# *Zeppelin's* Real Estate Tech

2Q 2016: A Real Estate Newsletter by Zeppelin Real Estate Analysis Limited
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If economic and financial analyses are anything to go by, it seems there is a global consensus that 2016 will be a very difficult year full of risk and danger. No wonder the central bankers across the world continue with easy money policies. Even the US FED appears to have mellowed a bit. Pundits are divided roughly into two broad categories; one group thinks the markets will boom before they explode while the other say there will be no boom before the bust. Take your pick. Closer to home, residential sales, prices, even rentals, are treading lower.

We have recently completed a rather comprehensive macro analysis on USA residential real estate and thus your humble author would like to share some of the results herein:

- **USA single family home price recovers lost ground but condo still hasn't**
- **USA residential real estate beauty pageant and the winners are…**
- **USA real estate buying: logistics, tax structuring, and non-recourse mortgages!**

**"Prefects are people who are 'almost' perfect :)"**

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 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**, **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 **20th year** and **79th** 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 part of the Zeppelin Group headquartered in Hong Kong with associated offices in Mainland China and we also have access to professional networks covering Asia, North America, and Europe.

# 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 3 real estate books in Chinese published to date as follows:**

Online book = Easy Real Estate Lectures

Hard copy = Real Estate Investment Know-How above 101

Most recent and hard copy = The Real Estate Market Turning Point

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**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.

# USA single family home price recovers lost ground but condo still hasn't

**Real Estate Tech, 2Q 2016**

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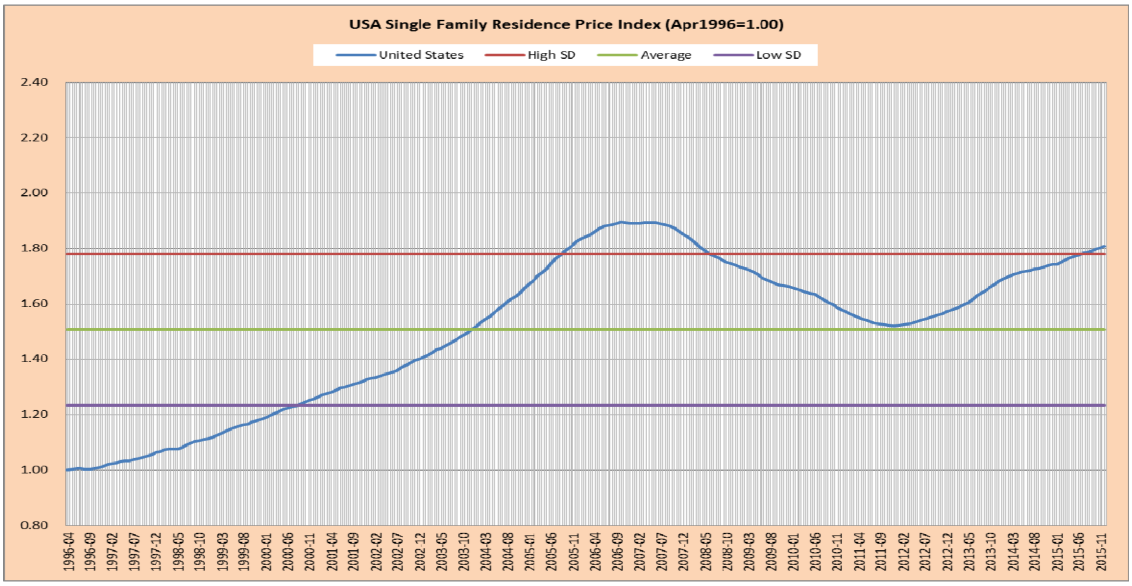
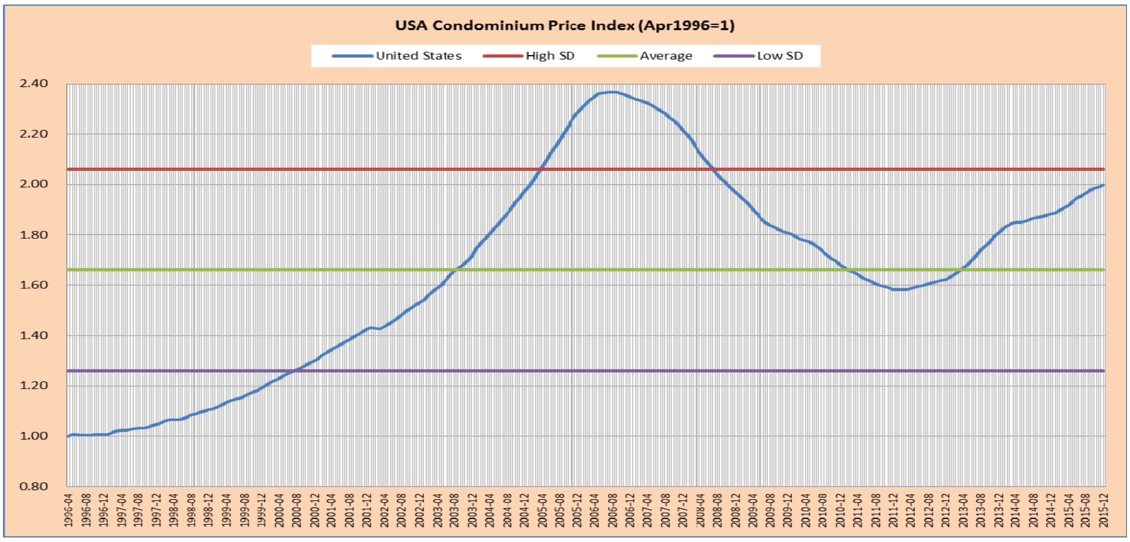
Nice single family home: you need three cars just to fill up the garage (Courtesy of Wikimedia.org)

