

Legislative Council Panel on Housing

Review of Waiting List Income and Asset Limits for 2008/09

PURPOSE

This paper briefs Members on the findings of the review of the Waiting List (WL) income and asset limits for 2008/09.

THE REVIEW

2. The findings of the review are set out in the Memorandum for the Housing Authority's Subsidised Housing Committee (SHC) at **Annex**. Overall, the income and asset limits for 2008/09 would increase by an average of 5.5% and 3.1% respectively over those for 2007/08. If the proposed limits are adopted, some 104 900 non-owners occupied households in the private sector would be eligible for PRH.

3. Members are invited to note the findings of the review, which will be considered by the SHC on 17 March 2008.

**Transport and Housing Bureau
February 2008**

THE HONG KONG HOUSING AUTHORITY

Memorandum for the Subsidised Housing Committee

Review of Waiting List Income and Asset Limits for 2008/09

PURPOSE

This paper reviews the Waiting List (WL) income and asset limits for 2008/09.

BACKGROUND

2. The Housing Authority (HA) has a WL system through which low-income families who cannot afford to rent private accommodation may apply for public rental housing (PRH). The eligibility of PRH applicants is determined by way of the WL income and asset limits, which measure the total household income required to rent a private accommodation comparable to PRH while meeting other non-housing expenditure. Households with income and asset below the prescribed limits, which are assessed annually to keep abreast with the prevailing socio-economic circumstances, are deemed unable to afford renting private accommodation, and hence are eligible for PRH.

3. The current methodology for assessing the WL income and asset limits was developed in 2002 following a comprehensive review. In 2005, the Subsidised Housing Committee (SHC) agreed to set the asset limits for elderly households at two times the limits for non-elderly applicants. The SHC later decided in 2006 that the asset limits for 2005/06 were adopted as the basis for future annual adjustments with reference to the movements in Consumer Price Index (A) (CPI(A)). **Annex A** sets out the operation of the methodology for setting the WL income and asset limits.

THE REVIEW

4. The WL income limits are derived using a “household expenditure” approach that comprises the housing and non-housing costs. The housing cost refers to the average expenditure a household required to rent a

private accommodation with an average size comparable to a PRH unit. The non-housing cost is determined by the statistics from the most recent Household Expenditure Survey (HES)^{Note[1]}, which collects detailed information of the expenditure patterns and levels of different households. The findings are adjusted according to the latest movement in the CPI(A) (excluding housing cost). The three main variables affecting the WL income and asset limits are hence the movement of the CPI(A), the private rentals and the size of the “reference flats”^{Note[2]}. The major findings in this year’s review can be summarised below-

- (a) in line with the general economic trend, both the CPI(A) and private rentals have gone upwards since the last review in March 2007. The increase in the two variables contribute to the rise in the resultant income limits; whereas the asset limits are assessed solely with reference to the CPI(A) and hence would be uplifted as well, and
- (b) the size of the “reference flats” has dropped^{Note[3]}. The reduction in the size of the “reference flats” has somewhat neutralised the rise in the housing cost.

Note[1]: The HES provides the necessary statistics on the average household expenditure of the lower half expenditure group amongst tenant households in the private sector. The statistics form the basis for assessing the non-housing expenditure of different household sizes in calculating the WL income limits. As C&SD only conduct the HES every five years, the household expenditure is adjusted according to the movement in CPI(A) (excluding housing cost) for the reviews conducted in between the two HESs. The present review adopts the 2004/05 HES findings released in June 2006.

Note[2]: The “reference flats” have been adopted to assess the expenditure required for renting private flats that are comparable to PRH. The size of the “reference flats” is determined with reference to the average space of PRH units allocated to WL applicants in the past three years, but excluding all those units converted from HOS and 3-bedroom units allocated to 4-person households.

Note[3]: The “reference flats” size equals to the average space allocated to the WL applicants in the previous three years, i.e. from 2004/05 to 2006/07. In previous years when there was an excess supply of large PRH flats, the average space allocated to the WL applicants was inflated. This spilled-over effect on the “reference flats” size continues to diminish over the years.

