

Out Goes 85,000 and In Comes 91,000

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It was reported in the media that the portion on housing in the latest Government Report indicated **730,000 residential units would be produced within an 8-year period**, thus averaging a bit more than 91,000 per year, in part to cater for the anticipated population growth and perhaps to achieve 70% home ownership. According to some experts and media information, the number is a long-term target and most of the units are (expected) to be produced by the private sector. As such, there will be some flexibility in annual supply. Also, it may only mean that **land sufficient for building the 730,000 units will be made available** i.e. it does not imply strictly building the 91,000 units every year. Hence, **many believe that home prices would be lackluster in years to come**, especially for those in the New Territories as that is where the bulk of the new units will be developed.

While the above sentiment is not entirely without reasons, it is felt that **too much emphasis has been put on the “supply” factor** as if this is the only factor which would influence home prices. A couple of observations / comments as follows:

- a) **Home prices in the long run reflects the economy** (or its performance) = economic performance in turn depends on a host of factors, some of which are macro / global / external e.g. world trade, world politics, the American economy etc, and some are more micro / local / internal e.g. GDP per capita, demographics etc. In summary, it boils down to whether Hong Kong is “competitive” enough to occupy a niche in the global / regional business environment. If the answer is yes, then there is no need to worry too much about home prices provided no huge oversupply is induced. If the answer is no, then there will be problems in even keeping (in real terms) the existing home price levels, let alone enhancing them.
- b) **Production targets are one thing, the actual production patterns are another** = i.e. the actual events seldom turn out exactly as planned, especially when the plan involves a

relatively long timeframe. It is more **likely that the number of units actually produced will either be higher or lower** than the stated 730,000 target, how much higher or lower is another matter. Furthermore, **the actual production timeframe is also likely to be longer or shorter** than the proclaimed 8 years. In short, there will be fluctuations in supply and **there will still be time lags** between demand appearance and delivery of new units to meet such demand, despite better production management or even the use of the internet to better coordinate the processes. The latter is because the production of properties involves many aspects over which the producer i.e. the real estate developer, does not have full control, unlike say computer productions. Unless some form of planned economic measures are adopted, **where there are fluctuations, there will be opportunities for prices to shoot up (or down) more than anticipated**, and this implies potential opportunities to speculate though the risks are higher than before.

As for the 70% home ownership target, and while being a admirable / noble policy in itself, it is felt that getting most everyone to be a home owner may not be a government responsibility. It is said that home ownership induces social stability / societal affiliation, yet it is felt other factors may also play a role. Maybe it is even the other way round, i.e. people will buy their own homes when they feel attached to a society. Further studies and comparisons of home ownership levels and social stability involving other economies / cities may be required.

Please note that the author is NOT saying that home prices will go up (or down) irrespective of supply, it is just that there is more to prices than just supply.

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