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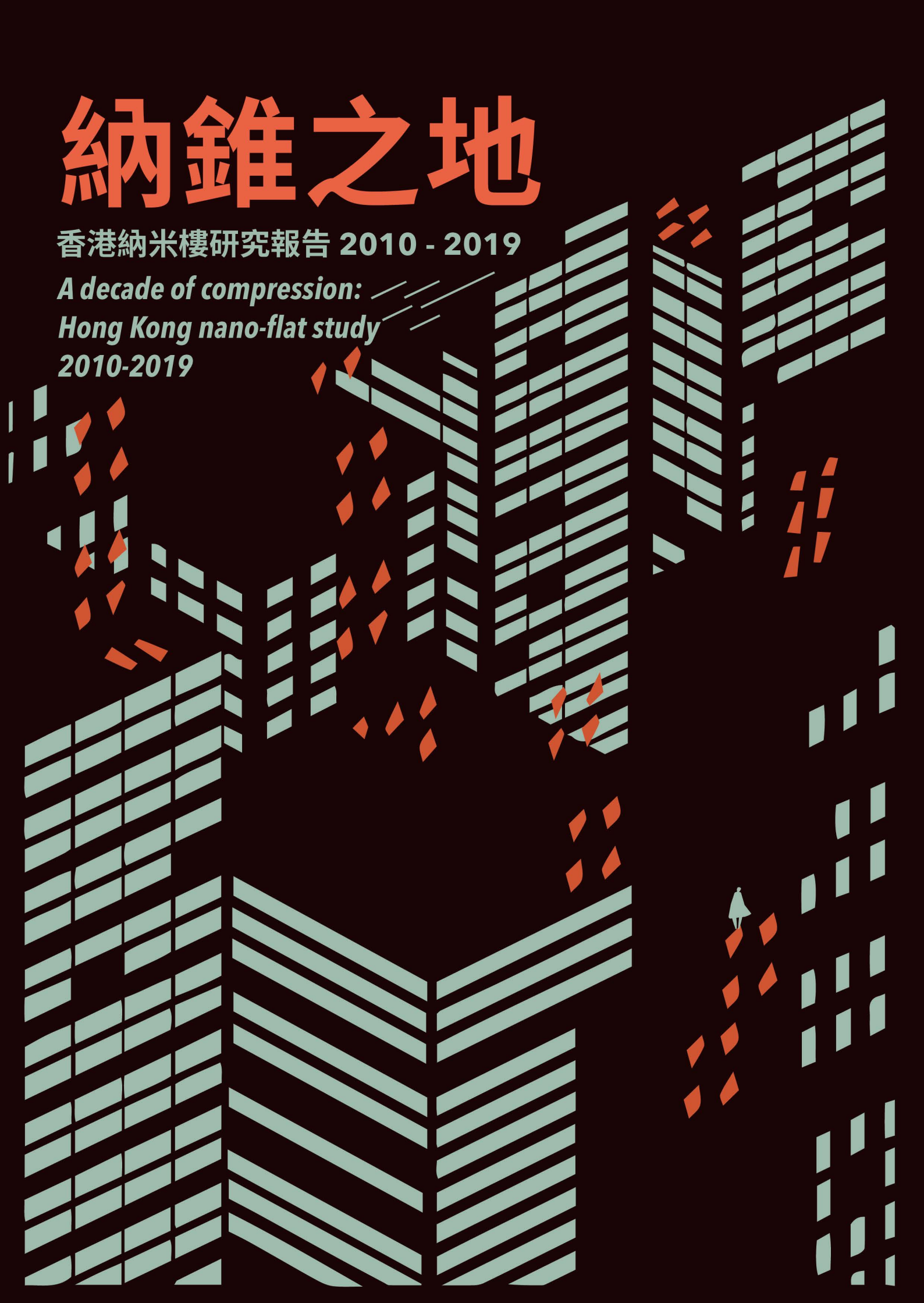
A decade of compression: Hong Kong nano-flat study 2010-2019



A decade of compression: Hong Kong nano-flat study 2010-2019

Executive summary

- **A lack of policy vision on "housing space standard":** In recent years, the government has supported the notion of compressing flat size as a solution to housing shortage, regardless of the corresponding worsening living standard. This has led to a proliferation of tiny flats, or "nano-flats", branded as "affordable" homes in the market. This regrettable situation stems from the government's gradual relaxation of planning and building regulations.

