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香港特別行政區政府

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The Government of the Hong Kong Special Administrative Region

房屋及規劃地政局

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來函檔號 Your Ref.

14 March 2007

Ms. Connie Szeto,
Clerk to Bills Committee,
Legislative Council Building,
6 Jackson Road, Central,
Hong Kong.

Dear Ms. Szeto,

**Bills Committee on Housing (Amendment) Bill
Follow-up to meeting on 8 March 2007**

The Administration undertook to provide information and written responses to issues raised by members at the Bills Committee meeting on 8 March 2007. The list of required information is now enclosed at **Annex**, please. Additional powerpoint presentation materials will be used at the meeting on 16 March 2007 to further illustrate the extraneous factors affecting the Median Rent-to-Income Ratio and the operation of the income index.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Raymond Wu', written over a horizontal line.

(Raymond Wu)

for Permanent Secretary for Housing,
Planning and Lands (Housing)

c.c.

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|-----------------|-------------------------|-------------------|
| D of J (Attn : | Mr. Lawrence PENG, SALD | (Fax: 2869 1302) |
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**The Administration's Responses to Members' Requests
Raised at the Meeting of the Bills Committee on
Housing (Amendment) Bill 2007 on 8 March 2007**

PROPOSED INCOME-BASED RENT ADJUSTMENT MECHANISM

As explained in item 2(a) and 2(b) of our reply of 9 March 2007 to the Clerk to the Bills Committee, an important prerequisite for the proposed income-based rent adjustment mechanism to function effectively and fairly is that PRH rent must be allowed to move both downwards or upwards according to the movement in PRH tenants' household income. The change in MRIR, however, is caused by a number of extraneous factors other than changes in PRH tenants' household income and the rent they pay. If a statutory MRIR cap is maintained, an upward adjustment in PRH rent in accordance with an increase in PRH tenants' household income cannot take place if the extraneous factors work to push up the MRIR to a level that exceeds the cap. The MRIR reached 14.3% as at the third quarter of 2006 and the extraneous factors contributing to the increase in the MRIR are unlikely to subside. Hence, unless the 10% MRIR cap is removed, the proposed income-based rent adjustment mechanism cannot function effectively to adjust rent upwards according to increases in PRH tenants' household income.

2. Section 16(A)(4) proposed by the Housing (Amendment) Bill 2007 requires the HA to adjust PRH rent strictly in accordance with the rate of increase or decrease in the income index reflecting changes in PRH tenants' household income. This provision has in effect placed a statutory cap on the extent of rent increase in any future rent adjustment since the extent of any increase in PRH rent cannot possibly exceed the extent of increase in PRH tenants' household income.

3. Under the HA's Rent Assistance Scheme (RAS), different indicators are used to measure individual tenants' affordability and hence eligibility for rent assistance. These include rent-to-income ratios and income thresholds pitched at different levels of the respective Waiting List Income Limits. Details of the RAS eligibility criteria are set out in Appendix V to our reply of 9 March 2007 to the Clerk to the Bills Committee.

4. To provide a new starting point for the proposed income-based rent adjustment mechanism to operate fairly and effectively, the HA has agreed to adjust the current PRH rent to a level that is considered appropriate and acceptable to the community. The proposed income index has been used to identify the rate of rent adjustment required in order to ensure the coherence and consistency of the entire rent adjustment framework. The proposed 11.6% across-the-board rent reduction has been determined based on the extent of changes in the income index since 1997 because the rent of the largest proportion of the existing PRH flats and that of newly completed flats were last reviewed in 1997. For details, please refer to item 1(c) and Appendix II to our reply of 9 March 2007 to the Clerk to Bills Committee.

5. Since the rent reduction of 11.6% has been determined based on the change in the income index, direct comparison with the change in the MRIR is not appropriate. As noted in paragraph 1 above, the change in the MRIR is affected by a host of extraneous factors other than income and rent of PRH households. To identify a new rent level on the basis of the change in the MRIR would not only be inconsistent with the proposed income-based rent adjustment framework but also lead to a resultant rate of rent adjustment that is highly distorted and not practicable. In the Court of Final Appeal's (CFA) judgment handed down in November 2005, the CFA also clearly ruled that the 10% MRIR is not a statutory definition of affordability, and that the HA is not under a statutory duty to review and revise rent so as to ensure that the 10% MRIR is not exceeded.

6. If rent adjustment were to be introduced to bring an MRIR of 14.3% to 10%, we estimate that a rent reduction of about 30% would be required. This extent of rent reduction is neither reasonable nor affordable by the HA and the community as a whole.

7. A table showing PRH rent distribution after a rent reduction of 11.6% and 30% respectively is set out below –

**Rent Distribution of HA PRH Rental Flats
(as at 3Q 2006)**

| Monthly Rent (HK\$) | After rent reduction of 11.6% | | After rent reduction of 30% | |
|--------------------------------|--------------------------------------|----------------------------------|------------------------------------|----------------------------------|
| | Cumulative no. of flats | Cumulative % of flats | Cumulative no. of flats | Cumulative % of flats |
| Below 1,200 | 341 688 | 50.2% | 484 713 | 71.3% |
| Below 1,500 | 480 688 | 70.7% | 562 848 | 82.8% |
| Below 2,000 | 602 251 | 88.5% | 665 261 | 97.8% |
| Below 3,000 | 677 100 | 99.6% | 680 144 | 100.0% |
| 3,000 or above | 3 044 | 0.4% | 0 | 0.0% |
| Minimum Rent | \$220 | | \$180 | |
| Maximum Rent | \$3,370 | | \$2,670 | |
| Mean Rent | \$1,310 | | \$1,040 | |
| Median Rent | \$1,200 | | \$950 | |

INCREASE IN THE MRIR FIGURES

8. The upsurge in the MRIR in recent years has been caused by a host of extraneous factors other than changes in the income of PRH tenants' household income and the rent they pay. These factors include, inter alia, a huge surge in the number of small and elderly households (from 21.6% and 10.2% respectively in 1997 to 35% and 14.4% in 2006) and a sharp rise in the number of Comprehensive Social Security Assistance recipients (from 10.3% in 1997 to about 20% in 2006). Details of these factors have been provided in item 2(b) of our reply of 9 March 2007 to the Clerk to Bills Committee.