Zeppelin's Real Estate Tech

3Q 2014: A Real Estate Newsletter by Zeppelin Real Estate Analysis Limited
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The FED has just described the intention to raise rates and to further taper the purchase of loans. In Europe, the Crimea portion of Ukraine is likely to join up with Russia notwithstanding global political wrangling. Meanwhile in Asia, there are concerns for certain overheated markets given the QE effect may dwindle somewhat. In this issue:

- **Hong Kong beats Singapore in HNWI growth**
- **USA rental apartment vs residential home**
- **QE: has it been put to good use?**

"Speculators love debt. Conservative investors love the bust debt eventually brings."

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**, **21st 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**, **Cable TV (Money Café), DBC Radio,** and **Commercial Radio**. We also publish monthly articles and analyses in the months in between. This newsletter is now into its **18th year** and **72nd** issue.

We also operate a website 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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Who? Me?

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Founder and Editor, Real Estate Tech Quarterly Newsletter
Real Estate Website Developer, www.Real-Estate-Tech.com

Stephen is an independent real estate analyst – number cruncher 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 regular real estate writer - columnist 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 an honorary adjunct professor of 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 3 real estate books in Chinese published to date as follows:

Online book = Easy Real Estate Lectures

Hard copy = Real Estate Investment Know-How above 101

Most recent and hard copy = The Real Estate Market Turning Point

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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 beats Singapore in HNWI growth

Real Estate Tech, 3Q 2014

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Does it really matter who beats who?

In the last decade or so, it has become somewhat fashionable to compare Hong Kong to the two S cities; namely Shanghai and Singapore. And whenever this is done, it seems Hong Kong is the loser in most cases thus causing a round of concerns from notables.

Notwithstanding your humble author not being particularly interested in such comparison, yet just to join the fun and spirit, here we compare the recent HNWI (High Net Worth Individuals) growth since 2009 observed in Hong Kong to that of Singapore...based on a report published by the Royal Bank of Canada and Capgemini...and (surprisingly), Hong Kong wins!

In the increase in total number of HNWI and the related percentage change, that is, and further details below:

1) Definition of a HNWI in the report = with US$1M or more in liquid assets e.g. cash.

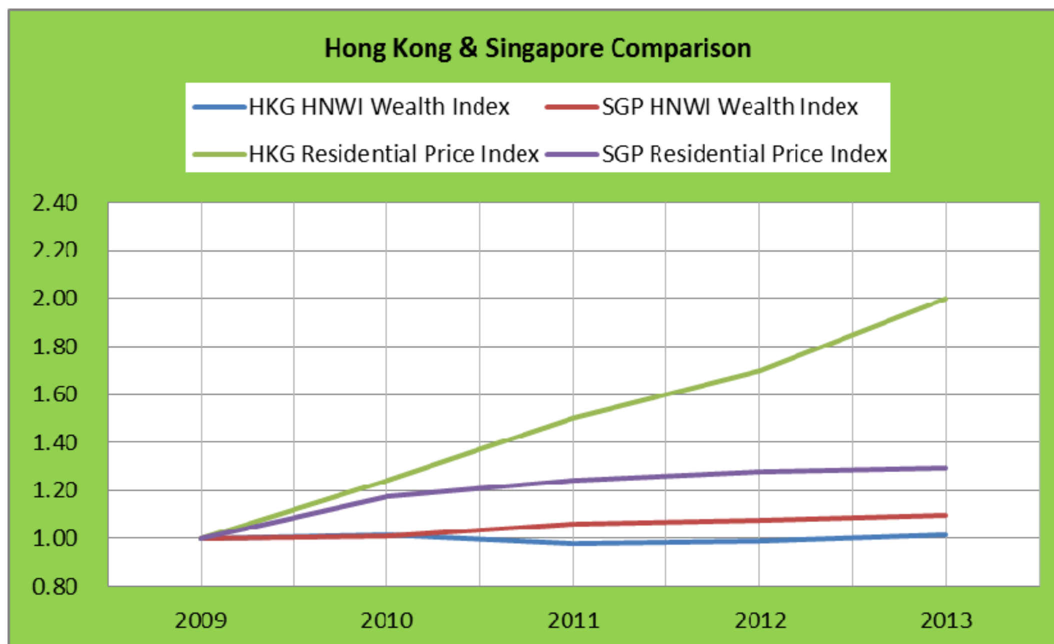
2) From 2009 to the end of 2013 = Hong Kong has seen its HNWI population risen from 76000 to 124100, a 63% growth, while Singapore has only increased by 29%, from 81600 to 105100. Nonetheless, as of 2013, the average HNWI in both places has a net worth of around US$5M, not counting the principal home. Yup, our typical HNWI is not richer than the one in Singapore, just that we have more of them here (and for the mathematically minded, we have a lower count of HNWI per population...oh oh).

