

Hong Kong property market starts to cool

By **SONYA BRYSKINE**
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Hong Kong's property market has shown signs of weakness, after home prices dived 1.44 percent last week—the biggest weekly drop in 18 months.

The government has struggled to cool the market for months, as property prices have spiraled out of control. Since 2008, prices have jumped by an average of 41 percent, while investment hunger continued to grow.

The issue appears to lie in the supply-demand imbalance, with too few properties being present in the market and too many buyers seeking to purchase.

A massive influx of buyers from mainland China has been another cause. The Chinese stimulus package of November 2008 boosted liquidity, and cash-rich Chinese, facing restrictions on bringing out capital from China, bought properties in Hong Kong.

Hong Kong Island, Kowloon, and the New Territories all saw strong price increases in the first two quarters of 2009. The overall residential price index in Hong Kong rose 8.3 percent (8.4 percent in real terms) in the second quarter of 2009. But analysts say that new measures will have limited impact on property prices.

GOVERNMENT TRIES TO COOL

On May 12 the government pledged to inject land supply to cool the market. Bloomberg reports Financial Secretary John Tsang saying that Hong Kong may add as many as 60,000 homes over three to four years.

As a result, China's property prices may drop between 20 percent and 30 percent in the "next few quarters," according to Barclays Capital.

The Chinese regime may announce more measures to cool the housing market related to taxes and regulations, Wensheng Peng



The building at 35 Barker Rd. on Hong Kong's upmarket Peak on May 19. One of Hong Kong's richest tycoons has paid about \$233 million for a property in the city's upmarket Peak area, right before the market showed signs of a cool down. ANTHONY DICKSON/AFP/GETTY IMAGES

and Jian Chang, Hong Kong-based analysts, wrote in a note to clients, according to Bloomberg. They said housing price declines won't cause a hard landing for the economy, nor will it have much of an effect on the

banking industry.

China Vanke said its May sales fell 20 percent from a year ago to 5.1 billion yuan (about US\$746 million), according to a statement to the Shenzhen exchange yesterday. Sales

between January and May were 28 billion yuan (US\$4 billion), it said.

New rules for developers were also introduced last week, in an effort to curb inflated sales and making the market more transparent.

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to have sold a five-bedroom duplex, on the "68th floor" of the 46-story building for HK\$439 million (US\$57 million). The price, equating to US\$9,200 per square foot, set the new world record for the most expensive apartment.

In March 20, the development was once again the subject of controversy when it was revealed that, five months after signing sale agreements, only one sale had been completed within the commonly accepted three-month completion period.

However, under new guidelines for developers, it won't be able to aggressively market such units again.

Other measures in place include offering a price list for buyers three days before sales, and disclosing the selling price five days after the transaction, instead of a month.

The first government auction of this fiscal year, conducted on May 11, fetched HK\$3.42 billion for a site on Lantau Island, a third less than the median HK\$4.75 billion estimate of three surveyors compiled by Bloomberg.

Airline industry profits, but not in Europe

By **CAROLINE DOBSON**
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According to the International Air Transport Association (IATA), global airlines will be forecasting a profit of \$2.5 billion for 2010, which would be a complete turnaround from the March estimated figure of \$2.8 billion in losses.

The ash cloud from Iceland's volcano that grounded more 100,000 flights around the world has resulted in European airlines losing \$2.8 billion, IATA said.

"The global economy is recovering from the depths of the financial crisis much more quickly than could have been anticipated. Airlines are benefiting from a strong traffic rebound that is pushing the industry into the black," IATA CEO Giovanni Bisignani said in a statement at the organization's annual meeting in Berlin. "Airlines are benefiting from a strong traffic rebound that is pushing the industry into the black."



Lufthansa and British Airways passenger jets taxi onto the runway before taking off from London's Heathrow Airport on May 24. ADRIAN DENNIS/AFP/GETTY IMAGES

The gains in 2010 will be a dramatic change to the losses that have occurred over the last two years. This marks the first profit for the airline industry since 2007 given the impact of recession, terrorist threats, epidemics, and warfare. Nevertheless, the outlook for Europe appears to be a continual downward trend for 2010.

The international industry trade group of airlines reported that

passenger traffic has jumped 7 percent and cargo traffic has grown 18.5 percent, which is directly related to companies moving and restocking inventory. Moreover, fares are predicted to rise by 4.5 percent for passengers and cargo business.

A notable change is also premium travel, which had taken a dive with high-end boutique airlines defaulting and business travelers opting to

rely on thrifty alternatives.

"Luxury air travel has essentially been grounded," said Peter Yesawich, CEO of the travel marketing company Ypartnership, in an interview with Reuters. "One of the first prerequisites to go in a tough economy."

It seems the larger brand names such as Delta Airlines and British Airways are investing in facilities such as onboard showers, flat seats for sleeping, and Internet access in order to attract business travelers.

However according to the IATA, demand for high end travel is beginning to show signs of improvement in various regions.

