

# Hong Kong's economic recovery hinges on having enough adequate housing

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*Abstract: High rents deter talent and investment despite R&D subsidies. The article calls for rapid housing supply expansion, rezoning, and public-housing reform.*

Between 2018 and the end of 2023, the world's GDP increased by 13 per cent. Singapore's increased by 12 per cent, while Hong Kong's fell by 3 per cent. A year and a half after the end of the Covid-19 pandemic, Hong Kong's economy is still sputtering. This malaise is attributable to long-term trends such as population ageing and a lack of new industries.

To grow Hong Kong's economy, the government has instituted subsidies for research and development with the aim of creating new industries. It has also rolled out an array of measures aimed at attracting talent to the city.

So far, these policies have not had the desired effect. Real investment in Hong Kong's machinery, equipment, and intellectual property has fallen from HK\$278 billion (US\$35.7 billion) in 2012 to HK\$173 billion in 2023 despite the spending on innovation subsidies during the past 10 years. The labour force grew just 0.4 per cent between May 2023 and May 2024 despite efforts to attract more talent.

The fundamental problem with Hong Kong's economy is that it does not have enough housing. Consider the choice that talented immigrants face.

According to the Urban Land Institute, Singapore's average rent per square metre is 86 per cent of that in Hong Kong. The rents in Beijing, Shanghai, Shenzhen and Guangzhou are 52 per cent, 44 per cent, 39 per cent and 27 per cent of Hong Kong's. If rents are significantly cheaper in competitor cities, why would talent move here?

Despite a lull since 2019 and falling prices amid rising interest rates, residential rents in Hong Kong are going up again. From May 2023 to May 2024, the rent index for units

smaller than 1,000 sq ft increased by 5.5 per cent. This suggests Hong Kong's housing shortage is deepening once more.

How Hong Kong's housing market became among the world's most unaffordable This is bad news for Hong Kong's economic growth. Unless residential costs stop skyrocketing, entrepreneurs and innovators will find Hong Kong too expensive to live in and choose to take jobs and start businesses elsewhere. As a result, Hong Kong's economy and global relevance will keep declining.

To power economic growth, we need bold reforms to quickly and significantly increase the supply of residential housing and reduce the misallocation of housing and land. First, we should build much more residential housing, especially higher-quality housing. The stock of subsidised ownership housing should be greatly increased. Agricultural land and brownfield sites should be developed with deliberate speed, and residential land sales must continue.

Second, we should rezone and upgrade our existing housing stock. Restrictions on use should be removed. For example, in older neighbourhoods such as Kwun Tong and Wong Chuk Hang, there is a surplus of industrial buildings that are underused and can be converted towards mixed use. The town planning process also needs to be reformed.

Third, we should reform our public housing system. Subsidised housing has become grossly misallocated to well-off and elderly households because of a rigid and antiquated rent schedule. As a result, young people and low-income households are left with no choice but to rent in the private sector. This misallocation has contributed to high

rents for tiny private-sector units, a proliferation of cramped and unsafe flats and a lack of upward mobility.

One useful reform would be to make public-sector rents proportional to income. This way, subsidies are better targeted towards needy households and the proliferation of subdivided units in the private sector can be reversed.

Another useful reform would be for the Housing Bureau to relax restrictions on leasing and reselling public-sector units. This way, underutilized public-sector units can circulate to

needy households while the elderly can move to more suitable housing, possibly elsewhere in the Greater Bay Area.

Contrary to some people's fears, these reforms will not cause Hong Kong property prices to collapse. They will merely arrest a housing affordability crisis that is deepening once again. Immigration restrictions are looser now, the labour market is much tighter and the wealth of Chinese nationals is much greater. Hong Kong also sits near Shenzhen – one of China's most youthful, dynamic and innovative cities – and there is highly elastic housing demand from skilled migrants to absorb increases in housing supply.

Housing and town planning reforms will raise social mobility, advance our mission to become an international talent hub and bring positivity and business dynamism back to our society. If the government adopts this approach, it will not be long before Hong Kong booms again.

# 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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