



*Photo Credit: Romain Jacquet-Lagrèze*

# Housing Affordability for the Next Generation

## Executive Summary

Hong Kong | September 2017



# Introduction



*YLP participants on the 3<sup>rd</sup> Hong Kong Young Leaders Programme*

The **Global Institute For Tomorrow (GIFT)** is an independent Hong Kong-based think tank providing content-rich and intellectually-challenging executive education from an Asian worldview.

Based on GIFT's internationally recognized experiential Global Young Leaders Programme, the **Hong Kong Young Leaders Programme (YLP)** is an annual platform to inspire a new generation of leaders and a new precedent of constructive dialogue and ideas, as well as promote cooperation and collaboration across sectors.

In September 2017, twenty young professionals from business, government and civil society participated in the 3<sup>rd</sup> annual YLP to create new solutions to tackle Hong Kong's most important policy concern, **housing affordability**.

Through field research, stakeholder interviews and site visits, participants gained a deeper understanding of the factors contributing to Hong Kong's housing challenge and developed a road map of fresh policy recommendations to increase access to affordable housing and a framework for implementation to support the government's efforts to do so.

The following pages are an **Executive Summary** of the proposal produced. More detailed analysis can be found in the full report which is available upon request.

# Hong Kong's Housing Affordability Challenge

Access to adequate and affordable housing is essential to the achievement of a basic standard of living and therefore to the fulfilment of human life beyond simple survival. Yet in both developed and developing economies alike, cities struggle to provide affordable housing to low and middle income populations.

Housing is Hong Kong's single most important policy concern as the territory recently became the world's most unaffordable housing market. According to one study, it will take a skilled worker 18.5 years to afford a 60 m<sup>2</sup> flat near the city centre.



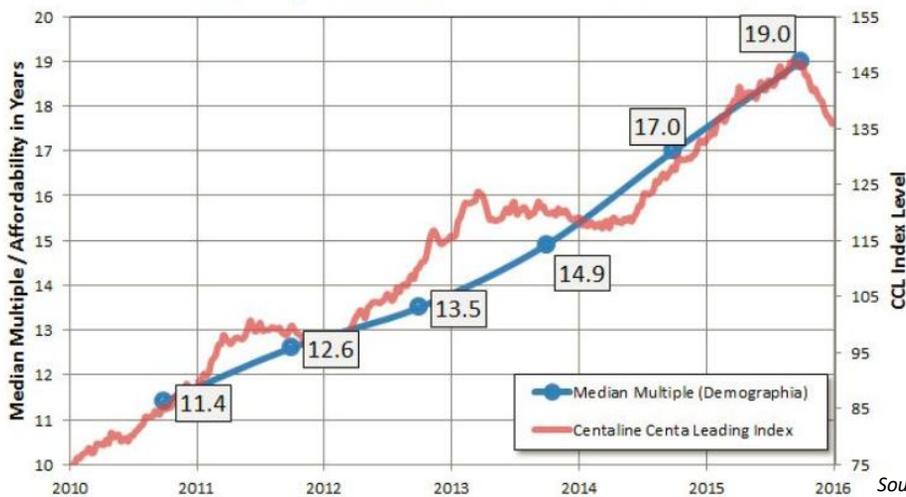
Photo Credit: Benny Lam

Housing unaffordability in Hong Kong has costs that spread throughout a large portion of the society, impacting both low and middle income citizens. High housing prices limiting social mobility, reducing social cohesion and is a driver of inequality.

Half of Hong Kong's population live in rental properties, and rising home prices have a knock on effect on rents. More income set aside for rent leaves less disposable income for essentials and emergency, reducing financial security.

Despite the government's attempts to regulate Hong Kong's private residential market, housing prices have surged and have been on an almost uninterrupted uptrend since 2004. Tight supply of new residential flats, combined with strong end-user and investment demand, stable economic performance, low interest rates and ample liquidity have boosted housing prices significantly.

