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THE REGULATION OF THE RESIDENTIAL PROPERTY MARKET IN HONG KONG: A STUDY OF GOVERNMENT STRATEGIES AND TOOLS
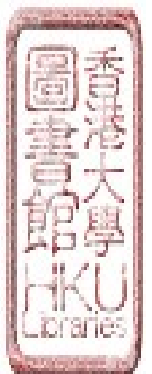
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Capstone project report submitted in partial fulfillment of the requirements for the of Master of Public Administration

Department of Politics and Public Administration

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DECLARATION

I declare that this dissertation, entitled The Regulation of The Residential Property Market in Hong Kong : A Study of Government Strategies and Tools, represents on our own work, except where due acknowledgment is made, and that it has not been previously included in a thesis, dissertation or report submitted to this University or to any institution for a degree, diploma or other qualification.
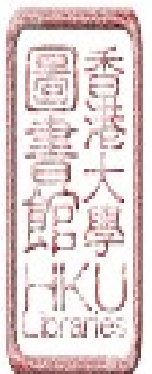
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We would also give our thanks to our fellow classmate Miss Leung Ho Yee, Hooly for her input during the preparatory meetings, the project forum and the summary in respect of the Singapore property market.
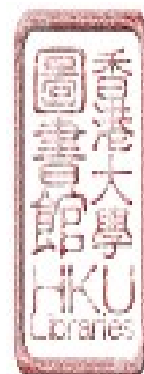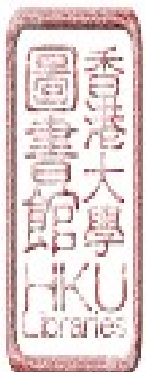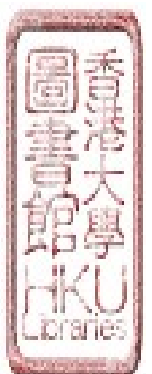
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ABSTRACT

The skyrocketing residential property price poses a multitude of social and economic problem to citizens of Hong Kong in recent years. The serious rise in the housing prices has sparked a sharp debate, in which the prospects for the residential property market, the speculation activities of mainland and local property buyers, the provision of affordable housing and the need for policy changes have come to the fore of public discussion. In the debate, the degree of government intervention to free property market and questions about the efficiency of the current policy tools take the central role.

There has been growing recognition that the draconian measures to limit property price rise as introduced by the Hong Kong government are still ineffective, and that this requires thinking more strategically about how to use policy tools effectively in support of regulatory processes that will lead to better outcomes. Thus, the tools approach is proposed to tackle the problem. In this paper, the perspectives of supply and demand that lead to the problem of the skyrocketed housing price in Hong Kong are the main subjects for discussion. Richard Elmore's four types of tools approach is used as the basis for analyzing and examining the effectiveness of the tools and strategies implemented by the government for regulating residential property market from the previous decades till the current stage across four governmental period of Hong Kong. Two main findings are found. Firstly, government tools focus on controlling the supply of residential property are more effective in regulating the residential property market. This is because the tools being used to control the demand of residential property could not effecti... manage public expectation on the future housing price and public confidence to the future tren... the property market, which in turn limited the effectiveness to control the demand in the long... Secondly, the tools used by the government under active interventionist governance and regul... governance are more effective to regulate the housing supply.
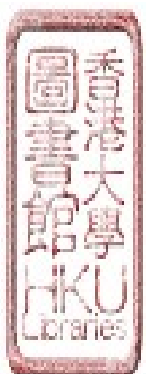
To tackle the problem of skyrocketed property prices, it is recommended that the government should unveil some measures to boost the housing supply, which include provision of subsidised housing with discounted purchase price to middle class, improve information asymmetry problem and enhance transaction transparency within second-hand properties market, encourage more urban renewal projects through joint venture partnerships with private developers, incorporate various conditions to the land sale agreement, and impose vacant land/property tax to check hoarding of land/properties.

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List of Abbreviations

AVD	Ad Valorem Stamp Duty
BSD	Buyer's Stamp Duty
CCL	Centa City Leading Index
CE	Chief Executive
CEPA	Close Economic Partnership Arrangement
CPF	Central Provident Fund
C&SD	Census and Statistics Department
DPA	Development Permission Area
FFS	Flats for Sale Scheme
GIC Site	Government, Institution or Community Site
GPD	Gross Domestic Product
HDB	Housing and Development Board
HKHA	Hong Kong Housing Authority
HKHS	Hong Kong Housing Society
HKSAR	Hong Kong Special Administrative Region
HOS	Home Ownership Scheme
HPLS	Home Purchase Loan Scheme
HSLS	Home Starter Loan Scheme
MTRC	Mass Transit Railway Corporation
KCRC	Kowloon-Canton Railway Corporation
OZP	Outline Zoning Plan
PRH	Public Rental Housing
PSPS	Private Sector Participation Scheme
RVD	Rating and Valuation Department
SCHS	Sandwich Class Housing Scheme
SSD	Special Stamp Duty
TPS	Tenant Purchase Scheme
URA	Urban Renewal Authority
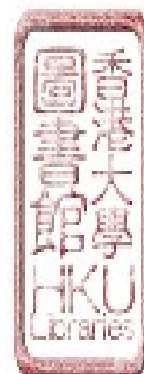
Chapter 1
INTRODUCTION

Focus, Objectives & Background of the Project
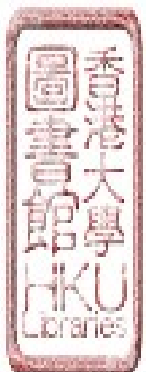
This project addresses the issues related to the residential property market of Hong Kong. The Hong Kong government adopts different strategies and policy tools in the view to regulate the residential property market in achieving an optimal price level that can balance the interests of different stakeholders in the society. The strategies and tools adopted by the government in different eras are addressed, and subsequently complemented with pertinent comparative insights on the regulatory policies of Singapore with similar housing needs and demographic structures which serve as possible learning points for Hong Kong.

While satisfying the housing needs of the society remains as a priority concern for the government, the objectives of the project are investigating the effectiveness of the government under different governance patterns in regulating the residential property market from the past till the latest stage based on the strategies and tools adopted by the government. Given that Hong Kong is far understood as having high population with limited land supply for provision of residential property, regulating the residential property market is always a concern for the Hong Kong government. With the changing demography and family structures, the demand of residential property keeps rising in past decades. The red-hot run of the residential property market is further boosted by the heated speculation activities, which raises the public concerns on government strategies and policy tools in regulating the residential property market.
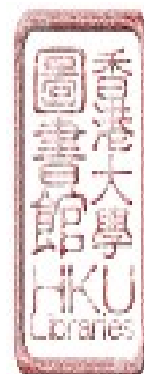
The residential property price has been kept rising rapidly since early 2009, the recovery from the Global Financial Crisis. In response to the rise, the Hong Kong government started to put the housing policy on the very top of its policy agenda, giving a set of policies in regulating the residential property. However, residential property prices of Hong Kong still kept rising sharply in recent years. Many members of the public may have a perception that private housing in Hong Kong is no more affordable to them.

Over the years, the Hong Kong government has been trying to prevent the overpricing of housing by enforcing different kinds of policies and strategies in controlling the property price. The skyrocketed residential property prices and the policy tools for regulating the residential property market are the main subjects for discussion. Under the economic framework of demand and supply model, property price is usually related to the amount of land supply and the demand driven by the psychological factors. The government therefore supports the perspective of regulating the demand and supply as the solution in resolving the problem in the residential property market. Policy tools based on the supply side, such as supplying more land and providing more government-subsidised flats, are commonly used to control the property prices. However, no significant efforts could be observed from the government in delivering policy tools in regulating the demand of the residential properties. The residential property prices keep rising and remain high, and there is no sign of slow down. This makes people query about whether the government under particular governance pattern is able to frame the problem in a correct perspective and so appropriate strategies and tools could be chosen to tackle the problem effectively. Throughout this project, the abovementioned issues of the Hong Kong government's regulations on the residen market will be discussed in details, while evaluations and recommendations will be given in the part.
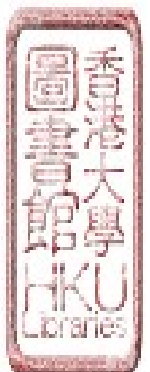
Research Questions and Propositions: Theory and Practice

The project addresses the following Research Questions:

1. What regulatory strategies and tools could a government adopt to oversee and control property and related markets?

2. What particular strategies and tools has the Hong Kong government adopted to oversee and control the residential property market in Hong Kong – and why?

3. What other strategies and tools could be adopted by the Hong Kong government to oversee and control the residential property market more appropriately and effectively?

Regarding the Research Question 1, four major types of governance and the generic tools approach that a government could adopt to regulate the property market will be investigated in Chapter 2. Regarding the Research Question 2, detail illustrations on how to define the problem of the residential property market in Hong Kong, what kind of governance and tools used by the government to regulate the residential property market, and their effectiveness will be presented in Chapter 3. In response to the Research Question 3, recommendations on which types of governance and the set of tools that the Hong Kong government could adopt, and what valuable experiences could be taken from Singapore will be stated in chapter 5.

Interventionist governance is sometime more effective than non-interventionist governance in policy making, particularly when there is failure in the market and the provision of policy relies heavily on the obligation of the government. Therefore, investigation on the strategies and tools applied under different governance ideologies and evaluation of appropriateness and effectiveness will also be conducted in this paper.

Overview of Analytical Framework

The analytical framework provides a practical tool to guide us in designing and conducting analyses of the tools for regulating residential property market of policy arenas. Policy analysis uses methods from economics and political science to understand how policy tools and strategies are adopted, and to understand the relationships between policy definition, policy implementation and its strategic outcomes.

There is no question that different governance patterns with its unique characteristics have direct effects on policies formulation, implementation and evaluation. Certain characteristics could explain the rationale of the government to select specific strategies and tools for regulating the activities in the society. Consequently, the policy strategies and tools approach helps to gain a better understanding of how policy tools are selected by the policy makers, and how they can best support processes that are likely to regulate economic and social problems.

Research Methodology

In order to answer the Research Questions, research study begins with a review of textbooks reference and wide range of literature and information pertaining to the research topic. These secondary data also cover different policy tools approaches and perspectives. To ensure a balanced evaluation, types of information from both internal and external sources are used. Internal sources comprise information from government agencies (e.g. press release, policy address), whereas external sources focus on media release, newspaper reports and clippings, as well as independent sources, including published articles by academics and researchers. Empir analysis have also been conducted which is based on statistical data and information released by government agencies in Hong Kong such as the Census and Statistic Department, the La
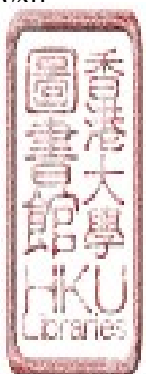
Department and the Rating and Valuation Department.   Lastly, the analyses and findings from the study of Hong Kong provides a better insight into the area of how the Hong Kong government is tackling the issue of skyrocketing residential property price.   The findings on measures adopted by Singapore to effectively balancing the residential property market, provides a valuable experience to Hong Kong, and some of which we believed has the potential to be adapted in Hong Kong.

Structure of the Project

This project contains 5 chapters, including this introductory chapter.   Chapter 2 provides an analytical framework for the study.   The analytical framework of the study is built on the basis of how the types of governance shape the selection of government strategies and tools and why government regulations on social and economic activities are needed.   The four classes of generic tools that are available for policymakers, are also depicted in this Chapter.   Chapter 3 analyses the characteristics of residential property market in Hong Kong in the policy contexts. The discussion focuses on the problem definition of the high residential property price problem in Hong Kong with two different perspectives, that is, investigating the problem from the perspective of the supply side and the demand side.   Chapter 4 assesses the government strategies and tools adopted in regulating the residential property market under various types of governance and in different eras.   Chapter 5 summarizes the study by bringing together the findings and observations from previous chapters, and offers recommendations that can further help to formulate appropriate policies for regulating residential property prices.   It includes material on relevant Singapore experience as a basis for possible learning and policy change in Hong Kong.   The findings of project serve as a diagnosis of strategies and tools adopted by the Hong Kong government in regulation of the residential property market, which gives an insight of the way to understand
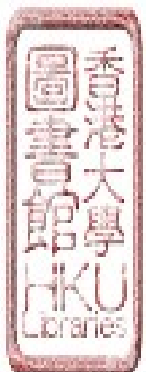
root of the problem and so to formulate appropriate policies in regulating the residential property

market in the future.
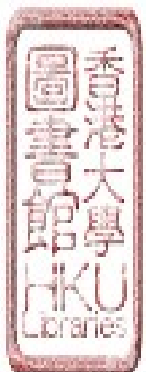
Chapter 2
ANALYTICAL FRAMEWORK

Introduction

In nowadays' complex and diverse societies, governments are often reconfigured to adapt to the changing environment through exercising a variety of soft and hard governance strategies and tools.   Also, they are often use resources such as money, rules and authority through complex hybrids of governance to influence individuals and institutions (Elmore 1987).   To address social, economic and political problems, policy strategies are commonly laid down by means of appropriate interventions by the responsible authorities in the various spheres of government.   The regulation of other agencies in delivering goods and services by the government is governance (Freiberg 2010, p.24).   Different level of government intervention contributes to various types of governance, namely the interventionist governance, regulated self governance, cooperative governance and private self governance.   Good governance is often linked to the ability of the government to identify the needs of the citizen before initiating the correct public policies.

This chapter establishes the analytical framework for the project.   The characteristics of the four ideal types of governance are discussed in the sense that the performance of the government is greatly influenced by the types of governance it adopts.   The types of governance shape the selection of policy strategies and tools for policy formulation in resolving social problems and regulating economic activities.   There are several reasons for a governmer have regulations on social and economic activities.   With a government needing to apply diffe regulatory measures in regulating the society, the strategies and tools adopted need to appropriate to the activities being regulated.

Types of Governance

The types of governance have direct effects on the direction of policy strategies and the selection of policy tools that the government adopts, thus it plays a pivotal role in shaping the policy process. To fully understand why there are discrepancies between policy objectives and policy outcomes, we need to examine the characteristics of the four ideal types of governance.

In the discussion of types of governance, it focuses on patterns of political steering, which refers to the institutionalised relationship between public and private actors aiming for resolving social problems by policy formulation. Knill and Lenschow (2003), identify four ideal types of governance (as illustrated in Table 2-1 below), basing on two analytical distinctions, that is, the degree of cooperation between public and private actors in the policy-making process, and the degree of obligation. A basic distinction is made between hierarchical and non-hierarchical modes, in which it is assessed through the degree of legal obligation that characterizes collective policy solutions (Knill & Tosun, 2012, p. 209).

Governance patterns vary heavily across policy sectors, it depends on the level of legal obligation present in political steering activities and also the degree of cooperation between public and private actors in policy making. Governance by public and private actors should be regarded as mutually reinforcing but not exclusive alternatives

Table 1: Four Ideal Types of Governance

		Cooperation of public and private actors	
		High	**Low**
Degree of legal obligation	**High**	Regulated self governance	Interventionist governance (governm
	Low	Cooperative governance	Private self governance

Source: Knill and Lehmkuhl (2002b:49) in Knill & Tosun, 2012
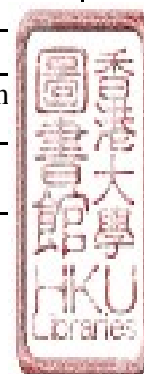
Interventionist Governance

Interventionist governance is the classical ideology of policy-making, namely the limited governance capacity of private actors in view of the underlying incentive structure, which can only be compensated for the external power, i.e. it requires the hierarchical intervention of the state (Knill & Tosun, 2012). Interventionist governance refers to hierarchy or government, who has the obligation of the hierarchical provision of public goods. However, it does not exclude the involvement of private actors, and it relies on market mechanisms through the hierarchical regulatory frameworks governing market interactions. The government and private actors are in hierarchical relationships, in which, the government adopts the top-down approach of command and control, giving highly detailed and legally binding requirements, that is, the clearly defined rules and regulations for the public and private actors concerned to comply with.

Regulated Self Governance

In regulated self-governance, the hierarchical arrangement still exists in between the government and private actors, where the government retains the authority of hierarchically defining the rules for private governance. In particular, hierarchical intervention is given through legally binding rules, in which it is accompanied by more cooperative relationships between public and private actors during the formulation and implementation of public policies (Knill & Tosun, 2012). The government plays a dominant role, being the authority of final decision on public policy contents and regulatory arrangements. It sets clear formalized and institutionalised procedures to guide the society members to participate in policy making. Moreover, there different arrangements of the relationship between public and private actors, including, pri actors participate in policy-making and implementation, competencies to be delegated to pri organizations, or regulatory frameworks for private self-governance to be cooperatively develop
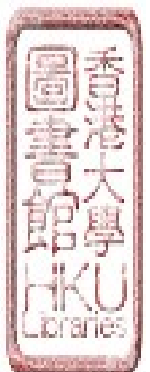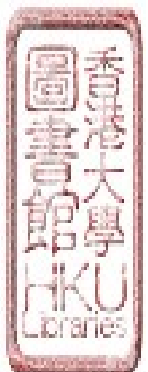
Cooperative Governance

For cooperative governance and private self-governance, they differ from the interventionist governance and regulated self-governance by two crucial factors, namely the voluntary character of policy-making and private actors, rather than the government, play a dominant role in policy formulation and implementation. In cooperative governance, public policy formulation and implementation relies on close cooperation between the government and the society. The definition and application of instruments are not empowered by legal binding requirements, but it occurs through negotiations and voluntary agreements between public and private actors. Policy decisions are not delivered in the top-down approach, which are not unilaterally made by the government. The rules for private governance are developed cooperatively by the joint efforts of the government and private actors. Both public and private actors are on equal standing, public policies are the result of bargaining between them. The hierarchical intervention through legally binding instruments of the government is replaced by voluntary agreements between public and private actors, aiming to achieve the ultimate goal of "joint policy-making" (Knill & Tosun, 2012).

