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The World's Freest Economy Is Also Its Least-Affordable Housing Market

By [Bruce Einhorn](#) January 21, 2014

Hong Kong is accustomed to receiving kudos from American conservatives. Year in and year out, the Heritage Foundation and the *Wall Street Journal* laud the bastion of capitalism on the South China coast as the world's freest economy. Sure enough, Hong Kong has just won the prize again, with the city coming in No. 1 on the 2014 [Index of Economic Freedom](#) published by Heritage and the *Journal*. That makes it 20 years in a row for Hong Kong in the top spot.

Not everyone associated with Heritage is showing the same love to the former British colony. Hong Kong has the [world's most-unaffordable housing market](#) (PDF), according to a newly released survey by Demographia, a consulting firm from Belleville, Ill., that describes itself as “‘pro-choice’ with respect to urban development.” Demographia is affiliated with [Wendell Cox Consultancy](#), founded in 1985 by Wendell Cox, an [adjunct scholar](#) at the Cato Institute and a visiting fellow at Heritage, the Washington think tank run by Jim DeMint, the former Republican senator whom *Bloomberg Businessweek* has called the [Congressional Republicans' Shadow Speaker](#).

This is the fourth consecutive year Hong Kong has topped Demographia's report, which looks at property markets in 360 metropolitan areas in the U.S., as well as Australia, Britain, Canada, Hong Kong, Ireland, Japan, New Zealand, and Singapore. Worse, Hong Kong is now so off the charts—with the median home price jumping to 14.9 times gross annual median household income—that it's in a class by itself. “Hong Kong has the most unaffordable Median Multiple in the history of the Demographia International Housing Affordability Survey,” according to the report. To give a sense of how expensive Hong Kong is, second-place Vancouver comes in with a multiple of 10.3. Just before the Great Recession hit the U.S., Los Angeles reached 11.5 in 2007.

Given the role that the Hong Kong government plays in the property market, it's a wonder that more conservatives don't speak out. Hong Kong's government restricts the ability of companies to develop new projects and maintains a tight grip on the supply of government-owned land it tenders out to the private sector.

Hong Kong's big rival to the south, Singapore, fares better in the report, with a median multiple of 5.1. The Lion City is "severely unaffordable" according to Demographia's standards, but is still much cheaper than Hong Kong. Notably, "Singapore has a housing stock generally similar to that of Hong Kong, less developable land, larger houses and a Median Multiple approximately two-thirds lower," the report says.

In part, that's because Singapore's government has "focused on maintaining an adequate supply of affordable housing," the Demographia report adds. The home-ownership rate in Singapore is 88 percent, the highest of any of the cities surveyed by Demographia.

The Hong Kong government is trying to reassure its people that it understands the severity of the problem. New fees designed to discourage purchases by speculators from mainland China have put a damper on the city's property market, with transactions in 2013 falling to their lowest level since 1996, the year before Britain handed its colony back to China. The [property index compiled by Centaline](#), one of Hong Kong's leading agents, doubled from 2009 to early last year. Since it hit a record in March 2013, the index has dropped 6 percent.

To address the housing problem, Hong Kong's government wants to add 470,000 new homes in the next 10 years. That will take time, so in his annual policy address on Jan. 15, Chief Executive Leung Chun-ying promised faster action for some of the Special Administrative Region's poorest, with the government increasing aid to about 200,000 low-income families. Leung's predecessors have had little success at restoring affordability to Hong Kong's housing market. In the speech, he warned that meeting the 470,000 target will be a "[tall order](#)."

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