**Investors from Hong Kong and the region have been quite keen to invest in overseas properties** these days and the trend is very likely to continue for some time into the future. Most of the English speaking countries such as the UK, USA, Canada, Australia, New Zealand, and so on are within their radar range. As such, this issue of the newsletter will be dedicated to the USA residential market and your humble author hopes it would do the investors some good.

**Here we show 2 price performance charts: a) the single family home; and b) the condominium.** You can see that the former has, on average in the USA, regained most of the lost ground since the last peak while the latter still has some distance to go.






**Both are price indexes and both use April 1996 as the base year with an index value of 1.00.** For single family homes in the USA, the maximum price index was 1.90 in October 2006 and in December 2015 it was 1.81, less than 5% from the peak. So assuming the upward price swing continues, all lost ground will be regained in the not too far away future.

On the condominium side, the maximum was 2.37 in July 2006 – yes, condominium prices rose more than single family homes on the whole - and it was 2.00 in December 2015, still a gap of around 16%.

**Now some of you might be wondering what the 3 straight lines are for.** Let your humble author explain. The middle one – **green line** - represents the average price during the period which starts from April 1996 to December 2015. The top and bottom lines – the **red** and **purple** lines respectively - represent the 'standard deviation' of the price performance curve during the period or in simpler phrase, the 'typical price fluctuation range' i.e. the range within which most, not all, of the prices during the period could be found (to be within). Let's call these two lines – the red and the purple – the high standard deviation price level (HSD) and the low standard deviation price level (LSD…obviously we are not talking about the drug here).

**So what, some of you might be asking?** One way is to use them – the HSD and LSD - to gauge if the more current price levels are on the high or low side, and the relative degree of risk. Referring to the single family home price chart, you can see the latest (December 2015) price level being higher, not by a lot but higher nonetheless, than the HSD level (red line). Technically this means the December 2015 price level is not just on the higher cycle of the curve but the risk may be getting higher too, because this price level is NOT within the typical price fluctuation range (note the levels where the 2006 prices were).

On the other hand, the condominium price level in December 2015 has not protruded above the HSD level, at least not yet, and hence from a technical interpretation angle, its overall risk in the USA may be smaller notwithstanding also being on the higher cycle of the curve.

In short, while individual markets may very well be different, the average single family home in the USA appears to have slightly higher price risk than the average condominium in the USA.

