INFORMATION NOTE

Housing demand in Hong Kong

1. Background

1.1 In his 2012 election manifesto, the Chief Executive pledged that the Government would formulate a Long Term Housing Strategy ("LTHS") and set up consultative committees under relevant policy bureaux to give advice on LTHS. In addition, the Government would conduct regular housing demand assessments and develop a sustainable programme of public and private land and housing supply.

1.2 In August 2012, the Government established a two-tier institutional framework for LTHS, featuring (a) the LTHS Steering Committee that has an overview and offers advice on various housing aspects and initiatives under LTHS, and (b) an inter-departmental Working Group\(^1\) established under the Steering Committee. The LTHS Steering Committee is chaired by the Secretary for Transport and Housing and made up of three other ex-officio members and 15 non-official members, whereas the Working Group is chaired by the Permanent Secretary for Transport and Housing (Housing) and comprises representatives from relevant government bureaux and departments. The Government plans to issue a consultation paper on LTHS for a planning horizon of 10 years by mid-2013.

1.3 In view of the importance of LTHS, the Subcommittee on the Long Term Housing Strategy ("Subcommittee") was established under the Panel on Housing of the Legislative Council in December 2012. Its terms of reference are "to study all relevant housing-related information and ways to increase housing supply to meet the needs of various groups in the community, and make recommendations on the Long Term Housing Strategy."

---

\(^1\) The Working Group is tasked with compiling and examining relevant housing-related information, reviewing housing and other relevant policies, and formulating appropriate options for the consideration of the LTHS Steering Committee.
1.4 At its meeting on 18 December 2012, the Subcommittee requested the Research Office to conduct a series of study relating to the (a) demand for both public and private housing, (b) supply of land and flats in Hong Kong, (c) current situation of subdivided flats in Hong Kong, and (d) provision of public housing in neighbouring places such as Singapore.

1.5 The Subcommittee will discuss the issue of housing demand at its meeting to be held on 20 March 2013. The purpose of this information note is to provide the Subcommittee with information on housing demand in Hong Kong in terms of demand for both private and public housing, factors affecting housing demand, housing demand of individual communities and housing demand projections.

2. Demand for housing

2.1 Demand for both private and public housing is discussed in the ensuing paragraphs with reference to the latest statistics available. The Government's demand-side management measures to cool down the private residential property market are also discussed.

Private housing

Number and value of sale and purchase agreements

2.2 The buoyancy of the private residential property market can be reflected by its transaction activities as measured by the number and value of the sale and purchase agreements ("S&P agreements") for residential property received by the Land Registry (see Table 1). Amid the abundant liquidity environment with exceptionally low interest rates, the number of S&P agreements increased by 18% year-on-year to 135,778 and the total value by 32% year-on-year to HK$560.7 billion in 2010, both the highest levels since 1997. The number of S&P agreements returned to a more normal level of 84,462 in 2011 and 81,333 in 2012 partly due to the introduction of a number of government measures to cool down the private residential property market during the period. Compared with 2011, total transaction value in 2012 still edged up by 2% to HK$452.3 billion in 2012 due to rising property prices.
Primary and secondary market transactions

2.3 There were an average of 99,421 private residential property transactions each year during 2003-2012, of which 16,700 were primary market transactions and 82,721 secondary market transactions. In other words, over 80% of property market transactions were secondary market transactions.

2.4 The residential property transaction figures over the past decade indicate that the secondary market has been the major source of flat supply for home buyers. Many first-time home buyers choose flats available in the secondary market which are more affordable than new flats. Also contributing to the dominance of secondary market transactions are the tight supply of new flats in recent years. Completion of private residential flats has been on a generally declining trend over the past decade. It amounted to a modest of 10,149 units in 2012, compared with a high of 26,397 in 2003 and 26,036 in 2004. Limited supply of new flats has pushed home buyers to the secondary market.

Table 1 – Number/value of S&P agreements for private residential property and number of newly completed private residential flats during 2003-2012

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of S&amp;P agreements</th>
<th>Amount (HK$ million)</th>
<th>No. of S&amp;P agreements</th>
<th>Amount (HK$ million)</th>
<th>No. of S&amp;P agreements</th>
<th>Amount (HK$ million)</th>
<th>Number of newly completed private residential flats</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>26,498</td>
<td>73,048</td>
<td>45,078</td>
<td>80,531</td>
<td>71,576</td>
<td>153,578</td>
<td>26,397</td>
</tr>
<tr>
<td>2004</td>
<td>25,694</td>
<td>97,763</td>
<td>74,936</td>
<td>178,973</td>
<td>100,630</td>
<td>276,735</td>
<td>26,036</td>
</tr>
<tr>
<td>2005</td>
<td>15,994</td>
<td>93,208</td>
<td>87,368</td>
<td>219,623</td>
<td>103,362</td>
<td>312,832</td>
<td>17,321</td>
</tr>
<tr>
<td>2006</td>
<td>13,986</td>
<td>57,725</td>
<td>68,486</td>
<td>174,303</td>
<td>82,472</td>
<td>232,026</td>
<td>16,579</td>
</tr>
<tr>
<td>2007</td>
<td>20,123</td>
<td>122,470</td>
<td>103,452</td>
<td>311,561</td>
<td>123,575</td>
<td>434,033</td>
<td>10,471</td>
</tr>
<tr>
<td>2008</td>
<td>11,046</td>
<td>77,331</td>
<td>84,885</td>
<td>266,494</td>
<td>95,931</td>
<td>343,827</td>
<td>8,776</td>
</tr>
<tr>
<td>2010</td>
<td>13,646</td>
<td>129,703</td>
<td>122,132</td>
<td>430,983</td>
<td>135,778</td>
<td>560,686</td>
<td>13,405</td>
</tr>
<tr>
<td>2011</td>
<td>10,880</td>
<td>130,885</td>
<td>73,582</td>
<td>311,638</td>
<td>84,462</td>
<td>442,527</td>
<td>9,449</td>
</tr>
<tr>
<td>2012</td>
<td>12,968</td>
<td>130,968</td>
<td>68,365</td>
<td>321,308</td>
<td>81,333</td>
<td>452,275</td>
<td>10,149</td>
</tr>
<tr>
<td>Average of 2003-2012</td>
<td>16,700</td>
<td>103,232</td>
<td>82,721</td>
<td>260,203</td>
<td>99,421</td>
<td>363,436</td>
<td>14,574</td>
</tr>
</tbody>
</table>

