

**By Fax**

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香港特別行政區政府

**The Government of the Hong Kong Special Administrative Region**

房屋及規劃地政局  
香港九龍何文田佛光街 33 號



**Housing, Planning and Lands**

**Bureau**

33 Fat Kwong Street, Ho Man Tin,  
Kowloon, Hong Kong

電話 Tel No. 2761 7765

圖文傳真 Fax No. 2761 5140

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來函檔號 Your Ref.

12 April 2007

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

Dear Ms. Szeto,

**Bills Committee on Housing (Amendment) Bill  
Follow-up to meeting on 29 March 2007**

Please find at **Annex** a list of information and written responses in connection with issues raised by members at the Bills Committee meeting on 29 March 2007. We shall also make use of powerpoint presentation materials at the meeting on 17 April 2007 for further illustration.

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.

D of J (Attn :	Mr. Lawrence PENG, SALD	(Fax: 2869 1302)
	Miss Emma WONG	(Fax: 2869 1302)
	Ms. Sandra P.Y. CHIU	(Fax: 2136 8277))
AA/SHPL (Attn :	Mr. Brian LO	(Fax: 2537 9276))

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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 29 March 2007**

As compared to the median rent-to-income ratio (MRIR) cap, the proposed income based rent adjustment mechanism is less subject to influence by extraneous factors unrelated to tenants' affordability, more equitable and more transparent. The proposal does not affect the Government's housing policy of providing subsidized rental housing for the needy or the Housing Authority's (HA) policy of setting public rental housing (PRH) rent according to tenants' affordability.

### **Influence by Extraneous Factors**

#### *MRIR cap*

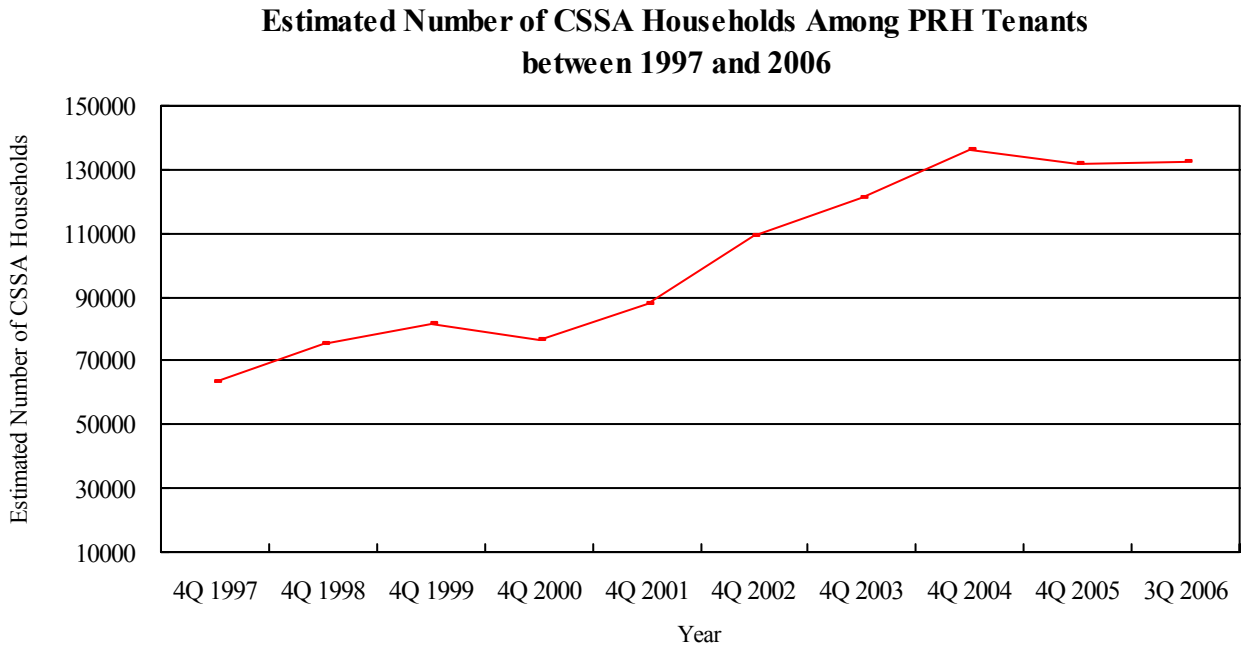
2. We have explained and illustrated in our previous replies and powerpoint presentations that the upsurge in the Median Rent-to-Income Ratio (MRIR) in recent years, which reached 14.3% as at the third quarter of 2006, is attributable to a number of extraneous factors other than changes in the income of PRH tenants and the rent they pay. The extraneous factors affecting the MRIR include, inter alia, the surge in the proportion of small and elderly households (changes in household size distribution), a sharp rise in the number of Comprehensive Social Security Assistance (CSSA) recipients, the increase in living space and the replacement of old RPH estates by new ones.

