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To: Legislative Council Panel on Housing

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**Comments on the
Re-launching of the Home Ownership Scheme (HOS) and
Revitalisation of the HOS Secondary Market**

1. This submission is in response to the invitation for submission of views on the re-launching of the Home Ownership Scheme (HOS) and revitalisation of the HOS Secondary Market. The views in this submission are my own views and do not represent that of any organization with which I am affiliated. My views below are mainly on the re-launching of Home Ownership Scheme (HOS).
2. The HOS is a form of housing subsidy. The subsidy has the following characteristics:
 - A physical subsidy in the form of flats sold at a discount to market prices
 - Recipient's benefit is attached to a HOS unit, which is immobile
 - A lump sum upfront subsidy
 - Is provided by the public sector
3. Compared to financial subsidies (cash or equivalent), the choices open to the recipients of physical subsidies are rather limited. A physical subsidy cannot easily match the needs and tastes of individuals. Therefore, a recipient of a physical subsidy will always value it at much less than the actual cost of its provision. That is, the resources spent to provide the HOS are a lot lower than HOS buyers' valuations of it. This leads to a loss of economic efficiency. The efficiency lost is further worsened by the: (1) immobile nature of housing and (2) the provision of HOS by the public sector (see below).
4. The HOS units are sold at a discount compared to market prices, but recipients can only enjoy such a benefit if they live in the HOS unit. These units are likely to be in sub-optimal locations from the HOS buyer's perspective, which may create additional transportation time and costs and increase load on the transportation network. To illustration this, a person who originally lives in a private housing unit 20 minutes from where s/he works will chooses to live in a remote HOS unit that is a 50-minute commute from his/her workplace as long as the value of the subsidy is larger than the present value of the discounted future additional transportation costs (including the time cost resulting from a longer commute). The consequences of a longer commute time are not solely borne by the recipient, as the public also has to bear the environment effects, traffic jams, etc., that HOS residents may generate.

5. The benefit to the HOS owner is highest if s/he remains in an HOS unit s/he has purchased. Once it is sold, s/he has to pay a premium to the government (thereby returning part of the subsidy to the government). For an HOS owner to have an incentive to sell his/her unit, the benefit of selling his/her unit must be higher than the benefit of staying in it (e.g. the owner might have increased his/her family size, changed his/her job/school or those of family members, etc.). In general, HOS households are less mobile than private sector households. This, again, contributes to the HOS owner's lower valuation of the housing subsidy.
6. Since an HOS buyer can buy an HOS unit at a discount, the subsidy that s/he receives is in the form of a lump sum payment, which is "permanent" in nature. This form of payment will not be returned to the government even if the recipient becomes "better-off" (no longer eligible for HOS) in the future. Unlike the subsidies received by tenants in public rental housing, which are recurrent in nature and are stopped (or partially stopped by paying a "better-off" tenant rent) when they become better off. This raised an equity issue as to why a HOS buyer should receive housing subsidies that are more secured and permanent in nature than that received a public housing tenant whose income is in general lower than that of the HOS buyer.
7. HOS units are provided by the public sector. The public sector is less efficient than the private sector in providing housing units, meaning that compared with the private sector, more resources are needed for the public sector to provide the same housing unit due to the constraints that public sector decision makers have to face.
8. Provision of the HOS by the public sector needs long term planning and takes a long time to implement. Once established, inertia will develop, which makes it costly to change. Financial (cash or equivalent) subsidy is more flexible, involves fewer dissipation of public sector resources, and can benefit eligible households in a timelier manner.
9. Unless all households can buy HOS units once they become eligible, which is impossible, this welfare system will become a lottery. Since the income of eligible households grows at differential rates over time, those who benefit from the system may not be those who are most in need of the subsidy. There is a significant random element in the system.
10. Since total demand for housing in the future is difficult to forecast, it would be a difficult task for the government to decide on the number of HOS units it should supply to the housing market. A wrong decision may increase the volatility of private sector housing prices.
11. The supply of HOS will not make private housing more affordable if the total supply of developable land remains unchanged. Allocation of developable land

- for building HOS units will mean less land available for private housing development. On the other hand, if additional land is provided for the HOS, such land, if supplied to the market, can also lower housing prices, which makes all private housing more affordable and helps more people to become flat owners. Increasing land supply is a more equitable means of increasing affordability than re-launching the HOS system, as the latter only benefits some lucky individuals.
12. Whether or not there are sufficient low end private housing units available to lower income households requires a more detailed study. However, even if there are insufficient low end private housing units, there are other more cost effective and flexible means to ensure sufficient low end private housing units.
 13. One argument for the government to provide HOS units is that it can shorten the waiting time of those households on the public rental housing waitlist, since public rental housing tenants can apply for HOS units as green form applicants. However, given the inherently inefficient nature of the HOS system, it is a very costly way of inducing the better off public housing tenants to give up their units. A more equitable way is to increase the rents of these better off tenants substantially. Even paying the better off tenants cash subsidy or building more public rental housing units are more cost effective than providing them with HOS units.
 14. Even if we agree that it is the government's responsibility to help households to own a housing unit whether they want it or whether it is equitable to do so, re-launching the HOS to achieve this goal is one of the worst options, since it is inefficient, inflexible, irreversible, untimely, unfair, and contains a random element that may not benefit the most needy households. Financial subsidies (e.g. down payment subsidy, interest free loans, etc.) with a corresponding increase in land supply are a better way to achieve the same goal. In addition, it is easier for taxpayers to know how much subsidies have been given to eligible households to help them become flat owners, which is most important when it comes to public accountability and transparency.
 15. I would like to reiterate that although I am currently President of the Hong Kong Institute of Surveyors (HKIS), the comments above represent my own personal views and do not reflect the official views of the HKIS. The HKIS will send its official comments to the Legislative Council Panel on Housing separately. I am sorry that I have other prior engagements, and thus, cannot attend the forum on 3 May 2010. I will be happy to answer questions and elaborate more on the above points in other venues.

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