

Zeppelin's Real Estate Tech

1Q 2010: A Real Estate Newsletter by Zeppelin Real Estate Analysis Limited
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The first decade of the century has passed and it has been, shall we say, breath-taking. Experts and economists are still debating if we are out of the woods, and government officials are sounding caution for this year. In any event, we wish you all a Happy New Year. In this issue, we shall look at real estate markets from global to local:

- **Global Residential Real Estate Markets: Who's a Bargain and Who's Not**
- **USA Residential Real Estate Make European Investors ☹**
- **Hong Kong Residential Real Estate: Island Trends Up, the Rest Down**

We would also like to hear from prospective readers / writers who wish to share their real estate experience with us.

Buy our (2nd) book: <http://www.edpress.com.hk/Product.asp?id=6282>

This quarterly (generally published in January, April, July and October) newsletter is circulated freely via email to over thousands of readers comprising real estate developers, investors, fund managers, financiers, owners, users, 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 the **South China Morning Post, China Daily, Hong Kong Economic Journal** (a Chinese daily), **21st Century Business Herald** (China), **Apple Daily** (Hong Kong), **The Standard** (a Hong Kong English Daily), **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, PacificProperties.net, Soufun.com** and **House18.com**. We had also been quoted in the **Asian Wall Street Journal** and interviewed by **Radio Hong Kong** and **Commercial Radio**. We also publish monthly articles and analyses in the months in between. This newsletter is now into its **14th year** and **54th** 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. There are close to 1,000 content items, in English or Chinese, including analyses, articles, charts, and tables, plus spreadsheets, tutorials, e-books, and the like, the majority of which is free with some requiring a token fee. The website is regularly visited by thousands from all over the world and focuses on China real estate markets.

Zeppelin Real Estate Analysis Limited is involved in real estate development, investment, and management with a focus on **independent real estate analysis**. Together with Zeppelin Property Development Consultants Limited, we offer services related to **real estate asset management** [analysis, investment strategy, and portfolio allocation], **project management** [architectural design, cost control, and contract administration], and **facility management** [facility utility assessment, facility strategy, and building maintenance]. We are part of the Zeppelin Group headquartered in Hong Kong with office operations in Mainland China and we also have access to networks covering Asia, North America, and Europe.

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Global Residential Real Estate Markets: Who's a Bargain and Who's Not Real Estate Tech, 1Q 2010

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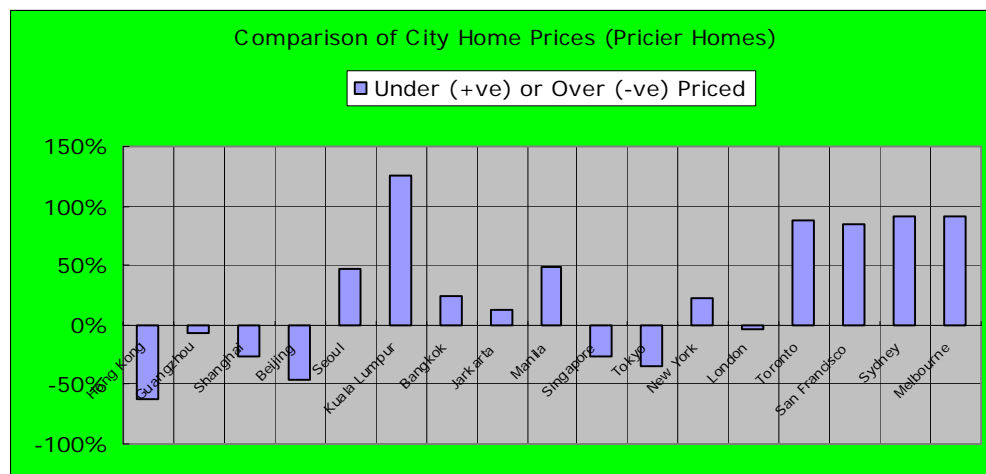
More than 1 year has passed since the global financial tsunami. With the various government stimulus packages being introduced, the original pessimism appears to have been replaced by optimism, especially in emerging economies such as China and Hong Kong.

