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City University of Hong Kong
Department of Public and Social Administration
Master of Arts in Housing Studies

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Housing Subsidies in Hong Kong

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Introduction

Most governments have a common objective in implementing their housing policies – “to provide every household with decent housings and a favourable living environment”. Policymakers have to consider a series of factors when establishing their housing strategies, such as societal concerns, historical background of the nations, financial situation of the economy, limitations of the land, and more important, pressures given by various political parties. Furthermore, in response to the development of the city and the ever-changing expectation of the citizens towards their accommodation, the housing policies are changing accordingly. To cope with the changes, housing subsidies become useful tools by governments to achieve their policy goals, either housing or non-housing in nature.

The objectives of this paper are to identify and evaluate the major ways of subsidizing housing. By assessing the strengths and weakness of different housing subsidies then assess the ways how Hong Kong subsidizing housing.

This paper is organized as follows. The first part focuses on the meanings and the underlying logic of housing subsidies, and typical types of market failures, including its corresponding policy goals and subsidies applied will be explained in details. Next, the types and ways of subsidizing housing with practical examples will be illustrated. After that, the strengths and weaknesses of two types of housing subsidies: supply-side and demand-side subsidy will be for evaluated for comparison. Finally, some typical ways of housing subsidies in western countries will be identified for more understanding. The second part concentrates on the evaluation of different housing subsidy policies (from 1950s to the present) in Hong Kong. The backgrounds, objectives and effectiveness of the various housing schemes/ programme will be reviewed. Then, their corresponding strengths and weaknesses will be summarized for analysis. Finally, conclusion will be made as the end of this paper.

Definition of Housing Subsidy

For Housing Subsidies, Yates, J (2012) has precisely defined that they are a means of describing the wide range of financial and other incentives that government provide to reduce housing cost. Subsidies might simply be any payments or financial aid provided by the government to individual or groups or they regarded as any measure that affects consumption or production of housing.

The Underlying Logic of Housing Subsidies

According to Angel (2000), Housing Subsidies are designed to distort housing market behaviour and to change it in accordance with political objectives. This can be achieved by affecting the prices of housing inputs, units and services. In essence, housing subsidies are necessary to keep the housing sector operates efficiently and equitably, and to overcome market and policy failures.

One general way to describe market failure in housing is that the demand for the quantity of houses does not equate to the quantity supplied by the producers. Angel (2000) described three typical examples of market failures are severe housing shortages, unaffordable housing and substandard housing, which often require government intervention. Policy goals with various housing subsidies are established to cope with these market failures, e.g. increase production may involve direct more resources to residential construction or remove constraints against developers and builders; increase affordability can be accomplished by building low-cost housing or supplementing housing expenditures; improved housing conditions can be achieved by supporting rehabilitation or new construction, supplementing the housing budgets of households or promoting homeownership.

Monopoly in housing is as another type of market failure. Undesirable effects of monopoly in housing include creating barriers for firms to enter the trade market and leading to higher prices with poorer quality houses and

services. In many countries, monopolies and grants of special privileges are deeply rooted. The adoption of antimonopoly provisions and similar prohibitions on exclusive privileges to housing market faces different levels of obstruction.

Types and Ways of Housing Subsidies

Having studied the reasons for government intervention in response to housing market failures as specified in the previous paragraphs, various types and ways of housing subsidies adopted by the governments in different countries will be introduced. According to Angel (2000), housing subsidies can be of three types: Supply-side Subsidies, Demand-side subsidies and the Price Control measures. Much emphasis will be spent of Supply-side and Demand-side subsidies in this paper.

Supply-side Subsidies

This kind of subsidies is targeted at the producers, lenders and owners of housing units. The targeted group can be further identified as four types including government agencies that construct public housing (e.g. Hong Kong Housing Authority, Hong Kong Housing Society, etc.), developers and builders from private sectors who construct subsidized private housing, intermediary nonprofit organizations that build or rehabilitate housing units for the poor or needy, and some individual households or groups of households which engaged in upgrading the living conditions of their dwellings.

One major way of supply-side Subsidy adopted by most governments is the supply of social housing, which is provided either by the state, or other landlords, principally regardless of profit. They are administratively allocated as per some concept of need, and incorporate extensive government control in terms of quantity, quality and terms of provision (Harloe, 1988). There were two types of social housing distinguished by Harlow (1995) – mass social housing and residual social housing. The target group of the supply of mass

social housing, usually in the form of rental-housing program implemented was the middle class and the better-off segments of the working class. Similar mass social housing program had prevailed in some countries like Great Britain, Netherlands, Russia, urban China, Hong Kong and Singapore in response to the housing shortage problem. As to residual social housing programs, these programs involved the supply of public housing for the poor, engaged in slum clearance in the process of redevelopment of sites in many countries, and were created to replace old buildings destroyed by the government authority concerned (Pugh, 1980, 175). The main purpose of this kind of social housing should be the improvement of the existing sub-standard housing.

Apart from social housing, subsidized interest rates or mortgage guarantees, tax credits are adopted by the government to stimulate the supply of housing. In Mexico for instance, those for-profit owners who build lower rent housing can get some building expenses written off as credits against taxes they owe the government, tax exemptions, outright grants, tax-free bonds, acquisition and sale of land at below-market prices to developers. In Korea, the developers can buy land to build houses at the assessed, less-than-market prices from landowners forced by the Korea Land Development Corporation, sale of subsidized building materials (e.g. in Sri Lanka), depreciation allowances on rental properties, taxation or non-taxation of the imputed rent of owner-occupiers and collection or non-collection of property taxes and betterment levies, as a kind of way to upgrade the standard of housing that benefits the society as a whole (Angel , 2000). The above ways of government intervention will act as the incentives to increase housing supply and improve the existing housing conditions.

As far as the subsidies to individual households or groups of households are concerned, improvement grants for the renovation of run-down properties will be an important one, which lead to significant improvements in living conditions and the housing stock (Angel 2000).

Demand-side Subsidies

Demand-side Subsidies or consumer subsidies are targeted at dwellers as consumers of housing services. “The central objective of demand-side housing subsidies is to increase access to decent housing by those who cannot afford it” (Angel, 2000). In other words, demand-side subsidies are mainly targeted at the problem of affordability.

Examples of demand-side subsidies include the provision of housing allowances and rent supplements, lump-sum one-time subsidies for first-time buyers, the implementation of mortgage interest deductions from income taxes, the exemption of sale of principal residence from capital gains tax, forgiveness of mortgage loans in default to public housing finance institutions, the giveaway or discounted sale of public housing to sitting tenants, etc.

Housing allowances and rent supplements are regarded as the income supplements that enable the low-income families to offset some of the costs of their housing and housing-related services so that the relevant populace can afford to buy housing in the open market, which will in turn increase the demand of housing. The said allowances are usually in the form of a fixed amount of money that calculated in a particular proportion of family income level.

In many South American countries like Chile, Colombia, Venezuela, Ecuador and Russia, Saudi Arabia, etc., the way of lump-sum one-time subsidies is being applied by the government as the ladders for low-income families to get access to home ownership. This subsidizing way gains positive comments from advocates as it could be paid directly to the household or incorporated into a general tax-credit or negative-income-tax scheme” (Hughes, 1980, 89).

