



The impact of different land-supplying channels on the supply of housing



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ABSTRACT

As Hong Kong's property prices have been skyrocketing particularly in the last several years, housing has become even less affordable than it was prior to the Asian Financial Crisis, compromising Hong Kong residents' living standards. The general public mostly blames the supply-side actors (i.e. property developers and/or the government) for such a predicament, and vociferously demands for higher supply of residential flats both in the private and public sectors. The government, in response, proposes the supply of more residential land, among other measures, in addressing the public's demands, with the notion of "higher land supply results in higher housing supply". Nonetheless, there are other channels, other than land sale, which provide land for housing construction, such as land exchange, which are usually overlooked in public debates. In the light of this, this paper aims to investigate the respective impact of land sale and land exchange on Hong Kong's housing supply. The findings, interestingly, show that land exchange has a much larger long-run impact on housing supply than land sale does; that housing supply responds to short-run fluctuations in property price; and that best lending rate has neither a short- nor long-run relationship with the supply of housing. The reason behind the finding regarding land sale and land exchange is that, the former is initiated by the government which overlooks property developers' profit incentives and development strategies, while the latter essentially reflects that a particular land site is ripe for development (i.e. profitable) from the developers' standpoint. Some implications relating to the recently announced government land policy measures are also discussed.

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Introduction

In recent years, one of the most controversial social issues in Hong Kong has been the escalating property prices/rents (Fig. 1). In the meantime, however, as Hong Kong peoples' income level has not kept up with the upward property price trend, housing has become less affordable. It is reported by the Census and Statistics Department (2011) that households which reside on Hong Kong Island spend about 40% of their monthly expenditures on housing; and those living in Kowloon and in the New Territories spend about 30% of their expenditures on housing per month. In comparison with other international cities, it is found in the 7th Annual Demographia International Housing Affordability Survey (2011) that Hong Kong, with a price-to-income ratio of 11.4, is ranked the least affordable housing market among the 82 major international cities under scrutiny. To look at the housing affordability situation from another perspective, a side effect of this issue which has been

prevalent in recent years is the phenomenon of the sub-division of residential flats into separate smaller rooms for rental purposes, and the associated building safety (and legal) problems. Nonetheless, the issue of housing affordability is not only limited to the private sector, as the effect of high prices on the private housing market appears to have spilled over to the public housing system as well. For instance, transaction prices for resale flats under the Home Ownership Scheme (HOS) have been remarkably higher than they were years before. In addition, the amount of people on the waiting list for public rental housing (PRH) has shown noticeable growth in recent years. According to the Housing Authority, there were 189,000 persons on the PRH waiting list in year 2011/12, 76.6% higher than the amount 5 years previously (107,000 people).

The Hong Kong community appears to unanimously blame the supply-side actors (i.e. property developers and/or the government) for this predicament. Some accuse a few prominent developers for limiting housing supply, while others regard the government's "high land price policy", which restricts the supply of developable land, as a root cause of the problem. Curiously, both housing supply and the sale of land had indeed been much lower in the last 10 years or so, compared with those in the 1990s

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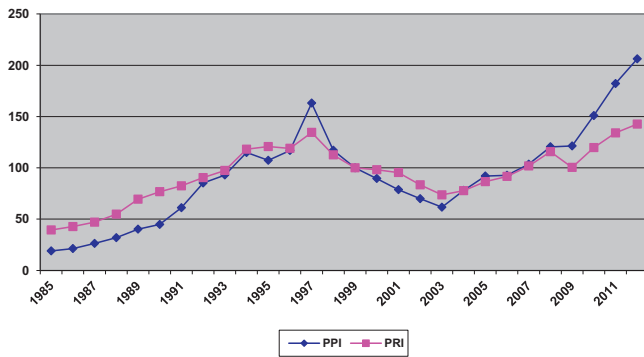


Fig. 1. Property price index (PPI) & property rental index (PRI), 1985–2012. *Note:* The base index for both PPI and PRI (in 1999) is 100.

Source: Rating and valuation department.

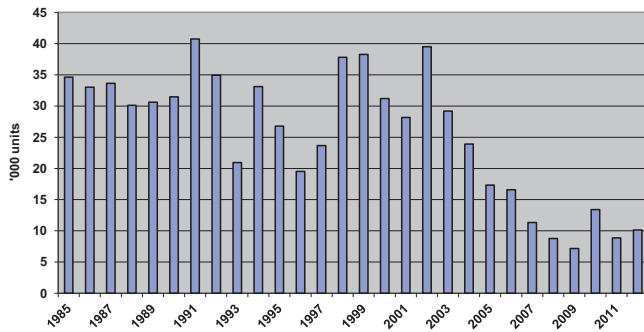


Fig. 2. New completions of residential flats, 1985–2012.

Source: Buildings department.

