

# Zeppelin's Real Estate Tech

1Q 2013: A Real Estate Newsletter by Zeppelin Real Estate Analysis Limited

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There were changing of the guards in China, the USA, and Japan, with the latter appearing to want to ditch her strong Yen. Also, the US Congress avoided the cliff, at least for now, and Europe is still messy. Meanwhile, back at the ranch, oops, we mean Hong Kong, property prices are still trending up despite weaker volumes. In this issue:

- **Hong Kong Residential: Compare Using Usable Floor Area Unit Prices**
- **China 3<sup>rd</sup> Tier Cities Demonstrate the Power of QEs and Urbanization**
- **Liquidity, De-Compartmentalization, and Incorporation: Choose 2 Not All 3**

**"Money makes the world go around...the world go around...in cycles and circles"**

We would also like to hear from prospective readers / writers who wish to share their real estate experience with us.

**This quarterly (generally published in January, April, July and October) newsletter** is circulated freely via email to over thousands of readers comprising real estate developers, investors, fund managers, financiers, owners, users, top executives, senior managers, prominent academics and related professionals from Hong Kong and abroad. Our content is / has also been published in newspapers and web portals such as the [South China Morning Post](#), [China Daily](#), [Hong Kong Economic Journal](#), [21<sup>st</sup> Century Business Herald](#), [Apple Daily](#), [Sing Tao](#), [Quamnet Magazine](#), [The Standard](#), [MITCRE Alumni Newsletter](#), [Surveying Newsletter](#), [Reidin.com](#), [Centanet.com](#), [Netvigator.com](#), [Hongkong.com](#), [E-finet.com](#), [Red-dots.com](#), [PacificProperties.net](#), [Soufun.com](#) and [House18.com](#). We had also been quoted in the [Asian Wall Street Journal](#) and interviewed by [USA Today](#), [i-Money](#), [Ming Pao](#), [Radio Hong Kong](#), and [Commercial Radio](#). We also publish monthly articles and analyses in the months in between. This newsletter is now into its [17<sup>th</sup> year](#) and [66<sup>th</sup>](#) issue.

**We also operate a website [www.real-estate-tech.com](http://www.real-estate-tech.com)** through which we intend to share some of our real estate knowledge and ideas with interested parties. There are close to 1,000 content items, in English or Chinese, including analyses, articles, charts, and tables, plus spreadsheets, tutorials, e-books, and the like, the majority of which is free with some requiring a token fee. The website is regularly visited by thousands from all over the world and focuses on China / Hong Kong real estate markets.

**Zeppelin Real Estate Analysis Limited** is involved in real estate development, investment, and management with a focus on [independent real estate analysis](#). Together with Zeppelin Property Development Consultants Limited, we offer services related to [real estate asset management](#) [analysis, investment strategy, and portfolio allocation], [project management](#) [architectural design, cost control, and contract administration], and [facility management](#) [facility utility assessment, facility strategy, and building maintenance]. We are part of the Zeppelin Group headquartered in Hong Kong with office operations in Mainland China and we also have access to networks covering Asia, North America, and Europe.

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Real Estate Website Developer, [www.Real-Estate-Tech.com](http://www.Real-Estate-Tech.com)

**Stephen is an independent real estate analyst and chartered surveyor** and has been involved in real estate development, investment, and management in Hong Kong / China / Asia and North America.

**Stephen provides relevant real estate market insights and macro-micro assessments** to real estate developers, investors, owners, financiers, funds, and civic organizations, and possesses many years of experience in building economics, project management, facility strategy, marketing, and research.

