

# Zeppelin's Real Estate Tech

**4Q 2019: A Real Estate Newsletter by Zeppelin Real Estate Analysis Limited**

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The world appears in a state of flux, perhaps a sign of larger-than-you-think changes to come. Commotions and protests continued in Hong Kong. Meanwhile, Hong Kong residential prices have been going up and down and the Hang Seng Index climbed close to 27k (as of writing).

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- **Toronto residential: prices failed to beat the 2017 spring peak**
- **Toronto residential: the scale and strata of the tenant pool**
- **Canada residential rental affordability: quite affordable to half the tenant pool**
- **Prices may change but the price ratios between properties are fairly constant**

**"How smart can someone who habitually wants to prove how smart he or she is be?"**

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 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](#), [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 [93<sup>rd</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.

## Toronto residential: prices failed to beat the 2017 spring peak

### Real Estate Tech, 4Q 2019

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Keep pushing... (Courtesy of publicdomainvectors.org)

In our 3Q 2019 quarterly issue, we had speculated that IF the momentum seen in that quarter were to continue, the average price of a Toronto home might surpass its last peak in April 2017. But this isn't to be, at least not yet. Here is this quarter's observation:

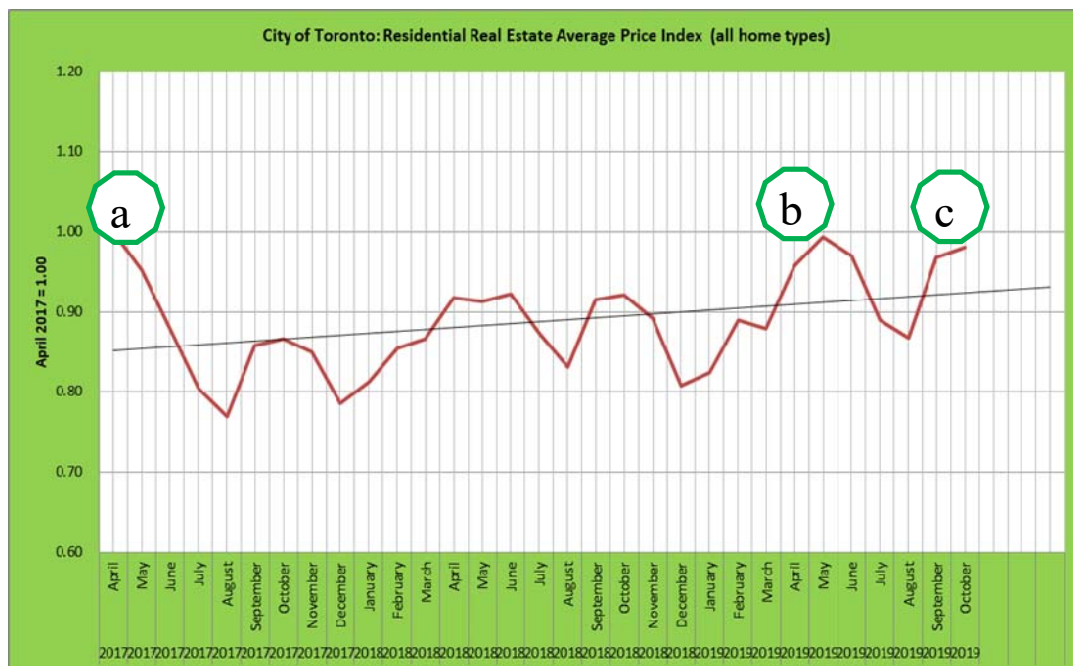


Chart 1: (a) represents the April 2017 price peak, (b) the highest though still lower than (a) in spring this year, and (c) the 'probable new peak' but wasn't in October this year

