

# Housing affordability in Hong Kong







## Executive summary

Housing affordability is a topical global issue and nowhere in the world has the argument about affordability been more protracted and intense than in Hong Kong. Despite efforts to address the challenge of housing affordability in Hong Kong, significant progress is still required to address the needs of the population.

At EY\*, we challenge ourselves to ask better questions of our colleagues, EY clients, and our community. The questions we pose are: how can the Northern Metropolis Development Strategy be delivered in a way to reduce the housing issues in Hong Kong? And once a new housing supply is available, through what means should it be allocated?

This paper examines the flow-on effect of the housing affordability issues in Hong Kong on middle and low-income households, reviews the government's effort to address the housing shortage, and explores how the Northern Metropolis provides an opportunity to address some housing market issues using innovative financing and delivery initiatives. We recognize that this covers only a small fraction of the total effort required to develop and deliver an integrated housing strategy that meets the needs of the Hong Kong people, who are struggling to secure comfortable and affordable housing. It is clear, that simply relying on new land supply as the means to resolve the housing crisis, may not be the only answer. The recent 2022 Policy Address shows that the Hong Kong SAR Government has housing as a top priority. We hope this paper will assist in implementing some of the strategies put forward in that document.

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\* Ernst & Young Transactions Limited Hong Kong



## 1 Home ownership out of reach for many

Hong Kong is one of the most expensive cities in the world. In Hong Kong the median home price is 23.3 times the median annual wage, according to a 2021 survey, which compared housing affordability in over 92 metropolitan housing markets in eight economies<sup>1</sup>. This represents the highest housing to income multiple of all markets studied. More worryingly, Hong Kong has topped this list for 12 consecutive years.

Measures have been introduced in an attempt to better control the speculation of residential properties, such as restricting some mortgages and giving priority to local Hong Kong purchasers, however these have had less than the desired effect in preventing further spikes in house prices or alleviating affordability issues. Loan-to-value Ratio (LVR) caps have been in place for a number of years through the Hong Kong Monetary Authority (HKMA), although these have been loosened in 2019 and again in 2022. Currently for properties less than HK\$10 million the maximum LVR for mortgages is 90%<sup>2</sup>. However, restricting mortgages is just one approach to controlling demand for housing and does not address the supply issue.

For those wanting to get on the housing ladder, there are two primary options - purchase from the private housing market or, subject to eligibility, purchase a Subsidised Sale Flat (SSF) from the government at below market prices. Due to the limited number of SSF, only a small number of households can take advantage of this programme, therefore the Hong Kong market is bifurcated between Public Rental Housing and Private Ownership.

It is worth noting that while renting from the private housing market may be a popular alternative in a number of international housing markets, this is less so in Hong Kong where only around 21% of the population are living in private rental housing<sup>3</sup>. Despite a long standing and extensive public housing programme, the average waiting time for a public housing flat in Hong Kong rose to 6.1 years by March 2022, the highest since 1998<sup>4</sup>. The wait time is currently 6.0 years.

Long-term and sustainable housing options for low and very low-income households are limited by the shortage of land supply in Hong Kong. Renting or buying from the private housing market is generally out of reach for these households.

In contrast, other property markets have a greater amount of housing support for middle income earners, whether that be to rent or purchase subsidised housing. Figure 1 compares the current housing ladders both in Hong Kong and Singapore. Light Public Housing, a new public housing solution announced in the 2022 Policy Address, has been included for Hong Kong as a step before Public Rental Housing.

1. Median multiple determined as median house price divided by median annual household income in Demographia International Housing Affordability Report, 2022 Edition <http://www.demographia.com/dhi.pdf>

