

Zeppelin's Real Estate Tech

4Q 2011: A Real Estate Newsletter by Zeppelin Real Estate Analysis Limited

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The EU is troubled by the immense national debts which are held by various member nations and there have been riots here. Meanwhile, there is a "Occupy Wall Street" movement which has since spread worldwide. Markets have also been behaving volatily. In this issue:

- **Hong Kong Residential: When 1st Hand Sales \$ > 2nd Hand Sales \$...**
- **China Residential Real Estate: Getting Smaller and Pricier**
- **Global Economy: Let It Be!**

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](#), [Quamnet Magazine](#), [The Standard](#), [MITCRE Alumni Newsletter](#), the [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 [i-Money](#), [Radio Hong Kong](#), and [Commercial Radio](#). We also publish monthly articles and analyses in the months in between. This newsletter is now into its [16th year](#) and [61st](#) 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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Real Estate Website Developer, 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

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: When 1st Hand Sales \$ > 2nd Hand Sales \$...

Real Estate Tech, 4Q 2011

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November 2011 is an interesting yet peculiar month in that it is the first time in 8 years that the total transaction proceeds from 1st hand private residential sales exceeded those of the 2nd hand residential sales, based on online reports in www.centanet.com of Centaline Agency.

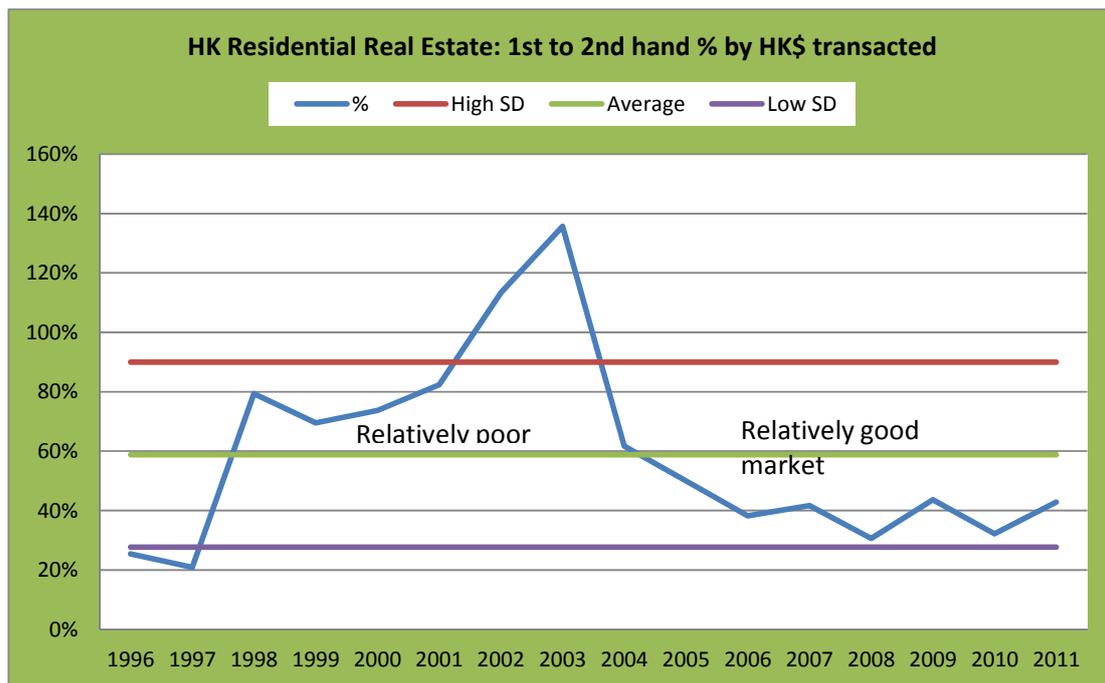
Numbers-wise, the figure for the 1st hand sales hovers at HK\$18.50B while that of the 2nd hand is HK\$15B. The difference is nothing to sneer at as it represents an extra 23% gap.

