

# Zeppelin's Real Estate Tech

2Q 2020: A Real Estate Newsletter by Zeppelin Real Estate Analysis Limited

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As this is being written, coronavirus (COVID 19) has spread around the world with outbreaks in practically every continent, leading to varying degrees of city and market lockdowns. Governments around the world have also scrambled to take measures including monetary easing to mitigate the malaise and to contain the related economic, social, and political impact.

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- **Canada: average home prices across provinces and territories**
- **Greater Toronto Area condominium investment: where and what?**
- **City of Toronto: which is the best price performing residential real estate sector?**
- **Impact of COVID 19: just a thought**

**"An evidence-based approach implies confirmation after the fact."**

We also like to hear from readers wishing 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 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](#), [21<sup>st</sup> 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 [24<sup>th</sup>](#) year and [95<sup>th</sup>](#) issue.

**We also operate a website [www.real-estate-tech.com](http://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.

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# Who? Me?

## **Stephen Chung**

Managing Director, Zeppelin Real Estate Analysis Limited  
Founder and Writer, Real Estate Tech Quarterly Newsletter  
Real Estate Website Developer, [www.Real-Estate-Tech.com](http://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, Sing Tao 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

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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.

## Canada: average home prices across provinces and territories

Real Estate Tech, 2Q 2020

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The True North strong and free, from far and wide (Courtesy of <http://www.clker.com>)

Some real estate investors in Hong Kong have a pretty good idea of Vancouver and Toronto, however, Canada real estate is hardly just these two markets. Here we have taken a snapshot of the average home prices in March 2020 across provinces and territories and the data comes from <https://www.crea.ca/> :

	Average C\$	Average C\$	Percentage %
Regions:	Mar-19	Mar-20	Change
<b>CANADA</b>	<b>481,828</b>	<b>541,926</b>	<b>12.47%</b>
British Columbia	685,892	788,425	14.95%
Alberta	381,093	371,022	-2.64%
Saskatchewan	269,212	274,127	1.83%
Manitoba	296,086	301,369	1.78%
Ontario	595,092	682,779	14.74%
Quebec	312,071	340,677	9.17%
New Brunswick	170,155	192,362	13.05%
Nova Scotia	262,917	288,101	9.58%
Prince Edward Island	228,423	273,206	19.61%
Newfoundland & Labrador	237,029	235,100	-0.81%
Yukon	407,715	409,787	0.51%
North West Territories	363,361	450,249	23.91%
Greater Vancouver	1,012,500	1,033,700	2.09%
Greater Toronto	779,100	865,200	11.05%

A few observations:

**1) National average C\$540K** = the national average home price has gone up more than 12% from roughly C\$480K to C\$540K which is not bad although it would be interesting to see what will happen in the April 2019 to April 2020 period when the data becomes available.

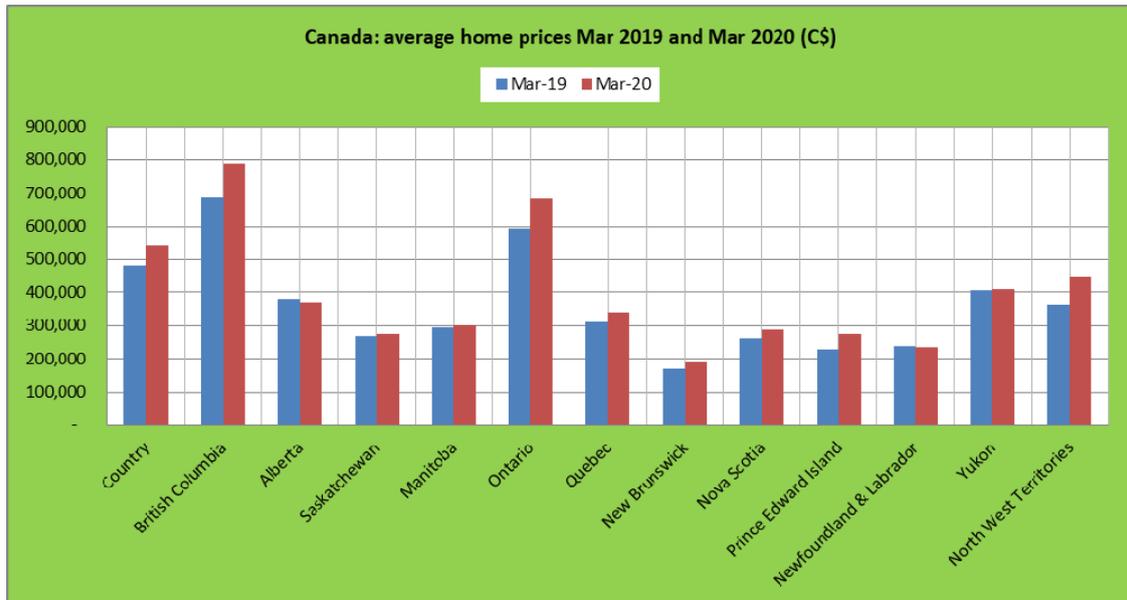
**2) By province and territory, surprise, surprise** = the best performing market is North West Territories (NWT) which recorded a close to 24% increase with Prince Edward Island (PEI) following behind at near 20%, while the worst has been Alberta with a less than 3% drop reflecting perhaps the oil story in general and a pipeline in specific.