3) Quite similar asset allocation = it seems the Singapore HNWI holds a bit more cash and ours buys a bit more fixed income products. Other than these, the asset allocation seems quite similar (see chart below).

Asset Type Allocation in %		
	Hong Kong	Singapore
Real Estate	21.40%	22.80%
Alternative Investment	14.50%	14.40%
Equities	22.40%	23.10%
Cash or equivalent	23.80%	27.10%
Fixed Income	18.00%	12.50%

4) Both like to invest out of town = Not including Japan, the Hong Kong HNWI puts 47% of his net worth in Asia (presumably including Hong Kong and Mainland China), while the Singaporean counterpart invests 53%. Both also love to invest in North America, Europe, and Japan.

5) BUT the average Hong Kong HNWI has NOT seen any gain in net worth in the said 5 year period = while the Singapore counterpart has gained around 10%. This is especially telling when during the same period, Hong Kong residential property prices had jumped 100% on average (note the Hong Kong office, industrial, and retail real estate sectors gained even more in prices in the same period) while that of Singapore had only increased by 29%.



While we do not have any data on the asset allocation changes, if any, on Hong Kong (or for that matter Singapore) since 2009, we cannot shrug away the feeling that given a 21.40% asset allocation to real estate and the impressive Hong Kong real estate price performances,

the fact the average Hong Kong HNWI has not made any gain in total net worth deserves some attention and contemplation:

Perhaps the average Hong Kong HNWI does not like investing in Hong Kong properties other than his own home – which is not counted toward his net worth – and whatever investment property asset he owns is located outside Hong Kong (and probably not in Mainland China as well because Mainland properties had risen handsomely too in the period), OR

Perhaps the newly included Hong Kong HNWI population since 2009 has on average much lower net worth (US$1M liquid asset gets you in) thus keeping the US$5M figure unchanged, OR

Perhaps the average Hong Kong HNWI has been disposing Hong Kong properties…but then again the cash derived would show up either in the cash portion or in another asset class, OR

Perhaps the average Hong Kong HNWI has used any gain in Hong Kong real estate prices – or for that matter any gains in out of town properties and / or other asset categories - for more adventurous ventures e.g. setting up or expanding his own businesses (which do not seem to be counted in the report). IF so, it is still not known if the Hong Kong HNWI did so by a) selling the price-gained portions OR b) leveraging (borrowing) on the price-gained portions.

Or a combination of the above and other possibilities too, yet:

IF (a), the risk to the individual and the market at large might be smaller. IF (b), then the potential risk should be a concern, not only to the involved HNWI, but also to the economy at large.

Why? Assume, for simplicity, a horrid economic downturn whereby the HNWI not only loses all that is in his business but asset prices – affecting his net worth - dive by 50%, then:

Under (a) = where the HNWI sold whatever amount above US$5M of his net asset and used the money derived for his business and had not borrowed monies further = the HNWI would still have around US$2.50M (half of US$5M)…plus his home if any.

