

**THE PROSPECTS FOR 2009 :
AN EXACERBATION OF THE PROBLEMS OF 2008**

In Mexico, a self-proclaimed soothsayer has stated that he knows what the future will hold for calendar 2009.

One would have to be utterly out of one's mind to believe such twaddle: The Mexican '*Nostradamus*' knows as much about the future as does US President George W. Bush – who never knew his arse from a hole in the ground, in any case.

TARGET () cannot make claims to know what the future will hold, but this medium can look at the facts, as they are today, and make reasonably accurate determinations about calendar 2009, based on present intelligence.

However, having said that, one must bear in mind that any and all determinations as to the likely direction of any economy or about world affairs is as changeable as is the colour of a chameleon as it crawls over a tartan rug, depending on changing circumstances which are, definitely, guaranteed to present themselves in due course.

First: The Price of 'Concrete' Assets

As **TARGET** has stated, umpteen times, the strength of any economy can be measured, to a great extent, by the market value of its bricks and mortar.

If bricks and mortar experience declining values over a lengthy period of time, then, the economy of a region is in terrible tsuris.

Around the world, today, and especially in the **United Kingdom (UK)** and the US, the value of real estate continues to depreciate.

With the approach of every month end, it gets worse and worse: Market values of properties continue to be eroded.

Today, it is estimated that mortgages on the majority of properties in the US and the UK exceed the market value of those properties.

In short, investors are sitting on properties with, de facto, negative values.

As long as investors/home-owners can meet mortgage demands, there is no problem, of course, but, for many families/investors in the US and UK, meeting mortgage demands is becoming an increasingly difficult struggle as the months go by.

It has been held, for many a year, that real-estate investments are solid and low-risk investments.

Tell that to the marines!

Tell that to former, California home-owners who had to walk away from their homes because they could, no

longer, afford the mortgage payments.

Investments in real estate can be among the highest of investment risks in times, such as today's, because of the lack of liquidity of such investments when there is no positive income, forthcoming.

When an economy is shrinking – and most of the world's economies are continuing to shrink, today, as the worldwide recession obtains a firmer hold – those investors, who stocked up on real estate, more as a speculation than anything else, are shaking in their proverbial boots because:

- (a) The yields on their investments are not commensurate with the recurrent costs of servicing debt; and,
- (b) These investors are locked in and are highly unlikely to be able to extricate themselves from their investments because buyers are as scarce as hen's teeth.

Driving from Sheklapkok Airport along the highway to Hongkong Island, one sees formidable, continued new commercial and residential construction; one has to ponder who or what corporate entities will be the buyers/lessees of these new construction projects on their completion, that is if they are completed.

In addition, one has to ponder just how the legal owners of these projects will be able to meet debt commitments on these unfinished projects.

Which, of course, leads one to ponder about the financial strength of certain publicly listed companies, principally engaged in real-estate developments and investments in this industry in the Hongkong Special Administrative Region (HKSAR) of the People's Republic of Hongkong (PRC).

Money is tight, in the HKSAR and elsewhere.

This situation is unlikely to be ameliorated in the coming 12 months unless there is a reversal of current fortunes – which is highly unlikely in this medium's view.

Because of the aforementioned, it must be very worrying for investors, locked into stocks and shares of companies, engaged in the real-estate industry, in the HKSAR and elsewhere, because they are staring at declining values of their investments in publicly held stocks and shares, and the market for their stocks and shares is becoming thinner and thinner as the days go by.

This is easily ascertainable as one notes the volumes of activity on The New York Stock Exchange, The London Stock Exchange and The Stock Exchange of Hongkong Ltd.

Second: Some Knock-On Effects

At this point, it seems obvious that hotel owners and management companies of hotels will be hurting, some more than others.

Hotels will reduce room rates, as is natural in such situations, but, still, occupancy levels will fall with the room-rate reductions, having only a limited and a short-term effect.

In a quick survey of the 3, 5-star hotels in Pacific Place, **TARGET** was told that Island Shangri-La's occupancy level, following the New Year's celebrations, fell to about 45 percent, Conrad Hongkong dropped to about 45 percent, also, while JW Marriott Hongkong is thought to have experienced an occupancy level in the high 20-percent level.

According to one very reliable source at 2 of the above-mentioned hotels:

'The situation looks extremely trying ... it will get worse as things stand, today. A new hotel is scheduled to open in this area at the middle of the year, you know, making things even more difficult.'

If it is reasonable to assume that an occupancy level of a hotel, at about 55 percent, is an acceptable, universal plateau for a break-even, financial situation, then, all of the 3, 5-star hotels at Pacific Place are looking at an exceedingly difficult time for the 2009-year.

If **TARGET**'s little survey of the Pacific Place hotels is to be considered a '*barometer*' of the entire hotel industry in the HKSAR – as seems more than likely in respect of 5-star hotels of the territory – then, hotels in other parts of the HKSAR are expected to fare equally badly.

Budget hotels in the territory may fare a little better than the luxury end of the market, but even these hotels will not be immune to the worldwide recession.

The entire hospitality industry of the territory will be hit hard, it seems.

Naturally, with low occupancy levels at hotels will come a decided fall in the level of income at food and beverage outlets of hotels.

In short, the party is over, folks.

Investors, holding onto shares of companies, engaged in the hotel industry, are unlikely to earn large profits for calendar 2009.

In such a situation, the owning companies of hotels will be forced to front up with any and all monthly cash shortfalls ... or face the consequences of their inability, or unwillingness, so to do.

On the commercial front, consumer spending will continue to dry up as households, afraid that the monthly income will either dry up, completely, or be whittled down, considerably, will seek to hold onto their money as much as possible.

