

A house is not a home

As Hongkong's property market softens, there is a glut of empty flats — but would-be tenants still cannot afford them

By Mary Lee

Hongkong: People aspiring to property ownership for investment or occupancy will be disappointed to learn that the market, already down from its 1981 peaks, is not about to collapse — the only eventuality likely to bring prices down to generally affordable levels. The official *Property Review 1982* states that the "softening" (rather than collapse) of the property market was a sign of its "underlying strength and stability." In other words, the "historically high" amount of vacant stock in all sectors did not cause average rents and sale prices to plunge. Rather, increases were of a smaller magnitude. Developers and landlords sitting on profits of "a good four to five years" were able to hold on to empty units, thus shoring up the market. The "adjustment mechanism" was operating in "an orderly fashion."

Despite a substantial increase since December 1980 in the stock of empty flats, shop and office space and factories — rises of 76%, 91%, 49% and 68% respectively — there were "long-term opportunities waiting to be grasped" by developers, said Commissioner for Rating and Valuation Ray Fry. These included demand for residential and office space generated by "China's needs." Demand for flats would also be created by the government's scheme to help civil servants buy their own accommodation, as well as by the government's requirement for luxury-sized apartments to house senior and expatriate staff. For end-users, 1982-83 held opportunities for acquiring premises at "reasonable prices."

Last July, the Hongkong and Shanghai Bank's monthly economic report had already warned that the December 1980 stock of vacant premises — 17,000 flats, 221,700 sq. ms of shop space, 202,900 sq. ms of office space and 476,000 sq. ms of factory space — "must represent an investment of several billion dollars." The report added: "There is no doubt that [such a] level of vacancies, whether deliberate or involuntary, is exerting a negative influence on the efficient functioning of market prices." This observation is underscored by the fact that there are now nearly 30,000 flats lying empty, as are 423,000 sq. ms of shop space, 302,000 sq. ms of office space and 800,000 sq. ms of factory buildings. These vacancies represent nearly 53%, 50%, 55% and 76% respectively of the amount built in 1981.

The number of empty flats is a clear sign that many people still cannot afford to buy or move into new homes, despite an official estimate in May 1981 that there are 133,000 families in need of proper housing but who do not qualify for public housing. The problem which the government is unable to resolve is not so much the construction rate of private housing but, a private valuer said, that of getting people into empty flats.

Given that flats which came on the market in 1981 were built on land acquired two years earlier at very high prices, it seems unlikely that sales prices or rentals for the estimated 55,000 units which will be completed in 1982-83 or later will be any more "affordable." Commented valuer C. Y. Leung, of Jones Lang Wootton, on the so-called trend of increasing owner-occupancy (up 6% to 77% or 240,703 units): "It's got more to do with rent-control legislation, high prices and rents than overall 'affordability'." No statistics are available to show how many flats previously let have since been taken off the market to be occupied by landlords' families. Average sales prices for small flats (of up to 40 sq. ms) stood at HK\$11,300 a sq. m., while those for medium-sized units (70-100 sq. ms) averaged HK\$11,850 (US\$2,040) a sq. m. — an increase of nearly 200% and 230% respectively in five years.

Rentals for small- and medium-sized flats have similarly risen 245% and 286% in 1977-81 to HK\$76 and HK\$81 a sq. m., respectively. But even though rent-control legislation does not apply to new flats or tenancies, "rents obtainable are not in many instances sufficient to meet financing costs at current rates of interest," the report said.

"What was apparent," *Property Review* stated, "was that particularly heavy vacancy positions were usually related to high asking prices where developers were trying to resist market pressures." The overall vacancy of 30,000 flats — of which nearly 53% or 18,120 units were of 1981 stock — exists despite the provision of an additional HK\$3.8 billion by banks and deposit-taking companies to individuals in 1981 for private residential mortgages, an increase of 33% in one year.

Will the government introduce legislation to discourage speculators from on-selling flats for profit and developers from holding on to empty units in anticipation of a market recovery? The answer is likely to be no, partly because the government is satisfied with the belief that speculators had their fingers burned in 1981 and also because any further housing legislation would be difficult to draw up or enforce. The government is also likely to point to the drop in land prices since early 1981 which, it hopes, will also help to slow down increases in sales prices in 1983 when residential projects on the "cheaper" sites will be completed.