- **Research method:** This research attempts to illustrate the problem of nano-flats and to outline the change in policy contexts contributing to the rise of nano-flats by building and analysing the first "Hong Kong nano-flats database". The database, with figures from 2010 to 2019, targets private residential properties with sizes equal to or smaller than 260 sq ft. Concrete policy recommendations to tackle the problem are then suggested.

- "**Hong Kong nano-flats database 2010-2019**": http://bit.ly/data_nano_flat

- ***Statistical overview***

    - **The extent of the problem has long been underestimated**: the number of nano-flats built in recent years has skyrocketed. From 2010 to 2019, 8,550 nano-flats have been released to the market, including 6,150 nano-flats with occupation permits, and 2,400 pre-sale where the flat is available but not yet ready for occupation. Nano-flats took up 12.9% of the first-hand sale residential properties in 2019, meaning that for every 8 first-hand properties sold, there is 1 nano-flat. The problem is way more serious than society currently perceives.

    - **Kowloon is the hardest hit area:** over 40% (42.9%) of nano-flats are found in Kowloon City, Yau Tsim Mong, and Sham Shui Po Districts. Unexpectedly, many nano-flats have spread to New Territories new towns such as Tuen Mun, Shatin, Yuen Long, Tai Po, where houses are generally cheaper than their urban counterparts.

- ***Design defects of nano-flats***

    - **Shrinking size**: nano-flats built from 2010 to 2019 have an average area of 219 sq ft. The average area of nano-flats has been shrinking throughout the decade, from 220 sq ft in 2010 to 213 sq ft in 2019. The smallest nano-flat is found in a residential project named "T Plus" in Tuen Mun, with a distressing size of 128 sq ft, and a saleable area smaller than 4 double mattresses put side by side.

- **Conflicting use of the same tiny space**: no nano-flats can accommodate a bedroom and a separate kitchen at the same time in our database. 5.27% of nano-flats have a separate kitchen but no bedroom; 6.53% of nano-flats have a pantry-like open kitchen and a bedroom. Under most circumstances, functions of cooking, living, and sleeping all take place in the same room (88.2%), with conflicts among different functions.

- **Concessionary policies that make flat ratio less user-friendly**: It is found that on average 23.6 sq ft of each nano-flat enjoys gross floor area ("GFA") concessions (balconies, utility platforms, and glass walls), which accounts for 10.8% of the average area of nano-flats (219 sq ft). In other words, nano-flat buyers spent $493,000 on average for these concessionary facilities which could hardly be utilized effectively.

- ***Supply of nano-flats***

  - **Redevelopment is the main source of supply**: in the early stage, most of the nano-flat developments arose from urban redevelopments. Among 96 nano-flat development projects since 2010, 64 came from redevelopment projects (66.7%); 19 of which were acquired via compulsory sale, accounting for 2,879 nano-flats. The figure takes up around a third (33.7%) of the total number of nano-flats. This reflects that compulsory sale for redevelopment is a common development mode for nano-flat developments. In particular, 12 nano-flat projects involving compulsory sale are fully or partly funded by Henderson Land Development Company Limited.

  - **The "king" of nano-flat - Henderson Land Development Company Limited**: Henderson has solely built 2,858 nano-flats, and co-built 96 nano-flats with New World Development. Other major developers in Hong Kong, namely New World Development, Cheung Kong Holdings, and Sun Hung Kai Properties, have built 624 nano-flats themselves -- still less than a quarter of those solely built by Henderson.

  - **All top 10 market players did not disclose nano-flat developments in Environmental, Social and Governance reports (ESG)** : nano-flats are deemed inadequate housing, but are listed in various awards in developers' ESG reports. In particular, Henderson Land Development Company Limited, Kowloon Development Company Limited, and Far East Consortium International Limited listed awards obtained via nano-flat development projects in their ESG reports. This reflects that ESG reports cannot effectively monitor impractical and un-user-friendly development projects, and even allows the sugarcoating of nano-flat developments as social responsibility by developers.

