PROPERTY

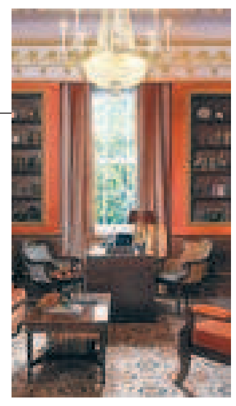
New forces
Logistics highlights structural changes in mainland's economy
> CONCRETE ANALYSIS P2

Dorm comforts
Innovator brings together young renters in shared space
> COMMUNITY P3

Point of sale
Price: HK$2.8 million
Size: 266 sq ft
Where: Golden Lion Garden Tai Wai
> FACTS & FIGURES P2

Secondary market
58
Home sales in 50 estates, Dec 28-Jan 3

The next level
Super suites offer comforts of home for the uber wealthy
> DESIGN P2



PROPERTY DIGEST

Decline in Singapore home prices eases

Singapore's private home prices fell at their slowest pace since 2013, offering signs that the two-year-long run of successive quarterly declines in one of the world's most expensive property markets might be approaching a floor. The private residential property index fell 0.5 per cent in October-December from the previous quarter, according to flash estimates from the Urban Redevelopment Authority. Prices dropped 3.7 per cent last year, compared with a 4 per cent decline in 2014. Reuters

Goldman acquires stake in India's Samhi Hotels

Goldman Sachs has invested 4.4 billion rupees (HK$513 million) for a significant minority stake in Indian hotel investment and development firm Samhi Hotels, the companies said yesterday. Samhi, which operates 10 hotels and is developing 16 more, would use the money to grow its portfolio to about 30 to 35 properties, chief executive Ashish Jakhanwala said. Its portfolio is leased to operators such as Marriott International, Starwood Hotels, Accor and Hyatt International. "There will be continued opportunities for acquisitions, given several hotels need fresh capital to relieve them of financial stress of past few years," said Jakhanwala. Reuters

Kansas shopping plaza sold for US$660m

Kansas City's Country Club Plaza shopping and entertainment district has been sold for only the second time since it opened in 1923. Highwoods Properties said it had reached an agreement to sell the Country Club Plaza for US$660 million to a joint venture between Taubman Centres and Macerich. The sale is expected to close on February 1. The *Kansas City Star* reports that Taubman and Macerich will be 50-50 owners. The 22-hectare shopping district includes 18 properties, both retail and office space. Taubman owns and manages 23 shopping centres in the United States and Asia. Macerich is a real estate investment trust with interests in 50 shopping centres throughout the US. AP

FUNDS

Richard Yue of Arch Capital says China is a land of treasure for the boutique real estate private equity fund management firm. Photo: Bruce Yan

Arch Capital helps prop up China investment story

Peggy Sito
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Like many global and local investors, Arch Capital, a Hong Kong-based boutique real estate private equity fund management company, believes in the China story.

But at a time when most investors have set their sights on hard commercial assets, Arch, with its niche real estate development, primarily focuses on residential development. It also invests in retail properties in inland cities despite mounting concerns about the oversupply of retail spaces.

Arch was founded by Richard Yue, a former head of investment at AIG Global Real Estate, and Philippines conglomerate Ayala in 2006.

In 2011, Ayala swapped ownership interests in Arch Capital with The Rohatyn Group (TRG), an emerging-market-focused private firm with about US$7 billion in assets under management. The ownership swap resulted in TRG acquiring Ayala's 50 per cent interest in Arch.

Ayala became one of TRG's largest outside shareholders as a result of the share swap.

"With our partner's background, we are different from other funds as we can focus on quality projects starting from the development level. We have developers' DNA," said Yue, who is also the chief executive of Arch.

In the past decade, funds raised by the firm and assets managed by it have exceeded US$1.5 billion, with investments in more than 20 projects. It has exited about 15 of them.

The company is now in the final stages of completing its third funding of about US$400 million to US$500 million, with investors such as US-based Townsend Group.

About half the funds raised will be invested in greater China, with the rest in Asia, excluding Japan.

'China is a treasure land," said Yue, adding that its political stability, sizeable economy and growing middle class were the top attractions.

"Infrastructure is closely linked with property development. The (mainland) government heavily invests in infrastructure and builds it for free,"

> We are different from other funds as we … have developers' DNA
>
> RICHARD YUE, ARCH CAPITAL

said Yue. "Where can you find such a market in the world?"

