

立法會
Legislative Council

LC Paper No. CB(1)1013/06-07
(These minutes have been seen
by the Administration)

Ref : CB1/PL/HG/1

Panel on Housing

Minutes of meeting
held on Monday, 4 December 2006, at 2:30 pm
in the Chamber of the Legislative Council Building

- Members present** : Hon LEE Wing-tat (Chairman)
Hon LI Kwok-ying, MH, JP (Deputy Chairman)
Hon Albert HO Chun-yan
Hon CHAN Yuen-han, JP
Hon CHAN Kam-lam, SBS, JP
Hon LEUNG Yiu-chung
Dr Hon YEUNG Sum
Hon Tommy CHEUNG Yu-yan, JP
Hon Albert CHAN Wai-yip
Hon Frederick FUNG Kin-kee, SBS, JP
Dr Hon Joseph LEE Kok-long, JP
Hon Alan LEONG Kah-kit, SC
Hon LEUNG Kwok-hung
Prof Hon Patrick LAU Sau-shing, SBS, JP
- Members attending** : Hon LEE Cheuk-yan
Hon Audrey EU Yuet-mee, SC, JP
Dr Hon Fernando CHEUNG Chiu-hung
- Members absent** : Hon Fred LI Wah-ming, JP
Hon Mrs Selina CHOW LIANG Shuk-ye, GBS, JP
Hon James TO Kun-sun
Hon Abraham SHEK Lai-him, JP
Hon WONG Kwok-hing, MH
- Public officers** : Agenda Item IV

attending

Mr Michael M Y SUEN, GBS, JP
Secretary for Housing, Planning and Lands

Mr Thomas C Y CHAN, JP
Permanent Secretary for Housing, Planning and Lands
(Housing)

Miss Mary CHOW Shuk-ching, JP
Deputy Secretary for Housing, Planning and Lands
(Housing)

Mr Carlson CHAN
Assistant Director (Strategic Planning)
Housing Department

Agenda item V

Mr Thomas C Y CHAN, JP
Permanent Secretary for Housing, Planning and Lands
(Housing)

Miss Mary CHOW Shuk-ching, JP
Deputy Secretary for Housing, Planning and Lands
(Housing)

Mr K K YEUNG
Principal Assistant Secretary (Private Housing) Housing,
Planning and Lands Bureau

Agenda Item VI

Mr Kenneth MAK, JP
Deputy Director (Corporate Services) Housing Department

Mr Albert LEE
Assistant Director (Housing Subsidies) Housing
Department

Attendance by invitation : Agenda Item V

The Real Estate Developers Association of Hong Kong

Mr Stewart LEUNG
Vice Chairman

Mr Emmanuel YIP

Representative

Mr Augustine WONG
Representative

Mr Peter KWOK
Representative

Mr Eric CHOW
Representative

Mr Wilson WONG
Representative

Mr Wilson CHAN
Representative

Mr Louis LOONG
Secretary General

Estate Agents Authority

Mr Steven POON Kwok-lim, JP
Chairman

Ms Sandy CHAN
Chief Executive Officer

Mr Pius CHENG
Director of Regulatory Affairs & General Counsel

Consumer Council

Mrs Pamela CHAN, BBS, JP
Chief Executive

Mr CHAN Wing-kai
Head, Complaints and Advice Division

Clerk in attendance : Ms Connie SZETO
Chief Council Secretary (1)6

Staff in attendance : Mr Anthony CHU
Acting Senior Council Secretary (1)3

Ms Sarah YUEN
Senior Council Secretary (1)6

Ms Michelle NIEN
Legislative Assistant (1)9

Action

I Confirmation of minutes

(LC Paper No. CB(1)380/06-07 -- Minutes of meeting on 6 November 2006)

The minutes of the meeting held on 6 November 2006 were confirmed.

II Information papers issued since last meeting

2. Members noted that no information paper had been issued since last meeting.

III Items for discussion at the next meeting

(LC Paper No. CB(1)394/06-07(01) -- List of outstanding items for discussion

LC Paper No. CB(1)394/06-07(02) -- List of follow-up actions)

3. Members noted that the Administration had proposed the following items for discussion at the next regular meeting to be held on Thursday, 4 January 2007, at 2:30 pm:

(a) Report on the outcome of comprehensive structural investigation on Choi Hung Estate and Model Housing Estate; and

(b) Progress of the Total Maintenance Scheme.

4. On item (a), members noted that the Administration would brief the Panel on the findings and necessary improvement works of the Housing Authority (HA)'s structural investigations on Choi Hung and Model Housing Estates, which commenced in February 2006 and had recently been completed. As regards item (b), the Administration would brief members on the progress of implementation of the Total Maintenance Scheme, which was launched in January 2006.

5. Mr Albert HO pointed out that a recent incident where The Link Management Limited (The Link) had refused to renew tenancies of existing clinics in Wong Tai Sin Shopping Centre and planned to relocate these clinics to remote locations in Lung Cheung Mall had caused outrage from tenants and their clients. He was concerned that The Link was pursuing a leasing policy that only focussed on raising rental income without giving regard to the interests of tenants and customers. He considered the approach unfair because it was at HA's request that "estate doctors" had been providing social health care services to nearby public rental housing (PRH) tenants. As such, Mr

HO suggested that the Panel should discuss the subject on "Provision and management of retail and carparking facilities in public housing estates after the divestment of the facilities by the Housing Authority" (the proposed item) at the Panel meeting in January 2007. Mr Tommy CHEUNG and Mr LI Kwok-ying agreed to the proposal. Mr CHEUNG added that since the listing of The Link Real Estate Investment Trust (REIT), he had received complaints concerning high rental increases for premises in shopping centres under The Link's portfolio where in some cases the increases had resulted in closure of businesses, including restaurants and particularly small shops. Having regard that The Link had undertaken before the listing of The Link REIT to enhance the overall commercial attractiveness of its retail facilities before considering rental increases on the commercial properties, Mr CHEUNG was concerned that The Link had failed to live up to its promise. In this connection, the Chairman said that he was aware that many existing tenants of The Link, including stall operators in markets, had expressed similar concerns.

6. In consideration of grave public concern about the above issues, members agreed to include the proposed item in the agenda of the Panel meeting in January 2007 and invite representatives of The Link and the Administration to join the discussion. To allow sufficient time for discussion on the item, the Chairman directed that the items proposed by the Administration in paragraph 3 above be merged into one.

(Post-meeting note: The Administration subsequently proposed that item (b) in paragraph 3 be deferred to the regular meeting of the Panel in February 2007.)