Staples and necessities will be the first priority for households, with luxury items, being very low on the totem pole.

Banks are not willing to lend, here in the HKSAR and elsewhere, and so, when the cupboard is bare, bread will be in very short supply.

The market values of commercial properties will become suspect, as far as banks are concerned, and, at the first sign of any perceived trouble, banks will move in on companies and individuals, demanding payments of any defaults.

As has been seen of late, most banks are quite unwilling to open their financial '*umbrellas*' in order to assist customers, even those customers with impeccable histories of never missing a beat.

Management of banks takes the line that they are as vulnerable as are its customers – which is nonsense, in **TARGET**'s view.

Without bank support, commercial enterprises, that is any and all commercial enterprises, face the prospects of becoming insolvent with the passage of time.

One saw this situation only last week when the Managing Director of one, very substantial sourcing company, listed on the Main Board of The Stock Exchange of Hongkong Ltd, stated, categorically, that the company had been unable to execute an important order for manufactured goods for one of its long-standing customers because the company's bankers were either unable or unwilling to finance the cost of the raw materials, used in the manufacture of the goods with regard to this very substantial order.

There was nothing novel in the modus operandi of this publicly listed company's operations, but the company's bankers had determined to backtrack from normal procedure in respect of this long-standing customer.

In short, the bank had taken the position that any and all customers, today, are to be considered suspect.

According to a very reliable source at Bank of China (Hongkong) Ltd ([]), a wholly owned subsidiary of BOC Hongkong (Holdings) Ltd ([]), (Code: 2388, Main Board, The Stock Exchange of Hongkong Ltd), she told this medium that there had been a Directive from Beijing to the effect that if Bank of China (Hongkong) Ltd did not engage in any further mortgage business or any new commercial activities, other than selling the bank's products, it would be quite an acceptable situation.

This Directive appears to fly in the face of the propaganda that is spewing out of official publications, authorised by the central Government of the PRC.

According to the chairman of another, HKSAR, publicly listed company, engaged in the **Information Technology (IT)** industry, principally, officers of the company's bank are talking to him and his administration on a monthly basis, now, in order to determine whether or not there are any problems of any kind.

This is very worrying, this chairman said, because every company has a problem, somewhere down the line.

Banks, today, do not seem to differentiate between chronic and short-term financial difficulties so that a short-term, cash-flow problem has the ability to be transformed into a chronic financial situation by a rapid deterioration of a situation, caused by the action(s), or the lack of actions, of a bank.

It is not only in the HKSAR that one notes the aforementioned because, on a recent trip to Europe, **TARGET** was told of many similar situations.

The Chairperson of E. Dschulnigg K.G. of Salzburg, Austria, Ms Konstanze Dorn, told this medium that tourists from the US have all but dried up.

She fears for the worst.

This lady, who runs one of the largest, privately owned, retail-garment companies in Salzburg, intimated similar scenarios to those of the HKSAR.

The difference between Ms Konstanze Dorn and the business people of the HKSAR, who spoke to **TARGET**, was that Ms Konstanze Dorn was very definitive about her coming problems, as she saw them.

Salzburg relies, almost entirely, on tourism for its bread and butter since the resident population of this city is less than 500,000 men, women and children.

The annual tourist traffic to the city is about 3 times the size of the resident population.

But not all tourists buy garments.

Third: Other Problems, Looming On The Horizon

As the **Israeli Defense Force (IDF)** continues its ground-and-air attacks on HAMAS in Gaza, questions must be raised as to whether or not this situation could well escalate further, with Muslim fundamentalists from other countries and territories, joining in the fun on the side of HAMAS.

The fact that Muslims from The Philippines are holding mass rallies in Manila in support of HAMAS is of no real consequence because the Muslims of this country are, mostly, like sheep, in any event, and it is beyond their mental capabilities to understand the situation as it, really, has materialised over the past year or so.

However, in Iran, the situation is totally different from that of The Philippines because this fundamentalist Muslim country has stated its avowed intent to obliterate Israel from the world's map.

The President of Iran, Mr Mahmud Ahmadi-Nejad, has said this, in very clear terms, making the claim of that which he claims is best for Islam, for Iran, and for the world, in that order.

It is an accepted fact that Iran has been supporting HAMAS (as has Syria) with money, guns and ammunition, and other weaponry, as well as training of the armed faction of HAMAS.

Iran is known, also, to have been arming the insurgents of Iraq in their fight against the US Army.

Iran is known to be aiming at the prospects of becoming the world's next nuclear power, as quickly as possible.

The question: How long will the West put up with the belligerent actions of this Muslim country?

Israel has gone on record as stating that it is fed up with its citizens, living in fear, and being attacked with rockets, launched by HAMAS from Gaza, and that was the reason for its attack on HAMAS.

'*Enough is enough!*' has stated Ms Tzipi Livni, Israeli Foreign Minister, who is quite likely to be the next Prime Minister of Israel.

The US, the UK and most of the West do not want to see Iran as a nuclear power.

If Iran obtains the ability to manufacture nuclear weaponry, as it is likely so to do in due course, left to its own devices, having such weapons of mass destruction may well result in the country, making good use of them.

Somewhere down the line, definitive action must be taken on this front.

This could change the entire texture of the Middle East and oil prices could rise, spectacularly, in a very short space of time.

Lastly, the question has been raised as to the effect of US President-Elect Barack Obama, sitting in the Oval Office of the White House.

In **TARGET**'s opinion, in the short term, it will have very little real effect other than a positive psychological one.

What action the first black President of the US will take on a number of international problems remains to be seen.

He is, at this point in the history of the world, an unknown factor: One will just have to wait before passing judgment on this obviously talented gentleman.

In the meantime, it would appear to be wise to keep one's powder dry.

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