

Home Ownership Scheme & Home Price: Little Correlation

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While public rental housing may be required, as there is always a less than fortunate group of people who really require some assistance, your author doubts the need for public-subsidized for-sale housing, or any variant of it, including the Home Ownership Scheme (HOS) housing (for simplicity here, all forms of public for-sale housing are grouped as HOS). While the government should take care of the needy, it does not have any responsibility in helping people to become homeowners, and this is irrespective of whether the economy or house price is doing well or as currently not so well. Nonetheless, there are some who think that HOS housing has been responsible for the current residential real estate demise. Using data published recently in the newspaper, quick and rough calculations were done and these seem to indicate there is little or no correlation between HOS housing and home price. Here are some observations:

- a) **Private market 1st hand & 2nd hand residential transactions** = Collectively these numbered more than 150,000 in 1997 yet have dropped to some 60,000 recently. 1st hand transactions (units sold by real estate developers to the first buyers) occupied around 10% in 1997 and this percentage has increased to 40% lately.
- b) **Private residential unit production** = the number of completed units in 1997 was close to 20,000 and hovers around 30,000 in the past few years.
- c) **HOS housing including those offered by the Housing Society etc** = production fluctuated quite a bit though in 1997 it was around 22,000. It averages around 25,000 in the last several years.
- d) **Private and HOS production** = there seems little correlation between them based on the reported figures i.e. neither seems to affect the other in terms of supply (technically, production may not equal supply as the producer may not put all produced units for sale on the market. Nonetheless, for simplicity, this is ignored here and it is assumed what is produced will have to be sold).
- e) **Private residential transactions and HOS production** = there is little correlation between them i.e. the HOS supply does not seem to have a bearing on the transaction volume of private market residences or vice versa, thus casting a doubt on the ability of HOS housing on home prices.
- f) **Private market production and GDP or home price** = there seems little correlation between the private market supply and GDP, or with home price. Perhaps this reflected the time lag between observed market demand and the actual supply.
- g) **HOS production and GDP or home price** = again there is little correlation yet the interesting note is that HOS has an even lower correlation with home price than the private market production.

- h) **Private market transactions and GDP or home price** = market activity has a very high correlation with both GDP and home price. When the economy is good, there are more transactions subsequently resulting in higher prices.

Based on the above, it seems that HOS housing does not interfere with private market production / supply, does not affect private market transactions much, and does not have much bearing on home price in general. **If a scapegoat is needed, blame the economy.**

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