



Real Estate and Your Brain

房地產與您的腦袋

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Our group:

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Quick Survey:

- 1) Want to buy a home or invest in real estate?
- 2) Is China real estate generally expensive?
- 3) Is China real estate overpriced?
- 4) Thinking of entering the real estate industry?



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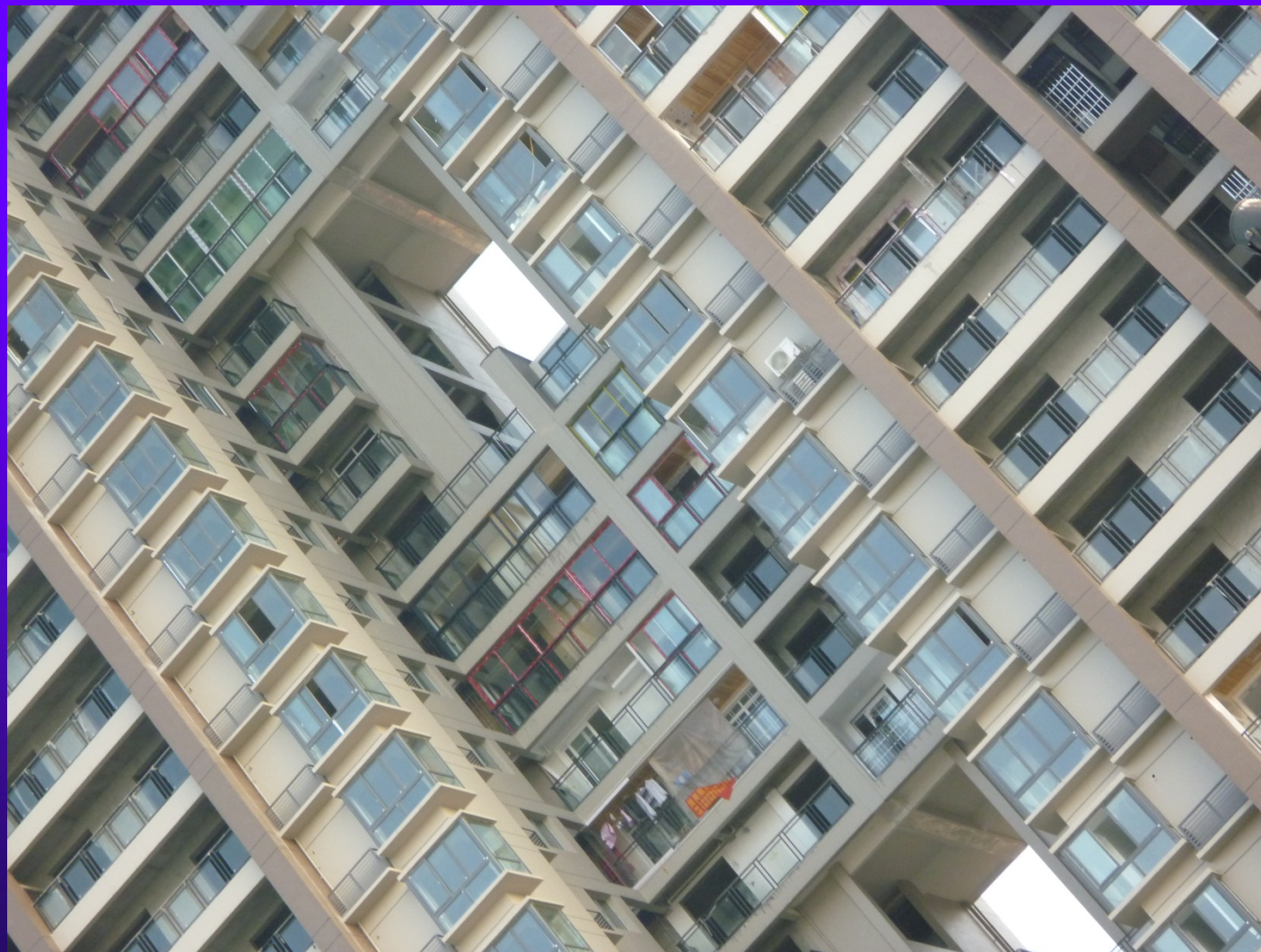
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Guess what the talk will be about:

- 1) Giving you a good understanding of real estate?
- 2) Teaching you to be a smarter investor in real estate?
- 3) Letting you be aware of your brain and how it may help or deceive you?

