



Law

Housing Review – a step forward

I see that matters on the housing front are moving along once again. In the last week or so, I saw a report that the Government had briefed UBS on the question of what to do with the restructured bits of our housing apparatus. I am always intrigued when large financial organisations enter the picture. You could say that at that point, all bets are off. With that wee background, I would like to look at what has made this recent brief to UBS possible – that is the release, just over a month ago, of the *Review of the Institutional Framework for Public Housing*, or the *Review* as I shall call it.

For those of you who have not heard, Tung Chee-hwa commissioned the *Review* in mid-2000 following the short-piling scandal. Those revelations shook confidence in the public housing sector and something had to be done. One thing that was done was the opening up of all four principal organisations involved in the delivery of public housing to greater scrutiny. Those are, all beginning with the word “Housing”, the Bureau, Authority, Department and Society. You have to admit that with that number of organisations, the Government pretty much had housing, as we know it, covered. Needless to say, the *Review* was also going to have to touch upon some related providers as well, including our friends at the MTR Corp and the KCRC. More on them later.

Much of the *Review* necessarily had to look at the economic context. Thus it tried, as best one could I believe, to measure factors such as future housing demand, land supply and other variables. What I did not see mentioned though, was the X-factor – China. While I can understand the reluctance, sooner or later, China will have to be factored in to not only housing policy, but also tax policy, environmental policy and every other policy that you can think of. I hope to come back to some of these topics in later columns.

As for the contents of the *Review*, much naturally dealt with the framework of housing itself. That is, how can the four lead organisations be rationalised to meet the Government’s key current housing objective of “better housing for all”. It will not be an easy task for reasons that are readily conceded throughout the *Review*. Suffice it to say that housing here has always been problematic and the proliferation of responses over the years often dealt with aspects of the problem in isolation from the wider picture, which was bound to lead to anomalies. At some point we were going to have to step back and take an objective look. The *Review* is a good start, but it will not get interesting until we see the results of the UBS study; that study, more than the *Review* you can be sure, will tell us what really counts.

The big change the *Review* recommends is organisational. It is premised upon greater accountability. The idea is to move control over both housing policy and delivery closer to the top and reduce the number of spokesmen. Several recommendations anticipated the announcements in the ministerial system, which have been put in place, and the knock-on changes. Invoking military metaphors, we can now expect a shorter sharper chain of command. Significantly, the Housing Bureau and Housing Department are being merged. Who said merger and acquisition activity had fallen off? The Housing Authority (HA) will continue to fulfil its traditional role for a time but its executive functions will diminish as we go forward. Gradually, the HA will lose financial sustainability and its commercial side will wind down. That said, the reforms that the HA has been taking ahead so vigorously following the release of its Quality Housing Report more than two years ago are still supposed to be completed. In some ways, the HA may have been too successful in its reinvention. It has certainly led on some issues and foreshadowed many of the recommendations that the Tang Report made following the Construction Industry Review Committee’s work. Tony Miller, who made the case for reform of the HA, appears to have been promoted, presumably on their strengths as he moves to Permanent Secretary for Financial Services and the Treasury. Go get ‘em Tony.

The Housing Society is set for major changes as well. This strikes me as odd because I like what they have been doing the most. They seem to have been out in front of the other organisations and arguably stood most comfortably between the other public and private sector providers. Does anyone remember the Private Sector Participation Scheme? That was a market leader. While the Government begins wholesale reinvention of itself and what I believe will become a Public Private Partnership orientation, the Housing Society has already shown these instincts. Some are a little wary though, especially when the public purse is involved. The Housing Society of late has shown how novel it was prepared to be when it acted on true mixed use housing with both public and private sector under the same roof. While this is not unusual in other cities it does require another worldview for local developers. It remains to be seen who, if any of those developers might choose to see this as a market opportunity and differentiator rather than a threat to their existing business models. When the smoke clears, the Housing Society will be playing a much smaller role supporting more of the work of the Urban Renewal Authority rather than that as a developer acting on its own account.

In closing, a few words on the changing fortunes of our two rail companies are in order. No one can argue with their success or level of service so far. Some of that success is of course attributable to their innovation. Sometime ago, it was realised that the costs of infrastructure and development could be offset through other activities and in partnership with the private sector. It worked well. Some might say too well. Whatever the view one has though and however framed in the *Review*, the property side will be played down in the future, and as we have seen with the waiver of dividends on the Disney spur, accounted for in other ways. There is nothing wrong with that if the end remains the same – keeping rail transport world class and its costs competitive.

There is still much in the *Review* that I have not touched upon, but hopefully I have given its flavour. While the *Review* is not the definitive word on what is going to happen with housing in Hong Kong, it does afford us a pretty good idea of the direction in which the Government is moving – that is, centralising housing policymaking, streamlining its organisation, prioritising subsidies over bricks and mortar, and giving the lead back to the private sector. Now, just don’t ask me whether that means it’s time to buy.

Dr Arthur McInnis is a consultant with Clifford Chance in Hong Kong. The above article was republished from The Standard.