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Long Term Housing Strategy
December 2014

Transport and Housing Bureau

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FOREWORD

Housing Future at its Critical Juncture

Housing stands out as one of the most challenging social issues Hong Kong is facing today. Our housing challenge is characterised by a serious supply-demand imbalance, housing prices and rents at a level beyond the affordability of the general public and out of line with our economic fundamentals, the proliferation of subdivided units, and long queues for public rental housing (PRH). Many of our youths feel aggrieved when they fail to see a future in housing.

The current-term Government is serious in addressing the housing challenge. We aim to provide PRH to the grassroots, help the lower to middle-income households meet their home ownership aspirations, maintain a healthy and stable private housing market, thereby rebuild the housing ladder. We appointed the Long Term Housing Strategy (LTHS) Steering Committee in September 2012 to advise the Government on the formulation of a new LTHS. The LTHS Steering Committee issued a consultation document in September 2013, consulted the public for three months and submitted its report to the Government in February 2014.

Meanwhile, we introduced two rounds of demand-side management measures in 2012 and 2013 respectively, which helped contain market exuberance. However, as domestic demand for housing remains solid, the ultimate solution to contain the rising prices and rents of housing must lie in increasing supply continuously and with sufficient scale, so as to break the vicious cycle that has been built up for quite some years.

The promulgation of the new LTHS is a significant development in our housing policy, as the new LTHS is the first long term strategic document on housing since 1998. The LTHS has incorporated the major recommendations of the LTHS Steering

Committee and the views gathered during the public consultation period. Guided by the vision of helping all households in Hong Kong gain access to adequate and affordable housing, we have made a major policy shift by adopting a supply-led strategy, with a view to averting the current supply-demand imbalance. In addition to increasing the supply of public and private housing, we will also seek to ensure the rational use of PRH resources and consider how to expand the forms of subsidised home ownership.

Based on the latest projections, we have adopted a total housing supply target of 480 000 units for the ten-year period from 2015-16 to 2024-25, with a 60:40 public-private split in new housing production[1]. We will review and update the projection annually and roll over a new supply target.

Setting a production target is the easier part. Delivering the target requires the adequate and timely supply of land, especially through new development areas and the review and rezoning of some existing sites. However, there are considerable concerns and scepticisms in the community about such initiatives. Local communities worry about the impact of housing development on traffic, the environment and the provision of community facilities. Coping with rising building costs and construction industry capacity presents further problems.

We do not have the luxury of painless solutions. If we shelve large-scale new development, avoid increasing density in built-up areas, give up rezoning, reclamation and land resumption, then where can we look to for releasing the much-needed land to meet our long term housing supply target? Given the lead time for land and housing development, we simply cannot afford endless debates without regard to the plight of the needy.

If we try to avoid the problem by, for example, arguing erroneously that there is no need for more new housing because there

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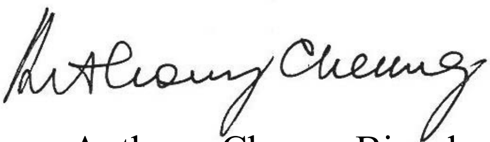
1 Details of the projection results are set out in the Long Term Housing Strategy – Implementation Milestones as at December 2014, which is available at the Transport and Housing Bureau website at www.thb.gov.hk.

is already a surplus, or if we lack the determination to accept a trade-off between housing development and keeping lands untouched, then we are doomed to failure; the vicious cycle will continue, and we will not see the end of the tunnel.

Now is the critical moment. The challenges are daunting indeed, but they have to be tackled head-on. Choices and trade-offs have to be made amid diverse interests and objectives. We have to make our LTHS work in order to rebuild confidence in a future where our younger generation can look forward to better and more affordable housing. For their future, there is no going back.



Professor Anthony Cheung Bing-leung
Secretary for Transport and Housing

Chapter 1

A New Housing Strategy for Hong Kong

Introduction

1.1 In 1998 the Government promulgated the previous Long Term Housing Strategy (LTHS), which set out targets for housing production, home ownership and access to public rental housing (PRH). Changes in the macroeconomic environment led the then Government to reposition its housing policy in 2002 by focusing on providing PRH to low-income families, ceasing the production of subsidised sale flats and minimising intervention in the housing market.

1.2 Hong Kong's economy and property market started to recover in 2004 after the Asian financial crisis. More recently, Hong Kong has been experiencing severe imbalance in supply and demand for both public and private housing. The property market has become overheated, with property prices and rents rising above what many members of the public can afford. Hong Kong's housing situation has reached a critical juncture that calls for a policy shift.

1.3 Shortly after its inauguration, the current-term Government appointed the LTHS Steering Committee in September 2012 to advise the Government on the formulation of a new LTHS. The Chief Executive's 2013 Policy Address further stipulated that the top priority of the current-term Government is to tackle the housing problem. The LTHS Steering Committee issued a consultation document in September 2013, consulted the public for three months and submitted its report to the Government in February 2014[1]. Meanwhile, the Panel on Housing of the Legislative Council (LegCo)

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[1] The LTHS consultation document and report on public consultation are available at the Transport and Housing Bureau website at www.thb.gov.hk.

also set up a Subcommittee on Long Term Housing Strategy in December 2012 to consider issues relating to the formulation of the LTHS. The Subcommittee concluded its work and issued its report in July 2014[2]. In addition, the Director of Audit released his Report No. 61 and Report No. 62 in October 2013 and April 2014 respectively, on the allocation and utilisation of PRH flats, as well as the planning, construction and redevelopment of PRH flats[3]. The above reports of the Director of Audit were considered by the Public Accounts Committee of the LegCo, which issued its Report No. 61 and Report No. 62 in February 2014 and July 2014 respectively[4].

1.4 In formulating the new LTHS, the Government has taken into account the recommendations of the LTHS Steering Committee; views collected during the LTHS public consultations; views and recommendations of the LegCo's Subcommittee on Long Term Housing Strategy; and observations and recommendations of the Director of Audit and the Public Accounts Committee of the LegCo. The Government has also consolidated the experience since the 1998 LTHS and the repositioning of housing policy in 2002.

1.5 On the above basis, the Government has formulated a new LTHS to address the structural issues pertaining to Hong Kong's housing problem. The Government has also put forward a new strategic direction and laid down guiding principles for housing policies. The Government will work with the community to resolve the housing problem, with a view to realising the long term objective of helping all households gain access to adequate housing.

Vision

1.6 Our vision is to help all households in Hong Kong gain

[2] The report of the Subcommittee is available at the LegCo's website at www.legco.gov.hk.

[3] The Director of Audit's Report No. 61 and Report No. 62 are available at the Audit Commission's website at www.aud.gov.hk.

[4] Report No. 61 and Report No. 62 of the Public Accounts Committee are available at the LegCo's website at www.legco.gov.hk.

access to adequate and affordable housing[5].

Principles

1.7 The new LTHS seeks to achieve changes progressively in accordance with the following principles –

(a) ***Supply-led*** : It takes years to prepare land and build housing units on it. Learning from the experience of the last decade, instead of starting to find land and build when demand for housing becomes evident, we should anticipate demand and plan for land supply. We should also, based on objective projections of long term demand, systematically plan for public housing construction and make land available for private housing development; and

(b) ***Flexible*** : Learning lessons from the experience of the upheavals in the property market after the 1998 LTHS and the impact of the marked changes in policies subsequently, forward plans and construction programmes should be adjusted regularly, on the basis of regular reviews of the long term demand projections that reflect changes in circumstances.

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[5] There is no common standard of adequate and affordable housing. Different societies, different segments within a society, or even different individuals may have their own views. Public housing units (including PRH and subsidised sale flats) are built to satisfy the housing needs of the relevant sectors of the community and are regarded as adequate housing. PRH and subsidised sale flats are provided as affordable housing to those who cannot afford to rent or buy a flat in the private sector. Applicants for PRH and subsidised sale flats are subject to eligibility criteria on income and assets, and the rents of PRH and prices of subsidised sale flats are set with regard to the affordability of the target households. As for private housing, housing units that are not inadequate (i.e. not made up of temporary structures, not located in non-residential buildings, not shared with other households and not subdivided) should be regarded as adequate housing (see Chapter 2). In terms of affordability, by maintaining a healthy and stable private housing market, people could meet their housing needs in accordance with their means.

