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Urgent

Return Receipt

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cc:

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Subject:

Brainstorming on a new housing strategy

I attach, for what it is worth, a very crude think-piece setting out what I see as the essential ingredients or the sort of soul searching that we need to undertake in mapping out a new housing strategy. I prepared the note last night in great haste and obviously there are bound to be missing links. As you will see, my analysis has a lot of elements which are in common with your thinking, but I beg to differ in a number of aspects, notably in the area of the mode of providing rental subsidies.



A Synopsis on a New Housing Strategy.doc

Ends.

A Synopsis on a New Housing Strategy

Theme

- 'Back to the Basics'

Soul Searching

- Primary target groups – those who cannot afford to rent or those who cannot afford to buy?
- Means of provision i.e. mode of subsidies – combination of land and cash or just cash
- Median to long term objectives or measure of success – reduce the size of intervention (measured by the size of the PRH stock, percentage of population living in the subsidized sector, etc.) or to enhance service delivery and other performance pledges such as average waiting time
- Should the strategy be constrained by any philosophical inhibitions or shall we look at the matter from a pragmatic point of view, i.e., to map out a strategy that is cost-effective, practicable and politically acceptable?
- Lessons to be learnt from the previous housing policies – a classic case to show how a planned economy fails. Unfair to blame the HA for 'running wild' in producing so many HOS flats which are guided by the 50,000 units a year public housing production target set by Government
- Admit our incompetence of predicting demand, particularly home ownership demand
- Private housing market, particularly its short-term movements, is far more complicated than a simple interaction between demand and supply. Let the 'invisible hands' work its magic
- Rid ourselves of doomed attempt to match supply with demand both in our analysis and in our action
- Any assessment of demand must only be published and seen with a great deal of caveats
- Probably can afford to be more robust in assessing PRH demand which can be quantified by way of the Waiting List
- To review the 50,000 assisted housing opportunities

Home Ownership

HOS

- Give up home ownership target
- No HOS – but need to deal with the legacy in terms of excess production. Boils down to a question of how the rental programme is to be financed
- Overlapping not a major cause for concern given the drastic reduction in production – with annual sale of 5,000 units, only 2,000 HOS flats go to WF buyers; for GF buyers, the chances are they would stay-put if not assisted or forced by Government to leave PRH

LOANS

- Use of loans – must be guided not by demand but by affordability of Government. Loans are pretty expensive – long term funding cost in the regions of \$160,000 a loan – enough to subsidize a PRH tenants for over 60 years
- Loans can't meet demand per se. Tricky question of whether Government should raise the loan quota in a heated market
- Income limit should in theory be on par with the HOS limit. For political or economic reasons, accept that a higher income limit might be justified by taking account of the loan repayment to the HA

TPS

- No TPS sales of Harmony blocks in order not to break the housing ladder
- Key question is how to reduce rental dependency without the carrot of TPS
- To consider giving up the target of selling no less than 250,000 units in 10 years. Should not make use of 'un-saleable' stock simply for the sake of meeting this pledge. Pre-sale refurbishment costs exorbitant

Rental Assistance

PRH

- Is it that expensive? Can we afford it?
- Annual subsidies per flat stand at \$2,500 a year in 02/03. Cheapest form of welfare? Traditionally, a pillar of stability
- Politically suicidal to signal any drastic attempt to stop PRH production
- Key question is how to make it work better or more viable
- Answers to the above question are to cut costs (VDS, PSI, follow more stringently the agreed allocation standard, review of building design to ensure PRH units only meet basic and yet decent standards); more rational rent adjustment mechanism; reduced eligibility net; more robust 'rich tenants' policy
- But any attempt to reduce the eligibility net and practise more draconian 'rich tenants' policy would be fraught with difficulties

Rent Allowance

- Philosophically much more solid than PRH – more market friendly, more flexible, less bureaucratic costs, more choice to tenants, etc
- But tremendous constraints in the context of HK to introduce a rent allowance scheme that is cost-effective and yet attractive to prospective PRH tenants
- Current subsidy level costs three times that of PRH, excluding land costs
- Another key consideration is the lack of supply of suitable rental stock in the private residential market. How to make use of the HOS/TPS stock for rental purposes should be explored
- To make it work and acceptable to the public politically, the scheme should be presented as an additional choice to PRH rather than a replacement. PRH production could be adjusted **quietly** according to the tested and sustained take-up rate of rent allowance

Commercial Activities

- Necessitated by planning requirements, hence not fair to accuse the HA for undertaking these so called 'non-core' business
- But agree that the mode of operation should be changed by way of privatization or securitization
- Privatization might give rise to potential political objection given the fact that we have been acting as a 'social landlord' not only in the provision of domestic units but also commercial premises by conducting rent re-assessment voluntarily to help our commercial tenants tide over the economic downturn

Review of Domestic Rent Policy

- MRIR is intended to be a tool to help us measure affordability, not a mechanism for rent adjustments. Replacing MRIR by other alternative measures of affordability will not help enhance public's or our tenants' understanding of the matter – at the end of the day, the tenants' sole concern is whether the rents they pay are going to be increased or reduced, not the mechanism that leads to that conclusion
- Should we prepare to reduce PRH rents on a permanent basis, there should be scope for negotiating with the political parties for removing the 10% MRIR cap and replace it by another rent adjustment mechanism
- Strongly recommend to consider guiding rent adjustments by inflation rates – easy to understand, simple to operate, and above all, much more palatable to Government comparing with the 10% MRIR cap

Private Sector Housing Developments

- Whether the extent of the current adjustments in property prices unwarranted? Caused by HOS or simply the burst of a bubble? How does the current property price level compare with that in other major cities such as London, Tokyo and New York?
- Admit inability to forecast demand and control supply
- Role of Government is to ensure adequate supply of land and a level playing field for all developers
- Property developments by railway companies should in theory be

halted. The crux of the problem is again the mode of subsidy for railway developments

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Source of Finance

- Overall viability of the above approach a big question mark. Treasury funding inevitable
- But traditionally housing expenditure never featured in the annual RAES. It constitutes some 15%(?) of Government's total expenditure and one-third of Government's overall capital expenditure. How such a major programme of activities are to be funded from the public purse is an area of major concern
- Funding approval has to be sought from LegCo in future. Political parties are likely to hold other housing policies such as review of income limits, rent policy, etc. to ransom