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Maximizing Land Use to
Boost Development
Optimizing Housing
Resources to Benefit All



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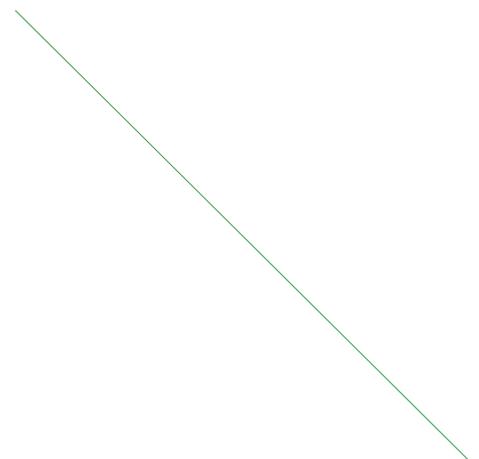




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About Our Hong Kong Foundation

Our Hong Kong Foundation Limited is a non-government, non-profit organization dedicated to promoting the long-term and overall interests of Hong Kong through public policy research, advocacy and engagement. Pooling together local, mainland and international talent, the Foundation studies Hong Kong's short, medium and long-term development needs, offers multi-disciplinary public policy recommendations and solutions to foster social cohesion, economic prosperity and sustainable development.





Foreword

Today, the one livelihood issue on the top of Hong Kong people's agenda is the shortage of land and housing, which has caused escalating property prices, and in turn hindered Hong Kong's development and international competitiveness. To provide a long-term solution to this predicament and to enable the whole community to enjoy comfortable accommodation, Our Hong Kong Foundation (OHKF) has identified "Land and Housing" as its first area of research focus.

This research focuses on enabling the underprivileged to own their property with appropriate policy support, given the resources that we have today. In the long term, we hope they can share the wealth generated from Hong Kong's economic prosperity. On the other hand, we strive to maximize the creation of land at the lowest cost and with minimum impact, so as to resolve the various issues arising from land shortage, with an aim to materializing the city's masterplan for the next century.

The shortage of housing supply has led to a wide array of social issues. First and foremost is the soaring property prices, dividing society into people who own properties and people who do not, further widening the gap between the rich and the poor, as it is very difficult for the salaries and savings of the non-property-owners to catch up the rise in property prices. With half of the population comprising non-property-owners, the continually soaring property prices would intensify the anxiety, contradictions and conflicts in society, resulting in further polarization of the population and a fiasco in the administration of Hong Kong.

After in-depth exploration and analysis, the research on "Land and Housing" led by OHKF advocates that the Government should implement a "Subsidized Homeownership Scheme" that enables public housing residents who cannot afford to buy property to acquire their own residence through government subsidies.

The key objective of the "Subsidized Homeownership Scheme" is to satisfy the people's need for accommodation and property ownership, so that more needy families can become property owners. This will create a new rung in the property ownership ladder, and alleviate the disparity in asset ownership between the rich and the poor. The land value could be released if public housing can gradually become privately owned, allowing the Government to reclaim the value of the relevant land resources. In this manner, public resources will be augmented, and the pressure on public finances alleviated.





In our proposal, the Government would sell new public housing units to eligible Hong Kong citizens at a discount against market price. If the household wishes to sell its unit at the free market at a later date, it would still have to settle the unpaid land premium with interest to the Government. But the amount to be settled would no longer be linked to the market price after the household has purchased the unit, which is different from the existing arrangements. The exact mechanism to determine the unpaid land premium to be settled is subject to further discussion of the community.

As an example, Section 4.6, Part I of this research proposes four possible options of settling unpaid land premium. In operation, the policy could be one of the many combinations of the various policy parameters. For instance, OHKF is more inclined to propose Option B, i.e. the Government to recover, at a discount, the land premium at the date of purchase, while the interest rate applied to the unpaid land premium could also be at a discount against prevailing market level.

It is worth pointing out that the above are all possible details of the policy. In actual operation, the Scheme could be one of the many possible combinations of the abovementioned policy parameters, which OHKF has an open attitude and encourages the society to continue objective and rational discussion.

Admittedly this Scheme has its difficulties, and there are differences in opinions and divergences in interests. Overcoming these hindrances requires a joint effort by the whole community. We trust that in the long run, the scheme will create a society where all the people enjoy property ownership and share the wealth of society. Ultimately, when the people live in harmony and solidarity, the entire community of Hong Kong will be better off.

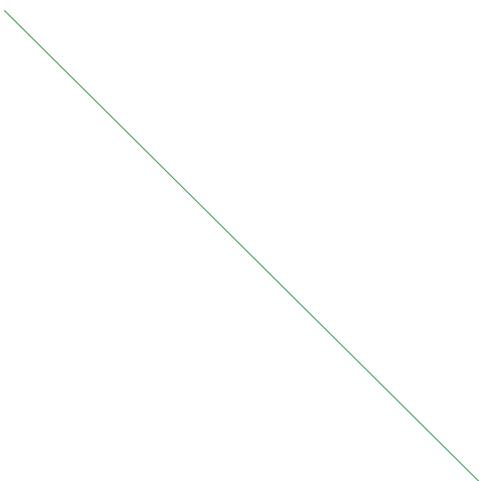
The issue of housing, after all, is inseparable from land supply, and at present, the society is not adequately aware of the severity and urgency of land shortage, and the fact that land development transcends sheer housing development.

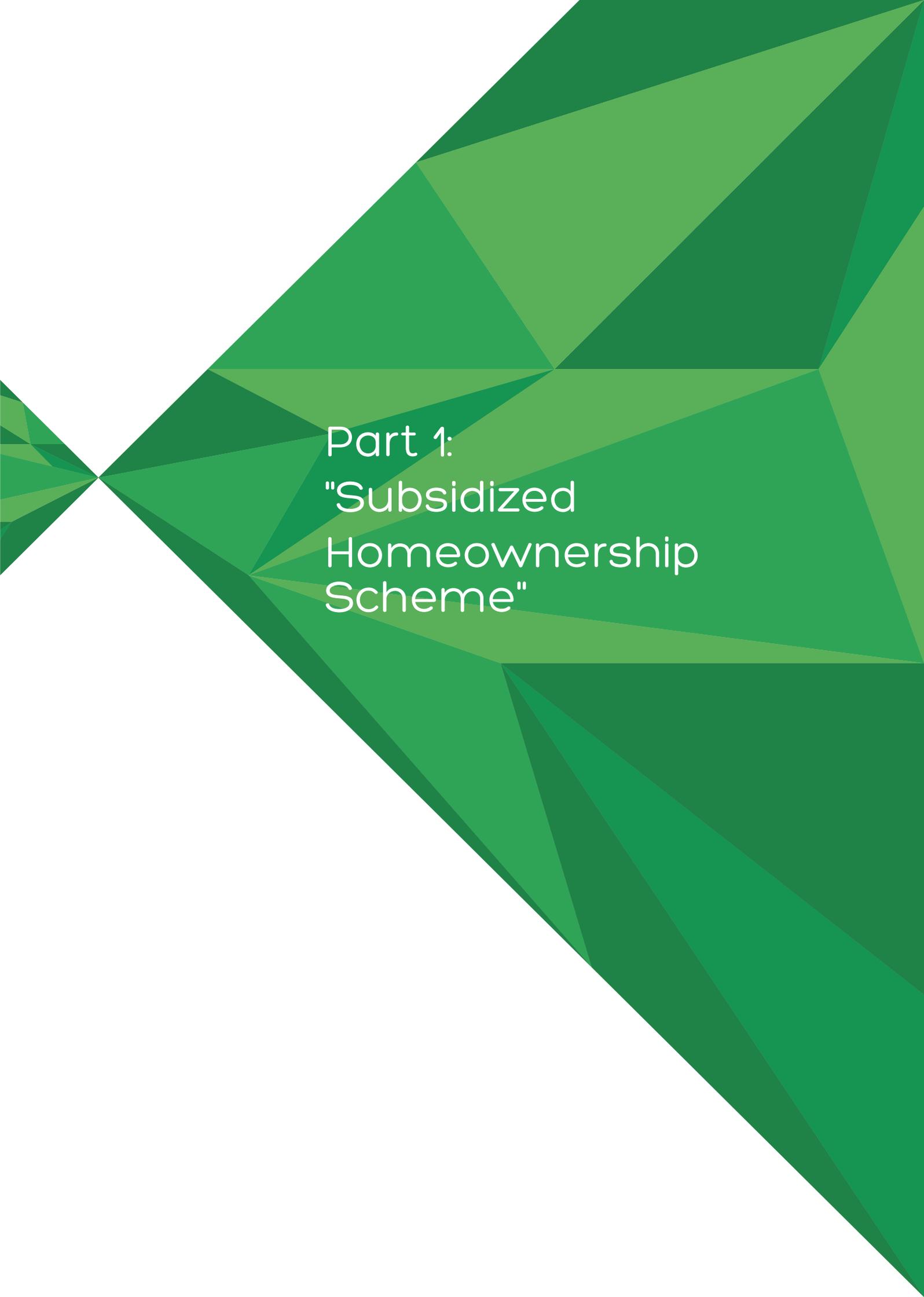


The Foundation's other study - on "Land Supply in Hong Kong" - found that in the past decade, reclamation in Hong Kong has nearly come to a halt, and there has been a lack of major land development projects. As a result, living space in Hong Kong seriously lags behind its neighboring countries and regions, contributing to the lofty rents and property prices, undermining Hong Kong's economic competitiveness. Moreover, there is also an acute shortage of land to meet the need for the growing medical and elderly services resulting from our expected rapidly ageing population. It is clear from these phenomena that land supply is not just the prerequisite for comfortable accommodation and rewarding careers, but also the premise for "care for the aged and cure for the sick".

Rain or shine, Hong Kong has made innumerable critical decisions related to housing and land development. In the process of planning and execution, some impacts on the environment and residents' daily life has been inevitable. Nevertheless, the community had completed these projects successfully in the past, exemplifying the spirit of selfless contribution, and creating valuable opportunities for our city. Today, to provide our people with improved amenities and living environment, to ensure that our elderly citizens receive appropriate medical and long-term care, and to secure a vibrant economy to nurture the younger generation, Hong Kong needs to recreate the ideals of the past and rekindle the spirit of solidarity, in order to forge a blissful future. With an aim to creating more land to materialize Hong Kong's plan of the next century, we need to encourage and support the Government to carry out long-term planning, and put its land and housing development program back on the right track.

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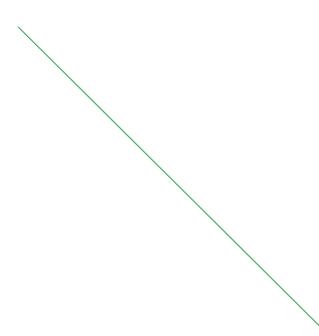


Part 1:
"Subsidized
Homeownership
Scheme"



Content

Executive Summary	9
1. Introduction	11
2. Policy Background	12
3. Policy Objectives	23
4. "Subsidized Homeownership Scheme" Policy Advocacy	25
5. Advantages of the "Subsidized Homeownership Scheme"	32
6. Concerns over the Scheme	35
7. Conclusions	40
8. Reference	41





Executive Summary

- I. Increasing housing supply is the long-term solution to Hong Kong's housing problem. In the short term, a more effective approach lies in revamping our current public housing model.
- II. As it is, Hong Kong's public housing, far from being cost-effective, has failed to address residents' needs. Mobility among public rental housing (PRH) tenants has remained low. Even after changing jobs, receiving a promotion, getting married, or having to take care of grandchildren or elderly parents, unless they voluntarily give up their housing units and rent subsidy, there is simply no way for them to move to another unit that suits their need better. The resources mismatch resulting from this rigid system is such that for every \$1 subsidized by taxpayers, \$0.25 to \$0.39 of public money goes to waste.
- III. Over the last few decades, trapped in the public housing system, the increasingly impoverished tenants and growing numbers of elderly PRH tenants units have been hard pressed to gain wealth or unlikely to find the incentive to wean themselves off Government assistance. Coupled with an ageing population, this will put an ever-heavier welfare burden on the Government.
- IV. Recent years have seen the rising prices and rents of private housing far outstripping the increase in median income, making homeownership well beyond the means of the general public. Sub-divided units (SDUs) have become ever more common, testifying to the increasingly abject living conditions. As the local community is divided into the "haves" and the "have-nots", social conflict has intensified, making effective governance even more of a challenge.
- V. The three future objectives of housing policy are as follows:
 - i) **Home ownership first, wealth gains later:** Enabling citizens to gain wealth through subsidized homeownership.
 - ii) **Enhanced efficiency and better use of resources:** Increasing the value of public housing units through gradual marketization and recovering part of property prices to ease the long-term strain on housing and welfare expenditures; and
 - iii) **Less polarization and a more unified Hong Kong:** Bridging the gap between the haves and the have-nots, building a harmonious society, and unifying Hong Kong by helping aspiring home owners to realize their dreams.

VI. The Subsidized Homeownership Scheme proposes that, in future, all new public housing should be geared towards satisfying demand for homeownership, and that Rent-to-buy arrangements should be used as a stopgap measure before homeownership is affordable.

i.) Subsidized-sale units are sold to eligible households at a preferential price.

ii.) Rent-and-Buy units are available to new PRH tenants for renting before they have the means to buy the units at affordable prices below market value. Such units can always be bought at a preferential price throughout the tenancy and the prices will not be subject to market adjustments. After living in this kind of unit for a period of time, a tenant can choose to buy it. Even if they choose not to buy the unit, they can still continue to rent it. In the long run, more and more tenants of such units are likely to become home owners.

VII. The Government will, through guaranteed mortgage, help low-income families to buy units sold under the Scheme and enjoy 90% to 95% mortgage. This will serve to satisfy their financing needs.

VIII. The greatest advantage of the Scheme over Home Ownership Scheme (HOS) and the previous Tenants Purchase Scheme (TPS) lies in the fact that premium payment arrangement is easier with the proposed scheme. This will provide a stronger incentive for owners to make premium payment, thus facilitating unit circulation and enhancing market efficiency. Four methods are proposed in the following for public discussion:

i.) Zero premium payment: In other words, all subsidized by the government.

ii.) Discounted premium in year of occupation: Suppose the premium in year of occupation is \$2 million, with 20% discount rate, the discounted premium is 80% of \$2 million, which is \$1.6 million. Whenever premium payment is pursued it will be proceeded according to this price and the amount will not vary with market changes.

iii.) Either premium in year of occupation or market premium: If property prices rise, the owner will only need to pay the premium in year of occupation. If property prices enter a downward trend, the premium payment will be equal to the market premium. This arrangement allows the premium to be capped at the original level.

iv.) Either the average premium or market premium: If property prices rise, the owner will pay the average premium over the years of occupation. If property prices enter a downward trend, the premium payment will be equal to the market premium.

IX. The Subsidized Homeownership Scheme has the following advantages:

i.) Enabling eligible members of the public to choose to rent or buy their units, giving them the flexibility in exercising their rights to meet their housing needs;

ii.) Rebuilding the housing ladder by offering preferential prices and incentives to help home owners to move up the housing ladder one step at a time.

iii.) Enhancing market efficiency, unlocking the full value of public housing units, and minimizing public housing resource mismatch;

iv.) Alleviating conflict between "those with property" and "those without property", harmonizing society, and unifying Hong Kong;

v.) Recovering part of public housing costs, easing financial pressure on the Hong Kong Housing Authority (HA); and

vi.) Utilizing public resources more effectively and helping the general public to gain wealth in preparation for the challenge of an ageing population.

X. The Scheme is aimed at facilitating utilization of public resources and making good use of limited supplies. This will also enable members of the public to be home owners, thus enhancing their quality of life and redressing social problems.



1. Introduction

In the words of Chief Executive CY Leung, housing is a major focus of the current-term Hong Kong Special Administrative Region (HKSAR) Government while tackling the housing problem is the top priority.

The housing problem is not only about housing matters, but is also at the crux of political and economic issues. "Capital in the Twenty-first Century", a recent publication by the French economist Thomas Piketty which has generated widespread interest and discussion, draws attention to the fact that land and housing is the central issue faced by each and every modern-day capitalist society.

In addition to the traditional approach of continually coming up with new land and housing supply, revamping the current public housing model is a more effective solution to Hong Kong's housing problem in the short term.

Apart from meeting the housing demand of the general public, the "Subsidized Homeownership Scheme" ("the Scheme") serves to satisfy their need for homeownership.

In a society where half of the population are home owners while the other half are not, ever-rising property prices will only have a decidedly divisive effect economically, socially, psychologically, and politically. Lack of shared interests among the general public will also make effective governance even more difficult to achieve. The Scheme is likely to help all aspiring home owners to realize their dreams by providing low-income families with a chance of homeownership. This will create access to upward social mobility and unify public interests, so that, without relying solely on Government subsidy, the low-income families can focus their efforts on increasing their productivity, thus bridging the wealth gap in society.

In terms of utilization of public resources, if public housing units can be gradually privatized, and the land value can thus be unlocked, the Government will be able to recover in part the value of public land resources to benefit the community at large by meeting ever-rising public expenditures as a result of the ageing population.



2. Policy Background

2.1. Cost-ineffective public housing fails to satisfy residents' needs

Public housing is basically a non-market means of subsidizing housing. The beneficiaries receive neither cash allowances nor housing coupons to enable them to rent properties on the market. They can only choose to accept or refuse a public housing unit assigned to them, but do not have a choice of size, location, floor or layout of the unit.

Over the last six decades since their introduction, Hong Kong's PRH units have served the needs of more than two generations. However, even when a household has the financial means to rent a larger unit, unless its size exceeds the minimum average living space per person designated by the Housing Authority (HA), the tenants will not be allowed to move to ideal-sized units even if they are willing to pay higher rents.

The question is, given the growing prosperity of society and the different individual needs in various stages of life, a household's housing demand is also changing with the times. As people often change jobs, receive promotions, get married and raise kids, or go to school or change schools, it is also natural that different generations of the same family would like to live close by and take care one another. The community at large will have to pay a heavy price if PRH tenants are not allowed to move to more ideal units according to individual needs and social change.

Since PRH tenants are not allowed to choose their units, the value of the units in their own eyes will inevitably be lower than its potential value or that perceived by others. To appease the households who can afford to rent larger PRH units but are made to endure living in smaller ones, the HA have no choice but to offer huge discounts on rents.

In fact those who tend to underestimate the value of their own units are often the tenants themselves since the units they are forced to live in are not to their liking. However, if the units are made available to the market, depending on the size, location or floor, there may well be buyers out there. A unit renting for \$2,000 per month through the HA could fetch \$13,000 or even \$20,000 on the market.

As a hypothetical example, to a relatively well-off family living in a PRH flat in Ap Lei Chau, the daily commute to Kwun Tong and going to school in Kowloon for the children are not only frustrating, but also a bit costly. But the schools in Ap Lei Chau may not be good enough for the kids, and the wife has quit her job in Tsim Sha Tsui because of the long commute. Moreover, the mother-in-law who lives in Ho Man Tin hardly comes over to take care of the grandchildren. So the three generations of the family can only get together once a month. Nevertheless, since the rent is only \$2,000 per month, the household head has decided the family has no choice but to stay put.

However, if the family head rents out the PRH flat in Ap Lei Chau for \$13,000 per month, and gets an additional monthly income of \$11,000, he may be able to afford to rent a private property for \$16,000 in Sham Shui Po. With the money saved by reducing the commute cost, the wife can find a job in Tsim Sha Tsui and use the earnings to make up for the \$5,000 rent difference. With the wife's income, the family can move into a private property of a similar or even larger size. Daily traveling time for all family members is reduced and the three generations of the family can get together more often. All this happiness does not come from a PRH flat but can only be achieved with the help of the market.

In the above example, excluding operating costs, the HA's subsidy for the PRH household is \$11,000 (= \$13,000 - \$2,000). To the family in question, the advantages of moving to Sham Shui Po, paying an additional \$5,000 per month, outweigh those of staying in Ap Lei Chau. In other words, the advantages of moving to Sham Shui Po are worth more than \$5,000. In this hypothetical example, the efficiency of a PRH flat is actually below 46.2%. Over 53.8% of subsidy remains unrecognized by the tenants.

An estimation by Wai-Hin Yan (2000) of the utility gains of PRH tenants in 1976-96 worked out the average household incomes, costs of subsidy by the Government, the benefits enjoyed by the tenants, the efficiency ratio (gains divided by subsidy), and the tenants' average gains in housing consumption (see Table 1).

It is found that the tenants' gains are far less than the public subsidy. With relative efficiency ratio at 1 (maximum efficiency), the PRH scheme's efficiency ratio in 1976-96 only ranges from 0.61 to 0.75. In other words, for every \$1 of subsidy by taxpayers, the average tenant can only enjoy \$0.61 to \$0.75 of gains. Owing to resource mismatch resulting from the fact that most tenants are not satisfied with the PRH units they are assigned, \$0.25 to \$0.39 of subsidy goes to waste.

Table 1. Subsidy and benefit per household per month, and the efficiency ratio of the PRH Program, 1976-96

	1976	1981	1986	1991	1996
Average household income (\$)	\$1,560	\$3,374	\$5,680	\$10,072	\$16,547
Subsidy granted per household (\$)	\$399	\$559	\$1,167	\$1,696	\$2,971
Benefits received per household per month (\$)	\$243	\$351	\$873	\$1,231	\$2,090
Efficiency ratio	0.61	0.63	0.75	0.73	0.70
Estimated cost of inefficiency losses (\$bn)	\$0.65	\$1.04	\$1.82	\$3.21	\$6.95
Estimated cost of inefficiency losses as a percent of GDP	1.03	0.60	0.57	0.46	0.56
Gains in housing consumption per house	—	\$118	—	\$351	—
Ratio of gains in housing consumption to benefits received	—	0.34	—	0.29	—

Source: Yan (2000)

In 1976-96, the annual underlying costs incurred by low-efficiency accounted for 0.46% to 1.03% of GDP. The waste of PRH should not be underestimated as the losses in dollar terms ranged from \$650 million in 1976 to \$6.95 billion in 1996. Although no relevant estimates for recent years are available, given the spiraling property prices in the intervening years, the underlying costs must have gone up.

At \$118 per month in 1981 and \$351 per month in 1991, the PRH tenants' gains in housing consumption increased twofold but paled in comparison with the respective amounts of subsidy at \$559 and \$1,696 by the HA over the ten-year period. The ratio of gains in housing consumption to benefits was 0.34 and 0.29 in 1981 and 1991 respectively. As indicated by the above two figures, although subsidy by the HA increased during the above period, the rigid PRH policy has hampered tenants' freedom to choose the size of their flats. If, instead of being assigned a PRH flat, the tenants had been given cash allowances, they would have opted for a bigger flat. Given the extremely low rent, the tenants are willing to endure living in smaller flats. Since the size of the flat is often less than ideal for tenants, the PRH subsidy is not properly utilized. In 1991, the underutilization effect became more evident as the ratio of gains in housing consumption to benefits dropped.

In assessing the efficiency of the PRH scheme, it is important to note that well-off tenants tend to regard their flats as being too small. Their actual housing consumption for their PRH is lower than that for the kind of flats they can afford (since the size of their flats is perceived to be less than ideal).

The root cause of low efficiency of public housing lies in the fact that PRH units have been prevented from being made available for rental or sale on the market, making it impossible for the units to be allocated more efficiently by the free market. Although many PRH tenants regard their units too small, they are unable to rent them out to private property tenants who are at the mercy of rent hikes, and move out to larger private properties themselves.

Free trading of PRH units may not be in the HA's playbook, but if the limitations persist, there will never be a proper match between tenants and PRH units and may even create a black market, albeit a small one, for these flats. Without a free market for renting and buying PRH units, tenants will never be able to trade up to larger flats and thus become stuck with the flats that are way too small for them.

2.2. Limited effect of well-off tenants policies and Home Ownership Scheme (HOS) on PRH unit circulation

Over the last few decades, there has been much overlap between the household incomes of public housing tenants and those of private housing tenants. As the incomes of a growing number of PRH tenants have risen significantly since they first moved in, many of them have become well-off enough to be home owners. The longer their tenancy, the more likely it is for them to become well-off tenants.

One of the main causes of the ongoing rise in sale prices of private properties in the 1980s and the 1990s was that many PRH tenants were not poor at all. Many of them bought private properties to improve their living conditions or to use them as investments. According to the HA's estimates, in the early 1990s, approximately 13% of PRH tenants, or 74,000 households, owned properties in Hong Kong. The private properties owned by PRH tenants accounted for 11% of total private properties in Hong Kong. Up to 84% of the private properties owned by PRH tenants were for self-occupation while only 16% of the properties were for rental. In other words, some of those registered on the PRH tenants' list, e.g., the children or parents of the household head, actually lived in a privately-owned property. In some cases, the whole household actually lived in a private property and used their PRH flat as a storage facility.

The number of PRH tenants who own private homes has been on an upward trend. Through a random sample of 2,000 property transactions between October 1992 and March 1993, an analysis by the Government's Rating and Valuation Department found that transactions in which the buyer is a PRH tenant accounted for 24% of the total. A survey by the HA in August 1992 found that the percentage of registered household members not living in the PRH flats was as high as 18%¹.

However, some "well-off tenants" who already owned private properties refused to surrender their PRH flats. Owing to shortage of land supply in the 1980s, under the new public housing policy, PRH tenants were subject to means tests. If found to be "well-off tenants", they would be required to pay double rent. But since the rent would still be cheap, the tenants would still be unwilling to give up the flats. Instead of being subject to the tests, some of them even chose to voluntarily pay double rent.

Since the introduction of the "super well-off tenants" policy, the number of "well-off tenants" has remained stable.

Table 2. Number of PRH households paying additional rent

Rent / Year	1992	1994	1998	2002	2006	2010	2013
1.5 times net rent plus rates	0	10,417	15,656	9,429	14,654	20,560	1,8190
Double net rent plus rates	54,414	35,363	6,448	1,569	2,271	3,204	2,321
Market rent	0	0	1,774	79	16	37	15
Households paying additional rent	54,414	45,780	23,878	11,077	16,941	23,801	20,455
Percentage of all PRH households	10%	8%	4%	2%	3%	4%	3%

Source: Lau Kwok Yu (2013)

¹ Those whose income exceeds the income limit were required to pay double rent but not surrender their public rental flats.

Table 2 lists the number of “super well-off tenants” (who pay double rent and market rent) and “relatively well-off tenants” (who pay 1.5 times rent). Under the HA’s “Housing Subsidy Policy” amended in 1993, “relatively well-off tenants” are defined as those with household incomes between two to three times of Waiting List income limits. They are required to pay one and a half times net rent plus rates (commonly shortened to as “one-and-a-half-times rent”). If their household incomes exceed the income limits three times or they choose not to declare their household incomes, the tenants are required to pay double net rent plus rates.

Under the “Policy on Safeguarding Rational Allocation of Public Housing Resources” (or the so-called “super well-off tenants” policy) implemented in 1996, those who pay double rent under the “relatively well-off tenants” policy are required to declare their assets once every two years. Before 1999, if total household income and net assets exceed the limit, or the tenants choose not to declare their assets, they are required to pay market rent. After the policy was amended in 1999, such households are required to vacate and surrender their PRH flats.

Based on Professor Lau’s research, the percentage of “tenants paying additional rent” among PRH tenants has not been on the rise. In his opinion, this is due to the overly lenient income limits set by the “well-off tenants” policy. For example, in 2015/16, a three-member household will be required to surrender their PRH flat if their household monthly income is as high as \$59,460 and their assets exceed the prevailing limits. In the past few years, only a few hundred have been required to surrender their PRH flats because of the “well-off tenants” policy (see Table 3). This represents just a tiny fraction of the 700,000-plus PRH tenants, and thus has little positive effect on public flat circulation.

Table 3. Number of “well-off tenants” who surrendered their PRH flats

Year	2008/2009	2009/2010	2010/2011	2011/2012	2012/2013
Total number of “well-off tenants” who have moved out from their PRH flats	536	362	772	318	261
Number of “well-off tenants” who have moved out upon purchase of HOS flats (including the purchase of HOS flats put up for sale by the HA and from the HOS Secondary Market with premium not yet paid)	377	225	587	148	165
The percentage of “well-off tenants” who have moved out upon purchase of HOS flats to the total number of “well-off tenants” who have moved out	70%	62%	76%	47%	63%

Source: Government Press Release (2013)

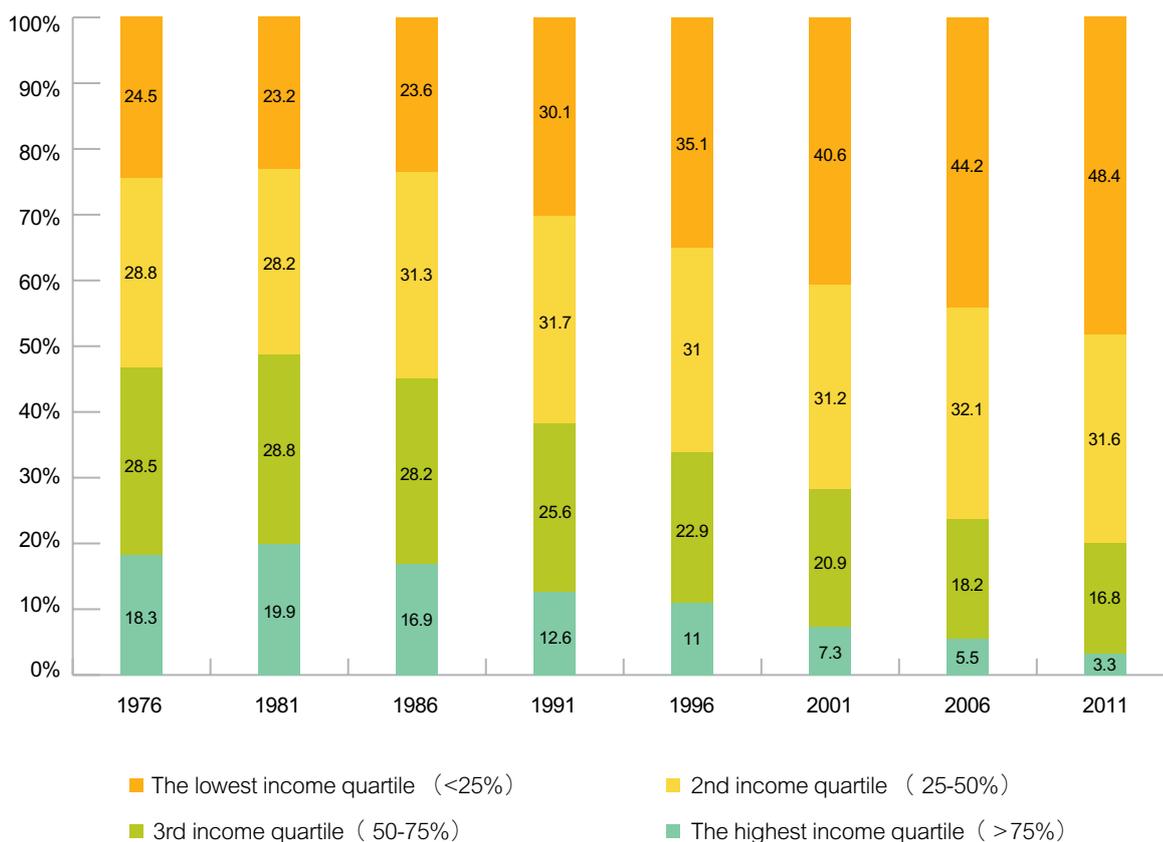
2.3. Impoverished tenants' growing dependence on Government assistance

Most people in Hong Kong think of the PRH program as a government subsidy to provide access to shelter to families without means. They expect most of the tenants in these housing estates to be predominantly low-income families.

This was not how the program was initially envisioned. Back in 1953, the Government introduced a resettlement program to house squatters cleared from the land they had occupied without permission. The resettlement policy not surprisingly created powerful incentives for individuals to turn themselves into squatters as a shortcut to receive public housing. In 1954 the estimated number of squatters was only 300,000, but eventually more than a million squatters were resettled. All of these were admitted into the subsidized housing program without a means test. Many living in the PRH flats were not poor.