According to Angel (2000), mortgage interest income-tax deduction is the most important demand-side subsidy in many industrialized countries. It is usually provided implicitly by the government in the promotion

of home ownership since its earliest days, with the effect of lowering of the cost of borrowing for housing. Those who have insufficient equity and resort to housing loans have been capitalized on this kind of subsidy.

Evaluation of Supply-side Subsidies and Demand-side Subsidies

Strengths of Supply-side Subsidies

The effectiveness of this type of subsidies may depend on the application channel or media. It is considered well targeted when it is channeled through non-profit intermediary organizations engaged in rehabilitation of low-cost housing, as the cost of rehabilitation should involve cost lesser than construction of new housing, and therefore, it is more cost effective (Angel 2000).

Weaknesses of Supply-side Subsidies

However, when it comes to the purpose of increasing supply of housing, it might not be finally achieved when supply-side subsidies are applied to developers. The housing stock did not increase as a whole as the subsidized low-cost housing displaced an equivalent amount of non-subsidized housing (Angel 2000). Besides, there are often excessive benefits to developers (Case, 1991), and the benefits from subsidies even exceeded that generated for low-income households (Peterson, 1973). Such subsidies often favour large developers at the expense of small ones (Yoon, 1994) leading to unfair situation of a society. Moreover, the supply of public housing is much costly and “was largely a policy failure” as abandoned tenements and squatter settlements were found under the provision of this kind of subsidy (Angel 2000).

Strengths of Demand-side Subsidies

One of the main strengths of applying this kind of subsidies is that they do not create supply distortion under the assumption of rich supply of housing and also of low cost with government intervention. Also, they are provided for enabling dwellers to have greater choices in the housing market. They should also have positive effect on the supply of housing on condition that the housing supply is responsive.

Weaknesses of Demand--side Subsidies

However, there is no evidence that they lead to an appropriate supply response in specific markets (Yates, 1994). Since they targeted at low-income families, only minor improvement of housing condition will be considered, which results in their failure to reach those living in worst housing. Besides, as many of the subsidies are approved under mean-tested mechanism, this raises the questions of Stigma and may result in limited take-up rates. Furthermore, a number of abandoned units may turn up in the process of privatization.

Supply-side Subsidies Vs Demand-side Subsidies

It is clear that demand-side subsidies mainly focus on affordability of housing, such as a sum of money directly granted to low-income families to increase the accessibility of housing in the open market, or offer allowances, for instance, to the elderly to make housing affordable. Those subsidies are provided in a more explicit form for targeted groups, so demand-side subsidies are generally more effective in meeting the affordability objectives than are supply-side subsidies, as they can be well targeted (Khadduri and Wilkins (2007).

In spite of the impact on government budgets led by both types of subsidies, demand-side subsidies are commented as more cost-effective than supply-side subsidies. Public housing is a typical example of supply-side subsidy which involves massive cost from the government.

However, under the circumstance that the elasticity of affordable housing supply is low in the market, demand-side subsidies will become less effective. The offer of demand-side subsidies in such a tight market should lead to the increase in the cost of housing in the affordable segment of the housing market. A net loss of affordable housing stock will finally occur which the low-income households will suffer.

In comparing with the effectiveness of the prevention of rent escalation in markets, supply-side subsidies are superior to demand-side subsidies, with the reason of inadequate private market supply response to meet increasing demand. They are also more effective as to the support of revitalization of neighbourhood for low-income people as mentioned above.

Price Controls

During the times of economic crisis, the supply of housing should be very limited, with the strong increase in housing demand, contributing the source of uncontrollable price inflation in the housing market. In response to such a phenomenon, the government may intervene the market by establishing certain controls in the form of limits on rent, house price, or interest rates, targeting at both consumers and producers of housing and its related services. These can only be regarded as contingency to meet demand under special circumstances and cannot be applied persistently, or it will seriously discourage housing producers in the consideration of profit-making in the housing market. This will result in the choking off of the supply of housing in the long run (Angel 2000).

Non-housing Measures that Meet Housing Goals

Many advocates have revealed that it is not necessary to implement housing subsidies policies, and there should be sufficient non-housing goals that may effectively mandate directing public resources to the housing

sectors. These include redistributing income, creating employment, generating savings, slum clearance and redevelopment, jump-starting the economy, reviving the construction industry, maintaining peace and political stability, reducing deficits and balancing budgets (Angel 2000).

There are a number of policy instruments that will affect housing supply without the use of housing subsidies, such as a more enabling regulatory environment and an adequate infrastructure that will result in an increase in access to adequate residential land and improve the conditions of facilities within the residential areas. On the other hand, an organized property rights regime and an effective housing finance regime can be other policy instruments that affect housing demand without the use of housing subsidies. “The application of such instruments will be more effective and more economical than resorting to subsidies (Angel 2000)”.

An overview of housing subsidies in different countries

Before studying the housing subsidizing policies in Hong Kong, an overview of housing problems encountered and ways of subsidy policies in different political regimes will be investigated, this includes the United States, the United Kingdom, Sweden and the Netherlands.

The United States

Most families with housing problems in the United States have an "affordability" rather than a "substandard housing" problem. To cope with the affordability problem, “The Section 8 Voucher Programme” was federally funded by the HUD in 1974. It was designed to accommodate very low-income families and individuals with rent assistance for decent, safe, and sanitary housing provided by private owners and rental agents.

According to William G. Grigsby and Steven C. Bourassa (2002), U.S government does not provide housing subsidy assistance to a majority of the low-income households who are eligible by law to receive such assistance, instead, moderate income households are beneficial to the housing subsidy policy by the deductions from the income taxes for mortgage interest and local real estate tax payments.

All in all, U.S. government tends to rely more on demand-side subsidies, e.g. voucher and direct financial aid to low-income households; whereas for the supply-side subsidies, the government tends to offer incentives for the private developers instead of building public housing by state agencies. In general, the US government tends to stimulate private enterprises instead of building public housing by state agencies.

The United Kingdom

Home-ownership has become the norm in the UK whereas rental sector has becoming more reserved for those households who cannot afford to buy a dwelling. Under this framework, the social rental sector is targeted on the weakest group in the market: e.g. the low-income groups, the elderly and the disabled (Boelhouwer and Heijden, 1992).

In addition to public housing construction, housing allowance scheme and the Housing Benefit Scheme was introduced in 1972 and 1982 respectively with both targets on tenants in rental sectors. The subsidy mechanism in UK was a very persuasive ways of forcing up rents (Aughton and Malpass, 1994).

In general, the UK government used to rely more on supply-side subsidies for public housing but with a trend towards demand-side subsidy by the promotion of home-ownership in the country.

Sweden

It has been estimated that household in EU countries spend about one quarter of their budget in housing expenses (Housing Statistics, 2006) and Sweden scores that highest figure of housing expenditure (28%) in Europe. Donner (2002) states that Swedish housing policy put much emphasis on a general welfare policy which intended to provide every household a high quality of housing standard. The policy goal is to provide dwellings from all households regardless of their income instead of the only disadvantaged groups.

