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COVID-19 and the Rental Market: A Global and Hong Kong Perspect

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Abstract: This study aims to provide an in-depth analysis of the challenges faced by the global rental market during the COVID-19 outbreak, with a particular focus on the rental market in Hong Kong, an Asian financial center. By comparing market data before and after the outbreak, this study reveals the impact of rising rents and housing affordability shortages on renters globally, particularly the disproportionate impact on Black and Hispanic communities. The outbreak not only exacerbated these problems but also led to mass unemployment, particularly among households of color, further revealing the instability and vulnerability of the wage structure. This study employs both quantitative and qualitative research methods to analyze the rental market in Hong Kong thoroughly. The findings suggest that the rental market in Hong Kong faces multiple challenges, such as rising rents, unstable tenancy contracts, and inadequate housing supply. These challenges were exacerbated during the COVID-19 outbreak, posing a severe threat to the livelihood security of low-income households. This paper proposes a series of policy recommendations to address the specific conditions of Hong Kong's rental market.

Keywords: COVID-19, Rental Market Affordability Crisis, Low-Cost

1. Introduction

Influenced by economic trends and policies, the rental housing market faced global affordability issues before the pandemic, with urban areas seeing rising rents and more financial strain on renters. Mainly, marginalized communities like Black and Hispanic groups felt the impact [1]. Hong Kong, known for high real estate prices, has challenges due to limited land and financial significance. COVID-19 further stressed these dynamics, amplifying unemployment and rental challenges, especially for vulnerable groups [2].

Therefore, the primary purpose of this research is to explore, understand, and document the multifaceted impacts of the COVID-19 pandemic on the rental housing market, placing particular emphasis on the distinct characteristics and challenges faced by the Hong Kong rental landscape. Several objectives underpin this overarching purpose:[1].

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To this end, this article analyzes the core factors and economic trends affecting the global rental market from three different perspectives. First up is the comparative analysis. The study aims to compare global trends in the rental market with those observed in Hong Kong during the pandemic. Such a comparative stance is essential to appreciate the uniqueness of each context and understand commonalities and divergences[3]. The second core influencing factor is socio-economic disparities. The study aims to explore the pandemic's impact on housing for different socio-economic groups, especially marginalized communities and households of color. It will highlight the systemic inequalities influencing these effects. The last point, and the more important part, is about policy implications. The study seeks to evaluate the effectiveness of policies and interventions implemented during the pandemic, both globally and specifically in Hong Kong. By doing so, the research hopes to offer insights into what worked, what didn't, and why[4].

2. The Affordability Crisis Before COVID-19

2.1. Reduction of Low-Cost Units and its Implications

Since the Industrial Revolution, cities have experienced mass migrations, which have resulted in a consistent demand for rental accommodations. The real estate market reacts sensitively to supply-demand intricacies. With heightened demand for rental units and a static or slow-growing supply, especially in densely populated cities, rental prices have experienced upward pressure, edging many units past the $600 threshold [5]. The diminishing number of low-cost rental units is a significant concern that merits closer examination.

While many municipal bodies have adopted rent control mechanisms and affordable housing drives, the scope of these initiatives often falls short in combatting the magnitude of demand. Additionally, certain policies inadvertently disincentivize the creation or maintenance of low-cost units.

The decline in affordable rental options reflects wider societal challenges, like rising homelessness and financial pressures on low-income families, intensifying urban socio-economic disparities.[6]

In conclusion, addressing the shortage of affordable rentals demands understanding the interplay of economic factors, urban trends, and policies. Solutions should combine proactive policy interventions with market-driven approaches.

2.2. Diverse Regional Market Dynamics and Housing Policy Impacts

Regions experiencing economic booms, whether due to the growth of a particular industry or an influx of foreign investments, often see a parallel rise in housing demand and rental rates. Conversely, areas facing economic downturns or industrial decline may experience stagnation or even a rent decrease. Regional governments often have their own housing policies, tax regimes, and tenant-landlord regulations. Areas with robust rent-control laws might see slower rent growth compared to regions with a laissez-faire approach. While cities grapple with high rents due to space constraints and demand, rural areas, despite offering larger spaces, often have lower rents owing to reduced demand and amenities. In summary, rental market variations stem from economic, cultural, and policy influences. Recognizing these differences is essential for effective housing strategies and equal housing access.

2.3. Rental Market Inflation Divergence

One of the most conspicuous trends in the global rental market over the past few decades is the consistent rise in rents. While this has been a near-universal phenomenon, the magnitude, reasons, and implications of rising rents vary considerably worldwide. Urban centers, especially tech and finance hubs, often see rents rising faster than inflation in developed countries like the U.S. and the UK. Conversely, inflation might surpass rents in some emerging economies due to economic shifts or currency changes.