This said, both British Columbia (BC) and Ontario (ON) have above average home price increases approximating 15% where Vancouver and Toronto are respectively located.

Do note the average home prices in the table above are on the provincial / territorial level i.e. their respective cities / towns / villages' prices may or may not follow the larger trend.

Just for readers' interest, the performances of Greater Vancouver and Greater Toronto have also been included in the above table for reference. Briefly, during this 12 month period, Toronto trumped Vancouver.

**3) National average dominated by BC and ON** = first, only these two provincial average home prices are higher than the national average, and second, without these two provinces, the national average would be much lower, and a very rough visual guess would be around C\$250K based on the graphic below.



Stating the obvious, these average home prices more or less and by and large reflected their respective economies. Think BC and ON will keep on dominating...

**Reminder:** the above is based on a pre-COVID 19 spreading in Canada situation i.e. investors need to ascertain the virus' effects and impact on the real estate markets – which haven't been taken into account herein - going from hereon.

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## Greater Toronto Area condominium investment: where and what?

Real Estate Tech, 2Q 2020

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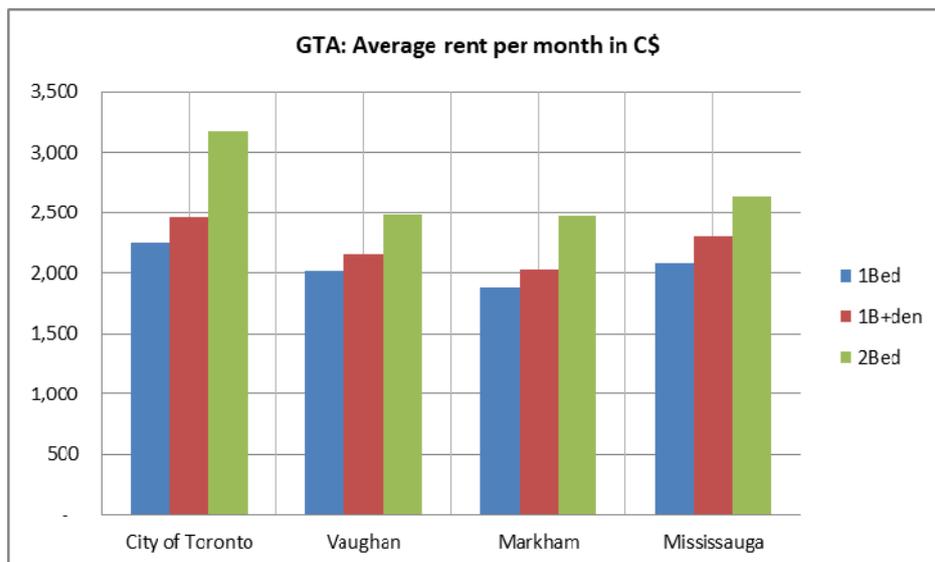
One bedroom unit averages around 600ft<sup>2</sup> net (Courtesy of www.needpix.com)