Note: (1) Figures may not add up to total due to rounding.
Sources: Census and Statistics Department (2003-2013b) and Rating and Valuation Department (2005-2012).
Flat prices

2.5 The Rating and Valuation Department divides the private residential units into classes A to E, with a saleable area of less than 40 sq m, 40-69.9 sq m, 70-99.9 sq m, 100-159.9 sq m, and 160 sq m or above, respectively. Small/medium-sized flats are commonly defined as those in classes A to C with a saleable area of less than 100 sq m. For larger flats, they are commonly referred to as those in classes D and E with a saleable floor area of 100 sq m or above. According to the Rating and Valuation Department, prices of both small/medium-sized and larger flats have been in an almost uninterrupted uptrend since 2004.

2.6 Tight supply, combined with strong demand alongside the stable economic performance, and fuelled further by the environment of low interest rates amid ample liquidity since 2009, have boosted the residential property successively in recent years. Indeed, flat prices registered double-digit increases for most of the time during 2004-2008 with larger flats generally experiencing a more hefty price rise than small/medium-sized flats over the period. The market faltered in the second half of 2008 amid the repercussions of the global financial crisis. The residential property market staged a strong rebound in 2009 and flat prices recovered most of the lost gains in 2008.

2.7 From 2010 onwards, the rally in residential property prices has spread from the luxury end to mass residential property market. Reflecting this, price of small/medium-sized flats rose by 37% during 2010-2012 while price of larger flats increased by 21% over the same period. Following the rally over the past years, overall flat prices in 2012 have surpassed the 1997 peak by 26% (see Table 2).
Table 2 – Private housing price index for classes A, B, C, D and E and all classes during 2003-2012

<table>
<thead>
<tr>
<th>Year</th>
<th>Classes A, B and C</th>
<th></th>
<th>Classes D and E</th>
<th></th>
<th>All classes</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Price index</td>
<td>Percentage change over the previous year</td>
<td>Price index</td>
<td>Percentage change over the previous year</td>
<td>Price index</td>
<td>Percentage change over the previous year</td>
</tr>
<tr>
<td>2003</td>
<td>61.0</td>
<td>-12.2%</td>
<td>72.0</td>
<td>-7.6%</td>
<td>61.6</td>
<td>-11.9%</td>
</tr>
<tr>
<td>2004</td>
<td>76.6</td>
<td>25.6%</td>
<td>99.4</td>
<td>38.1%</td>
<td>78.0</td>
<td>26.6%</td>
</tr>
<tr>
<td>2005</td>
<td>90.4</td>
<td>18.0%</td>
<td>121.9</td>
<td>22.6%</td>
<td>92.0</td>
<td>17.9%</td>
</tr>
<tr>
<td>2006</td>
<td>91.1</td>
<td>0.8%</td>
<td>124.9</td>
<td>2.5%</td>
<td>92.7</td>
<td>0.8%</td>
</tr>
<tr>
<td>2007</td>
<td>101.4</td>
<td>11.3%</td>
<td>143.7</td>
<td>15.1%</td>
<td>103.5</td>
<td>11.7%</td>
</tr>
<tr>
<td>2008</td>
<td>118.6</td>
<td>17.0%</td>
<td>163.0</td>
<td>13.4%</td>
<td>120.5</td>
<td>16.4%</td>
</tr>
<tr>
<td>2009</td>
<td>119.8</td>
<td>1.0%</td>
<td>159.0</td>
<td>-2.5%</td>
<td>121.3</td>
<td>0.7%</td>
</tr>
<tr>
<td>2010</td>
<td>149.3</td>
<td>24.6%</td>
<td>193.8</td>
<td>21.9%</td>
<td>150.9</td>
<td>24.4%</td>
</tr>
<tr>
<td>2011</td>
<td>180.8</td>
<td>21.1%</td>
<td>219.7</td>
<td>13.4%</td>
<td>182.1</td>
<td>20.7%</td>
</tr>
<tr>
<td>2012</td>
<td>205.1(1)</td>
<td>13.4%</td>
<td>234.4(1)</td>
<td>6.7%</td>
<td>206.1(1)</td>
<td>13.2%</td>
</tr>
</tbody>
</table>

Note: (1) Provisional figures.
Source: Rating and Valuation Department (2013b).

Home purchase affordability ratio

2.8 As the surge in flat prices continued to outpace income growth, the home purchase affordability ratio\(^2\) deteriorated from a low of 21.1% in the fourth quarter of 2003 to 52.3% in the fourth quarter of 2012 (see Table 3), which was much higher than the 10-year average of 36.4%.\(^3\) According to the Government, there is a bubble risk in the property market as the home purchase affordability ratio has been stretched amid the extremely low interest rates and the ratio will be over stretched when interest rates return to more normal levels. At present, prime-minus mortgage rates range between 2.5% and 3.3% as the best lending rate has remained unchanged at a low of 5% since 2009.

---

\(^2\) Home purchase affordability ratio refers to the ratio of mortgage payment for a 45 sq m flat (assuming 70% loan-to-value ratio and tenor of 20 years) to median income of households, excluding those households living in public housing. The ratio is widely used as the benchmark to determine the financial capability of a household to repay a home mortgage loan.