Such disparities have significant consequences. Housing affordability issues arise if rents rise quicker than wages, resulting in wider socio-economic challenges. Additionally, substantial rent-inflation gaps can signal economic irregularities, like property bubbles or changes in spending. It sheds light on housing market trajectories, living costs, and the overall economic health of a region. Addressing imbalances between the two is crucial for ensuring housing accessibility, fostering economic stability, and maintaining societal harmony.

3. Impact of COVID-19 on the US Rental Market

3.1. Effects of Unemployment

2020 was an extraordinary year, primarily marked by the unexpected surge in unemployment claims due to the COVID-19 pandemic in the US. January showcased stable unemployment figures, but industries like tourism began to feel the impending economic slowdown by February. March witnessed a drastic rise in unemployment as lockdowns were implemented globally, causing numerous businesses to close their doors temporarily.

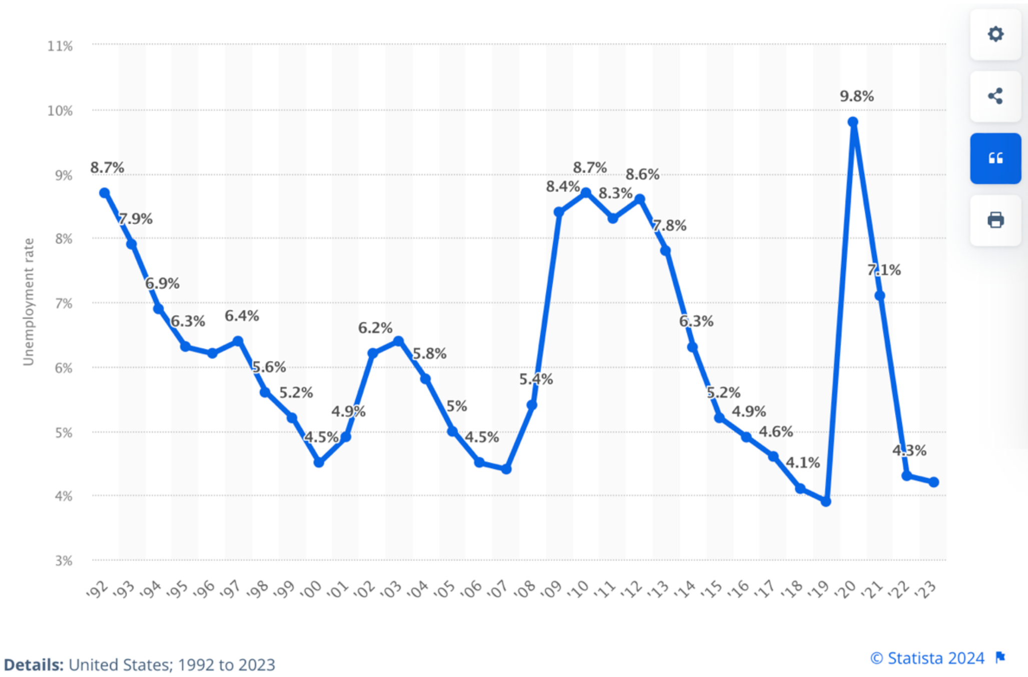

Figure 1: Unemployment rate in the state of New York in the United States from 1992 to 2023 [7]

As can be seen from the chart below, the second quarter was undeniably the most challenging. April recorded a historic high in unemployment claims, with countless individuals seeking unemployment benefits. Though there were concentrated efforts to rejuvenate the economy in May, the irreversible damage caused to numerous businesses led to sustained high unemployment figures. By June, while some sectors showed signs of recovery, transforming temporary layoffs into permanent job losses ensured high unemployment claims.[8]

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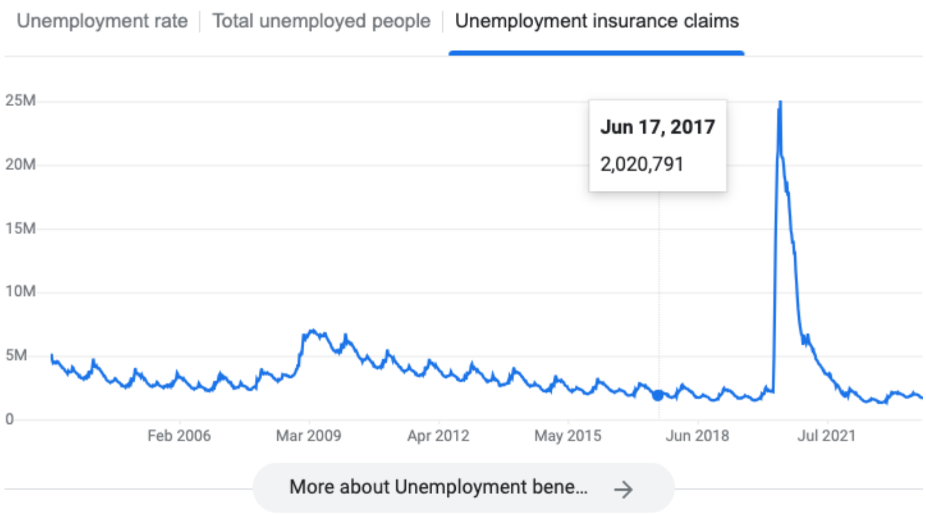