Here we take a look at 17 residential real estate markets worldwide to see if some insights and observations could be made:

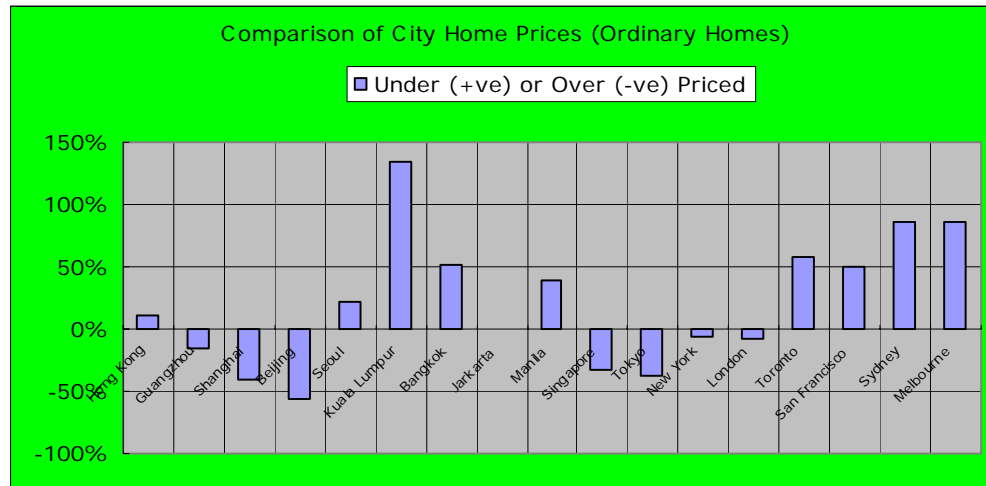
- A) **Data and information:** are abstracted from websites such as www.globalpropertyguide.com, www.wikipedia.org, and the like.
- B) **Methodology:** we calculated the residential price of each market by comparing its GDP per capita to the GDP per capita of each of the remaining 16 markets in turn, thus obtaining an averaged-out indicative price. This is then compared to the actual market price and if the latter is lower, it may signify a relative bargain and vice versa. The process is done for all 17 markets with one on their pricier residential sector and another on their ordinary residential sector.

Nonetheless, there are some limitations: 1) the data could be rough and varies in accuracy across markets; 2) the degrees of relative bargain only hold true for these 17 markets i.e. if more or less, or for that matter, different markets are selected, the degrees of relative bargain could be different; 3) there could be subjectivity e.g. in deciding which levels of properties constitute the pricier sector.

- C) **Pricier sectors:** the least relative bargain is Hong Kong, followed by Beijing, Shanghai, and the like. Kuala Lumpur fairs the best in the category and Canada and Australia also provide some choices. Interestingly, New York City does not look too unattractive. We have assumed a HK\$15M residential unit as representing the pricier sector for Hong Kong and compared this to other pricey (but not the most expensive) residential properties in the other markets.



- D) **Ordinary sectors:** Beijing is the worst bargain followed Shanghai, Tokyo, and Singapore. Again Kuala Lumpur tops the list and New York City and London are not the worst. The others more or less follow the pricier sector observations.



- E) **Relative Bargains or not:** may have little to do with their price prospects (up or down). Also, we have not taken into account aspects such as taxation, capital control, and the like. For instance, a market may have lower prices simply because it restricts freedom of capital. Furthermore, we have also not investigated the income and wealth distribution which may have an impact on prices.

Instead of using these results for price projections, we would suggest using them for gauging the various market risks thereby offering the chance to take certain precautions and / or actions.

Important: the above method is a simplified version of the method we had employed in January 1998 to project a more significant overall price drop [50%-70%] for the then Hong Kong residential market [dropped around 25% at the time] which was summarized in a published article "Sensitivity Revelations on the Hong Kong Residential Market" = <http://www.real-estate-tech.com/articles/Retech6c.pdf>.

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USA Residential Real Estate Makes European Investors ☹

Real Estate Tech, 1Q 2010

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Friends of your humble author have invested in USA real estate during the past decade, residential ones primarily. These friends hail from North America, Hong Kong, and Europe. They all wish to know how the USA would fair.

Without a crystal ball or promise of guarantee, your humble guesses caution is needed in the short to medium term, although some of the markets may offer good prospects in the long run. Anyway, one may refer to a past article = <http://www.real-estate-tech.com/articles/SRS080902.htm>.

