

**The Administration's Response to Issues
Concerning Review of Domestic Rent Policy Raised
at the Panel on Housing's Meeting on 17 March 2006**

(a) Application of the Reform Proposals to New or Existing Estates

The consultation paper sets out the initial findings of the Ad Hoc Committee on Review of Domestic Rent Policy (the Ad Hoc Committee) on key issues central to the formulation of the Housing Authority (HA)'s domestic rent policy. Whether and, if so, how any of the proposed improvement measures identified in the consultation paper are to be implemented will be determined in the light of the outcome of the public consultation. We are open to suggestions and will take into full account the views of the community when drawing up the final recommendations to the HA.

2. On the proposed index-linked rent adjustment mechanism, the intention is to apply the system to the existing public rental housing (PRH) estates as well as to those new estates coming on stream. As for differential rents, subject to a decision on their implementation, the Ad Hoc Committee is of the view that they should be introduced only to newly completed estates. Nonetheless, the Ad Hoc Committee also seeks the public's views on whether a system of differential rents should also be applicable to existing estates. We cannot speculate on the outcome of this particular issue and, less still, on its likely impact if a decision were taken for its introduction.

(b) Possible Extension of the Consultation Period

3. We only commenced the three-month public consultation on 9 March 2006. It is too early to decide at this stage whether or not the consultation period should be extended. We would review the position before the close of the consultation.

(c) Economic and Social Impact of the Proposed Improvement Options

Proposed Index-Linked Rent Adjustment Mechanism

4. The Ad Hoc Committee has identified four possible options for introducing an index-linked rent adjustment mechanism that seeks to guide rent adjustment with reference to

movements in consumer price or household income. The exact economic impact of the proposed rent adjustment mechanism would depend on which index is to be adopted. For illustrative purpose and assuming that rents are reviewed every two years and that a review was conducted in end 2005, the movements of the various reference indexes and hence the possible rent increase/reduction are set out below –

Reference Index	Movements Between July 2002-June 2003 and July 2004-June 2005	Possible Rent Increase / Reduction (%)	Possible Changes in HA's Annual Rental Income (HK\$ billion)
Consumer Price Index (A)	-0.9%	-0.9%	-\$0.10
Consumer Price Index (A) excluding housing expenditure	+1.6%	+1.6%	+\$0.18
Median Monthly Household Income	-3.7%	-3.7%	-\$0.42
Average Monthly Income Index	-3.2%	-3.2%	-\$0.36

5. We believe guiding PRH rent adjustment with reference to movements in consumer price or household income would provide an objective, transparent and more rational basis for rent adjustment. It would live up to the community's expectation that, if warranted, rents could be adjusted either upwards and downwards. The proposed rent adjustment mechanism also correlates closely with tenants' affordability and helps to promote the long-term sustainability of the public rental housing programme.

Differential Rents

6. On the proposed system of differential rents, the Ad Hoc Committee suggests that a "rental income neutral" approach should be adopted. In other words, adopting differential rents should neither increase nor decrease the total rental income generated from individual PRH blocks. As noted from para. 2 above, if differential rents are to be adopted, the preliminary views of the Ad Hoc Committee is to apply them to newly completed estates. According to the illustrative examples set out at **Appendices F and G** to the consultation

paper, the maximum rent differentials for similar-sized units in the same block would be as follows -

Examples Showing the Maximum Rent Differential in a Harmony Block

	(A) 2-Bedroom flat on 39/F (facing south with open view)	(B) 2-Bedroom flat on 1/F (adjacent to refuse room, facing north-west and with outside view blocked by carpark)
<i>Fixed rent (\$)</i>	2,200	2,200
<i>(i) Differential rent under the moderate model¹ (\$)</i>	2,290	1,960
Rent increase/decrease	+4.09%	-10.91%
Rental difference between flat of highest rent and that of lowest rent		15.0%
<i>(ii) Different rent under the comprehensive model²</i>	2,420	1,760
Rent increase/decrease	+10.00%	-20.00%
Rental difference between flat of highest rent and that of lowest rent		30.0%

7. Introducing a system of differential rents could help enhance the fairness of the rent structure and allow greater choice for tenants. Some quarters in the community, however, are concerned that the proposal might be divisive and have a labeling effect on tenants living in units with lower rents. These views will be fully reflected to the Ad Hoc Committee which does not have any preconceived idea as to whether a system of differential rents should be introduced. The Ad Hoc Committee will draw up its recommendations to the HA in the light of the outcome of the public consultation.

¹ Under the moderate model, rents will be set in accordance with floor levels, proximity to certain unwelcome facilities such as refuse chamber.

² Under the comprehensive model, in addition to floor levels and unwelcome facilities, rents will be set taking account of such external factors as the orientation and views of the flats.