IV Report on the review of domestic rent policy for public housing

- (LC Paper No. CB(1)394/06-07(03) -- Information paper provided by the Administration
- LC Paper No. CB(1)394/06-07(04) -- Background brief on Report on the review of rent policy for public rental housing prepared by the Legislative Council Secretariat
- LC Paper No. CB(1)1045/05-06 -- Consultation Paper on Review of Domestic Rent Policy and its Executive Summary
- LC Paper No. CB(1)1060/05-06(03) -- Information paper provided by the Administration for the meeting on 17 March 2006
- LC Paper No. CB(1)1571/05-06(01) -- Summary of views presented to the Panel prepared by the Legislative Council Secretariat
- LC Paper No. CB(1)1571/05-06(02) -- Administration's response to the summary of views presented to the Panel prepared by the Legislative Council Secretariat)

Briefing by the Administration

7. At the Chairman's invitation, the Secretary for Housing, Planning and Lands (SHPL) briefed members on the "Report on the Review of Domestic Rent Policy" (the Review Report) drawn up by the Ad Hoc Committee on Review of Domestic Rent Policy (the Review) and the legislative amendments proposed by the Administration to the Housing Ordinance (HO) (Cap. 283) to effect the new rent adjustment mechanism. SHPL said that HA had approved the Review Report at the meeting on 27 November 2006. He then gave a brief account on the key recommendations of the Review Report as follows:

- (a) To introduce a new rent adjustment mechanism based on the changes in the household income of PRH tenants. In this regard, HA would develop an income index to track the "pure changes" in PRH tenants' household income to guide future rent adjustments, including adjustments of the "best rent" for newly completed PRH estates;
- (b) To introduce legislative amendments to HO to replace the statutory 10% median rent-to-income ratio (MRIR) cap with the proposed income-based rent adjustment mechanism so that PRH rent could move both upwards and downwards according to the changes in the proposed income index;
- (c) To introduce an across-the-board rent reduction of 11.6% upon the introduction of the new rent adjustment mechanism to provide an appropriate starting point for the new mechanism to operate effectively and fairly; and
- (d) To adopt a biennial rent review cycle to help achieve a more moderate rent adjustment in every review and allow HA to react more quickly to changes in socio-economic circumstances. The rent of the entire PRH stock would be reviewed and adjusted in one go.

8. SHPL stressed that the above proposals for improving the domestic rent policy had been drawn up following a comprehensive review straddling over five years and involving extensive public consultation. The Administration believed that a proper balance had been struck among the interests of all stakeholders. The Administration intended to introduce an Amendment Bill into the Legislative Council (LegCo) around end January 2007 and hoped that the Bill could be enacted as early as possible to effect the new rent adjustment mechanism. SHPL added that HA had decided to grant a one-off rent remission for the month of February 2007 to PRH tenants and Interim Housing Licensees (excluding those paying additional rent or licence fees) to address the demand from some political parties and tenant groups that HA should implement short-term measures to remit rent pending the introduction of the new rent adjustment mechanism and the new rent level.

Discussion

The existing statutory MRIR cap versus the proposed new rent adjustment mechanism

9. Mr LEUNG Kwok-hung pointed out that the purpose of introducing the 10% MRIR cap was to restrain rent increases to within the affordability of tenants. As such, he considered that the Amendment Bill to remove the MRIR cap would indeed remove the above "statutory safeguard" for the low-income group. At a time when Hong Kong's wealth disparity problem was deteriorating, the Administration's proposal was both insensitive and undesirable and should not be taken. He therefore called upon all members to object to the Amendment Bill. He said that he had been repeatedly denied access to the public forums organized for the Review. He was of the view that the public consultation on the Review was just a window dressing exercise. The Review Report and hence the Amendment Bill had failed to represent views of PRH tenants.

10. On concern about removing the 10% MRIR cap, SHPL pointed out that MRIR had all along been used as a general affordability indicator rather than a mechanism to determine rent adjustments. Findings of the Review had revealed that the surge in MRIR in the past years was due to a host of extraneous factors other than changes in individual tenants' rent and household income per se. These extraneous factors included, for example, increase in the number of small or elderly households that tended to have a lower level of household income and increase in the number of PRH tenants receiving Comprehensive Social Security Assistance (CSSA). The statutory 10% MRIR cap was therefore neither reasonable nor sustainable, and posed difficulty for HA to secure sufficient rental income to meet the recurrent expenditure of its PRH estates. The proposed income index, however, would be able to track the "pure changes" in PRH tenants' household income to guide future rent adjustments. The new rent adjustment mechanism would be more rational, flexible and better sustain long-term PRH development.

11. Mr LEE Cheuk-yan queried why the Administration had not sought to reduce PRH rent to comply with the 10% MRIR cap before introducing the new rent adjustment mechanism. In his view, PRH tenants would not be aggrieved by the proposal to remove the MRIR cap if HA had reduced rent to comply with the cap instead of frozen rent since 1998. In response, SHPL re-iterated that given that movement in MRIR was subject to the influence of a wide range of external factors, determining rent adjustments on the basis of the movement in MRIR would produce highly distorted results. The Chairman commented that as the MRIR cap had been incorporated in HO, the Administration should act according to the law and comply with the cap.

12. Mr LEUNG Yiu-chung considered the proposal to remove the MRIR provisions unfair, arbitrary, and against the spirit of law. In his view, if HA had complied with the MRIR provisions and reduced instead of frozen rent since 1998, it would be unnecessary to introduce significant rent reduction to comply with the cap now. On the other hand, by introducing the new rent adjustment mechanism based on the "pure income changes" of PRH tenants and discount the potential distortion of the overall household income brought about by variations in household size distribution in the computation process, the Administration was seeking to evade from reducing rent but to increase rent instead. This was because income would at most times go up, and there was recently a growth in the number of larger households, which tended to have

higher household income.

13. In response, SHPL explained that the new rent adjustment mechanism would provide for both upward and downward adjustments of PRH rents according to changes in tenants' household income. If there was a drop in PRH household income, rent would be reduced. As regards concern about non-compliance with the MRIR cap, SHPL emphasized that HA had been abiding by the law. The Court of Final Appeal's ruling had made it clear that, HA was not under a statutory duty to review PRH rents and revise them so as to ensure the 10% MRIR cap was not exceeded. This notwithstanding, HA had taken the initiative to conduct a comprehensive review of its domestic rent policy and launch extensive public consultation to map out a more rational rent adjustment mechanism. It had also decided to reduce PRH rent by 11.6% upon the introduction of the new rent adjustment mechanism. The Administration considered that the proposed new rent adjustment mechanism could better reflect tenants' affordability by adjusting rent in accordance with changes in tenants' household income. All these proposals were well received by the community at large.

14. Miss CHAN Yuen-han stressed that the mission of PRH was to provide affordable housing to low-income households to help them improve their living conditions. She considered that instead of removing the statutory 10% MRIR cap, the Administration should retain the cap in recognition of the deteriorating problem of wealth disparity in Hong Kong so as to ensure PRH rent would be affordable to low-income households.