Under (b) = where the HNWI used whatever amount above US$5M of his net asset for borrowing the same for his business venture = he might end up having less than US$2.50M, or even zero to negative equity depending on the amount borrowed…and he might even have to sell his home, and quickly too.

Let's hope there are not too many (b) situations but then again many investors and business people like to borrow…can't blame them especially when the rates are at historic lows.

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US rental apartment vs residential home

Real Estate Tech, 3Q 2014

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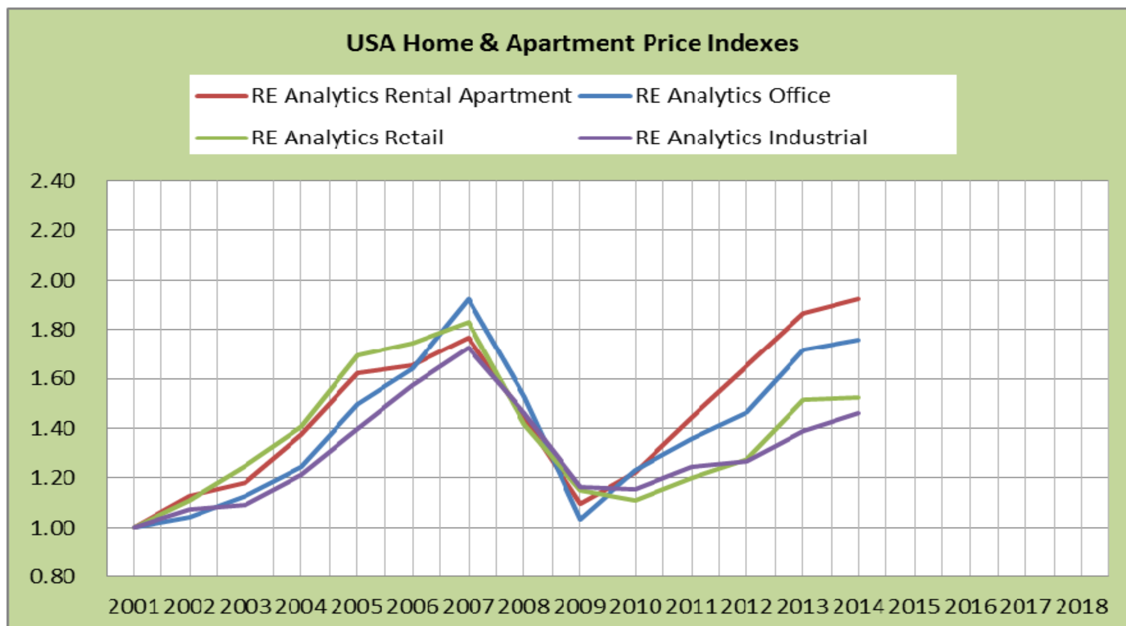
Younger Americans do not have the same eagerness for homeownership as their parents do

