Hong Kong's Housing Game: Four Giants vs. Seven Million Commons

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Abstract: Hong Kong's economic wealth relies disproportionately on the prosperity of her real estate market. Four property conglomerates dominate the market. Together, these "Hongs" or conglomerates, have extensive power and control over the economy. Yet, the vast majority of citizens work some of the longest hours to pay off extraordinarily high mortgages. This article examines the basic structure of the Hong Kong economy and addresses the attendant problems of economic fairness and justice.

There is no other city like Hong Kong. Her economic wealth relies disproportionately on the prosperity of her real estate market. There is no other city like Hong Kong. On one hand her citizens enjoy high levels of economic freedom, on the other hand, they suffer from a gigantic gulf between rich and poor, with a Gini coefficient of 0.475[1]. The richest man in Asia lives in Hong Kong, but the desperately poor have their homes in "cages". There are big names engraved on the landmarks of the city, but there are seven million other people working some of the longest hours in the world[2] their entire lives, to pay off their mortgages on small apartments, if they are lucky enough to afford one. When freedom does not come with fairness, and when the dream of home ownership results in virtual enslavement of the working class, we need to ask why.

I. The Origin of Land Scarcity

From the 1960s, propelled by a strong stock market, an increasing number of businesses came to Hong Kong and bought real estate. Foreign investors and some local businesses that engaged in manufacturing or shipping turned their

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1 *Thematic Report : Household Income Distribution in Hong Kong (2011*), issued by Census and Statistics Department of Hong Kong Special Administrative District, http://www.statistics.gov.hk/pub/B11200572012XXXXB0100.pdf.

2 Gloria Lai: "HK staff work some of longest hours in world", The Standard, July 18, 2008. http://www.thestandard.com.hk/news_detail.asp?sid=19804311&art_id=68784&con_type=1&pp_cat=11

focus on real estate investment. As real estate and the stock market boomed, many real estate developers became listed companies. Their profits from listing on the stock market were reinvested into land. However, over investment in the 1970s caused bubbles in the real estate and stock markets. The global recession descended in the 1980s. This event, together with impending reversion of Hong Kong from British to Chinese rule in 1997, caused investors to lose their confidence. The bubbles burst and the markets crashed. The crisis struck down many unwitting opportunists, but left supreme, acute investors, including Li Ka Shing, Kwok Tak-Seng, Cheng Yu-Tung and Lee Shau-Kee.

The economic recovery came partly as a result of limits placed on annual land development enshrined in the Sino-British Joint Declaration of 1984. The amount of land that could be sold by the British colonial government in one year was limited to 50 hectares. According to simple economics, the supply restriction pushed up the price of Hong Kong property. In this environment of limited yearly supply, and because of their enormous wealth and land banks, the giant real estate development companies gradually dominated the real estate market in Hong Kong. The situation remains the same today.[3]

II. The Hong Kong Property Giants

- Li Ka Shing and family
    - Cheung Kong Holdings, the leading developer in HK, owns prominent residential projects and developable land bank of around 40 million square feet. According to Li's elder son Victor, chairman of Cheung Kong Infrastructure, the land bank is sufficient for development for the next 4 to 5 years[4].
    - Hutchison Whampoa, an international conglomerate, engages in a wide spectrum of businesses. It controls Hong Kong Electric, the only electric company in Hong Kong Island and Lamma Island, ParknShop Supermarket, one of the biggest supermarket chains in Hong Kong, and Watson's Group, the biggest drug store in the world. In addition, Hutchison owns Hong Kong International Terminals, Hutchison Telecommunication International, Metro Broadcast Corporation and many other businesses.[5]
    - Li's estimated wealth is US $25.5 billion as of 2012 by Forbes.

3 Alice Poon, *Land and the Ruling Class in Hong Kong* (2nd Edition), Enrich Professional Publishing, 2011, p.61.

4 See: http://house.china.com.cn/Company/view/1515.htm.

5 Hutchison Whampoa Limited Group Structure, see: http://www.hutchisonwhampoa.com/en/about/structure.php.

- The Kwok Brothers

    - The brothers own Sun Hung Kai (SHK) Property with a total market capitalization of US $32.1 billion, and a developable land bank over 46 million square feet, including agricultural land bank of over 27 million square feet.[6]
    - SHK Property is one of the major developers responsible for the Hong Kong skyline. Among other landmarks, SHK Property built Central Plaza, International Finance Center, and International Commerce Center.[7]
    - Control the KMB Motor bus, Smartone (a major telecommunication company), and Tai Lam Tunnel (an important traffic connection in New Territory)[8].

