

Zeppelin's

Real Estate Tech

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A Newsletter by Zeppelin Real Estate Analysis Limited of the Zeppelin Group

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We are pleased to announce our real estate articles and content are now also carried and published in www.e-finet.com (**Chinese section**), one of the more prominent stock and finance websites in Hong Kong. In addition, our service capabilities have also been strengthened via an expanded professional network and further identification of data sources, especially with reference to the markets in China. By no means does this imply we can always offer solutions to each and every real estate research, analysis or investment strategy challenge, yet the possibility of providing an independent service or second opinion has increased improved. Give us a call for a discussion.

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We are very honored to have Mr. Eric Lau, City University of Hong Kong, to share his experience and views on IT and business use, particularly in ways to avoid unnecessary expenses. 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 to around **8,000** via email, faxes and other means to real estate developers, investors, owners / users, financiers, top executives, senior managers, prominent academics and related professionals from Hong Kong and abroad. Our articles are / have also been used by the **China Daily**, **Hong Kong Economic Journal** (a Chinese daily), **21st Century Business Herald**, 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**, **Soufun.com** and **House18.com**. We had also been quoted in the **Asian Wall Street Journal**. This newsletter is now into its **6th year** and **24th** issue.

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.

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Without a Brain, Information Technology (IT) is Just Junk

Real Estate Tech, July 2002

Eric Lau, City University of Hong Kong

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Many business owners, corporate executives, managers, professionals, researchers and analysts (real estate ones included) believe IT and IT people can help better their businesses and operations. This is not a bad thing in itself and certainly the author benefits from such a belief. It is also generally a true statement (IT can help businesses and operations) though the key is how IT is applied. Unfortunately, **too many people tend to rely on getting the most updated applications and the most advanced computer equipments, thinking by so doing their competitive edges will be above those of others. This is a huge misconception** and the interesting thing is that these intelligent people despite their years of business experience still get nailed, thus end up wasting precious time and money on the wrong software and sometimes IT people. Here are **some suggestions to avoid the traps**:

Nowadays, the computer software programs collectively are the most expensive items that one can find within a computer, which hard parts are getting cost / price-wise insignificant, not to mention that the software programs are generally licensed for use by one user or in one machine. At the same time, the more the software programs are installed in a machine, the higher the chances that you will get a system crash. Hence, while most office operations today cannot do without a word processing package (such as Word), a calculation spreadsheet program (such as Excel), and / or a database (such as Access), these may not be needed in every machine in your office. A secretary will work more on Word, an analyst more with Excel or SPSS, and a CEO with Outlook (or even nothing much). **Suggestion = Do develop a checklist of computer applications you need to purchase for each computer, and this saves not only costs but unnecessary cluttering of machines and networks.**

Few businesses and offices but the largest conglomerates can afford to buy and dispose of all their machines and equipment in batches, i.e. most offices would have machines of different models and brands, configurations, performances, and possibly from different suppliers. The problem with this is that with all these different components, interfaces, and operating systems (e.g. Win98, Windows Me, Windows 2000, XP Windows, etc), solutions are hard if not impossible to find in case there is a system crash as the possible causes may be statistically in the millions (remember all those permutations and combinations mathematics?). **Suggestion = Do try to use / develop a standard and systematic configuration of computers in your office as much as possible.**

For most businesses and operations, whether it be real estate development, finance, marketing, insurance, consumables, professional services and the like, having the relevant data and information at the proper time and in a reasonably usable format is a key / important component for business success. Hence, the key lies in whether the data and information being used is up-to-date or relevant or not, and not in whether the software programs used to collect, assemble, decipher and analyze the data are state-of-the-art or not, though the author has no objections to people wishing to flaunt it. The point is if the 'older' versions of software programs can complete the required tasks just as good, why bother with acquiring the latest versions, some of which incidentally may be faulted with bugs and errors, thus causing other problems. For instance, real estate investors pay analysts and consultants for their professional skills, experience and assessments, and they do not mind whether such assessments are done using Lotus 123, Microsoft Excel, SPSS or some state-of-the-art software tools. 'Adequate' is always the key as far as software programs are concerned. **Suggestion = Do get the most updated data, not software.**

Internet connectivity is then a big issue now. In theory, having all machines in the office connected to the Internet is great, but the connection costs and maintenance fees are also high. A single broadband connection for one or two machines in your office is enough for most instances. A fancy computer network or an expensive server does not in itself guarantee better effectiveness and efficiency than what a clean and simple standalone PC with good Internet connections may offer. Remember, we use information technology to help increase operational efficiency and effectiveness, and the objectives may involve having better financial estimates, business plans, client accounts, customer relations, corporate communications and / or the like. The objective should not be and has never been to show people you can afford expensive or vast quantities of computer equipment, connectivity or software programs. **Suggestion = Do NOT get unnecessarily and overly 'hooked-up' to the Internet.**

Beware of some self-claimed IT consultants, especially when the circumstances involve a marketing flavor such as some of the so-called IT expos / exhibitions. The reason is that many such consultants are there to help market designated software products from software producers, and thus their advice may or may not be impartial. **Suggestion = Do check around for the best prices, support services and practices when it comes to software programs.**

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China Real Estate: Choose Carefully, Don't Over-Leverage, & Reserve Cash for Capturing Down-Time Opportunities