**Stephen is also a real estate writer** and his articles have been published in both English and Chinese media including the following:

- China Daily
- Hong Kong Economic Journal
- South China Morning Post
- Apple Daily
- Quamnet Magazine
- Real estate and finance websites such as Soufun.com, Finet.com etc
- Journals of professional institutes such as the Hong Kong Institute of Surveyors

**Stephen is also an honorary adjunct professor** with the University of Hong Kong and the City University of Hong Kong and has been invited to speak to audiences from:

- Universities: such as the University of Hong Kong, City University of Hong Kong, York University
- Professional Institutes: such as the Hong Kong Institute of Surveyors, Canadian Institute of Quantity Surveyors, Royal Institute of Chartered Surveyors
- Business Associations: such as the Rotary Clubs

**Stephen has to date compiled 2 books**; one online and one in hard copy format. Both are published in Chinese (with the titles translated into English below):

Online book = Easy Real Estate Lectures

[http://www.real-estate-tech.com/eBook/zeppelin\\_ebook.htm](http://www.real-estate-tech.com/eBook/zeppelin_ebook.htm)

Hard Copy = Real Estate Investment Know-How above 101

<http://www.edpress.com.hk/Product.asp?id=6282>

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**Our services can be obtained and delivered via** a) tailor-made professional consultation; b) online report purchases; c) emailed discussions and advice; and / or d) phone discussions.

## Hong Kong Residential: Compare Using Usable Floor Area Unit Prices Real Estate Tech, 1Q 2013

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No more guessing which housing estates are priced higher or lower

Before the introduction of regulations requiring developers to quote unit floor area prices on a usable floor area basis (counting only the square footage exclusive to a unit), it was hard to tell for sure that a project averaging, say, HK\$10K / gross ft<sup>2</sup> is really lower than a competing project asking for HK\$12K / gross ft<sup>2</sup> on average. Changing these into usable prices per ft<sup>2</sup> sometimes, not always, reverses the ranking.

Today, even secondary residential markets offer the usable price per ft<sup>2</sup> alongside the traditional gross (or building) price per ft<sup>2</sup> for many of the existing housing estates. For instance, one can refer to the Centaline website:

[http://hk.centadata.com/cci/cci\\_e.htm](http://hk.centadata.com/cci/cci_e.htm)

Your humble author has collected the unit floor prices (3Q 2012) in both usable and gross bases on 100 popular private residential estates and ranked the estates from the highest to the lowest under each unit floor price category. Here are the findings (refer to the table below and pardon us for not providing the English names of the estates):

**A) Of the 100 estates, only 21 have the same ranking in both usable unit price and gross unit price categories** = that is, the rest have different rankings in the two unit price categories; some have a higher ranking in gross unit price while others have just the reverse.

Color codes: note we have colored the 21 same ranking throughout estates in yellow; green means the difference in rankings go no further than 3 up or 3 down, and reddish-orange signifies estates which rankings are at least 10 places apart, up or down.

**B) Stating the obvious** = in general, an estate with a low usable to gross floor area ratio (also referred to as the efficiency ratio) will likely have a higher ranking in the usable unit price column than in the gross unit price column, and an estate with a high usable to gross floor area ratio will likely have the reverse.

For instance, 太古城 which has a high efficiency ratio ranks 26<sup>th</sup> in the usable category versus its 22<sup>nd</sup> place in the gross category, whereas the low efficiency 新都城 ranks 47<sup>th</sup> in usable, a noticeable distance from its 56<sup>th</sup> gross rank.

