Problems in the US, UK and Hong Kong Property Markets Under the Impact of COVID-19

Xuzhe Wei

Xi’an Tie Yi High School International Curriculum Center, Xi’an, China

*Corresponding author: 15000440110@xs.hnit.edu.cn

Abstract. Contemporarily, the COVID-19 has negative affected various field globally including property markets. On this basis, this paper discusses the existing real estate problems in some countries and some new problems caused by the COVID-19 epidemic, as well as the causes of these problems. Subsequently, implementations and policies that the governments of these countries proposed to address issues are discussed. To be specific, this paper focuses on the distance and analysis of three countries or regions, namely the United Kingdom, the United States and Hong Kong. According to the analysis, the United Kingdom mainly focused on immigration under the pandemic; the United States focused on analyzing different problems in real estate markets caused by the epidemic among cities with different functions; while Hong Kong, China focused on analyzing the problems and causes of low human settlement wages and low per capita land occupation area. These results shed light on guiding further exploration of policy implementation under risk conditions.

Keywords: Real estate; COVID-19; Economics.

1. Introduction

Throughout human history, human beings have gone through burrowing, nomadic, and finally settled down to live in one place. Over time, our ancestors gradually gave up their hunter-gatherer lifestyle. This transition period was from 30,000 BC to 15,000 BC [1]. Since the Middle Ages, Real estate development and marketing have become increasingly popular because property ownership is a symbol of wealth and one of the main ways the wealthy protect their assets [2]. The emergence of private property and land ownership laid the foundation for the modern real estate system and the rise of the middle class and the rise of finance have made the dream of home ownership possible [1].

However, a new form of pneumonia caused by SARS-CoV-2 infection was discovered in Wuhan, Hubei Province, China in December 2019, and then the World Health Organization (WHO) officially named the disease caused by SARS-CoV-2 infection COVID-19 on February 11, 2020 [3], and for that most people in the world are attracted by Corona Virus Disease 2019 in recent times, as more and more cities shut down, some people have had to work from home, others have lost their jobs, and others have lost their lives. In the months that followed, vacant office buildings, offices, empty shopping malls, streets and subway stations, closed restaurants, quiet bars and nightclubs became symbols of social distancing and limited human interaction [4].

As of September 2022, more than 609 million confirmed COVID-19 cases and more than 6.5 million deaths have been reported globally [5], and at the same time, COVID-19 causes a lot of problems. For example, in the UK 69% of construction projects were delayed and affected by the pandemic, as a result of COVID-19, 47% of construction sites have been closed, and 29% of projects were directly cancelled [6]. On the other hand, COVID-19 caused UK’s GDP to fall by 2% in the first quarter (January-March) of 2020, with a general all major departments are retrenching to control costs, followed by a 20.4% decline in GDP in the second quarter (April-June). Growth in the construction and real estate sectors was -35 per cent and -3.2 per cent, respectively, in the second quarter of 2020 [7].

This essay seeks to discuss the problems that are currently plaguing the housing market and potential approaches to mitigating these issues. The trend of increasing demand for housing across the globe is fuelled by the rise in interest of investors who view houses as investment vehicles, changes in macro policies that facilitate house purchases, changes in population in different countries,
and greater competition for land from other sectors of real estate such as retail and office. As such, the increasing demand causes prices to increase, making houses more unaffordable. However, the cultural, political, and economic differences between countries mean that there is no panacea. In other words, each country must devise its approach to addressing its problems in the housing market. This essay hopes to examine the key problems plaguing the market for highly developed and populated regions such as Hong Kong, the UK, and the US, before proposing potential remedies to alleviate the problems in both the short and long run.

2. Property Market in UK

High housing prices are usually caused by high demand and low supply of housing in developed and some developing countries. In particular, the amount of land available in the country, the size of the country’s population, and the cost of building housing contribute to high demand. In the UK, it faces a problem. Although it has enough land to build houses, its loose immigration regulations are causing an influx of immigrants that caused supply to increase far more rapidly than supply.

