

立法會
Legislative Council

LC Paper No. CB(1) 2038/11-12(04)

Ref: CB1/PL/HG

Panel on Housing

Meeting on 4 June 2012

**Updated background brief on the
new rent adjustment mechanism for public rental housing
prepared by the Legislative Council Secretariat
(position as at 29 May 2012)**

Purpose

This paper sets out the background to and progress of the new rent adjustment mechanism for public rental housing (PRH), as well as gives a brief account of the views expressed by Members on the subject matter.

Background

2. Under Section 16(1) of the Housing Ordinance (Cap.283) (HO), the Hong Kong Housing Authority (HA) may let to any person any residential unit in its estates subject to the payment of such rent as it may determine. In determining the rents of its public housing units, HA makes reference to tenants' affordability. HA adopted the median rent-to-income ratio (MRIR)¹ as a general affordability indicator. Administratively, HA used two MRIR benchmarks² in setting public housing rents based on space allocation standards, and took into account a combination of other factors, such as the comparative values of estates, their locations and transportation, flat size, management and maintenance costs, inflation, wage movement, rates, HA's financial position, etc. Prior to 1998, review of rents of public rental housing (PRH) units was conducted by HA at two-year intervals.

¹ Rent-to-income ratio is the expression of rent as a percentage of household income. MRIR gives the median value of the rent-to-income ratios of all public rental housing households. By definition, 50% of the relevant households' rent-to-income ratios will be below MRIR and the other 50% above it.

² The two MRIR benchmarks are 15% for the minimum space allocation standard of 5.5 m² Internal Floor Area (IFA) per person (in place since 1986), and 18.5% for the higher space allocation standard of 7 m² IFA per person (adopted in 1991).

3. On 27 June 1997, the former Legislative Council passed a Private Member's Bill, which was subsequently enacted as Housing (Amendment) Ordinance 1997 (Amendment Ordinance 1997), to amend section 16(1) of HO to the effect that any determination of variation of rent by HA should only take effect at least three years after the preceding rent determination came into effect, and that the rent determined should be of such amount that the MRIR for all public housing estates should not exceed 10%. After the enactment of the Amendment Ordinance 1997, HA had frozen the rents of newly completed PRH estates at the 1997 level and deferred rent reviews for existing estates since 1999. However, with the downturn of the economy since 1997, the income of the general public had been decreasing. Even without rental increase, the overall MRIR for the third quarter of 2000 stood at 10.2%. There were strong calls from PRH tenants for HA to review PRH rents to comply with the 10% MRIR cap³.

4. In October and November 2002, two PRH tenants applied for judicial review in respect of HA's decisions to defer rent reviews. On 11 July 2003, the Court of the First Instance ruled in favour of the appellants. HA appealed to the Court of Appeal which ruled in favour of HA in November 2004. The case was subsequently brought to the Court of Final Appeal which ruled in favour of HA on 21 November 2005⁴. The matters examined in the judicial review have raised important questions about HA's existing domestic rent policy and the long-term sustainability of its finances. In November 2006, HA endorsed a report submitted by the Ad Hoc Committee on Review of Domestic Rent Policy (CDRP) which was set up in 2001 by HA to review its domestic rent policy with the major objective to establish a clear, objective and flexible rent adjustment mechanism to better reflect tenants' affordability and help ensure a sustainable development of the public housing programme.

5. The key recommendations of CDRP included amending HO to remove the MRIR cap to enable HA to introduce the new income-based rent adjustment mechanism to determine the extent of rent adjustments according to changes in PRH tenants' household income. To provide a fair starting point for the new adjustment mechanism to operate fairly and effectively, HA agreed to introduce an across-the-board rent reduction of 11.6% upon passage of the amendment bill, and to grant a one-off rent remission for the month of February 2007 to PRH tenants⁵.

³ The MRIR reached 14.3% in the third quarter of 2006 as compared to 9.1 % when the statutory 10% cap was passed by the former Legislative Council under the Housing (Amendment) (No. 3) Bill 1996 in June 1997.

⁴ HO Choi-wan v Hong Kong Housing Authority (2005) 8 HKCFAR 628.