Tuner and Whitehead (2002) stated that Sweden, especially during 1990s, has implemented policies that emphasized interest rate subsidies to investment and income related benefits as well as low risk to financiers, investors and household without distorting neutrality between tenures. In addition, Swedish government used to implement subsidization to housing production and rehabilitation by means of the mentioned interest subsidy system.

In general, Swedish government heavily relies on supply-side subsidy by means of interest subsidy in order to create positive impact on the total production of the housing units.

The Netherlands

Unlike other countries, the social housing in the Netherlands targeted not only for the low income household but also the median income group with a high standard of quality. At the beginning of 1999, 36% out of the total housing stock belonged to the social rented sector.

Similar to many developed countries, the subsidy provided by the government started to be reduced. Housing subsidies for new social rented dwellings were completely abandoned by the government in 1995.

In general, the types of housing subsidies in the Netherlands are shifting from the supply-side to the demand-side subsidy, with the affordability problem becomes a major concern.

The following table summarizes the major types and ways of housing subsidies adopted and the main housing problem encountered in the four countries:

Country	Major housing problem	Types of subsidy	Major subsidies examples
U.S.A	Affordability	Demand-side	Housing voucher to qualified households
The United Kingdom	Affordability	From supply-side shifting to demand-side	Housing allowance to tenants
Sweden	Unbalanced housing stocks in some regions	Supply-side	Interest subsidy to investment, property tax for owner-occupied buildings , rent subsidies, housing allowance to tenants
The Netherlands	Affordability	From supply-side shifting to demand-side	Housing allowance to landlords, the operation cost subsidies, incentive subsidies and supplementary subsidies for construction

Housing Subsidizing Policies in Hong Kong

Similar to other developed countries, Hong Kong faces affordability and housing shortage problems from time to time. As a result, Hong Kong government has developed various subsidies policies in tackle these market failures. This part of the paper aims to evaluate the housing policies from 1950s to 2000s.

From Minimal Intervention in 1950s to Expended Intervention in 1960s

After the outbreak of World War 2 in 1931 and the Japanese invasion of China in 1937, large amount of refugees rushed to Hong Kong which eventually worsened the local housing situation. According to the Hong Kong Census, the population increased drastically after the outbreak of WWII and the population continued to grow and reach 2 million after the outbreak of Civil War during 1947-1949 (Fig. 1). Despite the drastic growth in population, Hong Kong Government did not introduce a clear subsidized housing policy in tackling the housing shortage problem. Indeed, this eventually created another problem to the society, the appearance of squatting and which was another market failure that Hong Kong encountered in the following years.

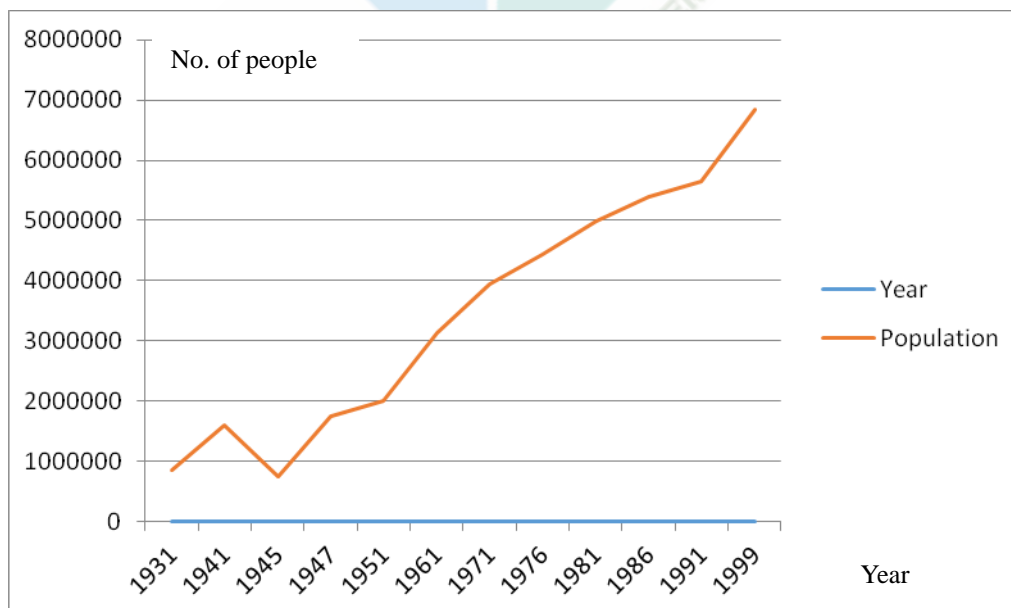


Fig. 1 Hong Kong population in 1931-1981

(2001 www.demographia.com)

In addition, in response to the Shek Kip Mei Fire in 1953, Hong Kong Government developed the resettlement estates to the public. This supply- side subsidy aimed to solve the housing shortage at that time. By providing basic accommodation to residents in squatters, Hong Kong government also aimed to release the social unrest. In 1960s, in order to catch up with the economic growth and to further accommodate the increasing population, Hong Kong Government has expanded intervention in housing market by introducing the Temporary Housing Scheme. This supply-side subsidy intended to improve the living conditions of the mid-low income families.

Planned Intervention: Ten Year Housing Program 1973-1983

At the end of 1960s, the society in Hong Kong was unstable. The 1967 riots in Hong Kong provoke the disputes of general public. Owing to the increase in average income, people were not satisfied with the housing condition. Hong Kong Government recognized the needs of long-term planning in housing policy. Therefore in 1973, Hong Kong Government developed a comprehensive housing program. In the coming 10 years, Hong Kong government targeted to provide self- contained accommodation for 1.8 million people (Hong Kong Housing Authority, 2012). Besides, Hong Kong Government also targeted to develop new towns by providing housing and employment opportunities to the residents. The newly launched Home Ownership Scheme (HOS) in 1976 and the Private Sector priority Strategy (PSPS) in 1978 showed that the government was eager to assist residents to obtain a permanent self-contained accommodation and improve the welfare and living environment. Furthermore, in order to facilitate the demand in public rental housing, the government had established the Hong Kong Housing Authority and Housing Department in 1970s. Public rental housing is vital to the Hong Kong people as it has accommodated over 2 million people, as almost 30% of the population in Hong Kong (Fig.2) (Housing Authority, 2012).

