

Third Rent Review for Public Rental Housing

Rent Adjustment Mechanism for Public Rental Housing

- Section 16A of the Housing Ordinance (Cap. 283) stipulates the rent adjustment mechanism for public rental housing (PRH). Under this mechanism, tenants' affordability is the factor used to determine PRH rent.
- The income of PRH tenants reflects their affordability.
- The mechanism provides an objective basis for the Housing Authority (HA) to determine when and by how much PRH rent should be adjusted, and also promotes the long-term sustainability of the PRH programme.

Rent Adjustment Mechanism for PRH

- The HA shall conduct a rent review every two years and vary the PRH rent according to the change in the income index between the first and second periods covered by the review.
- A sample of **2 000 PRH households is randomly selected by the HA each month.** These PRH households are requested to declare information about their income for the purpose of compilation of the income index. The declaration is mandatory.
- A total of 24 000 PRH households were sampled in each of the first and second periods to reflect household income situation of the tenants.

Rent Adjustment Mechanism for PRH

- If the income index for the second period is higher than that for the first period by more than 0.1%, the 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 for the first period by more than 0.1%, the HA shall reduce the PRH rent by the rate of reduction of the income index.

The Third PRH Rent Review

- This PRH rent review is the third review conducted under the established mechanism.
- The first period is the 12 months in 2011.
- The second period is the 12 months in 2013.

The Role of the HA

- The HA collects the income data from the sampled households.
- The sampling method and the data collection process were devised by the HA in consultation with the Census and Statistics Department (C&SD) to ensure the correctness, accuracy and representativeness of the Income Survey.

The Role of the C&SD

- To conduct quality checks on the work of the HA in the Income Survey.
- To compute the income index in its independent capacity.

Outcome of the Third PRH Rent Review

(1) Sample Distribution

- Monthly sampling of 2 000 PRH households is conducted in accordance with the **actual distribution of household size** in that month.
- By design of the proportionate stratified systematic sampling, the **distribution of tenant household sample by PRH estate and by district corresponds** to the actual distribution for all PRH households.

Outcome of the Third PRH Rent Review

(2) Exclusion of Non-representative Households

- The income index seeks to reflect changes in the household income of PRH tenants over the first and second periods. Its coverage should be PRH tenants with representative household income.
- In computing the income index, **“non-representative” households with considerable income deviation from general PRH households are excluded** to minimise distortion to the outcome of the computation:
 - “Well-off tenants”
 - Other households with income higher than the upper outlying levels
 - Comprehensive Social Security Assistance (CSSA)₉ households

Outcome of the Third PRH Rent Review

Computation of Mean Monthly Household Income

Exclusion of non-representative households:

	“Well-off tenants”	Other households with income higher than the upper outlying levels	CSSA households
2011	881	543	5 507
2013	728	466	5 000

- C&SD considers the resultant sample sizes for both the first and second periods **form a sound basis for the compilation of the income index.**

Outcome of the Third PRH Rent Review

(3) Quality Checks

The HA implemented the following measures to ensure the quality of the data collected from the Income Survey:

- Responded to tenants' enquiries regarding any problems encountered when completing the income declaration forms (IDF), and paid home visits upon request;
- Carried out preliminary vetting of all the returned IDF upon receipt. Followed up with those IDF that were not duly completed or in need of further clarification;
- Adopted a double data entry approach, i.e. the same set of data was input into the computer by two staff members separately, and compared and matched the two sets of data; and
- Conducted consistency check on the information in each IDF during data input by using a computer programme. Any inconsistencies identified were verified with the sampled households concerned.

Outcome of the Third PRH Rent Review

(3) Quality Checks

Findings of C&SD's quality checks on the Income Survey:

- (a) Evaluate if the distribution of the sampled households is in line with the actual distribution of PRH tenants in terms of household size and geographical distribution. **Results indicate that the distribution of the sample is basically the same as the tenancy records, and hence the sample is representative;**
- (b) about 5% of the sampled households who have declared income are randomly selected each month for the HA to request them to submit income documentary proof to support that the information declared is true and correct. **Results show that no tenants knowingly made false statements in the Income Survey, and the income declared is true and correct.**

Outcome of the Third PRH Rent Review

(3) Quality Checks

Findings of C&SD's quality checks on the Income Survey:

- (c) about 2% of the completed IDF are randomly selected each month to check the accuracy of data input. **Results indicate that the data are accurate and without irregularities;** and
- (d) in processing the data of each month, the C&SD carries out another round of checking using its own computer programme to ensure that all necessary steps were taken. **Results indicate that HD has confirmed / clarified all cases in need of further clarification with the households concerned.**

