

To What Extent Has Hong Kong's Urbanization Process and Housing Policies Contributed to Its Inability to Provide Sufficient Affordable Housing?

Heran Yang^{1, a, *}

¹ *Hwa Chong International School, Bukit Timah 269783, Singapore*

a. Yang.hr@stu.hcis.edu.sg

**corresponding author*

Abstract: With a population of 7.5 million and the most unaffordable housing market in the world, Hong Kong is known for its high-density forms of development. Despite the many housing policies introduced by the Hong Kong government and its deep understanding of the importance of solving the housing problem, progress has been slow and even somewhat unsuccessful. The purpose of this paper is to explore the reasons for Hong Kong, China's inability to provide sufficient affordable housing by analyzing its urbanization process and housing policies. The main conclusion reached in the end is that Hong Kong's housing problems are largely a result of its history and urbanization; the biggest flaw in Hong Kong's land development mechanism has led to its lack of land for residential development; and entanglements between vested interests and different groups have hindered the change of the mechanism.

Keywords: Hong Kong, affordable housing, housing policies

1. Introduction

Since the financial crisis of 2008, house prices in Hong Kong have increased significantly. Today, housing affordability has become a global issue. In the year between the end of 2008 and the end of 2010, nominal housing prices rose by approximately 50%. The "property bubble," in the opinion of the majority of Hong Kong residents, peaked in 1997. Due to the ensuing Asian financial crisis and bad housing policy, the "property bubble" burst, precipitating a sharp decrease in home values. Despite the fact that housing prices in Hong Kong have long been referred to as "unaffordable," private property prices began to plummet this year against the backdrop of the epidemic and the Russo-Ukrainian war. The biggest problem for the Hong Kong government is still housing, though.

Additionally, the pandemic has in some way widened the gap between the rich and the poor, since many low- and middle-income families continue to struggle to pay the high cost of housing. One may question whether the government has neglected its responsibilities in this situation. The following steps will be used to analyze this in this essay. First, a description of Hong Kong's political economy and how it influences the system of urban planning will be given. In order to comprehend the situation in Hong Kong with regard to land use, a more thorough compilation of the town planning history of that city will also be made. Finally a comparison will be made between Hong Kong's major housing policies and those of mainland China in order to draw lessons. It is concluded that Hong Kong still

has a long way to go in solving its housing problems, not only in relation to the shortage of land supply, but also in relation to its history of development and the way real estate has always operated.

2. Mechanisms for Urban Planning in Hong Kong

2.1. Hong Kong's Political Economy

Understanding the nature and substance of urban planning mechanisms is frequently aided by an understanding of the political economy of a nation. Because it provides the context for understanding the institutionalization, operation, and success or failure of Hong Kong's urban planning, understanding the political economy of Hong Kong is a precondition for understanding its urban planning. Hong Kong's political economy is undergoing change. Governmental and corporate supremacy is threatened by pro-China interests and a more open civil society. Hong Kong's land use planning framework is a manifestation of the power struggle. This is mainly due to China's desire to keep Hong Kong's market-driven society intact after 1997. Due to the unbalanced power dynamics between the government, private sector interests, and local communities—where the government serves as both the largest landlord and an administrator—Hong Kong chose an urban growth plan focused on reclamation.

Capitalists from the mainland who had fled after the founding of the People's Republic of China in 1949, to Hong Kong to avoid Communist government, began a process of "transferred industrialization" that resulted in the expansion of Hong Kong's manufacturing capability in the 1950s. Hong Kong's economy has never gone through an industrialized phase of import-substitution because of its location as a trade port and the ease with which produced commodities could be sold on the international market. In July 1997, Hong Kong became a Special Administrative Region of China in accordance with the "one country, two systems" tenet defined in the Sino-British Joint Declaration of 1984. The return of Chinese rule marked a turning point in Hong Kong's socio-economic and political development as well as the beginning of a period of transition [1].

2.2. The History of Urban Planning in Hong Kong

As in other nations, the government in Hong Kong was the one who started and assumed primary responsibility for town planning and development. Before the 1930s, there was no idea of town planning in Hong Kong, and zoning control was done by land leases, intensity control was done by Buildings Ordinance [2]. The Hong Kong authorities and government have traditionally attached importance to urban planning. Indeed, the pace of urban planning in Hong Kong has always been influenced by the cultural influence of Western civilization, Chinese immigration, and China's changing social, economic, and political condition. Its development can be categorized into six stages throughout its history [3].

