

**A Statement on Housing Policy by Hon. Michael M Y SUEN, GBS, JP
Secretary for Housing, Planning and Lands**

Madam President,

This is the first time I set out to this Council the direction, philosophy and principles that underpin the SAR Government's housing policy since I assumed office in July. I hope my statement today will help rationalize the various housing targets, strategies and measures, and clarify what Government's role should be. The objective is to let all stakeholders and the general public have a clear-eyed view on the general direction of our housing policy.

**CLOSE LINK BETWEEN THE PROPERTY SECTOR AND
ECONOMY**

2. The property sector, closely interwoven with every single aspect of our daily life, has been a major pillar of our economy. Together with the construction industry, it accounted for an average of 14% of the Gross Domestic Product over the past five years. To many people, buying properties has been a principal channel to garner in their wealth.

3. While we have to face up to the challenges thrown up by economic transformation and high unemployment in recent years, the fundamentals of our economy remain solid. The Gross Domestic Product is still growing for this year. That said, the unabated deflation, lackluster domestic consumption, along with other external uncertainties and the current state of over-supply of flats have posed immense pressure on the property market.

4. Against the peak in 1997, property prices have tumbled by over 60%. The volume of transactions also shows a marked decline. The plunging net asset values in the private residential market has inhibited economic recovery. Over the past few years, the properties kept by many owners have turned into negative equity. The Chief Executive is deeply concerned about the situation. To pump-prime the deflation-battered economy, he asked the Housing, Planning and Lands Bureau to undertake a root and branch review of the SAR Government's housing policy with a view to restoring the public's confidence in the property market.

RE-POSITIONING OF OUR HOUSING POLICY

5. In the past few months, my colleagues and I conducted a comprehensive review of all our housing, planning and lands policies, including the housing targets that Government has hitherto been pursuing. We also consulted widely the stakeholders, academics, political parties, the Housing Authority, the Housing Society, representatives from various

housing concern groups and resident groups. I thank them all for their views which are as valuable as they are inspirational.

6. We recognize that delivering the overarching objective of providing subsidized rental housing for families in need must continue to sit at the very heart of Government's housing strategy, just as we recognize that Government should withdraw from its role as property developer by halting the production and sale of subsidized flats and reduce radically its share in the overall housing production. Government should also set in train highly focused measures to redress the current serious imbalance between supply and demand, and to restore the confidence of the public and investors in the property market.

PROVISION OF ASSISTED RENTAL HOUSING

7. Beyond all doubt, it is our society's consensus and common sense of purpose to provide affordable rental housing to low-income families. Thanks to continuous investment by Government over the past five years, we have come a long way in reducing the number of families on the Waiting List from 150 000 in 1997 to around 90 000 as at present. The average waiting time for Public Rental Housing (PRH) now is just less than three years, down from over six years in 1997. I wish to reassure you at this point that Government will continue to provide subsidized rental accommodation to low-income families which are unable to afford private rental housing, and will endeavour to keep the average time for waiting PRH at three years.

HOME OWNERSHIP RATE

8. It has been Government's objective to promote a higher home ownership rate. Since 1997, some 260 000 families have become home owners through Government assistance. The home ownership rate has increased from 50% in 1997 to 56% as of today. Indeed, it is as high as 75% in the private sector and stands at 36% in the public sector. The home ownership rate of Hong Kong compares favourably with that of other advanced countries and regions.

9. Both the economy and the property market have gone through great changes over the past five years. We realize that in the current circumstances home ownership should be a matter of personal choice and affordability. It is therefore unnecessary for Government to continue to hang on to the long term target of achieving the 70% home ownership rate by end 2007.

PROVISION OF ASSISTED HOUSING OPPORTUNITIES

10. Based on the forecast of the long-term housing needs, Government pledged to provide 50 000 assisted housing opportunities annually. About half of these were in the form of new PRH flats and rental allowance, while the rest were made up of subsidized home ownership flats or loans.

11. In future, public housing programmes will be geared towards meeting the housing needs of low-income families. The annual production of PRH units will be predicated by actual demand and the need to keep the average waiting time at three years. As regards the quota for the Home Assistance Loan Scheme, it should also be adjusted constantly according to the actual demand and the Housing Authority's resources. In other words, the number of assisted housing opportunities provided by Government could vary, either upwards or downwards, according to the actual demand. As long as we could achieve the above pledge, it is superfluous to pre-determine a numerical target for provision of assisted housing opportunities.

