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Panel on Housing

**Disposal of Kingsford Terrace
Private Sector Participation Scheme Flats**

Background brief

(Updated version as at 11 April 2005)

Purpose

This paper provides background to the disposal of Kingsford Terrace Private Sector Participation Scheme (PSPS) flats and members' views on the subject.

Kingsford Terrace PSPS Project

2. PSPS is one form of subsidized ownership home introduced by the Government in 1977 to supplement the Home Ownership Scheme (HOS) by inviting the participation of private developers. Unlike HOS flats which are owned by the Housing Authority (HA), PSPS developments are owned by the developer. Under PSPS, private developers are invited to tender for housing sites on which they are required to build flats conforming to certain specifications stipulated by the Government. Like other Government land sales, the land title of a PSPS site is vested in the developer. The developer holds legal title to the land lot, owns the residential units, the car parking spaces and commercial facilities it builds under the same lease. The obligations of the contracting parties are stipulated in the Conditions of Sale for the housing site. Under the Conditions of Sale for PSPS projects, HA is named to nominate eligible purchasers to purchase the flats from the developer concerned within a specified period. In the event that flats are unsold at the end of the specified period, HA is obliged to purchase the flats at the guaranteed purchase price.

3. Kingsford Terrace comprises 2 010 flats, 337 car parking spaces and a shopping area of 1 880 square metres (m²). The total saleable floor area of the flats is about 100 058 m². The guaranteed purchase price for all the flats was about \$1,441 million (calculated on the basis of \$14,400 per m² of saleable area). Under

the Land Grant, HA should nominate eligible home purchasers to purchase the flats within 20 months from the date of the Consent to Sell, which was issued on 10 October 2002.

4. In November 2002, the Government decided to cease indefinitely the production and sale of HOS/PSPS flats from 2003 onwards to address the imbalance between supply and demand of private residential flats, and to restore the confidence of the public and investors in the property market. Detailed information on the Government's decision is set out in the updated background brief entitled "Disposal of surplus Home Ownership and Private Sector Participation Scheme flats" in LC Paper No. CB(1) 1218/04-05(03). Kingsford Terrace is one of the two PSPS projects which need to be disposed of pursuant to the decision to terminate PSPS.

Disposal options

5. According to the Administration, it had explored a number of options on how Kingsford Terrace should be disposed of. These include the following -

- (a) the Government to negotiate with the developer to allow it to dispose of the flats in the open market, subject to payment of a lease modification premium;
- (b) HA to purchase the entire development and sell it to the Government for use as departmental quarters;
- (c) HA to purchase the entire development and sell it to the Government for future resale in the open market through tender/auction;
- (d) HA to purchase the entire development and create a new type of HA's public rental housing (PRH) for the well-off tenants; and
- (e) HA to purchase the entire development for disposal as HOS flats after 2006.

6. Members were briefed on the various disposal options at the joint meeting of the Panel on Housing and the Panel on Planning, Lands and Works on 8 March 2004, at which the disposal of another PSPS project, Hunghom Peninsula, was also discussed. Members called on the Administration to take note of the recovery of the property market and exercise more flexibility in deciding how the Kingsford Terrace should be disposed of. They also stressed the importance of transparency in the disposal process to safeguard public interests.

7. In its paper for the meeting of the Panel on Housing on 6 December 2004, the Administration reported that with the purchase of 4 304 surplus HOS flats in July 2004, the Government had no imminent need for additional flats for staff

quarters. The conversion of Kingsford Terrace to PRH was also not the best use of resources given its prime location and better standard of provision. As 60% of the units were three-bedroom flats, these might not be suitable for allocation to applicants on the Waiting List which largely comprised small households. The Administration also considered the option of purchasing the entire development from the developer for future resale in the open market through tender/auction not feasible. It was pointed out that without prior modification of the lease, open sale of these PSPS flats, which was not envisaged in the Conditions of Sale, might be subject to legal challenge.

8. Having examined the pros and cons of the various options, the Administration considered that the best way was to negotiate with the developer to allow it to dispose of the flats in the open market, subject to payment of a lease modification premium. The approach was agreed by the HA's Subsidized Housing Committee (the Committee).

Negotiation with the developer

9. In May 2004, the Administration commenced negotiation through mediation with the developer. However, the Administration could not come to terms with the developer on lease modification premium and agreement could not be reached.

10. On 19 May 2004, the Committee decided to purchase all the 2 010 residential units from the developer at the guaranteed purchase price in accordance with the Conditions of Sale. It also agreed to continue negotiation with the developer through mediation on the possibility of purchasing the non-domestic portion of the Kingsford Terrace at a reasonable price to facilitate future disposal.

11. The Panel on Housing was informed of HA's decision at its meeting on 5 July 2004. Noting that HA was not under any obligation to purchase the non-domestic portion of Kingsford Terrace, members held the view that the purchase of the non-domestic portion should not have bearing on the disposal of the residential units. As such, they urged the Administration to come up expeditiously with the decision on how these residential units would be disposed of.