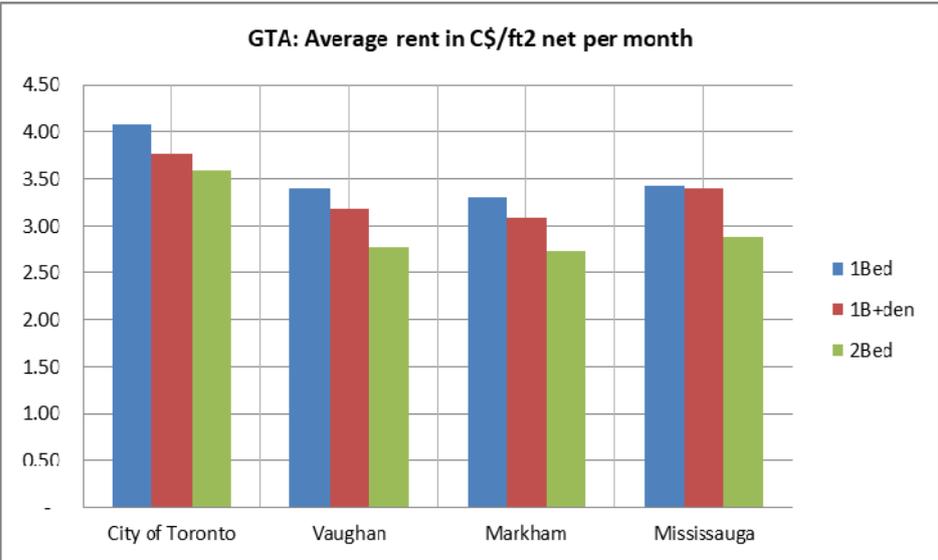
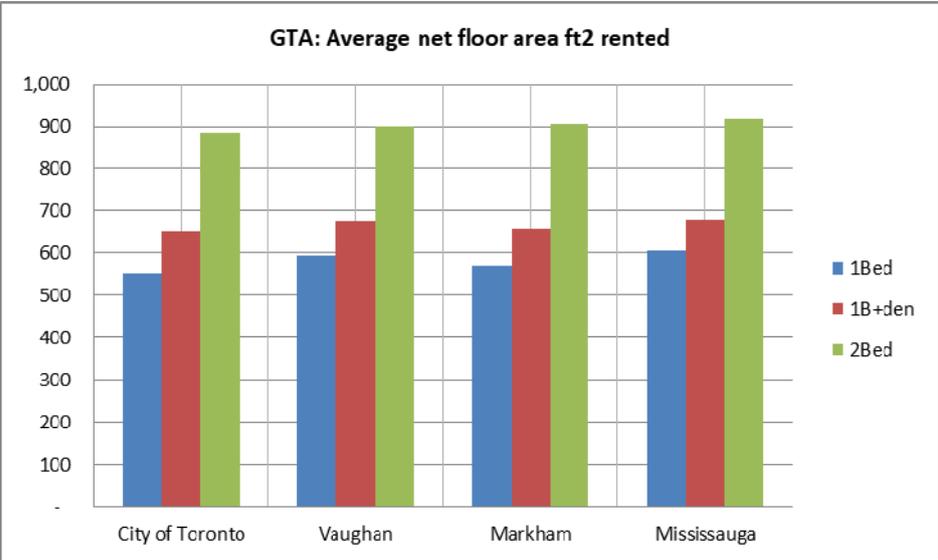
A friend wishes to know if he were to invest in a Toronto apartment condominium the where (location) and what (in terms of floor size and number of bedrooms) answers.

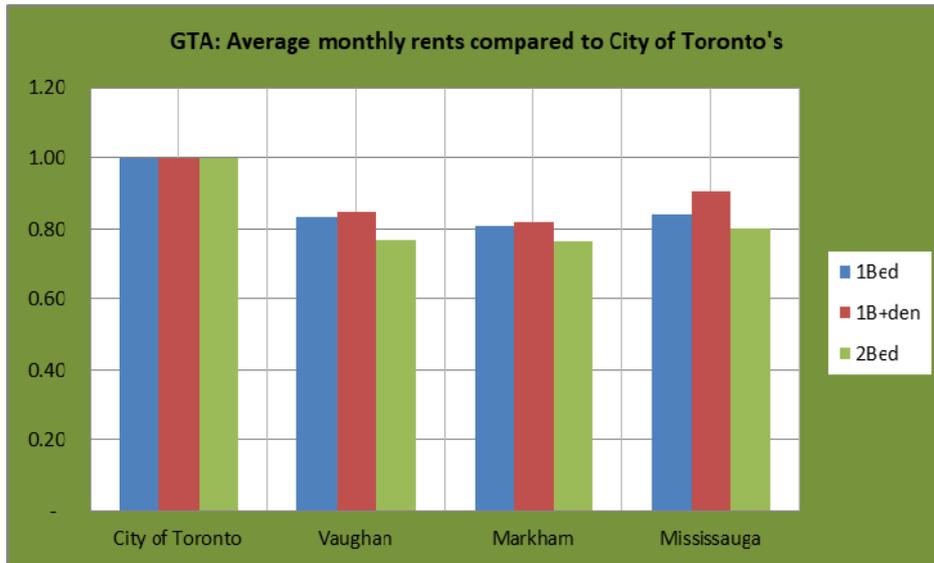
The budget factor aside, it also depends on the friend's investment priority i.e. for rental income more or for capital price appreciation more. Nice to have both but in many instances, investors have to choose one or the other. My friend said he needs regular rental income more.

