

**Statement on 5 June 2002 by the Chief Secretary for Administration
on Home Ownership Scheme policy (covering note)**

- At **Annex** is a copy of the statement made today (5 June 2002) by the Chief Secretary for Administration (CS) concerning the Government's policy on the Home Ownership Scheme (HOS).¹
- The purpose of the statement is to confirm that the current moratorium on the sale of HOS flats, announced by the CS on 3 September 2001, will cease as scheduled on 30 June 2002. With effect from 1 July 2002, the Housing Authority and Housing Society will resume sale of HOS flats in a careful and cautious manner.
- For the 12 month period from 1 July 2002 to 30 June 2003, two phases of HOS flats will be put on sale. The first phase of about 2 400 flats will be sold in September this year, while the second phase of about 2 500 flats will be sold in April next year, subject to the market situation. The sites are listed at Annex A to the CS's announcement. We have announced this programme in detail to give certainty to the market during this period.
- Thereafter, the level of sales of HOS flats up to 2005-06 will depend on market conditions. It will continue to be subject to the overall ceiling of 9 000 units a year up to 2005-06 announced by the CS in September 2001.
- The announcement also summarises the outcomes of the three reviews of HOS policy which we undertook to complete before the moratorium was lifted. These comprise –

¹ Home Ownership Scheme (HOS) is used in this document to refer to all public subsidised home ownership schemes, including the Private Sector Participation Scheme and the Buy or Rent Option Scheme operated by the Housing Authority as well as the Flat for Sale Scheme operated by the Housing Society.

- (a) **a review of eligibility criteria for HOS.** Revised income and asset limits as well as a more market responsive formula were agreed by the Housing Authority in February 2002;
- (b) **land allocation criteria for HOS flats.** We have formalised a balanced set of criteria for the allocation of land for public housing in general and HOS development in particular; and
- (c) **the long term quantum of HOS production and sale.** Subject to formal approval by the Housing Authority, we have set a long term, sustainable limit of 2 000 flats starting as soon as possible after 2005-06, subject to market conditions.

Statement by the Chief Secretary for Administration,

Hon Donald Tsang JP, on 5 June 2002

A statement on Home Ownership Scheme

Ladies and gentlemen,

On 3 September last year, I announced a moratorium on the sale of Home Ownership Scheme¹ (HOS) flats by the Housing Authority and Housing Society to last until the middle of this year, that is 30 June 2002. I undertook that we would use this time well to review with the Housing Authority three long term issues which are critical to prevent the recurrence of the overlap between the HOS and the private sector residential markets. These were the HOS eligibility criteria, the long term ratio between HOS flats and home ownership loans and the criteria for allocating sites for HOS development.

2. I said that, provided these issues could be resolved and the moratorium therefore end on schedule, future sales of HOS flats would not exceed 9,000 a year up to 2005-06, subject to the continuing need to avoid competition with the private sector residential market. Thereafter, we expected more radical cuts in the HOS programme.

3. Today, I wish to explain how the Government intends to proceed after the current moratorium on the sale of HOS flats and to report on the results of the reviews of the three long term issues.

4. Before I do, let me once more remind you of the guiding principles behind our housing policy –

- we are committed to allowing the free market, in the best traditions of Hong Kong, to play the fullest possible part in meeting the housing needs of the community;

¹ The Home Ownership Scheme (HOS) is used as short-hand for all similar schemes, including the Private Sector Participation Scheme and Buy or Rent Option Scheme operated by the Housing Authority, as well as the Flat for Sale Scheme operated by the Housing Society.

- we are equally committed to providing a decent standard of accommodation to families in genuine need which cannot afford other types of housing. We provide such assistance in the form of rental units, HOS flats and home ownership loans; and
- we will continue to implement this policy in a 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.

Lifting of the moratorium

5. I am pleased to announce today that, through the efforts of the Chairmen and members of the Housing Authority and Housing Society as well as of colleagues in concerned departments over the past ten months, we have reviewed and reached agreement on the key issues that confronted us last year. As a result, I confirm that the moratorium will cease to apply with effect from 1 July 2002 and that, after that date, the sale of HOS flats will resume in a cautious and considered manner.

