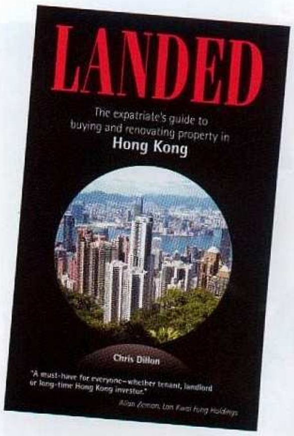
Taking the plunge



In early 2002, the lease on my office was up for renewal. Business was good and the thought of paying rent was losing its appeal. Why not buy an office, I thought.

Until this point, I'd never considered buying property in Hong Kong. I knew real estate was the basis for much of Hong Kong's wealth. But the territory's property was expensive and—having lived through crashes in Western Canada in the 1980s, Japan in the 1990s and Hong Kong after the Asian financial crisis in 1997—I had no illusions about property being a risk-free investment.

In 2002, the real estate market was sluggish. Many people's mortgages were worth more than their properties. However, I believed the market was near the bottom of a cycle. If I was correct, buying an office could be a good investment. And if prices fell, I reasoned, they probably wouldn't drop too much further.

But there was one hitch. I don't speak Cantonese, and I couldn't find any authoritative, English-language information about buying property in Hong Kong.

Around that time, I got to know several expatriate property owners. After hearing their stories, I decided to take the plunge. In March 2002, I renovated an apartment in Pokfulam and half a floor in an industrial building in Wong Chuk Hang.

Along the way, I benefited from the insights and advice of many people and made many educational mistakes. Here are some of the lessons I learned.

1. Hong Kong real estate is expensive.

It's no secret that properties on the Peak are among the world's priciest. But even a modest apartment in a less desirable place, like Sha Tin or Tsuen Wan, can easily cost US$1 million. That's expensive by any standard. And that's before you've paid stamp duty or had the apartment renovated.

2. Hong Kong real estate can be volatile.

After the collapse of the Thai baht in July 1997 and the subsequent Asian financial crisis, some property prices dropped nearly 70%. Certain sectors have still not recovered fully.

3. The market is managed.

The government owns virtually all the land in Hong Kong. By carefully controlling the supply, the government maintains an artificial property shortage and keeps prices high. Zoning regulations, which create an often-artificial distinction between residential, commercial and industrial property, also prop up values.

4. Construction quality can be poor.

Builders frequently use the cheapest materials they can find. This is compounded by ugly architecture and questionable interior design choices. You may have just bought a multi-million dollar apartment, but you'll probably need to spend several million more to make it habitable.

5. You may be seen as a rube.

Some market participants will interpret your status as an outsider as an indication that you have more money than sense. And because this is almost certain to be a one-off transaction, vendors have few incentives to negotiate or offer concessions.

6. The market is biased against old property.

Despite recent changes, it is still much easier to buy and arrange a mortgage for a new property than for an old one.

7. Barriers to entry are high.

Recently, 95% mortgages have become available. But a 30% down payment remains the norm. And "interest-only" mortgages and other creative financing techniques that are among first-time buyers.

In spite of these drawbacks, there was some good news.

8. Prices elsewhere have caught up with Hong Kong.

Before the Asian financial crisis in 1997, Hong Kong property was among the most expensive in the world in absolute terms. London, New York and other cities have since caught up with and in some instances surpassed us. While there are no guarantees in life, that makes for more sustainable valuations.

9. Everyone here is in the real estate business.

Property plays such a large role in the local economy that the government has a powerful incentive to maintain an orderly market. In the years after 1997, Hong Kong survived a real estate rout that would have caused the banking system to collapse in many other places. Our financial system and most of our property owners weathered the storm.

10. Hong Kong is benefiting from China's growth.

The China boom cannot go on forever. But for the foreseeable future it will continue to deliver a steady stream of buyers from the Mainland who will exert upward pressure on Hong Kong real estate prices. Hong Kong's growing integration with China's economy is enriching local people and attracting expatriates from around the world, many of whom prefer to live in Hong Kong. All of these factors benefit our property market.

11. Mortgages are accessible.

Lenders are awash with liquidity and, with Hong Kong's high down payment requirements, mortgages are seen as a secure, desirable way to recycle that cash. If you meet their requirements, banks and other lenders are keen to compete for your business.

12. The rule of law is one of our greatest assets.

You don't want to go to court—ever. But if it's unavoidable, Hong Kong's legal system is among the cleanest, most transparent in Asia. The rule of law remains one of Hong Kong's greatest advantages and, 10 years later,

13. Real estate is a proven path to wealth.

From newly arrived immigrants to the middle class and the city's wealthiest families, many of Hong Kong's fortunes were made with real estate. It is a well-established, competitive and generally transparent industry. You don't have to reinvent the wheel to participate.

14. The market is accessible to expatriates.

Contracts are commonly executed in English, and English-speaking real estate agents and solicitors are relatively easy to find. Buying here is well within your grasp.

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