- Cheng Yu-Tung and Family

    - New World Development, the flagship of a group of companies owns NWS Holding Limited, a company managing the Hong Kong Convention and Exhibition Centre, ATL Logistics Centre, New World Center and other facilities. It has a land bank of over 31 million square feet[9], including 18.6 million square feet of agriculture land in Hong Kong. [10]
    - New World Development is engaged in many infrastructure projects encompassing road, energy, water and ports and also controls New World Mobile Holding and New World Mobility (another major telecommunication company), New World First Bus and The City Bus.[11]

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6 Land bank in Hong Kong of Sun Hung Kai Properties, see: http://www.shkp.com/zh-HK/Pages/land-bank/

7 Major Properties in Hong Kong of SHK, see: http://www.shkp.com/zh-HK/Pages/locations-of-major-properties/.

8 Other investment of SHK, see: http://www.shkp.com/zh-HK/Pages/other-investments.

9 Properties in Hong Kong, see: http://www.nwd.com.hk/html/schi/comp_business_hk.aspx.

10 According to the chairman of the company, the oldest son of Cheng Yu-Tung in a news conference: http://kuaixun.stcn.com/2012/0926/10123224.shtml.

11 Company Infrastructure and Services, see: http://www.nwd.com.hk/html/schi/comp_infra.aspx.

- Lee Shau-Kee
    - Henderson Land Development Company, the flagship, has a developable land bank of over 21 million square feet and an agricultural land bank of over 42 million square feet.[12]
    - In mainland China, Henderson China has developable land bank over 30 million square feet.[13]
    - Lee's businesses are engaged in facilities management of properties like Tsuen Wan City Landmark and Citimall. Lee also controls Hong Kong Ferry and Hong Kong and China Gas company (the only gas supplier in Hong Kong).[14]

The giant real estate developers dominate the real property market in Hong Kong. They also control the following:

- Public Utilities – the Giants' cash generating companies and holders of land reserves

  Public utilities are a necessity and are usually operated monopolistically to gain economies of scale in the long run. To the developer conglomerates, their ownership of public utilities provide dependable cash flow with low risk and high profits. Ordinary people, have no choice but to buy their electricity or gas from these monopolies.[15] For example, Hong Kong and China Gas Company is the sole supplier of Towngas in Hong Kong. Henderson Land Development Company owns 39.88% of the shares.[16] In the past five years, the company earned on average an annual net profit of US$667 million. Hong Kong's two largest bus franchisees, KMB Motor and New World First Bus, are controlled by Sun Hung Kai Properties and New World Development Group respectively. Some public utilities are also, directly or indirectly, involved in the business of real estate development. For example, there are two electric generating companies in Hong Kong, the CLP group and Hong Kong Electric. They were granted low-priced land by the government to build numerous sites. These sites are used to house power generating plants and other auxiliary facilities. Thanks to the lease modification system in Hong Kong, when

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12 Interim Report of 2012 by Henderson Land Development Company Limited, see: http://www.hld.com/tc/investor/annual_12.shtml.

13 Id.

14 Subsidiaries of Henderson Land Development Company Limited, see: http://www.hld.com/tc/about/subsidiary_henderson.shtml.

15 Alice Poon, *Land and the Ruling Class in Hong Kong* (2nd Edition), Enrich Professional Publishing, 2011, p.83.

16 Group structure of Henderson, see: http://www.hld.com/tc/about/structure.shtml.

these sites are no longer needed for their original purpose, they are redeveloped for commercial or residential use.[17] The same maneuver applies to public bus depots.