- ***Nano-flat market flooded with investment demands***
    - **Transfer rate of nano-flats sold in 2010 reached around 80%**: the nano-flat transfer rate after the lapse of the 3-year holding period is extremely high. 26.2% of nano-flats sold from 2010 to 2015 have already been transferred. For the 722 nano-flats already transferred, the first purchasers held those flats for an average of 3.48 years (table 9). The first purchasers most likely cashed out the nano-flats given the upsurge of nano-flat prices.

    - **Rent per square foot of nano-flats was equivalent to that of luxurious developments**: depending on districts, rentals of the ten already occupied developments with the most nano-flats range from $40-64 per square foot. This price level is similar to that of luxurious developments. Intriguingly, as the agents revealed, about 30% of the nano-flats were available or rent at the early occupation stage of those nano-flat developments. This shows that many nano-flat buyers treat the flats as buy-to-let investments.

    - **Less than 30% of purchasers applied for the mortgage insurance programme**: It is found that from 2013 to May 2018, only 29.4% of purchasers for first-hand flats with areas below 200 sq ft applied for the mortgage insurance. The mortgage insurance programme is seen as a common method for first-time buyers to purchase properties. The figure suggests that the nano-flat market might be flooded with buyers with a non-self-use, investment motives.

- ***Government responsibilities***

    - **Gradual elimination of basic unit requirements in building regulations**: In 1997, Buildings Department announced the “Practice Notes for Authorized Persons 219” in which “closed toilet” designs were legalized; the 2011 update of “Code of Practice for Fire Safety in Buildings” substantially simplified the approval process for building open kitchens, to the convenience of developers. The main officials involved include Carrie Lam and Leung Chin-man. These amendments lead to the rise of nano-flats.

    - **“Universal Design” standard left hanging in the air**: the “Universal Design” put forward to improve housing design initially, does not apply to units in private residential development, including nano-flats. For example, “Barrier Free Access” designed for disabled persons was only applicable to “all public areas of buildings”, but not inside the flats. Twenty years ago, “Hong Kong 2030+” already suggested enhancing the implementation of the “universal design” in private residential units through building design guidelines. However, the “universal design” standard remained a “vision” yet to be implemented, which also contributed to the rise of nano-flats.

    - **60% of nano-flats were built on sites from land sales with restrictions on flat number and size**: certain government land sale conditions restrict the

number and size of flats to be built. It is found that 1,463 nano-flats, or around 60% (63.2%) of nano-flats from government land sale, were built on land lots with this specification. This reflects that this policy directly encouraged building smaller flats in the private market. Government land sales since the fourth quarter in 2014 lifted the flat number restriction, without specifying the flat size standard, allegedly because “the market will also draw up floor plans accordingly”. Thus, the government has a guiding role when it comes to the expansion of the nano-flat market.

- **Government officials “shift the goalpost” to perpetuate its laissez-faire policy**: The government claims that increasing the supply of land and housing units can solve the problem of “nano-flat” in the long run. However, as the problem of nano-flats exacerbated, the government then in turn claimed that a minimum flat size would affect the supply of housing units. This shows that the government has no intention to solve the problem of nano-flats. The only official who admitted the possibility of restricting minimal flat area through title deed clauses was Secretary of Development Eric Ma Siu-cheung. Though aware of this feasible solution, the Development Bureau has sat back and done nothing.

- **Policy suggestions**: The research team has come up with the following schemes to alleviate the problem of nano-flat:

Short-term policy: define “nano-flat”

- Define all flats smaller than 260 sq ft as “inadequate housing”;
- Step up additional requirements to use Land (Compulsory Sale for Redevelopment) Ordinance and restrictions in clauses of land sale, which are estimated to be able to block about 60% of nano-flat construction;
- Set a minimum flat area for newly constructed flats for the mortgage insurance programme of HKMC;

Mid-term policy: fix the flaws in building development control

- Review practice notes, codes, design manuals, and guidelines with regard to the adverse daily and hygienic effects brought by designs such as open kitchens and windowless toilets;
- Revise the preferential exemption policies of “creating high quality and sustainable building environment measures”, and prohibit flats smaller than 260 sq ft from enjoying the GFA concessions;
- Extend the applicable scope of “universal design” to cover inner residential unit designs to ensure sufficient maneuvering space for wheelchair users and the elderly.

Mid-to-long term policy: set up housing space standard

viii. Conduct a comprehensive study on the current living conditions and future of residents’ spatial needs, and set up statutory minimum floor areas for different types of residential flats.