

Success of HK housing policies hinges on market segregation

Since taking over in July last year, Chief Executive Carrie Lam Cheng Yuet-ngor's administration has endeavored to meet Hong Kong's housing needs with a new ladder under assisted ownership. The latest measures, known as "Carrie-6", will penalize unoccupied new flats and subsidize home starters in private development. These are not merely technical measures but also policy changes in disguise. For almost 180 years, private housing has been a cornerstone of land and property. A paradigm shift in policy would not help resolve impasse and provide housing for all.

The previous administration tried to suppress demand but in vain. The spicier the austerity, the higher is the price of housing. Worse still, new flats are getting smaller but unit price is getting higher amid a developers' market. Admittedly, Carrie-6 is more a show of will than cards.

As announced in the Policy Address last October, the new housing ladder comprises five steps: Public Rental, Public Purchase, Homeownership, Starter Home and Private. Following reorganization, public and private housing are supposedly segregated with the hybrid Starter Home as demarcation. With public housing, utility (the occupational value of a home) is higher than its value as an investment; with private housing, the opposite is true.

Land in Hong Kong used to be auctioned in undivided lots. Houses were sold in blocks together with divided lots. There were no strata titles until the late 1950s. People either bought a whole block, or leased a whole floor or subdivided cubicle. Public rental housing

started with resettlement of victims of the squatter inferno of 1952. The new towns of Chai Wan, Kwun Tong and Tsuen Wan, with their public housing and multistory factories, helped industrialize Hong Kong to become one of the "Asian Dragons". Homeownership started in the early 1970s, primarily to assist home purchases and stimulate turnover in public housing. The incentive was an option to acquire full title to the property and trade up to private housing.

Even as a path to homeownership from resettlement, public (welfare) housing is not supposed to displace private (merchandise) housing. They used to be clearly demarcated. However, they are now ambiguous. Firstly, Public Purchase is still welfare, as only permanent occupation is acquired. Secondly, Homeownership would be priced affordably, like welfare, but might turn into merchandise after full title on the property is acquired. Thirdly, Starter Home is private housing, but buyers are still eligible for government assistance.

Apparently, the special administrative region government is borrowing ideas from Singapore, where public housing is the cornerstone from the outset. Today, Singapore's public housing constitutes 73 percent of existing stock and accommodates 82 percent of its population. Public housing is both welfare and merchandise within a segregated and efficient market, in which citizens are entitled to rent or buy their first home. Allocation is based on need and priority. Moreover, public housing is complementary to and compatible with other social security programs, in particular retirement benefits. Early withdrawal from the city



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state's Central Provident Fund is allowed for use as a down payment for a public housing purchase. Above all, the market is closed, without an option to acquire full title and then sell as private housing. For the last 10 years, public housing prices have been stable, rising 44 percent, compared with private housing prices, which have risen 32 percent.

Conversely, Hong Kong's housing prices have soared over two times for comparable period. So has offer pricing of assisted ownership that used to link to private housing. New measures are applauded for detachment but pricing becomes arbitrary. Homeownership would be yardstick and priced on affordability, i.e. 52 percent (or a 48 percent discount) of private housing today. Public Purchase would add 10 percent to the discount whereas Starter Home would deduct 10 percent. If Public Purchase were alternative to Public Rental, should it be priced at a lump sum payment of the current rental price? If Starter Home were assisted Private housing, would this financial plan be more practical than hybrid development?

Homeownership is now more restrictive in resale. The moratorium is extended to five



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years. In the first two years, it must be surrendered for reallocation at the offer price of the primary sale. Thereafter, it might be resold to qualified applicants at a negotiated price. The owner is free to acquire full title in the sixth year and resell the property as private housing. Obviously, the policy intent is to stimulate conditional resale as the net proceed is indifferent after deducting title acquisition cost.

The previous administration's efforts failed because of a premium over a comparable offer price. Apparently, the government doesn't realize that the seller is also transferring the right to acquire full title for unrestricted resale to the buyer. The premium is consideration payable. The new five-year moratorium is creating a perfect futures option market.

Housing in Hong Kong is more an issue of mismatch of public and private housing than general shortage of supply. Private housing has had a stock excess of 15 percent for years, whereas the queue for Public Rental has risen to over five years against policy target of three years. This mismatch comes from the vicious spiral of austerity and price

explained previously. If demand had not been indiscriminately suppressed, the resale market would not have been crippled and primary sales would not have dominated supply and pricing.

The government should have realized that Hong Kong and Singapore pursued different paths from the outset. Hong Kong started with private housing, moving downward from merchandise to welfare. Singapore started with public housing, moving upward from welfare to merchandise. Unlike Hong Kong, public housing in Singapore is an entitlement and thus not synonymous with subsidized housing. It ranges from subsidized accommodation to full-price apartments.

If the Singapore model were admirable, it would be inherently segregate public and private housing policies. Apparently, the HKSAR Government intends to replicate Singapore and resolve the city's housing impasse without changing its *modus operandi*. Homeownership for instance may still be freely resold after moratorium. Unless leakage is closed, market segregation would only be hypothetical. As explained, new pricing model for assisted ownership is arbitrary and resale arrangement would complicate the problem.

Hong Kong is trapped in a vicious spiral of austerity and price that benefits developers, not homebuyers. Unless the private resale market is revitalized, marginal buyers will still look to assisted ownership. Unless austerity is relaxed, the resale market will stay in the doldrums. A policy shift would attract more demand for assisted ownership and aggravate the problem. It would not help provide housing for all.