

Legislative Council Panel on Housing

Review of Waiting List Income and Asset Limits for 2009/10

PURPOSE

This paper briefs Members on the findings of the review of the Waiting List (WL) income and asset limits for 2009/10.

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 2009/10 would increase by an average of 3.3% and 0.6% respectively over those for 2008/09. If the proposed limits are adopted, some 113 000 non-owner occupied households in the private sector would be eligible for public rental housing.

3. Members are invited to note the findings of the review, which will be considered by the SHC on 27 March 2009.

Transport and Housing Bureau

February 2009



THE HONG KONG HOUSING AUTHORITY

Memorandum for the Subsidised Housing Committee

Review of Waiting List Income and Asset Limits for 2009/10

PURPOSE

This paper reviews the Waiting List (WL) income and asset limits for 2009/10.

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 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 of 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 private accommodation with an average size comparable to a PRH unit. The

non-housing cost is determined by the statistics from the latest Household Expenditure Survey (HES) ^{Note[1]}, which collects detailed information of the expenditure patterns and levels of different households, with adjustment according to the latest movement in CPI(A) (excluding housing cost). The WL asset limits are adjusted by the movements in CPI(A) over the year. Since the last review in March 2008, both CPI(A) and private rentals have moved upwards but slackened in the latter part of the year, along with the slower food inflation and weaker local demand conditions in the midst of a global economic downturn. The reduction in the average “reference flat size” ^{Note [2]}, on the other hand, has continued to stabilise in the year.

5. The movements and latest positions of the key parameters for assessing the WL income and asset limits as at the fourth quarter of 2008 are set out below-

| | | | |
|-----|---|-------------------------------------|--|
| (a) | Differential Unit Rents of Private Flats (per m ² IFA) | <u>4Q 2007</u> | <u>4Q 2008</u> (% Change) |
| | - 1-person | \$166 | \$168 (+1.2%) |
| | - 2-person | \$148 | \$157 (+6.1%) |
| | - overall* | \$146 | \$155 (+6.2%) |
| (b) | Reference Flat Size | <u>2004/05 – 2006/07</u> | <u>2005/06 – 2007/08</u> (% Change) |
| | - 1-person | 15.5m ² IFA | 15.3m ² IFA (-1.3%) |
| | - 2-person | 23.4m ² IFA | 23.3m ² IFA (-0.4%) |
| | - 3-person | 30.8m ² IFA | 29.9m ² IFA (-2.9%) |
| | - 4-person | 38.0m ² IFA | 37.6m ² IFA (-1.1%) |
| (c) | CPI(A) (2004/2005 = 100) | <u>4Q 2007[#]</u> | <u>4Q 2008</u> (% Change) |
| | - overall** | 105.9 | 106.5 (+0.6%) |
| | - excluding housing cost*** | 105.0 | 107.1 (+2.0%) |

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 conducts the HES every five years, the household expenditure is adjusted according to the movement in CPI(A) (excluding housing cost) for the reviews conducted between the two HESs. The present review has adopted the 2004/05 HES findings released in June 2006.

Note [2]: The “reference flat size” equals to the average space allocated to the WL applicants in the previous three years, i.e., from 2005/06 to 2007/08. 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 flat size” continues to diminish over the years.

| | | | |
|-----|--|---|--------------------------------------|
| (d) | Non-housing Expenditure (based on findings of 2004/05 HES as adjusted by CPI(A) on non-housing cost) | Non-housing Expenditure of the 2008/09 WL <u>Income Limits</u> | <u>4Q 2008</u> (% Change) |
| | - 1-person | \$4,351 | \$4,438(+2.0%) |
| | - 2-person | \$7,211 | \$7,355(+2.0%) |
| | - 3-person | \$7,503 | \$7,653(+2.0%) |
| | - 4-person | \$9,061 | \$9,242(+2.0%) |

* 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.

In the last review, the position of Nov 2007 – Jan 2008 was taken for calculation.

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

| Household Size | Existing Income Limits for <u>2008/09</u> | Existing Asset Limits for <u>2008/09</u> | Proposed Income Limits for <u>2009/10</u> | Proposed Asset Limits for <u>2009/10</u> |
|---------------------------|--|---|--|---|
| 1 | \$7,300 | \$181,000[\$362,000] | \$7,400 | \$182,000[\$364,000] |
| 2 | \$11,200 | \$245,000[\$490,000] | \$11,600 | \$246,000[\$492,000] |
| 3 | \$12,600 | \$320,000[\$640,000] | \$12,900 | \$322,000[\$644,000] |
| 4 | \$15,300 | \$373,000[\$746,000] | \$15,800 | \$375,000[\$750,000] |

| | | |
|--|-----------------|-----------------|
| No. of non-owner occupied households in the private sector eligible for PRH | 109 400(27.4%#) | 113 000(28.3%#) |
|--|-----------------|-----------------|

As a % of the total number of non-owner occupied households in the private sector.

