Zeppelin's Real Estate Tech

1Q 2017: A Real Estate Newsletter by Zeppelin Real Estate Analysis Limited

Phone (852) 37576388 Fax (852) 37576399 E-mail stephenchung@zeppelin.com.hk Web: www.Real–Estate-Tech.com

2017 began with Trump being inaugurated as the 45th president of the USA and the Dow Jones reached an all-time high. The UK started work on Brexit and the court said parliamentary approval is required to proceed. At Davos, there appeared to be concern over whether free trade would continue as usual, especially when TPP appears 'fine' – as in Italian. Meanwhile, some real estate markets continue with their upward price-marches and Hong Kong grabs the title of being the most difficult market to buy a home given the gap between price and income. Not to mention various trouble spots and hot spots worldwide. What a wonderful world...☺

In this issue:

- **Hong Kong real estate: global factors trump local factors**
- **New Zealand: an anecdote showing pricey real estate needs no big population**
- **UK overall home price does not feel bubbly**

"In infinity, what is capable of happening WILL happen, irrespective of its odds."

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

This quarterly (generally published in spring, summer, fall, and winter) 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**, **21st Century Business Herald**, **Apple Daily**, **Sing Tao**, **Quamnet Magazine**, **The Standard**, **MITCRE Alumni Newsletter**, **Surveying Newsletter**, **Reidin.com, 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 **USA Today**, **i-Money**, **Ming Pao, Radio Hong Kong**, **Cable TV (Money Café), DBC Radio,** and **Commercial Radio**. We also publish monthly articles and analyses in the months in between. This newsletter is now into its **21st year** and **82nd** 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 / Hong Kong 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 Partners 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 based in Hong Kong with associated operations in Mainland China and we also have access to regional and global professional networks.

Who? Me?

Stephen Chung
Managing Director, Zeppelin Real Estate Analysis Limited
Creator and Writer, Real Estate Tech Quarterly Newsletter
Real Estate Website Developer, www.Real-Estate-Tech.com

Stephen is an independent real estate analyst – number cruncher and chartered surveyor and has been involved in real estate development, investment, and management in Hong Kong / China / Asia and North America.

Stephen provides relevant real estate market insights and macro-micro assessments to real estate developers, investors, owners, financiers, funds, and civic organizations, and possesses many years of experience in building economics, project management, facility strategy, marketing, and research.

Stephen is also a regular real estate writer - columnist and his articles have been published in both English and Chinese media including the following:

- China Daily
- Hong Kong Economic Journal
- South China Morning Post
- Apple Daily
- Quamnet Magazine
- Real estate and finance websites such as Soufun.com, Finet.com etc
- Journals of professional institutes such as the Hong Kong Institute of Surveyors

Stephen is an honorary adjunct professor of the University of Hong Kong and has been invited to speak to audiences from:

- Universities: such as the University of Hong Kong, City University of Hong Kong, York University
- Professional Institutes: such as the Hong Kong Institute of Surveyors, Canadian Institute of Quantity Surveyors, Royal Institute of Chartered Surveyors
- Business Associations: such as the Rotary Clubs

Stephen has written 4 real estate books in Chinese to date as follows:

Online book = Easy Real Estate Lectures
Hard copy = Real Estate Investment Know-How above 101
Hard copy = The Real Estate Market Turning Point
E-Report = USA Residential Real Estate Analysis

We welcome enquiries from interested parties and could be reached as follows:

Email: StephenChung@zeppelin.com.hk
Office Phone: 852-37576388
Office Fax: 825-37576399
Office Address: Unit 07, 10/F CCT Telecom Building, 11 Wo Shing Street, Fo Tan, Hong Kong
Website: www.Real-Estate-Tech.com

Our services can be obtained and delivered via a) tailor-made professional consultation; b) online report purchases; c) emailed discussions and advice; and / or d) phone discussions.

