

Review Article

Companion of Property for Rental Investment between London, Hong Kong and Zhuhai: Perspective from Hong Kong Investor

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Abstract: Hong Kong is ranked as the most expensive housing market in the world and there has been a great outward property investment from Hong Kong to the UK which recently extended Zero Stamp Duties for First time home buyer until June 2021 and Zhuhai which is a city of Great Bay Area which offers free time buyer purchase quota for Hong Kong resident.

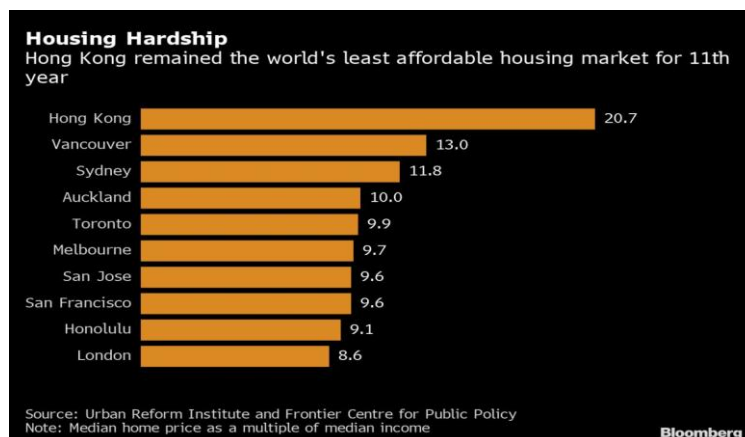
Keywords: Companion, Property, Perspective Hong Kong Investor.

RESEARCH

The paper is to compare the different property for rental investment in different places with an example of 300,000 GBP worth housing budget. It will look at the following factors such as mortgage interest rate/percentage of downpay/Mortgage Cash Rebate/stamp duties/rental income yield/land status/Cash flow Return for rental income after mortgage. The mortgage interest rate will use HSBC prime mortgage rate for property units in London Zone One/HK/Zhuhai as reference.

The exchange between GBP to HKD is calculated at 1 to 10 and GBP to CNY is 1 to 9.

BACKGROUND OF RESEARCH CITY



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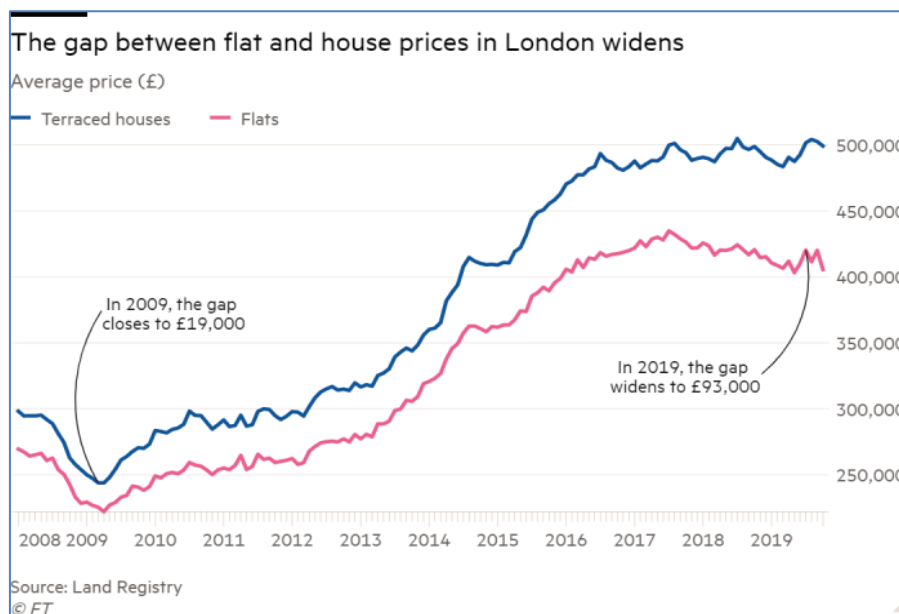
Hong Kong

According to a media report from Bloomberg on 23rd Feb 2021 [1]. Hong Kong remained the world's least affordable housing market for the 11th year, underscoring the income disparity in the financial city. The Asian hub topped Vancouver, Sydney and Auckland as the most unaffordable residential market in the world last year, according to a report published by think tanks Urban Reform Institute and Frontier Centre for Public Policy.

London

The bloomberg Report showed that London remained the world's 10th least affordable housing market. UK is open for non-resident investor to purchase property in the UK. HSBC is also open for non-resident to borrow mortgage with overseas income. Effective from 1 April 2021, there is a stamp duty of 3% for buy to let with additional 2% for non-resident. However, it does not stop interest of investors from Hong Kong over UK property. However, there is very high annual income requirement for mortgage approval of GBP 75,000 so that it may be difficult for an ordinary HKer to take a mortgage from HSBC.