**Disclosure:** yours humble author has real estate investments in the USA and data from Zillow.com

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## USA residential real estate beauty pageant and the winners are…

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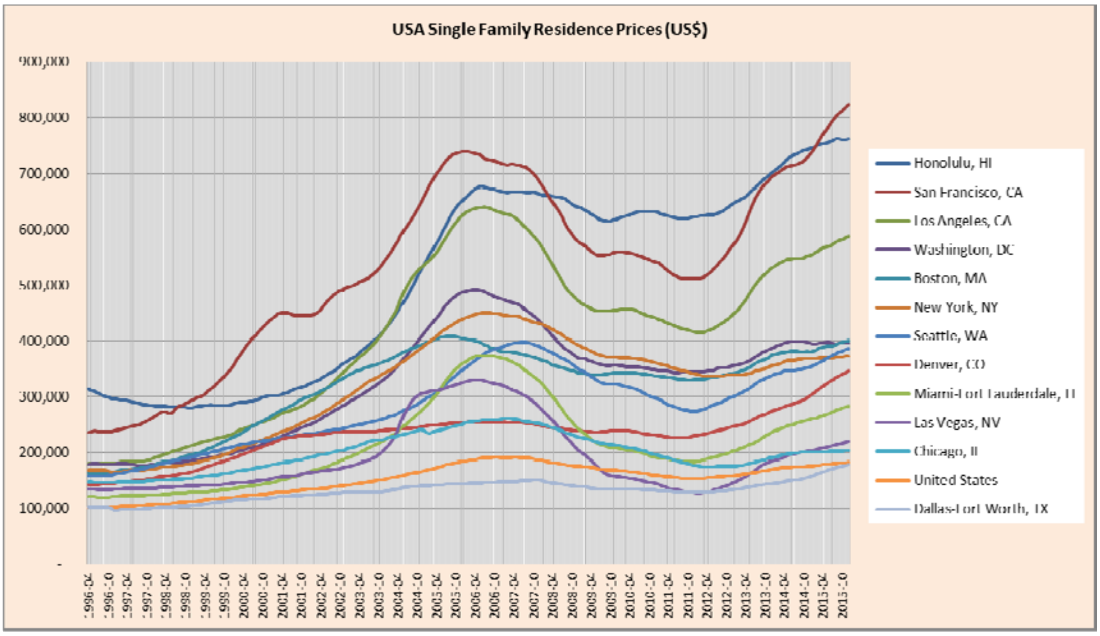
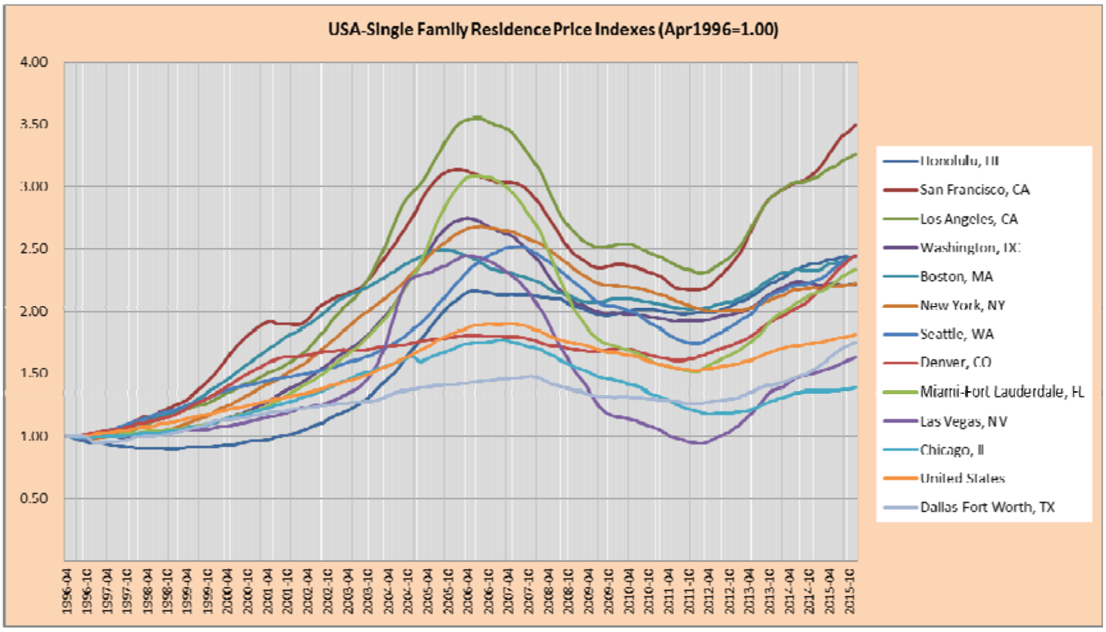
Blue sky in the Big Apple = Buy? Or No Buy? (Courtesy of Wikimedia.org)

