

## **HOUSING CRISIS IN HONG KONG: A DEEPER LOOK AND ANALYSIS WITH POTENTIAL SOLUTIONS**

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### **ABSTRACT**

Long celebrated as Asia's world city and "The Pearl of the Orient", Hong Kong is one of the world's most successful economies perched near the top of the globe's economic rankings. However, Hong Kong is also known for its housing unaffordability. With all the glamorous skyscrapers, there are plenty of run-down subdivided flats scattered across the city.

Since the handover of Hong Kong from the United Kingdom to China in 1997, both the Chinese government and the government of Hong Kong have voiced their concerns about the unaffordability of housing and have vowed to solve the issue. However, not only have no viable solutions been found, but the problem has also only gotten worse. With housing prices going up year upon year, more and more Hong Kong residents are being priced out of buying homes.

This paper investigates the combination of vested interests at play that has been preventing Hong Kong from resolving its housing crisis. These vested interests are property developers, private property owners, opposition politicians, and government bureaucracy. With hundreds of thousands of lives feeling the negative impacts of astronomical housing prices, the Hong Kong government must take action to curb these vested interests and to enable the building of a sufficient supply of housing for its residents.

### **Introduction**

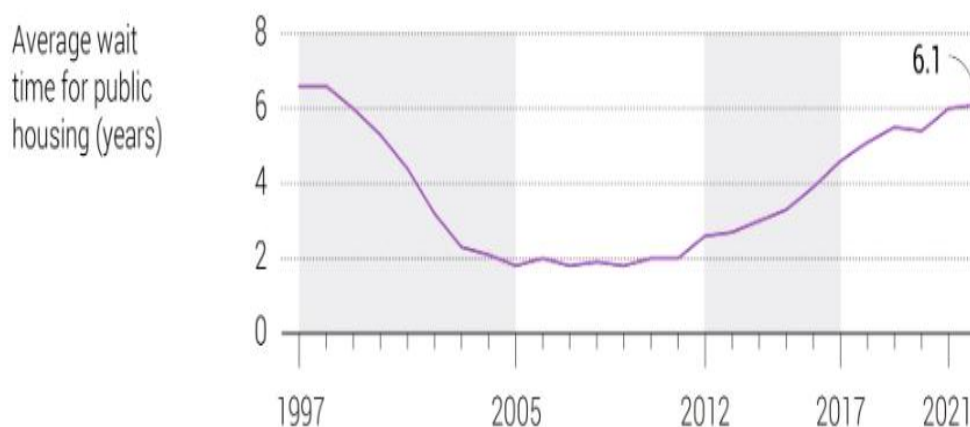
Despite the economic prosperity and growth that Hong Kong has experienced over the past decades, a recent study has revealed that only 20% of residents were happy in 2019, and the number shrank to a mere 13% in 2020, presumably due to the Covid pandemic. This ranked Hong Kong as the 78th happiest country in the world, a number that does not coincide with Hong Kong's GDP per capita ranking-- 28th globally. In addition, there are 93 billionaires in the city, and at least one out of every seven residents is a millionaire. However, when one takes a more

detailed look at the lifestyle of many Hong Kong’s residents, there is an alarming issue that has been festering for many years - the housing crisis. According to a poll conducted by the South China Morning Post, 8.6% of Hong Kong residents said that their living space had a “serious negative impact” on their psychological health.

In 2021, for the 11th straight year, Hong Kong has been ranked the least affordable housing market in the world. The average price per square meter is roughly USD34,000. To put this into perspective, the average Hong Kong resident must work at least 21 years to afford an average-sized apartment in the city. By area, average-sized apartments are less than 500 square feet. This is due to the fact that the median housing price in Hong Kong is 19.4 times higher than the median income. If a resident elects to rent an apartment instead, the monthly rent for about half of the city’s apartments is USD2,550 each, a staggering 122% of what the average individual makes a month.

