

HONG KONG

Improving economy and rising tourism boosts property market

By Ken Wu in Hong Kong

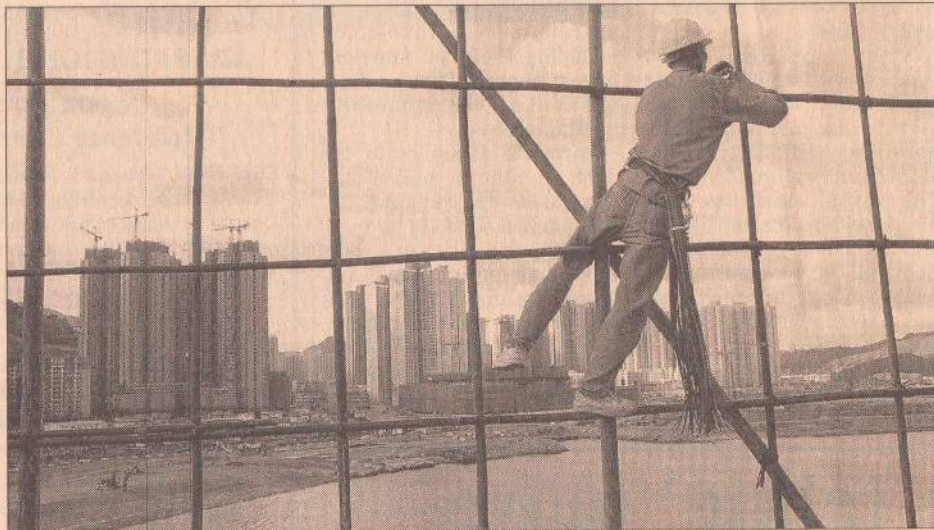
A recovering economy and a surge of visitors from mainland China are expected to spur strong gains in Hong Kong's property market in 2004, according to an annual survey conducted by Jones Lang LaSalle.

The real estate agency expects mass residential property prices to rise by 9.3 per cent this year, said Joseph Tsang, head of Jones Lang's residential department.

While 26,000 to 28,000 new residential units will come on to the market this year, the delay of a housing development masterminded by Hong Kong's railway corporation has helped to relieve the downward pressure on residential property prices in the medium term, Mr Tsang added.

Retail property developers can expect a healthy 2004 as well. Hong Kong's retail market turned round in August of last year, after severe acute respiratory syndrome battered the territory last spring and summer. In 2003, the capital value and rental prices of retail space went up by 20 per cent and 6 per cent, respectively.

"Mainland Chinese tourists have keyed the revival



Rising high: Residential property prices are expected to grow 9.3 per cent in Hong Kong this year, said Jones Lang LaSalle, thanks partly to a delay in building a new mass housing project

Vincent Yu/AP

in retail sales," said Nelson Wong, Jones Lang's head of research for Greater China. Last year saw the arrival of 8.5m mainland visitors, a 25 per cent increase over 2002.

Jones Lang predicts retail rents will rise by 20-25 per cent this year. Limited supply of retail space in the core shopping areas, the continued influx of Chinese tourists, and rising consumer and retailer confidence are fuelling the growth in retail property prices. Office vacancy rates, which peaked

at 14.9 per cent in mid-2003, will drop to 10 per cent this year and should continue to fall throughout the next two years.

Lower supply will be a major contributor to increasing office prices. Office space in prime new projects will fall from 3.3m square feet in 2002 to 1.2m in 2005.

Together with improving economic sentiment, Mr Wong expects office rental prices to shoot up by 20 to 25 per cent in 2005.

Meanwhile, the property market recovery has prompted Standard & Poor's the credit ratings agency, to consider upgrading its ratings of big Hong Kong property developers from negative to stable.

"Improving market trends could help strengthen some companies' financial profiles and move credit measures back to levels more consistent with the current credit ratings on them," Standard & Poor's credit analyst Renee Lam said.