GENERAL DIRECTIONS

12. In a nutshell, we have to centre our work around the following three major areas -

- (a) the thrust of Government's subsidized housing policy should be to assist low-income families which cannot afford private rental housing;

- (b) Government's future role should principally focus on land supply and provision of rental assistance. It should also withdraw as far as possible from other housing assistance programmes to minimize intervention in the market; and
- (c) Government must maintain a fair and stable operating environment to enable a sustained and healthy development of the private property market. Government should ensure an adequate supply of land together with the necessary supporting infrastructure to meet market demand. As regards the quantum of private housing production, this should be a matter for the market to decide.

SPECIFIC MEASURES

13. Upon clarification of the positioning and direction of our housing policies, we have taken a critical and comprehensive look at the current situation and what should be done in future. To root out the problems, we have decided to introduce the following nine measures covering land supply, public housing development programme and the mode of housing subsidies.

(A) Land Supply

14. First, land supply. Apart from ensuring an adequate supply of land to meet market demand, we believe Government should also adjust its land supply strategy flexibly when the market loses its equilibrium and is afflicted with a massive over-supply. At present, the number of completed and uncompleted private residential flats available for sale amounts to some 20 000 and 30 000 respectively. However, statistics for the past few months showed that demand remained sluggish, with a marked slow-down in the take-up rate. To rectify the current serious supply and demand imbalance, Government has decided to stop all scheduled land auctions and call off the two remaining land auctions in this financial year. In addition, the Application List will be suspended until end 2003. Thereafter, the supply of new land will only be triggered from the Application list.

15. We are weary that the above measures will be interpreted by some as being interventionist. However, given the current exceptional dire state of the property market, we believe there is an impending need for Government to bring forward extraordinary measures in the coming year. Our aim is to restore public confidence in the property market as speedily and effectively as possible.

(B) Railway Land

16. As regards the residential developments of the two railway corporations, there have been criticisms that the two corporations should not participate in the property market and compete with private developers as mass transport providers. Some critics also believe that because of their sheer scale, railway property developments would have an impact on the property market.

17. It should be noted that Government has already granted to the concerned railway corporation the development rights of those railway related properties that are under construction. However, to ensure a sustained and healthy development of the property market, we will step up our liaison with the two railway corporations to better coordinate the pace and timing of tendering the concerned railway-related property developments. Government will render assistance through appropriate measures to enable an orderly disposal of the properties according to actual demand. Government and the two railway corporations have already forged a consensus whereby no railway property developments will be put up for tender in the coming year.

(C) PRH Construction Programme

18. To maintain the average waiting time for PRH at three years, it is estimated that over 20 000 PRH units will have to be built annually in the next few years. However, the actual quantum of production will depend on the housing demand of low-income families, turnover of PRH tenants and the general acceptability of the proposed rental allowance scheme. To deliver Government's housing pledge for those in genuine need, we will watch the development of the relevant factors closely in order to put together a rolling PRH production programme that will be adjusted annually.

(D) Home Ownership Scheme

19. The major downward price adjustments in the private residential flats in recent years have brought about an overlap between HOS and private residential market. The Housing Authority has already set in motion a series of measures over the years to adjust its HOS programme in response to these changes in market conditions. These included a major cutback in HOS flat production, conversion of excess HOS flats into PRH and implementation of a moratorium on the sale of HOS flats in 2000 and 2001.

20. The overlap between HOS and private residential market is getting more serious amidst a gross imbalance between supply and demand and vicious price competition in the private residential market. The advantages and value of the HOS are gradually diminishing, so are its role and attractiveness. The subscription rate of HOS has also hit a record low. We therefore believe that Government should withdraw as speedily as possible from the property market in order to redress the balance in the market. Government will therefore recommend to the Housing Authority that, except for a small number of unsold and returned flats which will be sold to Green Form applicants, the production and sale of HOS flats will cease indefinitely from 2003 onwards. For those HOS flats that are completed or under construction, these will be disposed of through market-friendly means.

(E) Home Assistance Loan Scheme

21. Following the cessation of the construction and sale of HOS flats, the Housing Authority will continue to offer loans to help eligible families to buy their own homes through the new Home Assistance Loan Scheme. Apart from helping sitting PRH tenants improve their living conditions, the Scheme would maintain the mobility of PRH tenants and enable re-allocation of PRH flats so vacated to other needy families. Compared with the "bricks and mortar" approach, housing loans are more flexible. The Housing Authority can adjust the annual loan quota according to the actual demand, thereby avoiding any inability to allocate

resources flexibly in response to any possible challenges posed by mismatch between demand and supply.

