



Property Portfolio in Hong Kong S.A.R.

1. Overview of the location Hong Kong

Since the handover in 1997, Hong Kong is a special administrative region of the Peoples' Republic of China and, as such, enjoys the privilege of a Western society and liberal legal system whilst benefitting enormously from China's economic growth. It is a leading international financial centre, and the most important financial and economic hub in the Asia Pacific region.

Home to a population of roughly 7 million people, it is one of the densest cities on earth with an expatriate community of about 100,000. It is also a very multicultural city and truly cosmopolitan metropolis. Despite remarkable discrepancies in wealth, the standard of living in Hong Kong is high. The city is home to a large part of Asia's most powerful conglomerates and companies as well as many of its wealthiest families.

Geographically, its position at the tip of the Pearl River Delta and its proximity to South East Asia give it an unbeatable advantage, both for living and conducting business in Hong Kong. The S.A.R. is also a very transient place, in which business ventures and investments by non-residents are favourable.

The Government of the HKSAR has endeavoured to provide a favourable environment in which business operates. Its policy of low and simple taxation allows maximum room for business initiatives and innovation. There is a strong emphasis on the rule of law and fair market.

There are also no barriers of access to the market by foreign businesses or private investors, and no restrictions on capital flows into and out of Hong Kong. Additionally, there are no exchange controls. Hong Kong also does not collect capital gains tax, sales tax, VAT, or annual net worth tax. Investment income is also not taxed. However, stamp duty is applicable to many types of transactions and, for the acquisition of property, varies depending on the value of the unit bought.

2. The Hong Kong Real Estate Market

Hong Kong has one of the most active real estate markets in Asia and even worldwide, demonstrated by a very high transaction volume, very high ratio of home-ownership (including second home-ownership), and the sheer number of players in the property development industry. Real estate, in fact, plays a crucial role in the city's entrepreneurial business environment, and Hong Kong offers investors one of the most established markets in the region.

Virtually all land is owned by the government, and supply for premium development plots is limited. This means that home-buyers and investors acquire property on a leasehold basis ranging from 50 to 999 years. Despite the volatility of the Hong Kong real estate market, investing in Hong Kong property is a strategic way of increasing personal assets. The current negative interest rate (effectively at -2% as of September 2008) environment makes buying in Hong Kong an extremely lucrative investment, especially as rental yields are always relatively stable.

The variety of the market makes for easy diversification in an investor's property portfolio. The renovation and sale at high profit margins of older buildings and units are an effective way for first time investors to significantly increase their capital, while the high-end segment of the market is always a sure investment. Property prices have nearly reached their pre-1997 Asian Financial crisis peak prices, whilst the luxury market has already surpassed these.

3. Investing in Hong Kong Property

Hong Kong property is very expensive at global standards but the city remains one of the most lucrative in the world. With current rentals much more sizeable than mortgage repayments, investing in Hong Kong real estate enables high returns. Even amidst the global credit crunch, and property transactions in the city tumbling by 30% quarter on quarter, prices in the luxury sector have soared by over 8%. Average price per square foot for luxury developments in the second quarter of 2008 have ranged between HK\$ 50-70, whereas average sales prices varied from HK\$ 18,000 up to HK\$ 35,000 on prime locations such as the Peak.

Limited supply of high-end units and continuously increasing spending power, both local and expatriate, mean that prices of quality property will not deteriorate in the medium to long term. The most sought after locations include the Peak, South Side and Midlevels, but there are several high-end developments both on Hong Kong Island as well as Kowloon side which offer very attractive returns on investment.

New launches, such as Soho 38 in Soho, JResidences in Wanchai, and others have all fared much better than expected in the first weeks of sale, with prices exceeding the asking price by nearly 10%. The continuous expected growth of both the local economy and household incomes is boasting demand and ensuring high rentals.

Another appealing factor for investing in Hong Kong property is the buoyant serviced apartments market, which keeps prices and rental yields for top notch residential units high. As with the luxury sector in general, prices and yields are expected to rise or, at worst, stay stable. Due to the HK Dollar's peg to the US Dollar, the continuous depreciation of the currency means that it is now a very good time for European and other investors to buy in Hong Kong.

Although many complex mortgage products are not yet available in Hong Kong, lending is easily obtainable by a plethora of local banks. Generally, the invested capital is equivalent to 20-30% down-payment, with negative interest rates making financing extremely efficient. Due to Hong Kong's liberal economy, the process of buying, renting and leasing property in the city is extremely straightforward, and equally simple to foreigners as nationals or permanent residents.

Overall, then, in a climate of easy financing, simple acquisition procedures, a favourable tax system and business environment, the limited supply of and high demand for high-end residential developments means that investing in Hong Kong property is an extremely profitable venture both for first-time buyers and seasoned investors alike. As there is no discrimination against non-local buyers, it means that foreign investors can only benefit from the booming local market without the burden of additional taxes.

4. Useful Information

Engel & Voelkers Asia Pacific will gladly consult you on how to most effectively diversify your property portfolio in Hong Kong and maximise your return on investment, according to your chosen level of risk. Whether you wish to simply set a foot into the buzzing real estate market of the city, or wish access to some of the most exclusive properties in Hong Kong, we will make sure to satisfy your requirements and make the process as uncomplicated for you as possible, from

the comfort of your home country. We are also happy to give you tips on the location and neighbourhoods.

If you wish to learn more about bank lending and financing, please refer to the website of the [Hong Kong and Shanghai Banking Corporation \(HSBC\)](#).

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