

## **Biting the Bullet Would Rejuvenate the Hong Kong Real Estate Market**

Real Estate Tech, April 1998.

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There are broadly 2 patterns of cyclical behaviour : (a) Volatile and (b) Gentle. Combining volatility with a growth economy, high risk and return real estate development and investment opportunities will be abound, thus creating huge wealth for many. Combining gentility with a mature economy, real estate investment will usually be a low-medium risk and return venture providing a good steady but less exciting cash flow. Which is better is all in the eyes of the beholder : if one is aggressive, then the former market is more suitable; if one is conservative, then the latter is probably better.

When an economy and thus its real estate market reach their more mature stage, both growth and volatility will be reduced relative to their previous state. For such a market to be rejuvenated (Whether this is possible depends on circumstances and whether this is desirable is up to each individual to judge), either or both of the following scenarios is / are required in addition to other broader factors such as world economy, money supply and interest rates, room for increased productivity and consumption, and so on :

(1) That there is **another larger role or higher phase** which the economy may play or evolve into e.g. Hong Kong as an industrial city had matured in mid 1970s yet this was when it also began to develop into an international financial center.

(2) That the **prices of assets including real estate in the economy are still “competitive”** (please note this does not imply having to have similar price levels as competing economies. It is the “relative worth” which counts) and there is much room for realizing hidden derivative values from local, regional and global perspectives.

Should these scenarios not be applicable, and yet if one still wishes for a more vibrant market / economy, biting the bullet (and taking the opportunity to trim off ‘fat’, improve productivity / competitiveness - not just in prices but also in knowledge, skills and attitude - and realign the use of resources etc) remains a viable (and perhaps the only) option [Please note this does not mean the economy can be revived by simply lowering asset prices and real estate will still be a “big ticket” item to most households under any economic situation, good or bad]. Certainly there will be much financial pain and many business failures, yet the integrity of the economy is likely to be better preserved because the alternative will be simply to suppress via short-term measures the potential problems and let them “snowball” into even bigger ones later on. The danger of the latter approach is when and if these problems arise, they may be of such magnitude that ‘structural’ damages will be done to the economy. If so, the road to recovery if ever will be unnecessarily extended. To use a medical analogy : when an illness requiring surgery is diagnosed, it is better to have the operation when the patient is still relatively strong and healthy. The patient will suffer but will also recover, sometimes to become even healthier.