\(^3\) Information based on the Economic Analysis and Business Facilitation Unit's email reply received on 27 February 2013.
Table 3 – Home purchase affordability ratio and best lending rate during 2003-2012

<table>
<thead>
<tr>
<th>Year</th>
<th>Home purchase affordability ratio (%)&lt;sup&gt;(1)&lt;/sup&gt;</th>
<th>Best lending rate (%)&lt;sup&gt;(1)&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>21.1</td>
<td>5.0</td>
</tr>
<tr>
<td>2004</td>
<td>27.0</td>
<td>5.1</td>
</tr>
<tr>
<td>2005</td>
<td>36.1</td>
<td>7.4</td>
</tr>
<tr>
<td>2006</td>
<td>36.4</td>
<td>7.9</td>
</tr>
<tr>
<td>2007</td>
<td>38.5</td>
<td>7.1</td>
</tr>
<tr>
<td>2008</td>
<td>31.7</td>
<td>5.1</td>
</tr>
<tr>
<td>2009</td>
<td>38.2</td>
<td>5.0</td>
</tr>
<tr>
<td>2010</td>
<td>44.6</td>
<td>5.0</td>
</tr>
<tr>
<td>2011</td>
<td>45.7</td>
<td>5.0</td>
</tr>
<tr>
<td>2012</td>
<td>52.3</td>
<td>5.0</td>
</tr>
</tbody>
</table>

Note: (1) The figures are as at the fourth quarter of the year.
Sources: Census and Statistics Department (2003-2013b) and Rating and Valuation Department (2013a).

**Government's demand-side management measures**

2.9 Against the above background of rising property prices and deteriorating home purchase affordability ratio, the Government introduced a package of measures as early as November 2010 to ensure a healthy and stable development of the property market. It rolled out further packages in the ensuing months in response to the changes in the housing market. The latest measures on the part on demand-side management of private residential properties include:
(a) introducing the Special Stamp Duty\(^4\) ("SSD") on short term resale transactions in November 2010 to curb speculative activities. The Government subsequently announced an enhancement of SSD in October 2012.\(^5\) The enhanced SSD payable is based on the consideration for the resale transaction at the following regressive rates for different holding periods:

(i) 20% of the transaction value or market value of the property (whichever is the higher) if the property has been held for six months or less;

(ii) 15% if the property has been held for more than six months but for 12 months or less; and

(iii) 10% if the property has been held for more than 12 months but for 36 months or less.

(b) introducing the Buyer's Stamp Duty\(^5\) ("BSD") in October 2012 to accord priority to the housing needs of Hong Kong permanent residents. A flat BSD rate of 15% is charged on all residential properties acquired by any person except a Hong Kong permanent resident; and

(c) increasing the rates of existing ad valorem stamp duty applicable to both residential and non-residential properties, with effect from 23 February 2013. The stamp duty for transactions valued at HK$2 million or below is increased from HK$100 to 1.5% of the transaction value. For transaction valued over HK$2 million, the stamp duty is doubled with the new rates ranging from 3% to 8.5%, depending on the transaction value.\(^6\)

---

\(^4\) SSD first came into effect in November 2010 with the enactment of the Stamp Duty (Amendment) Ordinance 2011.

\(^5\) In October 2012, the Government adjusted the SSD rates and extended the holding period in respect of SSD. It also introduced a new BSD targeting at non-Hong Kong permanent residents. Both measures apply to residential properties acquired on or after 27 October 2012. The adjusted SSD and BSD were gazetted in December 2012 under the Stamp Duty (Amendment) Bill 2012 and a Bills Committee has been formed to study the bill.

\(^6\) The new stamp duty rates are not applicable to Hong Kong permanent resident buyers who are not beneficial owners of any other residential property in Hong Kong at the time of acquisition of a residential property.
Public housing

2.10 Public housing can be categorized into Public Rental Housing ("PRH") and subsidized home ownership housing. Both the Hong Kong Housing Authority ("HA") and the Hong Kong Housing Society ("HKHS") provide PRH flats for low income families who cannot afford to rent a private accommodation. As to subsidized home ownership housing, the Home Ownership Scheme\(^7\) ("HOS") is the only programme currently in operation\(^8\) to assist the low and middle income families to achieve home ownership.

Public Rental Housing

2.11 The Government has set out eligibility criteria for the application of PRH in order to ensure that the flats are allocated to people in genuine need. In addition to the general eligibility criteria\(^9\), PRH applicants are subject to income and asset limits, depending on the family size of the applicants. The 2013-2014 income and asset limits for a single-person family will be increased to HK$8,880 (after deducting 5% of MPF contributions) and HK$212,000 respectively with effect from 1 April 2013. The corresponding limits for a four-person family will be set at HK$22,140 (after deducting 5% of MPF contributions) and HK$436,000.

2.12 Table 4 presents the number of PRH flats allocated between FY2003-2004 and FY2011-2012. It can be seen that the figures fluctuated between a high of 41,037 in FY2005-2006 and a low of 22,835 in FY2007-2008. The unstable allocation of PRH flats affects the length of the Waiting List as discussed in the paragraphs below.

---

\(^7\) In November 2002, the then Secretary for Housing, Planning and Lands announced a total of nine housing market measures to stabilize the housing market, including indefinite suspension of the production and the sale of HOS flats. In October 2011, the Government announced the resumption of HOS in response to the growing aspirations of low and middle income families to buy their own homes in recent years. The first batch of HOS flats is to be built by HA and scheduled for pre-sale in 2014.

\(^8\) The Government had in the past implemented subsidized home ownership housing programmes to help low and middle income households to purchase homes. These included the defunct My Home Purchase Plan, Private Sector Participation Scheme and Sandwich Class Housing Scheme.

\(^9\) These include: (a) the applicants must be aged 18 and above; and (b) at the time of allocation, at least half of the family members included in the application must have lived in Hong Kong for seven years and all family members must be still living in Hong Kong.
### Table 4 – Number of Public Rental Housing flats allocated between FY2003-2004 and FY2011-2012

<table>
<thead>
<tr>
<th>Financial year</th>
<th>Number of Public Rental Housing flats allocated</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003-2004</td>
<td>38,936</td>
</tr>
<tr>
<td>2004-2005</td>
<td>34,314</td>
</tr>
<tr>
<td>2005-2006</td>
<td>41,037</td>
</tr>
<tr>
<td>2006-2007</td>
<td>28,831</td>
</tr>
<tr>
<td>2007-2008</td>
<td>22,835</td>
</tr>
<tr>
<td>2008-2009</td>
<td>39,617</td>
</tr>
<tr>
<td>2009-2010</td>
<td>35,650</td>
</tr>
<tr>
<td>2010-2011</td>
<td>25,463</td>
</tr>
<tr>
<td>2011-2012</td>
<td>31,333</td>
</tr>
<tr>
<td>Average of 2003-2004 and 2011-2012</td>
<td>33,113</td>
</tr>
</tbody>
</table>

Source: Hong Kong Housing Authority (2004-2012).