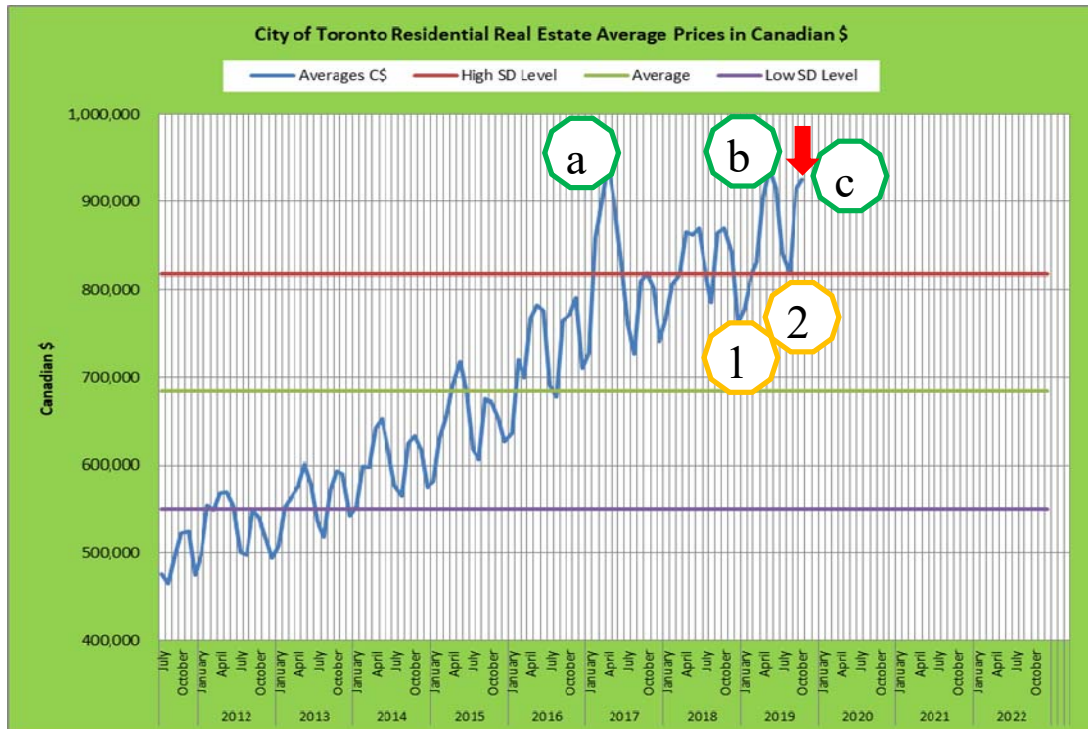


Chart 2: (a) represents the April 2017 price peak, (b) is the high seen in spring this year and it started from point (1), and (c) is the rather lackluster upswing despite starting from point (2) which is higher than (1). Furthermore, the price curve gradient appears to be levelling off a bit (red arrow).

As to why prices gyrate up and down seasonally during the year, the simple explanation is: spring is home hunting season especially for parents looking for 'good' school districts; summer is vacation time; fall is pleasant to be showing and looking at homes; and winter is just too darn cold.

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## Toronto residential: the scale and strata of the tenant pool

### Real Estate Tech, 4Q 2019

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Distance to the lake real estate price theory... (Courtesy of goodfreephotos.com)

First, we need to define what is considered affordable renting. Here it is deemed the tenant needs to spend no more than 30% of his income for accommodation.

Using this benchmark, then on average, the tenants in the Greater Toronto Area (GTA) generally spend less than 30% of their income on accommodation, except for one neighborhood of Richmond Hill which tenants need to spend from 30% to 49% of their income. Data comes from [www.rentalhousingindex.ca](http://www.rentalhousingindex.ca):