6. I wish now to elaborate on the conclusions of the three reviews.

Housing Authority's income and asset limits

7. To reflect the significant increase in affordability of private sector residential property, the Housing Authority agreed in February 2002 to reduce the income limits for family HOS applicants from \$25 000 to \$21 000 a month and, for singleton applicants, from \$12 500 to \$10 500. It also adjusted the formula used to calculate these limits to make it more responsive to property prices and mortgage interest rate changes in the market.

8. On some previous occasions, the Housing Authority's limits have not always been fully adjusted in accordance with the established formula, thereby aggravating the overlap between the HOS and private residential markets. The Housing Authority will in future adhere strictly to its new formula in making adjustments, and will conduct more frequent reviews so as to follow market trends more closely. This will help to ensure the effective deployment of our public housing resources to those in genuine need.

Long term ratio of HOS flats to home ownership loans

9. The Government is convinced that the increasing use of home ownership loans rather than the traditional "bricks and mortar" approach is essential to provide more choice to home purchasers, make better use of public resources and avoid mis-matches in short term supply and demand.

10. I have therefore invited the Housing Authority and the Housing Society together to move towards a sale level of no more than 2 000 HOS flats a year as soon as possible after 2005-06. We will not back away from our commitment to provide 50,000 housing opportunities a year: the cut back in HOS flats will be matched by an increase in the number of loans offered to eligible households. But we will not have to embark on new HOS projects for some years to come. On the other hand, we will preserve the ability of the Housing Authority to gear up its programme again should unforeseen economic circumstances arise in future requiring quick re-adjustment of our method of meeting the housing needs of the low income group.

11. My colleagues and I have also considered carefully, taking into account the views of the Housing Authority and the Housing Society, the actual HOS sales programme to be implemented from now (i.e. immediately after the moratorium) up to 2005-06.

12. As I made clear in September last year, 9,000 is a maximum figure and is not in any sense a target. The actual number of flats to be sold will need to have regard to changing market conditions. I have decided that, for the first twelve months after the moratorium, two phases of HOS flats will be put on sale. The first phase of about 2 400 flats will be sold in September this year, while the second phase of about 2 500 flats will be sold in April next year, subject to the market situation. I believe this will provide a degree of certainty to the market. In drawing up this programme, we have had regard to the continuing fragility of the private residential property market in general, and specifically to the need to consider carefully the numbers of flats, timing of sale and location of individual HOS projects, so as to avoid competition between the public and private sectors. A site-specific list is attached ².

13. It is too early to say what levels of sale and which sites will be sold by the Housing Authority in the remaining period up to 2005-06. It is a difficult if not impossible task to forecast market developments in detail so far in advance, and the Housing Authority and the Government must both retain a degree of flexibility within the overall ceiling of 9,000 HOS sales a year. The annual numbers to be sold up to 2005-06 will depend, amongst other factors, on whether the availability of flats in the private sector both in the primary and secondary market affordable to low income households starts to fall short of demand. We will in any case ensure that the Housing Authority will be able to dispose of its existing stock of HOS flats, as well as these now under construction, whether by sale or, where appropriate, by conversion to other uses, in a timely fashion.

14. We have seen a modest revival in the number of property transactions in recent months, but many of these transactions have involved smaller flats towards the lower end of the market. This is positive evidence that the market can respond proactively to the prospect of more loans being made available to replace the traditional HOS programme.

² Please see Annex A.

Financial consequences

15. I have carefully noted concerns raised by Housing Authority members and others about the financial implications of cutting back the HOS sales programme while issuing loans on a larger scale than in the past. The Government can and will address these concerns comprehensively. First, looking at the matter from the point of view of the overall public interest, loans are a more cost-effective way of providing housing assistance to the relevant target group. The problem therefore is not one of cost to the taxpayer but of the financial viability of the Housing Authority as an organization.