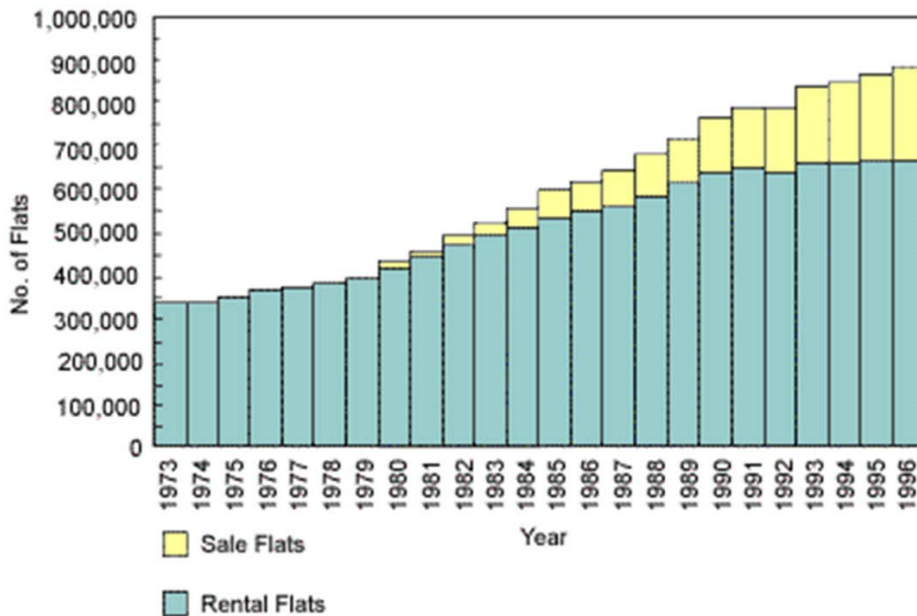


Fig. 2 Public Housing Stock between 1973 to 1997

(Corporate Plan from 1998-1999,
Hong Kong Housing Authority)

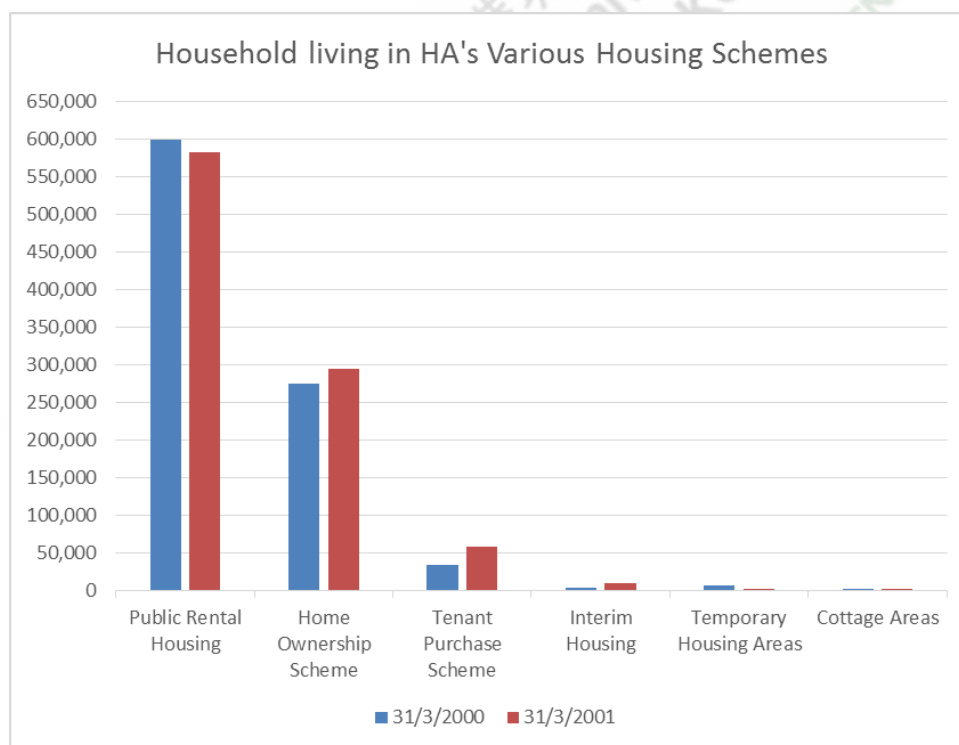


Fig.3 Households Living in HA's Various Housing Schemes

(Housing Authority 2001)

Long Term Housing Strategy from 1987 to 2001

The main objective of the long term housing strategy is to increase the subsidized home ownership and to shorten the waiting time of public rental housing. By achieving these targets, the government has implemented a series of supply-side subsidies, namely Home Ownership Scheme (HOS), Ownership Scheme Secondary Market Scheme (HOS 2nd), Private Sector Priority Strategy (PSPS), Sandwich Class Housing Main Scheme (SCHMS), Tenant Purchase Scheme (TPS) and the My Home Purchase Plan (MHPP). The following table summarizes the objectives and policy details of the mentioned schemes:

Comparison table on various schemes 1

	HOS	HOS 2 nd	TPS
Period	1976	June 1997	January 1998
Objectives	<ul style="list-style-type: none"> • To increase subsidized home ownership • To shorten the waiting time public rental housing by increasing the turnover 		
	--	<ul style="list-style-type: none"> • increase the mobility and turnover of HOS and PSPS 	--
Target Group	<ul style="list-style-type: none"> • Middle income household 	<ul style="list-style-type: none"> • Public housing tenants, Green form certificate holders 	<ul style="list-style-type: none"> • Public housing tenants
Policy	<ul style="list-style-type: none"> • 9/2001-6/2002: stop for sales of HOS/ PSPS flats for 10 months • 2003: cease production and sale of of HOS/ PSPS flats • 2011: reintroduce the scheme: middle income family • 2013: provide 17,000 HOS flats from 2016/17 	<ul style="list-style-type: none"> • Purchase flats sold under e (HOS), (PSPS),(TPS) • The purchaser and the seller may negotiate the price freely • Liability to pay the premium if they sell their flats at the open market in the future. 	<ul style="list-style-type: none"> • TPS flats are sold at flexible discounts (10% and 20% below the maximum discount rates) • Short resale term

Results	<ul style="list-style-type: none"> 6.1% of the total housing stock (1988) 12.4% of the total housing stock (1999) (Please refer to Fig.4) 	<ul style="list-style-type: none"> 6,179 public rental housing flats have been recovered 	<ul style="list-style-type: none"> 81,500 flats were put up for sale 75% of eligible tenants had bought their flats by the end of March 2000. Terminated on November 2002
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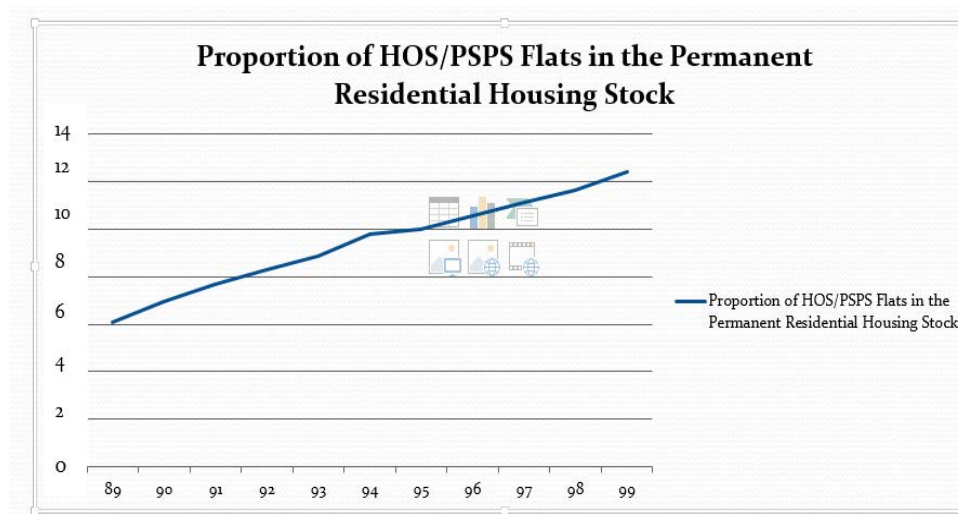


