

# Real Estate 101: An Introduction to Buying Property in Hong Kong

*Author of Landed: The expatriate's guide to buying and renovating property in Hong Kong, Chris Dillon – a unilingual expat – tells of his experience of buying and renovating an office, an apartment and a factory over the course of five years and of Hong Kong's unique property market*

By **Kenny Lau**

**U**nlike expatriates who relocate on corporate assignments, Chris Dillon is in Asia on local terms. Originally from Canada, Dillon has lived in Hong Kong for 20 years and worked as a writer and public relations specialist for a number of corporations and media groups. In 2000, he founded Dillon Communications, which serves corporate clients.

“If you wanted a place in Asia where you could do business and where there was good infrastructure, it came down to two places: Hong Kong and Singapore,” Dillon says of his decision to move to Hong Kong in 1992 after living in Tokyo for three years. “If you are entrepreneurial, this is probably the best place on earth.”

Since then, Dillon started businesses and a family here and acquired a 1,000-square-foot Grade B office in Central, a four-bedroom apartment in Pokfulam and a 3,500-square-foot factory in an industrial building in Wong Chuk Hang.

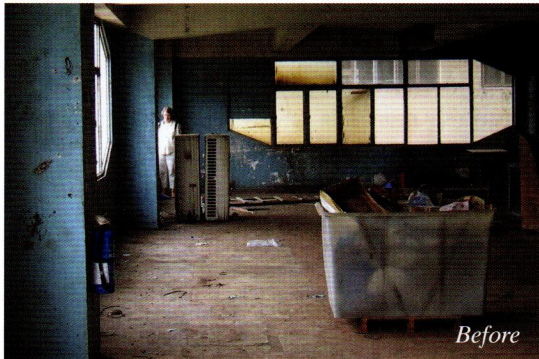
“It had never occurred to me that expats could buy property here until I talked to some friends,” he recalls, highlighting the fact that Hong Kong's property market is equally accessible to expatriate and local buyers. “When you do some research, you realize that all of the fortunes in Hong Kong are one way or another related to property.”

“What makes Hong Kong great for expats is that all contracts and documentation are in English. We have the rule of law and very little corruption,” he says. “Banks are typically very willing to provide mortgages because you make such a large down payment that their risk is relatively low. It is actually one of their preferred means of lending money.”

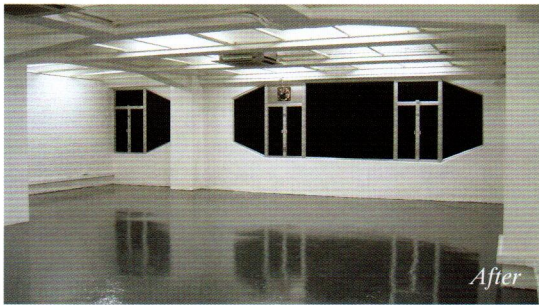
## Localization

The trend of expats buying property is increasingly common in Hong Kong because “you wake up one day and you realize it is your home,” Dillon believes. “What I increasingly see post-1997 is people like me, people who came here and fell in love with the place.”

Unlike the early days when many expats were on “expat” packages, most are now on local terms. Despite the growing number of expats living and working in Hong Kong, “the reality is that the number on packages drops by the day.” And more of them are living and working outside traditional expat neighborhoods like Mid-Levels, the Peak and the South Side.



Before



After

Renovation of a 3,500-square-foot factory in a 30-year-old industrial building in Wong Chuk Hang, Hong Kong Island South

“Being one of two expats in a Wong Chuk Hang factory building was different,” Dillon says. “My neighbors included a Chinese medicine manufacturer and a frozen meat wholesaler, which made for some interesting rides in the freight elevator.”

## An expensive place

Hong Kong is indeed the most expensive place on earth when it comes to real estate. “If you compare it to where you come from, even places like Mayfair or Manhattan, it is still really, really expensive,” Dillon acknowledges.

“This is an unusual market because you have a growing economy north of the border and a lot of hot money flowing around,” he says. “This is something you have to accept. If you constantly compare it to prices back home, your head will explode.”

The property market in Hong Kong can also be volatile. In 1997, the real estate market crashed following the Asian financial crisis and prices in some segments of the market subsequently dropped as much

## Buying tips:

**Best buy:** “When you do some research, you realize that all of the fortunes in Hong Kong are one way or another related to property.”

**Length of stay:** “If you are not here for the long term, it is rarely a good idea to buy, unless you are wealthy enough to let it sit.”

