

Competitive Traits of Increasing Importance for Real Estate Developers

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The previous three months have been very interesting with the economic and real estate profiles taking drastic U-turns. Should these new profiles imply fundamental changes as some economists have put it, the real estate development industry would need to adjust themselves to the new reality. Some of the probable competitive traits of increasing importance could be :

1) **The Ability to Develop as much and as fast as possible will be more valued** than the Land Bank = Before, developers with relatively small land banks are less preferred by stock investors to ones with sizable ones. In future though, the ability to seize upon opportunities and realize such opportunities quickly will be more treasured, thus minimizing an individual project's risk exposure. This is NOT to say that a good quality land bank is not vital anymore, it is just that the mere accumulation of a large one will not necessarily lead to profits and thus high share prices.

2) **Improvements in and Wider Use of Real Estate Financial Analytical Tools =** Hong Kong developers are known for their shrewd business skills and acumen. Yet, this is not a substitute for the more technical (and thus somewhat duller side of the equation) financial analysis. Macro factors which have led to significant appreciation in real estate prices over the years helped mask some of the deficiencies in the analytical areas yet these factors may or may not come again. While by no means are technical analyses sufficient on their own, and a good business sense and commercial intuition are still essential and valuable qualities, they would provide a system to identify the various risk/return combinations, their rough possibilities, and the potential cash flow pitfalls (bearing in mind many sound businesses fail due to cash flow problems) so that fall-back strategies may be incorporated where feasible. Such analyses can be performed on the macro-market, portfolio and/or project level.

3) **Identification and Incorporation of new useful building systems and technologies =** while buildings today are generally better and in many cases fancier than those built say 10 or 20 years ago, the common incorporation of new advanced building products and systems is not apparent still except perhaps in the most luxurious projects. While it is reckoned that cost could be a major factor, the general lack of concerted interest and effort to find ways to build a better product (i.e. buildings) among some could also be the reasons. This may change as competition becomes even more keener.

The above does not imply a total 180 degree change in industry outlook yet the recent financial turmoil may force a review / re-evaluation of the assumptions underlying the business. Those who are able to adapt and persevere will be the likely ones to profit from future opportunities, albeit having to go through a tougher period.