In 1976, the proportion of PRH households with heads aged 20-65 and incomes in the lowest and second lowest income quartile was 24.5% and 28.8% respectively (see Figure 1). The income profile of these families was not very different from the general public except that their rents were lower because of public subsidy. A common perception that public housing estates over the past 30 or 40 years were providing accommodation for the poor was seriously mistaken.

Figure 1. Distribution of PRH households by income quartile (with head's age 20–65)

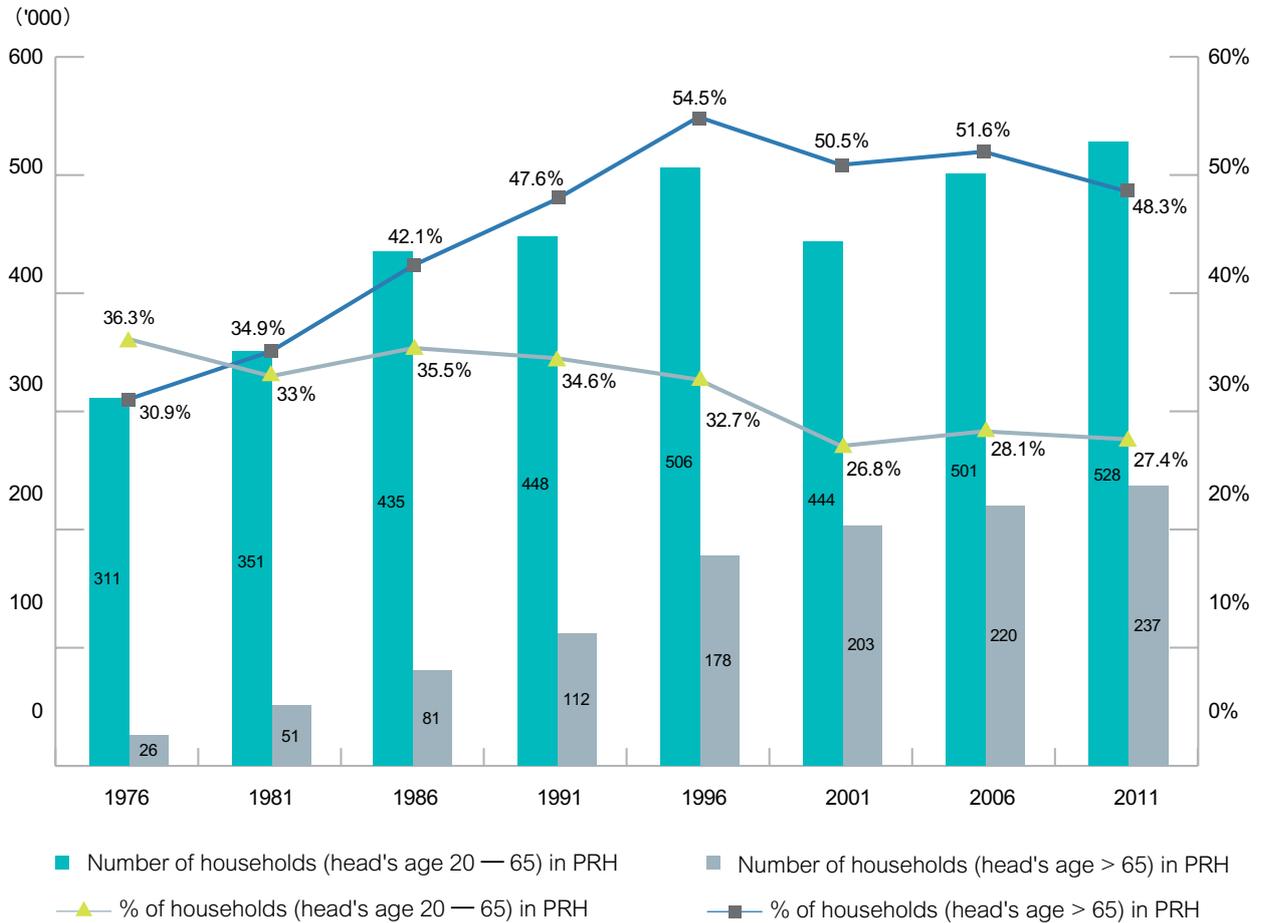


Source: Hong Kong Population Census and By-Census sample databases, 1976-2011

The situation has now changed as PRH tenants are genuinely poor. The proportion of them from the lowest income quartile has increased from an estimated 24.5% in 1976 to 48.4% in 2011, and the proportion below the median household income rose from 53.3% to 80.0% during the same period. Not surprisingly, the highest income quartile earners have mostly disappeared from PRH, decreasing from 18.3% to 3.3% within these 35 years.

Consider that the percentage of households with heads aged 20-65 living in PRH declined from 36.3% in 1976 to 27.4% in 2011 (see Figure 2). By contrast, the percentage of elderly households with heads aged above 65 increased from 30.9% to 48.3% during the same period. The number of elderly households was 237,000 in 2011, which, at 31%, was very high compared to the 528,000 aged 20-65.

Figure 2 PRH Households by Heads' Age



Source: Hong Kong Population Census and By-Census sample databases, 1976-2011

Unlike 30 or 40 years ago, PRH tenants today are poorer. There are not exciting role models for children to look up to. Many of the newer public housing estates are also in distant areas in the New Territories, and children growing up in these fairly isolated communities seldom visit the city center. With limited social capital, low-income families are unlikely to produce much synergy despite being concentrated together. Their social upward mobility is compromised because, as their only source of support, the community network in the housing estates is not enough to enable them to break through their limitations.

In the foreseeable future, the percentage of poor and old people among PRH tenants will continue to increase. Although the rental transfer has made life much easier for them, they will find it more and more difficult to stop depending on public subsidy, let alone buy their own homes. With no source of income, old people will be even more hard pressed to find financial support.

2.4. Negative impacts of mounting rental pressures

Making up a sizable proportion of the population are those who are not yet home owners and are ineligible to be PRH tenants. Even for many of those who are eligible, they have no choice but to rent a private property while they remain on the Waiting List for PRH. Given the surging rents in recent years, according to data released by the Rating and Valuation Department, the average rents for small-ticket flats (under 40 square metres²) on Hong Kong Island and in Kowloon and the New Territories increased from \$192, \$166, and \$130 per square meter in 2000 to \$397, \$311, and \$253 per square meter respectively in 2014, representing increases of 1.8 to 2.06 times. However, the median household income increased only by 1.41 times over the same period, lagging noticeably behind housing rents.

Under mounting pressures from the exorbitant rent, people have no choice but to reduce the budget for other expenses, and more and more tenants have to move into smaller units. As a result, quality of life suffers, making it increasingly difficult for first-time home buyers to save for down payment.

² Saleable area.

2.5. Increasingly unaffordable property prices

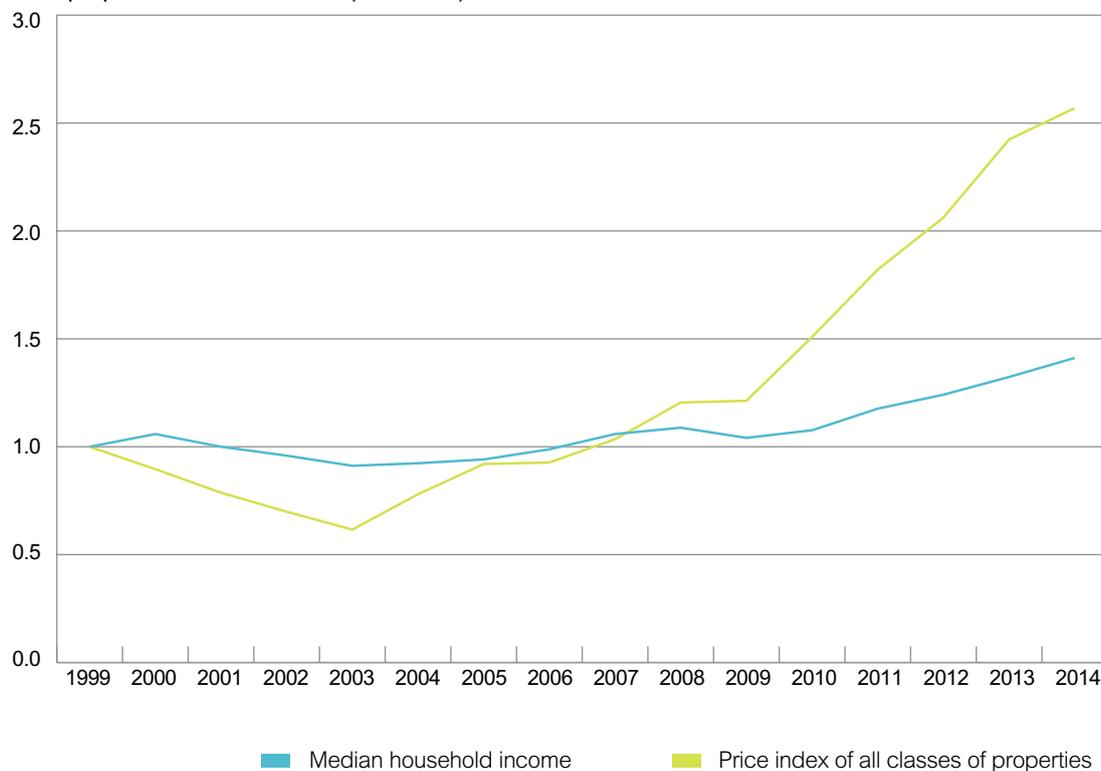
As urban expansion gathers pace, homeownership becomes the most convenient way for low-income families to make money. Property investment is also an easy form of investment that requires little knowledge, something even people with little expertise or education can do. A residential property can not only offer a pool of savings for a family in need of serious cash to tap into, but can also be mortgaged to a bank or be used for retirement protection. The market value of a residential property as a form of savings is determined by the degree of prosperity of its location. That is how personal interests become intricately linked to commitment to one's community. What is good for society also benefits individuals and vice versa.

While the fast-growing economy on the Mainland has contributed to rapid increase in incomes over the years, as its financial market is yet to be fully open, let alone mature, Hong Kong property market has been a magnet for Mainland Chinese investors. This is one of the reasons for the ongoing surge in property prices.

That is why reliable and safe assets suitable for middle- to low-income families have become scarce. The quicker the pace of price increases, the greater the gap between the real value of these families' savings and their age-, health- and death-related expenses. But spiraling property prices have made it impossible for these families to buy their homes while inflation has been eating into their cash savings year after year.

The staggering increase in property prices in recent years means that residential properties have become too expensive for most people looking to buy their homes. According to the Rating and Valuation Department, using the year 1999 as the base number (=1.0), property prices in 2014 are 2.57 times those in 1999. However, the median household income during the 15 years in between increased by just 1.41 times, lagging way behind the increase in property prices (Figure 3).

Figure 3. Comparison between median income and price increases for all classes of properties in 2000 – 2014 (1999=1.0)



Source: HKSAR Rating and Valuation Department, and Census and Statistics Department.

Nowadays a 400-square-foot starter home in the New Territories typically sells for \$4 million. Excluding the miscellaneous expenses, renovation costs, stamp duty, sale commission, and all the other additional costs, with 10% down payment, monthly income remaining unchanged throughout, and providing annual interest rate stands at 2.5% and hopefully will not go up, it will take 64 years for a median-income (i.e., \$23,500 per month, as per 2014 data) household to pay off its mortgage. With a typical working life spanning up to 40 years, failing significantly increased income, most people will never be able to pay off their mortgage in their lifetime.

2.6. The growing problem of sub-divided units

Published by the Census and Statistics Department in July 2015, the Thematic Household Survey Report - Report No. 57 (Report No. 57) examined the living conditions of sub-divided units (SDUs). It was found that there were a total of 86,400 SDUs in Hong Kong and the persons living in these units numbered 195,500. The SDUs enumerated in the survey only included those in private domestic/composite buildings (excluding village houses) aged 25 years or above. The median monthly income of SDU households was \$11,800. Among the SDU households, 51.9% lived in the units because of "more affordable rent" and 37.5% found it "convenient to go to work/school".

The persistence of the problem has to do with Hong Kong's public housing schemes. As priority is often given to married couples, particularly large families, low-income, single people have no choice but to live in private rented flats. Poverty and single status thus become two insurmountable obstacles: poverty minimizes their chance of getting married while being single means there is no one to share their financial burden.

Of the households living in SDUs, one-person households make up 31.1% of the total. Single persons, particularly those who are unable to find permanent jobs and work part time outside office hours, would rather pay high rent and live in SDUs in urban areas. If they move to isolated areas, even a more comfortable environment will never make up for the lack of job opportunities there.

According to Report No. 57, analyzed by district, 19.9% of SDUs were located on Hong Kong Island, 57.7% in Kowloon, and only 22.4% in the New Territories. That means about 80% of SDUs were located in urban areas on Hong Kong side and in Kowloon. The robust demand for SDUs is, after all, the result of scarce supply of small flats in urban areas. As many are drawn to the urban areas, where rents for whole properties have become too expensive, SDUs have sprung up to fill the supply gap.

Since Report No.57 excluded illegally subdivided units in factory buildings and buildings aged below 25, the actual problem of SDUs is likely to be more serious.

2.7. The divisive issue of surging property prices

Over the last three decades, Hong Kong has sustained a series of economic shocks with the overall result that the distribution of properties and wealth has deteriorated. In the wake of the 2008 financial tsunami, faced with weak US dollar and low interest rates, Hong Kong has been subject to another form of adjustment. Inflation, particularly rise in property prices, has driven a wedge between the “haves” and the “have-nots”. The fact that wealth disparity has been even more serious than income disparity can be put down, to a large extent, to rising property prices over the past two decades. And this problem has been further magnified by the low-interest environment resulting from the peg between the Hong Kong dollar and the US currency.

Hong Kong’s housing policy consists in a two-pronged approach, with 53% of its population living in private properties, and the other 47% living in central-planning-style, non-market properties. In times of rising property prices, those unable to own homes would clamor for government intervention. In times of falling property prices, those who own homes would insist the Government should reduce housing supply to prop up the market.

On the other hand, PRH tenants, who have become the vested interests under the current housing policy, just keep asking the Government for rent reduction and exemption, and even refuse to be subject to means tests. Unable to benefit from the rise in property prices, the more PRH tenants there are in society, the greater the obstacle to the upward social mobility of future generations. In the long run, this would even lead to further social polarization, leaving future generations at the mercy of government support.



3. Policy Objectives

Over the past three decades, Hong Kong's property market may have gone through some ups and downs but, on the whole, has remained on an upward trend. Who is to know how long it will take for the market to come down? But it would be impractical to expect families with few assets to bide their time, waiting for the prices to fall.

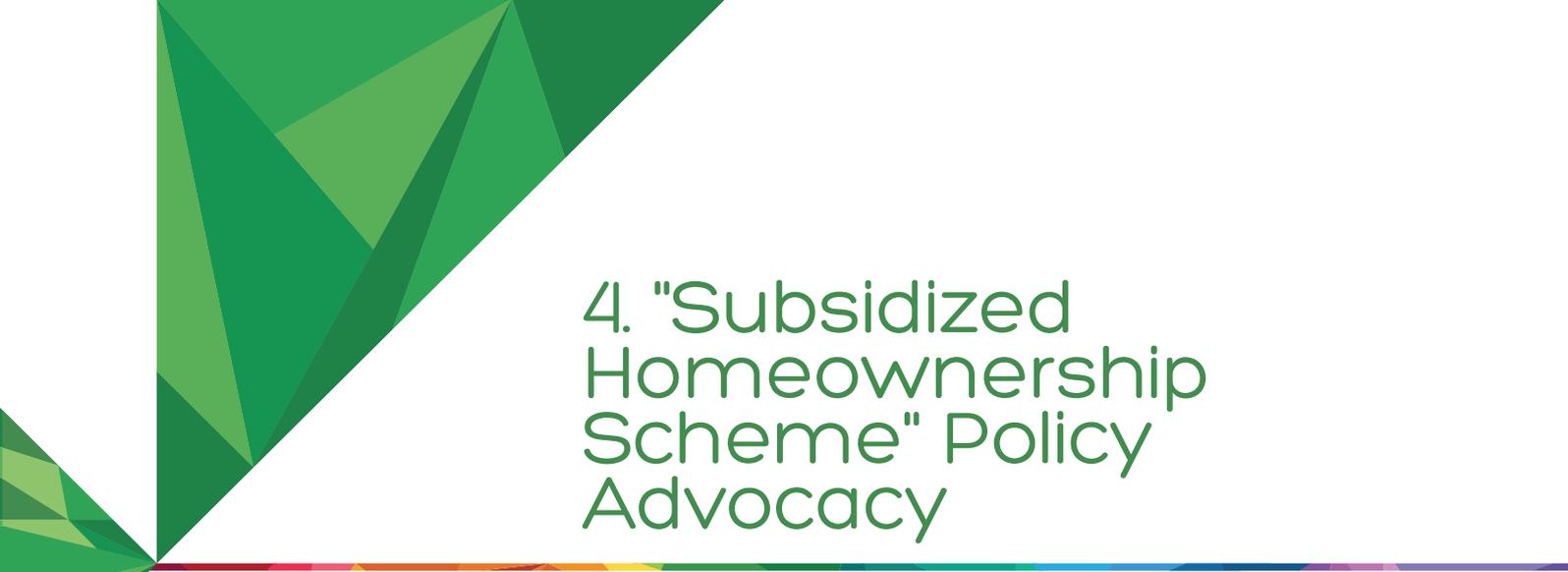
Those longing to buy their own homes are not limited to young men and women at the start of their careers and at the right age to get married. There are also the public housing residents accounting for 30% of the total number of local families, families on the Waiting List for PRH, and those in need of public housing but have so far been left out. These people, who make up over half of local population, should not be deprived of their dream of homeownership.

The proportion of PRH tenants from the lowest income quartile has increased from an estimated 24.5% in 1976 to 48.4%³ in 2011. Thus the increase in poor people living in PRH units is likely to continue. The widening wealth gap will make it increasingly difficult for them to stop depending on welfare, putting an even heavier burden on the Government. The percentage of households with heads aged above 65 living in PRH also rose significantly over a 35-year period, increasing from 30.9% in 1976 to 48.3% in 2011. With no job and little income, old people are more likely to end up in poverty than others. Given the growing life expectancy, old age support has become a challenge to society.

³ Hong Kong Population Census and By-Census sample databases, 1976-2011.

Therefore, we propose that the Government should help aspiring home owners to enhance the utilization rate of newly-constructed public housing units and benefit more people. The new public housing policy is aimed at achieving the following objectives:

- **Homeownership first, wealth gains later:** With ever-rising property prices, the down payment and mortgage loan requirements have become too high. Even skimping on daily necessities, middle- to low-income families will still be hard-pressed to move up the housing ladder. The preferential arrangements and measures provided by the Government will not only help aspiring home owners in particular, but will also enable people in general to gain wealth to meet their needs in life, including those for old age support.
- **Enhanced efficiency and better use of resources:** The current public housing system is so rigid that tenants find it hard to move out, making it impossible to unlock the market value of the units they live in and keeping market efficiency at an extremely low level. As proposed in this Report, the Subsidized Homeownership Scheme (the Scheme) is aimed at helping tenants to gain ownership of their units step by step, so that the inherent value of public housing units can be enhanced and that, through gradual marketization, such units can be utilized more properly. Resources derived from housing sales can be used not only to support long-term operations of the housing policy but also to implement other measures to improve people's livelihood.
- **Less polarization and a more unified Hong Kong:** Helping permanent residents, particularly families in need, to own their homes will not only help people to improve their living conditions, and low- to middle-income people to gain wealth through homeownership, but will also enable share in the future of Hong Kong. Preventing our society from polarizing into the "haves" and the "have-nots" will also be conducive to social harmony.



4. "Subsidized Homeownership Scheme" Policy Advocacy

The Scheme proposes that all newly-constructed public housing be geared toward homeownership. Tenants who can afford to own homes can purchase Subsidized-Sale flats while those who cannot afford homeownership can rely on Rent-and-Buy arrangements, enjoying affordable rent by becoming PRH tenants before they choose to buy the flats eventually. With government guarantee, eligible buyers can enjoy 90% to 95% mortgage.

4.1. Subsidized-Sale flats

Eligibility requirements for purchase of Subsidized-Sale flats are the same as those for HOS flats. New flats available for sale in each phase of development will be open for a fresh round of applications.

4.2. Rent-and-Buy flats

For those who have passed the means tests and are on the Waiting List for PRH, once they become tenants, they have the right to choose whether to purchase the public housing flats they live in while enjoying affordable rents. There is no expiry date for the right, which can be retained by tenants for future use, for as long as they remain eligible for public housing. As long as the tenants' assets and incomes do not exceed the limit, they can freely choose whether to rent or buy. Tenants who choose to rent will pay the rent in accordance with the current public housing policy. The rent will be fixed according to current standards.

Those who choose to buy can buy their flats at a below-market-level, affordable price. The price will be fixed on the day of occupation and will remain unchanged regardless of future market fluctuations. In other words, tenants can choose to buy even after living in the flat for 20 years and the sale price will be the same as that 20 years ago.

Under the Rent-and-Buy Scheme, a tenant who could not afford down payment and mortgage payments at first, once their financial conditions have improved, can purchase the flat at the price fixed in the year of occupation. It is also entirely up to them to decide if they would choose to remain tenants, provided they meet the eligibility requirements.

Some public housing tenants take issue with the "well-off tenants" policy in that it requires tenants to be subject to means tests once every two years, and "super well-off tenants" to move out. With the Subsidized Homeownership Scheme, the "well-off tenants" can buy the flats they are living in at preferential price with no fear of being forced to move out.

4.3. Subsidized-Sale flats and Rent-and-Buy flats: ratio and allocation

The current ratio between PRH flats and HOS flats is around 2:1⁴. As specified in "Long Term Housing Strategy", the ten-year housing supply target ratio between PRH flats and HOS flats is set at 2.2:1⁵. Therefore, the ratio between Rent-and-Buy flats and Subsidized-Sale flats will be similar in the initial stage of implementation of the proposed Scheme. The exact ratio can be subject to adjustment according to public demand.

The allocation of the units will be in accordance with the current PRH and HOS systems. If there is general consensus in society that young people are in need of greater assistance, the Government can reserve a small portion of the units for young people to apply for.

4.4. Super-high LTV ratio for subsidized housing guaranteed by the Government

The challenge facing grassroots populace is that their wealth and income simply are not enough for them to secure a loan for the down payment from the free market.

In view of the standing arrangement for mortgage loans for HOS unit purchases to be backed by government guarantee, we propose that the Scheme should also enjoy Government guarantee so that up to 95% mortgage⁶ can be provided and information risk in the capital market can be optimized, and that the underprivileged can be enabled to overcome their hardship and be first-time home buyers. Take a \$4 million flat for example, the sale price of the flat at \$2 million offered by the Government plus 95% mortgage, i.e., down payment of \$100,000, would be affordable to a low-income family.

Default risk for guaranteed mortgage loans should not be a problem for the Government as it can repossess the property if necessary and allocate it to the next in line on the PRH Waiting List. Since data released by the Monetary Authority shows that the mortgage delinquency ratio has remained stable at between 0.02% and 0.03%⁷ since 2010, default risk is extremely low.

4.5. Pricing of subsidized housing

Since the Scheme is aimed at helping members of the public to be home owners, pricing of the units will be geared towards affordability for them.

Pricing will be based on the income limit of the Scheme at the time. For example, based on a \$4 million starter home, the upper income limit for a two-person household for 2014/15 would be \$14,970.

With down payment set at 10%, using half of income limit for a 30-year mortgage, and annual mortgage rate at 2.5%, the unit should be priced at \$2.1 million. Hence, a Rent-and-Buy unit that is worth \$4 million on the market will be priced at \$2.1 million and offered through the Government, and the difference of \$1.9 million will be the premium. With 30% of the income limit as the benchmark, and priced between \$1.2 million and \$1.3 million, the premium will be \$2.8 million. There will be much room for further discussion as to which benchmark to use for pricing.

⁴According to Housing in Figures 2014 published by the Hong Kong Housing Authority, there were a total of 782,000 PRH flats and 394,000 HOS flats in Hong Kong. The ratio between the two types of flats was approximately 2:1.

⁵200,000 PRH flats and 90,000 HOS flats.

⁶Up to 95% of loan-to-valuation ratio for Green Form applicants.

⁷Based on the residential mortgage survey results, the Monetary Authority collected data on mortgage loans overdue for three to six months.

Using the above benchmark, larger units will be priced at higher levels. More ideal units (with better location, higher floor, and more ideal orientation, etc.) will be priced higher. Less ideal units will be priced lower.

Every time a new batch of new units is launched, the units will be priced in accordance with the income limit under the Scheme rather than the actual income of each household. Therefore, even the actual incomes and the size of the household vary, households living in similar units pay exactly the same purchase price. Hence such a "same goods for the same price" principle of fairness will ensure that individual tenants will have little incentive to be evasive or hold back in their income declaration.

4.6. The new premium-payment methods

At present, the premium for HOS units and units sold through the Tenants Purchase Scheme (TPS) are linked with market prices. The premium will go up when prices surge. The expensive premium payment as a result has been a major deterrent to owners who may want to make premium payment. The current policy has not been able to significantly increase the circulation of PRH units and HOS units in the open market. Owners of PRH units and HOS units have not been free to utilize the "flat for flat" arrangement to find a unit they are happy with. Thus the disconnect between PRH units and HOS units on the one hand and the open market on the other has compromised market efficiency.

One major feature of the Scheme is the improvement in premium-payment methods.

4.6.1. Four premium-payment methods

In the following, four methods of premium payment are presented for public discussion. We anticipate that one of the four will be chosen as the final method to settle premium payment.

Method A: Zero premium payment

Suppose there is a five-year moratorium on the sale of the unit, after buying the unit for five years, the owner can enjoy full ownership of the unit and sell it at market price without having to pay the premium.

Method B: Discounted premium in year of occupation

The premium is fixed at the level in the year of occupation with discount. Suppose the market value of the unit is \$4 million, the premium is \$2 million. With 20% discount rate, the discounted premium is 80% of \$2 million, which is \$1.6 million. The amount of premium is fixed in the year of occupation and will not vary with market changes.

Method C: Either premium in year of occupation or market premium

This approach gives an owner the choice to pay either the premium in year of occupation or market premium.

Example 1: Premium in year of occupation is \$2 million. Though the unit appreciates in value, and the market premium rises to \$3 million, the owner will only need to pay a \$2 million premium.

Example 2: Premium in year of occupation is \$2 million. Followed by a market downturn, the market premium drops to \$1 million, the owner will only need to pay a \$1 million premium.

Method D: Either the average premium or market premium

The average premium is calculated by summing up the annual values of premium from year of occupation to year of payment then dividing the total by number of years of occupation.

This approach gives an owner the choice to pay either the average premium or market premium.

Example 3: Market premium is \$2 million for year one, \$2.2 million for year two, \$2.4 million for year three, \$2.6 million for year four, and \$2.8 million for year five. The owner decides to pay the premium in year five and the average premium is the total premium over five years, i.e., \$12 million divided by 5, which equals \$2.4 million.

Market premium for year five is \$2.8 million and the average over five years is \$2.4 million. Though the unit appreciates in value, the owner will only need to pay a \$2.4 million premium.

Example 4: On the contrary, if property prices are on a downward trend, premium is \$2 million for year one, \$1.8 million for year two, \$1.6 million for year three, \$1.4 million for year four, and \$1.2 million for year five, and the owner decides to pay the premium in year five, the average premium is the total premium over five years, i.e., \$8 million divided by 5, which equals \$1.6 million.

Market premium for year five is \$1.2 million and the average over five years is \$1.6 million. The owner will only need to pay \$1.2 million premium.

In summary, Method A provides direct subsidy to the owner; Method B provides partial subsidy; Method C caps the premium payment; Method D provides a mechanism to hedge against upside market risk. As for the current policy which allows the premium to rise with market prices, as it will seriously dampen the incentive for premium payment, and is thus detrimental to unit circulation and market efficiency, it is not worth considering.

4.6.2. Subsidizing the time cost of premium payment

In theory, owners only acquire full ownership after premium payment is settled. When owners are allowed to postpone premium payment for public housing, time cost is incurred. Below are three suggestions to deal with the time cost issue of premium payment:

Method 1: Market interest

Regardless of how the amount of premium is calculated, some regard the premium as a government loan to the owner. The government's role is to solve the owner's capital flow problem. Since who opt for payment of premium should have already completed their mortgage payment, they are not the ones who most need help from the government; therefore the government should not subsidize the time cost for making premium payment and an interest on the payment is justified.

Suppose, the premium payment is \$2 million, and after living in the unit for 10 years, the owner wants to pay the premium, he will need to pay the \$2 million plus interest for the 10 years. If the market interest rate is 2% and interest is compounded annually, the premium payment will be \$2.44 million.

Method 2: Below market interest

The government can sponsor part of the time cost by offering a below market interest rate.

Method 3: No interest

The government can generously subsidize all time cost without incurring any interest on the premium payment.

Figure 4. An overview of premium-payment methods

4 Premium- Payment Methods	Time Cost Subsidy
Zero premium payment	Market interest
Discounted premium in year of occupation	Below market interest
EITHER premium in year of occupation OR market premium	No interest
EITHER the average premium OR market premium	

Despite the fact that more subsidies lead to greater market efficiency, representatives from various social sectors may have different opinions. There are pros and cons to each of the above premium-payment methods. The question of which premium-payment method to use for the Scheme can be open for public discussion.

4.7 Limitations on the sale of units

Limitations on the sale of the units under the Scheme are similar to those for HOS units. Whether or not premium payment is necessary, to prevent speculation, the subsidized units are not allowed to be sold or let within five years of purchase.

4.8. Secondary market for HOS units pending premium payment

If it comes to paying the premium for units sold under the Scheme (by premium payment method B to D), the units pending premium payment can be exempt from such payment and sold to eligible applicants (the same as the White Form HOS Secondary market for White Form applicants). Following alienation of the unit, the new owners will still be required to pay the premium before they can freely sell or let the subsidized housing unit in the open market.

Letting subsidized housing units pending premium payment to eligible persons may involve property rights-related issues and thus legal risks. Nevertheless, if this can be resolved by legal and administrative means while letting the units to those on the Waiting List is also conducive to enhancing market efficiency.

If public opinion is in favor of premium payment method A, i.e., zero premium payment, there will be no Secondary Market for units pending premium payment and all subsidized units can be freely sold or let in the open market.

4.9. Enhanced premium-payment methods for HOS and Tenants Purchase Scheme units

At present, the premium payment method for HOS and Tenants Purchase Scheme (TPS) units can vary with the new premium payment methods of the Scheme.

4.10. Limitations of the Subsidized Homeownership Scheme

• **One-off benefits:** Eligible Hong Kong residents can each enjoy the subsidy only once. They can each choose to purchase a Rent-and-Buy or Subsidized-Sale unit at subsidized price once.

• **Priority to Hong Kong people:** The “majority” of the members of each eligible household must be permanent residents in Hong Kong for seven years. As for two-person households, both members must be permanent residents in Hong Kong for seven years. The requirement is in accordance with the 1998-99 eligibility criteria for PRH of the HA⁸.

In 1999 - 2000, the eligibility criterion was relaxed and only “at least half of” the members of each eligible household, e.g., either member of a two-person household, must be permanent residents in Hong Kong for seven years⁹. This caused the percentage of new immigrants from the Mainland living in Hong Kong for less than seven years who were PRH tenants to increase significantly from 26.2% in 1996 to 45.3% in 2001, 52.4% in 2006, and 45.1% in 2011¹⁰.

Sticking to its “priority to Hong Kong people” principle, the Scheme proposes to adopt the former criterion.

