

COMMENT

Affordability, not land, at root of housing crisis

Persistent oversupply of private homes and lengthy queues for public housing indicate a fundamental mismatch between prices and ability to pay, **Victor Zheng** and **Roger Luk** note

Unlike Singapore,⁷ private housing is the mainstream in Hong Kong while public housing is a safety net for the poor. Subsidized homeownership is a buffer in between. Public and private housing are meant to be complementary, not hierarchical. There should not be a ladder from tenancy to ownership, or from public to private. Yet the government now thinks otherwise; it is looking to subsidized ownership with private participation as a definitive solution.

Four administrations have been struggling with the prolonged problem for more than 20 years. Unfortunately, it has been a vicious cycle of misperceived demand and supply. Tung Chee-hwa (1997-2005) endeavored to raise new supply to 85,000 units a year but was over-ambitious. Donald Tsang Yam-kuen (2005-12) restricted supply in the aftermath of the Asian financial storm and SARS epidemic but was caught out when demand rebounded. Leung Chun-ying (2012-17) suppressed demand and bought time for supply to pick up but distorted the market. They failed to recognize imbalance is a symptom, and mismatch the root cause.

Let's take a look at the ratio of housing to household at the start of each term of government. As both public rental housing and subsidized ownership are allotments, surplus of 5 percent or vacancy of 6 percent pending occupation is structural. However, surplus of 15 percent in private housing is excessive by any standard and could not be explained by unsold new supply alone. Last year, some 250,000 units remained unoccupied but only 10,000 were new flats. Taking into account non-resident owners, the only plausible explanation is affordability mismatch.

In the first 15 years of the special administrative region, under Tung and Tsang, excessive surplus was overwhelmed by the crest/trough cycle. Apparently they both failed to realize that interim price falls during crises were circumstantial. Land shortage has been mistakenly held as root cause of surging prices, not affordability mismatch.

Leung appointed a committee to provide advice on long-term housing strategy. It estimated demand of 460,000 units in next 10 years and reaffirmed a 60-40



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supply split between private and public. Government efforts to accelerate land supply met resistance, with controversies over such measures as rezoning country parks but ecological hazards were real. Housing has become a developer's market. Flat size is shrinking but unit prices are rising. Prices soared 60 percent in five years. Mismatch of affordability and housing was aggravated.

Lam inherits the problem and appoints a task force to advise on land availability. It is supposed to identify immediate supply particularly for public housing but ends up with an ambitious plan for the next 30 years. It tries to take holistic view beyond its capability. Hung policies such as resumption of private clubs or changes to density of villages, conceptual proposals such as reclaiming Plover Cove reservoir or suspending residences above container terminals, and preliminary ideas such as moving public utilities to caves or underground are not yet ready for meaningful public debate. Moreover, rezoning of brownfield sites or farmland for development are planning routines that already provide for public engagement. Public attention is unduly diverted from mismatch to shortage.

If the Hobson's choice for immediate supply were collaboration with developers in exchange for public housing, the task force simply admits that the root problem is not imbalance but mismatch. Thus, the government blueprint is clear. Subsidized ownership is core policy and helps promote social harmony. However, land readily available is held in private hands. If redevelopment were rescheduled, it might help remove the public-private mismatch and help break the price spiral. Public support is indispensable and the task force is entrusted with the job. This explains why public engagement covers other controversies like hung policies, preliminary ideas and conceptual proposals. Actually, the private land bank of brownfield sites

and abandoned farmland, if released, would provide 2,300 hectares, more than enough to fill the supply gap of 815 hectares by 2026 and 1,200 hectares by 2046 envisaged by the task force.

Suppose the government's game plan were supported, it would still not help resolve affordability mismatch. Subsidized ownership by discount on market price is actually joint tenancy with government. Until private housing is again within reach of average income earners, partial subsidy of land premium is unhelpful but full subsidy is impractical. However, delinking with the market would have rampant consequences.

Worse still income disparity has polarized. In terms of occupation distribution over 20 years between 1997 and last year, high-income earners and low-income earners have both increased but housing has become less affordable. If private housing were affordable to high-income earners, a first-time home-buyer scheme would not be necessary. If public housing were affordable to the poor, transport subsidy to those families would not be necessary.

The government is trapped in a vicious spiral. One might infer policy intent was to offer incentives to release private land banks as an alternative to relaxing austerity. As developers hold the key, where would the point of mutual interest lie? Is public engagement premature without any blueprint of collaboration?

It is unfortunate that the public have been led or misled into believing the problem is simply imbalanced demand and supply. For years private housing has been in surplus and public housing in deficit. Mismatch is obvious. The higher private housing prices go, the longer the public housing queue. It has stretched from 36 months to almost 60 in five years. Until private housing is normalized, the affordability mismatch would persist. Yet current policy and approach will only aggravate the problem.