

PROPERTY

CONCRETE ANALYSIS



Pacific Place shopping centre in Admiralty was closed during the recent street protests in Hong Kong, highlighting the risk to businesses of unforeseen events. Photo: May Tse

SOCIAL UNREST SHOWS NEED FOR MORE RISK MANAGEMENT

Companies must understand threats from unforeseen events and take proper preventive measures

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Recent events in Hong Kong have highlighted risks arising from social unrest. Property owners in affected areas are undoubtedly reviewing their insurance coverage, particularly "SRCC" clauses, relating to strikes, riots and civil commotion. This will generally cover property damage and public liability under these situations.

However, insured parties can also be affected by what happens in their surroundings, as businesses around Admiralty can testify. Even with minor damage or a complete lack of physical impact, large losses of revenue can be incurred. Non-damage business interruption insurance policies can therefore be an important consideration for a business. Certain risks, such as loss of attraction, are not normally covered by traditional insurance, but they can be supplemented through innovative solutions.

Companies need to know their real risks, and adequately put measures in place to protect themselves. Real estate owners, managers and occupiers must become aware of the risk not only from social unrest, but also political violence and terrorism. Offices, shopping centres and hotels

in prime areas of Hong Kong attract high-profile tenants and generate high volumes of foot traffic, increasing the risk profile.

Generally speaking, Hong Kong is perceived to be a safe and welcoming city, on a personal level and in terms of doing business.

The Lloyds City Risk Index reinforces this view. To measure the potential financial impact of catastrophes, the index estimates cities' gross domestic product at risk. In 2018 it categorised Hong Kong as only moderately at risk, ranking it 51st out of 279 cities globally. That said, "moderate risk" does not mean "no risk" and we should not become complacent.

Further, according to the World Economic Forum's executive opinion survey, published in 2018, economic and technological concerns such as asset bub-

Proactive risk control should be implemented to protect the interests of clients

bles, cyberattacks, and data fraud/theft were among the top concerns with respect to doing business in Hong Kong. The asset bubble concern reflects, among other things, high residential house prices and a large proportion of the population being priced out of the market.

Social instability was another area of concern highlighted by the study. While the root causes may be diverse, real estate can be a contributing factor if the younger population is excluded from the property market. Income inequality will rise and exacerbate the risk of unrest. At the other end of the generational spectrum, inadequate pension provision, coupled with lower birth rates and longer life expectancy, also point to future social stressors.

Changes in the political landscape across the globe have polarised opinions and attitudes, leading to a greater prevalence of populism and hate rhetoric. Society is now more connected than ever and extremists are leveraging the spread of social media for recruitment, faster mobilisation, and more radicalisation.

Recent atrocities in Sri Lanka and New Zealand spotlight the terrible impact wrought by terrorists. These threats, and the risks they pose, are evolving to become less predictable but more tangible

as terrorists seek to extract maximum exposure and notoriety from their attacks.

With respect to terrorism, attacks are rare, but they are sudden, often occurring without warning, and their impact can be devastating. Beyond the emotional and physical damage, they can interrupt business operations, leading to significant loss of revenue and plummeting confidence in a brand or institution.

Real estate companies and hotels cannot eliminate these threats, and insurance alone is not sufficient to adequately protect a company. However, companies can take steps to reduce risks, contain damage caused and accelerate recovery.

Proactive risk control should therefore be implemented to protect the interests of clients, guests, shareholders, partners, and employees. This is best achieved through a formal enterprise risk management process. Its job is to identify hazards and manage the associated risks. For this process, it is essential that risks are understood and prioritised and resources are effectively allocated.

To develop such a programme, the risk appetite of an organisation must be ascertained to define, quantify, and understand the business' risk tolerance. After factoring in risk mitigation initia-

tives, an objective assessment should be held to identify how much risk to retain or transfer through risk finance measures.

The most appropriate insurance programme for a business will provide the best financial return. Traditional terrorism insurance is triggered by damage to property and requires the motive of an attack to be ideological, political, or religious in nature. However, as the nature of attacks evolve and active assailant attacks become more prevalent, many such cases may not be covered by existing policies. It is highly advisable that companies review their existing insurance to ensure that active assailant events are covered, either by extension or by a stand-alone policy.