Ranking - based on HK\$ / Gross ft2	Usable / Gross Ratio	Estates	HK\$ / Gross ft2	Estates	HK\$ / Usable ft2
1	0.76	禮頓山	25,778.00	禮頓山	33,714.30
2	0.78	帝景園	22,744.70	帝景園	29,057.70
3	0.83	嘉富麗苑	21,770.30	凱旋門	27,931.70
4	0.75	凱旋門	21,015.00	嘉富麗苑	26,072.40
5	0.80	嘉雲臺	19,767.50	嘉雲臺	24,847.10
6	0.79	地利根德閣	19,348.80	地利根德閣	24,505.80
7	0.80	陽明山莊	16,387.10	擎天半島	20,660.50
8	0.76	擎天半島	15,601.60	陽明山莊	20,479.90
9	0.77	貝沙灣	15,479.70	貝沙灣	20,214.80
10	0.82	比華利山	14,721.10	會展中心 會景閣	18,863.00
11	0.82	雍景臺	14,477.70	比華利山	18,053.50
12	0.74	會展中心 會景閣	13,913.20	寶翠園	17,716.60
13	0.78	寶翠園	13,843.80	雍景臺	17,604.80
14	0.74	尚翹峰	12,844.90	尚翹峰	17,325.40
15	0.78	漾日居	12,808.80	漾日居	16,333.00
16	0.76	逸濤灣	11,794.00	逸濤灣	15,583.30
17	0.75	嘉亨灣	11,609.20	嘉亨灣	15,536.96
18	0.75	泓都	11,163.60	泓都	14,940.70
19	0.74	2景灣 / 帝?海灣	10,891.70	帝后華庭	14,779.40
20	0.81	光明臺	10,839.20	2景灣 / 帝?海灣	14,657.00
21	0.80	又一居	10,751.60	維港灣	13,484.50
22	0.87	太古城	10,700.20	光明臺	13,442.10
23	0.88	碧瑤灣	10,544.90	又一居	13,442.00
24	0.70	帝后華庭	10,279.60	海逸豪園	13,248.40
25	0.77	海逸豪園	10,219.00	深灣軒	13,176.30
26	0.75	維港灣	10,099.70	太古城	12,254.00
27	0.87	觀景灣	10,093.90	港輝城	12,042.70
28	0.87	和富中心	10,083.30	碧瑤灣	11,927.20
29	0.76	深灣軒	9,962.42	藍灣半島	11,639.10
30	0.89	城市花園	9,688.05	觀景灣	11,598.20
31	0.79	港輝城	9,561.22	和富中心	11,581.10
32	0.80	海怡半島	9,163.22	海怡半島	11,466.80
33	0.87	黃埔花園	8,932.45	港灣豪庭	11,323.40
34	0.83	杏花村	8,830.80	昇悅居	11,088.10
35	0.81	康怡花園	8,558.28	城市花園	10,927.10
36	0.76	昇悅居	8,433.99	泓景臺	10,702.00
37	0.80	盈翠半島	8,261.90	杏花村	10,646.60
38	0.82	南豐新村	8,213.88	康怡花園	10,532.00
39	0.70	藍灣半島	8,101.81	盈翠半島	10,380.00
40	0.80	沙田中心	8,014.96	黃埔花園	10,252.10
41	0.70	港灣豪庭	7,914.87	維景灣畔	10,101.20
42	0.84	置富花園	7,901.01	沙田中心	10,059.10
43	0.73	泓景臺	7,798.20	南豐新村	9,968.17
44	0.85	駿景園	7,627.23	河畔花園	9,723.08
45	0.79	匯景花園	7,617.14	匯景花園	9,692.72
46	0.74	維景灣畔	7,467.02	將軍澳中心/將軍澳3	9,579.13
47	0.80	沙田第一城	7,410.32	新都城	9,404.31
48	0.88	德福花園	7,386.87	置富花園	9,398.98