⁸The Hong Kong Housing Authority Annual Report 1998/99, Appendix 6A, pages 127-128.

⁹The Hong Kong Housing Authority Annual Report 1999/2000, Appendix 6A, pages 111-112.

¹⁰Population Census 2001 & 2011.

4.11. Adjusted supply of public housing

As local society evolves, Hong Kong people's housing needs have also been changing. According to the HA's data, in late June 2015, among the total number of 282,200 applications for PRH, half of them - 142,000 were applications by Quota and Points System set for PRH non-elderly single applicants, but the percentage of one-person households among PRH tenants in Hong Kong only increased from 15.6% in 2001 to 17.1% in 2011. The chance for single persons to be allocated PRH units under the current mechanism is very low. The average number of household members decreased from 3.1 to 2.9¹¹ over the same period. Over 20 years, the percentage of one-person households and two-person households increased significantly from 12.34% and 18.39% (1995 Q1) to 16.86% and 27.52% (2015 Q1)¹² respectively.

Given the increasing number of single-person and two-person households, the decreasing number of household members, and rising demand for small units, future construction of public housing units should be geared towards providing smaller units. In line with the abovementioned Rent-and-Buy Scheme, small units are also more suitable for first-time home buyers. Over the years, the average living space per person for PRH tenants has been on the rise, increasing from 11.5 square meters in 2004 to 13 square meters in 2014¹³. Since the average number of household members has been decreasing on an annual basis, smaller units are unlikely to compromise the average living space per person for the tenants.

Therefore, the Government should focus on the construction of smaller units to help first-time home owners, satisfying the housing demands of modern-day tenants and benefiting more households.

4.12. Next step for the Subsidized Homeownership Scheme

Initially, the Scheme only applies to tenants of newly-constructed units. If the Scheme runs smoothly, public opinion is in favor, and there is also demand from existing PRH tenants, the Scheme can be expanded to cover all PRH tenants in Hong Kong.

¹¹Population Census 2001 & 2011.

¹²Census and Statistics Department.

¹³"Housing in Figures 2014" published by the Hong Kong Housing Authority.



5. Advantages of the "Subsidized Homeownership Scheme"

5.1. More choice and greater flexibility

Some people prefer to remain PRH tenants and enjoy affordable rent. Some people long to be home owners and reap the benefits of rising property prices. The Scheme will give people the flexibility to choose whether to rent, buy, or rent to buy, making it possible to fulfil both the wish of finding an affordable home and that of owning a home. The Government can meet public demand by adjusting the ratio between Rent-and-Buy units and Subsidized-Sale units with flexibility in accordance with market conditions.

5.2. A reconstructed housing ladder

The ever-rising property prices in recent years have resulted in a broken housing ladder. The exorbitant housing costs have left more people stuck with their public housing units and unable to stop depending on public housing subsidy, making it almost impossible for them to own homes. The Scheme will provide the preferential arrangements and incentives so that the housing ladder can be reconstructed to enable aspiring home owners to move up the ladder step by step and achieve homeownership eventually.

5.3. Higher market efficiency

Since under the Scheme, more public housing units will be made available to the open market in the long run, the existing public housing resource mismatch will be minimized. Tenants with the means can buy larger units in the open market. Those who want to shorten travel time to work and school can move to a more convenient location. This will mean greater choice for tenants and greater benefits for individuals, families and the community at large.

5.4. A more unified Hong Kong

The Scheme advocates homeownership for all to create access to upward social mobility. With more people from a lower social echelon joining the ranks of the haves, social harmony can be enhanced, thus alleviating conflicts between the haves and the have-nots, unifying public interests, and facilitating governance.

The Scheme aims to encourage PRH tenants to become home owners step by step so that public housing estates will no longer be “community of poor people”. This will also be conducive to social harmony while alleviating regional social problems associated with the concentration of the underprivileged in public housing.

5.5. Public housing cost recovery

As pointed out in “Long Term Housing Strategy”, “the supply of new PRH units cannot be unlimited from the perspective of both land and financial resources.” With a year-end surplus recorded at \$65 billion for 2014/15¹⁴, and its financial reserves expected to be reduced to \$28.3 billion by 2017/18¹⁵, and an additional 200,000 PRH and HOS units to be constructed between 2019 and 2023, the HA faces substantial financial pressure in the long run. Apart from construction and land development costs, rental income generated by completed units will not be enough to cover management and refurbishment costs. As construction costs and operating expenditure continue to rise, even the HA’s old practice of using surplus generated from HOS sales to finance public housing is unlikely to make up the deficit. As the Government may need to inject additional funding for public housing construction and operation by tapping into its tax revenue on a yearly basis, public expenditure is bound to increase.

The Scheme proposes to adopt a “land-for-flats” approach, unlocking land value as an additional source of funding to replace the model of funding the entire public housing system by tax-revenue alone. This will enable the HA to recover part of its costs and thus find some relief from financial stress. Resources saved from public housing expenditures can be used by the Government to meet other social needs. At least the public housing system will be self-sufficient enough to help the next batch of PRH applicants. Society as a whole will benefit if the value of public housing wealth can be unlocked.

5.6. Protection against challenges of an ageing population

In terms of utilization of public resources, as PRH units gradually become private property, the Government can recover part of the value of its land resources to meet increasing expenditures on old age support and health care, bringing tremendous benefit to society.

In addition, Hong Kong has always adhered to a low-tax policy and has followed the principle of keeping the expenditure within the limits of revenues. It does not have a large pool of income tax revenues to sustain an ageing population. “Homeownership as old age support” is a strategy for Hong Kong to move towards an “asset-based” welfare policy.

¹⁴ Corporate Plan 2015/16 of the Hong Kong Housing Authority, 7. Consolidated Budgets.

¹⁵ Minutes of the Regular Open Meeting of the Hong Kong Housing Authority held on 24 January 2014, paper HA 11/2014.

Most European countries have relied on an "income-based" welfare policy. As welfare expenditures require the backing of a huge tax base, the financial strain has become unbearable while tax increase is out of the question. As a result, these countries have begun slashing welfare spending in recent years. An "asset-based" welfare policy is beneficial in that under such a policy the government encourages citizens to invest in assets and human resources to gain wealth for different purposes. Even if income dwindles eventually, they will be able to meet their consumption and welfare expense needs by tapping into their assets (Sherraden, 2003). Assets provide protection against emergencies in life, such as reduced income and increased expenses associated with unemployment and health deterioration. Such protection will also lessen people's reliance on government, family or community support. Asset-based welfare will also promote economic and social development as well as encourage savings (Gamble and Prabhakar, 2005), and terminate the conflict between development and welfare (Doling and Ronald, 2010).

With almost half of elderly households (with heads aged over 65) now living in public housing estates, and further increase in their numbers to be expected, it seems obvious that old age support should naturally focus on selling our public housing estates to sitting tenants at an affordable price. In principle, recurrent Government funding is not required as it would be financed by land that currently has no market value because PRH units are non-traded assets. This would allow those still in their prime to cheaply acquire an asset that could provide for their old age support.

Encouraging homeownership will allow more people to share the benefits of rising property prices and use their property to secure a reverse mortgage or buy an annuity for financial support in their retirement. This will serve to exemplify the principle of "homeownership as old age support", and will go a long way towards addressing the problems of elderly poverty support in Hong Kong. Turning most people into home owners will also enable the government to channel its resources towards helping those in need.



6. Concerns over the Scheme

6.1. Adverse effect on private home price?

Some people worry that selling a large number of public housing units would cause overall property prices to tumble. However, the Scheme is aimed at enhancing market efficiency rather than increasing overall housing supply. Since the Scheme only covers newly-constructed public housing units, it will have little adverse effect on the overall housing market.

Theoretically, tenants who purchase Rent-and-Buy units are first-time home owners. Even if they gain full ownership and sell the unit in the open market, they will still have to find another unit to move into. Unless their Subsidized Homeownership unit has been unoccupied before sale, market supply will not increase. Even if it does, the rate of increase will be limited. As for Subsidized-Sale units, since the arrangements will be similar to those for the HOS Scheme, and supply will be limited, it is unlikely to topple the housing market.

Research shows that since homeownership schemes are aimed at wealth creation, the resulting “wealth effect” will become a driving force behind buying power and have a stabilizing effect on housing demand rather than being an unwanted drag on the housing market.

In the long run, if the Government focuses on the provision of small units, tenants of these small units, once they have the financial means, can trade up and move to medium-large ones. As more and more PRH units become available for sale or rent on the open market, and these are usually small units, this will serve to increase overall supply of small units on the market and mitigate the upward pressure on rents of SDUs and prices of starter homes.

6.2. Forced homeownership?

There is some concern that the Scheme may deprive people of their freedom of choice and force them to be home owners, even putting low-income families under pressure to buy homes.

It must be reiterated that the Scheme is merely intended to give people more choice by enabling aspiring home owners who cannot afford the daunting property prices to buy starter homes. As for those who have no wish for homeownership, so long as they are eligible, they will always be allowed to remain PRH tenants. With the access to homeownership provided by the Scheme, they will have the freedom to decide whether or not to exercise this right.

6.3. Risk of market downturn?

The Home Starter Loan Scheme was launched in the 1990s to help citizens purchase their own homes. However, the market reversal that followed led to the creation of many negative-equity home owners and the Government was criticized for “causing people to jump into the fire”. Hence some people worry that, by continuing to encourage homeownership, the Government will make the same mistake in case of market reversal.

Firstly, the Government only provides an option but not an obligation into homeownership. As long as their incomes or assets remain below “super well-off tenants” level, sitting tenants can live in the PRH units permanently.

Secondly, the units are already sold at preferential prices well below market levels, offering greater buffer against market movements than private properties. For example, a unit worth \$4 million on the open market is available for sale to tenants for \$2 million. Unless property prices plummet by 50%, the units are unlikely to be in negative equity.

6.4. Inducement to speculation?

Some worry that the Scheme will be an inducement to speculation, causing even the prices of public housing units to soar.

Firstly, owners are not allowed to alienate their units within the first five years of purchase. Secondly, theoretically speaking, a unit bought through the Scheme is the first property ever owned by the household. If they choose to sell it, they will have to find another home. Thirdly, it will not be easy for them to get a remortgage loan to buy a second home. With the Government’s help, an eligible household pays only 5% to 10% down payment for the first property but, for a second home, down payment will be at least 30% to 40%. Subject to pre-eligibility means tests, a household will be hard pressed to buy a second home when they are still saddled with the first mortgage loan and may not be able to pass a bank’s stress test. At present, a tenant must have good reason for remortgaging a flat pending premium payment before they can get permission from the Housing Department. Incorporating this requirement into the Scheme would limit the number of eligible tenants. Even if they can get a second mortgage, the loan amount will be limited and loan interest will be high.

Given the above conditions, speculation on homes bought through the Scheme will be extremely limited. So there is no cause for alarm over speculation and the Scheme is in line with the “homeownership first, wealth gains later” objective.

6.5. Unfair treatment to existing owners?

As for those who already own their homes and home owners who are ineligible for the benefits of the Scheme, they may take issue with the Government’s large-scale subsidy for home buyers, which is tantamount to giving away public resources to some people.

Firstly, at present, public housing involves huge expenditures and annual injection of substantial resources to help PRH tenants who make up 30% of the population. The rent is cheap but recovery of construction and land costs is out of the question.

For instance, a unit that rents for \$20,000 per month in the open market is rented to PRH tenants for just \$3,000 per month. In other words, the Government's monthly subsidy for the tenants amounts to \$17,000. Even without accounting for rent and market adjustments, accumulated subsidy will be more than \$2 million in 10 years and in excess of \$4 million in 20 years. That means actually subsidizing the housing unit for 20 years will be equivalent to giving away the cost of the unit in full.

In view of the fact that the cost of PRH units is virtually the same as that of selling them, what is being queried is just the subsidy approach. The Government may be sitting on a vast pool of assets in the form of PRH units. But the assets will go to waste if their true value stays locked while the PRH tenants remain unable to make good use of them. Capping the subsidy by selling the units will enable PRH residents to gain wealth and lessen their reliance on Government assistance on the one hand, and facilitate utilization of public resources and reduce the burden on taxpayers on the other hand. A truly two-for-one bargain.

Since house price prices are unlikely to plummet because of the wealth effect created by the Scheme, existing home owners are unlikely to suffer as a result.

While the Scheme proposes to sell PRH units to citizens at discounted prices, eligible buyers will have to pay the down payment and make mortgage payments for a time before they gain full ownership of the asset. Compared with endless monthly rental subsidy, the Scheme will provide a strong incentive for public housing residents to strive for home-ownership.

In addition, since the Scheme carries means tests while existing home owners are ineligible to be PRH tenants or buy HOS units anyway, theoretically speaking, only those who genuinely need to buy will be eligible. If the Scheme proves popular, it may be worth considering sharing the benefits by allocating some of the units for application by drawing lots for citizens above the means test limit. As such citizens tend to have higher incomes and more assets, Government subsidy for them will be lower.

6.6. Thorny issue of premium payment?

Given the unpopularity of premium-payment arrangements for both Tenants Purchase Scheme (TPS) and HOS, some people are skeptical about the supposed efficiency-enhancing effect of the Scheme on the housing market.

The Scheme will have the desired effect because to facilitate payment, premium-payment under the Scheme will not be linked to the rising market prices. Reforming both TPS and HOS accordingly will also help to boost the availability of homes in the open market.

Moreover, since under the Scheme all newly-constructed public housing units will be available for purchase, the market for housing units with premium-payment option will be expanded while the circulation of such units in the open market will also be increased.

Finally, the question of whether or not premium payment is necessary under the Scheme and how the payment should be made can be further discussed through public participation.

6.7. Tricky mixture of renters and owners?

In view of the fact that TPS has been criticized for creating management problems by mixing renters and owners, there is concern that the proposed Rent-and-Buy Scheme will also pose similar problems.

In the past, management problems were often caused by conflict between renters and owners resulting from lack of common goals and different needs. In the long run, the Scheme will enable renters to focus on their future interests. With the exception of those who have neither the means nor the intention to own their homes, aspiring home owners among the renters will adjust their behavior accordingly and adopt a more homeownership-oriented attitude. This will help to minimize differences over property management between renters and owners.

6.8. Corrupting influence of welfare?

There are those who worry that helping some people to buy their homes at below-market prices will induce more and more people to pass the means tests, by fair means or foul, just to be eligible for the benefits. For example, to qualify as PRH tenants, some may quit their full-time jobs or work part time rather than full time; a married couple may file for divorce for an additional PRH unit; and the young may hold off on finding full-time work until they secure a PRH unit.

Actually, even under the existing public housing system, such dishonest behavior already exists among potential tenants. Living in a low-rent PRH unit means being entitled to monthly income subsidy by the Government. For example, for a PRH unit to rent for just \$2,000 per month while the market rate is \$15,000 per month in the same district, the monthly welfare transfer amounts to \$13,000. Although the incentives for dishonest behavior tend to increase with rising property prices and rents, there is no reason to suggest the Scheme will suddenly boost the number of dishonest people.

In addition, under the current public housing system, tenants with assets above the limit are required to pay one and a half times rent while "super well-off" tenants are even required to move out. For tenants with incomes just slightly above the applicable limit, there is considerable incentive for them to lie about their incomes. Unless they can readily increase their incomes to such an extent as to exceed the limit, so that they can easily find a better place to live, the incentive for them to achieve upward mobility will still be compromised by the existing public housing system.

Those who are concerned about the so-called "corrupting influence" of the Scheme should be reminded that the potential for dishonest behavior also exists for the current public housing system. Surely it does not mean that, because of this, the current system should be abolished. A new policy is worth supporting so long as the potential benefits far outweigh any potential harm.

A good welfare system should encourage citizens to work harder for better gains, thus reducing the incentive for deception, but not to stop working hard when overall gains decrease, cutting their career development short.

The Scheme proposes to reform the current public housing system in such a way as to do away with means tests by enabling PRH tenants to become home owners. The Scheme will give tenants an achievable goal to strive for, i.e., through savings for down payment and monthly mortgage payments, so that they will acquire ownership and have the flexibility to move as well as a chance to increase the value of their housing asset and use it to secure financing. This will spur them on to work harder, providing them with a stronger motivation to participate in the labor market.

6.9. Privatization: obstacle to redevelopment?

Some people worry that privatization of PRH units will lead to fragmented ownership, making redevelopment difficult.

Given the units' nature as subsidized housing, we propose that, to redress the problem of fragmented ownership, consent from just 70% of owners should suffice for redevelopment to go ahead. This suggested percentage is less demanding than current requirements ranging from 80% to 90%.



7. Conclusions

After years of implementation, Hong Kong's public housing policy has enabled millions of Hong Kong people to achieve upward social mobility. However, slowing flat circulation in the face of rising demand for public housing, and the inherent problems of efficiency have prevented the unlocking of the immense value of public housing resources. In their desperation to cling to their PRH units, many tenants have resorted to dishonest actions and thus have been unable to find the right way to live contentedly.

Rising property prices have made homeownership beyond affordable, thwarting the dreams of many aspiring home owners. Ongoing increases in property prices have also made it difficult for some people to gain wealth, leading to an ever-widening wealth gap with a polarizing effect on society.

Our Research Team believes that efficiency and equality are not mutually exclusive. We hope that by reforming the existing public housing policy, we can introduce a Rent-and-Buy approach to bridge the gap between past and future in public housing. What we hope to achieve is that, on the one hand, on condition that the interests of existing tenants and home owners are protected, a stable supply of affordable public housing for people in need will be maintained, and on the other hand, access to homeownership will be made more widely available to satisfy people's different needs in life. In the process, a more effective use of public resources will also help people to realize their dreams and enrich their lives.



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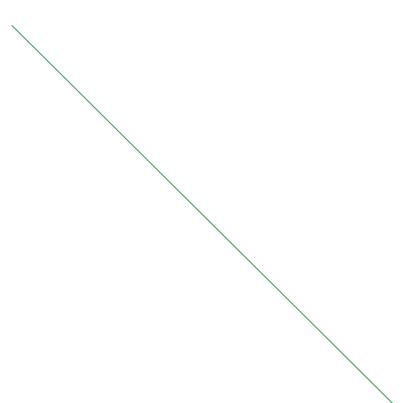


Part 2: Increasing Land Supply



Content

Executive Summary	44
1. Recognize the Facts: Shortage of Land and the Urgency for a Solution	51
2. What Has Stalled Our Development?	71
3. More Macro Considerations about Land Development	80
4. Our Recommendations	96
5. Concluding Remarks: Revelations from the "Rose Garden Project"	108

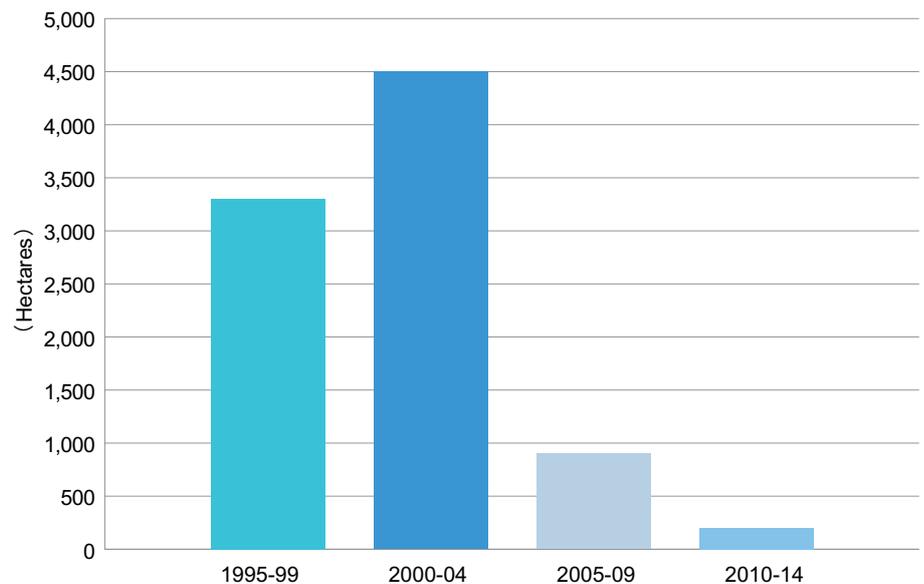


Executive Summary

I. Recognize the Facts: Shortage of Land and the Urgency for a Solution

The pace of land creation in Hong Kong has been significantly slower in the past decade. The total area of developed land in Hong Kong increased by 7,800 hectares from 1995 to 2004. The increment has dropped sharply to 1,100 hectares in the past decade.

Increase in developed land area



Note: Due to changes in methodology, developed land area only includes land for residential, commercial, industrial, government / institution, open space and transportation use.
Source: Census and Statistics Department.

Due to the lack of large-scale land development projects for long, the Government now has little land for development in the short term, as reflected by the analysis of private residential construction volumes, railway topside development projects outstanding and the unleased or unallocated government land. The Government has to resort to land use rezoning through town planning procedures. However, subject to the objection at the district level and Judicial Review (JR), it is doubtful that the Government can meet the 10-year housing supply target of 480,000 flats.

The limited housing supply in the recent years as a result of shortage in residential land has contributed to the rapidly rising home prices and rents. Meanwhile, commercial rents of Hong Kong have also been on the increase and significantly exceeding those of our major counterparts' in Asia as a result of insufficient commercial land supply. The office rents in the Central Business Districts (CBD) of Hong Kong have been the highest in Asia, commanding a premium of some 40% and 80% over Beijing and Singapore respectively.

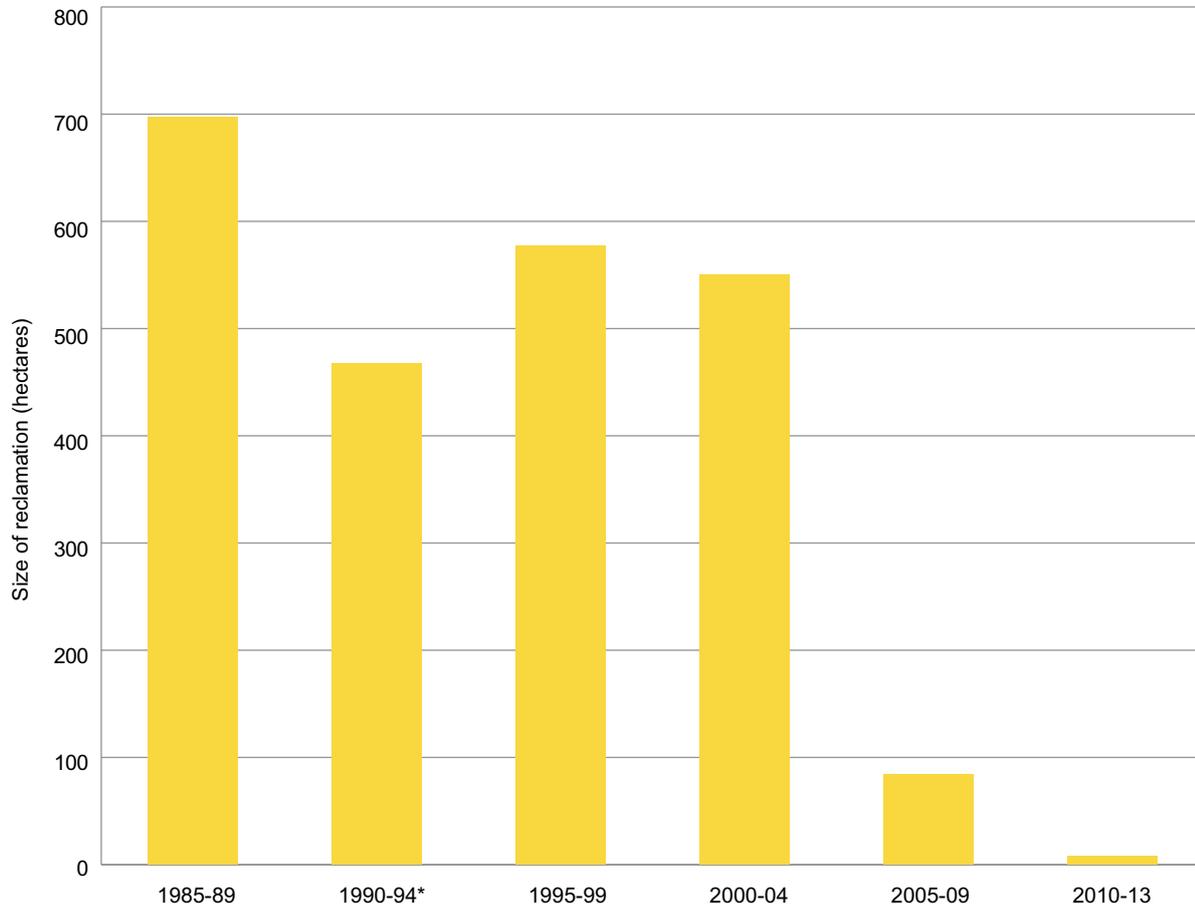
The vacancy rates of virtually all types of properties are at their record-lows since the Handover, underlining the shortage of all types of space in the city. The business owners and entrepreneurs have already exhausted the use of all available hardware in Hong Kong.

Hefty commercial rents have severely weakened Hong Kong's economic competitiveness. The cost for multinational enterprises to relocate business to Hong Kong has been the world's highest. It was 60% higher than that of Singapore and was 2.7 times that of Shanghai.

People's livelihood is also affected by land shortage. From 1997 to 2013, the number of public hospital beds has only increased by 4%. Worryingly, Hong Kong's population increased by 11% over the same period and the median age rose by 8 years. The demand for healthcare service should have intensified. With a rapidly ageing population, Hong Kong's healthcare system is set to be overburdened.

II. What Has Stalled Our Developments?

Reclamation in Hong Kong during 1985-2013



Note: (*) Excluding reclamation of 1274 hectares at Chek Lap Kok and West Kowloon.
Sources: Legislative Council Research Division, Development Bureau.

1. An almost standstill in reclamation

Reclamation has been one of our main source of new land. Among the new developed land over the past two decades, it is estimated that over 40% of them were created through reclamation. Yet, reclamation has greatly slowed down or even come to a halt in the last decade.

2. Red tapes in approval procedures

(i) Comprehensive Development Area (CDA)

All proposed CDA developments must be submitted to the Town Planning Board (TPB) for approval to facilitate comprehensive development. Nevertheless, it is often difficult to integrate dispersed ownership in the CDA sites. Adding that such consideration is not fully based on any objective criteria, a number of CDA development projects have suffered significant delays. Presently, there are at least over 200 hectares of CDA sites pending approval, involving over 68 million sf of developable floor area.

(ii) Procedure of examination by the Government

The approval of all development projects in Hong Kong are under the purview of three Government departments: Planning Department, Lands Department and Buildings Department. Nevertheless, while parts of the approval areas of these three departments are overlapped, these departments may not share a common set of technical definitions of the items to be approved. Moreover, the approval process involves consulting other government departments. The communications and requests amongst departments constitute one of the causes of delays.

Furthermore, the calculation mechanism of land premium in lease modification and land exchange transactions is not sufficiently transparent, and may not be able to reflect the latest market situations and trends of specific parameters. This discourages the interested developers, and thereby slows down development. In fact, the number of lease modification and land exchange transactions have decreased significantly in the recent years.

III. More Macro Considerations about Land Development

Land development is far more than just finding sufficient land to accommodate new buildings because extra "room-making" is also required for the decanting of residents or facilities when redeveloping or moving old buildings. Hence, "natural vacancy" should always be taken into consideration when determining future land demand. Also, in order to provide sufficient facilities and employment opportunities around the residential area, the plot of land in question cannot be too small.

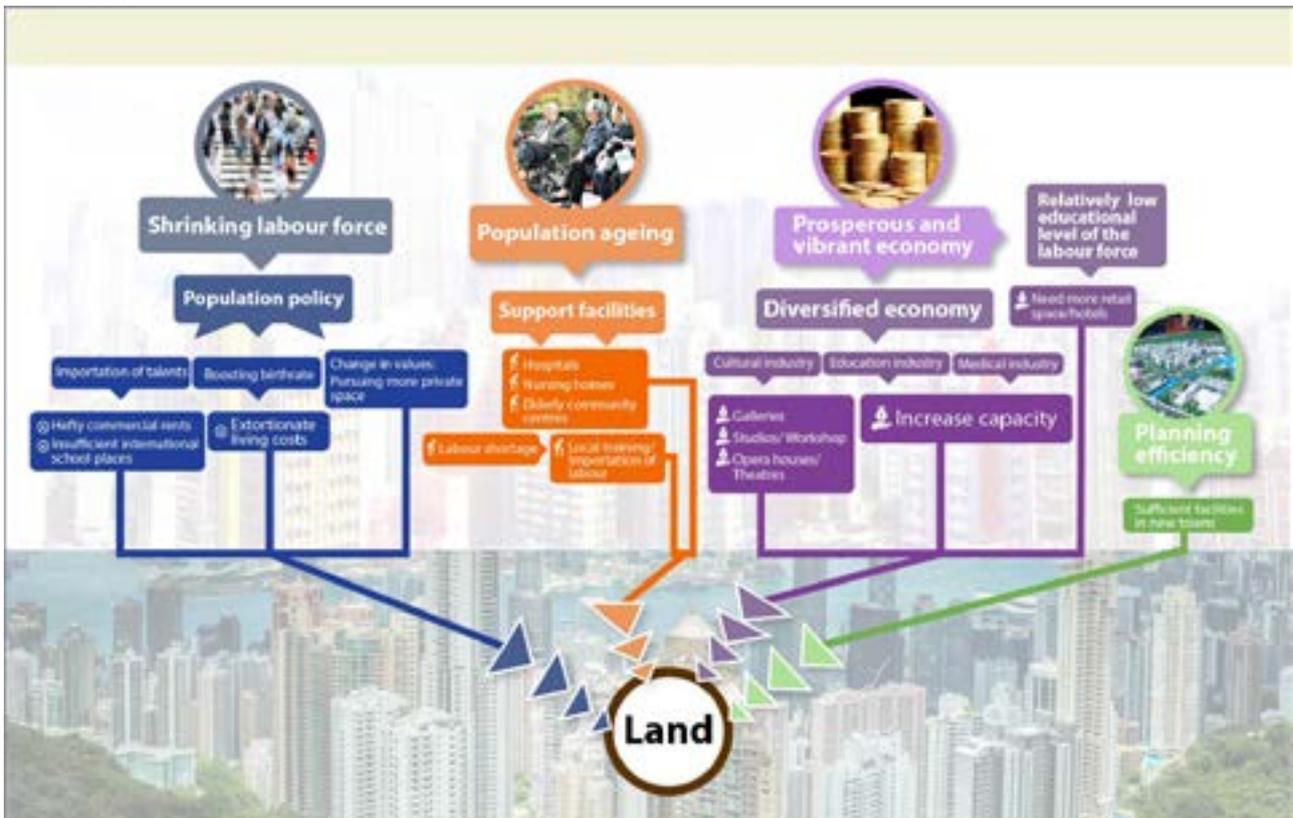
Even if Hong Kong's population does not grow in the future, if we hope to raise the average developed land area per person by 40%, we need an extra 5,800 hectares of land, which is equivalent to two Tai Po New Towns. Furthermore, in 30 years Hong Kong's population is projected to reach 8.22 million. Based on this projection, we will need more than 9,000 hectares of land, which exceeds three Sha Tin New Towns.

The most optimistic estimation expects that Hong Kong could release around 5,000 hectares of developable land from the known land supply projects in progress or under planning, including the 2,000 hectares of land from the proposed reclamation projects and the proposed development of New Territories North, both of which are still under very initial stages of planning and study. If the developments are not obstructed (e.g. timely funded by the Legislative Council, free from JR, etc.), the tension of the short to medium-term demand-supply imbalance could still be eased. However, it remains a tough challenge to retain the growth rates of developed land area per capita during the 1990s.

This research reiterates that land transcends the area of housing. We should understand that almost all socio-economic problems are inter-related and they share a common predicament: insufficient land.

