

The Hong Kong Property Market: Does growing inequality warrant a change in its structure?

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Abstract: Economic inequality is growing in Hong Kong. One reason may be the structure of the property market, which perpetuates poverty and increases wealth of the economic elite. A Rawlsian distributive justice analysis suggests that the Hong Kong government should change the structure of the property market if such change leads to improving the situation of the least advantaged members of society. The author recommends the government gradually increase the supply of land rather than implement the “resumption of land” policy.

The structure of the property market in Hong Kong is, at least, partly responsible for the growing inequality in Hong Kong society.

According to the Census and Statistics Department of the Hong Kong Government¹, the Gini coefficient rose from 0.525 in 2001 to 0.537 in 2011, suggesting an increase in inequality.

A point to note is that, while the Gini coefficient is often seen as the best measure of income inequality, it may not be fully representative.² The Gini coefficient has limitations when comparing income inequalities across countries and over time.³ First of all, there may be differences in data sources,

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¹ Hong Kong Census and Statistics Department: 2011 Population Census Thematic Report: Household Income Distribution in Hong Kong, Table 8.1, p 137, available at <http://www.statistics.gov.hk/pub/B11200572012XXXXB0100.pdf> [Accessed on 15 July 2013]

² Wu, Xiaogang. “Income Inequality and Distributive Justice: A Comparative Analysis of Mainland China and Hong Kong”, *The China Quarterly*, 200, (2009), pp 1033-1052, doi:10.1017/S0305741009990610, available at http://journals.cambridge.org/abstract_S0305741009990610 [Accessed on 11 June 2013]

³ *Ibid*, p 1036

income definitions and compilation methods in different countries, making it difficult to compare between countries.⁴ Second, even if we assume the above difficulty does not exist, a temporal trend in increasing inequality may reflect a change in family structure, *e.g.* household size. In the Hong Kong context, the temporal change in the Gini coefficient might be due to the change in the age structure of the Hong Kong population. The proportion of persons aged 65 and over increased from 3.3% in 1966 to 12.4% in 2006, and is projected to further increase to 26.4% in 2026.⁵ While an ageing trend is likely to increase the Gini coefficient, it does not necessarily entail growing inequality. Furthermore the Gini coefficient only measures inequality in terms of income. It does not take into account of inequality in terms of wealth or power.

With these limitations in mind, the data are clear about the growing inequality, in terms of wealth, income and power, in Hong Kong society. It is not so much that the poorest are becoming even worse off but that the rich have become even richer as a result of the property market, causing the poorest to become relatively worse off. During the year to end-November 2012 house prices skyrocketed by 19.22% (inflation-adjusted), the highest year-on-year increase since June 2011.⁶ This means that property owners have become better off as their wealth increases. On the other hand, those who do not yet own any property lose out from this increase in wealth. This group is less likely to own property as property prices get more unaffordable. Rising rental rates⁷ also means that those who do not own property have to spend more of their income to pay for the rental of property. At the same time, those who own more than one property are able to rent out their properties and receive higher income as a result. This, in turn, further increases the wealth of those property owners and thus increases both the income and wealth gap between non-property owners and those who are able to let out their properties.

Power may be defined as “the production of intended effects”.⁸ People who lose out from the increase in income and wealth are not as able to produce intended effects, such as the buying their own homes or improving their living

⁴ See note 1 above, p 7

⁵ Hong Kong Census and Statistics Department, “The Ageing Trend of the Hong Kong Population Continues” available at http://www.censtatd.gov.hk/FileManager/EN/Content_1064/B1_E.pdf [Accessed on 15 July 2013]

⁶ Global Property Guide, “Residential Prices Surging in Hong Kong!”, 15 February 2013, available at www.globalpropertyguide.com/Asia/hong-kong/Price-History [Accessed on 15 July 2013]

⁷ Rating and Valuation Department, The Government of the Hong Kong Special Administrative Region, “Rental Indices for Hong Kong Property Market” accessed at <http://www.rvd.gov.hk/doc/en/statistics/graph1.pdf> [Accessed on 15 July 2013]

⁸ Russell, Bertrand. *Power: A New Social Analysis* (In Routledge Classics. London: Routledge. 2004), p 23

conditions, compared to those who enjoy increases in income and wealth. Other things being equal, this results in growing inequality in power in Hong Kong society.

