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ALISON PECK

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What We Hope to Learn in Hong Kong

How many of our pre-conceived ideas are wrong?

I knew I was back in China when the waiter at breakfast commented on my room number. When I told him room 1617, he responded, "Ah, good number." I agreed it was a nice room, but corrected me, "It's the number that good." Not sure what's "good" about it, but the view is terrific.



Kowloon and the mainland are to the right and Hong Kong Island is on the left. As you can see in the foreground, they continue to fill in the harbor to make room for another skyscraper.

I'll be attending a conference over the next few days with speakers from around the world. I might learn something from them, but more likely the real benefit will come from meeting other investors and comparing ideas. I'm looking for a local with good English--- wish me luck.

Here's the short list of what I'd like to understand better:

- Why has Beijing allowed Hong Kong to remain a capitalist enclave? What are the odds of that changing?
- How do the large real estate/bank companies work? Are they good vehicles for investing in Chinese real estate?
- How do Hong Kong locals view China?

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We have our opinions on these subjects, but there's nothing like testing your ideas with someone who lives and works locally.

Below is a an article from today's South China Morning Post concerning new rules for residential real estate in China. The mortgage on a second home is now limited to 50% of the purchase price. Also mortgages on all homes larger than 90 square meters (approximately 900 square feet) require a 30% down payment.

Doesn't sound like a bubble as we know it.

Best regards,



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Mainland tightens pre-sale home rules

Firms cannot accept deposits without approval

Peggy Sito

Apr 21, 2010, Beijing yesterday moved to hose down red-hot property prices further by banning developers from receiving deposits from prospective buyers of uncompleted homes before getting official approval.

Under the new rules, once the government has granted the green light to developers, they must publish the price of each unit available for pre-sale within 10 days. The move is aimed at restricting developers from pushing up prices before the official launch of a property.

The announcement is the third policy move of its kind in less than a week as Beijing sets about curbing speculation in the property sector. Developers that hoard properties to create a false impression of a supply shortage and then push up prices would be punished, the Ministry of Housing and Urban-Rural Development said in a notice on its website. The

4/21/2010

notice also said local regulators must grant pre-sale approval to at least one entire building rather than units or floors.

At present, many developers encourage potential buyers to pay a deposit to reserve buying rights before the official launch of their projects. Developers then set selling prices after taking into account the initial buying response.

"The series of measures announced this week show the central government's determination to cool off speculative activities and skyrocketing home prices," Chen Jie, deputy director of Fudan University's centre for housing policy studies, said. "They will not stop regulating the market until they see prices falling, or at least stop rising."

On April 15, the State Council raised mortgage rates on second homes to 1.1 times the central bank's benchmark lending rate instead of the current 80 per cent. Buyers purchasing their second homes must now pay at least a 50 per cent deposit, up from 40 per cent.

The government also set a minimum 30 per cent down payment on first homes bigger than 90 square metres.

Two days later, the central government asked mainland banks to stop loans for third-home purchases and suspend lending to buyers who fail to provide tax returns or provide proof of social security contributions.

"Home buyers' sentiment has changed from optimistic to pessimistic," Chen said. "They are waiting to see if the government will issue more measures to hit the market."

Under the latest policy affecting uncompleted properties, buyers' names cannot be changed after the subscriptions of units.

"All these policies will take some time to have their effects felt," Lee Wee Liat, a senior property analyst at Nomura International (Hong Kong), said. Developers' cash positions and balance sheets remain strong, so they will not be rushed to slash prices to cash in, he said.

"What we will see first is volume falling for the next two to three months, while prices will be flat or even rise gradually (due to limited supply)," he said.

"Price decline will probably happen only when we move into the fourth quarter of 2010 when sizeable supply hits the market."

It is possible that prices will fall 20 per cent next year, he said.

Analysts said home prices could see a sharp decline if banks continue to tighten lending.

Outstanding real-estate lending by mainland banks was 44.3 per cent higher on March 31 than a year earlier, the People's Bank of China said on its website yesterday.

New property lending was 845.7 billion yuan (HK\$960.2 billion) during the first quarter.