Citizens who cannot afford to buy or rent apartments live in small, subdivided flats. They must share facilities, such as bathrooms and kitchens, with a number of other households. These flats are of such low quality that locals infamously refer to them as ‘coffin cubicles’. Instead of wooden planks, these units use wired mesh, resembling cages. The starting price for these windowless ‘cages’ is no lower than USD180 per month. Even though public housing in Hong Kong provides an affordable alternative for lower-income residents, the average waiting time to be allocated a space is 6.1 years (see figure 1 below).

**Figure 1. Public Housing Average Wait Time in Hong Kong since 1997**



The conclusion is clear. No matter how the statistics are looked at, there is a housing crisis in Hong Kong. Given that the crisis is plainly visible, why hasn’t any concrete solution been found?

### **Why Can't Hong Kong Fix Its Housing Crisis?**

Looking at the astronomical prices of homes in Hong Kong, it does not take an expert to deduce that affordability is the core of the housing crisis. However, when the demand for housing is as high as it is and the supply is as low as it is, it is difficult for housing prices to come down. It is extremely unlikely that a draconian policy, such as lowering population through one-child policy, will be implemented to solve the 'demand' issue. The solution must come from the supply side. However, instead of building taller apartment buildings or subdividing each flat into smaller sections, as some have suggested, there is a far simpler solution - developing the land that already exists in Hong Kong.

Hong Kong does not lack a supply of land; it has simply chosen not to use what it possesses. Of the 429 square miles of Hong Kong's total land area, 70% remains undeveloped. At the same time, only 23% of developed land is used for residential purposes. This means that the percentage of Hong Kong's total land that is used for housing is a measly 7%, while other facilities, such as country parks, account for 42% of the land. Whilst the argument for preserving country parks, wetlands, and coastal protection areas could be valid, it should not compromise the physical and psychological health of Hong Kong's residents.

Even when undeveloped land is not considered, there is still the option of land reclamation, a tried and tested formula for building infrastructure in Hong Kong. Since Hong Kong is surrounded by sea on three sides, history of land reclamation dates back to 1868. In fact, 70% of Hong Kong's commercial activity takes place on reclaimed land, with famous landmarks, such as IFC, ICC, Disneyland, and even the International Airport, sitting on reclaimed land. Yet, land reclamation today is practically at a standstill.

In July 2021, Xia Baolong, the top Beijing official in Hong Kong, gave the city until 2049 to eradicate all signs of subdivided flats and cage homes. In the same month, Hong Kong's Chief Executive, Carrie Lam, promised to make housing her top priority in the final year of her term as the head of the city's governing body. In reality, the government has been trying for decades to solve the housing crisis. Why has it taken them so long to do so, and what are the difficulties they have been facing?

The extreme housing prices are due to scarce supply of housing. However, contrary to popular belief, land in Hong Kong is not scarce at all. The apparently scarcity of housing is due to a combination of forces, each with their own vested interests, which make it difficult to build more housing.

### **Who Exactly Are These Forces With Vested Interests?**

## Property Developers

The biggest financial winners from the current Hong Kong housing market oligopoly are property developers. Due to the scarce supply of land, government land auction prices can rise upto billions of US dollars. Therefore, smaller or mid-sized companies are squeezed out of the housing market.