In the latter half of the 19th century, the first phase got underway. By reclaiming land, constructing water supply systems, typhoon shelters, commercial roadways, and infrastructure, Hong Kong started to use technology to address the issues of resource shortages and typhoon attacks. At this time, Western culture was imported. However, the colonial government's disregard for the Chinese who had sought safety in Hong Kong and its lax attitude towards the Chinese community contributed to the public health and security crises in Hong Kong. Hong Kong developed became an entrepôt in the middle of a volatile political environment.

Between 1898 and the Pacific War, the second stage was in effect. The Convention for the Extension of Hong Kong supplied fresh land resources to fulfill the city's need to expand as China's political landscape evolved. The area leased under this deal, which was signed in Beijing in 1898, was south of the Shenzhen River and north of Boundary Street. In the 1930s, the colonial government genuinely contemplated acquiring the New Territories from mainland China, but as the Pacific War broke out,

the idea was dropped because of British ties to Chinese nationalists, the Chinese Communist Party, and British-Japanese relations.

Between 1941 and 1945, the third stage took place. Japan took control of Hong Kong, and under their military rule, it developed into a harbor for raw materials. The town planning in Hong Kong at this time was substantially different from that of the British colonial authority in many ways because it was a Japanese military port.

1945 through 1978 was the fourth stage. The government established high-density housing programs to solve the housing issue of new immigrants in the face of severe post-war demographic pressure and a limited supply of urban land. In addition, a significant proportion of Chinese immigrants were drawn by the high-density development planning paradigm. As a result, the processing industry had access to a sizable pool of inexpensive labor, transforming Hong Kong into a processing hub. A highly heightened development of the urban spatial structure resulted from the tremendous changes that Hong Kong's urban shape endured during this time [4].

From 1979 until 1997, the fifth stage took place. With the westward extension of the city's center, the free trade economic system assisted Hong Kong in developing into one of Asia's four little dragons and a major global financial center. As a result, the surrounding areas started to recognize its economic status. The project's focus point was the Hong Kong International Airport on Lantau, and the Rose Garden Project was born out of political differences between the British and Chinese administrations at the same time.

The sixth stage has been ongoing since 1997, when Hong Kong was turned over. Hong Kong's government introduced sustainable planning rules and updated public engagement processes in response to the challenge of sustainable development. Hong Kong, which is a part of the Greater Pearl River Delta, had to support the overall development of southern China; as a result, its citizens were against further unification with the mainland.

2.3. The Historical Process of Hong Kong as A “Late Industrialized” Society

Milton Friedman, an economist, viewed Hong Kong as a form of free-market utopia [5]. Hong Kong established its own system of laissez-faire governance while subject to British colonial administration. After the Second World War, East Asia's geopolitical situation had a role in Hong Kong's emergence as an industrializing society. Hong Kong's initial function as an entrepôt for the provision of services on behalf of British exports to China and other countries, as well as Chinese exports to Britain and other core economies, began in the middle of the 19th century but was discontinued during the Japanese occupation from 1941 to 1945. When British control was reestablished, the entrepôt function was resurrected; but, a few years later, it again disintegrated. The United States and the United Nations placed economic restrictions on China as a result of a string of hot wars in Asia during the Cold War, which resulted in the collapse of the colony's trading and shipping firms and the firing of thousands of workers. On top of that, a sizable influx of refugees from inland China—some of them industrial capitalists from Shanghai—arrived in Hong Kong. The colony's industrialisation was made possible by the influx of riches and capital.

Over the past 25 years, Hong Kong has achieved economic growth while simultaneously building one of the largest public housing systems in the world. It is therefore reasonable to assume that there is a meaningful relationship between the two processes of high economic growth and the provision of comprehensive public housing [6].

3. Housing Market and Policies in Hong Kong, China

The implementation and outcomes of all past housing policies have contributed to the current housing-related situation in Hong Kong today. To understand why something has become the way it is,

one must know the past. For decades, Hong Kong has struggled with a persistent housing crisis, and one of the main reasons for this is the government's unsatisfactory land management policies. Since the government is the sole supplier of land, owning almost all of the land in Hong Kong and then auctioning it off to private property developers who have full autonomy over building plans in their areas, the government should be held accountable for the land use decisions it makes. Astronomical house prices are seen as an opportunity by investors, especially the Chinese elite. They normally pay a premium for the flats because of the safe haven effect and the premium is enjoyed primarily by the property developers who build them. As a result, they continue to produce these flats in this lucrative market. However, government inaction in the housing crisis has in a sense pushed prices even higher. After all, it is reasonable for profit-maximizing entities such as land developers and investors to not act in the interests of local residents, which imposes a social opportunity cost on many people without affordable homes. In 2020, Hong Kong had the most expensive residential property market worldwide, with an average property price of 1.25 million U.S. dollars [7].