### Waiting List

2.13 A Waiting List is operated for the allocation of new or refurbished PRH flats to eligible applicants in accordance with the order of registration of eligible applicants. Indeed, the level of demand for PRH can be reflected by the number of general and non-elderly one-person applicants on the Waiting List. The Government has pledged to keep the average waiting time at three years for the general applicants and two years for the elderly one-person applicants. However, the waiting time target is not applicable to non-elderly one-person applicants who are subject to the Quota and Points System.¹⁰

¹⁰ The system was introduced in September 2005 to address the problem brought about by an upsurge in the number of non-elderly individuals applying for PRH. Under the system, the relative priorities for PRH allocation to applicants are determined by their points received, which are assigned to the applicants based on their age at the time of submitting the PRH applications, whether they are PRH tenants and the length of time they stay in the Waiting List. The higher the number of points accumulated, the earlier the applicant will be offered a PRH flat.
2.14 As shown in Table 5, the total number of applicants on the Waiting List almost doubled from 107,300 in March 2007 to 210,400 in September 2012. In particular, the number of non-elderly one-person applicants rose rapidly by 172% from 36,700 applicants to 100,000 applicants over the same period.\textsuperscript{11} According to HA, the main reasons for non-elderly one-person applicants applying for PRH include: (a) seeking to live on their own/seeking to split from the existing household, (b) small living area of present accommodation, and (c) high rental level of private housing.

<table>
<thead>
<tr>
<th>Year</th>
<th>General applicants\textsuperscript{(1)}</th>
<th>Non-elderly one-person applicants</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 2007</td>
<td>70,600</td>
<td>36,700</td>
<td>107,300</td>
</tr>
<tr>
<td>March 2008</td>
<td>72,900</td>
<td>38,700</td>
<td>111,600</td>
</tr>
<tr>
<td>March 2009</td>
<td>71,300</td>
<td>43,100</td>
<td>114,400</td>
</tr>
<tr>
<td>March 2010</td>
<td>77,400</td>
<td>51,700</td>
<td>129,100</td>
</tr>
<tr>
<td>March 2011</td>
<td>88,600</td>
<td>63,800</td>
<td>152,400</td>
</tr>
<tr>
<td>March 2012</td>
<td>101,700</td>
<td>87,800</td>
<td>189,500</td>
</tr>
<tr>
<td>September 2012</td>
<td>110,400</td>
<td>100,000</td>
<td>210,400</td>
</tr>
</tbody>
</table>

Note: (1) Figures included elderly one-person applicants.
Sources: Hong Kong Housing Authority (2011 and 2012) and Transport and Housing Bureau (2013a and 2013b).

\textsuperscript{11} According to the Government, 65% of the non-elderly one-person applicants were aged 35 or below at March 2012. 34% of them were students at the time of application, 47% had post-secondary or above education attainment and 33% were PRH tenants. See Transport and Housing Bureau. (2013a).
Home Ownership Scheme

2.15 As mentioned above, the Government has resumed the production and sale of HOS flats in response to the growing aspirations of low and middle income families to buy their own homes. HOS applicants fall into two categories: White Form and Green Form applicants. White Form applicants (mainly living in private sector housing) are subject to property ownership restriction, and income and asset limits. For the Green Form applicants who are principally existing PRH tenants, they must meet the eligibility criteria set out in paragraph 2.11 above. The current income and asset limits for White Form singleton applicants are HK$20,000 per month (after deducting 5% of MPF contributions) and HK$415,000 respectively. As for family applicants, the income limit is HK$40,000 per month (after deducting 5% of MPF contributions) and the asset limit is HK$830,000.

3. Factors affecting housing demand

3.1 Housing demand varies according to economic conditions, demographic changes, and policy decisions which may affect housing needs (e.g. the well-off tenants policy). The importance of these factors is discussed in the paragraphs below.

Economic conditions

3.2 Economic conditions have been a key determinant of housing demand in Hong Kong, with the relationship between the two being more evident in the first half of the last decade.12 For example, the transaction activities in the residential property market picked up distinctly in 2004, when the Hong Kong economy entered into a full-fledged upturn after the waning of the Severe Acute Respiratory Syndrome (see Table 6). The stable economic performance during 2005-2007 helped maintain the number of S&P agreements at an average of 103,136 per year. In 2008, the outbreak of the global financial crisis and the subsequent slowdown of the Hong Kong economy resulted in a correction of the residential property market. The number of S&P agreements eased to 95,931 as a result.

12 Reportedly, the LTHS Steering Committee will make use of the 10-year average of 4.5% economic growth for projecting housing demand. See GovHK (2013a).
3.3 However, economic conditions have had a lesser impact on housing demand since 2009, which reflect more of the factors such as mortgage lending policy by local banks, interest rate environment and the government's housing policy. For example, the Hong Kong economy contracted by 2.5% in 2009, but a more accommodative mortgage lending policy by local banks helped boost the number of S&P agreements to a high level of 115,092. In 2011, the economy recorded an above-trend growth of 4.9%. However, the number of transactions decreased during the year amid the successive hikes in mortgage rates and the earlier introduction of SSD by the Government.