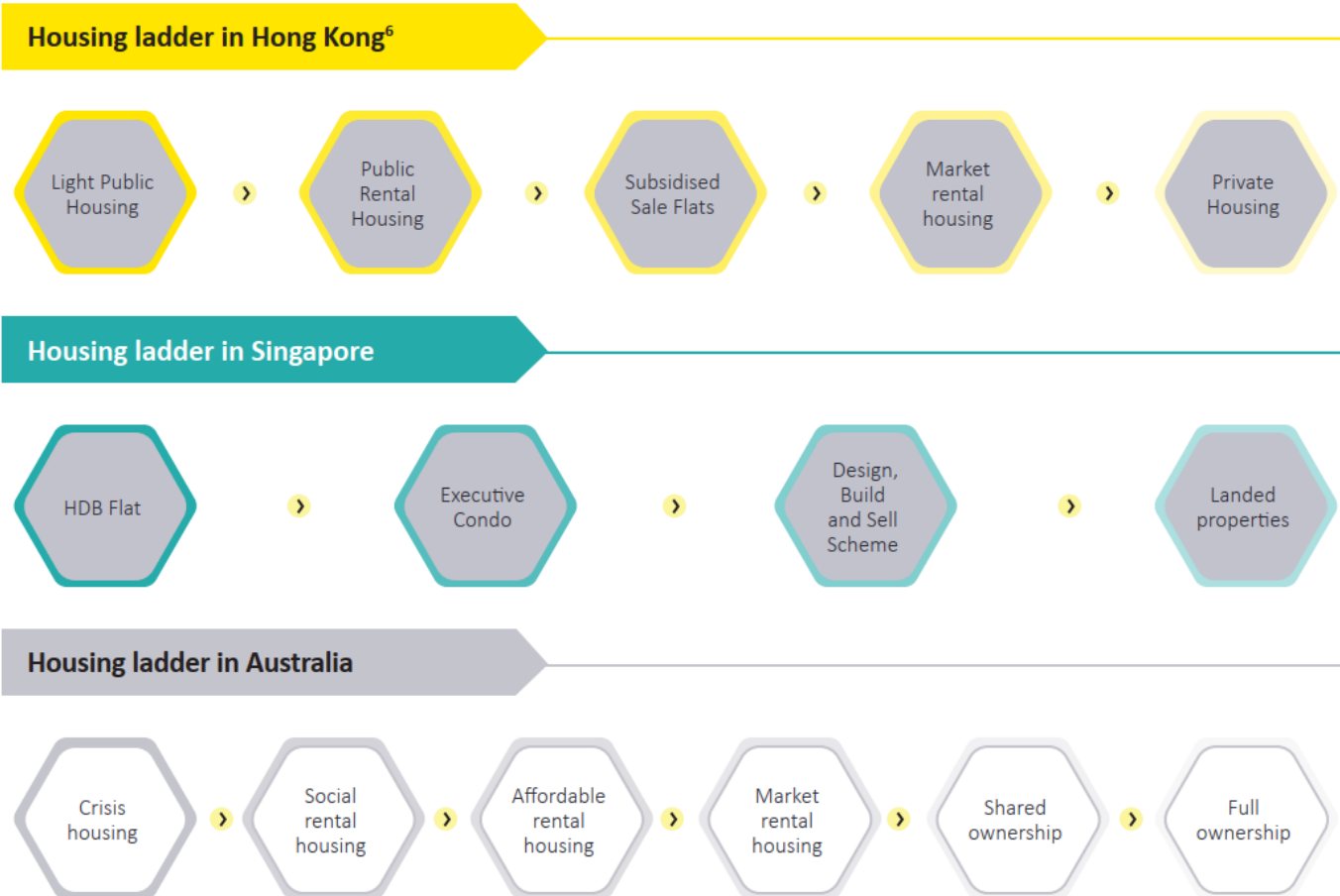
2. <https://www.hkma.gov.hk/media/eng/doc/key-information/press-release/2022/20220223e3a1.pdf>

3. calculated based on the data presented in Table 6.3 p83 and Table 6.5 p85, 2021 Population Census <https://www.census2021.gov.hk/doc/pub/21c-summary-results.pdf>

4. <https://www.housingauthority.gov.hk/en/about-us/publications-and-statistics/prh-applications-average-waiting-time/>



Figure 1: Housing ladder in Hong Kong and other markets<sup>5</sup>



5. Housing Authority of Western Australia; Hong Kong Census and Statistics Department; Housing Authority; Department of Statistics of Singapore