12. According to the Administration, the negotiation with the developer on the purchase of the non-domestic portion of Kingsford Terrace had not been successful. However, as the purchase of the 2 010 residential flats took place in August 2004 at the guaranteed price of \$1,441 million, the lot is jointly owned by HA and the developer.

13. On 18 November 2004, HA decided that, in line with its past practice of purchasing "unsold" PSPS flats from the developer under the guaranteed purchase requirement and offering them for sale in subsequent HOS sale exercises, the 2 010 residential flats should be sold under HOS in 2007, and that details of the sales

programme and the eligibility criteria of prospective buyers would be determined in the latter part of 2006 having regard to prevailing market circumstances.

Latest development

14. At the Panel meeting on 21 January 2005, the Administration indicated that if necessary, the timing of resuming HOS sale could be reviewed before 2006.

15. The relevant papers on the subject together with their hyperlinks are in the **Appendix**.

Council Business Division 1
Legislative Council Secretariat
11 April 2005

Disposal of Kingsford Terrace Private Sector Participation Scheme Project

List of relevant papers

Council/Committee	Date of meeting	Paper
Housing Panel	10 September 2001	<p>A Statement on Housing (http://www.legco.gov.hk/yr00-01/english/panels/hg/papers/cs-e.pdf)</p> <p>Appendix II to LC Paper No. CB(1) 251/01-02 (http://www.legco.gov.hk/yr00-01/chinese/panels/hg/papers/251ce-a.pdf)</p> <p>LC Paper No. CB(1) 1983/00-01(01) (http://www.legco.gov.hk/yr00-01/english/panels/hg/papers/a1983e01.pdf)</p> <p>Minutes (http://www.legco.gov.hk/yr00-01/english/panels/hg/minutes/hg010910.pdf)</p>
Council meeting	13 November 2002	<p>Hansard (http://www.legco.gov.hk/yr02-03/english/counmtg/hansard/cm1113ti-translate-e.pdf)</p>

Council/Committee	Date of meeting	Paper
Housing Panel and Planning, Lands and Works Panel (PLW Panel)	15 November 2002	LC Paper No. CB(1) 301/02-03(01) (http://www.legco.gov.hk/yr02-03/english/panels/hg/papers/hgplw1115cb1-301-1-e.pdf) Minutes (http://www.legco.gov.hk/yr02-03/english/panels/hg/minutes/hgpl1115.pdf)
Housing Panel	6 January 2003	LC Paper No. CB(1) 591/02-03(03) (http://www.legco.gov.hk/yr02-03/english/panels/hg/papers/hg0106cb1-591-3-e.pdf) Minutes (http://www.legco.gov.hk/yr02-03/english/panels/hg/minutes/hg030106.pdf)
Housing Panel	14 January 2003	LC Paper No. CB(1) 704/02-03(01) (http://www.legco.gov.hk/yr02-03/english/panels/hg/papers/hg0114cb1-704-1-e.pdf) Minutes (http://www.legco.gov.hk/yr02-03/english/panels/hg/minutes/hg030114.pdf)
Housing Panel	18 March 2003	LC Paper No. CB(1) 1129/02-03(04) (http://www.legco.gov.hk/yr02-03/english/panels/hg/papers/hg0318cb1-1129-4-e.pdf) Minutes (http://www.legco.gov.hk/yr02-03/english/panels/hg/minutes/hg030318.pdf)

Council/Committee	Date of meeting	Paper
Housing Panel	3 November 2003	LC Paper No. CB(1) 190/03-04(03) (http://www.legco.gov.hk/yr03-04/english/panels/hg/papers/hg1103cb1-190-3e.pdf) Minutes (http://www.legco.gov.hk/yr03-04/english/panels/hg/minutes/hg031103.pdf)
Housing Panel and PLW Panel	8 March 2004	LC Paper No. CB(1) 1238/03-04(01) (http://www.legco.gov.hk/yr03-04/english/panels/hg/papers/hgplw0308cb1-1238-1e.pdf) Minutes (http://www.legco.gov.hk/yr03-04/english/panels/hg/minutes/hgpl0308.pdf)
Housing Panel	5 July 2004	LC Paper No. CB(1) 2291/03-04(01) (http://www.legco.gov.hk/yr03-04/english/panels/hg/papers/hg0705cb1-2291-1e.pdf) Minutes (http://www.legco.gov.hk/yr03-04/english/panels/hg/minutes/hg040705.pdf)

Council/Committee	Date of meeting	Paper
Housing Panel	6 December 2004	LC Paper CB(1) 350/04-05(02) (http://www.legco.gov.hk/yr04-05/english/panels/hg/papers/hg1206cb1-350-2e.pdf) LC Paper CB(1) 350/04-05(05) (http://www.legco.gov.hk/yr04-05/english/panels/hg/papers/hg1206cb1-350-5e.pdf) Minutes (http://www.legco.gov.hk/yr04-05/english/panels/hg/minutes/hg041206.pdf)
Housing Panel	21 January 2005	LC Paper CB(1) 708/04-05(01) (http://www.legco.gov.hk/yr04-05/english/panels/hg/papers/hg0121cb1-708-1e.pdf) Minutes http://www.legco.gov.hk/yr04-05/english/panels/hg/minutes/hg050121.pdf

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