

Listed Real Estate Stock Prices and Real Estate Prices

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We have recently looked at some figures on Hong Kong publicly listed real estate companies in relation to a research exercise and interesting observations were made in the process. Here are some of them:

- a) **Assumptions and parameters** = Figures dating from 1993 were used including year end stock prices of the largest / top 20 or better known publicly listed real estate development and investment companies in Hong Kong, (residential) real estate indexes from Centaline, nominal GDP per capita figures etc.
- b) Except for a few, the stock prices of most of these real estate companies have **little or no correlation with the general economic performance** as represented by the GDP per capita figures.
- c) The stock prices of the majority of these real estate companies also seem to have **little or no correlation with (residential) real estate prices** in general. Residential prices are used because these real estate companies are mostly residential-focused.
- d) Notwithstanding the above and subject to further detail studies, correlations between the stock prices, real estate prices, and GDP figures **seem higher and significant when only pre-1998 data are involved**. Data from 1998 onwards seem to have a weaker relationship.
- e) **Stock inter-correlations** = The 20 real estate stocks selected could be very roughly divided into 2 broad categories = 1) the **conformers** i.e. stocks that correlate with most other real estate stocks in terms of stock price movements and they form the majority; and 2) the **non-conformers** i.e. the few stocks that do not follow the crowd and have a pattern of their own in terms of stock price movements. Of the latter, Cheung Kong, Hutchison Whampoa (Cheung Kong and Hutchison seem highly correlated on the other hand), and to a lesser extent, Sun Hung Kai Properties are representatives.
- f) Coincidentally or otherwise, **the non-conformers are also among the least correlated with real estate prices or GDP per capita**. That is, their stock performances do not seem to have much relation to how the real estate markets are fairing, or for that matter, how the economy is fairing too.

- g) Coincidentally or otherwise, **these non-conformers have also diversified** into non-real estate investments and businesses, or for that matter into overseas markets, thus perhaps helping them to ride out some of the downside waves. On the other hand, their stock patterns might also be reflective of management styles or resources.

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