Private Self-Governance

Private self-governance completely relies on the private actors as the dominant agent in defining and implementing public policies. There is low degree of cooperation of the government and private actors, and it is accomplished with low legal obligation exerting on the private activities. Governance is based on voluntary rather than legally binding instruments (K & Tosun, 2012). The provision of public goods basically depends on the governance capacit private actors. However, the government may still contributes to the provision of complemen

governance, that is, offering guidance to private actors in achieving societal self-governance. To the extreme types of private self-governance, the provision of regulation depends on the governance capacity of private actors without any intervention by policy actions.

Why Regulate?

The types of governance serve as the basis for government in formulating strategies and tools to regulate the activities in the society - with regulation being defined as "a set of authoritative rules accompanied by a mechanism, usually administered by a public agency, for monitoring and promoting compliance with those rules" (Johnstone and Sarre, 2004, p.4). Very often, government's efforts of guidance and regulations are needed to ensure the well-being of social and economic activities. Regarding the rationale of government regulations, there are various reasons for the government to exert regulations in the social activities, including the high possibility of market failure, the need for protection of public interest, and the need for a risk management strategy in maintaining the order of social and economic activities.

Regulating Market Failure

In a society with free market economy, the competitive market is based on economically motivated behaviour. Most participants in the market with purely self-interested behaviour, and if they only concern their economic self-interest, this will produce socially undesirable results to the society. The most common result is so-called "market failures". The problem of a market failure is where free markets fail to allocate resources efficiently or effectiv and the price mechanism that regulates supply and demand breaks down, forcing the governmer take action.

Market failure is therefore regarded as the motivating reason for the entry of government regulation (Peltzman, 1989).   Natural monopolies and externalities are the most prominent types of market failure.   Natural monopolies occur when the fixed cost of the capital goods is so high that it is not profitable for a second firm to enter and compete (Foldvary, 1999). They are typically public utilities such as water, electricity, and natural gas.   To prevent utilities from exploiting their monopolies with high prices that can be highly detrimental to the community at large, this is where governmental regulation becomes important.   Externalities occur when the prices in a market do not reflect the true marginal costs and/or marginal benefits associated with the goods and services traded in the market (Zilberman, 1999).   As competitive markets are inefficient when externalities are present, it requires governments to take policy action to correct, or internalize, externalities.

Market failure also can be through imperfect competitions (caused by too few suppliers in the market), market disequilibria (when supply is less than demand or vice versa in the market), missing markets (caused by hidden or asymmetric information, high transaction costs, under-produced of public goods) (den Hertog, 1989).   Government regulation is therefore response to public demands of government to rectify the situation of market failure or to correct economic inefficiency.

Regulation for the Public Interest and the Protection of the Public

The pursuit of self-interest of individuals in a world of finite resources often causes harm to others.   The citizens rely on governments to act on behalf of them for the welfare of society and in the "public interest" (Freiberg 2010, p.5).   Governments are generally created the notion of protecting the public from harm to health, wealth, safety, property or to
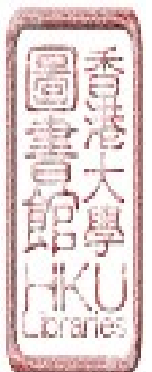
environment. Regulation results from the need to protect the public from the negative impacts of market failures and other harmful business behavior. From social perspective, regulatory interventions will be adopted for promoting public policies for the benefits of the society such as enhance education or protect the environment (Frieberg 2010).

Regulation for Risk Management

Regulation can be regarded as risk management of the government. Governments regulate when seeking to avoid any risk of possible harm or injuries to the social order of the society (Bounds 2010). Risk can be arising from "the full range of social, environmental, economic, technical, health and other threats, large and small" that are recognized by a society (Frieberg 2010, p.12). By using regulatory approaches, government can reduce the likelihood and magnitude of risk, and can also seek, ex ante, to manage unacceptable risks.

Government regulation is a powerful tool for regulating the market and achieving government's policy goals, but which certainly requires an effective usage by the government for achieving desirable outcomes. This will be further discussed and examined in the later chapters.

Strategies and Tools of Regulation

Types of Strategies and Tools: An Overview

There are many approaches in the public policy literatures in analyzing and understanding the tools used by governments. Related to governmental regulatory policies in particular, there is a growing literature referring to "the tools approach". Among others, there three main conventional approaches to the tools of government. The first approach is to conce of tools as institutions (Hood 2006), and focuses on a hybrid institutional arrangements
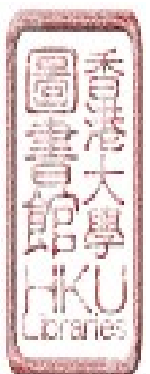
governance such as various public-private partnerships. This is based on the notion that the government can accomplish public work through indirect and collaborative arrangements with different kinds of institutions such as public corporation, non-profit organisation or private sector contractors. The leading exponent of this approach is Salamon. As defined by Salamon (Salamon 2002:19), "tools" of government is "an identifiable method through which collective action is structured to address a public problem". The second set of approaches emphasizing the link between the political interests and ideas and the choice of policy tools. It focuses on the politics of policy tools selection (Hood 2006). The third one is an institution-free approach, which focuses on studying the policy tools in a more general perspective. The well-known approaches of this type include McDonnell and Elmore's (1987) four generic classes of tools approach which focus on the strategy of intervention that government uses, Vedung's categorization of policy tools into "carrots, sticks and sermons" and Hood's four generic and systemic types of tools "Nodality, Authority, Treasure and Organisation" that are used by the government for gathering information and to influence on society.

However, the approaches referring to "institution" or "political or ideological ideas", without much taking considerations about the individual actions that influence to the choice of policy tools, in our view, having some analytically shortcomings. Richard Elmore is among scholars, pointed out the notion about "backward mapping" (Elmore 1980). He argues that individual and organisation choices are the hub of the problem to which the policy is addressed. The design of rules, procedures and structures that have the closest proximity to those choices, and have the policy instruments available to affect those things could make the policy object feasible (Elmore, 1981, p.1; 1980). Hill (2009) also commended that policy tools could en: individual actions to be seen as response to problems or issues in the form of choices betw
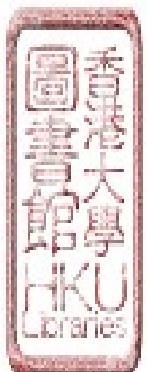
alternatives. This tools approach (known as "bottom-up" approach) focuses on tools available for institutions to apply, and the interactions between actors and agencies, which providing a method of identifying more clearly who seems to be influencing what, how and why (Barrett and Hill , 1981,p.19).

Various "tools" combined together can form policy strategy, and it is generally taken in three different mode - descriptive (responses to recurrent problems), predictive (predictions of expected effects) and normative (prescriptions about how to proceed given a problem and set of objectives).   As observed by Elmore, the solutions to a policy problem usually take predictable forms, across policy areas, with policy tools are usually clumped together to achieve the objective (Elmore 1987).   Successful strategies should have some tools playing the "leading" role and some in a "following" role.   This observation specifies the relationship among the policy problems, the design features of a policy and the choice of tools.

Furthermore, the analysis of tools from McDonnell & Elmore (1987) has built on a conceptual framework which centered on a mechanism that has categorized policy tools into several groups of "implements" (Elmore 1987).   That means, it has also translated substantive policy goals into concrete actions.   Elmore has categorized policy tools into four generic classes - "Mandate, Inducement, System-changing, Capacity-building".   The constituent elements within these tools such as regulations, rights, grants and loans, are used for achieving the policy objective. These categories of "tools" are constructed from existing theories about the effects of governmental action and observed patterns in the choice of policymakers.   For example, Mandate draw theories of regulation and Inducement draws on theories of public finance that deal intergovernmental transfers; System-changing and Capacity-building are based on obser
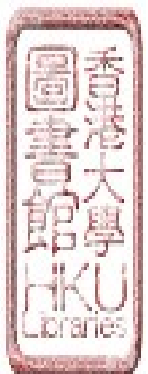
patterns of policymaking.   This tool approach therefore is more representative of what happens in the real world.   The four classes of tools is a generic typology, which apparently valid for analyses of all kinds of government policies in relation to all kinds of purposes.   It is a valuable mean for highlighting the array of tools and strategies available to governments nowadays.   No wonder one author has suggested that a fruitful way to maneuver the field of policy implementation research is to concentrate on the generic tools of government action, on the "techniques" of social intervention that come to be used, in varying combinations, in particular public programs (Salamon, 1981, p.256).   By analyzing how each tool characteristically works, it can help to explain why policymakers choose different tools, how these tools operate in the policy arena, how they differ from one and other in their expected effects, and the likely consequence of their use.   It helps to specify the links among the problem definition, instrument choice, implementation patterns and ultimate effects.   Our aim here is also to focus on the "fit" between problems, policy objectives and the options of policy tools.

The framework laying the ground for our analysis is therefore the four classes of tools outlined by Elmore (2005) : " Mandate, Inducement, System-changing, Capacity-building". They are regarded both as regulatory tools to regulate behaviour and to influence on society.   The use of these tools and their associated implementation problems shall be discussed in a subsequent section.

Elmore's Classification

(a) Mandates.   The use of regulation by the government as a tool to reach economic and so policy objectives has increased dramatically over the last decades.   This property of being in centre gives rise to Mandate.   Mandates are rules governing individual or agencies' behaviour
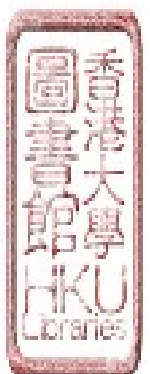
intended to produce exact compliance as an outcome. Minimum standard is often set for compliance. Some common examples are speed limit, occupational and safety regulation, property tax, etc. As suggested by Black (Black 2002:1), r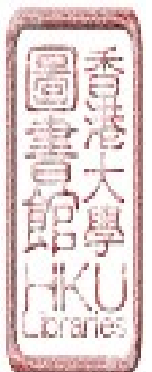egulation is a sustained and focused attempt to alter behaviour according to defined standards or purposes with the intention of producing a broadly defined outcome or outcomes. It gives government the authoritative power to force societal actors and to determine in a legal sense. Unlike inducement, mandates entail no transfer of money to comply. However, it imposes costs to the enforcing agencies. Compliance costs as a consequence of behaving consistently and avoidance costs as a result of circumventing mandates would involve and bound by individuals and agencies (Elmore 1987). Mandates use coercion to affect or change behaviour, with the assumption that the required action would be expected to do by all individuals and agencies regardless of their differing capacity, and whom would create uniformity of behaviour. Because of the characteristic of "coercion", it leads to the problem of mandate which is the required action or behaviour prescribed by policy must be good in its own right. Also, adversarial relations between initiators are unavoidable. Mandates are usually used in a wide range of forms such as direct regulation (e.g. command and control), hard regulation (e.g. Acts and Bills), soft regulation (e.g. government guidelines) and self-regulation (e.g. organizational rules) (Freiberg, 2010, p.26). The benefit of mandates accrues primarily to disadvantaged individuals, groups and broader communities of groups.

(b) Inducements. While government regulators generally considered regulation is primary rule-based (i.e. rule endorsed by the government where there is an expectation of compliance), non-rule based measures or tools which Parker and Braithwaite (2003) have identified as compris[...] economic incentives, education and information, are also available to government. Inducemen[...] related to different economic tools most governments have for conditional transfer of mone[...]

return of short-term performance or something of value. It gives government the ability to exchange of goods and services, and to buy certain actions and behaviours. Inducement can be seen as a form of procurement, with assumption that the transfer of money is one way to elicits performance. Therefore, valued good would not be produced if there is no additional money as conditional compensation. As individual and agencies' capacity to produce things of value vary, how much variations policymakers are willing to tolerate in the production of things will directly affect the implementation of inducements. Given money is conditional granted, inducement are frequently accompanied by rules or regulations to ensure money is used in line with policymakers' intent. This would entail costs such as oversight cost to mitigate the effect of undesirable condition on the transfer of money. Implementing agencies would receive benefits of inducement by increasing budget and authority, whereas individual would also benefit through the value produced by the implementing agency. Such tools of government encompass economic regulation, grant-in-aid, waiver of government rates, etc.

(c) Capacity-building. Capacity building is the transfer of money (or resources) to individual or agencies for the purpose of investment of various kinds in future benefits. It involves investment in material, intellectual or human capital, and therefore future return is often uncertain, immeasurable and intangible. For example, government's investment on education, science or medical research development could be categorized under capacity building. Thus, there are costs in making the investment and to the society. Sometimes, capacity building produces intermediate products or services, for example, government's investment in human resources which produced future capacity to carry out research development. The benefit of capacity-building accrue in short term are those recipient of investment, but the future beneficiaries are the future member the society. Unlike mandate and inducement which produce tangible and proximate effe
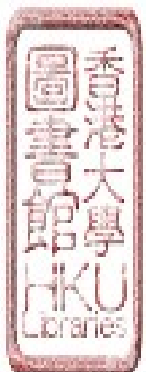
capacity building mobilizes resources for future purpose which has distant and ambiguous effects. These intangible and uncertain results create a major problem to the policy makers because the willingness of society to invest in immeasurable benefits may affect its future ability to response to mandates and inducements. Having said that, capacity building measures would still apply if policy makers considered that future benefits will not be realized to the society if there is no immediate investment, and those long-term benefits are worth having their own right or are tools to other policies.
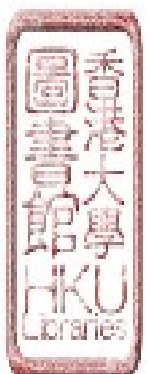
(d) System-changing. System-changing is the transfer of authority among individuals and agencies in order to alter the system by which public goods and services are delivered (Elmore 1987:134). It is assumed that altering the distribution of authority among agencies by broadening or narrowing the system will lead to a change in the institutional structure by which public goods and services are delivered, and a change in the incentives which determine the nature of what is produced or the efficiency with which it is produced, say, for example, a change in policy that shifts the provision of a public service from public monopoly to public-private market. System changing policies are imposed because existing institutions working under existing incentives cannot produce desired results that policymaker wants. Therefore, it is based on the expectation that transferring authority will increase efficiency. It is possible that the change in the distribution of authority bring a change in the distribution of public funds to providers or consumers of public goods and services, and in this sense they may resemble inducements. Also, when there is a change in policy towards provision of service, it is in fact in "mandatory" to transfer of official authority among individuals or agencies. Thus, system changing may be accompanied by chan in mandates and inducements that are designed to enhance their effects. System changing can when there is lack of capacity in the institutions to which the authority is transferred.
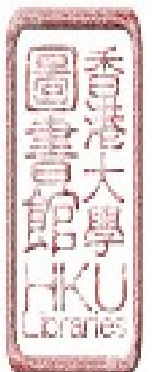
Concluding Comments

The analytical framework focuses on Elmore's four generic classes of policy tools in the context of various types of governance. It recognizes that policy tools are often the determinants of policy implementation outcomes and ultimate policy effects. But what are the factors in shaping policy makers' choice of tools? In hypothesizing the role of problem definition in shaping policy makers' choice of tools, it is assumed that it is not a single factor. Other political and organisational factors may also enter into policymakers' calculation in the course of matching public problem and policy tools.

In the following chapters, the analytical framework is used to structure and inform an assessment of policies in regulating the residential property market. A diverse set of policies will be assessed. By assessing how the policy tools operate and the associated implementation outcomes, what factors that shape policymakers' choices among policy tools, under what conditions are different policy tools most likely to produce their intended effects, what makes the fit between public problem and policy and what are the basic conditions for successful implementation will be discovered.
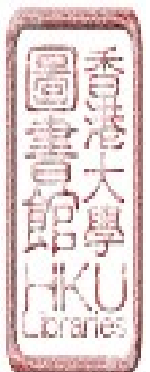
Chapter 3
CHARACTERISTICS OF THE RESIDENTIAL PROPERTY MARKET IN HONG KONG: POLICY CONTEXTS

Introduction

Subsequent to the theories on different types of governance by Knill and Lehmkuhl and policy tools by Elmore mentioned in the last chapter, this chapter investigates the governance and the corresponding policy tools adopted by the Hong Kong government regarding the Hong Kong residential property market. It is considered that residential property market is greatly the matter of supply and demand. In general, supply and demand is an economic model on price determination in a market. There are four fundamental laws on the interrelationship between demand and supply. Firstly, while demand remains unchanged, the increase in supply would result in surplus in the market and thus lowers the equilibrium price. Further, decrease in supply would result in shortage in the market which leads to a higher equilibrium price. On the other hand, while supply remains unchanged, the increase in demand would result in shortage in the market which raised the equilibrium price. Lastly, decrease in demand results in surplus and leads to a lower equilibrium price (Besanko & Braeutigam, 2005). However, the abovementioned concepts are topics of microeconomics and thus further details are not discussed here.