Strategy

1.8 The Government has accepted the recommendation of the LTHS Steering Committee to adopt a supply-led strategy, which is to –

(a) plan early for land supply for production of both public and private housing, with the assistance of a new housing demand projection model;

(b) update the projection of long term housing demand and work out a rolling ten-year housing supply target every year;

(c) provide PRH units to serve as a “safety net” for the grassroots who cannot afford private rental housing;

(d) provide Home Ownership Scheme (HOS) flats and other forms of subsidised sale flats to enable the lower to middle-income households to meet their home ownership aspirations; and

(e) maintain the healthy and stable development of the private housing market through securing a stable supply of land and implementation of demand-side management measures as and when necessary.

1.9 The following chapters elaborate on the key elements of the LTHS.

CHAPTER 2

PROJECTION OF HOUSING DEMAND

Principles of Projection

2.1 While it is not possible to predict the future, it is essential for the LTHS to try to objectively project long term housing demand.

2.2 In formulating a method for projecting long term housing demand, the Government is mindful that under-estimation of demand could lead to insufficient supply, while over-estimation might lead to over production.

2.3 As the projection of long term housing demand is necessarily premised on a large number of assumptions which may or may not all prove correct, the method should produce a range of projections (instead of a single projection) to reflect possible housing demand scenarios under different economic and property market situations, which would enable the Government to have a better grasp of future trends.

Methodology

2.4 The Government has adopted the methodology and model recommended by the LTHS Steering Committee to project long term housing demand. Under the new projection model, housing demand is defined as the total number of new housing units required to provide adequate housing to each and every household over the long term. The model takes into account the following major components in projecting the number of new housing units required over a period of ten years –

(a) net increase in the number of households;

(b) those who will be displaced by redevelopment;

(c) those who are inadequately housed; and

(d) miscellaneous factors.

Net Increase in the Number of Households

2.5 New households are formed arising from marriages, splitting of existing households, immigration and expatriates coming to work in Hong Kong. At the same time, households may be dissolved due to deaths, emigration and expatriates returning to their home. The net change in the number of households leads to changes in housing demand.

2.6 The domestic household projections by the Census and Statistics Department (C&SD) form the basis of assessing the overall housing demand from the net increase in the number of households. C&SD's domestic household projections are trend-based and illustrate what would happen if the past trends were to continue in the future. The projections cover the effects on household formation due to a diverse range of demographic developments and factors including the ageing population; smaller household size; the increasing number of one-person households; lower fertility rate; and longer life expectancy at birth, etc. The projections also take into account factors affecting the movement of Hong Kong residents such as Hong Kong people living and working in the Mainland; Type I babies (whose fathers are Hong Kong permanent residents and whose mothers are not) and Type II babies (whose parents are both non-Hong Kong permanent residents); One-way Permit Holders settling in Hong Kong; expatriates; and entry of talents/professionals under various schemes.

2.7 In order to reflect possible changes in the household projection figures under different economic and property market situations, an econometric modeling exercise is conducted to quantify the relationship between household formation and economic performance and housing market situations. The new projection model will then project the number of domestic households under different assumptions to produce a range of projections of long term housing demand.

Households Displaced by Redevelopment

2.8 Rehousing households displaced by the redevelopment of old buildings in the public and the private sectors generates new housing demand on top of the net increase in the number of households. Announced redevelopment plans from the Hong Kong Housing Authority (HA) and the Hong Kong Housing Society (HS), as well as past trends in the private sector (including projects undertaken by the Urban Renewal Authority (URA)), form the basis for estimating new housing demand from households displaced by redevelopment. The annual review of the projection of long term housing demand will take into account new information on the redevelopment programmes where available.

Inadequately Housed Households

2.9 As the projection of long term housing demand aims to estimate the number of units required to satisfy the need for adequate accommodation in Hong Kong, the model deems households who are currently inadequately housed as having a need for new housing units. In considering what constitutes "inadequately housed", the model regards households living in public housing (i.e. PRH and subsidised sale flats such as HOS flats) as adequately housed, since public housing is built to satisfy the housing needs of the relevant sectors of the community. As for households living in private housing, the model takes the following circumstances into account in determining whether households are inadequately housed –

(a) if the housing unit is made up of temporary structures (e.g. huts, squatters and roof-top structures);

(b) if the unit is located in a non-residential building (e.g. commercial and industrial building);

(c) if the unit is shared with other households (e.g. those living in rooms, cubicles, bedspaces and cocklofts)[1]; and

(d) if the unit is subdivided[1].

Miscellaneous Factors

2.10 Apart from the above components, there may also be demands which the C&SD's domestic household projections do not cover. These include private permanent living quarters occupied by households with mobile residents[2] only, non-local students who might take up accommodation in Hong Kong, as well as non-local buyers who take up flats without selling or leasing them. An item "miscellaneous factors" is added to cover these components in the projection of housing demand, based on past trends.

Gross Total Housing Demand

2.11 The model generates the gross total housing demand by summing up the demand components above (see Chart 2.1). Taking into account results of the projections of various demand components and the econometric analysis on the projection of household formation, the projection will produce a range, instead of a single number, of units to reflect the gross total housing demand under different scenarios.

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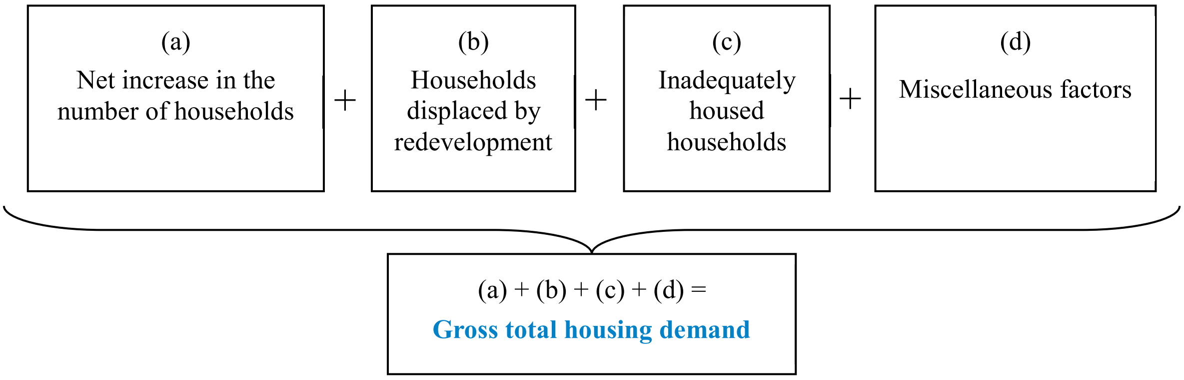
1 It should be noted that, depending on the actual living conditions, not all households sharing units with other households or living in subdivided units are necessarily inadequately housed.

2 Mobile residents refer to Hong Kong permanent residents who have stayed in Hong Kong for at least one month but less than three months during the six months before or after the reference time-point, regardless of whether they are in Hong Kong or not at the reference time-point.

Chart 2.1 Gross total housing demand



2.12 The Government considers that this projected gross total housing demand should have comprehensively covered all types of demand for PRH. This is because –

(a) for PRH applicants who are currently living in PRH, subsidised sale flats or private units and intend to form separate households of their own, their housing demand has been covered in the projection of "net increase in the number of households";

(b) for PRH applicants who are living in units affected by redevelopment projects, their housing demand has been covered in the projection of "households displaced by redevelopment"; and

(c) for PRH applicants who are inadequately housed, such as those living in subdivided units (SDUs) of poor condition, their housing demand has been covered in the projection of "inadequately housed households".

2.13 In projecting the net increase in the number of households, the model takes into account marriage, formation of one-person households and other demographic factors. Therefore, the long term housing demand projection has already covered the housing demand of the younger generation.

Annual Review

2.14 Ten years is a long period of time. In order to capture changes over time, the Government has adopted the recommendation of the LTHS Steering Committee to review the long term housing demand projection on an annual basis. The annual updating exercise enables the Government to review the ten-year projection in light of the prevailing policy and circumstances and to make timely adjustments accordingly where necessary.

