

It ain't over



It's an old debate but one that never quite gets resolved: Which city will be the regional seat of financial services – Hong Kong or Shanghai?

Hong Kong's history of boom and bust gives its financial services workforce some sense of insecurity – for good reason. It's often feast or famine.

One of their worries is whether Shanghai is about to take Hong Kong's place as Asia's financial services capital, especially given the preferential treatment the mainland government gives Shanghai.

The Hong Kong government doesn't seem worried. It seems to think that economic integration with the mainland is more of an opportunity than a disaster

for Hong Kong's financial community. By exporting their skills and high standards to businesses on the mainland, the thinking goes, Hong Kong's financial professionals are in fact acting as the city's ambassadors, strengthening its prized status as the regional finance hub.

Take the accounting profession for example. Right now, China's accountancy profession is more of a puddle than a pool: The Chinese Institute of Certified Public Accountants has 140,000 members, of which only half are practising – but it needs 300,000 more CPAs, reported the *Financial Times*. If the mainland had the same number per head of population as the U.K., there would be 5.3 million.

It will take time before the mainland has a big enough pool of accounting experts trained to international standards to pose a serious threat to Hong Kong's position.

Shanghai certainly has the potential to be Hong Kong's rival, with its skyscrapers, neon lights, world-class hotels and heady stock market (perhaps a little bit too heady for some of late).

Guy Day, managing director Asia for Ambition, a recruitment firm, has a lot to say about Shanghai and Hong Kong as places to work. Day believes that Hong Kong need not worry about Shanghai just yet.

“The more I've done business in Shanghai the more I've realized it's not

till it's over

Hong Kong can stop worrying about its status as a financial centre – for now, anyway, writes *Michael Grimes*



going to be another Hong Kong any time in the next couple of decades,” says Day. “There is some relocation of jobs and organizations to Shanghai, but... frankly, people are being offered jobs in Shanghai but they’re not going.

“People always talk about Shanghai having a very thin veneer. It’s all very well when you’re in your nice flashy hotel, but much farther afield it’s a very different proposition.”

If anything, it is Singapore which could be the main threat to Hong Kong’s status in accountancy, Day believes. In the last 18 months, for example, many Hong Kong banks have opened private banking operations in Singapore, taking advantage of its more

relaxed regulatory environment for private investment.

“What we’re finding now is that the Singapore-Hong Kong debate is stronger in the financial services world than the Hong Kong-China debate,” Day says.

That said, Hong Kong still remains the place for Chinese companies to raise capital on the public markets. The Hong Kong Stock Exchange had the highest dollar volume of initial public offerings worldwide in 2006, US\$41.22 billion, while Shanghai ranked ninth at US\$9.62 billion, according to Thomson Financial.

“Hong Kong performs very well as a platform for mainland companies to

tap into international funding, and as a place where they can gain experience of international standards and good corporate governance,” says Richard Sun, consumer and industrial products leader at PwC Hong Kong. “For at least the next 10 years, Hong Kong will be the place where Chinese companies will come to raise money. I don’t think we will see Shanghai becoming a truly international finance centre until the renminbi becomes fully convertible.

“I also don’t see a major threat from Singapore becoming a financial service centre for China. The geographical closeness of Hong Kong to China is very important. There are 20 flights a day between Hong Kong and Shanghai

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– almost one an hour. It’s only two hours away by plane.”

Day isn’t sure Hong Kong’s geographical advantage necessarily applies to accountancy jobs, however. He says the concern is that operational, transactional accounting jobs may be migrating to Singapore.

“A lot of these [Singapore] jobs aren’t ones migrating from Hong Kong,” he says. “They are new jobs, though some are getting taken out of London as well.”

Sun thinks any talk of Singapore or the mainland as regional rivals to Hong Kong for accountancy work is overstating the case, at least as far as the Big Four are concerned.

“At PwC we now have 5,500 people in China in 11 cities. But the Big Four all maintain their centres of excellence in Hong Kong,” Sun says. “The reason is simple. All major Chinese companies come to Hong Kong to raise money. There has been some comment within China that there should be more support for developing capital markets on the mainland, but under ‘one country, two systems’ the central government has actually encouraged... this... because of its reputation for international standards of compliance and corporate governance.”

More worrying for Hong Kong is the growing anecdotal and first-hand evidence that senior financial people don’t want to come to Hong Kong because of lifestyle and health concerns.