Hong Kong real estate: global factors trump local factors

Real Estate Tech, 1Q 2017

Stephen Chung BS BBldg (HKU) MS in Real Estate Development (MIT) MRICS MHKIS FPFM PQS RPS(QS)
Zeppelin Real Estate Analysis Limited - Phone (852) 37576388 / Fax (852) 37576399 stephenchung@zeppelin.com.hk

Make interest rate great again? (Public domain photo)

Hong Kong has been labelled having one of the least, if not the least, affordable residential real estate market worldwide. According to the report in Fortune.com (see link below), an average square foot requires US$1380 while footages in better neighborhoods can easily fetch US$2580 [US$1 = HK$7.80 or thereabouts]. The report also mentioned the median monthly wage is US$1998, or just say US$2000.

http://fortune.com/2016/12/30/hong-kong-home-prices/

Assuming a 500 square foot unit [to the uninitiated, this size of unit is likely to be 2Bed 1Bath plus living and dining area with kitchen] and using the average of US$1380 / ft2, then it would cost the buyer US$690,000. Dividing this total by US$2000, a typical worker would need to accumulate 345 months, or 28.75 years of income, to buy the unit. Naturally, wages might increase and buyers do use mortgages i.e. it might not be as bleak or hefty as it sounds.

Also, close to half the population resides in assisted public rental housing. This means the buying pool tends to consist of the (relatively) richer half [although many public rental housing residents are quite well off too], and this in turn means their median wage-income should be higher than the one quoted in the Fortune report. Still, even cutting 28.75 years by half means a home consumes a major chunk of one's work life. Big ticket item, eh?

Market experts have collectively cited several reasons for the phenomena e.g. lack of investment options, cultural bias for real estate and land, cross-border capital, parents helping their offspring become owners, lack of supply, pent up demand etc. To varying degrees, these can explain the pricey condition. Nonetheless, your humble author thinks there is one dominant factor; QE. Imagine if there had been no QE at all, zilch, do you think prices could have reached today's level? Or for that matter, the scale, intensity, and volume of cross border capital flow, pent up demand, or helping parents?

Not saying that so-called fundamentals such as household income, employment rate do not carry any weight anymore on asset prices, real estate included, just that QE has been skewing even them too. What's more, QE is rather unevenly distributed in the sense that the financially endowed get to utilize it more and thus benefit from it more, at least up to now. The lesser endowed do not. Brexit and Trump could very well be the symptoms, not the causes, of an anti-establishment undercurrent.

Will this QE saga change course? Likely. First, QE appears to have run its course in the sense that their effectiveness appears to be diminishing. Second, the newly inaugurated US President Trump is no friend (putting it mildly) of the FED Chairlady Yellen who has been pursuing ZIRP if not outright NIRP and her term is up next year. Third, assuming Trump could keep (part of) his infrastructure spending and the like promise, and / or if corporations, be they US or foreign, are enticed / coerced to produce more in the US, money might become 'valuable' again.

But rates are only one aspect. Money velocity, liquidity, and capital flow are some of the other aspects to consider. And these might change too. When, how, where, and even why are beyond your humble author. Just that even without Brexit and Trump, **technological advances** already may have some reverse effects on international trade and globalization. For instance, new energy sources including oil fields can now be sourced and abstracted closer to home. Robotics reduce (not eliminate) the need to have production facilities in some inexpensive-labor places overseas. 3D printing allows some producers to stay close to their customers. Even prospective medical and health advances can enable longer, more active, and healthier aging which just might reduce or solve some of the old age demographic challenges.

And then there is geopolitics (very little to do with politics as generally understood) of which again your humble author knows little and only this much: in the long run Trump (or any US president, or any world leader for that matter) shall come to pass i.e. he (or any president or leader) is driven by it rather than the other way round. In the short term, however, he will be felt one way or another, and larger than life at times. Doctrines, if you will, come and go, and evolve too.

Summing up, one changed trend in one arena may not be dislocating. Yet, whether by coincidence or design, several changed trends in several arenas coming together more or less in synch will usually be quite dislocating.

Such dislocations are sometimes necessary for the better things – in the broadest sense - to come, notwithstanding losses and setbacks will also be suffered among and by some. Yet keeping the status quo – including via the continuation of QE - does not mean all things will be fine. It is just sweeping the dust into the underside of the rug. Some things are not fine to begin with thus the rise of dislocations.

For investors, anti-fragility, patience, and a cool level head are now more required than before to avoid being dislocated, or better still, to take advantage of the dislocations.

If history is any guide, human process and progress (where any) have been moving in non-linear 3D pendulum-swing-like motions, often from one end to the other, left and right, down and up, back and forth, and (hopefully) with every back swing providing the kinetic energy for the forward swing.