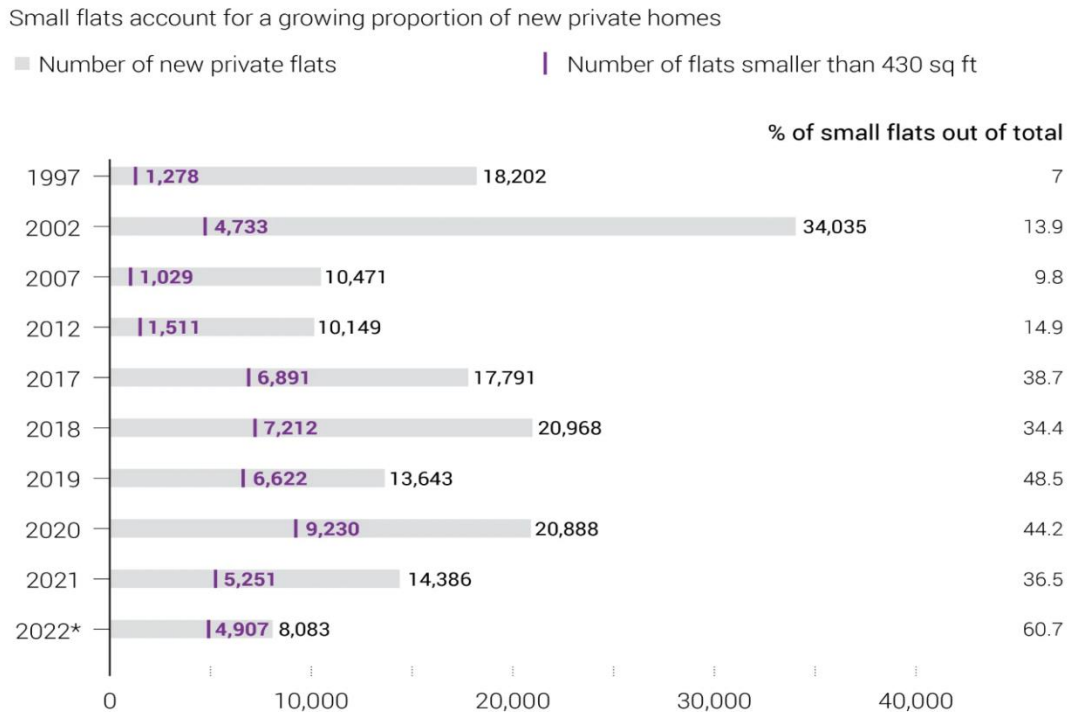
Large property developers in Hong Kong, such as Henderson Land, Sun Hung Kai Properties, and New World Development, have large ‘land banks’ that could support continuous developments for up to decades into the future. Hence, living off a low volume but high price strategy helps them preserve land in their 'land banks' and keeps the supply low to maximize revenue. Therefore, it is definitely in their interests to preserve the status quo and prevent more flats from flooding the market, which could potentially drive housing prices down.

**Table 1. 2021 Newly Built Residential Flats**

	2021
Newly completed residential flats ('000)	30.7
- <u>Public rental housing units</u>	13.1
- <u>Subsidised sale flats</u>	3.2
- <u>Private domestic units</u>	14.4

Looking at the above census data in Table 1, published by the Hong Kong government, we can see that, throughout the whole year of 2021, only 14,400 new private residential flats entered the market. Given that the median household size in Hong Kong is 2.7 people, we can infer that fewer than 40,000 people are acquiring new private flats in 2021, a meager 0.5% of the population. This puts pressure on the government to create more public housing flats, something they are struggling to cope with. Evidence of this struggle is the fact that the average waitlist time for a public flat is more than 6 years. Moreover, when new homes are built, they are getting smaller and smaller. Looking at the figure below, the proportion of "small flats", which are smaller than 430 sq ft (comparable in size to a smaller American mobile home), has steadily grown over the past 25 years, rising from 7% in 1997 to a staggering 60% in 2022. More alarmingly, the volume of private homes that have entered the market has not increased. Since 2002, when there were 34,000 new private flats, the most Hong Kong has managed in the past two decades has been around 21,000 new flats a year, almost a 40% decrease.