The cooling measures imposed by the government in October 2012 have not been successful in lowering property prices. This is reflected by the Price Indices for Hong Kong Property Market⁹ and the Price Indices for Selected Popular Developments¹⁰ provided by the Rating and Valuation Department of the Hong Kong government. Failure of cooling measures is further supported by the Centa-City Index¹¹, which is a “monthly index based on all transaction records as registered with the Land Registry to reflect property price movements in previous months.”¹² Property prices have continued to rise despite government interventions. There are arguments to remove the property cooling measures altogether as the measures have had a notable impact on transaction volumes but little effect on curbing price increases or addressing the shortage of supply in the residential property market. Joseph Tsang, managing director in Jones Lang LaSalle’s Hong Kong office and the Centaline Property Agency founder Shih Wing-ching called for the government to repeal its cooling measures for the reason that prices would fall if: 1) rental yields declined; 2) the US dollar strengthened; and 3) United States interest rates rose.¹³

Nevertheless, one may argue that property prices would have been even higher had the government not intervened. For instance, the imposition of a 15% tax on residential purchases by nonresidents appears to be deterring non-local buyers. In the first nine months of 2012, non-local buyers accounted for 14% of residential purchases. In January, that number dropped to 5%.¹⁴

⁹ Rating and Valuation Department, The Government of the Hong Kong Special Administrative Region, “Price Indices by Property Type” available at: <http://www.rvd.gov.hk/doc/en/statistics/graph2.pdf> [Accessed on 15 July 2013]

¹⁰ Rating and Valuation Department, The Government of the Hong Kong Special Administrative Region, “Private Domestic – Price Indices for Selected Popular Developments” accessed at: <http://www.rvd.gov.hk/doc/en/statistics/graph3.pdf> [Accessed on 15 July 2013]

¹¹ Centadata, available at: http://hk.centadata.com/cci/cci_e.htm [Accessed on 10 July 2013]

¹² See http://hk.centadata.com/cci/notes_e.htm [Accessed on 10 July 2013]

¹³ Sito, Peggy. “Hong Kong property market cooling policies should be axed: Jones Lang LaSalle”, *South China Morning Post*, 21 June 2013, available at www.scmp.com/business/economy/article/1265373/hong-kong-property-market-cooling-policies-should-be-axed-jones [Accessed on 8 July 2013]

¹⁴ Chen, Te-Ping. “Hong Kong Dials Up Property Cooling Measures”, *The Wall Street Journal*, 5 March 2013. available at <http://online.wsj.com/article/SB10001424127887324678604578341162945379562.html> [Accessed on 9 July 2013]

However, one may also argue that any measures imposed by the government may have unintended consequences.¹⁵ It is still early days for us to say for sure what the impact of such government interventions are in the long run. What is clear is that: i) property prices are still rising; ii) government interventions have not successfully caused any significant fall in property prices; iii) rising property prices have caused an increase in wealth and possibly income (from rental) of property owners; iv) at the same time, those who do not yet own any property suffer as a result of rising rental rates¹⁶; v) other things being equal, rising rental rates will likely cause an increase in spending on the part of non-property owners; vi) as a result of an increase in spending, non-property owners will have less money left to save for buying property (assuming they want to acquire their own property); vii) non-property owners therefore, will become less likely to become property owners; viii) if the rise in property prices continue, property owners will continue to have more income, wealth and power, and those who are not yet property owners will continue to become relatively worse off; and ix) thus, although there are other causes of growing inequality in Hong Kong society¹⁷, the Hong Kong property market is, at least, also partly responsible.

Is growing inequality necessarily a bad thing?

