

Hong Kong – A High Land Price Policy?

Real Estate Tech, July 1997.

By Stephen Chung BS BBlg(HKU) MS in Real Estate Development(MIT) ARICS AHKIS MAACE PQS RPS

Zeppelin Property Consultants Ltd – Phone(852)24016388 / 6619 Fax(852)2401 3084

Real Estate Development, Investment, Asset Management, Marketing, and Operational Analysis

Many have asserted that the government has a high land price policy which the government on the other hand says otherwise. This article does not intend to answer that question nor does it intend to draw any conclusion. Nonetheless, the following observations may help the reader contemplate the issue further. **Since the 1960s** :

1. The average flat size (or living space) acceptable to the middle class has decreased from well above 1,000 square feet to the present day 500-600 square feet gross: if one wants proof, just watch one of those Hong Kong-made Cantonese movies from the 1960s which stories feature a middle-class family flat in the then Hong Kong urban setting. Naturally, the acceptance level did not drop suddenly in one day but gradually over the years.
2. Construction cost as a percentage of the overall real estate development expense has changed from being a major cost factor to being a minor one occupying only around 20-30% of the total nowadays with the rest primarily going towards the “Land”: and despite both building construction techniques and materials have been getting more complex, and sometimes more costly all along. This is also accompanied by and reflected in the general and gradual demise of building contractors (who were then the movers and shakers in real estate) and the emergence of a new class-the real estate developers, starting in the mid-1970s. In fact, many prominent developers today had started out as contractors way back then and the difference in financial power between a building contractor who had switched to real estate development and one who did not is tremendous. Again, if one wants proof, just look at the typical capitalization of the publicly listed developers against the listed contractors.
3. The built environment of Hong Kong has been improving overall, especially in the new towns: this is achieved in part by introducing new legislation, standards, and better enforcement in the planning, lease, and building arenas, leading generally to less gross building floor areas (compared to old urban sites) thus resulting in reduced overall density.
4. Real estate as an investment tool has grown from being “just one of the many options” to becoming a major, if not “the only”, investment vehicle: 30 years ago, people purchased real estate for their steady rental income (as did many prominent celebrities in those days). Now, few purchase just for its rental income while many even disregard the rental part but do so solely for its value appreciation potential.