Judging Real Estate Market Prospect by Response to Government Land Auctions could be Misleading

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Here are the reasons why:

a) **The market and the auction participants (e.g. real estate developers) can be wrong**: no matter how good one's analytical systems, calculating methods, input data, past experiences or business instincts are, there is always a certain portion which cannot be reasonably foreseen. Surprises, which may be good (exceeding original estimates of profit) or bad (way below original estimates of return), are sometimes unavoidable.

b) **What the market and its participants now think has NO bearing on future price trends**: Future price levels are determined by the "then" factors be they macro or micro, and economic, social-cultural or administrative-political. Purchasers will pay the "then" market prices irrespective of what the developer has paid for the land in previous time. Of course, one may argue that a participant would try his or her best to influence the market to safeguard his or her project's profitability. However, compared to the "market" forces, this usually would be quite minute.

c) **A poor response does NOT automatically imply a pessimism among the participants**: It is not uncommon for participants to have decided in their minds a ceiling bid price beyond which they would refrain from further bidding prior to the auction. However, whether this ceiling needs to be "used" depends on the degree of competition. If bidding is sparse, the willing participant will win the bid with a perhaps a much lower offer price yet this would have hidden his or her more optimistic views of the prospective market.

d) **Publicly listed companies generally need to show a more steady and stable real estate development (production) plan and schedule**: As most of the prominent real estate developers are publicly listed, and assuming the maintenance / growth of share value is an important concern, their decisions in acquiring land would involve a broader spectrum of factors. Maintaining a viable development land bank and schedule is one i.e. if the land bank is low, a developer will need to buy some land even if the price level may not be most favorable in order to replenish its land stock and vice versa.