Rawls's *A Theory of Justice*

If we agree with Rawls' *A Theory of Justice*¹⁸, we would say that inequalities are fine provided that "first, they must be attached to offices and positions open to all under conditions of fair equality of opportunity; and second, they must be to the greatest benefit of the least advantaged members of society."¹⁹ In other words, 1) as long as there is equality in opportunity, even if there is inequality in outcome, it is still acceptable; and 2) if the poorest (least advantaged) are also becoming better off, the fact that they are becoming

¹⁵ Merton, Robert K. "The Unanticipated Consequences of Purposive Social Action", *American Sociological Review*, Volume 1, Issue 6 (1936), pp 894-904, available at <http://links.jstor.org/sici?sici=0003-1224%28193612%291%3A6%3C894%3ATUCOPS%3E2.0.CO%3B2-O> [Accessed on 15 July 2013]

¹⁶ See n 7 above.

¹⁷ For example, economic growth, inflation, tax burden and government expenditure, labour market, aging population, sexual inequality, education level and household size etc. See: Chui, Lap. Leung, Shong Tung. Yip, Chun Hin. Ho Lap College (Sponsored by the Sik Sik Yuen), "Income Inequality in Hong Kong" (2011-12), pp 13-20, available at <http://www.hkss.org.hk/SPC/2011-12/AwardPDF/S11-12-DP4.pdf> [Accessed on 15 July 2013]

¹⁸ Rawls, John. *A Theory of Justice* (London: Oxford University Press, 1972)

¹⁹ Rawls, John. "Justice as Fairness: Political not Metaphysical" *Philosophy & Public Affairs*, Vol. 14, No. 3 (1985), pp 223-251

relatively worse off is acceptable. This may be illustrated by the table:

Group	Standard of living in society 1 (S1)	Standard of living in society 2 (S2)	Standard of living in society 3 (S3)
A	19	30	21
B	10	6	6
C	2	3	5

The difference principle, which is the second of Rawls's principle, would select S2 in opposed to S1, even though there is greater inequality because the worst off group C in S2 is still better off than the worst off group in S1. Taking this view, the fact that the poorest are becoming relatively worse off does not warrant the change in the structure of the Hong Kong property market necessary.

However, the Rawlsian model goes further than this. It suggests that even if those who enjoy the highest living standards in Hong Kong (group A) faces a decrease in living standards (where S2 moves to S3), the Rawlsian model would find acceptable such a decline in living standards for group A as group C in S3 is better off compared to group C in S2.

Nevertheless, one might ask: how do we draw the line between the groups A, B and C in society? If A represents the wealthiest, B represents the middle class, C represents the least advantaged (the poorest), then S3 is, of course, preferred. The difficulty here, as pointed out by Altham²⁰ is that, if we merge the groups B and C, then S1 is preferred. Therefore the difference principle may be criticised because of its arbitrariness.

That is a valid criticism but not one that concerns us. Naturally, someone will have to make a decision on where to draw the line. While there is not yet an official poverty line in Hong Kong, the Hong Kong Council of Social Service (HKCSC) does have a record on the number of people in poverty. In 2012, that number reached 1.18 million, making up 17.6% of the city's population.²¹ My suggestion is to use the line drawn by the HKCSC as the line to identify

²⁰ Altham, J. "Rawls's Difference Principle" *Philosophy*, Vol. 48, No. 183 (1973), 75-78 available at <http://www.jstor.org/stable/3749710> [Accessed on 15 July 2013]

²¹ Lin, Alyssa. "HK's poverty line to be set in 2013: Chief Secretary" *Asia Pacific Daily*, 14 June 2013, available at <http://en.apdnews.com/news/28326.html> [Accessed on 15 July 2013]

the least advantaged in society.

Having drawn this line, it is likely that we find that the least advantaged were never the ones who would have been able to buy any property in the first place (that is, unless they are able to move up and are, therefore, no longer classified as belonging to the “least advantaged” group). On this analysis, any rise in property prices cannot possibly have led to the least advantaged becoming any more worse off than they were before (other than in relative terms). However, rising rental rates may be more of a problem. Nevertheless, one may argue that they do not further disadvantage the “least advantaged” group as the least advantaged would never have been able to save enough to buy any property even if the rental rates had not been so high. While an improved position of the “least advantaged” group is preferred (S3 above), there is much uncertainty as to whether a less significant increase or even a decline in living standards of the rich would in fact bring the “least advantaged” group to a better position in absolute terms now and in the future if Hong Kong were to attempt to move to S3 through a change in the structure of the Hong Kong property market.

