

Legislative Council Panel on Housing

Public Consultation on Subsidising Home Ownership

Purpose

This paper introduces the public consultation on subsidising home ownership and invites members' views on the subject matter.

Background

2. The Government's policy regarding the residential property market is to respond to market demand through the supply of land, with the Application List System as the main axle supplemented by flexible improvement measures and land auctions from time to time so as to increase the land supply. The Government's role is to ensure a regular supply of land so that the residential property market develops in a steady and healthy manner.

3. The Government has recognised that the subject of using public resources to subsidise home ownership is being debated in the community. Fundamental issues have been raised which require in-depth consideration, such as the difference between home ownership and housing needs; whether the Government should subsidise the public to invest in/purchase residential properties; whether subsidised home ownership is sustainable in the long run or can merely address short term situations; and whether the use of public resources to subsidise home ownership is acceptable having regard to the issue of fairness among different groups in the community.

Public Consultation on Subsidising Home Ownership

Objective of Consultation

4. On this important subject, the Government will listen to the views of interested parties and members of the public to try to identify a consensus on a way forward. An extensive consultation exercise, lasting up to 17 September 2010, is being undertaken by the Transport and Housing Bureau (THB) to engage stakeholders and members of the public through various channels to look at issues relevant to this subject.

Consultation Framework

5. THB has prepared a consultation framework to give focus to the ongoing debate and facilitate discussions. The consultation framework is attached at **Annex**.

Consultation Channels

6. To ensure extensive participation, THB will engage the public and stakeholders through a variety of channels, including consultation sessions, focus group meetings, and an E-engagement platform. Members of the public are also invited to send in their views/suggestions through designated channels by email, fax or mail. The consultation framework has been uploaded on a dedicated webpage on the THB website. Members of the public are welcome to browse the webpage for details of the consultation framework and related information.

7. For consultation sessions, THB has already organised a brainstorming session with the Hong Kong Housing Authority on 1 June 2010. Following the first District Forum held on 25 June 2010, THB is now organizing the second District Forum for the District Council members of the 18 Districts to be held in July. Arrangements are in place to have two dedicated forums for the general public in July and one dedicated forum for interest groups in August. THB is in the process of setting up special sessions with the Hong Kong Housing Society and other related statutory bodies including the Urban Renewal Authority and the MTR Corporation Limited. There will also be small group sessions with academics, think-tanks, professional bodies and real estate industry related organisations.

8. In addition, a series of focus group meetings will be conducted to solicit views from a mix of respondents from different housing situations and of various age groups. These target respondents can be broadly categorised into groups with different housing status (home owners vis-à-vis people living in rented residence) and different housing types (those living in private housing vis-à-vis those living in subsidised housing). This series of focus group meeting will be conducted from July to early September 2010.

9. As regards the E-engagement platform, the public can express their views either on THB's e-forum or a dedicated Facebook page. THB is keeping track of the discussions on the key questions raised on both of these platforms.

10. At the end of the consultation exercise, THB will compile and publish a compendium recording the views collected via the various consultation channels. The Government will take into account all the views received in mapping out the way forward.

Advice Sought

11. Members are invited to comment on the issues highlighted in the consultation framework.

**Transport and Housing Bureau
June 2010**

**PUBLIC CONSULTATION
ON
SUBSIDISING HOME
OWNERSHIP**

Objective of the Consultation Exercise

- **The Chief Executive has stated that the Government's policy regarding residential property market is to respond to market demand through the supply of land, with the Application List System as the main axle supplemented by flexible improvement measures and land auctions from time to time so as to increase the land supply. Notwithstanding this, the Government recognises that the subject of using public resources to subsidise home ownership is being debated in the community. On this important subject, the Government will listen to the views of members of the public to try to identify a consensus on a way forward.**
- **Views and suggestions arising from this consultation exercise will be forwarded to the Chief Executive for his consideration.**

2

Objective of the Consultation Exercise (cont'd)

- **An extensive consultation exercise lasting up to 17 September 2010 is being undertaken to engage stakeholders and members of the public through various channels to look at issues relevant to this subject.**
- **On 17 May 2010, as part of the consultation exercise, the Housing Authority (HA) was consulted on proposals to revitalise the Home Ownership Scheme (HOS) Secondary Market. The Housing Department (HD) will continue the discussions with the HA on the proposed measures.**

