

**Legislative Council Panel on Housing  
Subcommittee on the Long Term Housing Strategy**

**Projection of Housing Demand**

**PURPOSE**

This paper briefs Members on the approach to assess long-term housing demand.

**BACKGROUND**

2. The Long Term Housing Strategy (LTHS) Steering Committee has discussed the key components to be included in the projection of long term housing demand. It must be emphasized that these preliminary views are by no means conclusive, and should be taken with caution as further analysis and study needs to be made before reaching any conclusions on the projection of long term housing demand. We will further work on the detailed methodology and the projection of long term housing demand based on the framework set out in the ensuing paragraphs.

**ASSESSMENT OF HOUSING DEMAND**

3. In projecting long term housing demand, there is a need to define clearly what we mean by housing demand. In this connection, a basic view is that every household in Hong Kong should be adequately housed, irrespective of whether they live in public or private housing, or in owned or rented accommodation. With this in mind, for the purpose of formulating the long term housing strategy, the preliminary view is that the focus should be on the assessment of long term housing requirements from a social perspective. As such, housing demand is defined as the total number of new housing units required to be built if each and every household is to be accommodated in adequate housing over the long term. This should reflect the physical housing need for society as a whole over the period.

4. Flowing from the above considerations, the preliminary view is that the overall housing demand should be assessed by using a household-based approach to aggregate housing demand from the following components –

- (a) projected net increase in the number of households;
- (b) households displaced by redevelopment; and
- (c) inadequately housed households.

5. It must be emphasized that the framework produces a projection on **new** housing units required over a period of time. In this regard, it is assumed that those who are already adequately housed currently would have no new housing needs in net terms, even though some households might move between different housing units within the existing housing stock. Only the **net increase** in the number of households (which already include the net effects of newly-formed households splitting from the existing households, say by marriage or divorce, minus dissolved households as a result of deaths or emigration), those who are displaced and those who are inadequately housed would count towards the number of **new** housing units required. In other words, the framework is designed along a “flow” concept (i.e. the **net change** in the number of households that require adequate housing over a period of time) rather than a “stock” concept, (i.e. the number of households at a particular time-point.)

6. In developing the framework, we are mindful that any methodology used to derive projection for future events would inevitably have limitations. While striving to formulate a methodology which can objectively assess the long term housing demand, we recognize that the framework is not without limitations. Suffice to say that the framework must take into account all the key components of physical housing demand using objective and reliable data. Apart from the inherent limitations, we also note that housing demand is not static. It is dynamic and will vary under different socio-economic circumstances. We therefore aim to produce **a range of long-term housing demand projections**, instead of a single projection, to cater for different socio-economic scenarios.

***(a) Projected net increase in the number of households***

7. From time to time and for various reasons, the number of households in Hong Kong changes. For example, new households may be formed by marriages, splitting of existing households, immigration, the movement of expatriates and non-local students coming to work or study in Hong Kong. On the other hand, existing households may be dissolved due to deaths, emigration and expatriates/non-local students

returning to their home. It is the **net increase** in the number of households that will generate new physical housing demand.

8. We consider that the latest domestic household projections published by the Census and Statistics Department (C&SD), which cover both Hong Kong Permanent Residents (HKPRs) and non-HKPRs (e.g. expatriates working in Hong Kong) at the reference time-point under the 2011 Population Census<sup>1</sup>, can be used as a basis for assessing the overall physical housing demand from the net increase in the number of households. This will likely form the bulk of the demand for new housing units and should be able to provide a fair and objective basis for the projection of overall physical housing demand arising from the net change in the number of domestic households in Hong Kong.

9. Nonetheless, we note that there are other households, such as households with mobile residents<sup>2</sup> or non-Hong Kong population<sup>3</sup> only, that are not covered in the C&SD's projections. We will further examine how best to take into account their housing demand (bearing in mind that it is possible that they may already have accommodation in Hong Kong).

10. Apart from the households which are not covered by the domestic household projection, we also note that household formation might be different under different socio-economic environment. As such, the domestic household projection (and subsequently the projection of housing demand) should not be taken as static. This is a dynamic situation affected by social and economic changes. We therefore intend to deploy an econometric model to calibrate the quantitative relationships between domestic household formation and other relevant factors such as economic situation and property market conditions. We will conduct scenario analyses on the projected household formation and produce a range projection that should enable us to generate possible physical housing demand scenarios under different economic and property market situations.

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<sup>1</sup> The reference time-point for the 2011 Population Census is 30 June 2011.

<sup>2</sup> Mobile residents refer to HKPRs who have stayed in Hong Kong for at least one month but less than three months during the six months before or for at least one month but less than three months during the six months after the reference time-point.

<sup>3</sup> Hong Kong population includes "Usual Residents" and "Mobile Residents". "Usual Residents" refers to (1) HKPRs who have stayed in Hong Kong for at least three months during the six months before or for at least three months during the six months after the reference time-point, regardless of whether they are in Hong Kong or not at the reference time-point; and (2) non-HKPRs who are in Hong Kong at the reference time-point.

***(b) Households displaced by redevelopment***

11. Other than the projected net increase in the number of households, households displaced by redevelopment of old buildings in the public and private sectors will also have to be rehoused and thus generate new housing demand.

12. The preliminary thinking is that for the public housing sector, the rehousing needs can be estimated by assessing the rehousing needs of households displaced by known redevelopment programmes of the Housing Authority (e.g. Pak Tin Estate) and the Housing Society.

13. As for the private sector, a projection on the number of households displaced by private redevelopment can be made based on past statistics and trend data. We will continue to study how to project the housing demand generated from households displaced by redevelopment programmes in the private sector.

***(c) Inadequately housed households***

14. As the objective is to provide adequate housing to each and every household in Hong Kong over the long term, households who are currently inadequately housed will need to be rehoused to adequate housing (through public or private housing) and hence generate new housing demand. Therefore, the preliminary view is that the rehousing needs from inadequately housed households should be taken into account in the projection of the total housing demand. We are now working out how to assess the housing demand generated from inadequately housed households.

**OTHER ISSUES**

15. In addition to the three major demand components explained above, there are other issues that might need to be taken into account when assessing the overall housing demand in Hong Kong. The preliminary observations are set out below.

***Investment demand***

16. There are views that investment demand may affect the demand-supply balance in the housing market, to the extent that some flats may be left vacant and therefore not be available to help meet the physical housing demand. However, some flats purchased by investors

would eventually be channelled back to the sales or rental market, thus helping to meet the physical demand. Total inclusion of investment demand would inflate the housing demand. More importantly, we note that the distinction between physical housing demand and investment demand is artificial, as most genuine homebuyers also consider their properties the most important investment they are likely to make in their lifetime. In addition, it would be difficult to define or measure precisely the investment demand, and any estimate may also not be reliable and could be a misleading basis on which to project the long term housing demand. In light of this, the preliminary view is that investment demand should **not** be taken into account in projecting the overall housing demand.

### *Contingency factors*

17. As stated in paragraph 6 above, any projections on future events would be subject to limitations. The framework as outlined above is no different, especially since there could be factors which may be relatively insignificant and lack reliable data but nevertheless affect the housing demand. This being the case, we would consider applying contingency factors to the projections of housing demand, so that these apparently insignificant factors can still be taken into account in the projections.

## **WAY FORWARD**

18. Members are invited to note the preliminary views on the methodology for projection of long-term housing demand.

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