3. On household size distribution, the following shows the increase in the number of small families which tend to have higher rent-to-income ratios (RIRs) –

<b>Household Size Group*</b>	<b>2Q 1997</b>	<b>3Q 2006</b>
1-Person	8.7%	15.0%
2-Person	13.3%	20.5%
3-Person	20.4%	24.5%
4-Person	28.7%	25.1%
5-Person or above	28.9%	14.9%
Overall	100.0	100.0

\* Since the number of sample observations for households with household size of six or above is small, there is insufficient data to provide accurate statistical results for households with household size of six or above. The sampling error for estimates based on only a small number of sample observations would be large.

4. Compiling MRIRs of different household size groups could only discount the effect of changes in household size distribution, but not the effect of other extraneous factors. One of these is the increasing number of CSSA households as shown in the following graph -



5. The following table shows the proportion of CSSA households for each household size group as at the third quarter of 2006 –

Household Size Group	3Q 2006
	CSSA Household Proportion (%)
1-Person	44.1
2-Person	25.6
3-Person	13.1
4-Person	12.3
5-Person or above	13.8
Overall	20.6

6. Another extraneous factor is the improvement in living space and the replacement of old PRH estates. The following table shows the changes in average living space per person over the years –

Household Size Group	Average Living Space Per Person* (internal floor area (m <sup>2</sup> ) per person)			
	2Q 1997	2Q 1999	3Q 2000	3Q 2006
1-Person	-	-	18.4	19.8
2-Person	-	-	13.5	14.0
3-Person	-	-	10.4	11.0
4-Person	-	-	8.6	9.4
5-Person or above	-	-	7.2	8.0
Overall	9.6	10.2	10.5	12.1

\* Data on average living space by household size group prior to 2000 is not available.

7. The effect of the extraneous factors on MRIR can be illustrated in the following table –

	MRIR		
2 <sup>nd</sup> Quarter of 1997	9.1%		
3 <sup>rd</sup> Quarter of 2006	Actual	Extraneous factors kept at the level of 2Q 1997 (except the effect of change in household size distribution on household income)	Extraneous factors kept at the level of 2Q 1997
	14.3%	11.4%	10.1%

#### *Income index*

8. The proposed income index can discount the effect of household size distribution through the mean and adjusted mean income approach. This is not possible with other statistical parameters such as median or mode. Besides, by tracking the income change of PRH tenants, the proposed income index is less affected by other extraneous factors such as the surge in the number of CSSA households, increase in living space and replacement of old PRH estates. It would track the “pure income change” of PRH tenants, match more closely with tenants’ affordability and provide a stronger connection between future rent adjustments and changes in tenants’ affordability.

## **Restriction on Rent Adjustment**

### *MRIR cap*

9. Once the prescribed MRIR cap (be it a cap for all households or for a particular household size group) is exceeded, any upward adjustment in rent is not allowed even if there is an increase in PRH households' income and regardless of the extraneous factors accounting for the surge in the MRIR. Since the MRIR has reached 14.3% as at the third quarter of 2006, and the extraneous factor contributing to its rise would unlikely go away, under the existing 10% MRIR cap, rent adjustment based on the proposed income index is permissible only if it leads to a rent reduction. Rent adjustment leading to a rent increase is practically not permissible even if there is an increase in tenants' household income. Hence, unless the 10% MRIR cap is removed, the proposed income-based rent adjustment mechanism cannot operate equitably to adjust rent upwards or downwards in strict accordance with changes in PRH tenants' household income.