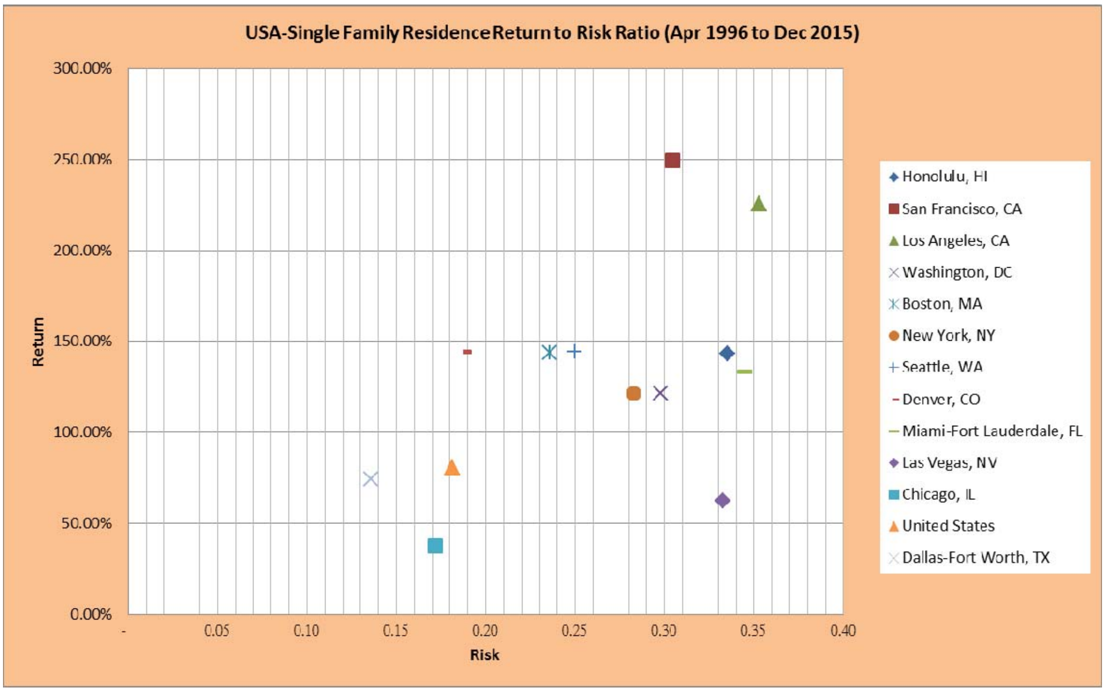
**Here we have analyzed 12 selected USA metropolitans plus the overall USA residential real estate market** which can be used as a benchmark to see if a particular metro over-performs or underperforms versus the nation. The 12 metros are better known to overseas investors and span across the USA including the Pacific region and state of Hawaii.

Again, we separately deal with the single family home and the condominium markets in the 12 metros. Apart from showing the price curves and the price indexes, we have also included simple return to risk analyzes which can be used to assess which are the relatively better markets – assuming more or less status quo moving forward – to invest.

Here we go:






**Let's deal with the single family home first. The first 2 charts** are not difficult to comprehend; the first one shows the median home prices from April 1996 to December 2015 for each of the 12 selected metros plus one for overall USA, and the second chart shows the price indexes and April 1996 is used as the base value of 1.00.

**Simple observations include:** a) Honolulu, San Francisco, and Los Angeles have the highest median prices while Chicago, Dallas, and the average USA have relatively low prices; b) Los Angeles has the highest peak during the period but has yet to recover fully; c) San Francisco has already recovered all lost ground and more; c) Honolulu prices while not offering much by way of high peaks have actually not dropped much when the other metros suffered noticeable price losses after their peaks; d) Las Vegas had sunk the most but has only lackluster recovery;