Real Estate Tech, July 2002

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The real estate markets in China are varied, huge, and changing fast, and your humble author confesses it is sometimes quite difficult to catch up with all the happenings and information. Notwithstanding these inadequacies, and for most real estate investors interested in the China markets, the strategy suggested in this article title may be used as a general reference. Here are some of the reasons for suggesting so:

- A) **Choose carefully** = this refers to picking the investment projects and properties very selectively and with caution. The reason is simple, just spend some time visiting the major cities such as Beijing, Shanghai etc and one would find real estate development projects (development sites) almost everywhere. What used to be farmlands just several years ago is now part of the urban / suburban sprawl, and many of these projects are mega-sized with gross floor areas measuring millions of square meters (1m² = 10.76 square feet ft²). Notwithstanding there will be sufficient demand in the long run, over supply at least for some districts or sectors is unavoidable. For instance, according to reported figures, there are now 20,000,000 m² of vacant residential floor spaces just in Guangzhou alone. All these imply some projects will be winners, while others will become losers. Real estate developers need to select potential sites with care, and investors buying into existing projects or completed buildings may do better with similar caution.
- B) **Don't over-leverage** = assuming financing is involved (and well-structured finance generally helps increase the rate of return) and unless one wants extraordinary returns, the key is to find and use a financing level that one is financially comfortable with. Based on past experiences especially those from the more developed markets, real estate ventures sometimes failed not because the projects themselves are flawed, they failed because the investors behind had been over anxious to gain the highest possible return on equity and stretched their capital and finance resources too thin. Even a small market hiccup or interest rate hike would have done them in. Nonetheless, this is part of the rooting out process seen in many developing economies and markets, China's included. With literally hundreds and sometimes thousands of real estate development and investment entities in each major city, a 'rooting out' process is very likely with the better managed, stronger financed, and resourceful developers emerging as winners in the end.
- C) **Reserve cash for capturing opportunities** = while opinions vary, based on published information and data, the real estate prices overall are not inexpensive notwithstanding the long-term market prospects. For instance, as far as the private residential markets go, it seems many developers are focused on producing luxury and / or pricey homes, with selling price per square meter close to or even exceeding 10,000 Yuan (US\$1.00 = around 8.30 Yuan). Homes exceeding 1 million Yuan is not uncommon and there is no doubt of an emerging well-to-do middle class. However, when such prices are compared to the mass market, they seem quite detached in a sense that most families seem only able to afford home prices in the 400,000+/- Yuan range or around 4,000+ Yuan / m². Thus, significant downward adjustment cannot be ruled out entirely, and thus the well-financed investors may consider keeping aside some cash in case such eventualities do occur.

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Stable Housing Policy, and Housing Policy To Stabilize the Market

Real Estate Tech, July 2002

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There have been some significant changes in the (Hong Kong) housing strategy, practices and the related establishment framework, and many commentaries have been written about them. It is not the intention here to dwell on the pros and cons of such changes, in particular their social implications. Here we just explore the issues from a real estate investment point of view:

- A) **Merging and Aligning the Housing Strategy and Production** = not so long ago, matters relating to housing, especially those policies related to the Government's public rental housing and subsidized housing, involved more than one authority / department etc. Not surprisingly, sometimes their stated comments seemed to lack coordination, and in the more extreme cases, contradict one another. The picture was / is further complicated by other civic or quasi-government housing production units, including the Housing Society, Urban Renewal Authority, the MTRC and the KCR. Now the Government seems intended to at least coordinate their roles and resources to arrive at a more coherent housing strategy. This is in itself not a bad thing, and it may lead to better operational efficiency as well. Still, a few points to note: 1) Better coordination and operational efficiency by themselves do not necessarily imply better housing strategy, it is just that the policies are formulated faster; 2) Some people think supply will be better coordinated (controlled), yes perhaps but supply is only one of the factors affecting the housing market and is probably NOT the most influencing factor when home prices are concerned; 3) While a good (admittedly a subjective term) stable housing strategy would be ideal, it is still better to have a less than good but stable housing strategy than one which is both not good and unstable. At least the former offers 'consistency', which is important for business and investment decisions.
- B) **Mixed (Income) Housing Projects** = recently the Government has decided to develop such a project in a prime North Point site with harbor views etc. Naturally, many developers spoke out against the scheme and the scheme will lead to a lower pricing for the site. Nonetheless, the important point is that with this precedent, overall market risks may have risen as the 'consistency' factor mentioned above becomes less certain. For instance, a real estate developer may have set his eyes on a prime Peak luxury residential site. However, if there are unsold / under-developed government sites beside it, there is always a risk that elements not entirely seen to be compatible with the prime neighborhood will be put in place.
- C) **Using Prime Sites for Government Offices** = as far as the former Tamar site goes, it is difficult if not impossible to work out the numbers justifying such use for the land. Perhaps there are social benefits to be reaped and again these are outside the scope of this article. Nonetheless, it is hoped that the eventual building / asset-to-be would have a design that would be "befitting the surroundings". This does not essentially mean design and building material extravagance, nor a huge building budget will automatically guarantee achievement of such befitting status.

In summary, having a stable strategy is easier as one needs only to carry out the plans as decided, formulating policies that help stabilize market (prices) is more difficult as the Government influence lies in the supply arena. Supply takes not only time to build but it also demands great skills in making it arrive in proper timing.

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