The price of the private residential properties is also driven by supply and demand. In general speaking, housing demand is difficult to be estimated. It is controlled by "the amount of money" plus "confidence on the future trend" of the potential purchaser. The confidence of purchasers is also difficult to estimate.

Against housing demand, the supply is easier to estimate. It can be estimated by means of land supply, amount of newly built flat, amount of vacant flat in th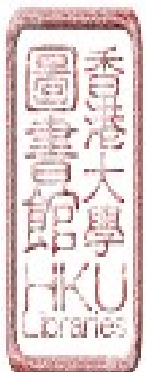e market as well as the amount of flats provided under various government policies. It is considered the tools are used to regulate the supply and demand of the residential property. The tools could have different effect on the property price. Some may boost the price while the other will lower the price. Some are directly affecting the price while the others may affect it indirectly.

The policy tools are used to regulate the supply and demand of private residential properties price efficiently and effectively. The residential properties have three main types, private, government-subsidised (e.g flats under the Home Ownership Scheme in Hong Kong (HOS flats)) and public housing. While the focus is on private residential property, the supply and demand of the other two types of housing would affect the demand of the private residential property as well. In terms of housing, income, price of housing, buyers' preferences, developers' preferences, cost and availability of credits, mortgage rates and macroeconomic conditions are the main components of housing demand which the demographic factor takes the leading role among the other components. Housing need can be estimated very briefly in crude terms (Balchin, 1989). The demand of housing was briefly calculated by the total number of dwelling available (less those unfit for living and undergoing construction works) subtracting the number of households.

Population size, birth rates and marriage rates are the core variables in demography. It is common sense that the more people in the community generates the greater housing demand. However, to be more precise, household is the unit we are going to analyse in terms of housing demand, which is affected by marriage rates, divorce rates, income, number of immigration emigration, family size and age composition of a family, etc.

Governance and Policy Tools

In this context, it will analyse the different types of governance by Knill and Lehmkuhl and the tools used in each type of governance. In each type of governance, it involved the different level of cooperation from different actors and different level of obligation from the actors. It will then analyse how different governance will affect different policy tools to be used and the corresponding outcomes.

Policy tools applied under different types of governance and perspective

a) Interventionist Governance

Under the classification by Knill and Lenschow, interventionist governance is of high degree of legal obligation but of low level of cooperation between public and private actors. This type of top-down approach adopted by the government usually fits with the policy tools of mandates under the classification by Elmore. An example of policy tool in housing is the introduction of Land/Property Vacant Tax. Land Vacant Tax is applied to a condition of land sale when a piece of land is left undeveloped by a private developer for a certain period of time after land sale. In order to avoid from being levied from the tax, private developers would start their construction on the flats before the deadline made in the land sales agreement. This tool is used with an aim to ensure that the land supply provided by the government would be turned into housing supplies more effectively within the government's schedule. In similar concept, Property Vacant Tax would be levied on the private developers if a flat is not opened for sale for a certain period of time after its completion. This is also an effective way to increase the supply of flat it ensures the new flats completed can be provided into the market right after its completion but being controlled by the private developers.
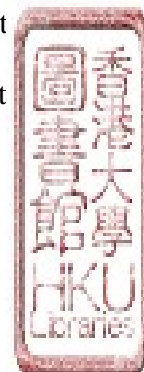
b) Regulated Self Governance

Provision of government-subsidised housing is a way of providing housing supply under the regulated self governance as a strict inducement tool. Governments do this by providing a new piece of land and invite private actors to join for the development and/or construction works. In this way of public-private partnership, the ownership of the flats after the constructions belongs to the government while the private companies act as a vendor in such projects. As such, the government is able to turn the new flats into a supply to the market as public rental housing or private residential property with a government-subsidised price to those citizens who are eligible under certain schemes.

c) Cooperative Governance

As a statutory body, the Urban Renewal Authority (URA) of Hong Kong takes the charge in organizing and managing redevelopment in the city in order to address the urban decay problem and to provide a better living and neighbourhood for Hong Kong. This can be classified as cooperative governance as it is the URA to take the lead in kicking off any redevelopment project. It needs massive, high degree of cooperation between the URA, each and every property owners being affected in the redevelopment areas and the private developers. URA has to negotiate with the property owners in purchasing their properties with agreed compensations. However, the degree of legal obligation is low as there is no legal binding between URA and the property owners on the vacancy of properties. Therefore challenges are often met with URA when they failed to make an agreement with some particular property owners. But once the purchase of properties is completed in the redevelopment area, the project can then run on the same track with the government-subsidised housing for the corresponding development and construction work. In the same token, an effective supply of new flats can be ensured after their completion.
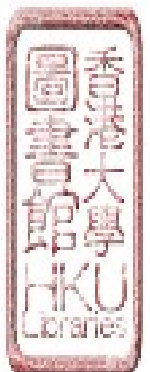
d) Private Self-Governance

In July 2013, Mr. Lee Shau-kee, the owner of Henderson Land Development, suggested to donate a piece of land in Yuen Long under his name to the government in order to build some small-sized flats for the young people in Hong Kong. However, the government did not accept Mr. Lee's proposal and consider that the Hong Kong Housing Society (HKHS) should be the most appropriate body to make use of the concerned land to build flats. The way in which the government handled this incident happened to be an example of private self-governance. Mr. Lee was totally voluntary to initiate the donation of the concerned land which supply of flats would be increased by inducement. The degree of cooperation between public and private actors is very low as the government rejected the donation of land at all. The degree of legal obligation is also low as there is nothing to bind such voluntary donation of land and the mode of cooperation between Henderson Land Development and HKHS if it is going to be realized in the near future, except that Mr. Lee has agreed to conduct relevant premium assessment on the land where the use of land would be altered.

Defining the problem in correct perspective under different type of governance

Different perspectives of the residential property problem in Hong Kong should be analysed in order to establish a better understanding on the problem. It is assumed the high property price problem could be caused by the following perspectives: (1) The problem of inadequate supply (Too much or too low); and (2) The problem inadequate demand (Too high or low).
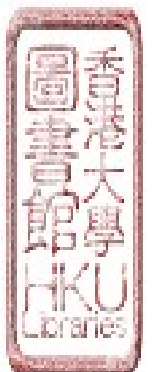
Problems could be defined in a number of ways which will lead to different solutions. The common problem definition is the substantial discrepancy between "what is" and "what should be" (Kilmann & Mitroff 1979, p27). The problem could be defined in different perspectives. How different problems were defined not only addresses the problem situation quite differently, but does so with entirely different solution alternatives (Dery 1984). Therefore, how one defines the high property price problem with different perspectives will provide entirely different solutions to the situation.

Implicit in facing a problem is the lack of ready response (Dery 1984). If a problem is a stimulus for which an organism does not have a ready response, one would define a problem by defining that stimulus situation (Davis 1973). A more common definition of a problem is that it is a discrepancy between "what is" and "what ought to be" (Kilmann and Mitroff, 1979). Problems in these views are gaps between the current situations with the optimum condition. To define the problem is to sketch the difference between where we are with the goal that we should be. This view based on the assumption that goals exist prior to the problem analysis. This view skipped the important step of problem definition as it ignored the problem by direct goal formulation. Undesirable conditions, or discrepancies between "what is" and "what ought to be", are not in themselves problems. They become problems only if they are accompanied by a correlating process that erases the difference. This kind of definition may over simplify the solution without consider the cost and side-effect of the solution. Therefore, it need to add requirement to reduce the cost and side-effect of the solution. If adding the requirement that solutions entail overall improvement over a previous situation, it must be admitted that some problems are not worth solving.

It has been suggested that problems are not objective entities in their own right, but rather a analytic constructs within one's mind. A problem is not the same to all interested parties, nor is it necessarily the same to disinterested parties, or even to the same researcher (Dery, 1984). Any given set of conditions that is somehow judged or labeled as being undesirable is not, in itself, a problem. Any such set of conditions may, in other words, contain more than one problem, or no problem whatsoever, depending on one's ability to see a way or ways out. If problems are thought of as opportunities for improvement, then the process of problem definition will be one of search, creation, and initial examination of ideas for solution.

In the context of the residential property, the high property price may not be the problem of those property owners and developers. While the depression of residential property market would not be the problem for the buyers but it is definitely a problem for the developer and the flat owner who became negative equity.

In each perspective, there will be corresponding alternative solutions. Some solutions may be effective in both perspectives while some of them only effective in one perspective. In order to solve the right problem, we need to analyse which perspective we should focus. We will also briefly list out which tools have been used by the Hong Kong government in different governance in respect of each perspective.

If the alternative solutions of the selected perspective did not solve the problem, we may think of whether we have correctly identified the cause of the problem in that perspective and we may consider changing the strategy with the solutions from other perspective. In addition, argue that even the Hong Kong government had focused on the correct perspective, if the type governance did not fit. It may affect the effectiveness of the policy outcome.
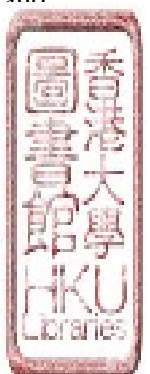
The residential property market is one of the least perfect markets due to the heterogeneity and immobility of its products and high costs in transaction. Owing to these characteristics, government intervention seems indispensable not only to make market operations efficient, but also to achieve other non-economic goals. Since it is closely linked with the general economy, the property market is heavily influenced by fluctuations in economic development (Zhu Jieming, 1997).

The problem and the standard

It is argued that the problem in the residential property market is that the property price changes has deviated from the fundamental factors like GDP growth, inflation rate, salary increase, employment rates and construction cost. From the problem definition mentioned above, the situation of "what ought to be" should be the property price run coherently with the economic growth. When price has been deviated from the economic growth substantially, it became the situation of "what is" and we need to adopt tools to restore to the status of "what ought to be".

In our following analysis, it will use the price index from the Rating and Valuation Department and the Centa City Leading Index (CCL) from Centadata website to reflect the relative price of the residential property market. For the economic growth, we will use the per capita GDP as our fundamental factor to compare with the price of the Hong Kong residential property market.

From Figure 1, the per capita GDP from 1996 to 2003 remained at around HK$200,000. However, during the same period, the CCL fluctuated from 60 to 100 in 1996 to 1997 and then from 10 less than 40 from 1997 to 2003. It is definitely a problem to the citizen and government in period.

Figure 1: Per capita GDP and the CCL from 1996 to 2012
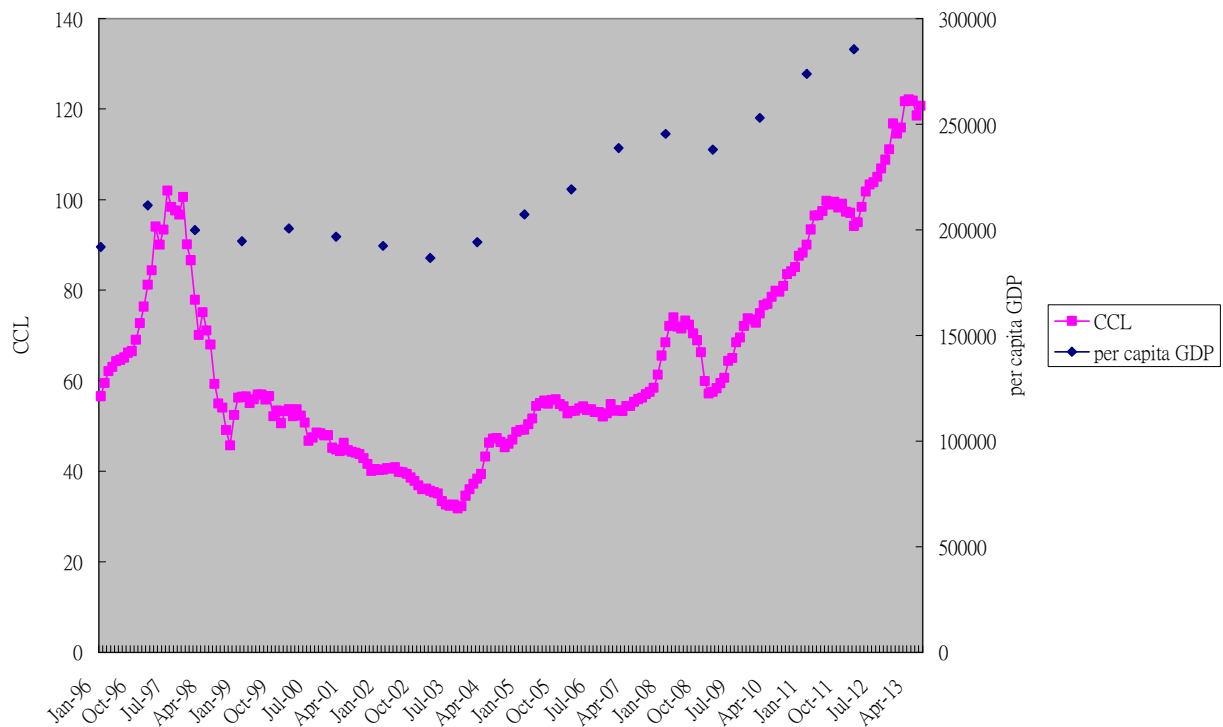
Two Perspectives on the Hong Kong Residential Property Market: Supply and Demand

It has been discussed earlier that problem could be view from different perspectives. If the solutions and the alternative solutions used in one perspective were found not effective, the government may have defined a problem in a wrong perspective and it may considered to use the solutions in another perspective.   In the residential property market, there are two perspective define the problem namely "Supply" and Demand".   The tools used in each perspective may different.   Some tools are only effective in one perspective while some tools could be used in b perspectives.

Supply in the residential property market

Hong Kong, as well know to be the most densely populated city among the world, consisted of a population of over 7 million in a size of only 1,104 km^2.   Moreover, more than 80% of the Hong Kong territories are mountainous areas which made the land supply for residence to be even more limited.   In addition, all lands in Hong Kong are leased or otherwise held by the Hong Kong government.   The land "sold" to private developers at a premium are subject to pay an annual rent to the government and renewal after a certain period of time.   Moreover, the prices of the Hong Kong private residential properties are very volatile and depend on the macroeconomic situations in a certain extent.

Private residential property is private good, which is rivalrous and excludable, with limited supply and dispersed pricings.   Public housing is a kind of affordable rental housing provided by the government for low-income residents.   Unlike private housing, public housing is a toll good, which is characterised by non-rivalrous consumption but excludability.   That is, the consumption of an individual to public housing will not diminished the opportunity of other individual to consume the good.   Nonetheless, use of the public housing can be limited by the pre-set income and assets criteria.   Although housing is a basic need as well as a consumption, buying private residential property is not a necessity and is not for everyone.   Owing to different circumstances, some people may make a choice in renting it.   The main financial reason prospective for buyers to jump into the market is their desire to build equity.   Buyers may also buy it for pursuing stability and social status, while others may have purchased the property with intention of earning a return as a form of investment, either through tenancies or the future resal the property.   To determine whether the high residential property price is a real problem wl

makes the current Hong Kong government attempted to intervene or regulate in the public interest, we must look into the factual evidence.

In crude terms, the total number of household in Hong Kong on March 2012 was 2,367,000. On the other hand, at the end of 2012, the total stock of private residential property was 1,400,000 units excluding village houses, quarters by government bodies, hostels and hotels according to the Hong Kong Property Review 2013 (Rating and Valuation Department). Therefore, together with the approximate 760,600 units of public rental housing (PRH) flats and 465,100 units of government-subsidised flats (including flats provided under the Home Ownership Scheme (HOS), the Private Sector Participation Scheme (PSPS) and the Tenant Purchase Scheme (TPS) as mentioned in the Hong Kong Fact Sheet (2012), the estimated total number of dwellings at the end of March 2012 was 2,625,700. Excluding the approximate 4.3% of private residential property vacancy, the total number of occupied dwellings at the end of March 2012 should be 2,565,500, which meant that there was a surplus of 198,500 units or 11.9% of the total number of households.

But why the society still roars in the "imbalanced" residential property market as there was an apparently more than 10% of surplus in the market? The estimation on housing needs in crude term can only provide a very preliminary situation of the housing market but the statistics were static at a single point in the timeframe. In order to investigate more deeply into the housing market situations, lens of studies in different angles should be used.

A study concerning the land supply restrictions, developers' strategies and hou: policies conducted by Lai and Wang (1999) is took as reference. Their study investigated whe the perceived shortage in land supply by the government led to the perceived shortage in hou:
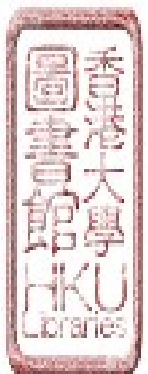
supply in Hong Kong.   They also linked the government's land supply decisions with the private

developers' land bank and housing supply strategies.   Sample data for the period between 1973

and 1997 were taken for analysis and they concluded that more land supply provided by the

government may not lead to more supply in private residential properties.   According to their

studies, this was because the housing market in Hong Kong was basically dominated by a few

private developers and developers would link with their business decisions on the control of their

land banks for profit maximization but not necessarily to build houses immediately after they have

bought new lands.