Insurance is bought in the hope it is never needed. However, with the rise in disruptive activities in recent years. It must be viewed within the wider context of enterprise risk management, encompassing effective risk mitigation measures that reduce the threat to people and property.

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FACTS & FIGURES

Latest residential transactions

District	Estate	Age (years)	Area (sq ft)	Price (HK\$m)	Sq ft
HONG KONG					
Mid-Levels	The Grand Panorama	26	971	24.60	25,335
Wan Chai	Convention Plaza Apts	30	623	17.38	27,897
Tai Hang	Illumination Terrace	26	616	11.00	17,857
North Point	Harbour Heights	31	614	12.28	20,000
Quarry Bay	Lei King Wan	30-31	485	9.18	18,928
Heng Fa Chuen	Heng Fa Chuen	30-33	547	9.80	17,916
Apleichau	South Horizons	24-27	633	11.20	17,694
Kennedy Town	University Heights	23	401	8.18	20,399
Pok Fu Lam	Chi Fu Fa Yuen	38-41	439	6.90	15,718
Happy Valley	Beverly Hill	31	1432	36.80	25,698
Aberdeen	Aberdeen Centre	37-40	438	7.05	16,096
Tai Tam	Hong Kong Parkview	30-31	1045	29.80	28,517
KOWLOON					
Cheung Sha Wan	Manor Centre	33	280	4.45	15,893
Tai Kok Tsui	Fu Tor Loy Sun Chuen	38-39	268	4.08	15,224
Lai Chi Kok	Mei Foo Sun Chuen	41-51	926	14.28	15,421
Yau Ma Tei	Prosperous Garden	24-28	700	7.68	10,971
Kowloon Tong	Beverly Villa	39	1609	25.50	15,848
Yau Yat Chuen	Village Garden	24	803	19.98	24,882
Hung Hom	Whampoa Garden	28-34	674	10.50	15,579
Wong Tai Sin	Tin Ma Court (HOS)	32	338	3.40	10,059
To Kwa Wan	Wylar Garden	37-38	426	4.60	10,798
Lam Tim	Sceneway Garden	27-28	614	9.90	16,124
Kowloon Bay	Richland Garden	34	407	6.00	14,742
Homaanin, King's Park	Chun Man Court (HOS)	37	525	7.45	14,190
Waterloo Hill, Perth St	Perth Garden	39	994	16.80	16,901
NEW TERRITORIES					
Kwai Chung	Kwai Chung Plaza	29	318	5.86	18,428
Tsing Yi	Greenfield Garden	29-30	368	6.00	16,304
Tsuen Wan	Luk Yeung Sun Chuen	35-36	582	8.70	14,948
Tung Chung	Seaview Crescent	16-17	568	7.70	13,556
Castle Peak Road	Hong Kong Gold Coast	27-29	680	7.70	11,324
Tin Shui Wai	Kingswood Villas	23-28	442	5.28	11,946
Tuen Mun	Sun Tuen Mun Centre	29	501	6.00	11,976
Yuen Long	Sun Yuen Long Centre	26	466	6.85	14,700
Sha Tin	Villa Athena	25	874	12.30	14,073
Ma On Shan	Sunshine City	25-26	338	6.45	19,083
Tai Po	Hong Lok Yuen	39	1596	28.50	17,857
Lam Tsuen River North	Tai Po Centre	32-34	313	5.00	15,974
Fan Ling	Flora Plaza	24	413	5.65	13,680
Sheung Shui	Sheung Shui Centre	26	350	5.38	15,371

Source: Centaline Property Agency, based on preliminary sale and purchase agreements

