Zeppelin's

Real Estate Tech January 2004

A Newsletter by Zeppelin Real Estate Analysis Limited of the Zeppelin Group
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Hong Kong real estate market sentiment has improved: both in terms of pricing, which has by and large gone up some 15% overall since the bottom (and in some cases more), and transaction volume (though still a far cry from what was seen in the 1997 peak). With more tourists from Mainland China, many retail and tourist establishments have benefited from increased business, and thus certain retail locations are now asking much rental levels than before. In some ways, Hong Kong has become a 'heaven for shopping' for Mainland tourists, who find the goods sold here being more genuine than those in the Mainland. China has also just released its GDP growth figure putting it at over 9% and the USA economy seems still to be going strong with liquidity abound.

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We are very honored to have Mr. Felix Wehrli, BS(Wharton), MS(MIT), of Mountaintop Research which focuses on creating and managing US-based global real estate funds. We would also like to hear from prospective readers / writers who wish to share their real estate knowledge and experience with us.

This quarterly (January, April, July and October) newsletter is circulated freely via email to over thousands of readers including real estate developers, investors, owners, users, financiers, top executives, senior managers, prominent academics and related professionals from Hong Kong and abroad. Our content is / has also been published in newspapers and web portals such as **China Daily**, **Hong Kong Economic Journal** (a Chinese daily), **21st Century Business Herald** (China), **MITCRE Alumni Newsletter**, the **Surveying Newsletter** of the Hong Kong Institute of Surveyors, **Centanet.com, Netvigator.com, Hongkong.com, E-finet.com, Red-dots.com, Realtradex.com, FrogPondGroup.com, Icfox.com**, **PacificProperties.net**, **Soufun.com** and **House18.com**. We had also been quoted in the **Asian Wall Street Journal** and interviewed by **Radio Hong Kong**. We also publish monthly articles and analyses in the months between. This newsletter is now into its **8th year** and **29th** issue.

We also operate a website www.real-estate-tech.com through which we intend to share some of our real estate knowledge and ideas with interested parties. We also make available charts, tables, spreadsheets, reports, and the like for reference, the majority of it being free with some requiring a token fee.

Zeppelin Real Estate Analysis Limited is involved in real estate development, investment, and asset management with a focus on **independent analysis**, investment strategy, and portfolio management. It can also assist in setting up real estate analytical computer systems, software applications and content development. It is part of the Zeppelin Group of Companies which collectively also offers project management, facility management, marketing management, architecture, and capital management services.

Global REITS Comparison

Real Estate Tech, January 2004

By Invited Guest Writer: Mr. Felix Wehrli, BS(Wharton), MS(MIT), Mountaintop Research, USA
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We have not long ago done a comprehensive research on **Real Estate Investment Trusts (REITS) worldwide**, comparing their various structures, tax issues, asset management arrangement, restrictions, and the like. We are glad to share some of our findings here with readers of Real Estate Tech:

1) **There are around 23 countries, regions, or places where REITS have been established or which laws and regulations allow for their set up** = these include the USA and Canada in North America, the Netherlands, France etc in Europe, and Japan, Australia, Singapore, and Hong Kong in Asia. An update here on the UK is that there has been an important move toward REIT as the Chancellor of the Exchequer had signaled his support for REIT in his pre-budget speech in December last year. The UK contains 50% of the European public real estate market cap.

2) **History and track record** = the more established would go to the USA (since 1961), Australia (since 1971), and the Netherlands (since 1972). Canada and Belgium started to have their own in the last ten years, while Japan, Singapore, France, and Hong Kong are newcomers.

3) **Public listed and / or private REITS** = Most jurisdictions allow for both types to exist though Hong Kong, Belgium, and France etc would permit only publicly listed ones.

4) **Direct equity side real estate investments and / or debt side such as mortgages** = around half the jurisdictions allow for having both i.e. a REIT can invest direct in real estate (equity side) and / or in mortgages (debt side). The other half generally do not allow for debt side investments and limit REITS to direct equity real estate investments.

5) **REIT management** = Many jurisdictions allow for both, and most allow for internal management, though a few places such as Japan only permits external management.

6) **Real estate assets and / or non real estate components** = all jurisdictions require a high percentage of assets being real estate related, and some even require 100% of assets to be real estate related. Examples for the former include the USA and Canada, while the latter samples would involve Australia, Hong Kong, and a few countries in Europe etc. Also, many jurisdictions require the assets to be income producing (i.e. with rental revenues), and several do not allow for development projects or pure land acquisitions / hoardings.

7) **(Foreign) Real estate assets** = ‘foreign’ in this case refers to real estate assets outside the geographical boundary of the jurisdiction concerned. Most allow for the acquisitions and holdings of foreign real estate assets and only a few disallow it e.g. Japan and Hong Kong. Nonetheless, the fact it is allowed does not always mean a REIT would hold foreign assets.

8) **Financing / mortgage ceilings** = some have a ceiling and some do not. Examples of the former include the USA, Canada, Japan, France, and Australia etc while examples of the latter would include the Netherlands, Belgium, Hong Kong and Singapore. Naturally, REITS that are in places where there are no restrictions often would self-impose a ceiling for better risk management, marketing image, and / or investment discipline.

9) **Minimum holding period** = most do not have any restrictions yet some markets such as Hong Kong do, though not without relief mechanisms e.g. when a majority of shareholders agree.

There are other researched aspects and perhaps these may be included in another article at a later date. Meanwhile, interested parties and readers may contact us or via Zeppelin in case more information is required.

Biography: Mr. Felix Wehrli, BS in Real Estate Finance and Accounting from Wharton, MS in Real Estate Development from MIT, of Mountaintop Research, founded in 2001, which supports the creation and management of American-based global REIT mutual funds.