3

Introduction

4

Introduction

- **When the Government repositioned its housing policy in 2002, it was against the backdrop that property prices had tumbled by over 60% against the peak in 1997. The volume of transactions also showed a marked decline. The plunging net asset values in the private residential market inhibited economic recovery, and many owners found that their property values had declined, forcing some into a negative equity situation.**
- **To redress the imbalance between supply and demand and to restore the confidence of the public and investors in the property market, the Government reviewed the overall housing policy and announced that it would no longer pursue the target of building a prescribed number of public and private flats a year. Government was of the view that it was unnecessary to continue to hang on to the long term target of achieving a 70% home ownership rate. Home ownership should be a matter of personal choice and affordability.**

5

Introduction (cont'd)

- **The Government's housing policy remains that as set out in the "Statement on Housing Policy" announced by the then Secretary for Housing, Planning and Lands in November 2002. That is, "delivering the overarching objective of providing subsidised rental housing for families in need must continue to sit at the very heart of the Government's housing strategy." This commitment to the provision of public rental housing (PRH) is firm and should not be changed as a result of the recent debate on subsidising home ownership.**
- **This does not mean that the Government disregards the home ownership needs of the public. The Government's role is to ensure a steady supply of land so that the residential property market can develop in a steady and healthy manner. The Government accords priority to monitoring the development of the private housing market.**

6

Introduction (cont'd)

- **On the front of land supply for the private sector, the Application List System supplemented by land auctions from time to time is the principal mechanism upon which the property market may respond to market demand. In this connection, in this year's Budget, the Financial Secretary has proposed four measures, including providing more land to increase the supply of small to medium sized domestic flats, enhancing market transparency, curbing speculative activities via tax measures, and preventing excessive borrowing.**
- **Our experience has shown that it is not possible to assess precisely the demand for housing in the private market. This may be affected by many factors, including changes in the social and economic environment such as market sentiment, liquidity, and interest rates. Moreover, Hong Kong is an open and free economy. There are no restrictions on the capital movements of overseas investors.**

7

Introduction (cont'd)

- **What we have put in place is a five-year rolling Public Housing Construction Programme (PHCP) to cater for the demand for PRH. It is a continuous process which is reviewed on an annual basis. The Government keeps in view various factors, including the projection of population growth, rates of increase in households and the number of applicants on the PRH Waiting List. According to the latest PHCP, the anticipated new PRH production during the five-year period starting from 2010/11 is about 75 000 flats, averaging about 15 000 flats per year. Together with the PRH flats to be recovered, this production level should allow the Government to meet its policy objective of maintaining the average waiting time for PRH at around three years.**

8

Introduction (cont'd)

- **Different countries/places have adopted different housing policies. Some adopt a universal approach to provide the whole population with homes subsidised by the Government, whereas others adopt a targeted approach in which housing assistance is provided to address the needs of specific low-income or vulnerable groups. In the case of Hong Kong, we have all along adopted a targeted approach with our commitment to help those in genuine need, while recognising that the private market also plays a significant role in housing provision. This is the foundation on which our housing policy rests.**

9

Current Housing Situation

10

Current Housing Situation

- At present, there are a total of 2.3 million households in Hong Kong, among which about 700 000 households or 2.1 million (roughly 30%) of the Hong Kong population live in PRH, and a further 380 000 households or 1.3 million (or 18%) of the population live in subsidised housing (including flats developed under previous HOS/Private Sector Participation Scheme (PSPS)/Sandwich Class Housing Scheme (SCHS)). The remaining 1.2 million households or 3.6 million (or 52%) of the Hong Kong population live in flats in the private sector.
- The total number of residential units stands at 2.5 million, among which about 1.1 million (45%) are in the public sector (including rental and sale flats developed by the HA and the Hong Kong Housing Society (HS)), and about 1.4 million (55%) are in the private sector.
- Overall home ownership has reached 53% in Hong Kong as a whole, and is at 70% for those residing in private sector flats.