Fig.4 Proportion of HOS/PSPS Flats in the permanent residential housing stock

Comparison table on various schemes

	PSPS	SCHMS	MHPP
Period	1979	1992	2010
Objectives	<ul style="list-style-type: none"> To increase home- ownership 		
	<ul style="list-style-type: none"> To better utilized the resources in private sectors To increase- home ownership 	--	
Target Group	<ul style="list-style-type: none"> Middle income household 	<ul style="list-style-type: none"> Middle income family 	<ul style="list-style-type: none"> PRH tenants, Green Form applicants (no restrictions) Others: meet the prescribed asset and income limits
Policy	<ul style="list-style-type: none"> Drew the resources of the private sector in flat production 	<ul style="list-style-type: none"> Properties were sold at concessionary prices 5 year resale restriction 	<ul style="list-style-type: none"> Purchase the flat they rent, other flats under the Plan, or flats in the private market within a period Purchase Subsidy at 50% of the net rent they have paid, for part of the down payment
Results	<ul style="list-style-type: none"> Proportion of PSPS flat was still lower than HOS flats Supply of housing was heavily relied on government subsidy (Refer to Fig 5) 	<ul style="list-style-type: none"> 3 projects were converted into private properties Not flexible as HOS & TPS End in 2003 	<ul style="list-style-type: none"> Approach was changed by the new government of CY. Leung

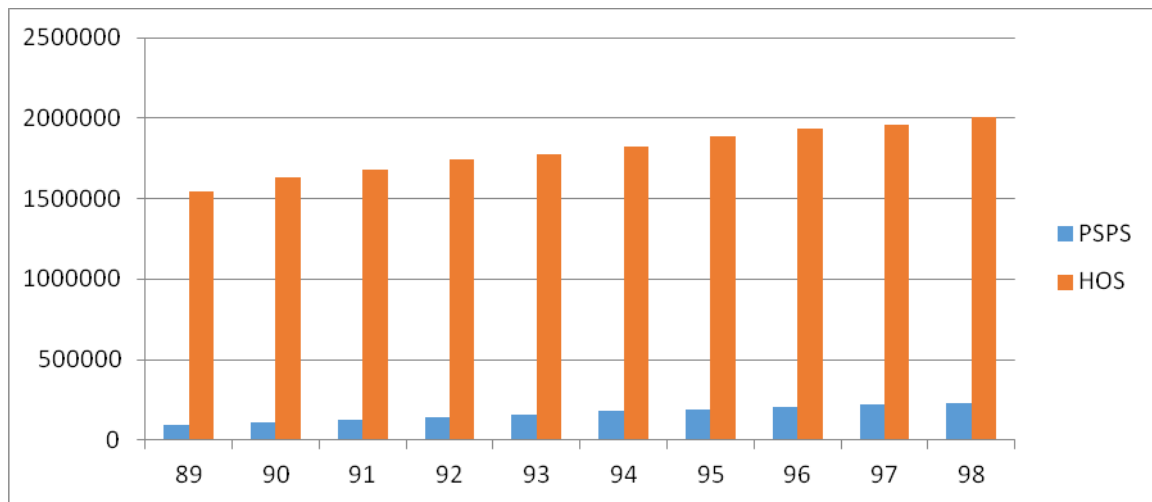


Fig.5 Annual Production of HOS and PSPS Flats from 1989 to 1999

In the early stage of the Long Term Housing Strategy (1987-1998), the government recognized the changes in housing needs and demand. Therefore, they have slightly adjusted the housing planning in order to avoid the following problems happened, including the over-provision of public rental housing, under utilization of private sector resources and under provision of owner occupied housing.

However, in 1997, Hong Kong Government was challenged by another factor which is the “Transfer of sovereignty over Hong Kong”. Many people were afraid of the political uncertainty after the handover; some of them even sold out the properties and left Hong Kong. The housing market in Hong Kong was hugely affected. In order to foster social stability and the sense of belongings (Chiu, 1999), the government intended to assist family to rebuild their future financial security and give homeowners a sense of independence and control over their own homes. (HKSAR Government, 1998:20) In order to achieve the above goals, the government had announced some new housing policies, including the production schedule of PRH (i.e. 85,000 PRH unit annually) and waiting time of PRH (i.e. shorten the time to 3 years by 2005), and the introduction of TPS(1998) and Buy or Rent Option Scheme (1999). Apart from the above supply-side subsidies, the government also implements demand-side subsidies (i.e. the provision of different kinds of loan and mortgage scheme, which will be discussed in the next section.). As a result, the government had offered 84% subsidized home ownership opportunities by 1997.

Unfortunately, the above subsidizing policies could not change the depressed housing market. The housing market was even worse after the outbreak of Asian Financial Crisis in 97/98. House price dropped 45%-60% and unemployment rate increased significantly (Fig.6). As a result, the government suspended land sales and the PSPS in July 1998. According to Chiu (1999), the number of transaction even dropped by 60%. Since the demand of loans increased, government introduced various loan schemes in tackling this problem.



Fig 6. Unemployment rate 1991-2001

The Hong Kong Government presented the Long Term Housing Strategy in 1987 which provided a blueprint for Hong Kong's housing needs to 2001. There were a several objectives: First of all, to ensure that adequate housing at an affordable price or rent is available to all households. Secondly, to promote and to satisfy the growing demand for home purchase.

Except the above supply-side subsidy policies mentioned before, the Hong Kong government also introduces other policies, such as different loan schemes, to assist citizens to purchase their own properties. For example Home Purchase Loan Scheme (HPLS) in 1988, Sandwich Class Housing Loan Scheme in 1993, Home Starter Loan Scheme in 1998, and Home Assistance Loan Scheme after the reschedule of loan schemes in 2003. The properties of the above-mentioned loan schemes are quite similar, we will focus on the HPLS in the below section. The others will be described in short.

Sandwich Class Housing Loan Scheme

Sandwich Class Housing Loan Scheme was introduced in 1993 and practiced on 1994 to 1998. The Government allocated funds to help middle-income families purchase private flats which their income were over the restrictions of HPLS (detail will be discussed below). These middle-income families can apply a low-interest loan to purchase private section flats. At the end of 1997, the scheme benefited over 5700 families to purchase private flats and average 4 times in 1996 and 1997 of application.

Home Starter Loan Scheme

In 1998, the Chief Executive Mr. Tung promoted Home Starter Loan Scheme, the main different of the scheme compared with HPLS were the income restriction become larger and must be first time home buyers. Government was granted low-interest loans to eligible citizens who aspire to become property owners. The Housing Society acts as an agent for the Government in implementing and promoting the Scheme and the quota set in 6000 in each of the next five years. Applications for the Scheme were closed on 31 March 2002. A total of 23,735 families and 9,702 singletons have been benefited.

