

"85,000": Barking Up the Wrong Tree

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Recently, there seems to be quite a lot of controversies in town including the debate on and the eventual demise of the "85,000" (output of residential units per year) housing production target. Many, especially the middle class homeowners, felt that this target was the cause of their real estate plight (50% of the value on average had been slashed since the peak in 1997) and thought / hoped its de-emphasis would rejuvenate the residential market (prices). This feeling is highly understandable yet it may be misplaced. Some of the reasons are:

- **Real estate prices would go down anyway with or without the "85,000" target during the Asian Financial Crisis** = the forces and their impact then were so intense and great (to Asian economies) that the production target would have mattered little. Ironically, this production target i.e. a policy change might have saved some investors from putting their money into real estate when prices had dropped only 20-30% in early 1998 (as past i.e. pre 1997 real estate cycles started to bottom out at these levels).
- **Supply is NOT the only factor affecting home prices** = there are many others such as income growth, tax policies, wealth distribution, demographics and so on which may exert an even higher impact at times. Also, each factor's influence (or its impact) changes with time and circumstances. For example, a tight supply may very well push prices further up in a heated economy while stopping all building activities (naturally this is hypothetical) may not even save a market when times are tough.
- **The ability to "earn" and create "wealth" (value)** (a high income relative to other economies) is perhaps, IF only one factor is to be named, the most important in determining the level and speed to which home prices would recover (or decline) in the long run. This applies especially to the middle class' mass private housing sector. This in turn relates to having the best combination of marketable skills (including languages), knowledge, experience, aptitude, creativity, presentational skills, flexibility and so on, whether assessed on a nominal or relative basis, required in a highly competitive global / regional environment.

The government, being the largest land supplier, will always have a hard-to-ignore influence on the market. It can be proactive e.g. developing its own stock and attempting to steer prices, or passive e.g. supplying land constantly

irrespective of market conditions and letting the market decide. Each benefit some while may create problems for others, yet having a consistent policy is also vital. However, those favoring the scraping of the homeownership schemes with a view that this will stabilize or even enhance home prices is barking up the wrong tree.

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