11

Current Housing Situation (cont'd)

- **There is clearly mobility between the public and private housing sectors. This occurs under the framework of “two markets” (i.e. HOS Secondary Market and the private property market) and “three levels” (i.e. HOS flat owners purchasing private properties upon selling their HOS flats; PRH tenants purchasing HOS flats in the Secondary Market; PRH flats thus vacated to be allocated to those in need).**
- **The Government has implemented measures to facilitate mobility between two ‘levels’ i.e. from PRH to HOS flats in the Secondary Market, including the Secondary Market Scheme under which HOS flat owners do not need to pay premium to the HA if they choose to sell their flats to existing PRH tenants and prospective tenants on the Waiting List (WL). The Government is seeking to further revitalise the HOS Secondary Market. Various proposals intended to achieve this end have been put up for the HA’s consideration.**

12

Recent Public Discussions

13

Recent Public Discussions

- **Recently, there has been considerable public debate on issues relating to the subject of Subsidising Home Ownership. This has included calls for the resumption of HOS flat production and the revitalisation of the HOS Secondary Market. On the other hand, some have pointed out that, as shown from past trends in the property market, HOS flats cannot help curb the prevailing property prices. The majority view is that the problem must be tackled at source by increasing the supply of suitable low cost units for sale generally and only then can we ensure a healthy and stable development of the property market.**
- **In the public debate, fundamental issues have been raised which require in-depth considerations, such as the difference between home ownership and housing needs; whether the Government should subsidise the public to invest in/purchase residential properties; whether subsidising home ownership is sustainable in the long run or can merely address short term situations; and whether the use of public resources for subsidising home ownership is acceptable having regard to the issue of fairness among different groups in the community.**

14

Existing and Previous Policy Tools

15

Existing and Previous Policy Tools

- There have been a number of different housing initiatives over the years. This section looks at the previous policy tools, their rationale, and their effectiveness.
- The previous policy tools include –
 - *The Home Ownership Scheme and the Private Sector Participation Scheme*
 - *The Sandwich Class Housing Scheme*
 - *The various housing loan schemes, including the Home Purchase Loan Scheme, the Home Starter Loan Scheme and the Housing Assistance Loan Scheme.*

16

Existing and Previous Policy Tools (cont'd)

Home Ownership Scheme and Private Sector Participation Scheme

- The HOS was first launched in 1978 to promote home ownership and to provide an “exit option” for PRH tenants to leave the public rental sector thereby enabling others in need to take up the PRH units they had vacated. The HOS was administered by the HA and was for those who could not afford to buy private housing. Since its launch in 1978 over 220 000 HOS flats (including the Phase 1 to Phase 5 sale of surplus HOS flats) have been sold. The quota allocation split ratio between Green Form (GF) applicants (sitting PRH tenants and prospective PRH tenants who are due to be rehoused to PRH within one year) and White Form (WF) applicants has been adjusted on many occasions, from 50:50 for the initial phases, to 67:33, 60:40 and 80:20 since 1990 so as to encourage a turnover of PRH. For the sale of surplus HOS flats under Phase 6 this year, the quota allocation split ratio of 60:40 has been adopted.
- Supplementing the HOS, the PSPS was introduced in 1979. The intention was to harness the expertise and resources of private sector developers to produce HOS-equivalent flats for sale to applicants eligible for HOS flats. The eligibility criteria for PSPS was no different from that under the HOS. Since its inception, a total of around 100 000 flats have been sold under the PSPS.

17

Existing and Previous Policy Tools (cont'd)

Home Ownership Scheme and Private Sector Participation Scheme (Cont'd)

- Against the background of the policy of the housing policy in November 2002, the production of HOS was terminated from 2003 onwards. The HA has put up for sale 16 700 surplus flats in an orderly manner from 2007 onwards in order to draw a close to the HOS. The HA will put up for sale some 4 000 remaining surplus HOS flats in June 2010 the earliest.

Cost of HOS

- For some 17 300 HOS flats sold before Phase 3B, the prices included the market value of the land, construction costs, other overheads and interest charges. Owners are free to dispose their flats in the open market after the expiry of the restriction period and no premium payment is required.
- However, in 1981, substantial rises in land prices, construction costs and mortgage interest rates could have rendered future HOS flats beyond the reach of the original target group. To counter this, the Government introduced a new pricing policy whereby land premium was excluded from the prices of the HOS flats to be sold from Phase 3B onwards. Flats prices are determined by making reference to comparable residential property transactions, multiplied by a discount rate set according to affordability. Upon expiry of the alienation restriction period, owners must pay a premium (calculated by multiplying the prevailing market value with the discount rate) for removal of the restrictions before they can sell, let or assign the flats in the open market.