6. [https://www.policyaddress.gov.hk/2022/public/pdf/policy/policy-full\\_en.pdf](https://www.policyaddress.gov.hk/2022/public/pdf/policy/policy-full_en.pdf)



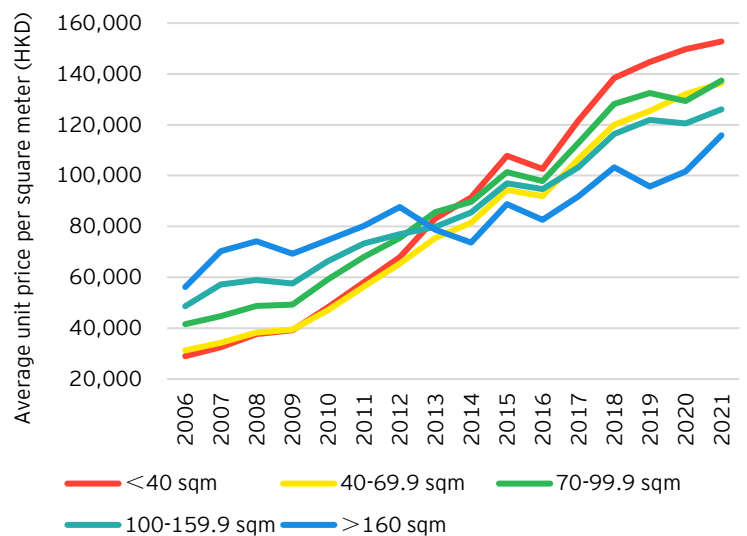
The housing market in Singapore is dominated by public housing provided by the Housing and Development Board (HDB), resulting in 78.7% of Singapore citizens living in public housing in 2020<sup>7</sup>, which is subsidised by HDB. In contrast, Australia has a number of government programmes for social rental housing to assist households to make the transition to the private market.

Hong Kong continues to have challenges in providing options within this segment of the property market. With limited choice, middle-income families - depending on their level of income - can only resort to one of the following:

- ▶ Purchasing smaller sized flats (Category A and B flats with areas of below 40 square meters and 70 square meters respectively) which inadvertently raises the prices of these flats further
- ▶ Applying for the government's SSF, which is only available to eligible households that are within the income thresholds

Figure 2 demonstrates the result of the limited choices for middle income families, with prices per square meter (sqm) increasing at a faster rate for small than large flats. This is particularly evident in the New Territories where most of the new housing stock has been supplied in recent decades. The inflation of entry level flat prices is being intensified by different LVR restrictions put in place by HKMA.

**Figure 2: Average unit prices - New Territories<sup>8</sup>**



7. <https://www.singstat.gov.sg/-/media/files/publications/population/population2021.pdf>

8. [https://www.rvd.gov.hk/doc/en/hkpr22/HKPR2022%20Full%20Book\\_TC.pdf](https://www.rvd.gov.hk/doc/en/hkpr22/HKPR2022%20Full%20Book_TC.pdf)



## 2 Government's effort in housing affordability

Besides policies to attempt to constrain housing demand, the government has considered several methods to accelerate the land supply and housing in the short to medium term. These policies have had mixed results and could be complimented with additional approaches to housing affordability.

### The Chief Executive's 2022 Policy Address

The Chief Executive John Lee Ka-chiu's first policy address (2022 Policy Address) set out a broad land supply and housing agenda to address the city's urgent public and private housing needs. The Policy Address mentioned that the government will "earnestly address people's concerns and difficulties in daily life" by making land and housing a top priority. This includes setting 10 indicators to track progress and effectiveness, which are shared between the Development Bureau and Housing Bureau.

The new Light Public Housing (LPH) is envisaged as transitional homes for families waiting for traditional Public Rental Housing (PRH). Tenants may retain their application of the PRH if they take up LPH. LPH will be built on government and private land in the short term by adopting standardized simple design and Modular Integrated Construction (MiC) methods. Over the next five years the government has committed to delivering 30,000 LPH units.

