

Hong Kong Home Ownership : A Few Myths -Real Estate Tech, April 1997.

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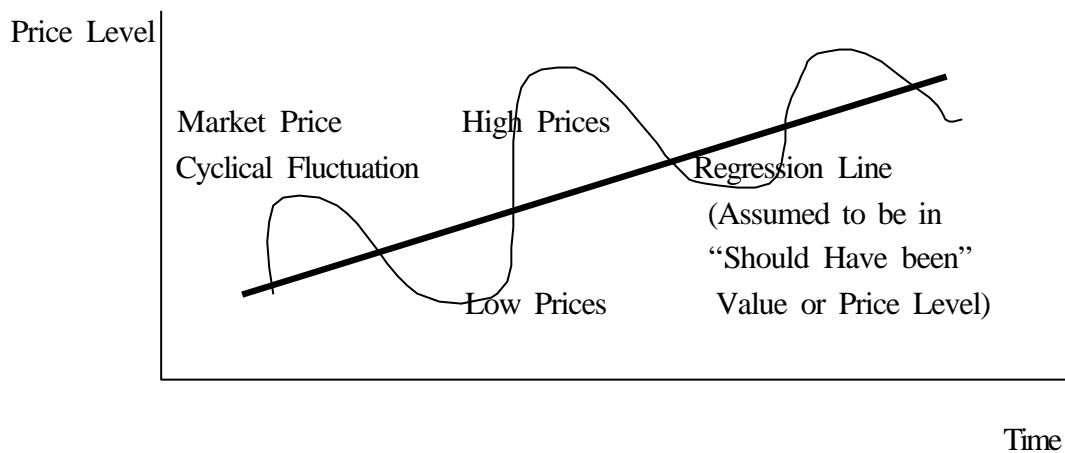
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Real Estate Development, Investment, Asset Management, Marketing, and Operational Analysis

Much has been discussed recently in the press and other media regarding the plight of home ownership in Hong Kong, the strategies of increase real estate supply, the curbs on speculation, and whether or not the present price levels are justified. This article is not intended to add further debate or discussion on the subject but aims to raise a few points in order to stimulate rethinking by some on the topic. A few myths as follow :

- (1) Prices today are unnatural, unjustified, artificial, or simply overpriced – first, real estate is a human product i.e. no humans, no real estate as we know it. Thus, it is artificial given its well-being (or lack of it) is influenced by the economy (another human activity) and the “rule of the game” i.e. the legal framework (yet another human product) among other factors. Second, the prices are usually either too high or too low given its cyclical nature. Please refer to attached illustration = a “regression line” is drawn through the various peaks and lows in the cyclical curves. Assuming the regression line reflects the “should have been” price levels, then the market is most of the time either too high or too low. The key to benefiting from such a market behaviour is to “ride with the waves”
- (2) Prices should be more affordable – but what is considered “affordable”? Different people would have different definitions yet buying one’s own home has been, is, and will always be a big ticket item and most people would feel quite burdened financially in their initial purchase or when they are upgrading. This applies even to less robust real estate markets, e.g., Toronto house prices are only a tiny fraction of Hong Kong’s yet I have not observed people living/working there feeling house prices to be any more affordable. This is because real estate is a derivative industry meaning its prices reflect the economy in the long run.
- (3) Home ownership is to be increased - I find it intriguing that people consider the percentage of home owners in Hong Kong as being low at around 50%, yet many North American cities have just a bit more at around 60%. While home ownership offers some social-economic benefits and is to be encouraged, it may not suit everyone. Moreover, from a social-governmental stability point of view, it is not home ownership which is important, it is the ability to provide a “decent roof” over most heads which counts, despite the standard of the “decent roof” will increase with time and social-economic improvements.

Generally speaking, people who own their own homes would generally be better off than those who do not, yet to put home ownership way up high on the pedestal as if it were something to be worshipped / pursued regardless of circumstances seems overblown, notwithstanding the overall set of economics, social, taxation, and legal circumstances in Hong Kong favors getting on to the real estate bandwagon still.



Hypothetical Graphical Illustration – Market Price Cyclical Fluctuations and the Regressed Line