

Hong Kong Real Estate: A Conversation with Binoche Chan

Miranda Junowicz

I'm Miranda Junowicz and this is Whereabouts.

When Binoche and I recorded this conversation in mid September, the daily protests in Hong Kong were mounting. What had started out as non violent protests against a controversial extradition agreement with China was now a looming confrontation about civil liberties, and democracy, and anger over the government's response to these issues.

I thought hard about whether to release this podcast episode this week as I'd planned. Maybe a discussion about trade wars and protests and real estate is disrespectful in the current climate. But ultimately, Binoche represents daily life in Hong Kong. She's a mother to three children, she takes pride in her work and her city and her culture. And she is the Hong Konger who will persist long after the world's attention has turned elsewhere.

Binoche Chan is the Chief Operating Officer of List Sotheby's International Realty in Hong Kong. Binoche and I talk trade wars, protests and resilience in the most expensive real estate market in the world.

Hi, Binoche thank you for joining me today on whereabouts.

Binoche Chan

Hello, Miranda, thank you for having me.

Miranda

So let's talk about Hong Kong. Hong Kong is such an interesting curiosity from an American perspective. It has politically a very unique status in China, in the world, really. It is home to the highest real estate prices in the world. It is a center of financial and trade, professional services... it really is a small location with a big world impact.

Binoche

I would say Hong Kong is really an amazing city, which is so tiny, tiny. But as you said, it's like a melting pot. And with a very unique position in the history of the last century. Hong Kong is so lucky to be...to enjoy the legacy of the British government. So we have the legal system, the democracy that we are cherishing. And because of all these, which make Hong Kong a unique place, and attract so many populations from mainland China, and also all over the world. And as a real estate market with the positive growth of population be it permanent and also the expats coming to Hong Kong to work which make Hong Kong as a real estate market really amazing full of end users and also investors.

Miranda

Putting recent events aside for just a moment, can you give me a sense of the trajectory of the Hong Kong market in the last decade or so?

Binoche

In the past decades, we witnessed a great rocket of the price. So it leads to the Hong Kong government has to introduce the stamp duties, a more tightened policy in terms of mortgage, and especially some cooling measures, specifically for the foreign buyers, stopping the foreigners coming in and jeopardizing end users needs for real estate for homes, for residential units.

Miranda

You're talking about not driving prices up, essentially, stopping international investment from skyrocketing prices, even more than they are already.

Binoche

Right. But the government has been quite careful, because it's a dilemma, the Hong Kong people on one side, wish the government to protect the prices not to rocket too much. However, because the ownership of property is quite major for the local people, if the price drops too much, it will also hurt their wealth. On one side you wish the market to go up so you can protect your investment, but the other side you wish that maybe the market can correct a little bit so I can have a chance to buy. So it's kind of two ways.

Miranda

I think it's the dilemma buyers face everywhere really. If we just step back for a moment, to the history of Hong Kong, 1997 was when the British handover to China occurred. Was that a vibrant moment in the Hong Kong real estate market? What was going on at that time?

Binoche

It was. Starting from a few years back, from 1997, the Hong Kong real estate market has been building up the momentum and has rocketed a lot. And then after the handover, by the end of 1997, the beginning of 1988, the price started to collapse. And then the whole real estate market triggered panic sales, and dropped like 40%, 50%; which jeopardized the financial system, and a lot of banks had to call loans. And that triggered a lot of tragedies some people cannot afford, because they were also losing their jobs. And it was quite a mass event.

Miranda

And was this following the handover?

Binoche

If you remember, back then it was also a financial crisis. The Asian countries' currencies were being attacked. And luckily, Hong Kong has a very strong US dollar reserve that we can protect our currency. So Hong Kong is kind of a market less suffered. Since that crisis, the prices

actually gradually going down even more, and then the dot-com bubble burst. And then Hong Kong has experienced SARS during 2003, 2004.

Miranda

The bird flu.

Binoche

Yeah. Which hits Hong Kong to the really lowest. And from there, Hong Kong, gradually building up back to 2008, which is the Beijing Olympics, the China Olympic Games, which was a boom. But then the financial tsunami came again, which has greatly impacted the market with panic sales, and the market dropped sharply by the end of 2008. And people expect it to be you know, really bad again. However, the market actually only corrected for six months, which was amazing. And no one expected that. And then it never stopped.

Miranda

Just to pull back for a moment... financial services, tourism, trading and logistics and professional services. Given that that is where Hong Kong's economy is focused, it makes a lot of sense that international global movements and crises and issues impact Hong Kong tremendously.

Binoche

Hong Kong is relatively stable. Because we are quite solid with a lot of old, rich families, a lot of big institutions. A lot of cash, lots of money, actually in Hong Kong. So when there is any crisis, we backup our resources to handle those kinds of crisis, comparatively to other Asian countries or cities.

Miranda

So it's your feeling that, despite ups and downs that come with fluctuations in the market, Hong Kong has relative stability because of wealthy residents who can back up the needs of the economy. And a lot of these cooling measures that you mentioned from a government perspective how did they do that with mortgage and lending?