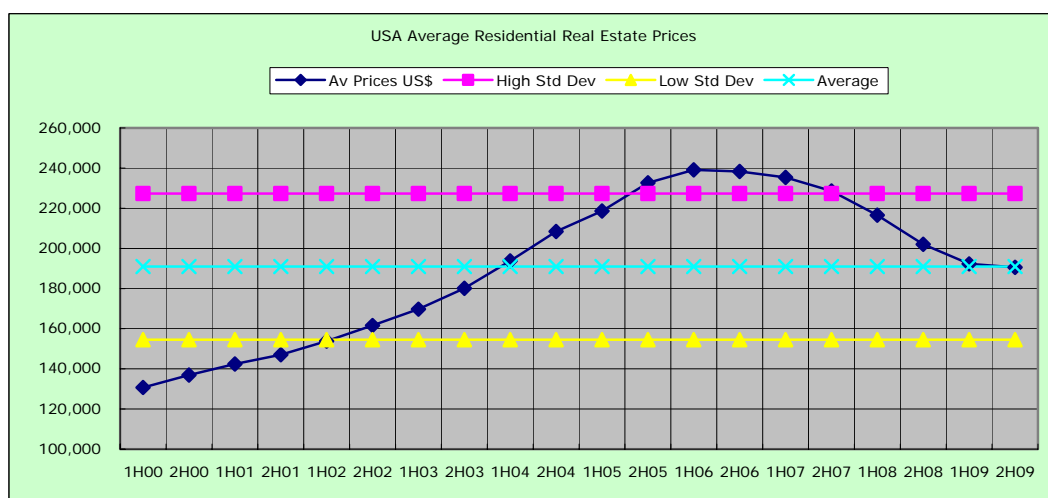
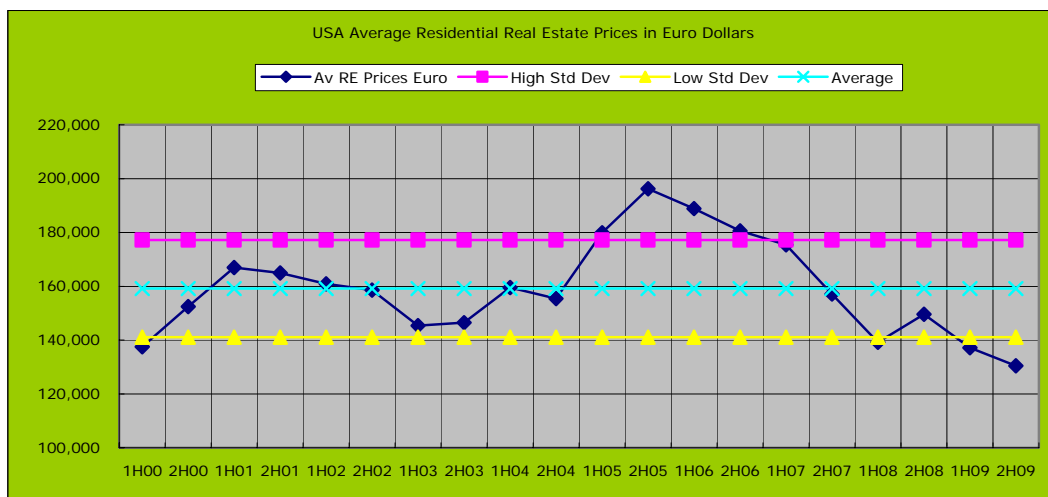
Assuming one bought an averagely priced USA residential property in 2000 and held it till now, then one would now have made an overall gain of around 46% in US\$ terms. However, if one comes from Europe and thus converts Euros to US\$ when buying and vice versa when selling, then one is likely to be making a small 5% loss. This is because the Euro has strengthened against the US\$ in the last decade notwithstanding the recent reversal trend.

- A) **Data and information:** are abstracted from the web and includes www.zillow.com and www.hsh.com. Data starts from the 1H of 2000 and ends in the 2H of 2009, in half yearly intervals.
- B) **In the past 10 years, US\$ denominated investors gained 46% and Euro denominated investors lost -5%:** noting the Euro prices are obtained by converting the residential real estate US\$ price of each period into Euros using the exchange rate applicable at that period. Refer to the table below for details.