The opportunity for the government to begin providing public housing was the disastrous fire in 1953 in Shek Kip Mei, a shantytown of migrants from the PCR. The fire left more than 50,000 people homeless. In the 1970s, housing scarcity began to attract government attention. In 1972, 46 percent of the population was living in squatter huts or temporary housing, and nearly 50 percent of those living in shared private flats and tenements were in need of rehoming. The government decided to build 180,000 units in 1975-6. But it turned out that local property developers built many private flats, leading to a rise in the price of private housing in the mid-1980s, which then peaked in 1997. Soon after, the Asian financial crisis of 1997-8 caused Hong Kong's equity and property values to fall and the housing market to plunge into a severe recession. However, at that time, mortgage lending and ongoing housing building both continued. The overabundance of housing units hastened the property bust and increased pressure on the government.

The government subsequently adopted a housing supply cessation scheme, and after property prices began to stabilize in 2004, the policy focus shifted from the provision of new housing to urban renewal and maintenance of older buildings. In addition, Hong Kong introduced the Capital Investment Entrant Scheme, which allowed non-local household buyers to qualify permanent citizenship by purchasing housing in Hong Kong, China. With a homeownership rate of 51% in 2014, 68% of the population resided in private permanent homes. Over 15% of owner-occupied housing is subsidized through a number of housing programs, including the Tenant Purchase Scheme (TPS), Home Ownership Scheme (HOS), Private Sector Participation Scheme, Moderate Income Housing Scheme, Rent or Buy Scheme, and Mortgage Subsidy Scheme.

The Hong Kong Housing Authority coordinates housing projects with real estate developers and the Mass Transit Railway Company under the 'Rail plus Property' model [8]. The strategy successfully converts little developable land into hotels, parks, shopping malls, convention centers and residences due to the limitations on the quantity of land that was available for sale prior to Hong Kong regaining sovereignty. The model's success also stems from fostering and incorporating the private sector's participation rather than crowding out. Up until recently, the property market development was remarkably successful.

4. Comparison Between Hong Kong and China

One thing that needs to be clear before making a comparison is that China and Hong Kong have different economic systems. Basically, China is socialist and has more of a planned economy. Hong Kong, on the other hand, is capitalist and has more free market characteristics. Hong Kong is almost fully urbanized, while overall mainland China still has a lower urbanization rate compared to most developed economies. While rapid urbanization has eased local fiscal distress, it has also exacerbated the gap between the rich and the poor in terms of housing wealth in Hong Kong. Despite the many

differences between the two housing markets, there are still some commonalities [9]. First of all, both of them have high reliance on the real estate sector to stimulate economic growth. There are an increasing number of high-rise buildings, deteriorating housing affordability, checks and balances between marriage and home ownership and unequal distribution of housing assets.

In general, the respective housing policies are in line with their respective social welfare systems. Hong Kong focuses on providing benefits to the elderly and the poor, who enjoy lower health care costs and tax rates and a higher minimum wage. Therefore policies are more inclined to support the low-income group, such as the following. Firstly, it is the public housing in the rental market which aims to provide residents who cannot afford to rent private property with subsidized public housing. It is based on a system of points and quotas. Higher-scoring candidates on the waiting list have priority. However, it is hard to monitor the better-off. And the average waiting time is too long to be effective. Secondly, there are deductions for home purchase loan interest. Tenants find the plan undesirable because the purchase cost is 3.5 times the rent, notwithstanding the conditional deduction. Purchasing a home also entails increased upkeep and repair expenses. However, it is the cheapest scheme for home buyers. Next, it has "Spicy measures," which are property taxes for homes bought for personal use. Although these restrictions have a short-term effect on the drop in transaction numbers, they have failed to lower home prices [10]. Last but not least, the "85,000 Plan." At the time of his inauguration in 1997, Chief Executive Tung Chee-Hwa pledged to increase homeownership rates from 52% to 70% and reduce the average waiting period for public rental housing from 6 years to 3 years. Starting in 1999/2000, the government and developers were to build 85,000 public and private apartments per year. However, only 85,000 new housing units were actually finished in 2000–2001. Because it was implemented during the Asian financial crisis, which accelerated the collapsing of property bubbles and placed many mortgage holders in a situation of negative equity, the timing was a significant concern.