Table 6 – GDP growth rate in real terms and number of sale and purchase agreements during 2003-2012

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP growth rate in real terms (%)</th>
<th>Number of sale and purchase agreements</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>3.1</td>
<td>71,576</td>
</tr>
<tr>
<td>2004</td>
<td>8.7</td>
<td>100,630</td>
</tr>
<tr>
<td>2005</td>
<td>7.4</td>
<td>103,362</td>
</tr>
<tr>
<td>2006</td>
<td>7.0</td>
<td>82,472</td>
</tr>
<tr>
<td>2007</td>
<td>6.5</td>
<td>123,575</td>
</tr>
<tr>
<td>2008</td>
<td>2.1</td>
<td>95,931</td>
</tr>
<tr>
<td>2009</td>
<td>-2.5</td>
<td>115,092</td>
</tr>
<tr>
<td>2010</td>
<td>6.8</td>
<td>135,778</td>
</tr>
<tr>
<td>2011</td>
<td>4.9</td>
<td>84,462</td>
</tr>
<tr>
<td>2012</td>
<td>1.4</td>
<td>81,333</td>
</tr>
</tbody>
</table>

Sources: Census and Statistics Department (2013a) and Rating and Valuation Department (2005-2012).

Demographic changes

3.4 Housing demand is also affected by demographic changes such as population size, household number and size, population structure, as well as the number of marriages and divorces.
**Population size**

3.5 According to the Government's forecast\(^{13}\), the population size of Hong Kong is expected to grow from 7.1 million in 2011 to 8.2 million in 2031, and further to 8.5 million in 2041. In other words, Hong Kong's population is estimated to grow by 20% between 2011 and 2041. The forecast points to potential housing demand in the years ahead, although actual demand in a particular year may depend on factors such as the economic conditions and affordability of individual home buyers.

**Household number and size**

3.6 The trend of increasing number of households and shrinking household size generate additional demand for both public and private housing. The number of households increased from 2.05 million in 2001 to 2.37 million in 2011, representing an increase of about 31,500 households per year. Such a trend is expected to sustain into the coming years with the number of households projecting to increase further to 2.66 million in 2021.

3.7 Furthermore, the average number of members per household has registered a continuous decrease in the past decades. The average household size reduced from 3.9 persons in 1981 to 2.9 persons in 2011, and is forecast to remain at a low of 2.8 persons in 2021. Factors contributing to shrinking household size include the preference of married couples to form their own families and to have fewer children, and the prevalence of more elderly persons/couples living on their own.

**Population structure**

3.8 Hong Kong's population has experienced an ageing trend over the past decade or so. The proportion of people aged 60 and above increased from 15% in 2001 to 19% in 2011. The trend of population ageing is expected to be more apparent in the future, with the proportion of people aged 60 and above projecting to rise to a higher 27% in 2021.

---

\(^{13}\) See Census and statistics Department (2012b).
3.9 Moreover, the percentage of households with elderly aged 60 and above increased from 34.7% in 2001 to 38.6% in 2011 and is projected to increase further to 47.7% in 2021. Ageing population and growing number of households with elderly warrant the need for various kinds of housing to suit the daily lives of the elderly. For instance, the middle income elderly may wish to live in purpose-built accommodation provided with integrated care and support services.

Number of marriages and divorces

3.10 The number of marriages registered increased from 32,825 cases in 2001 to 58,369 cases in 2011. The newly married couples are traditionally a major source of housing demand.\(^{14}\) Same as marriage, divorce has a major influence on the number of household and, by extension, the housing demand. Indeed, a couple only needs one flat when living together. Once divorced, they may need two flats even if each flat is smaller than the accommodation they previously shared, thereby generating a net demand for housing. The number of divorce decrees granted has been on a rising trend, increasing steadily from 13,425 in 2001 to 19,597 in 2011.

Well-off tenants policy

3.11 The demand for public housing is also affected by the well-off tenants policy. The policy aims to recover PRH flats from better-off tenants for reallocation to families that are more in need, thereby shortening the Waiting List for PRH. Under the current arrangement, households who have resided in PRH for 10 years or above with an income level exceeding prescribed limits need to pay additional rent.\(^{15}\) Those with income and assets exceeding prescribed limits\(^{16}\) need to move out of PRH. At end-December 2011, about 24,100 households were well-off tenants paying additional rents.

\(^{14}\) There are concerns in the society that soaring flat prices have caused the young people to delay their marriage decisions. See 大公報:《近半已婚青年仍與父母同住 樓價高礙置業學者促助上車》, 22 January 2013.

\(^{15}\) Tenants who have been living in PRH flats for 10 years or more are required to declare household income every two years. Households with income exceeding two times the income limits have to pay 1.5 times rent, while those with income exceeding three times the income limits or choose not to declare their income have to pay double rent.

\(^{16}\) Households who pay double rent are required to declare their assets every two years. If their income exceeds three times the income limits and assets exceed 84 times the income limits, they are considered no longer eligible for PRH and have to move out.
3.12 The Government has stated that the well-off tenants policy aims to encourage richer tenants to vacate their PRH flats in order to ensure the rational allocation of limited PRH resources. However, there are views in the society that the well-off tenants policy has forced some young people to move away from their elderly parents once their incomes reach a certain level. The young people may queue for new PRH flats again after moving out of their parents' home. As such, the well-off tenants policy has not shortened the length of the Waiting List.

3.13 In response to the public concern, the Government has stressed that a balance should be maintained between care for the elderly and the efficient allocation of public resources. In this connection, the LTHS Steering Committee is tasked to review the well-off tenants policy in an effort to address the long Waiting List for PRH, which has increased to about 210 000 applicants.

4. Housing demand of individual communities

4.1 In addition to the factors mentioned in paragraphs 3.1-3.13 above, housing demand may come from individual communities such as poorly-housed households, households affected by redevelopment, families with babies born in Hong Kong to Mainland women, immigrants, expatriates and non-local students/buyers. Living conditions of poorly-housed households are of particular concern to the Hong Kong society and there have been much discussions about providing safe and affordable accommodation for these households.