| Table: Time | Average Prices US\$ | Price Indexes (US\$) | Average Prices Euros | Price Indexes (Euros) |
|-------------|------------------------|----------------------|-------------------------|--------------------------|
| 1H00 | 130,700 | 100 | 137,521 | 100 |
| 2H00 | 136,900 | 105 | 152,472 | 111 |
| 1H01 | 142,400 | 109 | 166,958 | 121 |
| 2H01 | 147,000 | 112 | 164,963 | 120 |
| 1H02 | 153,800 | 118 | 160,902 | 117 |
| 2H02 | 161,600 | 124 | 158,561 | 115 |
| 1H03 | 169,700 | 130 | 145,380 | 106 |
| 2H03 | 180,100 | 138 | 146,483 | 107 |
| 1H04 | 193,800 | 148 | 159,565 | 116 |
| 2H04 | 208,400 | 159 | 155,461 | 113 |
| 1H05 | 218,700 | 167 | 179,930 | 131 |
| 2H05 | 232,700 | 178 | 196,205 | 143 |
| 1H06 | 239,100 | 183 | 188,872 | 137 |
| 2H06 | 238,400 | 182 | 180,594 | 131 |
| 1H07 | 235,400 | 180 | 175,406 | 128 |
| 2H07 | 228,600 | 175 | 157,111 | 114 |
| 1H08 | 216,600 | 166 | 139,195 | 101 |
| 2H08 | 202,100 | 155 | 149,646 | 109 |
| 1H09 | 192,300 | 147 | 137,207 | 100 |
| 2H09 | 190,600 | 146 | 130,473 | 95 |

- C) **If one counts from the price peak in 1H 2006:** then the US\$ denominated investors would have lost around 20% while the Euro denominated investors would have lost more than 30%. Again, please refer to the table above. In US\$ terms, it is \$190600 / \$239100 and for Euro dollar terms, it is 130473 / 188872. You may figure out the percentages yourself.

- D) **Technically, Euro denominated investors may consider entering the USA residential market (again):** as the current price is already under the lower standard deviation price level. The same could NOT be said for US\$ denominated investors as the price, in US\$ terms, has only reached the 'average'. Please refer to the 2 charts below for details.



- E) **Prices appear to have little to do with mortgage rates:** here we have only looked at the traditional (15 year) fixed mortgage rates and the correlation R is a -0.38 which is not a significant correlation. Nonetheless, perhaps one should also compare the price trend to all popular forms of residential mortgages, including those introduced in the last several years, to form a more complete picture.

In any event, we have found the price trend to have a significant correlation, a -0.82, to the US\$ to Euro exchange rate. This means the weaker the US\$ is, the higher the USA residential real estate tends to be, although both have been on a downward trend in the past two years or so.

Summing up, the above appears to support the notion that the USA residential real estate market was propped up by liquidity, and this should serve as a well-intended cautioning to other markets which, intentionally or otherwise, bank on similar mechanism to thrive.