Outcome of the Third PRH Rent Review

(4) Computation of Mean Monthly Household Income

- On the basis of the evidence obtained in the quality checks, C&SD has confirmed that the survey data accurately reflects the household income of PRH tenants in both 2011 and 2013.
- The mean monthly household income of PRH tenants in the first period (i.e. 2011) is \$15,473 and the index is set at 100.
- The adjusted mean monthly household income of PRH tenants in the second period (i.e. 2013) is \$18,455. The index of the second period is therefore 119.27.
- Comparing the indices of the first and second periods, there was an increase of 19.27%.

Outcome of the Third PRH Rent Review

(5) Level of Rent Adjustment

- The C&SD's report shows that the income index for the second period (2013) is higher than that for the first period (2011) by **19.27%**.
- Therefore, the level of rent adjustment under the third PRH rent review is **+10%** and it will come into effect on 1 September 2014.
- The average monthly rent is **\$1,540** as at December 2013. In terms of range, the current range of rent is from **\$287** to **\$3,877**. An adjustment of +10% means an increase of **\$28 to \$387**, i.e. **an increase \$154 on average**.

Impact on PRH Tenants

Monthly Rent Increase	No. of Households	Percentage among all PRH households
+\$28 to \$50	5 100	1%
+\$51 to \$100	88 200	15%
+\$101 to \$150	218 900	37%
+\$151 to \$200	127 100	22%
+\$201 to \$250	87 500	15%
+\$251 to \$387	57 700	10%

HA's Discussion

- On 4 July 2014, the Subsidised Housing Committee (SHC) of the HA considered the report of the C for C&S.
- The SHC endorsed the outcome of the third rent review exercise and approved a 10% increase in PRH rent in accordance with the Housing Ordinance, with effect from 1 September 2014. PRH tenants will be notified one month in advance of their new rent levels.

HA's Discussion

- In considering the impact of rent increase on our tenants, the SHC has noted the following -
 - (a) according to C for C&S's report, our tenants' mean household income has increased in the past two years from \$15,473 to \$18,455, by 19.27% or \$2,982, as compared to the rent increase of \$154 on average, with a range of \$28 to \$387;
 - (b) as a result of the design of the rent adjustment mechanism, over the years tenants' household income has increased more than rent. From 2009 to 2011, the increase in household income was 16.24% but rent was only raised by 10%. From 2011 to 2013, the household income has increased by 19.27% but again, the rent will only increase by 10%;

HA's Discussion

- (c) based on our data as at end-December 2013, 3% of our tenants are “well-off tenants” and another 19% are Comprehensive Social Security Assistance (CSSA) recipients. In addition, 2% of our tenants who are facing temporary financial difficulties currently receive rental assistance under our Rent Assistance Scheme (RAS); and

- (d) in the first and second rent reviews, the HA granted one-month rent waivers on grounds of the special circumstances at that time. Given the current economic situation and the growth in tenants' income, it is arguable if there are clear grounds for the HA to again grant a rent waiver this time.

HA's Discussion

- On the question of whether to grant rent waiver, apart from the above considerations the SHC also noted the financial implications stated below, which are based on the budget approved by the HA in January 2014 –

	2014-15	2017-18
1. Rental housing operating deficit		
(a) in the January 2014 budget	\$1.7 billion	\$3.8 billion
(b) after 10% rent increase	\$0.9 billion	\$2.4 billion
(c) plus 1 month waiver	\$2.1 billion	\$2.4 billion
2. Monthly operating deficit per PRH unit		
(a) in the January 2014 budget	\$180	\$400
(b) after 10% rent increase	\$90	\$250
(c) plus 1 month waiver	\$230	\$250

HA's Discussion

- The SHC also noted that section 4(4) of the Housing Ordinance stipulates that “The policy of the HA shall be directed to ensuring that the revenue accruing to it from its estates shall be sufficient to meet its recurrent expenditure on its estates.”
- Granting a rent waiver to all tenants irrespective of whether tenants are in need may not be the best use of HA's revenue. It may also not be the most equitable, when there is a growing demand on HA's resources from citizens who are waiting for their PRH units. Instead, the SHC considered that there should be targeted assistance to those tenants who are in need, such as by enhancing the RAS.

- Members are invited to note the outcome of the third rent review exercise in accordance with section 16A(4) of the Housing Ordinance and the deliberations by the SHC.