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Despite politics and coronavirus, Hong Kong's enduring love affair with real estate

Hong Kong is showing that its affinity for real estate has been unaffected by a year of anti-government protests and concerns over the coronavirus, with a large housing project launched this month registering the highest response in over two decades.

When the Pavilia Farm development in the New Territories district opened for subscription, eager buyers stocked up on food and water as they prepared for a long wait at the end of a snaking queue where signs read: “Expected waiting time: 8 hours.”

The project, attractively priced and close to the busy Kowloon district, received close to 23,000 subscriptions for its first 391 units. When completed in late 2022 it will have 3,000 apartments.

All 391 units were sold, the developer said on Sunday night, adding more units would be launched soon.

Realtors said the take-up at Pavilia was the strongest in more than 20 years in one of the world’s most expensive property markets and matched the frenzy seen at the time of the 1997 handover of the former British colony to China.

But it comes after social upheaval in the past year over China’s plans to introduce a national security law in Hong Kong, which has led many investors to question the future of the global financial hub.

However, Hong Kong’s home prices dropped just 4% since a peak in May last year before the outbreak of protests and the spread of the coronavirus, supported by strong demand, a severe land shortage and low interest rates. This followed a six-fold rise in the index of private home prices since 2003.

“The property market has accumulated over a year of demand since the social movement last June; the monthly transaction volume has been lower than usual,” said Richard Lee, CEO of realtor Hong Kong Property Services.

“People’s confidence has come back after seeing (residential) prices have stayed resilient even during the COVID-19 outbreak.”

Property consultancy Knight Frank's executive director Thomas Lam said, however, the real estate market will continue to be under pressure in an economy under recession and with high unemployment. He said he expected home prices will fall around 5% this year before getting stable next year.

"Now the property market is very 'deformed'; home prices remain high but...commercial and shop rents and prices are falling non-stop," Lam said.

Pavilia Farm is being built by New World Development 0017.HK and MTR Corp. 0066.HK above the Tai Wai railway station, on the train line into Kowloon and Hong Kong Island, and will have a large shopping mall in its lower floors.

On one of the early days of the launch, organisers stopped people queuing from 11.30 am local time (0330 GMT) as lines extended from a show flat to a footbridge outside despite social distancing concerns.

Buyers said they were unconcerned about the exodus of residents following the protests last year as well as the possibility of a crash in prices.

Grace Wong, a 40-year-old fitness trainer, said she wanted to buy a one-bedroom home for investment, although if prices dropped she said she would live in it herself.

Wong said she's staying in Hong Kong because she's single and doesn't have to worry about the future of any children.

"(Otherwise) I'd choose to migrate elsewhere and not buy a property here," she said. "I'm not young anymore; if I don't buy a property now it'll be more difficult to secure a mortgage in the future."

Property agents said Pavilia Farm's pricing was around 10% lower than nearby developments, making it attractive to buyers who have been waiting for opportunities.

"The overwhelming response for this project demonstrates a rebound in the Hong Kong property sector and confidence from home buyers who are in search of high quality properties as the new normal settles in," Edward Lau, deputy chief financial officer of New World, told Reuters.

Candy Lau, 26, who works in the consumer industry, said she was also confident about Hong Kong's property market. She said she expects it to remain stable or rise slightly in the near future and had signed up to buy a one-bedroom apartment in Pavilia and rent it out.

"Property is still a better way of capital conservation. There's limited investment channels right now; equity is volatile," Lau said.

Hong Kong rents likely to slip further as companies axe jobs to survive recession

Hong Kong's residential leasing market will be under pressure in the last three months of this year as the traditional low season coincides with the worst recession in decades, property agents said.

With many companies reliant on government handouts to stay afloat, more redundancies are likely in the next six months with obvious negative implications for local housing demand, according to Savills.

"The rental market still seems precariously balanced as tenants and landlords face uncertain prospects," said Simon Smith, senior director, research and consultancy, at Savills. "We expect the final quarter of 2020 to present further challenges."

The official rental index in August was down 9.2 per cent from its peak a year earlier, according to data from the government's Rating and Valuation Department. Monthly rents for apartments have been dropping steadily.

A flat measuring 551 sq ft with three bedrooms at Kingswood Villas in Tin Shui Wai was leased for HK$10,000 (US$1,290), or HK$18.1 per sq ft, last week, according to Jerry Tse, senior branch manager at Many Wells Property Agent. That compares with the usual HK$10,500 to HK$13,500 monthly rent for flats in that area.

A tiny apartment at Ava 61 in Cheung Sha Wan was leased for just HK$8,000 last month, 12.5 per cent lower than the market rate, said Ray Ip, a marketing manager at Hong Kong Property Services (Agency).

Landlords have been trying to boost demand by offering incentives other than direct reductions in rent, agents said.

"Landlords and tenants are learning to navigate the current uncertainty with one-year leases, early handovers and rent-free periods," said Aradhana Khemaney, head of residential services at Savills. "The fourth quarter is likely to see more challenges and we expect rents to soften further."

Knight Frank has also seen more landlords willing to provide incentives to attract tenants, rather than lowering the asking rent.

"Prices will still be under pressure because of protracted unfavourable factors, including the weak economy and rising unemployment rate, which might erode affordability over time," said Martin Wong, associate director of research and consultancy, Greater China, at Knight Frank.

Town house rents slipped by 0.8 per cent in the third quarter, representing a sixth consecutive quarter of decline, according to Savills.

Ina Chan, the third wife of the late gaming tycoon Stanley Ho, recently leased a house at Unir Garden in Shek O measuring 2,564 sq ft to Harry Lee, a member of the controlling family of Hysan Development, for HK$135,000 a month, about a third less than the rate in 2013, according to Land Registry records.

Luxury residential rents traditionally mirror movements in prime office rents in Central, where rates have fallen and vacancy has been creeping up, according to Savills.

Serviced apartments have offered a series of promotions to rescue shrinking occupancy levels, such as flexible lease terms, according to Savills. They are popular given concerns over the tough operating environment faced by many businesses.

Some hotel-like apartments offer "two for one" deals — a two-month stay for the price of one. Rents in this segment are continuing to drift downwards.

Activity in Hong Kong's overall property sector is picking up speed, according to Midland Realty.

The agency expects the total number of property transactions, including homes, parking spaces, retail, commercial and industrial properties to reach 6,500 in September, up 20.6 per cent from August.