Figure 2: Pandemic Onset and Initial Impact [9]

The third quarter, generally characterized by seasonal employment, provided a faint glimmer of hope. July experienced a small surge in employment, but it was overshadowed by the massive losses of the preceding months. August was weighed down by the looming threat of a second infection wave, and while September observed a slight uptick in jobs within the tech and healthcare industries, other sectors remained beleaguered.

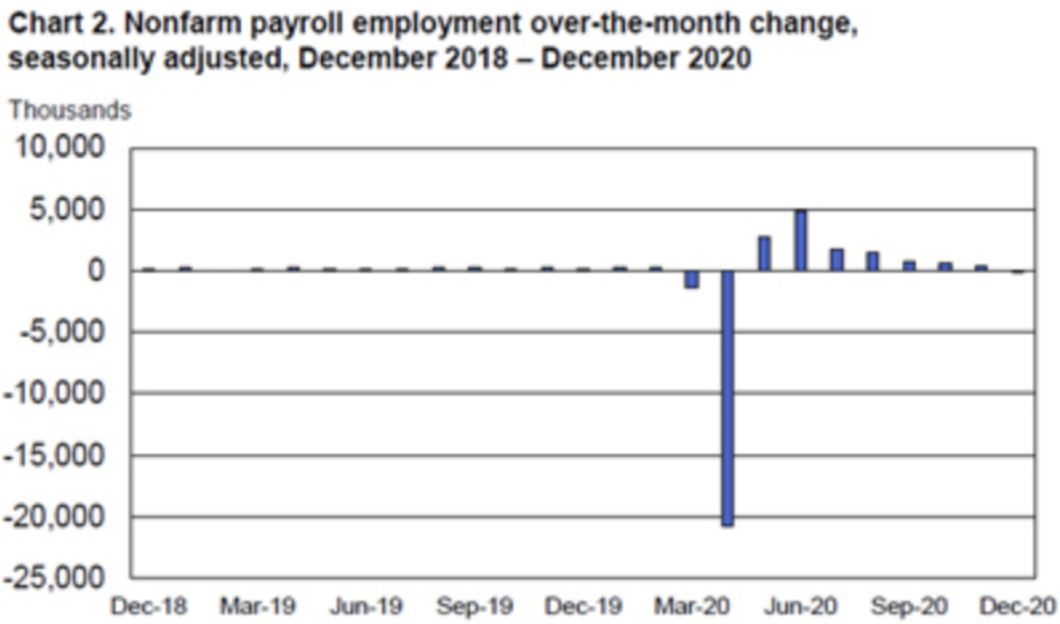

Figure 3: Unemployment rate seasonally adjusted[10]

3.2. Direct Impact on Rental Payment Behaviors

3.2.1. Shift in Payment Priorities

With the surge in unemployment claims, many individuals and families faced unprecedented financial challenges in 2020. As disposable income shrank, tenants had to reprioritize their financial obligations.

While traditionally, rent is regarded as a non-negotiable expense, for many, it soon became a question of choosing between rent and other essential needs such as food, medical expenses, and utilities.

3.2.2. Rise in Payment Delinquencies

A significant consequence of the unemployment surge was the sharp rise in rental payment delinquencies. Multiple surveys and reports highlighted that an alarming number of tenants either delayed or missed their monthly rent payments. While some availed of temporary relief provided by their landlords or tapped into their savings, others had no such cushions. This, in turn, put landlords, especially small-scale property owners, in a precarious financial position, challenging their ability to meet mortgage obligations or maintain properties.[11]

3.2.3. Emergence of Rent Payment Plans

To address the challenge of delinquencies and offer a semblance of stability to both landlords and tenants, many property management firms and independent landlords began introducing flexible rent payment plans. These plans allowed tenants to make partial payments or defer their payments to a later date. While this was a short-term solution and not universally available, it did temporarily relieve many renters.

3.2.4. Government Interventions and Eviction Moratoriums

Recognizing the massive scale of the crisis, several federal and state government bodies introduced measures to protect renters. Eviction moratoriums were implemented in numerous jurisdictions, ensuring tenants affected by the pandemic wouldn't be forcibly removed from their homes due to non-payment of rent. Additionally, stimulus packages in some areas provided financial assistance to renters, enabling them to cover a portion of their housing costs.

