

Are there no limits to the cynical, socially-destructive rapaciousness of Hong Kong's property developers? Will our Government leaders ever do anything more than tinker at the margins, and turn a blind eye to mischief and manipulation that lines property developers' nests at the expense of the community's well-being?

No, I'm not moaning about measures – or the absence of them – in Wednesday's budget, though there is ample evidence there of the Government's reluctance to do anything except tinker at the margins. Nor am I moaning about the bizarre floor numbering regimes that enable 40-storey buildings to rise to 80-floors and more, or the scandalous habit of thickening walls in order to claim higher floor areas.

Rather, I am ranting about the unadulterated cheek of those owners of old industrial buildings in areas like Tsuen Wan, Kwai Chung and Kwun Tong who, unsatisfied with the 25%-plus rise in values they have seen since the Government announced last October that they could convert the properties to other uses without paying a land premium, are demanding concessions on floor area and height restrictions before they commit to upgrading buildings that today blight most of the areas they sit in.

One complained last week that if he installed lifts, he would lose lettable floor area, and thus should be compensated with relaxed height restrictions. One insisted that if he was to widen roads for pedestrians, and plant trees around the building, then he should be gifted more floor area to compensate him for the loss. One poor soul complained: "I'm facing a dilemma. I want my building to look great and competitive but the designs may reduce existing floor area."

Such a dilemma might be taken seriously in areas of the economy where profit margins are perilously lean, but we are talking here about that surreal world called the property economy that luxuriates in profit margins of 40% a year and more - most of which are earned at the direct expense of the profitability of companies forced to occupy them, or of the livelihoods of residents who have seen incomes stagnate for the past 12 years. Reports early this week showed that New World Development will be earning profits of 40% and more on apartments currently being sold at The Belchers' Hill in Western, with Sun Hung Kai earning even higher profit margins on units currently being sold at Yoho Midtown in Yuen Long. All this in the middle of the worst recession the world has seen in a century.

Am I alone in wondering why on earth our Government officials do not slam the door in the face of such antics? Did Apple ever demand compensation from a Government official for being forced to design a different and more expensive lap-top? Or Research in Motion for upgrading its Blackberry?

I admit that I am getting in a tizz on this issue because of the property bubble that is bloating unacknowledged before the Government's eyes, but I believe my concerns would be real, bubble or not. By systematically starving the market of new apartments (only 7,200 homes were completed last year, the lowest level since 1972) while interest rates sit at their lowest levels in 20 years, and speculative cash has flowed in both from the Mainland and distressed western economies, property developers have protected hyper-profits while many companies in the economy have teetered close to bankruptcy.

Government officials continue to insist that we are not yet in bubble territory. Our financial secretary insisted on Wednesday that mortgage costs averaged just 38% of household incomes - well below the 50% level reached in 1997. But how

disingenuous can you get? Within a year, mortgage interest rates are likely to be 1-2 percentage points higher, with huge implications for costs for average households. One leading Hong Kong economist warned home owners to expect mortgage costs 40% higher within the year. That would lift mortgage costs to virtually 60% of average household incomes. No bubble?

Back in those happy innocent days running the Financial Times bureau in Hong Kong, the first thing I would do with any potential news story would be to ask: "Who is the "honest broker" here? – the person I can trust to provide an objective assessment on the merits of a story, and the issues to think about?"

No matter what the story, there was almost always somebody out there to whom you could turn. There was just one exception: stories on the property sector. Wherever you turned everyone seemed to have a vested interest in talking the sector up. Existing property owners licked their lips at the implied growth in their own wealth. So too did successive Financial Secretaries as they watched income flow in from property auctions and stamp duty. Even those without properties, familiar only with steadily rising property prices, simply dreamed of the day they themselves could scramble onto the property ladder and begin to cash in themselves. Bankers basked in mortgage income flows, and property agents watched fee incomes make them rich. No-one seemed willing to pause and ask what possible economic force could make a 400 sq ft apartment rise in value by more than HK\$100,000 between a Friday and a Monday.

John Tsang rightly noted on Wednesday that he needed to take account of the interests of the thousands who would see their wealth contract if property prices fell. But what of the hundreds of thousands of others who see the prospect of ever owning their own home dissolve in front of their eyes? If he is really concerned about the distress and discontent that sits at the heart of a community

that has a wider rich-poor gap than almost any other in the world, he will act now, and firmly, to bring our property economy down to earth. He should be turning on the supply of new homes, insisting that homes must be larger, and punishing speculative turnover in investment property. And he should be telling sniveling developers of industrial buildings in Tsuen Wan to end their special pleading, and brace for new, stricter and more environmentally sensitive building standards to come. In short, they should be told to join the real economy.

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