49	0.75	將軍澳中心/將軍澳3	7,201.48	沙田第一城	9,319.38
50	0.75	藍天海岸	6,998.79	藍天海岸	9,310.26
51	0.76	新港城	6,926.14	海典灣	9,156.08
52	0.82	香港仔中心	6,912.45	新港城	9,123.43
53	0.79	淘大花園	6,875.30	海?花園	9,120.87
54	0.75	海典灣	6,844.13	黃埔新村	9,074.21
55	0.74	海?花園	6,785.92	美孚新村	9,038.02
56	0.72	新都城	6,785.63	新寶城	9,011.27
57	0.75	美孚新村	6,737.82	得寶花園	9,010.34
58	0.87	綠楊新村	6,694.50	駿景園	8,940.32
59	0.82	雅典居	6,660.55	淘大花園	8,755.02
60	0.80	麗港城	6,648.36	上水中心	8,638.10
61	0.73	黃埔新村	6,626.44	帝堡城	8,466.68
62	0.81	青怡花園	6,622.51	德福花園	8,415.61
63	0.81	聽濤雅苑	6,599.34	馬鞍山中心	8,412.76
64	0.68	河畔花園	6,594.39	香港仔中心	8,383.10
65	0.73	得寶花園	6,592.76	麗港城	8,300.95
66	0.78	帝堡城	6,587.59	東港城	8,273.89
67	0.72	新寶城	6,497.76	青怡花園	8,200.01
68	0.78	東港城	6,490.80	聽濤雅苑	8,181.46
69	0.74	馬鞍山中心	6,257.71	雅典居	8,161.74
70	0.77	珀麗灣	6,232.47	珀麗灣	8,099.81
71	0.77	銀禧花園	6,211.89	Yoho Town	8,033.59
72	0.76	Yoho Town	6,117.28	銀禧花園	8,029.72
73	0.82	新元朗中心	6,097.69	大埔中心	7,895.26
74	0.80	愉景新城	6,090.20	綠楊新村	7,717.96
75	0.78	翠擁华庭	5,944.93	翠擁华庭	7,654.61
76	0.75	大埔中心	5,922.64	愉景新城	7,588.14
77	0.68	上水中心	5,858.54	映濤園	7,546.05
78	0.77	翠怡花園	5,806.75	翠怡花園	7,517.88
79	0.80	新峰花園	5,710.41	太湖花園	7,447.68
80	0.75	映濤園	5,627.90	新元朗中心	7,409.82
81	0.76	華景山莊	5,591.89	華景山莊	7,368.76
82	0.75	太湖花園	5,565.60	富榮花園	7,338.43
83	0.84	麗城花園	5,507.69	新峰花園	7,154.75
84	0.78	粉嶺中心	5,484.26	御皇庭	7,083.16
85	0.76	榮業庭	5,289.93	粉嶺中心	7,049.07
86	0.72	富榮花園	5,269.61	牽晴閣	7,023.73
87	0.81	海濱花園	5,183.23	榮業庭	6,987.19
88	0.77	香港黃金海岸	5,153.66	香港黃金海岸	6,697.46
89	0.73	牽晴閣	5,138.24	花都廣場	6,606.97
90	0.72	御皇庭	5,120.50	麗城花園	6,552.12
91	0.82	麗都花園	5,113.04	海濱花園	6,372.45
92	0.88	萃威花園	4,979.58	麗都花園	6,206.39
93	0.79	美景花園	4,898.51	美景花園	6,199.70
94	0.73	花都廣場	4,841.53	浪翠園	6,113.69
95	0.78	浪翠園	4,793.08	邁亞美海灣	5,981.62
96	0.77	邁亞美海灣	4,581.15	萃威花園	5,669.99
97	0.78	大興花園	4,162.21	大興花園	5,361.69
98	0.83	海翠花園	4,117.43	嘉湖山莊	5,089.67
99	0.77	嘉湖山莊	3,940.08	海翠花園	4,955.63
100	0.81	新屯門中心	3,687.30	新屯門中心	4,526.09

