

Bridging the Wealth Gap in Hong Kong —— Take the Issue of Housing Prices as an Entry Point

Chikit Lam, Yuxuan Wang, and Weiran Zhang

Abstract—Wealth gap has always been a very prominent problem in Hong Kong, and has always been an unavoidable problem in terms of equity issues. Economists around the world have been persistently trying to figure out the reasons for the gap between the rich and the poor, with the aim of narrowing such a gap. In this paper, through the analysis of the data relevant to Hong Kong's housing price, we have found out that one of the main reasons for the gap between the rich and the poor in this area is the overwhelmingly high housing price. Meanwhile, the lack of efficient administrative control has also widened the gap. We also notice that in some other places with similar situations of Hong Kong, the housing price has been well controlled. As a result, based on the reason we have figured out, we make a comparative analysis between Shenzhen's housing price maintaining policy with that of Hong Kong, and then put forward strategies for controlling housing prices in Hong Kong to promote economic equity.

Index Terms—Administrative control, Hong Kong, housing price, wealth gap.

I. INTRODUCTION

Since the middle of the last century, Hong Kong has developed rapidly and become one of the most prosperous areas in Asia. The booming economy brought the expansion of population, yet under such prosperity lies the polarization between the rich and the poor of the urban population which is becoming an exacerbating issue in the region. One of the reasons leading to the phenomenon is that the housing expenditure accounts for a high proportion of household expenditure in Hong Kong, bringing a heavy burden to Hong Kong's people. The reports and the dissertations about the problematic nature of this phenomenon have never stopped, the authorities also took some measures: In 1998, the authorities put forward the famous "home ownership" housing plan and built several public housings. These measures reduced domestic house prices by nearly 50%. [1] However, the implementation of these solutions did not completely inhibit the rise of house prices. The reports on house prices rising appeared again in newspapers after 2006. The public housing resources provided by the government just could not catch up with people's housing needs and the rate of inflation. In October 2012, the Hong Kong government again began to levy "stamp duty" on the rise of house prices. During this period, academic journals and

newspapers took Hong Kong as an excellent model to introduce the policies and policy advantages of house price regulation in Hong Kong after the financial crisis. However, the fact is that in the past five years, the Hong Kong Housing market has entered a rising period again. [2] Therefore, our study aims to analyze the causes of the gap between the rich and the poor in Hong Kong, based on the reality of house prices in Hong Kong, and compare the house prices control policies in a similar area to put forward some feasible measures. Shenzhen controlled its house prices by limiting the number of house purchases, releasing reference prices, and restricting house purchase loans in a short period effectively, which could be a reference to Hong Kong in order to curb the gap between the rich and the poor.

II. METHOD

This paper focuses on one of the causes of the gap between the rich and the poor in Hong Kong, which is the inequality of home ownership in Hong Kong has made the housing problem getting worse [3], especially the rising property prices in Hong Kong in the past decade, so we will analyze the causes and proposes feasible measures concerning the data and thesis materials of the last five years.

We adopted the research methods mainly include the literature research method and the quantitative analysis method. Our data and literature materials mostly come from official agencies and academic paper websites. By referring to previous economic and sociological literature and the data provided by official institutions, we have a deeper understanding of the gap between the rich and the poor and the housing problems derived in Hong Kong. At the same time, We can use data and information such as housing rent, selling price and waiting time for public housing to conduct detailed background investigation and research on our research problems and compare them with the current situation. And by analyzing data from different periods and regions, it can help us better understand the trend of house price changes.

III. ANALYSIS RESULTS OF CURRENT SITUATION IN HONG KONG

According to Fig. 1, the price index of the small flat has significantly increased and fast from 2007 to 2017, which indicates the surge in house prices. As a result, the small flat rent index has increased accordingly. Moreover, although the median household income has increased as well, it still increases slower than the house price, which could harm citizens' purchasing power, especially that of the poor.

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Chikit Lam is with Jinan University, Guangzhou, China (e-mail: chikitlam26@gamil.com).

Yuxuan Wang was with University of Economics and Law, Wuhan, China (e-mail: 1339608051@qq.com).

Weiran Zhang is with the Central University of Finance and Economics, Beijing, China (e-mail: 2019312133@email.cufe.edu.cn).

