Peaks and troughs

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Bali has been little affected by the economic downturn

In Hong Kong, where real estate is an obsession, a recession is not taken seriously until property owners start slashing their asking prices. And, in the second half of last year, that happened. Across the territory the numbers on signs in real estate agency windows were crossed out and replaced with lower ones – usually in red ink. More recently such scribbling has given way to formal advertisements, with the bargains highlighted by downward-pointing red arrows.

EDITOR'S CHOICE

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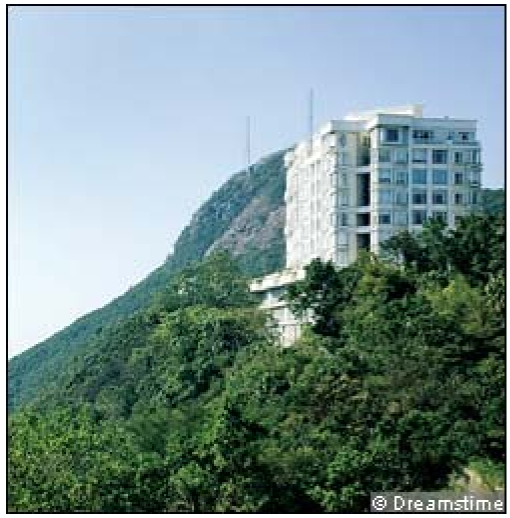
On the Peak, Hong Kong's most exclusive residential neighbourhood, this kind of salesmanship is considered unseemly; at the sales offices of realtors Midland and Centaline, both just a short walk from the upper terminus of the world-famous local tram, there is not a red arrow in sight. But, even if it's not advertised, prices in this triangular enclave – bounded by Victoria Peak to the west, Mount Kellett to the south and Mount Gough to the east – also fell sharply late last year.

Bonnie Braidwood, an agent in Centaline's "stately homes" division, is marketing a 3,200 sq ft, four-bedroom townhouse in the Strawberry Hill development on Plantation Road priced at HK$95m ($12.3m), or about 20 per cent less than it would have been 18 months ago. Savills meanwhile brokered four Peak transactions valued at HK$106m-HK$180m in the first quarter of this year, with two of the properties selling for 30 per cent below their original asking prices.

"We did well in the first quarter but for the coming quarter I don't know," says Savills' Angel Law, who now has five detached homes on Rosmead Road with asking prices of more than HK$200m on her books. “After [the collapse of] Lehman Brothers [in September 2008] sellers were willing to adjust their prices [but now they are] conservative because they know it’s difficult to buy again. They will only sell at prices they know they won’t regret.”

Christina Brun, a dentist who runs a charity foundation, and her husband, Christian, a headhunter, timed their exit – and re-entry to – the Peak property market almost perfectly. With two children and another on the way, the couple bought a slightly “dark and dingy” flat on Peak Road in early 2007. “We wanted it as a home; particularly as an expat, the only way for me to settle down is to own the bricks I live in,” Brun says. But as prices soared through early 2008, “I became uncomfortable living there; those walls contained too much equity.”



The Peak in Hong Kong

They sold in August 2008 but were eventually tempted back into the market earlier this year thanks to the price falls. Their new townhouse on Mount Kellett Road has beautiful views over the island’s south side and it cost them just 15 per cent more than the amount they got for their first flat.

Such bargain-hunting is becoming increasingly common, says Victoria Allan at Habitat Property, who worked with the Bruns. And, buoyed by a 50 per cent rebound in the Hong Kong stock market since last October, Peak values are starting to recover – up 15-20 per cent over recent months. “The property market is remarkably active at the moment,” Allan says.

“The worst time was October-November last year,” Braidwood confirms. “At the moment it is relatively stable.”

For decades deep-pocketed developers and landlords have dominated the Peak market, with the latest census showing that only 40 per cent of the area’s 5,682 homes are now occupied by owners, compared with 56 per cent in the similarly exclusive Repulse and Deep Water Bay neighbourhoods. This helps explain why, for an area once synonymous with colonial grandeur, the architecture can be disappointingly graceless. Builders paying top dollar for sites ended up cramming as many “row houses” on to it as possible.

