

Housing Problems Accompanying Urbanization (Hong Kong's Lesson)

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Background

Housing is always a problem in an urban city as people move in from rural areas, seeking better life and better job opportunities. This is particularly so at times of war, disturbances or natural disasters when large number of refugees move from the affected areas to the more stable and prosperous areas. This is especially true with Hong Kong.

Compared with the mainland China, Hong Kong was relatively stable and prosperous immediately after the Second World War. Because of its proximity and relative prosperity, it became a haven for the mainlanders. Yet, many of its residential buildings were damaged during the war. With the influx of tens of thousands of refugees, the problem of housing deteriorated.

Housing began with a fire

When the mainlanders arrived, they started to build wooden squatter huts on the hillside areas for temporary accommodation which later became their semi if not permanent home. Understandably, these squatter areas were with all kinds of social, environmental and health problems and amongst all fire hazard was the most dangerous.

In December 1953, a fire broke out in Shek Kep Mei squatter area. Tens of thousands of people were rendered homeless overnight, and the Government decided to build resettlement estates to accommodate them. That was a very important move by the Government and it had a great impact on its housing policy in the following decades.

Public rental housing as a welfare

In the early days, the Government had no long-term and comprehensive housing policy. Even if there was, the refugees from the mainland did not know. These people came with a simple hope of establishing a new life by their own hands and the subsequent provision of public rental housing (PRH) after Shek Kei Mei fire was out of their expectation. Understandably, the PRH, like many welfare provisions, once delivered, people became dependent on it and it would be difficult, if not impossible, for the Government to withdraw.

Following the liberalization of the mainland China, many rich Shanghai industrialists moved their operations to Hong Kong, consequently transforming Hong Kong from an import and export center to an industrial base of light industry. Though their operations helped to create thousands of job opportunities, these jobs were of low wages because of the low-added value nature of the light industrial products. The industrialists were therefore resistant to pay high wages to the workers, or else, their finished products would be un-competitive in the market. As a result, low-income workers were unable to afford a decent self-contained house in the private property market. This situation did put pressure on the Government to take action because if

otherwise, workers would press their demands on their industrialist employers. If so, industrial production would be disrupted and the overall economic development would be jeopardized.

Consequently, by choice or by force, the Government continued to increase its PRH units for the workers and their families and by doing so PRH became a social welfare. With hindsight, we must admit that this was an ingenious arrangement by the Government because on paper the PRH was to help the low-income working class but it also concurrently helped the rich industrialists. While Hong Kong publicly cherished the non-intervention policy, it was in fact fully subsidizing its export trade. Interestingly enough, Hong Kong was at the same time being commented as the freest economy in the region if not the world.

Public rental housing as a basis for high land price

Unintentionally, the PRH provided a basis for nurturing high land and private property prices in Hong Kong. For if the low-income working class was the target, sales price of the private property should be within their affordability. Now with the low-income workers being taken care by the Government through its PRH scheme, private property would only be left to the higher income group and of course, its sales price could be higher.

Under the high land price policy, the Government was able to receive considerable revenue from land sales and other related incomes, amounting to 40% of its annual revenue income. To a certain extent, land sales had become an “indirect tax” in Hong Kong. Without the revenue from land sales, it would be beyond our comprehension that Hong Kong could become a low-tax free port.

As the price of the private properties became higher, it would be difficult, if not impossible, for the low-income people to own a house. Consequently they had no other alternatives but to turn to the Government for the PRH. That explained why the PRH stock was kept on rising and at its peak, half of the population in Hong Kong was under the Government’s roof.

High land price had its merits

Though the Government never admitted practicing high land price, Hong Kong people were well aware of its existence. The denial and reticence of the Government was understandable because it knew that the high land price worked and worked well for Hong Kong.

