

Home Prices Have Little to Do with House Types

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Generally, given any locality or neighborhood and assuming all things being equal, the average price level for different house types in ascending price order would be **a) multi-storey apartment condos, b) townhouses, c) semi-detached, d) detached, and e) estate lots with mansion homes**. This order may also be applicable if one was to use the average floor space or “land content” per unit as ranking criteria. Nonetheless, beyond the foregoing assumptions, home prices have basically very little to do with the house types involved. This can be viewed from several angles:

- 1) **Global Cross-Market Comparison** = using very rough references, a typical home in North America would be a 2,000 ft² detached house, one in (West) Europe would be a 1,200 ft² townhouse, and a home in Hong Kong averages out to be a 500 ft² high-rise condo unit (using and keeping to a net floor area basis). However, it does NOT automatically follow that the typical North American (detached) home, being the largest and occupying more land area, would be more expensive than the European (townhouse) home which in turn would be higher than the Hong Kong (apartment condo) home. On the contrary, save for major cities such as New York City or London, a typical home in North America is around US\$160,000, one in Europe is probably US\$180,000 and one in Hong Kong despite the 60% fall from the peak price level is still going for around US\$250,000. Admittedly, this may not be a ‘fair’ comparison as North American and European continental-regional figures are used to compare with (Hong Kong) city figures, but it serves to illustrate the point here. Home prices have more to do with the economic performance and earning power of an economy (city / country / region) and this explains why an apartment condo in Hong Kong can be several times more expensive than a detached house in a remote county in the USA.
- 2) **Local Inter-Market Comparison** = it is not at all surprising to find condo apartments in the heart of some city centers to be priced several times higher than a detached house of similar floor space but located in a more suburban neighborhood. One can find examples in New York City, London, Paris, and even Shanghai and Beijing. The reason is generally simple; the land price is usually much higher in the more desirable central locations and their supply and possibility of being substituted are more restricted than those of suburban locations. In land economics terms, more people are willing to bid for these locations and with more money. For instance, a wealthy person with US\$500,000 to bid for a house lot in a desirable location will outbid the person with just US\$400,000. Similarly, 5 not as wealthy people each with say \$120,000 can gang up together (US\$120,000 x 5 = US\$600,000) and outbid the wealthy person for the same lot, though instead of one large house they may build a low-rise condo apartment block or townhouses, assuming there is no hassle in terms of housing density or design restrictions. While the large mansion built on a desirable urban location will certainly be pricier than the average house in a suburban location, the now smaller townhouses may command price levels similar to or even exceeding those of detached houses in a suburban location. Again, gauging house prices based on house types is often not a reliable method.

From time to time we would hear people saying that the residential properties in Hong Kong are overpriced, in part because they feel the units are so small = the average price of the private market “home” is a 600 ft² apartment condo with 2 bedrooms complete with living area, dining area, kitchen and bath and located in the New Territories i.e. the suburban areas of Hong Kong. The 600 ft² is counted on a gross basis, i.e. it includes the unit's share of the common floor areas such as lobby, staircases etc. In ‘net’ terms, it could be 450-500 ft². However, this is the wrong way to look at the issue because:

- a) **From an investment point of view**, the aspects considered are items such as net rents obtainable, the capital investment required, the resulting rental yield and so on. House types or for that matter house sizes have little meaning, and investors are likely to go for a small apartment fetching a good rental yield rather than a large magnificent house with few tenants, assuming the same level of risks.
- b) **From a homeowner / user point of view**, a common gauge would be the ‘affordability’ issue taking into account relevant income, mortgage rate, home price, percentage of income for housing and so on. Again, house types or sizes do not figure much.
- c) **Typical house types and sizes vary from market to market**, city to city, or country to country. These can be a result of geography, climate, land topography, land availability, land policy, administrative inclination, economic circumstances, market culture, social expectations, building materials, planning and design preferences, and so on. Sometimes, these may occur even accidentally.

It is understandable that people used to large detached homes may find even a comfortable apartment small and thus not worth the price, but this is jumping to conclusion. Please note by no means are we saying that prices in Hong Kong are undervalued or encouraging investments, it is just that saying it is overpriced because one can always find a much larger house for a smaller price ‘back in where I have come from’ is not entirely a proper way to evaluate real estate.

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