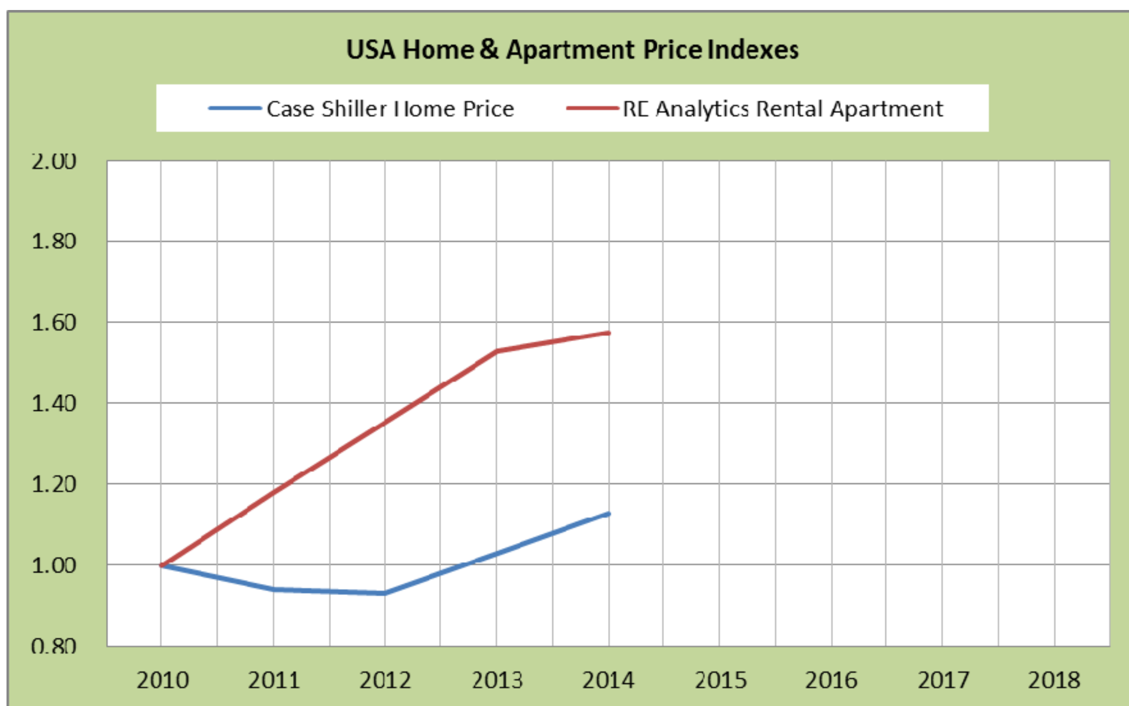
Your humble author has been intrigued by the USA rental apartment complexes since 2011 and made a bit of investment in them. Readers may also be interested to know that the USA rental apartment complexes have been performing better relative to the office, retail, or industrial sectors. Here is a chart generated using Real Capital Analytics figures:



When he indicated such in his regular (Chinese) real estate column in the Hong Kong Economic Journal, he received some enquiries from readers. There seems to be demand from both individuals and institutions for overseas and USA properties given the right product.

Nonetheless, it is also felt that some people appear to equate the rental apartment complexes to the residential homes. While they are both for 'residence', they are also different in certain aspects:

A) Huge difference in recent overall price performances = applying published data from Real Capital Analytics and Dow Jones Case Shiller Indexes, and counting from 2010, the rental apartment complex sector has seen an overall 75% recovery in price, while the residential home sector has seen only around 20%.



Will the two meet at some point? Perhaps and they did jive together prior to the downturn in late 2000s. However, the rental apartment complex sector is the winner since the price recovery. This might have to do with the fact that homeownership has lost its glory a bit since the downturn especially among the younger generation who seem less eager to own a home as their parents do or did at one point.

B) Buying apartment units en masse, not one at a time = rental apartment complexes come in different size, shape, and scale ranging from a few units to over hundreds. In any case, one either buys the whole complex or nothing, and the units are not likely to have been strata-titled into condominiums.

Generally a corporate entity would be used to acquire the complex and shareholders of the corporate entity would own a certain non-specific share percentage of the complex based on their shareholding. It is like buying into an investment fund.

C) Professional management and services required = for letting out the units, maintaining the building, managing the tenants, collecting rents, book keeping, tax filing, and so on.

You might ask your relatives who happen to live there to 'look after' your house – a practice that yours truly does not encourage – but there is no way for your relatives to look after a rental apartment complex. That is to say, if you are a miserly landlord, the rental apartment complex is probably not your cup of tea.

D) Competing sectors = rental apartment complexes generally do well when the economy is not going smoothly, especially those in the low to middle rental range (say from a few hundred to over a thousand US$ per month). Renters need to keep on renting, and some homeowners would revert back to being renters after ditching their homes.