Utilitarianism: “the greatest happiness of the greatest number”²²

If one believes in, “the greatest happiness of the greatest number”, then one will find the structure of the property market in Hong Kong acceptable even if it leads to growing inequality, provided that total welfare is maximised. However, even if we assume the current property system in Hong Kong is able to maximise welfare, utilitarianism itself is very problematic. Maximisation of welfare will, no doubt, sacrifice some people. In the present situation in Hong Kong, if the property market is able to bring about total welfare maximisation, then it is acceptable to disregard those who are put in a disadvantageous situation as a result. While this situation is acceptable if the poorest are only becoming relatively worse off, it may not be fine if the poor become actually worse off than before. Therefore, potentially, utilitarianism is problematic from a justice standpoint.

If we set a certain minimum under which no sacrifice can be made, would utilitarianism work? Theoretically, it would. The Comprehensive Social Security (CSSA) Scheme of the Social Welfare Department of the Hong Kong government “provides a safety net for those who cannot support themselves financially. It is designed to bring their income up to a prescribed level to meet their basic needs.”²³ Therefore, we can safely say that, if we were to adopt

²² “... it is the greatest happiness of the greatest number that is the measure of right and wrong ...” Bentham, Jeremy. *A Fragment on Government* (1776) London, Preface, para 2

²³ See Social Welfare Department’s website for more information on CSSA:

utilitarianism in Hong Kong, we would, at least, have restrictive utility.

The Way Forward

Any policy recommendations to improve the fairness of economic results involve either: i) an attempt to raise the income, wealth or power of the poor; ii) an attempt to reduce the income, wealth or power of the rich; or iii) both.

Two important questions we should ask ourselves are: is it ethical to take the above steps and, is it ethical to not take the above steps and simply maintain the *status quo*.

Reasons for maintaining the *status quo* include²⁴ the fact that to make a fairer system, C. Y. Leung, Chief Executive of the HKSAR, will come into conflict with big business. Some suggest that he lacks the courage to take this step. In addition, there is a lack of political will because the leaders themselves own multiple homes. In the eyes of the wealthy, the government has taken too many steps to make the system fairer already. In Hong Kong, even the poorest are not much worse off compared to those of many other countries. They still have access to housing, education and healthcare.

It is worth pointing out that, since Benjamin Carlson's article²⁵ which highlights the relationship between real estate prices and rising inequality in Hong Kong and the growing tension between different sectors of Hong Kong society as a result, C. Y. Leung has shown an increasing willingness to take on business leaders. Of course, there is still much to be done. However it appears that estate agencies²⁶ and developers²⁷ are now beginning to feel the heat of government's interventions.

Nevertheless, it appears that an increasing willingness to be in conflict with business people is not enough. There are calls for the government to implement further the "resumption of land" policy *i.e.* to take back private

www.swd.gov.hk/en/index/site_pubsvc/page_socsecu/sub_comprehens/ [Accessed on 15 July 2013]

²⁴ Carlson, Benjamin, "Hong Kong's surging real estate prices shed light on rising inequality", (Feb., 2013) available at MinnPost: www.minnpost.com/global-post/2013/04/hong-kongs-surging-real-estate-prices-shed-light-rising-inequality [Accessed on 15 July 2013]

²⁵ *Ibid.*

²⁶ Sito (*See* n 13 above)

²⁷ Li, Sandy. "Developers feel the heat of Leung's cooling measures", South China Morning Post, 2 July 2013, available at www.scmp.com/property/hong-kong-china/article/1273407/developers-feel-heat-leungs-cooling-measures [Accessed on 15 July 2013]

land for the implementation of public projects of any land held by developers that is not developed within a period of time so that housing supply increases (known as resumption of land).²⁸ C. Y. Leung has not taken this step because business is likely to be upset.

As to the argument that property prices will fall if: 1) rental yields declined; 2) the US dollar strengthened; and 3) United States interest rates rose²⁹, it is the author's view that, while this is true, the three are not the only ways to cause a fall in property prices. The author strongly agrees with Sito³⁰ that, at the end of the day, it is all about supply. In October 2012, the Hong Kong Ideas Centre (HKIC) released its projection for private housing demand over the next 10 years.³¹ The simple model³² predicts that 30,600 flats will be required during 2013-2017 and 32,200 flats during 2018-2022; and the comprehensive model³³ predicts that 43,100 flats will be required during 2013-2017 and 45,300 flats during 2018-2022. It is a fact that supply is not able to meet demand that is the main cause for the rise in property prices.