5. The latest position of the key parameters for assessing the WL income and asset limits using figures of the latest quarter available (i.e. the fourth quarter of 2007 for housing expenditure and November 2007-January 2008 for non-housing expenditure and asset limits) is set out below-

| | | | |
|-----|---|---|--|
| (a) | Differential Unit Rents of Private Flats (per m ² IFA) | <u>4Q 2006</u> | <u>4Q 2007</u> (% Change) |
| | - 1-person | \$145 | \$166(+14.5%) |
| | - 2-person | \$139 | \$148(+ 6.5%) |
| | - overall* | \$135 | \$146(+ 8.1%) |
| (b) | CPI(A) (2004/2005 = 100) | <u>Nov 2006 – Jan 2007</u> | <u>Nov 2007 – Jan 2008</u> (% Change) |
| | - overall** | 102.8 | 106.0(+3.1%) |
| | - excluding housing cost*** | 101.3 | 105.6(+4.2%) |
| (c) | Reference Flats Size | <u>2003/04 – 2005/06</u> | <u>2004/05 – 2006/07</u> (% Change) |
| | - 1-person | 16.0m ² IFA | 15.5m ² IFA (-3.1%) |
| | - 2-person | 24.0m ² IFA | 23.4m ² IFA (-2.5%) |
| | - 3-person | 31.5m ² IFA | 30.8m ² IFA (-2.2%) |
| | - 4-person | 38.5m ² IFA | 38.0m ² IFA (-1.3%) |
| (d) | Non-housing Expenditure adjusted by CPI(A) on non-housing cost (Based on 2004/05 HES Results) | <u>Non-housing Expenditure of the 2007/08 WL income limits</u> | <u>Nov 2007 – Jan 2008</u> (% Change) |
| | - 1-person | \$4,170 | \$4,351(+4.3%) |
| | - 2-person | \$6,911 | \$7,211(+4.3%) |
| | - 3-person | \$7,191 | \$7,503(+4.3%) |
| | - 4-person | \$8,684 | \$9,061(+4.3%) |

* Overall average unit rent will be adopted for assessing the housing expenditure of households comprising three or more members.

** The overall CPI(A) will be used to adjust the asset limits.

*** The CPI(A) (excluding housing cost) will be used to adjust the non-housing expenditure.

6. The new income and asset limits derived in the light of the above parameters are as follows-

| Household Size | Existing Income Limits for 2007/08 | Existing Asset Limits for 2007/08 | Proposed Income Limits for 2008/09 | Proposed Asset Limits for 2008/09 |
|-----------------------|---|--|---|--|
| 1 | \$6,800 | \$176,000[\$352,000] | \$7,300 | \$181,000[\$362,000] |
| 2 | \$10,800 | \$238,000[\$476,000] | \$11,200 | \$245,000[\$490,000] |
| 3 | \$12,100 | \$310,000[\$620,000] | \$12,600 | \$320,000[\$640,000] |
| 4 | \$14,600 | \$362,000[\$724,000] | \$15,300 | \$373,000[\$746,000] |

| | | |
|--|---------------|----------------|
| No. of non-owner occupied households in private sector eligible for PRH | 99 800(26.2%) | 104 900(27.6%) |
|--|---------------|----------------|

Note : Figures in [] brackets denote asset limits for elderly households (both nuclear and non-nuclear households comprising solely elderly members, the latter include households comprising unrelated elderly members).

----- 7. Details of the calculation are at **Annex B**. Overall, the income and asset limits for 2008/09 would increase by an average of 5.5% and 3.1% respectively over those for 2007/08. If the proposed limits are adopted, some 104 900 non-owner occupied households in the private sector^{Note[4]} (27.6%) would be eligible for PRH, up 5 100 from the current 99 800 households (26.2%).

FINANCIAL AND STAFFING IMPLICATIONS

8. The review itself does not have any financial and staffing implications. The proposed adjustments to the WL income and asset limits should not have any major impact on the demand for PRH.

Note[4]: It should be stressed that this figure only gives a “snapshot” of the position as of 4Q 2007. The number of non-owner occupied households in the private sector will change over time, so will the proportion of them eligible for PRH. The total number of households eligible for PRH is also far greater than that suggested by this figure as households split from existing PRH tenants, HOS/PSPS owners or owner-occupied households in the private sector may also apply for PRH.

PUBLIC REACTION AND PUBLICITY

9. Similar to the previous years, it is expected that the review of the WL income and asset limits will attract media and public attention. The increase in the limits this year is in line with the overall economic performance in Hong Kong, and therefore should be acceptable to the general public.

10. A press release will be issued to announce the findings of this review after the meeting on 17 March 2008.

ADVICE SOUGHT

11. Members will be invited to endorse the proposed WL income and asset limits for 2008/09 at **Annex C**. Subject to Members' endorsement, the new limits will be effective on 1 April 2008.