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

- 7. Details of the calculation are at **Annex B**. Overall, the income and asset limits for 2009/10 would increase by an average of 3.3% and 0.6% respectively over those for 2008/09. If the proposed limits are adopted, some 113 000 non-owner occupied households in the private sector ^{Note[3]} (28.3% of the total number of non-owner occupied households in the private sector) would be eligible for PRH, up 3 600 from the current 109 400 households (27.4%).

FINANCIAL AND STAFFING IMPLICATIONS

8. The review itself does not have any financial and staffing implications. The proposed moderate adjustments to the WL income and asset limits according to the established mechanism should not have any major impact on the demand 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 moderate increase in the limits for 2009/10, despite that a recession in 2009 in the local economy seems increasingly inevitable, should be acceptable to the community at large.

10. A press release will be issued to announce the findings of this review after the meeting on 27 March 2009. The revised income and asset limits for 2009/10 will be published on the HA's website and the WL application forms.

DISCUSSION

- 11. Members will be invited to endorse the proposed WL income and asset limits for 2009/10 at **Annex C**. Subject to Members' endorsement, the new limits will be effective on 1 April 2009.

Note [3]: It should be stressed that this figure only gives a "snapshot" of the position as of 4Q 2008. 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, Home Ownership Scheme/Private Sector Participation Scheme (HOS/PSPS) owners or owner-occupied households in the private sector may also apply for PRH.

Miss Cindy CHAN
Secretary, Subsidised Housing Committee
Tel. No. : 2761 5033
Fax No. : 2761 0019

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(Strategy Division)
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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 WL 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). For households of 1-person and 2-person, the respective differential unit rent or the overall average unit rent, whichever is higher, is adopted in the calculation; for households of 3-person or above, the overall average unit rent is adopted. All those HOS flats which were transferred to PRH and those 3-bedroom flats allocated to 4-person households are excluded from the calculation.
 - (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 CPI(A) (excluding housing cost). The expenditure patterns and levels 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 the movements in CPI(A). The asset limits for elderly households are set at two times of 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 (WLILs) for 2009/10

**Annex B
(P.1 of 2)**

A. Housing expenditure :

- derived by multiplying the average reference flat size by the corresponding average unit rent
- the average reference flat size refers to the average space (in terms of Internal Floor Area (IFA)) of the flats allocated to the waiting list applicants from 2005/06 - 2007/08 ^(a)
- average unit rents of private flats (i.e. flat size of 69.9m² Saleable Area (SA) or below) of different household sizes are derived from the data of C&SD's Rent Survey 4Q 2008, and adjusted to unit rent per IFA

| Household size | Average unit Rent (\$/m ² IFA) ^(b) |
|-----------------|--|
| 1 | 168 |
| 2 | 157 |
| Overall Average | 155 |

B. Non-housing expenditure :

- based on the expenditure patterns and levels of tenant households in private housing in the lower half expenditure group from the 2004/05 Household Expenditure Survey ^(c) and adjusted by the rate of change of CPI(A) (excluding housing cost) between 4Q 2007 and 4Q 2008