CHAPTER 3

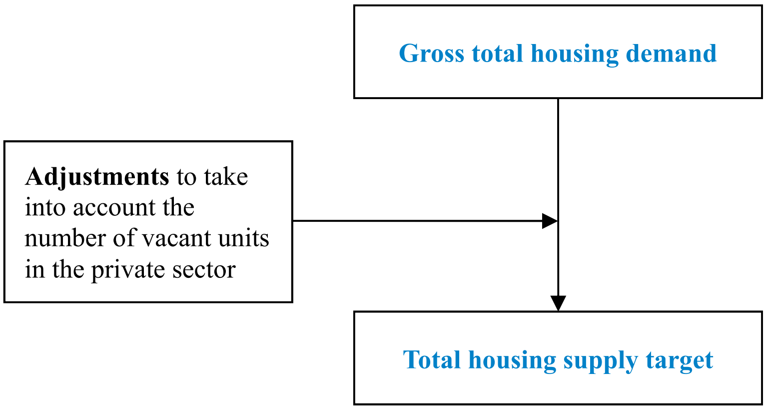
PLANNING FOR HOUSING SUPPLY

The Rolling Ten-year Housing Supply Target

Basis of Projection

3.1 The results of the long term housing demand projection form the basis for deriving the ten-year housing supply target. In addition, there are always a certain number of flats left vacant in the private sector at any point in time[1]. The number of vacant units at the beginning of the projection period, as well as the past average vacancy rate in the private sector, are taken into account together with the projected gross total housing demand over the next ten years in projecting the ten-year housing supply target (see Chart 3.1).

Chart 3.1 Total housing supply target



[1] A private residential unit may be vacant for various reasons. Properties which are not physically occupied, under decoration or pending occupation by the owner or tenant, etc. are treated as vacant. According to the Rating and Valuation Department, there were about 46 570 vacant private domestic units in Hong Kong as at the end of 2013. This represents a vacancy rate of about 4.1%, which is the lowest since 1997, and is considerably lower than the average vacancy rate (about 5%) in the private sector from 2004 to 2013.

3.2 In addition to setting the ten-year housing supply target, the Government will also determine the split between public and private housing within the targeted housing supply, as well as the split between PRH and subsidised sale flats within the new public housing production. The Government will take into account the following factors in considering the appropriate split of public/private housing and PRH/subsidised sale flats –

(a) the latest number of PRH applications and the average waiting time [2] (AWT) for general applicants, namely family applicants and elderly one-person applicants aged 60 or above;

(b) the role of subsidised sale flats as a buffer between PRH and private housing. In times of tight supply of private housing, an increase in the supply of subsidised sale flats could help ease demand in the private market and promote upward mobility for PRH tenants who aspire for home ownership. On the other hand, when market demand eases, reducing the supply of subsidised sale flats could help stabilise the private property market;

(c) aspirations of lower to middle-income households, especially first-time home buyers and youngsters, for home ownership; and

(d) the need to ensure stable and healthy development of the private housing market.

3.3 The 2014 Policy Address took the lead in adopting the LTHS Steering Committee's recommendation that public housing should account for 60% of the ten-year housing supply target of 470 000 units. The 2014 Policy Address further announced that,

[2] Waiting time refers to the time taken between registration for PRH and first flat offer, excluding any frozen period during the application period (e.g. when the applicant has not yet fulfilled the residence requirement; the applicant has requested to put his/her application on hold pending arrival of family members for family reunion; the applicant is imprisoned, etc). The AWT for general applicants refers to the average of the waiting time of those general applicants who were housed to PRH in the past 12 months.

among public housing, the supply of PRH should be 200 000 units while that of subsidised sale flats 80 000 units. In line with the annual roll-over approach, the Government will review and where necessary adjust these splits between public and private housing, and between PRH and subsidised sale flats to better respond to changing market situations and evolving needs of the community. In order to facilitate the implementation of such adjustments, the HA will need to maintain the interchangeability of PRH and subsidised sale flats. This will enable the HA to adjust the supply of PRH and subsidised sale flats in line with adjustments in the ten-year targets.

3.4 With annual updating of the long term housing demand projection, the Government will update the rolling ten-year housing supply target and announce the updated results by the end of each financial year.

Land Supply for Housing

Overall Strategy

3.5 To meet the housing and other development needs of the community, the Government adopts a multi-pronged strategy to increase land supply in the short, medium and long term through the continued and systematic implementation of a series of measures. Short term measures focus on optimising the use of developed land as far as practicable, including the developed areas in existing urban areas and new towns, as well as land in the vicinity of the existing developed areas and infrastructures, through land use reviews and increasing development intensity wherever appropriate. Medium and long term measures seek to create new developable land through major development and reclamation projects. These include various new development areas and new town extension; review and rationalisation of brownfield sites and deserted agricultural land in the New Territories; mapping out further development strategy for Lantau and the New Territories North; exploring reclamations outside Victoria Harbour; and developing caverns and underground space, etc.

3.6 As far as housing development is concerned, the Government will, together with the HA, strive to secure suitable housing sites, maximise the use of existing housing sites and streamline the procedures to fast-track the delivery of sites for meeting the increasing demand for public housing. The Government will also endeavour to maintain a steady supply of land for private residential development through land sales and land grants (including those for urban renewal and railway property development projects). The Lands Department has been reviewing the processes under lease and streamlining the procedures in processing lease modifications to facilitate land development. It also launched a Pilot Scheme for Arbitration on Land Premium in October 2014 as an administrative initiative to facilitate early agreement on premium for lease modification/land exchange applications.

3.7 Given the lead time required for site production and housing development, housing supply for the first few years of the coming ten-year projection period will have largely been fixed when the Government announces the updated rolling ten-year housing supply target. Room for adjusting such supply is limited. Hence, the Government will plan ahead for the land required for housing development in the latter part of the ten-year period and beyond to meet the housing supply target. However, the society as a whole would have to acknowledge that, in order to make land available for development to meet the housing supply target, sometimes difficult choices and delicate trade-offs would have to be made by the community. There is simply no magic solution that can increase land supply by rezoning sites for housing use or increasing development intensity but without causing any impact on the local community in the neighbourhood of the sites concerned.

Relevant Processes

3.8 Increasing land supply, either by way of creating new land for development or optimising the use of developed land, has to go through various statutory processes and established procedures. Prior to considering the opening up of a large area for development, a planning and engineering study will usually be required to provide the basis. During the course of the study, the public and stakeholders will have opportunities to participate and offer views and suggestions, and detailed technical assessments covering the environmental, transport, drainage, sewerage, water supply and air ventilation aspects, etc. will also be required as necessary. In short, a normal study process will include a planning study, technical assessments, public engagement, environmental impact assessment, initial design, etc. Amongst these, public engagement activities in stages will require at least one year, while environmental impact assessment will take at least about two years to complete, including a 12-month ecological baseline study, six to nine months for carrying out various related detailed assessments, and six months for seeking approval of the environmental impact assessment report. Therefore, the study process usually takes three years or even longer to complete.

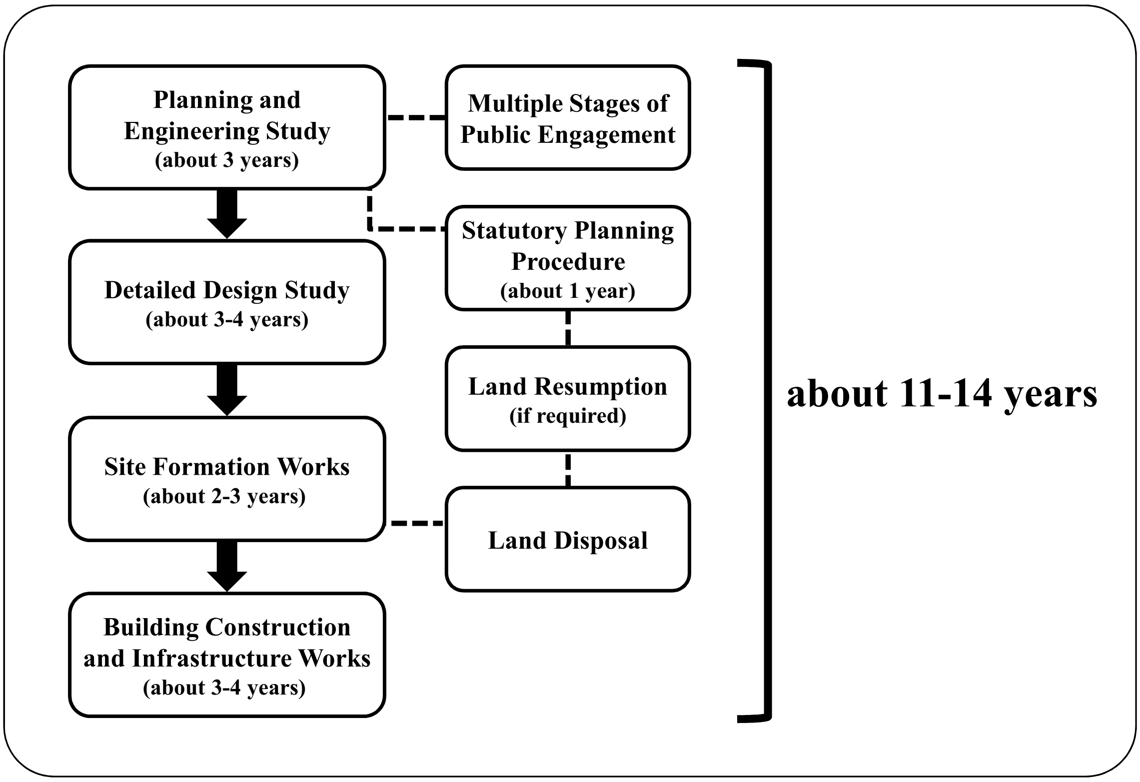
3.9 After formulating the development proposals, the statutory planning procedures including amendments to statutory plans, if required, will begin. The detailed design of works normally requires funding application to the Finance Committee of the LegCo. This part of work takes at least three to four years. It is also necessary to go through the statutory and other procedures in relation to road works, land resumption and clearance, including surveys on the affected people and providing statutory compensation, ex-gratia allowances and rehousing according to the eligibility criteria. Upon completion of the detailed design, the Government needs to seek funding approval from the Finance Committee of the LegCo in phases again for conducting the site formation and related infrastructure works.[3]