The government aims to increase the total supply of public housing by 158,000 units over the next five years, including 20,000 transitional housing units to address the short-term supply of public housing and the previously mentioned LPH. This represents a 50% increase from the five-year forecast in the 2021 Policy Address.

The government is improving the housing ladder by introducing LPH, stabilizing the supply of private housing, and improving the SSFs such as those under the Home Ownership Scheme, Green Form Subsidised Home Ownership Scheme, and Starter Homes for Hong Kong Residents (Starter Homes). This is an encouraging commitment but will require a large increase in output from both public and private sector stakeholders to delivery.

## Private developer participation in subsidised housing development

The Land Sharing Pilot Scheme (LSPS) was setup to enhance infrastructure and increase the development intensity through public-private partnership and leverage the resources and efficiency of the private market to release the development potential of private land<sup>9</sup>. Under this scheme, the government hopes to cooperate with private developers to unlock the land supply through the timely processing of applications with a high yield of both public and private housing. The government emphasized that the LSPS is a supplement to but does not replace government-led planning of private land for specified public purposes.

The scheme offers private developers the opportunity to consolidate their fragmented private lots in the New Territories with some government plots and have these rezoned to allow development. As this is new to the Hong Kong market, the government has only received five applications since launching the scheme in May 2020. The Development Bureau has “Supported & Endorsed in principle” three applications with the remaining two under vetting<sup>10</sup>.

In the 2022 Policy Address, the LSPS has been broadened into the Pilot Scheme on Private Developer Participation in Subsidised Housing Development. This will provide some land parcels for tender to build SSFs, while also encouraging developers to apply for rezoning of their own private land for SSF development.

This is an encouraging step for the government in housing supply, as it shows a willingness to work constructively with the private sector to accelerate consolidation and development of land plots in the New Territories. However, the limited number of applications to the original LSPS indicates the scheme may struggle to scale to the level needed to assist in the land supply challenge faced by Hong Kong.

## Governance (Task Forces)

The government is also making efforts to streamline statutory procedures by establishing the Steering Committee on Land and Housing Supply (SCLHS) and Task Force on Public Housing Projects (TFPHP) on 6 July 2022. The SCLHS is replacing the former Steering Committee on Land Supply (SCLS), which expands its scope from land only to land and housing. In terms of the divisions, SCLHS is responsible for steering and monitoring the supply of land and housing from a macro perspective, while TFPHP focuses on overseeing the progress of public housing projects from site delivery to completion and occupation. This illustrates a renewed commitment to delivering much need increases in developable land and an increased focus on delivery of public housing in the short term.

The use of committees and task forces to improve land supply has faced challenges in the past despite having government support and a broad mandate. Both the SCLHS and TFPHP have been provided specific indicators within the 2022 Policy Address. To enhance the transparency, the SCLHS and the TFPHP are required to formulate and regularly publish a 10-year forecast of supply of developable land and supply of public housing respectively.

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9. <https://sc.isd.gov.hk/TuniS/www.info.gov.hk/gia/general/202202/16/P2022021600266.htm?fontSize=1>

10. [https://www.devb.gov.hk/en/issues\\_in\\_focus/land\\_sharing\\_pilot\\_scheme/land\\_sharing\\_pilot\\_scheme\\_applications/application\\_received/index.html](https://www.devb.gov.hk/en/issues_in_focus/land_sharing_pilot_scheme/land_sharing_pilot_scheme_applications/application_received/index.html)



## Modular Integrated Construction (MiC)

The adoption of Modular Integrated Construction (MiC) in the delivery of public housing in Hong Kong would provide a ready-made solution for the growing waiting time for public housing. Whilst the cost-benefit of using MiC for housing projects in Hong Kong has still not fully been assessed, the efficiencies in construction times are clear. It has been estimated that utilizing MiC for the construction of high-rise buildings could reduce the time spent from the commencement of superstructure work to occupation by 30% to 50%<sup>11</sup>. The time savings and significant volume of the works taking place off-site also means a larger number of projects could be delivered with the limited Hong Kong construction labor pool, which is struggling to attract the younger generation to the industry<sup>12</sup>. This is especially important as the government is embarking upon an unprecedented period of construction activity, with the largest Capital Works Programme on record that will exceed HK\$100 billion per annum over the coming 10 years<sup>13</sup>.

