

Zeppelin's Real Estate Tech

3Q 2017: A Real Estate Newsletter by Zeppelin Real Estate Analysis Limited

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The 2nd quarter passed by calmer than was first anticipated. No attacks by Mr. Trump on Mr. Kim despite the US naval maneuvers...phew (at least not yet). Le Pen didn't win. Teresa May appeared to have dug a deeper hole for herself and the party...and the UK from a Brexit angle. Yellen was adamant on raising rates albeit in minute arithmetical progression. Toronto slapped a buyer tax on foreign purchasers. And Hong Kong real estate continues to reach new heights.

In this issue:

- **Toronto residential real estate: overall average price has dropped 20%**
- **Toronto residential: how different home types in different regions fair**
- **Hong Kong real estate: how the housing estates actually perform**

"Contracts are to avoid misunderstanding between gentlemen, not between crooks."

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 spring, summer, fall, and winter) 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 [21st year](#) and [84th](#) 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 Partners 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 based in Hong Kong with associated operations in Mainland China and we also have access to regional and global professional networks.

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Who? Me?

Stephen Chung

Managing Director, Zeppelin Real Estate Analysis Limited
Creator and Writer, 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 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 written 4 real estate books in Chinese to date as follows:

Online book = Easy Real Estate Lectures
Hard copy = Real Estate Investment Know-How above 101
Hard copy = The Real Estate Market Turning Point
E-Report = USA Residential Real Estate Analysis

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Toronto residential real estate: overall average price has dropped 20%

Real Estate Tech, 3Q 2017

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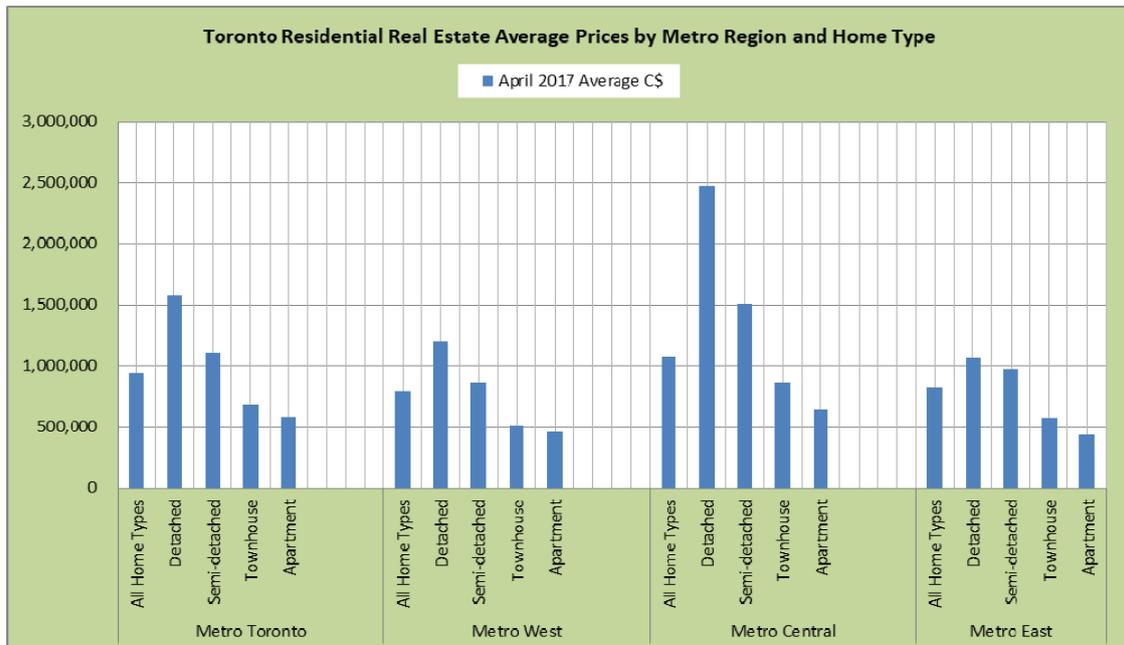
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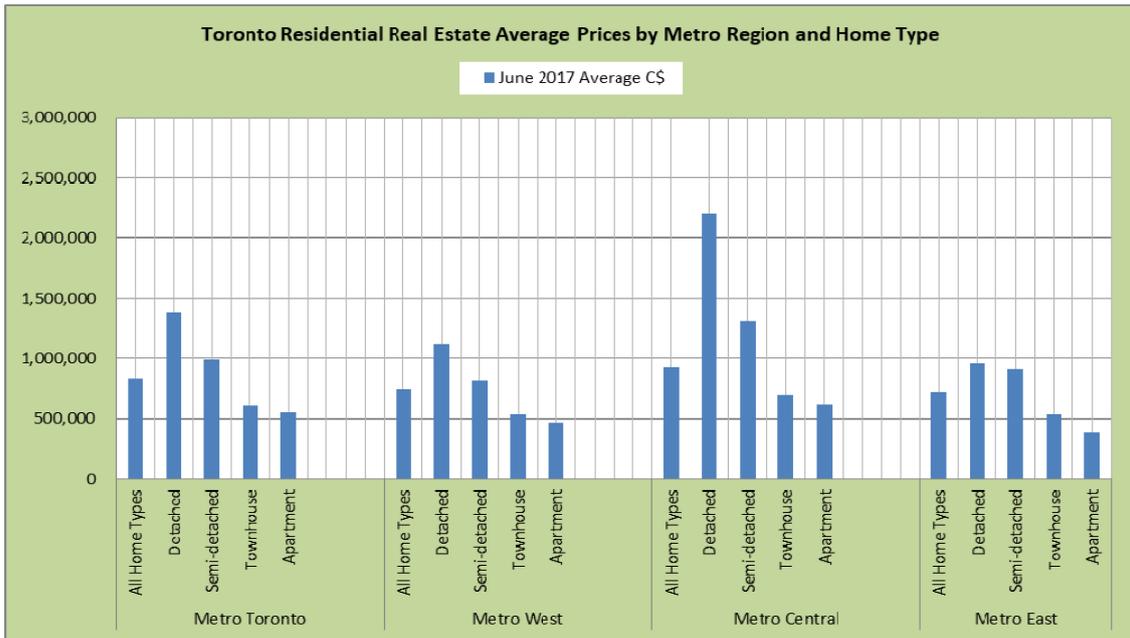
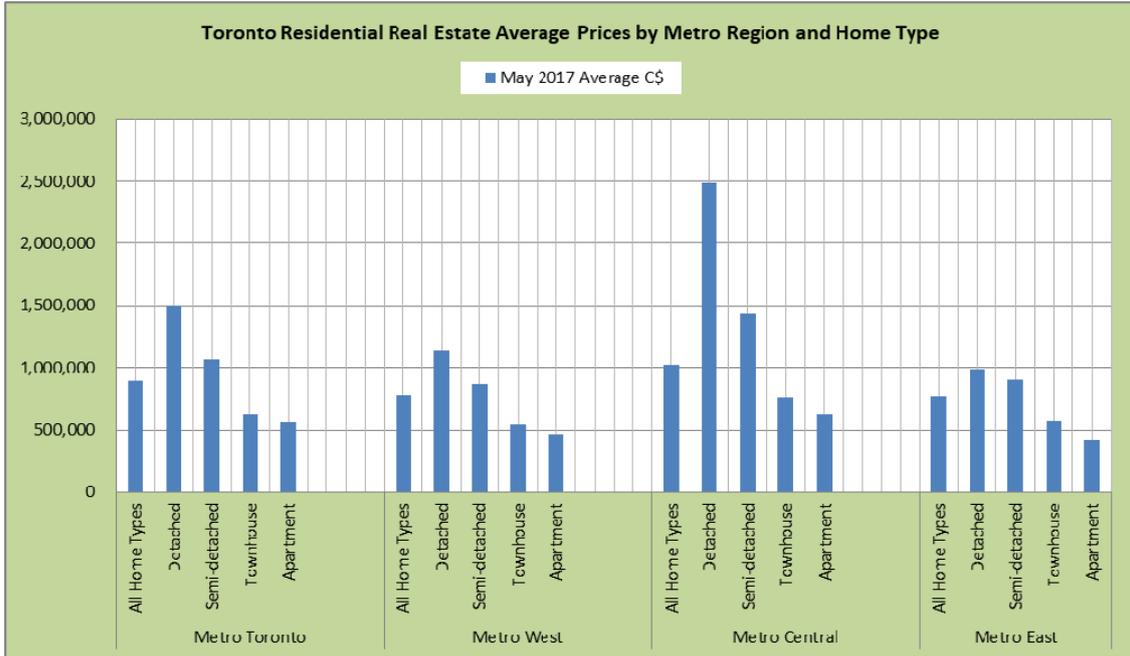


