

1 Shenzhen Home Purchase = 1 Less Purchase in Hong Kong?

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Stephen Chung BS Bldg(HKU) MS in Real Estate(MIT) ARICS AHKIS MAACE MHIREA NAREIT FPFM PQS RPS-QS
Zeppelin Real Estate Analysis Limited - Phone (852) 24016388 / Fax (852) 2401 3084 stephenchung@zeppelin.com.hk

From time to time we hear people proclaiming that Shenzhen real estate, being bigger and cheaper than Hong Kong's, i.e. you will get more floor area for a lesser dollar amount, will soon if it has not already done so lure Hong Kong buyers to invest there instead of Hong Kong. This will depress real estate prices, especially the residential units in Northern New Territories. It was also mentioned in some media that around 10,000 Shenzhen homes were sold to Hong Kong buyers last year.

The author does not dispute the attraction in terms of prices and sizes of Shenzhen homes, or for that matter, the 'garden-like' residences being developed in other parts of the province (and which you can see on local TV). But to proclaim the utter demise of the Hong Kong residential market (due to this alone) seems somewhat premature. Reasons as follows:

- a) No (formal) study seems to have been carried out to see how many of those (or a percentage thereof) who had invested in a Shenzhen home would have bought a Hong Kong home IF they were not be presented with an opportunity to buy a Shenzhen home. If the percentage is high, then the impact on Hong Kong will be immense. If not, i.e. those who bought a Shenzhen home were buying for leisure (or as a 2nd home) or they would not have bought a Hong Kong home anyway, then the impact may not be as great as thought.
- b) Real estate prices reflect not just the hard aspects but also the soft aspects of a locality. The former include things like distance / travel, cheaper prices of daily goods, improved border-crossing arrangements, less expensive entertainment etc, while the latter include things like social culture, (feeling of) security, legal infrastructure, educational amenities and so on. The latter is also less 'quantifiable' and may be of concern to one social strata e.g. families with children while not being one to another strata e.g. singles. Nonetheless, it is the softer aspects which differentiate more between a Beverly Hills and an average neighborhood.
- c) Two differing price structures do NOT necessarily imply, at least in principle, the lower one will always drag down the higher one, i.e. it can also be the higher enhancing the lower one to go up (not necessarily to a matching but just higher level). The drag down scenario implies either <1> the higher one is really NOT worth it thus has to come down, OR <2> the relatively less desirable aspects of the lower one (which account for the lower pricing) are going to spill into the higher one thus dragging it down, OR BOTH.

The author is not saying that prices in Hong Kong will not be affected by those in Shenzhen yet to say that prices will adjust downward simply because the ones across the border are much cheaper smells like crude analysis. There are usually reasons for such differences, and Hong Kong MAY need to worry when we start seeing middle-classes and expatriates in Mid-Levels relocating to Shenzhen, but then again MAYBE this is a good sign of economic development and success instead. For now, the threat to Hong Kong prices comes from within, and that is our income earning power.