Nonetheless, this leads to certain curiosity on the part of your humble author:

- 1) Does this mean real estate developers have now decided to market, sell, and price more aggressively? If so, why?
- 2) Is there any observable pattern between the ratio of 1st hand residential sales to 2nd hand residential sales and the market condition at the time?

Dealing with the second question first, yes, we do think there is an observable pattern: in better economic times, 1st hand sales proceeds tend to occupy a smaller portion compared to the 2nd hand sales market, whereas in poorer economies, the reverse occurs.

One only has to look at the [chart below](#). On or before 1997 when the market was heated, 1st hand sales proceeds registered less than 20% of 2nd hand sales proceeds. However, during the period from 1998 to 2003, the percentage shot up and even surpassed 100% in both 2002 and 2003. Then, when the poor times finally ended, the percentage dropped back to a more 'normal' range hovering around 30% to 40% mostly.



One may also read the above in this way: real estate developers build residential properties mostly with a view to sell, and holding onto tens of thousands of units for long term rental investment is unlikely to be their preferred 'cup of tea'.

As such, in better times, they tend to sell the units they develop. Admittedly, some may hold back certain units for later sales if they think prices would even be higher, however, they cannot hold back all units as this would affect their overall company operations and thus eventually their stock price performances. In poorer times, the strategy may even be to sell as quickly as possible.

Furthermore, there is always a demand and supply lag. For instance, projects started prior to 1997 could only be sold or completed after 1997 i.e. when the market headed south. Likewise, the tightened land disposal policy adopted after 2003 might have added extra heat to a recovering economy via making property supply scarce.

Moreover, when times are good, the demand can only be satisfied with involvement from the 2nd hand market sector, thus leading to a lower 1st hand percentage, and when times are bad, the aggressive 1st hand unit pricings could sometimes be lower than counterpart secondary market units, thus taking buyers away from the latter and contributing to the higher percentage of the 1st hand sales proceeds.

Now to the first question: Yes, we do feel there is a tendency among some real estate developers to dispose of their units expediently, in particular for projects in non-core districts.

As to the reasons, we do not have the means to speculate on them. However, common sense tells us in these times of uncertainty and in view of probable (black swan like) crises, it is only natural to liquidate one's products in order to stack up some cash in case the eventualities do arise.

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China Residential Real Estate: Getting Smaller and Pricier

Real Estate Tech, 4Q 2011

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Just like Hong Kong! Your humble author has been looking at some data on www.Reidin.com comprising sources such as CRIC and CREIS and this trend of smaller flats for more money has been detected in many of the cities observed.

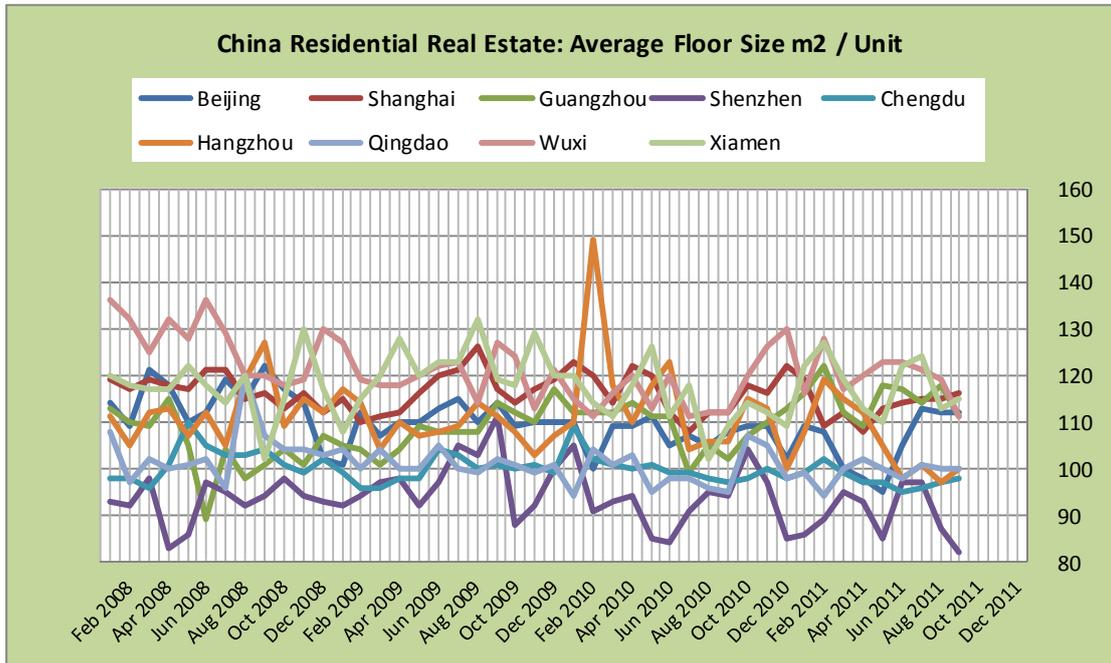
Factors include the earlier rule of 90 / 70 i.e. 70% of units needs to be no larger than 90m² in floor size and the increasing prices, until recently that is. The latter price trend implies that affordability could be getting difficult and as such, real estate developers are left with a choice of either selling larger units to fewer buyers or reducing the average size and selling smaller units to more buyers.

