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The Homeownership Aspiration after the 1997 Economic Downturn in Hong Kong - A Study on the Middle Class Aspiration and Response

Introduction

Homeownership is a broad issue. It develops its own attributes within a certain spatial context. With this spatial concept of homeownership, nobody would deny the importance of the Asian Financial Crisis in 1997 that had been shaping and reshaping the attitude towards homeownership in Hong Kong. In particular, the middle class (note 1) would be the largest sector who had suffered the greatest adversity than the other classes. Confronting this adverse change, the middle class would no doubt re-evaluate their homeownership decision.

The Study Background

1997 represents the watershed of the economic performance in Hong Kong. In the booming period, the middle class had obtained the benefits of homeownership. Rising affluence had driven the middle class unaware of the economic fluctuations in the external environment while the internal economy underpinning by the booming housing industry had absorbed the shocks by globalisation. Unobtrusively, globalisation has been thinning out the foundation of its economic structure. The burst of the bubble economy heralded the adjustment of the housing market and deeply aggrieved the middle class. Under the globalisation impact, the restructuring of the local economy has somehow affected their life chances. The



negative changes in the socio-economic aspects after the economic downturn have more or less transitioned their traditional values and attitudes towards the consumption and investment attributes of homeownership. By the negative equity, they began to query the conviction of capital accumulation on housing which once advantaged their social position and hence formulated a new housing plan strategically to tackle the new economic situation. Rental preference seemed one of the solutions to hedge their consumption against the risk under the global squeeze. The deepening of the globalisation forces would therefore engender the middle class more conservative housing plans and

then transformed their homeownership aspiration to a new setting where the middle class should integrate their thinking from the local context to the global economic changes. With this spatial background, I attempted to find out similar situations that happened in other states and see how it would highlight us to look forward the homeownership development in Hong Kong. Along this perception, I also carried out a questionnaire survey (note 2) to see what the

middle class homeownership thinking really is and suggest the reliabilities of the findings to my hypothetical scenarios.

Capital Accumulation : Testified by Economic Changes

Peter Saunders (1990) asserted that homeownership has provided the opportunity of building up savings. In the process of housing consumption, homeowners can accumulate wealth in a way that tenants fail to do so. He mentioned that the majority of people have a real stake in the economic system in which they live while the middle class would have a big share in the stake. By my

questionnaire findings, the respondents had indicated both capital gain and capital loss experiences from their past housing transaction events. They had more capital loss than capital gain however the two figures are relatively close. But the status that only 21% of the respondents were outright owners and more than half of the mortgage owners belong to the



middle or early stage categories, they could have suffered from greater capital loss by the economic crisis. Saunders said that in the experience of Britain, the largest gains are obtained by those in managerial and professional occupations. Owner-occupation has therefore brought greater financial benefits to middle class home owners than it has to working class. If this applies to Hong Kong, then the middle class would also take the greatest gains from home owning but they could also lose more after the economic downturn.

Investment Value : A Declining Motive

Saunders said that house purchase is a highly lucrative form of investment. According to my investigation results, it revealed 31% of the respondents put emphasis on the investment value in their home buying before the economic crisis. After then, the attitude on investment emphasis had dropped to 9%. That means a 22% withdrawal from the investment motive. This attitudinal shift would have significant bearing on household consumption bundles as the investment

utility out of homeownership was diminishing. In a weak investment environment, eventually the shift would withdraw such portion of housing demand from the market.

Consumption Motive: Reassured But A Choice of Tenure

Versus investment motive, people predominantly place high consumption value in their home buying. In my investigation, it revealed 70.5% of the respondents had increased to 91.1% themselves to put their priority concern on consumption value in their decision, representing a relative 20.6% increasing support for consumption motive after the economic downturn. Among the respondents, 36% had bought their home after the 1997 financial crisis and they were entirely for consumption motive. That means the middle class has necessity in homeownership and the consumption value is assured in economic recession. However, housing consumption is by no means a choice of tenure. While owning is simply an abstract feeling or the freedom from control and surveillance by a landlord and the ability to personalize the property according to one's tastes, home owning seems no flexibility when people are forced to confront the contingent variables behind homeownership decisions in a precarious economy. There is possibility of tenure shift after a long economic downturn.

Economic Impacts on Middle Class Homeownership

The burgeoning of the middle class since 1980's faced the continual rise of wage level with high inflation rate while the latter was rising faster than the former. Some hedged their savings against inflation by over commitment on homeownership as the middle class was left alone this choice. In time of economic expansion, inflation has driven up the prices for housing and the salaries and the consumption risk was understated. But rising real house prices cannot be sustained in the long term. A housing price collapse coupled with economic downturn would trigger off panic selling. Massive and sustained loss of confidence in the housing market is then resulted. If the decline develops into a deflationary spiral as buyers and sellers convince themselves that future trends are downward, such spiral effect will be reinforced by a spate of repossessions and rising mortgage defaulting rates. The price downfall may eventually give rise to negative equity.

Saunders' above observations could have explained the housing market situation after the economic downturn in Hong Kong. It is hard to tell economy alone may crash or pull down the house price. But the deepening crisis in the capitalist economies in which homeownership values will be threatened by more general economic collapse, and homeowners' equities and living standards will be imperiled by reductions in labour earnings.

From my findings, it indicates that 79% of respondents had experience of pay cuts and 6% had been unemployed after economic downturn. 75.7% regarded homeownership sustainability a risk and it would affect their home-owning decision largely. 39% would face the threat of lay-off and are willing to make concessions in housing consumption. The picture displayed the indivisible relations between variables of economy, the labour market and the homeownership attitudes. Job is the supportive linkage to homeownership. The domino effect on the economy by high unemployment rate is deep and serious. About 39% of the respondents would cut their spending and 27% felt their current living standard worse than the situation before the economic downturn. Under globalisation influence, the employment opportunities would lead the homeownership attitude of the middle class.

economic DOWNTURN

Globalisation Reforming Labour Markets

Globalisation, new technology and new working practices have reformed business organizations to pursue any cost-effectiveness approach in production. They face pressures from fierce market competition driving customers demanding everything just in time and at a lower price. More flexibilities are introduced in production and marketing practices. These revolutionary changes would affect the labour in two aspects. The first will be through shifts in sectors and locations where some industries have already lost their competitive edges or market share in the global market. The second is by refining the production process through downsizing, outsourcing or various flexible employment measures. Both would lay off the employees. In public sector, privatization schemes were launched alongside with trimming public expenses. The continual economic adjustments and gaps of employment will re-shape a new labour market, an environment more favourable to renters and less attractive to homeowners. Instabilities in employability

and remuneration will be the two significant labour features which have repercussions on the homeownership aspiration at large.

As asserted by J. Ford (2001), he conceptualized homeownership is set in a risk society where restructuring resulted less regulated and flexible labour market with low paid jobs. The certainties of regular, secure well paid employment and a state safety net that had been available to owner-occupiers for much of the past have gone. The environment the individuals hold and manage their homeownership is the consequence of its embeddedness within a set of structures and processes influenced by the impact of technological change, urbanization and critically, globalisation. Globalisation process is pivotal in the generation of economic and labour uncertainties. Hong Kong is transforming into the economic stage operating in the sets of structures and processes as described by J Ford. That means the middle class would face a new work situation in turn they have to relate it to their housing plan strategically. The correlations of labour markets, the housing markets and the local economy squeezed by globalisation largely determine the homeownership aspiration and response of the middle class that had happened in the developed countries will then seemingly repeat in Hong Kong in the way we see the homeownership.