The **Zeppelin** Group – Real Estate & Building

Real Estate Asset, Project, Facility, and Marketing Management

Zeppelin Real Estate Analysis Limited

Real Estate Analysis, Investment Strategy, and Portfolio Monitoring

Our Analytical Track Record

As of July 2008 [zreabro5.doc]

We have over the years been assisting real estate investors and users in analyzing real estate markets, formulating investment strategies, and / or managing portfolios. From time to time, we would publish or share some of our analyses, ideas, and observations through a variety of media including our real estate newsletter "**Real Estate Tech**", major / financial / professional newspapers and journals such as the **Hong Kong Economic Journal, The (Hong Kong) Standard, China Daily, 21st Century Business Herald (China), PM Network Magazine (Project Management Institute, USA**), **RPF Magazine,** our web-site www.real-estate-tech.com and other portals. We have also been interviewed by the **Asian wall Street Journal** and **Radio Hong Kong**.

Admittedly, analysis in terms of market forecasting is a difficult if not impossible task and there is no fool-proof methodology no matter how technically sophisticated it may be. Nonetheless, one main benefit of analysis is that it enables (or even forces in some cases) one to systematically investigate the market conditions, contemplate effective strategies, and make the best possible decisions which would enhance returns and reduce risks, thus making effective and efficient use of resources more likely rather than to just rely on luck, notwithstanding the randomness of events at times.

While we do not claim to be correct all the time, there have been **some proud moments** when contemplated trends in our analyses were realized. A few of these are listed herein:

1) **Article "Sensitivity Revelations on the Hong Kong Private Residential Market", Real Estate Tech, January 1998**: At the time, many real estate commentators were saying that residential real estate prices, having gone down by around 20-25% from the 1997 peak levels, had reached bottom or stabilized. Using simple sensitivity models, we expressed the view that it would not be all that difficult, as many then had thought, for **prices to drop further and significantly even by (not to) 50% - 70%**. Subsequently, the market dropped by close to 70% in 2003 i.e. prices were around 1/3 from the peak levels and have been recovering since.

2) **Articles "Designing for the Elderly", January 1997 and "Business / Real Estate Opportunities Created by An Aging Population" April 1997, Real Estate Tech**: Collectively we expressed the potentials of elderly housing and explored some of the facilities which might be required to cater to elderly needs. Now real estate developers are also looking into the market potentials.

3) **Article "A Speculation on Hong Kong Real Estate Trends", Real Estate Tech, January 1997**: This was abstracted from a speech delivered as an invited luncheon guest speaker to members of the Rotary Club. One of the trends mentioned was that while most people in Hong Kong then were still thinking of a "one-way" traffic pattern with only mainland immigrants flocking to Hong Kong and not vice versa, we expressed the situation would change to a more **"two-way"**

traffic. It is now not uncommon for Hong Kong residents to work in Hong Kong and reside across the border or even to relocate to other cities totally.

4) **Article [translated] "The Grade A Office Market Holds Potentials", Hong Kong Economic Journal, May 1999**: Overall, the office market then was still pretty depressed in terms of prices and rental rates. Our view was that for the long-term investor, the Grade A office market offered some potentials. First, the sector was not that over-supplied, especially for the **really good Grade A buildings**, and second, the sector was less pro-actively planned for in government policies (not that there was not any planning) thus a more market mechanism existed. Subsequent rise of the dotcoms and technology companies filled up much of the floor space and rental yields improved immensely (for the early investors) in 2000 though the market became depressed again after its bust. More importantly, Grade A office rents have been doubling / tripling / quadrupling since 2003 when the overall economy started improving.

5) **Article "Hong Kong Needs A Larger Population Base to Remain in Competition", Real Estate Tech, April 1998 and similar article in the Hong Kong Economic Journal, January 1999**: We argued that Hong Kong actually requires a much larger population base to remain in competition as one of the major regional cities. The basic reason is that most of the **global centers and large metro cities have population of around 10M**. If Hong Kong is to remain at far less than that level, then it must be assumed that our GDP per capita will always be significantly higher than the others so that our total GDP will not be less than them (one measure of regional economic importance). The population base can be increased via absorbing more immigrants and / or a merge with Shenzhen in due course. While such has yet to occur, economic ties and cooperation have been increasing tremendously especially since the past decade or so.

6) **Article "Internet House Viewing = Yes, Internet House Buying = Not Yet", Real Estate Tech, April 2000**: We made a few observations of real estate (trading) portals and explored their future. While potentials existed, getting people to use them "habitually" for most of the transaction process was still not an imminent dream. This had less to do with technologies. One major hurdle was that no portal could claim to have most if not all of the agent/broker-listed properties. No viable online real estate brokerage / agency portal exists to date.

