

**Response to the Legislative Council and the
Hong Kong Housing Authority on Review of
Domestic Rent Policy**

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Consultation point A: MRIRs

The MRIR is a simple-and-easy measure for affordability, particularly in terms of administration and implementation. However, it has its shortcomings. The HKHA may perhaps consider alternative options, if it wishes, by including “additional” variables, for example:

1. Demographics variables, e.g. overall household expenditure on housing consumption and non-housing consumption, location, flat size (allocation standards) and environment (comparative estate value). These demographics variables have an impact on the affordability of tenants.
2. Macro economic variables, e.g. GDP, inflation, unemployment rate, market rent and price levels. The impact of these macro-variables may help to develop a more market-oriented mechanism that gauges affordability among tenants in a given time horizon.

Overall, it may be desirable to consider a socially acceptable minimum standard for housing consumption and non housing consumption alike in the long run. This is important in terms of resources allocation.

Consultation point B: Allocation Benchmarks

We have no strong view on the benchmarks either 5.5m² IFA (at 15% MRIR) or 7.5m² IFA (at 18.5%). We believe that a wide-scale social survey on potential tenants may help ascertain appropriate space allocation standards for public rental housing.

However, judging from setting such high MRIR benchmarks for new estates, the HD may face possible problems when it comes to rent reviews, at a much lower 10% MRIR. Thus, the HA must note this “technical” point.

Consultation point C: Calculation Improvements

The calculation of the MRIR should be improved and rationalized. We have views on the following two points:

1. The HKHA should operate its own system to collect tenants’ income data on a mandatory basis. Every household living in PRH should declare their income on a regular basis of time. The whole exercise, however, should not create unnecessary nuisance to tenants.
2. The households receiving CSSA should be excluded from the MRIR calculation. It is not reasonable to include those who are not paying rent— inclusion means distorting the MRIR calculation.

These two viewpoints generally concur with the consultation document.

Consultation point D: Rent Adjustment Mechanism

There should be a rent adjustment mechanism. The HA may consider following aspects for rent adjustment-

1. The Consumer Price Index (A). The advantages are that it offers ease of administration and implementation, and more importantly, it helps cost recovery given its nature.
2. Income Index somehow concerns households' ability to pay. It thus offers some advantage.

In some cases, however, the two indices may go in opposite directions. On the extreme, income falls but costs rise, and hence poor tenants suffer from having to pay a higher rent. Therefore, it may be worthwhile considering both indices together for a "fair and equitable" mechanism.

Consultation point E: Differential Rents

In principle the idea of differential rents is acceptable. However, there are many problems that the HA needs to deal with, no matter which detailed approach is to be adopted.

1. Technical Problems. A comprehensive model of differential rents is now proposed to take account of factors for calculation. But what is the basis for such adjustments? Are the adjustments derived from the market, where people reveal their preferences? Thus this might be very controversial; not welcome by society.
2. Vested interests. Should such approaches be applied to all estates, however gradually, strong objections would be expected.
3. Revenue/cost: Any increases in (i) rentals and (ii) administration costs? Is there a clear "net gain" after all?
4. The only argument for differential rents, I believe, is "fairness and equity".

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