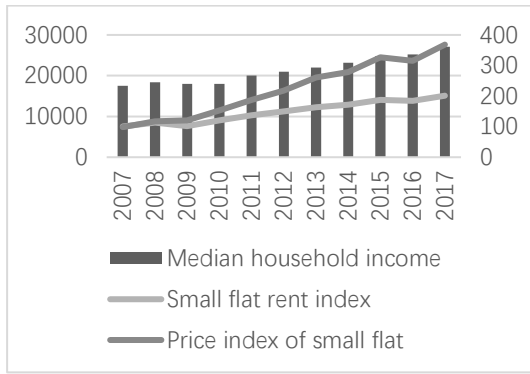


Fig. 1. Median household income and small flat price and rent index. Sourced: Oxfam Hong Kong, Hong Kong household expenditure survey results.

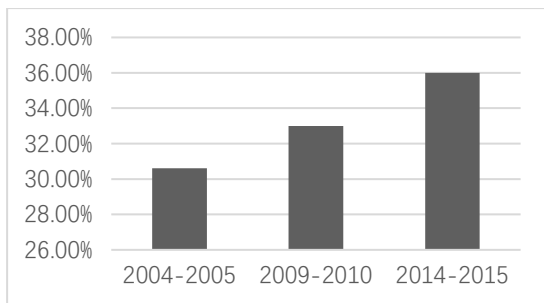


Fig. 2. Housing expenditure as a percentage of overall expenditure. Sourced: Oxfam Hong Kong, Hong Kong Rating and Valuation Department, Hong Kong Annual Digest of Statistics.

According to Fig. 2, it has witnessed a rise in housing expenditure as a percentage of overall expenditure from 2004-2015, which means the housing expenditure has become a heavier burden for Hong Kong people.

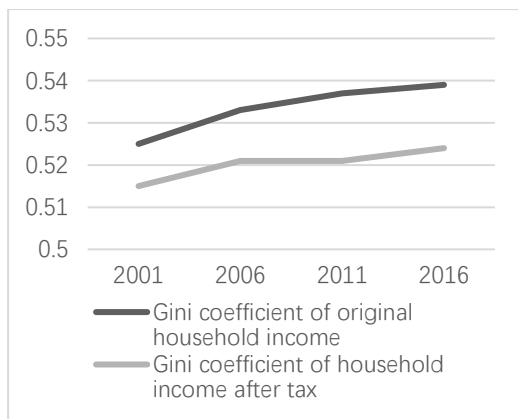


Fig. 3. Gini coefficient of original household income and Gini coefficient of household income after tax. Sourced: Census Statistics Department of the government of the Hong Kong Special Administrative Region.

It could be told from Fig. 3 that both Gini coefficient of original household income and Gini coefficient of household income after tax have augmented from 2001 to 2016, which refers to the widening gap between the rich and the poor.

Synthesizing the above three charts, it is believed that the overwhelmingly increasing house price has led to the widening gap between the rich and the poor from the last two decades to some extent, and the detailed discussion would be presented in the next part.

IV. DISCUSSION

A. The Wealth Gap

1) International organizations are concerned about the wealth gap

In the opening speech of the 76 General Assembly of the UN General Assembly, the Secretary-General of the United Nations said that billionaires can travel in space while the world is still facing a public crisis caused by the new crown epidemic highlights the huge gap between the poor and the super-rich in today's world. In fact, the wealth gap is not only a problem in underdeveloped regions of development, but also in the developing regions of, which is very serious.

2) The definition of the wealth gap

The wealth gap can also be called income inequality, and its meaning refers to the phenomenon that there is a large gap in income between different members of society. At present, the Gini coefficient is usually used internationally to examine the difference in income distribution among residents, and 0.4 is classified as the warning line of the wealth gap. If the Gini coefficient of a country or region exceeds 0.4, it means that the gap between the rich and the poor in that country is relatively severe [4].

3) The impacts of the wealth gap

The gap between the rich and the poor will bring negative impacts into the society, and a serious gap between the rich and the poor can have some consequences for society, including destabilization of society, detrimental investment in human capital which affects economic growth, lack of a sense of belonging in all sectors of society which affects the cohesion of the country, increased crime [5], deterioration in the physical health of the nation, and other social problems(e.g domestic violence, childlessness, drug abuse).Poverty can have a psychological impact on people. The sociologist Deepa Narayan wrote that "Poverty is a pain. Poor people suffer physical pain caused by too little food and long hours of work; emotional pain stemming from the daily humiliations of dependency and lack of power." [6] With the spread of novel coronavirus pneumonia worldwide, the economy around the world has been seriously affected. The gap between the rich and the poor has further opened up, and the life of the middle and lower classes has become more complex.

