

A Tale of Two Cities – Hong Kong and Shanghai

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25 years ago in 1973, if someone told you that in 1998 the typical real estate prices of Hong Kong would exceed that of London or New York, you might have thought the person to be rather out of his mind. Well, we now all know that to be the reality, even after our recent downward adjustment. By the same token, it is quite possible that in the next 25 years, the real estate prices of Shanghai would at least match, if not exceed, those of Hong Kong. Naturally, this would depend on Shanghai (and to some extent China) making the necessary improvements in its economy, infrastructure (both soft and hard), its legal systems, the financial structures, and the emergence of a proportionally large solid strata of middle-class. We have done a few rough pointers for illustration. Assuming that the average residential prices of Shanghai and Hong Kong would be the same in the next 25 years, and that the current average price of Hong Kong = \$3m and that of Shanghai (AS IF Shanghai has a mature market structure like Hong Kong) = \$250,000, then:

A) If Shanghai prices are to increase by 7% per year, then Hong Kong prices may decrease by around 3% per year.

B) If Shanghai prices are to increase by 11% per year, then Hong Kong prices may increase by around 1% per year.

C) If Shanghai prices are to increase by 17% per year, then Hong Kong prices may increase by around 6% per year.

Despite that real estate has a “local” angle and that the respective real estate prices of Hong Kong and Shanghai may not be directly correlated, the Hong Kong economy and thus its real estate prices will be tied increasingly more to the economy of China, and Shanghai being an important part of its economy may be its barometer. That is, if Shanghai is not doing well, the rest of China may be doing badly too. If Shanghai is doing well, it may or may not imply well-being for China but at least there is a chance that overall China is fairing well too.

Please note that we are not saying that prices in the respective cities will be the same in 25 years as we simply assume this for illustrative convenience. It is just that we think, IF China continues to develop on the right track, then it would seem illogical that real estate prices of Hong Kong could continue to be several times higher than those in Shanghai (or other major Chinese cities for that matter such as Guangzhou, Beijing or Tianjin). The gap should close in the years to come and it will not be a surprise if Shanghai becomes pricier than Hong Kong one day. Please also note that there is no implication that prices would only go up in Shanghai or China or that it would be on a fixed annual increase percentage, as real estate markets fluctuate (creating huge wealth for some while destroying others) and may rise or fall in the long run.