15. Dr Fernando CHEUNG opined that in deciding whether to remove the statutory 10% MRIR cap, due regard should be given to factors including the impact on the role of PRH, the appropriateness of replacing the cap by the new rent adjustment mechanism without first reducing rent to comply with the cap, the likelihood of rent increase after implementation of the new mechanism, and the financial position of HA which at present was healthy. In consideration of the above, Dr CHEUNG found it undesirable to remove the MRIR cap, and requested the Administration to reaffirm PRH's role. On Government's subsidized housing policy, SHPL re-iterated that the focus remained to provide PRH flats to those low-income families that could not afford private rental accommodation and to maintain the average waiting time at around three years. As regards HA's financial position, SHPL remarked that HA's rental operating account would likely record a deficit following the proposed rent reduction of 11.6%, which would result in an annual rental loss of around \$1,410 million.

16. Mr Albert CHAN regarded the proposed removal of the MRIR cap a move of the Administration to increase PRH rent and would force PRH tenants to turn to the private property market for meeting their housing need. Despite the assurance that the new rent adjustment mechanism would track the changes in the household income of PRH tenants, Mr CHAN expressed concern about possible loopholes in the mechanism and hence failure in ensuring that PRH rent was affordable to the low-income families. Pointing out that most people had indeed objected to the removal of the MRIR cap and not, as claimed by SHPL, supported the proposal, Mr CHAN queried the way the Administration had gauged public views on the Review.

17. SHPL emphasized that the Administration had collected views from a wide cross-section of the community through various channels, including Legislative Council and District Councils, written submissions, public forums organized by the Housing Department and outside parties and telephone survey. From his personal contacts with PRH tenants, SHPL remarked that many of them also found the present proposals acceptable. On Mr CHAN's suggestion of conducting an opinion survey of all PRH tenants, SHPL said that HA had commissioned an independent consultancy firm to conduct a telephone opinion survey on the proposals put forward in the Consultation Paper on Review of Domestic Rent Policy. At the Chairman's request, SHPL agreed to provide a paper on the results of the survey to the Panel.

(Post-meeting note: The paper provided by the Administration was circulated to members vide LC Paper No. CB(1)593/06-07(01) on 27 December 2006.)

18. Mr Alan LEONG considered it undesirable to remove the statutory MRIR cap. He was concerned that the new rent adjustment mechanism would involve arbitrary administrative measures not subject to objective monitoring, hence failing to take into account tenants' affordability.

19. The Chairman indicated preference for retaining the MRIR cap in consideration of the greater safeguard for PRH tenants against rent increase. In consideration of the current sound financial position of HA with the rental operating account recording a surplus in the past two years and reduction in the annual PRH production, the Chairman urged HA to step up effort in monitoring its expenses in order to balance its books. In his view, as long as HA could balance its income and expenditure thus avoiding the need to seek funds from the Government and hence the implication on public finance, tax-payers would not oppose to retaining the cap. Believing that PRH tenants would be willing to accept continued rent freeze in return for certainties, the Chairman called upon the Administration to maintain the status quo instead of seeking to introduce the new rent adjustment mechanism, which had sparked off wide public concern about likely rent increases. While noting the views, SHPL pointed out that there were calls for rent reduction from PRH tenants that had to be addressed.

Compilation of the income index

20. Dr YEUNG Sum found it undesirable to exclude CSSA households from the coverage of the income index, and exempt the application of the new rent adjustment mechanism to tenants who were eligible for the Rent Assistance Scheme. In his view, the income index so derived would reflect the income changes of the young and the employed but fail to capture those of the old and the disadvantaged. This might in turn weaken the safeguards presently available for PRH tenants under the statutory 10% MRIR cap. Miss CHAN Yuen-han shared the view. On the concern about excluding CSSA households from the coverage of the income index, the Assistant Director of Housing (Strategic Planning) (AD of H (SP)) explained that the so-called "income" of CSSA households was effectively social security allowance provided by Government which would broadly be adjusted in accordance with the inflation / deflation rate. On the other hand, the income of ordinary wage earners would potentially be subject to

greater fluctuations in both good and bad times. Given that the rent of CSSA households was paid by Government, the income index should seek to track the income movement of the ordinary wage earners rather than CSSA households. Otherwise, its computation would be distorted.

21. In response to Dr YEUNG Sum's enquiry about the protection for the grassroots under the new rent adjustment mechanism vis-à-vis the statutory MRIR cap, SHPL stressed that the new mechanism would be a great improvement because HA would collect income data from a sample survey of PRH tenants instead of relying on the data from the General Household Survey conducted by the Census and Statistics Department (C&SD). A sample of around 1 500 to 2 000 households would be selected each month to furnish HA with their household income on a mandatory basis. The random sample of HA's survey should be representative of the profile and hence affordability of PRH tenants. An independent party, such as C&SD, would also be appointed to compile the income index on behalf of HA.

22. Mr CHAN Kam-lam opined that given the large number of PRH households, a sample size of 1 500 to 2 000 might be too small to ensure the accuracy of the income data. Cautioning that the income of the low-income group might not necessarily move in the same direction as the overall income trend, Mr CHAN asked whether HA would consider adopting measures, such as conducting two income surveys per month for comparison purpose, to better ensure that the income index would accurately reflect income changes of all PRH households. He also enquired whether the Amendment Bill would prescribe the details of the independent party/parties to be appointed for compiling the income index to enhance transparency and credibility in computing the index.

23. In response, SHPL said that the proposed sample survey had been worked out with the expert advice of C&SD to ensure collection of the most reliable household income data. As the sample survey would also be conducted on a continuous basis throughout a year, the cumulative sample size of the survey for any given year would be about 18 000 to 24 000 households, which should be representative of the profile of PRH tenants and large enough for the purpose of compiling the income index with reasonably good precision. As to the details of the Amendment Bill, SHPL took note of members' views and said that there would be opportunities for Members to discuss related issues during scrutiny of the Bill.

24. Ms Audrey EU expressed concern about possible manipulation of the outcome in compiling the income index. In particular, she was concerned about the lack of an objective methodology for fixing the household size distribution in PRH during a rent review. Thus the Administration could arbitrarily determine how and when to update the pattern of household size distribution to suit its needs. In her view, consideration should be given to setting out criteria on how re-basing of the household size distribution would be conducted, and the details should be incorporated into the Amendment Bill. In response, SHPL said that how the operation of the rent adjustment mechanism might be reflected in the Amendment Bill could be further examined during the scrutiny of the Bill. Meanwhile, he agreed to provide a paper to address Ms EU's concern.

(Post-meeting note: The paper provided by the Administration was circulated to members vide LC Paper No. CB(1)593/06-07(01) on 27 December 2006.)