New Zealand: an anecdote showing pricey real estate needs no big population

Real Estate Tech, 1Q 2017

Stephen Chung BS BBldg(HKU) MS in Real Estate Development(MIT) MRICS MHKIS FPFM PQS RPS(QS)
Zeppelin Real Estate Analysis Limited - Phone (852) 37576388 / Fax (852) 37576399 stephenchung@zeppelin.com.hk

Small town cottages, neat eh? (Courtesy of your humble author)

Just paid New Zealand a visit and apart from Auckland and Wellington, your humble author had also been to Dunedin, Akaroa, and Taranga etc. Clean air and clear blue skies await you when it is not raining. It is an ideal place for the outdoor type and outdoor café type. By the way, great coffee and ice cream too.

With a population of just a bit over 4.50M, it is impressive that most of the places one goes are neat and tidy. Admittedly, many of these areas are tourist spots – thus the incentive to keep them spit and polished – but then again not all touristic spots in the world are as well kept. Some are 'once is enough'.

Anyway, your humble author took the opportunity to seek some casual advice from real estate and professional acquaintances during the trip and the following was learnt:

1) Auckland residential real estate has become quite pricey for the locals = and a decent detached house now costs more than NZ$1M. So you see, pricey real estate seems a norm worldwide, and not confined to Hong Kong though we might be the least affordable according to some recent news report.

2) Auckland city folks are moving to smaller towns = the young do so because they could not afford to buy in Auckland. The old and elderly sold theirs in Auckland to retire elsewhere. Some middle aged professionals lease theirs to tenants and use the income to rent or even buy another home in the smaller communities.

Will there be net vacancies? Maybe not as others will relocate from the smaller places to Auckland seeking better opportunities. There are also new immigrants and arrivals.

3) The lower priced sector is (still) fine = just be aware of the high end and high priced sector. This is what my acquaintances told me, separately, perhaps reflecting a common view.

Here is a table showing the average home prices in different regions in New Zealand along with each region's home price to income ratio (on a per individual basis, not household or family basis). These rough ratios can shine a light on which regions offer relatively better affordability (lower ratios) and which don't (higher ratios). Sources include realestate.co.nz and the government statistics department.

Regions		Median home price NZ$ Jan17	Price to Income Ratio
Northland		518,200	20.84
Auckland		943,000	29.98
Waikato		495,800	16.72
Bay of Plenty		592,500	21.28
Gisborne		306,100	11.81
Hawke's Bay		413,400	14.91
Taranaki		387,600	12.53
Manawatu-Wanganui		310,400	11.68
Wellington		556,800	16.02
Nelson		562,600	19.46
Marlborough		441,600	14.90
West Coast		270,700	9.47
Canterbury		481,400	15.05
Otago		358,900	12.84
Southland		273,500	8.72
Overall		624,700	20.63

Often, huge population is cited as a strong reason for high home prices. This saying sounds fine but might not withstand closer inspection. If population size does matter and by so much, how can one explain pricey NZ home prices, especially when its small population size implies New Zealanders have more than enough 'land' per capita?

On a separate note, and given the expected flux in the global economy, finance, and geopolitics, perhaps New Zealand can offer a bit of shelter from the wind, rain, and waves being located near the southern tip of the hemisphere.

Disclaimer: your humble author has invested in New Zealand real estate

UK overall home price does not feel bubbly

Real Estate Tech, 1Q 2017

Stephen Chung BS BBldg(HKU) MS in Real Estate Development(MIT) MRICS MHKIS FPFM PQS RPS(QS)
Zeppelin Real Estate Analysis Limited - Phone (852) 37576388 / Fax (852) 37576399 stephenchung@zeppelin.com.hk

You might overpay, but you can't go wrong (Cambridge in England, author's own photo)

Your humble author had spent the 2016 Christmas in Cambridge, England with relatives. It was cold. It got dark around 4pm. Some days were gloomy while others were sunny. Wined and dined for a whole week. Not to mention presents and the Christmas tree. One of the best festive holidays ever!