18

Existing and Previous Policy Tools (cont'd)

Sandwich Class Housing Scheme

- The 1992 Policy Address proposed to assist sandwich class home buyers which were defined as households with income above the upper limit and not qualified for HOS. The SCHS was introduced by the HS in 1993. Since its inception in 1993 around 9 000 flats have been put up for sale.
- In 1997, prices of private residential properties dropped substantially. Many private flats became affordable to the sandwich class group and there was a lukewarm response in the sales of SCHS thereafter. Accordingly, the Chief Executive announced in the 1998 Policy Address that further construction of SCHS flats would be suspended.

19

Existing and Previous Policy Tools (cont'd)

Sandwich Class Housing Scheme (Cont'd)

- Over 1000 SCHS flats remained unsold until 2008. Some 200 flats were sold in 2008 and the remaining 800 flats were put up for sale in March 2010.

Cost of SCHS

- The Government provided sites to the Housing Society at half land premium for SCHS development. In other words, the Government's subsidy for a particular SCHS development was the half land premium of that site. This subsidy was transferred from the Housing Society to the buyers in the form of the discounted selling prices. In determining the selling prices and discounts of SCHS flats, HS would make reference to transaction prices of comparable residential property transactions and prospective applicants' affordability.
- Similar to HOS, SCHS flat owners must pay to the Government the premium for removal of the alienation restrictions. The premium is calculated by multiplying the prevailing market value with the discount rate.

20

Existing and Previous Policy Tools (cont'd)

Housing Loan Schemes

- The HA introduced the Home Purchase Loan Scheme (HPLS) in 1988 to assist low income families to acquire home ownership in the private sector. The objective was similar to the that of HOS flats i.e. to provide an "exit option" for PRH tenants thus releasing PRH flats for re-allocation. In 1998 the Government introduced the Home Starter Loan Scheme (HSLs) to meet the home ownership aspiration of middle-class families. The HSLs was administered by the HS.
- In view of the substantial overlap between the clientele of the two schemes and to improve operational efficiency, a new loan scheme the Home Assistance Loan Scheme (HALS) was introduced by the HA in 2002 to replace the HPLS and the HSLs. The income and asset limits of the HALS were roughly comparable to that of HOS. 33 000, 57 000 and 9 000 households received home ownership loans under HSLs HPLS and HALS respectively.

21

Existing and Previous Policy Tools (cont'd)

Housing Loan Schemes (Cont'd)

- **Against the background of the repositioning of the housing policy in November 2002 the HALS was reviewed and terminated from 2004 onwards. This enabled the Government to concentrate limited resources on its more focused role of providing PRH to those in need.**

Cost of Housing Loan Schemes

- **Each loan/subsidy case under the HALS involved an average subsidy of about \$170,000 at 2004 price level. The estimation made in 2004 was that a cash flow of \$3.2 billion was required for a quota of 10 000. On top of that there were also administrative costs in running the schemes and default risks over the term of the loans. There are around 3 700 default cases under the loan schemes, involving around \$0.9 billion.**

22

- ***When deliberating on whether and how the Government should subsidise home ownership, we consider it necessary to bear in mind the following factors -***

- (a) Land Resources Implications**
- (b) Production Lead Time for Subsidised Housing**
- (c) Sustainability**
- (d) Fair Use of Public Resources**

23

(a) Land Resources Implications

- In Hong Kong, land is a scarce resource and there are competing demands for land. If land for PRH development is to be used for subsidised housing, the long-term land supply problem for PRH development would be exacerbated. Compared with the PRH, for the same amount of land, subsidised housing projects like HOS produce fewer flats and accommodate a smaller population due to different flat sizes and living density.
- If land earmarked for private residential development is re-allocated for subsidised housing projects, there will be less land for private residential property development, which will result in a reduction in the supply of private flats and hence may weaken the market's responsiveness to market trends.
- We may of course develop new land but that would require much time.

24

(b) Production Lead Time of Subsidised Housing

- Resumption of an subsidised housing such as HOS would require a production lead time of at least 5 to 7 years before any new units are available for sale.

(c) Sustainability

- Any policy tool must be sustainable in the long run and should not merely address short term situations.
- The Government is determined to maintain an adequate supply of residential flats through the existing land supply framework but constantly has to balance the differing demands on this limited resource.