3.10 The relevant works such as site formation, infrastructure and building construction will only commence after completion of the land resumption procedures, which may take five to seven years to

[3] In the case of sites for construction of public housing by the HA, generally after site formation the HA will fund the building construction works. Hence, further approval from the Finance Committee of the LegCo for the building construction works is not necessary.

complete[4]. Overall, the entire land and housing development process will usually require a total of 11 years or longer to complete (see Chart 3.2 for an indicative workflow of major processes for land and housing development projects).

Chart 3.2 Major processes for land and housing development projects



3.11 As for individual site production that seeks to optimise the use of developed land, the Government has to similarly take into account a host of factors, including traffic and infrastructure capacity, provision of community facilities and open space, relevant technical constraints, local characteristics and existing development intensity, potential impacts on the local environment, visual and air ventilation impacts, etc. If necessary, government departments will carry out technical assessments or studies, and recommend measures to mitigate

[4] In the case of public housing, it normally takes about three and a half years to complete the foundation and construction works for a 40-storey public housing block on "spade ready" sites (i.e. sites which have been properly zoned for residential use, and sites which are resumed, cleared and formed, with adequate provision of infrastructure).

the potential impacts of the proposed development. Apart from the statutory planning and road work procedures, some sites may require land resumption and clearance and/or relocation of the existing or planned facilities. It also takes time to consult the relevant District Councils, local residents and other stakeholders. The time required for site production is thus subject to individual site circumstances and the necessary procedures, and ranges from about one year (for very straight forward cases) to five years (for cases involving some technical studies and clearance) in general or even longer for difficult sites with complicated issues (see Chart 3.3 for an indicative process of individual site production).

Chart 3.3 Indicative process of individual site production

Technical Assessments (if required)

- Air Ventilation Assessment
- Visual Impact Assessment
- Drainage Impact Assessment
- Sewerage Impact Assessment
- Tree Survey
- Traffic Impact Assessment
- Engineering Feasibility Study for Road
- Noise Impact Assessment
- Hazard Assessment
- Natural Terrain Hazard Study
- Odour Impact Assessment, etc.

Statutory Procedures

- Statutory planning procedures
- Statutory road works procedures
- Land resumption and clearance

Local Consultation

- District Council / Rural Committee
- Residents

Transport Services and Community Facilities

- Clinic
- Hospital
- School
- Social welfare facilities
- Community hall
- Market
- Public transport services
- Public car park
- Leisure and recreational facilities
- Local open space
- District open space
- Refuse collection point, etc.

Note: The time required is subject to individual site circumstances and the necessary procedures, and ranges from about one to five years in general or even longer for difficult sites with complicated issues.

Institutional Support

3.12 The Government has put in place an institutional framework to help secure the supply of land for housing development. The Committee on Housing Development, chaired by the Permanent Secretary for Transport and Housing (Housing), is responsible for assessing housing demand, monitoring the timely supply of suitable land for public housing development to meet the anticipated demand, as well as the implementation of the public housing development programme to meet the housing supply targets set by the Government subject to timely availability of land. The Committee on Housing Development is also tasked to advise the Secretary for Transport and Housing on the long term housing supply target.

3.13 The Committee on Planning and Land Development, chaired by the Secretary for Development, steers and coordinates land use planning and land development matters (including planning and allocation of land for various uses such as residential uses), and makes decisions on development proposals and development parameters of individual sites. Matters considered by the Committee on Planning and Land Development involve major planning and land development initiatives to meet the long term needs of Hong Kong, including housing, economic and social development, etc.

3.14 The Steering Committee on Land Supply chaired by the Financial Secretary coordinates the overall plans for development and supply of land for various uses, including housing. With the involvement of relevant Directors of Bureaux and heads of departments, the Steering Committee on Land Supply provides a forum for resolving inter-bureau and inter-departmental issues affecting the availability of individual housing sites (such as infrastructure and facilities provision).

3.15 The terms of reference and membership of the above Committees are set out at **Annex**.

The Projection and Planning Cycle

3.16 Given the supply-led strategy, it is essential to have projections of demand for the next ten years as well as planning and construction targets which aim at meeting the projected demand. However, there are inherent challenges in actual implementation of the targets.

3.17 For the reasons explained in preceding sections, there is often a long lead time in securing and forming land for housing, and in building housing on such land. Given so, it is inevitable that at the time when a ten-year housing target is adopted, the necessary land, funding, staff, and other resources may not have all been made ready. Put differently, the point of the supply-led strategy is precisely to align all efforts and resources towards meeting the target and hence the projected demand. Therefore, that not all resources may have been readied initially for the ten-year target is not a defect of the LTHS; rather, the LTHS is the Government's policy tool for seeking to address various problems and mobilise relevant resources in a systematic and coordinated manner to achieve the target.

3.18 Another important aspect in understanding the ten-year target is that, again because of the long lead time in the production of land and housing, significant changes between a ten-year target and the next will take time to materialise. For example, if a new ten-year target is higher than the preceding one, it is unlikely that we can make substantial changes to the production programme for the first five-year period. While the interchangeability of PRH and subsidised sale flats provides some flexibility, any necessary changes will mostly have to take place in the second five-year period. This is similarly the case when a new ten-year target is lower than the preceding one, with the exception that land that has become "surplus" can be put in the land reserve, which will be released for use when land and production targets pick up subsequently.

The Challenges Ahead

3.19 The successful implementation of the projection and planning cycle hinges on both the robustness of the long term housing demand projection and the availability of land, manpower and financial resources to achieve the projected supply target. As mentioned earlier, the Government will review the long term housing projection on an annual basis to take into account any changes in policy and/or prevailing circumstances in a timely manner. As for resources, the Government seeks to secure the necessary land, manpower and financial resources to achieve the target. Ultimately, in order to achieve the housing supply target, the support of the community as a whole is indispensable in overcoming various hurdles to make land available for housing construction, including ensuring the timely completion of the necessary planning processes to enable the delivery of land for housing development.

CHAPTER 4

RATIONAL USE OF PUBLIC RENTAL HOUSING RESOURCES

Helping Those in Need

4.1 PRH is the primary housing solution for low-income families, and the Government is fully committed to providing PRH to those who cannot afford private rental housing. The Government achieves this policy objective primarily through the HA, which develops and implements a public housing programme.

Average Waiting Time for General Applicants

4.2 It has been the target of the HA to maintain the AWT[1] at around three years for general applicants (i.e. family and elderly one-person applicants) for PRH. To underline its commitment to provide adequate and affordable housing to families in need, the Government will continue to support the HA through the provision of land, manpower and financial resources. This will help the HA maintain its AWT target for general applicants at about three years.