7) **Articles [translated] on Dotcoms and Internet "Dotcoms will buy real estate" February 2000, "Dotcoms' prosperity does not mean the Economy is also picking up" February 2000, and "The Internet is neither a Bubble nor Unreal (though Dotcoms may be)" April 2000, Hong Kong Economic Journal**: Collectively, we were certain of the intrinsic value / application of the internet / web, though dotcom companies might come and go. The articles were published in a time when internet and technology stocks were much in favor. Subsequently the market busted though viable internet companies are still in existence today plus even new comers too. We think there will be good demand for content portals which offer well researched and reasoned business and investment knowledge and angle (and this is one reason why we continue to develop our website www.real-estate-tech.com).

8) **Article "Another Crisis, Another Opportunity, 2001-2002?" Real Estate Tech, April 2000**: We were somewhat feeling a bit uneasy with the euphoria in the then local and global stock markets, brought about by high technologies, web craze, and the like. Make no mistakes, these applications were / are / will be very useful and will become more and more a part of daily life, it was just that valuations were

way overboard. Markets eventually went busted.

9) **Article "Double Your Money By Investing in Beijing and Shanghai Real Estate?" Real Estate Tech, August 2001**: We thought there was a good possibility of such a scenario in 5 or more years' time and we were Half Right. Based on the composite real estate indexes of the China Real Estate Index System (CREIS), the Beijing index was around 1,300 in August 2001 and in August 2005 it was around 1,500 and thus we were not quite "on the mark" so to speak [note though only 4 years had past]. Yet, we have a better report card on Shanghai, which index in August 2001 was around 1,000 and it was 2,000 in August 2005 [you can say also it was a year less than our timeframe] and so it had practically doubled! Notwithstanding recent price drops in the luxury residential sector.

10) **Article "Why we are Not a Big Fan of Japan yet" Real Estate Tech, October 2001**: There was in some quarters a feeling that it might be time to look at Japan, which had been in economic doldrums for more than a decade, real estate investments included. We visited the country and looked at some properties, and we begged to differ. While the statistics might look fine, they did not synch with our observations on the ground. We elected to trust the observations more. Japan is still pretty much in trouble (in 2002). Eventually, after some 16 years of demise, Japan seems to show some investment life in late 2004 and 2005.

11) **Articles "Private sector home price is a Middle Class Confidence Issue" Real Estate Tech, June 2000, "Price reduction may not be always effective" Real Estate Tech, June 2000, [translated]"Market hints offered by Mid-Levels parking spaces" Hong Kong Economic Journal, April 2001**: During the periods, there had been numerous market calls saying the Hong Kong real estate market would be turning around (improve) soon. Subsequent events proved otherwise. We were of the opinion it would take much more to get the market up and running and that there were signs the middle class might not be doing really well based on a couple of market signals. The real estate market did not even start to recover until late 2003.

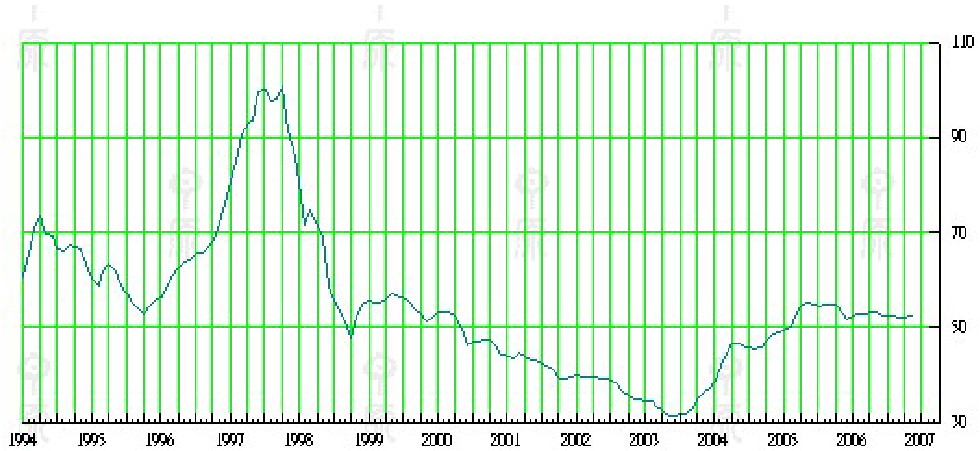
12) **Articles "Hong Kong REITS: Investment Rules Too Tight" Real Estate Tech, March 2003**: We are basically supportive of having REITS in Hong Kong yet we think the rules are too restrictive from a marketability viewpoint. Nonetheless, it was reported in 2004 that the Securities and Futures Commission might relax some of the regulations such as investments being limited to Hong Kong etc, and this eventually took place. Now the market, amidst and after a 2-year initial cool response from the real estate industry in particular the real estate developers, has 3 REIT and more are expected to come, and one of the 3 REIT invests in Mainland China properties. Perhaps someday Hong Kong based REIT would invest in almost all major real estate markets in the world.

