Safe as Houses

With Hong Kong's seemingly unstoppable property boom, some buyers are looking overseas for cheaper investments. But not every deal is as good as it may look. – By Sarah Graham

For many people living and working in Hong Kong, owning a property in the city will likely only ever be a pipe dream.

In January this year, Hong Kong was named the world's least affordable city by US planning consultancy Demographia for the eighth successive year, beating other markets that have proved red hot in recent years, including Sydney and Vancouver. The survey found the median property price in Hong Kong is now 19.4 times the median income. That compares to 8.5 in London, which has also been reported to be experiencing an affordability crisis.

It's easy then to see the allure of looking overseas for cheaper real estate. And buying an "off-plan" property – those that have been designed but are yet to be built – can be an even more attractive prospect for an investor looking to shell out less for a desirable property.

If you've never purchased an off-plan property – or a buyer-led scheme as they're also known – here's how it works. Developers draw up authority-approved plans which they then advertise through real-estate agents and exhibitions. The attraction for the investor is simple: they buy the off-plan property for up to 35%

cheaper than the market price on completion. The benefit for the developer is that they raise a significant amount of capital before they even purchase the building materials.

Marcus Sohlberg of AsiaPropertyHQ explains: "Investors normally don't pay for the complete property up front, but an initial deposit of around 10%, and sometimes with continuing payment instalments. These will be put at stake in case the developer defaults or can't finalise a project. In case a developer defaults on a project, a solution can be that another developer takes on the project and finalises it."

> ***"(New) guidelines will be effective in governing the sale of overseas property, they enforce that the project has received development consent from their local governing body, they ensure that the agency in Hong Kong has implemented due diligence reports and they also enforce that the Hong Kong agency research the validity of buying restrictions for the given project. – Harrison Chapman, Senior Operations Manager at Colliers International"***

Sounds like a win, win situation? In many cases, it is. However, a number of Asian investors have found themselves in hot water after investing in developments that are now standing half-completed, or worse still, not even started. One example is the Angelgate development in Manchester, UK. Billed as "an original and inspiring place to live" on the website of Emerging Developments Property Investment Specialists, the development would comprise 334 one-and two-bed luxury apartments, a concierge, fitness suite, landscaped gardens and car parking. Early investors were promised a 7% yield assured for two years after its scheduled completion in February 2016.

But things didn't go according to plan. A number of investors from Hong Kong contacted Greater Manchester Police in December 2016 complaining they had between them ploughed millions of pounds sterling into the scheme yet construction had stalled. It soon emerged that the construction company, PHD1 Ltd, had gone into liquidation. Developer Far East Consortium (FEC) has since acquired the Angelgate site, which borders its £200 million MeadowSide development of 756 apartments and town houses.

MeadowSide and Angelgate sit on the doorstep of Manchester's Northern Gateway, an investment partnership between FEC and Manchester City Council to deliver 15,000 new homes across the northern side of central Manchester over the next decade.

Gavin Taylor, Regional General Manager of FEC Manchester, said: "Having acquired the Angelgate site at auction, we will prepare new plans for a residential development and hope to submit a revised planning application to Manchester City Council before the end of 2018."

Great Manchester Police has since passed its investment fraud investigation to Titan, the North West Regional Organised Crime Unit. A spokesperson said: "There have been a number of referrals from different police forces concerning investment fraud."

The initial plan submitted by developers of Manchester's Angelgate project and walk the neighbourhood to see what's nearby – like brownfield sites or social housing – and see if the area is being gentrified or in decline. I'd check prices for comparable homes and visit projects that the developer completed five or 10 years ago, to see how well they've aged."

While that's clearly sound advice, it may not always be possible for a potential buyer to scope out a location, or check whether a developer has the correct permits to begin building. Jones Lang LaSalle (JLL), a leading professional services firm specialising in real estate and investment management, is one such licensed agent that does most of the due diligence footwork for clients.

> ***At JLL we do our due diligence with regards to the developers before we take on the project. We also ensure we have teams on the ground in those cities who can ensure what we're taking on will be a viable project.***
> ***– Anne-Marie Sage, Head of International Residential Property Services, Asia Pacific at JLL***

Anne-Marie Sage, JLL's Head of International Residential Property Services, Asia Pacific, says the agency, which has a global workforce of 83,500 operating in over 80 countries, prides itself on selecting the most reputable developers for its clients.

"At JLL we do our due diligence with regards to the developers before we take on the project. We also ensure we have teams on the ground in those cities who can ensure what we're taking on will be a viable project," she said.

As long as there's no end in sight to Hong Kong's property price boom, some investors will naturally seek cheaper, more spacious real estate overseas. But the message is clear. If you want more bang for your buck, be prepared to do your homework.

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