Resolving socio-economic issues covers much more than the aspect of only land supply. Nevertheless, land supply must be one of the key components of the solution. Take the policy of elderly care, it is because even if we have perfect policies and flawless monitoring as well as unlimited medical and institutional resources, our elders could hardly enjoy better quality of life against an absence of new hospitals, nursing homes, elderly community centers, etc.

Land supply and socio-economic issues



IV. Our Recommendations

1. A change of mindset: understanding the fact of shortage of land supply and reviewing the avenues of land supply in an objective, calm and pragmatic manner.

(i) **Reclamation:** Currently, the Government has identified six sites with potentials for reclamation. However, there is seemingly still some way to go if our medium- to long-term development needs are to be met. It is probably time for the society to discuss the need to include more reclamation sites on top of the six that are currently selected.

(ii) **Land use rezoning:** Land use rezoning may not be the most ideal option to increase land supply from the perspective of planning efficiency. However, we do have a shortage in land supply and it takes a fairly long time to solve the problem. If hefty accommodation costs are a common problem facing all Hong Kong citizens, it is not unreasonable to expect the solution to come from everyone too. Otherwise, as the number of elders aged 65 or above doubles, where are we going to find sufficient land to build the urgently needed hospitals, nursing homes, and community centers for the elderly?

(iii) **Country Parks (CP):** We entirely agree (1) that green area is of undoubtable importance for the city; and (2) we should not and cannot release an extensive share of CP for development. However, the "Country Parks Ordinance" which designated the current boundaries of CP was established 40 years ago. The Government could set up a platform to establish a set of scientific standards and criteria for reviewing the ecological value, service and use of all CP, and determine whether the boundary of CP should be altered based on such objective indicators. The platform should also regularly monitor and review such factors as the demand-supply balance of land, social and economic needs, to consider the need to develop the land originally designated as CP.

(iv) **Brownfield:** Given the acute problem of land shortage, any possible source of supply should be fully utilized. Nevertheless, the development of brownfields still requires resumption of land, technical studies on transportation and environment, and approval from TPB. It might be over optimistic to expect brownfield to become the major source of land supply.

(v) **Other methods of change of land use:** Any land resources that can be used more effectively should be considered, following a multi-pronged approach to increase land supply. In fact, the study on developing New Territories North covers the Fanling Golf Course and the Chief Executive's Fanling Lodge. In the meantime, the Development Bureau is reviewing the "New Territories small house policy". Nonetheless, all these land supply proposals take time. And even if we assume that the complex legal, constitutional and conceptual issues involved are resolved and all these land supply projects are materialized, most of these sites would likely be scattered across the territory and it would be difficult to achieve planning efficiency.

And as things stand, the total maximum amount of land that could be created by all the long-term land supply projects of the Government, including all reclamation proposals as well as the development of New Territories North, both of which are still under planning or feasibility study, is only 5,000 hectares. This is much less than the aforesaid 9,000 hectares long-term target. Unless other proposals could provide an additional 4,000 hectares of land, we should support any methods to increase land supply, including new town development, reclamation and developing country parks.

2. Establishing a long-term land reserve to support future social, economic and livelihood needs

Different from other economic activities, the property market could not adjust its output easily upon a sudden change in demand. It is likely too late for the Government to respond after witnessing soaring property prices. Therefore, Hong Kong should establish a land reserve and set up a mechanism of releasing the reserved land to the market. An "unused" land reserve is still better than a slow and ineffective response.

3. Reforming the CDA system to release the development potential of land as soon as possible

In order to ensure an efficient use of precious land resources, the CDA system should be comprehensively reviewed and reformed, as a possible way to provide developable land in the short-term.

(i) CDAs in the Future: We recommend that, except for sites involving Urban Renewal Authority's renewal projects, the TPB should not designate other lands as CDA to reduce restrictions on development. If the Planning Department believes a certain area should be comprehensively developed, it could specify the planning parameters in detail. If a proposed development project fulfils these requirements, separate application to the TPB would not be needed. Besides, in order to fully reflect the land value, CDA should not be added to future Land

Sale Programme and tenders.

(ii) Existing CDAs: TPB can set up a time limit (such as two years) for the development proposal applicant to collect a certain share of ownership, based on the size of a specific CDA, distribution of ownership, etc. If the time limit expires and the applicant still cannot collect a specific share of ownership, the TPB should consider breaking down the CDA into small zones or allow the CDA to be developed in phases. For sites that have been designated as CDA for a long time, the TPB should re-designate them into other uses using the abovementioned system. Besides, the Government should bear the responsibility of the comprehensive planning in the New Territories NDAs and re-designate the area's CDA into specific uses with necessary planning parameters and restrictions.

To include planning parameters into the notes of Outline Zoning Plan is procedurally equivalent to rezoning of land use in that relevant town planning procedures and seeking professional comments from relevant government departments are still required, which may render a smaller Gross Floor Area (GFA) of the development project. However, this at least provides a set of objective procedures to be followed and is less uncertain, enabling a higher chance of completion (albeit at a smaller scale). It is apparently superior to some cases of CDA which has been idle for more than two decades.

4. Government to demolish obstacles and facilitate vetting process

(i) Adding a time limit on the approval process: In order to speed up the vetting process, the Lands Department should introduce a statutory time limit for vetting development plans. Upon the expiration of the time limit, the development plan will be automatically regarded as approved, which is in line with the Buildings Department's practice. This principle should also be applied when the Lands Department seeks comments from other departments, i.e. nil return is assumed by the end of the time limit.

(ii) Clearly defining the requirements for the approval process for the government and business sector to comply with: The Government should discuss with the industry to set up simple and clear requirements for major plans involved in the vetting process. The Government and the industry should strictly follow these requirements.

(iii) Increasing transparency of calculation mechanism of land premium : The Government should reinforce the communication with the business sector to increase the transparency of the premium calculation, allowing the various calculation parameters (e.g. expected future construction costs, estimated marketing costs, etc.) to better reflect the latest situation and trend of the market.

(iv) Streamlining the vetting procedure: The Government should make a better separation between the Lands Department's function of vetting on plans and other administrative functions (such as managing complaints at the district level) and build a focused and professional vetting team to facilitate the vetting process. In the long run, the Government may consider setting up a one-stop structure to tackle applications for different development procedures. This clearly defines the leading vetting department and facilitate the coordination between departments, avoiding repeated vetting. As an example, the Government set up the Energising Kowloon East Office in mid-2012, which is led by the Development Bureau. The office provides one-stop supports with a view to facilitating the area's transformation into another premier CBD of Hong Kong.

V. Concluding Remark: Revelations from the "Rose Garden Project"

The "Hong Kong Airport Core Programme", more commonly known as the "Rose Garden Project", was proposed in the Policy Address of the then Governor David Wilson in 1989. The public must have made some momentous but difficult decisions during the planning and implementation process. Eventually, in face of the prevailing social, economic and livelihood issues, the community as a whole agreed that "Rose Garden Project" was necessary for the long-term benefits of Hong Kong.

26 years ago, we decided to work together for a better future. 26 years later, to provide better social facilities and living environment for all of Hong Kong, appropriate medical services and long-term care for the elderly, and the much needed economic vitality for the development of our young people, we are presented with another set of momentous but difficult options today. What is your choice?



1. Recognize the Facts: Shortage of Land and the Urgency for a Solution

The previous part of this study elaborates on the “Subsidized Housing Scheme”, a policy proposal aimed at assisting the public to purchase their own properties by reforming our housing policy. The said scheme strives to improve the efficiency of the current public housing system and the liquidity of the overall housing market, ultimately allowing more Hong Kong families to share the fruits of economic prosperity in the long run.

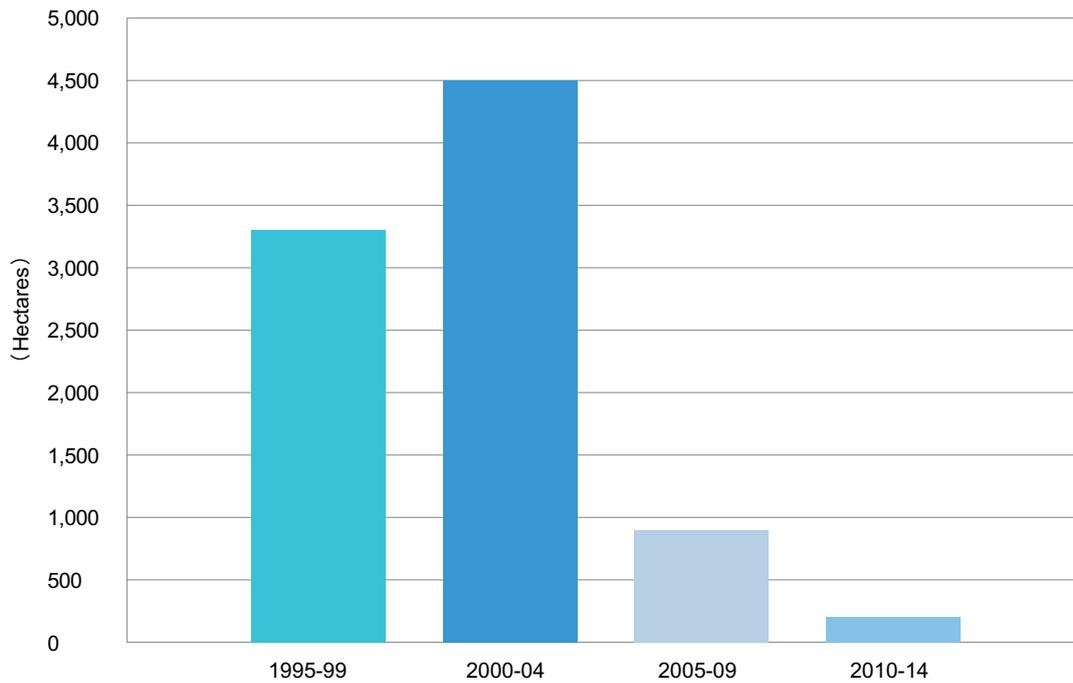
Housing problem is after all, a consequence of the shortage of land supply and therefore they are inextricably linked. Hence, this part of the research shall discuss the issues of land supply in detail and propose policy recommendations. However, the society seems to have insufficient understanding of the facts on (a) the severity and urgency of the shortage of land supply and (b) that land development far transcends the area of housing. In view of this, this chapter begins with data and facts related to a series of socio-economic issues caused by the shortage of land supply, as a background of the study.

1.1. The fact: shortage in land supply

At the macro level, it is indisputable that land creation has significantly slowed down in the past decade. The total area of developed land in Hong Kong had increased by 7,800 hectares from 1995 to 2004. However, the increment has dropped sharply to 1,100 hectares in the past decade.

With a drastically slower pace and shrinking scale of land creation, a substantial reduction in the supply of various properties has followed. This has foreshadowed the social and economic problems the city is facing today (Figure 1).

Figure 1. Increase in developed land area



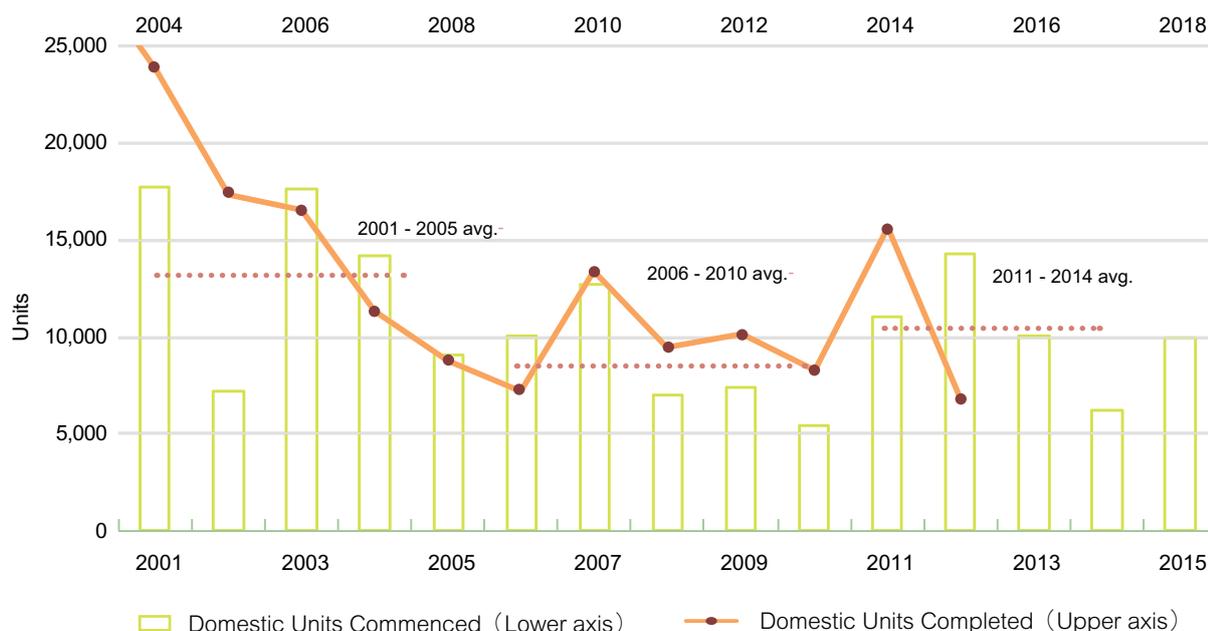
Note: Due to changes in methodology, developed land area only includes land for residential, commercial, industrial, government / institution, open space and transportation use.

Source: Census and Statistics Department.

1.1.1. Residential

As far as the private residential market is concerned, new construction volumes are a good indicator to predict the private housing supply in the next few years. A review on the annual figures suggests that the private housing completions have generally lagged behind new construction volumes by three years. Hence, given the new construction volumes today, a preliminary picture of the supply of private residential units in the next three years could be foreseen. The average annual construction volumes from 2001 to 05 was 13,200 units and that of the following five years (from 2006 to 10) had dropped by more than 30% to 8,500 flats (Figure 2). Extending the aforementioned period by three years, this has explained, to a certain extent, the shortage in private housing supply in the past few years (from 2009 to 13).

Figure 2. Number of domestic units commenced and completed



Note: The number of domestic units commenced / completed in 2015 is as at July 2015.
 Source: Buildings Department.

Whilst the average annual construction volumes from 2011 to 14 rebounded to 10,400 flats and there have already been 10,000 flats under construction for the first 7 months in 2015, the figure is merely on par with the average level of the 2000s. In other words, despite the efforts of the Government in boosting housing supply, it has still left much to be desired as finding land is indeed a time-consuming process. Actually, there were only 34 hectares of total land supply for private residential use on the Land Sale Programme (LSP) for 2015/16.

Another short-term domestic supply comes from the railway topside developments. However, with several large-scale topside development projects (e.g. LOHAS Park Phase 6 - 8, Tin Wing Stop, Yuen Long Station and so on) being tendered over the last few years, there is only a handful of residential projects that the Mass Transit Railway Corporation (MTRC) could tender in the next five years (Table 1). Kam Sheung Road Station, Pat Heung Depot and Siu Ho Wan Depot (the development of which are still under preliminary study) are some future possibilities, yet the completions of such units would only be likely to take place after 2020.

Table 1. MTRC property development packages

MTRC Property Development Packages Awarded		
Location	Period of package tenders	Expected completion date
LOHAS Park Station (Package Four to Seven)	2014 - 2015	2020 - 2022
Tai Wai Station	Oct 2014	2022
Tin Wing Stop	Feb 2015	2021
Nam Cheong Station	Oct 2011	2017 - 2019
Long Ping Station	2012 - 2013	2018 - 2019
MTRC Property Development Packages to be Awarded		
Location	Period of package tenders	Expected completion date
LOHAS Park Station	2015 - 2020	2020 - 2024
Wong Chuk Hang Station	2015 - 2020	2020 - 2024
Ho Man Tin Station	2015 - 2020	2020 - 2024

Source: MTRC 2015 medium-term report.

For a medium-term, government land that is available for development has nearly been exhausted. According to the Development Bureau, as at mid-2012, there were 952 hectares unleased or unallocated government land zoned as residential use. Yet, excluding those unsuitable for development (e.g. roads/passageways and man-made slopes, sites less than 0.05 hectares in area, etc.), there were actually 392 hectares of land (Table 2).

Table 2. Unleased or unallocated government land

Total unleased or unallocated government residential land ⁽¹⁾ = 2153.7 hectares								
(A) Area of unleased or unallocated government land								
	Residential (Group)	Residential (Group B)	Residential (Group C)	Residential (Group D)	Residential (Group E)	Commercial/ Residential	Residential (Group A) to (Group E) and Commercial/ Residential	Village Type Development
	371.8	209.3	182.4	168.61	1.0	19.4	952.5	1201.2
(B) Types of land which are considered not suitable for development, not yet available for development, or with development potential								
Road/Passageways	171.1	45.8	33.7	17.43	.9	14.5	286.4	137.3
Man-made slopes	55.5	49.2	25.11	1.10	.5	0.1	141.5	106.9
Simplified Temporary Land Allocation ⁽²⁾	29.43	.6	0.72	.8	0.90	.1	37.5	24.1
Sites which are <0.05 hectares	50.0	15.8	19.36	.5	1.92	.1	95.6	Not applicable ⁽³⁾
(C) Unleased or unallocated government land after deducting the types of land above								
Remaining land area [(1)-(2)]	65.8	94.9	103.6	120.83	.8	2.6	391.5	932.9

Notes: (1) "Residential" includes land zoned from "Residential(Group A)" to "Residential (Group E)", "Commercial / Residential" and "Village Type Development".

(2) Land allocated under the Simplified Temporary Land Allocation procedures is generally for temporary work sites of concerned departments.

(3) We have not deducted the sites smaller than 0.05 hectares under the "Village Type Development" zoning.

Source: Development Bureau.

It should be noted that these 392 hectares of land definitely do not equate to "government land reserve" since there remains "a number of fragmented sites with irregular shapes (e.g. empty space between buildings, back lanes and narrow strips of land alongside existing developments, highways or other amenities) and such may not be suitable for housing developments"¹.

Those that are suitable for developments, e.g. sites in Lok Lam Road, Fo Tan and Mei Tin Road, Tai Wai have been included in the Government Land Sale Programme in 2013/14.

Furthermore, according to the 10-year target of housing production set out in the "Long Term Housing Strategy" (LTHS), 48,000 residential flats are targeted to be provided each year. Assuming the size of these flats is 600 sf each and an overall plot ratio of 4, 67 hectares of land are required every year for housing development, supporting the residential supply for 5 years or so - that is if we unrealistically assume that all the 392 hectares of land can be utilized for residential development.

¹ Website of the Development Bureau, http://www.devb.gov.hk/en/issues_in_focus/the_land_area_analysis/response_vacant_government_land/index.html

Despite the lack of more recent official updates for these figures, given the absence of large-scale land development projects over the past 3 years, with the latest one being the Tung Chung New Town, the shortage of residential land is likely to persist. Among the large-scale land supply projects still in progress, the earliest one that would be available for occupation is expected to be the Kwu Tung North / Fanling North New Development Area (NDA) in 2023.

Given the lack of existing land reserves for residential use coupled with the long lead time of medium- to long-term land supply projects, the Government could only resort to town planning processes to increase land supply. One example is to rezone some of the non-residential sites (usually Green Belt or Government, Institution or Community (G/IC) sites) with potential of housing development for residential use. According to the "Report on the Work of the Current-term Government in its Third Year" released in mid-2015, the current-term Government has identified some 150 sites through land use reviews. If the rezoning procedure can be completed on schedule, these sites could support the construction of more than 210,000 flats² from 2014/15 to 2018/19.

This accounts for more than 40% of 480,000 flats of the 10-year housing supply target. Hence, if these sites can all be rezoned as planned, it is not impossible for the Government to meet short- to medium-term housing supply.

Unfortunately, as at early June 2015, the Government only started the rezoning procedures on 61 sites, 24 of which have been successful, involving the potential construction of 21,000 flats, proportionally accounting for about 10% of the total housing provision target that could be supported by the 150 sites. The relatively slow progress of rezoning is, as Secretary for Development Mr. Paul Chan mentioned, due to the objections at the district level. Residents in the related districts opposed the rezoning proposals with the concern of proposals' impact on traffic and environmental conditions, among other factors. The authority has pointed out that there have been three rezoning applications at Tai Po and Stanley rejected by the Town Planning Board (TPB) (Table 3).

Worse still, an approval on rezoning does not guarantee an increase in housing supply, as after the TPB's approval, the sites in question may still face the challenge from Judicial Reviews (JRs). In fact, over the past two years, there are numerous cases in which residents launched JRs against the TPB's approvals on rezoning, even after the land had already been successfully auctioned or sold. It adds uncertainties to future housing supply (Table 3).

² Aside from these 150 sites, the Government has rezoned 38 sites for residential use, according to the the Policy Address 2013. It would provide 39,000 flats (as at early June 2015).

Table 3. Selected examples of short-term land supply encountering obstacles

Selected examples of short-term land supply encountering obstacles					
Site	Original Land Use	Proposed Development Type	Area (ha)	Flats	Reason
Site near Fung Yuen, Tai Po	Green Belt	Residential(C)	4.78	620	TPB disapproved
Site to the West of Nether-sole Hospital, Tai Po	Green Belt	Residential(A)	0.57	680	TPB disapproved
Site to the East of Wong Ma Kok Road, Stanley	Green Belt	Not Available	Not Available	Not Available	TPB disapproved
Perowne Camp, Tuen Mun	Government, Institution or Community	Residential(B)	5.15	2,610	Subject to JR
Lo Fai Road, Tai Po	Green Belt	Residential(C)	4.13	660	Subject to JR
Yin Ping Road, Sham Shui Po	Green Belt	Residential(C)	2.04	980	Subject to JR
Yuen Long Station	Government, Institution or Community	Comprehensive Development Area	3.91	1,876	Subject to JR
Former Mong Kok Market Site	Government, Institution or Community	Commercial(3)	0.121	Not Available	Subject to JR and vacant for 5 years
Central Market Site	Commercial	Other Specific Uses annotated "Historical Building Preserved for Cultural, Community and Commercial Uses"	0.4153	Not Available	Subject to JR and vacant for 12 years
Shan Tong Road, Lai Chi Shan, Tai Po	Not Available	Residential(B)	3.99	1,790	Subject to JR

Sources: Town Planning Board, various news reports.

In addition, whilst rezoning faces heavy oppositions and may not be the best choice from the perspective of urban planning efficiency, it has been an important source of the Government's residential land supply at the moment. As such, the Government has even included the sites with incomplete rezoning applications as well as those subject to JRs into the LSP. In fact, 15 out of the 29 sites from the 2015/16 LSP are still undergoing rezoning procedures. This once again highlights the shortage of residential land.

This seriously affects the Government's short-to-medium-term plan of increasing land supply. According to the latest assessments, there are still some ways for the current-term Government to achieve the goal of producing land for 480,000 flats in ten years as the LTHS stated.

According to the figures from the "Report on the Work of the Current-term Government in its Third Year", the Housing Authority and the Housing Society are expected to complete 95,800 public housing units in total (including Public Rental Housing (PRH) and Home Ownership Scheme (HOS) units) in the next five years (from now to 2019/20), which is some 50,000 (or 1/3) short of half the ten-year public housing target, i.e. 145,000.

More importantly, Secretary for Transport and Housing Prof. Anthony Cheung, stated that the land identified by the Housing Authority and Housing Society is only expected to support the construction of 254,000 public housing flats in the coming ten years, falling short of the corresponding target of 290,000 by 36,000 (or 12%). Moreover, 80% of the sites planned for building these 254,000 public housing units have yet to complete their respective rezoning processes. It is worth noting that among the 210,000 units expected to be built on the 150 potential residential sites targeted for land use rezoning as identified by the Government, 70% would be public housing units. Hence, if the Government's rezoning proposal is being opposed at the district level or subject to JR, it would be doubtful if these 250,000 units could be delivered (Table 4).

Table 4. Expected completion of residential units

Housing Type		10-year Target	Current Expected Completion		
			2 years (2015/16 — 2016/17)	5 years (2015/16 — 2019/20)	10 years (2015/16 — 2024/25)
Public Housing	Rental Housing	200,000	34,500 (40,000)	76,600 (100,000)	Not available
	Subsidized Sale Flats	90,000	3,000 (18,000)	19,200 (45,000)	
Public Housing Total		290,000	37,500 (58,000)	95,800 ⁽²⁾ (145,000)	254,000 ⁽¹⁾ (290,000)
Private Housing		190,000	33,500 (38,000)	Not available ⁽³⁾	Not available
All Housing Types		480,000	70,500 (96,000)	178,800 (240,000)	Not available

Notes: () Figures in brackets are the completion targets of the corresponding periods, assuming an even distribution over the period of the 10-year target as set up in the LTHS.

(1) Among the building sites, 80% have yet to complete the rezoning process.

(2) Rough estimation based on (1), only 50,800 flats are on sites with completed rezoning process.

(3) The Transport and Housing Bureau only provides the potential first hand residential units supply in the next three to four years, the latest figure of which being 83,000 units.

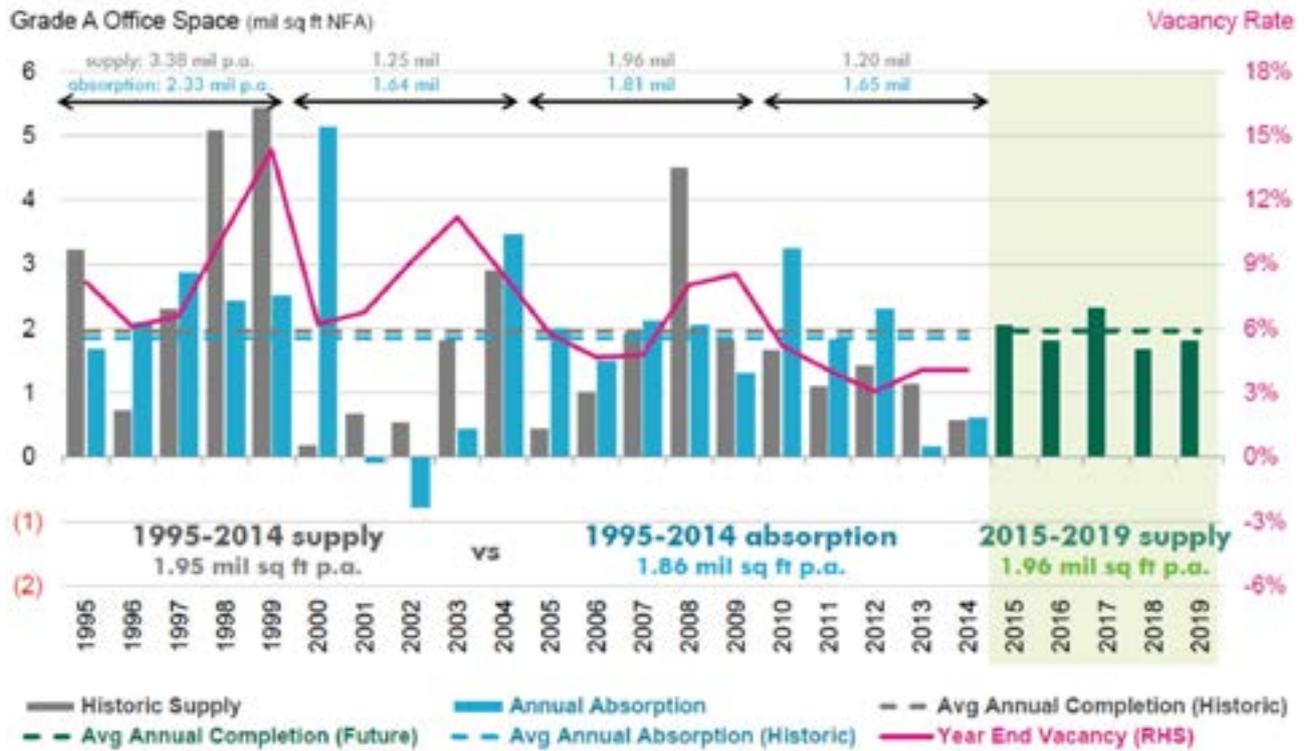
Sources: Third Report on the Work of Current-term Government, RTHK News, Transport and Housing Bureau.

In conclusion, the status of land use rezoning aside, it is arduous for the Government to reach the ten-year target of housing production as suggested by the latest progress. If we take into consideration the obstacles facing rezoning and other procedures, the chance is even slimmer.

1.1.2. Commercial

While residential land is in short supply, the society seldom discusses the shortage of commercial land supply in Hong Kong, which is arguably even more serious. According to the study conducted by the international real estate consultant CB Richard Ellis, from 2015 to 19, less than 2 million sf of Grade A offices will be completed each year, which is only on par with the average level in the past 20 years (Figure 3).

Figure 3. Annual completion of grade A offices (forecast and historical)



Source: CB Richard Ellis Research.

It is worth noting that the past five years saw the sharpest shortage in Grade A office space in the past two decades. The annual average absorption volume of 1.65 million sf (Net Floor Area) outpaced the corresponding supply of 1.2 million sf during the same period. This implies throughout these five years a total potential market demand of 2.25 million sf was left unsatisfied.

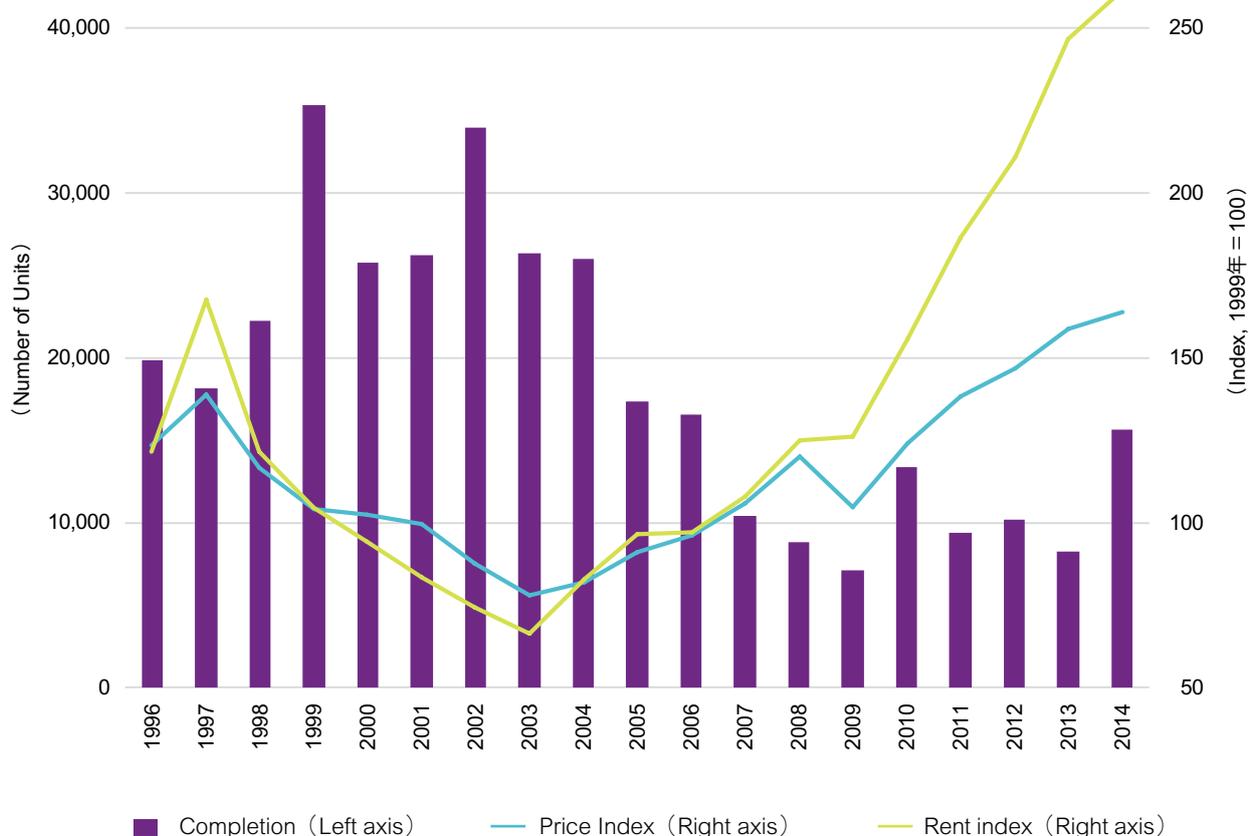
In other words, the aggregate shortage of Grade A offices in Hong Kong over the last five years was equivalent to one International Commerce Center (ICC) atop the Kowloon station.