The Hong Kong Government has introduced a range of initiatives to encourage use of MiC, including supporting the MiCLab at the University of Hong Kong, while also proactively adopting MiC in various public works, with pilot projects including the InnoCell of the Hong Kong Science Park and the Disciplined Services Quarters for the Fire Services Department at Pak Shing Kok. The 2022 Policy Address reiterates the importance of MiC to increase the productivity of the construction industry which will be supported by streamlining the related approval processes and establishing a cross-departmental steering committee.

Whilst the benefits of MiC are clear, the uptake in Hong Kong is still relatively slow for two main reasons. Firstly, several of the Buildings Department codes of practices for construction and structures are outdated and can therefore be a barrier to more innovative construction techniques. Secondly, investment decisions in the construction and real-estate industry are often focused on the short-term capital expenditure for an individual project, rather than looking at the long-term cost savings over a programme of multiple assets<sup>14</sup>.

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11. [http://www.hkengineer.org.hk/issue/vol49-january2021/cover\\_story/](http://www.hkengineer.org.hk/issue/vol49-january2021/cover_story/)

12. <https://www.psgo.gov.hk/assets/pdf/Construction-2-0-en.pdf>

13. <https://www.budget.gov.hk/2021/eng/budget37.html>

14. <https://www.newcivilengineer.com/the-future-of/future-of-modular-construction-barriers-to-adoption-prevail-28-04-2022/>



### 3 Opportunities in Northern Metropolis

The Northern Metropolis Development Strategy was issued on 6 October 2021 and represents a major change in development priorities in Hong Kong, shifting the focus to the northern boundary to maximize use of available land and synergies with the Greater Bay Area (GBA). This has been reinforced in the 2022 Policy Address, with the Northern Metropolis designated as the new engine for Hong Kong to scale new heights. The strategy will benefit from the available land and infrastructure in the region and should deliver significant benefits within the decade.

To achieve this grand blueprint, the Chief Executive and Financial Secretary will lead the Steering Committee on the Northern Metropolis and an Advisory Committee on the Northern Metropolis respectively to streamline the governance system for the development. A department dedicated to the development of the Northern Metropolis will also be set up next year to steer various departments and coordinate their efforts in delivering the development.

On top of planning and development projects already underway, the Northern Metropolis Development Strategy will create about 600 hectares of new land for housing and economic development, with a preliminary estimate of an additional supply of 165,000 to 186,000 residential units. Together with existing developments, the entire Northern Metropolis region will eventually be able to accommodate a residential population of about 2.5 million<sup>15</sup>. In the 2022 Policy Address, the government aimed to commence land resumption procedures for all development projects within five years, and to form 40% of the new development land and complete 40% of the new flat within 10 years. To achieve these goals, the government have commenced major projects developments in three New Development Areas (NDA) including Kwu Tung North/Fanling North, Hung Shui Kiu/Ha Tsuen, and Yuen Long South, and planning for other development projects such as San Tin Technopole.

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15. <https://www.policyaddress.gov.hk/2021/eng/pdf/publications/Northern/Northern-Metropolis-Development-Strategy-Report.pdf>



Compared with other New Town Development plans such as Tseung Kwan O, Tin Shui Wai and Tung Chung, the Northern Metropolis is planned to emerge as a “new international I&T city” as well as providing housing and environmental conservation areas. The planning of transport infrastructure projects such as the new Kwu Tung Station and the Northern Link will provide a backbone of transport connecting to accommodate the large population, however cross boundary connectivity on demand transport services will also need to be incorporated. Northern Metropolis Highway and Hong Kong-Shenzhen Western Rail Link are among the six major infrastructure projects in the 2022 Policy Address, which lay out a solid footprint for the development of the Northern Metropolis and strengthen the connectivity to other GBA cities.

The degree to which the Northern Metropolis can ease the housing affordability issue depends on how it can provide for residents at each rung of the housing ladder. It is important to balance the level of private housing, public rental housing and transitional housing to match the demand in the market and the employment demand from industry. The ability of the new department to incentivize all stakeholders in the housing market, both public and private, will be critical to delivering on the promised scale of development in the near-term.