This phenomenon was further supported by another study in relating the impact of

supply of government-subsidised flats on the private housing prices in Hong Kong (Hui and Wong,

2007).   Sample data for the period between 1978 and 2003 were used in order to embrace the first

Home Ownership Scheme (HOS) flat completed in 1978 until the cessation of HOS scheme during

the economic downturn in 2003.   This study concluded that the relationship between the supply of

HOS flats and the prices of the private residential properties was weak in general.   No clue was

found on the production of government-subsidised flats would determine the private housing prices

but the fundamental factors like the stock level of the private residential properties, transaction

volume, household income, unemployment rate, etc were found to be the important factors in

affecting the housing prices instead.   This study thus led to an end that should the government

provide such kind of subsidised flats in a more strategic approach in order to improve the efficiency

in the allocation of public resources.

It will further study the inter-relationships between the private residential prop

market with the overall economic conditions, government's action towards the market under
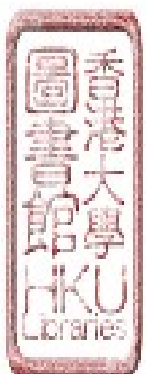
supply perspective (e.g. land sales) and the response by the developers (e.g. completion and sales of first hand flats) by analyzing the figures along the years. It will take into account the data from 1987 to 2012 since the price index provided by the Rating and Valuation Department could only include the relevant figures of the properties in the New Territories starting from the year 1987 (and figures of first-hand flat sales available since 2002), in addition to the figures of properties in Hong Kong and Kowloon areas. On the other hand, the figures on first-hand flat sales are only available since the year 2002 from the Rating and Valuation Department. In the following, all the graphs are observed in trends instead of direct comparison as the scales of the parameters are different.

Figure 2: A comparison between land sales by the government and the completion of new flats
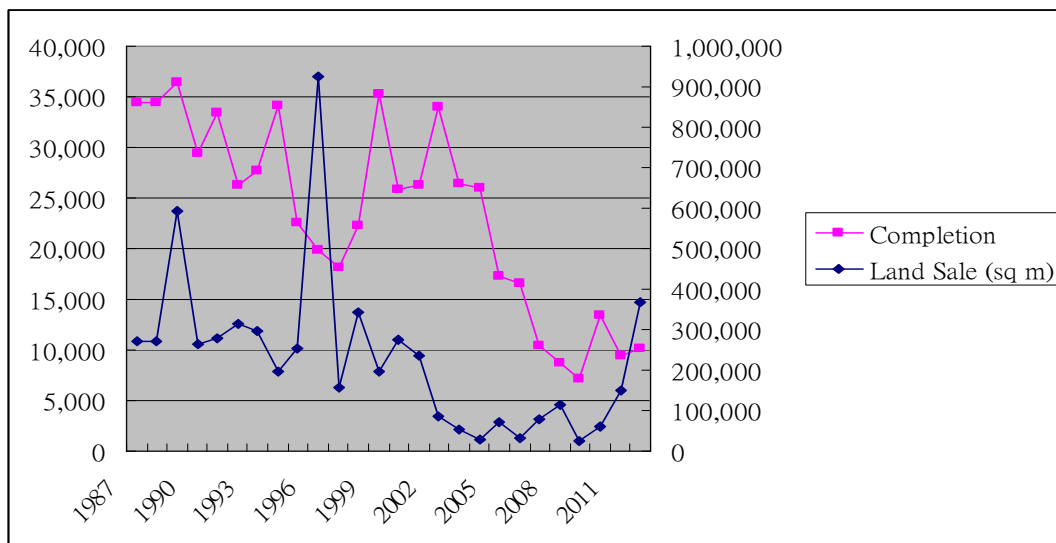
Source: Rating and Valuation Department, http://www.rvd.gov.hk/en/property_market_statistics/completion.html and Lands Department, http://www.landsd.gov.hk/en/landsale/records_archive.htm

No significant finding could be drawn from the relationship between the land s[ale] and the number of flats completed. It merely matched with the principle of 2 or 3-y[ear] construction time lag before the millennium but the number of completion was dropping in spit[e]

the land sales by the government.   It means that the developers did not necessary use the new land obtained to build new flats.   Instead, the developers tended to keep whatever the land they obtained in their land bank for strategic developments in order to maximize their benefits.   As such, we can see that the supply in new land by the government since the 2000s was not able to contribute to increase in supply of flats and thus help regulating the house price.

Figure 3: A comparison between land sales by the government and price index

A certain relationship between the land sales by the government and the price of private residential properties could be found in Figure 3.   It is obvious that there was a peak in land supply in year 1997.   By adding the approximately 2 year time lag of construction, the ever climbing price index started to go into a diving trend from the peak at 1997 to the bottom of valley in 2004.   The suppressed land supply by the government from 2003 to 2011 then starte accumulate the power of an exponential explosion of price index from 2009 as the basic hou

demand was not satisfied through the years (catalyzed by the recovery after the global financial crisis of course).   In addition to the last paragraph, the house price was keep rising since 2005 and further rocketed to a historical peak in 2013 despite the increased land supply since 2011.   The house price is observed to be derailed with the land supply by the government in the current situation.

Figure 4: A comparison between the completion of new flats and the Hangseng Index
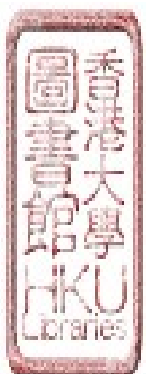
Figure 5:   A comparison between the number of first-hand flat sale and Hangseng Index
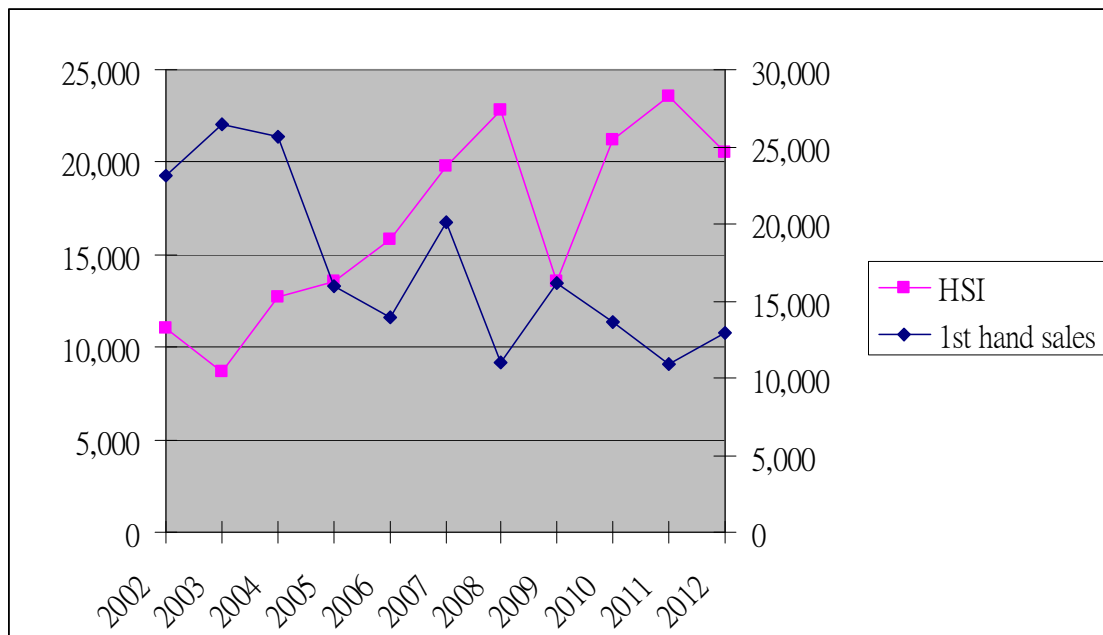
In Figure 4 and Figure 5 above, we can see that the observations by Lai and Wang (1999) mentioned in previous paragraphs was quite true until 2004, which the completion of flats and the number of sales on first hand flats were bonded with the economic condition, with the Hang Seng Index as one of the indicators, at a certain extent.   It represented the trend that the amount of supply on new flats by the developers was related with the economic conditions.   The result indicated that the supply decisions of the developers were based on the economic decisions.   But starting from 2004, the trend changed as there was no significant relationship observed between the number of flat completions as well as the sales on first hand flats with the Hang Seng Index.

Such change is believed to be a probable result on the launch of the "Capital Investment Entrant Scheme" in October 2003.   In brief, this scheme allows foreign nationals to stay in Hong Kong and to further obtain the right of abode in Hong Kong if the entrant continuously invests a required amount of capital for a period of 7 years by satisfying certain criteria (Immigration Department). This scheme attracted many investors from the Mainland to invest in Hong Kong where residential properties are one of their major choices of investment.   This made a great impact on the residential property market of Hong Kong as it largely expanded the demand while this phenomenon turned the market into speculations.

In light of this, the developers started to amend their strategies on selling new residential properties by exploring such new market from foreign investors, with those from the Mainland as the majority.   Less attention was paid on the local economic situations by the developers and less consideration was also taken by the developers on the affordability of the local buyers.   The developers also suppressed the supply of new flats and therefore they could rise the price of the flats they were going to sale.   This explained the trend in previous figures that the number of first hand sales and the number of completion of new flats were not quite related with the economic conditions while the price index kept rocketing upward since 2004.
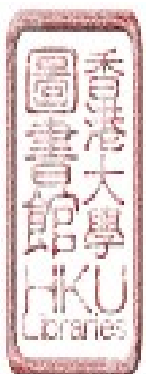
Figure 6: A comparison between land sales by the government and the number of first-hand flat sale
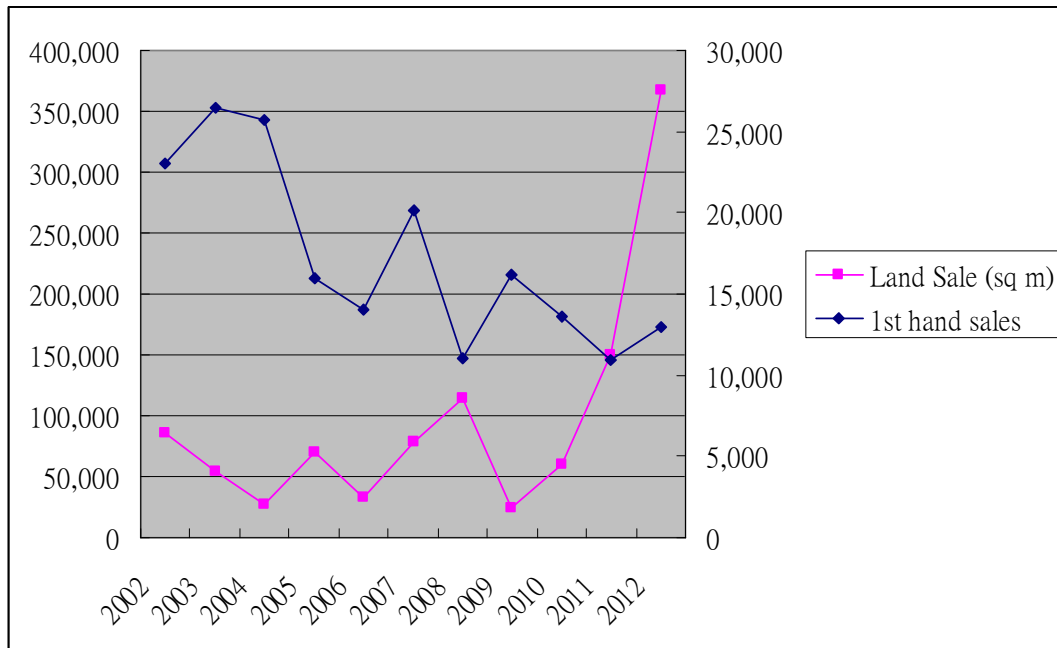
It concludes that the developers reacted with the economic situations and relevant policies instead of the land supply from the government, which kept at a relatively stable rate in general and reinforced the observations from Figure 2 and Figure 5.

The current residential property price is considered to be out of control.   The Hong Kong citizens in general are not able to see the future cost of buying the property.   They may not be able to realize the future change in the interest rate and the global economic trend which will affect the property price in a long run.   This failure to anticipate the actual cost of the purchase is a market failure whereas the government should intervene to let the market realize the actual cost of the transaction.
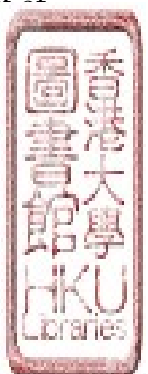
Demand in the residential property market

There are two major factors which will affect the demand of the residential property market namely fundamental factor and psychological factor.

Fundamental factor

The fundamental factors which will affect demand of residential property market include the birth rate, death rate, marriage rate, population growth, employment rate, inflation rate etc, which will affect the demand of the residential property market.   The changes of these factors would have a mixed effect to the total demand of the residential property market in general. However, there is no direct correlation between those fundamental factors to the price of the residential property market.   We try to argue that the demand of the residential property market is mainly driven by the psychological factors which affect the choice of the individual and in turn affect another individual due to the former's choice.   The ensuing paragraph will discuss on the psychological factor which is considered to be the major force to influence the demand of the residential property market.

Psychological factors

The public, the government and the developer often discuss and comment whether the residential property market is in a bubble.   The term "bubble" is widely used but rarely clearly defined.   Bubble refers to a situation in which excessive public expectations of future price increases cause prices to be temporarily elevated.   During the housing price bubbles, homebuyers think that a home that they would normally consider too expensive for them is now an accept purchase because they will be compensated by significant further price increases.   It fur observed that the first-time homebuyers may also fear they could not buy the property now, t
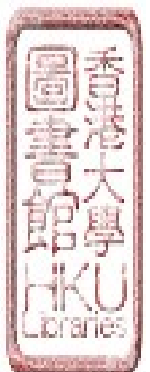
will not able to buy it at a later time. Moreover, it stated that the expectation of large price increases may have a strong impact on demand when people think that the property price is unlikely to drop and failed to realise the risk of the price drop. In gist, the bubble is defined in terms of people's thinking: their expectations about future price increases, their theories about the risk of falling prices, and their worries about being priced out of the housing market in the future if they do not buy (Case & Shiller, 2004).

The property price cannot go up forever and when some experienced people felt the price may not go up further, they will leave the market and sell their properties. This will cause the price begin to drop and chain effect occurred which causing the less experienced investor to sell and caused panic selling at last. Therefore, the main market forces are the expectation of the future price increase and the confidence in such expectation. When the property has been deviated from the fundamental factors, it will cause problem to the economy in Hong Kong. If the price increased faster than the economic growth, it may cause property bubble. The burst of the bubble caused financial stress to the bank system and the economical growth of the region.

The price increase is driven by the expectation of the people of the future high price. It was no longer driven by the fundamental factors which were mentioned earlier. However, the current situation looks like a tipping point for the market to go downward. According to Robert J. Shiller research, he tried to argue that a significant factor in the boom of American market was a widespread perception that houses are a great investment, and the boom psychology that helped spread such thinking (Robert J. Shiller, 2007). If the price dropped more than the fundame factors, it may cause economic recession.
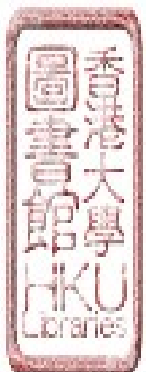
According to the percentage change of per capita GDP and the percentage change of property price in figure 7; there was a substantial deviation in the year 1996. During that year, the property price rose more than the percentage change in per capita GDP. There was no doubt when we look back that it is a bubble which burst in 1997 after the Asian Financial Crisis. The residential property price reached the climax in October 1997. The drive for the price increase was the expectation of the future high price which in turn caused the bubble to inflate.