As the sole owner of all land in Hong Kong, it was not difficult for the Government to control its land supply. By carefully controlling its land sales, the private property price could be manipulated to stay high. Consequently revenue from the land sales and other related incomes, including land premiums, government rates and rent, stamp duty, profits tax from the developers etc. would be considerable.

With the support of the revenue, the Government could then offer an attractive income and profits tax package to overseas investors, build massive and modern infrastructures, including the international airport, road networks, bridges and mass transit systems and provide comprehensive education, medical and other social services. For these, Hong Kong people contributed their part by sacrificing their living condition, even though the private house owners might be benefited

from the increased property price.

With the high land price policy, every one got his wanted. The government had considerable revenue, community its world-class infrastructure, the upper class an environment conducive to profit making, the middle class personal wealth generated by increased property price growth and the lower class a comprehensive social security.

Home Ownership Scheme was off the welfare track

Regrettably, things changed in the late seventies when our Government suddenly became “Great”. Our leader for unknown reasons suddenly wanted to be a great leader. He not only wanted us to have a place to live in, he also wanted, through his Home Ownership Scheme (HOS), us to have our own house. Since then, rains of misfortune kept falling on the land of blessing.

Under the HOS, our great leader planned to build houses of slightly better quality and sold at a discount of about 40% to the now rich PRH tenants and the general public with restricted income. The scheme was intended to encourage the rich PRH tenants to vacate their PRH unit for other qualified people who had been waiting for years. However the HOS also signaled that the government started to depart from its long held social welfare principle. It started to forget what Karl Popper, an English philosopher, once said that the Government should be confined to reducing the pains of its people, and should not be extended to catering for their aspirations and well being.

While “Pains”, like hunger, is without difficulty to comprehend, “well being” is hard to understand. For us, the “well being” of assisting people to own their own house was too complicated to understand and too bitter to swallow. Using public funds to help an individual to own his house was beyond imagination. This was particularly so when resources were scarce and thousands of low-income people were still waiting for years for their PRH units. Helping people to own his HOS house was definitely more than welfare. Once the HOS was off its welfare track, we know that sooner or later Hong Kong would be heading into disasters.

Housing Authority Forgot Its Welfare Root

Originally, the Housing Authority (HA) was established as a welfare organization publicly funded by the government to build and to manage the PRH estates, such as collecting rents. With the introduction of the HOS, its very basic nature changed from being a welfare provider to a developer.

With the subsidized land grant from the Government, the development cost for a HOS house was low compared with the same for the private houses. Despite a HOS house was sold at a 40% discount, HA could still make a huge profit. In addition, when a person sold his HOS house in the private property market, he was required to pay a premium back to the Government for the discount he was given earlier. If the price of a HOS unit increased, HA would get a good premium back from the HOS house owner. With this favorable arrangement, HA was destined to be largest profit-making developer in Hong Kong if not the world.

However local wisdom said, “once a person has wealth, his body will itch”. This is exactly what had happened to HA. It forgot that since its inception it was meant to be a welfare provider. And now with its cumulated billions, it itched and ventured into building its empire, developing more public (including PRH and HOS) housing projects and providing more add-ons to its buildings and housing units. HA forgot its welfare root and became a culprit of distorting the property market.

Ancient Chinese wisdom said, “forgetting one’s root is an impiety” and will be punished by god. Well, to what extent it is true with the financial difficulty now experienced by HA is an interesting subject to be investigated.

Private property market was sidelined

As HA built more and more public (PRH and HOS) houses, its market share in the overall property market increased steadfastly. According to Government’s plan, 85,000 houses would be built per annum and amongst them 50,000 houses were public housing (PRH and HOS) units. At one time, some 100,000 public housing units were completed within a year.

Furthermore, HA’s houses (PRH and HOS) were of better size and quality, the new private “starter houses” looked inferior. Because of this, it was difficult for the private developers to dispose their “starter houses”. This in turn affected the sales of small and medium private houses along the line, thus making the private property market dwindled.