**Hong Kong Property Prices and Affordability**



Source: Hong Kong Free Press

## Housing in Figures



Only **24%** of Hong Kong's land area is built up (Planning Department)



**45.6%** of the population live in public housing of which 64% are in rental housing



**200,000** people live in the city's **88,000** sub-divided units



**50.4%** of the population own homes



Total housing demand is projected to reach **460,000 units** in 10 years and **1 million units** by 2046



Hong Kong has the **highest construction costs** in Asia.



Projected shortfall of **1,200 ha (1% of total land area)** of land to support residential development, including **230 ha** to build housing to meet 2046 housing targets

Data from Hong Kong Housing Authority (unless otherwise noted)

# A Look at the Problem

The lack of land for residential development and insufficient number of housing units in the face of high demand, inflow of capital and low interest rate environment has led to a **supply-demand imbalance**.

The government's reliance on land and property for revenue leaves little incentive for it to curb the housing prices in Hong Kong significantly. This has led to high land premiums and developers sitting on their land banks, reducing supply of land. High construction costs, mainly due to labour shortages, also contribute to higher housing prices.

High home prices has forced people to live in sub-standard units and supported the development of "nano-flats". The availability of community and open space has also been compromised, diminishing living quality.

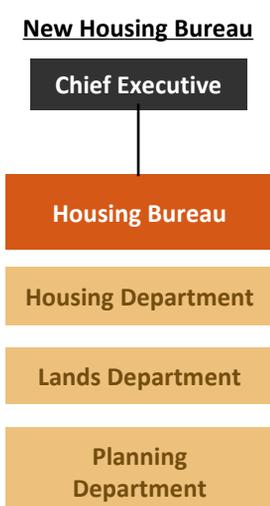
A set of holistic solutions is required to look at the problem from all angles, including encouraging institutional change, better utilising land to unlock supply, managing development costs and demand for housing in the public and private sector, as well as tackle the issue of housing quality and liveability.

## A Detailed Look at Housing Unaffordability in Hong Kong

<p><b>INSTITUTIONAL CHALLENGES</b></p>  <p>The government is Hong Kong's landlord and derives 35% of its revenue from land/property. At present there is no centralized bureau to set policies and manage housing development.</p>	<p><b>SUPPLY</b></p>  <p>Supply of new housing units has shrunk by half compared with last decade.</p> <p>There has been a significant decrease of new developable land supply in the last decade.</p>	<p><b>DEMAND</b></p>  <p>Real demand will rise as population and number of households increase.</p> <p>Low interest rate environment will continue to drive investment demand.</p>	<p><b>AFFORDABILITY VS. QUALITY</b></p>  <p>Soaring prices drive down living quality. Demand and supply of nano-flats has increased and many low-income households are driven to seek informal housing.</p>
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## Supporting Institutional Change

The government's ability to deal with the varied housing interests between citizens, developers and different stakeholders is key to stabilising the housing market. However, the current government structure is one of the fundamental reasons why property prices have been difficult to bring down.



The creation of a **new Housing Bureau** will allow all housing related policies to be made and administered under a single umbrella. This will allow better coordination between the Lands Department, Planning Department and Housing Department and will facilitate changing the mandate of the Lands Department from maximising the monetisation of land to balancing housing needs and revenue generation.

A **new Housing Policy Commission** will be established to look at solutions to the housing affordability challenge holistically and propose suitable implementation measures with its findings made public. Its purpose would be to seek a wider array of public inputs, legitimise practical solutions thus empowering the government to act, and with public support counter the influence of vested interests.

The commission will report directly to the Chief Executive and be filled with a representative cross-section of society. It will have a short term mandate of 9-12 months to seek input from different stakeholders and make recommendations to the government.

# Unlocking Land

In order to understand the extent of the land supply issue in Hong Kong, it is important to have a full picture of how much land is available for housing development. It is proposed to establish a **land pool mechanism** that strives to make better use of existing under-utilised land and to convert them to residential use.