Streamlining development processes in the Northern Metropolis will be another important priority to ensure that housing is brought to market as soon as possible. This includes fast tracking installation of enabling infrastructure such as drainage, water and power by removing unnecessary bureaucratic processes. Consideration should also be given to consolidating development parcels so economies of scale can be achieved in construction time and costs.

The imbalances in the housing market that have built up over the previous decade will require innovation solutions that could be implemented in the Northern Metropolis. The following section identifies housing affordability policies from overseas that could be adapted to Hong Kong.





## 4 New housing delivery: successful overseas housing initiatives

While further investigation is required to assess how and whether these initiatives could work in Hong Kong's housing market and policy landscape, there are housing products and initiatives which have been successfully implemented in overseas markets in combating housing affordability issues.

### 1. Inclusionary zoning

Inclusionary zoning is a land use planning intervention which either mandates or creates incentives so that a proportion of a residential development will include affordable housing for low and middle-income households. Incentives under this approach are typically aimed at reducing the costs for private developers. These could take the form of (a) modifications to planning standards based on performance criteria, (b) bonus systems which relax specified development controls, and (c) planning process incentives such as fast track approvals and accelerated infrastructure provision.

Such intervention is used in several overseas markets including the UK, US and Australia, as detailed below:

- ▶ The King's Cross redevelopment in the UK has redeveloped a previously run-down, underinvested area into a thriving community with two schools, the major rail hub connecting the UK with mainland Europe, a university, public space, restored historical buildings as well as 2,000 new flats, around 50% of which have been dedicated to affordable housing (as agreed between the private developer and London authorities).

- ▶ A Mandatory Inclusionary programme was launched by the Department of City Planning in New York. Under each mandatory inclusionary housing area, between 25% and 30% of the residential floor area could be stipulated as the minimum allocation for affordable housing units for residents within a specified income threshold.
- ▶ The Housing Plan for South Australia was introduced in 2005, which mandated 15% of new housing in all significant development projects to be affordable homes by June 2014. The 15% policy has been extended in the 2020-30 Housing Plan.

An outcome of introducing inclusionary zoning initiatives is an increase in mixed tenure or mixed income communities, i.e., any development or community where different forms of housing rental or ownership co-exist. This not only tackles the concerns around single category estate developments but can also be seen to offer more choice for people to achieve their housing aspirations within the same community in the longer term.



## 2. Rent-to-own

Rent-to-own (or rent-to-buy) schemes are effectively leasing arrangements in which potential homeowners commit to a multi-year lease with a future option to purchase the property.

The scheme is implemented in a number of overseas markets, but primarily in the UK. For example, a rent-to-buy programme was launched by the UK government in 2015 to encourage working households to save money while they are renting to give them an opportunity to save for a sufficient deposit to buy their first home. The UK government provided £400 million in loans to housing associations and social landlords to build 10,000 new homes for potential lower income rent-to-owners. When the home is sold or moved to a market rent at the end of the lease term (at a minimum of five years), the landlord repays the UK government grant.

There are varying conditions implemented under the scheme in different jurisdictions. These include government versus non-government authorized schemes, inflated versus discounted rent settings, original versus market property purchase values and rights of landlords versus tenants at the end of the lease term.

### 3. Build-to-rent

Build-to-rent (or build-to-let) is the process in which developers and their financiers build multi-unit buildings and, instead of selling the units, retain ownership of them to rent to tenant households. Rents may be set at market rent or, for affordable and social housing, at an appropriate discount to market rents.

This is an established asset class in the UK and US housing markets and is seen to be different to the existing private rental sector. A driving force behind the expansion of this asset class is the fact that it attracts institutional investment which seeks a stable, long-term income stream. As shown below, the approach to build-to-rent differs in each country:

- ▶ In the UK this asset class is seen to increase the overall supply; support greater choice for tenants in the rental market; provide high-quality, purpose-built homes with professional management and longer tenancies for those who want them. As of Q2 2022, there are 35,615 build-to-rent homes completed, 16,474 under construction and 44,496 with planning permission across London<sup>16</sup>.
- ▶ The US version of build-to-rent, the “multi-family model”, is centred on short-term leases, mainly six to 12 months, with a blend of on-site property and facility management and centralized off-site asset management employed by US multi-family fund managers.

