

Helping people own homes: a look at 3 cities

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The recent Labour Day demonstrations in Macau showed that even booming economies need to cope with the rich-poor gap. Hong Kong, where the number of households earning less than \$6,000 a month increased 64% between 1996 and 2006, also faces the issue.

Confronted with spiraling property prices, Chief Executive Edmund Ho had announced on April 3 a package of measures to help lower-income Macanese, especially with home ownership. He noted that the experiences of Singapore and Hong Kong had been taken into account.

There is no better way to provide for residents of a crowded city than to help them own homes. In this, Singapore has succeeded remarkably. Practically its entire low- and middle-income classes, 87% of the population, live in flats built and run by government. Of these, 80% own their flats. Singaporeans are assured of affordable housing lifelong, and can sell or reverse-mortgage their flats after they retire. Social security for an aging population need not worry Singapore.

The home ownership programme, begun in 1964, has been the main nation-building tool of a government which, though often said to be too paternalistic, got re-elected every time. With hardly a demonstration even in difficult times, social coherence is strong, notwithstanding a fairly wide rich-poor gap.

All this has not come cheap. To keep flats affordable, the government sells them at subsidized prices, and offers subsidized loans. It maintains the estates in an attractive state. Mandatory contribution to the Central Provident Fund, a principal financing tool for housing, was once 50% of wages (now 33%). Moreover, for the grassroots and middle classes, there is simply no affordable housing alternative.

Also, the aid is not structured for efficiency, reflecting perhaps its paternalistic, nation-building heritage. All households with income below the stipulated ceiling receive full benefit. This implies a roughly 50% over-subsidy than if aid ranges from, say, just \$1 for the household earning \$1 less than the ceiling level, to full benefit for those with zero income. Also, applicants have to meet the income criterion only once – at the time of application, even though incomes usually rise over time.

Public housing in Hong Kong is also structured on the income ceiling criterion.

The Home Ownership Scheme, launched in 1978, offered discounts of 30-60% from market price levels on flats built by government for sale.

Unlike Singapore, however, Hong Kong also has a private housing sector that accommodates some 60% of the population and is itself a major part of the economy. Because in public housing the government doesn't face competition, public housing is seen to be less efficient than private housing in terms of cost, land use, quality and image. It is, however, over-subsidized under the income ceiling criterion as mentioned above, versus the private housing market.

A greater threat to the market occurs during cyclical downturns, when the eligible income ceiling is slow to be lowered in step with falling property prices. Would-be patrons of the private housing sector are siphoned off. Worse, due to construction time lags, the increase in public housing output undertaken at the peak of the property cycle then comes on stream as the market declines, exacerbating the slump. These occurred after the Asian Financial Crisis.

Since 2003, all forms of assistance for home ownership in Hong Kong have been stopped, except for resumed sales of aging HOS stock – in periodical batches, to avoid unsettling the mass housing market, where recovery has remained lacklustre.

Mr. Ho, on April 3, mainly pledged large increases in construction of subsidized housing, especially those for sale. One is reminded of the Hong Kong government's initiative, at the peak of the last cycle, to build 85,000 flats and attain 70% home ownership, and its outcome. Macau should therefore tread carefully, unless it plans to provide universal public housing as Singapore does.

Macau's initiative is advanced in at least one respect. The government will build and rent to young people flats which they can buy later. Rents will be set at an affordable percentage of tenants' incomes, with the government making up the shortfalls. This would eliminate the over-subsidies caused by the income ceiling criterion.

Hong Kong can let its less well-off residents share in long-term property appreciation through home-ownership, while maximizing efficiency along free market principles: by putting all existing public housing up for rent or sale at market rents/prices, and, in replacement, expanding the existing Comprehensive Social Security Assistance so that it can be used to freely rent or buy homes. To further address the rich-poor gap, the CSSA supplement should be indexed not merely to consumer prices but to income growth. The socially guaranteed standard of living

made up of the supplement plus a worker's own wages should follow a scale that rewards self-advancement.

This article is scheduled for publication in the South China Morning Post on 19/5/2007..