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Burst of Property Bubble and Hong Kong's Changing Land and Housing Policies Post-1997: Political-Economic Implications

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Burst of Property Bubble and Hong Kong's Changing Land and Housing Policies Post-1997: Political-Economic Implications

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Abstract

Momentous events have characterized the Hong Kong Special Administrative Region (SAR) since its founding in 1997. Among these were drastic and repeated changes in housing and policies, shifting from one emphasizing the role of the state to one purportedly relying primarily on market forces and then back to a more proactive stance of the state. Associated with these changes were roller-coaster movements in residential prices and housing completions. These developments took place in the context of phenomenal upheavals within and beyond Hong Kong: the Asian Financial Crisis and the burst of Hong Kong's property bubble, the contestation of Hong Kong's autonomy under "one country, two systems", and the flooding of "hot money" consequent upon repeated rounds of "quantitative easing" by the FED of the United States to counteract the global financial crisis of 2007-2008 and the Great Recession that followed.

Keywords: Property bubble, Asian Financial Crisis, Hong Kong's housing and land policies, "One Country, Two Systems", quantitative easing

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Introduction

The world economy is still struggling to recover from what has been known as the Great Recession triggered the collapse of the property market in the United States in 2007-08 and the resulting global financial crisis. Much has been written on what caused the crisis (see, for example, Aabler, 2012; Harvey, 2012; Krugman, 2009; Martin, 2011), which is widely attributed to, *inter alia*, the lack of prudence in extending subprime mortgage loans to families with poor credit rating; multi-level securitization and repackaging of subprime and other mortgages in the form of collateral debt obligations (CDOs), asset backed securities (ABSs), credit backed swaps (CDSs) and other new financial "products" which helped to evade the oversight of regulatory bodies; and, of course, personal greed of those who would benefit handsomely from the global circulation of trillions of dollars in the transaction of these securities. Gotham (2012) describes this as "creating liquidity out of spatial fixity", arguing that the crisis illustrates the contradictions of capital circulation in the tendency of capital to annihilate space through time.

With housing prices in the United States ceasing to rise further and indeed beginning to fall in 2006 and 2007, defaults became increasingly prevalent first in the subprime mortgage sector and then among other mortgage loans. The world's leading financial institutions, all of which were actively involved in the frenetic issuance and transactions of CDOs, ABSs and other obscure security packages, witnessed large quantities of such assets turning "toxic". Bear Stearns and Lehman Brothers encountered severe liquidity problems. The former was taken over by J P Morgan Chase in March 2008 on the advice of the Federal Reserve Board (FED) of the United States; the latter filed bankruptcy in September of the same year. The fall of Lehman Brothers, the fourth largest investment bank in the United States, triggered a tsunami in international finance. In the following months, Merry Lynch, the world's largest brokerage house, was taken over by the Bank of America, again on the advice by the FED. Citi, AIG, and other financial giants too experienced major difficulties. They were saved only by huge injections of public funds. In the United Kingdom, RBS and Lloyds were partially nationalized. In Ireland, which saw the burst of its own property bubble, the Anglo-Irish Bank was nationalized and the Irish government had to seek "bail out" funds from the European Union (EU) and the International Monetary Fund (IMF). National debt crisis erupted also in Greece, Portugal, Spain, Italy and Cyprus.

With massive cuts on government expenditures imposed by the "bail-out" packages, economic conditions emulating the Great Depression of the 1930s have caused immense hardship in these countries. Spain and Greece, in particular, are experiencing unemployment rate in the order of 25 per cent, with youth unemployment rate topping 50 per cent.

Back in 1997 and 1998, a financial crisis of equally intense ferocity, albeit more restricted in geographical scope, took place in East and Southeast Asia and called into question the notion of Asian miracles. The Asian Financial Crisis, as it is commonly known, caused harsh sufferings in many countries and territories in East and Southeast Asia. Indonesia, in particular, experienced a revolution that not only toppled the Suharto regime but also induced racial riots that killed thousands of ethnic Chinese. In Hong Kong the impacts of the crisis had been prolonged and far reaching. The severity of the crisis first became apparent on 2 July 1997, the second day after Hong Kong's return to China, with the Thai government forced to allow the Baht to float and devalue by 20 per cent on a single trading day. The Hong Kong currency too was under attack. To defend the Hong Kong dollar's link to the US dollar, the Hong Kong overnight interbank offer rate (HIBOR) was raised to 280 per cent p.a. on 23 October 1997 (HKIEBS, 2010, p. 13). The stock market tumbled, and the Hang Seng Index fell by 23% in the next four trading days. At its lowest point, the stock market was 60 per cent below its previous high.

Perhaps because of its regional scope, the Asian Financial Crisis did not catch as much scholarly attention as the World Financial Crisis of 2007-08. Yet, the causes underlying the former, such as lax financial regulations, inflated property bubbles, and over-exposition to real estate loans (Quigley, 2001; Case and Quigley, 2009), were quite similar to those of the latter. Parallels can also be drawn on the impacts on individual households who became negative equity holders and trapped in homes that they could hardly afford because of falling home prices. Indeed it may be argued that what happened to Hong Kong and other East and Southeast Asian economies presaged what were to be installed at the global scale ten years later. The case of Hong Kong is especially interesting from an urban development as well as geopolitical point of view, as the burst of the property bubble, which took place right at the time of the city's return to China and which brought forth highly volatile land and housing policy regimes, has major implications for the long term future of the former British colony and now China's special administration region (SAR).

