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Beijing the smartest city pick for investors

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Hong Kong. A patchy recovery in house prices around the world in the third quarter of this year was led by markets in the Asia-Pacific, which recorded an average rise of 9.9 per cent. The increase was tracked in the global house price index by property consultancy Knight Frank.

The data shows that for the first time since 2008, prices in each of the six world regions monitored by Knight Frank ended the quarter with gains. But in sharp contrast to the performance of the Asia-Pacific market, which topped the list of gainers, European prices ended at the bottom of the list with a rise of just 0.8 per cent.

As a troubled year for property markets comes to a close, we take a look at properties in seven cities that were popular with Hong Kong investors this year to see which of them generated the best returns. They are Beijing, Hong Kong, London, New York, Singapore, Sydney and Vancouver.

Property consultants agreed that the mainland market was the smartest choice for investors in luxury properties with budgets of between HK$10 million and HK$20 million. Against a background of austerity measures by the government, risks of investing in the mainland were high, but so were the rewards - anything up to 40 per cent depending on the location and timing.

Driving price gains at the top end of the market in Beijing and Shanghai were historically low interest rates and a flood of liquidity. In a display of confidence that stunned the market, an investor paid 11.6 million yuan (HK$13.51 million) for a tiny 400 square metre flat in the Legacy Homes estate in the upmarket Chaoyang district in Beijing.

But the 29,000 yuan per square metre price tag commanded by flats in the estate at the beginning of the year has since risen to 40,500 yuan per square metre, according to London-listed property consultancy DTZ, which means the early-bird investor is sitting on a paper profit of some 40 per cent after just 12 months.

A standout exception in an otherwise lacklustre property market in Europe was luxury flats in Central London, which came close to generating the same high returns available in Beijing and Shanghai.

In January this year, consultant London Central Portfolio was engaged by an overseas investor to find a two-bedroom apartment in a prime area of central London. The client was looking to buy a property below market rates with the potential to add value through refurbishment. London Central Portfolio chief executive Naomi Heaton said the investor settled on a flat in Notting Hill priced at GBP625,000 (HK$7.56 million).

"After accounting for reorganisation and renovation costs, the flat is now showing a 20 per cent increase in value. That increases to over 33 per cent in Hong Kong dollar terms when accounting for the currency swing against the sterling," she said. Heaton said the owner had not sold the unit and was waiting for prices to rise even further.

In Hong Kong, the value of a 1,131 square foot flat in the Sorrento residential development at Kowloon Station rose 17.44 per cent to HK$14.68 million in the first 10 months of the year.

In Singapore, prices are up a more modest 10 per cent or so for the year, said agents, and in Brisbane, Australia, a median apartment price of around A$400,000 (HK$3.08 million) at the beginning of the year has risen to just A$413,000.

Luxury home prices in Sydney fell over the course of the year, and investors were likely to have seen the value of properties in this market decline some 7.5 per cent, according to Knight Frank.

As the year draws to a close, global house prices continue to rise, albeit at a slower pace, noted Knight Frank. Average annual price growth around the world was down to 3.1 per cent in the third quarter from 4.3 per cent in the previous quarter, it said.

"In the United States, annual price inflation has fallen back to 0.6 per cent, compared to 4.2 per cent in the second quarter of 2010; average prices in the US now stand at their mid-2003 level," said Liam Bailey, head of the consultancy's residential research.

"Whilst the weakening of growth in the third quarter is partly due to the end of the government's tax incentive for first-time buyers, the additional issue of high supply volumes, much of it hidden due to pending foreclosures, is continuing to blight the housing market."

Investors in New York properties who got their timing right were still sitting on some modest gains.

"Manhattan housing prices bottomed out in late 2009 and have since bounced by about five to 10 per cent," said Patrick O'Neill, the chief executive of O'Neill Group, a Hong Kong-based property firm specialising in international real estate.

"A client purchased a two-bedroom condominium on the East Side in January for HK$16.38 million and the property is probably now worth about HK$18.02 million."

In Vancouver, detached house prices in Richmond grew more than 13 per cent, said Robert Chen of Vancouver-based property agent Regent Park Fairchild Realty.

What tips do the experts have for the year ahead?

"I think New York might be interesting. It is the one major luxury market that saw prices fall a lot in the crash, but which did not see a rapid rebound in 2009 or early 2010," said Knight Frank's Bailey.

While there was an element of risk in the New York market, Bailey said it had the potential to outpace London, "which is currently catching its breath", as well as the major Asian markets, which were experiencing a slowdown in price growth and where there was a growing risk of prices falling.

Knight Frank's Hong Kong-based research team expects price falls of up to 20 per cent in Beijing, Shanghai, Guangzhou and Shenzhen in 2011.

"Fears over the impact of the expanded US quantitative easing programme on asset prices in Asia has prompted China to step up capital controls to resist foreign fund flows into its property market. In fact, the imposition of capital controls in a number of emerging markets in recent months suggests the potential for the trend towards unfettered capital flows over recent decades will be reversed," said Bailey.