25

(d) Fair Use of Public Resources

- **The Government also recognises that the use of public money to support home ownership must be acceptable to the community as a whole, having regard to the issue of fairness for different groups in the community, including home owners, prospective first-time buyers, those who rent their homes, those who live in PRH other taxpayers, etc.**

Current Situation of the Residential Property Market

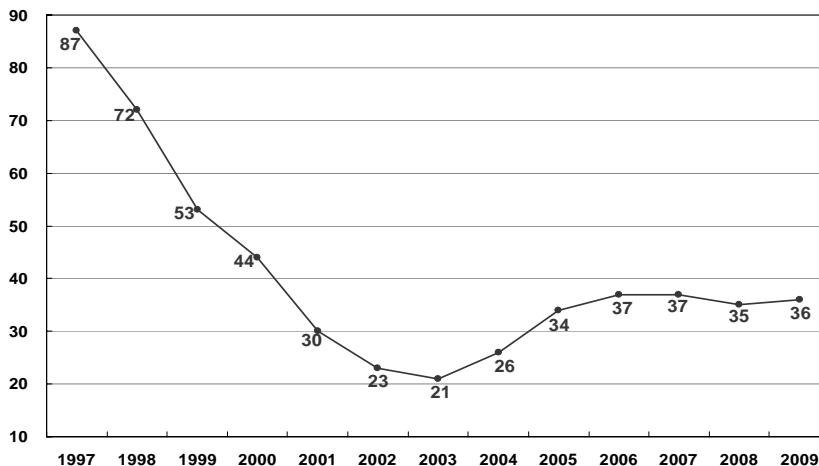
Mortgage-to-Income Ratio

- In general, when we talk about affordability, we look at the mortgage-to-income ratio (MIR).
- MIR shows the percentage of the monthly household income which a family has to deploy to repay the monthly mortgage loan. It is worked out on the basis that a private sector household with a median household income purchases a flat of 45m² (484 sq. ft.) in saleable area and takes a mortgage loan at 70% loan-to-value ratio with a repayment period of 20 years at prevailing interest rates.
- The MIR ratio was 38% in the fourth quarter of last year and 42% in the first quarter of 2010 (preliminary figure). The average for the past 20 years (i.e. from 1989 to 2008) is 53%.

28

Mortgage-to-Income Ratio from 1997 to 2009

The trend of MIR over the past years is as follow -



29

Mortgage Insurance Programme

- At present, there are numerous mortgage loan plans offered by lending institutions to meet the diverse needs of customers. In addition, the Hong Kong Mortgage Corporation (HKMC) also provides mortgage insurance under the Mortgage Insurance Programme (MIP) to lending institutions so that lending institutions may lend mortgage loans of up to 95% of the assessed value of a flat. Without mortgage insurance, lending institutions may only lend up to 70% of the assessed value of a flat.
- 25 lending institutions participate in the MIP. On average, over 1 000 new mortgage loan cases per month are MIP-insured and the average mortgage loan amount is around \$2.1 million.
- For example, for flats valued around \$2 million with mortgage loans up to 95% and a tenor of 25 years, assuming a mortgage interest rate of 2.5%, the amount of premium for the MIP will be around \$300 per month if paid concurrently by installment with the mortgage loan; for flats valued around \$3 million, the premium amount will be around \$500.

30

Transactions of Private Residential Properties

- On average, there were about 99 000 private residential flat transactions each year from 2003 to 2009, of which about 18 500 transactions were in the primary market and the remaining 80 500 transactions were in the secondary market. In other words over 80% of the property transactions were secondary market transactions.
- In fact many first-time home buyers choose second-hand flats which are in general more affordable and then change to bigger and newer flats including first-hand flats when their earning power and the value of their existing flats increase.
- The transaction figures over the past few years clearly show that the secondary market is an important and indeed the major source of flat supply for new home buyers.

31

Transactions by Primary and Secondary Markets (2003 – 2009)

	2003	2004	2005	2006	2007	2008	2009	Average 2003 - 2009 (%)
Primary	26 498	25 694	15 994	13 986	20 123	11 046	16 161	18 500 (19%)
Secondary	45 078	74 936	87 368	68 486	103 452	84 885	98 931	80 448 (81%)
Overall	71 576	100 630	103 362	82 472	123 575	95 931	115 092	98 948

32

Primary Market Transactions(2003-2009)

- **In terms of breakdown by transaction value in the primary market, from 2003 to 2009, about 4 800 (i.e. 26%) out of an annual average of 18 500 transactions were transactions valued below \$2 million.**

