Some Factors Are More Equal Than Others

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Often, real estate investors are influenced by daily events e.g. an interest rate hike, results of a land auction, sale response of a project and so on. This is understandable and these events are sometimes relevant for gauging price trends and market sentiment. Yet generally, unless one is a very short-term speculator, many of these daily events do not have much bearing on longer-term real estate investment or ownership. Here’s why:

a) **Future prices are influenced by future events, not the current ones** = and future events have almost equal chances of building on the current ones i.e. continuing the current trend, or reversing it.

b) **Many events are not and should not be viewed as “factors”** (or reasons) for making investment decisions = e.g. a developer paying a handsome amount for a piece of land. This may reflect their assessment of the market (which could be wrong) and is in any way more a response to market factors rather than being a factor in itself. Also, a developer may have other reasons which are not relevant to other investors to enter the market e.g. a publicly listed developer would need to replenish its land bank in order to maintain a certain level of output despite less than favorable land prices.

c) **Of the many factors which affect real estate, several would stand out in the long run in terms of importance** = while this varies from market to market, a few examples would be:

(1) <u>earning power</u>: an economy with a highly educated, skilled and competent workforce will earn more and this will be reflected in its asset values, real estate included

(2) <u>government and administrative effectiveness and efficiency</u>: an open, transparent and consistent approach is relatively more predictable and thus conducive to attracting investments, both local and overseas. This includes making sound economic policies

(3) <u>legal, financial and commercial infrastructures</u>: this includes both physical (hard) e.g. transportation network and abstract (soft) e.g. legal framework and their maintenance

(4) <u>complimentary demographics and population level</u>: each economy has its own “optimal” range, below which there would not be sufficient people to form a healthy market while beyond which population pressure may exist. Yet, it must be noted that population alone is unlikely to sustain a viable real estate market. The people need to be well educated, trained and experienced.

(5) <u>an identifiable market niche / market position</u>: economies which have a clear and acknowledged market niche or role will have a better chance of prospering in the world or regional economy

(6) Growth and improvement prospects: not just in the economic sense but also in the social, administrative and governmental sense
(7) Affordable Real Interest Rates: the economy will perhaps still grow and businesses will still thrive when the overall return is higher than the cost of capital. A (low) nominal interest rate tells only part of the story and on its own may not mean much.

By no means is the above list comprehensive, and factors also interact among themselves in a multi-faceted manner rather than just linearly. Nonetheless, to real estate investors, especially those seeking opportunities globally or regionally, **the key is to identify economies with most if not all of the above ingredients**. Once proper due diligence is done and with projects identified and acquired, the next thing to do is (almost) to sit back and wait for the fruits to ripe while maintaining a close monitor of the markets to ensure no unexpected (unfavorable) circumstances (factors) have arisen to disrupt the prospect of investment returns. As for the daily events, some of them are just immaterial noises along the way.

Comparative Real Estate Global Indexes (CREGIS): 2nd Q2000 (+/- from 1stQ2000)
One average private home / unit in Hong Kong can very approximately buy

1. Around 1.80 counterpart units in Toronto (-3.2 %)
2. Around 0.93 counterpart units in San Francisco (-4.1%)