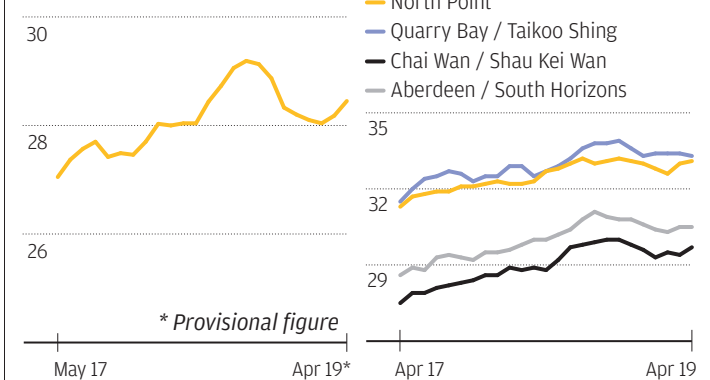
Prime office indicative rents

Prime office asking rents (HK\$ per sq ft) - as of end May 2019

HK Island (Figures in net floor area)	Tsim Sha Tsui
Admiralty Centre (Tower I & II) — 82	China Hong Kong City (Tower I) — 47
Lippo Centre — 90	Lippo Sun Plaza — 60
One & Two Pacific Place — 150	Ocean Centre — 57
Bank of America Tower — 97	26 Nathan Road — 94
Bank of China Tower — 163	The Gateway (Tower 1) — 69
Exchange Square — 170	The Gateway (Tower 6) — 88
Jardine House — 135	International Commerce Centre — 122
One International Finance Centre — 182	Mira Place Tower 1 — 67
Two International Finance Centre — 192	
The Landmark (Gloucester Tower) — 150	
The Landmark (Edinburgh Tower) — 150	

Rents for homes

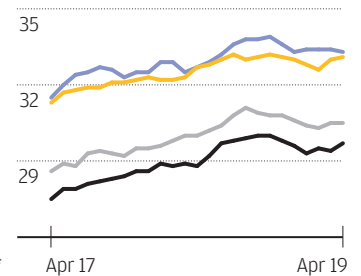
Average rents of 100 housing estates (HK\$ per sq ft of gross floor area)*



Average rents in selected districts

Rents (HK\$ per sq ft of gross floor area)

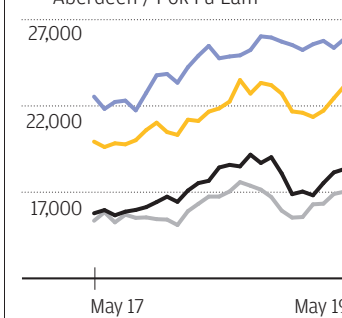
— North Point
— Quarry Bay / Taikoo Shing
— Chai Wan / Shau Kei Wan
— Aberdeen / South Horizons



Average home prices in selected districts

Prices (HK\$ per sq ft of saleable area)

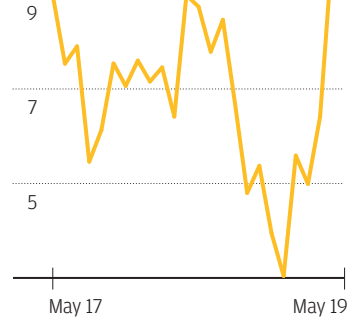
— Central and Western
— Wan Chai
— Aberdeen / Pok Fu Lam



Property sales activity

('000 transactions)

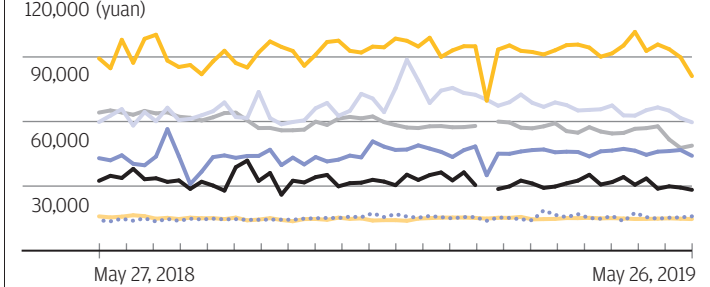
— Eastern
— Last: 10,353



Sources: CBRE, Midland Realty, Land Registry SCMP

Average luxury residential selling prices in major cities

— Shanghai — Guangzhou — Nanjing — Beijing — Shenzhen — Chengdu — Chongqing



Source: China Real Estate Information Corp SCMP

China property price (yuan)