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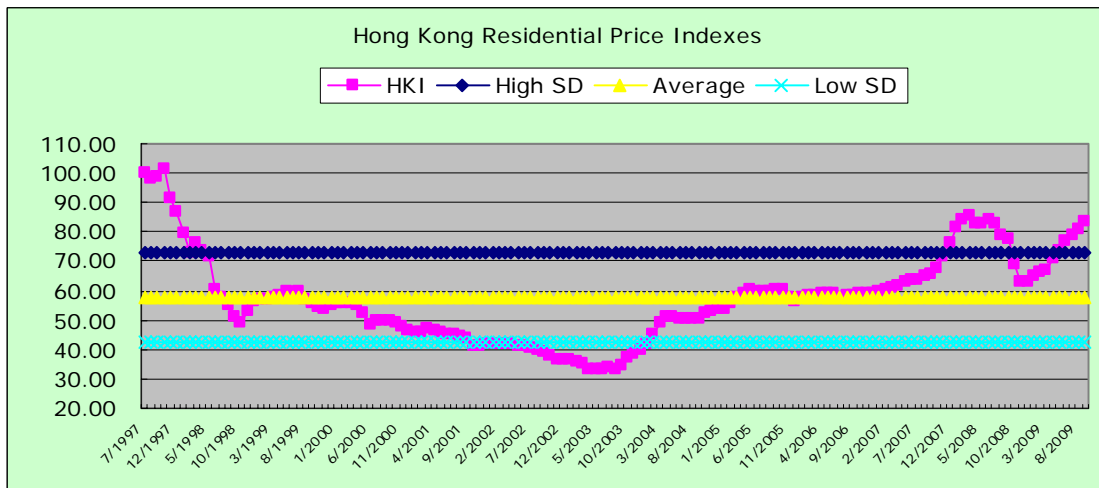
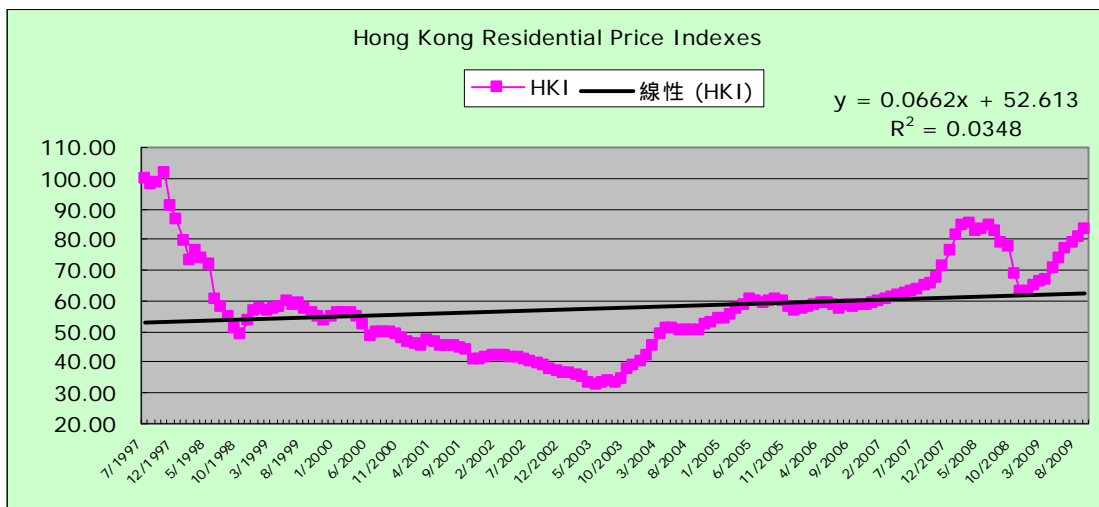
Hong Kong Residential Real Estate: Island Trends Up, the Rest Down Real Estate Tech, 1Q 2010

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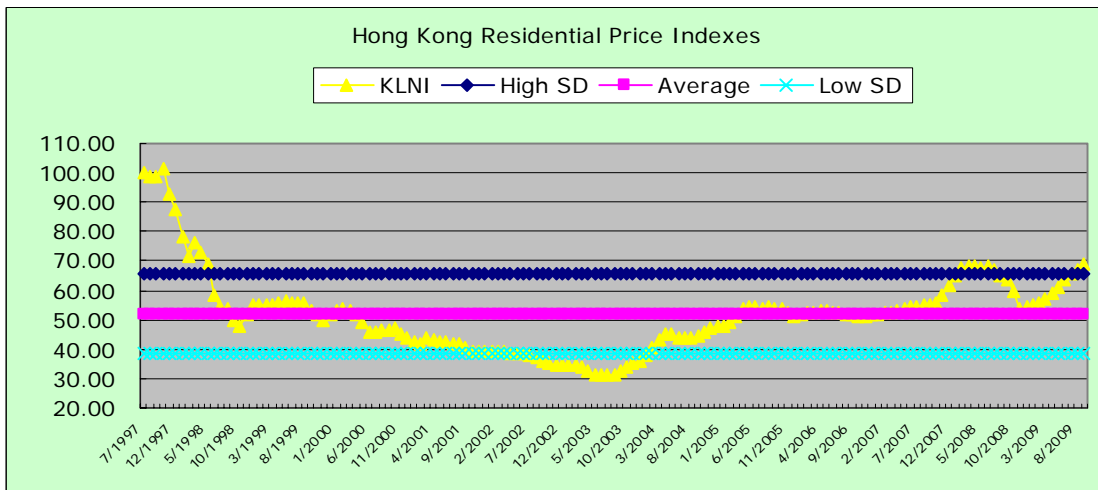
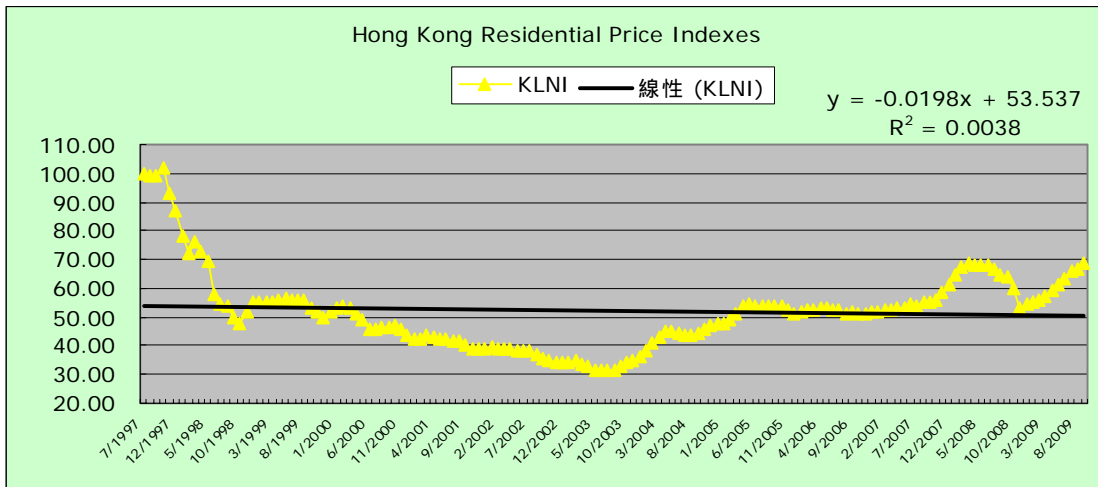
Out of curiosity, your humble author wishes to know if Hong Kong residential real estate is on an up or down trend, or for that matter, how risky or safe it may be. We have also subdivided this into 4 geographical sectors; Hong Kong Island (HKI), Kowloon Peninsula (KLN), and New Territories East (NTE), and New Territories West (NTW).