Furthermore, rental apartment complexes in prosperous towns with job opportunities are likely to do well too as job seekers, mostly not in the well-off category, need a place to stay. For instance, a few of the oil producing cities and states in the USA right now are seeing huge demand for rental residences.

Last but not least, the sunshine states with proper amenities (healthcare, beaches, golfs, you name it) may also see continued influx of retirees, whether on an occasional or permanent stay basis, who seek not only warmth and comfort, but also affordable living costs, housing included. Read Florida for instance.

In any event, if one desires to buy a residential property for investment and letting, one may wish to check if a vibrant (and potentially competing) rental apartment complex sector exists in the locality, and if so, its scale. As a rule of thumb, the individual buyer might want to steer clear of the rental spectrum which the rental apartment complexes target. For example, by buying a higher grade (than most rental apartment complexes) residential property.

E) There is economy of scale = with tens and hundreds of units in a complex, certain operational savings are possible, ranging from bulk cleaning to tax advice.

Any risk? Yes certainly, like investing in lackluster complexes or with the wrong rental apartment complex operator and asset manager.

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QE: has it been put to good use?

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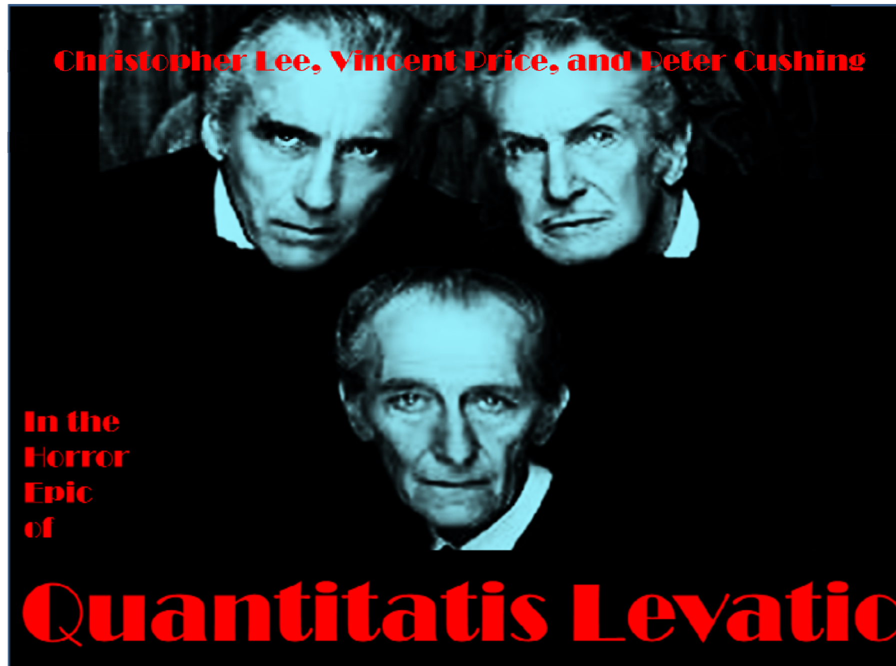

The quick answer to the title question is = NO. If you are busy, you may now go.

Your humble author, being a baby boomer, has had his share of 1960s horror vampire movies and of these, the classics of Christopher Lee, Vincent Price, and Peter Cushing always come to mind. Admittedly, such classics seem tame by today's standards but their icons linger on.

Now, what do vampires and QE have in common? They suck (an action like verb). Vampires suck blood from their victims into their own veins and QE suck cash from depositors into assets. They both also suck (an adjective like verb).

It has been said QE a) punishes savers by crashing deposit rates to almost non-existent; b) forces retirees to invest in assets of various sorts; c) enriches the ones who have access to lending and assets; d) pushes up asset prices; e) creates potential bubbles in the process; f) increases risks and silently; and g) [some say] widens the gap between the haves and haves not. Not to mention the distortion of values, that of cash included.