Figure 7: Percentage change in CCL and Percentage change in per capita GDP

Source: Centadata, http://hk.centadata.com and Census and Statistics Department,
http://www.censtatd.gov.hk/showtableexcel2.jsp?tableID=030
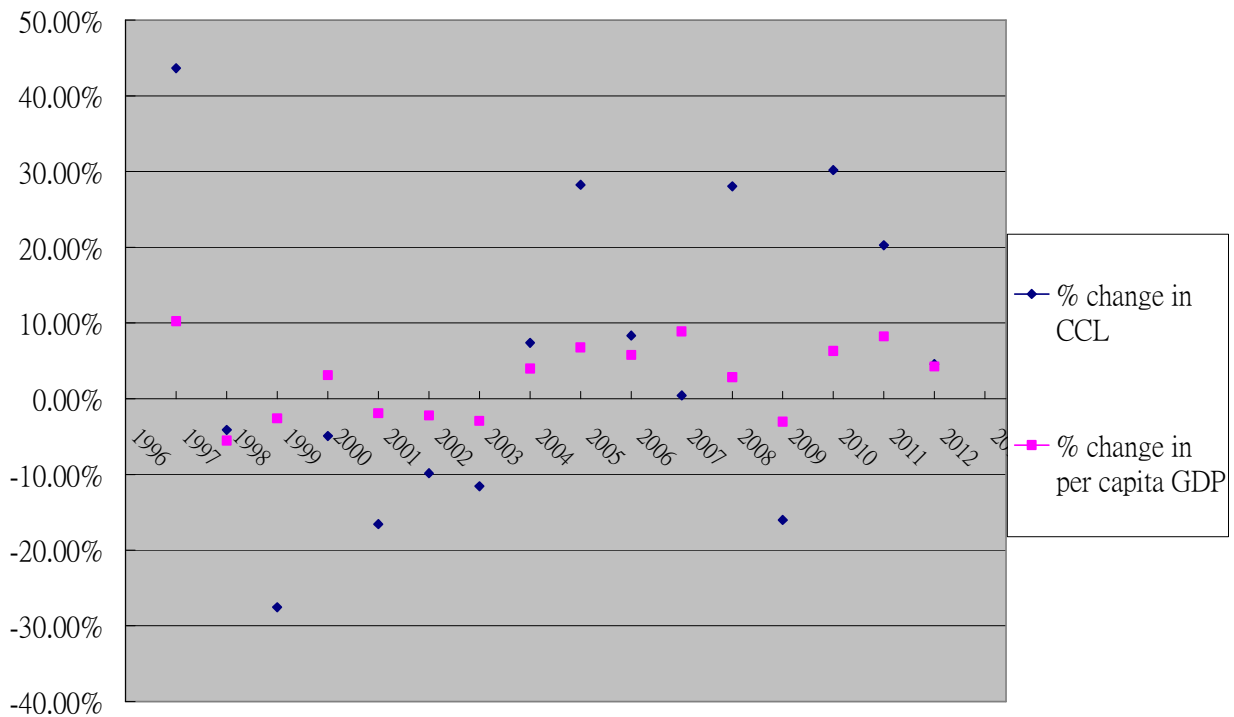
The price started to drop since the end of 1997 until the year 2003. In the pe

from 1998 to 2000, the residential property price dropped more than the changes in per capita G

However, the changes in price and the changes in per capita GDP become coherent from 200

2004. The Hong Kong government implement various tools to stimulate the market,
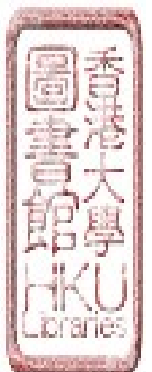
residential property price become more rational and in phase with the economic situation of Hong Kong.

According to Figure 7, the residential property price increased much more than the GDP growth in the period of 2004-2005, 2008, 2010-2011. The three rounds of Quantitative Easing by the US government make the people expected the interest rate would be kept in low level for a period of time. In addition, the prime lending rate in Hong Kong remained in 5% and saving interest rate was nearly 0% since January 2009. The long lasting period of low interest rate caused the expectation of high inflation and substantially decreased the monthly installment for the mortgages. These factors in turn caused the expectation of the increase of residential property price. This drove the people to use the money in bank to invest into residential property and other similar investments as the people will expect the money will depreciate after the Quantitative Easing. In 2011-13, the Hong Kong government imposed various tax duties on residential property market which included special stamp duty, buyer stamp duty and double stamp duty and all of these tools are used in the "Demand" perspective and view the problem as a problem of "Demand". It was observed the deviation between the price and percentage change of per capita GDP reduced.

The numbers of sale agreements and purchase of building units could reflect the "temperature" of the market which could then indicated the expectation of the buyer and sellers to the future price of the residential property. According to the statistics from the Land Registry, the amount of agreement for sales and purchase of building units were very high during the bull period and remain very low in the recession period.
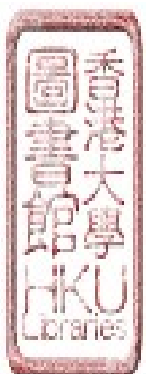
According to Figure 8, the numbers of sales are more or less in phase with the property price in most of the time. Although it was observed the volume remains very low since mid 2011, the price were still rising rapidly. This reflected the effectiveness of the tools to regulate the demand of the residential property market is limited. Although the number of sales agreement decreased, there is no significant decrease of the price but the price was observed to be increasing since the introduction of various tools to regulate the demand.

Figure 8: A comparison between number of sales agreement and CCL
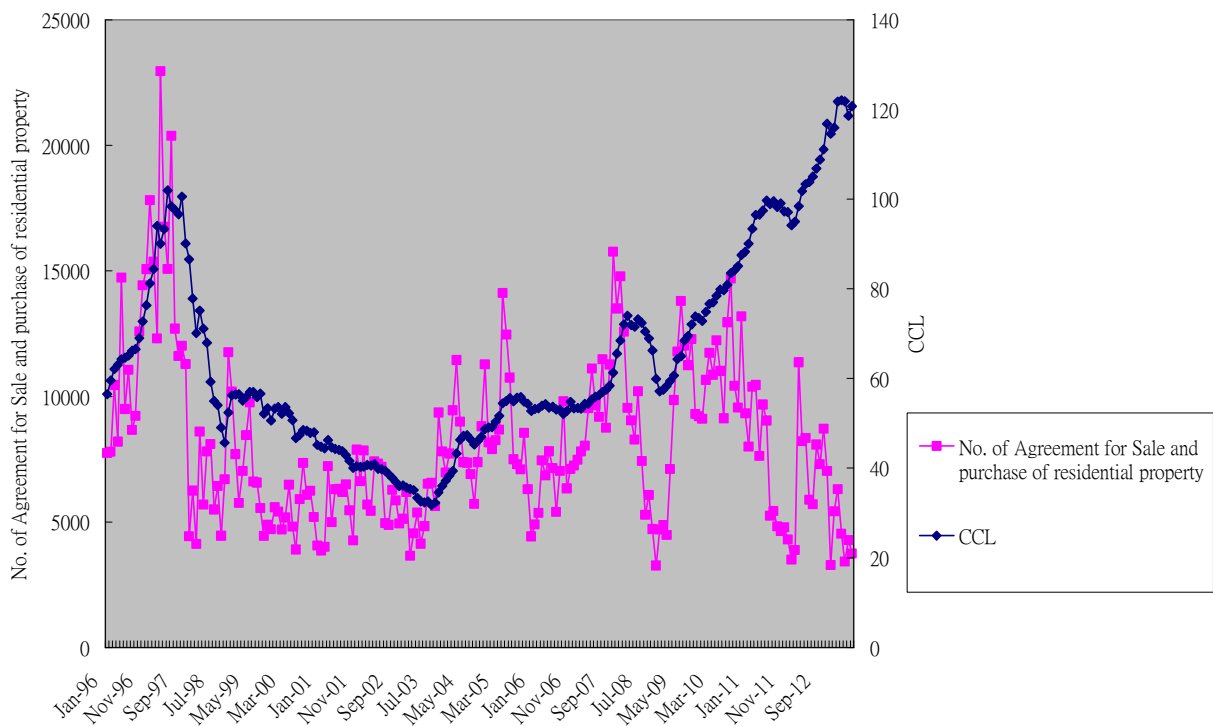
Concluding Comments

From the above analysis especially Figure 3, it is considered the tools in perspective to control supply of residential property are more effective to regulate the resider
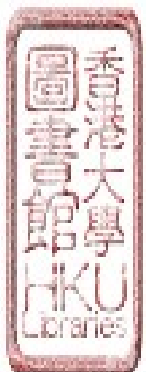
market.　From Figure 8, it was discovered that the tools to control the demand of residential property are short term measures and could not effectively manage the public expectation on the future price of the residential market which in turn limited the effectiveness to control the demand in the long run.　The tools used by the Hong Kong government which adopted the regulated self governance and Interventionist governance are more effective to regulate the supply.　For the Interventionist governance, the government could use the tools in changing the land sales arrangement by providing regular land sales and adding various restrictions or conditions to the agreement.　For the regulated self governance, the government could encourage the cooperation between the public and private sector to formulate a win-win situation.　It can be reflected from the use of tools in the formulation of the Urban Renewal Authority which allow the government to build the residential property with private developer and the government could have more control on the sale of the flats after completion.

The following chapter elaborates on the types of governance used by the Hong Kong government in different periods.
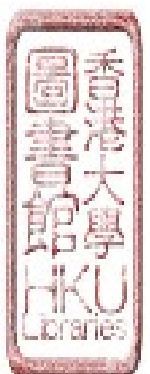
Chapter 4

THE RSIDENTIAL PROPERTY MARKET IN HONG KONG: ASSESSMENT OF GOVERNMENT STRATEGIES AND TOOLS

Introduction

Governance is actually a blanket term redefining the extent and form of government intervention (Rhode 1996). That is to say, the type of governance represents the extent of government intervention, which also influences the direction of policy strategies and the selection of policy tools. In previous chapters, four major types of governance are depicted. Very often, governments impose mandatory tools in regulating activities as they are relatively inexpensive and the most feasible option. However, "one-size-fits all" approach does not work in the real world. An effective government should look beyond the current set of tools and explore different instruments through a full range of generic policy tools covering mandate, inducement, system-change and capacity building for enacting policy. By understanding the range of policy tools available to meet government objectives and the factors (such as assumptions and shortcomings) that need to be considered in using them successfully, it provide an analytical basis for analyzing the effectiveness and appropriateness of strategies and tools that used by the government.

Pre-1997 : The Colonial Government - Regulated Self Governance

Background and problem

Hong Kong has all along adopted economic philosophy of lassez faire or a form positive non-interventionism during the colonial period. Hong Kong minimal interven
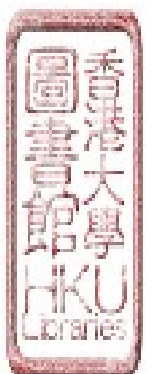
approach to economic governance, which comes from the 19th century British tradition of allowing free play of market forces, has guided the government's economic policies ever since the establishment of colonial Hong Kong (Tang 1999).   In the classic model of a free economy, as Milton Friedman explained, economic activity is organized primarily on 'voluntary exchange through the market'.   Friedman described Hong Kong as the best contemporaneous example of such a society in 1970s.   Before the reunification, Hong Kong ranked No.1 for 3 times in 1995, 1996 and 1997 as the freest market in the World.

Is free market really good to deal with business activities and to avoid crisis? Some may argue that market force is the best way to regulate the business activities which allow the best allocation of resources.   It was also argued that government active regulation on the business activities would distort the market and just to delay the problem to occur and defer the problem.

What is the problem of residential property during the colonial period? After the Shek Kip Mei fire happened in 1953 which destroyed thousand of people's home, it is critical to provide adequate housing to the affected residents and other squatters who were living in similar conditions.   While the living standards of Hong Kong people were improved, they are looking for a better living environment where the public housing could not provide.   The quality of living framed by the private property developers and the peer effect were all influential for the "middle class" people who wanted to buy their own flat.

Hong Kong has a rather peculiar land tenure system.   Because of its colonial history, the government of Hong Kong is effectively the sole owner of the territory.   It leases l to private developers.   Land for non-institutional uses is generally leased to the highest bidde public auctions with lease terms of 75 years or longer.   Each lease term requires a large lump-

premium and a small annual rent. Because the rent serves only as a legal symbol to maintain the lessor-and-lessee relationship, the premiums attached to any given land lease approximates the land values. Most of the leases are transferable, and the land market is a market of land leases. A consequence of this system is that the government has special powers in regulating land use. It determines when and how much new land will be put on the market as well as the uses allowed on this land (Ruijue Pend and William C. Wheaton, 1994).
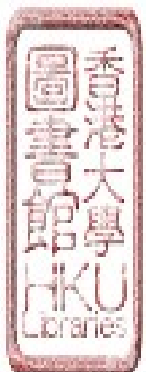
Tools and governance

Given the Hong Kong government in the colonial period had adopted the approach of active non-intervention, the government often relied the market force to regulate the market behaviour as it is believed that market force is the most efficient tool to allocate resources among the society. Although the government was not actively involved in regulating the residential property market, it still has some tools used to regulate the market due to various reasons.

The sale limit of 0.5 square kilometers of land per year was set as a part of the Sino-British agreement since 1985. It is believed that the restriction of land sales lead to an anticipated reduction in overall land supply, the housing market expects higher future housing rents. In a rational market, such an expectation is capitalized into higher current housing prices (Ruijue Peng and William C. Wheaton, 1994). This lead to the rise of investment need and people would speculate the price to increase. In return, they will borrow money from bank for their first, second or even third property. While the prices are rising, the investors could cash-out refinancing from their own properties to purchase other new properties. If there is lack of regulations in regula the bank to finance the property owners, it may lead to the burst of bubble which may result in l term economic recession.
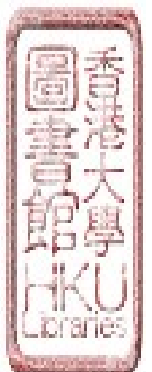
Although it is had a sale limit of 0.5 square kilometer of land per year, the land sale was around 300,000 square meter per year from 1987 to 1997. The average land area sold in that period was much greater than the recession period from 1998 to 2003.

In addition to its control over land supply, the government of Hong Kong has played an important role in housing by providing low-cost public housing. By the end of the 1980s, Hong Kong had the second largest public housing sector in the capitalist world (after Singapore), which accounted for nearly half of the total housing stock. Because public housing is less expensive than private housing, there has been a long waiting list for the people to apply for public housing (Survey on Waiting List Applicants for Public Rental Housing, 2011). It is not difficult to see that the demand for housing in the market is from those who are unable to obtain housing in the public sector. Therefore, it is believed the public housing's stock reduces the number of household seekers in the private sector. Hence, it is very important to set the income limit carefully in order to differentiate the people who could afford private housing by rent or purchase and those who could not.

Apart from the "low rent" public housing, the Hong Kong government also introduced the Home Ownership Scheme in late 1970s which allow the people who could not afford the residential property from private sector to purchase the residential property at a discounted price. This scheme had effectively increased the number of flat owner since 1980s.

Town planning aims at providing a quality living environment, facilitating economic development, and promoting the health, safety, convenience and general welfare of the commu by guiding and controlling development and the use of land. Following the principle sustainable development, town planning seeks to bring about an organized, efficient and desir
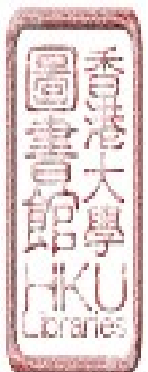
place for the community to live and work in.   As land suitable for development in Hong Kong is scarce, there is a need to strike a balance in utilizing the limited land resource to meet the competing demands for housing, commerce, industry, transport, recreation, nature conservation, heritage preservation and other community needs (Hong Kong Fact Sheet, 2013).

The Town Planning Board (the Board) is a statutory body established under the Town Planning Ordinance (the Ordinance), Cap.   131.   With the main aim to promote the health, safety, convenience and general welfare of the community, the Board is charged with the principal duties to prepare statutory plans (namely, Outline Zoning Plans (OZPs) and Development Permission Area (DPA) Plans) for the layout of such areas of Hong Kong as the Chief Executive (CE) may direct, as well as the types of buildings suitable for erection therein (Town Planning Board, 2013).   Headed by the Director of Planning, the Planning Department is the executive arm of the Board, which is responsible for formulating, monitoring and reviewing town plans, planning policies and associated programs for the physical development of Hong Kong.   It deals with all types of planning at the territorial and district/local levels and provides services to the Board.

The Town planning board would decide the kinds of building suitable for erection at the area and decide the permissible density by way of plot ratio.   The plot ratio was included in the land lease which in turn limits the usable area of flats that could be constructed.   This exerts indirectly control the supply of residential property with different plot ratio at different area.

Effectiveness of the tools

It is considered there was no significant problem in the residential property ma in the colonial period except in 1996 to 1997 where the property bubble started to ferment and b in the end of 1997.   From the data, the land sales from 1987 to 1997 ranged from around 150,
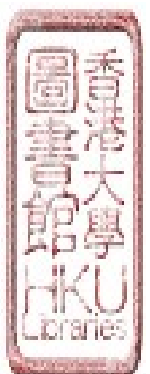
to 920,000 m² with average 347,000 m² per year. The price increase is more or less in phase with the economic growth which was reflected from the growth of GDP per person.

However, the public housing policy which set stringent income limit had excluded quite a lot of people to access it. Those excluded may require to rent in private market with short tenure (usually 2 years tenancy agreement) or to purchase the property with mortgage. From the statistic, only less than half of the Hong Kong citizens have their own property. The high proportion of property owner increased the stability of the society to defend financial crisis and increase the stability of the property price as most people are property owners and each purchase will normally followed by the sale.

The low ownership rate in Hong Kong and lack of protection to the tenant from rent increase, it will in return increase the volatility of the private residential property market which was occurred in 1996 and 1997. It is arguable that the income limit of the public housing should be higher with different priority given and different level of rent applicable in accordance to the income of the family in the waiting queue.