Primary Market (No. of Transactions)	2003	2004	2005	2006	2007	2008	2009	Average 2003 - 2009	%
Less than \$2M	14 343	6 500	1 830	2 070	5 170	1 887	1 484	4 755	25.7
\$2M to less than \$5M	9 097	15 504	9 627	9 539	9 273	4 550	8 363	9 422	50.9
\$5M to less than \$10M	2 523	2 370	2 515	1 815	3 268	3 099	3 441	2 719	14.7
\$10M and above	535	1 320	2 022	562	2 412	1 510	2 873	1 605	8.7
Total	26 498	25 694	15 994	13 986	20 123	11 046	16 161	18 500	100

33

Secondary Market Transactions (2003-2009)

- In terms of breakdown by transaction value in the secondary market, from 2003 to 2009, about 49 000 (i.e. over 60%) out of an annual average of 80 448 transactions were flats valued below \$2 million.
- These figures show that the secondary market is an important and indeed the major source of flat supply for home buyers especially for first-time homebuyers.

Secondary Market (No. of Transactions)	2003	2004	2005	2006	2007	2008	2009	Average 2003 - 2009	%
Less than \$2M	36 289	50 703	54 238	44 368	60 748	45 915	52 204	49 209	61.2
\$2M to less than \$5M	6 449	17 503	25 569	17 736	30 596	29 387	35 641	23 269	28.9
\$5M to less than \$10M	1 566	4 609	5 260	4 352	7 838	6 435	7 258	5 331	6.6
\$10M and above	774	2 121	2 301	2 030	4 270	3 148	3 828	2 639	3.3
Total	45 078	74 936	87 368	68 486	103 452	84 885	98 931	80 448	100

34

Overall Private Residential Transactions by Transacted Value (2003-2009)

- When we look at the overall transaction in terms of transactions value from 2003 to 2009, the majority of the overall transactions (including primary and secondary) were valued below \$2 million. These transactions accounted for roughly around 50% of the overall transactions.

Total (No. of Transactions)	2003	2004	2005	2006	2007	2008	2009	Average 2003 - 2009	%
Less than \$2M	50 638	57 206	56 068	46 438	65 918	47 802	53 688	53 964	54.5
\$2M to less than \$5M	15 542	33 005	35 196	27 275	39 869	33 937	44 004	32 691	33.0
\$5M to less than \$10M	4 087	6 978	7 775	6 167	11 106	9 534	10 699	8 050	8.1
\$10M and above	1 309	3 441	4 323	2 592	6 682	4 658	6 701	4 244	4.3
Total	71 576	100 630	103 362	82 472	123 575	95 931	115 092	98 948	100

35

Projected Supply of Small and Medium-sized Flats

- The latest forecast is that that about 33 000 units out of the 56 000 units (i.e. 59%) which are projected to be available on the private residential market in the next three to four years will be small and medium sized flats of less than 70m².
- The Government will liaise with the MTR Corporation Limited (MTRCL) and the Urban Renewal Authority to increase the supply of small and medium sized residential flats in the West Rail property development projects and urban renewal projects respectively. On this front, for the future property development above the Wong Chuk Hang depot/station of the South Island Line project, the MTRCL, will introduce for the first time the provision of flats of prescribed size and about 20% of the flats will be small-sized flats of about 50 m².
- The Government also plans to sell by open tender a site of about 1.2 hectares near the West Rail Long Ping Station in Yuen Long for private residential purposes and will increase the supply of small and medium sized flats by specifying in the land sale conditions requirements in terms of the minimum number of flats and the range of the sizes of these units.
- The HA will put up for sale the remaining 4 000 or so surplus HOS flats earliest in June this year. The HS is now selling the remaining 800 or so surplus Sandwich Class Housing Scheme flats.
- In addition, the secondary market continues to represent an important and major source of small and medium-sized flats.

36

HOS Secondary Market

- Second-hand subsidised flats are also another important source of supply of small and medium sized flats at affordable prices.
- At present there are more than 320 000 HOS flats. Over 65 000 are flats with premium paid and 255 000 or so are flats with premium not yet paid. The former can be put up for sale in the open market readily; the latter can be sold in the HOS Secondary Market and, upon payment of premium may also be sold on the open market. 70% of these HOS flats are located in urban and extended urban areas. Facilitating the turnover of these flats may cater for demand for flats in the low-end property market.
- Most of the recent transactions involving second hand HOS flats were around \$2 million.