Below I try to provide an interpretative account of Hong Kong's changing land and housing policies since the handover by contextualizing such changes in light of Hong Kong's social and political developments under deepening globalization and its newly ascribed status as a special administrative region of China. I begin by examining the conditions leading to the pronouncement of an annual housing production target of 85000 units by Tung Chee-Hwa, the first Chief Executive of the Hong Kong SAR, and how the collapse of the property bubble in 1997-98 together with the attempt to enact national security laws in 2003 resulted in more than 500,000 people taking to the street to call for the resignation of Tung. Next, I try to relate the almost absence of government-initiated urban land development under the administration of Donald Tsang, Tung's successor, to the accusation of real estate hegemony and big business-government collusion; the latter further undermined the legitimacy and popularity of the SAR government. Another pendulum shift in land and housing policy re-instating the role of the state was initiated by Leung Chun Ying, the SAR's third and current Chief Executive. La Grange and Pretorius (2005) previously argued that the shifts in housing policy in Hong Kong along the commodification— de-commodification spectrum reflect attempts by the government to enhance revenues from land-related transactions. While such considerations might not be discounted, in this paper the major concern is how such policy changes have been conditioned by developments taking place both globally and within Hong Kong, particularly the city's experience as a SAR of China under "One Country, Two Systems".

The burst of the Property Bubble and the Land and Housing Policies of the New SAR

Hong Kong may be seen as an exemplifier of *laissez faire* capitalism. Yet, both Castells et al (1990), writing from the perspective of Marxian political economy, and Wong (1998), writing from the perspective of the Chicago School of Economics, agree that state non-interventionism in Hong Kong is a myth. Ever since the mid-1950s the Hong Kong government has been the city's largest housing provider and played a pivotal role in charting its urban development paths. The launching of the Ten Year Housing Programme and the accompanying New Town Development Programme in 1972, in particular, relocated millions of people from dilapidated tenement houses in overcrowded urban areas to massive housing estates in Shatin, Tuen Mun and other new towns in the New Territories. These new towns also provided land for private housing and high-rise flatted factories. Beginning from the late 1970s the government also introduced a Homeownership Scheme (HOS), under which flats built by the Housing Authority and kindred organizations were sold at prices 30-50 per cent below market levels to sitting tenants of public rental housing (PRH) and other Hong Kong permanent residents satisfying the means tests. A *White Paper on Long Term Housing Strategy* was promulgated in 1988, calling for further expansion of the HOS as well as selective selling of PRH flats to sitting tenants. According to the 1996 Population By-Census, in the eve of the handover 38.1 per cent of the population of Hong Kong resided in PRH, 11.3 per cent in HOS and other subsidized ownership flats, 46.9 per cent in permanent private housing, and the rest in squatter huts and other informal structures (Li, 2010, 48-49).

Despite the massive and direct involvement of the government in housing provision, squatting persisted; moreover, tens of thousands of households continued to reside in dilapidated and heavily subdivided tenements, often in the form of cages. Meanwhile, the price of land and private housing increased by leaps and bounds. Figure 1, which is based on home price indices published by the Rating and Valuation Department, shows that, aside from a rather deep and yet temporary retreat in the early 1980s in conjunction with the negotiations between China and Britain on the future of Hong Kong, the price index increased almost incessantly from 15 in 1974 to 422 in the 3rd Quarter of 1997, a jump of 27 times in 23 years! Clearly, increase in household incomes could not keep pace with increase in home prices. Using the average price of a 55m^2 flat in Kowloon and the median household income reported by the Census and Statistics Department as the basis for computation,[2] the home price-to-income ratio, a common yardstick of housing affordability, increased from an already exceedingly high level of 11.66 in Quarter 1, 1982 to an even more unbelievable value of 16.87 by Quarter 2, 1997. In other words, it would cost an average household more than 16 years of earnings to save enough money in order to buy a small flat in the private market, even if the household did not spend a single cent on daily necessities and other consumption items. Obviously, home purchase was

[2] The mean home price in Kowloon lies between that on Hong Kong Island and in the New Territories; for this it is use as the basis for computation. Also, while a 55m^2 flat is considered to be small in most cities, including cities in mainland China, to most people in Hong Kong such a flat is deemed quite decent. In fact the great majority of flats in public housing estates are smaller than it.

beyond the reach of few except the very rich. Social surveys repeatedly showed that rising home prices and the lack of housing affordability topped the list of dissatisfaction for Hong Kong people (see, for example, Wan, 1992; Hong Kong Institute of Asia-Pacific Studies, 2013). At the same time, to many housing ceased to be a use value; the primary purpose of home purchase was for speculative gains. A housing bubble of immense magnitude was taking shape.

Thus, a major task confronting Tung Chee Hwa and the new SAR Government was to curb the run-away increase in home prices and improve ordinary people's housing lot. In his inaugural policy address of October 1997, Tung announced an ambitious housing development plan, which was incorporated in the Second White Paper on Long Term Housing Strategy issued next year. Stipulated in the plan was an annual housing production target of no less than 85000 housing units (hereafter the 85000 Units Programme). The public sector, including PRH and the HOS, would take the lead and produced a minimum of 50000 units *per annum*. Tung also set targets of 70% homeownership rate by 2007 and PRH waiting time of no more than 3 years by 2005 (HKSAR, 2007). The SAR was soon turned to a massive construction site. Development densities of the Tseung Kwan O and Tin Shui Wai New Towns, the newest new towns, were substantially raised. Even interstices of open space in existing public housing estates were targeted for housing construction. As a result of all these efforts, total housing completion increased sharply from 48,195 units in 1997 to 85,647 units in 1999, and then stayed at a very high level until peaking at 98,510 units in 2001 (see Table 2). Of the 374,638 housing units completed between 1997 and 2001 (both years inclusive), 146,628 or 39.1 per cent were PRH, and 100,156 or 26.7 per cent were HOS flats. Correspondingly, the homeownership rate increased from 44.5 per cent in 1996 to 50.8 per cent in 2001 (C&D, 2012, Table 7.8).