Table 2: Regulated self governance (Pre 1997 period) - Summary of Tools used and their effectiveness

Tools Analysis	Perspectives	Tools	Effectiveness
Restrictive land sales	Supply	System-changing, Mandate	Throughout the data period from 1987 to 1997, the differences of the % change of price index vs % change of GDP per person were within 15% except the year 1991, 1992 and 1997. It is consider the tools used by the Government is effective to regulate the resident property market at most of the time.
Provision of public housing	Supply	System-changing	The family income limit should higher and provided more public housi

and sales of subsidised housing			or subsidised housing to accommodate the middle class people who could not afford property fro private market. The Home Ownership scheme should be restored which could increase the supply of residential flat substantially without relying on the private sector.
Town planning board	Supply	System - changing	The Town Planning Board could regulate the use of land and control the supply of the residential property by restricting the plot ratio and the refusal or approve the change of land use. This could add flexibility to the land supply and number of flats.

July 1997-March 2005: The Government led by TUNG Chee-hwa – Active Interventionist Governance

Background and problem

There was a property bubble prior to the Asian financial crisis in mid-1997. According to the statistics of Global Property Guide 2009, the residential property prices rise 71.5% from October 1995 to October 1997. The price index reached 163 in 1997, as compared to 85 in 1992 (Rating and Valuation Department, 2013). It rose a double within 5 years time. At the peak period of 1997, people in Hong Kong used around 74% of the monthly salary for mortgage payments. The high property price was unaffordable for grassroots, and even for some middle-class families. Speculation was rife at that time. With the high property prices in the run-up to 1997, there was strong opinion considered that the government should suppress the upward tren property prices.
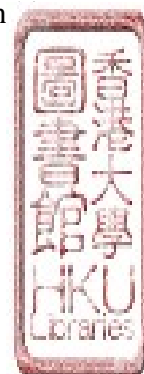
The first Chief Executive of Hong Kong, Tung Chee-hwa in his inaugural speech at Ceremony for Establishment of Hong Kong Special Administrative Region (HKSAR) on 1 July 1997, emphasized the government's determination to resolve the housing problems, and announced a housing program for the next 10 years.   Tung announced the overall objectives (that is to help all households gain access to adequate and affordable housing, and to encourage home ownership in the community) and determined to adopt some measures on housing (Policy Address, 1997). Tung defined the problem of high residential property price was due to insufficient housing supply. A substantial increase of housing supply was considered as a determinant factor in resolving the housing price problem and tackling the problem of speculation.

Tools and governance

Tung's government determined that was the problem of supply, and a target was set to increase overall housing supply to at least 85,000 flats a year (50,000 by public sector and 35,000 by private sectors) starting from 1999 to 2000.   The "85,000" policy was announced to provide affordable housing for the general public and to achieve a 70% homeownership rate.   Details of policy tools are listed in Table 4.2 below.

Table 3:   An overview of major policy tools used by Tung's government between 1997 and 2005

Year	Policy Tools
1997	• Set the 85,000 housing units production target • Introduced Home Starter Loan Scheme • Introduced Tenants Purchase Scheme to assist residents to purchase public housing • Incorporation of the HK Mortgage Corporation to develop Hong Kong's second mortgage market
1998	• Introduced mortgage interest deduction • Temporary suspension of land auction • Expanded Home Starter Loan Scheme, and relaxed applicability requirement

	cover residence in public housing • Cancelled Sandwich Class Housing Scheme • Relaxed pre-sale restriction of residential properties
1999	• Introduced 85% mortgage insurance scheme • Restarted land auction in April 1999 • Proposed to increase stamp duty for properties of value above HKD3m
2000	• Temporarily suspended Home Ownership Scheme, units built were converted into public rental housing • Announced abolition of the 85,000 housing units production target in July 2000
2001	• Further relaxed anti-speculative measures • Temporarily suspended Home Ownership Scheme for another 10 months • Introduced the scheme for 100% refinancing of mortgages in negative equity

2002	• Reintroduced Home Ownership Scheme
	• Introduced Home Assistance Loan Scheme to replace the Home Starter Loan Scheme, to provide home purchase assistance towards down-payment and related expenses in the form of interest-free loan or monthly mortgage subsidy
	• Introduced 9 measures to support the housing market in November 2002
	  1. Cancelled regular land auction and suspended land supply in the application list for 1 year
	  2. Suspended auction of projects held by the two rail companies MTRC and KCRC for 1 year
	  3. Supply of public rental housing to be driven by the market
	  4. Abolished Home Ownership Scheme
	  5. Implemented new interest-free loan programme for low income families
	  6. Abolished Home Purchase Loan Scheme
	  7. Abolished Tenants Purchase Scheme
	  8. Relaxed redevelopment requirements for old residential buildings
	  9. Relaxed internal subscription restrictions for private property projects

2003 - 2005	• Stop application for Hong Assistance Loan Scheme in 2003 • Resumed land sales in 2004 • Relaxed down-payment limits to 95% in 2004 • Reduced stamp duty of properties value between HKD1-2 million to fixed amount of HKD100

Source: Barrett 2010, Bloomberg, Standard Chartered Research

Hong Kong has a long history of government involvement in the housing ma

with the aims of making affordable housing to low income households and of stimulating h

ownership.   For example, a variety of subsidised home ownership schemes (i.e.   the H
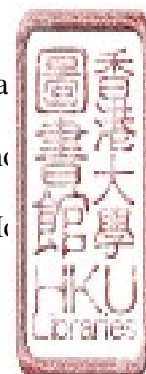
Ownership Scheme (HOS) and Private Sector Participation Scheme (PSPS), the Flats for Sale Scheme (FFS) and the Sandwich Class Housing Scheme (SCHS)) and loan schemes were provided through the Hong Kong Housing Authority (HKHA) and the Hong Kong Housing Society (HKHS) to enable eligible families to buy their own homes.

(a) Inducement and system-changing

There was a serious attempts and hierarchical intervention by the government to slow the growth in property prices in 1997.   While Hong Kong government could not control the supply of housing in private sector within a free market economy, it tried to prevent the overpricing of housing by supplying more subsidised housing on her own.   In order to increase the housing supply and to give impetus to private property ownership, "System-changing" accompanied by "Inducement" approach were used by the government to stimulate the purchasing power.   On one hand, the government boost the home ownership rate by building more flats under the four subsidised housing ownership schemes and relax the resale restrictions on HOS and PSPS flats.   In addition, increased production of HOS flats and offered successful applicants for public rental housing the option to buy HOS flats.   Financial assistance was continued to help families buy their own home through HOS and SCHS.   The system-change tool has changed the institution structure by which goods and services are delivered.   On the other hand, the government was no longer mainly provided rental public housing, but also actively involved in competing for customers with developers in the private property market.   The most significant example was putting in place a new Tenant Purchase Scheme (TPS) in 1997 to sell 250,000 public rental flats to existing tenants

Considering that there was a problem of imbalance between demand and supply influence the residential property market, the government released more land with an aim to b
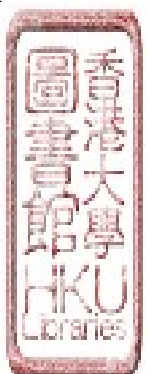
the supply of flats in the market. Furthermore, set up high transparent land disposal mechanism and altered the administration procedure relating to property and infrastructure construction with a view to resolve inter-departmental disputes which can delay or frustrate housing production.

The situation reversed between 1998 and 2003. When the Hong Kong's economy was affected by the Asian financial and monetary crisis in late 1997, the drop in property prices was stimulated. Housing price dropped by 50.6% between November 1997 and September 2001 (Loh & Lai, 2007, p.45). Residential property prices fell by 66.1% from its peak in 1997 to mid-2003. The price index dropped significantly from 117 in 1998 to 62 in 2003. The Asian crisis worsen economic situation, causing an increase in unemployment and a drop in confidence. Some homeowners who had bought property lost value, and owed mortgages greater than the value of the property. Their property had became a "negative equity". The number of cases of negative equity was 73,000 in December 2001 and rose to the peak of 106,000 in the second quarter of 2003. The declining property prices caused loss of confidence among general public. Accordingly, developers were having trouble to sell their property in the private markets. This formed a vicious cycle.

(b)Inducements

The government adopted an "inducement" approach to boost the demand of private housing. A vast programme of special interest loans for the purchase of a flat in private sector was introduced. This included the launch of a new Home Starter Loan Scheme (HSLS) in April 1998 targeted at first time home buyers whereby eligible families and singletons are granted low-inte[rest] home starter loans. The Home Purchase Loan Scheme (HPLS) also provided interest-free lo[an]

and subsidies to help families buy their own homes in the private market. A proportional tax deduction for the interest paid on property loan was implemented.

(c) Mandates

After years of decline in property prices, nine measures (commonly known as "the Nine Measures of Michael Suen") were introduced to stabilise the property market in 2002. The government reversed the policy tools towards suppressing the supply of subsidised housing with an aim to influence the demand of private property market. The government adopted "Mandate" approach by imposing the moratorium on sales of HOS flats, cessation of land sale and suspension of anti-speculation measures. However, the property prices kept falling even though the government ceased land sale from October 2002 to December 2003. It was until the last quarter of 2003, the property prices was started moving upward. It was believed that could be partly by the optimistic expectation brought on by the Close Economic Partnership Arrangement (CEPA) with the mainland, and partly by the improving economic environment.

Effectiveness of the Tools

Tung's government had adopted a top-down approach of command and control to regulate the market interaction. The degree of cooperation between public and private actors in policy making was minimal, and resulted in hierarchical relationships. The strong legal obligation of the government in provision of public goods, such as affordable housing, leads to an adoption of highly interventionist housing policies. It is a typical interventionist governance.

Should Tung's mandatory supply-led housing policy associated with the syst change tools be blamed for exacerbating the property crash? Was Tung over-reliance manipulating land supply by discretion?   Critics said the government should not intervene in
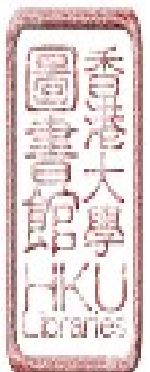
private market.   The Tenants Purchase Scheme (TPS) introduced in December 1997, was not the sole, but the key factor to the collapse of private housing prices.   The selling of public housing flats in cheaper price to the lower class under TPS would "reduce the attractiveness of HOS housing and eliminated a large segment of potential HOS buyers from the market" (Ho 2002).   It is because the drop in the value of HOS flats disabled their owners from trading up, and accordingly those private market owners who depended on HOS owners to buy their flats also could not trade up too.   The situation even went worse when the government was selling off more HOS flats.   A study conducted by Ho (2002, p.179) also pointed out that many people were actually full of confidence in 1998 and 1999.   The "property market confidence index" compiled by the Hong Kong Policy Research Institute rose from 35.5 in January 1998 to 108.1 in 1999. However, the government failed to take into account the ever changing economic climate and lacked flexibility in the housing policy (Bessard 1998).   People finally lost confidence because of the uncontrollable falling property prices and that became a psychological factor affecting the perception of the potential buyer and seller.

The active government intervention on private property market combined with the Asian Financial Crisis since October 1997 contributed to a drop in residential property prices.   It may be true that the TPS policy sapped demand in the private market while the housing supply was dramatically pushed up by the government simultaneously.   A good policy must take into account its surrounding environment and its implementation must be adapted to changing circumstances. Tung failed to predict a series of problems and solutions that would have followed after implementing specific policy tool.   For example, Hong Kong government depended on land income for general revenue and to fund public housing development.   The suspension of land actually caused a decrease of GDP from 1,308,074 in 1998 to 1,256,669 in 2003.   Under

framework of supply and demand model, housing price is suggested to be highly related to the amount of land supply.   That is, government pursue "mandate" policy tool to restrict land supply when property prices fall.   Any reduction on land supply leads the developers to slow down sales of their existing stock in the market.   The expectation of reduced housing supply in the future would encourage home-buying and result in raising property prices.   Rising property prices would then generate a wealth effect that helps to reduce the negative impact arising from the anticipated economic deterioration.   Unfortunately, the restriction on land supply by Tung's government didn't bring the projected result in reality because the psychological factor influences the property price expectation of buyers and sellers.   The government didn't take into account this crucial factor along the path of its policy target.   Also, they didn't take prompt action to adjust policy in line with actual conditions when policy action failed to deliver the projected result.

Was stable residential property price really a problem?   It may perhaps reduce high developer margins and the volatility of the market, but certainly would benefit all sectors of the society in the long run.   Thus, the use of "System-change" tools (i.e.   Tenants Purchase Schemes and 85,000 housing targets) has no problem per se.   As suggested by Elmore, the system-change policy create the problem of how to prevent existing institutions from using their competitive advantage to limit or undermine new institutions (Elmore 1987: 178).   In Hong Kong, property developers have strong political influence on the government and would lobby against policies that affect their interest.   When the policy tools would reverse the interest of developers, the government should prior to the implementation stage, evaluate the shortcoming of tools, predict the responses, and prepared "following" tools to support the leading tools.   The strategic problem all related political factors should be considered and solved in the stage of the policy design.

Table 4: Active interventionist governance (April 2005 - June 2012) - Summary of Tools used and their effectiveness

Tools Analysis	Perspectives	Tools	Effectiveness
Increase housing supply by injecting resources to the Housing Authority for the society's future benefits (e.g. "85,000 housing policy")	Supply	Capacity-building	The unrealistically large production target of 85,000 units a year produced a glut of housing. The target was abolished in 2000.
Home Starter Loan Scheme-Interest-free loans and subsidies	Demand	Inducement	Effective in increase home ownership rate and the demand in private property
Tenant Purchase Scheme - selling public housing in private market	Supply	System-changing	Effective in lower residential property prices but also affect the volatility of the property market
Restriction on land supply	Demand & Supply	System-changing Mandate	Ineffective in pushing up the property price because people lost confidence in future discourage home-buying. It was the psychological factor affecting the perception of buyers and sellers.

April 2005-June 2012: The Government led by TSANG Yam-kuen – Private Self-Governance

Background and problem

During the period from mid 2005 to late 2009, the Tsang Yam-kuen's government did not address any policy measure on regulating the residential property market. Property p[...] relied solely on the market without any intervention. The Tsang's government started to awar[...]

the risk of busting of property price bubble in Hong Kong till late 2009, in which speculation activities were being detected and a frenzied property market was created.

The rise of residential property price was started after the fast recovery from the hit of the Global Financial Crisis in September 2008. In the last quarter of 2009, the CCL has reached 87.55, which was the highest level in 13 years.   The overall residential property prices in the last quarter of 2009 leaped 23% from a year earlier, in which it has reached a low point in the last quarter of 2008 (Hong Kong Property Review, 2010).   The residential property prices were powered by the low interest rates, tight supply, a high affordability ratio, and high inflation, which encouraged local residents to proactively invest in residential property market and in addition, formed an influx of newly wealthy investors from the Mainland.

Tools and governance

Under the led of Tsang, the government relied heavily on the self-regulations of the market.   The Tsang's government gave policy tools in regulating property market as it found there was no alternative besides imposing direct interventions.   In the followings, the policy tools adopted by Tsang's government in regulating the residential property market will be discussed.

(a) Inducements (increase the supply of lands)

The government, as the major land provider, altered supply to support or depress prices according to the situations of the property market and the needs of the society.   Since the incident of Global Financial Crisis, the government has not held any residential land sales around 18 months.   Demand for property has surged in 2009, particularly for luxury units. market, the developers put pressure on the government for freeing up more land, and to increase opportunities selling land via applications, which it tightly controls.
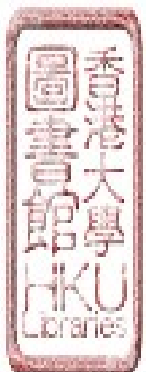
The government claimed that under normal circumstances, the market itself will adjust its demand for land, however, if there is an upsurge in residential flat prices resulting in unfair price setting, the government will on its own initiative put up new land for auction. Tsang's government addressed the housing problem is directly correlated with land supply, so it released more land for developers as the policy tool in tackling the housing problem. It believed that the increasing land supply can stem price increases and stabilised the market.

In the Policy Address 2011, Tsang put housing policy on the first policy agenda, and gave a set of inducement tools of increasing housing land supply, and some of those policies are listed as follows:

- Create a land reserve to ensure that there will not be any shortage in housing land supply, including land designated for small and medium units to stabilise flat prices.

- Estimate that a total of 61,000 first-hand private residential units will come on the market in the next three to four years.

- In the next 10 years on average land needs to be made available annually for some 20,000 private residential flats.

- The "Steering Committee on Housing Land Supply" chaired by the Financial Secretary will guarantee a stable and adequate supply of housing land.

In the Policy Address 2012, the government further addressed efforts would be made in ensuring land supply. Inducement policy tools are abstracted as follows:

- Ensure supply of land to support on average 20,000 private residential flats, 15,000 pu rental units and 5,000 new HOS flats a year. Build up a government land reserve.

- Multi-pronged approach to expand land resources, e.g. release industrial land, explore reclamation outside Victoria Harbour, and examine the use of "Government, Institution or Community" sites.

(b) Mandates

In the era of Tsang's rule, both legislative and administrative measures against speculation in the housing market were adopted. Since the late of 2009, the government gave out a set of mandate tools in inhabiting the speculation activities of residential property market.