The UK uses a points-based immigration system that will only grant applicants their visas if they scored above 70 points. This policy has resulted in a total of 4,331,000 net migrants being admitted to the UK from 2016 to 2020 [8], bringing the UK’s population up to 67,081,000 in 2020 [9]. Over the same period, housing prices have increased by 12.9% from an average house price of 205,464 in 2016 to 231,940 in 2020. It is observed that as immigration rose, so did United Kingdom house prices. This is illustrated in Fig. 1, which shows that when the demand shift from D1 to D2, the price of houses rise from P1 to P2 and the quantity of houses increases from Q1 to Q2.

![Fig 1. Price increase driven by demand increase](image)

Moreover, the pandemic also had profound impacts on housing prices. As the virus spread around the world, many countries went into lockdown, which increased the need for a house as it is now not only a space for living but also for work and study. The coronavirus has also spurred demand for housing, with people demanding more. The impact of the pandemic has increased the need for employees to work from home, as well as the need for housing for those who want to stay away from dense urban areas, especially large cities, and maintain social distancing. The former is reflected in the relative rise of housing prices in the suburbs, while the latter is reflected in the rise of single-family housing relative to multi-family housing [10]. The increase in demand for houses that led to a surge in housing prices was not only observed in the UK, but also in the US where the increase was more pronounced. In addition, the UK government has offered mortgage payers a three-month interest exemption, as well as other financial and social security assistance.
3. Property Market in US

In the United States, they have a different problem with the United Kingdom. In addition to differences between countries, different cities have different functions and key industries in each country. Some, like Houston, are manufacturing-oriented. Some focus on tourism and services, such as Honolulu; Others are high-tech cities, like Santa Clara and San Francisco. This also leads to different problems that require effective solutions to mitigate.

Houston is the most populous city in the United States and has a diversified economy that includes transportation, energy, healthcare, manufacturing and aviation. Santa Clara is one of the most expensive places to live in the United States and is home to the headquarters of Google, Twitter, Facebook and other high-tech businesses. Located on the Pacific Ocean, Honolulu has large tourism and service industries, and is a major commercial and trade center between East and West. They have different main economic industries, so when COVID-19 broke out, their housing market had different changes.

Honolulu, for example, was the only one of the four areas to see a decline in home prices, with the steepest drop of 6.7% in April 2020 from pre-pandemic levels. Since Honolulu is a tourist city, it relies heavily on tourism, services, and aviation, making the area more vulnerable to the pandemic. In the wake of the pandemic, social distancing orders and stay-at-home orders in Honolulu had a huge impact on the housing market. All three other cities saw increases, led by Santa Clara, where prices continued to rise, peaking at 9.97% in September 2020.

Santa Clara is dominated by high-tech industries. Even in the face of the pandemic, investor enthusiasm for the area remains high, most of the employees in these businesses have the ability to work from home and are not too productive for the company, and most investors have high expectations for Santa Clara's future growth prospects. So, the demand for houses in the Santa Clara area has increased rather than decreased. Houston, which had a late stay-at-home order and a high prevalence rate, saw a net loss of US$4,675 in July 2020 as home prices began to decline [11].

Following the short but severe COVID-19 recession, home prices rose to record levels in the second quarter of 2021, peaking at 19.3% in July of 2021 (as depicted in Fig. 2) This double-digit growth is a sharp departure from the pre-Covid period (early 2013 to early 2020), when home prices were growing at a modest rate of about 5% a year, outpacing rents. However, massive transfers, including stimulus checks and extended/expanded unemployment benefits, boosted incomes for some households during the pandemic. Therefore, when the unemployment rate rose to a seasonally adjusted 14.8 percent in April 2020 from 4.4 percent a month earlier, household income and housing demand did not fall as much as expected.
In addition, the extremely low mortgage rates and loose monetary policies boost housing demand. At the height of the pandemic, the Fed lowered its policy rate to its effective lower bound (0%) and bought large amounts of Treasury and mortgage-backed securities (quantitative easing), and provided forward guidance to markets that the federal funds rate was likely to remain effective for longer. The expansionary monetary policy aimed to increase aggregate demand and economic growth and involves cutting interest rates or increasing the money supply to boost economic activity. Quantitative easing (QE) is a form of unconventional monetary policy in which central banks buy longer-term securities from the open market to increase the supply of money in the market and encourage people to lend and invest. In addition, central bank purchases of these securities inject new money into the economy and lower interest rates by driving up the price of fixed-income securities, but they expand the central bank's balance sheet.