With the benefit of hindsight it might be argued that the land development and housing construction drive was launched at the wrong time. Attacks by international speculators on the Hong Kong currency forced the Hong Kong Monetary Authority to raise the HIBOR to 280 per cent on 23 October 1997. This instigated immediate collapse of the stock market, enabling international speculators holding short positions to reap hundreds of billions of Hong Kong dollars off the pockets of ordinary investors. The Hong Kong–US dollar peg was saved, but this also eroded the economic competitiveness of Hong Kong, given that many of its competitors had devalued their currencies. As a result, Hong Kong suffered from prolonged deflation and deep recession. The unemployment rate surged from around 2 per cent in 1997 to over 8 per cent in 2003. Nominal wage rates declined. Even in the public sector, budget deficits resulting from falling taxation and other incomes forced the government to cut back on expenditures of all kinds, including the salary of civil servants. Property prices tumbled and continued to decline sharply in the next five to six years. The SARS (Severe Acute Respiratory Syndrome) outbreak in spring 2003 sent the property market to the doldrums. At its bottom in Quarter 3, 2003, the average home price was down by 65 per cent or more from its 1997 peak (see Figure 1). Many "homeowners" who held mortgage loans became "negative equity holders", in that the value of their home fell below what they owed the banks. The Hong Kong Monetary Authority (2014) estimated that as of June 2003, the average loan-to-value ratio stood at 128 per cent, and there were 105,697 mortgage loans or 22 per cent of the total falling in the negative equity category. Quite surprisingly, there were very few defaults. Irrespective of falling nominal earnings and heightened risks of unemployment, the great majority of "homeowners" in Hong Kong struggled and managed to pay the monthly mortgage instalments. Falling and in many instances negative net wealth implied that hundreds of thousands of "homeowners" could not move to a smaller and more affordable premise upon selling the existing home to repay the mortgage. The inability to move also meant that even though in a deflationary environment the prevailing mortgage rates were falling, the trapped "homeowners" still had to pay the former high rates. Instead of praising Tung for his efforts in bringing a more affordable housing regime and his initiatives in promoting homeownership, public sentiments in Hong Kong underwent a 180 degree turn. The 85000 Units Programme was a major culprit. Tung was to be blamed for all the misgivings that had inflicted Hong Kong since the handover, including the SARS epidemic which infected 1700 and killed 299, many of whom physicians and nurses (Legislative Council, 2004).

The handover ceremony on the evening of 30 June and the early hours of 1 July 1997 took place in a festive atmosphere. Yet, images of the atrocities in the early days of the People's Republic and the 1989 Tiananmen clampdown remained vivid in the mind of the people of Hong Kong. Hundreds of thousands emigrated to Canada, Australia and other countries in the 1980s and early 1990s to escape the imminent Chinese rule (Ley, 2010). Those who left behind reluctantly acknowledged the city's return to China under "One Country, Two Systems" and the pledge of "Hong Kong people governing Hong Kong". The severe economic downtown and homeowners' instantaneous evaporation of wealth resulting from collapsing property prices that followed immediately after the handover was much less than a blessing to the newly born SAR. People would compare Tung and his government, which was seen as inept and not able to understand and address their grievances, with the effectiveness and resolution, real or imagined, of the former British colonial government. After all, it was under the British rule that Hong Kong's economic miracle unfolded.

Article 23 of the Basic Law of Hong Kong, the mini constitution of the SAR, stipulates that the SAR has to enact national security laws "to prohibit any act of treason, secession, sedition, subversion against the Central People's Government, or theft of state secrets." After having been re-elected for a second term as the Chief Executive in 2002, Tung initiated the required law enactment process. However, drafts of the laws presented to the public were received with immense suspicions. A bill was gazetted in spring 2003 to be passed by the Legislative Council when the SARS outbreak was at its height. Triggered by the fear of the curtailment of freedom and the imposition of an authoritarian state with under the national security laws, more than 500,000 people took to the street on 1 July 2003, the sixth birthday of the Hong Kong SAR, to demonstrate their deep dissatisfaction against the perceived inept and, to those who aspired for universal suffrage, illegitimate Tung administration. The government was forced to withdraw the bill. In March 2005, Tung stepped down and was succeeded by his deputy, Donald Tsang. In many respects 1 July 2003 was a major watershed in the history of the Hong Kong SAR. The city's political ecology, including the SAR's domestic politics and its relations with the Beijing central government, has never been the same ever since (Wang, 2007).

The 2002 Statement on Housing Policy and Land and Housing Development in the First Decade of the Twenty-First Century

In view of the collapse of the property market, around the turn of the century the 85000 Units Programme was shelved quietly. On 13 November 2002, Michael Suen, then Secretary of Housing and Lands, issued a "Statement on Housing Policy" (Statement) (Li, 2010). The Statement stipulated the following:

1. The government would minimize intervention in the private property market;

2. All scheduled land sales by the government would be stopped;
3. Future government land sales would only be made upon successful triggering of land sites contained in the government's application list;
4. The HOS and other subsidized home purchasing schemes would be terminated indefinitely.

To further support the property market, the SAR government also amended the Landlord and Tenant (Consolidation) Ordinance to end rent control in October 2003.