Binoche

Right. Government has been very careful in monitoring this sector. Hong Kong people, especially Chinese community, we are not used to borrowing money that much. We like savings. We have a lot of savings. Every year, we are encouraged and we are brought up by parents to have saved things always.

Miranda

Tell me about homeownership, is that also a cultural value for Chinese families?

Binoche

Yes, we are culturally very attached to land... attached to home. We want the stable home, we want to stay in the place, you know, for generations, to generations. And in the past in the history, we refer our family house as the residence of the family. And we all can go back there to the hometown. So it's kind of a tradition to own a home, to feel safe, and to settle the family. Because of this, the prices have been driven up quite a lot, and the people wish to own but now it's getting really difficult to start.

Miranda

So you had mentioned also other cooling measures by the government, one of them was stamp duties. Can you give us a little background on what those are and how they apply to different buyers in your market?

Binoche

It has become a flat rate for all the Hong Kong people when we buy a property of residential, we have to pay 15%. If you are not Hong Kong PR, if you are an overseas buyer, you have to pay an extra 15%. That means in total, 30%.

Miranda

Wow.

Binoche

That's the current scenario for Hong Kong. And after you buy property, you have to hold it for three years. If not you will be subject to a special stamp duty, which is like from 15 up to 30% or so, depending on your holding period. The measures are, you know, against speculations.

Miranda

Interesting. And so the 30% only applies if you're not a permanent resident of Hong Kong, so it's for overseas buyers. That certainly would discourage speculation.

So let's delve into what's going on today in Hong Kong, that gives us a really nice background of where the market was until you know, this last year. Let's start with the trade war and the tariffs being imposed in both directions between China and the United States. About 17% of Chinese exports, pass through the city on their way to the United States, and about 9% of U.S. imports to China come through Hong Kong. So the impact of the tariffs being imposed, and the trade war, must be affecting Hong Kong in some way.

Binoche

Right, it sounds big, but actually Hong Kong is just like add value center. We add value to those import and exports, the real one suffers are those exporters and importers, you know, back in China. So the impact relatively is not direct to Hong Kong. It's more like the confidence of the economy.

The trade war actually has a shadow over the future. So the people start to be conservative, hold back and think, but the real solid demand in the market is still there. Since 2018, around August, that confidence has a big impact. And the market slowed down in terms of transaction volume, which gradually triggered correction of the prices, which go down like 10%. And then the volume goes down. So we witnessed a very strong bounce back in January of 2019. But then, the Hong Kong political situation has turned sour. And we can see that from June, in terms of price, it has dropped a little bit, 0.8% roughly. So the price is stable. But in terms of transaction volume, it dropped 40%.

Miranda

Wow. Those are impressive figures, I have to say, it really speaks to what you've mentioned that so much of the buyer market is local, and is based in Hong Kong residents. So you see the hesitation to act, but not a significant drop in prices, because you are not turning away a lot of speculative buyers. They're just not there. And it's an interesting testament to that sort of protection of the market, because this moment in time is not going to totally eviscerate all of the value that has been built over the years.

Binoche

Yeah, absolutely. The market is quite resilient.

Miranda

We are also facing a different impact on Hong Kong at the moment and one that is dominating international headlines the protests. These have been going on since June and started with - and correct me if I'm wrong - with a protest against an extradition bill between China and Hong Kong. And now that actual bill has been retracted. And the demands are more about freedoms and voting and, sort of, classic democracy demands.

Binoche

Exactly. At the core part of the five demands is independent investigation on both sides, and then let the legal system judge who's wrong who's right and really show the justice to the people. That's what the people wish.

Miranda

And you're talking about justice between the police and the protesters and what has gone down in the last couple of months.

Binoche

Yes. People want to know the truth. Want to know what exactly happened, and who to be responsible for what.

Miranda

And I think in large part, one of the things that is fascinating is that the protests have risen to numbers above 2 million people in the streets, in a city of 7 million. Is that right?

Binoche

Yes, 7 million.

Miranda

Those are numbers that are incredible, and have been largely peaceful protests, with these exceptions that are becoming more of the focus, but not where the protesters want the focus to be.

Binoche

Right, it's a kind of level up story. You know, the protestors want the kind of attention or response, which they are not getting. So the violence level has gone up, which is something that we don't want to see, but is now happening. Sadly.

Miranda

In terms of the effects of the protests, there has been impact on the areas that you spoke of earlier. The stock market, and there's actually been a big impact on tourists. They're down nearly 40% from last August. Are the prices for rental apartments, has that changed? Or occupancy of rentals has that fluctuated in these last couple of months?

Binoche

Traditionally, if people are more conservative in buying, usually they turn to rent first, and then they will buy later. So usually when the purchase market slows down, the rental market goes up. However, recently, we have also witnessed some expats a bit worried about the situation, and they switch from Hong Kong to other Asian cities, moving out to Singapore, for example. I can see that trend already happening, making the price go down a little bit, like 5%.

Miranda

Interesting. You know I read about a large developer who was launching a project of flats, over the metro station, the Nam Chong subway station. And that they were going to pull back on their scheduled completion and launch of over 1000 apartments. Is that a direct response to the protests? If the market is staying relatively strong, from a buyer perspective, why are they pulling their inventory, or pausing their inventory?