10. For any form of MRIR cap, there is always by definition 50% of households with their rent-to-income ratios above any given MRIR figure. The cap also provides no clear guidelines or places no restriction on the extent of rent increase so long as the prevailing MRIR after any proposed rent increase does not exceed the prescribed cap.

### *Income index*

11. The proposed income-based rent adjustment mechanism, however, requires the HA to adjust PRH rent strictly according to the respective rate of increase or decrease in the income index of PRH tenants. In other words, PRH rent increase is allowed only if there is a general increase in PRH tenants' household income. Furthermore, the extent of any such rent increase cannot possibly exceed the extent of increase in tenants' household income as reflected in the change in the income index. This provides clear guidelines for the rate of rent adjustment and indeed a de facto cap on the extent of rent increase in each rent review.

## **Rent Adjustment and Setting**

### *MRIR cap*

12. As explained above, any form of MRIR cap provides no clear guidelines for rent adjustment. The introduction of a MRIR cap for each household size group might even lead to a situation where two similar PRH units in the same block would attract different rent simply because they are occupied by households from two different household size groups – one from a rent-freezing household size group with the MRIR above the prescribed cap,

and another from a household size group with the MRIR below the cap so that rent increase is allowed. Rent adjustment would become even more complicated when there are changes in the number of members in households. Likewise, for rent setting, it would be undesirable and difficult to set rent for a unit if the household in a rent-freezing household size group vacates the unit and another household in a household size group with a MRIR below the cap moves in. A rent differential based simply on the household size of the occupying household is unfair and divisive.

13. Some Members suggested to “link” each type / size of PRH flats to the MRIR of a particular household size group. This, however, will not address the drawbacks. The MRIR of a particular household size group (e.g. 2-person households) might continue to rise even if it already exceeds the prescribed cap. This is because a portion of households in the 2-person household size group might reside in PRH flats that are “linked” with the MRIR of another household size group (e.g. 3-person households) which is below the prescribed cap and can undergo a rent increase. Given the improvements in both the design and facilities of PRH flats and changes in the number of members in households over time, it is not uncommon that the same household size group could live in a wide range of PRH flats with different types and sizes. The following table shows the distribution of PRH households among different sizes of PRH flats as at the fourth quarter of 2006 –

Flat Size in terms of IFA (sq. meter)	Household Size				
	1P	2P	3P	4P	5P+
Below 17	44 383 (45.5%)	5 345 (4.0%)	2 618 (1.7%)	628 (0.4%)	1 406 (1.5%)
17 to less than 22	19 367 (19.9%)	10 577 (7.9%)			
22 to less than 27	19 863 (20.4%)	50 040 (37.3%)	17 317 (10.9%)	7 288 (4.5%)	
27 to less than 32	5 510 (5.6%)	24 400 (18.2%)	42 616 (26.9%)	16 991 (10.5%)	4 569 (4.8%)
32 to less than 37	7 027 (7.2%)	35 722 (26.7%)	70 950 (44.8%)	62 019 (38.4%)	19 008 (20.1%)
37 to less than 42	1 416 (1.5%)	7 934 (5.9%)	24 822 (15.7%)	21 899 (13.6%)	13 723 (14.5%)
42 to less than 47				45 531 (28.2%)	30 369 (32.1%)
47 or above				7 061 (4.4%)	25 422 (26.9%)
Overall	97 566 (100%)	134 018 (100.0%)	158 323 (100.0%)	161 417 (100.0%)	94 497 (100.0%)

Note: Statistics of distribution of flat size in terms of internal floor area (IFA, m<sup>2</sup>), instead of flat type, are presented in the above table. As there are over 30 types of PRH flat design, it is more informative and concise to analyse the statistics of internal floor area occupied by the tenants of various household sizes in PRH.

