

Legislative Council Panel on Housing

My Home Purchase Plan

Purpose

This paper briefs Members on the details of the new housing initiative, namely, “My Home Purchase Plan” (MHPP).

Background

2. Driven by the progressive economic recovery, low interest rate environment and the relatively tight supply of private residential flats in the past few years, private residential property prices rose by 19% in September 2010 as compared to September 2009. The mortgage-to-income ratio¹ in the second quarter was 41%, though it was lower than the average ratio of 53% over the past 20 years.

3. The public is worried about recent increases in property prices. There is particular concern over the availability of mass market flats at affordable prices, and the overall supply of land for flat production in the long term. The Transport and Housing Bureau (THB) conducted a public consultation exercise on the issue of subsidising home ownership from May to 17 September 2010 to engage stakeholders and members of the public through a variety of channels to look at issues relevant to the subject, with a view to identifying a way forward that will address the community’s concerns.

4. The outcome of the public consultation exercise² showed that many are concerned about the recent rise in property prices and the difficulties in purchasing their first flat. The Government recognises the importance of a stable home, and is fully aware of the people’s wish to improve their quality of life and move up the social ladder through home ownership. We believe that we should introduce targeted measures in light of the latest situation to help the sandwich class purchase their own

¹ It is the ratio of mortgage repayment for a flat of 45 square metre in saleable area to the median income of households.

² Views received during the public consultation are published in the Report on Public Consultation on Subsidising Home Ownership which has been uploaded onto THB’s website (www.thb.gov.hk).

flats. Any form of subsidised home ownership will, however, only serve as a buffer. In the face of short-term market fluctuations, it is appropriate for the Government to provide relief measures to sandwich class home buyers to give them time to save up. In this regard, the Government, in collaboration with the Hong Kong Housing Society (HKHS), will introduce MHPP.

The Government's Housing Policy Objectives

5. The Government's housing policy objectives are as follows –
- (a) 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 has not been changed;
 - (b) the Government will continue to withdraw as far as possible from housing assistance programmes other than PRH to minimise intervention in the market. That said, the Government is firmly committed to ensure a fair and stable operating environment to enable the healthy development of the private property market, and to enhance the transparency of sales information and fairness of transactions of first-hand private residential properties to safeguard consumers' rights;
 - (c) this does not mean that the Government disregards the home ownership needs of the public. The Government will continue to ensure a steady supply of land so that the residential property market can develop in a steady and healthy manner;
 - (d) home ownership is a matter of personal choice having regard to individual circumstances and affordability. The Government is wary that any type of assistance provided should not erode the "can-do" spirit of Hong Kong people, as this is the key to Hong Kong's success and the core of Hong Kong's values. Hence, instead of going back to the property market, the Government will facilitate the provision of different housing options for different sectors of the community, including

working with the HKHS to implement a new form of assisted home ownership premised on the concept of “rent-and-buy”. This new scheme, known as MHPP, together with measures introduced to enhance the transparency and fairness of first-hand sales in the private sector, and the revitalisation measures for the Home Ownership Scheme (HOS) Secondary Market Scheme (SMS), will increase choice to meet the different housing needs of the community in a sustainable manner; and

- (e) the overall picture will be of a cascade of housing options available to people with varying affordability. At the lower end are subsidised PRH flats for low-income families who cannot afford private rental accommodation; at the next level are flats for sale to Green Form (GF) applicants without the payment of premium under the SMS. Beyond that are the mass market flats at the lower end of the private market (including premium paid HOS flats in the open market), and the “no frills” flats to be built under MHPP by HKHS for those who do not qualify for PRH flats, meet prescribed income and asset limits, and are unable to purchase units in the private sector in the short term. Above these levels, the private market will continue to perform its role in providing flats at market prices to meet the diversified needs of those who can afford them.

My Home Purchase Plan

6. Under MHPP, the Government will provide land for the HKHS to build “no-frills” small and medium sized flats for lease to eligible applicants at prevailing market rent. The tenancy period will be up to five years, within which the rent will not be adjusted. Within a specified time frame (two years after the first admission of tenants and within two years after the termination of tenancy), tenants of MHPP may purchase the flat they rent or another flat under MHPP at prevailing market price, or a flat in the private market. They will receive a Purchase Subsidy equivalent to half of the net rental they have paid during the tenancy period, and may use it for part of the down payment. Tenants who have not purchased a flat under MHPP or in the private market within the prescribed period will not receive any Purchase Subsidy.

7. MHPP has the following merits –

(A) *Flexible*

- (i) MHPP enables sandwich class people who do not have sufficient savings for down payment to rent a MHPP flat first, so that they can have their own home earlier.
- (ii) MHPP provides them with rental flats for a maximum period of five years so that they will have sufficient time to think through their housing plan and do not have to make hasty decisions on flat purchase when there is short-term fluctuation in property prices. Hence, lower risk.
- (iii) If they purchase a flat during the maximum period of up to seven years (i.e. two years after the first admission of tenants and within two years after the termination of tenancy), they will receive the Purchase Subsidy which is equivalent to half of the net rental they have paid during the tenancy period. Tenants may choose to buy the flat they rent; another flat under MHPP, or a flat in the private market. Hence, more choices.
- (iv) The above design of MHPP will help prevent tenants under MHPP from purchasing flats at the same time in the private market which may lead to a sudden surge in demand for private residential properties within a short period of time.
- (v) Given its experience in rental matters and in implementing pilot housing schemes, HKHS will implement MHPP in an enhanced and flexible manner.

