

**Statement by the Chief Secretary for Administration,
the Honourable Donald Tsang JP on 3 September 2001**

A STATEMENT ON HOUSING

Ladies and Gentlemen,

I wish this afternoon to talk about the present state of the housing market and the Government's intentions. Over recent months, different sectors in the community have expressed their views on the problems we face. We have heard concerns over the slow recovery of the private sector residential property market and over its effect on the economy in general. Would-be home purchasers have spoken about their worries about investing in property despite record levels of affordability; families who have purchased homes in recent years are increasingly anxious about the possibility - in some cases, the reality - of negative equity.

2. From another perspective, others express the view that present, temporary economic circumstances should not distract us from our commitment to provide sufficient public housing to meet the needs of the low-income group.

3. Whatever the viewpoint, the question being asked is, what is the Government going to do about it?

4. Let me first say what the Government is **not** going to do. We are not going to offer a panacea for general economic problems of a global origin. We are not going to allow vested interests to determine our actions. We are not going to try artificially either to depress or boost property prices, which are rightly determined by the market. And we are not going to overturn our housing policy which, in strategic terms, continues to serve us well.

5. What we will do is to implement our policy in a consistent but more flexible and responsive manner, taking a balanced and objective view of market developments, changing patterns of housing demand and the competing interests of different sectors of our community.

6. For the benefit of those who do not wish to look up previous policy statements, let me remind you what the key elements of our housing policy are.

Existing Housing Policy

7. First, philosophy. We are committed to providing satisfactory modern housing for our people. We are equally committed to ridding ourselves of inefficient and interventionist elements in our public housing programmes. We undertake to allow the free market, in the best traditions of Hong Kong, to play the fullest possible part in meeting the housing needs of the community.

8. Turning to specifics, our housing market has two components, private and public. In the private sector, the Government makes available sufficient land and infrastructure to meet the challenge of long-term population growth. Since April 1999, through the Lands Department's application procedure, private sector developers determine on their own whether and when any of the large sites formed by the Government for residential development is released for sale. Thus, the purchase of land for development and the sale and purchase of flats are entirely matters for the market to decide.

9. In the public sector, we are responsible for providing a decent standard of accommodation for families which cannot afford other types of housing. We provide 50 000 housing assistance opportunities a year to meet long-term demand from this low income group. Out of this total, we provide, through the Housing Authority, sufficient rental units to keep the waiting time for public rental housing to an average of three years from 2003 onwards. Over the next ten years, this amounts to about 23 000 new units a year on average.

10. We provide the balance of the 50 000 housing assistance opportunities in the form of home ownership assistance, which comes in two forms: Home Ownership Scheme (HOS) flats (and flats built under similar schemes) and home ownership loans. This helps to satisfy the demand for home ownership and frees up public rental flats for those most in need.

11. This policy is clear and fair. It balances the conflicting interests of different sections of the community. What we need to ensure is that our policy is responsive to short term problems.

Crowding Out the Private Sector

12. What is our short-term problem? In a nutshell, it is that there is a significant, even if unintentional, overlap between the target group of the HOS and that of the private sector residential market. This overlap is growing as interest rates continue to fall. It is glaringly obvious among families with incomes exceeding \$20 000 a month and in respect of flats being sold for under \$2.5 million – what is usually called the “mass market”. As a consequence, the heavily subsidised HOS has begun to crowd out private housing in a slow market.

13. When I made my Concordia speech last November on our housing policy, I announced that we would, as a first step to addressing this issue, confine HOS sales to no more than 20 000 units a year irrespective of construction levels forecast by the Housing Authority. This measure was intended to pave the way for a slow-down in HOS construction and to provide the market with a greater degree of certainty.

14. This measure produced a positive effect. And also helpful was the decision of the Housing Authority in April this year to reduce the income limits for HOS sales from \$31 000 to \$25 000 a month.

15. However, the bad news is that, since last November, our problems with market pessimism have not gone away. They have got worse. Short-term demand from buyers of new flats – the so-called “absorption rate” – has fallen to about 20 000 units a year in the mass market.

