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REAL ESTATE

Why Shenzhen not Hong Kong is luxury's new golden ticket

June 7, 2021

In the 1980s, Shenzhen was a forgotten fishing village. But today, it is challenging Hong Kong as China's top luxury hotspot. Image credit: Shutterstock

By Adina-Laura Achim

In the 1980s, the coastal city of Shenzhen was a forgotten fishing village. But today, it is China's "Silicon Valley," a reputable, futuristic metropolis, and a marvel of modern design.

Shenzhen has become home to tech giants such as Tencent, ZTE and Huawei. It is also regularly featured on the news thanks to deals such as the one Semiconductor Manufacturing International Corporation (SMIC) agreed upon with the local government to build a new factory there for $2.35 billion.

In past decades, Shenzhen has attracted young, brilliant minds and top earners to its shores, transforming the city into a cosmopolitan business and luxury hub. But its geographic proximity to sparkly and sophisticated Hong Kong and its unprecedented freedoms has been both a blessing and a curse.

Until recently, Hong Kong was the darling of international investors, high-net-earning mainlanders and global luxury aficionados. But protests, civil unrest and the rampant COVID-19 crisis have left Hong Kong too high of a risk, and the former luxury hotspot is losing its cache. That means Shenzhen is now well positioned to steal the luxury crown from its neighbor.

Let us take a look at why luxury brands should now focus their efforts on Shenzhen instead of Hong Kong.

Hong Kong is a saturated market
Operating a luxury business in Hong Kong means navigating the risks of doing business in a mature, largely saturated luxury market.

Luxury brands in Hong Kong must constantly reimagine their marketing strategies and reinvent their businesses. Naturally, this process of constant overhaul is costly and time-consuming and does not necessarily bring massive value to a brand.

Conversely, Shenzhen still has not reached high-saturation levels.

Moreover, as a dynamic city, Shenzhen attracts an emerging class of tech professionals who belong to an optimistic, highly educated and affluent consumer bracket.

Aspirational consumers, who are optimistic about their financial situations and the economic outlooks, tend to spend more.

It helps that Shenzhen has introduced a set of measures for boosting consumer spending at the local government level.

For instance, *Shenzhen Daily* highlights how the government offered 2 million yuan in subsidies for shopping festivals and tourism activities registered in the city's consumer promotion plan.

Additionally, large retail businesses that relocate their headquarters or moved to Shenzhen can get large incentives such as a 0.5-percent reward that is based on the number of sales that exceed 500 million yuan ($71.2 million).

By contrast, civil unrest destabilizes consumer sentiment.

Unsurprisingly, consumer confidence in Hong Kong decreased to 62.40 points in the first quarter of 2021, down from 64.10 points in the fourth quarter of 2020, according to Trading Economics.

Shenzhen's meteoric economic rise versus Hong Kong's huge economic slump
In 2018, Shenzhen's GDP overtook Hong Kong's for the first time.

Although the Hong Kong economy returned to growth after six straight quarters of contraction, and its GDP rose 7.8 percent over the first quarter, its road ahead is still bumpy.

Hong Kong's reputation as a safe haven has been tarnished, and overseas investors and wealthy mainlanders now shy away from the city. Even the commercial property market is cooling off, with luxury and premium brands switching to short leases and pop-up stores.

By contrast, Shenzhen is booming with private enterprises and opportunities. And of all Asia-Pacific metro areas, Shenzhen ranked in the top five for commercial real estate sales during the pandemic-ridden first quarter of 2020, according to research by Real Capital Analytics.

Commercial sales volume in Shenzhen during the first three months of 2020 reached $1.9 billion, which was more than 20 times its 2019 figure and was the city's highest-ever total for a first quarter, says Mingtiandi, a leading Asian source for real estate news.

Government policies
Last October, China's President Xi Jinping announced a plan to give Shenzhen greater autonomy over land use, technology, innovation, its big data economy, and hiring professionals, the *South China Morning Post* reported.

China's Ministry of Commerce (MOFCOM) has also announced that it will lift Shenzhen's restrictions on foreign ownership in telecommunications services. Therefore, foreign investors should seek out these preferential policies and the city's more transparent and less restrictive business environment.

Shenzhen has also obtained permission to offer tax breaks to overseas and local tech talents and relax visa restrictions to attract and retain valuable international talent.

For obvious reasons, we forecast that these new reforms will turn Shenzhen into a top-performing economic zone in Asia.

Accordingly, luxury brands should start preparing for a period when Shenzhen will become a regional luxury hub.

Reallocating marketing resources in the region and launching market-specific products and services appears to be a good starting point.

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