4.3 The HA meets the demand for PRH by new flats and refurbished flats surrendered by tenants. The HA monitors the number of new PRH applications, which serves as a medium term reference for the number of flats required to satisfy the demand from

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1 Waiting time refers to the time taken between registration for PRH and first flat offer, excluding any frozen period during the application period (e.g. when the applicant has not yet fulfilled the residence requirement; the applicant has requested to put his/her application on hold pending arrival of family members for family reunion; the applicant is imprisoned, etc.). The AWT for general applicants refers to the average of the waiting time of those general applicants who were housed to PRH in the past 12 months.

PRH applicants after three years. The HA also keeps in view the changes in the actual AWT, which captures the latest changes in waiting time of PRH applicants in the past 12 months. The HA takes these factors into consideration and, where appropriate, adjusts the production plans for PRH and subsidised sale flats to meet the PRH demand and to maintain the AWT target at about three years.

Redevelopment of Aged Public Rental Housing Estates

4.4 The primary source of PRH flats is new developments. As for redevelopment of aged PRH estates, according to the "Refined Policy on Redevelopment of Aged Public Rental Housing Estates" formulated by the HA in 2011, the HA will consider redevelopment of individual estates with reference to four basic principles, viz. structural conditions of buildings, cost-effectiveness of repair works, availability of suitable rehousing resources in the vicinity of the estates to be redeveloped, and build-back potential upon redevelopment.

4.5 In considering proposals for redeveloping individual estates, the HA will conduct a series of detailed technical studies and consultations with relevant government bureaux and departments, the District Councils and local communities to determine the associated ancillary facilities such as community, welfare, transport and educational facilities in the wider context of the districts concerned. Upon completion of the detailed technical studies and if it is decided to proceed with redevelopment, the HA will give sufficient advance notice to affected tenants and provide them with financial and other assistance. The HA will normally make formal announcement for redevelopment three years before the clearance operation.

4.6 While redevelopment may increase PRH supply over the long term, it will in the short term reduce PRH stock available for allocation. This will inevitably add further pressure on the HA's ability in maintaining the AWT target at about three years. The net gain in flat supply from redevelopment will take a long time to realise, very often towards the latter if not the last phase of the redevelopment. Hence, redevelopment could at best serve as a supplementary source of PRH supply. It is also not advisable to carry out any massive redevelopment programme which will result in freezing a large number of PRH units that may otherwise be allocated to needy households, given the current high demand for PRH. The HA will continue to consider redevelopment on an estate-by-estate basis in accordance with its policies and criteria.

Making the Best Use of Limited Resources

4.7 Despite the best efforts of the Government and the HA, the supply of new PRH units cannot be unlimited from the perspective of both land and financial resources. To ensure that precious PRH resources are used to assist those in genuine need, PRH applicants have to meet eligibility criteria on income and assets. The HA reviews the income and asset limits annually to keep them in line with the prevailing socio-economic circumstances.

4.8 In addition to eligibility criteria on income and assets, it is necessary to have other measures to allocate PRH flats in a fair and rational manner and to ensure the rational use of PRH resources.

Quota and Points System

4.9 With limited resources, it is the priority of the Government and the HA to provide PRH flats to family applicants and elderly one-person applicants. For non-elderly one-person applicants (i.e. those who are below the age of 60), the HA administers a separate Quota and Points System (QPS). Under the QPS, the allocation of PRH to non-elderly one-person applicants is subject to an annual quota. The total points accumulated by applicants on the basis of factors including their age at the time of application; how long they have been waiting for PRH; and whether they are currently living with their families in PRH, determine their priority of allocation. The three-year AWT target does not apply to applicants under the QPS.

4.10 While family and elderly one-person applicants will continue to enjoy priority access to PRH, the Government understands the difficulties faced by those non-elderly one-person applicants who are relatively aged, as they stand a lower chance for upward mobility. The Government understands that the HA has reviewed and decided that, subject to availability of PRH resources, the annual quota for QPS applicants will be increased. The HA has also decided to assign more points to QPS applicants who are relatively aged, and to conduct regular checking of QPS applicants to remove those who are no longer eligible for PRH. This will enable the HA to better assess the demand for PRH amongst non-elderly one-person applicants. The Government expects the HA to continue to keep the QPS policy under review.

Under-occupation Policy

4.11 The HA implements an Under-occupation (UO) Policy to require households with living space exceeding prescribed standards to move to another PRH flat of an appropriate size[2]. The HA reallocates the units so recovered to households with larger family size, which may be new applicants or overcrowded tenants (see paragraph 4.16 below).

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2 According to the HA's UO Policy, households with living space exceeding the prescribed UO standards are required to move to another PRH flat of appropriate size. The HA has adopted a phased approach to handle UO cases, and priority is given to handling those Prioritised UO households with living space exceeding the prescribed standards. Under the prevailing UO measures, households with disabled members or elderly members aged 70 or above are excluded from the UO list. In addition, UO households with elderly members aged between 60 and 69 are placed at the end of the UO list for transfer and will not be required to transfer until the next policy review. The latest UO and Prioritised UO standards effective from October 2013 are as follows -

Household Size	1-person	2-person	3-person	4-person	5-person	6-person
UO Standards (Internal Floor Area Exceeding)	25 m^2	35 m^2	44 m^2	56 m^2	62 m^2	71 m^2
Prioritised UO Standards (Internal Floor Area Exceeding)	30 m^2	42 m^2	53 m^2	67 m^2	74 m^2	85 m^2

4.12 To encourage transfer, the HA offers Prioritised UO households a maximum of three housing offers in the residing estate or an estate in the same District Council constituency, Domestic Removal Allowance and opportunity to transfer to new estates subject to availability. If the households refuse all the three housing offers without justified reasons, they are subject to termination of tenancy.

4.13 The HA reviews the UO Policy and its implementation regularly to ensure the rational use of PRH resources. The Government concurs with the UO Policy, and understands that the HA will continue to adopt a reasonable and considerate approach in reviewing and implementing the Policy in order to avoid causing undue hardship to affected tenants.

Well-off Tenants Policies

4.14 Under the HA's "Well-off Tenants Policies", households who have been living in PRH for ten years or more are required to declare their income (and where appropriate, assets) regularly. PRH households with income exceeding the prescribed income limits are required to pay additional rents, whereas households with income and assets value both exceeding the prescribed income and asset limits are required to vacate their PRH flats[3].

4.15 The Government understands that the HA will continue to implement the Well-off Tenants Policies and keep the Policies under review to ensure the best use of PRH resources. Meanwhile, the

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[3] The HA's Housing Subsidy Policy and the Policy on Safeguarding Rational Allocation of Public Housing Resources are commonly referred to as the "Well-off Tenants Policies". Under the Housing Subsidy Policy, households living in PRH for ten years or more are required to declare household income biennially. Those with a household income exceeding the corresponding Subsidy Income Limits have to pay additional rent: (a) those with household income equivalent to two to three times of the PRH Income Limits are required to pay 1.5 times net rent plus rates; and (b) those with household income exceeding three times of the PRH Income Limits are required to pay double net rent plus rates. The PRH Income Limits are subject to annual review. At the same time, under the Policy on Safeguarding Rational Allocation of Public Housing Resources, households paying double net rent plus rates under the Housing Subsidy Policy have to declare their assets biennially. Those with total household income and net assets value both exceeding the prescribed Income and Net Assets Limits are required to vacate their PRH flats.

Government's policy commitment to provide subsidised sale flats (see Chapter 5) will offer an avenue and appropriate incentives for better-off PRH tenants to move out from their PRH units and buy their own homes. This will help better-off tenants move up the housing ladder, thereby releasing precious PRH resources to meet the demand from PRH applicants.

Other Measures

4.16 Under the HA's existing policy, the allocation standard of PRH is no less than $7m^2$ of internal floor area (IFA) per person[4] as far as resources permit. Subject to the availability of housing resources, the HA arranges relief exercises each year for PRH households whose living space is below prescribed levels[5]. The Government supports the HA's efforts in relieving overcrowded PRH households, which is rational use of PRH resources. The Government calls on the HA to continue to keep under review its allocation standard and the policy for relieving overcrowding, striking a balance between the needs of existing tenants and applicants.

4.17 The Government expects the HA to implement additional measures where appropriate to ensure the allocation of PRH flats to people in genuine need. The HA should also step up its efforts in detecting and tackling tenancy abuse cases.

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4 In practice, the actual IFA per person of PRH tenants has been gradually increased to $13m^2$ over the years.

