

Executive Summary

A housing supply cliff in Hong Kong has now arrived at our doorstep. The city's landbank is depleting, while creating land is becoming harder. Both private and public housing supplies have plunged with no signs of rebound. We are deeply concerned about the present housing crisis, which has continued to manifest itself and escalate, following a year of almost fruitless efforts in land development by the Government.

The Government might have also given Hong Kong people the false hope that public housing supply could be boosted with a cut in private supply target. The development of private housing has indeed been hampered by the administrative red tape. Yet the rate of public housing supply remains slow due to the diminutive progress that the Government has made. Some rezoned land sites, for instance, had been delayed for a long time as they faced constraints from various cumbersome government procedures along their development cycles.

The supply cliff will severely weigh on the city's liveability and people's quality of life. The unaffordability of our housing and the decreasing trend in living space per capita are particularly alarming, as they will cast a disrupting effect on household formation and affect people's life decisions, such as marriage and child birth. We urge the Government to prioritise all work for land development. On the other hand, reviewing and evaluating the existing administrative procedures on land and housing development is also pivotal.

Part I: Private Housing Supply

1. A housing supply cliff already arrived in 2019. Only 14,093 adjusted private residential units¹ were completed in 2019—the number was down by 33% year-on-year and missed the Government's own estimate by a wide margin of 30%. The shortfall in housing completion in 2019 was attributed to a continued slowdown in construction activities.

¹ Starter Homes units included

2. Construction activities started to slow down in the second half of 2018 and further deteriorated in 2019. A cycle-wide decline could be observed in all stages of the development cycle, from land acquisition through construction. Spade-ready land supply, superstructure commencement, and presale consents all recorded a sharp reduction of 35–53% from their respective peak levels over the past one to two years. To make matters worse, the lowering land reserve is compounded with the deceleration in the spade-readying process.
3. Taking into account the industry slowdown, our rolling five-year completion estimate is being revised downwards. It is expected that in the next five years (2020–2024), the average number of private residential completion will be about 16,000 units, down 14% from our previous 18,500-unit estimate for 2019–2023.
4. Looking ahead into 2025–2029, our land source will become insufficient with limited options. The ideal solution would be to develop New Development Areas (NDAs) or new towns in order to create large land pieces with coordinated planning. However, according to the recent 2020–21 Budget Speech, varying degrees of delay has been observed in such development.
5. As a result, we may resort to rezoning again. However, with the low-hanging fruit already processed by the Government, it will be increasingly difficult to create new spade-ready sites by the means of rezoning. On the other hand, rezoning by private developers has always been lengthy and uncertain, as they need to go through the time-consuming red tape with the Government.
6. In view of the alarming outlook on land and housing supply, we recommend expediting all existing land and housing development initiatives. These include, but are not limited to, efforts on rezoning, NDA development (partially through land resumption), the Land Sharing Pilot Scheme, urban redevelopment, topside development of railway, and large-scale land reclamation.
7. At the same time, it is essential to review and evaluate the existing administrative procedures on land and housing development. With the aim of streamlining the development procedures, we devise ten recommendations for the Government's consideration, which were widely supported by industry professionals.

Part II: Public Housing Supply

8. The supply of public housing continued to fall short of the Long Term Housing Strategy (LTHS) target. For the next four years (2020/21–2023/24), public housing supply is forecasted at 20,400 units on average per annum. This will miss the supply target of 30,100 units per year, as laid down in the 2019 LTHS, by a significant 32%.
9. In the past seven years, public housing supply has never met its targets in any given year. The cumulative deficit amounts to a total of 82,600 units, which is equivalent to the size of 11.2 Choi Hung Estates. Over the next decade (2020/21–2029/30), we expect an additional shortfall of at least 66,000 public housing units. We also estimate that the average waiting time for public rental housing will surpass the six-year mark very soon.
10. In the past five years, delays in public housing completion have been common. We found that about 73% of such delays occurred on rezoned sites, yet in the near future, the majority of scheduled public housing units (61%) will come from rezoning. Therefore, we expect to see more potential delays in public housing completion.
11. Rezoning progress has slowed down significantly. Since 2013, the Government has identified a total of 216 sites with rezoning potential primarily for public housing uses. However, as of January 2020, only 132 sites had been successfully rezoned, with only three out of those cases completed in 2019. To this date, the rezoning process for 64 sites is still awaiting to be commenced.
12. To add to the complexity of the problem, the rezoned sites would still be faced with different hurdles in the spade-readying process. In this report, we scrutinise three of such cases, located respectively in Ma Tau Kok, Fanling, and Yau Tong. These cases illustrate how housing projects may not proceed smoothly beyond the stage of rezoning due to delays in subsequent procedures, including facility and land clearance, land resumption, and engineering studies. In Ma Tau Kok's case, the public housing plan was even replaced with a transitional housing plan of a smaller scale due to difficulties in relocating existing facilities.
13. The Government should improve its transparency in disclosing information about public housing projects. It is only with higher disclosure standards that accountability and the commitment to adhering to predetermined timelines can be improved. Compared with the practice in the private housing sector, the disclosure of public housing development progress is less than adequate. We advocate that the Government creates a one-stop disclosure platform to publicly reveal the progress of individual public housing projects, including the relevant land development process, submission of building plan, commencement of construction, and completion dates of construction.

Part III: Long Term Housing Strategy

14. Against a dire supply outlook, the Government, on the other hand, has grossly underestimated Hong Kong's future housing demand. The forecasted rate of household formation is the main component in the LTHS's demand projection. It is, in particular, unreasonably low due to a problematic methodology.
15. Between 2006 and 2016, while only 126,000 new private housing units were completed, there was an increase of 511,000 people living in private flats in the same period. As a result, the average number of persons per private rental unit rose from 2.64 persons in 2006 to 3.07 in 2016 by an overwhelming 16%. These figures point to the harsh reality of how a lot of multigenerational families are forced to squeeze into tiny flats in Hong Kong, causing the number of residents per private unit to rise significantly. The implication is that, the Government will continue to underestimate the city's real housing needs if it keeps on relying on past trends to forecast future demand.
16. The current practice of household projection feeds into a vicious cycle of downward revision. The cycle begins when the low housing completion provides few opportunities for people to move out to new homes. As such, it causes the average number of persons per flat to artificially increase, which in turn suppresses the household formation figure. Consequently, both the demand forecast and supply target for housing will be reduced. The low supply target would eventually result in low completion, setting off the same cycle repeatedly again.
17. It is estimated that the housing supply target forecasted by the LTHS will continue to drop in the near future, if the current methodology remains unchanged. As a result, it would misguide the Government's efforts in increasing land supply. In addition, the LTHS also neglects past shortfall. In rolling over its ten-year supply target, the new target each year will not make up for housing failed to be delivered in the preceding years.
18. We wish to emphasise that the housing crisis will persist if the actual housing demand continues to be underestimated. The current methodology adopted by the LTHS to project its housing supply target has not fully considered the current and past shortfalls and is likely to underestimate future demand. Therefore, we would call for the LTHS Steering Committee to reconvene and review the methodology used.