25. In reply to Mr Alan LEONG's question on whether there would be any third party to monitor the compilation of the income index, SHPL said that while the details for implementing the income index had yet to be finalized, members could rest assured that the index would be compiled in an open, fair and reasonable manner. The Administration would endeavour to incorporate the relevant details in the Amendment Bill and provide supplementary information explaining the operation and compilation of the index during scrutiny of the Bill.

26. Mr Tommy CHEUNG declared interests as a member of HA and indicated his support for the new rent adjustment mechanism. He then sought the Administration's views on possible proposals of including CSSA and additional rent paying households under the coverage of the income index. In response, SHPL pointed out that the inclusion of CSSA and additional rent paying households might distort the computation of the income index. Nonetheless, should there be wide support for including these two types of household in the coverage of the income index, the Administration would carefully consider the proposal. Noting the response, Mr CHEUNG commented that in order to avoid disputes and allay concern that the Administration was deliberately excluding these households to facilitate rent increase, the Administration should consider including the two types of household in the computation of the income index.

The rent reduction proposal

27. Dr YEUNG Sum considered it undesirable to bundle the across-the-board rent reduction of 11.6% with the introduction of the new rent adjustment mechanism, and requested the Administration to reduce PRH rent before introducing changes to the rent adjustment mechanism. In response, SHPL stressed the need to determine the new rent level on the basis of the new rent adjustment mechanism to ensure coherence and consistency of the entire rent adjustment framework. He further re-iterated that it would be highly imprudent for HA to introduce rent reduction before putting in place a flexible and sustainable rent adjustment mechanism. He stressed that the granting of a one-off rent remission for the month of February 2007 to PRH tenants and Interim Housing Licensees as approved by HA at the meeting on 27 November 2006 was an appropriate short-term measure to address the demand for early rent reduction pending the introduction of the new rent adjustment mechanism and the new rent level. Notwithstanding, the Administration would endeavour to introduce the Amendment Bill into the LegCo as soon as practicable to effect the new rent adjustment mechanism and the 11.6% rent reduction early.

28. Noting that HA could at present balance the books with some surplus in implementing the PRH programme, Mr Albert HO opined that if HA maintained prudent financial management, the PRH programme could remain sustainable for at least ten years. This would obviate the need to amend HO and the introduction of the new rent adjustment mechanism, which in his view would create uncertainties. In

particular, notwithstanding introduction of rent reduction of 11.6%, PRH tenants were concerned that with the implementation of the new rent adjustment mechanism and in the light of general improvement in the economy, rents might be adjusted upward after a few years. He then enquired about the Administration's estimation on the number of years it would take before increases in PRH rents would off-set the 11.6% rent reduction.

29. In response, SHPL clarified that under the new rent adjustment mechanism, PRH rents would be adjusted on the basis of changes in the household income of PRH tenants. Assuming that the income index would increase by 2% to 3%, in each rent review which would take place every two years after the commencement of the Amendment Ordinance, it might take some ten years for PRH rents to return to the existing levels following the proposed rent reduction of 11.6%. The Chairman, however, was not convinced by SHPL's remarks, and opined that it might take only six years for PRH rents to be increased by 11.6% to offset the rent reduction.

30. In response to Mr LEE Cheuk-yan's enquiry about the MRIR level after introducing the 11.6% rent reduction, SHPL advised that MRIR would be 12.6% with the inclusion of CSSA households in the calculation and further brought down to 11.1% if CSSA and additional rent paying households were excluded. However, the changes in MRIR figures were irrelevant because the 11.6% rent reduction had been worked out on the basis of the changes in the income index rather than MRIR. He added that if MRIR were to be brought down to below 10%, an across-the-board rent reduction of over 30% might be required, which would not be reasonable or acceptable to the community.

31. Mr LEE Cheuk-yan opined that instead of implementing an across-the-board rent reduction of 11.6%, consideration should be given to providing a higher rate of reduction for new estates, especially those in remote areas such as Tin Shui Wai. He pointed out that due to the higher MRIR benchmarks applicable to households of newly completed estates, i.e. 15% and 18.5% for the respective space allocation standards of 5.5 m² internal floor area (IFA) and 7 m² IFA per person, these households had a heavier rental burden than other PRH households. For the sake of maintaining fairness in implementing the rent reduction, it was justified to provide a higher rate of reduction to these households in order to ensure that the reduction could really help alleviate their financial burden. In response, SHPL emphasized that, taking account of the general expectation of tenants for the same treatment, there was a need to adopt a simple across-the-board approach instead of different rates of reduction for different categories of PRH households.

The rent remission proposal

32. Mr CHAN Kam-lam considered it unfair that PRH tenants and Interim Housing Licensees paying additional rent or licence fees would be excluded from the one-off rent remission. In his view, only those paying market rents should be excluded. Mr Albert HO shared his view, pointing out that households paying 1.5 times rent and double rent had only exceeded the Waiting List Income Limits but not the Net Asset Limits and hence were still eligible to continue receiving public housing subsidy.

Moreover, if the statutory MRIR cap had been complied with in the past, these tenants should be paying lower rents. Mr LEUNG Yiu-chung also expressed similar views, pointing out that the proposed exclusion was both unfair and divisive. Moreover, PRH tenants affected by the Policy on Safeguarding Rational Allocation of Public Housing Resources had already raised grave grievances. They should not be further discriminated against. SHPL took note of members' views.

33. Mr Frederick FUNG enquired about the basis on which the Administration had worked out the one-month rent remission. According to him, if the median wage of 1998 had been used as the reference point, which he had repeatedly proposed at previous meetings, HA should grant a two-month rent remission. In response, SHPL stressed that instead of rigidly following any formula in working out the one-month rent remission, HA had indeed examined carefully all views expressed by different groups and all relevant factors with a view to striking a balance among the interests of the various stakeholders. HA was of the view that apart from ensuring prudent use of its resources, the rent remission proposal could also address the strong demand from some political parties and tenant groups that HA should implement short-term measures to remit or reduce rent pending completion of the legislative process to introduce the new rent level. He also emphasized that the one-month rent remission proposal already had a sizeable impact on the rental revenue of HA i.e. about \$963 million rental revenue forgone.

34. Mr Frederick FUNG considered it unacceptable that while the Administration had stressed the need to decide on the extent of rent reduction only after first agreeing on the rent adjustment mechanism, it had not worked out the rent remission proposal on any sound basis. In response, SHPL explained that while the extent of rent reduction should be decided according to the new rent adjustment mechanism, the rent remission proposal had been made in response to the strong demand from some political parties and tenant groups. He believed the one-month rent remission had struck a reasonable balance among the interests of the various stakeholders.