Home Assistance Loan Scheme

Home Assistance Loan Scheme was introduced in January 2003 which were combined the schemes with HPLS and HSLS, aiming to help eligible applicants acquire home ownership by offering them financial assistance. It also enabled the Housing Authority and the Housing Society to recover rental housing flats for re-allocation to families in need. The approved families may opt to have an interest-free loan or a monthly mortgage after conducting an overall review on the scheme, the Housing Authority endorsed the immediate termination of the HALS on 14 July 2004 by the reasons of heavy financial risks of the Housing Authority (HA) and reducing the intervention of the housing market by the government.

Now, we will discuss HPLS in depth, in order to understand the effectiveness of the loan schemes provided by the Hong Kong Government.

Home Purchase Loan Scheme (HPLS)

Home Purchase Loan Scheme (HPLS) was first introduced in April 1988, which was one of the policies of the Long Term Housing Strategy. The scheme offered an interest-free loans or monthly subsidies to help eligible tenants to acquire their own homes. All the applicant or family needed to have an income and asset test, look like applying PRH or HOS. The successful applicants could choose to benefit from an interest-free loan of repayable or a monthly subsidy for 48 months. However, whatever the options chose, the amounts of subsidies of White form applicants were less than Green form applicants, since the Green form applicants needed to return the PRH.

The policy goals for the scheme could be divided by five points. Firstly, it widened the choices which available to families who are seeking assisted home purchase. Secondly, it ensured that the private sector resources can be fully utilization. Also, the scheme helped to overcome the problems of initial financing faced by many families for buying their own home. Moreover, it encouraged purchase by sitting or prospective PRH who wish to release their rental flats for needy families. Finally, it facilitated redevelopment of the older rental estates.

There was a relatively low rate of take up the amount of loan in 1992. From the views of Housing Authority (HA), the result of the low rate applied because of failing to keep pace with had increased in prices in the private sector. As a result, HA though that HPLS had a limited success on relocation of the PRH and suggested that retain the scheme by a slightly loan amount and with a more realistic reduced annual quota.

There was an around 5600 quota had been taken up on Feb 1997 and around 80% for the year. Also, there was around 2800 valid letters of Approval-in-principle are be held and 7200 applications were under processing. From the information in HA, there were 600 applications are received each months and 3 times applying in

1996 and 1997.

In 2000, the annual scheme quota was reviewed and set at 4500. However, a total of 4455 loans and 177 subsidies have been granted at the end of March 2000. A shortage of the quota occurred. Since there were around 3500 PRH recovered, it seemed to favor for the green form applicants.

1) The Housing Price Index

Centa-City Leading Index

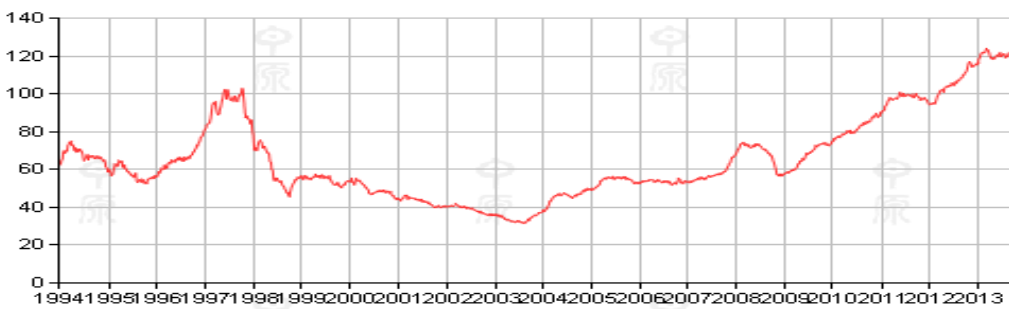


Figure 1 - Centa-City Leading Index

Figure 1(Centaline, 2013) shows the index of the property price. The higher amount of the index means the higher value of the overall properties in Hong Kong. When the Asian financial crisis occurred in 1997, the index dropped quickly from 1997 to 2003. However, as the mentioned before, we know that the applications were 3 times in 1996 and 1997 and a shortage of quota in 2000 even the housing price was relatively low. Generally, the number of the applications was exceeded the quota given, it seems the property price is not the main factor for applying the HPLS.

2) Median Income Per Month

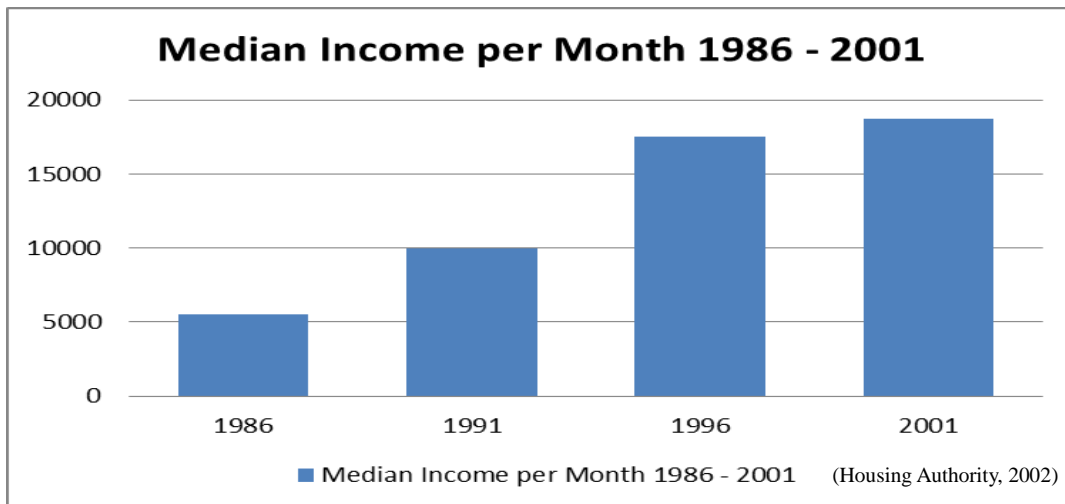


Figure 2 - Median Income per Month

Figure 2 shows the median income per month. The median income per month had increased from 1986 to 2001.

3) Reason for applying HPLS

Figure 3 and Figure 4 (Housing Authority, 2002) shows that the reasons of applicants applying HPLS in 2000 and in 2001, please notes that multiple answers can be allowed.