## Potential Land to be Unlocked for Housing

Short to medium term

### BROWNFIELD SITES

There are 9 major sites scattered in north and northwest New Territories with a combined **1,300 hectares** for potential development (**equivalent to approx. 400,000 households or 1 million people**). A loophole currently exists that allow agricultural land to be converted for non-agriculture uses. The government will need to consider providing adequate compensation to both brownfield land owners and business operators or close the existing loophole.



### PRIVATE LAND BANKS AND PUBLIC-PRIVATE PARTNERSHIPS

Major developers hold approx. **1,000 hectares of agricultural land**. Under the existing government system, lease modification to convert agricultural sites to residential usage is lengthy and complicated. **Public-private partnerships** between the government and developers could combine an incentive (ie. discounted land premium) in exchange for free land given to the government to build public housing.

### SHORT-TERM TENANCY LAND

The total land area under short-term tenancies is **800 hectares**. One major use of short-term tenancy land is for car parking lots (taking up 152 hectares of land). Introducing land efficient solutions such as high density auto-parking systems can release short term tenancy land in urban areas for housing or community services.

### VACANT SCHOOL PREMISES

There are **191 vacant schools (estimated 7 hectares)** in Hong Kong (some that have been vacant for over a decade) that could be better utilised if they are resumed and included as part of the land pool.



Medium to long term

### PORT RELOCATION

Relocating Kwai Tsing Container Terminals to New Territories West would free up **279 hectares of prime real estate**. The new port site is 650 hectares and allows the expansion needed by the shipping industry to remain competitive.

### “DING” HOUSE POLICY

The government holds around **933 hectares** of land to support the existing Small House Policy. The Ding Building Policy replaces the Small House Policy with the provision of a flat of 1,000 square feet (93 m<sup>2</sup>) in public housing provided by the government in exchange for the villager’s “ding” rights.

### HONG KONG DISNEYLAND

There are an additional 60 hectares of “undertermined land” reserved for further development. If this land was used to develop public housing estates, it could accommodate **20,000 households or 54,000 people**.



The total estimated area of land that can be unlocked is **4,379 hectares**, with the development potential of approx. **2,912,035 units**, which is **more than 6 times the total number of units required over the next ten years** (460,000 units) according to the government’s figures. If they could unlock just 28% of this land, it would satisfy the total land requirement (government estimated shortfall of 1,200 hectares) for residential development with necessary auxiliary services by 2046.

# Construction Costs

Hong Kong has highest construction costs in Asia and is the second most expensive in the world. Managing construction and development costs can help to improve housing affordability overall.

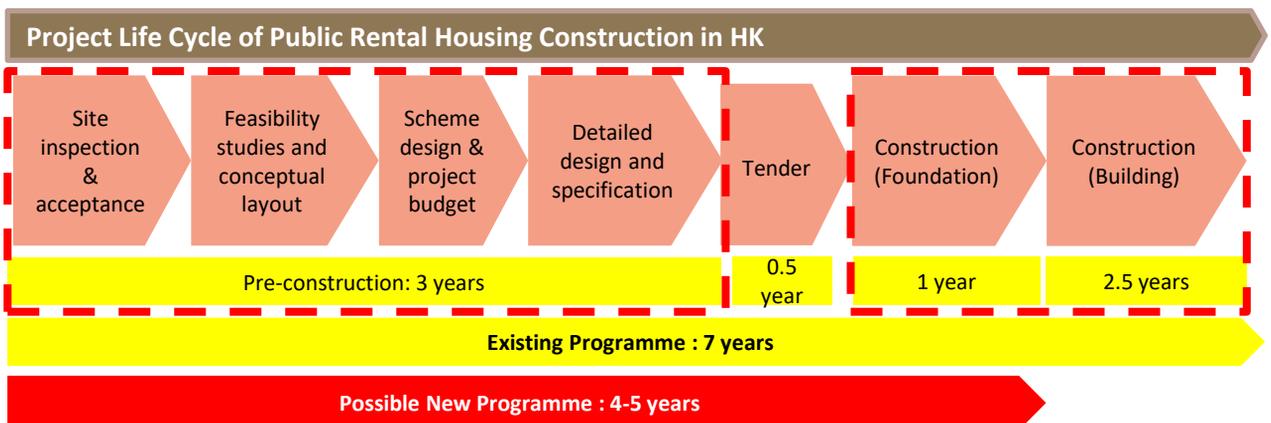
The construction sector has remained at peak activity due to a vibrant private property sector and large infrastructure projects. The increasing demand for construction works and the rising wages are among some of the challenges facing the construction industry. Construction costs increased by 3.9% from 2012 to 2017 mainly due to increasing labour cost, which grew by 6.2% over that period.

