

Legislative Council Panel on Housing

Relaunching of Home Ownership Scheme and Revitalisation of the HOS Secondary Market

Purpose

This paper briefs Members on the study areas on revitalisation of the Home Ownership Scheme (HOS) Secondary Market and the Government's position on proposals to relaunch the HOS.

Background

2. In 2002, the Government repositioned its subsidised housing policy. The objectives of the repositioned housing policy are to provide public rental housing to low-income families who cannot afford private rental housing, withdraw from playing the role of a property developer, cease the production and sale of subsidised flats, and minimise intervention in the market.

3. Since 2007, the Housing Authority (HA) has put up some 16 000 surplus HOS flats for sale by phases, and conducted the sale of surplus HOS flats in five phases in 2007, 2008 and 2009. Up to the end of March 2010, the HA sold a total of 12 600 flats.

4. On its policy to cease the HOS production, the Government stated its position at the meetings of the Legislative Council Panel on Housing on 22 October 2007, 7 January 2008, 7 July 2008 and 2 February 2009, and at the meeting of the Legislative Council on 5 December 2007.

Relaunching of HOS

5. Recently, there has been considerable public debate about issues of principle regarding the resumption of HOS flat production and the revitalisation of the HOS Secondary Market. Such issues require in-depth considerations, such as the difference between home ownership and housing need, and whether the Government should subsidise the public to invest in residential properties, etc. Some have pointed out that, as shown in the past trends of the property market, HOS flats cannot help curb the prevailing property prices. The problem must be tackled at source by increasing the supply and only then can we ensure a healthy and stable development of the property market. In this

connection, this year's Budget has proposed four measures, including providing more land and increasing the supply of small to medium domestic flats, enhancing market transparency, curbing speculative activities and preventing excessive borrowing.

6. In formulating major public policies, the Government must adopt measures to cater for the overall interests of the community, and examine whether the new measures will be beneficial to the long-term development of the property market. The Government's current housing policy aims at providing subsidised public rental housing for those low-income families who cannot afford private rental accommodation. The Government should focus resources on the provision of subsidised public rental housing and minimise intervention in the market. In repositioning our housing policy in 2002, the Government indicated that it was unnecessary for the Government to continue to hang on to the long-term target of achieving the 70% home ownership rate, and that home ownership should be a matter of personal choice and affordability. This however does not mean that the Government disregards the home ownership needs of the public. The Government's role is to target the supply end, so that the residential property market could develop in a steady and healthy manner. At the same time, the Housing Department (HD) is actively exploring measures to revitalise the HOS Secondary Market so as to increase the overall supply of flats through various means to tackle the home ownership problem faced by the public.

7. Regarding the resumption of HOS flat production, the Government has made it clear that the cessation of the HOS programme was a significant decision and it will not re-enter the market hastily.

8. In view of the recent surge in the prices of private properties which may lead to the risk of a property bubble, the Government will do its utmost to ensure the steady development of the property market by increasing the supply of flats. In this regard, the HA decided on 26 March 2010 that all of the 4 000 or so surplus HOS flats will be put up for sale in one go from June 2010 the earliest. In addition, the Hong Kong Housing Society (HS) has put up for sale the remaining 800 Sandwich Class Housing Scheme (SCHS) units. It is believed that as a whole, there will be a significant increase in the supply of small- and medium-sized flats over the next few months.

9. The Government is planning to sell by open tender an HA's ex-public rental housing site of about 1.2 hectares near West Rail Long Ping Station in Yuen Long for private residential purpose to increase the supply of small- and medium-sized flats by specifying in the land lease conditions requirements in terms of the minimum numbers of flats as well as the minimum

and maximum size of flats. We will keep a close watch over the situation of the property market. We believe that tackling the problem at the root by providing a steady supply of land is the right approach for the long-term development of the property market.

10. There are diverse views in society on whether the Government should review its existing policy and re-launch the HOS. Any subsidised scheme for home ownership inevitably affects every stratum of society and the whole economy. Resources will also be set aside, affecting the HA's capability to implement its public rental housing schemes. We therefore have to be extremely careful in considering the matter.

Revitalisation of the HOS Secondary Market

11. At present, there are more than 300 000 HOS flats, and over 60 000 of them are tradable in the open market. The remaining over 250 000 flats, the premium of which has not yet been paid, are also tradable in the Secondary Market. Since 70% of these second-hand HOS flats are located in the urban and extended urban areas, they should be able to attract prospective buyers. The recent transaction price of the majority of such flats is around \$2.0M. Facilitating the turnover of these flats can increase the supply of the small-sized flats.

12. The HD, under the framework of "two markets and three levels"¹, is considering the objectives of the HOS Secondary Market and the proposals' effectiveness and implications on the HA. Three areas are being actively explored:

- (1) whether measures can be taken to make it easier and facilitate flexibility in the financing arrangements by existing HOS owners who wish to pay the premium to the HA, to enable more flats to be made available in the market. The proposal will be formulated in accordance with the existing requirements of premium payment and alienation restrictions, and be based on the premise not to expose the HA to financial risks. We are proceeding in the direction of a market-based solution;

¹ The two markets are the HOS market and the private property market, and the three levels denote that HOS flat owners purchase private properties after selling their HOS flats, and public rental housing tenants can purchase the HOS flats, and subsequently the public rental housing flats thus vacated can be allocated to those in need.

- (2) whether procedures involved in HOS transactions and premium payment can be streamlined to step up efficiency and enhance the turnover of HOS flats, so that the supply and demand of HOS flats can be more effectively matched; and
- (3) whether more relaxed arrangements can be made for potential buyers regarding the HA's mortgage default guarantee. At present, the HA is providing mortgage default guarantee to financial institutions for up to 25 years counting from the first date of the assignment of individual flats. The effectiveness of and the financial implications to the HA should be taken into account if any change is to be introduced.

13. Since the proposals will involve a considerable amount of public resources, we will carefully consider whether they can really help those who can afford and are in genuine need of purchasing their own homes in the long run; whether the supply and demand in the HOS market can be effectively matched; and the HA's financial liabilities and risks. We believe that, through revitalising the HOS Secondary Market, the property market can in turn be revitalised. The HD is actively collecting relevant information on the proposals which will be submitted to the HA for discussion in mid-May.

Conclusion

14. The Government will continue to closely monitor the property market situation and the supply of private residential properties, and introduce measures to enhance the property market's stability and transparency; and, through revitalising the HOS Secondary Market and putting up the surplus HOS flats and SCHS flats for sale, increase the supply of small- and medium-sized flats and their turnover. Measures taken by the Government will have regard to the overall and long-term interests of Hong Kong.