1.2. Impact of land shortage

1.2.1. Rising property prices

Land shortage has broad and far-reaching social and economic impacts on Hong Kong. For starter, as a result of the shortage of residential land as mentioned above, it is well-known by now that the limited supply of residential units in recent years has led to the surge in home prices and rents. In fact, home prices have been on the increase after its correction by 25% from the peak of 2008 during the Global Financial Crisis. Private residential property rents have also risen during the same period, albeit with a relatively smaller volatility than that of housing prices (Figure 4).

Figure 4. Rents, prices and new completions of private domestic units



Source: Rating and Valuation Department.

It is easy to comprehend the correlation between the residential flat supply and the rising house prices and rents. In particular, home prices plummeted by 60% from 1997 to 2003, during which an average of 26,900 private residential units were completed each year. In contrast, although the Government had introduced several rounds of demand-side management measures in the past six years (from 2009 to 2014), the average number of private residential units completed was less than 11,000 and by 2014 home prices more than doubled from the trough in 2009 (Figure 4). The social demand for PRH units has been equally large. By the end of June 2015, there is a record-breaking number of 280,000 applications on the waiting list of public rental housing.

Some may claim that the high housing prices and rents in Hong Kong are driven by external (including those from Mainland China) demands. As a result, the Government should focus on managing and suppressing, especially non-local residents', property demands. However, after the Government introduced the Special Stamp Duty (SSD), there has been few short-swing tradings (e.g. within one year) in the local housing market. Besides, the Buyer's Stamp Duty (BSD) has considerably reduced the non-permanent residents' residential property demands. Moreover, the permanent residents' investment demand has also been under control after the introduction of the Double Stamp Duty (DSD). In fact, according to the latest data, the proportion of residential property buyers who were permanent residents holding no other residential units rose considerably to nearly 80% from about half before the DSD was in effect (Table 5).

Table 5. Situations before and after the introduction of the Double Stamp Duty

Residential property transactions (Monthly Avg.)	with buyers being HKPR who own other residential property in HK	with buyers being HKPR who do not own other residential property in HK
Jan 2010 to Feb 2013 (Before the implementation)	3,174 (44%)	4,003 (56 %)
Mar 2013 to Jun 2015 (After the implementation)	1,105 (23%)	3,742 (77%)

Source: Ming Pao.

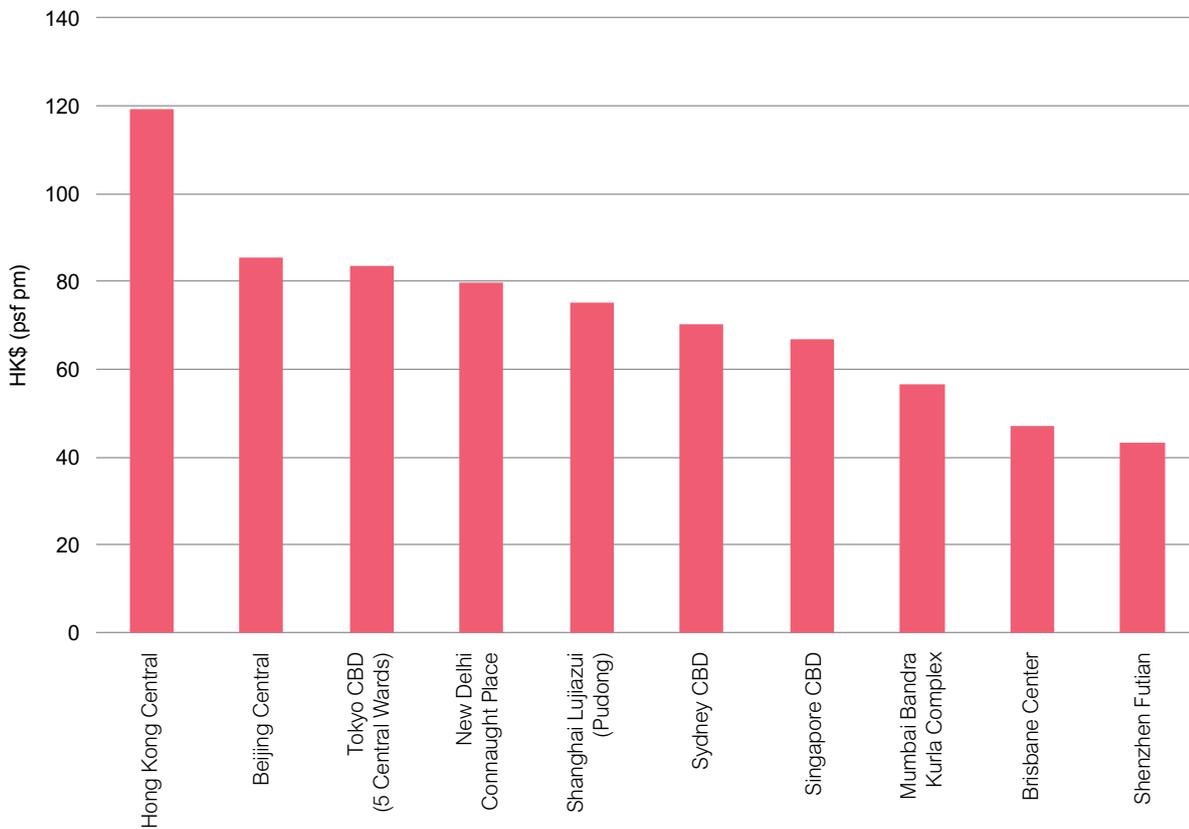
In other words, there is little the Government could do in demand-side management as currently most buyers are end-users. Further demand-side management measures that are more aggressive than those already in place will very likely affect local residents with genuine demand only (rather than speculative and / or external demands). Therefore, the solutions to the current problems in the property market should come from the supply-side.

1.2.2. Rising commercial rents

While the increasingly severe demand-supply imbalance in the residential property market has attracted a certain degree of media attention, the impact of land shortage on the commercial market should not be overlooked.

According to the data from the Rating and Valuation Department (R&VD), the overall rents of Grade A Offices has increased 1.8 times over the past ten years, with a 2.5-time increase in Central. In recent years, the rent of office buildings in Hong Kong has been the highest in the Asian region and even the world. A comparative study on the highest rents of the CBDs in different countries by an international real estate consultancy firm Cushman & Wakefield in 2013 shows that the monthly rents of Hong Kong Grade A offices were \$120 (HK\$, hereinafter) psf, which was the highest in Asia and significantly exceeded those of other major Asian cities, commanding a rental premium of 39% versus Beijing, 43% against Tokyo and almost 80% when compared with Singapore (Figure 5).

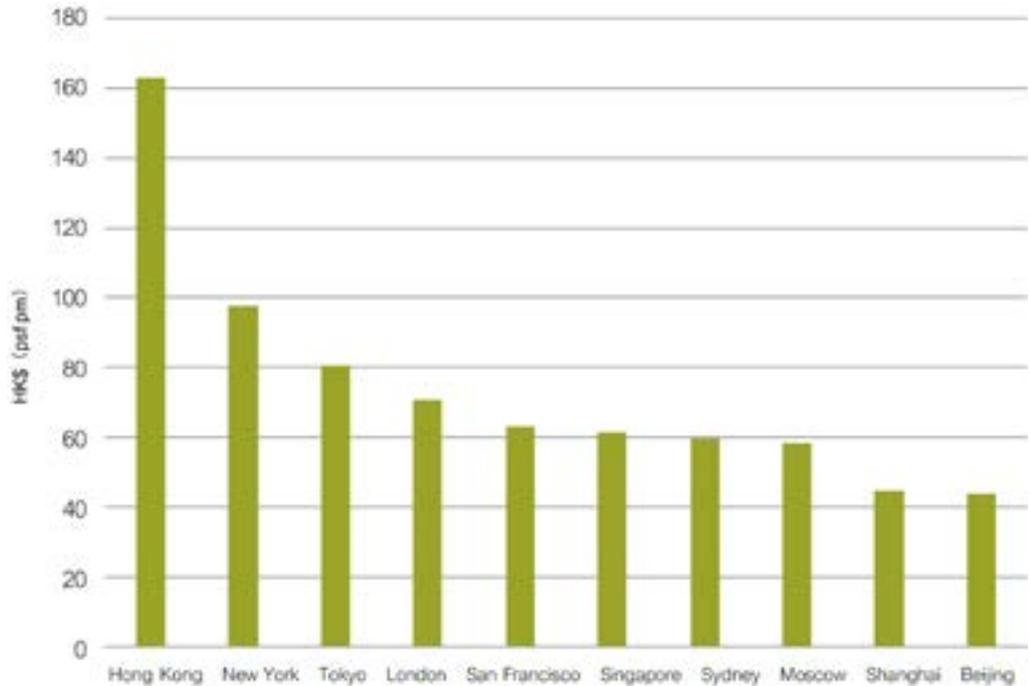
Figure 5. Total occupancy cost of offices in Central Business Districts (2013)



Source: Cushman & Wakefield.

The study by Knight Frank in 2015 reveals more. If we only compare the rents of skyscrapers, or commercial buildings of 350 feet or taller, the rents in Hong Kong topped the world, beating London, New York and other metropolises. The monthly rents in Hong Kong were \$160 psf, which was some 66% higher than that in New York, twice that of Tokyo and 2.7 times that in Singapore (Figure 6).

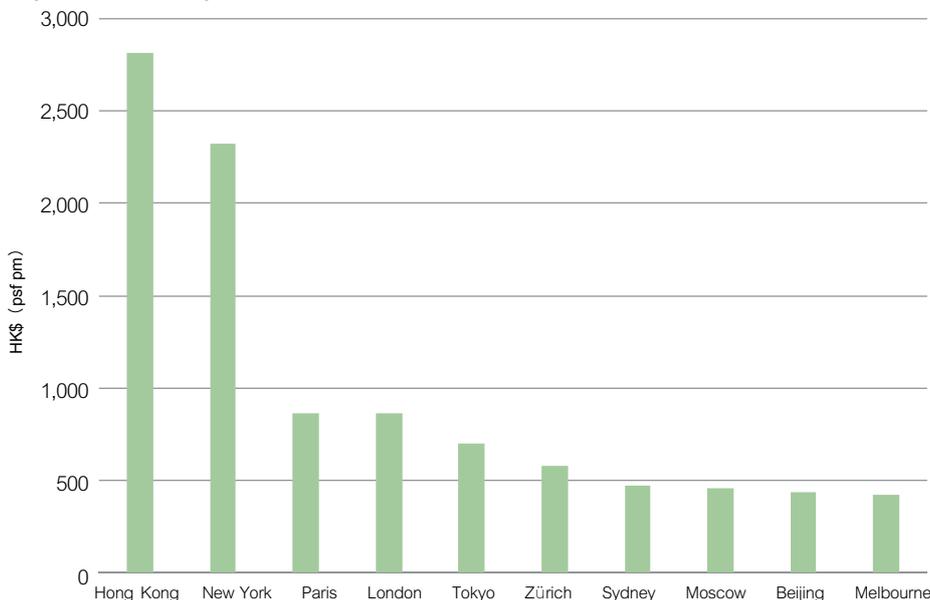
Figure 6. Skyscraper rental cost (2015)



Note: Including only commercial buildings with height over 350 feet.
Source: Knight Frank.

Similar situation is seen in the retail market. A comparative research on the rents of prime street shops in major tourism cities published by CB Richard Ellis showed that the rents in Hong Kong had been the highest among the world for the past three years. According to the research, the rents in Hong Kong were \$2,800 psf per month, which was 20% higher than that in New York (\$2,300), three times that in Paris and London and four times that in Tokyo (Figure 7).

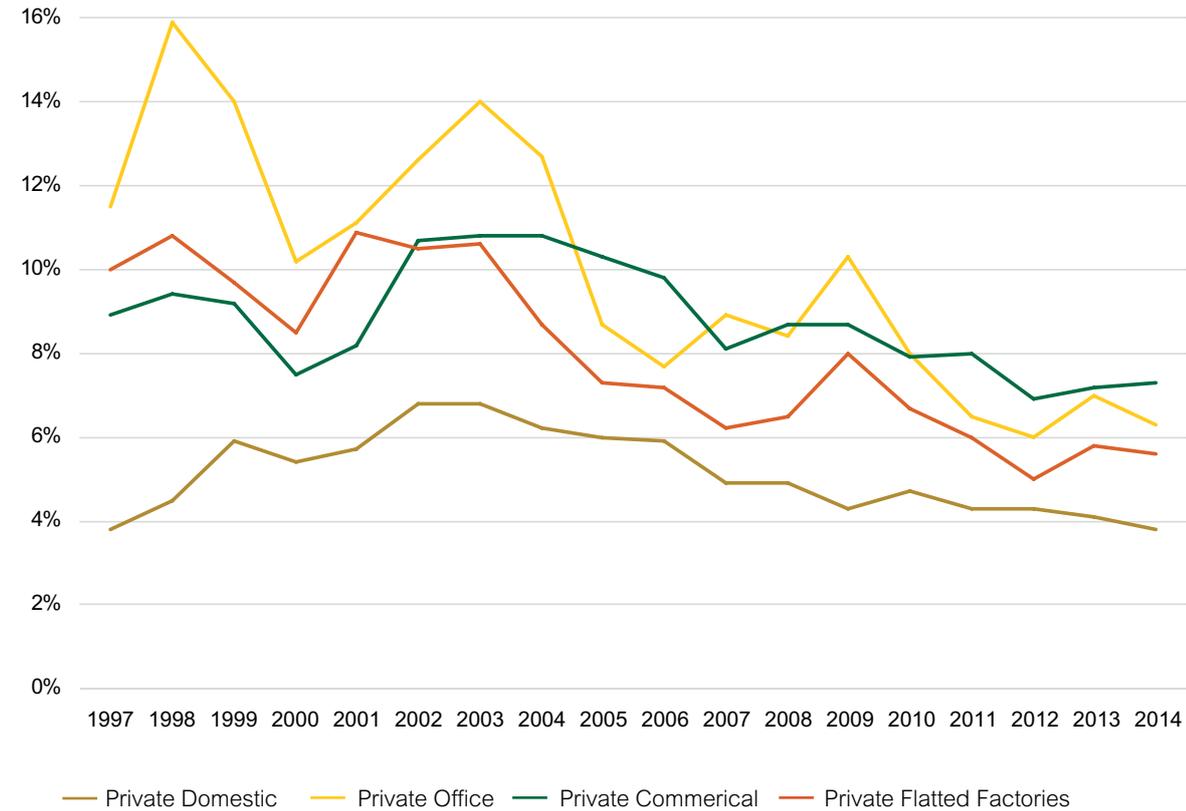
Figure 7. Prime high street retail rents (Q3 2014)



Source: CB Richard Ellis.

In fact, Hong Kong is short of all types of “hardware”. According to the data from R&VD, the vacancy rates of virtually all types of properties from residential, office, retail and even industrial buildings are the lowest since the Handover (Figure 8). In fact, the latest “Area Assessment of Industrial Land in the Territory” released by the Development Bureau found that the overall vacancy rate of industrial buildings in old industrial districts was 5.3%, significantly lower than the levels in 2006 and 2009. Moreover, the study discovered that “more and more economic activities as well as a number of emerging industries choose to run business in industrial buildings, such as showrooms, data centers, research and development / test centers, cultural and creative arts studios and even hydroponics or aquaculture farms”.

Figure 8. Vacancy rates by type of property



Source: Rating and Valuation Department.

Each of the above industries has its own special operating environment. After all, their “ideal operating locations” should not be industrial buildings. The business owners’ / entrepreneurs’ choice to station in industrial buildings reflects that most available hardware in Hong Kong is nearly exhausted, leaving them little room to improve on space efficiency.

1.2.3. Severely weakening Hong Kong's economic competitiveness and obstructing economic diversification

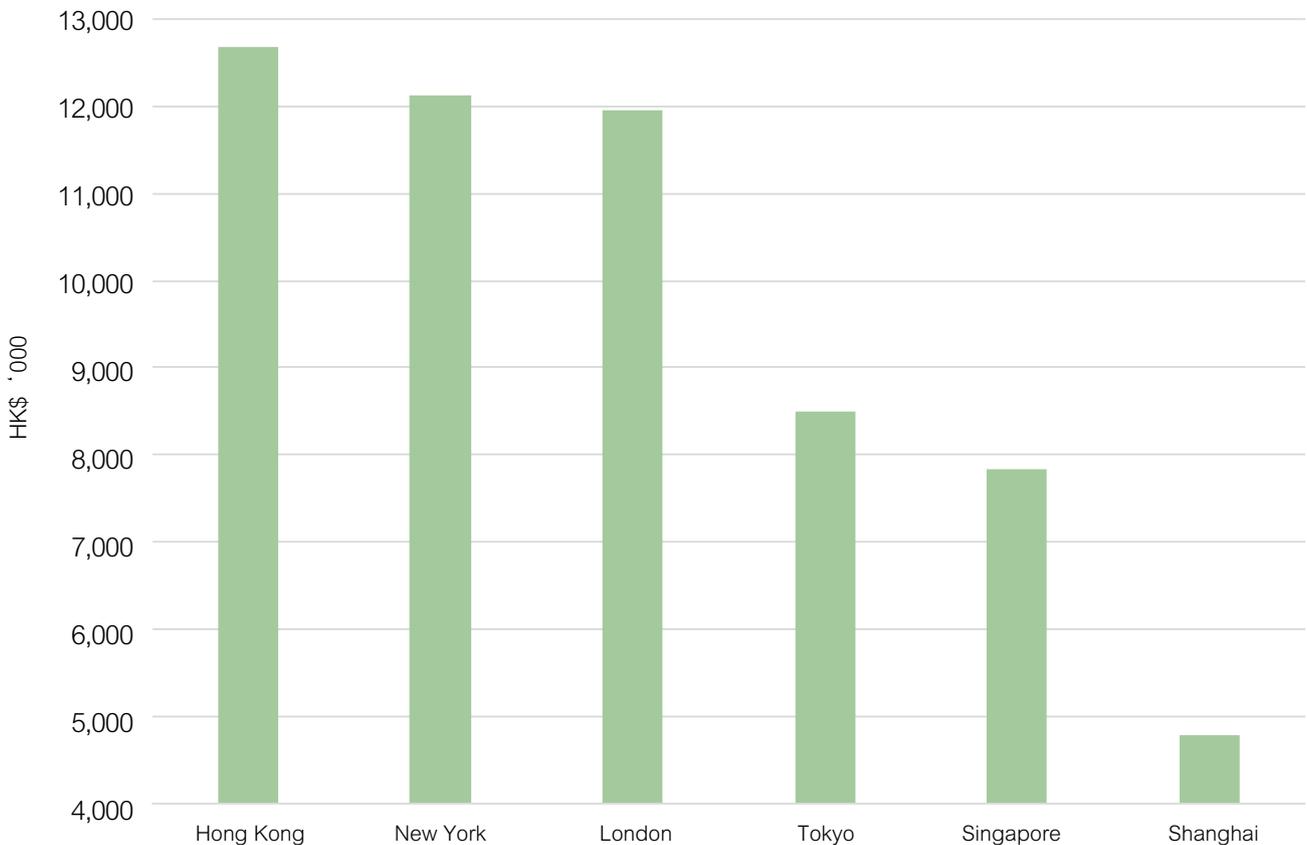
The persistently high level of rents on one hand indicates corporates' high demand for Grade A offices in Hong Kong. It has also severely weakened Hong Kong's competitive edge due to its high business operation cost. Many companies originally intending to establish or expand their Asian offices in Hong Kong may hold back because of the high rents.

These companies, however, will not give up on the benefits brought by the rapid economic growth in Asia just for not being able to set up regional offices in the city. Instead, they will settle in other Asian cities.

In other words, Hong Kong has surrendered numerous opportunities of employment, income and growth to other competing cities in the region, such as Singapore and Shanghai, because of the insufficient office space and high rentals.

A comparative study conducted by Savills in 2013, which focuses on the costs of multinationals to relocate their businesses to major commercial cities around the world, including total annual rental and occupation cost for both residence and offices for 14 senior staff, showed that the costs of relocation to Hong Kong have been the world's highest for two consecutive years, surpassing London and New York, 60% higher than that of Singapore and was 2.7 times that of Shanghai (Figure 9).

Figure 9. Business relocation costs (2013 H2)

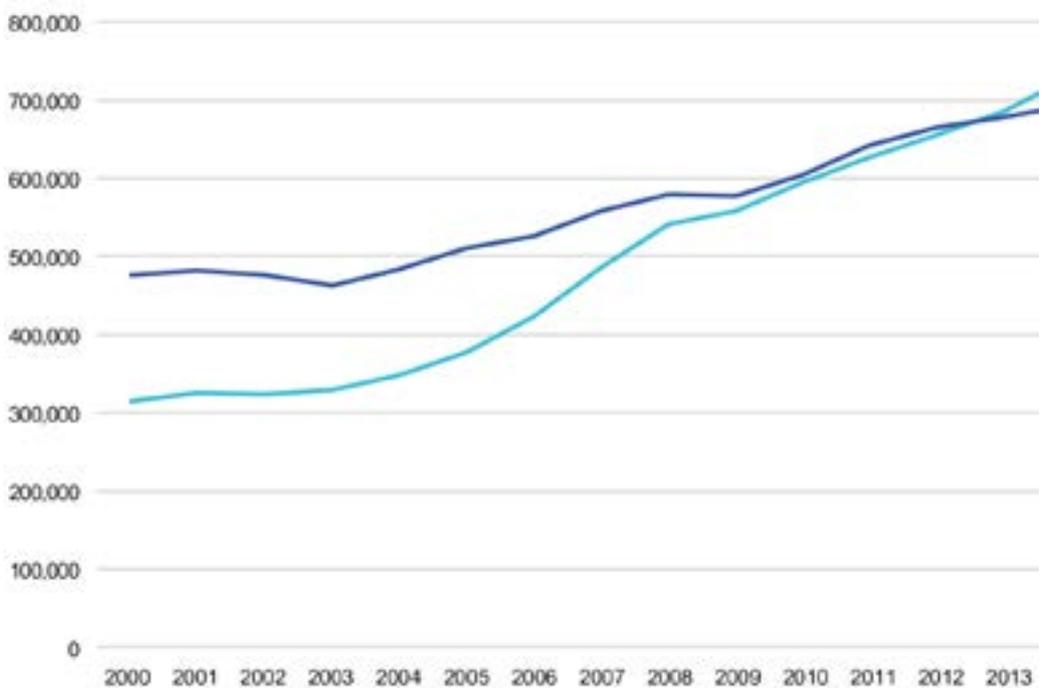


Source: Savills.

One should understand that the service sector accounts for 93% of Hong Kong's economy and such proportion is one of the highest around the world. An important feature of the service sector is that they all require certain "hardware" such as office buildings, shopping malls, hotels, hospitals, schools and laboratories to run their businesses. Therefore, the cost of hiring an employee does not only comprise the salary but also the space occupied by him / her, the office space to accommodate a chair and a desk for example. When the cost of renting the space for the chair and desk is higher than the salary of an employee, it is inevitable for a business owner to consider relocating the position concerned to a city with lower rental costs, no matter how talented and diligent that particular employee is.

In fact, comparing the number of employees engaged in financial and business service industry in Singapore and Hong Kong, there were only 310,000 employees in these industries in Singapore 15 years ago, which was about 60% of the number in Hong Kong, but the Lion City had already surpassed Hong Kong in 2013, with the Compound Annual Growth Rate (CAGR) of Singapore at 5.8%, more than double that of Hong Kong's 2.5% over the last 15 years (Figure 10).

Figure 10. Employed persons in finance and business services sector (2013 H2)



Note: Including persons working in the financing and insurance, real estate, professional and business services sector
Sources: Minister of Manpower (Singapore), Census and Statistics Department (Hong Kong).

These employees are mostly white-collars, including professionals such as practitioners in the accounting and legal fields. Whilst it is difficult to work out the exact number of posts that should have been located in Hong Kong but ended up in Singapore as a result of the hefty rents of the former over the past decade or so, the significant rental gap between Singapore and Hong Kong alongside the low vacancy rate of Hong Kong Grade A offices seem to suggest that many of these employment opportunities would have been in Hong Kong today instead of the Lion City if Hong Kong had had ample supply of office space and a narrower rent gap versus Singapore.

Furthermore, Hong Kong has long been criticized for its lack of economic diversity, weighing heavily on the financial, real estate and related industries. Hong Kong should strive for diversity and develop new growth engines from different industries. However, from the "six priority industries" that the Government of the previous term has identified to the innovation and technology industry which has attracted wide attention in recent years, all require the support of sufficient land supply.

In fact, the global internet giant Google intended to build a data center in Hong Kong two years ago but gave up in the end due to land shortage, and finally chose to establish in Taiwan and Singapore instead. The company's Asia-Pacific strategy and communication manager mentioned that although Hong Kong is full of "tremendous opportunity and potential", the "cost and the difficulty in acquiring spacious land in Hong Kong to build a facility" were the reasons that forced Google to abandon its plan³.

The innovation and technology sector has unlimited development potential and it can help diversify Hong Kong's economy. If Google, the globally leading firm in the industry, had set up a data center in Hong Kong, it would have introduced the best practice to all practitioners, especially the aspiring young people devoted to join the industry. Similarly, other attempts of "economic diversification" also require the support of sufficient land supply. The creative and art industry needs galleries and performance venues; medical technology needs laboratories and social enterprises also need more affordable space to operate and expand. The loss of such golden opportunities in recent years as a result of land shortage further underlines the importance of land supply.

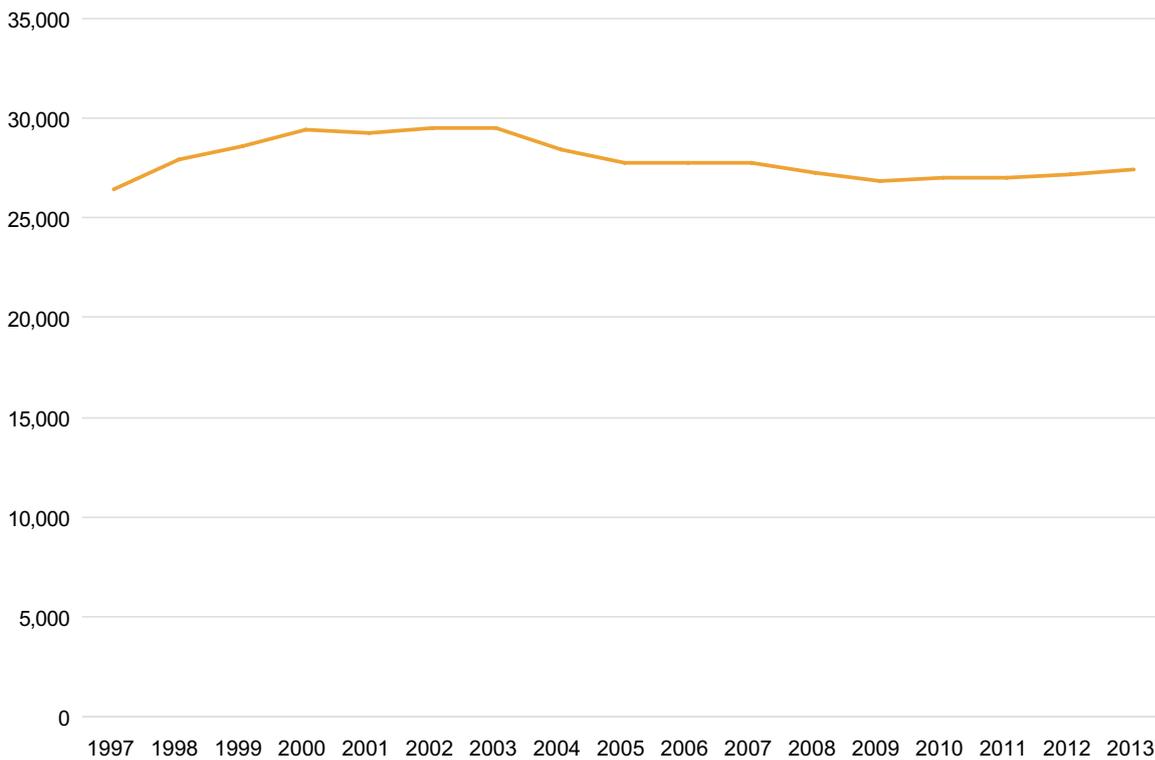
³"Wall Street Journal", December 10, 2013

1.2.4. Insufficient social infrastructure affects quality of life

Apart from soaring home prices and deteriorating economic competitiveness, the impact of land shortage also seriously hinders the development of social infrastructure, thereby affecting the quality of life.

A well-known problem is the demand for medical services arising from an ageing population. Currently, there are about 27,000 public hospital beds in Hong Kong. Startlingly, the total number of public hospital beds has only increased by 4% since the Handover (Figure 11).

Figure 11. Total number of public hospital beds

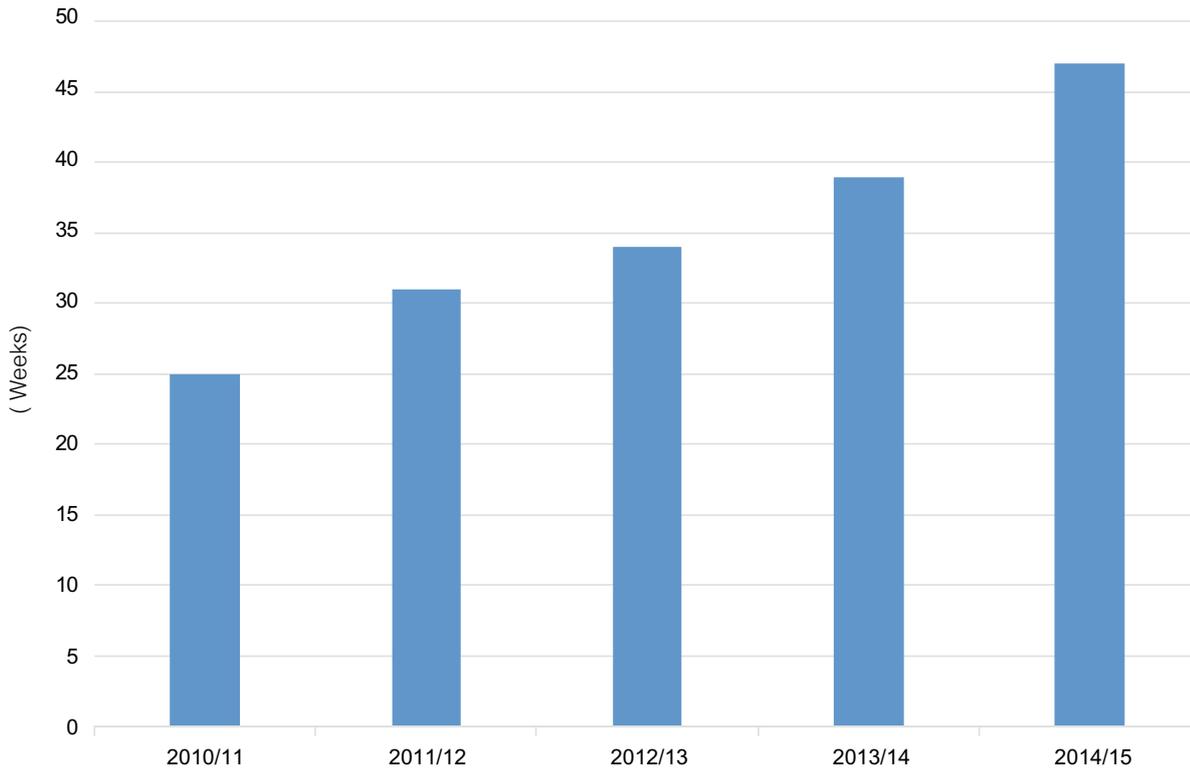


Source: Hospital Authority.