Other views and concerns

35. Mr Albert HO noted that following the implementation of the income-based rent adjustment mechanism, the current two MRIR benchmarks, i.e. 15% and 18.5% for the respective space allocation standards of 5.5 m² IFA and 7 m² IFA per person, would remain applicable to tenants moving to newly completed estates. He considered the arrangement unfair as this would result in double standards and that the two benchmarks were high resulting in affordability problem of tenants. In response, AD of H (SP) assured members that both the across-the-board rent reduction of 11.6% and the new rent adjustment mechanism would apply to newly completed estates. He stressed that the two MRIR benchmarks would only serve as general affordability indicators to assist HA in tracking tenants' general rental affordability.

36. Mr Alan LEONG was of the view that the absence of any statement in the Review Report on the Administration's vision of the role of PRH might have given rise to concern that the real motive behind the new rent adjustment mechanism was to increase PRH rents to the extent of changing the existing PRH policy. In order to

address the concern about the lack of mutual trust between HA and PRH tenants, he saw a need for the Administration to reaffirm during the scrutiny of the Amendment Bill PRH's function of providing affordable housing to the low-income people and provide details on the mid- to long-term PRH policy. In response, SHPL assured members that the recommendations in the Report were in support of the overall role of PRH, and HA would continue with the PRH programme to maintain the average waiting time at around three years.

37. Mr Tommy CHEUNG enquired whether, to avoid likely criticisms that rent would be increased but not reduced with the implementation of the new rent adjustment mechanism, PRH rent would be rigidly adjusted according to the biennial rent review cycle even if there were insignificant changes in the income index over the two-year period. In response, SHPL said that while in principle rents should be reviewed in accordance with the new adjustment mechanism and the biennial cycle, there had been views that it might not worth the effort to introduce rent adjustments should the amount of rent variation required after a rent review be insignificant. The Administration was still examining the relevant details.

V Sale arrangements for uncompleted first-hand residential units

- (LC Paper No. CB(1)394/06-07(05) -- Information paper provided by the Administration
- LC Paper No. CB(1)394/06-07(09) -- Letter dated 28 November 2006 from Hon LEE Wing-tat
- LC Paper No. CB(1)422/06-07(01) -- Administration's response to questions raised by Hon LEE Wing-tat (LC Paper No. CB(1)394/06-07(09))
- LC Paper No. CB(1)394/06-07(06) -- Background brief on sales arrangements for uncompleted first-hand residential properties prepared by the Legislative Council Secretariat)

Meeting with deputations and the Administration

The Real Estate Developers Association of Hong Kong

38. At the Chairman's invitation, Mr Stewart LEUNG, Vice Chairman, The Real Estate Developers Association of Hong Kong (REDA) said that REDA had established a self-regulatory regime since 2001 to govern the sale arrangements for uncompleted residential properties (the self-regulatory regime) and issued Guidelines (the Guidelines) in this respect for compliance by its members. The Guidelines had been regularly reviewed and refined to address public concerns and improve the self-regulatory regime. He then briefed members on the details of REDA's initiative to establish a Compliance Committee to enhance monitoring of the self-regulatory regime. Members noted that the Compliance Committee would comprise members

nominated by members of REDA's Executive Committee and independent members invited from solicitor firms. Allegations of non-compliance with the Guidelines would be referred to the Compliance Committee for investigation. Substantiated cases would be referred to a Hearing Panel, which would be made up of five members to be drawn from the Compliance Committee on a rotation basis. With at least one of its members being an independent member, the Hearing Panel could decide on the case and mete out disciplinary measures ranging from warning letter, private reprimand to public reprimand as appropriate.

(Post-meeting note: REDA's submission was tabled at the meeting and circulated to members vide LC Paper No. CB(1)436/06-07(01) on 5 December 2006.)

39. Pointing out that REDA had only provided brief information on the Compliance Committee, Mr Albert HO called upon it to seek legal advice and set out in finer detail the operation of the Committee to ensure its performance in an effective manner.

Estate Agents Authority

40. Mr Steven POON, Chairman of Estate Agents Authority (EAA) said that EAA was aware of public concern about recent alleged practice of some estate agency practitioners submitting cheques of their own in flat ballots in order to boost the popularity of concerned developments. EAA was seeking the co-operation of developers and estate agencies in conducting investigation into such cases. He assured members that EAA would continue with its work in enhancing the professional standards of estate agency practitioners.

Consumer Council

41. At the Chairman's invitation, Mrs Pamela CHAN, Chief Executive of Consumer Council (CC) indicated support for REDA's new measures to strengthen the self-regulatory regime, in particular the invitation of independent members to the Compliance Committee for ensuring the impartiality and credibility of the Committee. She further made the following suggestions for consideration by REDA and the Administration:

- (a) The number of independent members in the Hearing Panel should be increased from at least one as presently proposed to at least two;
- (b) REDA should enhance the requirement on its members regarding transparency in sale arrangements of uncompleted residential properties and disclosure of information in the sales brochure, in particular, in relation to risks or special circumstances associated with the concerned development. In this connection, CC supported making mandatory requirements on developers in this respect;
- (c) Developers should help promote energy efficiency by using

electrical appliances with proven results in energy efficiency in residential developments; and

- (d) Efforts should be made to extend the consumer protection presently available to pre-sale of developments under the Lands Department's Consent Scheme to those under the non-Consent Scheme.

42. In this connection, Dr YEUNG Sum referred to a recent case where a developer had arranged pre-sale of flats in a development pending approval for the commencement of piling work and conclusion of related legal disputes, and indicated support for CC's suggestions above, in particular suggestion (d), in order to enhance protection for flat purchasers of non-Consent Scheme.

The Administration

43. At the Chairman's invitation, the Permanent Secretary for Housing, Planning and Lands (Housing) (PSH) referred members to the Administration's paper for measures taken by the parties concerned to improve the sale arrangements for uncompleted first-hand residential units since the meeting of the Panel held on 3 July 2006. He assured members that the relevant parties would continue to step up efforts in this area.

Discussion

The need to introduce measures with statutory effect for governing the sale of first-hand residential properties

44. Dr YEUNG Sum expressed disappointment at the Administration's approach of relying on the self-regulatory regime instead of enacting legislation to govern the sale arrangements of residential properties and the provision of sales information to enhance the protection for interests of prospective flat purchasers. Since flat purchase was to most people the biggest investments in their life, he considered that relevant parties should ensure the supply of adequate and accurate sales information to purchasers. He however was concerned that the disciplinary measures available under the self-regulatory regime, namely, warning letter, private reprimand and public reprimand would have limited effect in deterring developers from providing misleading or withholding sales information.

45. In response, PSH stressed the need to strike a reasonable balance between consumer protection and maintaining a free business environment. He assured members that should the improvement measures to the self-regulatory regime prove inadequate in achieving the expected result, the Administration would not rule out the option of introducing appropriate administrative or legislative measures to reinforce the existing mechanism.

