

Home Prices Not Expensive, Maintaining Them Requires Effort

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The following has been abstracted from an article that we have contributed to the **Hong Kong Economic Journal** (a Chinese daily).

With interest rate cuts, apparent reduction in government supply of residential units, and relaxation of certain purchase procedures, market sentiment seems to have edged up somewhat. Nonetheless, while Hong Kong home prices when compared to those in comparable economies or to their peaks in 1997 are not expensive, **maintaining the current price levels in real terms requires a lot of effort** and is already not an easy task in itself. Here's why:

- a) **Home prices reflect on the performance of (not lead) the economy** = and this eventually goes down to whether the average income earner (middle class etc) is doing well or not financially = this relates to his / her abilities and capacities to generate revenues, create profits or earn an income = this in turn relates to his / her combination of education, knowledge acquired, skills and aptitude etc. While overall worker competence in Hong Kong may still be relatively better than most of its 'competing' economies, alarm has been raised from time to time by both educational and business figures. If **deterioating standards** in the broadest sense of the phrase are commonplace, then home prices would be adversely impacted in due course.
- b) **Maturing Society** = Hong Kong is maturing, or more to the point getting old. As people age, bearing in mind the first batch of 'babyboomers' are now in their 50s, personal focus, priorities and preferences etc, will shift. For instance, a 30-ish person may concentrate on stock investments and career advancement, but a 50-ish person may tend to focus on health issues and retirement a bit more. Such **tendency shifts** will affect the spending and investment patterns including home prices.
- c) **Demograhics** = Hong Kong's demograhic distribution resembles those observed in western countries or Japan, i.e. the bulge is now in the middle (those in the late 30s to early 50s age brackets). This means its number is greater than the upcoming generation, and this in turn implies a potential "succession" [of real estate units or homes] issue i.e. there may be more than enough 'homes' the succeeding generation can use. Naturally, a more complete picture would need to take into account items such as net supply (gross supply minus demolished units), and some of the **social trends** e.g. increased longevity, increased divorce rate, increasing number of 'singles'

etc. The increased life span helps to increase the demand time-wise by using a home longer, while the latter two will increase demand quantity-wise by requiring more units (a divorce generally means 1 unit turning into 2 units though the gross floor area required may not increased that much).

- d) **Potential Changes in Taxation Structures** = whether one likes it or not, it is not easy to imagine that the current tax structures, which have been serving Hong Kong quite well so far, can be maintained indefinitely. This does not necessarily imply taxes would become more burdensome but its potential impact on real estate prices should be monitored.

The above are more long term observations yet **if one is to take a snapshot of Hong Kong today, home prices are not overly expensive** whether compared to its past levels or even to comparable cities in Asia or the West. For instance, with an average GDP per capita being slightly under **US\$24,000**, which puts Hong Kong in the 'First League' if you will (USA = around US\$30,000; Japan = around US\$33,000; UK = around US\$22,000, Australia = around US\$20,000 etc), its average private home price of roughly **US\$260,000** is NOT really that spectacular, though its average floor area (around **600 ft²** on a gross basis, or just 450-500 ft² on a net basis) will always make some wonder whether it is 'value for money' . As for the medium term, there may be a possibility for some price rallying IF a '**feel good**' factor kicks in though circumstances leading to that state is another topic. IF and when that happens, real estate investors who are 'burdened' may take the chance to consider 'unloading' .

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