Data comes from www.centanet.com and we looked at its various indexes:

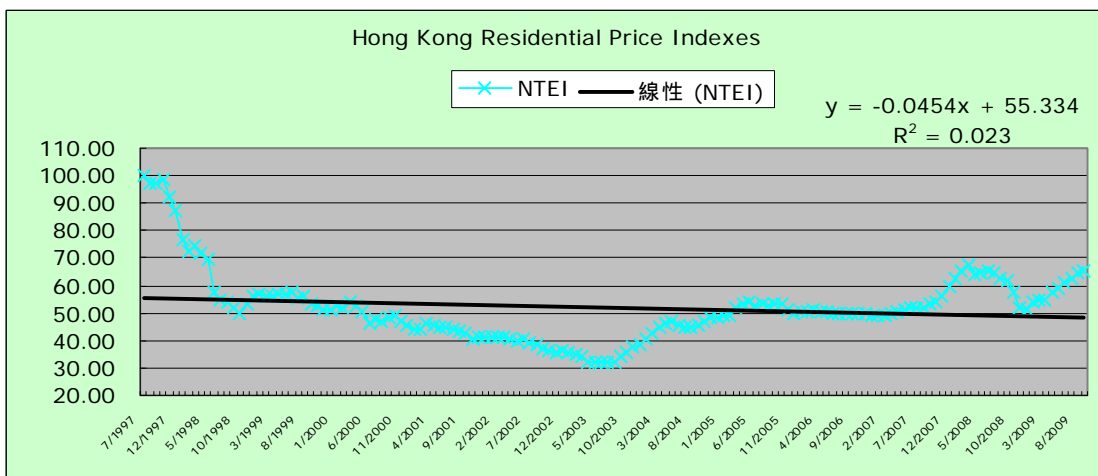
A) Hong Kong Island: The trend is up, relatively riskiest