Yet, given the area’s exclusivity and the limited supply of housing, demand remained high. The peak of the Peak’s market probably came in July 2007, when Sun Hung Kai Property sold a townhouse at a record price of HK$41,100 per sq ft – following a December 2006 purchase of a lot on Mount Kellett Road for HK$1.8bn, or HK$42,200 per sq ft. But the ensuing economic turmoil has led to development and sales activity being slow ever since.

At 1 Barker Road, right next door to the US consul general’s residence, for example, realtors speculate that redevelopment work has been pushed back in an effort to coincide with the economic recovery. SHKP’s Mount Kellett Road development is meanwhile scheduled for completion, the company says, in “financial year 2011/12 and beyond”.

A four-hour flight away on the Indonesian island of Bali, a popular holiday-home destination for wealthy Hong Kong residents, the property market is surprisingly in much healthier condition. “Some foreigners here are in trouble and might be looking to get rid of their assets so, yes, we’ve got opportunities to pick up well-priced properties but it’s not like the market is crashing and everything is dropping in price,” says Dominique Gallmann, chief executive of Exotiq Real Estate in Bali.

“I’m quite staggered by the resilience of the market,” adds Matthew Georgeson, a former Hong Kong resident who set up a real estate company, Elite Havens, on the island. He recently heard of two “brilliant” properties, one worth more than Rp31.bn and the other just under Rp20.5bn, coming on to the market. “And offers of about 70 per cent of the asking price were rejected straight away”.

There are three reasons for the relative buoyancy in the market. The first is that it has always been virtually impossible for foreigners to obtain financing for a purchase on the island. “Because you’ve got to buy with cash you’re mostly talking about people who have the power to keep it,” explains one Hong Kong banker who recently spent more than $1m on land and the construction of a villa near Canggu, in the south-west.

The second is that Indonesia, with its non-export-oriented economy, has escaped the worst of the financial downturn and so most property owners are not feeling the pinch as much as people from other countries. Very few of the original Balinese landholders are in a hurry to sell and will wait until they get an offer that interests them.

The third reason is that while demand has dropped, it has not dried up. Bali is increasingly luring buyers away from Phuket in Thailand, despite the latter’s better beaches and infrastructure. “We had a very good January and February,” Gallmann says. “March and April were a bit slow but now the pipeline is filling up again.”

Having said all that, the market is not homogenous. While Georgeson says sales of $1m-plus properties are strong, the middle range of properties priced from $300,000 to $1m is suffering. “These [buyers] were spending bonuses [but now they are] more careful about job security,” he says.

Villa resales are also challenging, adds David Leadbetter of consultancy Hot Property. “There’s not much of a market unless the property’s relatively new or in an existing estate,” he says.

Yet land prices continue to show resilience. The cost of seafront property on the relatively undeveloped Bukit peninsula on Bali’s southern tip has doubled in the past three years to about Rp500m ($48,000) per are, the standard 100 sq metre unit of measurement on the island, while parcels in more developed Seminyak, considered the “Chelsea of Bali”, in reference to the upmarket London neighbourhood, are up by more than a third to Rp600m per are. And experts expect the trend to continue. “Prices might not rise at the rapid pre-crisis levels but they’re almost certainly going to keep rising,” Leadbetter says.

Most Bali owners are blissfully unaware of all this, motivated by the desire to maintain an island idyll not an investment. “I intend to keep my place indefinitely,” says Darren Fraser, an Australian who lives in Hong Kong but keeps a four-bedroom villa in Seminyak. “You wouldn’t buy here just for an investment because you’re unlikely to get more than 5 to 7 per cent return a year.”

Tony Carey, who works for Oakley eyewear in Hong Kong, bought a 40-acre cliff-front plot on the Bukit two years ago for Rp15.2bn and is planning his villa. “We used to do the Phuket thing but I prefer Bali in many ways," he says. "It doesn't have the sleaze in your face in the same way. I love Indonesian food. I prefer the culture, the surf."

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