Rawls's approach suggests that if changing the *status quo* improves the situation of the least advantage, then the system should change. With C. Y. Leung's support rating below 50 percent³⁴ and the satisfaction of the HKSAR government very low³⁵, it is clear that the *status quo* cannot be maintained for the sake of Hong Kong's political stability.

However, the author is not proposing any radical changes. Rather, the author

²⁸ See comments to Li (See n 25 above)

²⁹ Sito (See n 13 above)

³⁰ Sito, Peggy. "Supply is the key to ending Hong Kong's housing problems, not policy change", South China Morning Post, 9 July 2013, available at www.scmp.com/business/article/1278164/supply-key-ending-hong-kongs-housing-problems-not-policy-change [Accessed on 15 July 2013]

³¹ Legislative Council Secretariat, Research Office, IN14/12-13, "Information Note: Housing demand in Hong Kong", 18 March 2013, available at <http://www.legco.gov.hk/yr12-13/english/sec/library/1213in14-e.pdf> [Accessed on 15 July 2013]

³² The simple model consists 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 RPH tenants intended to move to private housing)

³³ The comprehensive model consists of a basket of parameters such as marriage, divorces, number of immigrants, split families, households displaced by redevelopment and the number of PRH tenants intended to move to private housing.

³⁴ HKU POP SITE, Public Opinion Programme, The University of Hong Kong: <http://hkupop.hku.hk/English/popexpress/ce2012/cy/poll/datatables.html> [Accessed on 15 July 2013]

³⁵ HKU POP SITE, Public Opinion Programme, The University of Hong Kong: <http://hkupop.hku.hk/english/popexpress/sargperf/sarg/poll/datatables.html> [Accessed on 15 July 2013]

supports the gradual increase in the supply of housing. While there may be doubts as to whether there is a housing bubble in Hong Kong at present, the housing market in Hong Kong is behaving as if there is a bubble. Any attempt to bring any radical change to the housing market (if it is effective) is likely to result in the “bursting of this bubble” which cannot be good news as we know from experience of the 1997 Asian Financial Crisis.

Maybe one day the Hong Kong dollar will no longer be pegged to the US dollar. However, until then, we have to live with the problem of US monetary policy affecting our property prices. Meanwhile, we can adopt policies, such as decreasing the demand of housing (although this has not yet worked) or increasing the supply. Resumption of land is a more radical approach and will likely offend liberals as taking back property involves the denial of the autonomy of an individual.³⁶ Other methods such as the building of more public housing, supplying of subsidised housing, expediting construction procedures, and shortening the Building Covenant period are preferred. While one may criticise these steps as schemes of redistribution forms of coercion³⁷, the some form of redistribution is necessary to ensure fairness. “The greatest benefit of the least advantaged members of society” has its weaknesses, but the principle does protect the least advantaged and is, therefore, preferred compared to restrictive utility, which, may not allow a society to move to S3. In an ideal world, the way forward will be to allow for an increase in the living standards of the least advantaged and to protect and respect property rights at the same time. At the end of the day, it is about balancing the interest of developers and estate agents, with that of the Hong Kong people. Balancing redistribution and coercion.

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³⁶ Blake, Michael. “Distributive Justice, State Coercion, and Autonomy”, *Philosophy & Public Affairs*, Vol. 30, No. 3, pp 257-296 available at <http://links.jstor.org/sici?sici=0048-3915%28200122%2930%3A3%3C257%3ADJSCA%3E2.0.CO%3B2-B> [Accessed on 15 July 2013]

³⁷ Nelson, Eric, “From Primary Goods to Capabilities: Distributive Justice and the Problem of Neutrality”, *Political Theory*, Vol. 36, No. 1 (Feb., 2008), pp. 93-122 available at <http://www.jstor.org/stable/20452612> [Accessed on 15 July 2013]