Poorly-housed households

4.2 According to the Government, poorly-housed households refer to those living in private temporary huts, squatter huts, roof-top structures, rooms/cubicles, bed spaces and cocklofts in private permanent housing. The Census and Statistics Department stated that there were some 31 800 households or 64 900 people poorly housed at end-June 2012. Poorly-housed households now include those living in subdivided flats as well, but the Government does not have any statistics on the number of subdivided flats.
4.3 Nevertheless, the Business and Professionals Federation of Hong Kong \(^{17}\) published a report, *Poor Housing Conditions in Hong Kong*, in November 2012. The report showed that some 90 000 or 3.8% of the total number of households were poorly housed in 2011. They involved a total of 201 000 people or about 3.0% of the total population. The urban area and the New Territories each accommodated for roughly one half of the poorly housed households. Analyzed by districts, they mainly lived in Yuen Long, Sham Shui Po, North, Yau Tsim Mong and Kowloon City.\(^{18}\)

*People living in subdivided flats*

4.4 While subdivided flats are not defined in the *Buildings Ordinance*, this term is commonly used to describe units which are subdivided into two or more smaller self-contained units for sale or rental, and each of these smaller units usually has its own toilet or even its own cooking place. To have a clear understanding of the current situation, the LTHS Steering Committee has commissioned a research institution to conduct a study on the characteristics and the number of households living in subdivided flats. Results of the study will be made available to the public by the time when the Government releases its consultation paper on LTHS by mid-2013.

4.5 In the meantime, the Platform Concerning Subdivided Flats and Relevant Issues in Hong Kong, a concern group established by academics and social workers, has estimated that about 280 000 households were living in subdivided flats in 2012 with many of them paying higher-than-average rents.

---

\(^{17}\) The Business and Professionals Federation of Hong Kong is to promote the interests of Hong Kong. It was founded in 1990 by a number of members of the former Basic Law Consultative and Drafting Committees.

\(^{18}\) See Business and Professionals Federation of Hong Kong (2012).
Squatter residents

4.6 An advocacy group, the Squatter Huts Concern Group, has repeatedly urged the Government to tackle the long standing squatter problem by either phasing out the structures or improving the living conditions of squatter residents. In particular, most of the squatter residents cannot afford private housing or get rehoused to PRH flats in the near future. According to the current government policy of re-housing squatter residents, eligible residents must satisfy two requirements before they will be put on the Waiting List for PRH with a two-year waiting time: (a) residing in registered squatter structures for two years prior to the date of announcement of squatter area clearance; and (b) meeting the eligibility criteria for PRH.

Households affected by redevelopment

4.7 New housing demand may arise from rehousing of those households affected by the redevelopment of old public and private residential buildings who have to be rehoused. According to the Government, there was a considerable number of households being affected by redevelopment in the past decade. The Research Office cannot obtain the number of households by redevelopment. As such, the number of PRH flats allocated to those affected households and the number of private residential flats demolished are used as proxy indicators to indicate the effect of redevelopment on housing demand.

Public Rental Housing

4.8 With the implementation of the Comprehensive Redevelopment Programme ("CRP"), the number of PRH flats allocated by HA to those affected households increased from 331 units in FY2003-2004 to 3360 units in FY2009-2010. CRP was launched by HA in 1988 to improve the living environment of PRH tenants by rebuilding old estates. A total of 566 blocks built before 1973 were redeveloped and 192 000 households living in those estates were benefited by moving to new housing estates upon the completion of the programme in FY2009-2010.

---

19 There are no up-to-date figures on the number of squatter residents, as the Government has not conducted any Squatter Occupancy Survey since the mid-1980s. According to the quarterly General Household Survey, 14 600 households lived in temporary housing (including squatter and roof-top structures) as at the fourth quarter of 2012.
4.9 After the completion of CRP, the number of flats being allocated dropped sharply from 3,360 units in FY2009-2010 to 78 units in FY2010-2011 and 80 units in FY2011-2012. To accommodate more tenants and improve the living conditions of PRH estates, HA has been redeveloping three older estates not previously included in CRP (i.e. the So Uk Estate, the Pak Tin Estate and the Tung Tau Estate Block 22) which involve about 9,700 units. More recently, the Metro Planning Committee of the Town Planning Board approved the HKHS's proposal of redeveloping Ming Wah Dai Ha at Shau Kai Wan on 15 March 2013. The redevelopment will affect about 3,200 flats.

Private housing

4.10 The demolition of private housing for redevelopment purposes has been on an uptrend in recent years. The number of demolished flats rose from 390 units in 2003 to a peak of 1,666 units in 2011. In particular, the Urban Renewal Authority ("URA") has played an important role in redeveloping the older urban areas. A number of URA projects are underway and the large scale of which is the Kwun Tong Town Centre redevelopment project that affects about 1,650 property interests and 5,000 people. URA has also partnered HKHS to implement six urban renewal projects clustered in Sham Shui Po and Shau Kei Wan, which are non-subsidized housing projects and the flats are sold at full market price. The households displaced by these redevelopment projects have to be rehoused, thereby generating new housing demand.

Families with babies born in Hong Kong to Mainland women

4.11 In recent years, there has been an increasing number of babies born to Mainland women. The number of these babies increased from 7,810 in 2001 to 31,121 in January-November 2012. As at November 2012, a total of 88,582 "Type I babies" and 200,773 "Type II babies" were born in Hong Kong.

20 In view of the increasing number of births given by Mainland women, the Government limited the delivery quota for non-local women to 35,000 in 2012. Starting from 1 January 2013, the public hospitals have adopted a "zero delivery quota" for all non-local pregnant women and the private hospital have stopped accepting delivery bookings from Mainland pregnant women whose husbands are not Hong Kong permanent residents.
21 Type I babies refer to those babies born to Mainland women whose spouses are Hong Kong permanent residents.
22 Type II babies are those babies born to Mainland women whose spouses are not Hong Kong permanent residents. They are also commonly known as babies born to "doubly non-permanent resident pregnant women".
4.12 As babies born to Mainland women may return to live in Hong Kong, they will create additional housing demand. The Census and Statistics Department conducted six rounds of "Survey on babies born in Hong Kong to Mainland Women" during 2007-2012 to gather information about the parents' intention to have their babies returning to live in Hong Kong. Based on the average result of these six surveys, about 93% of Type I babies and 57% of Type II babies would eventually settle in Hong Kong.