“There are senior executives out there who are saying they don’t want to come to Hong Kong because of the pollution,” asserts Day. “I think that’s going to be a bigger issue. The cost of housing in Hong Kong is also double what it is in Singapore.”

China advantages?

While accountancy salaries are generally lower in China than in Hong Kong, the mainland’s lower cost of living leaves staff with more disposable income. Day says that in spite of this, the mainland offices of international companies cannot find enough local candidates for senior and even some middle ranking accounting jobs, while overseas Chinese and foreigners who are qualified to do the jobs often don’t want to go there.

“Most of the big CFO jobs for foreign companies with offices in China are being taken by people appointed from within the organization rather than people appointed externally,” says Day. “Organizations feel much more comfortable about putting their own

people in place – even if they don’t speak Mandarin. I just don’t think there’s the trust yet in mainland China or mainland Chinese candidates at that senior level, for [foreign] organizations – particularly United States multinationals – to put a mainland candidate in place.

“Look at the Big Four and what they are doing in China. Their vacancies run into hundreds,” says Day. “If Ernst & Young or PwC could find 300 good accountants to work there they’d hire them tomorrow – but not at the same rate they pay people in Hong Kong.”

Junior staff with no family ties may regard a mainland job as an exciting challenge, says Day, but senior applicants with families are more likely to see it as a tough posting.

At the corporate level, there is also nervousness about the number of business fraud cases reported within the mainland. Some international firms are understandably reluctant to move their regional bases there – yet another point in Hong Kong’s favour.

“I think Hong Kong, for western multinationals, offers a much more hassle-free experience. There’s much greater confidence doing business out of Hong Kong.

“The whole sleep-easy factor is a huge selling point,” says Day. **A+**

As safe as houses?

Hong Kong's residential property prices – buying and renting – continue to rise

By Stephen Reels

If a city's fiscal health is measured by its property costs then Hong Kong is in fine fettle. Buying prices and rental costs are most definitely going up. Between 2000 and 2006, rents in the high-end residential market increased by 25 percent – rising another 10 percent in 2006 – according to commercial real estate consultants Colliers International (Hong Kong) Limited.

Capital values – the value of the land – meanwhile, rose 37 percent between 2000 and 2006, and 4 percent last year for the luxury market. Government figures show a rise in capital value of 1 percent and 6 percent for rentals for the entire residential market.

Simon Lo, Colliers director of research and consultancy says he saw a strong market response to land sales in particular last year. “The four government plots of land sold in 2006 had final

prices of at least 35 percent above their respective opening prices,” he says. “The plot on The Peak was 134 percent above its opening price, at HK\$768 million.”

Lo says prospects for 2007 are positive, given accelerating inflation and sustained economic growth. He expects rentals will increase 9 percent and sales by 10-15 percent this year.

Nicholas Brooke, chairman of Professional Property Services Group and a commentator on the local property market, thinks the market could reach even higher growth rates in 2007, of as much as 15-20 percent.

According to Brooke, the market for top-end residential properties – units priced over HK\$15 million – is booming. And financial services professionals are partly to thank for it.

“A lot of people are making a lot of money in the financial sector, and of

course they invest a lot in real estate,” Brooke says. “Add to that the millionaires from the mainland and the ASEAN investors who are now coming back into the market.”

Buyers are more interested now but at the same time properties are limited, pushing prices even higher. “Strong demand and limited stock mean the top end is really under pressure,” says Brooke.

The same is true of the rentals market. “Senior executives coming in, even if they are single or have settled their families elsewhere, still want to live in top-end apartments,” says Brooke. “[But] for HK\$80,000-\$100,000 a month you are getting a relatively ordinary product.”

The last phase of the luxury Bel-Air complex, which is part of Cyberport, is coming on the market later this year, and in March there were still units available in The Arch in West Kowloon, but other luxury developments are few and far between. Most properties are more mass-market.

“We’ll see some fairly creative marketing in the next few months as developers try to ramp up their products to meet market demand,” says Brooke.

While Hong Kong's property market may be booming, Lo says we shouldn't expect another 1990s-style price hike. “The boom will be less drastic,” he says. “But it will resemble the degree of growth in the 1990s if the local real interest rates become negative again.”

His advice to investors and home buyers: Move quickly. “Buy now because rentals will be on the rise and capital values will be more expensive in the second half of the year,” Lo says.

Brooke concurs: “If you're in, it looks good; if you're not in, you probably should be.

“The window is in the next 12-18 months.” **A+**



>> Severn 8: A 22-house property on The Peak owned by Sun Hung Kai Properties