

# Enabling universal home ownership in Hong Kong and China

James J. Lee

*In the early 1990s, the Chinese government sold to current and former government employees and employees of state-owned enterprises, at very low prices, housing that it had been letting to them at nominal rents. This generated a broad urban middle class and one of the world's highest rates of home ownership<sup>1</sup>. But aspiring homebuyers since then are finding prices increasingly out of reach.*

As home prices rise sharply, should governments build only subsidized rental housing – known here as public rental housing or PRH – for the poor, or also build subsidized for-sale housing – under the Home Ownership Scheme or HOS – for the “sandwiched class”, or help meet housing needs by other means? The Hong Kong Government stopped the HOS in 2002, leaving only the PRH programme, but is now asked to resume the HOS. Mainland China, however, is similar to where Hong Kong was in 2002: its much-criticized HOS-equivalent<sup>2</sup> is being widely replaced by an up-market version of PRH<sup>3</sup>, along with the original PRH programme for low-income families<sup>4</sup>.

These policies apparently share the premise that the poor should be relegated to PRH only. The poor do not merit home ownership because their income is too low. Moreover, PRH is good public finance, because the government keeps the land and receives rent.

Quite the opposite is true. Buying a home is everybody's best investment. Besides not having to pay rent, one gets to acquire an interest in land. A scarce resource in cities, land appreciates in value longer term reflecting economic growth, over and above inflation. Yet in recent years the poor, co-contributors to such growth and appreciation, are increasingly deprived of the opportunity for home ownership. The main causes are: market forces depressing low-end wages, as in Hong Kong, and rapid urbanization pushing up land prices, as in China. The wealth gap multiplies, on top of worsened income disparity

That deprivation is really unnecessary. Society and government – itself profiting from high land prices, given state ownership of land in Hong Kong and China – already embrace

---

<sup>1</sup> See, for instance, Mark Duda, Xiulan Zhang, and Mingzhu Dong (July 2005), *China's Homeownership-Oriented Housing Policy: An Examination of Two Programmes Using Survey Data from Beijing*, Joint Center for Housing Studies, Harvard University, p8.

<sup>2</sup> The basic criticism against *Jingji Shiyong Fang* (經濟適用房), or *Jingshifang* (經適房) for short, has been that they have profited limited groups of people, many of whom are not really needy. See Duda, Zhang, and Dong, *op.cit.*

<sup>3</sup> This is the *Gongzhufang* (公租房), short for *Gonggong Zhuren Zhufang* (公共租賃住房).

<sup>4</sup> This is the *Lianzhufang* (廉租房).

mitigating the socially undesirable consequences of market forces by using public resources to guarantee basic living standards, including housing standards. And the cheapest way to meet that commitment entails empowering the poor with home ownership.

PRH is not cheap. Its cost includes not just construction costs, but also the market value of the land taken up.

Secondly, when the government builds, prices, manages and maintains housing – be it PRH or HOS – instead of letting the market perform those tasks, almost inevitably are the costs higher and the outcome sub-optimal.

Thirdly, government-administered housing benefits such as PRH, HOS and subsidized loan schemes are wasteful, in that benefits mostly exceed actual need as measured by how much a household's income falls short of affording basic housing. Full benefit goes to everyone earning less than that qualifying income level, though the shortfall may be as little as, say, \$1. Also, once an applicant passes the income test, he receives the full benefit thereafter, even though incomes usually rise as careers progress. For HOS, that benefit had been at least 30 per cent of the price of the home. Despite administrative remedies – adopted more vigorously in China than Hong Kong, these defects remain.

The right approach is, instead, to pay income supplements, i.e. sums of money covering actual needs as measured by the income shortfalls of individual households. For Hong Kong, this amounts to extending Comprehensive Social Security Assistance, which provides income supplements for non-housing needs, to the housing side. With the money, a household can freely rent or buy a home in the market. The government should put up its entire PRH stock for rent or sale, at market rentals and prices.

To provide incentive for work and self-enhancement, households, upon earning higher income, would be entitled to higher housing standards<sup>5</sup>. Also, when home prices rise

---

<sup>5</sup> The housing standards – the size, age, location, etc. of accommodation – that a household is entitled to would be quantified as the amount of rental for accommodation fitting those standards. That amount is referred to here as the household's housing consumption entitlement. When a household earns higher income, its housing consumption entitlement also increases, but by a smaller amount than the increase in earned income. Thus income supplement, which is equated to how much earned income falls short of consumption entitlement, tapers off gradually to zero. For more details, please see Section 3 and Appendix B in [Restructuring housing assistance: benefits for housing, budget and economy](#), by James Lee and Lawrence Lau, 2004. Below are some salient points.

Whereas housing consumption entitlements are determined by reference to rental costs, should a household choose to buy its home, it would be allowed to spend on home purchase costs an amount up to, say, 15 per cent more than its housing consumption entitlement. This is because the mortgage installment is a fixed amount which usually takes up a smaller proportion of income over time. Most homebuyers have to scrimp on non-housing expenditures during the early years of paying off a mortgage.

Since the government is already committed to meeting everyone's income shortfalls, there is no need for government to impose income or age requirements for using income supplements to buy

sharply, even middle class households would experience income shortfalls vis-à-vis those standards, and so automatically qualify for income supplement. HOS would be unnecessary. Instead, property cycles notwithstanding, governments should principally and steadfastly ensure that the supply of land keeps up with demographic developments<sup>6</sup>.

Over time the government will save money. After households opt to use income supplements to buy homes, their mortgage installments are fixed and become cheap relative to future housing costs. Supplements would stop altogether when mortgages are paid off. Also, reverse mortgages can provide income streams. These help dispose the time bomb of impending population aging exacerbated by today's low wages. These are a fourth set of reasons why a supplements system would benefit the public purse.

Singapore's public housing system offers universal home ownership, allowing even the poor to own homes. Outlined above is the alternative, market-oriented approach to the same goal<sup>7</sup>.

*This is the full version of the article entitled "Income top-ups offer new path to homes for all" in The Standard, Sept. 6, 2010. James J. Lee writes as an independent commentator on [www.hongkongbetter.com](http://www.hongkongbetter.com).*

---

homes – banks may either lend relatively small amounts to elderly borrowers or leave “balloons” to be refinanced. Similarly, neither the government nor banks need require any down payment, except as a contingent tool for curbing excessive speculative fervour.

Households on income supplement, like other people, would be tempted to buy homes amid speculative fervour near peaks of property cycles. Safeguards would be available, including: limiting actual home purchase costs to, say 115% of housing consumption entitlement, which is determined by reference to rental costs, which usually rise less than home purchase costs during times of speculative fervour; building into housing consumption entitlement variable housing standards that become more stringent when home purchase costs rise relative to median household income; requiring in all cases that mortgage loans be of the long-term fixed-rate variety; requiring 100 per cent mortgage insurance; the desire of households to time their purchases to maximize future capital gains and avoid losses; banks' averseness to high risk; etc.

<sup>6</sup> HOS is not a good anti-cyclical measure, since their development time lags pose uncertainties, and any adverse impact on the market could be substantial if a large number of units were built. On the other hand, if only a small number of HOS units were supplied, those who lost out in the HOS “lottery” might become resentful.

<sup>7</sup> Apart from offering the opportunity for home ownership, introduction of the supplements system would also provide quick improvement for those who opt to remain in rental accommodation. Many people live in Hong Kong's “cage homes”, cubicles and other sub-standard housing either because they are on the waiting list for PRH or for other reasons.