

Japan Should Learn from Hong Kong's Bubble-Free Real Estate Market

By Tamura Hideo

Margaret Tam, a single Hong Kong woman of 30 who works for an Internet company, was talking with her friend Patricia Yuen, a homemaker and dress designer: "There is a condominium for sale in the New Territory that is ideal in terms of both environment and transport. It's near the border with China, but I don't mind. I would really love to live there. The only trouble is that I don't quite have enough for the down payment." Upon which, Ms. Yuen stepped in: "No trouble at all. I can get that amount of cash immediately. I'll loan you the money, and we can invest together. It's a large condo, so we can partition my part and rent the rest." They quickly reached agreement, K's husband agreed, and business was done. In Hong Kong, it is common for both the husband and wife to have jobs, and women are active in all walks of life. They certainly are full of pep.

Hong Kong's real estate market is currently undergoing a recovery. Many new skyscrapers are going up in the central district of Hong Kong Island, and deluxe condominiums are being put up for sale one after the other in the hilly part of Hong Kong Island, Kowloon Peninsula and the New Territories. Expensive condominiums that would cost more than ¥100 million in Japan are selling like hot cakes. And it is Hong Kong residents who are participating in this real estate investment. In Hong Kong, a typical method of asset management for households with an annual income of around ¥6 million-¥7 million is to purchase a deluxe condominium and then rent it out.

Several factors can be cited that make this method possible, but probably the most important is the unique system of human relations that exists among the Chinese. The episode described above is quite common in Hong Kong, where relations among relatives and friends

serve to promote the lending of funds and joint investment at the individual level.

These special relations are supported by a paper-free trust of others. Even in the case of loans or joint investment involving large sums of money, the participants never exchange such documents as IOUs or contracts stipulating each party's share. If one were to demand a signed paper, he or she would be accused of not trusting the other party, and the relationship of mutual confidence would collapse before it even started.

Of course, problems do arise because of this system of oral promises, but they are extremely rare. If a person did not keep a promise, he or she would be labeled as someone who cannot be trusted, friends and relatives would give the cold shoulder, and that person would find it very difficult to find any new partners.

Hong Kong's real estate market is managed very cleverly indeed. Land in the British colony is owned by the Hong Kong government, which sells the rights of use. That is to say, the Hong Kong government supplies land according to demand. If conditions in the real estate market begin to heat up, it increases supply; if conditions begin to cool down, it checks supply. Hong Kong's real estate boom reached a peak in 1994 and then plunged in 1995. The decline amounted to only about 20%, though, and the market hit bottom at the beginning of this year. At one time it looked as though there might be a bubble, but the bubble never inflated. This mechanism will remain unchanged even after Hong Kong's return to China.

Japan, like Hong Kong, engages in real estate capitalism, but Japan cannot tame the restive horse that is the real estate market. When there is a boom,



Condominiums sell like hotcakes in the Hong Kong real estate market—without the threat of a Japan-like bubble—despite the wide income gap.

everybody jumps on board, and there is no brake on either giving or receiving loans. The super-easy money climate of the late 1980s led to an astronomical rise in real estate prices, and banks, companies, and many individuals too got carried away in the bubble. And then the bubble burst. Banks now are forced to use their funds to handle bad debts and have no extra money to lend. Since there are no buyers, the real estate market has stagnated and cannot deal with bad assets. Faced with these bad assets, the Japanese economy's recovery looks very shaky indeed.

What would the people of Hong Kong do at a time like this? Well, residents and companies would firmly calculate whether land prices had fallen adequately and whether there were tenants for their condominiums and buildings and then engage in transactions at a suitable price to put the market back on its feet.

Japanese tourists are often heard admiring the skyscrapers and high-rise condominiums that tower over Hong Kong, but, unfortunately, they do not turn their gaze in the direction of Hong Kong's mature real estate market and the people and system that support it. For the Japanese, still suffering from the aftereffects of the bubble's collapse, Hong Kong should not be just a place for sightseeing but a place for learning, too.

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