In fact, the latest completion of a mid-sized public hospital with more than 500 beds was the Tseung Kwan O Hospital in 1999.

Worryingly, Hong Kong's population has increased by 11% over the same period and the median age rose 8 years. The demand for healthcare services should have increased. The flu epidemic earlier this year claimed over 400 lives, more than Severe Acute Respiratory Syndrome (SARS) did in 2003, and most of the victims were aged 65 or above. This seemingly indicates that our healthcare system is overburdened. In fact, the median waiting time for routine new cases bookings for specialist outpatient services of medicine in public hospitals has increased to 47 weeks in 2014/15 from 25 in 2010/11 (Figure 12).

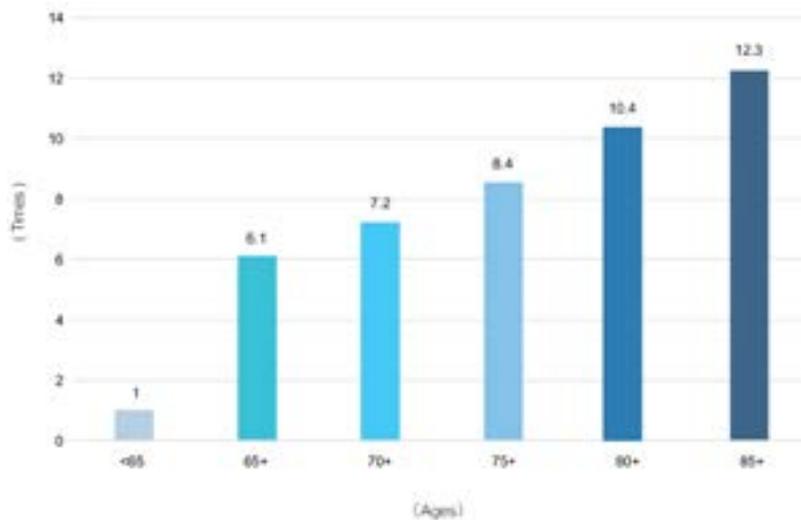
Figure12. Median waiting time for routine new case bookings for specialist outpatient services of medicine in public hospitals



Sources: Hospital Authority, the Legislative Council Panel on Health Services.

It is worth noticing that by considering the number of bed-days occupied, the medical demand of the elderly aged over 65 is 6.1 times that of those below 65 (Figure 13). According to the projection by the Census and Statistics Department (C&SD), the elderly aged over 65 will more than double from 1.1 million to 2.3 million in the next 20 years (i.e. 2034). Therefore, the pressure on the public healthcare system is set to intensify rapidly.

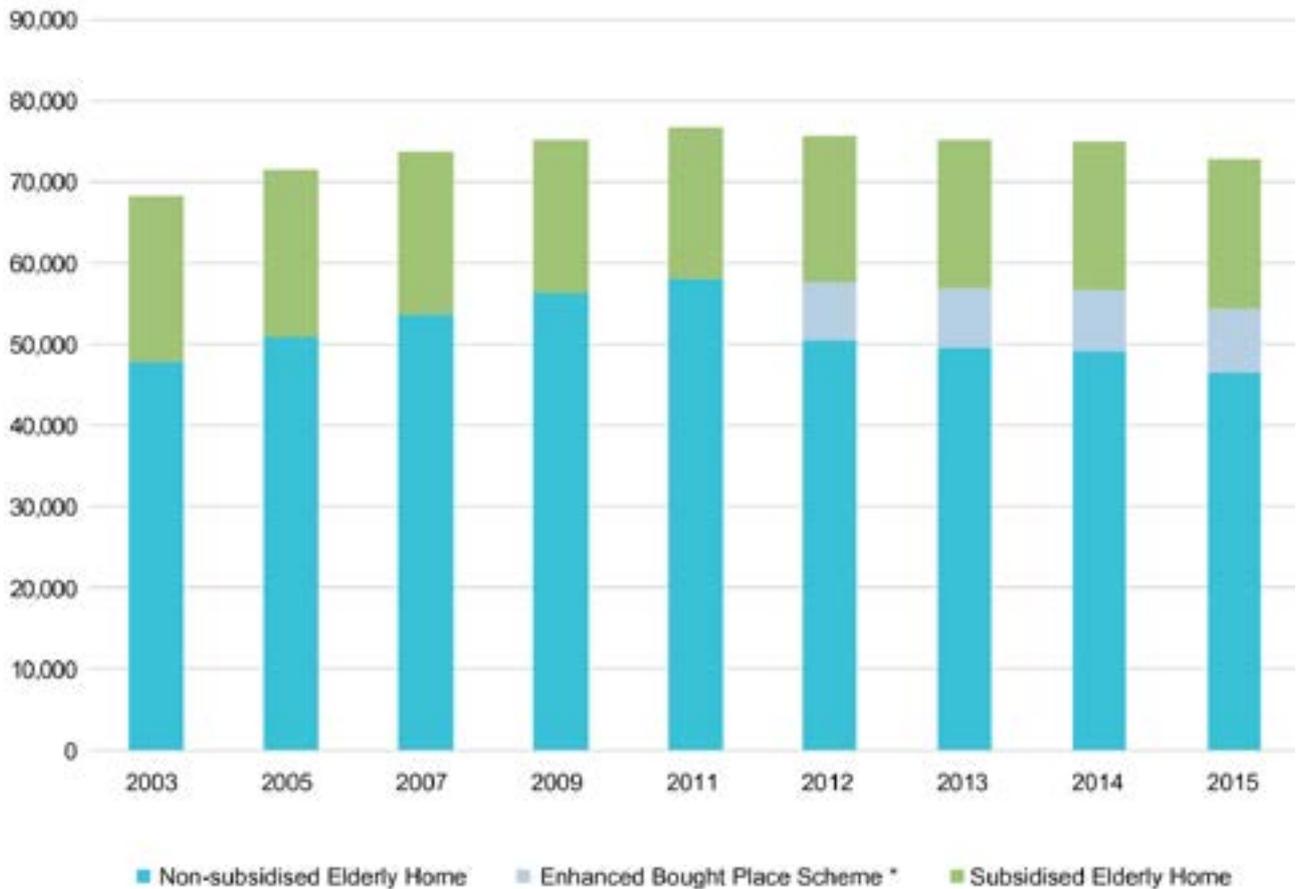
Figure 13. Hospital demand (in bed-days) as multiples of those aged <65 (2012)



Source: Long Term Fiscal Planning Working Group, Census and Statistics Department.

In addition to hospitals, the elderly also need long-term care. However, the situation of nursing homes has been even worse than hospital beds, with the total number of nursing home places recording a decrease over the past few years, primarily driven by the reduction of private nursing homes. This, to a certain extent, reflected the impact of the persistently increasing commercial rents in the past decade, which adds to the burden of business operations. The private nursing homes have already been struggling to keep up with the rental increase, let alone expanding. As a result, many have closed down and the total number of nursing home places has decreased.

Figure 14. Number of nursing home places



Note: (*) Figures are publicly available since 2012.

Sources: Audit Commission, Social Welfare Department, Legislative Council.

In conclusion, increasing land supply and providing more space for the development of Hong Kong are undoubtedly pressing and should not be taken lightly.

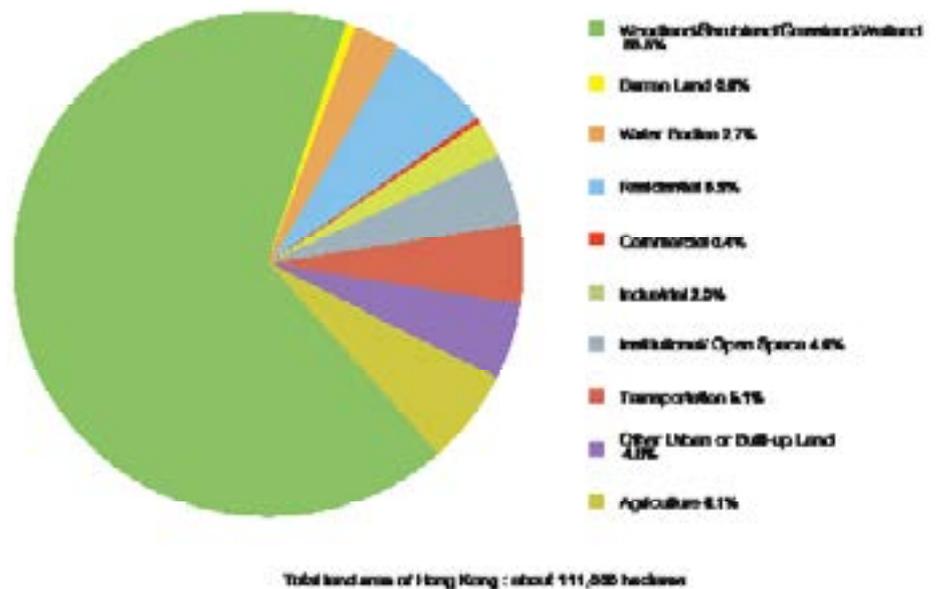
2. What Has Stalled Our Development?

The last chapter has discussed the problems related to and facts of land shortage in Hong Kong and has clarified that land supply does not only impact housing, but also economic, social and livelihood developments, among other issues. This chapter attempts to account for the reasons behind the slowdown in Hong Kong's land supply in recent years, which has contributed to multiple socio-economic issues as a result.

2.1. Reclamation has nearly come to a standstill

Hong Kong had a total land area of 1,110 square kilometres (or 111,000 hectares) in 2014 and a quarter of it had been developed (24% or 26,800 hectares). Residential sites accounted for only 7% (or 7,700 hectares) and commercial sites occupied a mere 400 hectares, accounting for only 0.4% of Hong Kong's total land area (Figure 15).

Figure 15. Land utilization in Hong Kong (2014)

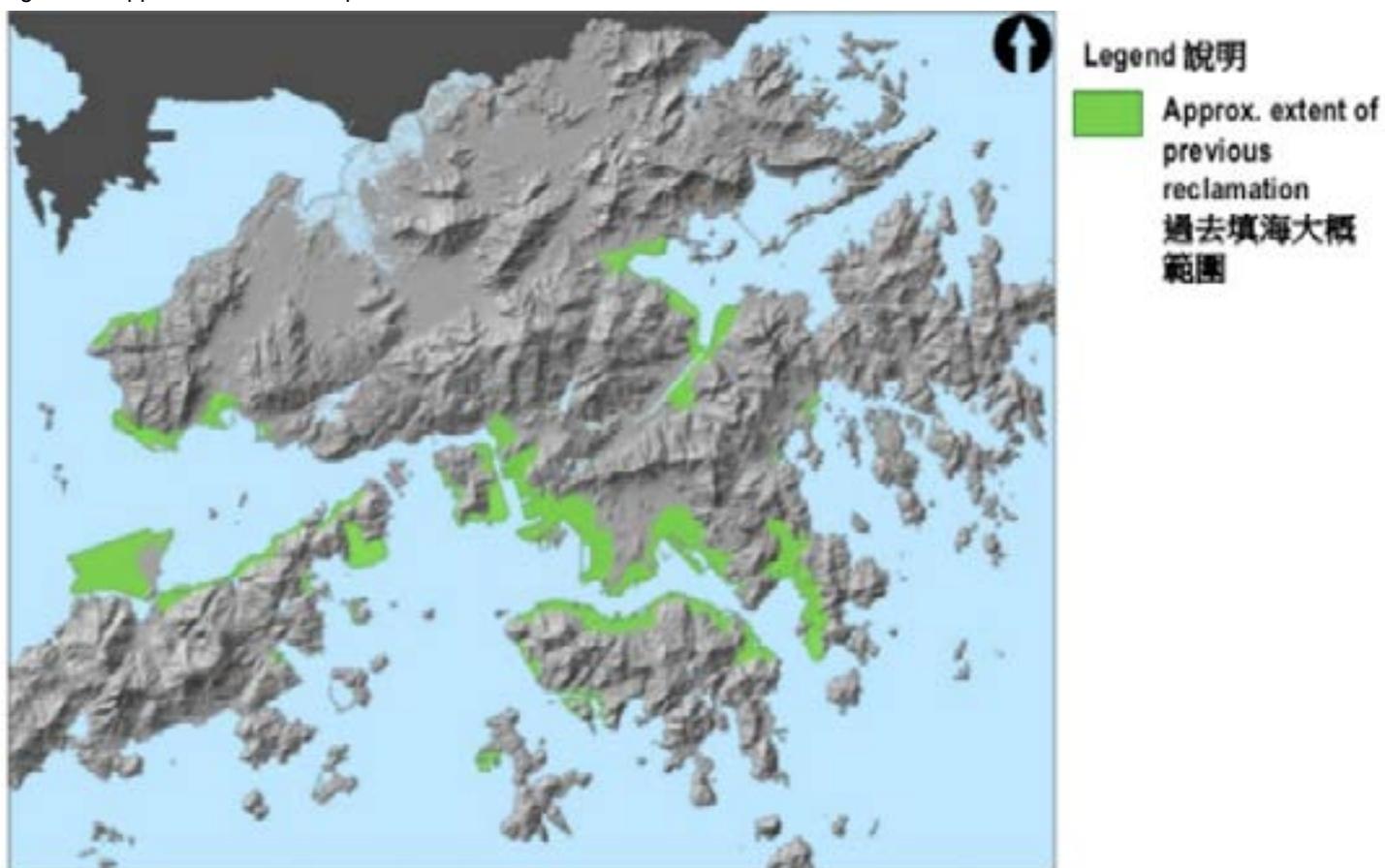


Source: Planning Department.

In retrospect, reclamation had long been one of our main sources of new land. 6% of the land (about 6,947 hectares) in Hong Kong was obtained from reclamation. In other words, the reclaimed land accounts for 26% of the total developed land area, or is equivalent to the total land area of residential use.

In fact, the reclaimed land accommodates 27% of our total population and 70% of the total Gross Floor Area (GFA) of our office buildings⁴. The few new towns involving large-scale reclamation (i.e., Tsuen Wan, Sha Tin, Tai Po, Tseung Kwan O, Tuen Mun and Tung Chung) are homes to 2.7 million people, or nearly 40% of our total population. It shows the importance of reclamation to our social and economic developments.

Figure 16. Approximate extent of previous reclamation



Source: Development Bureau.

⁴ Consultancy presentation, "Enhancing Land Supply Strategy", 2012.

Compared with its peers, the scale of reclamation in Hong Kong is relatively small. For example, more than one-fifth of the land (about 14,000 hectares) in Singapore is reclaimed land and the country is still planning to reclaim more than 5,000 hectares of land by 2030 to accommodate a total population of some 7 million; whereas Macao, which is adjacent to Hong Kong, has a population fewer than that of Sha Tin and has more than 60% of the land reclaimed during the past century. In fact, Cotai Island alone, with a land area of 580 hectares (approximately the size of Yuen Long New Town) was obtained from reclamation and it now accommodates several world-class tourist facilities such as the Galaxy Resort and the Venetian Resort. In contrast, Hong Kong has only reclaimed a total area of 6,947 hectares since 1887, accounting for about 6% of the city's land area (Table 6).

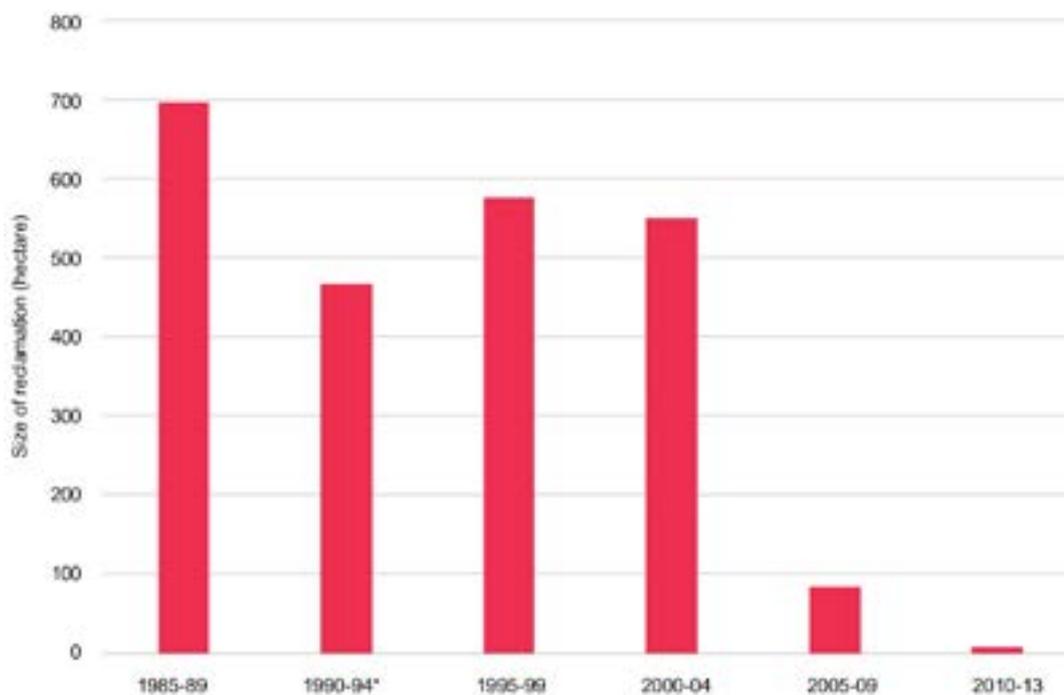
Table 6. International comparison of reclamation area

	Reclamation Area as% of land area	Remarks
Singapore	20% [c14,000 hectares since 1970s]	Marina Bay Financial District has total office GFA of >23m sf. = Whole of Central
Hong Kong	6% [c6,900 hectares since 1887]	Housed 27% of population; Accommodated 70% of office GFA
Macao	61% [c1,800 hectares since 1912]	Cotai alone (580 hectares) housed Venetian, Galaxy and more

Sources: The Survey and Mapping Office of the Lands Department (Hong Kong), Development Bureau (Hong Kong), Macao Cartography and Cadastre Bureau.

However, reclamation has substantially slowed down or even come to a halt in the last decade. A total of 84 hectares of land had been reclaimed during the five-year period from 2005 to 09 and only 8 hectares of land had been reclaimed during 2010 to 13.

Figure 17. Reclamation in Hong Kong during 1985-2013



Note: (*) Excluding reclamation of 1274 ha at Chek Lap Kok and West Kowloon.
Sources: Legislative Council Research Division, Development Bureau.

As a rough indicator for reference, including the reclaimed area of Chek Lap Kok and West Kowloon, Hong Kong's total area of reclamation from 1985 to 2004 was about 3,600 hectares during said two decades.

Correspondingly, from 1995 to 2014, Hong Kong had gained an extra of 8,900 hectares of developed land within the past 20 years⁵, and the abovementioned reclaimed area accounted for 40% of the extra developed land, assuming the development on the reclaimed land takes ten years to complete. It proves the importance of land reclamation for the developments of Hong Kong.

2.2. Red tapes in government procedures

As clarified above, land reclamation in Hong Kong has been an important source of land supply to support socio-economic developments. Unfortunately, related projects have slowed down sharply in recent years. Even if the Government speeds up immediately, it might take over ten years for the results to emerge. Indeed, there are improvements that could be made to cut down red tapes in relevant government procedures to accelerate development in the short- and medium-term.

⁵ Due to changes in methodology before and after 2000, to preserve comparability of data, only land for residential, industrial, government / institution, open space and transportation use are included.

2.2.1. Comprehensive Development Area (CDA)

Any development of properties is subject to the jurisdiction and limitations of the "Town Planning Ordinance." The Town Planning Board (TPB) was established under the Ordinance, responsible for promoting the health, safety, convenience and general welfare of the community as well as improving the living and working environment through the systematic preparation of plans for the layout of such areas of Hong Kong, as well as the types of buildings suitable for erection therein. The Planning Department is the executive arm of TPB, which is responsible for formulating, monitoring and reviewing town plans, planning policies and associated programmes for the physical developments of Hong Kong.

In general, for a site with statutory plan, the plan would designate the site into different uses such as "Residential", "Commercial", "Industrial", "Commercial / Residential" and "Green Belt". The notes to the plan categorise the possible building types on the land in two columns. Items under "Column 1" of the notes are always permitted while permission from TPB is required for any proposed development under "Column 2". For any proposed development not listed in these two columns, a rezoning application to TPB for approval is required.

Nevertheless, the proposed development of a "Comprehensive Development Area" (CDA) is different. In 1988, CDA was officially introduced in the planning system of Hong Kong as a specific type of land use. In contrast with other land uses such as "Residential" and "Commercial", the notes to the plan of a CDA do not have the aforementioned "Column 1". In other words, all proposed CDA developments must be submitted to TPB for approval. The proposals should be submitted in the form of Master Layout Plans (MLP). Each of these proposed CDA development would then be considered by TPB based on individual merits.

The introduction of CDA was intended to discourage piecemeal reconstruction or development projects in the area and thereby resulting in a comprehensive development. The developers are encouraged to plan their developments of the whole CDA (rather than individual properties) so as to optimize the development potential. The intent is certainly desirable, but in fact CDA has become a bottleneck of land supply, slowing down the pace of developments of various properties.

There were only ten CDA sites in Hong Kong in 1988. The figure registered a 13-fold increase and reached 137 in mid-2015. 56 CDA sites have no approved MLP or have been designated as CDA for less than three years, which involve more than 200 hectares of land and GFA of over 68 million sf.

Considering an average of 600 sf per residential flat, these CDA sites can provide more than 110,000 units, which translate into more than two years of housing production target. Alternatively, if the developable space is all used for commercial development, it is equivalent to over 2 times of the total Grade A offices GFA in Central.

Figure 18. Number of sites designated as Comprehensive Development Areas (CDAs)



Sources: Town Planning Board, Our Hong Kong Foundation.

Table 7. The number of CDA sites without Master Layout Plans (as of May 2015)

CDA sites without Master Layout Plan or designated less than 3 years	Number of sites	Total site area (hectare)	Overall Plot Ratio	GFA (sq ft.)
<3years	11	28	3.14	68,454,698
3-5 years	15	37		
6-10 years	4	12		
11-15 years	9	23		
16 years or above	17	103		
TOTAL	56	202	3.14	68,454,698

Sources: Planning Department, Town Planning Board.

We have summarized the cause of slow development progress brought by CDA:

2.2.1.1. Difficulty in integrating dispersed ownership

The intent of CDA was to promote comprehensive planning and discourage piecemeal development. As a result, developments of individual sites in CDA will not be possible. CDA developments must be carried out for the whole area. For CDAs with numerous ownerships, the applicant of the proposed development has to either assemble all ownerships or garner the consent of all ownerships; otherwise, the development of a CDA with dispersed ownerships is unlikely to be approved by TPB.

This contradicts with the intent of CDA. To promote comprehensive planning, CDAs are usually of considerably large size⁶. The larger the site, the more probable the existence of multiple ownerships and hence it is less likely that all these ownerships could be successfully assembled. According to TPB records, such CDAs are not uncommon. For example, the CDA in Yau Tong Bay has 39 different ownership titles, rendering integration difficult. As a result, the area had been zoned as CDA for 20 years since 1993 prior to the TPB approval in 2013, delaying the development of this particular urban site for 20 years.

2.2.1.2. All proposed developments have to be approved, yet lacking objective criteria for approval

As mentioned, since there is no "Column 1" in the notes to the plan of a CDA, every proposed development has to be submitted to TPB for approval in the form of an MLP. However, the consideration is not fully based on any pre-specified and objective parameters, such as building height, GFA, number of floors, etc. In other words, an MLP could be rejected because of the proposed development's appearance, view, traffic issues, noise as well as the proposed mix for different uses, hindering development of the CDA.

Actually, development of many CDAs had been delayed for years before approval (Table 8).

During the consideration processes, the applicants had to revise the MLP for multiple times in order to address the opinion and concerns of different government departments. These back-and-forth communications with the government departments have delayed numerous projects which could have been put on the market years ago. It does not help ease the shortage of space we are facing.

⁶ The 121 CDA sites designated for more than three years as at March 2015 had an average area of 57,000 sm (or about 610,000 sf) per site.

Table 8. Examples of CDA with significant delays

Project	Designation	Date of first MLP Application	Latest MLP approved
Oil Street, North Point	1995	Jun 2005	Apr 2012
Yau Tong Bay	1993	Mar 2010	Jan 2015
King Wah Road, North Point	1983	Apr 2006	Mar 2013

Source: Town Planning Board.

The CDA system reflects the problem of “over-planned, under-supply”. We originally intended that an enhanced city planning and increased public participation in the planning process would raise citizen’s living quality. It has, instead, resulted in delayed development and undersupply in all types of properties, compromising the benefits of Hong Kong citizens. The example of the Central Market is one such example. In the process of revitalising the said property, the society has prolonged and extensive discussion and some stakeholders with different views even applied for JRs. As of today, the Central Market has been idle for 12 years without any development and it has wasted a lot of time and resources of the society.

In a nutshell, the set-up of CDA was well-intended. However, there is a lack of conclusive evidence from academic literature to support the intended advantages CDA could bring to the living environment (e.g. living area, environmental quality) enjoyed by citizens⁷. In contrast, it slows down the development progress. We will set out our policy suggestions in Chapter 4, trying to alleviate this problem and release these CDA sites for development as soon as possible.

2.2.2. Approval procedures of the government

Aside from the slow pace of land supply, the Government also has ample room for improvement on the approval procedures of development projects. The monitoring and management of all development projects in Hong Kong are the purview of three Government departments: Planning Department, Lands Department and Buildings Department. The three departments have overlapping coverage of approval procedures yet with inconsistent technical definitions of items to be approved, e.g. building height, site coverage etc., rendering delays in the approval processes.

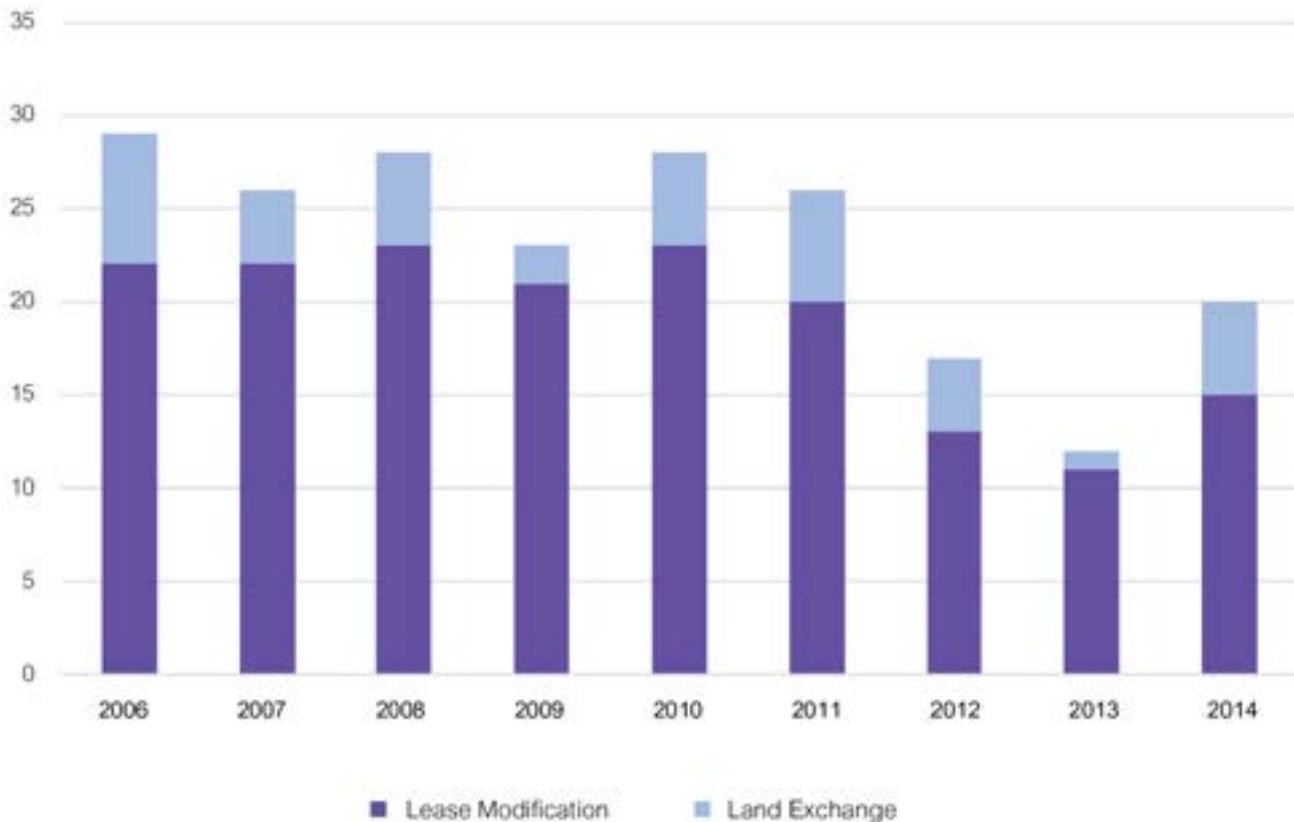
In addition, the planning procedure and building plans approval are under the jurisdiction of corresponding statutory regulations, namely the “Town Planning Ordinance” and the “Buildings Ordinance”, specifying the time limit for the approval processes. Nevertheless, as the agent of all government land in Hong Kong (technically the “landlord” of all government land), the Lands Department does not have a time frame when approving lease modification, premium payments, plan approvals and other procedures under its capacity. Many development projects have therefore been delayed.

⁷See “A Hong Kong empirical analysis of the direct effect of zoning on the environment and the potential contribution of planning conditions to sustainable development”, “Measuring and interpreting the effects of a public-sector-led urban renewal project on housing prices-an empirical study of a comprehensive development area zone developed upon ‘taking’ in Hong Kong”, “Planning conditions in Hong Kong: An empirical study and a discussion of major issues”, “Impact of comprehensive development zoning on real estate development in Hong Kong and Development Control” and “Development Process - A Study on Comprehensive Development Area (CDA) Zone in Hong Kong”.

Another development process involving approval from the Government is the land premium calculations in lease modification and land exchange transactions. There have been views in the field that the calculation mechanism is not sufficiently transparent, and hence unable to reflect the latest market situations and trends of such specific parameters as soaring construction costs and marketing costs recently. This renders agreement between the Government and developers difficult, suppressing land supply resulting from these transactions (Figure 19).

Quoting figures from the Development Bureau, surveying firm Jones Lang LaSalle Hong Kong noted that, a supply of 4,000 flats was by way of land exchange or lease modification procedure of private land during the fiscal year of 2011/12. The number supplied through this channel, however, started to decrease dramatically afterwards. In the fiscal year of 2012/13, there were only 700 such flats. It dropped to only 90 flats in the fiscal year of 2013/14.

Figure 19. The number of cases of land exchange and lease modification (residential use)



Source: CEIC.

Detailed proposals to streamline current government approval procedures will be set out in Chapter 4.

3. More Macro Considerations about Land Development

Before presenting our recommendations of increasing land supply, we believe it is necessary to first understand some backgrounds regarding land development in Hong Kong in a broader sense, which sets the scene for the discussion of our recommendations. At first glance, some of these backgrounds may not have an obvious connection to land development. However, without these contexts it is difficult to understand the comprehensive picture when analysing Hong Kong's land demand and developmental needs.

3.1. "Flexibility" for development means a "natural vacancy" for land

According to the Buildings Department, as at the end of 2014 there were a total of 5,900 buildings being over 50 years old (Table 9). Projecting based on this, in the next 30 years (up to 2044), over 30,000 buildings in Hong Kong will be over half-a-century old. In other words, even if our population stop growing, we still need to free up enough space in the city to settle the residents in these 30,000 old buildings in the next 30 years (for example, increasing the number of PRH units in our public housing construction schemes to rehouse clearerees).

