

Long Term Residential Prices: The Key is NOT in Supply

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The key factor is our ability, as an economy, to **earn / generate income and value**, and this relates to a whole range of factors such as the collective knowledge levels, skills and competitive traits, and “reflectors” such as the productivity rate, operational efficiency, GDP / capita and so on. This does not imply that supply is not important, it is just that it may not be one of the top factors in future assuming an administrative policy which aims for stable price trends.

Some of the **reasons** are as follows:

- a) **Real estate is a derivative industry** in that it reflects the economy in the long run. For instance, and using an order of magnitude approach, as our GDP/capita is on par with most western economies, our average home price is also more or less on the same par (or bandwidth). Likewise, as our GDP/capita is several times higher than most Asian countries (such as Malaysia, Thailand etc but excluding Japan), our average home price is also several times higher than theirs. Given any extended period of time, it is rare to find an economy with a high GDP/capita yet exhibiting incompatibly low real estate prices or vice versa, because such a situation cannot last long, at least not without administrative measures.
- b) Even in a demand and supply equilibrium, **real estate prices will still go up IF our ability** to generate income, wealth and value (compared to the rest of the world), as reflected in the GDP/capita etc, continues to grow and improve.
- c) **A short supply exerts more influence**, in terms of boosting up prices, **in good times** than in bad times, especially if the short supply is perceived to last some time. In a down economy, even a perceived severe short supply may not induce much upward pressure on prices.
- d) **A knowledge-based / high-tech / creativity-orientated economy implies competition from around the world** and from both developed and developing economies. “Synergy of talents” from locally and elsewhere including the mainland, in every sense of the phrase, is required to compete effectively and efficiently. A short supply of the necessary infrastructure including a viable range of accommodation may be a disincentive.

As long as the major world economies require, acquire or use our products and services and are willing to pay us highly for them, due to our collective competitive advantage and good value, we shall have little cause to worry about

real estate prices or where they would go. If not, there is much to be of concern even if we do not build any more units.