The 2002 Statement explicitly called for the retreat of the state in land and housing provision, and largely defined the way the Hong Kong SAR approached the matter in the next ten years. In March 2005 Tung stepped down and succeeded by his deputy, Donald Tsang, who served as the Finance Secretary both under Chris Patten, the last Governor of colonial Hong Kong, and in the first term of Tung. As a student of Sir Phillip Haddon-Cave, Hong Kong's Financial Secretary from 1971 to 1981, Tsang was a staunch supporter of the latter's economic philosophy of positive non-interventionism. Under the Tsang administration, the belief in "small government, big market" was often translated to inaction, whether in terms of channelling investments in selected growth sectors as was the case of Singapore, Korea and other Asian development states, or in respect to the "positive" element of Sir Phillip's non-interventionism which emphasized the role of government in building needed infrastructures. Fearful of the repeat of free fall of home prices, Tsang was reluctant to make any changes in the measures stipulated in the 2002 Statement even though the economic and housing market conditions had improved substantially. Not only that the HOS was terminated, but also that the construction of PRH was substantially scaled down. After peaking at a rate of 49,386 units in 2001, PRH completions declined sharply to only 4,795 units in 2007, before re-bouncing to 22,759 in 2008 and then fluctuating at relatively low levels thereafter (Table 3). Large-scale new town development was seen as unnecessary. The Hong Kong 2030 Planning Study promulgated in 2007 identified four new development areas (NDAs) in the northern part of the New Territories, which would be much smaller in scale than the existing new towns (PD, 2007), to be the foci of urban development in future. To date, however, after repeated rounds of consultation, none of these NDAs has yet to commence construction.

In some respect the 2002 Statement proved to be highly successful. In part due to the curtailment in supply and in part reflecting the general economic recovery, home prices rebound sharply from 2004 onwards. Even the worldwide recession of 2008-09 only held back the rising trend for a very short time. The price index resumed rising in 2009. Fuelled by easy money and record low mortgage rates, thanks to the flooding of "hot money" worldwide resulting from rounds of quantitative easing undertaken by the FED, by Quarter 1, 2011 the price index surpassed the 1997 peak. The index rose further to 511 (100 in 1989), some 24 per cent about the 1997 level, in Quarter 2, 2012, when Tsang's second term as the SAR's Chief Executive was about to end (Figure 1). Correspondingly, the home price-to-income ratio, after hitting bottom at a value of 6.06 in Quarter 2, 2003, showed equally sharp increases, reaching 19.98 in Quarter 2, 2012 (Table 1). If housing was unaffordable in the years preceding the handover, the situation in the late 2000s and early 2010s was much more severe. Previously, middle and lower-middle income households still had a chance to enter homeownership via the HOS. But this was no longer possible. The housing ladder that had been established since the late 1970s was effectively dismantled. Once again, public sentiments exhibited a 180 degree turn. Instead of embracing the increasing value of their housing assets, the SAR government was blamed for pushing home prices to astronomical levels.

The aggravation of wealth inequality in association with housing asset price inflation amidst worsening income inequality in a city increasingly relying on finance and other producer services further deepened social discontents. Compounding the picture was the accusation of real estate hegemony and big business–government collusion, which further undermined the popularity and perceived legitimacy of the Hong Kong SAR government. Surely, collusion between big business and government in Hong Kong was nothing new. It characterized Hong Kong as a British trading outpost in the Far East. The big British trading houses or "hongs" such as Jardine Matheson and banking institutions such as the Hong Kong and Shanghai Banking Corporation constituted a major component of the British colonial rule. Indeed, the chairmen or chief executives of these British firms were automatically members of the Executive Council and Legislative Council. Big business–government collusion in post-handover Hong Kong might be less explicit but nonetheless as influential. The 1970s and 1980s witnessed the rise of such local ethnic Chinese firms as Cheung Kong of Li Ka Shing and Sun Hung Kei Properties of the Kwok family whose fortunes were largely derived from real estate investment and speculation. One after another, Hong Kong and Kowloon Wharf, Hong Kong Electric, Hutchison-Hwangpu, and other major British controlled businesses fell prey to local Chinese firms. Quite understandably and yet ironically, the Chinese government under the Chinese Communist Party sought support of the Hong Kong-based big businesses to ensure a smooth transition to Chinese sovereignty before and after 1997. Li and other local Chinese tycoons became frequent guests of Zhao Ziyang, Jiang Zemin and other leading figures of the Chinese state. Among the tycoons was Tung Chee Hwa, the SAR's first Chief Executive, although his company, Oriental Overseas, specialized in container shipping rather than property development.

From the outset, Tung was criticized of extending privileges to his business supporters. Exemplifying this was the construction of the Cyperport, for which a large piece of waterfront land near the University of Hong Kong was awarded to a company of Richard Li, Li Ka Shing's younger son, to construct, in theory, a high-tech hub. Yet, much of the land was in fact used for the construction of luxurious apartments, each of which fetching tens of millions of Hong Kong dollars (*The Standard*, 2012). Another major controversy was the proposed 40-hectare West Kowloon Cultural District on land reclaimed as part of the Port and Airport Development Project of the 1990s, which was another initiative of Tung to develop Hong Kong into an art and cultural hub of Asia. A proposal to build a giant canopy to house a number of mega theatres and art galleries by Normal Foster, who was also the architect of Hong Kong's new airport, won the design contest in 2003. The initial plan was to award the construction and operation of the mega project to a single firm, which would finance it through profits generated from real estate developments adjacent to the giant canopy. Obviously, only the largest developers in the SAR would be able to undertake such a large property-cum-culture development project. A consortium led by Cheung Kong Holdings and Sun Hung Kei Properties was widely tipped as the favoured bidder. Not surprisingly, many saw this as another gimmick by the government to extend favour to big business (SCMP, 2004). Under mounting criticism, the government finally gave up the giant canopy concept. Instead of pursuing private-public partnership, the SAR government injected HK$21.6 billion to the newly established West Kowloon Cultural District Authority to construct and operate the project. Controversy on the design and phasing of the project persisted, however. To date, the 40-hectare site remains largely a huge empty space for occasional open-air concerts and the annual Cantonese opera performance during the Chinese New Year; the latter would take place in a theatre built by bamboo crane, which would be dismantled after the Chinese New Year.