Miss Elisa TSUI
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Mechanism for Setting of the Waiting List (WL) Income and Asset Limits

WL Income Limits

- The WL income limits are derived from a “household expenditure” approach which consists of housing costs and non-housing costs-
 - (a) *Housing costs*: the rent payment, rates and management fees required for a household to rent a private flat of comparable size to PRH. The exact figure is obtained by multiplying the average space allocated to Waiting List applicants in the past three years by a unit rent derived from a sample survey on private dwellings conducted by the Census and Statistics Department (C&SD). In the calculation, the differential unit rent for the respective household size or the overall average unit rent, whichever is higher, is adopted, while all those HOS flats which were transferred to PRH and those 3-bedroom flats allocated to 4-person households are excluded.
 - (b) *Non-housing costs*: The average non-housing expenditure of the lower half expenditure group amongst tenant households in the private sector. The statistics are obtained from the latest Household Expenditure Survey (HES) conducted by C&SD and adjusted annually according to the movement in Consumer Price Index (A) (CPI(A)) (excluding housing cost). The expenditure pattern of those households comprising solely elderly or non-working members are excluded in deriving the non-housing expenditure. The present review has been based on data from the 2004/05 HES.
- The WL income limits for different household sizes are the respective sums of the above two major cost items, plus a 5% “contingency” provision.

WL Asset Limits

- The WL asset limits for 2005/06 are adopted as the basis for future annual adjustments with reference to movements in CPI(A) over the year. The asset limits for elderly households are set at two times the limits for non-elderly applicants.

Annual Adjustment

- The WL income and asset limits are reviewed annually at the beginning of each year using latest available statistics as of the last quarter as compared to the corresponding quarter of the previous year.

MPF Contributions

- Statutory contributions under the Mandatory Provident Fund (MPF) Scheme are deductible from a household's income when it applies for PRH. In other words, for households contributing 5% of their income under the MPF, the effective WL income limits applicable to them are about 5.26% higher than the prescribed limits.

Proposed Waiting List Income Limits for 2008/09

A. Housing expenditure :

- derived by multiplying average size of the reference flat by the corresponding average unit rent
- the average size of the reference flat refers to the average space of the flats allocated to the waiting list applicants in 2004/05 - 2006/07^(a)
- average unit rents of private flats (flat size of 69.9m² SA or below) by household size are derived from the Rent Survey 4Q 2007 conducted by the Census and Statistics Department

| Household size | Average unit Rent (\$/m ² IFA) |
|-----------------|---|
| 1 | 166 |
| 2 | 148 |
| Overall Average | 146 |

B. Non-housing expenditure :

- based on the expenditure pattern of tenant households in private housing in the lower half expenditure group from the 2004/05 Household Expenditure Survey^(b) and adjusted by the rate of change of CPI(A) (excluding rents, rates, government rent & management fee) between Nov 2006 - Jan 2007 and Nov 2007 - Jan 2008.

| Household size | Average size of reference flats ^(a) (m ² , IFA) | Housing Expenditure (\$) | Non-housing expenditure (\$) | Total household expenditure (\$) | Plus 5% contingency provision (\$) | Proposed income limits (\$) | Existing income limits (\$) | Change (\$) (%) | |
|---|--|-----------------------------|---------------------------------|-------------------------------------|---------------------------------------|---------------------------------------|--------------------------------|--------------------|------|
| 1 | 15.5 | 2,573 | 4,351 | 6,924 | 7,270 | 7,300 | 6,800 | 500 | 7.4 |
| 2 | 23.4 | 3,463 | 7,211 | 10,674 | 11,208 | 11,200 | 10,800 | 400 | 3.7 |
| 3 | 30.8 | 4,497 | 7,503 | 12,000 | 12,600 | 12,600 | 12,100 | 500 | 4.1 |
| 4 | 38.0 | 5,548 | 9,061 | 14,609 | 15,339 | 15,300 | 14,600 | 700 | 4.8 |
| 5 | 41.5 | 6,059 | 10,947 | 17,006 | 17,856 | 17,900 | 16,900 | 1,000 | 5.9 |
| 6 | 48.6 | 7,096 | 12,831 | 19,927 | 20,923 | 20,900 | 19,800 | 1,100 | 5.6 |
| 7 | 50.9 | 7,431 | 13,989 | 21,420 | 22,491 | 22,500 | 21,400 | 1,100 | 5.1 |
| 8 | 54.5 | 7,957 | 15,041 | 22,998 | 24,148 | 24,100 | 22,900 | 1,200 | 5.2 |
| 9 | 61.4 | 8,964 | 16,004 | 24,968 | 26,216 | 26,200 | 24,400 | 1,800 | 7.4 |
| 10+ | 64.7 | 9,446 | 16,894 | 26,340 | 27,657 | 27,700 | 26,100 | 1,600 | 6.1 |
| Average | - | - | - | - | - | - | - | - | 5.5 |
| Number of non-owner occupier households in private sector within WLILs ^(c) | | | | | | | | | |
| 1p | | | | | | 32,200 | 29,600 | 2,600 | 8.8% |
| 2p+ | | | | | | 72,700 | 70,200 | 2,500 | 3.6% |
| Total | | | | | | 104,900 | 99,800 | 5,100 | 5.1% |
| As a % of total number of non-owner occupier households in private sector in Hong Kong ^(d) | | | | | | 27.6% | 26.2% | | |

