

Real Estate Development Does Not Always Mean Big Projects

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Your humble author had recently been invited by the School of Business of the South China University of Technology as a forum guest speaker and naturally the topic was related to real estate (risks and ways to reduce them). In the process, there were a few questions which the author considers worth mentioning and here they are:

- a) **Real Estate Development does not always mean having to acquire a site and build new or big** = an audience mentioned he was working for a relatively small real estate developer in Guangzhou and he found that it was difficult for the company to compete with the larger developers, especially in terms of capital finance and human resources. He wondered if there were ways around this. Your author confessed he had not had sufficient information on the market to offer any immediate and intelligent solutions other than to say based on observation of markets elsewhere, in particular the more mature markets, both small and large projects exist side by side, and so do the real estate developers. Market segmentation is better defined and while the larger developers can produce thousands of units, the smaller ones may focus on niche developments and the smallest of developers may build less than 10 houses per year. Naturally, the larger developers can usually look forward to a larger nominal profit, the smaller ones at times may produce a just as competitive or even better rate of return, in part due to their better concentration and intimate knowledge of their niche products. Also, real estate development does not always imply large scale land acquisitions or redevelopments and construction. For instance, Lan Kwai Fong in Hong Kong is a case in point.
- b) **China Real Estate Cycles** = an audience was interested to know if there were any observable trends in China real estate. Strictly speaking, real estate markets of any meaningful sense in China have only existed for around 10 years, and as such, its history would be a bit short for observing any long term trends. Nonetheless, with the more recent data, China should probably not be seen as one single market, stating the obvious. For instance, at the time of writing, Shanghai prices were rising while those for Shenzhen were under pressure. Also, while the real estate history of most western economies including North America (and to a certain extent Hong Kong as well) especially in the last 20-25 years could be summed up as = economic growth + baby-boomers getting married and establishing homes + liquidity = real estate boom, any boom for China (if any) is likely to depend on getting more people onto the economic growth paths e.g. from rural economics to urban economics and on the existing better-off cities moving into a next higher economic growth stage and plateau, the latter implying increases in asset prices too including those of real estate.

- c) **China's economy is growing, yet real estate prices have been under pressure most of the time** = an audience wished to know if such a scenario could be sustained. The author is no economist, yet he thinks such conditions cannot last forever. The reasons are first, the author cannot find an economy (country or city) with a high GDP/capita yet having extremely low real estate prices and vice versa, and second, a rising economy with stagnant real estate prices may mean huge mismatches in demand and supply = economic wastages = ultimately affect the GDP and its growth rate, or even the economy's currency and asset prices, real estate included. There is no getting around this.

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