Allegation of real estate hegemony and big business–government collusion became more severe under Donald Tsang's administration. Under the 2002 Statement, which stipulated that government land sales would only be conducted upon successful triggering of land sites in the application list, the SAR Government yielded its command over the primary land market, i.e., the initial granting of land lease, to private developers. The Tsang administration repeatedly stressed that the government would not sell land cheaply. As a result, successful triggering of land sites was infrequent. Surely, land sales by the government were not the only means of supplying land for new construction. Developers who had amassed rural land in the New Territories could seek approval to convert agricultural land for residential and commercial purposes and pay the government a premium equal to the difference in assessed value between agricultural and urban use. However, protracted negotiations on the premium further constrained land supply and hence housing production. Instead of showing increases as a response to rising home prices, private housing completions in fact exhibited a consistent decreasing trend from the mid-2000s onwards (Table 3), dropping from 25,000-31,000 units *per annum* between 2000 and 2004 to a low of 7,157 units in 2009 and then staying at very low levels in the next four years. Meanwhile, irrespective of the low production levels, Hong Kong's major development firms were able to report record profits year after year.

Current Challenges

Towards the end of his administration, under mounting pressures Tsang retreated from his non-interventionist stance and introduced measures to cool down the frenetic property market. A Special Stamp Duty (SSD) was introduced on 19 November 2010 to curb housing speculation (HKSAR, 2014a). More specifically, an *ad valorem* SSD of 15 per cent would be levied on the selling of residential properties held for less than 6 months, 10 per cent on properties held between 6 months and 1 year, and 5 per cent on properties held between 1 to 2 years. In his 2011 *Policy Address*, Tsang conceded to the call for re-instating the Homeownership Scheme and pledged to build 17000 HOS flats over a five year period beginning from Financial Year 2016/17 (HKSAR, 2011). In the 2012 *Policy Address*, Tsang further commented (HKSAR, 2012a),

> "When private housing is in short supply and property prices rise to a level beyond people's purchasing power, the Government has to intervene and make adjustments through the provision of additional land and through subsidised housing policy." (HKSAR, 2012a, §12)

However, the SAR government was embarrassed by its inability to locate adequate developable land sites after years of inaction in urban land development.

Tsang's term of office ended on 30 June 2012. Against all odds, Leung Chun Ying beat Henry Tang, Tsang's deputy and widely held favourite in view of the latter family's close ties with Beijing, particularly former President and CCP Secretary Jiang Zemin, as well as with the business circle in Hong Kong, in what was described as a "small circle election" to become the third Chief Executive of the SAR. Leung, a land surveyor by training and an advisor of Tung Chee Hwa, was widely held to be behind the orchestration of the 85000 Units Programme. In his first Policy Address delivered in 2013, Leung pronounced that tackling the housing problem was the top priority of his administration. The policy objectives were to (HKSAR, 2013, §58):

1. Assist grassroots families to secure public housing;
2. Encourage homeownership;
3. Provide subsidized owned flats so as to build a progressive housing ladder; and
4. Enhance healthy and steady development of the private property market.

To achieve these objectives, the SAR government has since introduced a series of measures, both short- and long-term. The former include strengthening the demand-control measures installed in the late Tsang administration. Specifically, on 26 October 2012, the government announced to increase the *ad valorem* SSD by 5 percentage points as well as extending the holding period to three years for which the SSD would apply. In addition, a Buyer's Stamp Duty (BSD) of 15 per cent will be imposed on residential properties bought by non-Hong Kong residents (HKSAR, 2014b). On 22 February 2013, the Finance Secretary announced to double the *ad valorem* stamp duty rates to a maximum of 8 per cent for all property transactions, irrespective of the holding period (HKSAR, 2014b). Only first-time home buyers or people trading in for another residence would be exempted from paying the additional stamp duty. These measures are generally known as “double penalties” among the public. Investment and speculative demand especially from mainlanders, who have become a big player in the local property market in recent years, subsided immediately. Housing transactions in the secondary market almost came to a halt. Increase in residential prices has become much more moderate, although to date there is as yet any sign of major corrections (Figure 1). On the supply side, the government has re-instated an active land sales programme to resume control over the primary land market, and has since put up land parcels for tender on bi-weekly to monthly intervals. However, the lack of readily developable sites continues to plague the SAR government. To increase housing supply, the government has increased the development density for lands included in its land sales programme. Also, pockets of small open space and larger land sites formerly reserved for institutional and community use, including land originally designated as the third phase of the Hong Kong Science Park, as well as land zoned for greenery have been rezoned for residential development. Such an act of “scrambling for land”, expectedly, has generated strong criticisms from environmental groups as well as from District Councillors representing local interests and from other politicians.