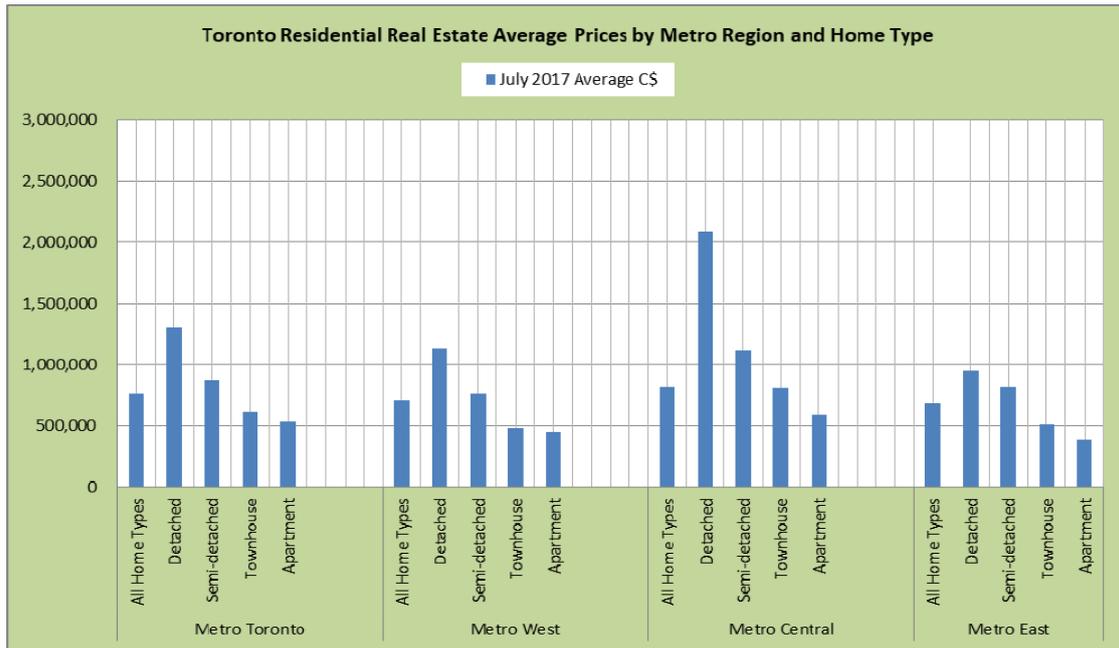
Luxury condo apartment building in Toronto (your humble author's)

Toronto's overall and average residential real estate price has dropped close to 20% from April to July this year (2017) **from C\$944,000 to C\$759,000**, both figures rounded to the nearest thousand. Overall sales have also dropped for the metro during the period from 4,164 to 2,303 transactions, based on the published data from the website of the Toronto Real Estate Board www.trebhome.com.

For clarity, here we are focused **just on Metro Toronto** instead of the broader Greater Toronto Area (GTA) which includes the metro plus the many suburbs and municipalities outside of it. The GTA is 7x the metro in size. Let's look at a few charts first:







The foregoing four charts document the average price changes from April to July 2017 for the basic home types (detached, semi-detached, condo townhouse, and condo apartment) located in the west, central, and east portions of Metro Toronto, plus figures for the whole metro too. Notwithstanding a few price upward movements here and there, the overall price trend is down.

For the more statistical minded and for details, here are the tables corresponding to the above charts:

Metro Region	Sub-district		April 2017 Average C\$	May 2017 Average C\$	Difference C\$ May-April 2017	Percentage +/- (May-Apr)/Apr 2017
Metro Toronto	All Home Types		943,947	899,728	(44,219)	-4.68%
	Detached		1,578,542	1,503,868	(74,674)	-4.73%
	Semi-detached		1,104,047	1,062,318	(41,729)	-3.78%
	Townhouse	Condo	675,644	626,607	(49,037)	-7.26%
	Apartment	Condo	578,280	564,808	(13,472)	-2.33%
Metro West	All Home Types		785,854	781,995	(3,859)	-0.49%
	Detached		1,192,221	1,142,292	(49,929)	-4.19%
	Semi-detached		866,539	866,725	186	0.02%
	Townhouse	Condo	513,256	541,023	27,767	5.41%
	Apartment	Condo	460,509	469,855	9,346	2.03%
Metro Central	All Home Types		1,080,388	1,022,740	(57,648)	-5.34%
	Detached		2,477,836	2,488,673	10,837	0.44%
	Semi-detached		1,505,727	1,436,717	(69,010)	-4.58%
	Townhouse	Condo	865,780	760,642	(105,138)	-12.14%
	Apartment	Condo	644,411	623,880	(20,531)	-3.19%
Metro East	All Home Types		826,049	771,828	(54,221)	-6.56%
	Detached		1,071,235	991,509	(79,726)	-7.44%
	Semi-detached		977,106	908,013	(69,093)	-7.07%
	Townhouse	Condo	569,938	579,768	9,830	1.72%
	Apartment	Condo	438,904	413,743	(25,161)	-5.73%

Metro Region	Sub-district		May 2017 Average C\$	June 2017 Average C\$	Difference C\$ Jun-May 2017	Percentage +/- (Jun-May)/May 2017
Metro Toronto	All Home Types		899,728	829,479	(70,249)	-7.81%
	Detached		1,503,868	1,386,524	(117,344)	-7.80%
	Semi-detached		1,062,318	987,404	(74,914)	-7.05%
	Townhouse	Condo	626,607	606,079	(20,528)	-3.28%
	Apartment	Condo	564,808	552,679	(12,129)	-2.15%
Metro West	All Home Types		781,995	746,745	(35,250)	-4.51%
	Detached		1,142,292	1,118,602	(23,690)	-2.07%
	Semi-detached		866,725	810,522	(56,203)	-6.48%
	Townhouse	Condo	541,023	536,698	(4,325)	-0.80%
	Apartment	Condo	469,855	465,214	(4,641)	-0.99%
Metro Central	All Home Types		1,022,740	926,177	(96,563)	-9.44%
	Detached		2,488,673	2,199,630	(289,043)	-11.61%
	Semi-detached		1,436,717	1,305,776	(130,941)	-9.11%
	Townhouse	Condo	760,642	696,599	(64,043)	-8.42%
	Apartment	Condo	623,880	619,428	(4,452)	-0.71%
Metro East	All Home Types		771,828	718,605	(53,223)	-6.90%
	Detached		991,509	956,883	(34,626)	-3.49%
	Semi-detached		908,013	910,990	2,977	0.33%
	Townhouse	Condo	579,768	534,052	(45,716)	-7.89%
	Apartment	Condo	413,743	380,312	(33,431)	-8.08%