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Aspects of Real Estate:

- 1) Physiological = e.g. residential is shelter, office is workplace, retail is trading place, industrial is production facility...
- 2) Psychological = e.g. bigger and pricier homes to show off wealth and status...
- 3) Property Rights = ownership, possession, use, enter, exit, lease out, sell...without (3) no real estate market as we know it



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A) Prices = past, present, and future;
collection; compilation; comparison;
analysis; projection...

B) Finance = liquidity; deposit rates;
interest rates; mortgage rates; currency
exchange rates; capital controls; capital
accounts; M123...

C) Economics = population, income-wealth,
distribution, demographics, taxation,
education, governmental system, social
characters, societal trends...



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I) Investment Return AND Risk = Return TO Risk Ratio => best possible return for any given level of risk (efficient frontier)

Risks = market; policy; project; finance; people...

II) Investment Allocation = e.g. less Shanghai but more Chengdu; less residential but more office...(Macro)

III) Investment Selection = e.g. project A or B...(Micro)



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Real Estate Participation:

i) Development = planning, site acquisition, design, construction, project management, cost control, completion, why bother?

ii) Investment = real estate funds, REITS, pension funds, hedge funds, HNWI's...

iii) Management = project, asset, facility, and property management

iv) Agency = buy, sell, rent, lease

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Once, a Toronto-based real estate developer told me "Life is a gamble"...

- 1) Despite rocket science investment models, no sure-win fool-proof formula yet
- 2) Known, unknowable known, known unknown, unknown unknown => **Black Swan...**
- 3) Analysis is to improve the odds via a) better understanding; b) probabilities



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Compared to the 1980s and before...real estate has now become:

- 1) More driven by (global) liquidity
- 2) 'Timing, pricing, and selecting' versus the old 'Location, location, and location'
- 3) More accepted into institutional investment portfolios

