

# Hong Kong must stop letting the well-off hog public rental housing

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*Abstract: Generous income limits and rent subsidies mean well-off households are occupying public housing, forcing the poor to rent from the cutthroat private market. This needs to change.*

It is no secret that Hong Kong's public rental housing is misallocated, with many well-off households as tenants. Luxury cars can be found in these estates, even as the poorest members of society have little choice but to live in tiny, subdivided flats.

To address this, Hong Kong has in recent months strengthened its enforcement of the income and asset limits for public rental housing. But rule enforcement will only accomplish so much. Our research shows that the rules are far too generous and the cause of the misallocation. To fix the situation, the rules must change.

First, the number of households eligible for public rental housing is far too high. For households of up to six people, we calculate that the income limit has increased by 35-60 per cent in real terms since 2006. As a result, the pool of eligible residents has become much larger. In 2006, 34.6 per cent of the population had incomes that qualified them for public rental housing; by 2021, 43.5 per cent qualified.

Second, the rent subsidies are far too generous for well-off tenants. The government offers public rental flats at around HK\$2,000 a month, with higher-income tenants having to pay more. But consider this: a non-elderly family of three with a stratospheric household income of HK\$100,000 (US\$12,800) a month would still only pay double the rent, or around HK\$4,000.

Given that the market rent is HK\$10,000 or more, this is a massive subsidy of 60 per cent. And such rich public tenants can enjoy this until their household income exceeds HK\$124,000 – five times the limit for public rental applications.

We calculate that Hong Kong's stock of public rental housing covers only 32 per cent of the population. With demand rising as more become eligible and given the generously low rents, unless supply is greatly increased, the result can only be a shortage. Unsurprisingly, the wait for public rental housing has risen from two years in 2011 to 5.8 years.

It is not an exaggeration to say that well-off public rental tenants are hogging public housing. Even fresh university graduates join the queue. To qualify, workers routinely ask employers for pay reductions when it is their turn to undergo income tests. Few households ever move out.

Population statistics show that public housing is increasingly occupied by the well-off. Even as their household sizes shrank, we calculate that the average real household income of public renters grew by 26 per cent between 2011 and 2021.

With the well-off hoarding public housing, the poor cannot move in. They are then forced to rent small and unsafe units in the private sector. Between 2006 and 2021, we calculate that the population of private renters grew to over 1.12 million, from 702,000, a staggering 60 per cent increase, even though city-level population growth was only 8 per cent.

We estimate that for roughly 2 per cent of this city's population, home is now private rental accommodation smaller than 130 square feet, the size of a typical car park space. Living in such cramped spaces creates psychological, social, physical and public health problems. These subdivided spaces can easily cost HK\$5,000 per month.

The status quo is not only inhumane and unfair but also fiscally unsustainable. The government estimates that 308,000 flats will need to be built over the next 10 years to meet public rental demand. But this will fail to address the problem of subdivided housing if the new units are not properly allocated to needy households.

From 2006 to 2021, we calculate that Hong Kong added 130,000 public rental units. But the number of low-income public renters did not increase. In 2006, 155,980 public renting households had real incomes in 2006 above the 2021 income limit. In 2021, there were 296,440 such households.



The massive construction of public housing for well-off households to meet subsidy-created demand would be wasteful even in boom times. Today, Hong Kong has an ageing population, a shrinking labour force and declining revenues. We can ill afford this.

Hong Kong needs to raise public housing rents for well-off tenants, tighten the eligibility criteria and refocus on building ownership units to help better-off public renters to upgrade and vacate.

Such reforms will put our finances in better order. It will free up public resources for the needy and reduce the wait for public rental housing. The suffering of the most marginal members of our society, who lack safe and dignified homes, will then be relieved.

# Author Biographies

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Professor Wong is an economist and currently serves as Assistant Professor in the Department of Management and Strategy at the Faculty of Business and Economics, The University of Hong Kong. His research focuses on labour economics, housing economics, and monetary economics. He holds a PhD in Economics from the Massachusetts Institute of Technology (MIT) and a Bachelor's degree in Physics from Harvard University.

Professor Wong is also a policy entrepreneur. In addition to serving as Chairman and Director of the Hong Kong Future Economy Institute, he the research director of local policy research think tank Citizen Action Design. He affiliated with Rockwool Foundation, HKU Org Econ, HKU CCCW, HKU Jockey Club ESG Research Institute, and HKU Real Estate Lab.

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Mr. Ho is a Student Researcher at the Hong Kong Future Economy Institute and a PhD student in Economics at Washington University in St. Louis. He is interested in the housing and labour market in Hong Kong.





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