On the firm's investment strategy, he said the company has long been investing in the residential market, teaming up with local partners. But it has been diversifying into commercial and retail space since the central government began imposing curbs to cool the sizzling residential sector a few years ago.

"I may not agree that retail properties are facing an oversupply. It depends on whether you can find the right business format to cope with the environment," he said, pointing out that in many second- and third-tier cities, people prefer street malls and department stores to shopping malls.

"We are still looking for opportunities," he said.

In C-Suite on P3, Yue talks more on the mainland economy and about the right time to invest

HOUSING

UNSOLD PROPERTY A SERIOUS CONCERN

Destocking one of five economic targets but at the end of November empty inventory stood at a record 696 million square metres

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"Destocking" is the new buzzword in mainland China's property sector, but people who study the industry say oversupply will not be an easy problem to solve.

The oversupply of new homes in smaller cities has become increasingly serious in the past year, attracting the attention of central government leaders.

Data from the National Bureau of Statistics showed unsold property amounted to a record 696 million square metres by the end of November, up from 598 million square metres the previous year.

The authorities have included destocking in their five economic targets for this year after President Xi Jinping urged the reduction of property inventory at a government meeting in November to ensure the sustainable development of the property sector.

But analysts say there are many challenges to be overcome.

"Home prices are already very low," said Zhao Weijun, a Jiangsu-based managing director of property agency Centaline.

Eastern Jiangsu province had the mainland's biggest inventory of unsold homes at the end of November, according to estimates by Chinese real estate portal SouFun.

In the small central Jiangsu city of Taizhou, home prices had fallen for nine consecutive months to 5,938 yuan (HK$7,076) per square metre, back to the price level in 2010.

Zhao said demand was the main problem, rather than supply, but it was getting harder to stimulate buying through price cuts or cuts to interest rates.

Taking Jiangsu as an example, except for the provincial capital Nanjing, most cities were seeing bigger population outflows than inflows and most local residents already had at least one or two properties.

The central government has introduced a series of measures since late 2014 to boost home sales, including six rate cuts and the lifting of restrictions on home buying. Average mortgage rates fell to a record low of 4.63 per cent in December, according to financial data provider Rong360.

David Hong, head of research at China Real Estate Information Corp, said destocking would be a "gradual process" in the light of the wider economic slowdown.

Hong said he expected the government would further lower benchmark deposit and lending rates this year.

The sector plays a significant role in the mainland economy, accounting for more than 15 per cent of gross domestic product.

Developers were aggressive buyers of parcels of land across the mainland in the wake of the global financial crisis in 2008, when the central government

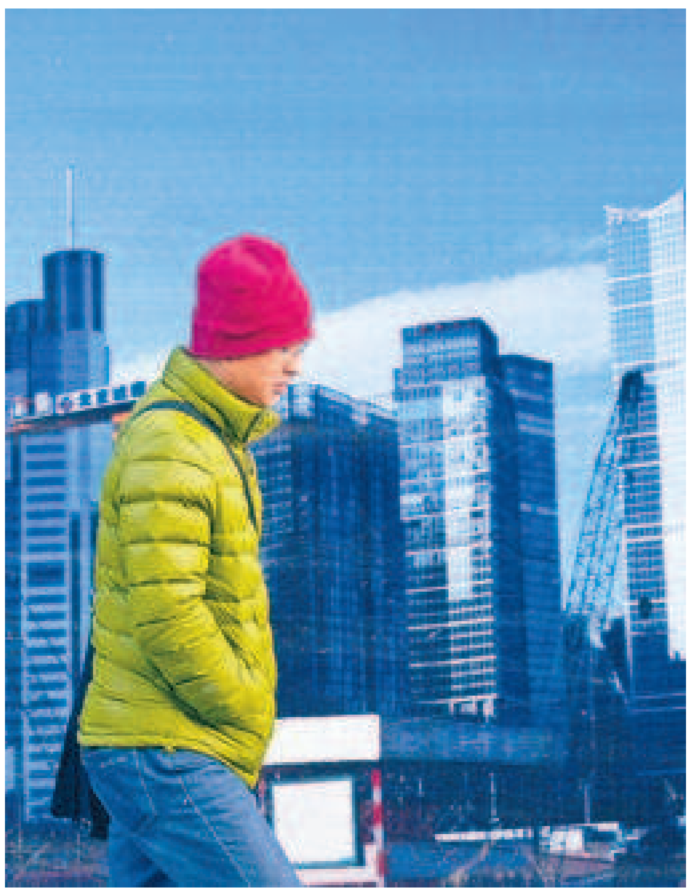
> 15%
> The property sector's contribution to the mainland's gross domestic product

introduced a four trillion yuan stimulus package to assist local governments to lend money to companies to develop housing estates and infrastructure.