According to Reuters Report on 25th Feb, 2021 [2], Hong Kongers became the fifth largest foreign investors in central London as of last August and have been driving up prices in some popular districts outside the UK capital. Hong Kong residents have long been active buyers of homes in Britain, as more recently there has been increasing interest in older apartments and houses as rental assets. Hong Kongers have an affinity for real estate investment, with property prices in the Asian financial hub among the most expensive in the world. There is a result of exodus of capital from Hong Kong Property market to seek for better return outside Hong Kong.



Zhuhai

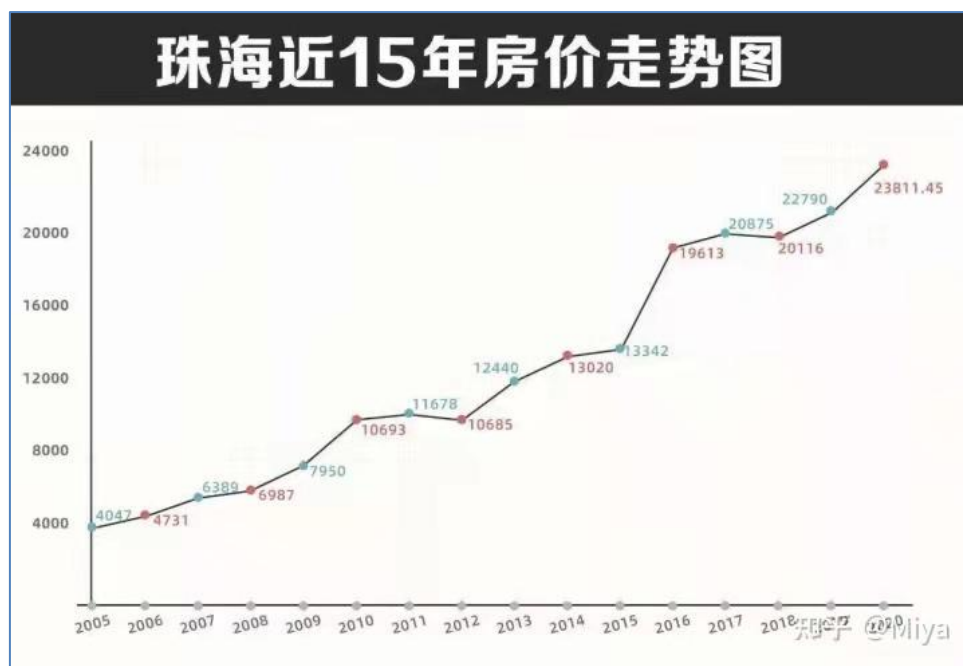
Zhuhai is not normally ranked on any global league table on the housing price but the recent completion of Hong Kong Zhuhai Macau Bridge has made Zhuhai as the only Mainland City with Landlord of both two SARs of Hong Kong and Macau.

Zhuhai has become a property investment hotbed due to its improved transportation with relatively low property price (GBP300 per sq ft) as compared with Hong Kong (GBP 2,000 per sq ft) and Macau (GBP 1,500 per sq ft). Therefore, the influx of investor from Hong Kong and Macau has sent the Zhuhai property by 250% over last 10 years.

Hong Kong and Macau Resident have one house purchase quota in Zhuhai as long as there is no property ownership in nine cities of Big Bay Area.

¹ <https://www.bloombergquint.com/business/hong-kong-homes-ranked-world-s-least-affordable-for-11th-year>

² <https://www.reuters.com/article/us-hongkong-britain-property/hong-kongers-snap-up-uk-homes-and-do-what-they-excel-at-being-landlords-idINKBN2AP0JV>