Worse still, the government, in addition to the PRH and HOS houses, later offered a superior category of subsidized housing called the Sandwich Class Housing Scheme (SCHS) to the high-income group. With the exclusion of the top 8% of the population, Hong Kong people now could apply for one form of public housing (PRH, HOS or SCHS etc.), low-income class the PRH, “starters” the HOS and high-income the SCHS respectively. Because of the aforesaid, the percentage of the market share by the private sector fell at one time to only 10%. Looking back, it was interesting to find Hong Kong more and more like a socialist state, thus breaking Deng Xiao Peng's promise of keeping Hong Kong's capitalist status for 50 years.

Adverse Effects of Drastic Fall in Property Prices

Before Hong Kong was handed back to China, property price was exorbitantly high. With the good intent to make housing more affordable so as to improve people's livelihood, the Government purposefully suppressed property prices through increasing supply of public houses (PRH, HOS and SCHS) in the market. However, the glut of housing happened during the Asian financial crisis. Property prices as a result dropped by 70% within 5 years, causing serious destruction to both the property market and the economy as a whole.

Since Hong Kong people had lived comfortably with the high land price for years, all walks of life had already aligned to it. Now with its disappearance, people suddenly had adjustment difficulties. Though the Government wanted to ease their livelihood by suppressing the high land and property prices. Instead, all they found were two digits of job loss and wage cut, tens of thousands of personal and commercial bankruptcies, 100,000 properties of negative equity, businesses collapses, loss of productivity and competitiveness etc.

As a result, Government's revenue income from land sales and related sources was greatly reduced and tens of billions of fiscal deficit were caused to develop. Despite most people were still suffering from the effects of the serious economic downturn, the Government tried to reduce the deficit by for instances raising taxes, cutting payrolls of civil servants and freezing welfare benefits and provisions. Growing discontent amongst the community became an issue that the Government had to seriously concern about.

"Big Market, Small Government"

After years of sufferings, the society and the Government came to the awareness that active government participation in the property market was not appropriate for the development of a healthy and stable property market. Also, drastic fall in property prices was not effective in improving people's livelihood and raising Hong Kong's competitiveness. On the opposite, it adversely influenced our economy, weakened investment confidence and abilities, and also brought about large proportions of asset depreciation in the society.

Consequently the Government carried out a fundamental review on its housing policy. The guiding principle of the prevailing policy is minimum intervention to allow a free market. Ever since, the government has repositioned its role as an "facilitator" instead of a "direct provider". Under the new guiding philosophy, the Government ceased building HOS units and the standards of PRH units were kept to the basic level to avoid overlapping of public and private markets.

At the same time, previous anti-speculation measures and tenancy control were relaxed to allow more flexibility in the market. To avoid excess supply, the Government regulated land supply by suspending land auctions and coordinating with the railway corporations on timing of sale of their property developments.

The property market has shown signs of revitalization following the rectification on housing policy. It is hoped that the vicious spiral of deflation would soon end, releasing people from their negative assets. Personally, I especially hope to see the community be less dependent on the government as a direct provider of housing. Instead, each individual should through his own effort buy his own house.

Hong Kong's Lesson

Let us all absorb the painful lessons from years of mistaken policy;

1. Government's role in housing should be the supplier of accommodations for the lower class only. Government should lessen people's pains, but not to assist their activities of investment or wealth growth. In all circumstances, government should not disturb the functioning of the private market and should avoid all markets overlapping.
2. Social welfare organizations should not be self-standing of profit and loss, and they should not function as private enterprises with the goal to make profit. Being a social welfare organization, the Housing Authority should concentrate its effort on providing welfare services to the community instead of acting as an estate developer.

3. The stability of property prices is one of the most important elements supporting the economy. Sudden plunges of property prices would lead to collapse of an economy and hence cause serious destruction to the society as a whole. Therefore, the government should carefully take into account the influences of its housing policy on private market.

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