4) The reality of the wealth gap in Hong Kong

After the handover of Hong Kong, the Hong Kong Special Administrative Region Government has been implementing various housing policies to solve the problems of high housing prices and housing shortages. In recent years, the housing shortage in Hong Kong has become an increasingly salient issue. During Chief Executive Carrie Lam's tenure, the average waiting time for public housing (social housing) in Hong Kong has gone from 4.7 years in June 2017 to 5.8 years in June 2021, the highest since the return of Hong Kong. [7] With the severe gap between the rich and the poor and the fact that the growth of house prices does not accompany wages, the middle and lower classes have difficulties buying homes and bear expensive rents. As a result, the middle and lower classes feel that the government ignores them. They hope that the social movement can bring their demands to the government and let the government take the initiative to provide solutions. [8] Thousands of citizens have participated in social movements with uncooperative

activities such as marches, business suspensions and road blockades, which hinder the normal economic activities of Hong Kong and the normal life of Hong Kong people, threatening the economic development as well as the political stability. According to the 2019 Hong Kong Poverty Situation Report of the Census and Statistics Department of the HKSAR government, there are 1097800 poor people (474000 poor households) in Hong Kong, and the poverty rate has increased to 15.8% (+ 0.9 percentage points) compared with the previous year. [9] At the same time, CBRE released the 2020 global living report. Hong Kong is the city with the highest house prices globally, and Hong Kong ranks third in the global residential rent ranking. [10] Therefore, the problem of wealth disparity is a problem that cannot be ignored in Hong Kong society, and the housing problem, as one of the import features causing the current wealth disparity, needs to be paid attention to by all sectors of Hong Kong society.

B. Current Situation of Housing Problems in Hong Kong and Measures for Housing Problems in Shenzhen

1) Problems of Hong Kong

According to the results of the household expenditure survey conducted by the Hong Kong Census and Statistics Department, the balance of household loans reached HK \$1.594 trillion at the end of 2015. Due to exceeding the growth of GDP over the same period, the ratio of household debt to GDP has increased significantly from 54% to 67% in the past 10 years. Among them, mortgage loans are the primary source of burden. According to the statistics of commodity categories of expenditure, housing has always been the main expenditure category of Hong Kong residents, reaching 39.3% in 2020. [11] In particular, the expenditure of private housing households is much greater than that of public rental households, which is due to the continuous rise of house prices for decades. "Home ownership difficulties" also perplex young people in Hong Kong. On March 1, the Secretariat of the Hong Kong Legislative Council issued the "Research Briefing on the impact of home ownership on Hong Kong's social economy". It pointed out that Hong Kong property prices soared nearly four times in the 15 years from 2004 to 2019. However, in the same period, the home ownership ratio fell to a new 20-year low of 49.8% in 2019. [11] The house prices in the second-hand housing market also showed an upward trend: according to the data of Zhongyuan Real estate, the transactions in the second-hand housing market in Hong Kong have obviously warmed up. A total of 2290 second-hand transactions were recorded in February, with a total amount of HK \$17.78 billion, up 4.7% and 11.9% respectively month on month.

Such high housing prices make it difficult for people to live in Hong Kong. Meanwhile, the exceptionally high housing price has widened the gap between the wealthy and the poor in Hong Kong, which has become the most prominent problem in Hong Kong. Apart from the current efforts, such as the reclamation plan and "home ownership" housing plan, made by the Hong Kong government, it is still essential to find other solutions and learn from other cities, which have controlled their housing price in an efficient way.

The measures of limiting house prices in Shenzhen, for example, adjust to Hong Kong, can be regarded as an

excellent case. As one of the most developed cities with an influx and aggregation of people in China, the house prices have remained at a high level for an extended period. Since 2011, the authorities have published notices and begun to implement a series of policies gradually. Especially the new regulations implemented since 2018 have played an essential role in stabilizing the real estate market. The house prices control measures have been taken for about three years, these policies have achieved initial results so far.