13) **Articles "GDP / Capita 500%, Home Price 300%", Real Estate Tech, November 2003**: We were analyzing what home prices might be using a GDP / capita comparison approach and were demonstrating why price rises of 30% or more might not be unreasonable. Prices eventually rose some 40+% on average with some projects recovering more than 60% and by late 2005, most residential properties had risen some 50% to 80% with the high end luxury sector even reaching 100% and beyond.

14) **Article "Hong Kong Real Estate Market: No Bubble Yet", Real Estate Tech,**

April 2004: There were then debates about whether there was a bubble or not as prices had risen some 30% within a short while. We thought not citing GDP and market factors etc and prices have been on the upward swing still notwithstanding short and small adjustments along the way.

15) **Article "Hong Kong Real Estate: Consider Selling IF Profit = 100% or More, Real Estate Tech, September 2004**: We suggested investors who had gained handsomely to consider liquidating part of their (residential) real estate portfolios in Hong Kong. Apart from the really luxurious end of the market, the mass private residential has not experienced huge gains after the initial recovery from the lows in 2003. Stating the obvious, the suggestion of sale did not mean we saw bubbles growing. See the residential price index from Centaline below [note the steeper gain from mid 2003 to late 2004 and the relatively flat gain from early 2005 to late 2006] :



16) **Article "Hong Kong: The First REIT "LINK", Real Estate Tech, December 2004**: We consider the LINK REIT, a former government-owned retail + parking space property portfolio, worth considering owing to a few factors, reasonable pricing being one. Subsequently, the unit price of LINK REIT rose by some 60% since the initial public offering in part owing to having global funds, hedge funds included, participating. [July 2008 note: IF all 7 listed REITS in Hong Kong are compared to their IPO prices, the LINK REIT in nominal terms still offers the best return].

17) **Article "Hong Kong: No Real Estate Bubble Yet", Real Estate Tech, June 2005**: Again there were suggestions that the Hong Kong real estate market was bubbling and we disagreed. While prices did not appreciate in synch or evenly, we did not think there were overly worrisome signs. Up to early 2007, the residential sector is holding well, the office sector is still gaining especially the prime ones, and retail properties command handsome rents still.

18) **Article "USA Real Estate Bubble IF Any Will Crash", Real Estate Tech, July 2005**: This was, as usual, not a prediction but a reasoned projection of what might occur IF there was a real estate bubble and when it burst. We mentioned specifically that many home owners did not and probably still do not understand the type of financing (mortgages) they were taking up and this would add to the severity.

19) **Article "The US$ Printing Press, Devaluation, Inflation, and Export of**

Defective Financial Products", Real Estate Tech, December 2007: The article analyzes the implication of the US$ money supply which flooded the markets with so much notes which in turn pushed up asset prices, real estate included. It also raises concern of a reverse trend, i.e. from liquidity increases (multiplying effect) to credit contraction (dividing effect).

20) **Article "Q & A on China Real Estate", Real Estate Tech, June 2008**: This is not yet a 'proven' article so we shall monitor it to see if the views expressed therein would be realized sometime in the future. Essentially, we feel that while in the very long run the China economy and its real estate markets appear promising, they could suffer some setbacks in the nearer term. Investors beware!

To obtain the above articles, to subscribe to our free newsletter, or to know more about our products and services, please visit our website **www.real-estate-tech.com** and / or contact:

Stephen Chung
BS BBldg(HKU) MS in Real Estate(MIT) MRICS MHKIS MAACE PQS RPS-QS NAREIT F.PFM
Managing Director, Zeppelin Real Estate Analysis Limited
Director of Assets, Zeppelin Property Development Consultants Limited
E-mail **stephenchung@zeppelin.com.hk**
Web-site **www.real-estate-tech.com**
Phone: (852) 24016610 Fax: (852) 24013084
Address: 7/F, 20-24 Kwai Wing Road, Kwai Chung, NT, Hong Kong.