But property investment has come off the boil in the past year, growing by just 1.3 per cent year on year in the first 11 months of last year, compared with an 11.9 per cent surge in the same period in 2014.

Inventory in third- and fourth-tier cities has swollen to more than six years of sales, SouFun estimates.

"Property investment should be based on the local economic structure, not GDP," Zhao said, adding that the key to rebalancing supply and demand was to develop the economy and create more job opportunities in smaller cities.



The central government has introduced measures since late 2014 to boost home sales, including six rate cuts. Photo: AFP

FINANCING

Developers gain HK$1.3b from mortgage boosts

Companies skirt bank regulations by offering first and second mortgages to boost slow sales

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Hong Kong developers have added an estimated HK$1.3 billion in mortgage receivables to their accounts by providing first time in a decade to help boost sales, according to analysts.

Facing fierce competition amid a tightening of mortgage policies, a growing number of developers have been skirting bank regulations by providing home loans of up to 95 per cent of the purchase price through wholly owned financial institutions to lure buyers.

"Nowadays most projects launched come with a first or second mortgage option funded by developers themselves," Barclays property analyst Paul Louie wrote in a research report.

"The range of loan-to-value ratio on offer has increased to 80 to 95 per cent."

Developers began offering mortgage loans after the maximum loan-to-value ratio for bank mortgages for self-use residential properties with a value below HK$7 million was lowered from 70 per cent to 60 per cent in February last year. That meant home buyers needed to make a 40 per cent initial down payment, up from 30 per cent, when buying a flat.

Among the five project launch sales studied by Barclays, it noted 22 to 90 cases per project of home-buyers taking up developers' mortgage offers at Kerry Properties' Bloomsway in Tuen Mun, Henderson Land's Zutten in To Kwa Wan, Cheung Kong's Yuccie Square in Yuen Long and Wheelock's Capri in Tseung Kwan O.

> 18%
> The estimated percentage of buyers who accepted developers' mortgage offers at 5 projects

Henderson Land's Eltanin Square Mile in Mong Kok, however, recorded 118 cases, or 42 per cent of the 279 units sold.

"This averages out to 18 per cent taking up developers' mortgages in each project," Louie said.

Sun Hung Kai Properties' (SHKP) Park Vista in Kam Tin and King's Hill in Sai Ying Pun did not reveal the number of buyers taking up the mortgage offers.

Assuming an 18 per cent take-up rate, Louie estimated Yuccie Square would contribute the most in loan receivables at HK$696 million, followed by HK$417 million from Capri and an estimated HK$380 million from Eltanin Square Mile.

Louie said loan receivables for major developers such as Henderson Land, SHKP and Cheung Kong Property would not exceed HK$1 billion in total, while less than HK$300 million would be recorded for New World Development, Kerry Properties and Sino Land.

He said loan receivables accounted for between 0.83 per cent and 0.55 per cent of developers' equity and asset bases as of June last year.

"We believe these mortgage offers are not yet an issue for developers," Louie said.

Home buying interest has been subdued after prices started to fall in the fourth quarter of last year.

Centaline said its Centa-City Leading Index, which tracks secondary home prices at 100 housing estates, dropped to 135.89 points for the last week in December.

The index has fallen 7 per cent from the peak recorded in September.

"Home prices will drop faster once there is no improvement over the next several weeks," said Wong Leung-sing, an associate director of research at Centaline Property Agency.

C-SUITE

Q&A

Richard Yue, co-founder of real estate private equity manager Arch Capital, has learned how to survive the market's mood swings after 26 years witnessing upheavals in HK and the mainland

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Richard Yue, co-founder of boutique real estate private equity management company Arch Capital, was formerly a director of Investment at AIG Global Real Estate, which had a real estate portfolio of more than US$6 billion across Asia. While with AIG, he was in charge of the HK$3 billion acquisition of Hotel Furama in Hong Kong in 1999. Before AIG, he was at Citigroup (Real Estate Banking and Asian Debt Capital Markets).

Yue experienced the political and economic instability in Hong Kong in 1989 when he came back to the city after completing studies in Canada. He made his first property investment in April that year, just two months before the Tiananmen event in China. "I almost wanted to go back to Canada," Yue recalls. He has witnessed ups and downs in Hong Kong and mainland property markets for 26 years, and has learned how to survive the market's mood swings.

