

Interview

The Art of Selling U.S. Property in Hong Kong

By Kevin Brass
Editor

January 14, 2010. "This is where all the action is," said Patrick O'Neill, explaining why he moved his property company from Hawaii to Hong Kong three years ago.

The [O'Neill Group](#) focuses on selling U.S. property to Asian investors, primarily new, high-end residential developments. Current listings include the I.M. Pei-designed [Waterview](#) condo project in Washington D.C. and [Queensridge](#), a luxury development in Las Vegas.

Although the firm also trades in non-residential properties, the commercial business has dried up in recent months, O'Neill says. "Right now the U.S. commercial market is in seizure as the lenders continue to play the game of extend and pretend."

However, Hong Kong residential buyers are eagerly looking overseas, O'Neill says. In an interview, he talks about the twists of marketing to Hong Kong buyers, his latest strategies and the state of the market.



Patrick O'Neill

How would you characterize Hong Kong's interest in U.S. residential property these days?

Without a doubt, the U.S. is the number one country of interest for international purchasers, including our Hong Kong investors. This is an interesting statistic: Using the term investors broadly—people who invest in various instruments—in Hong Kong 77 percent of investors include some real estate in their portfolio. Of that group that includes real estate in their portfolio, nearly half, actually 47 percent, own properties overseas. This is the highest of any country.

Hong Kong residents are international residents. They travel throughout the major cities in the world. So here we have Hong Kong people who own property and half of it they own overseas, and the number one country of interest right now is the U.S.

How does that compare to a few years ago?

There's definitely been a shift. In the past we would probably see the U.K. and maybe even some of the southeast Asian countries being of primary interest. The shift relates to the deep discounting that is available in the U.S. right now. It also relates to the currency arbitrage. The Hong Kong dollar is, of course, pegged to the U.S. dollar. But most of our clients are investing in multiple currencies.

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The other factors would be the high liquidity rates and the financing that's available. We can source financing right now out of Hong Kong and Singapore under two percent for U.S. purchases.

This harkens back to the late 80s for me when we were working with the Japanese. It is sort of the same moment in time--currency arbitrage, low prices in the U.S. and low financing rates for foreign purchases.

Foreign buyers overall are typically cash purchasers. In the U.S. overall, if you look at residential real estate sales, about 7 percent of the sales for U.S. buyers are all cash. If you go to the next category, which is foreign buyers, it's 46 percent. But if you look at buyers from China, it's 75 percent.



Waterview, Washington D.C.

The reality is, right now, anybody buying out of Asia into the U.S. will be a 100 percent cash purchase. If there is any financing it will be out of Asia. And this is good news for the developers that cannot get the Fannie Mae and Freddie Mac approvals for new developments.

Are there other elements about the U.S. specifically resonating with these buyers?

The U.S. now and into the future has always been seen as a very safe market. The one interesting component from our perspective—relating to both new development, as well as resale—is that the U.S. traditionally has not marketed to the international community. There are some exceptions, but U.S. developers have never had the need with such great domestic demand.

To some extent, although it remains the country of greatest interest, there is not a lot of information available and the information on the Web is very limited. In Hong Kong on a weekly basis there is every country in the world marketing real estate here, through property shows, expositions and various events. But the U.S. has traditionally not marketed into this country.

And right now, with the exception of one other project we've seen, we're really the only firm that is actively promoting U.S. properties in Hong Kong.

And what are you seeing these days from sellers in the U.S.?

It's been very enlightening. We met with a developer who I consider fairly sophisticated in New York City, and he pounded his fist on the table and said with great pride, 'I've never been out of the U.S. I've never been to Asia and I've never been to Hong Kong and I don't intend to go.'

There's a bit of a myopic view overall. And, again, it's because we haven't had to go out, we haven't had to reach out from the U.S. market. This is a moment in time and this might change a year from now, two years from now. Who knows? But right now, certainly with all the elements that have lined up, this is the place to be, especially to find cash buyers.

Are the developers willing to discount to get these cash buyers?

Yes, and when we work with the international market, these are very sophisticated buyers. They are not going to pay more than what the value is. It is not a silver bullet to sell over-priced property.

And this is another struggle, even for the domestic side, right now. In many markets, such as Manhattan, resale values have corrected and volume has begun to pick up again in the resale market. But when we examine the new development inventory, they really haven't adjusted the prices--not all the developments, but a lot of them—and therefore they are not selling.

Developers are in a holding pattern hoping for an improvement in the values. But going back to your question, to sell inventory, it has to have value and the marketplace has to recognize that value. The developments we have brought over to Asia do include components of price discounts.

What can you tell me about those discounts?

Real estate values are, of course, local, with variations by region. For example, discounts of 60 percent are found in areas such as Las Vegas and California and Florida--and maybe higher. If you look at cities like New York, D.C. and Boston, they have experienced lower levels of retracement, and they're probably in the 20 to 25 percent range.

The Las Vegas inventory we are selling now is discounted by over 60 percent. A property that was purchased for \$2 million in 2006 can be purchased for less than \$1 million.

What amenities or type of properties tend to resonate with the Hong Kong community?

On the residential segment, we look at it a couple of ways. If it's up to \$1 million, there needs to be some component of rental income and full property management services.

For product over \$1 million, the rental income becomes less important. What becomes more important is full concierge service, high-end amenities. Our basic criterion begins with location in the first tier cities--New York, Boston, D.C., Los Angeles, Las Vegas. We also look for some sort of cachet, such as a branded residence. The perfect price point for our general market is \$1 million to \$3 million.

"Developments that come to town to market for a week or two and then leave are not very successful."

What advice would you give anyone interested in marketing to this Hong Kong community?

We found the most important component of working and selling in Asia is the concept of *guan xi* (pronounced: *guan chee*), which is a Chinese phrase meaning relationships.

Developments that come to town to market for a week or two and then leave are not very successful.

What we're based on is our *guan xi* in the community, in Hong Kong and throughout the other capital cities of Asia. Like anywhere else in the world, it's about relationships and knowing that you are there tomorrow, and that you are there next week and you are there next month.

Other advice would be that properties have to have value. You cannot come to Asia and expect to sell inventory that is over-priced. It's not going to happen. In addition, the inventory needs to be complete or nearly complete. Selling pre-sales or off plan, is very difficult in today's climate.

Kevin Brass, Editor: Through booms and busts, Kevin has chronicled the international property industry for the *International Herald Tribune* and *New York Times*. His popular *International Herald Tribune* blog, "Raising the Roof," was named one of the Top 20 real estate blogs in the world by *NuWire Investor*. A frequent speaker at industry events, Kevin's features and analysis have appeared in a wide variety of publications, including the *Los Angeles Times*, *San Diego Tribune*, *San Diego Magazine* and *Hispanic Business*. In 2008 GlobalEdge named Kevin one of the 100 most powerful property journalists in the world.