Metro Region	Sub-district		June 2017 Average C\$	July 2017 Average C\$	Difference C\$ Jul-Jun 2017	Percentage +/- (Jul-Jun)/Jun 2017
Metro Toronto	All Home Types		829,479	759,441	(70,038)	-8.44%
	Detached		1,386,524	1,304,288	(82,236)	-5.93%
	Semi-detached		987,404	869,227	(118,177)	-11.97%
	Townhouse	Condo	606,079	610,357	4,278	0.71%
	Apartment	Condo	552,679	532,502	(20,177)	-3.65%
Metro West	All Home Types		746,745	709,346	(37,399)	-5.01%
	Detached		1,118,602	1,131,637	13,035	1.17%
	Semi-detached		810,522	757,374	(53,148)	-6.56%
	Townhouse	Condo	536,698	480,356	(56,342)	-10.50%
	Apartment	Condo	465,214	445,554	(19,660)	-4.23%
Metro Central	All Home Types		926,177	820,906	(105,271)	-11.37%
	Detached		2,199,630	2,080,982	(118,648)	-5.39%
	Semi-detached		1,305,776	1,118,345	(187,431)	-14.35%
	Townhouse	Condo	696,599	811,030	114,431	16.43%
	Apartment	Condo	619,428	592,877	(26,551)	-4.29%
Metro East	All Home Types		718,605	688,396	(30,209)	-4.20%
	Detached		956,883	949,712	(7,171)	-0.75%
	Semi-detached		910,990	820,251	(90,739)	-9.96%
	Townhouse	Condo	534,052	506,680	(27,372)	-5.13%
	Apartment	Condo	380,312	378,644	(1,668)	-0.44%

Note two things though: first, the above are averages i.e. if there were some waywardly pricey or low-priced transactions, the averages would have been skewed thus giving a not-so-typical or reflective picture. The Bill Gates effect so to speak; when Bill enters a room, the average wealth and income of the people in the room shoots up tremendously beyond their (except for Bill) imagination. Second, there is always the chance that the price decreases (in this case) might be, at least in part, due to some buyers going for lower-priced properties. This said, your humble author suspect prices are lower because they have in part really come down.

What caused the above downward price movements? Based on a network of friends and professionals in Toronto, in addition to commentaries on the web, your humble author think these might have something - though probably not all – to do with the **Ontario's Fair Housing Plan** announced in April this year. That said, the market was quite stretched out so any adverse news could become the feather which broke (or just pressed down) the camel's back. Also, the **banks have been tightening up financing** and this is a just as vital if not more vital factor.

Most sensational is the introduction of a 15% foreign buyer tax and indeed it might have driven some foreign (non-citizen, non-resident etc) potential buyers away. However, this pool appears to be interested in properties of certain locations, scales, and price ranges. That is, their actual impact might not be as market-wide as commonly perceived notwithstanding the psychological influence their absence – if any due to the new tax – can induce. One reason for imposing this tax is to avoid parts of Toronto being made up of largely sold-but-vacant units whose landlords do not reside generally in Toronto, or for that matter, rent them out to tenants. This affects the intent to make Toronto a lively and livable community and city.

Perhaps more influential is the cap on rental increases and the new rules favoring tenants (e.g. tenants are to be compensated for being asked to move etc). Web discussions seem to indicate the rental cap applies to gross rents i.e. landlords cannot separate the net rentals from the ownership expenses such as condo fees, realty taxes, and the like, and subject only the former to the rental cap. This means while ownership expenses might skyrocket, the landlords can only recoup these up to the inflation cap, which maximum is now understood to be 2.50%. There will also be a new standard lease and a rule governing elevator operation. How to additionally tax units intentionally left unoccupied is also touted. In addition, there are proposals to help create more rental housing.

Market participants and professionals have various views on the plan which has yet to pass the provincial legislature, though expected to do so. It will also be retrospectively applied (back to April 2017) when passed. Some details are pending too.

Your humble author considers the rental cap and the rules, subject to further details, to deserve higher concern. While there are some scrupulous landlords, many others are middle class households who own a condo or two for long term investment or as a part of their retirement portfolio. While empathic of renters' finding rents being high, most landlords would be very lucky if they could net – before their income taxes – say half of the rents paid after deducting for brokers' commissions, vacancy-downtime between tenancies, condo fees (note Toronto's are much higher than most of Canada), unit maintenance and refurbishments (cleaning, painting, carpeting, flooring, new appliances etc), realty-municipal taxes, and so on. The net rental yield after income taxes might be hovering around 2% based on current prices in some cases. It is possible the housing plan might lead to unintended, even opposite-to-desired consequences, for the rental market in the longer run.

As such, investors considering Toronto residential real estate are advised to take a longer investment timeframe as short term profits might be very difficult to achieve under such circumstances.

But is it the time to buy given a 20% price drop? No idea. But your humble author is not inclined to rush into any deal for now.

Ontario's Fair Housing Plan:

<https://news.ontario.ca/mof/en/2017/04/ontarios-fair-housing-plan.html>

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Toronto residential: how different home types in different regions fair

Real Estate Tech, 3Q 2017

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Modern looking condo in Toronto
Red light? Just a coincidence (your humble author's)

Read the foregoing article first, please.

The data and statistics used in the foregoing article also enable your humble author to come up with the following few charts:

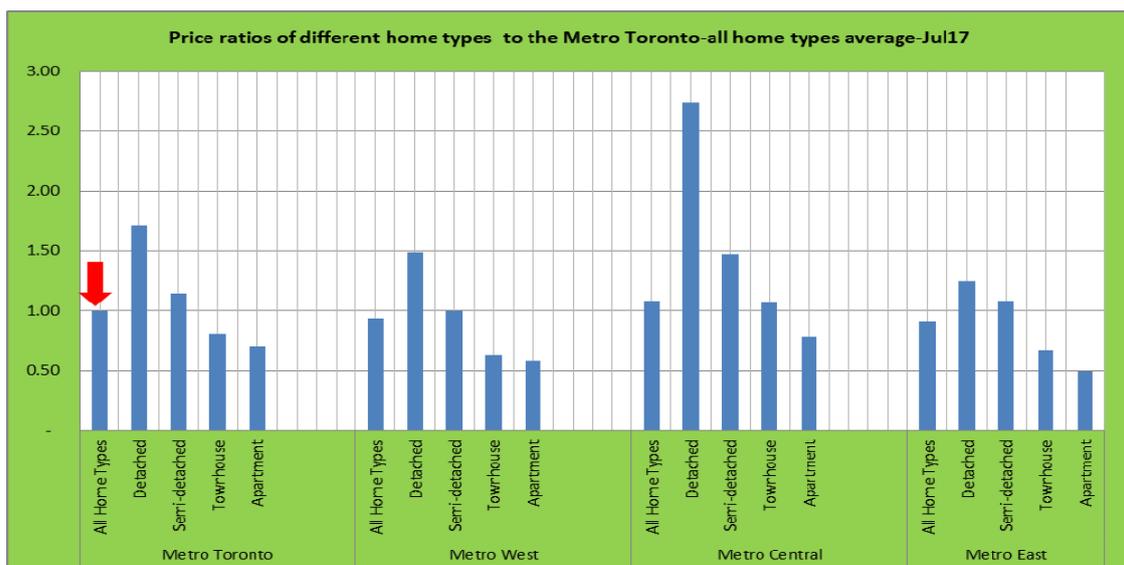


Chart A: benchmarked to the average (of all home types in all regions) of Metro Toronto

Chart A is simple: the red arrow points to the overall average price in Metro Toronto – benchmarked to 1.00 - regardless of home type i.e. detached, semi-detached, townhouse, and condo apartment. In July 2017, this overall average price of a home is C\$759,000 rounded. One can thus roughly and visually guess what, say, the average price of a typical townhouse in Metro Central might be. In this case, and as an illustration, it would be slightly above C\$759k, say around C\$800k (actually it is C\$811k).

Technically, the “All Home Type” is just a conception for benchmarking and comparison purposes because in reality you can only buy detached, semi-detached, townhouse, or apartment homes. One can also easily notice Metro Central has the priciest homes whatever home types are concerned. Reasons? A few well-to-do (thus pricey) neighborhoods are located there. And this in turn might have something to do with Yonge Street, which is not only ‘the’ major route running up and down the metro and beyond but is ‘centrally’ situated too.

As a macro suggestion, and assuming one’s budget is ‘generous’, Metro Central should be in the investment radar. As to exactly which neighborhoods or what home types to go for, one needs to ascertain their suitability to one’s investment strategy, risk appetite, and portfolio mix etc. Work with relevant professionals on these issues.