**Immigrants**

4.13 Immigrants, particularly new arrivals from the Mainland, constitute another major potential source of housing demand in Hong Kong. Since the early 1980s, Mainland spouse and accompanying children of Hong Kong residents may apply for settling in Hong Kong for family reunion through the One-Way Permit Scheme. The current daily quota is 150.\(^{23}\) During 2003-2012, the number of One-Way Permit holders coming to Hong Kong totalled 465,566.

4.14 Moreover, the Capital Investment Entrant Scheme ("CIES") has generated additional housing demand. The scheme was introduced by the Government in 2003 to facilitate the entry for residence by capital investment entrants. The investment threshold was initially set at HK$6.5 million per application and entrants were allowed to invest in real estate and specified financial assets. To avoid fuelling the surge in property prices\(^{24}\), the Government announced in October 2010 to revise CIES by temporarily suspending real estate as an investment category and increasing the investment threshold from HK$6.5 million to HK$10 million with effect from October 2010. Nevertheless, investors admitted under CIES still require private housing for their residence in Hong Kong.

---

\(^{23}\) Of the daily quota of 150 places, 60 places are allocated to Mainland children born to Hong Kong residents and holding the Certificate of Entitlement (i.e. eligible for the right of abode in Hong Kong), 30 to spouses separated for at least 10 years and their accompanying children, and the remaining 60 to applicants belonging to other categories (e.g. spouses separated for less than 10 years and their accompanying children).

\(^{24}\) For reference, as at end-September 2010, the accumulated investment in real estates under CIES amounted to HK$19 billion, of which HK$17.7 billion was for residential properties and HK$1.3 billion for non-residential properties.
Expatriates

4.15 Under the three talent attraction schemes, namely the Quality Migrant Admission Scheme\(^{25}\), the Admission Scheme for Mainland Talents and Professionals\(^{26}\) and the General Employment Policy\(^{27}\), talents from other places are admitted to settle or work in Hong Kong. In 2011, a total of 38,931 applications were approved under the above three schemes. The sheer number of expatriates so admitted into Hong Kong would give rise to potential housing demand.

Non-local students

4.16 Accommodation of non-local students would also add to housing demand in Hong Kong. The number of non-local students enrolled in programmes funded by the University Grant Committee ("UGC") increased from 1,781 in academic year 2000-2001 to 10,770 in academic year 2011-2012. As such, there has been a strong demand for hostel places. In academic year 2011-2012, there were 14,681 applications for hostel places from non-local students studying in UGC-funded institutions (including applications submitted by exchange students). However, only 11,651 student hostel places were available in the academic year, resulting in a shortfall of 3,030 places.\(^{28}\) Students without hostel places may have to turn to private housing market for accommodation.

---

\(^{25}\) The Quality Migrant Admission Scheme was introduced in 2006 to attract highly skilled or talented persons from overseas places to settle in Hong Kong and operates on a points-based system with an annual quota of 1,000.

\(^{26}\) The Admission Scheme for Mainland Talents and Professionals is a quota-free employment-based scheme introduced in 2003 to attract qualified Mainland talents and professionals who possess skills, knowledge or experience of value to and not readily available locally to work in Hong Kong.

\(^{27}\) The General Employment Policy is a quota-free employment-based scheme for attracting professionals possessing skills and knowledge not readily available locally from overseas places other than the Mainland to work in Hong Kong.

\(^{28}\) More recently, UGC has stated that its funded institutions will be lack of 5,000 hostel places in the next few years.
Non-local buyers

4.17 Housing demand from non-local buyers has been increasing in recent years.29 According to the Government, the share of transactions in the residential property market taken up by non-local buyers rose from 3.1% in 2008 to 6.5% in 2011 before easing to 4.5% in the first nine months of 2012. The presence of non-local buyers was more evident in the primary residential property market, as they accounted for 5.7% of the total transactions in 2008. The proportion increased to 19.5% in 2011 before moderating to 13.5% in the first nine months of 2012 amid the Government's demand-side management measures.

4.18 The study conducted by a property agency exhibited a similar trend about the presence of non-local buyers in Hong Kong's residential property market. According to the Centaline Property Agency, the share of residential property transaction involving Mainlanders increased from 4.7% in 2008 to about 11% in both 2011 and 2012. The corresponding share in the primary market rose more rapidly from 8.5% in 2008 to 28.3% in 2011 before easing to 24.5% in 2012.

5. Housing demand projections

5.1 The review of the LTHS aims to ensure optimal use of the existing land and housing resources to meet housing demand of the community over the long term. Specifically, the review includes a projection on housing demand. The LTHS Steering Committee has considered that housing demand is the total number of new housing units required to be built if each and every household is to be accommodated in adequate housing in the long run. In other words, the forecast will reflect the physical housing demand.

29 The Government has considered that investment demand will not be a factor of housing demand. For details, see paragraph 5.3 for its arguments.
5.2 Based on the above considerations, the LTHS Steering Committee has made use of a household-based approach for forecasting the overall housing demand, which should include the following three components:

(a) projected net increase in the number of households: the net increase of the number of households depends on a basket of factors such as number of marriages, immigrants and deaths, which in turn has an impact on housing demand;

(b) households displaced by redevelopment: the new demand may stem from households who are displaced by redevelopment of old buildings in the public and private sectors; and

(c) inadequately housed households: those households need to be rehoused to adequate housing which generates new housing demand.