2) Limit the number of house purchase

The Shenzhen authorities require that Shenzhen resident families or adult single persons (including divorcees) who have been living in the house for less than 3 years and can provide certificates of continuous payment of personal income tax or social insurance in the city for more than 5 years before the date of purchasing house, on the premise of the meeting other conditions, shall be allowed to purchase one set of commercial housing. [12] The requirement limits people who want to purchase several houses in Shenzhen as investment, for their behaviors will raise the house prices of the whole city. Meanwhile, many houses used for investment instead of living are idle, but the announcement of the notice inhibits the waste of housing resources [13].

3) Release reference price

The authorities also published the transaction reference price of second-hand houses in residential areas. This measure prevents the problem of inflated house prices caused by the shortage of second-hand houses, by limiting the transaction price of second-hand houses in various regions. In this way, the prices of second-hand houses will remain in a reasonable range, enable more people to live in a house, and inhibit property speculation in the second-hand housing market. In the second-hand housing market in Hong Kong, the transaction reference price may also play a role in restraining the price of second-hand housing.

4) Restrict house purchase loans

The authorities also restrict housing loans by continuing to implement the policies of 30% of the down payment of the loans for those who do not have commercial housing loan records in Shenzhen, to ensure people's demand for normal house living. At the same time, they also increase the proportion of down payment of loans for those who have commercial housing loan records or have a house in Shenzhen. This is also an effective measure to control the rise of house prices. In this way, people can reduce their down payment burden according to their urgent need for housing to promote the effective allocation of housing resources. For Hong Kong residents, their housing loans account for nearly 40% of their daily expenses, which is a considerable expenditure. Therefore, it is believed that the measure is feasible to imitate such protective measures to reduce the housing loan burden of Hong Kong residents.

In addition, Shenzhen authorities also made specific replies to the disposal of real estate after divorce and the identification of purchase time. Under the strict supervision of the real estate market by the Shenzhen government in recent years to ensure policy implementation, there has been a sustained year-on-year decline in house prices in Shenzhen since the end of last year.

TABLE I: AVERAGE PRICE OF HISTORICAL SAMPLES IN SHENZHEN, 2020-2021.9

Month	Sample average price	Month on month	Year on year
Jan. 2020	54416	-0.22	0.347
Feb. 2020	54546	0.239	0.446
Mar. 2020	54562	0.029	0.495
Apr. 2020	54577	0.027	0.473
May. 2020	54558	-0.035	0.791
Jun. 2020	54577	0.035	0.634
Jul. 2020	54566	-0.02	0.015
Aug. 2020	54739	0.317	0.937
Sept. 2020	54614	-0.228	0.595
Oct. 2020	54512	-0.187	0.437
Nov. 2020	54344	-0.308	-0.013
Dec. 2020	54212	-0.243	-0.594
Jan. 2021	54170	-0.077	-0.452
Feb. 2021	54320	0.277	-0.414
Mar. 2021	54353	0.061	-0.383
Apr. 2021	54454	0.186	-0.225
May. 2021	54493	0.072	-0.119
Jun. 2021	54581	0.161	0.007
Jul. 2021	54439	-0.26	-0.233
Aug. 2021	54490	0.094	-0.455
Sept. 2021	54367	-0.226	-0.452

Sourced: <https://fdc.fang.com/>

According to the Table I, we can infer that the policies the authorities took have inhibited the house prices effectively in a short period. Due to the similarities between Hong Kong and Shenzhen in many issues, such as the influx of young people and the pressure on housing loans, the Hong Kong government can refer to Shenzhen's policies and measures to curb house prices.

C. Strategies to Improve the Housing Price Problem in Hong Kong

Since the gap between the wealthy and the poor was partially caused by the overwhelming housing price, to solve this problem, strategies to restrain the high house price need to be figured out.

1) To optimize the supply of land and strike a balance between supply and demand

To control high housing prices fundamentally, the land supply system should be improved from two aspects: First, the recent permanent resident population should be linked to the supply of land, which means the area with the increasing influx of people should raise the supply of construction land accordingly, and vice versa; Second, it's time to optimize the layout of urban industrial land, residential land and commercial land. Third, the land system should be reformed. The history of Hong Kong's real estate market shows that the bidding system for the highest prices is the fundamental factor driving up house prices. [14] As a result, in the future, administrators should continue to improve further and supervise the way of land sales, breaking the plight of high housing prices.