37

HOS Secondary Market (cont'd)

- **Facilitating the turnover of HOS flats is conducive to increasing the supply of small and medium sized flats. We have come up with possible measures to revitalise the HOS Secondary Market and have commenced discussions on these with the HA. They include -**
 - **extension of the mortgage default guarantee period by the HA**
 - **provision of a loan guarantee scheme by the Hong Kong Mortgage Corporation to facilitate owners' premium payment by installment**
 - **streamlining administrative arrangements and enhancing publicity**
- **By adopting measures to revitalise the HOS Secondary Market, we believe that the supply of small to medium-sized flats in the market will in turn increase.**

38

Factors Affecting Home Ownership Decisions

39

Factors affecting Home Ownership Decisions

- **The aspiration of family to purchase a flat and whether he can effectively act on that aspiration is affected by many interacting factors, such as the monthly amount a family can spare for regular mortgage repayments; the maximum mortgage loan as expressed in terms of the loan-to-value ratio which lending institutions will offer; the mortgage interest rate; the repayment period for the mortgage loan; the readiness of the family to meet the out-of-the-pocket down payment; the difference between rental costs and flat prices; the availability of the appropriate types of flats in both primary and secondary markets; and overall market demand.**
- **For anyone contemplating a home purchase, these issues have to be assessed individually and carefully before a decision can be taken. Any mistake may result in serious consequences for families including the loss of their home or life-long saving.**

40

Beneficiaries of Different Schemes

41

Beneficiaries of Different Schemes

Home Ownership Scheme

- HOS flats are intended for both GF applicants and WF applicants. WF applicants are households whose income and asset limits are higher than those prescribed for PRH applicants but who may still have difficulty in purchasing a private residential flat in the second-hand market. GF applicants are not subject to income and asset limits under HOS.
- The income and asset limits for the coming sale of HOS surplus flat Phase 6 earliest in June 2010 are –

<u>Family size</u>	<u>Income limit</u>
Singleton	\$13,500
Family	\$27,000
<u>Family size</u>	<u>Asset limit</u>
Singleton	\$265,000
Family	\$530,000

42

Beneficiaries of Different Schemes (cont'd)

Sandwich Class Housing Scheme (SCHS)

- People whose income levels are above the former HOS limits but qualified for aided housing were identified as “Sandwich Class” (with a monthly income between \$18,000 and \$40,000 when the scheme was first launched in 1992/93). Generally the eligible groups were made up of young professionals and middle managers. Same as HOS, GF applicants are not subject to income and asset limits.
- In the sale of SCHS flats launched in March 2010, the following income and asset limits are adopted –

<u>Family size</u>	<u>Income limit</u>
Singleton	\$19,500
Family	\$23,001-\$39,000
<u>Family size</u>	<u>Asset limit</u>
Singleton	\$0.6 million
Family	\$1.2 million

43

Beneficiaries of Different Schemes (cont'd)

Tenant Purchase Scheme

- The TPS was introduced by the HA in 1998 to provide an opportunity for PRH tenants who otherwise could not afford to purchase private housing to become home owners.
- In 2002 the Government announced the repositioned housing policy and, among other things, recommended to the HA to halt the TPS. In support of the Government's repositioned housing policy, the HA decided to stop the TPS after the sale of Phases 6A and 6B of the remaining HOS flats which had already been announced for sale.
- TPS applicants who are PRH tenants and others with GF status are not subject to income and asset limits.

44

Beneficiaries of Different Schemes (cont'd)

Housing Loan Schemes

- Similar to the function of HOS, HPLS was targeted at low-income families whereas the HSLs targeted at middle-class families. As such the income and asset limits for HSLs were higher than those for HPLS.
- For example, the monthly income and asset limits for families (of 2 to 8 persons) for HPLS were \$25,000 and \$600,000 - \$630,000 while for HSLs the limits for all family applicants were \$50,000 and \$1,000,000 respectively.
- GF applicants were not subject to income and asset limits under the HPLS. For HSLs, the income and asset limits applied to both GF applicants and WF applicants.

45

Beneficiaries of Different Schemes (cont'd)

Housing Loan Schemes (cont'd)

- As for HALS which was introduced to replace the HPLS and the HSLS in view of the overlap in the clientele, the target group was those covered by the two previous schemes and the income and asset limits were roughly comparable with that of HOS which stood at \$23,000 and \$480,000 - \$560,000 for families (of 2 to 8 persons). Similarly GF applicants were not subject to income and asset limits under the HALS.