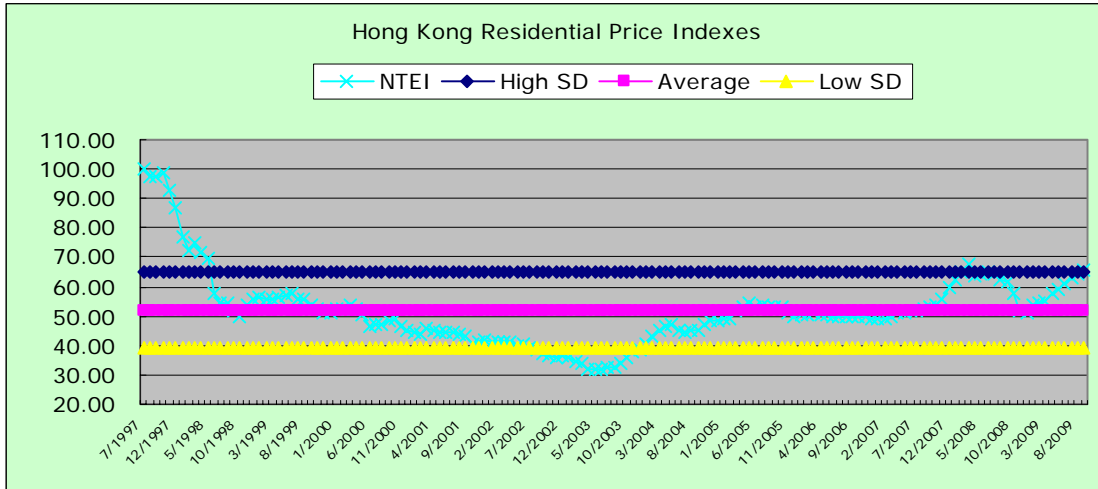


B) Kowloon Peninsula: The trend is flat with a slight touch of down, relatively risky

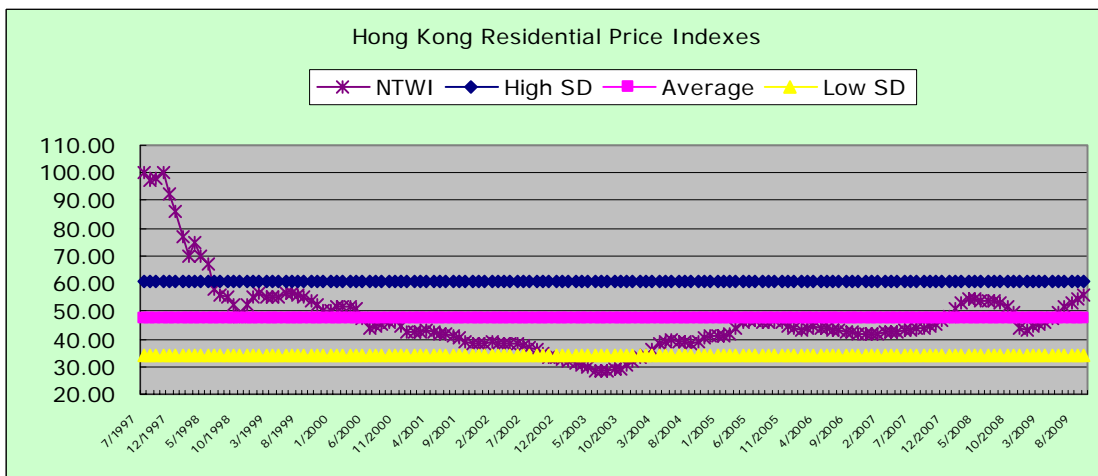
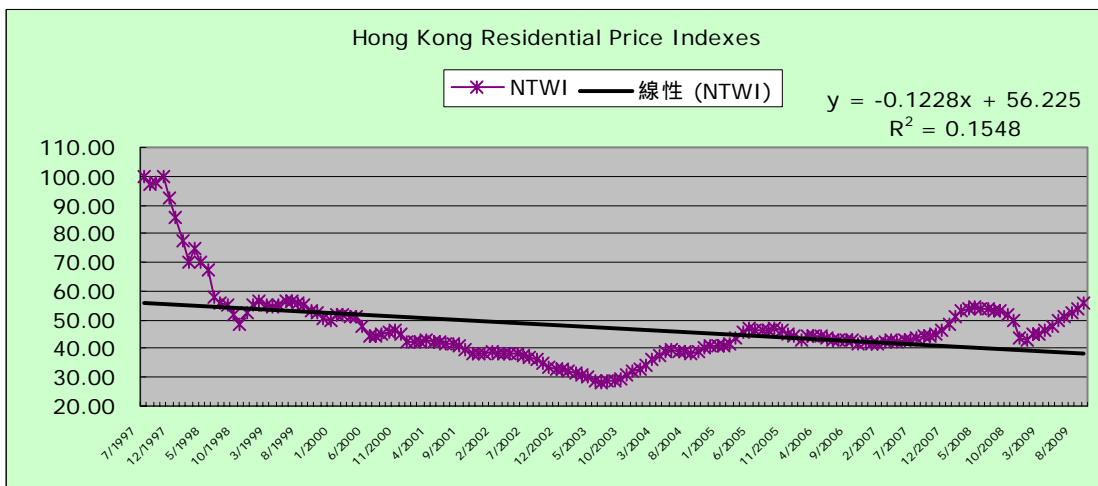