First, down payment requirements have been tightened for the first time since 1991 on luxury properties of $10 million-plus while mortgage insurance for rental properties has been suspended in 2009. Second, not until October 2010, Tsang made a symbolic gesture to stand up to developers that the residential property market was not being controlled by developers. The government reduced the practices of inflating floor space through the inclusion of car parks, balconies, window sills, clubhouses and so forth, in particular, window sills, would be counted toward total floor space from 20% to 10%. Moreover, stamp duties on some luxury properties were raised. The government imposed a punitive stamp duty for property transactions to cool down burgeoning home prices.

(c) System-changing

In regulating the residential property market, a series of policy tools of system-change were applied. First, in response to the speculation of luxury properties, in tempering price surge of luxury properties, the Hong Kong Monetary Authority issued guidelines to banks October 2009 capping the mortgage loan of properties priced at $20 million or above to 60% limiting the maximum loan amount at $12 million for properties valued at below $20 mill
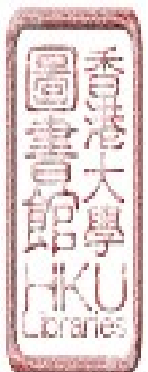
This measure was given due to the inflow of funds in investing luxury flats and the record price fetched by some flats in the primary market sparked concerns about the surging prices and the risk of a property bubble.

In addition, the government removed property as part of the Capital Investment Entrance Scheme, which would exempt real estate ownership being used to gain Hong Kong residency. Although it was being criticized as more symbolic than anything as such transactions account for only 1% to 2% of total turnover and did not deter non-immigration-related demand from wealthy investors from the Mainland. The effect of the initiative is intended to be mostly psychological, as Hong Kong residents had complained about Mainlanders purchasing property to gain residency in the city.

Besides, the government enhanced the transparency of the transactions of first-hand uncompleted units. It required developers to make public details of transactions within a shorter time limit. This was trying to suppress property speculation.

The HOS, aimed to enhance local home-ownership, was scrapped in 2002. Tsang's government has pledged to propose measures to deal with Hong Kong's housing problem in his Policy Address 2012, in which it stated that there were requests in the society in calling for the resumption of the HOS. Thus, the government announced the launch of the new Home Ownership Scheme targeting families with monthly income no higher than $30,000. Flats with a saleable floor area of 400-500 square feet to be sold at affordable prices, are initially estimate $1.5-2 million. Supply more than 17,000 flats over four years from 2016-17, while first b expected for pre-sale in 2014 or 2015.
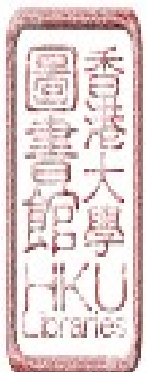
The Tsang's government also consider various subsidised housing schemes, one of those proposed was My Home Purchase Scheme, offering a buy-or-rent option or rent-and-buy initiative to sandwich-class tenants a subsidy equal to half of five years' rent for a down payment for a home purchase, was "innovative" and was a good interim solution to making housing accessible to the "sandwich class". But with only 1,000 units planned for completion by 2014, this was being commented as not likely to have much impact on the private market.

(d) Private self-governance

From the above, the policy tools adopted by Tsang Yam-kuen's government, it is deduced that it adopted the private self-governance. Under the principle of private self-governance, the government was not aiming to discourage the healthy movement of the property market, as it is normal that the property prices grow gradually along with the economy. However the market was not moving healthily with the economy due to the growth of speculative activities, intervening actions have to be done. To curing the speculative activities, Tsang still emphasized the government was doing to stabilise the price rather than affect it. It was important to continue to "minimize intervention in the property market" in keeping with Hong Kong's hands-off market policies.

Effectiveness of the Tools

Under the ideology of private self-governance, the definition and implementation of public policies are completely in the hands of private actors (Knill & Tosun, 2012). However, a healthy type private self-governance relies not only on the provision of public goods by governance capacity of private actors but also the provision of refinement, guidance, mediation moderation by the government. According to Tsang's rule in the regulation of the resider
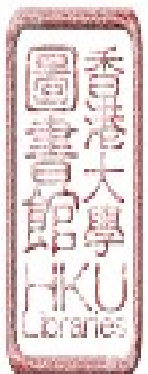
market, during the period of 2005 to late 2009, it hardly observed the government's role in regulating the residential market. The government freely relied on the self-regulations of the private actors in the market. In short, the Tsang's government did not work well under the ideology of private self-governance as it withdrew it's obligation in regulating the conflicting interests, stimulating the communication and coordination between the different stakeholders in the residential property market, during the first five year's rule.

Since the late 2009, Tsang's government gave out a series of policies tools and strategies regarding increasing the supply of land and subsidised flats, aim to control the speculation activities and slow down the rise of property price. The effectiveness of these tools was not satisfactory as the Tsang's government only frame the problem the short of supply of land and subsidised flats and neglecting the regulation on the demand of private residential property. The property prices kept rising during Tsang's rule. Some of the policies adopted by Tsang's government and it's effectiveness are summarized as the table below:

Table 5: Private self-governance (April 2005 - June 2012) - Summary of Tools used and their effectiveness

Tools Analysis	Perspectives	Tools	Effectiveness
Expand land resources and create land reserve, to have land resources for 20,000 private residential flats available annually	Supply	Inducement	Ineffective as there was a time lapse between the supply and demand of private residential flats.
Tighten the down payment requirements	Demand	Mandate	Ineffective as this tool only focus on the luxury flats, whi[..] speculation activities wer[..] found in all flat types, includin[..] small sized flats and subsidise[..] housing.
My Home Purchase	Demand and	System	Ineffective as this tool onl[..]

Scheme, offering a buy-or-rent option or rent-and-buy initiative to sandwich-class tenants	Supply	changing	focus on the increasing the supply for relatively small group in the society.

July 2012-Present: The Government led by LEUNG Chun-ying – Active Interventionist Governance

Background and problem

Subsequent to the two former Chief Executives, the price of private residential property raised to a historical peak which has become rather not affordable for many of the general public. The price index was at 206 in 2012 in comparison with that of 100 in 1999, which means that there was a rise of 106% on the price of private residential property in general throughout the 13 years. Further boosted by the Capital Investment Entrant Scheme since October 2003, the private residential property market had become largely speculative during the inauguration of Leung Chun-ying in July 2012. On the other hand, the number of applications on public rental housing also reached another historical peak of 228,400 in March 2013 and the average waiting time for general waiting list applicants is between 3.5 and 4 years. The problem of living in cage homes, cubicle apartments and sub-divided flats has also become a popular topic among the city. It could also reflect that despite of the insufficient supply of land and new residential properties, the demand on housing in the society is also ever expanding.

Many members of the public (especially those non-owner of a housing property) roared that private residential housing has gone far beyond their affordability and urged for Le[ung] Chun-ying's government to work on this imminent problem. Leung Chun-ying's team
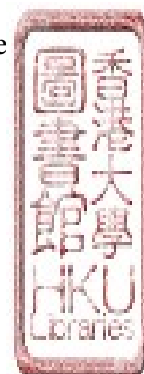
identified the housing shortage and speculation activities in his first policy address (Policy Address 2013).

Tools and governance

In the Policy Address 2013, Leung Chun-ying located the role of his government as "appropriately proactive governance". In response to the strong outcry from the general public on the ever-rising property prices where the people are not able to buy their own flat, Leung Chun-ying and his government set to tackle the housing problem at their top priority and proactively put out a series of measures in balancing the supply and demand with an aim to "stabilise" the property market.

(a) Inducements by system-changing

In short and medium terms, the Leung Chun-ying government will increase the supply of subsidised housing (inducement) by amending government sites in assigned usage into residential housing developments (system-changing). The amendment of use on the assigned 36 Government, Institution or Community (GIC) sites targets to provide about 12,000 residential flats by 2016. On the other hand, the rezoning of Green Belt areas aims at providing some 23,000 residential flats by 2020. In addition, around 20,000 residential flats would be provided through the rezoning of industrial lands.

Moreover, Leung's government will set its engine at full speed in providing new public rental housing flats by at least 100,000 units by 2023. Partnership with HKHS will also strengthened in order to provide more new HOS flats in the coming years, at the same time loosen the eligibility of applying HOS flats (increase the income limit from $30,000 to $40,0 to allow more people to be benefited from.
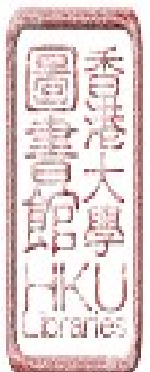
On the other hand, Leung's government planned to provide land supply in long term by developing new towns in the New Territories.   One major project under process now is the Nort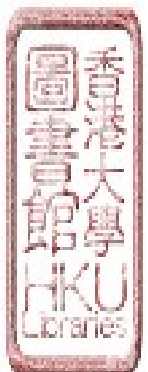h East New Territories New Development Areas project which will serve as an extension to the Fanling / Sheung Shui New Town.   It is now under a public engagement stage but big resistance is received from the public and some of the affected residents under this project drag on the compensation packages which adds uncertainties to the project.

The Urban Renewal Authority will also provide 4,700 residential flats by 2017 through redevelopment projects on residential properties as well as industrial buildings.

The Leung's government also puts effort on increasing the plot ratio of the public rental housing and HOS flats in the pipeline as well as increase the development density unallocated or unleased residential sites, and thus increase flat supply, as far as possible in planning terms.   However, all such plans are still under review and no actual outcome can be observed yet.

(b) Mandates

On top of the ad valorem stamp duty, Special Stamp Duty (SSD) was imposed under the Stamp Duty (Amendment) Ordinance 2011 under the era of Donald Tsang to hopefully cool down the activeness of the residential property market.   Under such scheme, any property being disposed of by the seller within a certain holding period of time within 24 months would need to pay an extra duty as much as 15% of the price of the concerned property.   However, this measure could only make short term effects as the holding periods were too short and the extra duties were too gentle.   The property market rebounded to an even greater extent afterwards.   Therefore 26 October 2012, the Leung Chun-ying government reinforced the ordinance with a holding per
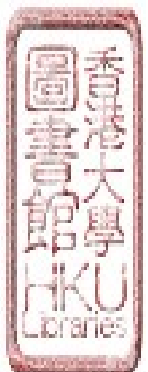
as long as 36 months and with an increased extra duty up to 20% of the price of the concerned property if it has been held for less than 6 months after its last acquirement.

On the next day of the amendment of the SSD, the brand new Buyer's Stamp Duty (BSD) was introduced onto residential properties. It was a straightforward measure which any acquirement of residential flats by people who were not a Hong Kong permanent resident would be subject to a flat rate duty of 15% price of the residential property on top of the existing stamp duty or SSD. This measure aimed at setting a barrier for the non-Hong Kong buyers who speculated actively on the residential property market and to reserve more space for the local Hong Kong residents to buy their own residential property.

On 22 February 2013, the Stamp Duty Ordinance was further amended to which the ad valorem stamp duty (AVD) rates were increased and the charging of AVD was advanced onto non-residential property transactions directly upon the agreement of sales instead of the conveyance of sales. However, those Hong Kong permanent residents who does not own any other residential property in Hong Kong would be excluded from the new AVD rates at an aim to only suppress the speculation intend of the property buyers and sellers" jointly and severally", who are investors and have no actual housing needs, by increasing their transaction costs.

The Leung Chun-ying government also applied measures on mortgage rates control and harsher pressure tests on the buyers to ensure the appropriateness of affordability of the buyers as well as users of the residential property. On 14 September 2012, the Hong Kong Monetary Authority introduced further credit-tightening measures which focused on tightening the mortg lending to borrowers with multiple property mortgages as an attempt on suppressing the overhea market by those investors with no housing needs. Under the new measures, the maximum lo

to-valuation ratio was lowered by 10 percentage points to 30% and slashed by a further 20

percentage points if applicant's principal income was not derived from Hong Kong.

(c) Interventionist governance

In response to the strong protest on the shortage of housing and also the non-

affordability of private housing property from the public, relatively vigorous measures were

taken by Leung's government to cool down the red-hot residential property market.   The degree

of cooperation between public and private actors in policy making was minimal in such extent, and

result in hierarchical relationships.   The strong legal obligation of the government in mainly

imposing mandates such as the stamp duties causing its intervention to the private property market.

It is a typical interventionist governance, and in Leung's terms, the "appropriately proactive

governance".

Effectiveness of the Tools

Up till now, similar with Tung's government, Leung's government had adopted a

top-down approach of command and control to regulate the market interaction.   It is clear that

there is strong voice from the society which the private residential property prices are too much

exceeded the affordability for the general public.   In order to gain more support from the general

public, Leung's government sees the housing problem as the top priority to manage.

Table 6: Active interventionist governance (July 2012 - Present) - Summary of Tools used and their effectiveness

Tools Analysis	Perspective	Tools	Effectiveness	
Increase land supply by amending Government sites in assigned usage into	Supply	Inducement and System-changing	Such amendments would viola with the existing town plannir practices. Catalysed by the lo support rate of the governmer	

residential property development and kicking off the North East New Territories New Development Areas project			different kind of objections were raised from the public against them since the public consultation stages.
Increase supply of flats by building more PRH, HOS flats and flats from urban renewal projects	Supply	Inducement	Effectiveness cannot be measured at this moment due to the time lapse on the completion of such flats.
Increasing plot ratio and development density for the forth-coming developments	Supply	System-changing	Effectiveness cannot be measured at this moment as no actual outcome is observed yet.
Ad valorem stamp duty, Special Stamp Duty (SSD), Buyer's Stamp Duty (BSD)	Demand	Mandate	Effective in increase the transaction cost of trades in private residential properties and greatly suppressed the transaction volume of second-hand flat sales.
Tightened control on mortgage rates and pressure tests	Demand	Mandate	Effective in avoiding those buyers who do not have the ability to afford buying a flat under current circumstances and reduced the risk of the market in general.

Recent statistics shows there is a trend forming on the drop of property prices. The latest price index (Domestic) announced by the Rating and Valuation Department (RVD) revealed that the property price in March 2013 was dropped by 0.13% compared with that in February 2 (Price Index, RVD, May 2013). This drop stopped the rising trend for the last 13 consecu months and reached its historical peak in February 2013.
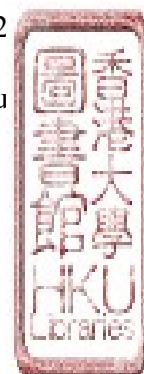
It is good to see that one of Leung Chun-ying's objective was achieved by stopping the property price to rise further by mainly the mandate tools of introducing the SSD, BSD and amended AVD. Under such tools, speculation activities were largely filtered out from the market. However, it subsequently "frozen" the market as the volume of transaction on private residential properties (both first-hand and second-hand flats) has shrunk to the bottom of the valley. In response to the so-called "ice age" of the housing market, urges are raised from the private developers and the property agents to the government to withdraw such tools. We are looking forward to the effect of such measures by the LEUNG Chun-ying government in a longer timeframe and how it handle the challenges from the private developers and relevant shareholders.

Concluding Comments

With rapid economic development in the 80th century, Hong Kong people were targeting at improving standard of living and increasing their household wealth. The Hong Kong housing policy has shifted its focus from provision of affordable public housing to satisfy the demand of homeownership. Hong Kong people see property as more than a form of shelter. As speculation activities in the housing market is closely linked with economic and financial stability, the emergence of signs of speculative behavior led governments to intervene in order to protect the public interest and stabilise the economy. Various tools with the types of mandate, system-changing and inducement were adopted. Unlike the colonial government and Tsang Yam-kuen's minimal government intervention, Tung Chee-hwa and Leung Chun-ying prefer high-handed government involvement because of different governance styles and policy choices. I witnessed that Hong Kong has been moving away from its laissez faire roots, and shifting gradu to interventionist governance. Policies such as increase of land sales, provision of more pu housing and subsidised housing were commonly used by the government to boost housing sup
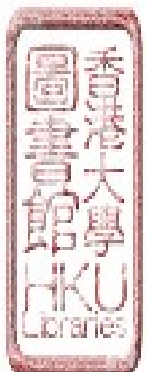
and interfere the high prices of private flat.   However, the government strategies and tools applied in regulating the residential property market over the decades were not very effective.   The government has been criticised as giving rather slow response, and were lacking of long-term and comprehensive planning in regulating the residential property market.   The policy making was mainly for soothing social grievance and pleasing the property developers, rather than solving the actual economic and social problem.

By observing and analyzing experiences over the last decades, the conclusion has been drawn that, policymakers' choice of policy strategies and tools not only affected by governance types, but also influenced by economic and political factors.   Instead of implementation of piecemeal anti-speculation measures such as additional stamp duties and tighten down payment requirement, it is imperative to fundamentally reform the housing policy in order to regulate the private residential property market.
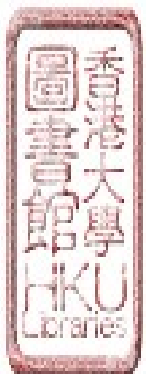
Chapter 5
CONCLUSIONS AND RECOMMENDATIONS

Introduction

This paper analysed the residential property market and skyrocketed property price phenomenon in Hong Kong by applying the perspectives of supply and demand model. Policy tools and strategies adopted in regulating the residential property market across four different eras were also analysed by using the 4 chosen categories of policy tools. Since the residential property market in Hong Kong is oligopolistic, where mainly dominated by a few private developers, government intervention is indispensable. Results showed policy tools (such as restriction on land sales, provision and sales of subsidised housing) adopted under the regulated self governance and interventionist governance are more effective to regulate the housing supply. Active government intervention can improve the effectiveness in policy making. Under the absence of restrictions or conditions imposed on land and property sale, the hoarding of land and properties by private developers and speculators for maximising their benefits could affect the Hong Kong housing market.