When is the right time to invest?
I always tell investors that whenever there is a lot of negative news in newspapers, there are a lot of investment opportunities. You cannot be an opportunistic investor if you are scared reading negative news. For us, we take medium- and long-term views. Once we identify the market, we follow and wait for opportunities. The most important thing is that when there is a downward cycle, you have liquidity to invest.

There are a lot of good second- and third-tier cities, but just do not pick new towns

What made you set up your own firm?
I noticed many real estate funds were owned by either global insurance groups. Their buying decisions had to go back to headquarters, which is time consuming. If you do not understand Asian real estate and cannot make a quick decision, you cannot win. On the other hand, in 2006, there was lots of global capital entering Asia. I grabbed the opportunity to set up the company.

What is your company's investment strategy?
Our focus is direct real estate investments across asset classes including residential, retail and commercial, as well as distressed and situational opportunities focusing on Southeast Asia and greater China. We are specialists in executing development and repositioning strategies. In China, we focus on the Pearl River Delta region and the Yangtze region. There is always demand for mainland housing.

For opportunistic funds, the life span is just five to seven years – with a schedule for deploying capital and exit. We like investing in residential units as turnover is fast. We invest in commercial and retail, and we cash in by selling them to individual investors. We also have separate accounts to serve long-term investors.

What is the outlook of the mainland China market?
Market drivers are still strong: urbanisation, the growing middle class, rising income and growing consumption. The current urbanisation rate in China is about 52 to 54 per cent. There will be a big increase in home demand when the rate grows to 60 to 70 per cent, the usual ratio in well-developed countries.

Unlike Europe, China has a lot of home demand. The government is suppressing demand through austerity measures. Once the measures are removed, the market will turn around. In the past eight months, the residential market has been bottoming out gradually as the Chinese government is easing curbs to boost the economy.

Many people are now talking about an economic slowdown. But even if the country achieves a 6 or 6.5 per cent economic growth, it is a lot. The gross domestic product in China was US$10.36 trillion in 2014. Even if the annual growth is just 6.5 per cent, it's an increment of US$673 billion. That is comparable to the GDP of some European countries, like the Netherlands.

Do you develop projects on your own?
We always team up with local partners. Now how do you find the right partner? We have been in the industry for 26 years, we get partners through long-term relationships and referrals by friends. They will also come to us. If you now have money and want to look for right partner to invest in China, you will not make it. You cannot do it that way.

Has any of your partners become a big company on their own?
Sure. Top Spring International was once our partner. It has a good team. But once it successfully listed in Hong Kong, it did not need our money. Then we had to look for other partners.

Your company only focuses on second- and third-tier cities in China?
I also want to invest in first-tier cities, but prices are too expensive. It is good to invest in second- and third-tier cities in residential, retail and mixed-use properties which can benefit from new major infrastructure enhancing transport links. There are a lot of good second- and third-tier cities, but just do not pick new towns as they will take time to draw people.

Other than China, where do you see growth opportunities in Asia?
We like Macau. Supply is limited, demand is strong and people have money. We are not into gaming. We bought a large plot and have been developing it into a high-class residential development, One Oasis. It turned out to be our best investment so far, with an investment return of seven times.

We have only one project in Macau but I am confident of the outlook. The Hong Kong-Zhuhai Macau bridge will promote the integration of the Pearl River region. We also like Thailand. We were attracted by the political stability and good infrastructure. Prices are relatively cheap compared with other Asian countries.

Many investors eye Japan. What is your view?
We have no plans to invest in Japan at this stage. We would need a local team if we wanted to start investing there. We prefer to invest in China. In our first fund, we had invested in India. But we realised we needed to develop a local team. As most of our team members are Chinese, we prefer the China market.

Arch Capital's Richard Yue believes investors cannot be opportunistic if they are scared of reading negative news. Photo: Bruce Yan

COMMUNITY

M3 co-founder Darren Wong says it will probably take four years of rents to recoup the investment in each rental apartment project rolled out by the company. Photo: Dickson Lee

Dormitory-style apartments prove a hit in HK

M3 founders plan to roll out more projects targeting single fresh graduates

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Falling home prices in Hong Kong are not necessarily a bad thing – at least for young property innovators who can now benefit from lower rents to convert space into something fun, such as a hub for freshly graduated employees fond of sharing space in a close-knit community.