14. The wide spread of PRH households among different sizes of PRH flats is not so much the consequence of allocation arrangements as the result of addition and deletion of members in households over the years. Indeed, we are mindful of following a rational allocation arrangement so that households should be allocated PRH flats commensurate with their family size and affordability. Taking the allocation of newly completed flats in PRH New Harmony Blocks<sup>1</sup> as an example, during the last five years, the majority of 2-person households (75%) have been allocated 2P/3P with size about 21.69m<sup>2</sup> – 21.96m<sup>2</sup>, some 20% were allocated 1P/2P flats and only a handful of 5% 2-person households were allocated 1-bedroom units<sup>2</sup> (size around 31m<sup>2</sup>). This allocation arrangement is significantly different from the current distribution of 2-P households where only some 12% of 2-P households live in PRH flats smaller than 22m<sup>2</sup> and over 50% of them reside in flats larger than 27m<sup>2</sup>. As at the fourth quarter of 2006, there are 4 800 over-crowded households<sup>3</sup> and 31 700 cases of under-occupation, representing only a small proportion of the total number of PRH households of 646 000.

#### *Income index*

15. Under the proposed rent adjustment mechanism, rent of the entire PRH stock, including flats in newly completed PRH blocks, would be reviewed and adjusted in one go according to the rate of change of income index. All tenants, regardless of their respective household size groups, would receive the same treatment and have their rent adjusted by the same rate. To ensure that the resultant PRH rent is within tenants' affordability, affordability indicators based on individual households such as rent-to-income ratios and income thresholds pitched at different levels of the respective Waiting List Income Limits are adopted under the HA's Rent Assistance Scheme (RAS) to cater for the needs of households facing different degree of financial hardship. Such individual household based indicators are more appropriate and effective than an overall indicator for all PRH tenants such as the MRIR, which is subject to the influence of many extraneous factors not related to individual households' affordability per se.

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<sup>1</sup> Some 33 000 newly completed PRH units in PRH New Harmony Blocks have been allocated during the past five years.

<sup>2</sup> 1-bedroom New Harmony Block units are allocated only to 2-person households in special circumstances such as households affected by redevelopment, households with disabled members, etc.

<sup>3</sup> Households with living space less than 5.5m<sup>2</sup> IFA per person.



## PRH for the Needy

16. The HA has agreed to reduce PRH rent by 11.6% upon passage of the Housing (Amendment) Bill. After the rent reduction, some 70% of PRH tenants would have a monthly rent less than \$1,500 and some 90% less than \$2,000. The following table shows the PRH rent distribution after a rent reduction of 11.6% –

Rent (HK\$)	After rent reduction of 11.6%	
	Cumulative no. of Flats	Cumulative % of Flats
Less than 1,200	341 688	50.2%
Less than 1,500	480 688	70.7%
Less than 2,000	602 251	88.5%
Less than 3,000	677 100	99.6%
3,000 or above	3 044	0.4%
<b>Minimum Rent</b>	<b>\$220</b>	
<b>Maximum Rent</b>	<b>\$3,370</b>	
<b>Mean Rent</b>	<b>\$1,310</b>	
<b>Median Rent</b>	<b>\$1,200</b>	

17. A table showing the change in the MRIR after a rent reduction of 11.6% is set out below –

	MRIR (after rent reduction of 11.6%)		
	Actual	Extraneous factors kept at the level of 2Q 1997 (except the effect of change in household size distribution on household income)	Extraneous factors kept at the level of 2Q 1997
<b>3<sup>rd</sup> Quarter of 2006</b>	12.6%	10.1%	8.9%

According to a survey by the Census and Statistics Department, the MRIR for tenants in the private permanent housing sector is 25% as at the third quarter of 2006.

18. Besides, the HA's RAS policy would ensure that RIRs of individual households would not exceed 20% of their household income. In some lower income cases, households will get rent assistance with RIRs as low as 15% or below.

19. Hence, the proposed income based rent adjustment mechanism is in line with the Government's policy of providing subsidized housing for the needy and the HA's policy of setting rent according to tenants' affordability. Any change in PRH rent will be linked solely to a change in tenants' household income. According to a telephone opinion survey we conducted in December 2006 covering households in PRH, subsidized and private housing<sup>4</sup>, some 77% of the respondents (66% among the respondents living in PRH) supported the proposed income-based rent adjustment mechanism. On the proposed across-the-board rent reduction of 11.6%, some 80% respondents (71% among those from PRH) considered rent reduction of this magnitude appropriate or too much.

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<sup>4</sup> The sample size of the survey was 2 500 households drawn randomly from a telephone directory. Some 1 611 households were successfully enumerated, comprising 486 in PRH, 320 in subsidized housing and 805 in private housing.