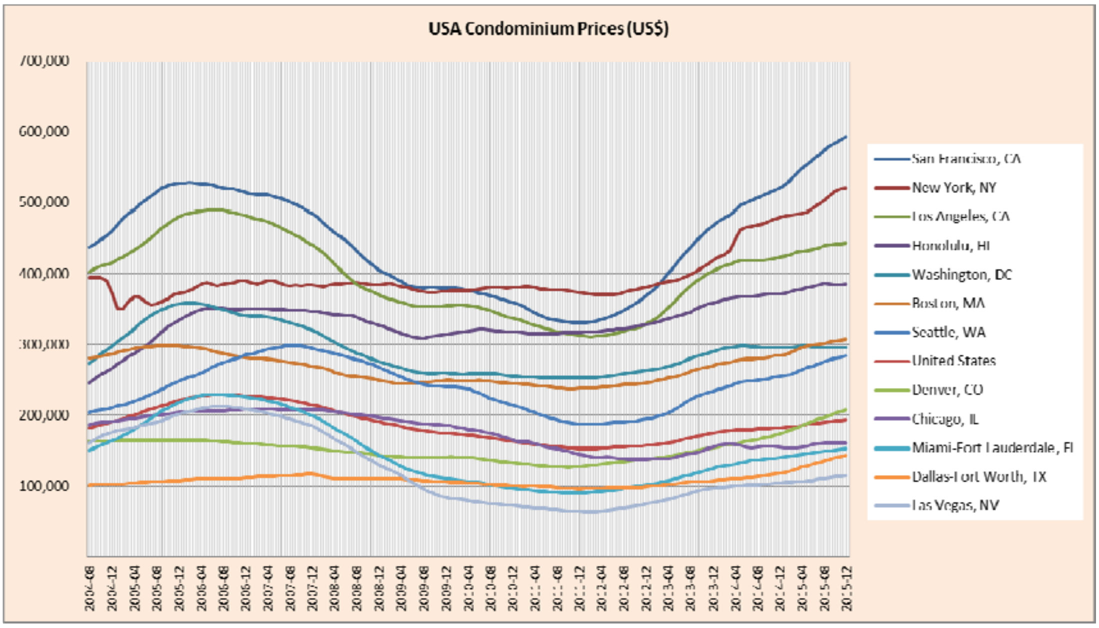
e) Dallas offers relatively low price volatility; and f) USA as a whole has not done too badly in terms of price recovery.

**Now onto the 3rd chart:** it is a return to risk chart where the X-horizontal-axis represents the degree of (price) risk i.e. the more to the left side the better because that means the risk is smaller, and the Y-vertical-axis represents the return and naturally the higher the better as that means higher return. Note return here is limited to price gain only i.e. no rental return has been factored into the equation.

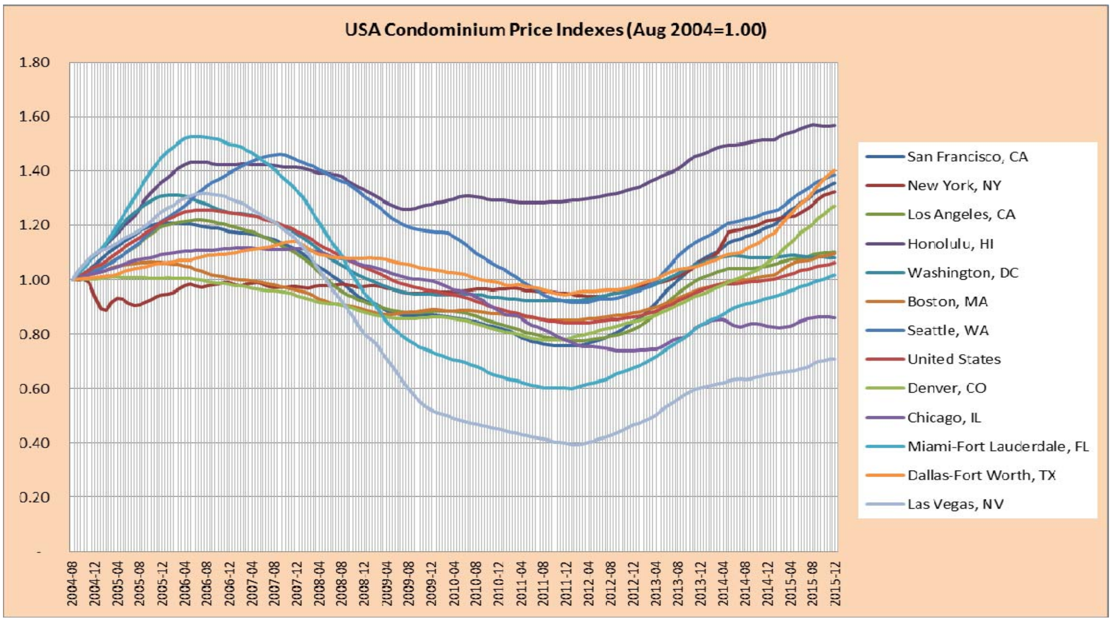
**Observations:** a) these 12 metros follow the general expectation of 'higher return higher risk' pattern; b) one can divide the metros into roughly three groups – high return high risk, medium return medium risk, and low return low risk; c) in the high-high group, San Francisco beats Los Angeles by offering a higher return and a lower risk level than Los Angeles; d) in the medium-medium group, Denver stands out as the better choice than either Boston or Seattle because it offers similar return but for smaller risk; e) in the low-low group, Dallas is the better choice.