C) New Territories East: The trend is down, relatively less risky

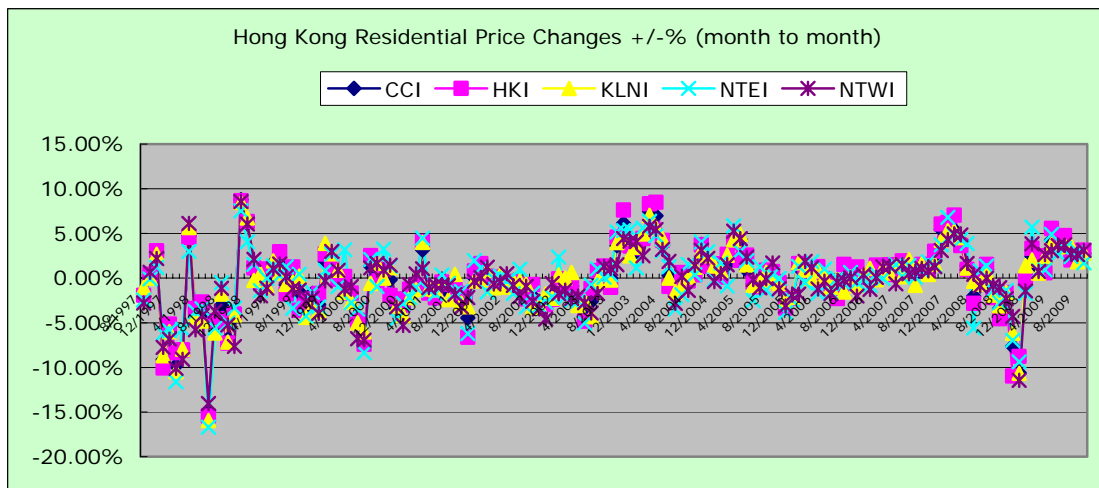
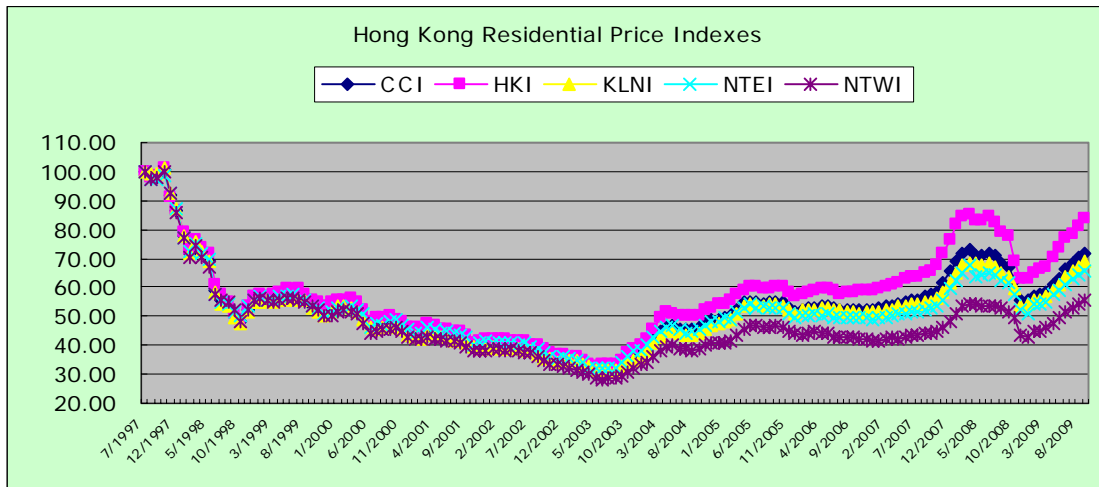




D) New Territories West: The trend is down the most, relatively safe



E) A summary of the above price index trends and their annual changes + / - %



Happy New Year and Happy Hunting!

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