Searched the web out of curiosity to see how the overall UK residential real estate market was fairing. The content below was abstracted from hometrack.com:

1) Greater London has the highest average home price out of the 20 cities surveyed (goes without saying, right?) = Cambridge follows in a close second and Oxford in a close third, and the cheapest is Liverpool. 19 of the cities see a price increase and only Aberdeen's sees a fall in a 12 month period starting from November 2015 and ending in November 2016. Refer to the table below for details, prices are in pound sterling:

Cities	Prices	Cities	Prices	Cities	Prices	Cities	Prices	Cities	Prices
Aberdeen	183k	Belfast	127k	Birmingham	147k	Bournemouth	270k	Bristol	260k
Cambridge	418k	Cardiff	193k	Edinburgh	205k	Glasgow	117k	Leeds	155k
Leicester	158k	Liverpool	114k	London	483k	Manchester	148k	Newcastle	123k
Nottingham	141k	Oxford	411k	Portsmouth	221k	Sheffield	130k	Southampton	220k

2) The overall UK market may go up another 2% to 3% in 2017 though city level homes are expected to fare better with a 4% increase. The overall UK market has risen roughly 7% in 2016 though individual cities varied.

3) Three cities are way ahead in the price race = except for London, Cambridge, and Oxford whose average home prices are 483K pounds, 418k pounds, and 411k pounds respectively, the rest of the cities have average prices hovering in the 100k plus to 200k plus range. Reasons for this? No idea though one may say “London is London” and speculate Cambridge being an innovative and scientific research center – not to mention the famed University of Cambridge – offers value. Similar for Oxford perhaps.

Nonetheless, as Brexit’s full effects have yet to be revealed and given certain potential backtracking in international trade and global investment – symbolized by a Trump-led USA, London, as a cosmopolitan financial center, is likely to suffer some setbacks.

However, and purely by intuition i.e. not via researches and analyzes, some of the remaining cities might offer long term real estate investment value given their affordable pricings. Here is the rough feel for things using a hypothetical UK average home as basis (data from various sources e.g. costmodelling.com, savills.co.uk):

A) Average size is approximately 100m2 rounded
B) Average cost per m2 of floor space is approximately 1800 pounds per m2
C) Average UK home price is approximately 240k pounds rounded

As such, the construction cost of an average home is around 1800 pounds x 100m2 = 180,000 pounds. And 180,000 average construction cost / 240,000 average home price = construction cost occupies 75% of the average home price (building depreciation, time value of money etc are for now set aside for simplicity).

This implies the likelihood of the UK having a highly inflated and bubbly home price situation everywhere in the cities is insignificant, notwithstanding technically having home prices being near or not too far from construction (replacement) costs is by and in itself NOT a guarantee that there will be no downward home price adjustments. Sometimes the bread is cheaper than the flour and butter and sugar combined.

Naturally, a serious investor would also need to consider the taxation and its effects on the bottom line, and to spend time sieving for the better (excluding London) cities in the UK.

Which of these ex-London cities might offer the potentials, any tip? None. Your humble author is not facile with the UK market but quite enjoys Liverpool which has the lowest home price among the 20 cities listed above. Why? Because of the low prices? No, because there were the Beatles…though that’s Yesterday.

Do you need our services? You DO when…

- **In Real Estate Development:** you encounter overestimated proceeds, cost overruns, underestimated time schedules, design and quality issues, construction contractual disputes, joint venture conflicts, or the like…you need an experienced project manager like us

- **In Real Estate Investment:** you encounter challenges in 1) Selecting which markets (cities), sectors (residential, office, retail etc), and properties-projects to invest; 2) Striving for the best possible risk-adjusted portfolio return; or 3) Sensing the volatility of a market or sector; 4) Deciding which corporate strategies, tactics, priorities, properties, and projects to pursue; 5) Getting a INDEPENDENT SECOND OPINION on which you can trust…you need an independent real estate analyst like us

- **In Real Estate Management:** you encounter questions on 1) if it is more economical to buy or rent the real estate facilities and assets, and if so where and what; 2) how best to manage and maintain such facilities and assets; 3) what level of human resources are required, all with a view to maximize their utility to help achieve the corporate objectives… you need a seasoned facility strategist like us

- Contact us:

Mr. Stephen Chung stephenchung@zeppelin.com.hk
Address: Unit 07, 10/F CCT Telecom Building, 11 Wo Shing Street, Fo Tan, Hong Kong
Phone: 852-37576388 Fax: 852-37576399 Web: www.Real-Estate-Tech.com

Zeppelin **Partners Limited**
Zeppelin **Real Estate Analysis Limited**

Associated operations in China and access to professional networks worldwide