Table 9. Age profile of buildings (as at 31 December 2014)

Age	Number of Buildings	Percentage
<10	4,458	10.6%
10-19	7,077	16.8%
20-29	10,490	24.8%
30-39	8,509	20.1%
40-49	5,830	13.8%
>50	5,891	13.9%
Total	42,255	100%

Source: Buildings Department.

Redevelopment of old buildings sets as an example to illustrate an imperative aspect of land supply - development is a dynamic process. Finding sufficient land to accommodate new buildings is not enough because apart from the construction of the necessary infrastructure, extra decanting space is also essential for redeveloping old buildings and the obsolete hardware as our economy and society develops (such as flatted factories), or simply placing construction materials and large-sized equipment (such as column cranes). Hence, a "natural vacancy" should always be taken into consideration when determining future land demand, in the way "zero vacancy" is impossible for any properties at any point in time.

3.2. Land supply needs to consider planning efficiency

If Hong Kong people were asked which the best among the nine new towns is, Sha Tin would probably be among the top of the list. In fact, in terms of population, Sha Tin (incl. Ma On Shan) is the second largest new town in Hong Kong. It houses some 660,000 residents, second to Tsuen Wan which is the oldest new town of the city (Table 10).

Table 10. New towns in the last century

New town	Area (Hectares)	Population ('000)	Planning started
Tsuen Wan	3,285	796	1960s
Sha Tin (incl. Ma On Shan)	3,591	658	1960s
Tuen Mun	3,259	496	1960s
Tai Po	2,898	270	1970s
Fanling/ Sheung Shui	667	254	1970s
Yuen Long	561	155	1970s
Tin Shui Wai	430	290	1980s
Tseung Kwan O	1,738	386	1980s
Tung Chung	830	83	1990s

Source: Civil Engineering and Development Department.

Sha Tin is generally regarded as a relatively well-planned new town. Being "self-sufficient", Sha Tin provides well-rounded infrastructure around its residential areas. Apart from the large-scale commercial / residential development atop the railway station, the new town also offers plentiful open space, community halls, sports centers, primary and secondary schools and medical facilities, etc.

The example of the Sha Tin New Town illustrates once again, in the discussion of land supply, the living needs of residents must be considered in addition to sourcing sufficient land to accommodate new buildings. In order to achieve this, the plot of land in question cannot be too small. In fact, the Sha Tin New Town (incl. Ma On Shan) has the largest area among the nine new towns. It occupies almost 3,600 hectares, most of which were land reclaimed from the Tolo Harbor.

Apart from supporting facilities, employment opportunities are of equal importance. Even for the relatively well-planned Sha Tin, many residents in the area need to commute across districts to and from work like most Hong Kong people do. The 2011 Population Census found that only 15% of Sha Tin's employed population were working within the district. The proportion was higher than those of Yuen Long and Sai Kung yet was still below the overall figure (19%) in Hong Kong (Table 11). As a prevalent phenomenon, commuting between districts adds burden to citizens' transportation expenses. It also generates heavy traffic which yields environmental concerns such as traffic congestion and air pollution.

Table 11. Place of work (2011)

Residing District	Work in the same district	Work in the same district	Others
Central and Western	41.0%	49.0%	9.1%
Wan Chai	27.0%	61.7%	10.0%
Eastern	26.0%	63.2%	10.0%
Southern	22.1%	66.0%	9.0%
Yau Tsim Mong	28.0%	58.3%	13.1%
Sham Shui Po	17.3%	70.2%	12.5%
Kowloon City	16.1%	71.0%	12.1%
Wong Tai Sin	10.6%	77.3%	12.0%
Kwun Tong	23.0%	64.7%	11.0%
Kwai Tsang	15.6%	72.0%	11.0%
Tsuen Wan	16.4%	71.7%	11.9%
Tuen Mun	23.0%	64.0%	12.0%
Yuen Long	10.4%	75.4%	14.2%
North	16.0%	68.2%	15.3%
Tai Po	16.1%	71.3%	12.0%
Sha Tin	14.9%	73.0%	12.1%
Sai Kung	10.4%	77.8%	11.8%
Islands	18.0%	67.0%	14.2%
Total	18.8%	69.1%	12.1%

Notes: (1) Excluding Foreign Domestic Helpers.

(2) "Others" includes "No fixed place", "Marine", "Work at Home" and "Places outside Hong Kong".

Source: Census and Statistics Department.

The aforementioned planning mistake made in the last half-century has caused a serious mismatch of residential location and employment opportunities. Learning from this lesson, we should avoid the same mistake when planning the next-generation new towns or new development areas. In other words, in order to ensure the living quality enjoyed by the residents, instead of simply “land”, what Hong Kong really needs for comprehensive and thorough planning is “a piece of land that is wide-spreading, connected and flat”. Take the Hung Shui Kiu NDA which is under planning as an example, there have been views that the ratio of land reserved for housing is too low. This is exactly because the Government hopes to provide sufficient land for employment opportunities or other economic uses (Table 12). Specifically, some one-quarter of the land in Hung Shui Kiu NDA is planned for economic use. In comparison, the corresponding figure in the original plan of the Sha Tin New Town was only 20%.

Table 12. Distribution of land use in the Hung Shui Kiu New Development Area

Land Use Budget	Area (Ha)	%
Development Area	442	62
Residential	87	20
Open Space	62	14
Economic	107	24
Public Facilities	89	20
New Roads and Amenity	97	22
Existing Roads and River Channels	63	9
Green Belt	58	8
Retained Existing/ Committed Developments	151	21
Total NDA Area	714	100

Source: Consultation Document of the Hung Shui Kiu NDA Stage 3 Community Engagement (2015).

The society must bear in mind the importance of planning efficiency when evaluating and comparing different land supply methods.

In some occasions, even if a proposal can provide a certain area of land in aggregate terms, if these lands are so disjointed that it is difficult to provide simultaneously residential space, employment opportunities and community supporting facilities, such proposals may not be cost-effective as the Government will still have to invest enormous resources on road constructions to connect residents with the supporting facilities.

In fact, the last completed large-scale land development project was the Tung Chung New Town. All development afterwards were piecemeal in nature, lacking overall planning.

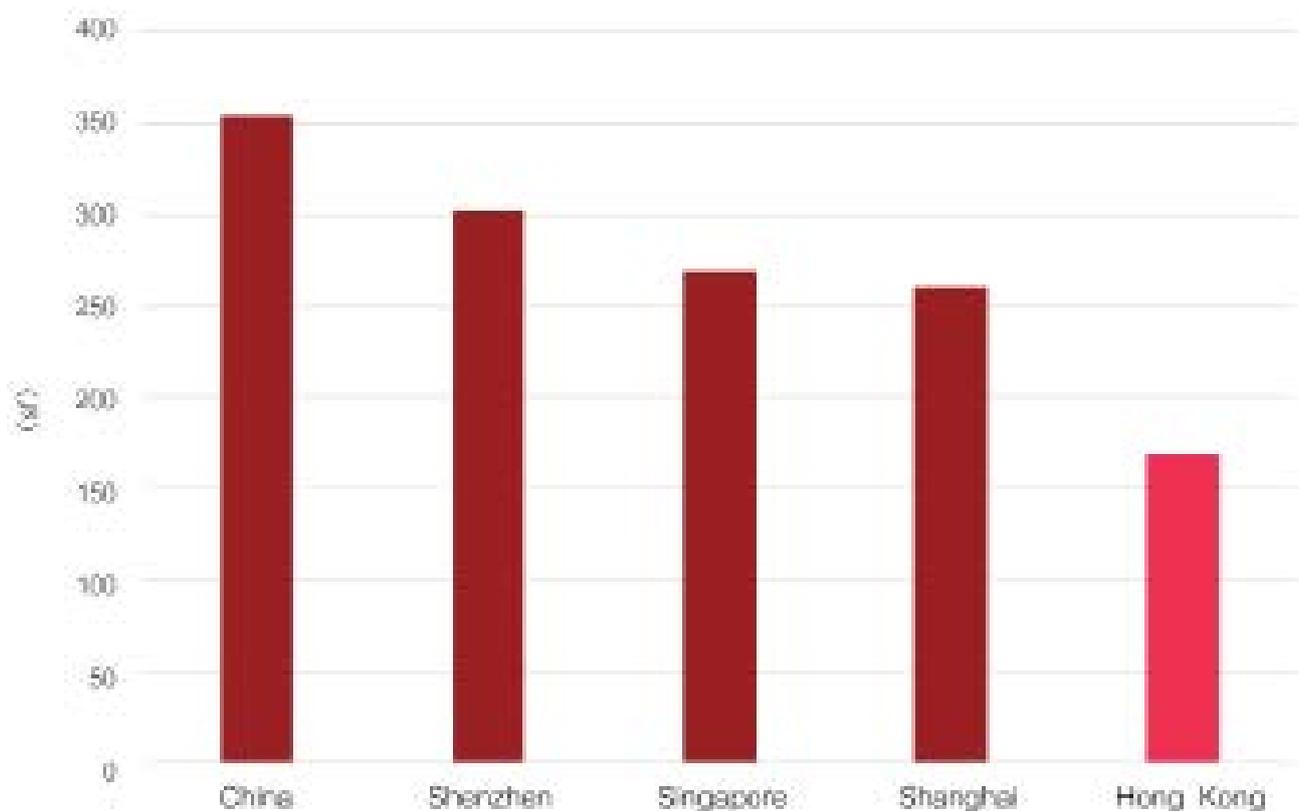
3.3. How much land do we need?

After discussing some factors to be considered in land development in addition to land area, the next key question is “how much land does Hong Kong need?”.

According to the 2010 figures cited in Development Bureau’s “Enhancing Land Supply Strategy”, the then 7-million population in Hong Kong occupied an area of 7,600 hectares. The areas for commercial hardware and supporting facilities such as public utilities, government bodies and roads sit on another 9,900 hectares of land. Nevertheless, since the population density of public / private housings and village houses are very different, if we adjust the population density of village houses to the same level as ordinary housing units, the 7 million people would occupy residential land of 4,620 hectares, in addition to the 9,900 hectares for supporting facilities.

It should be noted, however, that the figures reflect current situation instead of the ideal conditions of the society. As Chapter 1 suggests, the high property prices and rents alongside the tight capacity of other supporting facilities seem to indicate it would be untrue to say that Hong Kong people are satisfied with the average living space per person and the provision of commercial, social and other supporting facilities. For instance, the average living space per person in Hong Kong is about 170 sf, trailing by 50% or even more than 100% when compared with other Asian places like Shanghai and Singapore.

Figure 20. Average living space per person



Sources: Rating and Valuation Department (HKSAR), Shanghai Academy of Social Science, SCMP, Centaline Research Center (China).

To put it differently, even if Hong Kong's population does not grow in the future, if we hope to raise the average living space per person by 40% to emulate our counterparts in Shanghai and Singapore, we would still need an extra 1,848 hectares of land. In addition to increasing residential areas, on the assumption that we hope to expand 40% of the capacities of other facilities including hospitals, elderly homes, commercial hardware, leisure and cultural venues to be shared by the 7 million population, we need another c4,000 hectares of land, which adds up to a total of 5,800 hectares, or the total areas of two Tai Po New Towns.

Table 13. Estimation of land demand

2010	
Population	7 million
Residential Land (Density Adjusted)	4,620 hectare
Facility Land	9,900 hectare

2044			
Scenario 1: Population stops growing, 40% increment in land per capita		Scenario 2: Population grow to 8.22 million, 40% increment in land per capita	
Land demand for the additional population		Land demand for the additional population	
Residential Land	0	Residential Land [4,620 x 122 / 700]	805 hectares
Facility Land	0	Facility Land [9,900 x 122 / 700]	1,725 hectares
Land demand for the increment in land per capita		Land demand for the increment in land per capita	
Residential Land [4,620 x 40%]	1,848 hectares	Residential Land [(4,620 + 805) x 40%]	2,170 hectares
Facility Land [9,900 x 40%]	3,960 hectares	Facility Land [(9,900 + 1,725) x 40%]	4,650 hectares
Total land demand	5,808 hectares	Total land demand	9,350 hectares

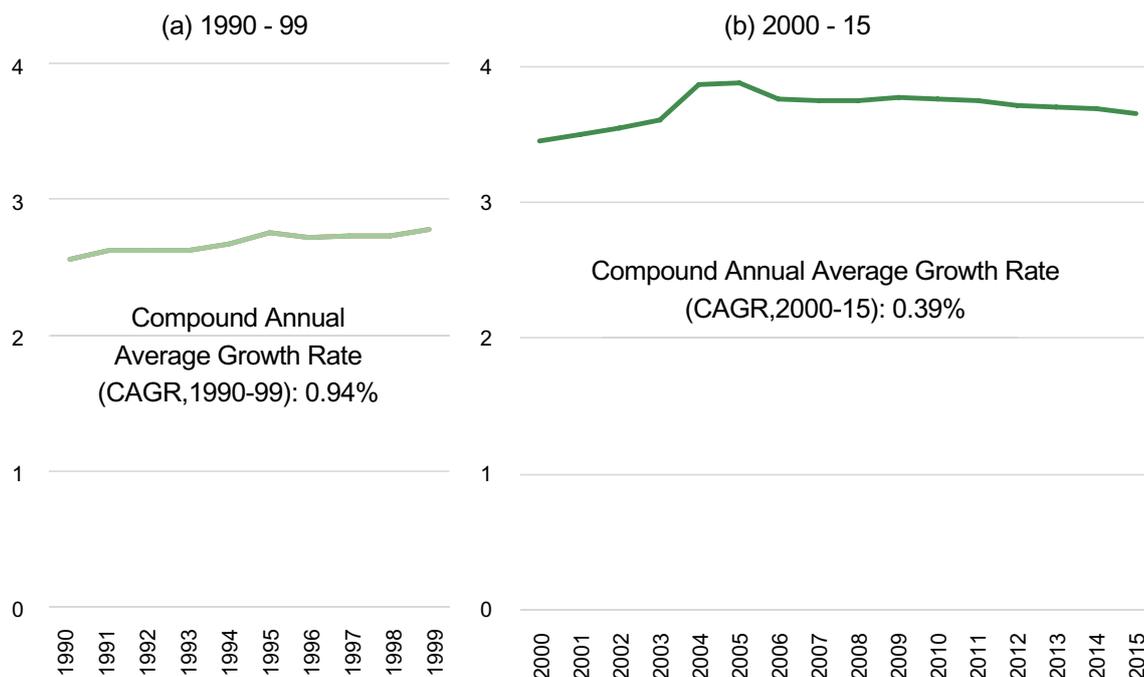
Sources: Development Bureau, Our Hong Kong Foundation.

However, our population is expected to increase in the future. According to the latest projections of the Census and Statistics Department released in September 2015, in 30 years Hong Kong's population will surge to 8.22 million in 2044. Based on this projection and the above assumption of the "new average land area per person", to fulfil the living needs of the 8.22 million people 30 years later, we will need more than 9,000 hectares of land which equals three Sha Tin New Towns (Table 13).

However, increases in the average living space per person and the average facility space per person could be very arbitrary. We need a more objective perspective and context against which to understand what an additional 9,300 hectares exactly implies.

If we take the average developed land per 1,000 persons as one of the indicators for measuring Hong Kong people's living standard in real terms, in the 1990s the indicator's CAGR was 0.94%. However, since 2000 the rate slowed down by more than 50% to a mere 0.39%. Specifically, it is worth noting that the average developed land per capita had even decreased over the past 10 years. This observation is in alignment with the fact that Hong Kong's construction rate had been significantly slower when compared to the past as mentioned in Chapter 1.

Figure 21. Developed land per capita (hectares per 1,000 persons)



Note: Due to changes in methodology, growth rates before and after 2000 are computed separately.
Source: Census and Statistics Department.

We can understand the relative scale of the 5,808 and 9,350 hectares of land computed above using different scenarios.

Scenario I: Population stops growing; adding 5,808 hectares of land by 2034 (or in 19 years)

Scenario I assumes no population growth, i.e. population remains at 7.3 million as of mid-2015. It further assumes Hong Kong could successfully add 5,808 hectares of developed land in the next 19 years. These are both rather aggressive assumptions. First, even if population growth is to slow down, in the foreseeable future, population is expected to grow in absolute terms. Moreover, judging from the drastically hampered capability of land creation of Hong Kong in recent years, it is highly uncertain that the city could increase developed land by 5,808 hectares.

If the above assumptions are valid, in the 19 years following 2015, the CAGR of average developed land per person will be 1.04%, slightly higher than the figure in the 1990s.

Scenario II: Population grows as the Census and Statistics Department projects; adding 5,808 hectares of land by 2034 (or in 19 years); adding 9,350 hectares of land by 2044 (or in 29 years)

Scenario II assumes the population will grow as the Census and Statistics Department projects, i.e. population will reach 8.1 million by 2034 and 8.22 million by 2044. It further assumes that Hong Kong could add 5,808 hectares and 9,350 hectares of developed land respectively by the two said years.

In this case, the CAGR of developed land area per capita from 2015 to 2034 and to 2044, respectively, would be 0.5% and 0.6%. These figures would be slightly higher than the 0.4% in the past 15 years, but are still significantly behind that of the 1990s.

Scenario III: Population growth is only 40% of what is projected by the Census and Statistics Department; adding 5,808 hectares of land by 2034 (or in 19 years); adding 9,350 hectares of land by 2044 (or in 29 years)

Scenario III is identical to Scenario II, except that population growth is only 40% of the projection of Census and Statistics Department. Namely, population is assumed to reach 7.62 million and 7.67 million by 2034 and 2044 respectively.

Under these assumptions, the CAGR of developed land area per capita from 2015 to 2034 and to 2044, respectively, would be 0.8% and 0.9%. These figures would be closer to that of the 1990s compared with the results obtained in Scenario II.

Table 14. Expected growth of developed land per capita

Year	Population ('000)	Developed Land (hectares)	Per 1,000 population developed land (hectares)	Population Growth ('000)	New Land (hectares)	CAGR from 1990
1990	5,704.5	14,600	2.56	N.A.		N.A.
1999	6,606.5	18,400	2.79			0.94%
Year	Population ('000)	Developed Land (hectares)	Per 1,000 population developed land (hectares)	Population Growth ('000)	New Land (hectares)	CAGR from 2000
2000	6,665.0	23,000	3.45	N.A.		N.A.
2015	7,298.6	26,700	3.66			0.39%
Year	Population ('000)	Developed Land (hectares)	Per 1,000 population developed land (hectares)	Population Growth ('000)	New Land (hectares)	CAGR from 2015
Scenario 1: Assumed no population growth						
2034	7,298.6	32,508	4.45	0	5,808	1.04%
Scenario 2: Assumed population to grow as C&SD predicted						
2034	8,100.5	32,508	4.01	801.9	5,808	0.49%
2044	8,224	36,050	4.38	925.4	9,350	0.63%
Scenario 3: Assumed population growth equals 40% of C&SD projections						
2034	7,619.4	32,508	4.27	320.8	5,808	0.81%
2044	7,668.8	36,050	4.70	370.2	9,350	0.87%

Sources: Census and Statistics Department, Planning Department, Our Hong Kong Foundation.

Table 14 to a certain extent is a "matrix of social choices". If the Hong Kong society, as a whole, agrees with the growth rates in average living space per person as mentioned above, then we must come up with solutions to increase land supply equivalent to at least two Tai Po New Towns in the next two decades and three Sha Tin New Towns in the next three decades.

If the general public believes the situations in the 90s were not satisfactory at all, and they hope to increase the average space per person for better standards of living, only two choices are available - either to increase the speed of land supply or to raise the land supply target (for example to create 7,000 hectares of land rather than 5,808 hectares of land by 2034).

The society can also decide on the sources of land supply. Table 14 measures the developed land area per capita, if the society insisted on opposing land reclamation or developing our country parks, the living standard of Hong Kong people from 2015 to 2044 will not be even comparable to that in the 1990s, unless that we can release an additional 4,000 hectares from the existing land for development by 2044 on top of the 5,000 hectares under the Government's long-term land development plans.

Table 15. Major long-term land supply projects

Land supply projects	Estimated Site Area(hectares)
Siu Ho Wan Reclamation	125
Sunny Bay Reclamation	80
Tsing Yi (South West) Reclamation	100
Ma Liu Shui Reclamation	45
Lung Kwu Tan Reclamation	250
Artificial Islands in the Central Waters including East Lantau Metropolis	700
Yuen Long South	183
Kwu Tung North/ Fanling North New Development Areas	320
West Kowloon Cultural District	40
Tung Chung Remaining Area	133
Ex-quarry sites	160
As pursued in 2011 Policy Address, rezoning part of industrial land, green belt, agricultural land for non-industrial and housing use	260
Hung Shui Kiu New Development Area	446
Fanling/Sheung Shui Area 30	8
Kai Tak Development	320
Tseung Kwan O South	60
Kam Tin South	106
Other Housing Projects	870
Topside Development at Hong Kong Boundary Crossing Facilities Island of Hong Kong-Zhuhai-Macao Bridge	150
New Territories North *	667
Total	5,023

Note: (*) According to the information provided by the Legislative Council Panel on Development, the Government was exploring the scope for developing a new town of similar scale as Fanling/ Sheung Shui in New Territories North.

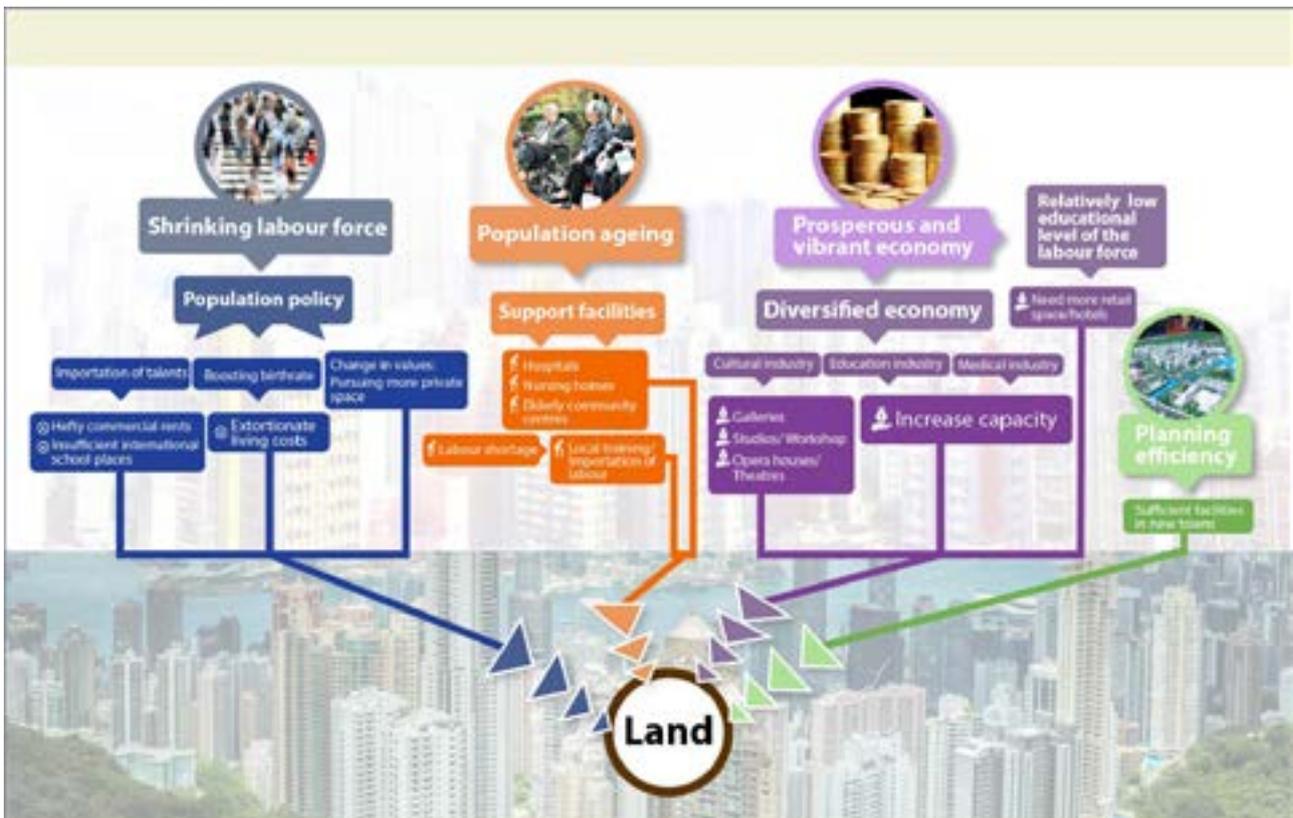
Sources: Legislative Council Panel on Development, Civil Engineering and Development Department, Planning Department, Development Bureau (January 2015).

3.4. Land is more than housing - A holistic perspective for Hong Kong's development

This research has emphasized that land does not only cater for housing needs. However, discussions related to land shortage in the society constantly focus on the housing aspect. In the absence of a holistic perspective, we will put ourselves into a blind spot without realizing all social and economic problems are interconnected and intertwined, thus lacking the vision of the full picture when discussing land supply.

Figure 22 describes the inter-connection between different socio-economic issues, and shows that they are ultimately related to land supply. The ensuing paragraphs elaborate on these relationships.

Figure 22. Land supply and socio-economic issues



3.4.1. Ageing population requires plenty of facilities for elderly care

Second only to Japan, Italy, Portugal and France, the problem of ageing population in Hong Kong is more serious than all other advanced economies around the globe. With the more than doubling of elders in the next 15 to 20 years, it is estimated that the demand for various facilities related to elderly care will surge sharply, including hospitals, nursing homes and community centers for the elderly.

Taking hospitals as an example, an elderly person above 65 requires 6 times the medical services (calculated in bed-days occupied) required by one under 65. Worse still, this multiple will grow exponentially with age, let alone the already heavy burden put on our public healthcare system today.

A simple calculation of the healthcare needs based on the projected changes in demographic structure, in terms of beds-days occupied, shows that our public hospitals will need to more than double in the coming 30 years. The problem is, assuming we are not planning to rebuild each public hospital to double their capacity, can we really find enough land in the territory to build a brand new hospital of the same scale for each of the existing one?

Table 16. Hospital bed demand

Age Group	Population		2012 Figures		Hospital bed demand (bed-days) (Population X Admission rate X Avg. length of stay)	
	2012	2044	Hospitalisation rate	Avg. length of stay (days)	2012	2044
0-4	262,500	226,600	30.8%	5.2	419,700	362,300
5-14	550,700	491,600	4.4%	4.3	104,400	93,200
15-24	877,100	681,600	3.7%	4.0	129,100	100,300
25-34	1,091,700	1,141,100	6.6%	4.0	286,500	299,400
35-44	1,143,300	1,043,300	5.7%	4.7	306,800	280,000
45-54	1,279,700	1,073,300	6.3%	5.8	469,100	393,400
55-59	540,700	534,100	8.9%	6.7	322,400	318,500
60-64	428,600	506,700	11.2%	7.4	354,600	419,200
65-69	264,500	470,500	15.4%	7.8	317,500	564,800
70-74	221,100	488,500	19.5%	8.4	361,400	798,500
75-79	200,000	479,800	25.9%	9.0	466,200	1,118,400
80-84	151,100	483,500	33.9%	10.0	512,500	1,640,000
>=85	134,600	603,400	42.0%	11.3	639,100	2,865,100
Total	7,145,600	8,224,000			4,689,400	9,253,300

Sources: Long Term Fiscal Planning Working Group, Census and Statistics Department.

The second type of facilities would be nursing homes. As mentioned in Chapter 1, there are more and more senior people in Hong Kong but the capacity of nursing homes has been on the decline. If there are already more than 30,000 elders waiting for the subsidized nursing home places, and unfortunately we cannot build nursing homes with a high plot ratio as the "Buildings Ordinance" requires all nursing homes to have a maximum height of 24m only. Where can we obtain the land to build such a large amount of low density nursing homes?

Of course not all elders require nursing homes. Actually the institutionalization rate of elders in Hong Kong is much higher than those in foreign countries, and the Government has always emphasized "ageing in place as the core, institutional care as back-up" as the guiding principle of elderly care policies. Nevertheless, the relevant supporting facilities are sorely lacking in Hong Kong today. To achieve "Ageing in Place" and thus decrease the reliance on nursing home services, we still need sufficient day care centers for the elderly, community centers for the elderly and the infrastructure for our primary healthcare system, etc.

3.4.2. Care facilities for the elderly require a lot of medical and healthcare manpower

Hospitals, nursing homes and community centers for the elderly are not "empty hulls", but require manpower to operate and take care of the elders. However, Hong Kong not only suffers from a shortage of hospital beds and nursing home places but also faces a severe shortage of manpower in the healthcare (especially among the public system) and elderly care sectors.

According to the data from the Census and Statistics Department, in Q1 2015, the job vacancy rate of the residential care industry is 7.5%, which is the highest among all industries included in the survey.

To resolve the manpower shortage problem, we can either increase local training quotas or import labor from the outside. The former would require expansions in our local universities' or training institutes, while the latter would necessitate the accommodation of the imported workers. Do we have any reserved land to expand these training facilities or provide accommodations for the imported healthcare workers?

3.4.3. An ageing population needs a prosperous economy, which requires a population policy to supplement labor force

The construction and operation of the aforementioned elderly care facilities would inevitably involve public funds, an ageing population, therefore, must be backed by a vibrant and prosperous economy. However, an ageing population will at the same time, contribute to a dwindling labor force (the Government expects the peak to emerge at around 2018) and hinders economic growth. Furthermore, our construction industry is also facing a serious problem of aging labor force. It is inevitable that labor force is required to meet the future substantial construction demand of housing and infrastructure, etc.

To tackle the negative economic consequences resulted from the gradual labor force withdrawal as people age, Hong Kong needs a set of comprehensive population policy to attract more talents from outside. However, insufficient housing supply, high commercial rents and the long criticized lack of international school places all deter foreigners from settling in Hong Kong.

In other words, to ensure the economy is vibrant enough to support an ageing population, we require not only hospitals, nursing homes for the elderly, but also commercial hardware and international schools.

3.4.4. Developing new engines for economic growth also revolves around land

There have been criticisms that Hong Kong's economy is over-concentrated. However, if there is not enough land, a diversified economy could hardly be realized. As we have mentioned in Chapter 1, the tech giant Google eventually settled in Taiwan and Singapore as it was unable to seek suitable land in Hong Kong to build data centers. In case more technology corporates hope to enter and station in Hong Kong in the future, can we avoid the same failure and provide enough land for their developments?

In fact, Hong Kong has once identified six priority industries that we have advantages in, including medical services, education and cultural and creative industries, etc. Yet, given the current condition, the local medical and educational systems are struggling even to satisfy local demands. To develop Hong Kong into the regional medical and educational hubs, it is obvious that much has to be added to the capacity of these industries. But where can we obtain the land to build new private hospitals and private universities?

Likewise, the cultural and art industry in Hong Kong has great potential. Following New York and London, Hong Kong is the third largest art piecemarket in the world by sales value. In 2015, the Art Basel held in Hong Kong was the largest of its kind in terms of scale across Asia, showcasing over 3,000 art pieces by different artists.

It is encouraging to see Hong Kong being popular for international art collectors as it helps build a vibrant art scene in the city. However, if we want to provide local artists enough space to create, innovate and develop, hardware plays an important role. Sadly, the unaffordable levels of commercial rents pushed the Government to rely on schemes such as "Revitalisation of Industrial Buildings" to create extra space for art development. However, the recent "Area Assessments of Industrial Land

in the Territory” reflected that Hong Kong is even running out of industrial space. Where can we find more land for art galleries, studios, exhibition centers, opera houses and theatres?

The above paragraphs only discuss some of the many considerations. Figure 22 cannot present the whole picture and we surely have more social and economic demands. Notwithstanding, the message remains unchanged - land development is not solely about providing shelters to the citizens, it also concerns various social, economic issues and living standard improvements. Sometimes these concerns are not directly related to land development but they definitely should be taken into account.