Good, let's look at some numbers and here we have collected early March 2020 data (i.e. prior to the COVID 19 outbreaks in Canada) from condos.ca on the City of Toronto and a few Greater Toronto Area's (GTA) suburbs, namely Mississauga, Vaughan, and Markham, and their 1 bedroom, 1 bedroom plus den, and 2 bedroom apartment condominium units in terms of rents, floor size, and prices. Here are the resulting charts:

### A) The rental situation



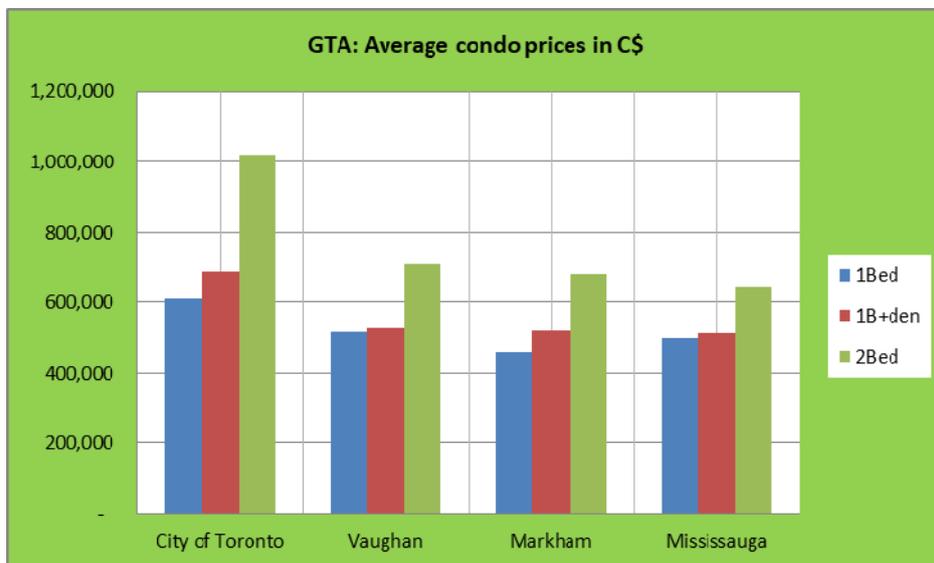


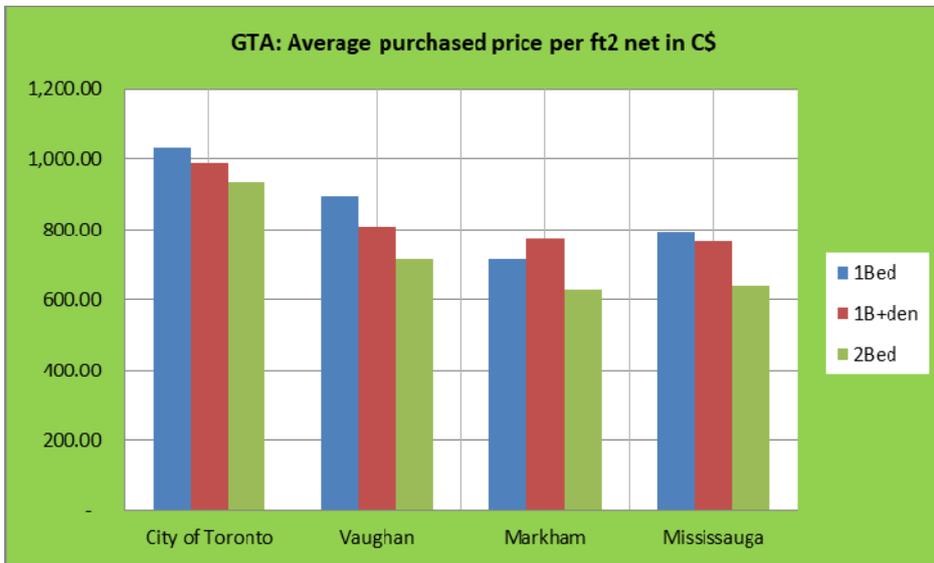
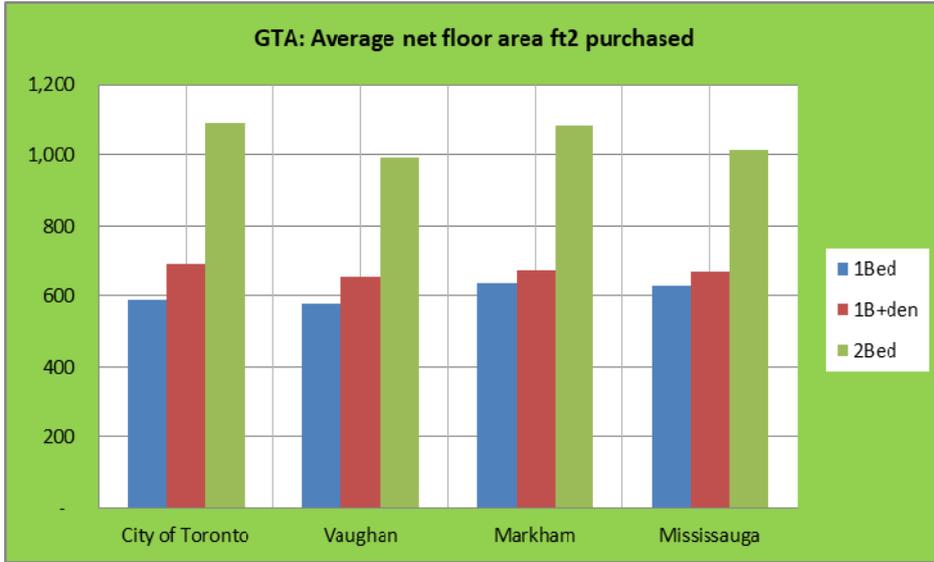


