WORLD NEWS: ASIA

Hong Kong property market reheats

Sun Hung Kai land purchase raises fresh worry of a bubble; around Asia, attempts to cool real-estate prices

By Jonathan Cheng
And Aries Poon

HONG KONG—Strong results in a Hong Kong government land auction are the latest sign that the city's real-estate market is surging after a brief lull, as government officials here and elsewhere in the region grapple with how to cool off overheating property prices.

On Monday, blue-chip developer **Sun Hung Kai Properties** Ltd. agreed to pay 3.37 billion Hong Kong dollars (US$434 million) for a 130,000-square-foot site in the suburbs of Hong Kong. That price, reached after an intense bidding session, was above the average US$362 million forecast of six surveyors and analysts polled earlier by Dow Jones Newswires, and was 69% above the reserve price of US$258 million.

The big purchase came just after Sun Hung Kai, Hong Kong's biggest developer with a market capitalization of about US$34 billion, sold 900 apartment units in a major new residential complex over the weekend for a total of US$541 million. The units, ranging from about 400 to 1,400 square feet, sold for about US$700 per square foot, a steep premium to other apartments in the area. That indicates the mass-residential market could be vulnerable to the speculation that led to a jump of about 50% in Hong Kong's luxury-apartment prices last year.

Around the region, easy credit and ample liquidity is fueling fears that real-estate prices may be rising to irrational levels.

Sun Hung Kai Properties

Sun Hung Kai Properties agreed to pay US$434 million for a site in Hong Kong's suburbs. Here, a rendering of Sun Hung's Yoho Midtown development.

In China, where by some official measures home prices have risen as much as 25% in the past year and land values have doubled, officials are keen to tamp down the market. Beginning Thursday, the People's Bank of China will require banks to hold more cash in a bid to clamp down on excessive lending.

Last week, Singapore's government made an attempt to "temper sentiments and pre-empt a property bubble" by imposing a tax on those who flip properties within a year of purchasing them while capping residential mortgages to 80% of a home's value, from 90%.

In spite of cooling measures instituted last autumn, Singapore's government said "there are recent signs that [the property market] is starting to heat up again," noting that the number of primary-home sales in the city-state last month was triple that of the month before, accompanied with a sharp price increase that outpaced previous rebounds.

"There is a risk that the market could overheat in the next few months, fueled by low global interest rates and positive sentiments associated with the economic recovery," the government said, pledging to take further action if required later. Singapore also said it would boost housing supply.

Unlike China and Singapore, however, Hong Kong has little control over interest rates because its currency board system, which pegs the local currency to the U.S. dollar, forces it to import U.S. monetary policy.

Instead, Nicole Wong, a property analyst with CLSA Asia-Pacific Markets, says there is little Hong Kong's government can do about what she describes as a full-blown housing bubble in the city's mass-residential markets.

"Hong Kong property buyers have been in a prolonged low-interest-rate environment, and now they're behaving like drunken drivers on the road—they don't think about consequences," Ms. Wong says, estimating that prices have increased 5% this year. While speculative activity has been subdued, she argues the public is "overstretching" itself, convinced that "prices will go up forever."

The Hong Kong government has tried its best to tamp down overexuberance in recent months. Chief Executive Donald Tsang has said the government would monitor property prices and fine-tune its land-sales policies if necessary. The Hong Kong Monetary Authority also told banks late last year to raise the standard down-payment ratio on luxury properties to 40% from 30%.

Keith Yeung, a property analyst at Mirae Asset Research, expects Hong Kong's financial secretary to announce a policy response Wednesday, when he delivers Hong Kong's annual budget. "The government is now under tremendous pressure to intervene in the Hong Kong residential market," Mr. Yeung says.

Not everyone is worried about home prices. Kelvin Lau, a Hong Kong-based economist with Standard Chartered Bank, says he doesn't see a bubble, pointing to low levels of speculation and an official mortgage-debt-servicing ratio of 36.4% as of last autumn, lower than Hong Kong's 20-year average of 52.6%.