46. In this regard, Mr Stewart LEUNG of REDA highlighted developers' operational difficulties and hence the need to allow them to conduct proper promotional activities with minimum Government intervention. He emphasized that

REDA was keen to ensure fair and healthy competition in the real estate sector and REDA's members were willing to co-operate and comply with the Guidelines. By introducing the above improvements to the self-regulatory regime, REDA had already done its best to regulate practices in the sector, and time should be allowed to assess the effectiveness of the improvement measures. Mr LEUNG also remarked that with enhanced consumer education and publicity activities, flat purchasers had become more aware of their rights and available means to pursue related complaints. As regards concern about effectiveness of the proposed sanctions, Mr LEUNG said that public reprimand did have strong deterrent effect because developers all cared about their reputation.

47. Mr Albert CHAN expressed grave disappointment towards the Administration's failure to introduce legislation to regulate the sale of uncompleted first-hand residential properties all these years. In his view, the Government's inaction would be regarded as another form of transfer of benefits of the Administration with developers at the expense of the interests of property buyers. He further pointed out that, contrary to the above assurances by REDA, there had been numerous cases of malpractices by large developers, who had adopted high-handed measures and treated flats purchasers very unfairly by taking advantage of loopholes in relevant legal documents. As such, Mr CHAN stressed the need for enacting legislation to combat malpractices and misconduct of developers with a view to enhancing protection for flat purchasers' interests.

48. Sharing members' concerns, the Chairman considered that a legislative approach was more appropriate for regulating the sale of uncompleted first-hand residential properties. He further suggested that consideration should be given to including compliance with the Guidelines as a requirement of the Consent Scheme, so that Lands Department's Legal Advisory and Conveyancing Office (LACO) could withdraw the consent for the sale and impose penalties on developers for breaching the Guidelines. He also requested the Administration to provide a sample document of the Consent Scheme setting out the requirements for developers, and explain how the requirements had been and would be revised to address concerns raised lately in the sale and purchase of uncompleted residential properties. In response, PSH took note of the Chairman's suggestion and agreed to provide the requested information. He supplemented that LACO had been reviewing requirements of the Consent Scheme regularly to identify necessary improvements.

(Post-meeting note: The Administration's response was issued to members vide LC Paper No. CB(1)712/06-07(01) on 12 January 2007.)

Self-regulatory regime in monitoring malpractices of developers

49. While appreciating REDA's efforts in improving self-regulation, Mr Albert HO considered the self-regulatory regime ineffective because firstly, unlike other professional institutions, REDA was not a professional body and its members were not subject to any professional accreditation process and hence could not be disqualified for any malpractices or misconduct committed. Nor did REDA have any statutory investigatory power to compel developers allegedly involved in malpractices to

provide relevant information or attend disciplinary hearings. Secondly, not all developers were members of REDA. REDA's ability to regulate practices of developers who were non-members was thus questionable. Thirdly, since all independent members of the Compliance Committee as shown in Annex I to REDA's submission were invited from solicitor firms which had business relationship with developers, the public could not be assured of the independence of these members. The Chairman shared the concerns. Mr LEUNG Kwok-hung added that as different from the Legislative Council, which could exercise the powers conferred under the Legislative Council (Powers and Privileges) Ordinance (Cap. 382) to order attendance and production of information from parties, REDA could not compel its members to attend hearings and produce information and documents to facilitate investigation of cases. As such, the protection accorded to consumers under the self-regulatory regime could not be compared to that available under legislation. He further opined that the Administration should consider introducing a legislation to tackle problems associated with sale of uncompleted residential properties, particularly to enable aggrieved flat purchasers to take their cases to the court. Pointing out that developers had been given many opportunities to improve the self-regulatory regime, it was high time for flat purchasers to be given the opportunity to pursue legal remedies to safeguard their interests.

50. On the concern about REDA's investigatory power, Mr Stewart LEUNG of REDA assured members that REDA members had all agreed to empower the Compliance Committee to undertake investigation into suspected cases of malpractices of developers. He further re-iterated that REDA had all along been responsive to complaints referred by CC and other relevant authorities. To ensure fairness, he emphasized that REDA should be allowed time to try out the new improvement measures.

51. As regards the concern about REDA's membership, Mr Stewart LEUNG of REDA emphasized that although certain small developers such as those engaged in small house projects in the New Territories were not members of REDA, over 95% of developers in Hong Kong were REDA members. In reply to Mr Albert HO's concern about protection of interests of flat purchasers for properties developed by non-REDA members, Mr LEUNG said that there were other laws governing the sale of small house projects. Given the small number of single-block residential developments in Hong Kong, REDA already had a very wide membership, thus the new improvement measures should help gear up the self-regulatory regime.

52. As for the concern about the independence of independent members of the Compliance Committee, Mr Stewart LEUNG of REDA assured members that the list of independent members would be revised from time to time. Although majority of the independent members were associated with big legal firms, which in a way or another, had business relationship with developers, it was believed that as legal professionals, these members would perform their duties independently and professionally. Indeed, REDA had reminded these members of the importance for them to perform their duties independently and fairly, and they all understood that their service on the Compliance Committee and the Hearing Panel would be on a voluntary basis. Moreover, should these members be involved in business with the developer concerned in a case under

investigation by the Compliance Committee, they had to refrain from participating in the case. Mr LEUNG added that the legal professionals who agreed to serve as independent members all treated their appointment seriously and had taken some time considering the matter before accepting REDA's invitation.

Membership of the Compliance Committee and the Hearing Panel

53. Dr YEUNG Sum opined that the number of independent members on the Hearing Panel should be increased to more than half to enhance its credibility. PSH indicated the Administration's support for including as many independent members as possible in the Compliance Committee. The Chairman further suggested that REDA should consider incorporating representatives from CC in the Compliance Committee and the Hearing Panel to ensure justice could be seen.

54. In response, Mr Stewart LEUNG of REDA said that REDA would consider the above suggestions. He also assured members that, with implementation of the new requirement for REDA's members to submit an independent auditor's report certifying that the conduct of their sale was in compliance with the Guidelines before offering a residential development for sale, the need to refer a case to the Compliance Committee and hence the Hearing Panel should be minimal.

The provision of adequate and accurate sales information to consumers

55. Mr Albert CHAN expressed concern about discrepancies between the information on the residential properties included in the sales brochure from that provided in the relevant Agreement for Sale and Purchase (ASP) and opined that in order to safeguard consumers' interests, all sales brochures should be made legally binding, and REDA should require its members not to include the expression of "for reference only" in sales brochures. Mr LEUNG Kwok-hung echoed the same views.

56. In response, Mr Stewart LEUNG of REDA assured members that the interests of both the flat purchaser and the developer would be protected upon signing of the ASP. The ASP was a legal document containing standardized clauses with the purpose of protecting buyers' interests. Variation to the ASP was not normally allowed and hence the clauses could not be amended to suit the interests of the developer only. Mr LEUNG further explained that the sales brochure could not be legally binding because amendments to the relevant building and layout plans might be necessary when the projects were under construction, particularly in the case of large housing projects. He also pointed out that the inclusion of the expression of "for reference only" in the sales brochures was rare unless where necessary to provide the developer with flexibility in making necessary amendments to improve the housing projects.