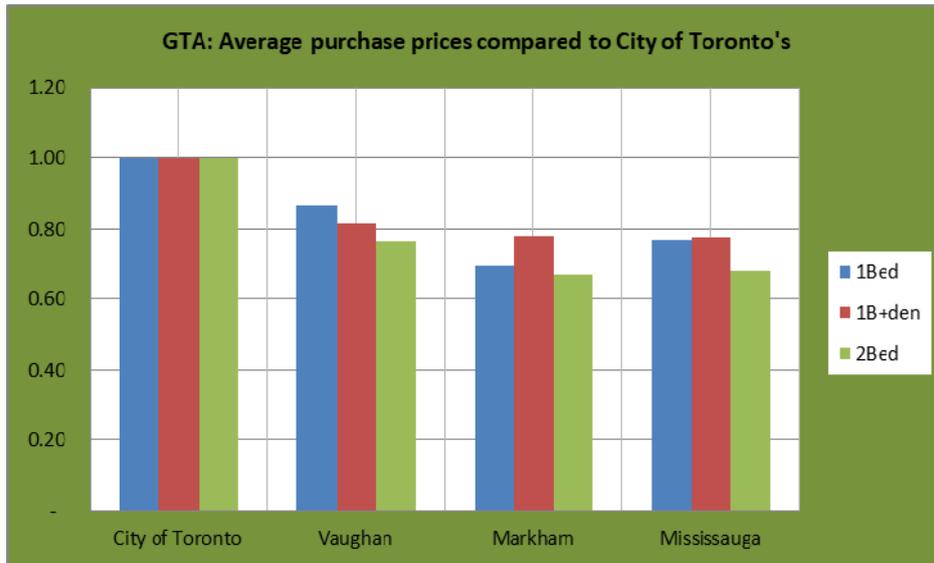
Rental observations = 1) from a gross rental angle, City of Toronto's rents are roughly 20% higher than the three GTA suburbs; 2) the similar goes for the rental per floor area angle; 3) yet in terms of floor area rented, Toronto's are slightly below the three GTA suburbs.

There isn't much of a surprise here.

B) The purchase situation





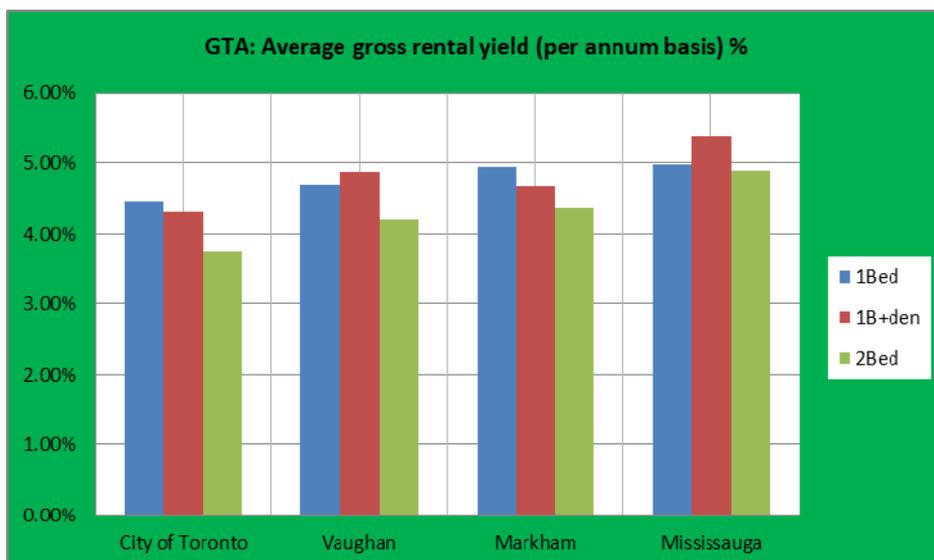


Observations = 1) City of Toronto tops the rest in terms of average purchase prices and average prices per floor area, and generally higher by 30% or so; 2) yet in terms of floor sizes, there aren't significant differences between those of the City of Toronto and those of the three GTA suburbs.

### C) Gross rental yields

The common practice in condominium rentals in the GTA (which includes the City of Toronto) is the rents would include the landlord's (ownership) expenses i.e. the municipal realty taxes and the condominium management fees. These, however, vary from condominium to condominium i.e. it is not easy to arrive at accurate net rental yields which apply across the board.