4. The Rental Housing Market in Hong Kong: A Distinctive Examination

While the COVID-19 pandemic caused a surge in unemployment and rental payment challenges in the US, it similarly impacted Hong Kong's rental market, albeit in a distinct context. Hong Kong, with its unique geographical constraints and high demand for housing, faced amplified challenges during the pandemic.

4.1. Overview of the Hong Kong Rental Market before COVID-19

As an international financial center and a major metropolis in Asia, Hong Kong has long faced a housing shortage. The city's geographical features - mountainous terrain and water bodies - limit the availability of land, leading to its real estate prices and rents consistently ranking high globally. Before the outbreak of COVID-19, rents in Hong Kong were on a steady rise, especially in core business districts and popular residential areas. The demand for high-end housing by expatriates and business professionals with high purchasing power also contributed to the upward pressure on rents. Moreover, properties in school districts and those near subway stations typically commanded higher rental fees.

Due to limited land availability and strict building regulations, the progress of new housing projects was slow. This made the existing housing stock even more sought-after, further driving up rents. At the same time, many properties were purchased for long-term investment purposes rather than being put on the rental market, further limiting the effective supply of rentals.

The Hong Kong government has tried various means to alleviate the housing supply crunch. For instance, it launched public housing programs and imposed restrictions on foreign buyers. However,

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these policies often had limited direct impact on the rental market, as supply remained severely constrained while demand remained robust.

4.1.1. The Impact of COVID-19 on Tenants in Hong Kong.

During economic prosperity, employment opportunities increase, and income also grows relatively. However, during economic downturns, the unemployment rate rises, putting pressure on the incomes of individuals and families. Different industries and sectors are affected differently by economic fluctuations. For instance, the manufacturing sector might take a bigger hit during an economic decline, while the education and healthcare industries remain relatively stable.

Education and skills training are closely linked to higher income and better job opportunities. Individuals with higher educational qualifications and specialized skills typically enjoy higher salaries. At the same time, there are disparities in employment opportunities and income levels across different regions or cities. Metropolitan areas, while having a higher cost of living, may also offer more high-paying job opportunities.

4.1.2. Vulnerabilities in the Rental Market

The economic condition of renters directly influences their ability to lease. For instance, if many renters face financial difficulties due to unforeseen events (such as illness or unemployment), it could result in their inability to pay rent, thereby increasing the risk of default.

Not only tenants but also landlords can face vulnerabilities. For instance, if landlords are burdened with substantial housing loans, and rents in the market decline or vacancy rates rise, they might struggle to repay their loan, increasing the risk of property repossession.

Government policies and regulations can also impact the stability of the rental market. For instance, excessive regulation on the rental market might deter landlords from leasing out properties, while government incentives might increase the supply of rentals. Both can influence rental prices and the overall stability of the market[12].

5. Conclusion and Recommendations

5.1. Policies and Measures to Alleviate Rent Burdens

5.1.1. Direct Financial Support

Provide rent subsidies for eligible low-income families or specific groups. This policy can pay a portion of the rent on a monthly or annual basis, ensuring a certain alleviation of rental expenditure. At the same time, the government can invest in or collaborate on developing low-cost public rental housing, specifically for low-income groups.

5.1.2. Market Regulation and Fair Competition

Strengthening the regulation of the rental market is crucial. It ensures the reasonableness of rental prices, preventing malicious price hikes or infringement of tenants' rights. At the same time, implementing a rent increase cap policy can prevent rapid rent growth, offering more stability to the market.

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5.1.3. Encouraging Stability and Long-term Collaboration

By encouraging landlords and tenants to enter into long-term lease agreements, both parties can achieve greater stability. In this way, frequent rent adjustments and uncertainties can be mitigated to some extent.

5.2. Future Resilience in Rental Markets

5.2.1. Adaptability and Transformation

With the rapid development of the global economy and technology, the demand in the rental market is constantly changing. The rental market of the future should have a high degree of adaptability, capable of quickly adjusting and responding to new market challenges. This includes the rapid adoption of new technologies, adapting to new consumption patterns, and responding to external economic fluctuations.[13].

5.2.2. Technology-Driven Innovation

With the rise of digitalization and artificial intelligence, the rental market is expected to become smarter and more efficient. Through big data analysis, consumer demands can be predicted and met more accurately, thereby enhancing market competitiveness. Meanwhile, blockchain technology promises to offer greater transparency and security for rental transactions.

5.2.3. Community Building and Sustainability

The future rental market is not just about transactions and profits but more about building cohesive communities and creating sustained value. This requires landlords, tenants, and other stakeholders to collaborate more in community building, environmental protection, and sustainability. For instance, by utilizing green construction and renewable energy technologies, we can enhance the energy efficiency of buildings and reduce carbon emissions.

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