In the long term, the Leung administration seeks to build a sizeable land bank. Of major significance is the implementation of the NDAs in Northeast and Northwest New Territories identified in the Hong Kong 2030 Planning Study. The New Town Development strategy, which was seen as outdated in the 2030 Planning Study, is re-invoked. A much larger scale of development, particularly in respect to population size, is now envisaged for the NDAs. Also, like former new towns, once again the NDAs are to be public housing led, in line with the policy guidelines outlined in the *Consultative Document on Long Term Housing Strategy* issued in September 2013 (SCLTHS, 2013). *Inter alia,* the guidelines stipulate that:

1. The housing policy is one of supply-oriented. A target of 470,000 residential units completion is set for the next ten years;
2. The government will assume a leader role in housing construction. The ratio of public to private residential completions is set at 6:4.

In his 2014 *Policy Address*, Leung proposed to explore the possibility of large-scale land reclamation from the sea between Hong Kong Island and Lantau Island, irrespective of the general opposition to further land reclamation among the public (HKSAR, 2014a).

Aside from the apparent indiscriminate scrambling for land and the proposed large-scale land reclamation, the latter being likely to severely impinge on marine life, the above policy re-orientation appears to be quite timely and not too controversial. This is the case given the re-emergence and continuing inflation of the property bubble, and given the extreme lack of housing affordability, a major source of social discontent especially among the younger generation. However, so far these initiatives have not been well received. The popularity ratings of Leung and his government consistently stay at levels even lower than those of his predecessors. Efforts to expedite urban development in Northeast New Territories, in particular, have met with strong opposition. Stiff resistance from environmental groups is to be expected. But there are also those who see urban land development, presumably under capitalism, is by nature unjust, as exchange value takes precedence over use value. Clearly, the livelihood of affected villagers will be uprooted. Two different types of villagers may be identified. First, there are the clan-based indigenous villagers whose ancestors settled in Hong Kong hundreds of years ago. Their claim to land holding rights was upheld by the British colonial government and enshrined in the SAR's Basic Law. While few of them, if any, rely on farming for living these days, the indigenous villagers have maintained strong cultural traditions, including the authority of the clan chief to manage the village's communal land and other assets and distribute the incomes generated to individual villagers, and the holding of festivities centring at the village's ancestor temple (Watson and Watson, 2004; Johnson, 2000). Heung Yee Kuk or Rural Council has long represented the interests of the indigenous villagers in the New Territories since the colonial days, and has been enticed by Beijing to constitute part of the ruling coalition of the SAR since the handover. As such, it is generally supportive of development proposals put forward by the SAR government. After all, with the consequential tremendous improvements in transport and other infrastructures and huge increase in population, the value of the land held by them will increase by leaps and bounds. Also, those whose land is to be resumed are destined to receive hefty compensations. Arguably, their opposition to the proposed development programme is largely a tactic of bargaining for more lucrative compensation deals.

This is also a second group of villagers who do not own land. Many are people or descendants of those who fled the communist regime on the mainland in the late 1940s and early 1950s and farmed on lands rented from the indigenous villagers or on illegally occupied lands on hillside (Aijmer, 1986). Unlike the indigenous villagers, these "newcomers" are not entitled to such privileges as the right to construct a 3-storey village house of 700 square feet each floor for each male sibling of the family. Largely because of their status as tenants or illegal occupiers of public land, they are only entitled to "*ex gratia*" allowance when the government requisite the land for urban development. Invariably, such *ex gratia* allowance is no more than a fraction the compensation that the indigenous villagers would receive. Understandably, these landless villagers have staged highly stiff opposition to the development programme. Bargaining for better compensation, such as rehousing in rental public housing in the same district, or the granting of land nearby for the relocation of the entire village and for the continuation of farming, are likely to be the major reason behind the confrontational moves. However, there could also be those who deeply treasure their existing way of life and simply do not want to be uprooted.

Regardless of the motives behind the villagers' resistance, social activists of different persuasions would seize upon such an opportunity to challenge the Leung administration, and by implication, the Beijing central government and the CCP. To some, the land requisition moves by the SAR government are vivid manifestations of the hegemony of the state, which represents the interests of big business, over powerless and marginalized local villagers, particularly landless villagers, whose traditions and way of life have to be respected and defended. To others, the development of the northern part of the New Territories, which is adjacent to downtown Shenzhen, the former small border town and now the fourth largest city on the mainland, represents a major effort on the part of the SAR government to integrate Hong Kong with mainland China. To them, this will undermine Hong Kong's autonomy and erode the city's core values such as freedom of expression and association and clean government. There were also concerns that development in Northeast New Territories would be private-sector led, and villas or single-detached housing, a luxury in Hong Kong, would comprise a major part of the new developments (PD, 2013a), thus turning the Northeast New Territories into the backyard of rich mainland tycoons across the border in Shenzhen, even though the newest proposal is one of public-sector led and of high development densities (PD, 2013b). In May 2014, the SAR government put forward a funding request of HK$340 million to the Legislative Council to undertake engineering studies of the proposed programme. After seven prolonged sessions of meeting, the Finance Committee of the Legislative Council finally approved the request on 27 June 2014, only after extended procedural delays by the Council's so-called pan-democrat members and repeated storming of the Legislative Council Building by thousands of protesters (SCMP, 2014).

Looking Into Future

Contestations permeate the urban space. There are contestations arising from competing claims to scarce resources, not the least strategic locations in the city and access to housing, education, greenery and recreation facilities, and other amenities. In Hong Kong in the colonial times, for example, there were intense and at times violent fights over squatter clearance and urban renewal, largely for rehousing in public housing estates. The prevalence of spatial externalities in an urban setting is another major source of location conflicts. Proposals to build elevated highways, sewage treatment plants and other obnoxious facilities, for instance, are likely to be met with strong resistance and at times violent confrontations by nearby residents, who most likely would seek support from local politicians, environmental NGOs and other social activists. Heightened environmental consciousness in recent years perhaps has up-scaled some of these conflicts to fights over global concerns in view of the probable damage done to wildlife habitats or the likely increase in green gas emissions. However, aside from cities with major ethnic or racial fault lines such as Jerusalem, to use a metaphor of Huntington (1993), rarely would the politics of urban land development be related to the issues of national identity construction or those of economic regionalization in either the sub-national or supra-national sense. What has happened in Hong Kong since its return to Chinese sovereignty is quite unique and deserves close scrutiny.