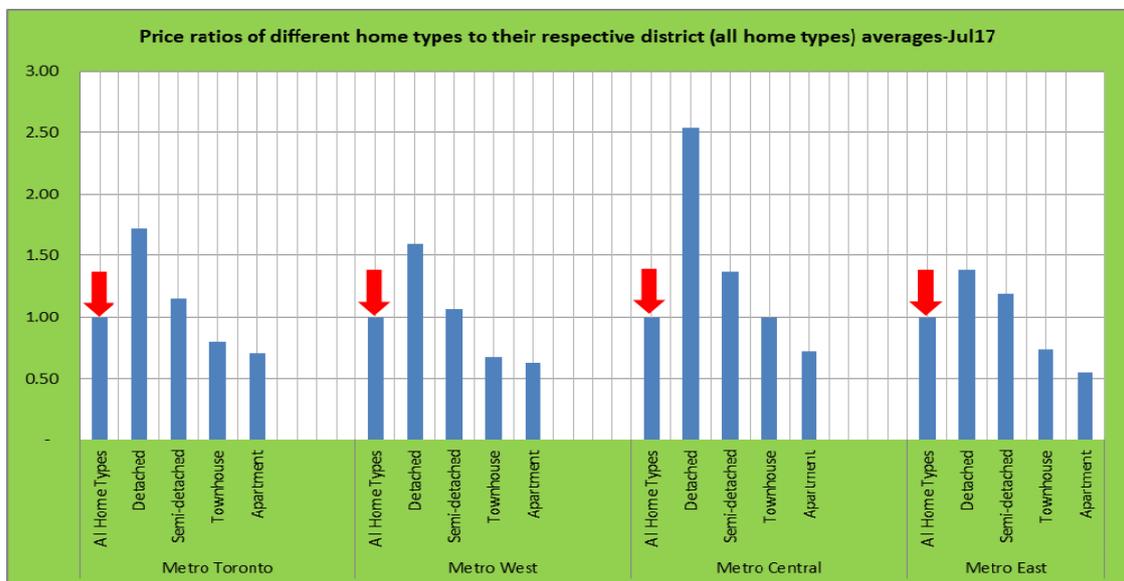


Chart B: benchmarked to the averages of “All Home Types” in the respective regions

Chart B is similar to Chart A but with one difference: each home type in a metro region (namely West, Central, and East) is compared to the “All Home Type” of the respective metro region, thus the four red arrows pointing to four “All Home Type” benchmark of 1.00, each to one metro region plus one for the whole of Metro Toronto.

Broadly speaking, the differences between the price ratios of the various home types in either West Metro or East Metro are not overly significant. For instance, in both regions, a condo apartment requires approximately 40% of the price needed to buy the typical detached home in their respective regions. However, that is not the case with Metro Central. Its condo apartment costs only around 30% of the price of a typical detached home there, and this is largely because its detached home is way ahead of its counterpart in either West or East Metro. Stating the obvious, very roughly the budget for a Metro Central semi-detached home might fetch a detached in either West or East Metro, or for that matter, a townhouse for a semi-detached, and a condo apartment for a townhouse. In short, leaving Metro Central, a homeowner can exchange his home for one grade higher in terms of house type or size.

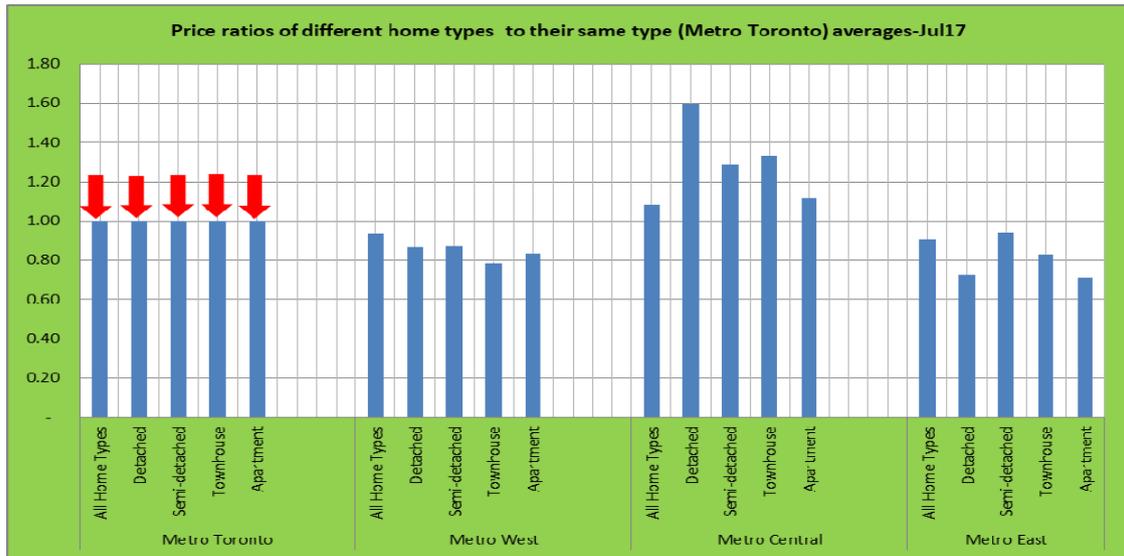


Chart C: benchmarked to the averages of each home type in Metro Toronto

Chart C: shows how much (or less) a particular home type in a particular region might cost versus the metro average prices for the particular home type. Again, Metro Central stands out as being the priciest, and its detached home stands out among its other home types.

Summarizations:

- 1) These charts confirm the price hierarchy i.e. detached being pricier than semi-detached, semi-detached > townhome, and townhome > condo apartment. No surprise here.
- 2) Homes – of all home types – in Metro Toronto Central are on average higher than their counterparts in either Metro West or Metro East regions, given well to do neighborhoods such as Forest Hill, Rosedale, Bridle Path, and the like are located there.
- 3) Detached properties in Metro Central not only stand out as being the priciest in the whole metro area, but are also disproportionately priced above the other home types in Metro Central. It is also these properties which have seen some of the bigger price adjustments in nominal dollar terms.

Compared to some other cities of similar scale and quality, Toronto offers a good price bargain in real estate especially from livability, amenity, environment, and lifestyle angles. It also has scale (Metro Toronto has around 3m people, if the rest of GTA is added, then another 3m or so, and if outside-of-GTA towns and counties yet whose economics are tied to Toronto are included, add another 2m to 3m) and is economically vital to Canada and parts of North America.

How much of a bargain? Refer to this: <https://condos.ca/blog/record-real-estate-prices-bring-toronto-into-world-class-market/> [There is a chart which compares the typical price per ft² of various cities around the world. Do note the article is dated March 2017 thus some of the observations therein might not reflect the current status].

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Hong Kong real estate: how the housing estates actually perform

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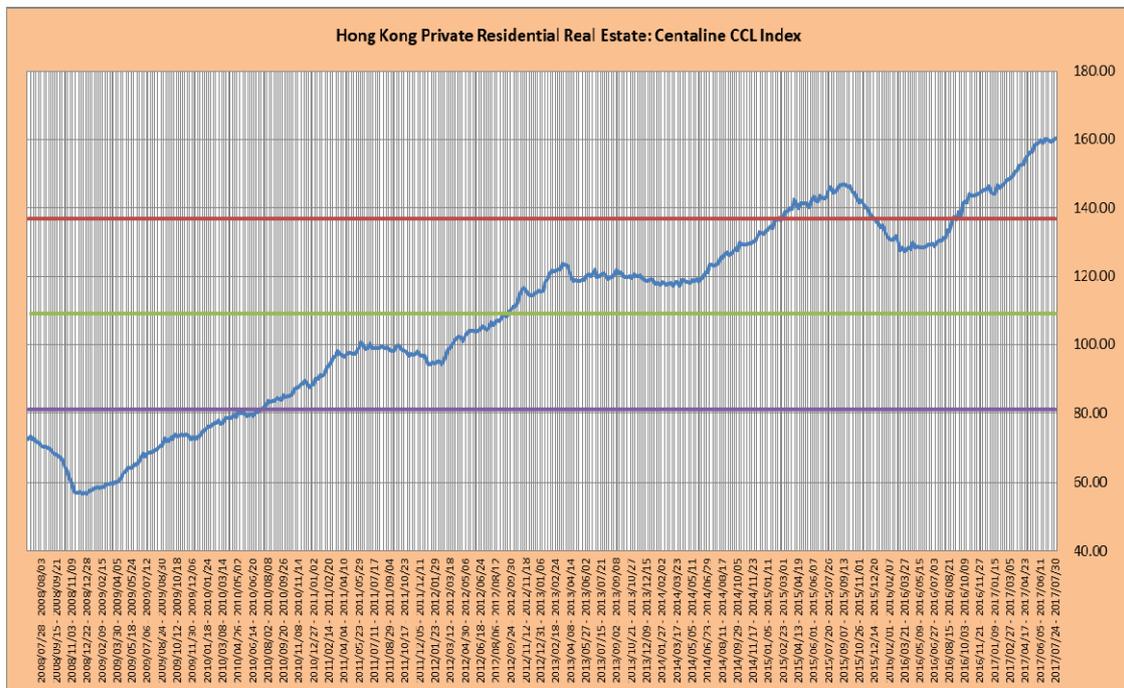
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Hong Kong (your humble author's)