What if USA residential Sector Pops?

Real Estate Tech, January 2004

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It is no secret that currently the vibrancy of the global economy depends in significant portions on the USA consumers. Essentially, Asian economies including China manufacture goods and stuff for consumption by the USA consumers. The profit made by the Asian countries from such trading is in large part poured back into the USA economy buying up bonds, T-bills, and the like, creating huge US$-based reserves for the Asian countries in the process and providing a source of inexpensive money for the USA consumers in the form of the low interest rates, mortgage rates, and so on. This seems to have encouraged home buying, thus driving up residential prices. With home prices up and the fact that some 68% of USA households own their own homes, these in turn lead to higher consumer confidence and further spending. Hence, a circular money flow is created, and at some point something is bound to give, albeit we do not know when, where, or how. Apparently there is no sure way to prevent it or to mitigate the pain when and if it happens.

Naturally, the above view is not shared by all, and many are optimistic of the USA economy if not for the long term at least for say 2004. As your humble author is not a trained economist, the delicate technicalities of arguments both for and against the view are left to the experts. Nonetheless, when business and investment heavyweights such as Warren Buffet, George Soros, Jim Rogers, or closer to home our Marc Faber, have cast doubts on the USA long term economic viability and / or its currency value one way or another, or for that matter the piling up of more US$ based reserves by Asian countries (statistically these have collectively been increased by 100% since the Asian Financial Crisis in 1998), one has better paid some attention to the issue.

Being a real estate person, the author tends to contemplate the possibilities and implications in the event of a USA residential real estate price pop, assuming and again we stress the word “assuming” that this will happen irrespective of the catalyst cause-trigger-factor. The ‘Keep It Simple & Short’ answer is = catastrophe, as follows:

1) USA consumers spend less = buy less goods and stuff from Asian countries including China.

2) Asian economies will be exposed and adversely affected in particular those with a heavy dependence on exports (especially to the USA) = increased unemployment and production over-capacity problems.

3) Asian economies may be induced to sell off their US$-based reserves driving down the value of such assets at least in the short run.

4) The USA may be induced in turn to raise interest rate (higher if already raised) if the currency exchange rate is to be maintained.

5) This rate hike if used may lead to further downward spiraling of the USA residential real estate sector in terms of demand and prices at least in the short run as homes that are leveraged may be ‘quite leveraged’.

6) This demising of real estate prices may lead to further tightening of consumer / mortgage credit, reduction of consumer confidence, and lowering of household spending. Unemployment problems are likely to increase too.

7) In short, a reverse cycle (of contraction) is created.

As to whether such an impact will exist for a long time or just last a short while, when, where, or for that matter how far and deep globally this will reach, we have no idea. Pessimists tend to quote the graying of population, demographics, and ‘hallowing out’ of jobs as proofs, while optimists will look to the technological (high tech, IT, biotech, medical science, and so on) and management advantages and edges that the USA (corporations) have over others in the world for a bail-out solution.

In any event, be prepared for a major (major) impact when and if the USA residential prices do pop (significantly), and part of this may mean having stacked aside some amount of cash (gold?) for such an eventuality. A danger but is also an opportunity.

Beijing Residential Market: North East South West

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Based on published data and news information, we have done some basic studies recently on the typical price per floor area (RMB per m2) ranges for the private residential sector in Beijing. Typical real estate price per floor area in the 4 directions of North, East, South, and West and from the 2nd to 5 Ring Roads are compared (Beijing has a radial city development pattern and is served by a network of highways including the ring roads which expand from the city center):

A) **Essentially the further away from the city center the lower the typical price per m2** = This is nothing new and applies to many cities with similar development patterns, yet please note this does not imply the typical 'total' home price will be adjusted by the same rate. This is because homes may increase in overall floor size the further away they are from the city center. The higher numbered the ring road, the further it is away from Beijing city center.

B) **The typical price per floor area is lowest in the south** = irrespective if the lower range or the higher range of the typical price per floor area is used for comparison, and irrespective of which ring road sector is being studied. Real estate price per floor area in the south is lower significantly. For instance, the typical price per floor area along south 5th ring road hovers around RMB2,000 / m2, while those of north, east, and west are no lower than RMB3,000 / m2. Toward 2nd ring road, the south commands no higher than RMB7,000 / m2 yet those of the other directions may reach RMB20,000 / m2.

C) **Counting areas within 2nd right road, the east has higher typical price per floor area RMB/m2** = compared to the west direction, which price range goes from RMB7,500 / m2 to RMB13,000 / m2, the east can command price range going from RMB8,000 / m2 to around RMB20,000 / m2. The latter includes quite a few luxurious districts. Once beyond 2nd ring road, the price per floor area difference between east and west is not significant anymore.

D) **Once nearing 3rd ring road, the typical price per floor area reflect more of the mass private residential market** = Except the south, the difference between the highest typical price per floor area and the lowest within and around the 2nd ring road districts could be significant at RMB8,000 / m2, implying a ratio or 2 or more and reflecting in part the wider selection range (from modest to luxury residential properties). Once reaching 3rd ring road and beyond, the difference between the highest and lowest typical price per floor area becomes less significant at perhaps RMB2,000 / m2.

E) **The typical price per floor area drops the most when one goes from 2nd-3rd ring road sector to the 3rd-4th ring road sector** = The drop is almost 50% and perhaps implies a willingness to pay (much) more for being closer to the city center.

As Beijing pushes outwards, the radius becomes bigger which in turn means that more land is enclosed by the (relatively newer higher numbered) ring road than the prior one. This in turn implies real estate developers operating in these newer districts may have tom come up with better design, better quality, better marketing theme, and the like in order to compete, else the chance of (the projects) being substituted is high.