It is clear from the above that the evolvement of housing and land policies in Hong Kong since the founding of the SAR has been very much intertwined with the much broader issues of Hong Kong's status as a special administrative region of China. First, there was the burst of the property bubble at the time of handover and the deep and prolonged economic recession that followed. Perhaps this was a result of unrestrained speculation in the property market not only in Hong Kong but also in other East and Southeast Asian economies, which sew the seed for the attack by speculators in the international financial market, and was largely beyond the control of the new SAR government. Yet, many in Hong Kong would compare the difficult times with the “good old days” under the British colonial rule when Hong Kong was the envy of almost everyone in the pan-Chinese world. Tung’s 85000 Units Programme and the perceived ineptness of the SAR government in containing the SARS outbreak were ready scapegoats. For quite a substantial percentage of Hong Kong people, the return to Chinese rule under “One Country, Two Systems” was received with suspicion. The economic and epidemic misgivings, together with Tung’s attempt to enact national security laws that would threaten the autonomy of Hong Kong in 2002-2003, triggered an unprecedented stage of protest on 1 July 2003, with more than 500,000 people taking to the street.

The mistrust of Beijing and the CCP has not subsided with the return of respectable economic growth in Hong Kong. This is despite the fact that the Chinese central government has pledged to make every effort to safeguard the stability and prosperity of the SAR. The signing of the Closer Economic Partnership Agreement (CEPA), the equivalent of a free trade agreement between sovereign countries, between Hong Kong and the mainland in 2003 right after the SARS outbreak has served to revitalize the Hong Kong economy. Among the stipulations of the CEPA is the introduction of an Individual Visitor Scheme, which allows residents of selected mainland localities including Guangdong, Shanghai, and Beijing to visit Hong Kong on an individual basis, instead of the previous practice of solely on a group basis (TC, 2014). The Individual Visitor Scheme has proved to be highly successful, and the number of mainland tourists visiting Hong Kong jumped from 12.5 million in 2004 to 40.7 million in 2013 (TC, 2014). Retail sales showed corresponding increases, from HK$ 191 billion (2004) to HK$ 494 billion (C&D, 2013). Similar impressive gains have been recorded in the hotels and catering sectors. More importantly, the much freer movement of mainlanders to Hong Kong has helped to consolidate the SAR as China’s international business centre and a global financial hub rivalling New York and London.

However, the booming inbound tourism has also caused massive increase in shop rent not only in the main shopping districts of Tsim Sha Tsui and Causeway Bay, but also in some secondary or even tertiary shopping strips. One after another, shops catering to local residents have been converted to stores selling brand items, jewelleries and cosmetics catering primarily to mainlanders. Furthermore, the flooding of mainland tourists has aroused much anxiety in Hong Kong; many are worried about the loss of the Hong Kong identity. Images of occasional misconducts by mainland tourists such as jumping the queue and children urinating on the street have been uploaded on Facebook and other electronic social media. To many in Hong Kong, such acts signify the lack of civility among mainlanders. To many on the mainland, such uploading of ugly images amounts to an insult on all mainland Chinese. Exchanges of assaults on both sides appear regularly on the Internet. Surely, this does not help in soothing the strained relationships between Hong Kong people and mainlanders.

According to Article 45 of the Basic Law, the Chief Executive of the Hong Kong SAR will eventually be elected by universal suffrage upon nomination by a “broadly representative nomination committee”. The National People’s Congress Standing Committee resolved in 2007 that the election of the Chief Executive in 2017 may be conducted via universal suffrage (State Council, 2014). The issue at stake today is on the nomination of candidates, i.e. whether only people “who love China and Hong Kong”, in other words pro-Beijing candidates, can stand for election. To a significant extent, the attempts to paralyze the SAR government by the pan-democrats using the tactic of procedure delays in the Legislative Council and the storming of the Legislative Council Building in relation to the proposed Northeast New Territories Development Programme described above can be understood as part of the broader contest between the pan-democrats who are fighting for Hong Kong’s autonomy if not independence and the Chinese central government which is very much concerned with protecting the sovereignty and territorial integrity of the nation.

On 10 June 2014, the Chinese State Council promulgated a *White Paper on the Practice of “One Country, Two Systems” Policy in the Hong Kong Special Administrative Region* (State Council, 2014). In no unclear terms the White Paper states that “the central government exercises overall jurisdiction over the HKSAR” (Section II). It further states that “the high degree of autonomy of Hong Kong is not full autonomy”, and that “the “One Country” is the premise” and “the “Two Systems” is subordinate to and derive from the “One Country”” (Section IV). Given the humiliations that the Middle Kingdom has suffered in the past 170 years, especially the ceding of Hong Kong to Britain in 1842 upon the defeat in the Opium War which marked the beginning of China’s long decline, the strong nationalist stance of the

Chinese government on Hong Kong is quite understandable. However, such a stance does not come to terms to a large segment of the population of the SAR, particularly the pan-democrats. The attempts by the current SAR government to address the housing affordability problem through increasing land supply and building a sizeable land bank, which clearly fall within the category of Hong Kong's internal affairs, are likely to be jeopardized by the intensified confrontations on the status of Hong Kong as an economic and political entity between the pan-democrats and the Chinese central government. So far, the confrontations have been largely restricted to exchanges of words and large-scale but peaceful demonstrations. But violent confrontations and bloodshed in future could not be ruled out. Perhaps the heightened political and social instability may trigger another burst of the property bubble and result in drastic falls in home prices and more reasonable price-to-income ratios. However, this is unlikely to be what most Hong Kong people or the Chinese central government would like to see.