⁵ The rent remission has been granted to PRH tenants and Interim Housing licensees with the exception of those paying additional rent or licence fees.

6. On 31 January 2007, the Administration introduced the Housing (Amendment) Bill 2007 to replace the statutory 10% MRIR cap with a rent adjustment framework that provided for both upward and downward rent adjustments according to changes in PRH tenants' household income. The Housing (Amendment) Ordinance 2007 was passed at the Council meeting on 13 June 2007 and came into operation on 1 January 2008.

New rent adjustment mechanism

7. Under the new rent adjustment mechanism, a review of PRH rent will be conducted once every two years. The PRH rent will be either adjusted upward or downward according to changes in the income index, which reflect changes in PRH tenants' household income in the first and second periods of the review. The income index will be computed by the Commissioner for Census and Statistics (C for C&S). Section 16A(4) of HO provides that if the income index for the second period is higher than that of the first period by more than 0.1%, HA shall increase the PRH rent by the rate of increase of the income index or 10%, whichever is less. If the income index for the second period is lower than that of the first period by more than 0.1%, HA shall reduce the PRH rent by the rate of reduction of the income index. The methodology for data collection and computation under the new rent adjustment mechanism is set out in Annex A to LC Paper No. CB(1) 2600/09-10(01) which is hyperlinked below for ease of reference. To provide a new starting point for the income-based rent adjustment mechanism to operate effectively, HA reduced the PRH rent by 11.6% starting in August 2007.

First rent review

8. In relation to the first rent review conducted after 1 January 2010, section 16A(8) of HO defines that the first period as a period of 12 months expiring on 31 December 2007, and the second period as a period of 12 months expiring on 31 December 2009. A total of 24 000 PRH households were sampled in each of the first and second periods, involving the collection of income data from a total of 48 000 households. The mean monthly household income of PRH tenants in the first period (i.e. 2007) and the second period (i.e. 2009) is given below –

Household Size	Mean monthly household income (\$)		Distribution of household size (%) (weights)
	First Period	Second Period	
One-person	3,883	4,258	10.620%

Two-person	7,948	8,521	19.443%
Three-person	13,340	13,876	26.796%
Four-person	16,568	17,265	28.106%
Five-person Or more	20,245	21,101	15.035%
			100%

The overall mean monthly household income of PRH tenants in the first period was \$13,233 and the index was set at 100. The overall adjusted mean monthly household income of PRH tenants in the second period was \$13,852 and hence the index was 104.68. By comparing the indices of the first and second periods, the level of adjustment in PRH rent was +4.68% or an increase of \$62 on average. The actual rent increases ranged from \$11 to \$157 per month.

9. The outcome of the first rent review exercise under the new rent adjustment mechanism was endorsed by the Subsidised Housing Committee (SHC) in July 2010. The rent adjustment took effect on 1 September 2010. SHC also decided to introduce a one-month rent waiver for the month of September 2010 as a special and one-off measure given that PRH tenants might not be able to benefit from the economic recovery.

Deliberations by the Panel on Housing

10. The new rent adjustment mechanism for PRH and the first rent review under were discussed by the Panel on Housing (the Panel) at its meetings on 7 January, 1 March and 20 July 2010.

11. Some members were concerned about the reliability of the methodology for computing the income index in the absence of any confirmation from an independent third party, such as academics from the relevant fields. Given that households were selected on the basis of household size distribution, some members queried the reliability of the income index if this was computed without making reference to the income levels of different districts which might vary. Some other members however supported the use of household size distribution in computing the income index, but considered it not appropriate to apply one income index to all households since income changes of one-person households (comprising mostly elderly persons) were usually much less than that of three to four-person households. They were of the view that consideration should be given to working out two income indices, one for two-person households and another for households with three or more persons.

12. Noting that “non-representative” households (including well-off tenants, households with income higher than the upper outlying levels, and Comprehensive Social Security Assistance households) were excluded from computation of the income index, some members were opposed to the exclusion as this would not only lower the mean monthly household income, but also affect the accuracy of computation of the income index, given that the number of “non-representative” households in the first period would be different from that in the second period. Some other members pointed out that the findings, which were based on the income data of past year, would not be able to reflect the current and upcoming economic situation, which was expected to worsen in the next year. To this end, a threshold might need to be set such that HA would automatically review the income index if the economy dropped by 5% to 10% or more. To ensure transparency throughout the process, HA was requested to publish the income data of sampled households collected during the first period so that members could compare these with the data collected during the second period.