It is about time to take a look at the Hong Kong private residential real estate market. First, a chart based on Centaline's CCL Indexes from June 2008 to July 2017 (this year):



Apart from two rather obvious price drops observed in 2009 and again in 2016, private residential real estate prices have been on the march up since mid-2008. On average, someone who bought into the market in June 2008 and had held onto the property since then would by now have gained around 120%.

But what are the three straight lines running across the chart? They are, from top to bottom, a) the high standard deviation level; b) the average (of the indexes in the period); and c) the low standard deviation level.

The standard deviations are there to give a sense of the price fluctuation range (volatility) – a measure of price risk - during the period. Putting it another way, the space between the high and the low standard deviation levels represents the price range within which the residential prices have been fluctuating 'most of the time' during the period.

As such, the current (July 2017) price level has protruded the high standard deviation level i.e. it is now outside the typical price range. Technically, this might – not must – imply increased and high risk, notwithstanding mathematically an index which has been trending up most of the time during the period would likely have its latest price level being above the high standard deviation level. In any event, investment caution is called for.

How have the private residential estates been fairing?

While overall the private residential real estate market has gained 120% during the last nine years or so, it doesn't automatically follow that every property and thus every homeowner-investor has gained at the same rate. Some gained more than 120%, and a few gained way above this. There are also many who have gained less, and much less in some cases.

Therefore, here we shall offer the average price (per ft² basis) performances of close to a hundred housing estates in Hong Kong categorized into four geographical regions of Hong Kong Island, Kowloon, New Territories East, and New Territories West. The period starts from June 2008 to July 2017 and we shall show them in graphic charts. The data comes from www.centanet.com.

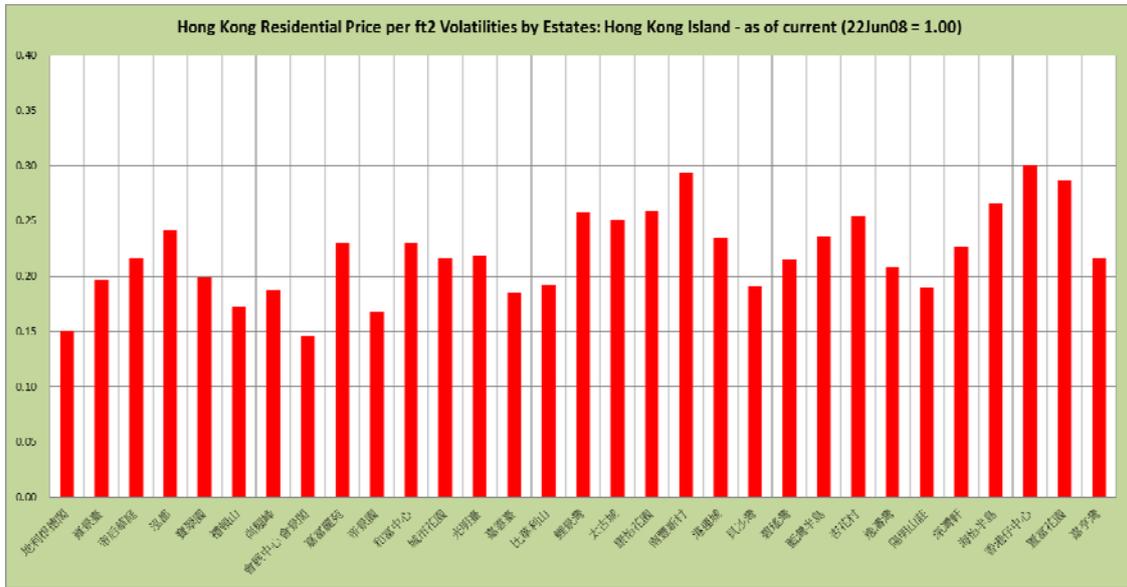
A few technical notes, first

There are four charts for each region of Hong Kong Island, Kowloon, New Territories East, and New Territories West:

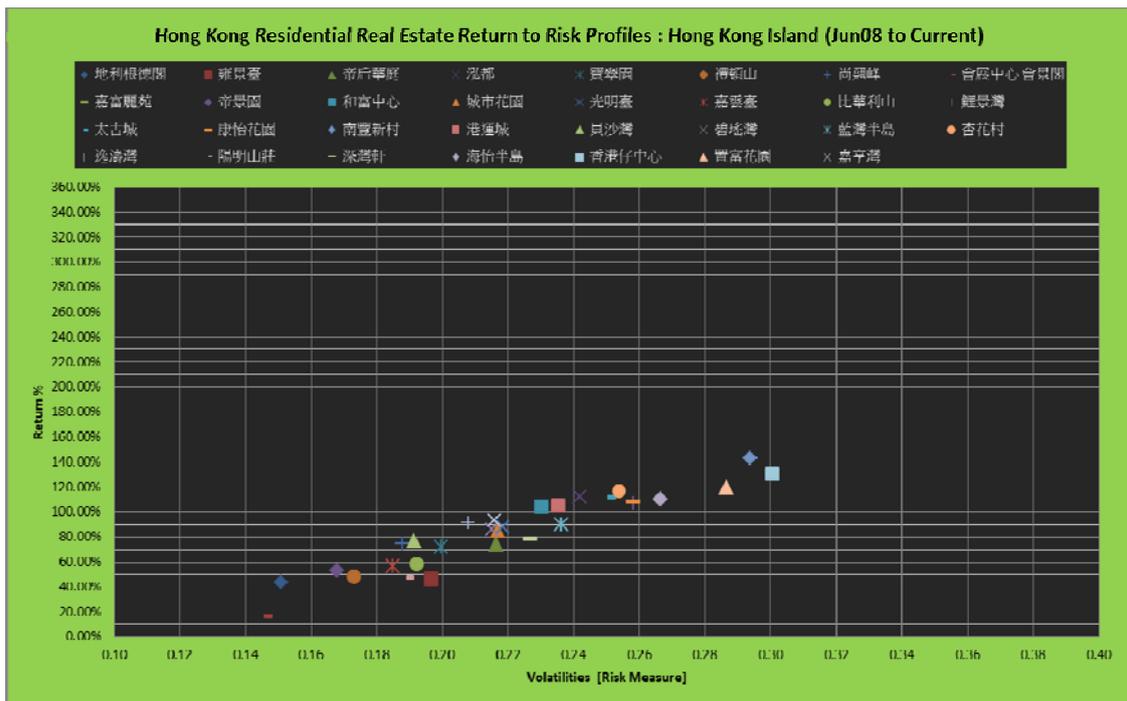
- a) The price performance (based on HK\$/ ft² gross) indexes of the selected private residential estates starting from June 2008 (deemed as the base year index of 1.00) to July 2017;
- b) Their overall price gain in percentages during the period;
- c) Their price volatilities [a risk measurement, and the higher the value, the higher the risk perceived] during the period; and
- d) Their return to risk ratios by plotting the values of (b) and (c) together.

