

Legislative Council Panel on Housing

Disposal of Surplus Home Ownership Scheme Flats

Purpose

This paper sets out our preliminary proposals for disposal of the surplus Home Ownership Scheme (HOS) flats.

Background

2. The Government announced its repositioned housing policy in November 2002 to address the overlapping between the subsidized housing market and the private residential property market, and to redress the imbalance between demand and supply in the private residential property market. One of the measures was to cease production and sale of HOS flats indefinitely from 2003. Unsold and returned HOS flats would be sold to Green Form (GF) applicants while HOS flats completed or under construction would be disposed of through market-friendly means. It was further announced in 2003 that no unsold and returned HOS flats would be offered for sale as subsidized housing units before the end of 2006.

3. Since the announcement of the repositioned housing policy, some 5 020 flats in unsold HOS developments have been converted to public rental housing (PRH) units and another 4 300 sold to the Government for use as departmental quarters for the disciplined services. Unsold and returned flats in existing HOS/Private Sector Participation Scheme (PSPS) developments can only be sold under HOS/PSPS due to lease restrictions.

4. As at 30 November 2005, a total of 16 633 surplus HOS flats were held by the Housing Authority (HA), comprising 5 501 returned flats in HOS/PSPS developments¹, 6 082 unsold flats in partially sold HOS courts, 3 040 flats in three unsold HOS developments (Yau Mei Court Phase 3, Tung Tao Court and King Hin Court) and 2 010 flats in Kingsford Terrace (PSPS development).

¹ The number of returned flats will not increase further after October 2007 when the last batch of HOS courts sold under HOS Phase 24A passes its five-year alienation restriction period.

Proposed arrangements

5. In line with the repositioned housing policy, we have looked into the arrangements for disposal of the surplus HOS flats in an orderly manner from 2007 onwards and has come up with the preliminary proposals set out in the ensuing paragraphs. The proposed sale is in respect of surplus HOS flats only and the policy of indefinitely ceasing production and sale of HOS flats remains unchanged.

Unsold HOS developments

6. We have explored other options for disposing of the remaining unsold HOS developments but they were not found to be feasible. As sufficient lead time must be allowed to prepare for the sale programme, we will propose to HA that the 3 040 flats in the three unsold developments in Yau Mei Court Phase 3, Tung Tao Court and King Hin Court should no longer be open to consideration for alternative uses and should be put up for sale as subsidized flats from 2007 onwards together with the unsold and returned HOS/PSPS flats and Kingsford Terrace.

Guiding principles

7. The following guiding principles will be put forward to HA for the sale of the surplus flats –

- (a) to launch all the surplus flats for sale as soon as possible from 2007, hence resolving the legacy issue once and for all;
- (b) to safeguard the interests of HA; and
- (c) to minimize the impact on the private residential market as far as practicable.

The sale, therefore, will not necessarily follow the same arrangements as in previous HOS sales.

Sale programme

8. We propose that the surplus flats be put up for sale from 2007 in two phases per year and around 2 000 to 3 000 flats per phase. It is expected that all the surplus flats would be launched for sale within three to four years. We will keep in view any drastic changes in circumstances that may warrant adjustment to the sale programme.

9. The impact of our proposed sale on the private residential market should be minimal as –

- (a) the majority of the surplus HOS flats are proposed to be sold to GF applicants, who are sitting PRH tenants or have established eligibility for allocation of PRH flats, and therefore should have little incentive to buy flats in the private market;
- (b) there are no major clashes with the estimated supply of private residential flats in the districts where the surplus HOS flats are situated; and
- (c) we aim at announcing the sale programme in early 2006. This will give market players ample time to plan ahead, and developers will have a long time frame to work with in adjusting their sale programme to avoid direct competition, if any, with the sale of HOS flats.

10. A preliminary sale programme of major HOS courts is at Annex A, with the following factors taken into consideration -

- (a) whether there are retail facilities within the HOS courts that can benefit from an early intake of residents;
- (b) whether Government rents/ management fees are being paid by HA for the HOS courts; and
- (c) the time needed to fix up the courts where defects have been found.

Target group

11. We propose that the surplus flats be offered for sale to both GF² and White Form (WF)³ applicants with a split ratio of 4:1; and a more flexible GF/WF split be allowed during the sales exercise, having regard to the take-up situation. The split will cater for the need to increase the mobility of PRH tenants as well as provide an opportunity for potential WF applicants (who are not eligible for PRH but cannot afford buying flats in private market) to purchase units to meet their housing needs.

² Sitting PRH tenants and those with established eligibility for allocation of PRH flats, subject to detailed eligibility criteria, are eligible for applying on GF status

³ Those satisfying certain eligibility criteria, including income and asset limits and property ownership restriction, are eligible for applying on WF status.

12. For flat selection, we propose that eligible one-person households be placed after family households with a view to directing resources to those most in need. Priority in the GF queue should be given only to those affected by HA-initiated clearance programmes to simplify the system.

Income and asset limits for WF applicants

13. We propose that the income and asset limits for WF applicants be set according to the established methodology as set out in **Annex B**, and that the limits be reviewed annually bearing in mind the small quantity of surplus stock and that only 20% of the units are proposed to be offered to WF applicants. For the surplus flats to be rolled out for sale in 2007, the income and asset limits for WF applicants will be set using the statistics from the third quarter of 2006.