It remains to be seen whether aspiring owner-occupiers will press for social legislation to help bring flat prices down. What little indication there is of the government's concern over the socio-political implications of residential property speculation was stated indirectly. Said Fry: "An unfortunate concomitant of property trad-

ing has been a general lowering of standards of finish which is likely to leave a heritage of problems for both occupants and management. While trading may have a useful role to play in the property development process, it can have undesirable side-effects if allowed unduly to influence development decisions."

Fry did not elaborate on what the "undesirable side-effects" were, though property sources pointed to the long-term problems of cramped living conditions as the largest number of flats being built in 1982-83 will be 30-40 sq. ms (12,000 units) or 20-30 sq. ms (10,655 units). Small flats are simply cheaper to rent or buy and developers, worried about their cash-flows, will build more of these.

Meanwhile, at the top end of the market, the government is still taking up 1,150 large flats or 7% of the 160 sq. ms-and-over range, at a cost of HK\$101 million in the 1982-83 financial year. The re-development projects, under which private developers undertake to build a total of 1,200 units for the government free (the land premium having been reduced in relation to the cost of these free flats), will not be ready until 1984-86. More than 160 expatriate officers are staying in hotels while awaiting accommodation — at a cost to the government of HK\$1.6 million a month.

In addition to these luxury flats rented by the government for its senior expatriate staff, local civil servants who earn above HK\$10,015 a month are entitled to a private-tenancy allowance which permits them to rent medium- or large-sized flats and pay only 7.5% of their salary towards the rent (the government foots the rest). The inflationary effect of such a generous civil-service housing scheme on so-called market forces has yet to be analysed.

The problems facing developers of residential accommodation, however, are not as serious as those of over-supply of shop, office and factory space. Roughly half the amount of vacant shop space, or more than 210,000 sq. ms, was of 1981 supply, while the amount of empty office space in December 1981 was just a little less than that built during the year (319,300 sq. ms).

The *Property Review* cautioned that

this vacant stock, when set against the forecast supply in 1982-83 of 790,000 sq. ms of shop space and just over 1 million sq. ms of office space, means that absorption "is going to take time." In the meantime, the "softening" of values during 1981 "seems set to continue for much of 1982." Only prime shopping space and well-located and well-managed top-grade offices, the *Property Review* said, are likely to attract occupants. Rents for grade A office space in Central shot up 182% in 1979-81 to HK\$282 a sq. m.; rentals of grade C premises in the same district rose by a similar margin to HK\$168 a sq. m., compared with rates of 120 a sq. m. for grade C space in Wanchai.

The stock of flatted factory space increased by 11% over 1980 to just over 1 million sq. ms, but the vacancy rate rose by 68% to 800,000 sq. ms. Of this, 68% lay in the New Territories (NT), with the

highest concentration in Kwai Chung and Tsuen Wan. As a result, a large area in Tsuen Wan presently under industrial zoning has been amended for commercial-residential redevelopment. Rents in NT factories increased by a mere 15% in 1980-81, to HK\$28 a sq. m.

The official view of the property scene is that it is now a buyer's and tenant's market. However, Fry has overlooked the fact that the same chilling factor which cooled the developers' engine — high interest rates — is also affecting prospective occupants of new homes, offices and factories. "Perhaps landlords will appreciate that a good tenant is an asset who should be nourished," Fry said. This avuncular remark, however, caused speculation in some quarters that the end of domestic rent control — brought about by an overheated residential sector in 1979 — is in sight.

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WATCH THIS SPACE		
Year	Domestic units built by private sector (sq. ms)	% vacant at year's end
1978	26,320	21.4%
1979	27,795	40.3%
1980	24,995	41.6%
1981	34,475	52.6%
Year	Shop space (sq. ms)	% vacant at year's end
1978	211,700	55.2%
1979	227,200	66.2%
1980	272,300	68.9%
1981	314,500	66.9%
Year	Office space (sq. ms)	% vacant at year's end
1978	185,400	35.8%
1979	178,300	30.1%
1980	296,700	58.9%
1981	319,300	55.4%
Year	Flatted factory space (sq. ms)	% vacant at year's end
1978	1.1 million	36.6%
1979	1.3 million	39.1%
1980	976,700	38.5%
1981	1.1 million	53.8%