Current Problem	Proposed Solutions
<b>Labour Shortage</b> – the shortage of construction operatives is the biggest contributor to high costs	<ul style="list-style-type: none"> <li>Government to offer more comprehensive training courses to raise the technical proficiency and reputation of construction industry employees, thus attracting and retaining more youth to the industry.</li> <li>Relaxing policy for labour importation to allow local employers greater flexibility when managing labour needs.</li> </ul>
<b>Subcontracting System</b> – multiple layers of subcontracting increases costs	<ul style="list-style-type: none"> <li>Remove the multiple layers of subcontracting prevalent in the construction industry by allowing a maximum two-layer subcontracting system and applying this to public and private sector works.</li> </ul>
<b>Construction Technology</b> – technology can improve construction productivity and cost management	<ul style="list-style-type: none"> <li>Technologies such as Building Information Technology, 3D printing, modular construction and use of robotic and machinery assistance can help to reduce labour cost, shorten construction time and reduce waste.</li> </ul>
<b>Construction Materials</b> – building materials account for 40-45% of construction costs	<ul style="list-style-type: none"> <li>Enhancing material quality and introducing new building materials, such as metamaterials, will help prolong building life and reduce maintenance costs.</li> </ul>

## Streamline Project Life Cycle of Public Housing Development

The current project life cycle of Public Rental Housing construction can be as long as 7 years, with the pre-construction phase taking up to three years due to inefficient approval procedures in the government. In order to shorten this, it is proposed to use a **cross-departmental unit** to centralise the review of planning and building submissions and to update existing practices and evaluation procedures. If implemented successfully this would compress the pre-construction phase to **one year**.

Adopting new technologies in the construction phase will help to improve efficiency, thereby **shortening overall project life cycle to 4-5 years**.



# Managing the Market

The severe imbalance between residential demand and supply in Hong Kong's free market is the major reason why housing has become so unaffordable. In terms of demand, there has been an increase both in real housing demand and in investment demand. This has affected both the public and private sectors.

## Managing the Private Housing Market

In order to cool the private market, since 2010 the government has introduced a host of measures to curb investment demand. This has led to a sharp drop in the number of transactions in the market and shrank the secondary market, but has not suppressed prices (price index rose 11.25% from 2011-2016).

Solutions need to focus on curbing investment demand further whilst supporting first-time home buyers.

### Solutions for the Private Sector

<b>Curb Investment Demand Further</b> Intensify existing stamp duties to target investment demand by increasing Double Stamp Duty, Buyers Stamp Duty, Property tax and not allow non-local buyers to get mortgages.	<b>Encourage 2<sup>nd</sup>-hand Market Supply</b> Remove Special Stamp Duty (reduce transaction cost for resale) and introduce 25% Vacancy Tax to increase supply from the 2 <sup>nd</sup> -hand market to meet demand	<b>Exempt AVD for 1<sup>st</sup>-time Home Buyers</b> Exemption of Ad-valorem stamp duty will reduce the barriers to entry for 1 <sup>st</sup> -time home buyers.
<b>Increase Access to Capital for 1<sup>st</sup>-time Home Buyers</b> Extend the Mortgage Insurance Programme to properties valued up to HK\$7.5M and raise the maximum loan-to-value ratio	<b>Offer Flat-rate Home Loans to 1<sup>st</sup>-time Home Buyers</b> Government to underwrite long-term, low and fixed interest rates for mortgages taken by 1 <sup>st</sup> -time home buyers	<b>Home Starter Loan</b> Resume Home Starter Loan for down payments to provide assistance to 1 <sup>st</sup> -time home buyers