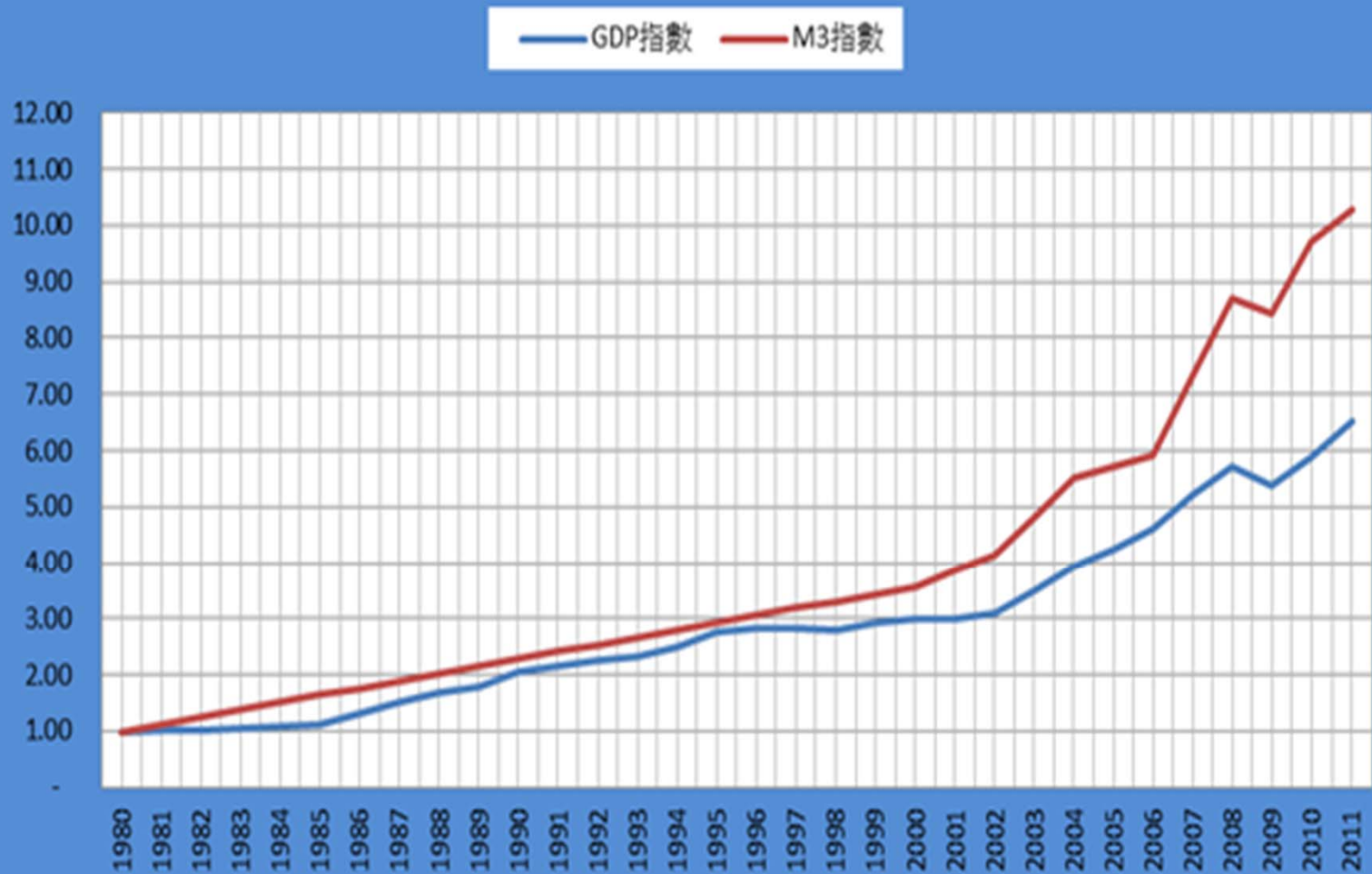
Simple reason = liquidity explosion



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全球GDP及M3增長指數(1980 = 1.00)





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Not saying fundamentals such as demand, supply, absorption, income, employment, interest rates, demographics etc. being unimportant...

Just that immense liquidity can sometimes override their effects, positively or negatively => China RE price jumps after 2008, HK's recent RE price surge

From 1970s depletion of the gold standard to the recent 21st Century QE1, QE2...too much money?



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The 2008 Tsunami is not over yet...

EU = done deal; Germany will become more dominant (read European history)

USA = buying time with more \$ => if it slumps further, a good bet! Don't think it will look like Japan...the culture is different

Japan = will be good when the old folks die

China = beware of hard landing! But will survive even if this happens...



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Real estate opportunities?

USA = Las Vegas, dropped the most, a destination city, a recovery bet; New York, monitor; California, basically bankrupt – hefty municipal debts – beware!

China = monitor price drops and invest long term as a long term (10 year) growth story

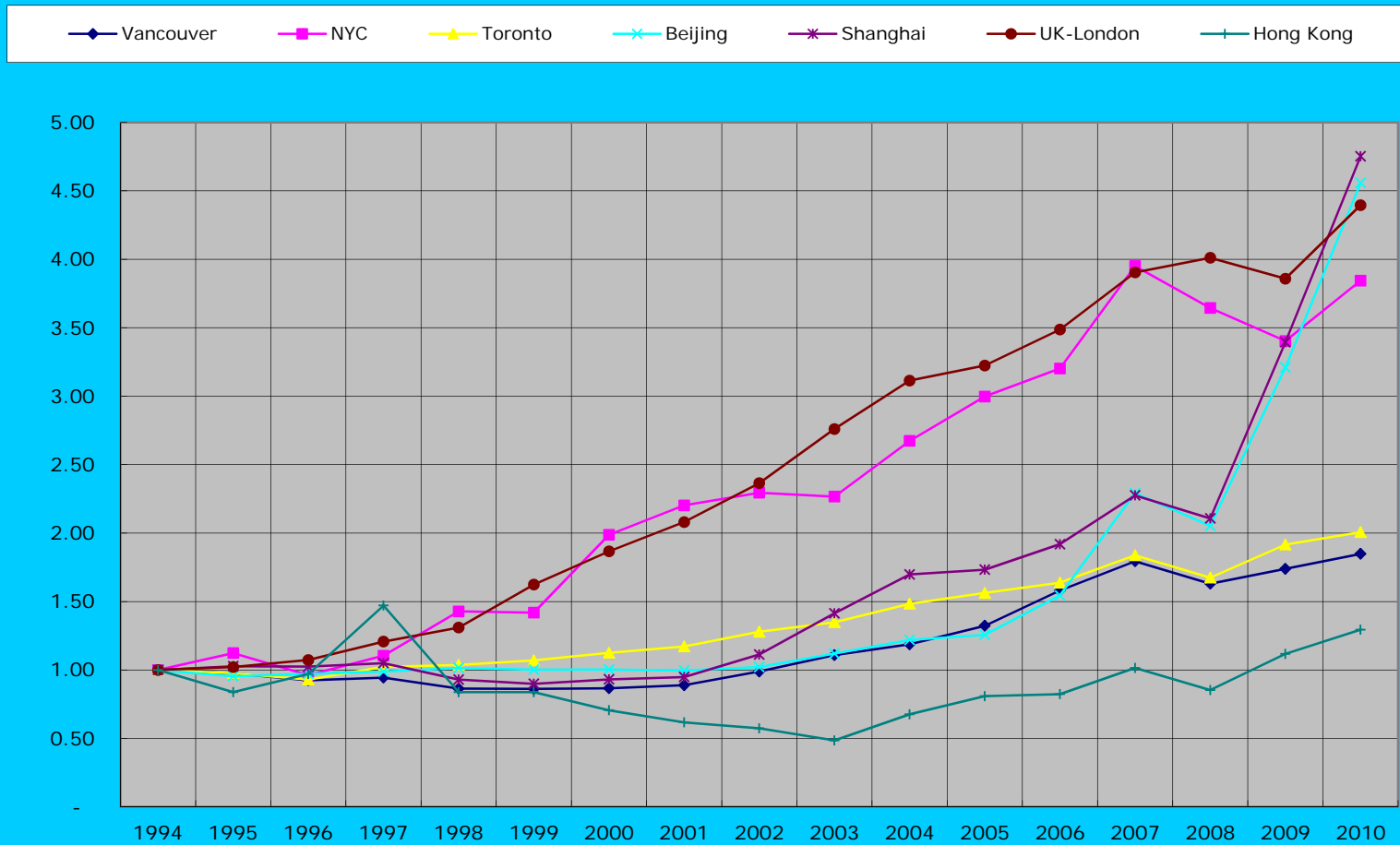
Hong Kong = not good for long term hold, good for short term speculation