57. PSH supplemented that there was existing legislation against fraud and misrepresentation. Should a flat purchaser have reasons to believe that he or she had suffered from loss as a result of developers' fraudulent behaviour or misrepresentation in the course of sale of properties, they could seek compensation through civil or criminal litigation according to relevant provisions under the law.

58. Mr LEUNG Kwok-hung, however, was unconvinced. In his view, as the sales brochures were not legal documents, flat purchasers could not pursue contractual remedies for misleading information provided therein. In short, Government had yet to instil confidence of flat purchasers that their rightful interests would be properly protected.

59. Mr Albert CHAN re-iterated the need to provide sales brochures with legal effect by highlighting cases where developers' commitment in the sales brochure to provide shuttle bus service for the concerned developments had not materialized at the end, the promised sea view was in fact blocked, and the claimed short distance from MTR stations was at best misleading. As such, Mr CHAN considered it absurd and unacceptable that developers would not be held legally responsible for sales brochures produced by them. To address the need for developers to amend building and layout plans where necessary, appropriate wording providing exemptions to such changes could be included in the brochures.

60. In response, Mr Stewart LEUNG of REDA remarked that the cases referred to by members should be past cases. He emphasized that with the promulgation of the Guidelines and stepping up of efforts to enhance the self-regulatory regime, there had been improvement in the sales arrangements for uncompleted first-hand residential properties. He supplemented that REDA had been reminding its members of the need to adopt reasonable practices in promoting their business and avoid excessive marketing gimmicks. Moreover, as developers thrived on good reputation, monitoring by the public and the media also played an important role in deterring developers' malpractices. Highlighting REDA's efforts in ensuring the adequacy and accuracy of sales information, Mr LEUNG re-iterated the need to allow time for assessing the effectiveness of the new improvement measures. In this connection, Mr Albert CHAN re-iterated his concerns and considered that in order to assure the public that developers could be trusted, REDA should consider including in the Guidelines a requirement for members to stop using the expression "for reference only" in the sales brochures.

61. The Chairman pointed out that it was a common practice of many large developers to post information relating to new residential developments in their websites in the internet. He opined that with a view to enhancing transparency in the sale arrangements and ensuring provision of timely information to prospective purchasers, all sales information, in particular the price lists for units put under the sale, should be posted onto the websites of developers concerned instead of disseminated through estate agents. Mr Stewart LEUNG of REDA explained that while large developers had the resources to upload sales information onto their websites, small developers might have difficulty in making the arrangements. He took note of the view and said that REDA would continue to encourage its members to adopt the suggested practice. However, it would be more desirable for such practice to remain optional rather than mandatory in order to provide flexibility for developers in their operation.

Malpractices of estate agency practitioners

62. The Chairman referred to recent media reports concerning alleged practice of some estate agency practitioners to submit cheques of their own in flat ballots in order to boost the popularity of the properties concerned and subsequent statement by the chairman of a large estate agency that such practice had long existed in the trade and that developers were also co-operating in such acts by not en-cashing the cheques (the Statement). He invited EAA's comments on such reports.

63. In response, Mr Steven POON of EAA said that EAA would not tolerate the above malpractice of estate agency practitioners and would conduct investigation into suspected cases in accordance with the statutory power vested in it under the Estate Agents Ordinance (Cap. 511). Where necessary, EAA would compel provision of information and evidence from relevant parties under investigation. Upon further enquiry by the Chairman, Mr POON confirmed that investigation into suspected cases was still underway and EAA was seeking information from both the developers and the management of the estate agencies involved. However, as prohibited by the law, he could not disclose further details. As to the Statement, Mr POON pointed out that since it was related to a case under investigation by the Independent Commission Against Corruption (ICAC), he also could not give comments. Mr POON supplemented that EAA had already sought ICAC's assistance in identifying improvements for EAA's practice guidelines on first sales of residential properties and strengthening education programmes for upgrading the professional standards of estate agency practitioners. Efforts would also be made to establish a mechanism for enhancing co-operation with ICAC on investigation into complaints of mutual concern to the two organizations.

64. In reply to the Chairman's enquiry about developers' practice in handling cheques submitted in flat ballots, Mr Stewart LEUNG of REDA explained that the current practice was not to en-cash such cheques until the signing of the provisional ASP. The practice would avoid complaints about deliberate delay on the part of developers in arranging reimbursement to flat purchasers in order to profiteer from interests earned from the cheques. Mr LEUNG emphasized that the practice claimed in the Statement was not a common practice of the real estate sector. In his view, media reports relating to the Statement was unfounded and should not be taken seriously.

Management of residential units

65. Mr Albert CHAN expressed concern about the common practice for the management contracts of new residential developments to be awarded to management companies affiliated to the developers concerned instead of awarded through open tender. He pointed out that remuneration for the Manager of these management companies was usually as high as up to 10% of the management fees collected, vis-à-vis that of only 1 to 3% charged by other management companies in the market, such as those of Home Ownership Scheme (HOS) estates. Mr CHAN considered the above situation undesirable and urged REDA to require its members to reduce the remuneration fees to the Manager.

66. In response, Mr Stewart LEUNG of REDA pointed out that the management

fees and the remuneration for the Manager were specified in the relevant ASP for a development, which had been approved by Government before the sale of the development. While management costs for developments with more facilities would inevitably be higher, it was believed that the fees and remuneration charged by individual management companies would not differ too much. Mr LEUNG also emphasized that developers were all keen to ensure that their after-sales service was satisfactory, and would conduct thorough market research before proposing the management fees and remuneration charged.

67. Mr Albert CHAN, however, said that LACO was always acting in favour of developers when approving the remuneration of the Manager. He urged REDA to make reference to the management tenders submitted for HOS estates for the market rates in management fees and remuneration of the Manager. Mr LEUNG Kwok-hung also pointed out that the lack of competition could not ensure that the management fees and remuneration paid by flat purchasers of new residential developments would be reasonable.

68. Mr Stewart LEUNG of REDA explained that it was a normal practice for developers to take up the management responsibility for their developments for the initial two years after sale. Developers had taken up the responsibility as they wanted to ensure the quality of their after-sales service rather than to make profit. Moreover, the relevant Owners Corporation of the development could pass resolution to change the management company should it find the company's service unsatisfactory. Mr LEUNG also assured members that REDA had already actively followed up in conjunction with CC many complaints in this regard.

