A Speculation on Hong Kong Real Estate Trends-Real Estate Tech, January1997.

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The following contains part of the content in a speech which the author gave to an audience from the Rotary Club recently in late 1996.

The above title could qualify for a doctoral thesis yet owing to the available time and space (in this newsletter), the following 3 trends, by no means all-encompassing and basically speculative in nature, are offered as food for thought:

1. Population movement in terms of migration to and from China would become 2-way: at present most people would think of China as a net provider of immigrants to Hong Kong, i.e. the flow being basically 1-way (into Hong Kong). However, this may change in years to come and especially when living conditions in China get better, as retired people may find China a less expensive alternative to retire (and this is already starting in some ways though perhaps being significant yet) and the younger professional/managerial people look to China for better business and career opportunities. The implication of such on real estate prices and values depends ultimately on the net "productivity" of the people which Hong Kong loses and those which Hong Kong gains. This is to say, if the immigrants from China collectively produce more value than those who have emigrated to China then the impact on real estate generally in terms of value should be positive, and vice versa. Thus, the saying that Hong Kong can expect increases in real values due to increases in population remains to be seen as if the bulk of the immigrants from China are to be non-skilled labour, it may simply imply more government housing. Solid real estate value appreciation depends on solid increases in productivity which in turn depends on the working population having collectively the right set of skills, technologies, and capabilities in the snergy/management of resources.

2. Increased participation in the real estate market by investment and capital funds : either directly or indirectly, especially when Hong Kong starts to operate a mandatory pension which in turn implies somewhere 5 years down the road there will be a huge bulk of money being grown locally in Hong Kong and which is looking for investment outlets. Hong Kong real estate will be one of the major outlets. This does not mean the demise of the real estate developers, just that such investment funds would become another

significant force behind the real estate market. From another angle, this also provides the developers with an additional source of financing and strategic alliances between developers and investment funds could be formed.

3. Increase in demand for smaller residential units in high-end neighbourhoods: this is partly caused by the increased divorce rate, the younger generation getting married late or not at all, plus other factors, bearing in mind that a separated couple means an increase in the demand for the number of units (from 1 to 2) though the aggregated floor area required may only increase slightly (say from 1,200 to 1,300 ft2; 800 for the one who gets the children + 500 for the other spouse). Moreover, it is speculated that future units would also be equipped with the latest building services installations to cater to the ever increasingly sophisticated lifestyles. Units would feel high-tech, be articulate, and are yet small and easy to manage and clean.

The above trends will mean new market positioning, creative strategies, and visionary development concepts not just for real estate developers, but all those involved in its production and investment processes including investors, financiers, bankers, builders, town planners, real estate agents, surveyors, architects, engineers, and the like.