Charts (a) and (b) are easy to comprehend. Charts (c) measures the price volatilities (fluctuations) of the residential estates via the use of standard deviation thus offering a sense of price risk. Chart (d) combines the readings of (b) and (c) for each residential estate thus we can gauge the return to risk ratios and profiles of the residential estates and how they compare with one another in terms of their investment competitiveness.

For ease of comparison between the districts (Hong Kong Island, Kowloon, and the New Territories both East and West), the charts of the same nature (a, b, c and d above) share the same scales.

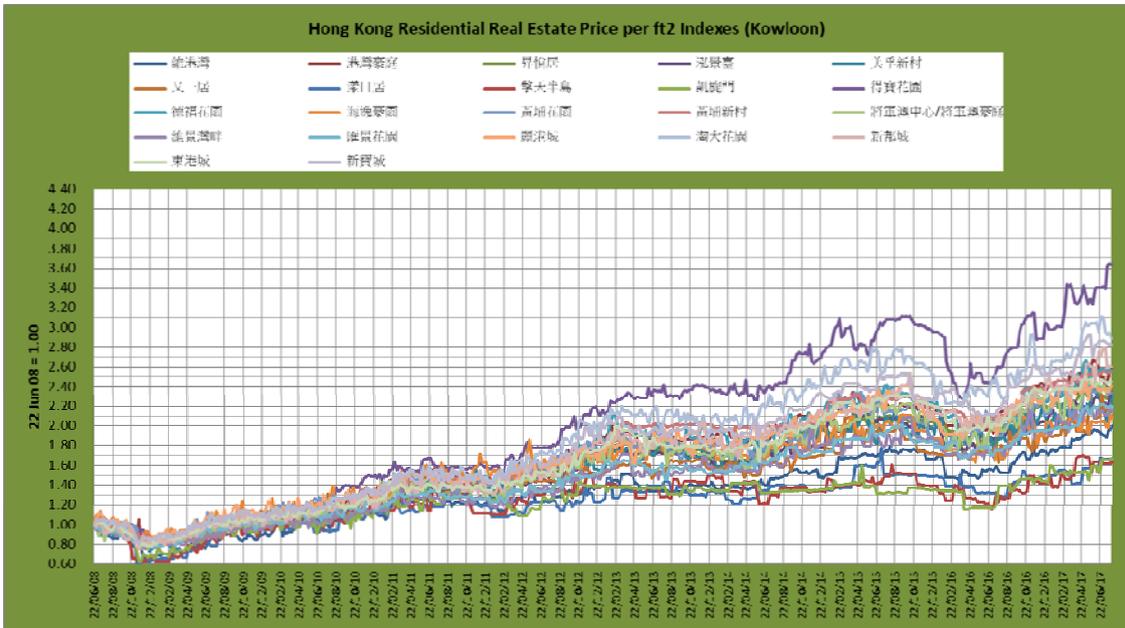


Hong Kong Island (c)



Hong Kong Island (d)

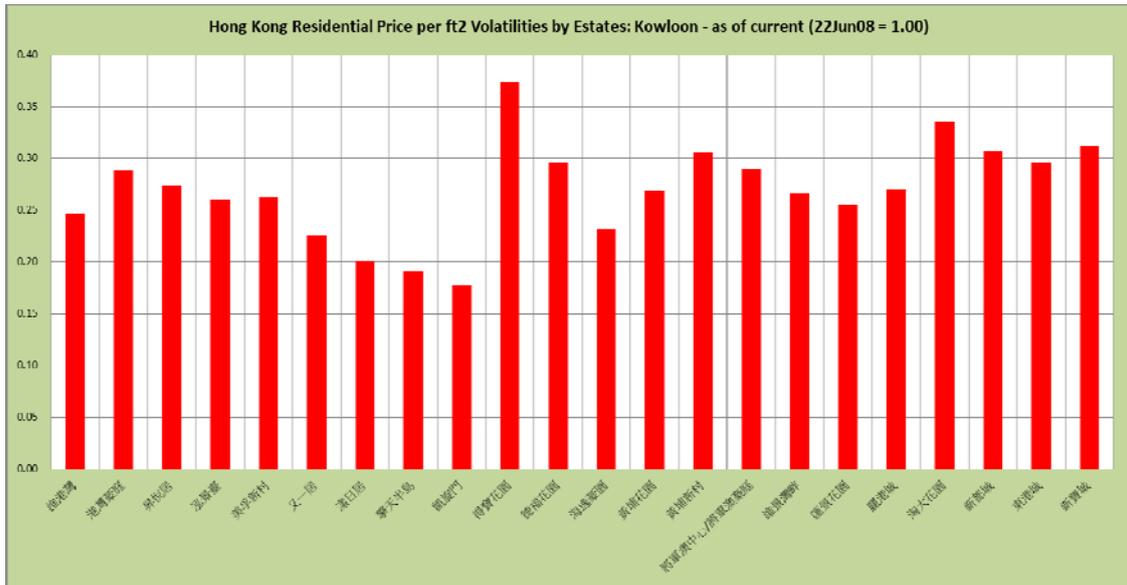
Kowloon



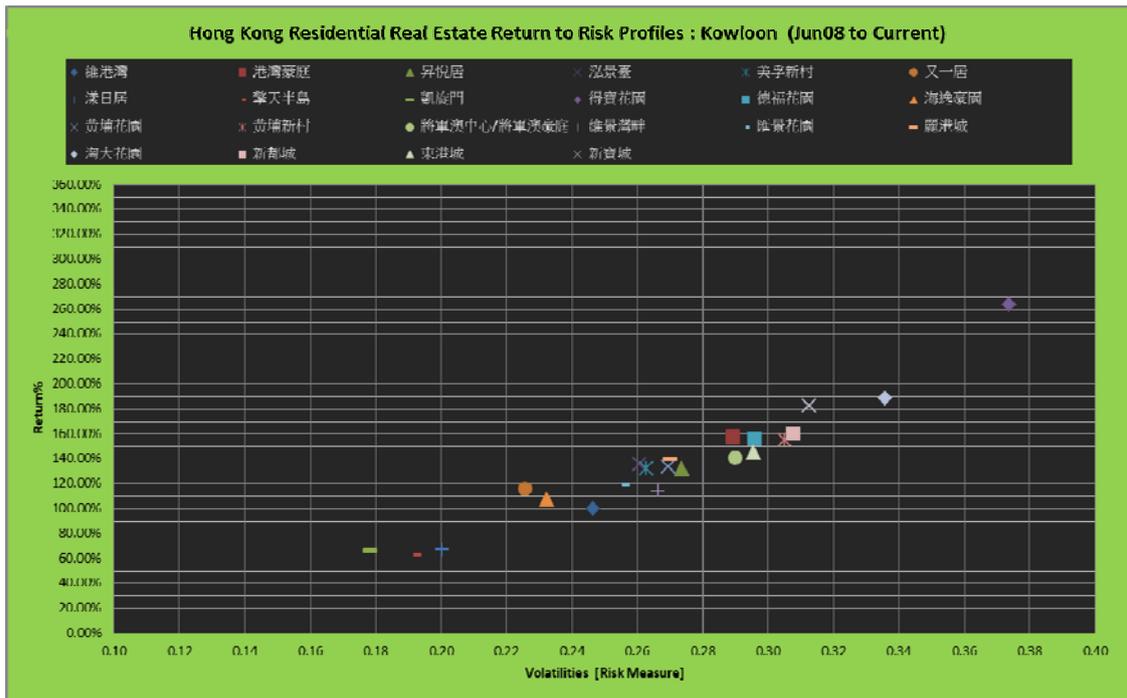
Kowloon (a)



Kowloon (b)