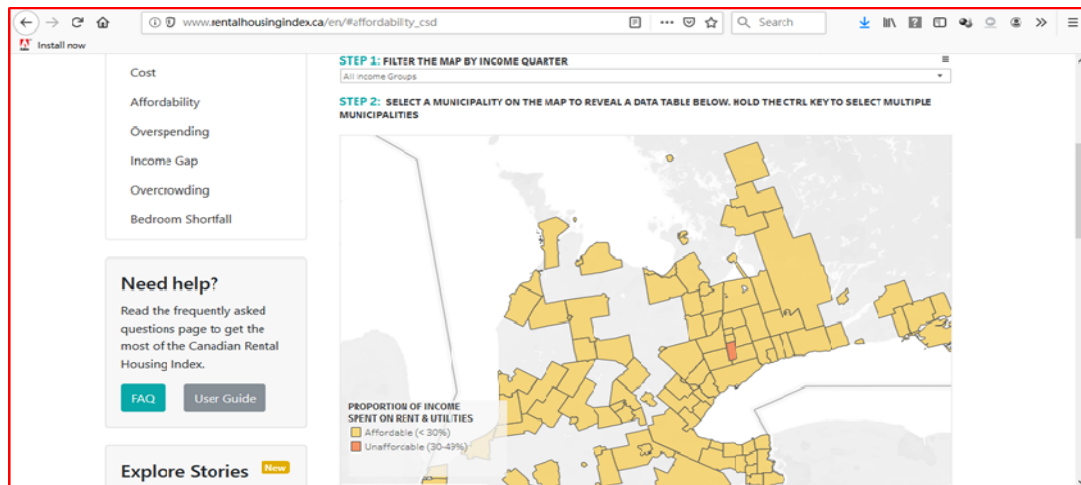


Chart A: The average tenant in the GTA

However, when we dissect the income of the tenant pool into four levels i.e. the top 25%, the second top 25%, the second lowest 25%, and the lowest 25%, the picture becomes as follows:

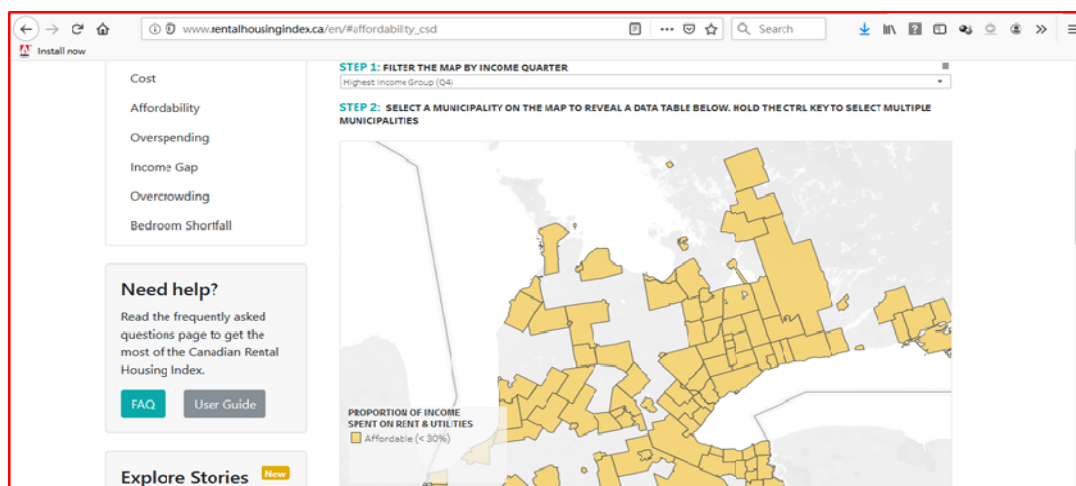


Chart B: the top 25% of the tenant pool in terms of income

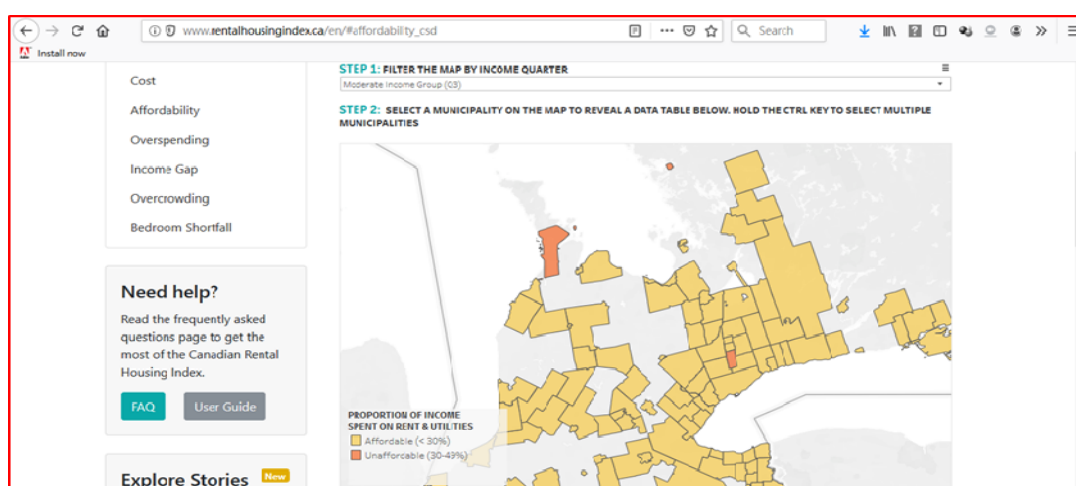


Chart C: the second top 25% of the tenant pool in terms of income

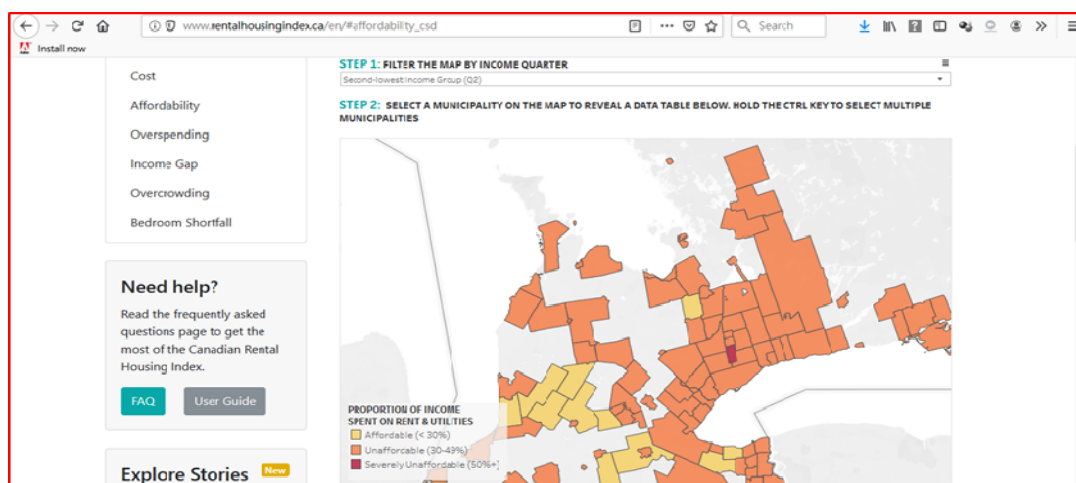


Chart D: the second lowest 25% of the tenant pool in terms of income



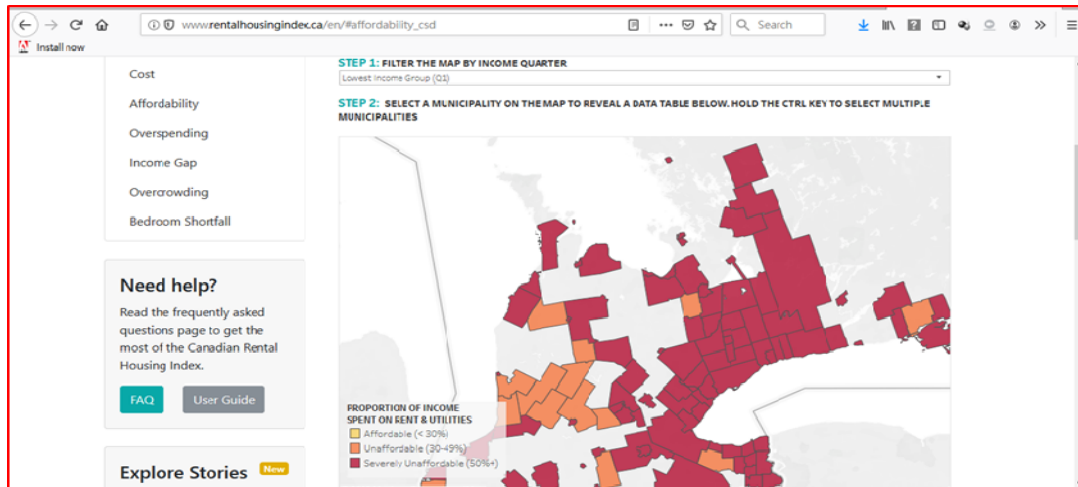


Chart E: the lowest 25% of the tenant pool in terms of income

Briefly, the top two levels of tenants do not have a hard time renting i.e. they could generally afford to rent what they are renting. However, for the next couple of levels, the situation can range from having a somewhat hard time to being in a very difficult position.

And the data seems to suggest that the lower two levels of tenants may not find their capability to rent improving much by moving away from the GTA urbanized cores to more remote suburbs. Perhaps this is in part due to the fact that there are fewer condo and rental apartments in the suburbs i.e. one might even get a house-form accommodation (townhouse, semi-detached, even detached) but for the same or similar rental amount of an urban condo or rental apartment.

Do note the foregoing describes a macro picture only i.e. a general or average description. As such, it is unlikely to match the conditions of each and every individual case; in fact, statistically it won't match most of the individual cases which make up the macro average. Moreover, as the results are based on census data (2016), there could be inherent errors and inaccuracies though the impact of these defects may be reduced given the scale of the census. For details on the methodology and the like, please visit <http://rentalhousingindex.ca/en/#intro>.

Hope the above may throw a light for investors contemplating buying to let.

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## Canada residential rental affordability: quite affordable to half the tenant pool

Real Estate Tech, 4Q 2019

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RCMP: an icon of Canada (Courtesy of publicdomainpictures.net)

The foregoing article looks at the Greater Toronto Area (GTA), yet how about the whole of Canada? Here we again use the data from [www.rentalhousingindex.ca](http://www.rentalhousingindex.ca) and as in the GTA article, we first look at the national average tenant and then assess the degree of ease or difficulty in renting for four different levels (top 25%, second top 25%, second lowest 25%, and lowest 25%) of tenants based on their income:

### STEP 1: FILTER THE MAP BY INCOME QUARTER

All Income Groups

### STEP 2: SELECT A REGION ON THE MAP TO REVEAL A DATA TABLE BELOW. HOLD THE CTRL KEY TO SELECT MULTIPLE REGIONS

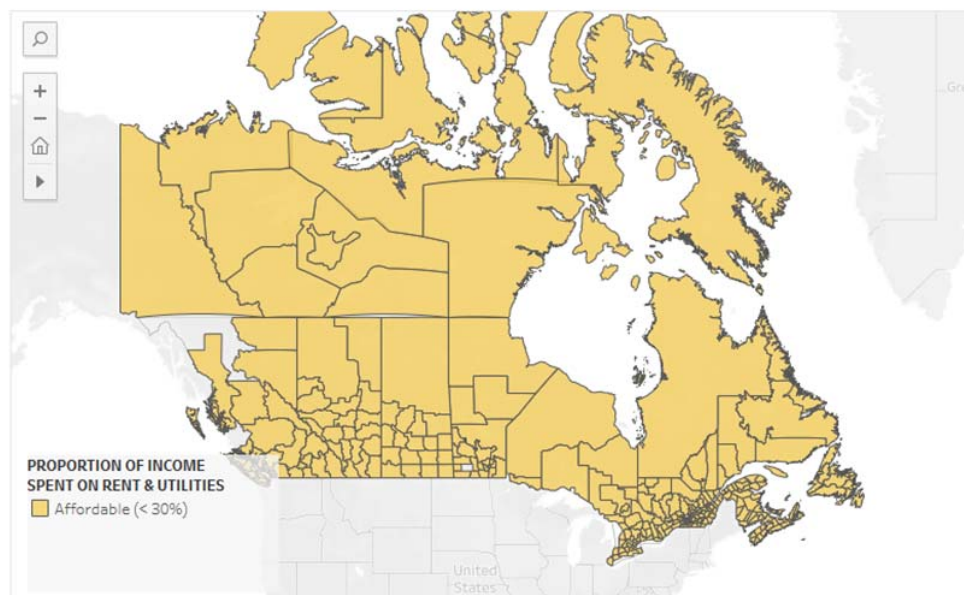


Chart A: the average tenant in Canada



**STEP 1: FILTER THE MAP BY INCOME QUARTER**

Highest Income Group (Q4)

**STEP 2: SELECT A REGION ON THE MAP TO REVEAL A DATA TABLE BELOW. HOLD THE CTRL KEY TO SELECT MULTIPLE REGIONS**

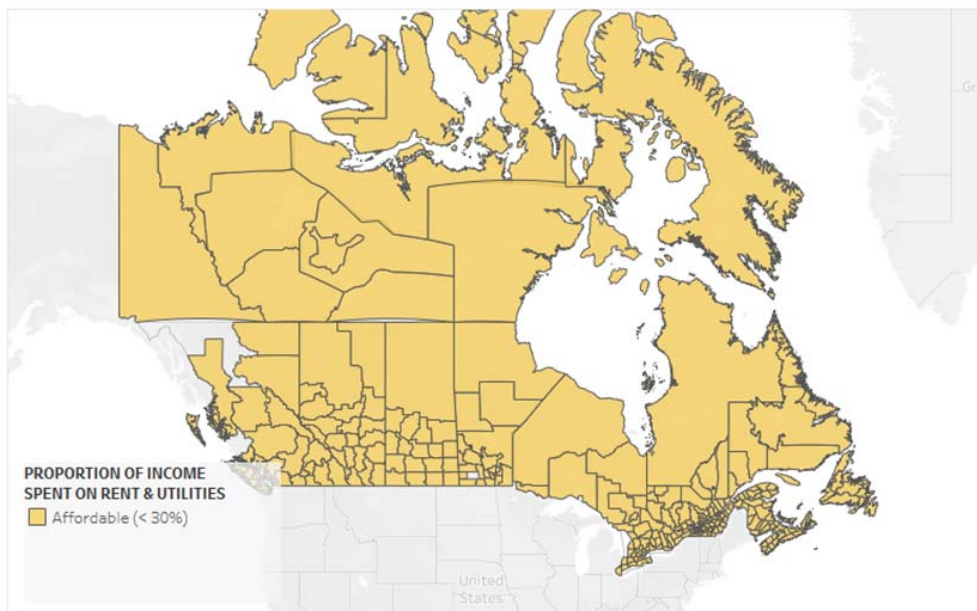


Chart B: the top 25% tenant by income in Canada

**STEP 1: FILTER THE MAP BY INCOME QUARTER**

Moderate Income Group (Q3)

