

Legislative Council Panel on Housing

Review of Domestic Rent Policy

PURPOSE

This paper briefs Members on the key consultation points set out in the consultation paper on Review of Domestic Rent Policy.

BACKGROUND

2. On 9 March 2006, the Housing Authority (HA) published a consultation paper setting out the initial findings of the Ad Hoc Committee on Review of Domestic Rent Policy (CDRP). The objective is to recommend a rent policy that is affordable, more flexible, provides greater choice to tenants, and helps to promote the long-term sustainability of the public rental housing (PRH) programme.

KEY AREAS FOR CONSULTATION

3. The Consultation Paper on Review of Domestic Rent Policy and the Executive Summary are respectively at **Annexes A and B**. Key areas for consultation are highlighted below -

- (a) *alternative options for measuring affordability* – the CDRP has considered a number of alternative options for measuring affordability apart from the median rent-to-income ratio (MRIR). These include adopting different MRIRs for different groups of households or types of estates, setting rents based on a fixed rent-to-income ratio and the so-called “residual income approach”. The administrative costs for implementing these options would be enormous as they all require individual assessment of the income of all the PRH households;
- (b) *improvements to the assessment of the MRIR* – should the MRIR be retained as a measure of affordability in the absence of other better and operationally viable alternatives, the CDRP has identified the following possible measures to improve the methodology for its assessment –

- (i) collecting more reliable income data by way of a declaration system;
 - (ii) excluding Comprehensive Social Security Assistance (CSSA) recipients and tenants paying additional rents from the calculation of MRIR;
 - (iii) compiling MRIR based on net rents, i.e., excluding rates and management expenses;
- (c) ***proposed rent adjustment reference index*** – the statutory MRIR cap of 10% confuses an affordability indicator with a rent adjustment mechanism. The CDRP proposes to replace the present system with a more transparent and well-defined index-linked mechanism to guide rent adjustment, both upwards and downwards, based on movements in consumer price or tenants’ household income. Apart from the selection of the most suitable index, it is for consideration whether the HA should adjust rents strictly in accordance with the proposed index and whether the index should be given statutory effect;
- (d) ***differential rents*** – to better reflect the rental values of different units and provide greater choice to tenants, the consultation paper sets out two models of differential rents for public consultation. The “moderate model” only takes account of internal factors (such as floor level, proximity to unwelcome facilities) for rent adjustment. The maximum rent differential of similar-sized units under this model is expected to be around 15%. The “comprehensive model” takes account of both internal and external factors (such as views and orientation). The maximum rent differential is widened to around 30%. The CDRP has also considered the potential implications of introducing a differential rent system for flat allocation to CSSA households and would welcome public views in this regard;
- (e) ***exclusive rents*** –while noting the advantages of charging net rents exclusive of rates and management fees, the CDRP is mindful of the operational difficulties in so doing and the potential inconvenience to tenants. The consultation paper proposes a more practical alternative to continue to charge all-inclusive rents but separately set out the amount of rates and management fees in a statement to be issued to individual tenants annually to enhance transparency ;

- (f) *fixed-term tenancy* – overall, the CDRP is not in favour of replacing the current monthly tenancy by fixed-term tenancy. The latter would severely constrain the HA's latitude in taking tenancy enforcement actions and introducing rent adjustments. The problem of tenants' perpetual stay in PRH, which fixed-term tenancy is thought to be able to help resolve, should best be addressed through a proper review of the relevant policies such as the Housing Subsidy Policy and Policy on Safeguarding Rational Allocation of Public Housing Resources; and
- (g) *rent fixing and review cycles* – the CDRP is of the view that the current arrangements of having two rent fixing exercises each year for newly completed estates should be maintained. As regards the frequency of reviewing the rents of the existing estates, the CDRP favours a biennial rent review cycle to provide for timely implementation of any rent adjustments so warranted while keeping the extent of adjustments within a moderate range. Instead of dividing PRH estates into batches for rent review, it would be more equitable to cover all PRH estates in any rent review exercise, particularly if future rent adjustments are to be guided by the proposed index-linked mechanism.

WAY FORWARD

4. The HA has launched a three-month public consultation of the initial findings of the CDRP. We invite the public to submit their views to us on or before 9 June 2006. The CDRP will carefully consider the views received before drawing up its recommendations to the HA.

ADVICE SOUGHT

5. Members are invited to let us have their views on the initial findings of the CDRP.

Housing Department
March 2006