- Agricultural Land Bank – the secret weapon

  Due to its scarcity, land is the most precious resource in Hong Kong. When Hong Kong Island and Kowloon are out of land, the New Territories becomes the new development ground. As mentioned above, the four giant developers all have huge agriculture land banks, which give them an edge in the future – thanks to the "lease modification" system in Hong Kong. The giant developers have been acquiring agricultural land from villagers in the New Territories. If the land is not zoned as "agricultural use", they can apply to convert the land to residential or other appropriate usage. If the government approves the conversion, the developers should pay a premium, which equals to the value after development less the cost of the raw land.[18] In her book, *Land and The Ruling Class in Hong Kong*, Alice Poon describes the process for rezoning land from agricultural to residential as "simple". In addition, rezoning gives advantage to the developers when it comes to premium assessment. There is no competition as seen in public auctions or tenders. The final premium is solely determined by negotiations between the applicants *i.e.* the developers, and the government. Experienced and prudent developers will wait for the right time to apply for conversion. Alice Poon writes, "these agricultural land holdings are like a form of land purchase option with no time limit and with the "strike price" (*i.e.* the premium) practically pegged to market (as the conversion timing decision rests with the owner)."[19]

III. The Other Side of The Story

The view from the eyes of the other 7 million citizens of Hong Kong is a little different from that of the property tycoons. According to the Population Census 2011, the median monthly household income in Hong Kong is HKD20,200 (US$2,589) . According to a study by CLSA Asia-Pacific Market done in 2011, the price of a private residence in Hong Kong is 15 times that of the household income. The RICS Housing Report shows that in 2010, the price-to-income ratio was 22.72. Under current private housing prices, if a

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17 Alice Poon, *Land and the Ruling Class in Hong Kong* (2nd Edition), Enrich Professional Publishing, 2011,p.93-94.

18 Alice Poon (2011) p.114-116.

19 Id. at p. 116.

family uses 30% of its income to pay the mortgage, it will take 46 years to pay off a tiny apartment of about 500 square feet. Professor Hui Chi-man from The Hong Kong Polytechnic University states that since the suspension of Home Ownership Scheme (HOS) and with real estate prices rising in 2003, the sandwich class, (those who exceed the ceiling of reviving HOS construction but cannot afford the private flat), is having a difficult time and is forced to buy expensive private shelter.[20] The cost of housing directly brings down the living standards of the middle class. According to another report of Bauhinia Foundation Research Center, 72.5% of post-80s young people say they have no plan to purchase a home in five years; 58.8% say the price of private homes is above their affordability, and 41.2 % say they do not have the savings for a mortgage down payment. The high price of private apartments has restricted other investment or consumption of the young. When this demographic group needs to buy a private home, they usually end up with the burden of a big mortgage. In the worst cases, these people exhaust the wealth of their family.

After ordinary people own a flat and pay off the mortgage, the developers can still charge them property management fees as part of the "after-sales service". Apart from gas, electricity, bus fares, ferry fares, mobile services and internet services, people who get their groceries and food from supermarkets also contribute to the profits of their landlords, as the two major supermarkets in Hong Kong – Wellcome and ParknShop are respectively owned by Cheung Kong/ Hutchison and Jardine Hong Kong Land Group. Together the two chains dominate 80% of the grocery market.

In recent years, Hong Kong's economic growth has come from tourists, especially those from Mainland China who travel under the Individual Visit Scheme. The mainland tourist spends large amounts in big shopping malls, restaurants, and hotels in the golden-mile district that includes Central and Tsim Sha Tsui. Most of these tourist dollars will go to the bottom line of developer conglomerates, because the shopping malls are managed or owned by them. As demand increases, the conglomerates raise rents. However, in the face of fierce competition, small business-owners may not be able to raise their prices. To maintain their profit margins, these small businesses can only cut their costs in other ways, which may sacrifice the quality of the goods or services

[20] RICS Supports "More Affordable Housing for Hong Kong People" Housing Policies, http://article.wn.com/view/2012/07/30/RICS_Supports_More_Affordable_Housing_for_Hong_Kong_People_H/

- Election—A Long Way to Universal Suffrage

  Frustration with the economic realities have encouraged people in Hong Kong to persist in fighting for universal suffrage in the election of both the Hong Kong Legislative Council and of the Chief Executives of the Government. It has become a Hong Kong tradition on July 1st to rally for universal suffrage. [21]

  One of the reasons for persistent protests is the current election system fails to respond to growing political pluralism and the increasing injustice in society. Under the current election system, a 1,200-member Election Committee elects the Chief Executive. This structure has long been criticized as a, "Small Circle Election". The Committee consists of business people working in big real estate conglomerates and the services that support them such as lawyers, accountants, and bankers. More and more, people have realized their interests are not well represented by this Committee. Even in elections of the Legislature, the developers are well represented by the real estate and construction functional constituency.