2) To improve the housing security system and optimize the housing supply structure

After long-term development, Hong Kong has formed a "public housing - HOS - private housing" housing supply system. Households with specific problems and low-income groups mainly rely on government departments to solve the housing problems. Meanwhile, other groups with housing

problems basically count on the market. According to the research, the supply of security housing in Hong Kong, has functioned as a "price stabilizer": when housing price rises, the number of security housing will increase as well and thus constrain the housing price from surging. [15] Therefore, with the premise of strict management of land use, the security housing system and the long-term rental policy as well should be improved.

3) To improve financial support policies to avoid systemic risks

Credit and loans are some of the main drivers of housing price growth. Hong Kong adopts a house-booking system, and the down payments sometimes can be as low as 5%. Although the flexible mortgage loan system stimulated the housing demand of residents, but such strong housing demand pushed up residents' leverage ratios as well and led to the rising real estate mortgages proportion accounted for credit and loan. [14] Consequently, this has negative impact on the financial stability: the first one is that the falling housing price increases the borrower default risk. At the same time, the real estate investors will try their best to sell the real estate, which will further increase financial risks. Second, the cycle of real estate value as collateral amplifies the credit cycle supported by real estate and has a pro-cyclical impact on the growth of actual economic activities. Third, when house prices are higher than income, borrowers will take on a higher debt burden, which could weaken their ability to respond to future income fluctuations timely and flexibly. Highly indebted consumers are more likely to cut down on consumption and investment in a recession, which has an amplifying effect on the business cycle. Therefore, to reduce financial risks caused by housing price fluctuations and enhance the financial system's resilience, regulators should introduce credit and loan regulation policies to avoid excessive capital flowing into the real estate sector.

4) To make steady progress in the reform of real estate taxes, and establish long-term regulatory mechanisms [16]

Reasonable tax rates should be set, which means the tax rate should be selected considering citizens' economic burden and their tolerance towards such tax. Also, the tax should be first levied from vacant housing, high-end housing and gradually transition to all housing. Moreover, the property tax should be levied in accordance with the "capacity to pay" principle in line with the market economy tax system, and finally narrow the gap between different income groups.

V. CONCLUSION

Cities need the cooperation of every citizen to have development prospects and opportunities. As one of the most densely populated and expensive cities globally, the lower and middle classes spend a large proportion of their income on housing, resulting in a widening wealth gap between the proletariat and the proletariat. This paper lists the important measures to curb housing prices in the neighboring city of Shenzhen, with the aim of comparing their current measures and providing a reference for reflecting on the current severe housing shortage in Hong Kong. From this, we learn that the Shenzhen government plays a leading role in the housing

issue, which is done through multiple policies. This includes limiting the number of houses to be purchased, secondly by issuing reference prices for houses, and limiting loans for house purchases. These policies have effectively curbed the demand for houses as investment products and brought housing prices back to a rational level where people with housing needs are able to buy houses or rent houses at relatively reasonable prices. To solve the current housing problem in Hong Kong, this paper suggests that measures need to be taken to optimize land supply, improve the housing security system, improve financial policies and promote real estate tax reform, so as to provide Hong Kong people with the opportunity to purchase houses at more reasonable prices. The massive gap between the rich and the poor is expected to be further reduced when the housing problem in Hong Kong is alleviated.

CONFLICT OF INTEREST

The authors declare no conflict of interest.

AUTHOR CONTRIBUTIONS

Chikit Lam put forward the frame work, collected and analyzed data, and wrote the Introduction and Section IV, Part A. Yuxuan Wang collected and analyzed data, and wrote Method and Section IV, Part B. Weiran Zhang wrote the Section III and Section IV, Part C.

These authors contributed equally.

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Chikit Lam was born in Jiangmen City, Guangdong Province, China, on June 24, 2000. He is an undergraduate at Jinan University, majoring in international economics and trade.

His current research interests focus on macroeconomics, political economics, and management economics.



Yuxuan Wang was born in Anqing City, Anhui Province, China on November 24th. She has got a bachelor of arts degree from Zhongnan University of Economics and Law, majored in Chinese language and literature, and minored in economics.

Yuxuan has internship experiences in Guoyuan securities as a wealth consultant assistant, and in Hua'an securities as assistant to marketing director of the sales department. Her current research interests focus on the regional economics and economic

policy.



Weiran Zhang was born in Chengdu City, Sichuan Province, China, on September 26th, 2001. She is an undergraduate at the Department of Economics, Central University of Finance and Economics.

Her current research interests focus on labor economics and development economics.