

Real Estate Prices Up, Currencies Down = Up or Down?

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Recently, we have been doing some **comparative studies on real estate investment performance in different markets** using published prices and currency rates. The study period started from mid 1997 to early 2002 over a period of around 5 years. Part of the results and observations are listed below for interest [Please refer to the related chart]:

- a) **Markets / Cities cited** = Toronto / Canada, Manhattan / USA, Tokyo / Japan, Seoul / Korea, Beijing – Shanghai – Hong Kong / China, Singapore, and Sydney – Melbourne / Australia.
- b) **Property Sectors** = Residences, expressed as average prices (mostly better quality residential units), and offices, expressed as average price per floor area (mostly Grade A offices).
- c) **Calculations** = First, the real estate price in mid 97 is divided by the one in early 02 using local currency, which exchange rate for US\$1.00 in mid 97 is also divided by the exchange rate existing in early 02. These two percentages are then multiplied together in order to arrive at the percentage rise or drop in real estate prices in US\$ terms.

In theory, the above implies **4 combinations and 6 possible outcomes** as follows (for simplicity' s sake, no change is treated as up):

- 1) **Real estate price up, currency up** = real estate price up only (in US\$ terms)
- 2) **Real estate price up, currency down** = real estate price up or down
- 3) **Real estate price down, currency up** = real estate price up or down
- 4) **Real estate price down, currency down** = real estate price down only

Using the sample markets studied, all the outcomes have at least one market that fits its description except the outcome “real estate price down, currency up = real estate price up” which has none. The distribution is listed below:

- A) **Real estate price up, currency up, price (in US\$ terms) up** = one sample only and this is Manhattan. [Note: this may change somewhat due to recent weakness in the US\$]
- B) **Real estate price up, currency down, price still up** = not too many samples here with Toronto and Tokyo residences being the obvious ones.
- C) **Real estate price up, currency down, price down too** = many of the above sample markets belong here, such as Sydney residences and offices, or Seoul offices.
- D) **Real estate price down, currency up (stable), price down** = most markets with fixed currency rates belong here, such as Beijing, Shanghai and Hong Kong.
- E) **Real estate price down, currency down, price down** = the most obvious being Singapore.

Collectively and based on the above samples (only), it seems as long as real estate prices are down, any currency value increases (to the US\$) do not seem to be large enough to overcome the loss in local currency terms. As to whether this is a principle or coincidence, we shall leave it to the experts and academics. Please note the above is in very broad terms and may not be applicable to individual cases, and that some of the data may not be entirely synchronized. The results are based only on buying and selling prices without taking into account rental income and yields.

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