Enter M3 International Youth Community – the brainchild of Andy Zhang, a Hong Kong-based mainland entrepreneur, who said his idea came from a popular mainland rental apartment start-up called You+ International Youth Community that offers accommodation for entrepreneurs and young people.

In 2014, You+ made many headlines in mainland media after attracting 100 million yuan (HK$118.8 million) in funding from Lei Jun, the founder of mainland smartphone maker Xiaomi.

On the mainland, such youth-targeted apartments are mostly concentrated in big cities to meet pent-up demand from the large numbers of young people who choose to remain there after completing their studies. Hong Kong also fits into that market category. An influx of mainland students has led to the mushrooming of similar dormitory-style apartments in the city in recent years.

"It's all about niche markets," Zhang said. "Our targeted customers are unmarried fresh graduates that are between 18 and 45."

M3's founding team of six, including Zhang, secured one floor inside an old residential building in Sham Shui Po from a landlord in March and then converted the 5,000 sq ft place into 30 rooms ranging from 50 to 150 sq ft that go for monthly rents of HK$3,900 to HK$6,500. An extra 10 per cent goes to property management.

It has been fully occupied since opening in September. The tenants – mostly young, educated mainlanders – share two bathrooms, a conference room and public space.

Eyeing young entrepreneurs, the founders also ensure a mix of tenants from different fields through interviews.

"We wish we could make it more international because Hong Kong is an international city," said Zhang, who has helped build two start-ups after graduating from Hong Kong Polytechnic University. "They stay here because they won't feel alone. They can easily find someone to have a drink with over dinner after work."

Tenant Li Yanjuan echoed that feeling. After graduating from Hong Kong Baptist University with a master's degree in information technology management last year, Li now works in the information technology department at Bank of China in Central.

It takes her about 45 minutes to go to work from Sham Shui Po every day and her tiny room costs one-third of her monthly salary. Still, she finds the place appealing.

30
The number of rooms in M3's project in Sham Shui Po

"I live here because it's fun. You will eventually find someone who shares similar interests with you if you have many people around you." Li said.

For M3's founders, now seems a good time to expand their apartments since the city's home prices are expected to fall and they plan to roll out 200 new rooms from at least two projects this year.

"We wish we could open one rental apartment next to every MTR station in Hong Kong, but the speed of expansion has to do with the city's economic development," Zhang said.

The weakening of the city's tourism industry due to a decline in mainland tourists, which has forced the closure of a few small hotels and hostels, could open up more opportunities. Zhang said the vacant premises could be filled by rental apartment operators who could take over hotels' licences without the need for further applications to the Buildings Department.

M3 opened a second project in Tsim Sha Tsui in December after taking over a floor previously operated by a hotel. It offers 14 rooms at monthly rents of HK$8,000 to HK$13,600, and 11 of them have been occupied.

But localising You+'s model in Hong Kong is not easy. Unlike many of You+'s projects on the mainland, which involve renting out space in renovated factories, the Hong Kong government bans subdivided flats in industrial buildings. That means it is more difficult to find a whole building or several connected floors to be converted to apartments and public space. Since the whole concept of a youth apartment is built on sharing and socialising, a lack of public space could be detrimental to its success.

Higher labour costs for furnishing and shorter leases also led the founders to focus on trimming budgets without sacrificing quality. So far, each M3 project had incurred about a seven-digit investment that would probably take four years of rents to pay back, said Darren Wong, one of M3's co-founders.

Meanwhile, You+ is considering teaming up with M3 to develop youth apartments in Hong Kong. You+ co-founder Liu Xin said the city was "one of our major overseas markets for expansion".

ONLINE
Find out more about M3 and its expansion plans, please watch the video at **scmp.com/M3**

UNITED STATES

Buyers often shun houses that were crime scenes

Associated Press in Pittsburgh

Almost two years after two sisters who had just moved to Pittsburgh were found shot to death in the basement of their home, the two-storey, 2,200 sq ft house on Chislett Street stands vacant, padlocked and under the control of a bank that has foreclosed on it.

No one has lived in it since the double homicide occurred there in February 2014 and neighbours still are wary of discussing how memories of the tragic event have affected the neighbourhood.

"Everybody is still bothered, but it's not as terrifying as it once was," said one neighbour. "How do you ever completely get over something like that?"

When a murder – or even a natural death – occurs inside a home, it can traumatise a neighbourhood. Beyond that, it can create a significant and understandable challenge when it comes time to sell.