**Make a wish list:** “You need to know what is in your heart before you can make an effective purchasing decision.”

**Managing expectation:** “You’re never going to buy at the very bottom or sell at the very top unless you are insanely lucky.”

as two-thirds. In 2000, the real estate market remained “pretty grim.”

By early 2002, Dillon had been running a new business for a couple of years and it was time to renew the lease on his office. “I looked around and thought to myself: I have money from the sale of my previous business. Why don’t I just buy?” he recalls.

“When I started thinking about buying, my expectation was very modest because I had never bought real estate before and I knew how little I knew,” he continues. “So, I was being very cautious and conservative because it might blow up in my face.”



Chris Dillon

Dillon bought the office in Central at a steep discount. “I figured for 20 cents on the dollar my downside was limited,” he says. “It could get worse but it wasn’t going to get much worse. Of course, I bought in 2002 and we were hit by SARS in 2003. So things did get worse.”

“You’re never going to buy at the very bottom or sell at the very top unless you are insanely lucky,” he believes. “If you set yourself up with that expectation, it will prevent you from ever doing anything.”

## Current market

The current property market is still fairly close to the top of the cycle, Dillon believes. "There is a good possibility that we have hit the peak, but you never know. However, we are closer to the top than the bottom."

It is also important to realize that this is a segmented market. "This is not a homogenous market. Industrial space in Wong Chuk Hang behaves differently and does so on a different schedule than luxury property on the Peak or in Mid-Levels," he points out.

"What we are seeing is a tremendous influence on the part of Mainland buyers who first started looking at luxury places in Kowloon and are now getting into commercial and industrial space."

The market for real estate in Hong Kong is unique in that it tends to be bipolar. "We are giddy with enthusiasm or utterly despondent, and there is very little in between," Dillon points out. "People are watching what's happening in the Mainland economy, which has slowed down a little bit, and what's happening in the US and Europe. The big concern is contagion."

However, default ratios on mortgage in Hong Kong have been historically miniscule, even during the Asian financial crisis in 1997. Buyers generally make a down payment of 30 percent (or more) and are very reluctant to sell at a loss. "In Hong Kong, we have a great affinity for real estate," Dillon says. "It is part of the investor psychology here."

Despite valuations being on the high side and the global economic outlook remaining gloomy, Dillon believes it can be a good time to buy. "I would be very selective and conservative. I wouldn't just show up on a Sunday afternoon with a checkbook," he suggests. "But if you find a unit on the right floor with a view you want and it is within your price range, buy it."

"Of course if you are here on an assignment, you'll want to think carefully because Hong Kong property prices can be volatile" he cautions. "If you are in a situation where you are re-assigned somewhere else, you may have to liquidate on short notice. That can be very painful."

## Your options

Length of stay is often the most important factor dictating whether to become a property owner or not.

"If you are not here for the long term, it is rarely a good idea to buy, unless you are wealthy enough to let it sit," Dillon stresses. "If you are going to be here on a longer term, then volatility becomes less of an issue."

Renting instead of buying can be a better option for some and "there is nothing wrong with that," he adds. "In fact, sometimes renting is the best option."

Potential buyers need to figure out where they want to live and acquaint themselves with the buildings and prices in the neighborhood, Dillon strongly recommends. "Doing your homework reduces the risk and lets you take advantage of opportunities when they arise."

That is because, "you might buy one or two homes in your life time," he explains. "When you do, you'll deal with a solicitor who understands all of the aspects of the legal process, you'll get a mortgage from a banker who understands the actuarial tables and you'll deal with an agent who does nothing but buy and sell property."

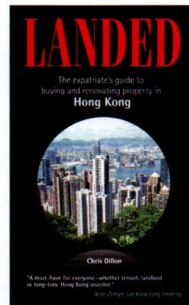
"It's what economists call information asymmetry: You know a little and everyone else in the process knows a lot. Reading books, talking to people in the industry and other people who have bought, and walking around target neighborhoods will help you make an informed decision and save you money and grief."

It is also a good idea to make a wish list to get an idea of what's important, Dillon suggests. "Because it is all about trade-offs, you need to know what is in your heart before you can make an effective purchasing decision," he says. "Get used to the idea that Hong Kong is really expensive and don't compare it to other places. It is a psychological hurdle you have to overcome in order to realize an opportunity."

Buying a property is the biggest investment most people will ever make. "It is breathtaking in terms of the sheer size of the down payment," Dillon says. "When you sign a mortgage with that many zeros attached to it, you can find yourself lying in bed at night staring at the ceiling."