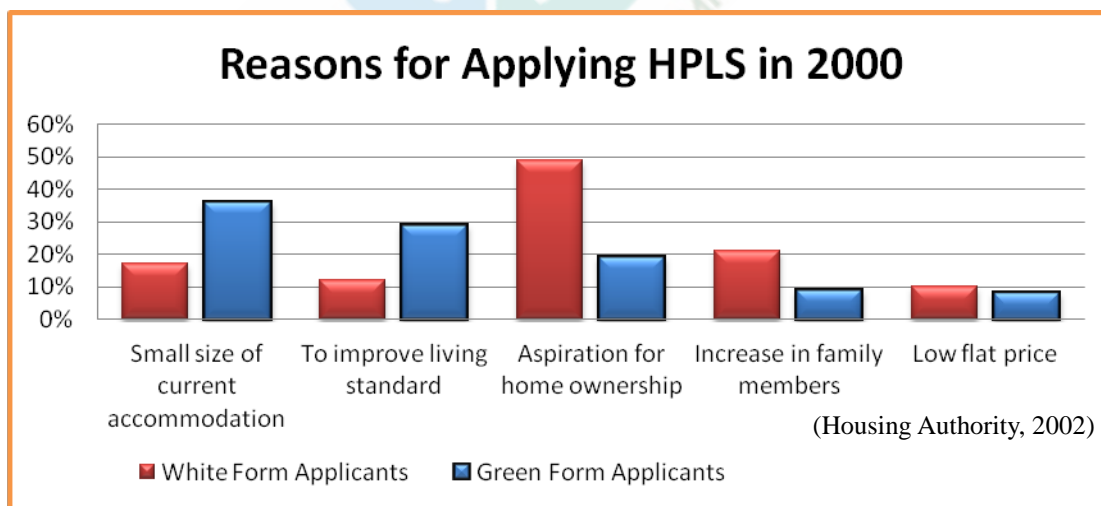


Figure 3 - The Reasons of Applicants Applied HPLS in 2000

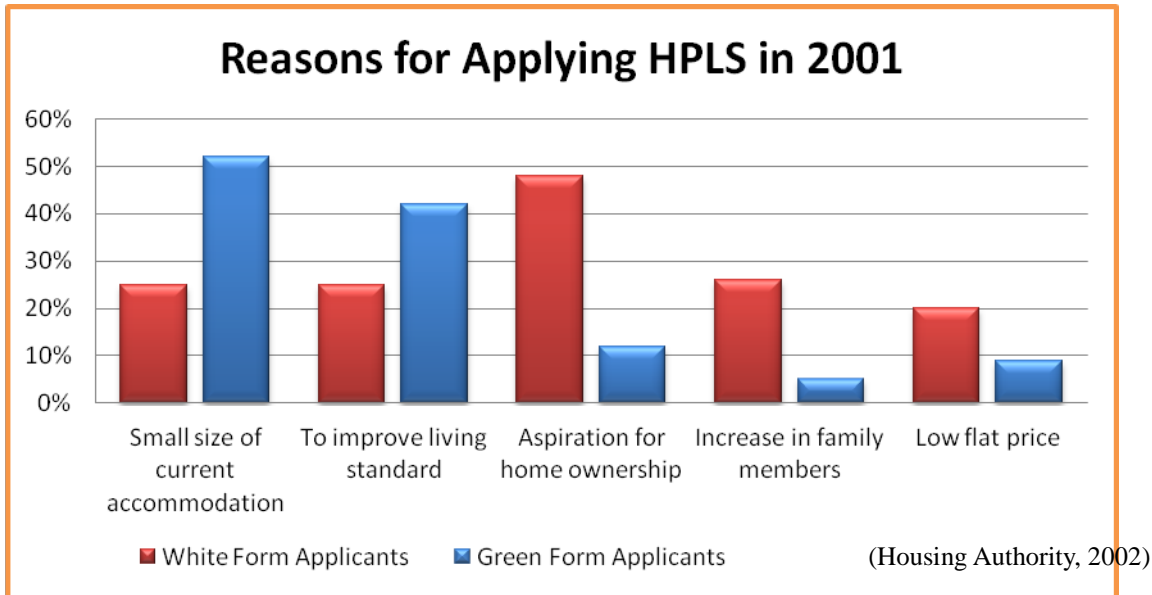


Figure 4 - The Reasons of Applicants Applied HPLS in 2001

The main reason for applying HPLS of the white form applicants was aspiration to have their own flat. On the other hand, the main reason for applying HPLS of the green form applicants was improving standard of living in both 2000 and 2001.

4) Reasons for Applying HPLS rather than HOS

Figure 3 and Figure 4 (Housing Authority, 2002) shows that the reasons of applicants applying HPLS rather than HOS in 2000 and in 2001, please notes that multiple answers can be allowed.