**STEP 2: SELECT A REGION ON THE MAP TO REVEAL A DATA TABLE BELOW. HOLD THE CTRL KEY TO SELECT MULTIPLE REGIONS**

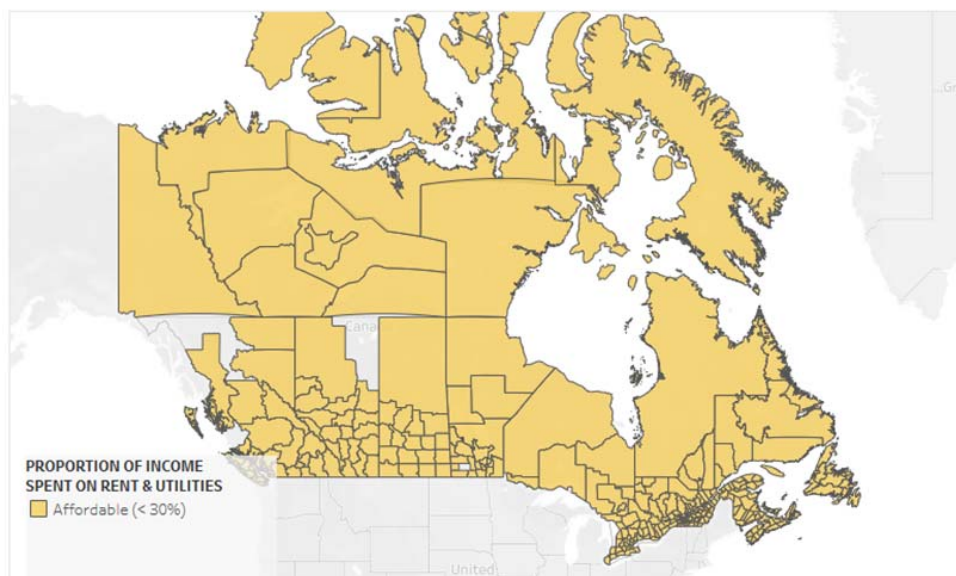


Chart C: the second top 25% tenant by income in Canada

**STEP 1: FILTER THE MAP BY INCOME QUARTER**

Second-lowest Income Group (Q2)

**STEP 2: SELECT A REGION ON THE MAP TO REVEAL A DATA TABLE BELOW. HOLD THE CTRL KEY TO SELECT MULTIPLE REGIONS**

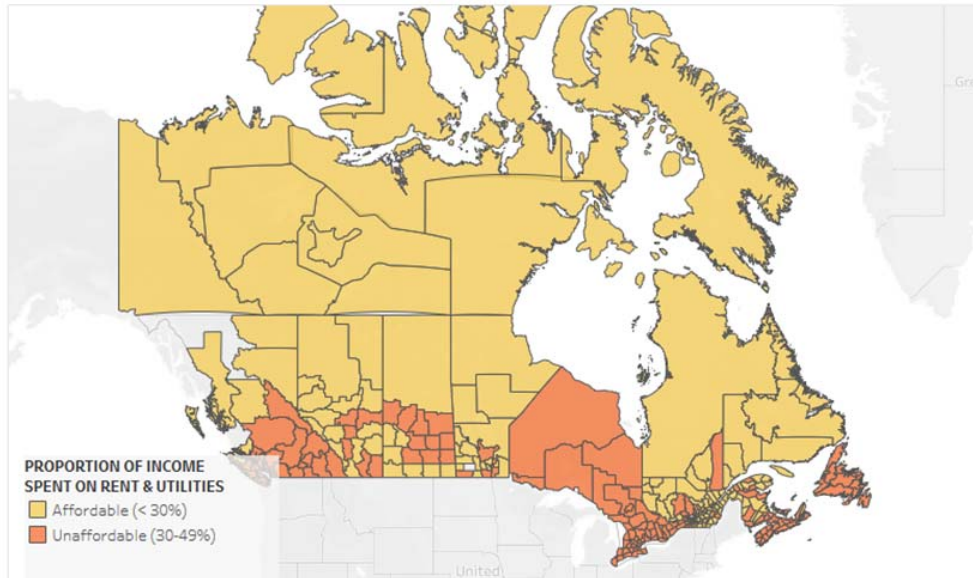


Chart D: the second lowest 25% tenant by income in Canada

**STEP 1: FILTER THE MAP BY INCOME QUARTER**

Lowest Income Group (Q1)