Notwithstanding yours truly has benefitted a bit from QE personally, he does not think it is sustainable, and the consequences, unintended and unexpected ones included, might more than offset any benefits gained.

Vampires bite you to death and suck you dry, only that no one has yet solidly proved they had ever existed. Not with QE and QE related perpetrators. They still roam among us.

Your humble author does <u>not</u> think this QE phenomena will have a happy ending and there will be a sequel, and a much bigger one perhaps, to the financial tsunami of 2008. One reason is because IF money printing can really solve financial problems, then practically we shall never have financial problems again. Isn't this wonderful? But as with all things which seem too good to be true, it IS too good to be true.

Some people disagree saying another economic crisis could be avoided so long as the increased monies continue to flow in the system, and the economy will be sustained as monies need to go 'somewhere' which presumably does not include bank deposit accounts owing to low-low-and-low rates. That is a sort of merry go round among different asset classes at different times and places but no asset price bubbles, thus no bubble bursts, and therefore no economic busts.

Perhaps, but then again:

1) If memory serves your humble author right, economic downturns can sometimes stay flat and drag on for extended periods = but seldom, if at all, upturns run flat – i.e. with little significant ups and downs - across any extended period of time. A few extended downturns come to mind e.g. the aftermath of the 1929 stock crash and Japan after her real estate bubble burst in the 1990s with which effects she is still now struggling.

Nonetheless, yours truly admit the above is simply based on impression and recallable memory. Even if there has been no extended flat across running upturn, this does not automatically rule out the possibility.

2) Let's assume asset prices are sustained with QE monies flowing around in the system = yet with prices being 'sustainably' stable with insignificant upside (or downside), would you still invest? Probably, but likely in reduced investment amount and / or for reduced prices because:

a) Investment returns generally come from two aspects; recurrent income such as rentals from properties and asset price appreciation.

b) Which aspect is treasured more depends on the individual investor; some look for recurrent income e.g. retirees, while others try to shoot for price growths. Speculators go one up; they shoot for QUICK price growths.

c) IF price growths are now in question – let alone price drops, investors will rationally tend to pay less (than what they would pay when the assets are perceived to have good price growth potentials) for the same assets. Technically, they are now paying mostly or only for the perceived recurrent income streams.

This is to say, even if the same old QE monies continue to flow in the system, yet once the price growth potentials are perceived, rightly or wrongly, to become less likely, asset prices are will fall despite recurrent incomes remaining the same. No need for QE monies to disappear or rate rises.

3) Even without (2) above, stagnant prices will cause some investors to have second thoughts about holding onto the assets = and to harbor doubts on price growth potentials. This occur all the time in asset markets, be these stocks, real estate, commodities, or bonds. Again, there is no need for QE monies to disappear en masse though if this occurs, the impact would also be significant too. Lackluster and flat asset price performances are sufficient to cause some investors to ditch the holdings.

4) Ultimately, asset prices are influenced by the capacity and capability of the underlying assets to produce a meaningful recurrent income = just as listed companies require a viable business operation to thrive (Madoff ones excluded) or investment properties need rental income to sustain. And solid recurrent incomes depend on having efficient and effective economic activities. Monies and resources put into such efficient and effective economic activities can be largely deemed to have been put to good use.

On the other hand, digging a hole to the center of the Earth – as one columnist in an English daily likes to say – may feel daring and pump up the GDP, it offers little perceived benefits i.e. a rather ineffective economic activity. The investors of this daring scheme are not likely to be sufficiently compensated.

As such, the focus is not on whether the QE monies stay in the system, but on their deployment. To date, they appear to have pushed up prices of some assets in some places but have not been able to really enhance the overall economy or its strength, or solve the deficits for that matter.

And that's why we expect the horror epic sequel II, Quantitatis Levatio. Oh, that's quantitative easing in Latin.

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