As such, here we shall use the gross rental yields for comparison:

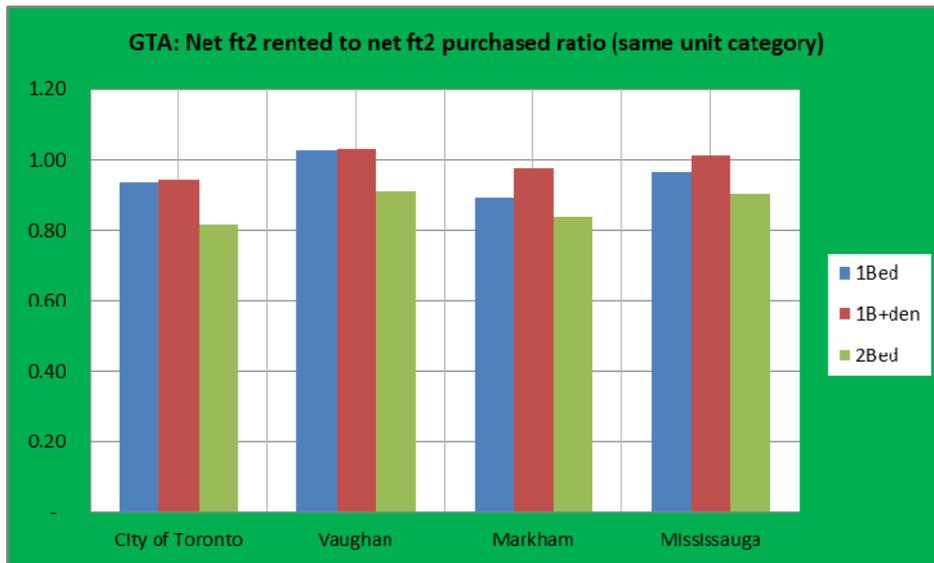


Observations = 1) City of Toronto offers the lowest gross rental yields while Mississauga has the highest regardless of the number of bedrooms; 2) in terms of bedroom numbers, both 1

bedroom and 1 bedroom plus den offer higher yields than 2 bedroom; 3) most yields range between 4% to 5% and thus a wild guess of the net yield may be between 2% and 3%.

#### D) Do floor sizes matter?

Comparing the average rented to the purchased floor sizes in each unit style (1B, 1B plus den, 2B), one would see the rented floor sizes are usually (not always) smaller and very roughly 10% smaller:



Hence, my rental income seeking friend can consider acquiring a 1 bedroom plus den apartment condominium unit in Mississauga which potentially requires around half a million Canadian dollars grossly yielding a bit more than 5%, and which in turn may imply a slightly more than 3% net yield, assuming such trends continue.

In this age of practically zilch bank deposit interest rate, this seems ok.

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## City of Toronto: which is the best price performing residential real estate sector? Real Estate Tech, 2Q 2020

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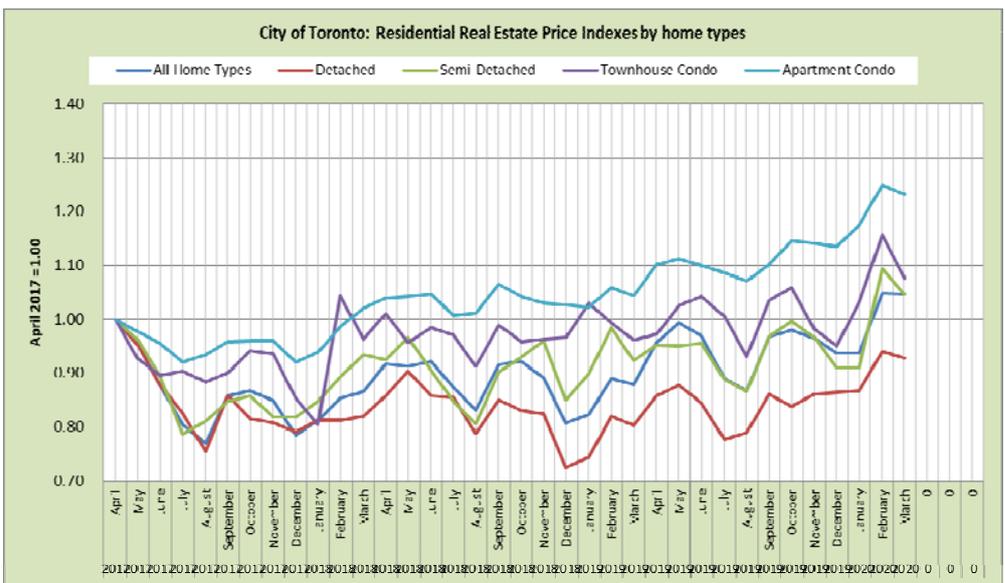
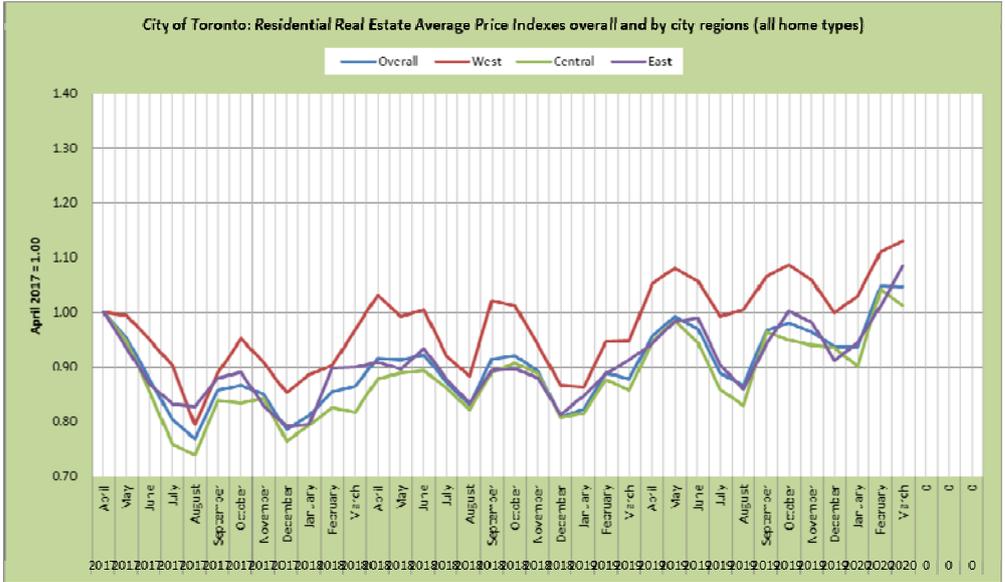