Admittedly, the aforementioned matters have huge repercussion, especially for those related to healthcare system capacity and elderly support. This research does not attempt to establish that all problems could be solved by mere land supply. For instance, the healthcare reform involves healthcare financing, measures to alleviate the severe shortage of healthcare manpower and establishment of an effective primary care system. Regarding the long-term elderly care issue, sufficient manpower in the industry is also indispensable so that door-to-door services, such as rehabilitation exercises, physical therapy, medical seeking and follow-up medical consultations services could be delivered to delicate and sick elders.

These problems far exceed the scope of land supply. However, it is undeniable that land supply is a key element in any possible solutions.

Even if we had a perfect policy, an adequate supervision and unlimited healthcare and elderly care manpower supply, if there are no new hospitals, new homes for the elderly or new social centers for the elderly, making a better life for the elderly in the face of an ageing population will be just spinning tall tales. To conclude, land supply is indispensable in improving the living quality of the public and supporting a vibrant economic development.

3.5 Long-term trend of interest rate

Land development is also related to the long-term movements of interest rate, as it determines the burden of mortgage servicing of the homeowners. In the long term, Hong Kong could consider developing some fixed-rate products for families who wish to purchase their properties, so as to reduce the uncertainties of interest rate they face and in turn, the burden of mortgage servicing on them.



4. Our Recommendations

4.1. A change of mindset: understanding the facts of shortage of land supply and reviewing the avenues of land supply in an objective, calm and pragmatic manner

Hong Kong's severe shortage of land supply has been the source of a series of economic and social problems, which have not only brought about high housing prices and rentals, but have also weakened our competitiveness and even threatened Hong Kong people's well-being. We hold that, in order to tackle Hong Kong's land supply problem, three premises should be brought into attention.

The magnitude and urgency of the shortage of land supply

In Chapter 3, we referred to the growth rate of the developed land area per capita during the 1990s as a reference. The said decade was an era of extensive constructions during which several large-scale infrastructural projects for commercial and civilian uses were delivered. The 1990s saw the completion of over 630,000 private and public residential units (or 63,000 per year), two shopping malls with GFA of some 1 million sf each (Festival Walk and Time Square), the first phase of the Hong Kong Convention and Exhibition Center in Wan Chai, the first phase of the Tsuen Kwan O New Town Development, a total of eight public hospitals (incl. Tuen Mun Hospital, Pamela Youde Nethersole Eastern Hospital, North District Hospital, Tseung Kwan O Hospital), the Hong Kong International Airport, Airport Express, and the first phase of the International Finance Center atop the Hong Kong Station.

Looking forward, even if our population growth substantially decelerates, more than 9,000 hectares of additional developed land, or approximately three Sha Tin New Towns, will be required if we are to enjoy the growth rate of the developed land per capita during the 1990s. In other words, we need to create land with an unprecedented pace and scale.

Planning efficiency for different methods of land supply

As discussed in Chapter 3, an ideal mode of land development requires much more than merely providing sufficient land for new buildings. The efficiency and synergy of overall planning should also be considered. It follows that whilst some land supply proposals could offer a sizable total area of land, these land sites may not be efficiently developed if they are scattered across the territory and hence cannot be planned comprehensively to ensure sufficient living space, employment opportunities and community facilities to be provided in close proximity. The Government would then need to invest heavily on infrastructure like roads to connect residents and other supporting facilities. This should not be overlooked when assessing and contrasting different land supply strategies.

Expected difficulties arising from different land supply strategies

Conceivably, all land supply proposals will encounter different difficulties and opposition. Ultimately, it is the choice of the community of Hong Kong as a whole. If we accept that the problem of land shortage is imminent, we should then be deliberating on how to minimize the impacts on the environment and other stakeholders, alongside the appropriate compensation measures while we are increasing land supply.

Therefore, based on these premises, we believe the strategies to increase land supply should be multi-pronged. A variety of short-, medium- and long-term measures should be considered altogether. More importantly, we are of the view that, in light of the severity and urgency of land shortage, no strategy should be the so-called "last resort".

To fix the current predicament so as to provide affordable housing for the public, access to medical services at a reasonable cost for our patients and ensure quality elderly care for our parents - all of these require a prosperous and vibrant economy to support. The community should understand that we now face a critical choice. We can either: (i) strictly adhere to the principles and refuse the discussion of some land supply methods; or (ii) compromise for the common good, our families as well as the long-term development of our city, and objectively discuss certain land supply issues which have seemingly become "social taboos" recently.

4.1.1. Reclamation

For example, as a major source of land supply for a long time, reclamation has virtually halted in recent years. Between a clear-cut “support” and “oppose”, is there still room for discussion? For instance, factors such as site location, technology, and cost should determine the environmental impacts of reclamation. When there is no effective means to provide land with relatively large area for comprehensive planning and development, should we discuss the factual details and pro-actively think about “how to do” instead of “should we do”?

Figure 23. Proposed reclamation area



Note: The red circles denote the proposed sites for near-shore reclamation; while the purple one indicates the area in which the proposed artificial island would be constructed.

Source: Development Bureau (January 2015).

Currently, the Government has identified five near-shore sites with good potential for reclamation. In total, these sites can provide 470 to 730 hectares of land. The Secretary for Development has recently stated that the construction of an artificial island between the Hong Kong Island and the Lantau Island can provide around 700 hectares of land (Figure 23). All things considered, even if all other land development proposals could be completed on time, there is seemingly still some way to go if we want to meet our medium- to long-term development needs. Thus, the society should not, and cannot avoid the discussion of reclamation as a means of land creation.

In the long-term, it is unavoidable for Hong Kong to continue reclamation. Indeed, the Government had preliminarily proposed a total of 25 potential reclamation sites in 2012. It is probably time for the society to discuss whether to include more reclamation sites on top of the six current sites.

For example, one of these 25 sites is to construct an artificial island with the size of 1,400 to 2,400 hectares to the south of Cheung Chau Island, and was once planned for the relocation of facilities currently situated in the urban areas like the container port or oil depot. Proposals like these are worth being reconsidered by the public.

4.1.2. Land use rezoning

As mentioned by the Secretary for Development Mr. Paul Chan, rezoning of land will inevitably affect residents in the districts concerned. Undeniably, rezoning may not be the best option to increase land supply from the perspective of planning efficiency. However, when land supply from reclamation and new town developments are yet to be delivered, houses will not emerge out of nowhere. After all, if everyone opposes, where can we build the much needed housing units?

In fact, the 150 potential housing sites that have been identified by the Government that involves land use rezoning are distributed in 16 District Council districts in the city. If hefty housing costs are a common problem facing all Hong Kong citizens, it is not unreasonable to expect the solution to come from everyone too. Moreover, as emphasized in this report, land supply is much more than just housing. Even though a site is not rezoned for residential development now, the same site may need to be rezoned for other uses in the foreseeable future. Otherwise, as the number of elders aged 65 or above doubles, where are we going to find sufficient land to build the urgently needed hospitals, nursing homes and community centers for the elderly?

4.1.3. Country parks

40% of Hong Kong's land area has been designated as country parks (CP). It involves some 44,000 hectares of land and equals 16 times of the city's total developed land area. The possibility of developing CP should not be excluded. Nevertheless, most of the current discussions have been in-principle and emotional, while certain oppositions even hold that the CP "cannot be touched at all". We entirely agree that (1) green area is of undoubtable importance for the city; and (2) we should not and cannot release an extensive share of CP for development.

Currently, the boundaries of CP are designated by the regulations under the "Country Parks Ordinance". The factors determining the suitability of an area for designation as CP include "aesthetic value, recreation potential, conservation value, size, land status, management effectiveness, etc." Yet, these are after all, not objective and quantifiable criteria.

Besides, the ordinance concerned was established in 1976, one should not expect the ecological value of all these areas designated as CP today to be the same as 40 years ago.

The Government could set up a platform, bringing together stakeholders from various sectors of the community, to discuss and establish a set of scientific standards and criteria for reviewing the ecological value, service and use of all CP, and determine whether the boundary of CP should be altered based on such objective indicators. When considering development of land originally designated as CP, such platform should also regularly monitor and review such factors as the demand-supply balance of land, progress of different land supply avenues, market situations, social and economic needs.

In the longer term and where technically feasible, we may enhance the overall ecological value of CP even though the area covered is reduced, e.g. to add plantation or create fresh water systems in areas with lower ecological value now. In a nutshell, with an open, objective and holistic mindset and proactive deliberation of strategies, development and ecological conservation is never mutually exclusive.

4.1.4. Brownfield

There have been views that the Government should prioritize “brownfield” over other methods of land supply. At present, there is no official definition of brownfield in Hong Kong. Generally, brownfield refers to the agricultural land in the rural New Territories, which have been occupied by various uses which are often incompatible with the surroundings, such as open storage and recycling yards.

Given the acute problem of land shortage, any possible source of supply should be fully utilized. Nonetheless, it might be over-optimistic to expect brownfield to become the major source of land supply. Firstly, according to information provided by the Development Bureau, half of Yuen Long South NDA and some one-fourth of the land in Hung Shui Kiu NDA are brownfield sites, totalling a land area of over 300 hectares. Furthermore, despite lacking substantive details on relevant plans, the Government has started to conduct a study on developing New Territories North, which indeed covers the locations of many brownfield sites.

Hence, it seems that the Government is not intentionally leaving brownfield undeveloped. Instead, the development of brownfield still requires resumption of land, relocation of residents, technical studies on transportation and environment, and approval of rezoning from TPB. In fact, the planning work for the Hung Shui Kiu NDA had started in 1998 and it has just obtained approval from the TPB 17 years later in 2015.

4.1.5. Other methods of change of land use

There have also been views that there are many other ways to increase land supply and therefore, options involving reclamation and CP should be the "last resort". These suggestions mostly revolve around altering the use of currently developed land to support the construction of public housing or other infrastructure, such as "village type development zone" (so-called "New Territories small house"), land designated for military use, private golf courses, and private clubhouses.

It must be reiterated that, as elaborated in Chapter 3, we need to add some 9,000 hectares of developed land to support social and economic development in the next three decades. As things stand, the total amount of land that could be created by all the long-term land supply projects of the Government, including the all reclamation proposals as well as the development of New Territories North, both of which are still under planning or feasibility study, is only 5,000 hectares. This is on the optimistic assumptions that all projects concerned can successfully obtain funding approvals from the Legislative Council on time, complete the necessary town planning procedures and will not be challenged by JRs. In other words, the long-term supply of these 5,000 hectares of land is after all, still very much uncertain.

On the above ground, unless all the other aforementioned proposals could provide an additional 4,000 hectares of land, otherwise the question we should be asking is "how to increase land supply by all feasible means", which includes reclamation and development of CP, instead of "which method should we be adopting to create land".

Furthermore, as mentioned at the beginning of this Chapter, there are obstacles and problems facing every land supply proposal. For instance, land designated as "village type development zone" involves historical and legal issues. The process to smoothly adjust the current "New Territories Small House" policy, balancing various sectors' interests may not be less lengthy than reclamation. Land designated for military use is even more complicated as it relates to constitutional issues as well. For example, according to the Basic Law and Garrison Law, the HKSAR Government has to provide another site for the People's Liberation Army to garrison if a specific site originally designated for military use is changed to other uses, subject to the approval of the Central People's Government. In other words, putting aside the exact land area that could be supplied from relocating military facilities, we still need to create new land before changing military land use.

For specific proposals, some conceptual issues are yet to be clarified or substantiated. For example, some would argue that since private golf courses are reserved for a small group of people, hence it is not in the best interest of the general public. It follows that the Government should resume these sites for the development of public housing.

Nonetheless, as this study has emphasized repeatedly, Hong Kong does not only lack housing units, but it also has insufficient sports facilities. It is not uncommon to hear athletes of different sports activities commenting on the insufficient training venues in Hong Kong.

The latest example would be the World Cup Qualifying match scheduled in November. The Hong Kong national football team could not even play at the Hong Kong Stadium as the said soccer pitch has not yet recovered from the match previously played on it. If the above logic applies, i.e. a plot of land exclusively used by a small group of people is a violation of public interests, even if the sites concerned are resumed by the Government, a case could be made that the land should support the development of public sports facilities instead of housing.

It should be reiterated that given the current problem of land shortage, any land resources that can be used more effectively should be considered, following a multi-pronged approach to increase land supply. In fact, the study on developing New Territories North covers the Fanling Golf Course and the Chief Executive's Fanling Lodge. In the meantime, the Development Bureau is reviewing the "New Territories Small House Policy". Nonetheless, all these land supply proposals take time. And even if we assume that the abovementioned complex legal, constitutional and conceptual issues are resolved and all these land supply projects are materialized, most of these sites would likely be scattering across the New Territories and it would be difficult to achieve planning efficiency.

4.2. Establishing a long-term land reserve to support future social, economic and livelihood needs

Reviewing the property market of the city over the past two decades, our housing supply has seemingly been slower than ideal. Specifically, home prices rose rapidly during the mid-1990s before reaching its peak in 1997, whereas the spike of private housing completion is only witnessed a few years later. Afterwards, home prices plummeted by some 60% between 1997 and 2003 before seeing the trough and started rebounding. During the said period, the supply of private residential flats stood high and added pressure to the residential property market. In the meantime, the Government attempted to support the housing market by holding back land supply, introducing the Land Sale by Application System among other stabilizing measures, but the effects of these measures only emerged 4 to 5 years afterwards, suppressing private housing completion in 2005 and staying low for a few years after. As a result, the story repeats in an opposite direction. Home prices have been on the increase since 2009 and more than doubled by 2014.

It underlines the difference between the property market and other economic activities. Upon a sudden change in demand, the output of many services and goods can be varied through adjustments of salary and work hours in response to changes of the market. The property market, however, is distinct. As a consequence, the Government's policy response has always been behind market changes and only worked to magnify the volatility of housing prices. In most cases, a flat is the most valuable asset for an average family in their lifetime. High volatility of the housing market brings about a relatively strong "wealth effect".

Considering the prolonged deflation that lasted a consecutive 58 months, the "balance sheet recession" that followed from 1997 to 2003, the soaring home prices in the past few years and the resultant social and economic problems, the price that Hong Kong has paid for this protracted "supply lag" in the past two decades was too painstakingly high.

Given the long lead time for housing supply, it may be too late for the Government to respond after the awareness of the hefty property prices. Therefore, Hong Kong should establish a land reserve and set up a mechanism of releasing the reserved land to the market. An "unused" land reserve is better than a slow and ineffective response. Other Asian economies also have similar policies to support their economic and social developments. For example, Singapore started the Marina Bay reclamation in the 1970s. However, there was not enough demand for land upon the completion of reclamation. As a result, the reclaimed land was temporarily used as a golf course. Singapore only began its planning in the 2000s and the Marina Bay Financial District was completed in 2007, providing over 23 million sf of office GFA, which is larger than the total capacity of Central.

Another example is Macao, which is situated next to Hong Kong. It would be impossible for Macao to have the capacity to house the many world-class tourism facilities today if the local government had not increased land supply through reclamation in the past century. At its peak, Macao's gaming industry was seven times that of Las Vegas'. Although Macao's economy is dragged by a slowing gaming sector, the people and government have already genuinely benefited from employment, income and taxation in the past decade or so.

4.3. Reforming the CDA system to release the development potential of land as soon as possible

As explained in the Chapter 2, the current arrangements of CDA hinder developments, adding uncertainties to the market. Moreover, there is no substantial evidence that the said system can effectively enhance citizens' quality of life. Thus, in order to ensure an efficient use of precious land resources, the CDA system, which is a possible way to provide developable land in the short-term, should be comprehensively reviewed and reformed.

4.3.1. CDAs in the future

We recommend that, in order to more accurately reflect the intention of CDA, except for sites involving Urban Renewal Authority's renewal projects, TPB should not designate other sites as CDA to reduce restrictions on development.

It, however, does not mean that the Government would lose planning or development control.

Instead, the Government should bear the professional and public responsibilities of city planning. If the Planning Department believes a certain area should be comprehensively developed, it could introduce the planning parameters, in the form of notes to Outline Zoning Plan (OZP) or the clauses of land sales contract / tender document, including the height of the buildings / view restrictions (such as not blocking a certain area's view to the coastline), required public facilities (car parks, elderly care centers, parks, etc.), noise / traffic / ventilation requirements that must be fulfilled, designated commercial / residential development mix, etc.

If a proposed development project fulfils these requirements, it should be regarded as "always permitted" like the "column one" projects for other land uses and a separate application to TPB is not needed. This could prevent subjective judgements in the approval process, and can speed up the current time-consuming mechanism of reviewing each of the applications and the release of precious land resources.

Making reference to overseas experience, Singapore's "White Zone" is a type of planning and control on development similar to the above-mentioned recommendation. To encourage urban renewal to meet the needs of economic transition, Singapore designates districts at strategic locations as "White Zone" to facilitate comprehensive developments. The Lion City lists out various parameters and requirements as conditions of land sales and tenders of "White Zone". Upon the pre-requisite of fulfilling these conditions, the development will not be limited.

Figure 24. Conditions of tender for Singapore White Zone development

PART B	
3.0 SUMMARY OF PLANNING AND URBAN DESIGN REQUIREMENTS	
3.1	The development on the Land Parcel is required to comply with the following planning and urban design requirements. These are to achieve a high quality and well-designed development that relates to the surrounding context and retains the planning intentions envisaged for the site.
3.2	A summary of the planning and urban design requirements is set out in Table 1. The details are set out in Part IV.
Table 1. Summary of Planning & Urban Design Requirements to the Land Parcel	
PARAMETERS	PROPOSED REQUIREMENTS
Site Area (sqm)	74,702.1 sqm
Land Use	White (Commercial/Industrial/Office Use)
Gross Floor Area (GFA)	The maximum permissible GFA for the development on the Land Parcel is 98,880 sqm and the total GFA to be built is not to be less than 60,000 sqm, as set out in Part IV (Clause 4.2.2). At least 40% of the maximum permissible Gross Floor Area (GFA) for the development on the Land Parcel is to be for office use. The remaining GFA can be for additional office or hotel uses or for other commercial and / or residential uses as the Competent Authority under the Planning Act may approve, as set out in Part IV (Clauses 4.2.3 and 4.2.4).
Uses of 1 st and 2 nd stories	All fully-permeable uses, such as retail food & beverage, entertainment, and other service uses, are to be provided fronting the key public spaces and along major pedestrian networks on the 1 st and 2 nd stories across the development on the Land Parcel, as set out in Part IV (Clauses 4.3 and 4.4).
Outdoor recreational area (ODA)	ODAs are permitted within the Land Parcel. The ODA for the ODAs will be computed as part of the maximum permissible GFA for the Land Parcel, and will be subject to prevailing Development Control Guidelines issued by the Competent Authority under the Planning Act, as set out in Part IV (Clause 4.5).
Building Platform Level	The minimum platform level (MPL) shall not be lower than 10.100.0m or the existing adjacent road to ground levels, whichever is the highest, as set out in Part IV (Clause 4.6).
Building Height	The development on the Land Parcel is subject to the following building height controls, as shown in the Control Plan, and as set out in Part IV (Clause 4.7): a) Height Limit A maximum technical building height control of 150m AHD, and 150m AHD, Above Mean Sea Levels and 140m AHD. A maximum of 4 stories.
PARAMETERS	PROPOSED REQUIREMENTS
Building Setback	The development on the Land Parcel (including all basement levels) is subject to the following setback controls, as set out in Part IV (Clause 4.8) and as shown in the Control Plan: a) A minimum of 7.0m from the road reserve along Boon Lay Way, inclusive of a minimum 2m wide green buffer with at least one row of trees. b) A minimum of 3.0m from the south eastern common boundary up to 6 stories of the development. Any portion of the development above 6 stories is to be set back minimally an additional 7.0m (i.e. total 12.0m from the south eastern common boundary). c) A minimum of 3.0m from the southern half of the MRT station common boundary. d) Along the northern half of the MRT station common boundary, the building setback line is to be an extension of the setback line from the southern half. e) A minimum of 10.0m from the north western common boundary with the proposed bus interchange. f) To abut the portion of the boundary line between the road reserve of the proposed road and the bus interchange common boundary as a party wall and g) A minimum of 3.0m from the road reserve along the proposed road north of the Land Parcel.
Building Form and Massing	All facades of the development are to be treated as main elevations, as set out in Part IV (Clause 4.9). Building Edge The development within the height zone shall include a minimum 4-story high building edge abutting the building setback line. The building edge is to abut minimally 40% of each of the respective building setback lines. However, a minimum of 40% of the length of each of the building facades is to be further set back from the building setback line for articulation of the building form to create pockets of high permeable planting at street level, as set out in Part IV (Clauses 4.9.2 and 4.9.3). Greenery, Street-based Development Within the height zone, the development on the Land Parcel shall be designed to create a low-rise, street-based, and pedestrian-friendly environment. The development shall only occupy up to 50% of the corresponding site area of the low-rise zone, as set out in Part IV (Clauses 4.9.4 and 4.9.5). Building Form and Greenery The facades of the development are to be well articulated, and well integrated with greenery, in the form of permeable planting, on roof gardens, sky terraces and balconies, as set out in Part IV (Clause 4.9.6).

Source: Technical condition of tender - sale of site for White Site development, land parcel at Boon Lay Way (Singapore, March 2011).

Besides, in order to fully reflect the land value, CDA should not be included in any land auctions and tenders in the future to avoid adding uncertainties in the market, which will damage the land value and result in losses to the public coffers.

4.3.2. Existing CDAs

Regarding existing CDAs, the Government should proactively release the development potential of the relevant sites. For instance, TPB can set up a time frame (such as two years) for the development proposal applicants to collect a certain share of ownership, based on the size of a specific CDA, distribution of ownerships, etc. If the time limit expires and the applicant still cannot collect a specific share of ownerships, TPB should consider breaking the CDA into small zones or allowing the CDA to be developed in phases based on the collected share.

For sites that have been designated as CDA for a long time, TPB should re-designate them into other uses within a specific time frame, which is better than blocking the land development for nobody's benefits. Besides, the Government should bear the responsibility of conducting a comprehensive planning of the New Territories NDAs and consider using the above-mentioned system for re-designating the area's CDA into other uses with necessary planning parameters and restrictions.

We understand that to include planning parameters into the notes of OZP is procedurally equivalent to rezoning of land use which must be examined under relevant town planning procedures and seeking

professional comments from relevant government departments are still required. Moreover, satisfying the technical requirements of these departments (e.g. ventilation, noise, and fire services) may render a smaller GFA of the development project.

However, this at least provides a set of objective procedures to be followed and is less uncertain than the case-by-case approval of CDA under the existing mechanism. In fact, given the complicated procedures and heavy objections facing the process, the Government has still successfully completed the rezoning processes of some 60 sites over the past three years. In terms of track record, it is apparently superior to some cases of CDA which has been idling for more than two decades.

4.4. Government to demolish obstacles and facilitate approval processes

Even with an abundant supply of new land, the progress of various developments will still be slowed down if the relevant approval processes are not sped up. We believe that the Government should consider the proposals mentioned below for speeding up its approval processes of development:

4.4.1. Setting a time frame on of approval processes to avoid prolonged delays

As explained in Chapter 2, the Lands Department, which is in charge of various procedures such as lease modification, land premium and approval of plans, does not have a statutory time limit of approval and this creates delays on many development projects. One of the reasons behind the delays is that the Lands Department needs to seek comments from various government departments. The precious time of development is wasted on the back and forth communications between government departments and the practitioners.

We believe, in order to speed up approval processes, the Lands Department should set a statutory time limit for approval. Upon the expiration of such time limit, the development plan shall be automatically deemed as approved, which is in line with the Buildings Department's usual practice. The same principle should also be applied to the other departments when Lands Department seek their comments, assuming "nil return" if other departments do not reply by the said time limit.

4.4.2. Clearly defining the requirements for each approval process, standardize technical definitions for the Government and business sector to adhere to

The Government should discuss with the industry to set up simple and clear requirements for major plans involved in the approval process, such as the "Master Layout Plan" and "Design, Deposition and Height". The Government and the industries should strictly follow these requirements. In other words, the plans should be rejected if they do not match the set submission criteria. At the same time, approval is not required for minor details outside the scope of these fixed requirements. Furthermore, the Planning Department, Lands Department and Buildings Department should standardize the technical definitions of different items to be approved, so as to avoid inconsistent approval standards between departments.

4.4.3. Enhancing the transparency of the calculation mechanism of differential land premium to facilitate agreement on lease modification and land exchange transactions

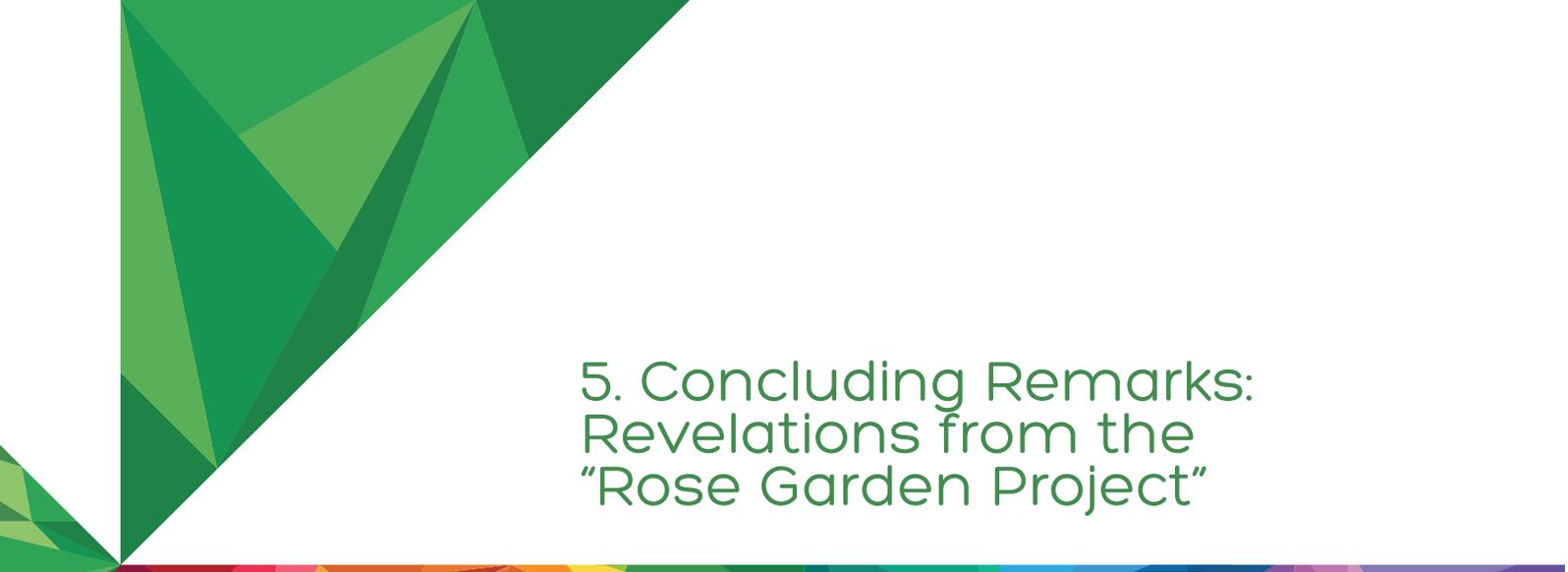
The Government should enhance the communication with the industry and strive to establish a more transparent mechanism of land premium calculations, such that the different parameters for calculations (e.g. the benchmark for reference to forecast construction costs, estimate marketing costs and costs of demolition of existing structures and site formations, etc.) could better reflect the latest situations and trends of the market.

4.4.4. Enhancing human resources management and streamlining approval processes

The Government should review the need to increase manpower for approving authorities and make a better distinction between the relevant departments' approving functions and other administrative functions (such as managing complaints at the district level), with an aim to building a more focused and professional approval team to facilitate the processes.

As a reference, in 1997, the Housing Authority has streamlined its development procedures and has reduced the standard lead-time for public housing projects from 62 months to a substantially shorter 47 months. Yet, the papers by the Housing Authority as of mid-2015 showed that the latest corresponding figure is five to seven years (or 60 to 72 months). It could be seen that the procedures and work flows of government departments should have much room for further consolidation, optimization and streamlining.

In the long term, depending on the different stages of development, the Government could establish one-stop set-ups for approval processes so as to clearly identify the leading approval departments to achieve a better coordination of different departments' efforts. This could prevent duplicated approval processes and address the problem with conflicting departmental comments. As a reference, the Government has set up the Energising Kowloon East Office in mid-2012, led by the Development Bureau, to steer, supervise, oversee and monitor the development of Kowloon East, providing one-stop support to land development proposals with a view to facilitating its transformation into another premier CBD of Hong Kong.



5. Concluding Remarks: Revelations from the “Rose Garden Project”

This research attempts to illustrate the various social and economic problems as a result of the current shortage of land in a bid to raise public awareness of these issues. And as repeatedly emphasized in this study, it seems that the public has not fully recognized the facts of (1) the severity and urgency of land shortage; (2) development of land significantly transcends the area of housing. We hope that our research findings could provide new viewpoints and perspectives for stakeholders of development of land, from the public to the Government.

One such perspective is making reference to history, which should offer some insights into addressing problems facing us today. In the late 1980s, the prospect of the Handover in 1997 elicited worries and anxieties for Hong Kong people, to the extent that it triggered the so-called “migration waves”. To restore the confidence among Hong Kong people, the British Hong Kong Government proposed the “Hong Kong Airport Core Programme” in the Policy Address of the then Governor David Wilson in 1989. The programme formed part of the infrastructure project of an unprecedented scale, the “Port and Airport Development Strategy” (PADS), or more commonly known as the “Rose Garden Project”. The massive programme centered round the construction of a new international airport on the island of Chek Lap Kok, supported by a number of transport infrastructure and urban development projects. These ten core projects included the Airport Express, the Tsing Ma Bridge, the Western Harbour Crossing, the Route 3, Central Reclamation and the North Lantau New Town.

Without the “Rose Garden Project”, Hong Kong would not have had one of the top international airports in the world; two of the longest dual-transportation (road and railway) span suspension bridges (Tsing Ma Bridge) and cable-stayed bridges (Kap Shui Mun Bridge); two globally renowned hotel brands (Four Seasons Hotel and W Hotel); the key arteries of urban transportation network (such as the Western Harbour Crossing and West Kowloon Corridor). Likewise, there would not have been the development along the Airport Express, nor would we see today the large-scale public housing estates in Nam Cheong, the extensive commercial / residential development atop Olympic Station and Tsing Yi Station, as well as the Tung Chung New Town. It is almost sure that without these infrastructure projects, the level of development and the quality of life in Hong Kong would have been substantially hindered.

Equally importantly, the public must have had certain momentous but difficult decisions during the planning and implementation process of the "Rose Garden Project". For instance, the construction of the new airport and the development of West Kowloon alone involved nearly 1,300 hectares of reclamation. Conceivably, other core projects of the said programme should have generated different impacts and inconvenience to the residents and environment in different areas of the city. Eventually, in face of the prevailing social, economic and livelihood issues, the community as a whole agreed that "Rose Garden Project" was necessary for the long-term benefits of Hong Kong.

Today, our city is facing a set of different but equally serious social, economic and livelihood problems. These issues call for some deeper institutional reforms and policy changes in different domains and could not be resolved solely by extensive physical constructions. What is certainly tough, is that land forms the "insufficient but necessary condition" of the solution. In other words, land alone is not enough. Yet, to address these problems without adequate land supply is nothing but futile.

"Rose Garden Project" aimed to paint a rosy future for Hong Kong and to restore people's confidence.

26 years ago, we decided to work together for a better future. 26 years later, we are now in a dilemma over how to provide better social facilities and living environment for all Hong Kong people, appropriate medical services and long-term care for the elderly, and the much needed economic vitality for the development of our young people, presenting us with another set of critical but difficult decisions to be made. What is your choice?

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