46

Beneficiaries of Different Schemes (cont'd)

- Hence our target groups may be broadly categorised into -
 - *existing PRH tenants and others with GF status, and*
 - *those who were not eligible for PRH and yet could not afford to purchase private residential flats.*
- In respect of subsidised housing policy (including HOS), priority has all along been granted to PRH tenants and others with GF status so as to encourage the turnover of PRH for allocation to low income families in need. Under the existing markets, there are ready channels for GF holders to purchase HOS/TPS units through the Secondary Market Scheme without the need to pay premium.
- As for those with WF status, they may also purchase HOS flats in the open market or purchase surplus HOS flats from the HA. The sale of surplus HOS flats is scheduled to be completed this year.

47

The present situation of the housing market in Hong Kong can be summarised as follows-

- **At present, 53% of the total number of households in Hong Kong live in self-owned properties. About 70% of those households residing in private residential flats own their properties.**
- **The secondary market continues to represent an important and major source of small and medium-sized flats.**

48

You may wish to bear in mind the following considerations when deliberating the issues concerning subsidising home ownership –

- **Any policy to support subsidising home ownership must be sustainable in the long run and should not merely address short term situations.**
- **An adequate PRH and private housing supply will continue to be sustained through the existing land supply framework as expounded by the Financial Secretary in his Budget Speech and Response.**
- **Any subsidised home ownership scheme should not just be designed to deal with any so called “anti-cycle” effect. Past experience has shown that there is no correlation between the number of subsidised sale flats put up for sale and the overall residential flat prices.**
- **The use of public resources to support any subsidised home ownership scheme must be acceptable to the community as a whole, having regard to the issue of fairness among different groups in the community.**
- **Any subsidised home ownership policy should not undermine the can-do spirit of the Hong Kong people as this is the key to Hong Kong’s success and the core of Hong Kong’s values.**

49

Key Questions

50

Key Question 1: Should home ownership be subsidised?

- If we were to subsidise home ownership, what should the policy objectives be?
- For those who can afford to purchase a home in the private sector, should they continue to rely on their own means and the tools available in the market to fulfill their home ownership aspirations?
- Is there a role for the Government to play a more active part in subsidising home ownership for those who otherwise cannot afford to buy properties from the private market?
- Is the proposal to subsidise home ownership sustainable in the long run and not for merely addressing short term situations?

51

Key Question 2: Who should be helped?

- For the rational use of public resources, should any form of home ownership subsidised by the Government target only at those who are caught between eligibility for PRH and HOS Secondary Market or the private market, but who should be able to afford in the long term to purchase their own homes? Are they those who have been trying to save up for many years but are yet unable to buy in the private market?
- Should any form of subsidised home ownership provided by the Government be targeted at certain income segments only? How can such a group be defined? What are the justifications to single out this group vis-à-vis other groups in the community?
- If indeed such a group can be identified for assistance should certain criteria/restrictions apply?
- Irrespective of the form of subsidised home ownership, consideration should be given as to whether we should continue to grant priority to PRH tenants and others with GF status so as to encourage the turnover of PRH for allocation to low income families in need.

52

Key Question 3: What help should be offered?

- Which form(s) of assistance will better meet the abovementioned factors (i.e. land resources implications, production lead time for subsidised housing, sustainability, and fair use of public resources, etc.)?
- Can reference be drawn to the criteria used in previous programmes for example, domestic properties test (e.g. not owning properties in the past for a certain period of time); 7-year residence in Hong Kong; income and asset limits according to the existing mechanism for WF HOS applicants; live-in requirement, etc.?
- Other possible criteria can also be considered, such as restrictions to resell, restrictions to rent, first time home purchase, those who cannot afford downpayment (and who are they given the existing mortgage insurance programme?), young families (target group to be differentiated by age?), etc.

53

Your Views Invited

Please send your views to the Transport and Housing Bureau on or before 17 September 2010 by

email : views@thb.gov.hk
fax : 2761 6822
post : Transport and Housing Bureau
16/F, Murray Building
Garden Road, Central, Hong Kong

Please state in your incoming correspondences or envelopes that the views are made in response to the public consultation.

You are also welcome to express your views at our eForum or official page at facebook. The eForum and official page at facebook can be accessed through the Transport and Housing Bureau webpage at <http://www.thb.gov.hk>.

Note :

All submissions in their original form (including senders' names, but with other personal information such as email addresses removed) will be included in the compendium which will form part of the report on the Consultation.

1 June 2010