Notes : (a) excludes HOS transferred flats and 3-bedroom flats allocated to 4-person households in calculating the average size of accommodation

(b) latest source of information available

(c) derived by matching the proposed income limits with the income data captured by the General Household Survey conducted by the C&SD

(d) according to the C&SD's General Household Survey, the total number of tenant households (include those whose accommodation is provided by employers/relatives/friends) in private sector is estimated to be around 380 500 in 4Q 2007

Proposed Waiting List Asset Limits for 2008/09

(with reference to movements in the rate of change of CPI(A) at between Nov 2006 - Jan 2007 and Nov 2007 - Jan 2008), i.e., 3.1%. The resultant limits will be rounded to the thousand)

| Household Size | Proposed WLALs (\$) | Existing WLALs (\$) |
|---------------------------|--------------------------------|--------------------------------|
| 1 | 181,000 | 176,000 |
| 2 | 245,000 | 238,000 |
| 3 | 320,000 | 310,000 |
| 4 | 373,000 | 362,000 |
| 5 | 416,000 | 403,000 |
| 6 | 449,000 | 435,000 |
| 7 | 479,000 | 465,000 |
| 8 | 502,000 | 487,000 |
| 9 | 555,000 | 538,000 |
| 10 | 597,000 | 579,000 |

Proposed Waiting List (WL) Income and Asset Limits for 2008/09

| Household Size | Existing WL Income Limits for 2007/08 | Existing WL Asset Limits for 2007/08 | Proposed WL Income Limits for 2008/09 | Proposed WL Asset Limits for 2008/09 |
|---------------------|---------------------------------------|--------------------------------------|---------------------------------------|--------------------------------------|
| 1-Person | \$6,800 (\$7,158) | \$176,000 [\$352,000] | \$7,300 (\$7,684) | \$181,000 [\$362,000] |
| 2-Person | \$10,800 (\$11,368) | \$238,000 [\$476,000] | \$11,200 (\$11,789) | \$245,000 [\$490,000] |
| 3-Person | \$12,100 (\$12,737) | \$310,000 [\$620,000] | \$12,600 (\$13,263) | \$320,000 [\$640,000] |
| 4-Person | \$14,600 (\$15,368) | \$362,000 [\$724,000] | \$15,300 (\$16,105) | \$373,000 [\$746,000] |
| 5-Person | \$16,900 (\$17,789) | \$403,000 | \$17,900 (\$18,842) | \$416,000 |
| 6-Person | \$19,800 (\$20,842) | \$435,000 | \$20,900 (\$22,000) | \$449,000 |
| 7-Person | \$21,400 (\$22,526) | \$465,000 | \$22,500 (\$23,684) | \$479,000 |
| 8-Person | \$22,900 (\$24,105) | \$487,000 | \$24,100 (\$25,368) | \$502,000 |
| 9-Person | \$24,400 (\$25,684) | \$538,000 | \$26,200 (\$27,579) | \$555,000 |
| 10-Person and above | \$26,100 (\$27,474) | \$579,000 | \$27,700 (\$29,158) | \$597,000 |

Figures in [] denote asset limits for elderly households (both nuclear and non-nuclear households comprising solely elderly members).

Figures in () denote the effective income limits should a household be contributing 5% of its income under the Mandatory Provident Fund (MPF) Scheme as required by the law.