5.3 In addition, the model will only focus on the residential demand of the local population, excluding the effect of investment demand for the following reasons:

(a) some flats purchased by investors will eventually be channelled back to the sales or rental market, thus help meet the physical housing demand;

(b) total inclusion of investment demand will inflate the housing demand;

(c) the distinction between physical housing demand and investment demand is artificial because most genuine home buyers consider their properties the most important investment they are likely to make in their lifetime; and

(d) the investment demand is difficult to be defined or measured precisely.
5.4 The housing demand model being examined by the LTHS Steering Committee has adopted the flow concept, which addresses the change of housing demand over a period of time with reference to factors such as socio-economic conditions and demographic changes. Under such framework, the Steering Committee aims to produce a range of long term housing demand projections, instead of a single projection, to cater for different socio-economic scenarios.30

5.5 When comparing with those forecasts formulated earlier by the Government and the professional/non-governmental bodies31, the LTHS model is considered as more comprehensive because it is dynamic and covers both public and private housing. In 2007, the Development Bureau and the Planning Department released the Hong Kong 2030 Study containing a projection on the overall housing demand, albeit without any breakdown for public and private flats. The Royal Institution of Chartered Surveyors ("RICS") and the Hong Kong Ideas Centre32 ("HKIC") released their housing demand forecasts in 2011 and 2012 respectively. However, both forecasts only covered the private residential market.

5.6 The housing demand forecasts made by the Government, RICS and HKIC are highlighted below:

(a) the Development Bureau and the Planning Department have forecasted the overall housing demand to range between 27,900 flats and 41,800 flats per annum during 2003-2030, depending on the population and economic growth rates assumed for the period;

(b) RICS has projected a housing demand of 22,000 private residential flats per year during 2011-2021; and

(c) HKIC has predicted the need to construct 32,200 private flats (based on the simple model), or 45,300 private flats (based on the comprehensive model), during 2018-2022.

---

30 The LTHS Steering Committee has admitted that the model is subject to the same limitation encountered by other forecast models as its results are based on certain assumptions and parameters.

31 The Research Office has sent emails to local universities and professional bodies (e.g. the Department of Real Estate and Construction of the University of Hong Kong and the Hong Kong Institute of Real Estate) for information on the housing demand projection. Apart from the projections discussed in this information note, no other projection has been made based on the replies received so far.

32 It is an independent non-profit organization established by people from different sectors in December 2008 after the global financial crisis. The organization is tasked with providing recommendations conducive to the economic and social well being of Hong Kong.
**Hong Kong 2030 Study**

5.7 The Government commenced the Hong Kong 2030 Study in 2000 to review the territorial development strategy for Hong Kong, with the objective of formulating a broad planning framework to guide the future development of Hong Kong up to 2030. The study lasted for about seven years and was completed in 2007.

5.8 Hong Kong 2030 Study considered that population and economic growth rates were the two most important factors for planning. The Government envisaged three planning scenarios based on different projected population and economic growth rates. They were:

- (a) the reference scenario or the most likely scenario\(^{33}\);
- (b) the low population growth and moderate economic growth scenario\(^{34}\); and
- (c) the high population growth and high economic growth scenario\(^{35}\).

5.9 The Government has forecasted the following housing demand for the three planning scenarios during 2003-2030:

- (a) the reference scenario: 924,000 flats or about 34,000 flats per annum;
- (b) the low population growth and moderate economic growth scenario: 754,000 flats or about 27,900 flats per annum; and
- (c) the high population growth and high economic growth scenario: 1,129,000 flats or about 41,800 flats per annum.

---

\(^{33}\) The scenario has assumed that: (a) the population will increase to 8.4 million by 2030; and (b) the annual GDP growth will be 4% during 2005-2010, 3.5% during 2011-2020 and 3% during 2021-2030.

\(^{34}\) The assumptions of this scenario are: (a) the population will rise to 8.0 million by 2030; and (b) the annual GDP growth rates will be the same as those of the reference scenario.

\(^{35}\) It has assumed that: (a) the population will rise to 8.8 million by 2030 and (b) the annual GDP growth will be 4% during 2005-2020 and 3.5% during 2021-2030.
Projection by the Royal Institution of Chartered Surveyors

5.10 RICS commissioned the Hong Kong Polytechnic University to conduct a study on the medium to long term housing demand in Hong Kong, and the findings were released in 2011. The study showed that about 22,000 private flats per annum would be required during 2011-2021. It also highlighted the imbalance between the demand for and supply of small-sized flats between 2002 and 2009.36 During 2002-2009, more than 50% of the total residential property transactions were small-sized flats whereas the supply of new small-sized flats was only 12% of the total completions. Hence, RICS has urged the Government to conduct surveys on a regular basis to ascertain the aspiration of the households regarding the types and sizes of flats required, thereby obtaining accurate information for formulating housing policy.37

Projection by the Hong Kong Ideas Centre

5.11 In October 2012, HKIC released its projection for private housing demand over the next 10 years.38 It formulated the following two demand models:

(a) the simple model consisting of three parameters (i.e. the number of new households, the percentage of households intended to live in private housing flats, and the number of PRH tenants intended to move to private housing); and

(b) the comprehensive model consisting of a basket of parameters such as marriages, divorces, number of immigrants, split families, households displaced by redevelopment and the number of PRH tenants intended to move to private housing.

---

36 The Research Office has not been able to obtain full report of the study. Hence, the parameters of the model and the assumed growth rates of individual parameters are not known.
37 See Royal Institution of Chartered Surveyors (2011).
38 HKIC has made a number of assumptions, including (a) each household would only demand one private housing flat; and (b) housing demand derived from the external buyers would be excluded.
5.12 With the use of the above two models, HKIC has projected the following annual demand for private flats:

(a) the simple model: 30 600 flats will be required during 2013-2017 and 32 200 flats during 2018-2022; and

(b) the comprehensive model: 43 100 flats will be required during 2013-2017 and 45 300 flats during 2018-2022.  

---

Research Office
18 March 2013
Tel: 3919 3631

Information notes are compiled for Members and Committees of the Legislative Council. They are not legal or other professional advice and shall not be relied on as such. Information notes are subject to copyright owned by the Legislative Council Commission (the Commission). The Commission permits accurate reproduction of information notes for non-commercial use in a manner not adversely affecting the Legislative Council, provided that acknowledgement is made stating the Research Office of the Legislative Council Secretariat as the source and one copy of the reproduction is sent to the Legislative Council Library.

---

39 See 香港集思會 (2012).
References


32. 慧科訊業有限公司: 《立法會電子剪報服務》, 2010年1月1日至2013年3月18日。