Free Homes In 2 and a 1/2 Years

Stephen Chung
Executive Director
Zeppelin Real Estate Analysis Limited
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The title is a joke of course, yet if one is to project a simple straight line for the Hong Kong residential market based on the price performance in the last 5 years, this is what one will get = home prices have dropped some 65% in 5 years' time, so in another 2 and a half years it will be approaching $0. Technically and on a more practical plane, home prices cannot in reality be $0, not even in war as explained by your humble author in an earlier article http://www.real-estate-tech.com/articles/SRS050202.PDF. Prices will at some point harden or stabilize, not necessarily signaling a recovery (it may or it may not) but reflecting a price indifference to further market changes i.e. price inelasticity. As to what that price level is, the author suggests watching out for a few items:

a) **Rental Yields** = these are now in and around 5% range, depending on the type or sector of properties being considered. While such a return is not to be smeared at given a typical Hong Kong$ bank deposit yielding only HK$1 for every HK$10,000 deposit per annum, it is not overly attractive as well especially when there are still perhaps some downside potentials.

b) **Asset Price Risks and the Current Determining Factors** = compared to other forms of assets such as stocks, real estate may currently have a lower risk profile and volatility overall. While there is an oversupply issue especially in the residential sector, it is not exceedingly unmanageable. The current (price) determining factors relate more to the macro economic performance and other non-real estate issues.

c) **(Home-Buying) Affordability is good but this alone does not lead to buying sentiment** = to give an analogy, most readers of this article / website can afford to buy a cup of coffee for HK$200 (US$25), yet most may not choose to do so because of perceived value or the lack of it. To date, it seems most well-cashed potential buyers are sitting on the sideline, as recent market studies indicated the bulk of buyers of newly developed units were first-timers who are not particularly well-cashed with many having to borrow 90%+ (first mortgage + second mortgage etc) of the purchase price.

d) **GDP Per Capita** = seems to be on a down curve still having dropped from a high of around US$28,000 in 1997 to the current level of around US$23,500. While not being a very precise tool, it may signal some / most people are not making the kind of money they used to make. Fewer $ in the pocket mean spending less and / or even saving more. Some turn around here could be a good signal.

e) **Supply versus Demand** = currently it is supply > demand though one has to note a couple of things here. First, supply is easier to measure and project based on approved building applications and so on. Second, demand on the other hand can be more elastic e.g. when times are tough, young people may opt to live with their parents or even postpone plans for marriage etc, and vice versa. In short, demand is more difficult to gauge as the lines separating 'desire', 'need' and 'want' could be blurred at times [Desire + $ = want though may not be needed?]

As a summary, buying a home for own use could be considered assuming not all the considerations are monetary, yet there is still no need to rush in terms of investments.

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