City	Average price	No of units sold	City	Average price	No of units sold
Shanghai	106,322	74	Beijing	62,168	202
Wu Fang	94,044	73	LA Cite	54,116	350
Star of City	87,212	80	The Best Of Youth	54,041	108
Jingan Prime Land	80,347	91	Classic Chinese Chic	53,750	272
Oriental Pinnacle	63,659	168	Purple County Orehid Garden	51,480	117
Boutique			Pureness		
Shenzhen	117,459	119	Guangzhou	48,036	136
The Peninsula	46,580	138	One Blossom Cove	44,603	113
Universal	46,394	181	JOYRIVER	41,522	111
Keenstart UpRight City	46,287	136	Starry Sky City	38,345	108
Huaqiang City	43,524	338	Flowers Bay	34,119	186
City Of Stars			Luolanin'I		

Source: China Real Estate Information Corp SCMP

RESIDENTIAL

Australia set for boost on low rates and election

Retention of investor-friendly tax and negative gearing policy lifts optimism

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Record-low interest rates and the re-election of a business-friendly government will provide a boost to a slumping Australian property market, market observers say.

This month, the Reserve Bank of Australia cut rates for the first time in three years, slashing the cash rate to a historic low of 1.25 per cent.

The surprise re-election of the Liberal-National Coalition, which

means retention of an investor-friendly policy on capital gains tax and negative gearing, is also injecting renewed optimism into the property market.

"There is greater confidence among buyers, particularly investors concerned about the impact of the opposition's policy for the partial removal of negative gearing and reduction in capital gains tax discount," said Sarah Harding, partner and head of residential for Australia at Knight Frank.

She said the easing of lending restrictions imposed by the

Australian Prudential Regulation Authority and lower interest rates would provide stimulus to the residential property market.

The Labor party, which was tipped to win the election, had planned to raise capital gains tax and reform negative gearing, which would have led to higher rents.

Michael Clarke, a director at Sydney-based Clarke and Humel, said that although prices in Australia had declined 14.7 per cent since peaking in 2017, the market was turning around. He

pointed to the results of an auction on June 8 where some 62 per cent of properties were sold, up from about 40 per cent previously.

"The Liberal-National government retaining power is a massive boon for the property market. Indeed, some of the recent decline in property prices was directly attributed to the high chance of an anti-property opposition forming government and bringing in substantial changes to negative gearing and capital gains taxes," Clarke said.

With an improving investment environment, analysts also believed interest from Chinese buyers would continue to pick up.

According to Carrie Law, chief executive of property portal Juwai.com, Chinese demand for Australian property had bottomed out in 2017. It picked up last year, rising 54 per cent in the last quarter, and a further 40 per cent in the first quarter of this year.

"The year-on-year gains are not so much a demonstration of the strength of current demand as they are a demonstration of the extreme low levels of demand a year ago," she said, adding that when the overhang of excess inventory was absorbed and lower prices enticed buyers back into the market, Chinese buyer sentiment would return.

STRATEGY

Space Matrix makes move

EdgeProp

Singaporean workplace design firm Space Matrix wants to expand in China, where it expects to see a healthy supply of office space in major cities and opportunities in the Greater Bay Area.

In September last year, Space Matrix acquired Muraya, a China-based design and construction company. Muraya has since been rebranded as Space Matrix China. "[This acquisition] was a way to get into the Chinese market aggressively. From here on, we hope to increase our presence in Shanghai and then into other markets within China," chief executive Arsh Chaudhry said. Since the acquisition, the

company has delivered several projects in China to clients including Airbnb, Tower Research and Ascendas-Singbridge.

Over the next two years, the supply of office space in the country's tier-one cities is expected to be high and is likely to be accompanied by low vacancy rates.

While the US-China trade war was causing some global companies to adopt a cautious approach in their mainland real estate strategy, domestic firms had continued to grow aggressively in their home market, Chaudhry said.

In addition to Shanghai, the firm is eyeing other cities in the bay area including Shenzhen and Guangzhou, where many technology start-ups are setting up.

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