

Why Are Property Prices So High?

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Recommended books to read:

- Jane Jacobs, *The Death and Life of Great American Cities*, 1961
- Jane Jacobs, *Cities and the Wealth of Nations*, 1984
- Edward Glaeser, *Triumph of the City: How Our Greatest Invention Makes Us Richer, Smarter, Greener, Healthier, and Happier*, 2011

Regulation Tax in the Land Market (1)

- Housing prices (P) and construction prices (C) can be found by observing the data.
- However, it is not possible to directly observe the land price (L) and the regulation tax (R) in the data.
- For this reason L and R cannot be easily and separately identified.
- Indeed it has been common to view the sum of $L + R$, which is the difference in $P - C$, as the land value.

Regulation Tax in the Land Market (2)

- Same house on different size lots:
- The land value at the “extensive margin” is therefore the value of physical land.
- The difference between the two property values is:
- $$P2 - P1 = (C2 + L2 + R2) - (C1 + L1 + R1)$$
- Assuming $C2 = C1$ and $R2 = R1$ allows Glaeser to impute the land value difference on the “extensive margin” as:
- $$L2 - L1 = P2 - P1$$
- We can then get an estimate of L

Regulation Tax in the Land Market (3)

- In the traditional way land values is estimated as the gap between housing and construction prices or as: $L + R = P - C$, where R is the regulation tax.
- This is the estimate of land value at the “intensive margin”, which includes the unobserved R.
- The estimated difference between land values estimated on the “intensive margin” and “extensive margin” provides a good gauge of the relative importance of land values versus regulation tax as the driver of the gap between housing and construction prices.
- R is the difference between the two “margins”.

Regulation Tax in the Land Market (4)

- **Glaeser found that estimated land values at the “intensive margin” were of the order of 20 times higher than land values at the “extensive margin” in major cities like Boston, Chicago, New York and Los Angeles.**
- **In San Francisco they were around 10 times higher.**
- **His results clearly showed that in the US, regulation tax was by far the most important driver of higher housing prices.**
- **He concluded that the US was facing a nationwide affordable housing crisis not because of either high construction prices or high land values (at the “extensive margin”), but rather, because of the high cost imposed by zoning and other land use controls.**

