What Would Happen to Hong Kong Real Estate IF ....

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(A) **There had been No Asian Financial Turmoil in October 1997 :** the real estate market would still experience a downturn somehow, perhaps at another time months or even years down the road and triggered by some other events or a postponed financial crisis. Nonetheless, the later it comes, the more catastrophic it would be as the risks would have been higher, dwarfing what we have seen so far. We are not saying the current downturn is a blessing ; it is just that a future one will only differ in timing, scale, pattern of events and volatility.

(B) **There had been No Preset Target of Producing 85,000 Residential Units a year** : IF this is a cyclical adjustment, then the absence of this preset target would give the market much support, at least psychologically. However, in an economic restructuring, and beyond certain breakpoints, this target (or the lack of it) would bear little actual influence on the ways prices turn out as other factors such as economic growth (or the lack of it), employment, productivity, real income growth, regional financial liquidity, regional stability and the like would matter more. Its cancellation under the circumstances would only at best bring a **temporary rally (thus eating up more liquidity)** before the economy returns to its downward path. Prices may still go down by another 30-50%*.

(C) **The Currency Peg is to Go** (hypothetical) : Assuming a devaluation, real estate prices would be down (to a western investor) even if the nominal prices remain unchanged. Nonetheless, depending on the degree of devaluation, prices may actually go up after a while if there is an over-devaluation of the currency. Yes, there may be chaos and panic putting Hong Kong’s maturity and perseverance to serious tests yet Hong Kong had gone through similar experiences in the 60s, 70s and 80s when it was much poorer.

Speaking from experience in North America, Hong Kong has actually enjoyed several more years of growth than most other developed economies (hence our senior batch of babyboomers, those now aged 45-53, have been more fortunate than their western counterparts whose real estate assets saw a drastic fall in late 80s / early 90s). If not for China providing hinterland and a growth market, our economy might have followed the Western or North American pattern way back in the late 80s / early 90s i.e. a recession followed by lots of “restructurings” which are still on-going. Hence, this is *an opportunity to re-consider those widely-presumed to be [still] correct but could [now] be wrong working parameters*. Moreover, what has been happening in the USA / Europe can be a useful pointer as to what we can expect though there is unlikely to be an exact repetition. Contemplate this : **Vibrant markets have ups and downs, dead markets don’t!** In turbulent times, business and life will be tougher but not necessarily over.

Note : This article was drafted before the announcement of the latest government economic and real estate measures including the suspension of land sale. ***Please refer to our article published in January 1998 "Sensitivity Relevations on the Hong Kong Private Residential Market".