The ongoing strikes that British Airways faces, which cost an estimated \$10.1 million per day, will be a drag on the company's finances. The financial drain will no doubt dent the company's financial health. The ongoing saga over pay and work conditions has been a lengthy process for Britain's flagship airline.

Microsoft could buy AOL

By **ANTONIO PEREZ**
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NEW YORK—According to a report, New York-based web marketing and Internet service firm AOL is attempting to find a buyer in one of the biggest technology companies in the world: Microsoft Corp.

AOL CEO Tim Armstrong told conference goers at the D8 Conference last week that the company, which currently outsources its search service to Google Inc., is looking for a new search deal. However, a company source told Forbes that Armstrong is not looking to negotiate a new search engine deal, but a new buyer for the entire company, and that Microsoft is one of the top partners.

This isn't the first time AOL has looked for an acquisition partner. In early 2008, the company almost inked a deal with Yahoo! Inc. before that deal

fell apart during negotiations. AOL spun off from parent Time Warner Inc. last December to become a separate publicly traded company, ending the ill-fated eight year merger consummated by then-AOL Chairman Steve Case.

Analysts covering Microsoft feel that a deal isn't out of the question, although any interested party would like to see AOL make some headway in its financial restructuring. Microsoft is looking to gain market share in the search engine market away from rival Google, and AOL is one of the only large players on the block.

Others feel that AOL's recent history and its declining market share may not be worth it for Microsoft. After all, Time Warner had tried to find a buyer for AOL for years prior to its spin-off as a public company.

A representative at AOL declined to comment on the report.

GM recalls 1.5 million vehicles

By **IAN RITZ**
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General Motors Company this week announced a major recall of 1.5 million vehicles deemed to contain a fire hazard stemming from faulty windshield-washer components.

The recall includes trucks, SUVs, and cars that span model years 2006 to 2009. The vehicles could be subject to possible fire caused by malfunctioning components that heat up windshield fluid to aid operation in cold weather.

Vehicles included in the recall are the Buick Lucerne, Cadillac DTS, Hummer H2, Buick Enclave, Cadillac CTS, Cadillac Escalade, Escalade ESV and EXT, Chevrolet Avalanche, Silverado, Suburban, and Tahoe. Also included in the recall are the GMC Acadia, Sierra, Yukon, and Saturn Outlook.

Of the total number of vehicles recalled, 1,365,070 were sold in the United States while 98,794 were sold



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in Canada. Also included are more than 60,000 vehicles sold in Mexico and abroad.

"While our analysis shows the

number of incidents is very small compared with the number of vehicles on the road, we want our customers to have complete peace

of mind. We always want to make sure customers can count on the safety and quality of their GM vehicle," said GM representative Jeff Boyer in a statement.

GM is offering to remove the faulty windshield wiper heating components, and pay each car owner \$100 to reimburse them of the lost functionality. The components cannot be repaired as their manufacturer, the Farmington, Mich.-based Microheat Inc., no longer makes such systems.

No injuries or deaths have been reported at this time. GM owners who are concerned with their vehicles can contact the company directly at 1-800-323-9935 or check local listings for GM retailers in their area.

The statement from GM followed a recent recall by Chrysler Group of more than 600,000 Jeeps and minivans due to leaky brake lines leading to possible fires. GM announced a similar recall previously in 2008.

The Euro's downslide continues

By **CAROLINE DOBSON**
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The European single currency has continued its downward slide with a 7.7 percent drop against the dollar in May, which marks its sixth consecutive monthly fall and the largest percentage fall since January 2009.

"Confidence in the euro remains low as the region's credit problems show no signs of a resolution," said Masahide Tanaka, a senior strategist in Tokyo at Mizuho Trust & Banking Co., a unit of Japan's second-largest banking group in an interview with Bloomberg. "The euro will remain under selling pressure."

The international credit rating agency, Fitch Ratings, announced on May 28 that it downgraded Spain's AAA credit grade, stating that the nation's debt burden will stunt its economic growth. On May 10 European leaders decided that an estimated \$1 trillion package would be devised to correct the region's debt crisis. Spain had maintained its top rating since 2003.

The downgrade "reflects Fitch's

assessment that the process of adjustment to a lower level of private sector and external indebtedness will materially reduce the rate of growth of the Spanish economy over the medium term," according to the ratings company.

The viability of the 16-nation currency is becoming controversial, given the poor health of the Greek economy that proliferated the rest of Europe—including Germany, which has also taken its toll. German Chancellor Angela Merkel's recent warning sent shockwaves around the world when she described the "current crisis facing the euro [to be] the biggest test Europe has faced in decades, even since the Treaty of Rome was signed in 1957," she claimed in a speech in Parliament, referring to the treaty that created the European Union.

"This test is existential and it must be overcome. ... If the euro fails, then Europe fails," Merkel added.

Given the importance of the survival of the euro that remains to be seen is the continual decay of the euro's value and the gradual domino effect on major European economic players.