

Investors Turn Hong Kong's Red Taxis Into New Bubble Market

By Emma Bi and Sheridan Prasso - Aug 6, 2013

Allan Shek, the owner of a Hong Kong shop selling gold and jade jewelry, says he's made millions on the side by riding wild swings in the stock market and by buying into the city's property boom. No more.

Last month, he bought five Hong Kong taxis and the licenses to operate them. Seven or eight of his friends have bought taxis too, he says.

"If I have the ability, I will buy another 15 taxis this year," says the 60-year-old Shek, speaking with rapid-fire enthusiasm over the latest way to make money in a city where the benchmark [Hang Seng Index \(HSI\)](#) has fallen almost 7 percent from the year's high and record property prices have started to decline because of government curbs.

The price of a license combined with a taxi reached a record HK\$7.66 million (\$987,600) on June 6, . Prices have surged more than 80 percent since taking off in September 2009, as cheap financing and expectations of continued gains draw investors. Ten taxis sold Aug. 5 for HK\$7.1 million each.

The run-up is sparking warnings of yet another investment bubble in a city that's no stranger to them, said [Billy Mak](#), associate professor of finance at Hong Kong Baptist University. The prices for the cars -- most are shiny, red Toyota Crown Comfort models imported from [Japan](#) -- and their licenses have increased at a faster rate than the income the taxis generate.

"The bubble is already there," said Mak. "Investors feel that there aren't many good investment tools in the market, as there are restrictions on the [property market](#), and the stock market is not performing that well."

Shifting Investment

Investors typically turn over their purchases to taxi-management companies, which rent them to drivers to generate income. About half the licenses are bought by investors, according to Sintat Motors Management Ltd., another broker. While prices of the taxis and licenses have almost doubled since 2009, daily rental costs of HK\$680 to HK\$800 have increased by around 12 percent in the same period, said Ling Chi-yung, general manager of Sintat Motors.

Many of the investors are shifting out of the property market, according to Cheung King-sum, Sintat's executive director. About 10 percent are retirees looking for stable income, he said, while 10 percent of owners are drivers.

Home prices in the former British colony have more than doubled since the start of 2009 because of near-record low mortgage rates and an influx of Chinese buyers. That turned the city into the world's most expensive place to buy an apartment, according to London-based property broker Savills Plc. (SVS)

Property Curbs

Seeking to slow the housing bubble, Hong Kong Chief Executive Leung Chun-ying introduced a series of curbs, which then led investors to drive up the costs of parking spaces and resulted in more measures. The latest, in February, led to a 2.7 percent [drop](#) in home prices since their peak. Transactions in the first half of this year fell to the lowest since 1996.

“Today the return rate of a taxi is higher than that of property,” said Kenny Wong, 42, an investor who owns four vehicles after purchasing his latest last year. “I won’t sell it even if it increases to HK\$8 million because there is no better investment for now. After selling it, what can I do except put my money into the bank?”

Taxis generate about HK\$18,000 a month after management, maintenance and insurance is deducted, Cheung said.

Putting HK\$7.66 million, the record cost of a taxi in June, in a bank would pay just HK\$1,277 per month in interest, at a rate of 0.20 percent for a [one-year time deposit](#) at HSBC Holdings Plc, with no chance of [capital appreciation](#). The same amount would have purchased a 600-square-foot apartment on [Hong Kong Island](#), according to data compiled by [Midland Holdings Ltd.](#)

NYC Medallions

In [New York](#) City, prices for taxi medallions -- which are aluminum disks affixed to the hood of cabs allowing them to operate -- prompted a spurt of investor interest after two of them sold for a record \$1 million each in October 2011. The latest New York medallions, not including the cost of the cab, sold for \$1.05 million in July.

Hong Kong’s taxi prices are fanned by a limited supply held constant since 1994, the last time the [Transport Department](#) issued licenses. With 15,250 red, or “urban,” taxis on Hong Kong’s streets, the department will only “consider issuing new taxi licenses as and when necessary to ensure there is adequate taxi service to meet public demand,” according to Michael Kwan, a spokesman.

New York has 13,000 yellow cabs, and a cab ride [starts](#) at \$3.50, more than Hong Kong’s minimum [fare](#) of HK\$20 (\$2.60).

Tougher Financing

The government crackdown on real estate has made it harder and more expensive for investors to get financing to buy property, compared with taxis, Sintat Motors’ Cheung said. Banks including the Hong Kong units of [Industrial & Commercial Bank of China Ltd. \(601398\)](#), [China Construction Bank Corp.](#) and [Dah Sing Banking Group Ltd. \(2356\)](#) offer loans for the vehicles, he said.

Dah Sing offers as much as 85 percent financing, according to Karen Suen, a spokeswoman, who declined to give [interest rates](#). Spokesmen for the other two banks didn’t reply to e-mailed questions.

“The low cost of borrowing helped investors a lot,” said Chan Man-keung, the founder of Taxixchange, who started as a [taxi driver](#) in 1976 and bought his first cab three years later before going on to broker their sales. “The recent years are the best time for taxi-license trading in the past 30 years.”

Wong, the investor, said his interest rates are slightly below 2 percent on loans from HSBC and [China Construction Bank \(939\)](#) - - about HK\$13,000 a month for each taxi, leaving him with HK\$5,000 a month profit.

Floating interest rates for a home mortgage at [Bank of China \(Hong Kong\) Ltd.](#), the largest home-loan lender in the city, range from 2.4 percent to 3.05 percent, according to an e-mail response from Angel Yip, a bank spokeswoman.

“Every industry in Hong Kong may go up or down,” says Shek, the jewelry-store owner, “so it’s important to take the opportunity of the time and policy.”

To contact the reporters on this story: Emma Bi in Hong Kong at ebi4@bloomberg.net; Sheridan Prasso in Hong Kong at sprasso@bloomberg.net

To contact the editor responsible for this story: Andreea Papuc at apapuc1@bloomberg.net

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