

Price Reduction May Not Always Be Effective

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Generally speaking, a price reduction will induce more transactions. Nonetheless, this may only be effective up to a certain degree beyond which sales volume will only edge up very slightly at best, unless drastic reductions are made. This phenomenon seemed to have emerged in some sectors of the residential market recently. Some of the possible reasons may be:

- a) **The middle class is either still “licking their wounds” or adopting a “wait & see” attitude** = the private residential market in large part depends on the well being of the middle class. At present, this strata of the community collectively is still trying to recuperate from the financial turmoil in the late 90s, and this means they will be very cautious in terms of spending and investing, especially with large ticket items such as real estate. In short, they do not have either the means or the wish (or gut) to enter the market.
- b) **Prospective buyers collectively are either expecting prices to drop further or procrastinating** as they are not sure which way prices will go = at such juncture, further price reductions may actually reinforce such views.
- c) **Real Estate is NOT just a “commodity”** (which can be used e.g. as a residence), but is also an “asset” (which can bring in an income e.g. a monthly rent, or appreciate in value) as well = for a pure (consumable) commodity, the traditional “price mechanism” theory applies, i.e. the higher the price, the fewer the sales, and vice versa. However, this may not apply to assets. For instance, people will chase after a rising stock and stay away from a falling one though its stock price may have gone down drastically. As real estate has a high “asset” content, the behavior of its market participants will be quite similar to that of stock buyers.
- d) **The recent increase in interest rates might have offset any financial benefits** brought about by price reductions = thus the lure to prospective buyers has not actually increased by much.

Based on the above, perhaps it could be speculated that the pool of buyers / investors who are financially capable and more optimistic of the market have by and large emerged, unless more drastic price cuts are taken. Also, it may signify a slow but increasing trend toward seeing real estate (a bit more) as a commodity rather than (almost) a pure asset play.

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