Binoche

I think that's absolutely a pullback because of the situation. Usually, for a developer to market a development in Hong Kong, especially those on top of MTR [metro] station, usually, the scale is quite big. So the number of units are quite substantial. They will usually have a strategy over six months how to launch, and then they will release the number of stocks bit by bit. I bet that's why they hold back the whole thing. They want to observe a little bit and then they react. They will review the whole strategy again, before they can put it back in the market.

Miranda

So this is just them saying let's hold back for a moment, let the energy die down, see where things go and just plan a different launch.

Binoche

Yes.

Miranda

In terms of the makeup of residential property in Hong Kong, my vision of Hong Kong is skyscrapers. Is that what the residential property market is? Are there single family homes, self-standing homes, or is that just not what's available in Hong Kong?

Binoche

In Hong Kong, actually, we have all kinds of properties that you just named except from something very unique for Europe. For example, a castle, we don't have a castle in Hong Kong, of course. The major market is still skyscrapers, as you just described: apartments, sizes from very small like 100 square feet, up to a huge one 9000 square feet. And in terms of layout, it can be a studio flat, up to six rooms, seven rooms is available in the market. And apart from this kind of apartments, we also have single family houses.

However, because land is so rare, so precious in Hong Kong, it's absolutely only for the richest layer of Hong Kong. So, only the top 50 families would own that kind of landed property in Hong Kong. I'm talking about Hong Kong Island. If you are willing to go into new territories, of course, you can have something like village houses, that kind of lower ranking houses are still available.

Miranda

So on the island itself, of the stock of residential property, it's really just a handful of self-standing homes.

Binoche

Yes.

Miranda

If we can look for just a moment at pricing. You were kind to provide me with some numbers that I will share. Entry level prices about \$1200 U.S. dollars a square foot. Average prices for smaller units, about \$2200 USD per square foot. And for larger flats, over \$3000 USD per square foot. These are impressive. I come from Silicon Valley, and we thought we had them all beat. And apparently we don't.

Binoche

Hong Kong market is a bit crazy. It's purely because we are so small, and attracting so many people coming.

Miranda

In respect to your smallness, you are part of a big bay that is a large concentration of economic activity for China. The Chinese government is launching a Greater Bay Area initiative that looks to link Hong Kong and Macau and Shenzhen on the Chinese mainland and a variety of cities, into a sort of integrated economic and business hub. Is this an exciting future for Hong Kong? Where do you see that influencing this already tight real estate market?

Binoche

To be precise, there are nine cities in the Guangdong Province, which is close to Hong Kong, together with Macau and Hong Kong, along the Pearl River Delta, that they call the Greater Bay Area. And the purpose is really to have synergy between these cities - to have more frequent interactions between the residents.

Within a certain period of time, the borderline of Hong Kong to Shenzhen will fade out. And then because of this more frequent interaction of people, the flow of cash, the flow of economy would be more vibrant. And it will expand Hong Kong's economy scale to be a bigger picture. Because now Hong Kong is only 7 million in population. But if you connect that with the Greater Bay Area it becomes like 10 times more.

Miranda

So 70 million people in this larger economic collaboration.

Binoche

Yes.

Miranda

Twice the population of Canada and more than the entire population of the United Kingdom. That is a hefty number.

Binoche

Yeah, absolutely.

Miranda

I've so enjoyed talking to you. I read a quote about you, and I'd like to read it. "Binoche puts her words into actions and stays true to her promise in realizing the client's dream of a unique and perfect home, that embraces family history, hospitality, and a deep taste of life." I just really loved that. And I wanted to hear what "embracing family history" means to you in real estate.

Binoche

I try to listen to every customer, what they really want, and what they really need, and we try to fit the best options for them. And because we are working on prime, luxurious property in Hong

Kong, I'm usually handling those old rich families, really helping them to market their residence, to the right, exclusive clients. And usually when you go into that kind of residence, there is family history there, and a few generations of the same family reside in this residence. So we cherish a lot of this kind of heritage and try to market houses with stories to the next potential buyers who also have a dream to settle their family in a place that they can have a long term pleasure and to build their own family history, to elaborate their values in life.

Miranda

Thank you for sharing so much about this interesting, interesting place that is on all of our minds right now. We are all looking to see a peaceful end to the turmoil. And hopefully, we can connect again soon and see where we are in the future with Hong Kong.

Binoche

Thank you very much Miranda. it's such a pleasure for me to speak to you. And thank you so much for the wishes. It goes into my heart. And I'm so proud to be a Hongkonger, and I really wish we can pass through this turbulence and find a better future for Hong Kong.

Miranda

Well, I'm sure with people and leaders like you, you will find your way. Thank you so much, Binoche.

Binoche

Thank you Miranda. Have a good day.

Miranda

And thank you for listening to this episode of Whereabouts.

If you want to find out more about the Hong Kong real estate market, learn more about my co host, Binoche Chan, or listen to other episodes of Whereabouts, head to whereabouts-podcast.com.

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