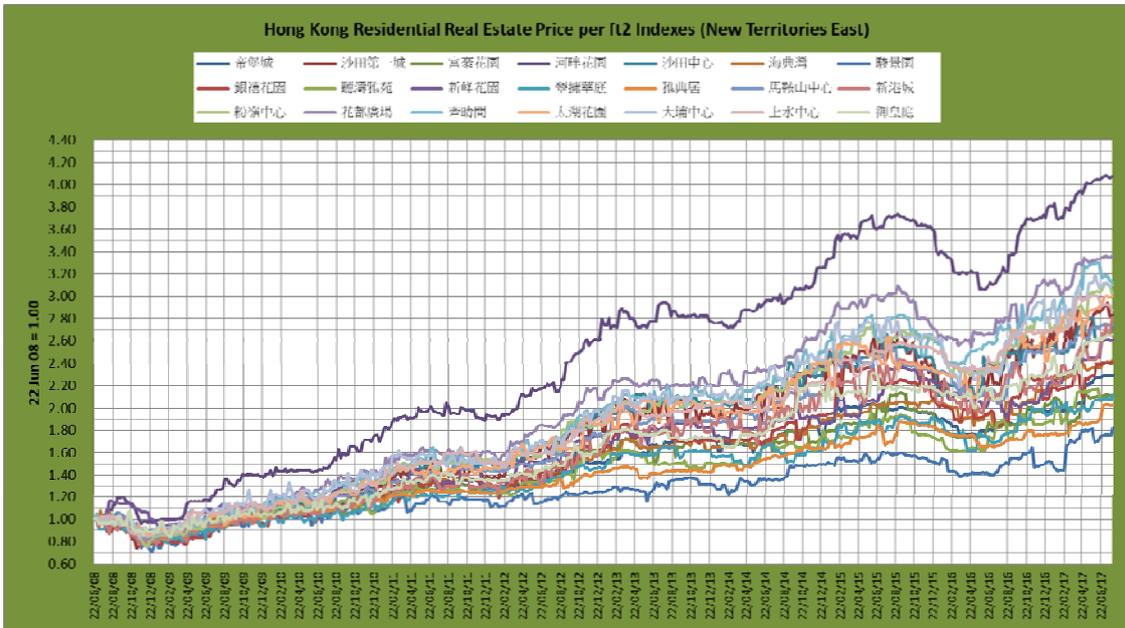


Kowloon (c)



Kowloon (d)

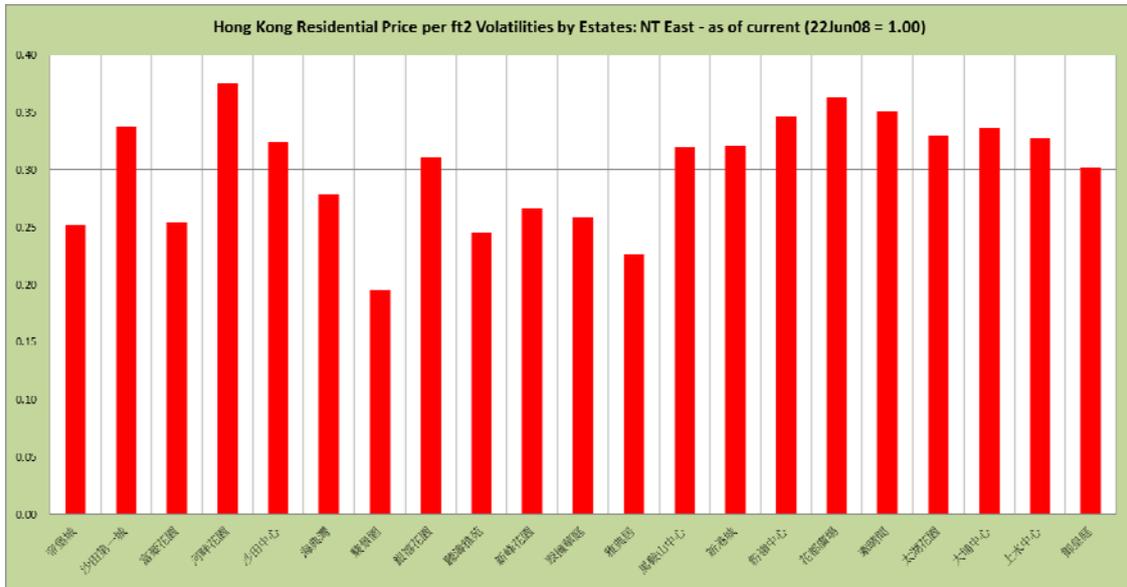
New Territories East



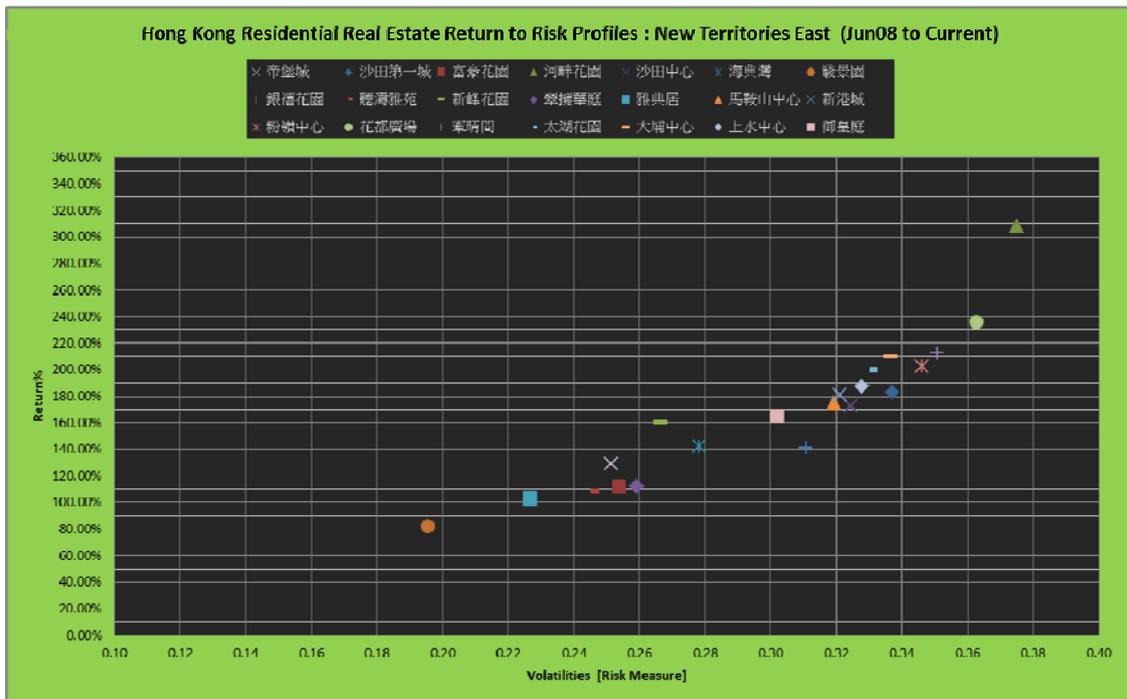
New Territories East (a)



New Territories East (b)

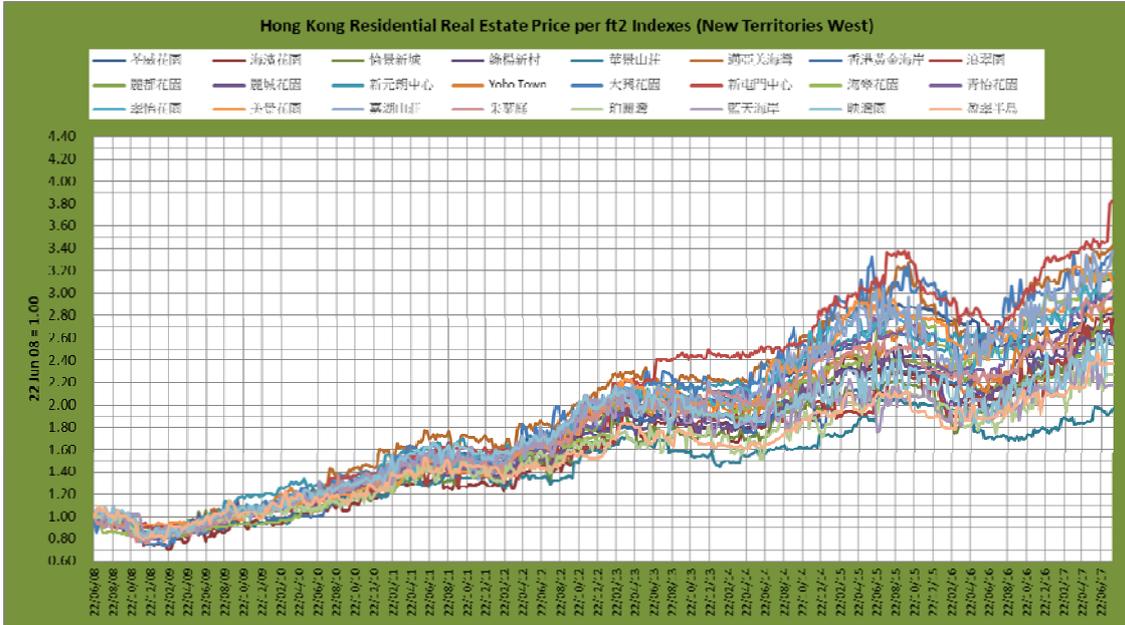


New Territories East (c)