Classic townhouses (Courtesy of Wikimedia.org)

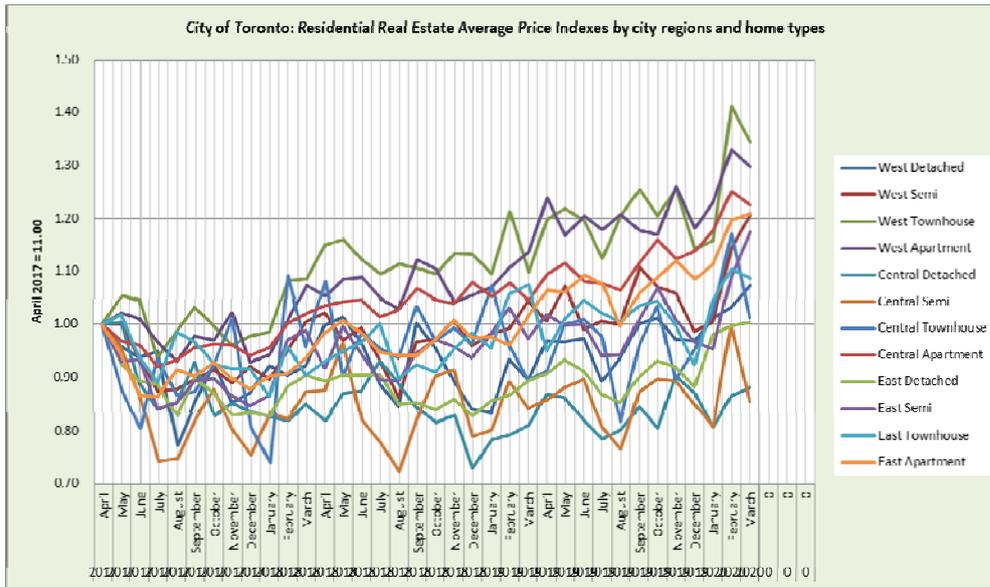
Based on the data published by the Toronto Regional Real Estate Board in their website (trreb.ca), the City of Toronto's average residential price in March 2020 has exceeded the last peak in April 2017 by around 5%:



Fine, hurrah, but this is just an across the whole city average. Can humble author be more specific? Yes, of course, refer to the two charts below; one shows the West part of the City performed better than either the Central part or the East part, while the other demonstrates the apartment condominium sector performed the best:



Does that mean an investor would do himself or herself good by investing in an apartment condominium located in the West part of the City? Not exactly, here another chart:



While it is true the West-apartment-condo sector has done relatively well in terms of price performance (second place in fact), the winner, at least up to early March 2020 from April 2017, is the West-townhouse-condo sector which average price increases by more than 30%.

Briefly, except for the Central-detached and Central-Semidetached sectors, all the others have recovered from the losses since April 2017.

What about actual average prices? See below, figures reflected early March 2020 C\$ prices.