## Managing the Public Housing Market

The average waiting time for public rental housing is 4.7 years. The government will need to not only build more public housing units, but review its existing rental and home ownership schemes to ensure they are inclusive and resources are suitably allocated. Measures will include:

- Revising the income caps and minimum income requirements in the Home Ownership Scheme to make it more inclusive.
- Enhancing and enforcing the Well-off Tenants Policies so resources are best allocated.
- Providing transitional housing for those living in sub-divided units and are waiting for public housing.
- Bundling private land sales together with a site for subsidised housing development, and requiring the developer to construct both private and public housing, to increase subsidised ownership supply.

### Increase Transparency of Land Sale Process

- The current land sale process by application list and tender process lacks transparency. Only the winning bid is released, which may not reflect the price most bidders were willing to pay. This fuels speculative and aggressive tendering.
- Recommend to enhance transparency by disclosing the second and third highest bids and reactivate land auctions.
- Improved transparency will provide better benchmarks and stabilise the market.



*Kai Tak Development*

# Quality of Homes

Measures to increase access to affordable housing must also ensure decent living quality. According to the United Nations' Declaration of Human Rights, a number of conditions must be met before a shelter can be considered decent, including adequate space, availability of services and facilities, and accessibility (to ensure specific needs of disadvantaged groups are accounted for).

## Improve Liveability

High home prices and lack of government regulation has led to shrinking home sizes in the private sector as well as poor living conditions in sub-divided units. Measures need to be taken to regulate private developments and provide support to those living in sub-divided units.

- Impose a statutory minimum unit size for private residential developments to prevent flat sizes from getting any smaller.
- Improve conditions in sub-divided units by providing incentives to landlords to carry out improvement works, review rent assistance schemes to help tenants and explore rent control measures to regulate rental for low-income tenants.
- Provide financial assistance to landlords to retrofit common facilities and building services in aged residential buildings, such as providing elevators, to extend life of building.

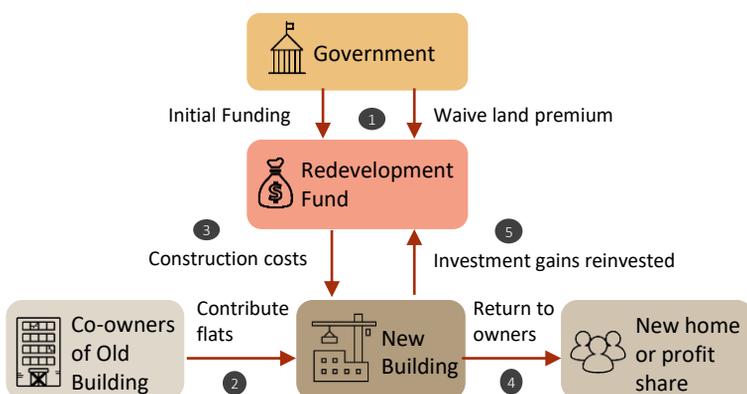
## Ageing in Place

Census statistics project that by 2036, 31% of Hong Kong's population will be aged 65 or above (compared with 17% in 2016). A rising elderly population leads to special housing requirements and community support networks to ensure a decent quality of life for the aged. "Ageing in Place" refers to empowering elderly to live in the residence and community of their choice with the goal to maintain and/or improve their quality of life as they age. Measures to support Ageing in Place include:

- Expansion of the "Ageing in Place Scheme" developed by the Hong Kong Housing Society implemented in its numerous housing estates.
- Develop **Comprehensive Functional Centres** in housing estates that have more elderly occupants to provide them with assistance in daily life, such as health care and community services.
- Introduce "Inter-generational Housing Scheme" to encourage children to live near their parents to enhance support for the elderly.