Property Price Index and Tender Price Index, 1979 Q4-2011 Q4

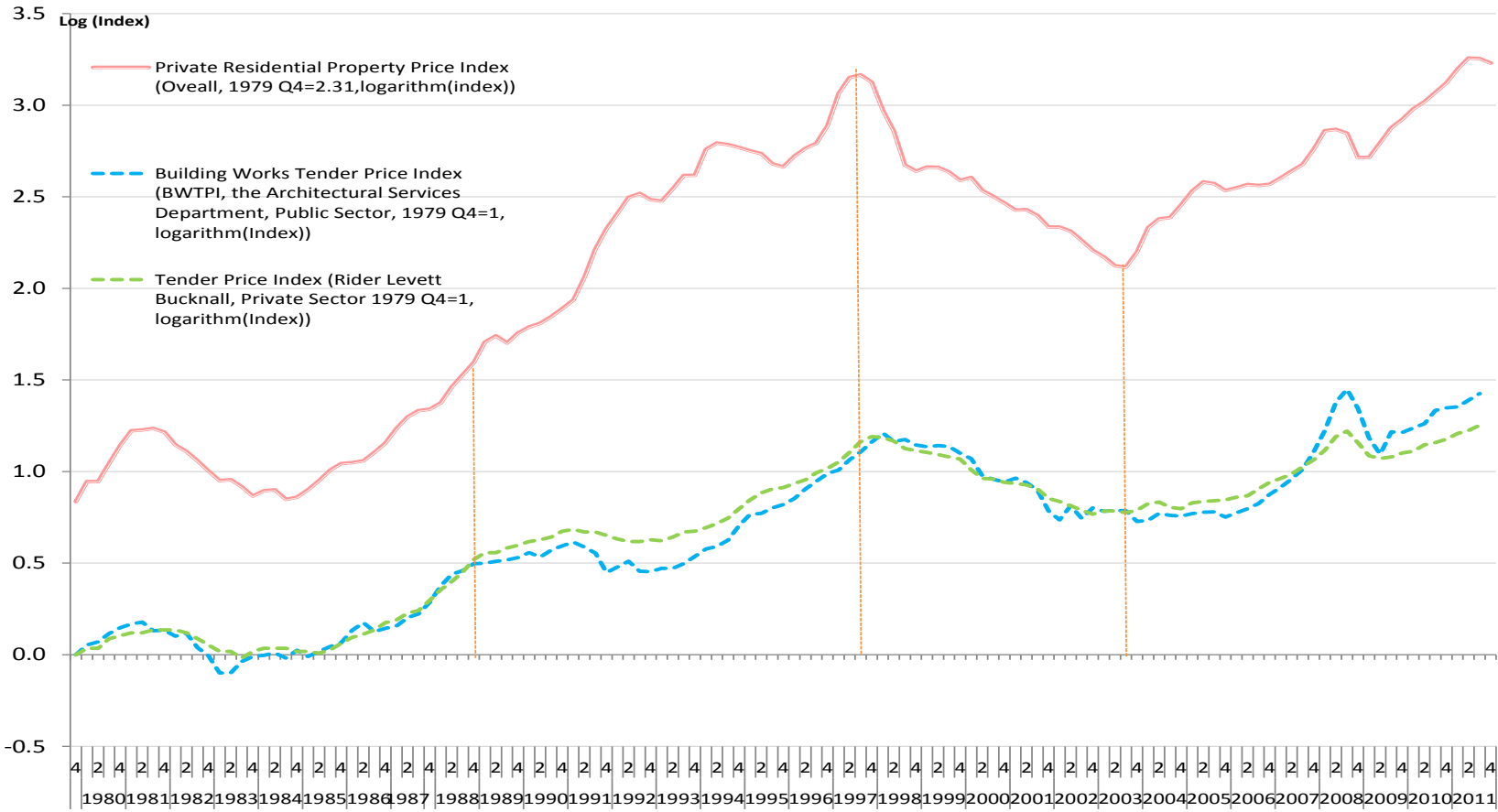


Table 2: Service Industry Percentage Shares in Real Expenditure-Based GDP

	1980	1985	1990	1995	2000	2005	2010
Service Producing Industries	74.2	74.0	74.5	81.5	86.8	91.0	92.6
Producer Services	29.8	27.4	28.8	36.4	41.1	46.3	47.9
Consumer Services	35.6	37.2	37.3	36.1	37.0	37.0	37.9
Government Services	8.8	9.4	8.4	8.9	8.8	7.7	6.6

Table 3: Numbers of Individuals by Arrival Years in Hong Kong and Place of Birth

Year	1976-1981	1981-1986	1986-1991	1991-1996	1996-2001	2001-2006	2006-2011
Place of Birth							
China, Macau, and Taiwan	276,000	132,685	135,740	167,380	229,860	173,540	154,420
Others	60,380	46,466	72,720	96,600	70,140	45,880	66,420

Table 4: Number of Marriages Registered and Certificate of Absence of Marriage Records Issued in Hong Kong

Year	Marriages Registered in Hong Kong		Estimate of Marriages Registered in China	Estimate of Bridegrooms/Brides from Mainland China	
	Total	Bridegrooms/Brides from Mainland China	Certificate of Absence of Marriage Records Issued	Estimate of Marriages Registered in Hong Kong and Mainland China registered in both places?	As % of Total Marriages Registered in Hong Kong and Mainland China registered in both places?
1986	43,300	782	15,669	16,451	27.9%
1996	37,045	2,484	23,901	26,385	43.3%
2006	50,328	21,588	13,369	34,628	54.6%
2010	52,558	11,519	5,368	16,887	29.2%

Table 5: Annual Percentage Growth of Real Median Monthly Individual Income from Main Employment by Decile Groups (1981-2011)

	1981-1996	1996-2011	1981-2011
1st decile (lowest)	5.69	0.25	2.85
2nd	5.04	-0.20	2.30
3rd	5.12	0.37	2.64
4th	4.74	0.70	2.63
5th	4.72	1.08	2.82
6th	4.46	1.34	2.83
7th	4.26	1.50	2.83
8th	4.62	1.99	3.25
9th	5.68	2.10	3.82
10th (highest)	7.16	2.08	4.51

Table 6: Net Annual Percentage Increase in Population Aged 15 and over by Educational Attainment (1961-2011)

Educational Attainment	1961-1971	1971-1976	1976-1981	1981-1986	1986-1991	1991-1996	1996-2001	2001-2006	2006-2011
No schooling/Kindergarten	-2.3	-2.4	-4.6	-2.7	-2.0	-5.9	-2.5	-3.2	-2.6
Primary	-0.3	-2.1	-3.1	-3.2	-3.0	-2.2	-2.0	-2.3	-2.1
Lower Secondary	0.2	3.3	3.2	0.1	1.0	-0.3	0.0	0.0	-1.2
Upper Secondary & Matriculation	5.1	0.4	5.2	4.0	0.3	1.3	1.2	-1.9	2.8
Non-degree course			21.6	4.2	13.6	-2.3	-4.9	15.2	4.3
Degree course			0.8	5.4	6.2	12.5	4.1	4.1	3.1

Table 7

: Number of Economically Active Men and Women in the Labor Force 1976-2011 (in 1000's)

	Number of Men	Men's year-on-year percentage growth	Number of Women	Women's year-on-year percentage growth	Ratio of Women to Men
1971	1,084	-	535	-	0.49
1976	1,265	3.1	655	4.2	0.52
1981	1,618	5.0	878	6.0	0.54
1986	1,716	1.2	1,010	2.8	0.59
1991	1,741	0.3	993	-0.3	0.57
1996	1,919	2.0	1,109	2.2	0.58
2001	1,945	0.3	1,266	2.7	0.65
2006	1,927	-0.2	1,418	2.3	0.74
2011	1,923	0.0	1,512	1.3	0.79

Note: Domestic helpers excluded.

Hong Kong in a Globalized World

- The opening of China and many formerly closed economies in the past 2-3 decades have drastically lowered the global capital to labor ratio
- Last time something like this happened was the Black Death in the 14th Century
 - Labor saving technological innovation
 - Reformation and Institutional Change
 - Commercial and Industrial Revolutions

Applying the Coase Theorem



Rules Versus Discretion

- From “positive non-intervention” to “enabling the market”
- Planning rules versus discretion the distinction between land used appears to be increasingly
 - anti-development,
 - creates opportunities for corruption, and
 - destroys value
- Town Planning Board increases the scope for the exercise of discretionary choices

Empowering the Disadvantaged

- Rapid economic transformation, influx of migrants widens the gap between the haves and have-nots
- Investing in education essential but is only effective in the long term
- Short-term give-away land values to public housing and HOS occupants