US\$:	24,500	9,100	5,775	32,500	18,000
Average Home US\$:	300,000	150,000	65,000	300,000	160,000
Average Size of Home in GFA ft2 :	600	1,200	1,600	1,800	1,800
Average Price \$/GFA ft2 :	500	125	41	167	89
(A)Average Home Price / GDP per capita =	12.24	16.48	11.26	9.23	8.89
(B)HK GDP per capita/City GDP per capita =	1.00	2.69	4.24	0.75	1.36
(C)HK Home Price / City Home Price =	1.00	2.00	4.62	1.00	1.88
(D)HK \$per GFA ft2 / City \$per GFA ft2=	1.00	4.00	12.31	3.00	5.63

Table (2) Cities :	Hong Kong	Seoul	Kuala Lumpur	San Francisco	Toronto
GDP / Capita US\$:	24,500	9,100	5,775	32,500	18,000
Luxury Condo US\$:	750,000	225,000	160,000	450,000	250,000
Average Size of Condo	1,100	1,200	1,600	1,500	1,500

in GFA ft2 :

Average Price \$/GFA ft2 :	682	188	100	300	167
(A)Luxury Condo Price / GDP per capita =	30.61	24.73	27.71	13.85	13.89
(B)HK GDP per capita/City GPD per capita =	1.00	2.69	4.24	0.75	1.36
(C)HK Condo Price / City Condo Price =	1.00	3.33	4.69	1.67	3.00
(D)HK \$per GFA ft2 / City \$per GFA ft2=	1.00	3.64	6.82	2.27	4.09

A few **observations** can be made from the above:

- (α) For the average home, while Hong Kong has a higher Ratio A [please see description above] than most especially the cities in North America, Seoul has the highest among the cities used here. Please refer to Table 1 Ratios A.
- (β) For the luxury condominium, Hong Kong has the highest Ratio A. Nonetheless, no adjustment has been made to increase the GPD/Capita figure to reflect the higher productivity of this economic echelon which may (or may not) yield a different set of results. In any event, it does give a sense of the relatively high price of a unit compared to its counterpart elsewhere. Please refer to Table 2 Ratios A.
- (χ) It seems that overall Asia has higher Ratios A than North America. Table 1 and 2.
- (δ) Generally, a Hong Kong Home can buy 1 or more (typical range between 2 and 3) equivalent / similar unit elsewhere with the exception of San Francisco in the average home category. Table 1 and 2.
- (ε) Generally, a Square Foot of a Hong Kong Home can buy 2 or more (typical range being 3 to 6) equivalent or similar square feet elsewhere. Table 1 and 2.

A couple of **speculations** can be added based on the above:

- 1) As residential real estate reflects the economy in the long run, thus assuming there is a reasonable correlation between GDP/Capita and Home Price, the Hong Kong real estate price levels (average or luxury) while by no means a small amount are **not “unexplainably” high**. Compare Ratio B to Ratio C and in most cases Hong Kong does have a higher GDP/Capita to accompany the higher price level (whether the GDP/Capita is sustainable is another matter). It is only in Table 2 under San Francisco and Toronto when Ratio C doubles Ratio B (Simply going by these figures, it is the **upper middle class sector**, but not the really upper class sector though, whose price levels, or their productivity / earning capacities, **may be in doubt**).
- 2) The **“expensiveness” may also be felt or in some cases exaggerated when one views it from a \$/square foot angle**. This is particularly understandable when one can get a much larger house for half a million US\$ elsewhere versus an 800 square foot apartment here. However, this neglects the fact that what the average private homeowner in a city can afford is not expressed in \$/square foot but \$ per home. It just so happens that the average Hong Kong home is a close to 600 square feet gross apartment unit (i.e. of around 450 square feet net).

Comparative Real Estate Global Indexes (Cregis) for the 2nd quarter 1999 (+/-4thQ98):

1. Toronto = around 1.90 units for 1 counterpart Hong Kong residential unit (-8.20%)
2. San Francisco = around 1.00 units for 1 counterpart Hong Kong residential unit (-2.90%)