

**Response to the Legislative Council and the
Hong Kong Housing Authority on Housing
(Amendment) Bill 2007**

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Introduction

This response is prepared by a team of housing researchers at the Research Centre for Construction and Real Estate Economics, the Hong Kong Polytechnic University for the Housing (Amendment) Bill 2007. It focuses on the new income-based rent adjustment that will be introduced as an alternative of MRIR ratio cap. The major headings in this paper include the current MRIR ratio cap and rent adjustment mechanism.

Remove the 10% MRIR ratio cap

The MRIR is a simple-and-easy measure for affordability, particularly in terms of administration and implementation. However, it has its shortcomings. The main shortcoming is that the MRIR measurement just only focuses on median rent and median income but fails to provide the influence of other demographic and economic indicators on tenants' affordability. Based on this MRIR measurement, it is difficult to identify those who are in actual need for affordable housing. Another shortcoming is the current subsidy policy based on MRIR may create financial burden on HKHA in the long run.

Rent adjustment mechanism

The proposed income-based rent adjustment mechanism is generally welcomed by this group. We believe that the new mechanism goes more closely with tenants' affordability. The change of household income will help to determine the rent adjustment, upwards or downwards, and ensure that the general rental trend is in line with tenants' affordability.

Figure 1: Trend of indices- PRH median income, PRH median rent, CPI (A)

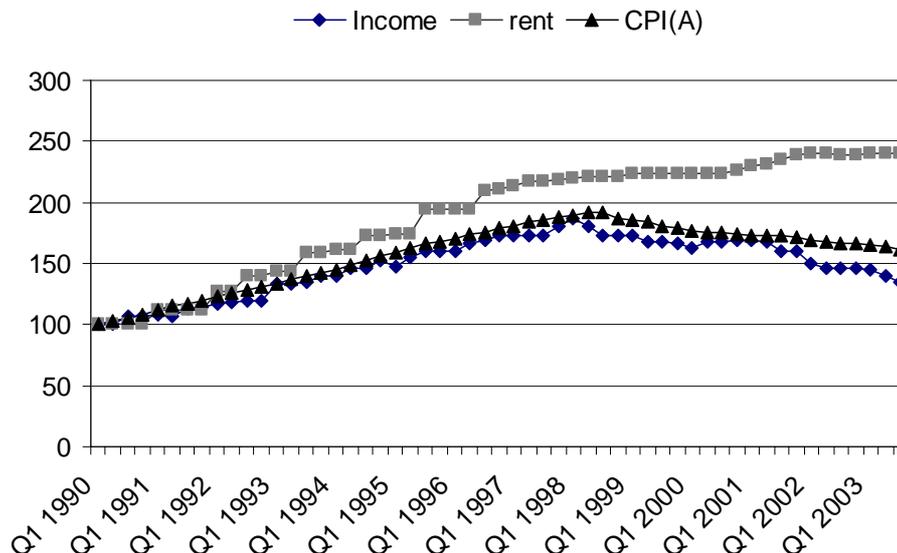


Figure 1 shows the trend of income, rent and CPI (A) indices. In its previous study, this Housing Research Group has analyzed the influence of economic

indicators and market factors on housing affordability among PRH tenants. The work has been carried out based on quarterly rental and income data and also other economic and market factors. Some key findings are:

- Household income of PRH tenants had a positive relationship with PRH rent. Figure 1 also reveals this trend until recently.
- CPI (A) also has a complicated, but an indirect, impact on PRH rent.
- Economic growth (GDP) has little to do with increases in income for those in lower income brackets.
- Unemployment rate has a significant influence on overall income.

Income affects tenants' affordability directly, more than other indicators like GDP, CPI (A) and unemployment rate. By its very nature, affordability is measured by the ratio of rent to income. Therefore, it seems quite sensible to adjust rent based on income. The affordability level could be maintained at a desired level by the proposed income-based rent adjustment mechanism. And it is also a method that can be easily understood by the general public. In the long run, perhaps, the HKHA may also make reference to the impact of other macro-variables, if it wishes to develop a more market-oriented mechanism that gauges affordability among tenants.

In addition, we have the following two points:

1. The HKHA may consider operating its own system to collect tenants' income data on a mandatory basis. Rather than sample survey, 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 rent adjustment may be a little more location-specific or region-specific, say HK, Kowloon and the NT. A broad-brush rent adjustment approach may not be fair enough perhaps. The rent for a new estate was set based on its location. However, some locations/regions are bound to have more households in lower income brackets-- with no or little income increase. Therefore it may not be fair for them to pay as much rent increase as those in better-off areas.

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.

- The End -