5 Under the HA's existing policy, households are defined as overcrowded if the IFA of the flats are less than $5.5m^2$ per person. Such overcrowded families may apply through the Territory-wide Overcrowding Relief Transfer Exercise for relocation to larger flats. Those families with IFA below $7m^2$ per person (i.e. the existing PRH allocation standard) may apply for the Living Space Improvement Transfer Scheme to improve their living condition. Subject to the availability of resources, the HA arranges about one to two Territory-wide Overcrowding Relief exercises and one Living Space Improvement Transfer Scheme exercise each year.

CHAPTER 5

SUBSIDISED HOME OWNERSHIP

An Essential Element of the Housing Ladder

5.1 For some lower to middle-income families, HOS flats and other forms of subsidised sale flats serve as the first step for home ownership. Subsidised sale flats also provide an avenue for better-off PRH tenants to buy their own homes, thereby releasing their PRH flats for use by those who are in genuine need. Subsidised home ownership is an essential element of the housing ladder which helps promote social mobility. It is a core component of the Government's LTHS.

5.2 To ensure the rational use of public resources, buyers of subsidised sale flats are subject to eligibility criteria on income and assets[1]. According to the HA's policy, the income limit for the HOS is set taking into account the housing and non-housing costs for families to purchase a reasonably sized flat in the private sector[2], whereas the asset limit is derived from the amount of expenditure required to finance downpayment and the related transaction costs and decoration expenses. As for pricing, the selling prices of HOS flats are determined by applying a discount to the market value, and the discount is related to the affordability of the eligible households within the HOS income limit[3]. The Government concurs with the HA's general policies on eligibility criteria and pricing for the HOS, and understands the HA will ensure that the relevant income and asset limits and pricing of HOS flats will largely reflect the affordability of

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[1] Except those with "Green Form" status, i.e. PRH tenants and PRH applicants who have undergone detailed vetting and are due for allocation of PRH within one year.

[2] Housing cost is based on the monthly expenditure for owning a ten-year-old private flat of about 40m^2 saleable area in the Extended Urban area or the New Territories. Non-housing cost is based on the average household expenditure of the middle one-third expenditure group of four-person households amongst tenant households in the private sector.

[3] The general guideline is to offer a discount of 30% from market value. A higher discount may be considered to ensure that the HOS flats are affordable to the target households.

the target households under the prevailing socio-economic conditions.

5.3 The Government will keep in view the operation of the HOS, which continues to be the main vehicle for subsidised home ownership. In reinforcing the housing ladder and promoting social mobility, the Government will consider how to expand the forms of subsidised home ownership and, where appropriate, introduce supplementary schemes of subsidised sale flats.

5.4 The Government will identify suitable sites for the development of subsidised sale flats. As noted in Chapter 3, given the unique nature of subsidised sale flats as a buffer between PRH and private housing, the HA needs to maintain the inter-changeability of PRH and subsidised sale flats and adjust their numbers timely to better respond to changes in market situations and the housing needs of the community.

Leveraging on the Private Sector's Capacity

5.5 The private sector had in the past contributed to the provision of subsidised sale flats through the Private Sector Participation Scheme (PSPS)[4]. Subsidised sale flats from PSPS projects were first launched for sale in 1978, as a supplement to the HOS flats constructed by the HA. Until the termination of the PSPS following the then Government's repositioning of housing policy in 2002, the PSPS produced a total of about 98 000 flats in 47 projects. The PSPS has contributed considerably towards the provision of subsidised sale flats, though there were criticisms on the quality of some PSPS flats.

[4] Under the then PSPS, the Government offered sites by tender to private developers to build flats according to requirements laid down in a Technical Schedule. Under the lease of the PSPS, flats had to be sold to purchasers nominated by the HA. Purchasers were subject to the same set of eligibility criteria and resale restrictions as were applicable to subsidised sale flats sold under the HOS.

5.6 Subsidised sale flats are expected to play a crucial role in the Government's supply-led strategy in meeting the housing needs of the community. Drawing on past experience, the Government will explore suitable arrangements to leverage on the private sector's capacity to supplement the Government's efforts in providing subsidised sale flats in order to achieve the ambitious supply target. The arrangement should also be conducive to the delivery of quality flats.

Facilitating Circulation

5.7 The Government has introduced the HOS and other assisted home ownership schemes for decades. Some families may no longer have need for the subsidised sale flats they owned in view of changes in circumstances. However, the requirement that owners of subsidised sale flats have to pay premium in order to trade their flats in the open market may have discouraged the release of such flats in the open market. To facilitate the circulation of subsidised sale flats and maximise the effect of the housing ladder under the supply-led strategy, it is necessary to make better use of such housing resources by allowing more people to have access to subsidised sale flats, either with or without premium paid.

5.8 Both the HA and the HS have introduced a Secondary Market arrangement to allow selling of subsidised sale flats to households with Green Form status without payment of premium. As at end September 2014, there were a total of about 380 000 subsidised sale flats with premium not yet paid that can be sold in the Secondary Market. They provide an alternative source of subsidised sale flats, in addition to newly built flats, that could help the relevant sectors of the community to meet their home ownership aspirations.

5.9 In addition, to implement the Chief Executive's 2012 Election Manifesto, an Interim Scheme was launched in 2013 to extend the Secondary Market arrangement for subsidised sale flats to White Form buyers[5] in the interim period before new HOS flats are released to the market. In light of the demand for subsidised sale flats, the Government understands that the HA will launch an extra round of the Interim Scheme before conducting a full review and deciding on the next step forward.

5.10 Meanwhile, the Government will continue to explore effective means to facilitate better use of the existing stock of subsidised sale flats, including promoting their market circulation.

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[5] White Form buyers refer to households meeting the eligibility criteria to buy subsidised sale flats from the HA or the HS, but without Green Form status.

CHAPTER 6

HEALTHY AND STABLE RESIDENTIAL PROPERTY MARKET

6.1 Over half of all households in Hong Kong are living in private housing (including both self-owned and rental units). In addition, property market trends have a direct impact upon the macroeconomy and the financial system. Maintaining the healthy and stable development of the private property market is therefore one of the important housing policy objectives of the Government. The Government will continue to adopt a two-pronged approach in securing a stable supply of land to meet market demand and curbing external and speculative demands as and when necessary to help stabilise the property market and prevent the adverse consequences arising from an overheated market.

Stable Land Supply

6.2 A tight demand-supply market balance is one of the major reasons for the rally in flat prices and rentals in the past few years. The Government is determined to tackle the problem at source by securing an adequate supply of land. As mentioned in Chapter 3, the Government adopts a multi-pronged strategy comprising short, medium and long term measures to continually expand land resources through optimal use of developed land and development of new land and new towns.

6.3 Apart from the above measures to increase land supply, the Government will strive to enhance efficiency in land and housing supply through streamlining the procedures and enhancing the land administration mechanism. The Government will continue its efforts on this front and carry out review from time to time to facilitate the housing development processes.

Promoting Good Practices

6.4 The full implementation of the Residential Properties (First-hand Sales) Ordinance (Cap. 621) since April 2013 has greatly enhanced the transparency and fairness of the sales of first-hand residential properties and strengthened consumer protection. Such good practices have been extending to the second-hand residential property market. For example, under a practice circular issued by the Estate Agents Authority, estate agents are required to provide their clients of second-hand residential properties with area and price information on the basis of saleable area.

6.5 The Government considers that there is a case to similarly promote good practices in the tenancy market. The Government will continue to work with relevant organisations to enhance public education efforts and to promote good tenancy practices, such as the signing of tenancy agreements.

Demand-side Management Measures

6.6 While the long term solution to achieving a healthy and stable residential property market lies in adequate long term land and housing supply, it is important for the Government to closely monitor the market situation as well as changes in the local economy and the external environment, and introduce demand-side management measures as and when necessary.

6.7 In the past few years, ultra-low interest rates and abundant liquidity under the loose global monetary environment have seen the local property market out of line with economic fundamentals, with heightened risk of a bubble. Against such background, the Government has introduced several rounds of demand-side management measures over the past few years, with a view to curbing speculative activities, reducing the risk of the development of an asset bubble and preventing even further exuberance in the housing market which may pose significant risks to our macroeconomic and financial sector stability. These demand-side management measures include the introduction of a Special Stamp Duty (November 2010 and October 2012), a Buyer's Stamp Duty (October 2012) and a doubled ad valorem stamp duty (February 2013).