16. Second, I repeat the guarantee I made in September last year: should the Housing Authority experience cash flow problems as a result of these measures, the Government will provide the necessary financial assistance so that the activities of the Housing Authority will be unaffected. Third, in terms of cash flow, we are optimistic that the Housing Authority will continue to be able to on-sell its loan portfolio to institutions such as Hong Kong Mortgage Corporation.

17. I accept that there is a more general concern over the long term sustainability of the Housing Authority's finances. We need to take a hard and detailed look at the financial arrangements between the Housing Authority and the Government to ensure that sufficient funds continue to be made available to meet our housing pledges. The Secretary for the Treasury is conducting such a review and I hope that we will be able to reach agreement on the details with the Housing Authority within this year.

Allocation of land for housing development

18. The Secretary for Planning and Lands and his colleagues, taking into account views of Housing Authority members and others, have devised a balanced set of criteria³ to guide the Administration in the allocation of land to public and private sector housing development. Given the cut-back in the overall level of HOS sales, any future land allocated for public sector housing will be to the Housing Authority; we do not envisage the need to grant any additional sites to the Housing Society for this purpose.

³ Details in Annex B as announced by the Secretary for Planning and Lands on 4 March 2002.

Conclusion

19. Finally, let me tell you what the effect of these measures will be on the community. The gradual move away from inflexible “bricks and mortar” style subsidised home ownership production is a real “win-win” situation.

20. First, families in need of assistance will be able to choose the locations, sizes and types of home they wish and the times they purchase them, in line with their own personal circumstances and preferences. They will not depend on applying under a ballot system for flats in a fixed place and of a fixed type, irrespective of their individual needs.

21. Second, we will protect the interests of those who have bought or who intend to buy property in the private sector market. We are determined to keep the market as stable as possible and to restore the confidence that has been eroded by the wild fluctuations of the past.

22. Third, the wider community will benefit because we will use our public resources more effectively: it costs the taxpayer roughly three times as much to satisfy the aspirations to home ownership of an eligible family through the HOS as through a housing loan.

23. And besides this, we will continue to give high priority to the housing needs and aspirations of low income families living in or waiting to be allocated public rental flats. I am pleased that the hard work of the Housing Authority will allow us reach our target of an average three year waiting time within this year, one year ahead of schedule. We will continue to meet our commitment to provide housing assistance to families in genuine need more quickly, cost-effectively, and efficiently than ever before.

Annex A

Sale programme for subsidized home ownership (1 July 2002 – 30 June 2003)

Phase 24A – anticipated sale date : September 2002¹

	Number of flats
Yu Chui Court Ph.1 (Shatin)	960)
Lei On Court Ph.1 (Kwun Tong)	853) 2,453
Ka Keng Court (Shatin)	640)

Phase 24B – anticipated sale date : April 2003²

	Number of flats
Yu Chui Court Ph.2 (Shatin)	1,056)
Lei On Court Ph.2 (Kwun Tong)	831)
King Hin Court (Hammer Hill)	344) 2,495
Kai Tak Garden (Wong Tai Sin) (Housing Society Development)	264)
	Total : 4,948

¹ Applications may be invited in July/August 2002.

² Applications may be invited in February/March 2003.

Allocation of land for housing development

(as announced by the Secretary for Planning and Lands on 4 March 2002)

The Government will apply criteria to determine on a site by site basis whether land designated for housing should be earmarked for private or public housing development.

The criteria comprise mainly -

- (a) land – to optimise the utilisation of scarce land resources, in order to put land to its best economic and social use;
- (b) planning – to promote an appropriate mix of private and public housing of different densities in urban and new town areas in order to achieve social and visual harmony and variety in urban built form; and
- (c) effectiveness – to achieve economies of scale and to provide adequate facilities for the community.

A Committee chaired by the Secretary for Planning and Lands will apply these criteria. The Housing Bureau, taking into views of the Housing Authority, will advise on whether public housing sites should be used for public rental or subsidised home ownership. The use of all sites will require the endorsement of the Steering Committee on Land Supply for Housing (HOUSCOM), now chaired by the Chief Secretary for Administration. The Government will strike the right balance in the land allocation process in the best interests of the whole community.