

## Private Sector Home Price is a Middle Class Confidence Issue

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Recently, home prices have gone down and are still under pressure. Some blamed the interest rate hikes, while others took the opportunity to urge the government to drastically reduce (or even eliminate) the Home Ownership Scheme (HOS) projects. While these may have been part of the reason, **the continued demise of the middle class is the real cause**. Notwithstanding a lucky few, most have encountered the following since the Asian financial crisis and the on-going economic restructuring:

- a) **Net wealth (worth) decreased** = as the middle class like (or liked) to own properties and with properties trading at around 55% of peak levels, most ended up being poorer. In extreme cases this could even be negative.
- b) **Income and job security decreased** = while those who have lost their jobs will have to tighten their belts, those who retain theirs may see, imagined or real, reduced incomes, job losses and the like. Overall, this reduces their propensity to spend, invest and consume.
- c) **Lack of future vision** = while economic sentiment has somewhat improved recently, to the middle class especially those of 40 or above, the "light at the end of the tunnel" is either non-existent or too dim, irrespective of whether this is justified or not. The current high-tech and web boom also do not relate much to them.

**Home prices reflect (NOT lead) the economy**. Economic performance depends on the "income / revenue generating – earning ability" of the (working) population, which in turn depends on them by and large having the right "competitive" set of skills, knowledge, resources, and systems catered to meeting the needs of modern high-added value market economies. This comes about only when (1) the current population including the middle class acquiring such skills and aptitudes, and/or (2) there is a new breed of "competitive and competent" middle class participants to replace / replenish some of the existing participants. In any event, this takes time and only until then will there be a solid platform for home prices to recuperate.

Hong Kong is still being restructured and if successful, and there is a reasonable chance for that to be achieved based on the North American experience, the economy and the price of assets, including real estate, will recover. Decreasing

supply, e.g. via reducing / canceling the HOS projects, may only achieve limited effects as this may be a symptom and not a major cause.

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