

Differentiating between a Real Estate Development Pro and a Wannabe

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When a developing economy reaches a certain stage, people will start to buy big-ticket items such as electrical appliances, cars and real estate (homes). The latter spells big opportunities and thus it is not unusual to see almost every Tom, Dick and Harry wanting to get a piece of the (real estate development) action. To a certain extent, this is happening in China or to be more exact, in some of her more prominent cities. Hence, it is essential that one can spot the difference between a pro real estate developer and a wannabe. The former completes building projects and earns a profit, the latter has incomplete real estate and turns a loss. Investors and home buyers had better stick with the former, and **here' re a few simple observations** to help identify them though nothing can replace detail researches and due diligence:

- a) **Do not mind real estate developers that sound optimistic, but beware of those who truly believe real estate (prices) will only go up** = real estate development entails much risk and obstacles, and this is not a job for pessimists. Also, not that many real estate developers will get involved in loss-inducing projects knowingly (they usually mess up by unknowingly underestimating risks and overestimating profits), i.e. rightly or wrongly, they do the projects because they are optimistic of its potentials. Yet, investors and home buyers should steer clear of the 'blind' optimists who allow no quarters for losses and who thinks prices can only shoot up. Such developers may have a few years of success yet are likely to go belly up in the long run.
- b) **Do not mind real estate developers that seem bold, but beware of those who lack a "concerted effort"** = real estate developers have to be bold and aggressive, but this does not imply throwing away cool calculations, investment caution, coordinated strategy or disciplined effort. Given all things being equal, a developer that shows concerted teamwork is likely to outperform one which "left hand does not know what the right hand is doing" .
- c) **Do not mind real estate developers who squeeze the last dollar profit, but beware of those who leverage to the last dollar** = from the developer' s perspective, there is nothing wrong in borrowing to the last dollar because as long as the economics work, this would help yield the best possible return. However, from an investor' s (e.g. who buys the developer' s stock) or homeowner' s (who buys their developed real estate) viewpoint, this can be dangerous as any hic-ups in cash flow would cause financial burdens and difficulties.
- d) **Do not mind real estate developers with visions of grand schemes, but beware of those who want grandeur for grandeur' s sake** = big well-financed real estate developers should go for larger scale projects if certain economies of scale is to be kept, yet one can also observe that some smaller less well capitalized developers also shoot for such large scale projects which in many instances are beyond their resources, financial clout, management capability or technical know-how. Perhaps achieving "fame" or "face" is more important for some.

The above is by no means exhaustive yet offers a quick reference guide on separating the potential winners from the losers.

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