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Residential Price Indexes (1994=1)





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Smashing these *myths* to make you smarter:

**1) *Land prices up, real estate prices also up*
= the opposite is true (Residual Land Value)
= Land prices also tend to drop and rise
more than real estate prices**

**2) *Real estate is unique* = but it is also
highly substitutable (if not, how can you
price it?)**

**3) *Urbanization raises real estate prices* =
it alone cannot sustain real estate prices!**



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Tips to make you invest smarter:

1) Learn to control your brain (腦袋) with your mind (意識) = really think! And independently

2) Try not to count your home as a real estate investment (home needs may not match investment needs)

3) Don't always follow the crowd = playing with them sometimes is ok, at other times against

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Your brain...among other things:

1) Tends to delude you (and others)

<http://www.youtube.com/watch?v=dAljJfR3HZ0> (Robert Trivers)

2) Tends to over-emphasize recent events
(and may tone down things which matter)

3) Tends to be irrational

<http://www.youtube.com/watch?v=JhjUJT-w2i1M> (Dan Ariely)



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Not so much rationality versus irrationality

Humans, aka homo sapiens, need both to survive and without one or the other, we might not have thrived to date

It is a matching issue...

E.g. be more rational when investing and more irrational when holidaying (so as to enjoy the moment, let your senses fly etc.)



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Why do
people

buy homes?



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For:

- 1) Investment? As savings?
- 2) Family members, especially kids?
- 3) Warmer family feelings?

Does that mean renting does not offer a warm family feel?



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Or perhaps more hidden / subtle:

A) Keeping up with the Joneses? 人有我有，跟紅頂白？

B) Vanity? 榮耀財富地位？

C) For Sex? According to Freud 為增性吸引力？
佛洛伊德



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Real estate marketing has gone from:

1) Describing the technical details and property features

To

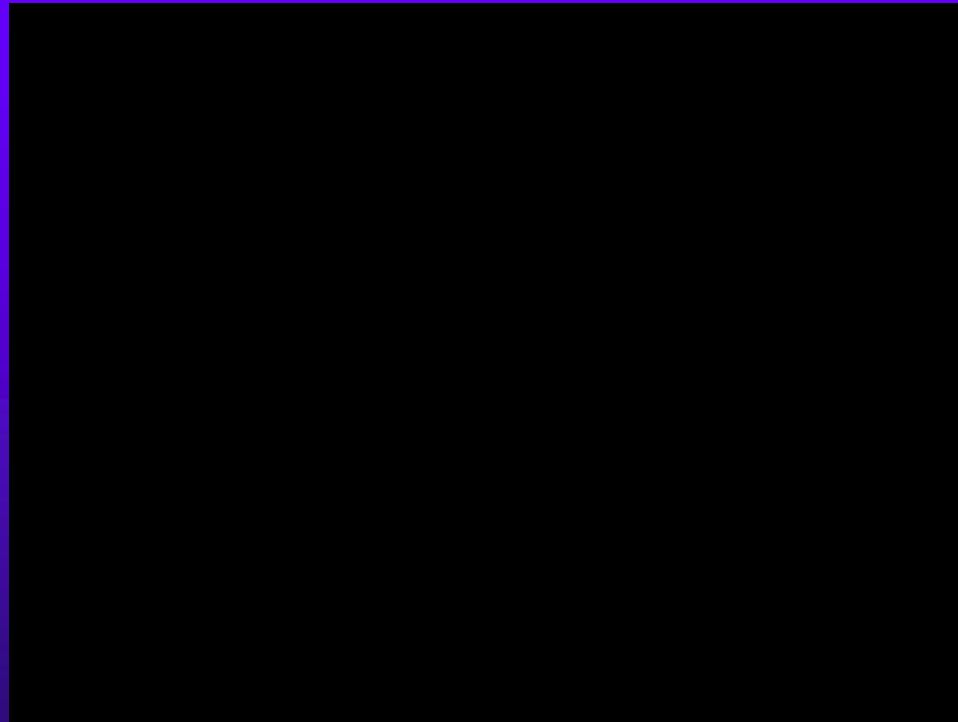
2) Creating a feeling of warmth, success, or class and good taste...at times without a clear idea of where the property is located



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A 1980s real estate ad

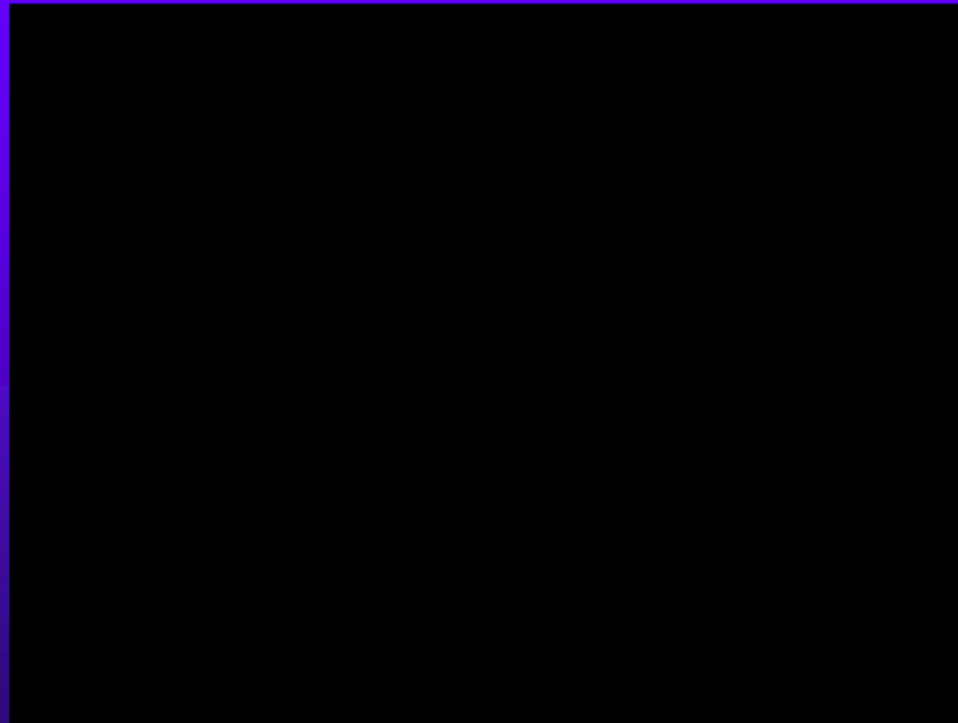




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A more recent real estate ad





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Suggestive reading:

Black Swan by Nassim Nicholas Taleb

The Big Short by Michael Lewis

The Upside of Irrationality by Dan Ariely

And my articles in the Hong Kong Economic Journal and Apple Daily



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Thank you 謝謝來臨