Pricing

14. In setting the price for the surplus flats, we propose that the previous guiding principles (i.e. a mortgage-to-income ratio of not more than 40%, and that 50% of the flats being affordable to the target group) and the general guideline of offering a discount of 30% of market value be followed.

Buyback arrangement

15. Under the Schedule to the Housing Ordinance (Cap. 283), HOS flats are subject to five-year alienation restriction where an owner should first offer his HOS flat to HA for buyback. Should HA decline the offer, the owner could sell the flat in the open market subject to payment of premium.

16. We propose that it should be made very clear prior to sales that HA will decline all buyback offers⁴ for the surplus HOS flats sold after the end of 2006 so that there is no need to dispose of returned flats again, hence putting an end to the legacy issue after completing the sale of surplus HOS flats. This will also obviate the need for HA to shoulder the financial burden in buying back and holding the flats. Without the

⁴ An owner who wishes to sell his subsidized flat in the open market within the five-year alienation restriction period will still need to offer the flat to HA for buyback under the Schedule to the Housing Ordinance, but we propose that HA will decline all such buyback offers.

buyback arrangement, HOS flat owners still have the options to sell their flats in the open market immediately after paying premium or in the HOS secondary market from the third year from first assignment without paying premium. Those who have sold their HOS flats but subsequently face financial difficulties may apply for PRH either on financial grounds (such as bankruptcy, on Comprehensive Social Security Assistance etc.) or through compassionate rehousing (on medical or social grounds).

Mortgage guarantee

17. Taking into account the low mortgage default rate over the years, and given that banks may be less ready to lend should HA decline all offers to buy back the surplus flats, we propose that mortgage guarantee in respect of loans granted by banks and other authorised financial institutions for the purchase of HOS flats be continued to be provided so that purchasers could borrow up to 95% (for GF applicants) or 90% (for WF applicants) of the purchase price of a surplus flat.

Mortgage subsidy

18. Mortgage Subsidy Scheme was one of the initiatives to promote home ownership where tenants affected by the Comprehensive Redevelopment Programme (CRP) and Buy or Rent Option Scheme target groups buying HOS flats were granted monthly mortgage subsidy, totalling \$162,000 over a period of six years to finance their mortgage repayment.

19. Since promoting home ownership is no longer one of HA's objectives, we propose not to offer mortgage subsidy to purchasers of the surplus flats. Appropriate rehousing arrangements will be made for tenants affected by CRP and it is difficult to justify why this group should enjoy mortgage subsidy in addition to subsidies given to purchasers of HOS flats in the form of discounted purchase prices.

Pre-sale maintenance programme

20. Defect rectification and maintenance programme will be carried out at the surplus flats to bring them to a reasonable standard before sale.

Defects liability period

21. We propose that a defects liability period (DLP) of one year from the date of assignment of individual flats be offered for unsold flats and that no DLP be offered for returned flats as purchasers are allowed to view returned flats during the flat selection process and the returned flats are sold on an “as is” basis in accordance with previous practice.

Structural safety guarantee

22. We propose that the structural safety guarantee (SSG) of 10 years (20 years for projects in Tin Shui Wai) from the completion date of the development be maintained for the surplus HOS/PSPS developments. The duration of SSG is project-specific rather than ownership-specific as it is intended to put the mind of purchasers at ease about the structural integrity of each building as a self-standing entity. Some HA members expressed the concern that since the unsold HOS/PSPS units were completed some years ago, the SSG, if counted from the completion date of the development, will last less than 10 years and some purchasers might consider that the protection afforded to them is limited in practical terms. Taking into account such concerns, for unsold blocks/developments, we will consider proposing to HA to offer SSG of 10 years (20 years for projects in Tin Shui Wai) from the first sale of the unsold blocks.

Way Forward

23. We will finalize the sale arrangements for approval by the relevant committee of HA. To enhance transparency and facilitate the public and market players to plan ahead, we aim to announce the approved sale arrangements in early 2006.

Housing, Planning and Lands Bureau

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Annex A**Preliminary Sale Programme of
Major Home Ownership Scheme Courts**

	2007	2008	2009 onwards
Hong Kong East		Tung Tao Court (1 216)	
Kowloon East	Kingsford Terrace (2 010)	King Hin Court (344) Lei On Court (1 213)	Yau Mei Court Phase 3 (1 480)
Shatin/ Ma On Shan	Ka Keng Court (275) Yu Chui Court (1 489)	Kam Fung Court (1 892)	
Tin Shui Wai	Tin Fu Court (367)		Tin Chung Court (640)

**Established Methodology for setting
Income and Asset Limits for White Form Applicants**

- Income limit is derived from a “household expenditure” approach. It includes the monthly expenditure (mortgage payment to cover 70% of the flat price, Government rent, rates and management fees) for owning a reference flat (i.e. a 10-year-old private flats of 40m² saleable area in the extended urban and N.T. areas), non-housing costs and 5% contingency.

- Asset limit is set at a level for a household to finance a 30% downpayment, related transaction costs and decoration expenses for acquiring the reference flat.