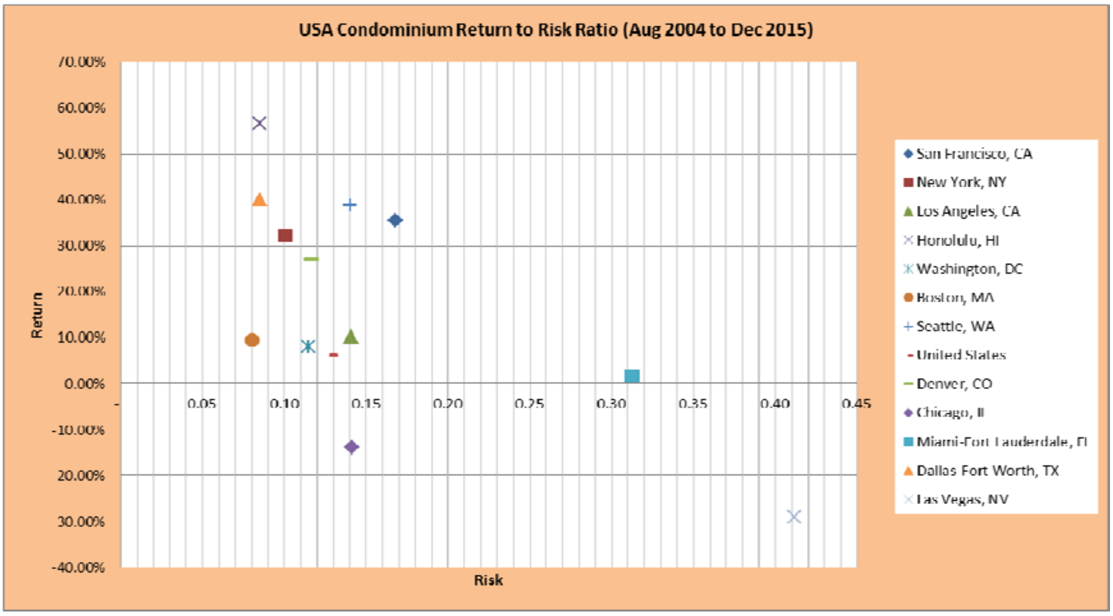
As such, in the single family home beauty pageant among the 12 contestants, the winners are San Francisco, Denver, and Dallas, albeit in different return to risk groupings.

**Next comes the condominium sector.** Due to incomplete data, we start from August 2004 and end in December 2015 using August 2004 as the base year with a price index value of 1.00. Nonetheless, the same three categories of charts:




**Observations:** a) the metros with the top three prices are in descending order San Francisco, New York City, and Los Angeles; b) Las Vegas, Dallas, and Miami constitute the bottom three in ascending order; c) San Francisco prices fluctuate hugely with high peak and low trough but has recovered all lost ground; d) New York City had not dropped much when the real estate bubble exploded but has good showing recently; e) Honolulu appears delinked a bit with continental USA markets in that its prices have not moved downward in the last crisis but have also not moved up as much as New York City or San Francisco; f) Miami and Las Vegas still leave condo investors who had bought at their peaks, say, depressed.




In terms of return to risk, and strictly speaking, only Honolulu stands out from the crowd offering higher than all return and lower than most risk. The bad performance metros, to name three, are Chicago, Miami, and Las Vegas.

In short, in the condominium pageant category, Honolulu is a clear winner followed by a bunch of so-so performers and a few dogs.