**Figure 2. Number of Small Flats vs Total New Flats since 1997**



Source: Rating and Valuation Department

\* data up to March

SCMP

### Private Property Owners

Moving onto the residents themselves, many of Hong Kong's middle class have a disproportionate amount of wealth tied to their apartments. Buyers who have paid extreme amounts of money for their flats likely have heavy mortgages. According to a recent report published by MingTianDi, an Asian real estate company, residents of Hong Kong spend on average 70% of their monthly income on mortgage payments. These owners likely have reservations about seeing their wealth diminish due to an increase in housing supply.

Evidence exists of this reluctance among current homeowners to see their property devalued by new construction. At the end of 2015, Paul Chan Mo Po, then Secretary for Development, stated that a major factor for slow redevelopment work was opposition from neighborhood residents, many of whom complained about the project's effects on their living conditions including traffic and environment.

Curiously, most of the support for the opposition parties in Hong Kong comes from the middle class. This is worth keeping in mind when assessing the next party with vested interests.

### **Opposition Politicians**

Opposition politicians receive support from Hong Kong's middle class mostly due to their perceived dissatisfaction with the government. While they cannot plainly say they oppose housing development, they contest the government housing plans on the grounds of protecting the environment. Instead, they have favored courses of action, such as the expropriation of private land, that are impractical but popular among the middle-class community. Even if the expropriation is undertaken, it would likely languish in the court for decades to come due to complicated jurisdiction reviews.

In October 2018, Carrie Lam, then Chief Executive of the city, put forward a plan to reclaim around 1,700 hectares of land near Lantau Island for residential purposes. After seeing thousands of Hong Kong residents take to the streets to protest the idea, conservative politicians conveniently took a uniform stance against the project, citing concerns about marine life. After numerous complicated discussions with the public and various political groups, the plan was ultimately scrapped.

If the project had gone through, it would have created housing for more than 1.1 million residents in the city.

### **Government Bureaucracy**

In order to build houses or buildings in Hong Kong, many years are needed to secure the various necessary approvals. Because neighborhood politicians have been helping local residents campaign against developing homes in their area, the public consultation process is complicated and lengthy. Moreover, civil servants have little to no incentive to assist land developers, as they risk being accused by the media and public for colluding with wealthy private companies. Simply pushing paper for these politicians is a safer choice for them to move forward with their careers.

This phenomenon was echoed in a recent South China Morning Post article published in April 2022, which reports a serious "work culture" problem within the Hong Kong government. According to James Blake, who worked as an engineer in the works bureau for 20 years, the problem "has developed over the past 20 to 30 years into a culture of doing as little work as possible." He also adds that "the quality and quantity of work produced are not of primary concern provided that the appropriate procedures have been followed." With such a poor working attitude displayed by Hong Kong government officials, it is not surprising that the housing crisis has remained unsolved for many years.

## **Conclusion**

On May 13,2021, Leung Chun-Ying posted a video on his Facebook page that urged the Hong Kong public to reconsider his proposed idea of converting some country parks into public housing estates, a proposal that had been shot down when he raised it during his term as Chief Executive of Hong Kong in January 2017. In the video, he stated that the parcels of land in question are all on the periphery of country parks, holding “relatively low ecological and public enjoyment value.” Leung’s plan vowed to take no more than 100 hectares of land, amounting to less than 0.2% of the total country park area in Hong Kong, in order to build 20,000 to 30,000 public housing units. After the government conducted a citywide consultation in 2017, the plan was rejected by opposition politicians and the Hong Kong public. Whether or not the plan was opposed because of genuine concerns about the country parks in Hong Kong is difficult to discern, but it is very likely that vested interests in Hong Kong played a factor in the outcome.

So far, plans to build homes on reclaimed land have been shelved due to public and political oppositions citing marine life as a concern. And suggestions to build homes on undeveloped land have met strong resistance due to considerations of potential negative environmental impacts. In summary, the housing crisis in Hong Kong is caused by a shortage of homes. This shortage is not due to a shortage of space. There is plenty of land. However, several vested interests have ensured that it remains undeveloped. Hong Kong must stop finding excuses and attempt to neutralize these vested interests.

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