Alva To, head of consultancy for brokers DTZ in Hong Kong, says the participation of a broad range of developers in Monday's auction, and the "very expensive" auction sale price, were signs that prices could continue to spiral upward. Mr. To isn't worried yet, however: "The public can still afford this, because interest rates have been as low as 0.7%."

—Yvonne Lee contributed to this article.

中国实时报
CHINA REAL TIME REPORT

The Wall Street Journal's China Real Time Report ***(http://blogs.wsj.com/chinarealtime)*** *this week has looked at a big range of subjects. Excerpts:*

Muted fireworks

Diplomatic observers were braced for a withering blast of criticism from the Chinese government after U.S. President Barack Obama's meeting with the Dalai Lama. But China's response turned out to be less strident than some expected.

The U.S. ambassador, Jon Huntsman, was called to the Foreign Ministry Friday, and China's vice foreign minister made what the official Xinhua news agency called "solemn representations" regarding the Tibetan spiritual leader's visit to the White House. Earlier, the Foreign Ministry spokesman said the meeting "grossly violated the norms governing international relations."

There was also the usual talk of "hurt feelings," though with a notable translation adjustment. While in the past a foreign leader's meeting with the Dalai Lama has been said to "hurt the feelings of the Chinese people," this time Xinhua's English service reported that the meeting had "gravely hurt the Chinese people's national sentiments." The Chinese is the same, but the new English wording offers a more sophisticated (and accurate) rendering of the original, and perhaps will mark an end to the mockery that the previous translation sometimes provoked.

—Gordon Fairclough, with Sky Canaves and Sue Feng

Jackie's fast moves

Jackie Chan is off to a lightning-fast start in 2010. The kung fu star already has a second movie hitting cinemas: "Little Big Soldier," his first film for the packed Chinese New Year season in nine years.

In what in all likelihood is the first comedy-action buddy road movie set in the Warring States era—the roughly 250-year period before China was unified in 221 B.C.—Mr. Chan plays a soldier who captures a general (Wang Leehom of "Lust Caution") from a rival state and intends to exchange his prisoner for a peaceful life as a farmer. The two develop a cautious friendship as they battle against common enemies.

Dean Napolitano/Wall Street Journal

Jackie Chan, center, with guests at Hong Kong's premiere of "Little Big Soldier."

Mr. Chan has been heavily promoting the Chinese-language movie—showing up at the premiere in Hong Kong on Friday night just after presenting the movie at the Berlin International Film Festival. For Mr. Chan, it's a fine display of his signature comedic-athletic style after his turn to drama in last year's "Shinjuku Incident."

The 55-year-old actor had been kicking around the idea of "Little Big Soldier" for 20 years: He's credited with the original story as well as producer, executive producer, action director and, of course, star.

"Little Big Soldier" follows the opening last month of the English-language action comedy "The Spy Next Door" in North America and some markets in Asia. That movie wasn't as well-received, but fans can look forward to his next film this summer—a remake of the modern-American classic, "The Karate Kid."

—Dean Napolitano

Mystery labor shortage

For a country that still has significant surplus labor, the reportedly severe shortage of migrant workers in economic engines such as the Pearl River Delta after the Chinese New Year holiday is rather baffling.

Domestic media reports put the labor supply gap at around a million people in Guangzhou and neighboring cities such as Dongguan. Numerous assembly lines and construction sites are sitting idle while anxious employers have raised salaries by more than 30% but still can't attract enough applicants.

So where have all the theoretically jobless peasants gone?

Structural unemployment—a mismatch between the skills workers have and those sought by employers—doesn't fully explain the phenomenon. One needs to consider factors that symbolize the changing landscape of China's labor force and modern society.

There is a structural problem and it's twofold: Many of the outstanding job vacancies are due to a lack of skilled workers as segments of China's export industry crawl up the value chain; but on the other hand, some factories complain that lots of the new-generation migrant workers aren't interested in tough, low-paying basic jobs any more.

Lack of interest in such work partly stems from the second factor—the growing income at home for farmers. An incessant stream of favorable policies, such as scrapping taxes and market intervention, have increased rural incomes to the extent farming is becoming more rewarding than cleaning skyscraper windows in some places.

—Shen Hong