16. At the same time we are continuing to face a high level of completions of flats in the private sector and by the Housing Authority - about 90 000 flats in total during the two years 2001-02 to 2002-03. This over-supply simply reflects the much more bullish predictions of both the public and private sectors in the early and mid 1990s, which in turn led to large scale construction programmes.

17. Also at the same time, because the Housing Authority income limit reduction did not go far enough to remove the overlap between the HOS and private sector market, the sale of HOS flats continues to put additional pressure on the real estate market which is already shrinking because of worsening global economic conditions.

Moratorium on HOS Sales

18. As a result of developments such as unfavourable global economic conditions, the private residential property market, on which the livelihood and sentiments of many citizens of Hong Kong depend, has continued to stagnate. It threatens to drag down the real estate market. More specifically, a sharp reduction in residential property prices affects the wealth of all home-owners who represent half of the households in Hong Kong. This leads to widespread pessimism, which in turn depresses general consumption and deflates the economy. Ultimately, everyone, rich or poor, feels the pinch. While the Government should avoid standing in the way of autonomous adjustments to property prices which reflect underlying economic conditions, its public housing policy should not exacerbate this process and bring private residential property prices down further.

19. With the permission of the Chief Executive, I have asked the Chairman, Housing Authority to implement a moratorium on all sales of HOS flats until end June 2002. The Housing Authority's customers will not suffer, because the Authority will, over the same period, make available additional home ownership loans to eligible families equal to the number of sale flats being put on hold.

20. I have agreed with the Chairman, Housing Society to suspend sales of Housing Society subsidised flats over the same period. The Government will also administratively freeze the earmarking and allocation of new sites for HOS development.

21. We will, of course, ensure that the Housing Authority will not suffer a cash-flow problem as a result of these measures. And we will explore ways and means to prevent a large number of Home Ownership flats from standing empty for a prolonged period.

22. What will this moratorium do? It will give time to the Government and the Housing Authority to work out a long-term package to prevent the recurrence of a situation where government subsidised ownership housing competes unfairly with the private sector market. The moratorium will give the market a chance to breathe and for market forces to reassert themselves. The reason for choosing a period of ten months is that, working together with the Housing Authority, we hope to address several longer-term issues in that time. These issues are: the ratio between home ownership flats and loans; the eligibility criteria for public home ownership; and the system for allocating sites for HOS developments. But if it turns out that we need a longer period to solve these issues, the moratorium will be extended – for as long as it takes to get our policy right.

Longer Term Issues

23. Without pre-empting the results of our review, let me now explain briefly the importance of these longer-term issues.

(a) Flat versus Loan

24. First, the balance between flats and loans. The Government believes that the traditional HOS programme serves a useful purpose. A total reliance on loans would leave us exposed to the possibility of not being able to meet public sector demand were unforeseen factors to affect the capacity of the private sector. But with this caveat, loan finance is a better way of meeting public sector housing demand than traditional “bricks and mortar”. From the point of view of the consumer, loans provide wider choice. From the point of view of the taxpayer, two loans can be provided for the cost of one HOS flat. Most important, loans are flexible.

25. To plan and build a major public housing development in a crowded city such as Hong Kong can take ten years or more. However well we predict long-term housing demand, we cannot possibly predict short-term market movements so far in advance. Under the present system, we run the risk of either having an insufficient supply of HOS flats at a time of high private sector market prices or, as is now the case, a surplus of HOS flats at a time when the market is relatively weak. By contrast, by making loans available, we can satisfy long-term demand while being sensitive to short-term fluctuations. When the market is strong, more loans will be taken up; when the market turns weaker, loans can be carried forward to the following year.

26. It is against this background that we agreed with the Housing Authority last year a cutback in HOS production and its replacement by loans, starting in 2003. This step was widely welcomed. However, as the market has continued to demonstrate, it does not go far enough.