New Territories East (d)

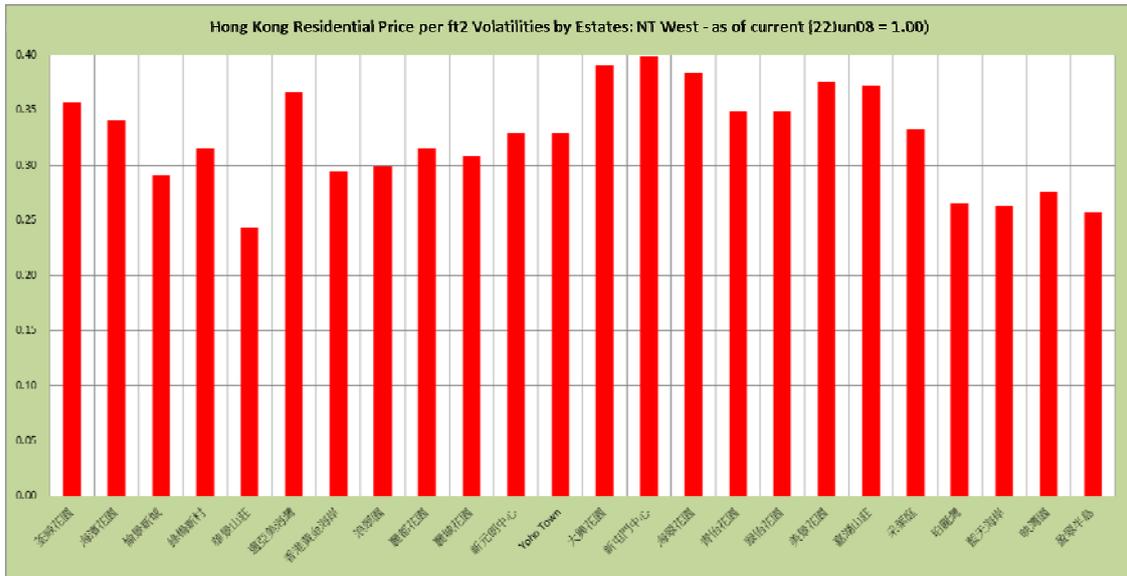
New Territories West



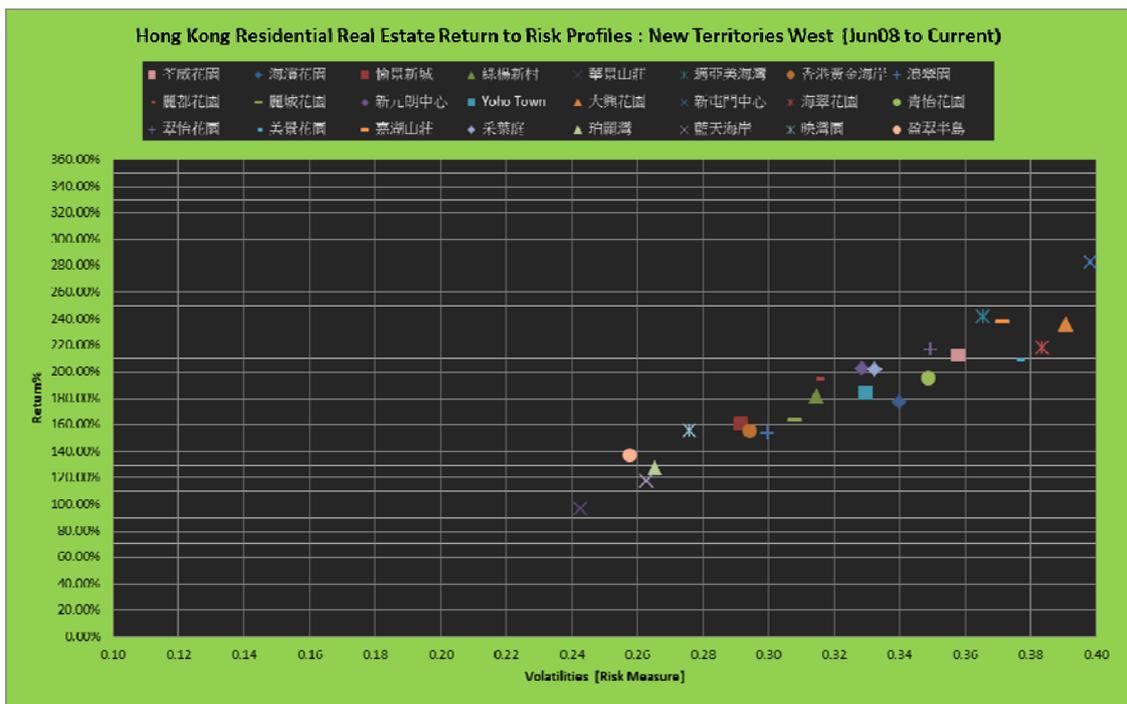
New Territories West (a)



New Territories West (b)



New Territories West (c)



New Territories West (d)

Several observations

1) In terms of average price returns [the higher the better], Hong Kong Island performs the least followed by Kowloon, while the New Territories perform best with the West slightly ahead of East.

2) In terms of price volatilities [the lower the better], Hong Kong Island is the least volatile, followed by Kowloon, while the New Territories are more volatile, again with the West being slightly more volatile than the East.

3) In terms of the return to risk ratio i.e. how much return for one unit of risk, the pattern is – as in (1) above - NT West > NT East > Kowloon > Hong Kong Island.

The table below sums up the above:

Regions	Price returns %	Volatilities (Risks)	Return / Risk
HK Island	86%	0.22	3.78
Kowloon	135%	0.27	4.90
NT East	168%	0.30	5.46
NT West	186%	0.32	5.65

In short, if one has been investing in Hong Kong residential properties since June 2008, one would likely, on average, have gained more in price appreciation by investing in New Territories residential estates than in Kowloon ones which in turn beat those in Hong Kong Island (at least based on the residential estates selected herein).

Also, given many of the New Territories residential estates have smaller sized units, it may be prudent to say that smaller units to date appear to offer the investors [a better chance for having] a higher price return.

As to whether the above trend i.e. smaller sized units in the New Territories outperforming others will hold in future, this remains to be seen. So far, the trend appears intact.

Return and risk go hand in hand

Looking at all the (d) charts above, one could see that return and risk go hand in hand i.e. the higher the return, the higher the risk, and vice versa. It would be marvelous to have residential estates which prices display a “high return, low risk” combination, but this is not the reality. Suffice to say one can differentiate the residential estates into three broad return to risk groups, namely low return low risk, mid return mid risk, and high return high risk.

Which group should one shoot for? No definitive answers. If one is conservative and tends to worry a lot, perhaps the low return low risk group of residential estates are best. Conversely, if one is aggressive and can sustain losses both financially and psychologically, go for high-high.

Contrarian? Then seek larger sized units on Hong Kong Island.

What about timing? That’s another story for another day.

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