On the other hand, China places more of an emphasis on the young and wealthy, who gain from cheaper labor and primary schooling. The main policies include lower mortgage rates, i.e. the Housing Provident Fund. It is a mandated savings program that offers self-funded housing credit for financing the purchase of a home. The Central Provident Fund in Singapore served as a model for how the HPF was revised. In the public sector and state-owned businesses, both employers and employees contribute 5% of their monthly salaries to individual provident fund accounts. HPF centers are in charge of managing these savings for future house purchases. However, the system does not apply to people who work for themselves, for informal employers, or for businesses. Only around 25% of urban workers have access to HPF as a result. Then it has the so-called "70-90 Policy", i.e., the Adequate Housing Development Scheme. It means that at least 70 percent of new flats built since 2006 must be less than 90 square meters. The policy, which sought to bring down rising house prices, failed almost from the start. Since its implementation, the percentage of newly constructed flats under 90 square meters was below 35% and did not rise above 33% in subsequent years. In addition, there are also regulations governing loan-to-value and debt-to-income ratios, or limitations on real estate loans, as well as limitations on brand-new acquisitions in the market for owner-occupied homes.

Evidence suggests that the timing of policy implementation is particularly important, as mistakes can cause some policies to deviate from the desired outcome and even exacerbate market volatility. Hong Kong's "85,000 plan" was designed to increase housing supply, but instead depressed already weak housing prices. In addition, the match between the policy and the economic system should not be ignored.

5. Conclusion

Comparing the housing policies of Hong Kong and China, it seems that restrictive housing policies are more effective in a traditional planned economy than in a market-oriented one. For example, the

"spicy measures", a series of restrictive measures to cool down the overheated property market, have not been successful in Hong Kong. But in contrast, the restrictive measures adopted in China have been successful in stemming the rapid rise in property prices. In sum, a comparison of key policies suggests that policies that encourage and support housing for higher income groups, such as lower mortgage rates, tend to achieve housing supply goals better than policies that favor housing for public and lower income groups. And policies that affect market demand, such as restrictions on purchases, are more effective in stabilizing house prices than policies that affect market supply.

The fact that Hong Kong is considered to have the freest economy in the world has undoubtedly helped it become the important financial hub it is today. However, a growing housing problem is a result of the Hong Kong government's minimal intervention in the housing market and neoliberal viewpoints. Even if doing so results in lesser government revenue and fewer profits for private developers, the government must step in here by providing the Hong Kong Housing Authority more power and land. In the long run, increasing public housing ownership and treating housing as a fundamental human right would undoubtedly improve living conditions in Hong Kong.

References

- [1] Ng, M. K.: *Political Economy and Urban Planning: A comparative study of Hong Kong, Singapore and Taiwan. Progress in Planning. Journal 51(1), 1-90 (1999).*
- [2] DEATHMARKED Homepage, <https://deathmarked.info/hq-and-office-affairs/history-of-hong-kong-town-planning.html>, last accessed 2022/10/07.
- [3] Ho, P.-yin.: *Making Hong Kong: A History of its Urban Development. Edward Elgar Publishing, UK (2018).*
- [4] XZBU Homepage, <https://m.xzbu.com/3/view-9910.htm>, last accessed 2022/10/07.
- [5] LPEPROJECT Homepage, <https://lpeproject.org/blog/hong-kong-as-neoliberal-devotional-object/>, last accessed 2022/10/07.
- [6] Henderson, J.E.F.F.R.E.Y.: *Urbanization in the Hong Kong – South China Region: An Introduction to Dynamics and Dilemmas. Journal 15(2), 169-179 (1991).*
- [7] STATISTA Homepage, <https://www.statista.com/statistics/1040698/most-expensive-property-markets-worldwide/>, last accessed 2022/10/07.
- [8] MCKINSEY and COMPANY Homepage, <https://www.mckinsey.com/capabilities/operations/our-insights/the-rail-plus-property-model>, last accessed 2022/10/07.
- [9] Li, J.: *Housing Policies in Hong Kong, China and the People's Republic of China. SSRN Electronic Journal No. 566, 1-34 (2016).*
- [10] Li, J., Cheng, W. W., Chui, K. H.: *Why 'Spicy Measures' Fail to Cool Down Hong Kong's Housing Market. Journal 1(4), 298-313 (2019).*