While such developments will increase the overall rental supply, they may not necessarily be the targeted rental properties for low and middle-income households. To achieve this, governments would need to consider providing a range of economic supports to developers.

Germany has a very different housing policy to Hong Kong and the other markets assessed, focusing on housing supply and rental affordability rather than ownership. Besides a large stock of private sector owned rental properties, Germany also has a large supply of Social Housing. This is built by the private sector with the support of Government Grants and interest-free loans and must be rented at below market rates for 15 to 25 years, after which the units can be rented at market rates<sup>17</sup>.

### 4. Government-assisted rental housing

Government-assisted rental housing for middle-income households exists in many overseas housing markets as an interim step between social housing, such as public rental housing (PRH) in Hong Kong, and private rental markets. The specific implementation of such scheme or housing product relies on a combination of different government policies which may vary from jurisdiction to jurisdiction. For example, this form of housing product is called Affordable Housing in New South Wales (NSW), Australia where:

- ▶ Affordable housing is housing appropriate for the needs of a range of very low to moderate-income households and is priced so that these households are also able to meet other basic living costs. In that context, housing is considered affordable if it costs less than 30% of gross household income.
- ▶ Affordable housing is developed with financial assistance from the NSW government and is owned or managed by registered not-for-profit community housing providers (there are over 140 community housing providers across the state).
- ▶ The general target group for affordable housing is households with the potential to transition into home ownership in the medium term.
- ▶ It is rented to tenant households at a discounted market rent which takes into account household income and capacity to pay.
- ▶ Certain households are eligible for further rental assistance from the Commonwealth government which can only be used toward rental payments. Eligibility is income tested and the amount of rental assistance provided is determined based on the household rent.
- ▶ Provision of affordable housing is regulated under NSW government policy and/or under an independent National Regulatory System for Community Housing Providers depending on whether capital funding from the NSW government is involved.

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16. <https://bpf.org.uk/media/5264/bpf-savills-build-to-rent-report-q2-july-2022.pdf>

17. <https://www.bmi.bund.de/EN/topics/building-housing/city-housing/home-ownership-housing-assistance/social-housing/social-housing-artikel.html>

## EY point of view

Hong Kong has one of the most expensive housing markets in the world. Efforts to constrain demand and excessive leverage in the sector have not had the desired effect in preventing further spikes in house prices or alleviating affordability issues. The government has committed to alleviating the housing affordability issues through increasing land supply (led by SCLHS) and increasing the delivery of new housing projects (through policies such as the LSPS and innovative building techniques like MiC).

The Northern Metropolis provides a valuable opportunity to address the housing shortage from a number of angles:

- ▶ Land supply: by opening up large areas of developable land in the medium term this represents a significant increase in housing units that can be supplied over the coming decades.
- ▶ Delivery speed: the Northern Metropolis has an opportunity to use streamlined delivery processes both to cut down on bureaucratic procedures and fast-track construction using innovative techniques such as MiC.
- ▶ Housing mix: using a variety of procurement methods and partnership approaches with the private sector, the Northern Metropolis could aim to deliver housing solutions to households at all income levels to better match supply and demand in the market.

We view the Northern Metropolis as a generational opportunity to tackle the housing affordability issue in Hong Kong, which requires a consideration of the housing mix in addition to the magnitude of housing supply. This paper introduces potential initiatives that could be trialled. We hope it starts a broader debate regarding the possible housing solutions in Hong Kong.

## Contact



**Steve Lewis**

Partner

+852 3471 2702

+852 9664 3673

steve.lewis@hk.ey.com



**Simon Quail**

Director

+852 26293481

+852 9666 3266

simon.quail@hk.ey.com



**Wai-duen Lee**

Director

+852 2849 9376

+852 9664 3618

wai-duen.lee@hk.ey.com

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