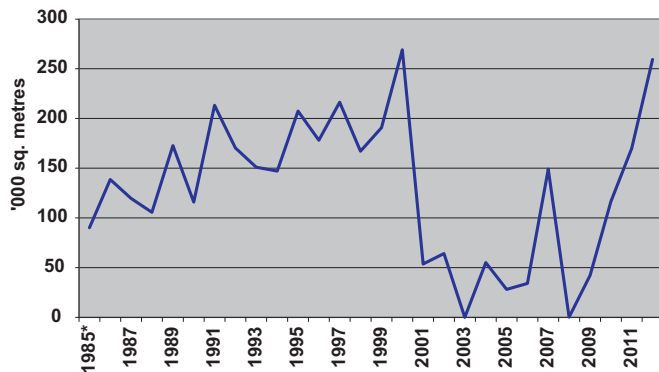


Fig. 3. Land supply in Hong Kong via land sale, 1985–2012.

Source: Lands department.

(Figs. 2 and 3). The general public is vociferously demanding not only the re-launch of Home Ownership Scheme (HOS), suspended since Autumn 2002, but also a higher supply of small- and medium-sized residential flats. In response to these demands, former-Chief Executive Donald Tsang, in his *2011–12 Policy Address*, announces that the construction/provision of HOS flats would be resumed¹ and sites with specific conditions on the minimum number of units to be built, and the sizes of these units, would continue to be sold. In addition, he also announces that more residential land be supplied.

¹ According to the *2011–12 Policy Address*, “With the sites identified at this stage, we plan to provide more than 17,000 flats over four years from 2016 to 2017 onwards, with an annual production of between 2500 and 6500 flats. For the first year, 2500 flats can be made available. As more sites become available, we will set our planning target at 5000 flats a year on average”.

Table 1

Land use distributions in Hong Kong as in 2011.

Class	Approximate area (km ²)	Percentage (%)
Residential	76	6.9
Commercial	4	0.4
Industrial	26	2.3
Government, institution and community facilities	25	2.3
Transportation	56	5.1
Open space	25	2.3
Other urban or built-up land	53	4.8
<i>Total developed built-up area</i>	<i>265</i>	<i>23.9</i>
Agricultural	68	6.1
Woodland/shrubland/grassland/wetland	738	66.6
Barren land/water bodies	37	3.3
<i>Total non built-up area</i>	<i>843</i>	<i>76.1</i>
Total	1108	100

Source: Planning department.

Essentially following Tsang’s policy announcements, the current Chief Executive, C.Y. Leung, upon his inauguration in 2012, declared that some of those land sites were to be sold under the “Hong Kong Property for Hong Kong People (HKPHKP)” scheme, under which residential flats constructed on those sites are only allowed to be purchased by permanent Hong Kong residents.²

The announcement regarding the supply of residential land is of particular interest for this study. Hong Kong is a very densely-populated territory³ in which its land development is subjected to a unique land use planning system which combines planning control and land-use zoning regulations, both of which are instrumental in rendering development more costly and more time-consuming. Concerning planning control, the development of residential buildings is constrained by means of maximum plot ratio, site coverage, and building height,⁴ in accordance with the *Hong Kong Planning Standards and Guidelines*. These controls have implications on the profitability of developable sites, and thus on developers’ demand for residential land, be it through land sale, land exchange, lease modifications, or redevelopment. As for zoning, Hong Kong’s land use is decided according to the Outline Zoning Plan (OZP),⁵ and matters in this regard are under the jurisdiction of the Planning Department and the Town Planning Board (TPB). As of 2011, less than a quarter of Hong Kong’s land has been developed, with less than 7% for residential purposes (Table 1).

In addition to various development controls, the government, as the sole owner of all land in Hong Kong, releases non-developed land rather sparingly to ensure that the revenue incurred from its sale is maximized (Hui et al., 2006). This practice results in higher base land price, which in turn leads to the clustering of developable land in the hands of only a few large property developers (Table 2).

Under such a policy background, one might ask whether a “higher land supply” is able to address the current housing affordability issue, as the government and many others apparently believe it could. It should be noted that most people (and many previous Hong Kong studies in this topic) seem to have referred

² Some other government initiatives in curbing speculative activities in the property market under the Leung administration include demand-side measures such as the introduction of a Buyer’s Stamp Duty (BSD) and an increase in the Special Stamp Duty (SSD) Rate on sale or transfer of properties in Hong Kong.

³ As of 2011, Hong Kong’s population density is at 6544 persons/km². Nonetheless, the population is by no means evenly distributed. For instance, Kowloon accommodates an astonishing 44,917 persons/km² whereas the population density in the New Territories is only 3870 person/km².

⁴ These development controls differ between the development of land on Hong Kong Island, in Kowloon, and in the New Territories.

⁵ Besides OZP, Hong Kong’s town planning is also based upon the Development Permission Area (DPA) Plan and the Development Scheme Plan (DSP).

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