6.8 Demand-side management measures are extraordinary measures introduced under exceptional circumstances. They serve only as supplementary measures that help stabilise the property market. The Government will remain vigilant and continue to monitor the property market closely with reference to a series of indicators, including property prices, affordability, transaction volume, supply situation, mortgage to income ratio, etc., as well as changes in the local and global economic situations (e.g. fiscal measures introduced by other countries and regions in response to market situation). Keeping the evolving external environment and market conditions in view, the Government will consider adjusting existing measures or putting in place new measures as and when necessary.

6.9 The Government will also keep a close eye on market demand. In particular, as set out in Chapter 3, the Government will review and update the projection of long term housing demand on an annual basis to take into account any changes in policy or prevailing circumstances with a view to formulating an appropriate long term housing supply target. This will enable the Government to respond to any changes in a more timely manner before the building up of a huge imbalance between supply and demand.

Inadequately Housed Households

6.10 The living conditions of inadequately housed households (IHH) have been a cause for public concern. Over the years, accommodation for IHHs has taken many different forms. In the past, typical accommodations for IHHs range from temporary structures such as huts, squatters and roof-top structures, to shared units within building blocks such as cocklofts, cubicles and bedspaces.

More recently, there has been a proliferation, particularly in the urban area, of SDUs in residential, composite or even industrial buildings.

6.11 Regardless of the forms that the accommodation for IHHs may take or the reasons for their existence, the Government considers that IHHs should have access to adequate accommodation, and that PRH should be the primary solution for many such households. Therefore, the projection of long term housing demand under the LTHS takes into account the housing needs of IHHs, and targets for PRH and subsidised sale flats derived under the LTHS will in the long term address the housing needs of IHHs. Many IHHs have applied for PRH, and increased PRH production will meet their needs over time. As for the other IHHs, the Government's measures to maintain a stable and healthy residential property market will help stabilise rents and in turn help IHHs as they are mostly living in rented accommodation.

6.12 Even though the LTHS Steering Committee's public consultation document put forward a suggestion to introduce a licensing or landlord registration system to regulate SDUs, the Government notes that the community expressed considerable reservations over the suggestion during the LTHS public consultation exercise. There were concerns that a licensing or landlord registration system would reduce the supply of SDUs and drive up the rents of SDUs, thus causing further hardship to SDU tenants. There were also concerns that a regulatory system that would only subject SDUs to a loose set of licensing or registration requirements would compromise the safety of SDU tenants and residents living in the same buildings. Some property owners who were not SDU landlords were concerned about the structural safety, environmental hygiene and building management of buildings with a large number of SDUs.

6.13 In view of the concerns expressed by the community, the Government will not introduce any licensing or landlord registration system for SDUs. However, the building and fire safety of IHHs, particularly those who are living in SDUs, should under no circumstances be compromised. The Government will therefore adopt a multi-pronged approach in addressing the safety issues associated with SDUs. The Buildings Department's Minor Works

Control System allows landlords, including those leasing out domestic SDUs, to carry out minor works in private residential and composite buildings lawfully through simplified procedures. In terms of enforcement, the Buildings Department will continue to step up its efforts to eradicate SDUs in industrial buildings. It will adopt a risk-oriented approach by targeting its inspection and enforcement action at industrial buildings more likely to have SDUs. As for SDUs in residential and composite buildings, the Buildings Department will continue its intensified enforcement action against irregularities relating to building and fire safety. In addition, the Government will enhance its public education efforts to promote awareness of building and fire safety amongst prospective SDU tenants.

6.14 There have been suggestions for the Government to provide transitional housing on urban sites which do not have other immediate uses to accommodate IHHs. The Government has looked into such suggestions but found them not practicable. First of all, given the lack of urban land, suitable urban sites for housing should be reserved for PRH flats as far as possible, which will ultimately benefit those IHHs who are PRH applicants. Furthermore, even if urban sites which do not have other immediate uses are to be granted under short term tenancy for the development of transitional housing blocks, they would still require additional infrastructural works that take time to complete (such as the provision of sewerage). In any case, the size and number of such temporary sites are bound to be very limited. They would not be able to provide the intended short term relief for a large number of IHHs.

Tenancy Control

6.15 There have been suggestions for the reintroduction of forms of tenancy control (including control on rents and control on tenure) by way of legislation to help safeguard the interest of grassroots tenants, such as tenants living in SDUs.

6.16 While the Government takes note of such suggestions and the motive behind them to contain private housing rental increase, there have been contrary views from many other members of the public. Reintroducing tenancy control is a highly controversial issue and there is as yet no consensus in the community over this issue. Drawing reference from the history of tenancy control in Hong Kong and studying overseas experience, the Government notes that despite the good intention of the advocates, tenancy control measures often lead to an array of unintended consequences, including those to the detriment of some of the tenants whom the measures seek to assist. Such unintended consequences include –

(a) ***Reducing supply of rented accommodation*** : An artificially suppressed market rent may reduce the incentive and willingness of landlords to lease out their premises. It may even result in fewer housing units being built, leading to further drop in the supply of rented accommodation;

(b) ***Limiting access to adequate housing by the socially disadvantaged*** : Some landlords may become more selective about their tenants as it will be more difficult to terminate a tenancy under tenancy control. As a result, those with unstable financial means (e.g. daily-waged workers), ethnic minorities, persons with disabilities, and other socially disadvantaged groups may find it even more difficult to find rented accommodation;

(c) ***Encouraging certain behaviour from landlords to offset the impact of the tenancy control measures*** : Such behaviour may include charging a higher initial rent; asking for more deposit money, demanding different kinds of side payments; overcharging tenants on certain payments directly associated with the lease (e.g. management fees, gas/water charges, electricity fee, etc.); and altering the lease terms to the effect that the premises concerned will not be subject to any form of tenancy control; and

(d) ***Discouraging proper maintenance of the rented accommodation*** : As landlords will not receive any additional rental income for their investment in repairs and maintenance, tenancy control may induce landlords to leave their premises to deteriorate, causing a drop in the overall housing quality.

6.17 Public views on the subject are diverse. While there is considerable support of the revival of tenancy control among IHHs and concern groups championing grassroots rights, others cast doubts on the effectiveness of the measure in offering the desired protection to grassroots tenants, having regard to the unintended consequences aforementioned.

6.18 Weighing the pros and cons, the Government is of the view that it will not be in the interest of IHHs and of the general public to introduce any tenancy control measures in Hong Kong, given the lack of public consensus and considering the potential adverse consequences associated with these measures which render them counter-productive. The Government believes that a continued increase in housing supply should be the fundamental solution to the problem of surging rent caused by insufficient supply. No quick fix is available.

CHAPTER 7

CONCLUSION

A Firm Foundation

7.1 This LTHS sets out a new and objective method to project and update long term housing demand and, based on which, the long term housing supply target; a comprehensive strategy for securing land for housing development; and a clear policy direction for developing public housing and maintaining the stability of the private residential market. The LTHS has accordingly laid a firm foundation and a sustainable path for ultimately realising the vision of helping all households in Hong Kong gain access to adequate and affordable housing.

Partnership for Implementation

7.2 The Government will spearhead the implementation of the LTHS. In addition to projecting and updating the long term housing demand projection and supply target, the Government will coordinate the efforts of bureaux and departments concerned in securing the land, financial and manpower resources necessary to achieve the housing supply targets.

7.3 At the same time, the Government fully understands that the realisation of the long term housing vision takes time and calls for the concerted efforts of the whole community especially when difficult choices have to be made in balancing diverse interests and objectives. In the course of land and housing development, the Government will strive to provide the necessary transport and community facilities. It will also engage the local communities and address their concerns as far as practicable. The Government will also work closely with the various parties involved in housing development to ensure a smooth process for the timely delivery of housing supply.

Hong Kong Housing Authority

7.4 Being the primary provider of public housing in Hong Kong, the HA will play a prominent role in delivering the public housing supply target under the LTHS. As mentioned in the preceding chapters, the Government supports the HA's policies on PRH allocation and utilisation, as well as the HA's eligibility criteria and pricing policy for its subsidised sale flats.

7.5 To underline its commitment to support the HA in providing adequate and affordable public housing for those in need, the Government will provide the HA with formed land and supporting infrastructure for the HA to deliver the majority of the public housing portion of the rolling ten-year housing supply targets. In terms of manpower, the Government will examine and consider requests for civil service posts subject to the Government's overall establishment control. Nevertheless, the HA may, taking into account the need to maintain flexibility and sustainability, prudently assess and secure other manpower resources required in accordance with its own manpower policies.

