

Not All Real Estate Events Have An Implication!

Stephen Chung
Executive Director
Zeppelin Real Estate Analysis Limited
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With due respect to all real estate market participants and the interested parties, the author is sometimes amazed at the amount of commentaries, analyses, projections and forecasts that can be produced within any given period of time, especially those made right after a real estate event e.g. a government auction has occurred. While some journalistic reporting is necessary, it is **doubtful if these events always carry with them an implication** (on market trends, price effects and so on). A “real estate event” here refers loosely to all relevant news and happenings in the real estate industry or even the economy at large.

Admittedly, the author and his company have had their fair share of such written production but the point here is there seems to be **an increasing trend of reading too much from these events**. For instance, auctions are often treated as reflective, more or less, of the sentiment in the real estate development industry. That could be true yet an auction fetching in a good land price does not automatically translate into “developers having regained their confidence in the market future” (or similar statements). One reason is that the developer in question may be low on land and has to acquire some and it may have little to do with his / her having changed her outlook on the market.

In any case, the following are some of the **reasons for NOT having to get overly anxious**, concerned, excited, worried, happy, unhappy, frightened, interpretive, optimistic, pessimistic, moody and / or the like EVERY TIME something happens in the real estate business or is reported in the news:

- a) Many of these events are just the **symptoms or results** of a larger market trend or condition, rather than being a cause (for current and future trends or changes) = for example, **buyer sentiment** in the residential market. At first glance and viewing from a short-term angle, buyer sentiment does seem to affect the residential prices, yet in the long run it is more a reflective symptom of underlying causes such as expectations of improved (improving) economic performance, increased family income, demographics, family formation growth, tight demand and supply condition, complimentary government policies, and the like. Put simply, real estate prices are unlikely to be sustainable in the longer run IF the sentiment is NOT solidly supported by underlying factors. To quote an actual example = Hong Kong residential real estate prices since the 1997 downturn = there were several occasions where market sentiment had significantly improved resulting in partial price rises which subsided very quickly after the initial momentum was gone.
- b) Many of these events are actually **NON-events** = i.e. they are just ‘**noises**’ along the way and if one pays too much attention or attaches too much importance to them, they will do more harm than good. For instance, some **government land auctions** = collectively they are a good indicator of what / how the real estate development industry is thinking / feeling at the time YET what the latter thinks or how it feels has NO bearing on the future market = the auctions at best just reflect the real estate

development industry' s (and sometimes just part of it) assessment of the future market conditions AND there is always a chance that they may get it wrong.

- c) Many of these events **distract one' s attention** to the more important factors and issues = for instance the focus on the **supply** of the Hong Kong residential sector and the currently seemingly favorable **mortgage rates**. Will a reduction in (government-sponsored) home ownership scheme supply and mortgage payment due to lower interest rates help real estate prices? Yes, and they are vital too, but the factors leading to significant solid recoveries rest elsewhere = **earning (income) power** (including not just its nominal amount but also its perceived stability etc) = relates to collectively having the required marketable set of knowledge and skills etc. If the average worker of Hong Kong is to experience reduced income gradually and permanently one way or another, it would be difficult even to maintain the current price levels in the mass private residential market in real terms, let alone improving them, EVEN IF there is to be a building moratorium. As for the interest rates, perhaps it is the real rates that count, and second, unless some form of fixed rate mortgages are commonly available (as in North America), the good times (reduced mortgage payments) are not assured to last.

It must be emphasized that we are NOT saying that reading the real estate news and reviewing the commentaries and so on are unnecessary. On the contrary, they are essential in keeping abreast of events and circumstances YET one must exercise judgment and common sense when allocating one' s resources (including attention, energy, and effort) for them and in attaching varying degree of importance to them.

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