If Hong Kong government aims to lower the housing price, it is suggested to impose conditions to the agreements for land sale and encourage cooperation between the private and public sector with joint venture partnerships in housing development project. By doing so, the Hong Kong government could have more control on the supply of flats. Consequently, this may be able to solve the social and economic problems caused by high housing price, whe increasing the benefits of both the government and developers.
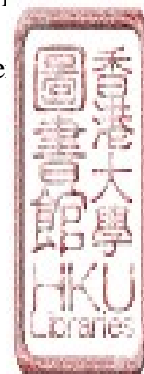
Similar to Hong Kong, Singapore has also struggled to bring property prices under control. According to a financial report released last year compared with 63 locations worldwide, Singapore is Asia's most-expensive housing market behind Hong Kong (Chen, 2013). It has adopted active interventionist governance and imposed anti-speculation measures (such as increase stamp duty and higher down payment requirement) to cure price rises. Singapore, as an Asian country, also had suffered property bubbles in 1997. The government tried to stem the property bubbles by increasing land sales to increase the supply of residential units. In addition, some draconian measures were introduced to curb speculation since 1997. These measures included restricting non-resident foreign buyers to pay a heft 10% stamp study and imposition of additional stamp duty on those who sell properties within 3 years. Under the tightening measures, the private residential property index dropped from 181.4 in the 2nd Quarter of 1996 to 100 in the 4th Quarter of 1998 (Barrett 2010). As demographic profile, social and economic backgrounds of Singapore and Hong Kong bear considerable similarities; it is believed that Hong Kong could make reference to Singapore's experiences in curbing speculation activities and for the reform of Hong Kong's tools approach in regulating the residential property market.

The Two Housing Markets: Hong Kong and Singapore

In Hong Kong and Singapore, as well as many other nations of the world, housing markets are characterised by the co-existence of a freely priced part of the market with a part that is subject to varying degrees and forms of government intervention and regulation. Brief reference to relevant aspects of Singapore's residential housing market is appropriate here as a basis on which the Hong Kong government could well learn lessons of significance to its future regulation of local property market.
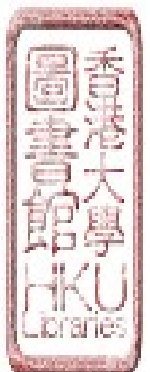
Singapore is a small densely populated island city state with a population of 3.6 million and a land area of 648 km^2. Both Hong Kong and Singapore are small in size and are endowed with little natural resources, especially usable land. Both cities have similar demographic characteristics in terms of age distribution, educational attainment, and income levels.

The structures of the two small economies are similar; both are dominated by finance-, services- and port-based activities. Their Gross Domestic Products (GDP) per capita and growth patterns are also very similar. Singapore's per capita GNP in 2012 was S$34,500 or approximately US$24,500. Most of the land interests in Singapore and Hong Kong are leasehold. The government provides public housing to citizens who help achieve the overall rate of ownership to 95% and 50% in Singapore and Hong Kong, respectively. Other parameters such as the loan-to-value ratios, price-to-income ratios, and unemployment rates are also very similar in the two cities.

Singapore's housing market is skewed towards the public sector. In 2010, 86 % of the 3.6 million population in Singapore resided in public housing. Of the 700,060 units of public housing, 90 % were owner-occupied units while the other 10 % of the public housing stock comprised rental units. Owner-occupied public housing, an anomaly in most other countries, is housing built by the Housing and Development Board (HDB) and sold on 99-year leases to eligible households who are subject to resale and other regulations imposed by the housing authority. Designated town councils chaired by members of parliament take care of general estate maintenance for a monthly fee. Public housing rents and prices of new units are subsidised by government, while a brand new 5-room at cost between S$160,000 and S$260,000 in comparis
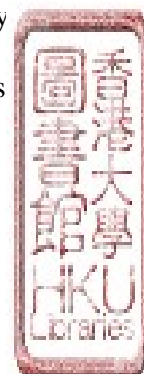
The higher homeownership rate in Singapore is largely the result of two major policies introduced by the Singapore government in the 1960s. They are the sale of public housing and the establishment of the Central Provident Fund (CPF). The CPF is essentially a fully funded, pay-as-you-go social security scheme which requires mandatory contributions by both employers and employees of a certain percentage of the employees' monthly contractual wage to his or her account in the fund. The contribution rates peaked at 25 % of wages for both employers and employees. Contribution rates are currently 20 % of wages for both employees and employers.

If the homeownership rate is high, most home buyers in the market are expected to be "second home seekers". This means they hope to acquire a new property while reselling the one they currently own. Thus, it helps reduce the financial constraints effect on housing consumption in Singapore. Better still, the ability to repay a mortgage has been secured by the implementation of the CPF in Singapore.

The CPF provides another means of financing the purchase of a home. There are two financing schemes for home purchasers. First, the Public Housing Scheme allows CPF members to use their CPF savings to buy flats built by the Housing Development Board (HDB, the provider of public housing) and to pay the installments on their housing loan. Second, the Residential Properties Scheme allows CPF members to use their CPF savings to buy private residential properties and executive condominiums, and to pay the installments on their housing loan. CPF members can also use savings in their Special Accounts to help meet shortfalls in their ability to pay their housing installments arising from a reduction in their employer's CPF contribution.
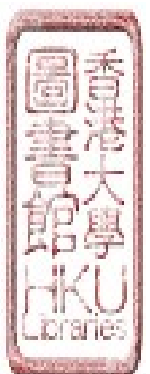
By contrast, only about 50% of households in Hong Kong are homeowners. They have to obtain a substantial mortgage loan or even a top-up loan to purchase a home. Therefore, buyers are heavily reliant on a steady income to repay their loan. It is expected that a high unemployment rate can potentially hinder the steadiness of future income and adversely affect the incentive and capability of potential buyers to enter the housing market.

Singapore's public housing supply is allocated based on "First-come-first-served" waiting lists as well as various eligibility conditions. About 140,000 households are presently on the waiting list for new requirement and the waiting time is about five years. An applicant who satisfies the eligibility conditions is entitled to apply to the HDB to purchase at twice. Half the households on the present waiting list are second-time applicants. Eligibility conditions (which have been relaxed over time as the housing programme expanded) include citizenship status, non-ownership of other residential properties, minimum household size of two, and having household incomes below the ceiling set by the HDB. The present monthly income ceilings are S$800 (mainly 1- to 3-room units), S$1,200 for 3-room, S$8,000 for 4- and 5-room, S$10,000 for executive condominiums, and S$12,000 for multi-tier families. Prices of new public housing are regulated and are at substantially below market rates. Prices vary with size, design, location, storey height, orientation and housing market conditions.

An authorised resale market has existed since 1971 and is subject to the regulations laid down by the HDB. The seller must satisfy a minimum occupancy period of five years if it was purchased at a subsidised price from the HDB. The minimum occupancy period is 30 mo: if it had been purchased in the resale market. A resale unit differs from a new unit in that buyer does not have to be on a waiting list for new units to be completed.
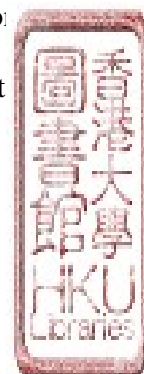
Government interventions in the regulated public housing sector have spillover effects on the private housing sector. Thus, any meaningful discussion of the private housing market cannot ignore the public housing sector. The government, through its sale of sites programme, makes available state land (via auction or tender) to the private sector for the development.

The above discussion show that the conventional factors which affect private housing prices, such as interest rates, income growth rates and supply of housing, appear to have played a statistically less significant role in the determination of private housing prices. Private housing prices in Singapore are highly correlated with the prices for public housing that are set by the Housing and Development Board. Moreover, the timing of policies relating to the use of compulsory CPF savings for private housing purposes in 1981; the liberalisation of rules on public housing ownership criterion in 1989; and the change in maximum HDB loan amount allowable and the use of compulsory CPF savings for housing mortgage interest payments in 1993.

For purchasing public housing, the eligibility criteria were extremely restrictive in the 1960s and 1970s due to the severe housing shortage. As the public housing programme expanded and the basic shelter needs of the majority were met, the eligibility criteria were made less stringent.

In short, from the experience of Singapore, it is found that the coordination and timing of housing-related policies, including the changes in the prices for public housing, supply of private and public housing, liberalisation of public housing regulations, are crucial to pre excessive instability in private housing prices. Well-timed housing-related policies may ever used to dampen the residential property cycle.
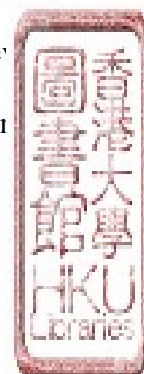
Although there are differences of the political and social contexts between Hong Kong and Singapore, it is worth to consider taking the experience of Singapore as the learning model for Hong Kong government. Singapore government has a set of comprehensive subsidised housing programme in fulfilling the housing needs of public, offering more opportunity for homeownership for its citizens. As such, with reference to the Singapore's experience, a set of recommendations on the government policies in regulating on the residential property market are deduced and will be discussed in the following parts.

Recommendations

There are numbers of innovative proposals that could be considered by the Hong Kong government in regulating the residential property market. By creating more supplies and improving the utilizations of lands and raising the transparency of residential property market, it can better fulfill the raising needs of residential property with the existing limited land resources. One is to increase the plot ratio at the site with mass transit system, which can largely increase the supply of lands in developing residential property. Also, the government offices and headquarter could be moved to the "New Town" at New Territories. This move not only creates more supply of urban lands for residential property, but also increases the employment opportunities thus helps to boost the economy of Hong Kong. In return, it shortens the travelling time for people living in the New Town to going to the workplace and hence attracts more people to move to the New Town. Moreover, extending the scope of monitoring of transaction transparency to second hand market can further solve the information asymmetry problem between the buyer, seller and property agent. In particular, all transactions details of residential property should be updated and registered on as soon as possible.
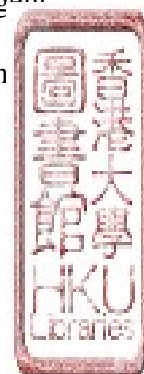
Besides the abovementioned proposals of tools for improving the utilizations of land resources and administration strategies in improving the transparency of the market, two major recommendations about improving the joint efforts of the public and private actors and the provisions of subsidised housing will be highlighted and discussed into details as below.

The private residential property price rises as the supply of flats cannot meet the demand from the society.   It is a problem that as we can see from chapter 3, the degree of cooperation between public and private actors is low which the private developers do not necessary make use of the newly purchased lands to build flats but just keep them in their land bank undeveloped.   The bonding between land sales by the government and flats completion is lost.   It is no longer guaranteed that the government can increase the supply of flat in the private market by selling lands in an expected timeframe.   As such, recommendations are provided in the following two dimensions.

First, urban renewal projects are actually very effective in providing private residential properties through inducement.   It is a mode of high degree of legal obligation and high degree of cooperation between public and private actors under regulated self-governance which the Urban Renewal Authority (URA) would partner with private developers with an agreed schedule. URA would be responsible for dealing with the owner of properties being affected while the private developers responsible for the construction and relevant developments.   Cooperation in such a way can avoid the problem of having land sold in the purpose of providing new flats to be left vacant.

Second, under the style of active interventionist governance, we suggest to apply mandate of land vacant tax under a condition that lands sold to private developers are left va

after a certain period of time. However, the conditional terms should be set very carefully, e.g. the amount of tax and the timeframe of applying the tax, or otherwise would raise adverse effect on the private developers and also to the market. On the other hand, property vacant tax can also be adopted for the cases that the private developers hold the completed flats not for sale in order to wait for an optimum time for them to obtain the largest profit.

Although the earlier finding suggested that the relationship between the supply of subsidised flat (HOS) and the prices of the private residential properties was weak in general, the survey mainly focus on the price of private residential properties and did not emphasize the strength of subsidised housing on the flexibility to regulate the supply of residential flats as well as the income limit which could screen the target buyer. Taking account into the experience of Singapore, the provision of public housing and subsidised housing which allow the middle class to rent with a discounted market rent (e.g. 80%) or purchase the flat with a discounted price would also be an effective long-term housing policy to meet the housing needs of the society by rising the homeownership rate and opportunities for renting the flats in affordable price.

Under the style of active interventionist governance, we further suggest to reactivate the system-changing tools under the supply perspective, namely "Government Subsidised Housing" (e.g. HOS flats). The government active involvements into the supply of residential flats could effectively control the number of flats to be built, the location of the flats and the number of flat to be sold and the target of the buyers. In addition, the provision of subsidised housing could be used with high flexibility to the ever changing economical environment. The government could b more subsidised flats and put them into market while the market faced a shortage of supply high price. Although the time required in completing the flat need around three years, information on the number of flats to be completed and to be put into the market would affect
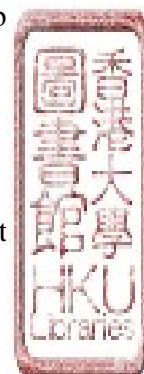
buyers and their expectation of the future price. On the other hand, if the market is in recession, the government could switch the subsidised housing unit into public housing unit.

It is strongly believed that this tool in supply perspective under interventionist governance could in a long run regulate the residential property market and enable healthy growth as what the colonial government did since HOS was introduced in late 1970s to 1990s.

Concluding Observations

Over the past few decades residential property prices has risen rapidly in Hong Kong, driving up household expenditure on accommodation expenses whilst driving down home-ownership. Without doubt, home ownership is the goal of most people. High residential property price not only affect the rate of home ownership, but is also causing other housing problem such as longer public housing waiting lists and sharply rising rents. Residential property price need to stop rising steeply, but it will not naturally drop down. The government must use proper and pragmatic policy tools, and if necessary, change policies to resolve this problem.

The tools of government are not limited, though governments nowadays often use tool of mandate. Policymakers can select tools of inducement, system-changing and capacity building, and the choice of tools depends on how they define the problem. There are other factors (e.g. fundamental and psychological factors on housing demand) have played in high residential property price problem, but the largest single cause in supply of housing. Thus, the tools in the perspective to control supply of residential property are considered to be more effective to regulate the residential market. Analysis revealed that there is no direct correlation between the land by the government and the completion of new flats. Hong Kong residential property is operate oligopolistic market structure, where the market is dominated by a few developers. The su

decisions of the developers on new flats were based on economic decisions.   Increase of land supply by the government may not guarantee the increase of housing supply in the market.

In fact, Hong Kong has a long history of government involvement in the housing market and of highly interventionist housing policies.   The research on a diverse set of policies operating in different governmental context reflected the different types of governance.   It also revealed that the typical tools used by the government in regulating the residential property market are mandate and system-change.   The actual policies were restriction on land supply and provision of subsidized housing.

Establish a better understanding of how the Singapore government worked in stabilising the property market certainly could provide a true experience learning on what tools to use in future to combat housing market distress in Hong Kong.   The establishment of CPF and the "generous" provision of subsidized housing are good examples showing the determination of the Singapore government in regulating the private residential market.   In Hong Kong, mortgage borrowers mainly rely on bank for home financing.   The policy tools adopted by the Singapore government, if they are used in Hong Kong, could affect the interest of bank-based mortgage market.   In addition, the government can hardly manipulate private developers' economic decision on the completion of flats.   The possible way the government could do on the supply side, is to use the tool of mandate and system-changing, such as impose regulations on the land sale agreement and conduct joint venture housing development project in partnerships with private developers, to ensure government have more control on the sale of flats upon completion.
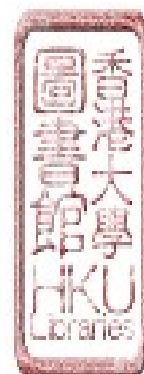
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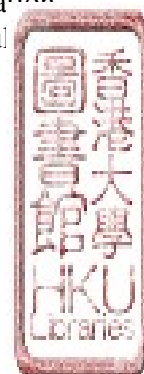
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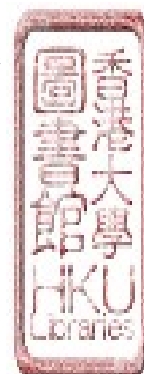
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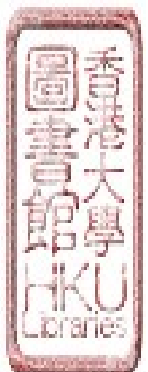
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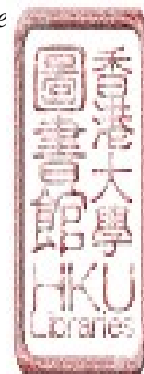
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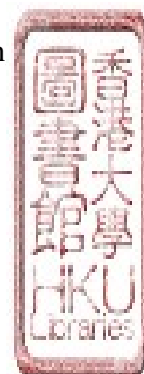
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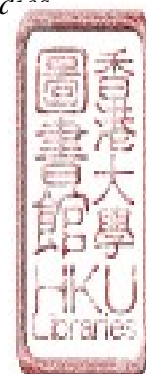
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