Here we shall use the following nine cities as examples, namely Beijing, Shanghai, Guangzhou, Shenzhen, Chengdu, Hangzhou, Qingdao, Wuxi, and Xiamen:

A) The average floor size of residential units has been on the decline = notwithstanding the above cities could start at different commencement points and finish again at different terminals.

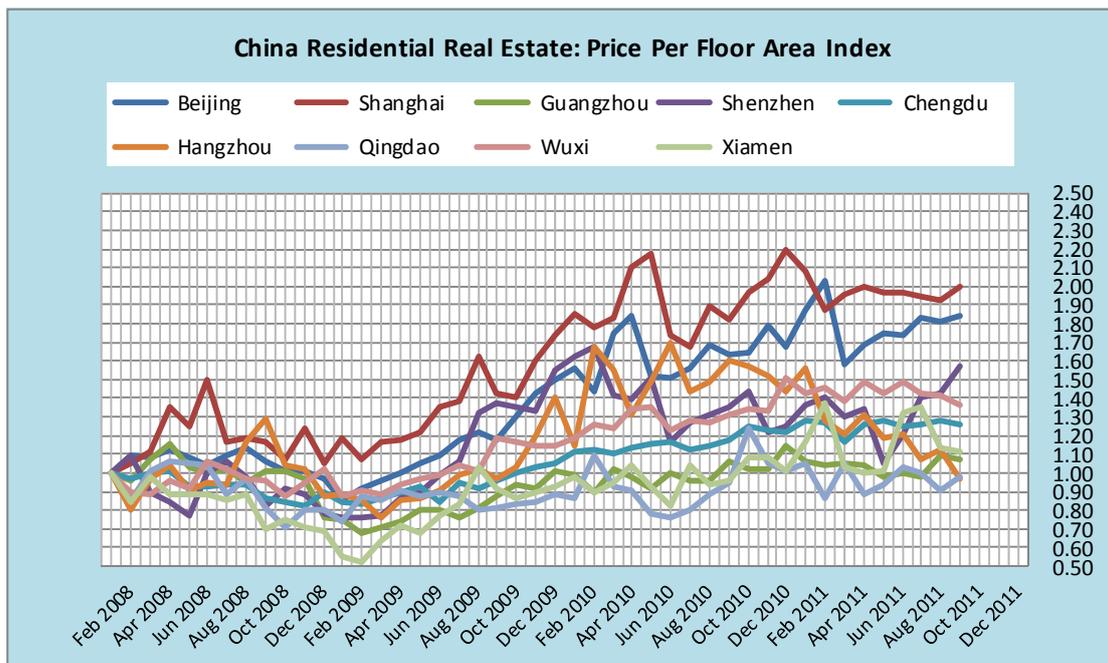
For instance, in January 2008, the average unit size in Wuxi was 136 m² [1 m² = 10.76 ft²] while that of Shenzhen was 93 m². Fast forward to September 2011, the former now has only 111 m² while the latter is around 83 m².