## Redevelopment Fund to Facilitate Urban Renewal



- 1 The government provides initial funding, proposed injection of minimum HK\$2 billion, and waives payment of premium if lease modification is required.
- 2 Instead of the lengthy process of acquiring all units in an old building by way of acquisition, it is a **joint investment scheme** by all co-owners of the building
- 3 The Fund invests in the project by paying the construction costs, the co-owners invest by contributing their flats
- 4 Return to Owners
  - Option A : a new flat in the redevelopment (interim housing shall be provided to these owners).
  - Option B: a pre-agreed share in the profit of the redevelopment
- 5 Investment gains for the Fund will be reinvested back into the Fund for future redevelopment projects.

# Implementation of Recommendations

Implementation of the recommendations in this report are based on short, medium and long-term time frames.

	Institutional Change	Unlocking Land	Construction Cost and Technology	Managing Market	Quality of Housing
Short Term (1-3 years)	<ul style="list-style-type: none"> <li>New Housing Policy Commission</li> <li>New Housing Bureau</li> </ul>	<ul style="list-style-type: none"> <li>Public-Private Partnership</li> <li>Short-term tenancy</li> <li>Vacant School Premises</li> </ul>	<ul style="list-style-type: none"> <li>Robotic &amp; Machinery Assistance</li> <li>Building Information Modeling</li> </ul>	<ul style="list-style-type: none"> <li>Curb investment demand further</li> <li>Encourage second-hand market supply</li> </ul> <p>For first-time homebuyers:</p> <ul style="list-style-type: none"> <li>Exemption of AVD</li> <li>Relax max. LTV ratio</li> <li>Offer flat-rate home loan</li> <li>Offer home-starter loan</li> </ul> <ul style="list-style-type: none"> <li>Widen income eligibility of HOS</li> <li>Improve transparency of land bidding process</li> </ul>	<ul style="list-style-type: none"> <li>Statutory minimum unit area</li> <li>Improve conditions of Subdivided Housing Units</li> <li>Expansion of AIP Scheme</li> <li>“Co-living Home” for single-parents</li> </ul>
Medium Term (3-7 years)		<ul style="list-style-type: none"> <li>Brownfield sites</li> <li>Disneyland</li> </ul>	<ul style="list-style-type: none"> <li>Train young people</li> <li>Labour importation</li> <li>Restricting multiple layer subcontracting</li> <li>Modular construction</li> <li>Streamline construction procedures</li> </ul>	<ul style="list-style-type: none"> <li>Provision of transitional housing</li> <li>Bundling of land sale</li> <li>Enhance enforcement on well-off tenants</li> </ul>	<ul style="list-style-type: none"> <li>Redevelopment fund</li> <li>Intergenerational Housing Scheme</li> <li>Comprehensive Functional Centres</li> <li>Retrofit aged buildings</li> </ul>
Long Term (over 7 years)		<ul style="list-style-type: none"> <li>Port relocation</li> <li>“Ding” Building Policy</li> </ul>	<ul style="list-style-type: none"> <li>3D printing</li> </ul>		

## Key Drivers for Success

- Review the government mandate and revise the existing structure for better coordination between departments and stakeholders to address the challenge.
- Overcoming vested interests and providing the right incentives to release under-utilised land efficiently for residential use.
- Enabling policies to reduce development costs, support first-time home buyers and low-income groups to get access to decent homes and ensure all developments provide quality housing in liveable communities.
- Engage and collaborate with key stakeholders to bring them together as part of the multi-faceted solution.
- Strong political will is the key to driving policy implementation and overcoming stakeholder divisions.

For more information on the proposed housing policy recommendations, or the Hong Kong Young Leaders Programme in general, please contact the Global Institute for Tomorrow at [enquiry@global-inst.com](mailto:enquiry@global-inst.com). You can download the full report [here](#).





# Tomorrow Matters.

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