22. We do recognize that the provision of home ownership loans is to a certain measure a form of market intervention. Nonetheless, we believe it remains beneficial to maintain the loan scheme for the time being, but would re-visit the issue in due course.

(F) Mixed Development Schemes

23. We have also reviewed the mixed development projects undertaken by the Housing Society and the Housing Authority in collaboration with private developers. We have come to the view that if we are to realize the greatest economic gains of the developments for the society as a whole, we have to accord sole development rights to the private developers. Hence, we will stop all the mixed development projects, including the Flat for Sale Scheme operated by the Housing Society. We will also recommend to the Housing Authority to terminate the Private Sector Participation Scheme. Government will examine jointly with the Housing Authority and the Housing Society the feasibility of converting the completed flats as well as those being constructed under these schemes to other uses.

(G) Tenants Purchase Scheme

24. In the five years since the launching of the Tenants Purchase Scheme (TPS), some 134 000 PRH units have been offered for sale. The scheme opens up a window of opportunity for PRH tenants, who would otherwise not be able to afford private housing, to become home owners. It also helps reduce the Housing Authority's operating costs. The irony of TPS, however, is that as Government keeps on rolling out the existing PRH stock for sale to sitting tenants, it has to continue to embark on a major PRH production programme to replenish its housing stock. Continuation with the TPS clearly flies in the face of the principle of rational utilization of public resources. Moreover, any massive disposal of low-priced TPS flats would have knock-on impact on the property market, particularly the second-hand market.

25. All in all, in order to maintain an adequate number of PRH flats to meet the demand from eligible families in the long run, Government will recommend to the HA that except for the flats that were already sold and Phase 6, which was announced to be implemented next year, the sale of PRH units under TPS should be halted. This is also in line with the general policy direction of withdrawing gradually Government's involvement in the property market. PRH tenants who wish to become home owners may make use of the Housing Authority's loan programme to buy flats in the private market, or to purchase HOS flats in the secondary market for which no payment of land premium is required.

(H) Tenancy Control

26. In the private rental market, the current ample supply has helped raise tenants' bargaining power. On the other hand, for those owners who wish to resume their flats for re-letting, they have to go through an extremely complicated process. Many of the provisions for protection of security of tenure under the Landlord and Tenant (Consolidation) Ordinance, which was enacted more than 20 years ago, are now outdated. We will undertake a thorough review of the Ordinance with a view to resuming the free operation of the private rental market, giving owners the flexibility and autonomy they deserve, and mitigating the difficulties in recovering flats for re-letting. Our objective is to relax all excessive protection of security of tenure and reduce intervention in private tenancies. Apart from revitalizing the rental market to make it more alluring to investors, the proposed relaxation of tenancy control will give us an additional leverage to promote the implementation of the rental allowance scheme by making available more choices of private rental flats. I hope to put the Landlord and Tenant (Consolidation)(Amendment) Bill to LegCo for scrutiny next year.

(I) Anti-speculation Measures

27. Since early 1990's, in response to the rampant speculative activities in the property market on a wave of soaring prices, Government introduced a set of anti-speculative measures to safeguard the interests of home buyers. Following adjustments in the property market in recent years, most of these measures have either been relaxed or withdrawn. Nevertheless, we have taken the opportunity to review the remaining measures. Apart from those consumer protection provisions, we recommend that the following two remaining anti-speculation measures be removed -

- (a) restriction on internal sale - after years of development of the property market, the restriction on internal sale of flats is no longer serving the original purpose. As flats reserved for internal sale by developers could also be sold to external buyers, the restriction no longer fits the circumstances of the day; and
- (b) the restriction that each purchaser can only buy one residential unit together with no more than two parking spaces.

CONCLUSION

28. As we proceed to take forward the proposed new housing policies to mesh with other wider changes that are now taking place, it remains our firm belief that the overarching objective of our public housing policies should be to satisfy the society's basic housing needs.

Home ownership should be a matter for the market with which Government should refrain from competing. A clear, comprehensive and coherent housing strategy is instrumental in restoring public's confidence in the property market. Only in doing so can we enable the property market to operate smoothly and prosper, and add further momentum to Hong Kong's economic development.

29. Allow me to stress here that we do not expect that the above measures could root out all the problems immediately. We are, however, determined to take practical steps, and I wish to join up with you and call upon your support to tackle the greatest issues that face us in these testing times.

30. Thank you.