Refer to the graph below.



Also, such trends are not uncommon. Cities whose economic prospects are realized often demonstrate not only higher real estate prices but also more 'economically sized' units. Examples are plenty e.g. Hong Kong, the Big Apple, London, an even Toronto now has on offer 3 bedroom condominium apartment units of less than 1000 ft² in net floor area.

B) On a price per floor area basis, Beijing and Shanghai offered the higher increases = using 2008 as a base, both Beijing and Shanghai unit floor prices have shot up more than 100% while those of Shenzhen and Chengdu expanded around 50%. The rest were comparatively lackluster.



Given the current rather dim global economic prospects, and the seemingly oversupplied residential market sectors, not to mention some of the high pricings and financial risks, one default mode to consider taking would be “not to invest unless convincingly persuaded or enticed to do otherwise”. Do so with a long term view too. Also, consider focusing on the larger (than 90m2) units which quantities are supposed to have been restricted.

While we remain optimistic of the long term (say 10 years) economic prospects, we do not entirely rule out the chance of having some unexpected downturns and thus harder times ahead. After all, China is not decoupled from the global market system.



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Global Economy: Let It Be!

Real Estate Tech, 4Q 2011

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Let's sing to the good old tune of the Beatles' Let It Be...when I find myself in times of trouble....

No, no, this is obviously not a karaoke session but we just wish to borrow the song's title to express our view, or suggestion if you like:

Letting it be means we do not think the various measures taken to combat the effects and consequences of the various financial bubbles and economic crises to date have worked, or for that matter, will work.

As such, it is perhaps better, especially now that many liquidity measures have been tried and tested (proving themselves to be not even capable of treating the symptoms let alone the disease), to go for the inevitable collapse and start things all over again.

Yes, this will be extremely painful (thus increasing the political costs which in turn make politicians hesitate) yet isn't this what the West was preaching to the East during the Asian Financial Crisis of the late 1990s? Perhaps it is always easier to tell other people to go for major surgeries or to take certain bitter pills.

Despite all the QE1, QE2, OT, the Greece debacle, and whatever measures taken in between, we still have a European Union on the blade's edge, a USA struggling still despite having printed lots of money, a zombie-like Japan, and even a questioned-suspected China, once being touted as the savior growth engine.

We now have the central bankers from 6 countries / regions joining forces and promising more liquidity. Perhaps this time it may work, but then again just perhaps.

IF printing more money would solve economic-financial problems, then logically we do not need to be wary of financial bubbles and economic crises. Each time something catastrophic comes up, just start the money press...if life was that simple.

Some of the reasons are as follows:

A) EU = its demise is a done deal. And this is irrespective of whether it is eventually broken up into smaller pieces or maintained together still pretending to be a union. The problem is not only economics or finance, but also culture and politics. In short, save for except a minority of Europeans who see themselves as European first (then German, French, Italian etc second), most still regard themselves first as citizen of a certain European country and then, if so, European second. Contrasting this with the Americans, almost all would call themselves Americans first then a native of whatever state, city, or town from which they hail.

The concept of a EU is actually quite a noble one and this has its roots in recent history. Briefly, after two World Wars, plus the post-WWII Cold War and the Iron Curtain, it made sense for (West) Europe to stick together not only militarily to avoid internal wars and prevent attacks from the other block, but also economically, and eventually politically too.

Yet there are a couple of hurdles in the last aspect. First, politics inevitably relates to cultures which in turn are deeply ingrained in the various long histories, not to mention the various languages. Getting such a diversified group of people to see themselves as union members is a tough call. Second, the WWII generation, and to a lesser extent, the baby-boomers, who would most likely be staunch supporters of a greater union, are either passing away or aging. It is doubted if the subsequent generations appreciate the need for a union as much.

Putting it simply, if Europeans want a union, they would need to pay for it here and there. If these prices are not to be paid, then they will not have a union. Wanting a union and not willing to pay a price is a delusion. As a side note, Germany will likely increase in influence regardless.

Which way it's going to be, fellas?