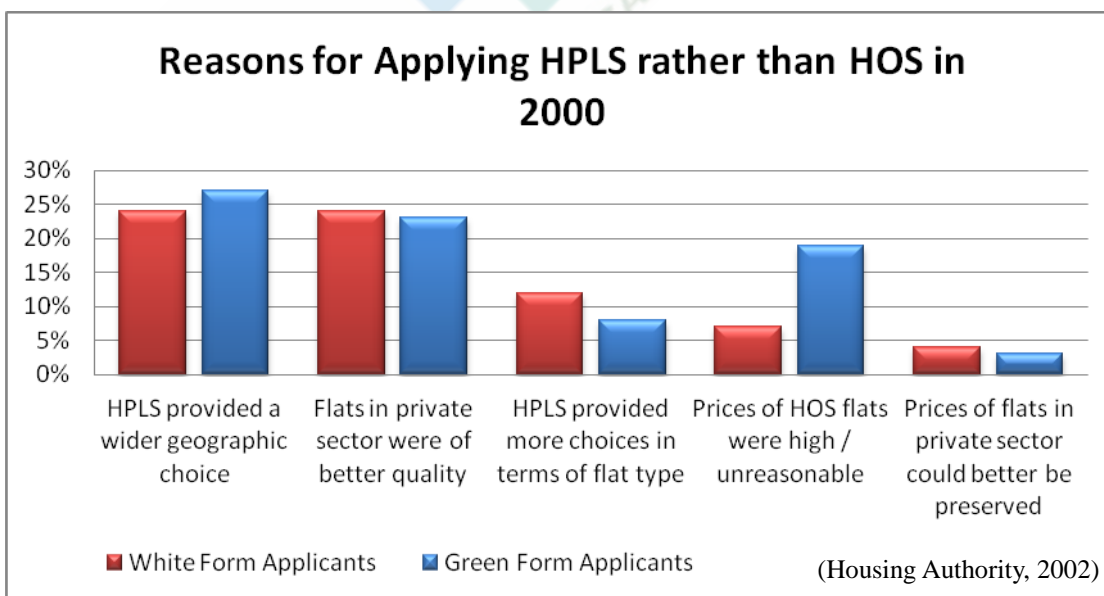


Figure 5 - The Reasons of Applicants Applied HPLS in 2000

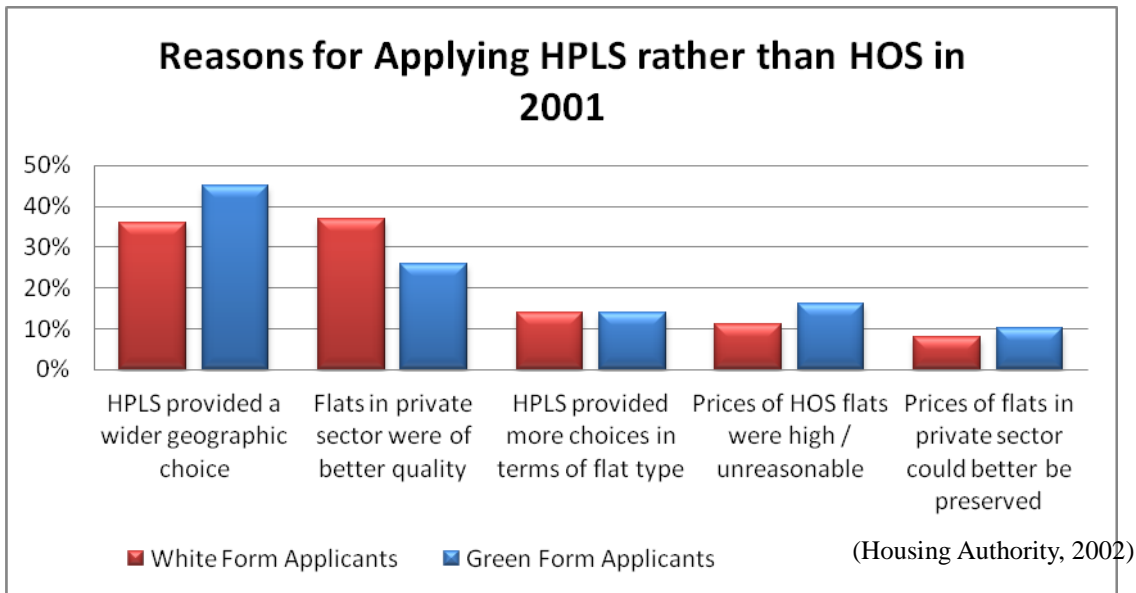


Figure 6 - The Reasons of Applicants Applied HPLS in 2001

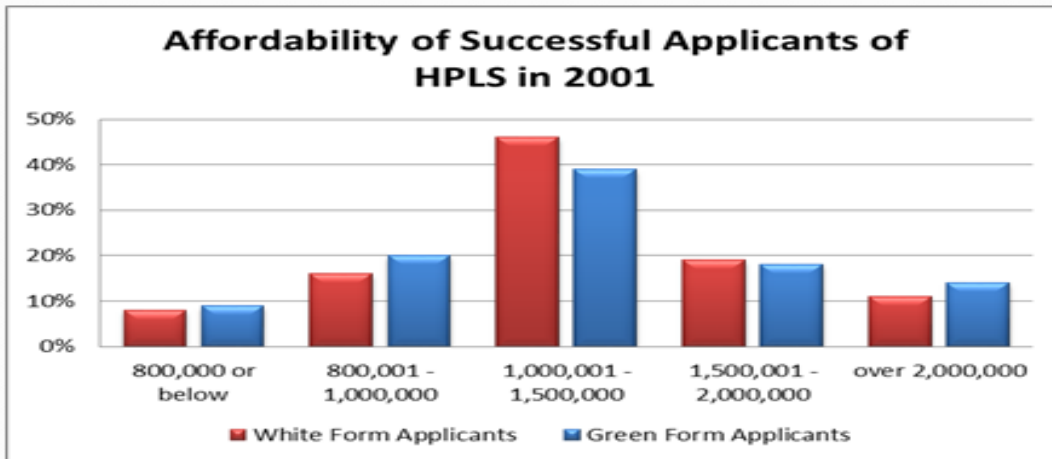
The main reasons for both white form and green form applicants though HPLS provided a well geographic choice and flats in private sector were better quality.

5) **Affordability of purchasing property**

Median Downpayment for Successful Applicants in 2001			
		Including HPLS Loan	Excluding HPLS Loan
Median Downpayment (Median Downpayment-to-price Ratio)	White Form Applicants	\$550,000 (44%)	\$100,000 (10%)
	Green Form Applicants	\$830,000 (70%)	\$100,000 (9%)

(Housing Authority 2002)

Figure 7-Median Down Payment for Successful Applicants in 2001



(Housing Authority 2002)

Figure 8-Affordability of Successful Applicants of HPLS

Figure 7 and Figure 8 show that the housing price range was 1M to 1.5M for most of the successful applicants of HPLS in 2001 chosen. Compared with the median down payment for successful applicants in 2001, there was 9%-10% of the housing price even of the green form or white form applicants which were excluding HPLS. However, it was around 40% of the housing price of the white form applicants and nearly 70% of the green form applicants.

For a conclusion of HPLS, we summary the scheme was successful in Hong Kong. As the policy goals we mentioned before, HPLS provided more choice of assist home purchases. Also, the private sector resources could be fully utilization for the demand of housing increased by solving the down payment of housing. For the data provided of HA, there was a large proportion of the scheme quota released the PRH.

Changing Objectives of Housing Subsidies Policies

As advised by Yates J. (2012), government intervention in housing market has changed over time within countries which had led to different types of subsidies employed from time to time. In the earliest stage (before 50s), poor sanitation and overcrowding were the most common problem throughout the world, which generated a number public health problem. The government in this stage mainly intervened the market in the form of regulations associated with building codes and town planning to solve the said problems.

In the post-war period (from 50s to 60s), state intervention mainly involved in redressing extreme shortage of housing and in promoting economic growth. To tackle this problem, as mentioned in the previous paragraphs, direct provision of public housing by the government to house people started to be implemented.

Throughout the 70s and 80s, the handling of housing supply problems moved towards neo-liberal economic and political ideologies centered on free market. More choices were in the market which led to attempts to reduce public spending and to change from supply-side subsidies approach to demand-side subsidies approach. The housing policies switched from directed towards rental housing to homeownership. By the 1990s, as the price of housing had been increasing, affordability declined. The government focused its eyes on access and affordability problem, and targeted at home buyers and gradually moved away from supply-side subsidies.

Conclusion

Government intervention had been applied to the countries or state with the purpose of adjusting the irregularities arisen from market failures, like housing shortage, affordability problem, sub-standard housing conditions and monopolies in housing market. Such intervention should be in the form of housing subsidies or other measures that aims at achieving some non-housing goals. Different types of housing subsidies had been applied for producers and consumers of housing as incentives to encourage the supply of housing, to support the rehabilitation for improvement of housing conditions, and to enable the accessibility to affordable housing and its related services for low-income populace. As shown in the previous paragraphs, there are a number of views from advocates showing the strengths and weaknesses of different types of housing subsidies when being applied to a state. Indeed, a well-functioning of housing market should entail no single subsidy but should be associated with other policies as a mix. The said mix should vary from country to country, and within stage to stage.

We learned from the previous information that Hong Kong is quite inconsistent with the pace of the world. Owing to the large proportion of population being subsidized by public rental housing and HOS, Hong Kong relies mainly on supply-side subsidies approach. Since 1988, demand-side subsidies like HPLS, Sandwich Class Housing Loan Scheme, Home Assistance Loan Scheme and Home Starter Loan Scheme started to be applied by the government to tackle the problem of affordability and promote homeownership. Generally, the above subsidies can be targeted at the groups or individuals with different needs. However, the problems of the increase in price of housing due to the feature of low elasticity of supply in housing, as a result of heavy demand for housing upon the application of the above demand-side subsidies, and the effective policies used to balance the above situation are the open questions that worth being discussed further in society.

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