**C) Applying the usable unit prices to good use** = we shall use a couple of examples.

**銀禧花園 versus 上水中心:** in the gross unit price ranking, 銀禧花園 is 71<sup>st</sup> place while 上水中心 is only 77<sup>th</sup>, i.e. the former has a higher gross unit price than the latter, and by HK\$400 more. However, when we inspect the usable unit price ranking, the sequence is reversed; 銀禧花園 is now a lowly 72<sup>nd</sup> while 上水中心 is ranked at 60<sup>th</sup> place, and the latter actually is higher by HK\$600 per usable ft<sup>2</sup>. Which one is pricier is now quite clear, and given the former is located somewhere near Shatin while the latter is situated in Sheung Shui, many may see the former being a bit of a bargain.

**駿景園 versus 河畔花園:** this is a more pronounced case. In the gross unit price ranking, 駿景園 places 44<sup>th</sup> while 河畔花園 occupies the 64<sup>th</sup> slot, and the former is pricier than the latter by HK\$1100 more. Yet, in the usable ranking, 河畔花園 is way above 駿景園 at 44<sup>th</sup> and 58<sup>th</sup> respectively, and by more than HK\$800. Some may find the former a nicer estate.

**D) By coincidence or otherwise** = most estates with a 10 place difference between its gross and usable rankings are mostly located in Kowloon and the New Territories.

In case the reader finds him or herself in a less than bargain home based on the above analysis, then perhaps a switch may be worthwhile...and before the market recognizes the deficiency.

**Note:** Part of the content in this analysis has also been used in an article published by the South China Morning Post, an English daily in Hong Kong, on 09 January 2013.

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## China 3<sup>rd</sup> Tier Cities Demonstrate the Power of QEs and Urbanization Real Estate Tech, 1Q 2013

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One BIG construction site

Your humble author has recently traveled to a few 3<sup>rd</sup> tier cities with partners and has thus felt the power of quantitative easing (not just the USA, practically every major country is doing it too) and urbanization drive.

We shall use what was observed in one such city as an example:

**1) Wealthy farmers** = the city statistics say the population stands at around 3,500,000, of which 650,000 are categorized as 'urban'. However, on the ground observation does not suggest a city with less than a million urban residents. No doubt it is a far cry in terms of urban development and sophistication from most 2<sup>nd</sup> tier cities, let alone the 1<sup>st</sup> tier, yet there are more department stores and malls for 650,000 inhabitants to chew. This suggests there are some very wealthy non-urban residents, perhaps it is just a matter of reclassification.

**2) Many stores and malls** = there are older ones and there are newer ones, yet none seen could be described as first rate. Nonetheless, this does not imply whatever being sold inside them is inexpensive. Take fashion and clothing for example, your humble author observed many of the local (high end) brands are priced in hundreds and thousands of Yuan per piece, and anything leather is tens of thousands per item. No wonder Mainlanders like to shop in Hong Kong. True, there were no shopping crowds to speak of but neither were the malls empty.

**3) The city is one BIG construction site** = while building activities are few in the traditional city center, the surrounding districts and suburbs are collectively one huge construction site. Tower cranes dominate the skyline and there are numerous projects in a variety of development stages. Will there be oversupply? Yes, given that markets are generally either over or under supplied, or for that matter, over or under demanded. Nonetheless, assuming steady economic growth in the next 10 years or more, whatever oversupply now could be absorbed, bearing in mind demand and supply is also a pricing issue.

Investors need to pay attention to timing and risk controls.

**4) Low salaries and wages are things of the past** = with reducing number of youths entering the labor force, salaries and wages are rising and in 3<sup>rd</sup> tier cities too. Your humble

author had accidentally caught eye of an employee recruitment sign put up by a restaurant outside a mall [see photo below]. The figures are in Yuan and monthly.

顶级火锅餐饮品牌企业，鼎上鲜涮坊装饰风格别致、设计豪华新颖、环境高雅，现开业在即，特面向社会招聘以下优秀人员：		
前厅经理（女）：2名	基本工资8000+绩效奖金+股份分红=	12000元
营业经理（女）：2名	基本工资8000+绩效奖金+股份分红=	12000元
营业助理（女）：6名	基本工资2600+提成+全勤+奖金+工龄=	5000元
前厅部长（女）：6名	基本工资2600+提成+全勤+奖金+工龄=	4500元
吧台部长（女）：2名	基本工资2600+提成+全勤+奖金+工龄=	4500元
迎宾员（女）：8名	基本工资2200+提成+全勤+奖金+工龄=	3200元
服务员（女）：55名	基本工资2000+提成+全勤+奖金+工龄=	3500元

No wonder many of the manufacturers are either relocating to another emerging country or simply closing shop in the Mainland.

Given the government target to double the GDP per capita in the next decade and to create more middle class households, urbanization is almost a natural phenomenon which will continue and follow. And urbanization implies construction which in turn implies the need for money, and liquidity.

