Shanghai Fever

The city's real estate is booming. But this time around, I may not buy

BY WILLIAM GREEN SHANGHAI

THE DUMBEST INVESTMENT I EVER MADE WAS TO BUY AN APARTMENT IN MANHATTAN IN THE LATE '80S. Prices were soaring, and it seemed like an effortless way to get rich, so my brother and I pooled our money and bought a place for $327,000. Within 18 months, the market tanked and the apartment's value plunged by a third. By then our tenant—who turned out to be a coke-snorting stripper—had stopped paying rent. When I threatened to change the locks, she whacked me on the head with her handbag and warned, "I know people in this town, and you're going to end up at the bottom of the East River." She moved out the next day, but the investment remained a dud. After eight miserable years, we sold out at a loss of $17,000.

A few months ago, with memories of this debacle fading, my brother and I began to discuss buying property together again—this time in Shanghai. China's economy is growing at 9% a year, and Shanghai is the epicenter of the boom, yet apartments there still cost far less than in Hong Kong, Tokyo or New York City. That gap will close, says Marc Faber, an emerging-markets expert who writes a newsletter called the *Gloom, Boom and Doom Report.* "Eventually," he predicts, "Shanghai property prices will be higher than prices in New York."

We soon settled upon a strategy: find a luxury apartment in one of the best downtown areas, hire a property firm like Colliers International or Jones Lang LaSalle to manage it, then lease it to expats. (Locals, I was told, hate to rent.) "Go for a prime location in the city center," advised Wayne Zane, an analyst at Colliers. "In a downturn, it will be less affected." So I began touring apartments in buildings with names like Baroque Palace and Sea of Clouds Garden. The target zone: three downtown districts—Xuhui, Jingan and Luwan—that all seem certain to remain prime locations. It soon became clear, though, that everyone else got there first; foreign investors, mostly from Hong Kong, Taiwan and Singapore, have driven up prices at an astonishing rate. In some luxury buildings, prices surged 45% in six months, fueled by low mortgage rates, expectations among foreign buyers that China's currency will gain against the U.S. dollar and widespread fear of missing out on this bonanza.

Shanghai fever is especially acute in the trendy area of Xintiandi, where the elegant Lakeville apartments are probably China's most coveted properties. The next batch of Lakeville units isn't expected to be finished until mid-2006, but thus far well over 1,000 people have registered to be notified as soon as they go on sale. Shu Yin Lee, who runs a property syndicate that made millions of dollars by buying five Lakeville penthouses while they were under construction, says he gets calls every day from agents with clients eager to buy. But even after doubling his money, he is holding on, arguing that superluxury flats will only get more expensive as Shanghai becomes a "city where seriously rich people feel comfortable."

▲ Prices of apartments in Shanghai are sky-high. How much further can they rise?

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Still, at today's prices, Lee isn't buying. Nor am I. For those who have missed the joyride so far, it's hard not to be worried that the headiest gains have already been made. The most vocal doomsayer is Morgan Stanley economist Andy Xie, who has warned repeatedly—to the misfortune of those who have heeded him as prices doubled in just two years—about an ominous oversupply of apartments and the government's efforts to stifle speculation. Nonetheless, as Faber says, "you may overpay on a short-term basis, but real estate in China makes sense in the long term." Of course, the same was true of New York. If we had held on to that dud apartment for a few more years, it would now be worth about three times what we paid. In retrospect, buying it wasn't nearly as dumb as selling it. ■