Stress-testing your purchase against an interest rate hike or economic slowdown is a good idea. So is being conservative and knowing your financial limits.

"We all want to be savvy investors, but real life doesn't work that way and you are going to get it wrong sometimes," Dillon says. "The secret is to do your homework."





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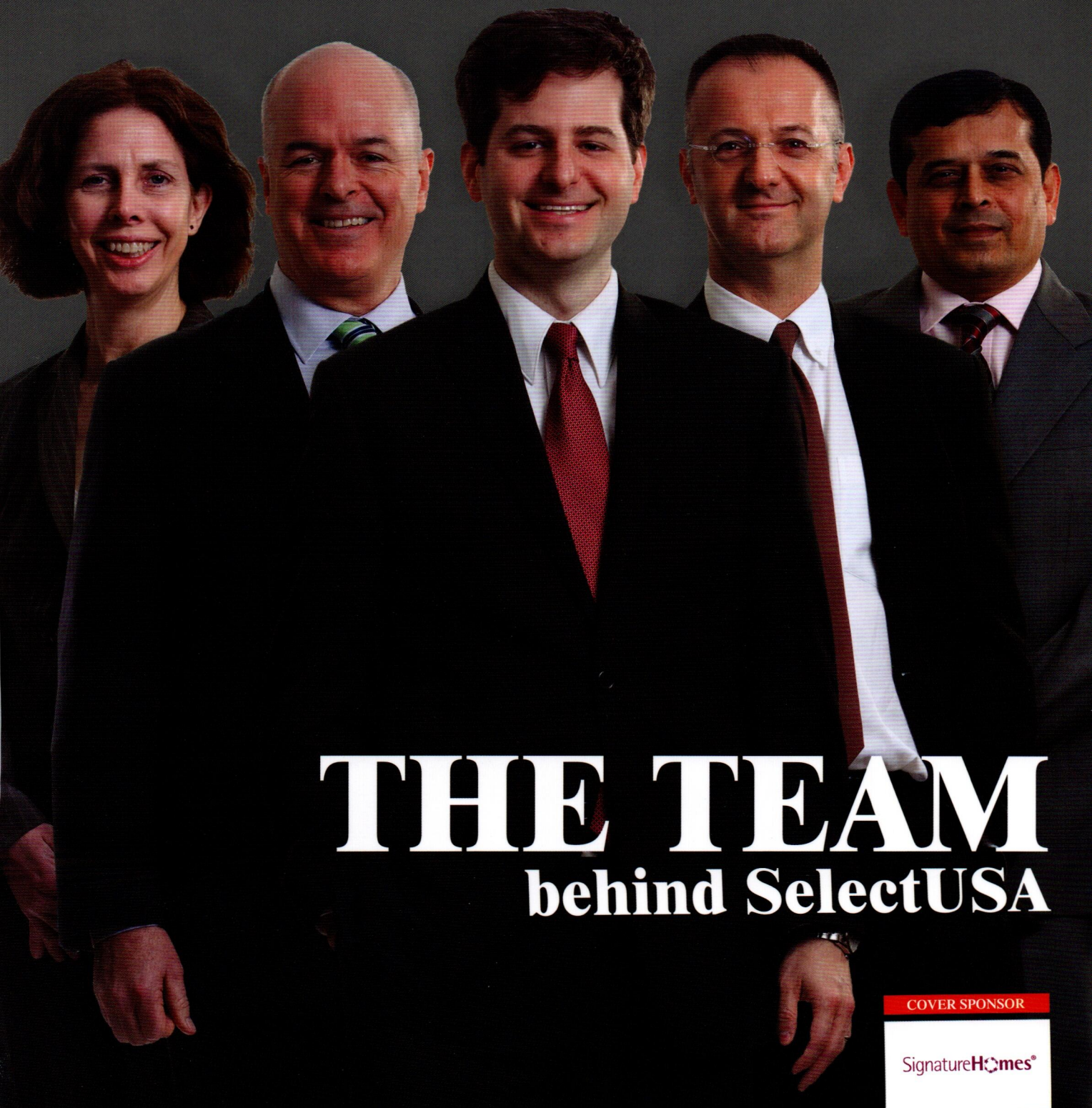
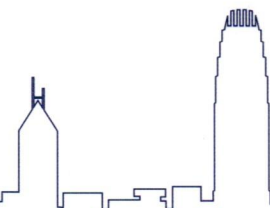
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