13. As regards the increase in income index of 4.68%, some members pointed out that this did not represent the actual increase in income of most workers. The application of the index across the board might not be fair as not all PRH households had income increases in the past two years. These members also pointed out that while the total household income might have increased because the younger generation had joined the workforce, such increase was just nominal and should not represent the real income increase as the latter would need to support themselves financially. In fact, the disposable income of households had been reduced over the past years due to inflation. Hence, there was a need to differentiate between nominal household income and real household income. Consideration should also be given to dealing with changes in household income as a result of an increase in the number of income-earning household members separately.

14. On the provision of mitigation measures, the Panel generally welcomed the one-month rent waiver for PRH tenants to reduce the impact of rent increase. Some members however opined that the need for mitigation measures had indeed reflected the deficiency of the new rent adjustment mechanism. These members urged HA to review the mechanism with a view to improving the data collection and computation process to ensure that the outcome could reflect the actual situation. Factors, such as inflation rates and household expenditures, should be taken into account in computing the income index. There was also a need for a comparison between the new and previous rent adjustment mechanisms to see which could better reflect the actual situation.

Latest development

15. The Administration proposes to brief Members on the outcome of the 2012 rent review for PRH at the upcoming meeting on 4 June 2012.

Relevant papers

16. A list of relevant papers is in **Appendix**.

Council Business Division 1
Legislative Council Secretariat
29 May 2012

New Rent Adjustment Mechanism

List of relevant papers

Council/ Committee	Date of meeting	Paper
Bills Committee	---	<p>Report of the Bills Committee on Housing (Amendment) Bill 2007 to the Council meeting on 13 June 2007 (LC Paper No. CB(1) 1871/06-07)</p> <p>http://www.legco.gov.hk/yr06-07/english/bc/bc01/reports/bc01cb1-1871-e.pdf</p>
Housing Panel	7 January 2010	<p>Information paper on "New Rent Adjustment Mechanism for Public Rental Housing" provided by the Administration (LC Paper No. CB(1) 796/09-10(03))</p> <p>http://www.legco.gov.hk/yr09-10/english/panels/hg/papers/hg0107cb1-796-3-e.pdf</p> <p>Minutes of meeting (LC Paper No. CB(1) 1208/09-10)</p> <p>http://www.legco.gov.hk/yr09-10/english/panels/hg/minutes/hg20100107.pdf</p>
Housing Panel	1 March 2010	<p>Information paper on "New Rent Adjustment Mechanism for Public Rental Housing" provided by the Administration (LC Paper No. CB(1) 1059/09-10(01))</p> <p>http://www.legco.gov.hk/yr09-10/english/panels/hg/papers/hg0301cb1-1059-1-e.pdf</p> <p>Minutes of meeting (LC Paper No. CB(1) 1744/09-10)</p> <p>http://www.legco.gov.hk/yr09-10/english/panels/hg/minutes/hg20100301.pdf</p>

Council/ Committee	Date of meeting	Paper
Housing Panel	20 July 2010	<p>Information paper on "New Rent Adjustment Mechanism for Public Rental Housing" provided by the Administration (LC Paper No. CB(1) 2600/09-10(01)) http://www.legco.gov.hk/yr09-10/english/panels/hg/papers/hg0720cb1-2600-1-e.pdf</p> <p>Paper on the new rent adjustment mechanism prepared by the Legislative Council Secretariat (updated background brief) (LC Paper No. CB(1) 2589/09-10(01)) http://www.legco.gov.hk/yr09-10/english/panels/hg/papers/hg0720cb1-2589-1-e.pdf</p> <p>Minutes of special meeting (LC Paper No. CB(1) 2873/09-10) http://www.legco.gov.hk/yr09-10/english/panels/hg/minutes/hg20100720.pdf</p>