

## **“85,000” (Residential Units Per Year) Opposed for the Wrong Reason**

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This number has drawn fire again recently with climatic results. Perhaps most, if not all, were hoping its demise would bring at least some stabilization for residential prices (still by and large are down 50% from their 1997 peaks). If so, this may be misplaced. Reasons:

- a) **Supply is NOT the only factor affecting home prices** = there are many others such as economic growth, income growth, tax policies, wealth distribution, demographics and so on. Also, each factor’s influence (or its impact) changes with time and circumstances. For instance, in a booming economy, a short supply of homes can easily lead to higher premiums as buyers try to outbid one another. Yet, in a down economy, prices may not improve much even with a building moratorium.
- b) **Home prices would go down anyway with or without the “85,000” target during the Asian Financial Crisis** = the forces and their impact then were so intense and great (to Asian economies) that the production target would have mattered little. Ironically, this production target i.e. a policy change might have saved some investors from putting their money into real estate when prices had dropped only 20-30% in early 1998 (as past i.e. pre 1997 real estate cycles started to bottom out at these levels). [Incidentally, we had stated in a Real Estate Tech article published in **January 1998** that prices might easily go further down significantly. It drew some contests then. The point is that it showed many people then were still thinking of a quick rebound].
- c) **The ability to “earn”** (a high income relative to other economies) is, IF only one factor is to be named, the most important in deciding the level and speed to which home prices would recover (or decline) in the long run. This applies especially to the middle class’ mass private housing sector. This in turn relates to having the best combination of marketable skills (including languages), knowledge, experience, aptitude, creativity, presentational skills, flexibility and so on, whether assessed on a nominal or relative basis.

The government, being the largest land supplier, will always have an influence on the market. It can be proactive e.g. developing its own stock and attempting to steer prices, or passive e.g. supplying land constantly irrespective of market conditions and letting the market decide. Each carries its own pros and cons yet having a consistent policy is also vital. Also, while the government may have a responsibility to care for the needy, it is doubtful if it is its duty to make someone a homeowner. However, those favoring the scraping of the schemes with a view that this will stabilize or even enhance home prices is barking up the wrong tree.