(B) *Helps build up savings*

- (vi) The rent will not be adjusted throughout the maximum five years tenancy period. This will facilitate the tenants to save for the down payment.

(C) *Greater upward mobility in the property market for the sandwich class*

- (vii) The majority of the quota will be allocated to White Form

(WF) applicants, and a small number of the quota will be allocated to PRH tenants. The channel of traditional HOS in enabling Green Formers to move from PRH to home ownership is therefore preserved, and this also helps the turnover of PRH. Also, there will be a quota specifically for singleton applicants.

- (viii) Adjustments made to relax the income and asset limits of WF applicants as compared to HOS.
- (ix) Unlike HOS, MHPP flats will be sold at market price at the point of sale and will not have the premium payment requirement. This will facilitate owners to trade up for flats in future and achieve upward mobility in the property market.

(D) Complements market inadequacy

- (x) HKHS is a non-profit-making organisation. They produce flats with high efficiency ratio.
- (xi) To a certain extent, MHPP flats may help fill the shortage of “no-frills” flats with high-efficiency ratio in the primary private residential market.

(E) Will not reduce the supply of private residential land or land for PRH

- (xii) Land for MHPP will not come from the Application List or sites earmarked for PRH.

8. The subsidy equivalent to half of the net rental paid may not be sufficient to cover the down payment in full. Tenants must conscientiously build up savings to meet the down payment and related expenses. MHPP reflects Hong Kong people’s spirit of self-reliance by enabling them to make their home purchase wish come true in a practical and step-by-step manner.

Earmarked Sites

9. The Government has already earmarked sites in Tsing Yi, Diamond Hill, Sha Tin, Tai Po, Tuen Mun and other areas aiming for a total of some 5 000 flats to be built under MHPP. The first project will

provide about 1 000 flats at Tsing Luk Street in Tsing Yi by 2014, and applications for pre-letting will take place in 2012. If the response to MHPP is good, the Government will consider identifying more sites for the purpose. We are discussing with HKHS on the possibility of advancing the pre-letting and expediting the construction timetable.

Flat Sizes in Tsing Luk Street Project

10. Flat sizes in the Tsing Luk Street project will range from about 540 square foot in Gross Floor Area (GFA) (one bedroom flat) to about 840 square foot in GFA (three bedroom flat). The efficiency ratio will be 80% or above. There will not be any elaborated ancillary facilities in the development, such as club house or swimming pool, which are not in line with the “no-frills” nature of the project. The rental and the prices of the flats will reflect the “no-frills” nature of the units, so they will not be assessed on the basis of ordinary market values.

Eligibility Criteria

11. GF applicants and WF applicants meeting the eligibility criteria are eligible to apply for MHPP. Similar to other subsidised flat for sale schemes, there will not be income and asset restrictions on tenants of PRH estates and GF applicants, but they will have to surrender the PRH units to the Housing Authority or HKHS if their application under MHPP is successful and after they have moved into the flats under MHPP.

12. WF applicants have to meet the prescribed asset and income limits. Our initial thinking on the income and asset limits is as follows –

- (a) Upper income limit for household applicants is about \$39,000 per month, and the upper asset limit for them is about \$600,000; and
- (b) upper income limit for singleton applicants is about \$23,000 per month, and the upper asset limit is about \$300,000.

13. HKHS will set the income and asset limits, taking into account the then market situation, before it accepts applications for pre-letting of the Tsing Luk Street project.

14. Given that MHPP aims to help first-time home buyers, there will be stringent criteria. Our current thinking is that applicants and other family members on the application forms should not have owned any residential properties for a period of ten years prior to the closing of

the pre-letting application period. Those who have in the past joined any form of Government subsidised home purchase schemes (e.g. HOS/Private Sector Participation Scheme, Tenants Purchase Scheme, Sandwich Class Housing Scheme, and the various home purchase loan schemes) are not eligible for MHPP.

No double benefit requirement

15. In line with established practice, tenants who subsequently buy a property under MHPP will not be eligible for any other form of Government subsidised housing schemes in future. But if MHPP beneficiaries face great financial difficulties in future and are in genuine need of PRH, we may consider their cases on an exceptional basis.

Priority of different categories of applicants

16. Regarding the priority to be accorded to different categories of applicants, namely WF family applicants, GF family applicants and singleton applicants, priority of the applicants may either be set by means of ballot, quota or point system. Ballot is fair but not focused while the other methods are administratively complicated. On balance, we consider that a mechanism which is premised on a quota system, and complemented with balloting, together with a set of stringent eligibility criteria as the threshold, will be fairer, more focused and transparent. The quota for each category of applicants has yet to be decided, but the majority of the units will be accorded to WF family applicants, with the remaining units to GF family applicants and singleton applicants respectively.

Next Step

17. THB will work further with HKHS to finalise the details of MHPP.

Transport and Housing Bureau
October 2010