The effect is exacerbated when the death is a highly publicised event. Not only is the home itself affected but, according to personal finance comparison website Finder.com, homes within a four-block radius can lose tens of thousands of dollars in value up to a year after the homicide takes place. It is a delicate issue for both homebuyers and sellers.

Finder.com estimates the US housing market lost US$2.3 billion in value in 2014 due to homicides.

"There is a psychological factor," said Fred Schebesta, the chief executive of the Santa Monica, California-based website. "The psychological distress of a homicide in a home or an area tends to affect its desirability."

Some high-profile examples Finder.com used to illustrate the point included Nicole Brown Simpson's California condominium selling for US$200,000 less than its market value due to publicity it received during the O.J. Simpson trial; and the Boulder, Colorado, house where JonBenet Ramsey died selling for nearly US$1 million less than comparable homes in the area after languishing on the market for two years.

Another example of a murder destroying the value of a home includes the Pittsburgh property where three city police officers were ambushed and killed after responding to a domestic violence call in April 2009. The house where the killings took place had gone into foreclosure and was demolished 1 1/2 years later, to the relief of neighbours who saw the boarded-up house as a constant reminder of that horrible day.

Schebesta said his company conducted the study because he felt, given the decrease in property value for homes stigmatised by homicide, they could be an investment opportunity for those willing to take the risks.

"Smart investors will be attracted to those properties," he said. "They are able to pay less than what they should, and eventually people will forget about the murder and the neighbourhood will clean up."

Pittsburgh real estate agent Mike Netzel said there also tended to be a stigma attached to homes in which someone had died, even if that person passed away peacefully.

"I have worked with people before who have specifically asked that they not buy a home where someone has passed away," said Netzel, an agent with Keller Williams Realty.

"The challenge is that we have a lot of older housing stock. We can ask the current owner if someone has passed away in the home, but there is no way of knowing if that is the case for previous ownership.

Death is an eerie subject. People fear death and don't want to be near it

JOE CALLOWAY, OWNER, RE360

"Some people will look at a cemetery adjacent to a house as a peaceful setting. Some people will look at a cemetery adjacent to a house as a 'no way' setting. Personally, it doesn't bother me, but it's a completely personal decision where I have not found anyone ambivalent. It either is a non-factor or an absolute dealbreaker."

According to Pennsylvania law, real estate agents and sellers are not required to inform potential buyers if a homicide has occurred in a house, but if they are specifically asked, they must provide a truthful answer.

Hank Lerner, a lawyer for the Pennsylvania Association of Realtors in Harrisburg, said a 2012 case decided by the state Supreme Court, a case known as Milliken vs Jacono, determined that only material defects – such as roofing or plumbing problems – must be disclosed and a psychological defect was not a material defect of real estate.

The Milliken vs Jacono case involved a murder-suicide at a suburban Philadelphia house in 2006. A buyer who moved from California with her two children paid US$610,000 for it and learned of the event from a neighbour a few weeks later. She filed a complaint against the sellers and the real estate agent for not disclosing the tragedy. She claimed she would never had bought the house had she known.

The court's rationale in deciding against her was that the varieties of traumatising events that could occur at a house were endless and that efforts to define those warranting mandatory disclosure would be a "Sisyphean task". Death by poisoning or overdose and violent crimes such as rape, assault, home invasion, child abuse and even satanic rituals were all examples considered by the court.

In the case of the home on Chislett Street, the house is under the control of the Federal Home Loan Mortgage Corp, a government lender in McLean, Virginia, according to the Allegheny County real estate website. A recent visit found the lawn overgrown and a sign on the window saying the house had been winterised and warning not to attempt to use any water.

Although the house was featured in many news reports, news organisations often avoid giving an exact address of homes where homicides and other serious crimes have occurred. In situations like that one, potential buyers might have to do some research on their own to learn the home's history.

"What we find in the market today is many buyers will Google the address to find out about a house or an area," said Lerner. "A Google search will usually pop a red flag. An agent may not be at liberty to discuss an incident. But they cannot lie. And there are other ways for a buyer to find out. We often talk about risk management techniques. Many sellers may decide to disclose a psychological defect to avoid litigation down the road."

Joe Calloway, owner of Allentown-based RE360, was the largest buyer of investment property in the city of Pittsburgh in 2013. He said in his experience he had found that safety and superstition were both factors that came into play with homes where any type of death – violent or non-violent – had occurred.

"Death is an eerie subject," Calloway said. "People fear death and don't want to be near it. The same goes for cemeteries. Houses located near or within view of a cemetery will often have lower value than neighbouring houses that êdo not."