Freedom of Choice --
a New Dimension on Mixed Development

Louis LOONG
Secretary General
Real Estate Developers Association of Hong Kong
Hong Kong

Introduction

On behalf of the Real Estate Developers Association of Hong Kong I thank you for the opportunity of presenting what I suspect may be a different viewpoint from many of the speakers today.

Let me say at the outset that REDA fully supports the Government's long term policy of extending home-ownership as we believe this will create greater stability in our society and in the process create more job opportunities in many sectors of the community.

With this in mind I will focus on the provision of flats for sale and consider the merits, or demerits, rather, of a mixed development of both private (non subsidized flats) and subsidized flats within the same development.

The Objective

However before we consider possible ways to implement mixed development schemes, we should take a step back and ask what is Government's objective behind this proposal? What is it seeking to achieve? Is it to improve the quality of the housing stock or is it to introduce some form of social engineering?

Whilst REDA fully supports the idea of improving the quality of housing for Hong Kong people we have strong concerns over how this is to be achieved.

Our members believe the ultimate objective should be the freedom of the individual's choice within a free market system. In an ideal world therefore there should be no Government interference in the operation of the property market and by implication no subsidy and therefore no need for any mixed development.

Facing Reality

We are however not living in an ideal world and we have to work from the current situation in Hong Kong where Government is the major provider of subsidized accommodation. This includes both rental housing and subsidized home purchase accommodation through the HOS and PSPS schemes.

The problem with the HOS and PSPS schemes is that they often fail to satisfy the needs of the purchasers both in terms of the quality of the product and the choice of location.

That said the reality is that the current disparity of income levels when compared, even to the reduced housing prices today, means that in the foreseeable future some form of housing subsidy will be required if the level of home ownership is to increase significantly.

The Alternatives

Putting aside the issue of social engineering, basically we can have two choices of housing subsidy : a continuation of the current supply side subsidy in some form or a change to a demand side subsidy.

If we are to continue with a supply side subsidy for housing for sale we can either :-
1. Continue with the existing HOS and PSPS developments and accept the disadvantages that come with this form of development, or
2. We can try to raise the quality of developments through the introduction of the concept of mixed development.

Mixed development would improve the quality of the subsidized accommodation and may provide some additional choice to the subsidized purchaser. The issue, however, is at what cost. In adding up the costs we must include the reduction in value to the non subsidized element of the mixed development, the additional bureaucracy required to run the new process and most significantly, the reduction in choice for the purchaser who wishes to buy a flat within a totally private development.

The alternative is a demand side subsidy which will permit the individual to choose what to buy both in terms of location and size and it will also prevent any social stigma by artificially mixing people of different backgrounds. The concept of a demand side subsidy has already been introduced through the Home Purchase Loan Scheme and we believe it should over time be expanded to replace the existing HOS and PSPS schemes.

So long as there is an adequate supply of land, all new housing for sale can be produced by the private sector.

There is hardly any need for the concept of mixed housing to accommodate subsidized flats for sale within private developments.

The Advantages
1. The private sector has proven to be a more cost-effective provider of housing for sale.
2. The private sector can quickly adjust to match market demand and consumer expectations.
3. Private sector home ownership is without resale restrictions and allows owners freedom of movement to suit their individual circumstances as well as conferring on them the capital appreciation potential.
4. The HPLS encourages public housing tenants to become home owners thereby releasing their rental flats for reletting which will help shorten the waiting list for public rental housing.

What About Rental Housing?
This brings me back to the ultimate Government objective.

If Government is determined to "force" public housing tenants into private developments by taking ownership of a proportion of the flats and then letting them as public rental housing then it can of course do so but the value of the private developments will without doubt fall. Such a policy will effectively destroy value and create unnecessary social divisions.

REDA believes that Government should take as its ultimate objective a policy of withdrawal from the provision of housing starting with housing for sale and in due course as the percentage of home ownership increases the demand for public rental housing will fall.

In the meantime as Government is likely to remain a provider of some rental housing it should move away from large easily identifiable estates of standard designs but to provide rental housing in individual blocks scattered throughout the territory, perhaps as part of the new urban renewal strategy. These rental housing blocks may as well be under private management.

Conclusion
In conclusion, REDA advocates simplicity wherever possible whilst at the same time maximizing the choice for the individual purchaser and in time the tenant.