**Disclosure**: yours humble author has real estate investments in the USA and data from Zillow.com

## USA real estate buying: logistics, tax structuring, and non-recourse mortgages!

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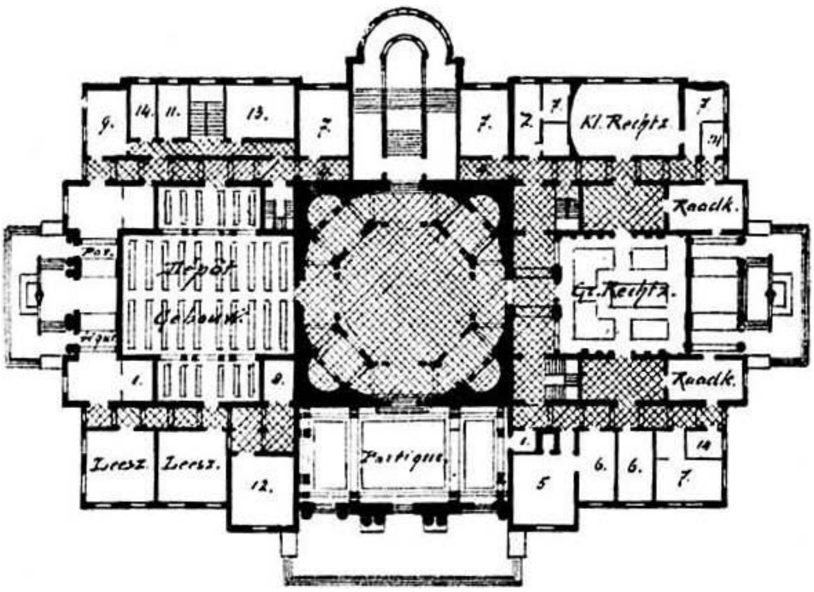

You need a plan (Courtesy of Wikimedia.org)

When investing in overseas properties, be these residential, office, retail, industrial, warehouse, hotel, resort, mixed-use, or even mixed-up, one needs to have the necessary resources, including capital, human, and financial, in place, especially in countries where the economic-socio-legal-governmental-financial-administrative components could be different in concept, practice, and scale. Here we touch lightly upon three aspects for investors eyeing the USA:

**1) Logistics** = Buying is the easier part. Obviously one needs a competent real estate broker to seek and screen viable properties for consideration, not to mention an independent lawyer to scrutinize the sometimes massive and complicated purchase and sale terms and conditions. Perhaps a financial advisor or mortgage broker too if financing is required. It is not just the price or closing date.

Then one needs to set up a team to manage the real estate assets acquired including but not limited to leasing, rent collecting, book-keeping, building maintaining, tenant managing etc. This implies having in your team at least a leasing broker, a book-keeper, a handy man or maintenance expert, and a property manager (if the assets are plenty and larger in scale), not to mention a lawyer every now and then, and a tax-accountant for tax reporting and reduction purposes.

**2) Tax-structuring** = USA taxes are NOT the simplest in the world and generally there are federal, state, and municipal taxes to deal with. Rental income and capital gains are taxable. Some rules and regulations govern investments by foreigners too. And while there are several broad approaches from which to choose (e.g. using foreign versus local entity, or as individual or corporate, or the like), none of them appears to have an obvious or significant advantage over the other approaches. That is, it is likely one has to contemplate and go for the approach which offers the most tax efficient solution and minimal tax implication, based on one's own circumstance. As such, consultation with competent and relevant experts is a must. No escape from and no short cut here. And it is best to consult BEFORE making actual investment. This may save a lot of headache later on.

**3) Non-recourse mortgages** = the best elaboration which your humble author can offer is that these mortgages are like "limited liability mortgages". If and when a non-recourse mortgage is obtained from a lending institution e.g. a bank to be applied to a property, and should the owner at some future moment is unable to pay back or service the mortgage, he can just walk away from the property which possession would now go to the lending institution. No further liability is owed to the lending institution by the owner even if the then market value of the property is not enough to cover the (remaining) mortgage sum.

Non-recourse mortgages are commonplace in the USA and both residential and commercial properties can make use of them. Naturally, there exist certain underwriting requirements and sometimes a lender may only offer non-recourse facility to portions of the total lending. Usually it is advantageous to have non-recourse mortgages where available because the adverse financial impact from any market downturn is much reduced with them in place.

Last but not least, and while some properties in the USA can be acquired for US$50K or even lower, the total investment may need to be of a certain scale before the overheads, including the fees paid to the array of brokers and experts mentioned earlier, become 'sustainable' and not eat into the net income too much.

**Disclosure**: yours humble author has real estate investments in the USA

# 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

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