## Market Drowned by Large Supply in Coming Years

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At the beginning of a New Year, market analysts have been trying hard to read signals from the current stalemate in the local residential market.

From the affordability ratio, to the number of job advertisements in the local press, from the birth rate to the marriage or divorce figure and even to the mortality rate, they basically have turned every stone to locate evidence on what course the property market would be heading into.

This reminds us of the bizarre scene seen in the recent American presidential election in which one canvassing board member held the ballot high up into his face and painstakingly examined each "confusing" ballot.

Indeed, our property market is quite muddy and murky, more or less like a hanging chad ballot. While the obsolete voting laws and punch-hole machines were to be blamed in this election, in our case, it is our dump and numb land and housing policy that drags the property market into this unprecedented limbo and sadly its nefarious influence shows no sign of abating.

**Prices Continue to fall**

| Mass Residential | 2000 Dec | 1999 Dec | 1998 Dec | 1997 Market Peak |
|---|---|---|---|---|
| **Average Price ($p.s.f.)** | 2,784 | 3,331 | 3,339 | 6,208 |
| **% drop from previous year** | -16.4% | -2% | -46.2% | |
| **compared with the peak** | -55.2% | | | |

**Source: Midland Property Agency Limited**

On 31st October 2000, the pilot at Flight SQ006, unwary of the objects lying ahead on the runway, sped up the plane to take off from Taipei's CKS airport. He of course failed to avert the fatal course of plane crash few seconds later.

The pilots of our land and housing policy are blindfolded on the looming oversupply and weakening demand in the market. They continue paving the way for an abundant land supply, a route likely bound for another property crash.

Fresh water supply comes in immediately once you turn on the water tap. But opening land supply works on a different scenario, as there is a development time lag of two to three years for the residential units - the ultimate product - to come onto stream.

The government has run an aggressive land sales program since three years ago. As such, the impact of the massive completion of new units would soon be pounding on the market. Of these, we don't have to take any example other than from the large strip of land called West Kowloon Reclamation Area.

**Market Swarmed with New Flats in the Urban West**

| Land Lot | Estimated GFA (sq.ft.) | Estimated New Units | Developer |
|---|---|---|---|
| **The Waterfront Phase 1 Kowloon Station** | 1,590,000 | 1,500 | Wing Tai |
| **Phase 2 Kowloon Station** | 2,260,000 | 2,100 | Wharf |
| **Phase 3 Kowloon Station** | 1,080,000 | 1,000 | SHK |
| **Phase 4 Kowloon Station** | 1,390,000 | 1,200 | Amoy |
| **Phase 5 – 7 Kowloon Station** | 1,000,000 | 800 | SHK |
| **KIL11086** | 870,000 | 988 | Cheung Kong |
| **Island Harbourview Phase 1 Olympic Station** | 1,830,000 | 2,314 | Consortium led by Sino |
| **Park Avenue Phase 2 Olympic Station** | 2,370,000 | 2,936 | Consortium led by Sino |
| **Phase 3 Olympic Station** | 1,110,000 | 1,500 | SHK |
| **NKIL11107** | 485,769 | 659 | Cheung Kong |
| **NKIL 11152** | 1,413,315 | 1,663 | Amoy |
| **NKIL 6338** | 1,042,495 | 1,600 | Amoy & Hyundai |
| **Yau Ma Tei Ferry Redevelopment** | 2,057,336 | 3,520 | Henderson |
| **Cheung Sha Wan Shipyard Redevelopment** | 3,094,273 | 4,900 | Cheung Kong/SHK/Shun Tak & others |
| | **21,593,188** | **26,680** | |

**Source: DTZ Debenham Tie Leung and Centaline Property Agency Limited**

All these sites except the Shipyard Redevelopment Project have already paid up land premium to the government coffer, some are in the foundation stage and some have been completed and are selling in the market. These new flats will all be vying for buyers in the coming three years' time.

In a less buoyant property market, the task of disposing all 26,680 new units would be daunting, given the figure equivalent to the sum of all units in Whampoa Garden, Laguna City, Sceneway Garden and Amoy Garden, the five most popular estates that have dominated the flat supply and transactions in Kowloon over the past fifteen years.

Of course we understand the figure from the West Kowloon Reclamation Area is only a tip of iceberg of the total supply throughout the territory. If prices were to be depressed in this central location, the effect would certainly spill over to the areas.

This illustration has kept us to mull whether the market itself could generate sufficient demand to meet supply of all these new flats, especially when the total registered volume of property transactions in 2000 hit at a lowest record of the past five years. It shrunk a further 20% compared with 1999, despite the fact that the local economy in 2000 was in a strong recovery mode and there was an improvement in the employment market.

At the same time we still have no cures to some serious cracks in the pillars of our property demand mechanism, such as the prevalent number of owners in the "negative asset trap", the intense fight for home buyers between private and public sectors due to the increasing convergence of their price differential gap and the direct competition, even within the public sector, between the Home Ownership Scheme and Home Starter Loan Scheme. All these problems would have an eventual dampening effect on the demand for private flats.

By maintaining a consistent land supply and leaving developers in control of their flat productions, the government believes it can achieve a stable property price. However, the property price movement during the past three years was nothing more than a roller-coaster ride. The grand plan is foiled by the contradictory pubic housing policy, which has stifled the demand-side equilibrium.

The disarray of our land and housing policy clearly reflects the current dilemma the government is facing in policy–making. To overhaul the existing housing policy and cut further on land sales target, it would, on the other hand, invite harsh political criticism for favoring big developers and also contravene its stance to curb rising property costs and thus to lift HK' s overall competitiveness.

However, completely refraining from any actions to prop up the ailing property market might lead to a pernicious downward price spiral and an erosion in the stability of the banking system, a disastrous outcome for every government.

As a result, over the year we saw some patch-up jobs from government to buoy up the market, but the effort was never strong enough to move the market out of the doldrums.

The lingering indecisiveness of the housing officials in hauling the course of existing policy would not bode well for the property market. With a sapping demand and soaring supply in imminent future, the property market would only be even more turbulent. By then we would be too late to act.

The month-long crisis in the American presidential election was saved by a last minute decisive Supreme Court judgment. But for us, in the local property market, we have no such luck of having an agency of ultimate authority to end this confusion and rein in the possible market plethora. For the time being (actually it has been running for more than three years now) the market would be still looked like a dimpled chad ballot – a dimple of no friendly face.