For example, On March 15, 2020, the Federal Reserve said it would buy US$700 billion worth of government bonds and mortgage-backed securities from domestic financial institutions in the coming months, which is quantitative easing (QE). By setting the duration of its bond purchases open-ended, the Fed signalled that it would buy securities that "support the smooth functioning of markets and the effective transmission of monetary policy to broader financial conditions" and expanded the intended purpose of purchasing bonds on March 23, 2020, to boost the economy. In June 2020, the Fed was buying at least US$80 billion of Treasury securities and US$40 billion of residential and commercial mortgage-backed securities (MBS) each month.

However, starting in November 2021, the Fed began to slow the pace of its asset purchases, buying only $10 billion of Treasuries and US$5 billion of MBS per month. At the Federal Open Market Committee (FOMC) meeting in December 2021, the Fed announced that it was doubling the pace of tapering, reducing US$20 billion of bond purchases and US$10 billion of MBS purchases per month [12]. These actions have significantly increased the Fed's debt because it has purchased so many assets [13], and flooded the market with excessive liquidity that threatens the stability of the housing market.

4. Property Market in Hongkong

The Hong Kong, one of the most expensive cities in the world, it covers an area of about 1,106.34 square kilometers, it has median residential space per capita of just 16 square meters, with subdivided flats being even lesser at 6.6 square meters. In comparison, that in other cities such as New York is 49.33 square meters [14], while that in London is 32.6 square meters [15]. The extreme land shortage in Hong Kong is the main culprit for the low residential space and high prices since demand severely outstrips supply. The population of Hong Kong is 7.4742 million people. But in New York, the population of 8,804,190 distributed over 778.2 square kilometers.

However according to data, the average housing price is US$1,254,440 in Hong Kong, US$747,000 in New York, and US$654,252 in London [16, 17], and the average wages monthly in these countries vary greatly, where that for Hong Kong is US$2193.96 [18], that for New York is US$5765 [19], and that for London is US$5631.05 [20]. This means that Hong Kong has the least living space and the lowest per capita wages but it has a similar size and population to New York. And it means Hong Kong citizens need to work tirelessly for 48 years without spending a dime to save enough money to buy a house. Therefore, Hong Kong’s urban planning and housing prices, which are too high and out of proportion to residents’ incomes, need to be improved. However, it should be noted that the price also drops a little under the impact of COVID-19 as shown in Fig. 3.
5. Conclusion

In conclusion, different countries have different national conditions and political systems, so they require different solutions to the real estate problem. Laissez-faire economies tend to rely on self-adjustment in the market and certain monetary policies, while more interventionist governments often use tough policies and regulations to restrict property companies and buyers. For Hong Kong, the problem is the high price-to-income ratio and the small living spaces for each individual. To address these problems, it could use lower interest rates so that the costs of housing loans for residents are reduced, or offer subsidies to homebuyers, such as lower taxes on home purchases. Apart from the aforementioned proposals, Hong Kong could also use innovative solutions such as reclaiming land from the sea and building more residential buildings on it to solve the high housing prices caused by the lack of supply of land available for building in Hong Kong. For the United Kingdom, its problem is that although it has plenty of land to build houses on, its lax immigration rules have led to an influx of immigrants, causing supply to grow much faster than supply. Thus, the UK government should make their countries’ immigration policies more restrictive and reduce the competition between immigrants and indigenous people for housing. For the United States, it should make sure tourism-dependent cities recover from the epidemic as soon as possible, and reign in its aggressive expansionary policies to release the pressure in the housing market and prevent the formation of a bubble without popping it. In essence, there is no silver bullet for the problems, and each region must actively assess and evaluate the key problems in its housing industry to devise a set of tailored measures that can accommodate all its idiosyncrasies. Overall, these results offer a guideline for government facing pandemic.

References


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