  It seems the free market economy is unable to bring justice and fairness to Hong Kong society. Rawls wrote in *A Theory of Justice*, that social and economic inequalities are to be arranged so that they are to be of the greatest benefit to the least-advantaged members of society.[22] It is hard to believe that, without a democratic election system responsive to social injustice, government will take real action to change the current situation.

IV. THE GAME

On one side, there are the four business giants, who are in possession of the most precious resource, land, in Hong Kong. These giants possess enormous wealth and power, control the necessities of everyday life, and have great influence on government policy.

On the other side are seven million common citizens, struggling under the pressure of sky rocketing apartment prices, relying on these business giants

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21 Hong Kong July 1st Marches, see: http://zh.wikipedia.org/wiki/%E4%B8%83%E4%B8%80%E5%A4%A7%E9%81%8A%E8%A1%8C

22 Rawls, *A Theory of Justice*, (1971), p.303; revised edition, p. 47.

for bus, gas, electricity and even groceries, and who are working hard for a decent quality of life.

As a major legal landowner in Hong Kong and with its long involvement in property development, the Hong Kong Special Administrative Region (SAR) government can never stand aside from this game. In fact, government policy is a key variable that affects the results of the game.

- Pro-Economy Government Policy

  The property giants seem to have the government, before and after the handover in 1997, on their side. The Asian financial crisis in 1997 caused the real estate bubble to burst. Initially the first Hong Kong SAR had a policy to build 85,000 housing units annually[23]. With the increase in housing supply, real estate prices dropped by over 70%. Many people went bankrupt as a result of the fall in their house prices and severely condemned the housing policy.

  The government then changed its policy, avoiding participation in the property market and limiting the supply of land. The government cancelled land auctions and terminated the Home Ownership Scheme. This policy may have contributed to the recovery of the Hong Kong economy from the financial crisis, but it also deprived the small and medium sized property developers from buying land at depressed prices. The big developers were well placed because of their huge land banks. In fact, the limited supply of public housing was advantageous to the large developers because the price of real estate rose dramatically in the recovery. [24]

- Close Relations With Government Officials

  It has been long been suspected that Hong Kong government officials have relations with the real estate giants. The most recent case involves Thomas and Raymond Kwok, from Sun Hung Kai Property and the former Chief Secretary for Administration in Hong Kong, Rafael Hui. After Hui and the Kwok brothers were arrested by the Independent Commission Against Corruption (ICAC) in March 2012, ICAC charged

[23] Alice Poon, *Land and the Ruling Class in Hong Kong* (2nd Edition), Enrich Professional Publishing, 2011, p.8.

[24] Id. at p.10.

them for bribery and misconduct in public office. The corruption amount under prosecution is over HKD 35 million (US$4.5m).[25]

In 2008, Leung Chin-Man, the former Permanent Secretary for Housing, Planning and Lands, was offered the position of deputy managing director by the New World Group after his retirement. He did not take the position in the end because of overwhelming pressure from the public, who believed the job was a *quid pro quo* for favors for the New World Group and Sun Hung Kai Property while Leung was in office. Leung was suspected of granting a low premium for those developers in earlier lease-modification cases.[26]

- Hong Kong Needs a Change

The free market economy offers job creation, opportunities and wealth generation to the people of Hong Kong. However, it also brings social injustice and unfairness. The property industry has become a giant vampire sucking money from ordinary people and smothering the Hong Kong economy by depriving opportunities for competitors.

The government is deeply involved with the property business. Much of government revenues come from taxes on property developers. However, by keeping property prices high and thereby increasing government revenues, the government contributes to making property prices increasingly unaffordable. The high price of property then lowers the quality of life of ordinary Hong Kong citizens. However, if the government releases more land for sale, then property prices decline, as does government revenues.

Yet, if there is no change, Hong Kong may not only lose in competitiveness to other markets in Asia, but she will also continue to perpetuate economic injustice within her own shores.

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[25] See: http://news.ifeng.com/hongkong/special/gsxdxsr/content-3/detail_2012_07/13/16004349_0.shtml

[26] See: http://www.csb.gov.hk/english/info/1598.html.

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