**Back to our quarterly quote on the front cover:**

[Money makes the world go around...the world go around...in cycles and circles](#)

**Do reread:**

China's Rising Real Estate Prices: Urbanization is NOT a Cause! (3Q 2011)

<http://www.real-estate-tech.com/articles/RET3Q11.pdf> [2nd article]

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## Liquidity, De-Compartmentalization, and Incorporation: Choose 2 Not All 3 Real Estate Tech, 1Q 2013

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An empire which was, is, and will be?

Let's define and describe the 3 terms first:

**1) Liquidity** = plenty of money (and debt) like the quantitative easing which we are now experiencing.

Too little, global business, investment, and trade would be very much constrained and many technologies which we enjoy today might not exist or have arrived. Too much, even shitty lemon-grade assets get a chance of being bought and sold.

**2) De-Compartmentalization** = doing away with the barrier between retail banking and investment banking such as the Glass Steagall Act.

From a layperson angle, compartmentalization enables the risk-averse to not risk their money and bank with rather dull and boring retail banks, while the risk-takers could always play the financial markets through securities and investment banks. A collapse on the latter would affect the former less and general business-trade loans and credit could still be made and operating.

**3) Incorporation** = letting investment bank partnerships incorporate.

Notwithstanding the computer technology advances would sooner or later encourage the dissolve of partnerships among investment banks [refer to academic paper [http://users.ox.ac.uk/~ofrcinfo/file\\_links/finecon\\_papers/2004fe14.pdf](http://users.ox.ac.uk/~ofrcinfo/file_links/finecon_papers/2004fe14.pdf) ], incorporation enables the former partnerships to enjoy limited exposure to losses. In short, it enables the investment banks to become bolder if they so wish.

Not being trained in economics or finance, and perhaps even being barely facile in real estate matters, your humble author has the following intuition after having gone through the savings and loans crisis in the late 1980s, the Asian financial crisis of the 1990s, the High Tech bubble in early 21<sup>st</sup> C, and lately the 2008 Global financial crisis.

Of the 3 elements above, AND if one prefers to avoid / reduce [as eliminating seems to be an impossibility] the chance for economic crises and financial crashes as much as possible, then choose only and any 2 of the above but not all 3 at the same time:

**A) Liquidity + De-compartmentalization** = reduced chance for crisis IF investment banks and the like are not allowed to incorporate themselves. Some of the risky (and reckless in certain instances) products might not have found their way to the markets.

**B) Liquidity + Incorporation** = reduced chance for crisis IF there is still a barrier between retail and investment banks. At least the retail banks would be less exposed to the losses in the financial markets.

**C) De-compartmentalization + Incorporation** = reduced chance for crisis IF there is no (excessive) money to go around, even if the system says anything goes.

Naturally, having all 3 elements together at the same time appears at least to have increased the chance for a crisis, as demonstrated by the most recent global crash.

Yet, is it a must-happen? In theory, it isn't a must-happen even with all 3 elements present, provided the market participants behave and act responsibly and rationally (long term).

However, given human nature as it is and has evolved to date, it is most certainly a must-happen. If some of the books written on the subject e.g. Michael Lewis's *The Big Short* are to be referenced, it would be indeed a surprise if we do not see a crash each time all 3 elements are available and in abundance.

The investment banker who expressed the slightest doubt about a certain financial product got sidelined, the investor who played safe got behind (at least before the crash), and the financier who wrote loans cautiously got fired. And the few who analyzed the bubbly situation correctly attracted doubt, disbelief, and distancing from clients at times. In short, upon reaching a certain mass, the system rolls on and on crushing anything which stands in its path until it falls off a cliff.

Nuts? Yup, but from a collective viewpoint. To an individual especially one who benefits from nutty markets, it may not be so irrational.

Any solution? Nope, not from this newsletter. We could only say given what we have read and analyzed to date, and what we have observed and sensed around the world, in particular the lack of will to face the (painful) challenges among most leaders and publics, we do not feel the 2008 saga has been resolved and the residual mess would come back to haunt us, through one way, on one day, and in one place, or another.

Meanwhile, enjoy the sun (QE) while it is still shining.

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