


Executive Summary



Hong Kong has long been plagued by chronic land and housing supply shortage, marked by rising property prices, long public housing waiting list and falling living space per capita. While the Government has adopted quick fixes for both public and private housing supplies in recent years, greater challenges remain for the overall supply outlook.

For private housing, past efforts paid off, as completions are expected to maintain at relatively high levels over the five-year horizon. Nevertheless, it is only a temporary respite. With existing spade-ready land rapidly depleting, it faces a supply chasm in completions over the ten-year horizon before the New Development Areas (NDAs) materialise and come to fruition.

For public housing, with rezoned land yielding results, completions over the ten-year horizon are expected to increase vis-à-vis the next five years. However, the pace of ramping up production has been lacklustre, and recurrent delays have also cast a shadow over the long overdue “back-loaded” supply pattern.

Meanwhile, with on-target supply numbers still taking priority, average flat size of both public and private housing units are anticipated to fall, while realising larger living space remains a long-term aspiration.

Nevertheless, there is light at the end of the tunnel as a sustainable solution lies in the major supply boost from the NDAs. To this end, in Our Hong Kong Foundation (OHKF)’s previous report *Immediate Actions to Resolve Hong Kong’s Housing Conundrum: Cut the Red Tape Now!* published in January 2022, we have put forward 23 detailed recommendations for streamlining land and housing development procedures. We are glad to see that the Government has finally responded to our long-time advocacy, by proposing in March 2022 legislative amendments and procedural changes that will shorten development time, and it is hoped that more of our recommendations will be adopted. If we can expedite all land and housing supply initiatives and get them into high gear, the conundrum can be on the right path of resolution.

Part I: Private Housing Supply

1. With only 14,386 units completed, private housing completions in 2021 declined year-on-year by 31% versus 2020. This was partly attributed to the impact of COVID-19, as both construction activities and government approvals slowed down due to the pandemic.
2. Despite the decline in 2021, it is expected that average annual completions in the next five years (2022–2026) will be around 17,300 units. It is roughly on-par with the past five-year period and significantly higher than that from 2007–2016, where it was only 10,900 units. This is because previous efforts to boost private housing land supply, including rezoning of government sites and lease modifications / land exchange for private land bank have paid off.
3. Improvements in the leading indicators across the development cycle were observed, including pre-sale consent applications pending approval, superstructure commencements, and spade-ready land supply. However, with the tailing off of spade-ready land supply for private housing after 2018 following the Government's revision of public / private housing ratio in the Long Term Housing Strategy (LTHS) target, private housing completions beyond the five-year horizon are expected to decline.
4. In view of the above, we have updated our exclusive ten-year forecast, and it is expected that only an average of 12,000 units per year will be completed between 2027–2031. Not only is this a steep decline from the annual average from 2022–2026, but it also fails to meet the annual target of 12,900 units in the LTHS. To achieve the target, the NDAs and railway projects need to be completed one year ahead of the original schedule, and supply from private development needs to deliver 5% more units each year.
5. Complementing our quantitative analysis above, we have also conducted a qualitative analysis by looking at upcoming private housing land supply trends by various land source. With existing spade-ready government sites dwindling, it is expected that a supply chasm will occur before the major supply boost from the NDAs materialise in the 2030s. The case is similar with railway projects with most spade-ready ones depleted, while impending supply is still in its early stages. Further release of private land bank's potential is also hindered by insufficient infrastructure, and redevelopment is expected to remain sluggish.
6. Given the uncertain outlook over the ten-year horizon, the key lies in expediting the NDAs, bringing forward reinforcements so that we can avoid the supply chasm. We are delighted that the Government has put forward proposals to streamline development procedures in March 2022, and hope that these can be implemented as soon as possible.

Part II: Public Housing Supply

7. Public housing completions in 2021/22 significantly rebounded year-on-year versus 2020/21 and hit a recent high, but over 60% of completions in 2021/22 was contributed by backlogs accumulated from the past two years. Looking ahead, completions are forecasted at 21,100 units per annum for the next five financial years (2022/23 to 2026/27), which will remain short of the LTHS target at 30,100 units per year by a significant 30%.
8. While there seems to be more subsidised sale flats launched for sale in recent years, 82% of them are actually pre-sold, with some even launched for sale four years before scheduled completion. Out of the 38,400 subsidised sale flats to be completed by 2025/26, over half have already been pre-sold. It is clear that existing unsold stock would only last for a year or two.
9. We have updated our exclusive ten-year forecast for public housing. As rezoned land began to yield results, it is expected that 306,600 units can be completed in the next decade, meeting the LTHS target of 301,000 units and fulfilling the “back-loaded” promise. This, however, still falls short of the Government’s claim on its full public housing supply potential at 330,000 units. Furthermore, given the past record of repeated delays, it is not unreasonable for us to expect that a delayed scenario of supplying 277,100 units only.
10. Indeed, the “back-loaded” supply pattern was brought up by the Government as early as in 2015, but it did not materialise because of recurrent project delays. Not only had information disclosure been opaque, but there were also no follow-up actions or consequences observed so far, hence no incentive to improve the situation.
11. The actual situation may be more pessimistic, as the delays currently disclosed are only the tip of the iceberg. Digging deeper into cases not revealed in official documents would reveal delays up to multiple years, stemming from endless deliberations, rigid administrative deadlocks, and squandering of development opportunities.
12. The key to achieving on-target supply thus lies in greater information disclosure and designation of a project manager for each project. These will facilitate more effective monitoring and coordination, break the vicious cycle of project delays, and ensure that the “back-loaded” supply pattern be materialised eventually.

Part III: Looking Beyond Supply Numbers

13. In terms of quality of living, the proportion of small private housing units has rapidly grown in the last decade and is expected to continue in the short term, as reflected in the declining average unit size in upcoming private housing completions. Though the Government has relaxed its mortgage policies for homebuyers to afford bigger and more expensive flats, it is still going through the building plan design and construction stage, and the impact will likely be seen in completions post-2023.
14. The trend in private nano-flat completions is also expected to continue rising, given the time lag needed for the mortgage relaxation to impact the flat-mix in completions. More importantly, given the Government's minimum flat size requirement first announced in December 2021, nano-flats will gradually plateau off in 2024–2025. Nevertheless, despite the extended application of the minimum flat size requirement taking effect from February 2022, most private redevelopment projects are still not covered, hence nano-flats will not completely disappear.
15. Public housing faces a similar predicament. The proportion of small units remains high, and minimum flat size is decreasing. Nano-flats still plague Green Form Subsidised Home Ownership Scheme units, and will make its debut in the Sale of Home Ownership Scheme Flats 2022. While sales of the former have been sluggish, it remains to be observed whether the Government will cease building public housing units of less than 280 sq. ft. to be in line with the minimum flat size requirement imposed on private housing.
16. Ultimately, regulatory restrictions can only be a stop-gap measure, since the root cause lies in the imbalance between housing demand and supply in Hong Kong. The long-term solution, as we have advocated repeatedly, is to increase land and housing supply to stabilise the market. In the meantime, we need to strike a balance between housing production and living space. As housing supply increase and stabilise, the minimum flat size requirement can be raised gradually, so as to achieve the goal of boosting Hong Kong's average living space per capita in the long run.