**STEP 2: SELECT A REGION ON THE MAP TO REVEAL A DATA TABLE BELOW. HOLD THE CTRL KEY TO SELECT MULTIPLE REGIONS**

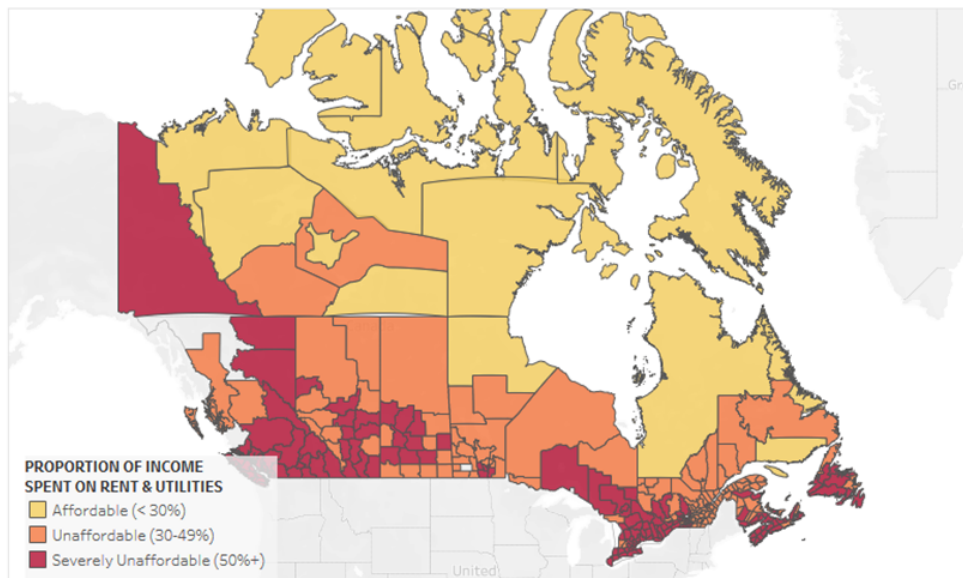


Chart E: the lowest 25% tenant by income in Canada

As in the case of the GTA, very roughly the top 50% of the tenant pool by income do not generally need to spend more than 30% of their income on accommodation while the lower 50% need to spend anywhere from 30% to more than 50%.

Stating the obvious, the latter, and the lowest 25% in particular, would on average face harder times in finding affordable accommodation.

Do note the foregoing describes a macro picture only i.e. a general or average description. As such, it is unlikely to match the conditions of each and every individual case; in fact, statistically it won't match most of the individual cases which make up the macro average. Moreover, as the results are based on census data (2016), there could be inherent errors and inaccuracies though the impact of these defects may be reduced given the scale of the census. For details on the methodology and the like, please visit <http://rentalhousingindex.ca/en/#intro>.

Investors looking to buy Canadian residential properties to let might refer to the foregoing and the website (and other resources) for refining their search and analysis.

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## Prices may change but the price ratios between properties are fairly constant

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The height ratios between them remain very constant (courtesy of archdaily.com)

In today's low or even negative interest rate environment, markets, be these real estate or financial, could be flooded with liquidity (money), and in many instances, for selected investors and corporations. And as long as money supply > investable assets, prices will shoot up until some other market narratives replace the current ones.

As such, prices could be delinked from so-called fundamental factors e.g. household income, demographics etc., especially when the money comes from outside the market, be it from another country, or another city within a country, or even another neighborhood within a city.

The process can look something like this; some outside / foreign investors seeking investment prospects and safe havens decide to invest into the real estate of certain neighborhoods. Prices in those targeted communities go up. This in turn leads the owners of real estate in the OTHER neighborhoods to ask for higher prices if and when they sell their properties, despite the investors are not targeting their neighborhoods at all.

One explanation is that owners of real estate generally have a (rough) idea of how much their properties should be worth IF other properties, including those NOT in their immediate surroundings, have been sold for \$N. In short, there is a rough price ratio between any two properties, and this ratio is usually fairly constant over quite an extended period of time notwithstanding ratio changes may occur if and when e.g. their respective 'externalities' change.

For instance, a house in neighborhood A averages \$1M and the same house in neighborhood B can only sell for \$600K i.e. the ratio of B to A is 0.60 (60%). Say now the house in neighborhood A becomes \$1.50M, be this due to good economy and / or out of town investors, owners of the same / similar houses in neighborhood B will want around \$900K (60% of A's prices) for theirs, although whether these price increases in both neighborhoods can be sustained or not is another question. Ditto when prices in A sink to \$500K, B becomes \$300K.

Put simply, there is NO need for investors, be they local or foreign, to buy up (or sell) the whole market for prices to shoot up (or dive south)...at least not always.

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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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