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Table 1. Number of Newly Completed Housing 1997-2013

	Private	PRH	HOS	Total
1997	18,202	17,917	12,040	48,159
1998	22,278	14,123	21,093	57,494
1999	35,322	29,382	20,967	85,671
2000	25,790	35,820	23,194	84,804
2001	26,262	49,386	22,862	98,510
2002	31,052	20,154	1,072	52,278
2003	26,397	13,948	320	40,665
2004	26,036	20,947	0	46,983
2005	17,321	24,691	0	42,012
2006	16,579	4,430	0	21,009
2007	10,471	4,795	2,010	17,276
2008	8,776	22,759	2,200	33,735
2009	7,157	19,021	370	26,548
2010	13,405	6,385	1,110	20,900
2011	9,449	17,787	0	27,236
2012	10,149	9,778	0	19,927
2013	8,254	20,898	0	29,152

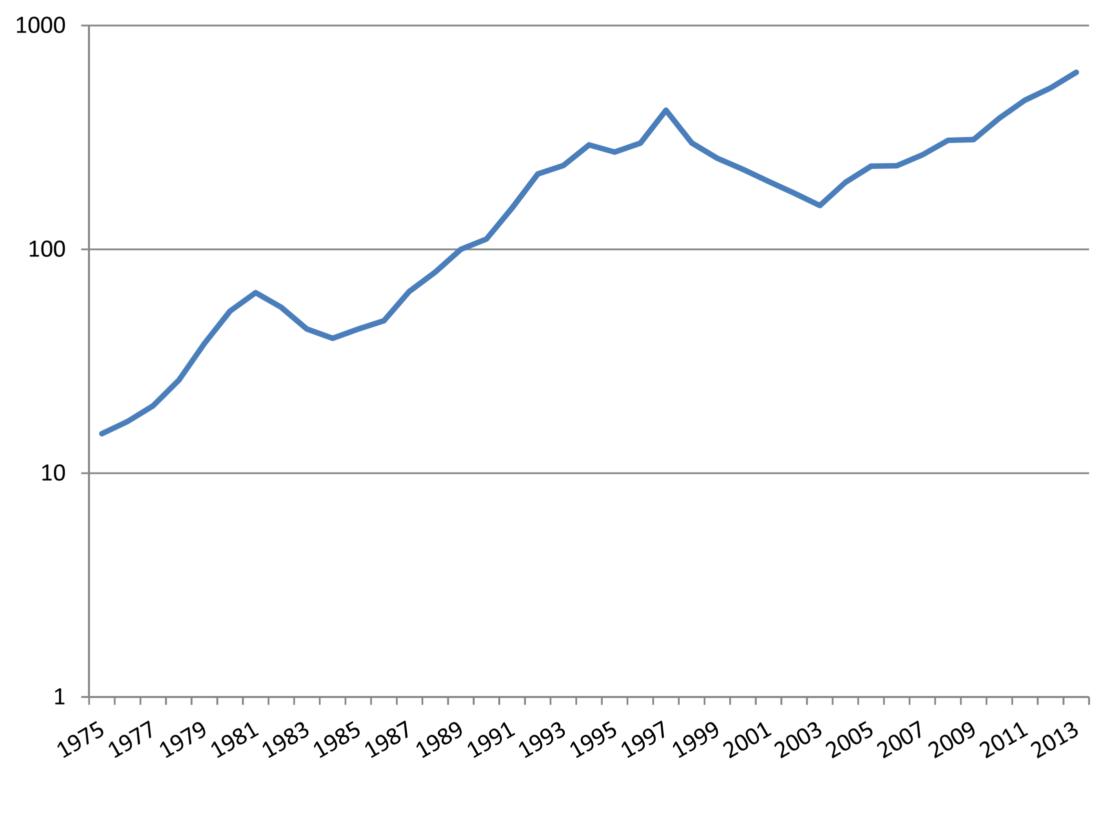
Source: Census and Statistics Department, *Hong Kong Annual Digest of Statistics*, *Hong Kong Monthly Digest of Statistics*, various years.

Table 2. Home Price-to-Income Ratio in Hong Kong

	Average Price of a 55m^2 flat in Kowloon (HK$)		Median Household Income (HK$)		Home Price-to-Income Ratio
	m^2	Unit	Month	Year	
1982 Q1	8352 (mean of KL and NKL)	459360	3105 (1981 Census +150)	37260	12.33
1984Q3	5961(mean of KL and NKL)	327855	5060 (1986 By-Census -500)	60720	5.40
1997Q2	69935	3846425	19000	228000	16.87
2003Q2	20505	1127775	15000	180000	6.27
2012Q2	89365	4915075	20500	246000	19.98

Source: 1. Rating and Valuation Department, *Hong Kong Property Review*, selected years; 2. Census and Statistics Department, *1981 Population Census; 2011 Population Census; Quarterly Report on General Household Survey*, selected quarters.

Figure 1. Hong Kong Property Price Index 1975-2013 (1989 = 100)



Source: Hong Kong SAR Government, Rating and Valuation Department, *Property Review*, various years.