

12.22.2024

DOWNTURN WITH HONG KONG HOUSING

# Tycoons sell trophy homes at low prices



One of four villas on Plantation Road that sold for \$141 million, a little less than half the previous sale price in 2017, in Hong Kong on Oct. 31. ANTHONY KWAN — THE NEW YORK TIMES

BY ALEXANDRA STEVENSON

THE NEW YORK TIMES

HONG KONG>> One by one, tycoons who built their wealth on China's economic rise have been giving up their trophy homes in Hong Kong.

Two apartments in a Frank Gehry glass-and-steel tower that twists out of the mountainside. Three European-style mansions with turrets and swimming pools. Four white villas sitting in a row.

All but two of the properties have already sold for tens of millions of dollars each. And while it might be hard to believe, each one was a steal — snatched up for discounts of one-third to more than half of the previous values.

Hong Kong's housing market has long had an are-you-kidding-me feel to it. For nearly 20 years, property prices have climbed higher and higher, turning it into one of the most unaffordable cities in the world, where the poor

(1)

rented subdivided apartments so small they were colloquially known as “coffin homes.”

Now, many of the same people who contributed to the housing market's inequities, from the builders to the wealthy speculators, have found themselves being forced to sell their prized homes fast. Their riches had swelled with an unfathomable rise in China's real estate market, and its collapse and aftermath have left many short on cash.

Most notable among them is Hui Ka Yan of the onetime property giant China Evergrande. Creditors seized his European-style homes, which were collectively worth more than \$190 million, after the company collapsed. One of them sold this year for \$58 million, less than half of the \$130 million that a company tied to Evergrande and Hui had paid for it in 2009, according to the global real estate firm Knight Frank.

A Hong Kong court ordered China Evergrande to liquidate this year, setting off a search by its foreign investors who were owed money for anything that could be sold off.

Chinese authorities took Hui away last year and accused him and Evergrande of fraud.

“Everyone is asking for money,” said Joseph Tang, the chair of real estate firm JLL in Hong Kong. Businesses are under pressure as the economy continues to slow, the broader property market is under strain and the cost of borrowing has climbed steeply.

“The only thing that is sellable is residential property because, if you lower the price enough, there will be buyers,” Tang said. \*

China's rich are losing so much money that 432 men and women were stripped of their status as billionaires over the past three years, according to the Hurun China Rich List, published by a wealth research firm based in Shanghai.

Famous for its skyline of glass towers that once symbolized the city's economic prowess, Hong Kong's landscape is now a visual reminder of its problems. The city is still trying to reclaim its title as a hub for international finance and recover from the collateral damage caused by years of strict pandemic policies that made travel to the city at times impossible. In addition, political changes in Hong Kong have raised the legal stakes for Western companies.

It was not just the owners of fancy homes who were caught out when the tide receded. Landlords of signature Hong Kong office buildings that housed the world's best-known financial, legal and corporate institutions are scrambling to bring in new tenants to replace companies that have left.

Busy shopping areas once crammed with small stores are still suffering from fewer tourists, and some storefronts remain boarded up. Nearly 17% of commercial property is empty, according to CBRE, the real estate firm.

The changes are rippling through the financial system, too. Banks that were once reliable lenders to Hong Kong's property sector have suffered a surge in defaults from commercial real estate this year. The property sector is “working through its worst downturn since the Asian financial crisis” of 1997, and the sharpest pain is being felt by financial institutions, analysts at the ratings agency S&P Global wrote in a report. In response, lenders are charging more to landlords and developers whom they lend to.

Higher interest rates and a strong currency have made it even more difficult to bounce back. \*

The Hong Kong dollar is pegged to the U.S. dollar, and for four years, the Federal Reserve kept interest rates high to fight American inflation.

As the Fed cut rates this year, Hong Kong's monetary authority followed, lowering the interest rate in September to 5.25%. But that is still the highest point since 2007.

The fate of Hong Kong's currency may depend on the U.S. central bank, but its economy is closely linked to the rest of China, where growth has slowed and prices have fallen. Hong Kong real estate is feeling China's pain. \*

"Overall, the economy of China has always had a close relationship with Hong Kong, and the property market has always been highly correlated," said Hannah Jeong, an executive director at CBRE.

"When China's economy goes down, Hong Kong's economy follows," she said.

The high-end luxury property sales have been dominated by what are known as "distressed sellers," including some who are heavily exposed to the Chinese economy, according to Jeong. In many of these cases, their homes have been seized by a bank or creditors that are owed money.

Most of these properties were bought during a different era, when Hong Kong was flush with money from a booming China.

In Gehry's Opus Hong Kong building, which has 12 luxury apartments, two of the recent sellers were once among China's richest men: property developers Chen Hongtian and Chen Changwei. (They are not related.) Local news reports said Chen Hongtian's apartment was one of a number of properties seized by lenders, including a 9,000-square-foot home that he had purchased soon after the Opus property in 2015.

His Opus apartment was "a little bit too tiny," he told the local South China Morning Post in 2016. He also told the newspaper that luxury homes for sale in Hong Kong were "extremely rare."

No longer.

A short drive away from Opus, along a winding road, is Black's Link, where a cluster of three mansions once tied to Hui of Evergrande is. They were on sale for more than \$190 million — one has been sold so far. The prices on the other two have come down since they were first listed last year.

Nearby on Plantation Road, four mansions recently went for \$141 million, nearly half of what the sellers paid for it.

Property experts expect more deals to come.

Nearly two dozen properties, each worth \$50 million or more, have come on the market in Hong Kong this year.