Metro Toronto	All Home Types	987,787
	Detached	1,465,826
	Semi-detached	1,155,457
	Townhouse	728,250
	Apartment	712,746
Metro West	All Home Types	889,119
	Detached	1,279,817
	Semi-detached	1,046,121
	Townhouse	689,930
	Apartment	597,826
Metro Central	All Home Types	1,093,487
	Detached	2,181,128
	Semi-detached	1,285,500
	Townhouse	876,295
	Apartment	789,250
Metro East	All Home Types	897,208
	Detached	1,075,967
	Semi-detached	1,147,648
	Townhouse	620,192
	Apartment	531,031

Casual chats with a couple of real estate brokers in Toronto indicated the market has slowed in terms of transactions since the latter part of March as people tend not to go out and property showings have also become more restrictive e.g. some owners and brokers require a conditional offer BEFORE letting the potential buyers inspect the listed property.

April 2020 statistics, when published, could be revealing.

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## Impact of COVID 19: just a thought

### Real Estate Tech, 2Q 2020

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Keeping it up? (Courtesy of [www.publicdomainpictures.net](http://www.publicdomainpictures.net))

We live in very interesting, to say the least, times...economically, socially, operationally, politically, and even geopolitically. Your humble author tends to think things would eventually turn out fine though not without, say, hiccups if history is any guide.

Being a real estate guy, your humble author has been contemplating (a more professionally sounding term, in fact may just be wild-guessing if not hallucinating) probable trends in real estate when this viral event finally abates (and let's hope there is no question of "if"):

**A) Visual conferencing is cool** = your humble author has been visual chatting with friends (some even have visual dining i.e. each eating his or her own supper while watching and chatting with friends eating theirs online) and visual-attending-professional-talks, not to mention visual-meeting etc., utilizing a few popular visual apps.

Yes, while it lacks a 'human touch' (not recommended for the time being), visual conferencing saves time, and things like professional talks and business seminars could reach a much broader audience benefiting more, allow VOD via recording for those who can't attend the talks simultaneously, broaden the spectrum of speakers (e.g. City X speakers can speak to audiences in City Y, or even Cities A, B C...). It may even save costs and pass on some of the savings to potential customers, users, and audiences.

And it doesn't even require much 'conference' or office space, and if some experts' opinion that the virus may be here to stay (with us for much longer whiles in terms of years than expected) turns out to be true, large gatherings of people will be difficult, even if not regulated or disallowed. Tough times may be ahead for these real estate sectors.

**B) The importance of logistics** = your humble author has had his share of delivered food services in these stay-at-home-more days.

This in turn prompted your humble author to appreciate even more the vital logistics behind whether it is related to goods or services, from production via packaging to distribution, their timeliness in delivery, not to mention in sufficient quantity and quality, involves a complex network. Any disruption could cost extra, sometimes unnecessary in hindsight, and sometimes be costly not only in economic terms but in social and human terms too. This applies to practically most if not all spectrums of goods and services, ranging from the strategic to the essential.

Adding the possibility that pre-virus logistics arrangements may be altered even post-virus, owners and investors of logistics properties may want to review their portfolios and their market assumptions to see if such remain viable still. If not, perhaps it is time to readjust the portfolios. Not to mention technological advances in recent years have already been making impact e.g. online retailing on retail space.

And logistics in the broadest sense could cover industrial, manufacturing, warehousing, distributing, retailing, and the like function properties, plus infrastructure. There will be winning and losing properties.

By the way, the popular "just in time and just enough" stock concept may require some adjusting too i.e. as an analogy, storing a little fat may not be such a bad idea if not being able to eat, voluntarily or not, for several days becomes likelier in future.

**C) More health conscious occupants and buildings** = your humble author likes cruising but is happy that he wasn't onboard a ship when the virus spread. Nonetheless, the several cruise ship / ship viral outbreak incidents may have some implications for building design and management, especially buildings with centralized / shared building services (ventilation, water, drainage and so on) systems. Lucky for us that this COVID 19 coronavirus isn't "too" airborne but what if in future there will be one which is...

As such, perhaps individually ventilated units in a multifamily building may not be such a bad idea despite not being the most energy conserving, and perhaps even an apartment unit could be designed for (better) compartmentalization. Also, how to seek a balance between urban density (presumably for better economic efficiency and societal interaction) and public health safety becomes crucial. Perhaps researchers could be encouraged to study these more.

Or perhaps higher urban density requires more stringent and effective public health measures and better scaled health and medical facilities, plus a more alert and self-discipline citizenry.

#### More Money

And behind all the foregoing, there is this rather substantial supply of money worldwide to combat the negative impact from the virus and to offset the lost GDP. However, if these were to increase and be sustained, maybe, just maybe, such extra supply of money may eventually lead to general inflation someday (as QE had done for asset prices).

Real estate developers, investors, and owners who comprehend the zeitgeist well enough will do better in future.

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- **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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- **Contact us:**

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