The way forward

69. In recognition of the need to allow time to try out the new measures for improving the self-regulatory regime, Dr YEUNG Sum urged the Administration to continue monitoring the operation of the regime and assess the effectiveness of new improvement measures after one year of implementation, and submit the review report to the Panel. PSH agreed to report back as requested. He further assured members that should the new measures fail to achieve the desired results, the Administration would take prompt and appropriate actions as necessary, including the option of introducing administrative or legislative measures to improve the existing mechanism.

70. Summing up, the Chairman thanked the deputations for attending the meeting, and urged REDA to consider views and suggestions made by members. Hoping that the new improvement measures would be launched successfully, he also called upon CC to closely monitor the situation to safeguard the interests of consumers.

VI Arrangements for the disposal of surplus Home Ownership Scheme flats

(LC Paper No. CB(1)394/06-07(07) -- Information paper provided by the

- LC Paper No. CB(1)394/06-07(08) -- Administration
-- Background brief on arrangements for the disposal of surplus Home Ownership Scheme and Private Sector Participation Scheme flats prepared by the Legislative Council Secretariat)

Loss arising from the cessation of sale of Home Ownership Scheme (HOS) flats

71. Noting that HA had incurred expenses for carrying out regular maintenance and necessary defect rectification works for the surplus HOS flats, and would incur loss in income due to the postponement of sale of HOS flats given possible difference in property prices in 2002 vis-à-vis now, Mr Frederick FUNG expressed concern about the negative impact on the financial position of HA, which might lead to increases in public rental housing (PRH) rents and reduction in the production of new PRH flats. In this connection, he enquired whether HA would consider claiming compensation from the Government in respect of the additional expenditure and possible financial loss as a result of the postponement of the sale of HOS flats.

72. The Deputy Director (Corporate Services), Housing Department (DD(CS/HD)) explained that HA had agreed to cease the construction and sale of HOS flats in 2002 so that it could refrain from competition with the private sector in view of the overlap between HOS and private residential property, against the background of the unstable property market at that time. While acknowledging that HA would incur financial loss resulting from the cessation of the production and halting of the sale of HOS flats, HA had no intention to claim compensation from the Government. He further pointed out that the sale of surplus HOS flats would generate net income for HA. By way of illustration, the 3 056 flats to be sold under Phase 1 of 2007 might generate an accounting profit of around \$1.2 billion. DD(CS/HD) added that to help HA tie over its stringent financial position in the past few years, the Government had made arrangements including waiving the land premium payable by HA in the divestment of HA's retail and car-parking facilities.

Defect rectification and maintenance works for the surplus HOS flats

73. Mr Frederick FUNG queried the adequacy of offering a one-year defects liability period (DLP) for the surplus HOS flats as flats had been left vacant for a long period of time. He considered it more appropriate for HA to provide a two-year DLP instead. In response, the Assistant Director (Housing Subsidies), Housing Department (AD(HS/HD)) advised that in addition to regular maintenance carried out for the surplus HOS flats, the Housing Department would arrange defect rectification and maintenance works at these flats to bring them to a reasonable standard before sale. To provide after-sale service to flat purchasers, a customer service team would be posted on site during the initial four months of the in-take period. Flat owners would be given seven days to report defects found in the flats to the team as opposed to the common practice of allowing only two days to report defects in the private residential market. HA staff would attend to the defects reported by owners and arrange necessary

rectification works promptly. He added that a DLP of one year would be provided counting from the date of assignment of individual flats for flats that had never been sold and occupied before. This was in line with the normal practice in the private market. In order to instil purchasers' confidence on the structural safety of HOS flats, AD(HS/HD) said that for unsold HOS blocks/developments, a 10-year structural safety guarantee (SSG), to be counted from the first sale of the unsold blocks, would be provided. SSG would be extended to 20 years for unsold HOS blocks in Tin Shui Wai.

Flat pricing of the surplus HOS flats

74. Given that the surplus HOS flats had been completed for some years, Dr YEUNG Sum asked whether HA would consider providing higher discount in flat prices for the flats than the 30% discount of market value as prescribed in the general guideline. In response, DD(CS/HD) said that the market value of HOS developments put up for sale was assessed by reference to recent sale transactions of comparable developments in the second-hand market in the vicinity of HOS developments. He added that in assessing the market value of the surplus HOS flats, due regard had been given to the fact that these flats had been completed for some time.

Impact of the sale of surplus HOS on the private residential market

75. Dr YEUNG Sum expressed concern that a large supply of HOS flats might have a negative impact on the private residential market and enquired about the timetable for selling all surplus HOS flats. In reply, DD(CS/HD) said that HA had decided in April 2006 to dispose of the some 16 000 surplus HOS flats in batches from 2007 to 2009, with two batches per year of around 2 000 to 3 000 flats in each batch. The sale programme, including the specific HOS developments to be included in each batch, had been published so as to give a clear picture to the private residential market well beforehand, in order to minimize any potential impact on the market. HA would continue to monitor developments in the private market and would review the sale programme only when there was a drastic downturn in market conditions.

76. The Chairman expressed concern about the split ratio of 4:1 between Green Form (GF) and White Form (WF) applicants in the sales arrangements. He considered that such ratio would not be able to meet the housing aspirations of the sandwiched class families which were not eligible for PRH as their asset and/or income exceeded the Waiting List income and asset limits. From his observation, many new private residential developments were targeted at the middle class and were beyond the affordability of the sandwiched class families. On the other hand, the latter might not afford the down-payment of 30% for the second-hand private residential property. To bridge the gap, HOS had been playing an important role in meeting the home ownership aspiration of these sandwiched class families. As such, the Chairman suggested that consideration should be given to suitably adjusting the split ratio between WF and GF applicants in future sale programme of surplus HOS flats in order to provide more opportunities to WF applicants. Mr Frederick FUNG echoed the Chairman's view. He further stressed that HOS had an important role in meeting the home ownership aspiration of the low-income families, particularly when private property prices were on the rise with continuous improvement in the economy, and the

problem of wealth disparity was deteriorating. Given the long lead time of around seven years for planning and construction of HOS flats, Mr FUNG opined that the Government and HA should critically review the role of HOS and examine the need of reviving HOS as soon as possible.

77. On the concern about the split ratio between GF and WF applicants, DD(CS/HD) said that HA had to achieve a balance in the split ratio as public resources were involved in offering a discount for HOS flats. As the sale of HOS flats would have an impact on the private residential market, it was the original plan of the Government in 2002 to sell the surplus HOS flats to GF applicants only. In view of the need to meet the housing aspirations of WF applicants and with a view to minimizing the impact of the sale on the private market, HA had subsequently decided to adopt the split ratio of 4:1 between GF and WF applicants. He assured members that HA would review the split ratio for subsequent batches having regard to the take-up situation in Phase 1 of 2007.

VII Any other business

78. There being no other business, the meeting ended at 5:55 pm.

Council Business Division 1
Legislative Council Secretariat
2 March 2007