27. We should make more housing loans available to replace more HOS flats. Part of our review will therefore be to agree with the Housing Authority a more radical cutback in the level of HOS sales in the longer term. This will, of course, involve taking back for other purposes – whether private residential housing or other public purposes – a large number of sites originally earmarked for Housing Authority use. More loans will be put in place.

(b) Eligibility Criteria for Home Ownership Assistance

28. The second key issue in the review will be the eligibility criteria for home ownership assistance. To avoid an overlap between the public and private sector housing markets, we need to be completely confident that public assistance - whether loans or flats - is being directed to those in genuine need. Many households who are eligible for HOS flats can now afford to purchase flats in the private sector. Such a situation is triply wrong. It damages confidence in the market, it wastes public resources and it deprives families in genuine need.

29. But such situations are inevitable unless the mechanism for adjusting the eligibility criteria for public housing is flexible, and fair to all sections of the community. I

will therefore invite the Housing Authority not only to adjust its current income and asset limits for the HOS flats to levels justified by their own formula, but also to review that formula so that it can in future be more sensitive and responsive to market forces.

(c) Site Selection for HOS Flats

30. Although home ownership assistance will be predominantly through loans as the current Housing Authority's HOS construction programme runs down, we shall need to designate new sites for HOS construction on a reduced scale some time in the future. The third element of the review will thus be the selection of sites for HOS development. The Government does not subscribe to the view that all "good quality" sites, however defined, should be reserved to the private sector. On the other hand, it makes little sense to allocate land for basic public housing without regard to location and land values. As Chairman of the Steering Committee on Land Supply for Housing (HOUSCOM), I will develop a balanced set of criteria to guide us in the future allocation of HOS sites.

Need for Certainty after Moratorium

31. A final, but very important point on the moratorium. Our intention is that, in the months ahead, the market will be able to operate with a greater degree of certainty. We do not wish to leave a question mark over what will happen after the moratorium is lifted on 1 July 2002. By freezing HOS sales, we will inevitably build up a surplus level of flats which could be seen as a threat to the chances of market recovery. To prevent any chance of this, I have agreed with the Chairman, Housing Authority that sales of HOS flats after the moratorium will not exceed 9 000 units a year up to 2005-06, subject always to the avoidance of any direct competition with the private property market. Thereafter, of course, we expect more radical cuts as a result of our long-term review.

32. Some may feel these steps too radical. I would ask such critics to look dispassionately and objectively at the facts. Those in the lowest income group will benefit from an accelerated access to quality public rental housing. Those who aspire to be home purchasers, but who cannot afford even the much reduced levels of private sector property prices, will benefit from an enlarged number of loans under the Home Purchase and Home Starter Loan Schemes. Existing and would be property owners will no longer face additional downward price pressures from an over-supply of HOS sales. The property and banking sectors will be able to invest with more confidence in the future housing infrastructure needed to meet long-term demand from Hong Kong's growing population. Many will benefit.

33. By contrast, some have suggested that we ask the Housing Authority to go further, for example, to sell off "surplus" HOS flats in the open market. But, serious though the situation is, we see no reason to flood the private sector market which remains soft or to step outside of our existing strategic policy. What we need to do most is to adjust the form in which we provide home ownership assistance under current market conditions.

Review of Institutional Framework

34. The adjustments to our HOS policy, both short and long term, have obvious implications for the institutional framework for public housing. For that reason, the review of this framework begun under my predecessor by the Committee established by the Chief

Executive will have to take stock of the outcome of the review on the longer-term issues. I am sure you will agree that, in this important exercise, our priority must be to get the right answers. To do so, more time is required.

Conclusion

35. This Government is determined to maintain a clear and consistent housing policy. We are determined to continue to reduce the number of inadequately housed families and to provide good quality rental accommodation for the low-income group more quickly than in the past. We have no brief either to bring down property prices or to prop them up. But we are determined to promote home ownership and, to that end, to foster a healthy private sector residential market. We will work with the Housing Authority to make sure that these goals are achieved and that public housing resources are more justly allocated than in the past.

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