| Household size | Average reference flat size ^(a) (m ² , IFA) | Housing expenditure (\$) | Non-housing expenditure (\$) | Total household expenditure (\$) | Plus 5% contingency provision (\$) | Proposed income limits (\$) | Existing income limits | | Change | |
|---|--|-----------------------------|---------------------------------|-------------------------------------|---------------------------------------|---------------------------------------|------------------------|-------|--------|-----|
| | | | | | | | (\$) | (\$) | (\$) | (%) |
| 1 | 15.3 | 2,570 | 4,438 | 7,008 | 7,358 | 7,400 | 7,300 | 100 | 1.4 | |
| 2 | 23.3 | 3,658 | 7,355 | 11,013 | 11,564 | 11,600 | 11,200 | 400 | 3.6 | |
| 3 | 29.9 | 4,635 | 7,653 | 12,288 | 12,902 | 12,900 | 12,600 | 300 | 2.4 | |
| 4 | 37.6 | 5,828 | 9,242 | 15,070 | 15,824 | 15,800 | 15,300 | 500 | 3.3 | |
| 5 | 41.3 | 6,402 | 11,166 | 17,568 | 18,446 | 18,400 | 17,900 | 500 | 2.8 | |
| 6 | 48.9 | 7,580 | 13,088 | 20,668 | 21,701 | 21,700 | 20,900 | 800 | 3.8 | |
| 7 | 51.5 | 7,983 | 14,269 | 22,252 | 23,365 | 23,400 | 22,500 | 900 | 4.0 | |
| 8 | 53.1 | 8,231 | 15,342 | 23,573 | 24,752 | 24,800 | 24,100 | 700 | 2.9 | |
| 9 | 63.9 | 9,905 | 16,324 | 26,229 | 27,540 | 27,500 | 26,200 | 1,300 | 5.0 | |
| 10+ | 65.2 | 10,106 | 17,232 | 27,338 | 28,705 | 28,700 | 27,700 | 1,000 | 3.6 | |
| Average | - | - | - | - | - | - | - | - | 3.3 | |
| Number of non-owner occupier households in private sector within WLILs ^(d) | | | | | | | | | | |
| 1p | | | | | | 37 200 | 36 900 | 300 | 0.8% | |
| 2p+ | | | | | | 75 800 | 72 500 | 3 300 | 4.6% | |
| Total | | | | | | 113 000 | 109 400 | 3 600 | 3.3% | |
| As a % of total number of non-owner occupier households in private sector in Hong Kong ^(e) | | | | | | 28.3% | 27.4% | | | |

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

(b) allocation of PRH is based on internal floor area (IFA). To calculate the housing cost needed for comparable private rental accommodation, we need to convert the average unit rent data (in terms of SA) from C&SD's Rent Survey into unit rent data in terms of IFA

(c) latest source of information available

(d) matching the proposed waiting list income limits with the household income distribution of the tenant households in the private sector from C&SD's General Household Survey, those households with household income equal or below the income limits would be regarded as being eligible for PRH

(e) according to C&SD's General Household Survey, the total number of tenant households (including those whose accommodation is provided by employers/relatives/friends) in the private sector is estimated to be around 399 800 in 4Q 2008

Proposed Waiting List Asset Limits (WLALs) for 2009/10

| Household Size | Existing WLALs (\$) | Proposed WLALs* (\$) |
|---------------------------|--------------------------------|---------------------------------|
| 1 | 181,000 | 182,000 |
| 2 | 245,000 | 246,000 |
| 3 | 320,000 | 322,000 |
| 4 | 373,000 | 375,000 |
| 5 | 416,000 | 418,000 |
| 6 | 449,000 | 452,000 |
| 7 | 479,000 | 482,000 |
| 8 | 502,000 | 505,000 |
| 9 | 555,000 | 558,000 |
| 10 | 597,000 | 601,000 |

* rounded to the nearest thousand

Proposed WL Income and Asset Limits for 2009/10

| Household Size | Existing WL Income Limits for 2008/09 | Existing WL Asset Limits for 2008/09* | Proposed WL Income Limits for 2009/10 | Proposed WL Asset Limits for 2009/10* |
|-----------------------|--|--|--|--|
| 1-Person | \$7,300 (\$7,684) | \$181,000 | \$7,400 (\$7,789) | \$182,000 |
| 2-Person | \$11,200 (\$11,789) | \$245,000 | \$11,600 (\$12,211) | \$246,000 |
| 3-Person | \$12,600 (\$13,263) | \$320,000 | \$12,900 (\$13,579) | \$322,000 |
| 4-Person | \$15,300 (\$16,105) | \$373,000 | \$15,800 (\$16,632) | \$375,000 |
| 5-Person | \$17,900 (\$18,842) | \$416,000 | \$18,400 (\$19,368) | \$418,000 |
| 6-Person | \$20,900 (\$22,000) | \$449,000 | \$21,700 (\$22,842) | \$452,000 |
| 7-Person | \$22,500 (\$23,684) | \$479,000 | \$23,400 (\$24,632) | \$482,000 |
| 8-Person | \$24,100 (\$25,368) | \$502,000 | \$24,800 (\$26,105) | \$505,000 |
| 9-Person | \$26,200 (\$27,579) | \$555,000 | \$27,500 (\$28,947) | \$558,000 |
| 10-Person and above | \$27,700 (\$29,158) | \$597,000 | \$28,700 (\$30,211) | \$601,000 |

* Asset limits for elderly households (including both nuclear and non-nuclear households comprising solely elderly members) are set at two times of the limits for non-elderly applicants.

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