

## **Legislative Council Panel on Housing**

### **Disposal of Surplus Home Ownership Scheme Flats and Kingsford Terrace Private Sector Participation Scheme Flats**

#### **Purpose**

This paper updates Members on the disposal of surplus Home Ownership Scheme (HOS) flats and Kingsford Terrace Private Sector Participation Scheme (PSPS) flats.

#### **Background**

2. At the Panel meeting on 7 June 2004, vide paper CB(1)2028/03-04(03), we briefed Members on progress in the disposal of 10 264 surplus flats in unsold HOS developments. Members were informed of the Housing Authority's decision to put the surplus flats into three different uses, i.e. sale of 4 304 flats to the Government for use as departmental quarters for the disciplined services, conversion of 2 920 flats to public rental housing, and setting aside the remaining 3 040 flats for consideration of the feasibility of guesthouse use. The following paragraphs report the latest progress. The disposal of Kingsford Terrace PSPS flats is dealt with in paragraphs 6 – 10.

#### **Progress to date**

##### ***(a) Sale to Government for use as departmental quarters***

3. With the Panel's support on 7 June 2004 of our proposal to convert 4 304 surplus HOS flats for reprovisioning existing departmental quarters for the disciplined services, the Administration sought the approval from the Legislative Council Finance Committee for provision of \$2,750 million for the Government to purchase these flats from the Housing Authority and another \$255 million to meet the costs of associated fitting-out works and ancillary provisions. The Finance Committee approved the proposal on 21 July and the Administration has

since been working out the necessary legal and hand-over arrangements. Inspection of the flats is now in progress. The disciplined services concerned have also drawn up the allocation arrangement for new departmental quarters in consultation with staff side. The flats will be handed over to the Government for fitting-out in December 2004.

***(b) Conversion to public rental housing***

4. With the Housing Authority's approval in May 2004, 2 920 HOS flats, comprising 1 800 flats in Ko Cheung Court, 400 in Yau Mei Court and 720 in Lam Tin Phase 6, have been converted to public rental housing. Following minor refurbishment and procurement of estate management services, allocation of flats in Ko Cheung started in August 2004. At present 79% of the flats have been let to both households on the Waiting List for public rental housing and sitting tenants through transfer and overcrowding relief exercises. For Yau Mei and Lam Tin Phase 6, allocation started in October. So far 67% of the flats have been let in these developments.

***(c) Conversion to guesthouses***

5. 3 040 flats had been set aside for further consideration of the feasibility of guesthouse use. The Housing Authority has since examined in greater detail the proposal from a Mainland-based developer on using the surplus HOS flats as time-sharing holiday homes. The developer's proposal entails selling the flats by open tender without changing the existing land use (i.e. retaining the residential use) and including special tender conditions to restrict the flats to time-share use only, which in their view is identical to ordinary residential use in nature. We consider that the proposal of selling the flats under the existing land use is tantamount to selling the flats as private flats in the open market, which is inconsistent with the Government's housing policy to withdraw its participation in the private housing market. Furthermore, the proposal to confine the flats to time-share use is not in the best interest of the Housing Authority as it could not fully reflect the realisable land values of the sites. As there is no foreseeable prospect of reaching agreement with the developer, the Housing Authority decided not to further consider the option of converting the surplus HOS flats into visitor accommodation.

## **Kingsford Terrace**

6. At the Panel meeting on 8 March 2004, we consulted Members on various options to dispose of Kingsford Terrace, which is the last PSPS project. The disposal of Kingsford Terrace was constrained by similar policy and legal considerations as in Hunghom Peninsula, since the developer held both the legal title to the land lot and the development. The Government had therefore adopted the same approach in dealing with Kingsford Terrace, i.e. allowing the developer to dispose of the property in the open market subject to the payment of a lease modification premium to be agreed through negotiation. However, as the Government and the developer could not reach agreement on the modification premium, in August 2004 the Housing Authority purchased the 2 010 residential flats at the guaranteed price of \$1.441 billion in accordance with the terms of the Conditions of Sale.

7. We had also negotiated with the developer to purchase the non-domestic portion of Kingsford Terrace with a view to obtaining complete title to the development for greater flexibility in its disposal. Nonetheless, both sides could not agree on the purchase price and the negotiation broke down. The lot is now jointly owned by the Housing Authority and the developer.

8. In considering options to deal with the residential flats of Kingsford Terrace, our main concerns are to maintain the consistency and integrity of the Government's housing policy and minimise any adverse impact on the property market. On this basis, the Housing Authority has examined the feasibility of sale to Government for use as staff quarters and converting the PSPS flats to public rental housing. With the recent purchase of 4 304 surplus HOS flats in July 2004, the Government has no imminent need for additional flats for staff quarters use. On the other hand, given the prime location and better standard of provision of Kingsford Terrace, using the 2 010 flats (60% of which are three-bedroom flats) as public rental housing is not the best use of resources in view of the predominance of small households on the Waiting List. Hence, these two options were not taken further.

9. The Housing Authority has also carefully considered the option of selling the flats to the Government for resale in the open market through tender or auction. However, given that there is still a considerable number of unsold flats in the private property market at the moment, selling the flats in Kingsford Terrace as private flats in the open market by the Government or the Housing Authority could be interpreted by some quarters as being untimely and could pose a negative impact on the present recovery of the market to its balanced state in absorbing the surplus flats at a healthy rate. Furthermore, the sale of these flats in the open market by the Government or the Housing Authority alike will probably pass a wrong message confusing the stated policy of not intervening or participating direct in the property market, which the Government has repeatedly emphasised. Moreover, without prior modification of the lease, open sale of these PSPS flats, which was not envisaged in the Conditions of Sale, might be vulnerable to legal challenge.

10. In view of the considerations outlined above, the Housing Authority decided on 18 November 2004 that these flats should be sold under HOS in 2007 and that details of the sales programme and the eligibility criteria of prospective buyers will be determined in the latter part of 2006 having regard to prevailing market circumstances. This disposal arrangement is pragmatic and consistent with the Government's re-positioned housing policy to withdraw fully from the property market. The sale of Kingsford Terrace PSPS flats under HOS is in line with the Housing Authority's past practice of purchasing "unsold" PSPS flats from the developer under the guaranteed purchase requirement and then offering them for sale in subsequent HOS sale exercises.

### **Way Forward**

11. The Housing Authority is considering possible disposal arrangements for the remaining 3 040 surplus HOS flats in Yau Mei Court (1 480 flats), King Hin Court (344 flats) and Tung Tao Court (1 216 flats). We will continue to take follow-up actions in relation to the handover of flats to the Government for use as departmental quarters and the sale of Kingsford Terrace flats as HOS in 2007.