Summary of the Research between UK/Zhuhai/Zhuhai

	UK	HK	Zhuhai
What can be purchased with GBP 300,000	A Studio flat of 30 sq meter in London Zone 1 [3]	A Studio flat of 30 sq meter Hong Kong [4]	A 120 sq meter three bedroom Flat in Zhuhai [5]
Mortgage interest rate	Buy to Let 2.29 % Interest only for 75% loan value [6]	Tracker rate of 1.5% Principal and Interest [7]	Tracker rate of 4.9% Principal and Interest [8]
Percentage of downpayment	25% for rental but 5% for self-use	50% for rental but 10% for self-use	30% for all purposes
Mortgage Cash Rebate of total loan amount	0	1.5%	0%
stamp duties	3% for buy to let with additional 2% for non-resident but 0% for the property value GBP 500,000 for holder of British citizen [9]	100 HKD for the first 2 million and 1.5% for Property Value of HKD3 million (no stamp duties difference between Rental and self-use property) [10]	1% for unit size below 90 Square Meter feet (no stamp duties difference between Rental and self-use property)
Gross Rental income yield per year	GBP 1200 x 12 /300,000 = 4.8%	HK 8000 x 12/ HKD 3 million = 3.2%	CNY 4000 x 12 / CNY 2.7 million = 1.7%
Land status	Share of Freehold	Leasehold max 999 years but most lands in Hong Kong are registered until 2046	70 years leasehold
Cash flow Return for rental income after mortgage (excluding house management fee/council tax/land tax)	Monthly Mortgage Repayment GBP 429 (interest only) - Rental Income (GBP 12000) = Positive cash flow of GBP 771 (25% downpayment)	Monthly Mortgage Repayment HK\$5200 - Rental Income (HK\$8000) = Positive cash flow of HK\$ 2800 (GBP 280) (50% downpayment)	Monthly Mortgage Repayment CNY 10,000 - Rental Income (HK\$4000) = Negative cash flow of CNY6000 (- GBP 660) (30% downpayment)

³ <https://www.rightmove.co.uk/properties/86713522/#/>

⁴ <https://www.28hse.com/buy/residential/property-1534607>

⁵ https://zh.esf.fang.com/chushou/3_436156509.htm?channel=1,2&psid=1_12_61

⁶ <https://www.hsbc.co.uk/mortgages/our-rates/>

⁷ <https://www.hsbc.com.hk/mortgages/>

⁸ <https://www.hsbc.com.cn/en-cn/mortgages/products/home/#home-loan-rate-calculator>

⁹ <https://www.knightfrank.co.uk/overseas-buyer-stamp-duty-calculator>

¹⁰ https://www.gov.hk/en/residents/taxes/stamp/stamp_duty_rates.htm

Rental income Tax Allowance	Income allowance for the first 12,000 GBP per annual for resident but 22% for non-resident [11]	Income allowance for the first HK\$132,000 (GBP per 13,200 per annual) for HKID holder [12]	Income Allowance for CNY 60000 (GBP 6666 per annual) for for HKID holder [13]
Mortgage Interest Tax Deduction	No applicable to non-resident	Yes with full interest amount	CNY 1000 per month regardless of interest payment amount
Income Requirement for Mortgage by HSBC	75,000 pound annual income	NA	NA
Requirement for buying eligibility	NA	NA	NA

Property Market of three cities from 2011 to 2021

	2011	2021	Change %
Terraced House in London [14]	GBP 300,000	GBP 500,000	Up 60%
HK [15]	Housing Index 100	180	Up 80%
Zhuhai [16]	10000 CNY per sq meter	CNY 25000 per sq meter	Up 250%

CONCLUSION

With GBP 300,000 budget for the sole rental investment purpose, it appears that a freehold flat in London has the best rental investment return because it requires only 25% of downpay and the mortgage rate is only 2.29% with interest repayment only. There is a positive cash flow after mortgage repayment of GBP 771 as compared with negative cash flow of the same price flat in Zhuhai with of GBP 666.

The main difference about the GBP 1500 monthly rental return is a result of difference in mortgage interest rate, mortgage interest only repayment scheme in the UK and interest with principal repayment scheme in China, and the prevailing rental level in both markets.

Hong Kong requires the highest downpayment percentage for buy-to-let mortgage of 50% of loan value with GBP 150,000 needed to purchase a GBP 300,000 unit of flat as compared with only 25% downpay of 25% of loan value of GBP 75,000 in London.

Zhuhai property price has increased by 250% in the last 10 years, exceeding 80% of HK and 60% of London. As such, for the property gain, Zhuhai has outperformed both Cities but for the rental income, London outperformed both cities as Hong Kong is in between of two cities for both measurements.

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3. www.rightmove.com (For UK Property Search)
4. HSBC Website UK/HK/China
5. Zhuhai Government Website
6. Hong Kong Government Website
7. UK Government Website

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¹¹ <https://www.gov.uk/income-tax-rates>

¹² <https://www.gov.hk/en/residents/taxes/salaries/allowances/allowances/7years.htm>

¹³ <https://taxsummaries.pwc.com/peoples-republic-of-china/individual/taxes-on-personal-income>

¹⁴ <https://www.ft.com/content/90ed1c22-358b-11ea-a6d3-9a26f8c3cba4>

¹⁵ <http://hk.centanet.com/cci/cci.htm>

¹⁶ https://zhuhai.ihouse.ifeng.com/news/2021_01_25-53770315_0.shtml/?from=news_concern