

## Hong Kong Economy Will Recover If Real Estate Recovers?

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**The Hong Kong Government had recently introduced 9 measures**, many of which were expected by the market for some time, to stabilize the real estate market and prices, in particular those of the residential sector. Commentaries vary, some think these would help stabilize the market, some do not, and it is not the aim of this article to dwell on the pros and cons, other than to say that given all things being equal, the market may prefer consistent policies and a relatively fair and open land system.

Among the various opinions, some seem to think that if and when the real estate recovers, so does the economy. Your humble author begs to differ, and here are the reasons:

- a) **Real estate is a derivative industry and it reflects rather than leads the economy** = when an economy grows, people in it generally earn more, thus they tend to acquire big-ticket items such as appliances, cars, and homes with improved income. With further extra money, people will begin to invest in assets, real estate included. Naturally, in these real estate development, investment, and transaction processes, other products e.g. bricks and services e.g. legal are required, thus creating a snowball effect seemingly giving an impression that real estate leads the economy. Yet, tracing the situation all the way back to the roots, the ability of the economy to earn revenues and make money is paramount.
- b) **Even assuming that real estate does lead the economy, there is no guarantee or proof** = that the real estate market improvements, by way of increased transactions or prices, must necessarily generate a multiplying economic effect, or for that matter, pour the money earned back into the local economy. It may or it may not, depends.
- c) **Changed circumstances** = the current conditions and those in 1997 are different e.g. then it was about inflation and economic bubble, now it is about deflation and economic slowness. In short, it is not as easy as performing "system recovery" functions in a computer.
- d) **The question to ponder is whether Hong Kong has what it takes to compete in the future anticipated global / regional competitive environment** = If so, all the better and real estate prices will stabilize some day and shoot back up. If not, then the problem will still haunt us. Are we not still better than most economies in the region? Yes we are but do watch out for competition. Are we doomed to fail? No we are not provided we maneuver effectively and efficiently thus outsmarting our competition, especially in the sectors where we have some edges.

**As for the source(s) of revenues**, probably most will have something to do with being of productive services to trade, investment, and business between China and Western economies. **As for some saying** that one can expect Hong Kong real estate prices to jump significantly (30%+?) in the next year or so, your author does not have the complete details but intuitively harbors some doubts, though the market will be happy to see that happen. Perhaps that would be a good chance for offloading some real estate.

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