

GET STUCK INTO BRICKS AND MORTAR FOR THE LONG PULL

In the past few years, realised capital gains, made through investments in real property and/or real estate, directly or indirectly, have surpassed the capital gains, made by investing in stocks and shares.

That situation has taken place, internationally, from North America, to Europe, and, especially, in Asia.

There is every reason to believe that this trend will continue for some years to come.

Generally speaking, property and real estate are the backbones of any and all economies of the world, but real-estate values are predicated on the cost of money, by and large, all other things, being equal.

As interest rates rise, so they tend to undercut real-estate values to a greater or lesser extent.

Which brings this medium to the crux of this report: When interest rates start to rise, again, does it mean that real-estate values will start to plummet?

The short answer: No.

TARGET's analysts, as with many economists, throughout the world, today, fully expect the US Federal Reserve to increase interest rates in the US by at least 25 basis points on or about May 3, 2005, following the convening on that day of The Federal Open Market Committee Meeting.

But, because The Fed is very cognisant of the potentially precarious economic situation in the US, it is unlikely that the US '*Central Bank*' would want to rock the Bush boat, too violently.

Easy does it will be the way that interest rates will rise in The Land of The Free and The Home of The Brave for the second half of this year.

The Fed has to balance the needs of the economy with the need to keep inflation in check.

The high crude-oil prices, internationally, are tending to fan the inflationary embers in the US, and Dr Alan Greenspan, the Chairman of The Fed, obviously feels obliged to take defensive action ... or fail in his duty of fidelity.

Therefore, it is a given that he will opt for increases in The Fed Funds Rate by degrees, of the order of at least 25 basis points.

Even with an interest rate of, say, 5 percent per annum, this is still a long way from the days when annual interest rates were being demanded at double-digits.

And, even with interest rates at 10 percent per annum and more, people still have to live in flats and houses.

Ironically, even when interest rates were at 20-year lows, below 3 percent per annum, rental yields were not far off that level.

At that time, many investors determined that they would prefer to make investments in stocks and shares where yields were greater than that which could be obtained by making investments in bricks and mortar.

The recent bloodbaths on US and Japanese equity markets, which have caused losses of the order of hundreds of billions of US dollars, as market capitalisations dropped, dramatically, in just a few trading days, have made

many investors turn their attentions to what they see as more stable and relatively safer places to park surplus cash.

This would suggest, strongly, that real-estate investments could well come into their own, again, in the very near future.

It makes good commercial sense.

Between 2003 and 2004, yields on real-estate investments averaged between 30 percent and 40 percent, on a global scale.

In the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC), capital gains on real-estate investments, during the past year, alone, have registered explosive surpluses, following about 3 years of price stagnation.

Between 1997 and 2000, huge losses were realised by most property investment company in the HKSAR.

With the economy of the PRC, proper, growing at the blistering pace of something in the neighbourhood of 9.50 percent per annum, it is a foregone conclusion that a great deal more wealth will be created, not just in the PRC, proper, but in the HKSAR, also.

It may well be advantageous to investors to monitor the Net Asset Values of companies, which specialise in real-estate investments, in order to compare such Net Asset Values to the Net Market Values of these companies' holdings in bricks and mortar.

It is an almost guarantee that the HKSAR will see a great deal more foreign investments, being pumped into real-estate ventures, some to be parked in the Macau Special Administrative Region (MSAR) of the PRC and some for investment in the HKSAR.

For international, institutional investors, they will look to companies, such as Sun Hung Kai Properties Ltd (Code: 16, Main Board, The Stock Exchange of Hongkong Ltd), as a viable alternative to making direct investments in real estate in Asia on the grounds that the track record of the management of this well-established company speaks for itself.

Therefore, ride on that property horse rather than consider, breaking in a new one.

Quite a number of European and North American fund managers have withdrawn some of their funds from equities, opting for real-estate investments, instead.

This is easily evidenced by the inflow and outflow of funds from markets, such as Japan, the HKSAR, Europe and the US.

These fund managers, **TARGET** has been able to confirm, continue to diversify investment portfolios, with emphasis on property investments.

While the North American property market has done poorly since the beginning of 2005, with negative returns for the most part, in Asia, especially in the MSAR and the HKSAR, investments in property have resulted in the amassing of very material gains, some being only book value gains and some, having been realised.

North American real-estate values appear to be fully priced, if not over-priced, today, but, in Asia, there would appear to be many opportunities in real estate, yet to be appreciated.

The way to Heaven in real-estate investments is to note the stock-market capitalisation of a selected property trading/investment company relative to that company's Net Asset Value.

This is, also, known as the discount, or premium, to Net Asset Value.

Also, one must take into account the risk premium, calculated by determining the historic dividend yield, relative to long-term, risk-free interest rates.

In the case of property investments in Asia, it is obvious that a positive assessment is also supported by the continuing strength of the economies of the area, with particular emphasis, of course, on the PRC, proper.

An interest-rate increase of between 20 basis points and 100 basis points over the next 7 months or so does not appear to pose any serious threat to property investments in Asia.

It is confirmed that, in the US, household spending is on the wane.

Not so in the HKSAR, the MSAR, and the PRC, proper, however.

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