B) USA = many people cite the 2008 financial tsunami as a failure of capitalism. We think they are wrong. Because the Wall Street type of operation is not capitalism at all, a pseudo form at best. It violates one cardinal rule of capitalism. Whether by skill or luck, one gets to keep the spoils from a right investment bet but also becomes responsible for all the losses from a wrong bet. We do not observe this being practiced there.

As such, unless the real capitalistic practice is 'reinstalled', (part of) the USA economy and society at large would always suffer from certain economic-financial inefficiencies and at times (sanctified) financial malpractices.

Many also see the issue as a conservative-right-Republican versus liberal-left-Democrat contest, with both groups believing, or at least promoting, the idea that all will be well IF their side gets to win and rule. Again we think they are wrong.

First, and notwithstanding our preference toward a free market capitalistic economy, in practice all economies have varying combinations of right and left structures and policies. Pure right or left systems did / do not exist, not in America and not even in the Soviet era.

Second, the USA demographics are changing. Whether it is tax cuts or more welfare spending, the effects from (or reactions to) them could be different from those of previous generations. For instance, when the society at large is young, lower taxes may spur more entrepreneurs. However, when the population is graying (though to a lesser extent than other developed economies), lower taxes may have less response in terms of entrepreneurial spirit. That is to say, whatever stimulus applied may not induce the desired economic outcomes.

Instead, we view the issue through Richard Dawkins' Selfish Gene theory. Briefly, there are 3 types of beings: 1) Cheaters who only take and not give much back; 2) Suckers [or Saints if you like] who give without expecting any return or requiring the other to reciprocate; and 3) Grudgers who will reciprocate but will shun cheaters who do not.

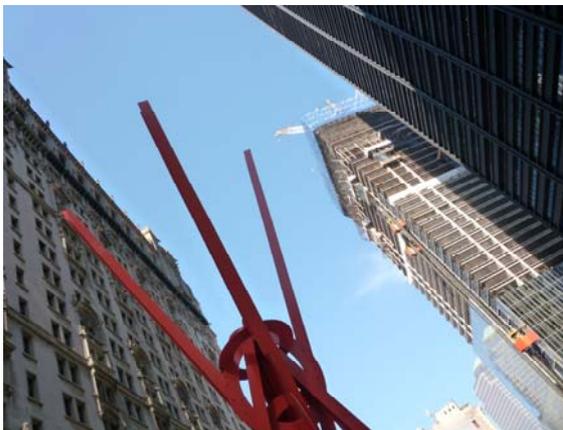
The survivability of the various combinations of beings are: a) All three on their own, the Cheaters will not survive as they do not help out one another; b) Cheaters + Suckers = all die out eventually; c) Cheaters + Grudgers = Grudgers win the day; d) Grudgers + Suckers = both thrive; e) Cheaters + Grudgers + Suckers = the population of Cheaters will be under control due to the Grudgers who will thrive while the Suckers may also have a chance to survive owing to again the Grudgers.

Now substitute Cheaters with people who think they are entitled to receiving certain benefits, especially benefits of an immense nature. These include for instance not only left leaning people wanting welfare and government subsidizes, but also bankers thinking they are entitled to certain levels of commissions and bonuses even if these mean government bailouts.

We are not saying all entitlements are inappropriate, but when such are beyond the resource and ability of the system to offer them, they could be a drain on the overall system, canceling whatever positive effects they may have initially.

We are also not saying the entitlement crowds cheat intentionally, just that their entitlements have the same effect (a drain on the system) as the actions of the Cheaters.

No wonder some Grudgers are now appearing in the form of Tea Party and OWS.



Que Sera Sera

Most of the developed countries have been in some form of financial-economic trouble since 2008 and the tunnel ends are not in sight. The countermeasures taken to date, which boil down to printing more money to increase liquidity, have not worked.

Rather than prolonging the suffering and postponing the reckoning, isn't it time to consider performing the proper surgeries and taking the right medicine?

In short, declare bankruptcies, take losses and responsibilities, and start from there again.

And for civilization's sake too, but that's another story for another day.



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