

## Hong Kong Residential Prices: Psychologically Pricey

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The following has been abstracted from an article that we have contributed to the **Hong Kong Economic Journal** (a Chinese daily).

Recently, the author had attended a **business luncheon featuring the head of Asia research** of a prominent financial and investment corporation as the guest speaker. In the process, it was mentioned that **the real estate prices of Hong Kong were (are) still too high\*** and thus the "competitiveness" of Hong Kong was (is) reduced. It is understood that many, especially those from the expatriate community, hold similar views and it is not without reasons e.g. grade A office rents are among some of the highest in the region. Nonetheless, **the author begs to differ** from the above perspective and speculates that the following may be some of the **reasons** why many expatriates still hold the "prices too high" views:

- A) **Multi-national corporations tend to rent / buy the best properties in the market:** this applies to both their choices of offices (at least for the regional / Hong Kong corporate HQ office) and residences e.g. the Peak, Central Mid Levels, Repulse Bay and so on. These properties on the whole do command a rent or price that is generally higher than most of the counterpart properties in the modern cities of Europe or North America. It therefore comes as no surprise that they "feel" Hong Kong prices are too high.
- B) **If expressed in price per square foot (or meter) of floor area, Hong Kong prices indeed would "feel" high** = for instance, the average price of a typical private home (i.e. a 600 'gross' square foot apartment unit. Net unit area would be even smaller, say around 450-500 ft<sup>2</sup>) in Hong Kong now commands around US\$300,000. This is certainly not a price to be smeared at but it is not exceedingly high compared to the average home prices (admittedly, the "**counterpart**" average home of most other cities would offer much more space and so on) some of the major cities as well. So why the fuss you may ask? Perhaps the answer is that when expressed in \$/square foot (ft<sup>2</sup>) this works out to around US\$500/ft<sup>2</sup>. For this rate, one can acquire the best condos (note: on a price per ft<sup>2</sup> wise) in the major metropolitans. It certainly "feels" high.
- C) **Most if not all expatriates could have rented / purchased a larger property 'back home'** with the budget being given to them to rent / buy a Hong Kong residence = for instance, to most people in Hong Kong, renting

a 3,000 square foot apartment in the Peak area means spending at least some US\$10,000+ per month, while purchase price could be US\$3M and up. Nonetheless, these amounts would have been enough to rent / buy a "mansion" (or at least a very large house) in most cities. The expatriates, particularly the newly arrived, would "feel" that prices are too high. Putting it another way, the "counterpart" home elsewhere of any grade of the Hong Kong residences typically offers larger space, better comfort, and so on. To retain "similar" home features, the housing budget would have to be increased significantly. As a rough illustration, the counterpart of the Hong Kong 600ft<sup>2</sup> apartment would be a 2,000ft<sup>2</sup> house in North America.

**From a simple 'affordability' angle, a Hong Kong home is now quite affordable.** Again taking the 600ft<sup>2</sup> US\$300,000 home as an example, the family is likely to earn very roughly US\$4,000-5,000 per month = \$48,000-60,000 annually (before tax = income tax rate is around 15% max). That means a ratio, home price divided by annual family income, of around 6. Naturally, this reflects to a certain extent **the lack of confidence and fear of income risk** especially among the middle class, yet the ratio indicates a much higher affordability. Whether the 600ft<sup>2</sup> (generally accommodates 2 bedrooms, plus washroom, kitchen, dining area, sitting area etc) is 'acceptable' is another matter.

**\*Note** = this is looking from an affordability angle and NOT from an investment angle. There is a concern in the long run whether the middle class private residential sectors can maintain the existing price levels in real terms.

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