7.6 Financially, due to the increase in public housing production under a supply-led strategy, the HA will come under increasing fiscal pressure in the longer term and is likely to require financial support from the Government to deliver its public housing programme. The Government expects the HA to vigorously control its recurrent and capital expenditure, including in particular works expenditure, and to seek to enhance its revenues including rental and investment returns.

7.7 On its part the Government will take into account the HA's finances when considering matters such as options for delivering subsidised sale flats, including the possibility of private sector participation, as well as ways to facilitate turnover and circulation of public housing flats to meet increasing demand. The Government expects the HA to closely monitor its medium and long term financial requirements including continuous assessment through its established annual exercise for five year Budgets and Forecasts and, when financial assistance is needed from the Government, submit in a timely manner proposals for such assistance.

Hong Kong Housing Society

7.8 The HS is an independent organisation established in 1948 with the mission to serve the needs of the Hong Kong community in housing and related services. Throughout the years, the HS has been playing an active role in the provision of public rental units at affordable rents for low-income households, and the development of subsidised sale projects. The HS has also been assuming the unique role of "housing laboratory" in trying out innovative housing schemes.

7.9 The Government considers the HS to be a close partner in meeting the housing needs of the community. The Government will work closely with the HS and will continue to grant suitable sites for the HS to develop its housing projects subject to the overall planning of land resources.

Urban Renewal Authority

7.10 Under the Urban Renewal Authority Ordinance (Cap. 563), the URA has the statutory role to undertake, encourage, promote and facilitate the regeneration of the older urban areas of Hong Kong. In the course of urban renewal, the URA has been making a useful contribution towards new housing supply though in modest number.

7.11 In order to support the Government's policy objective of enhancing flat supply to the mass housing market, the URA has, since 2009, made it a requirement in its joint venture tenders for half of the flats of the respective tender sites to be of small and medium size, at about $45m^2$ per unit, as much as practicable. The Government expects the URA to continue to redevelop old and dilapidated private buildings and contribute to new private housing supply in the process, including making available more small and medium-sized flats in its redevelopment projects to cater for the mass housing market.

The Private Sector

7.12 The private sector has been a major provider of housing in Hong Kong. As at end June 2014, private residential units constituted about 56% of the total housing stock in Hong Kong. The private sector thus plays a crucial role in meeting the housing needs of the community.

7.13 In addition to private housing development, the private sector could supplement the efforts of the Government in the provision of subsidised sale flats through special public-private partnership schemes. As mentioned in Chapter 5, the Government will explore possible arrangements to tap into the resources of the private sector to help meet the community's demand for subsidised sale flats.

The Construction Industry

7.14 In addition to land and financial resources, sufficient manpower supply in the construction industry is also essential in meeting the long term housing supply target. In this regard, the Construction Industry Council has been implementing initiatives to enhance the training of local construction workers and to uplift the image of the construction industry. The Development Bureau will continue to collaborate with the Construction Industry Council to address manpower demand of the industry through training and re-training of local workers and attracting more new entrants to join the industry.

7.15 Nonetheless, there are limitations in training local workers to fully meet the mounting manpower demand. With due regard to the cardinal principle of not affecting the employment and not lowering wages of local workers, the construction industry needs to import some skilled workers in a timely manner to help cope with any identified shortage.

Public Support

7.16 Public support for land and housing production is the key to the achievement of the long term housing supply target. Hong Kong is a highly developed and densely populated metropolis. Any new land and housing development will likely have an impact on the neighbourhood. While the Government will continue to make its best efforts in engaging the local communities and in addressing local concerns, the public's considered view and overall interest are crucial in any ultimate decision to take forward any new development plans.

7.17 There is neither quick nor easy solution to increase land and housing supply. The community needs to accept trade-offs regardless of whether short term measures (such as an increase in development density) or long term measures (such as reclamation) are pursued to increase land supply. The Government calls on all strata of the community to accord priority to the overall housing needs of the general public and lend their support to realising the long term housing supply target, and to make decisions with foresight so that our next generation can look forward to better and more affordable housing with confidence.

Annex

Terms of Reference and Membership of Government Committees Relating to Housing and Land Supply

I. The Committee on Housing Development

Terms of Reference

1. To endorse the results of the assessment of long term housing demand;
2. to advise the Secretary for Transport and Housing on the long term housing supply target;
3. to consider the housing type (public or private) of identified residential sites;
4. to monitor the timely supply of suitable land for public housing development to meet the anticipated demand; and
5. to consider and address major inter-departmental or cross-bureau issues that will affect timely supply of suitable public housing land.

Membership

Chairman:	Permanent Secretary for Transport and Housing (Housing)
Members:	Permanent Secretary for Development (Planning and Lands) Deputy Secretary, Development Bureau (Planning and Lands) Director of Planning Director of Lands Director of Civil Engineering and Development Deputy Director (Strategy), Housing Department Deputy Director (Development & Construction), Housing Department
Co-opted Members:	Government Economist

Director of Environmental Protection
Other Bureaux/Departments if required

Secretary: Chief Planning Officer, Housing Department

II. Committee on Planning and Land Development

Terms of Reference

1. To oversee the formulation and review of development strategies, and sub-regional and sectoral planning studies of strategic significance;
2. to consider development proposals from both the private and non-Government sectors and, where appropriate, ensure coordination and cooperation within the Government in order to facilitate the processing and implementation of such projects;
3. to consider and review policies on production, acquisition, use and disposal of land;
4. to perform a clearing house function for determining the development density of individual Government land sale sites and developments for which lease modification or planning approval is required;
5. to consider and approve land-use planning standards and guidelines;
6. to consider the need for the preparation or replacement of statutory plans;
7. to consider and approve outline development and layout plans;
8. to consider recommendations on land-use planning and control relating to potentially hazardous installations;
9. to consider population distribution projections for assessing development needs and planning of provision of facilities; and
10. to escalate matters to the Policy Committee for attention or resolution.

Membership

Chairman:	Secretary for Development
Members:	Permanent Secretary for Development (Planning and Lands)
	Permanent Secretary for Development (Works)
	Permanent Secretary for Financial Services and the Treasury (Treasury)
	Permanent Secretary for Transport and Housing (Transport)
	Permanent Secretary for the Environment / Director of Environmental Protection
	Director of Housing
	Director of Civil Engineering and Development
	Director of Home Affairs
	Director of Lands
	Director of Planning
	Director of Architectural Services
	Government Economist
	Deputy Secretary (Planning and Lands) 1
Secretary:	Principal Assistant Secretary (Planning and Lands) 2, Development Bureau

III. Steering Committee on Land Supply

Terms of Reference

1. To coordinate the overall plans for development and supply of land in Hong Kong for different types of land uses;
2. to monitor, prioritise, coordinate and steer the development of needed infrastructure in support of the timely supply of public and private housing land;
3. to select the optimal options in identifying the supply of public and private housing land;
4. to build up a land reserve of sufficient size for future disposal; and
5. to provide a forum to resolve inter-bureau and inter-departmental issues affecting the availability of individual housing sites.

Membership

Chairman:	Financial Secretary
Members:	Secretary for Development
	Secretary for Transport and Housing
	Secretary for the Environment
	Secretary for Financial Services and the Treasury
	Permanent Secretary for Transport and Housing (Housing) / Director of Housing
	Permanent Secretary for the Environment / Director of Environmental Protection
	Director of Planning
	Director of Lands
	Commissioner for Transport
	Director of Civil Engineering and Development
	Other Principal Officials and Heads of Department may be invited to attend on a need basis
Secretary:	Principal Assistant Secretary (Planning and Lands) 2, Development Bureau

LIST OF ABBREVIATIONS

AWT	Average waiting time
C&SD	Census and Statistics Department
HA	Hong Kong Housing Authority
HOS	Home Ownership Scheme
HS	Hong Kong Housing Society
IFA	Internal floor area
IHH	Inadequately housed household
LegCo	Legislative Council
LTHS	Long Term Housing Strategy
PRH	Public rental housing
PSPS	Private Sector Participation Scheme
QPS	Quota and Points System
SDU	Subdivided unit
UO	Under-occupation
URA	Urban Renewal Authority

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Long Term Housing Strategy Implementation Milestones as at December 2014

Transport and Housing Bureau

Long Term Housing Strategy
Implementation Milestones as at December 2014

Introduction

On 16 December 2014, the Government released the Long Term Housing Strategy (LTHS). This paper is released together with the LTHS and sets out the up-to-date implementation of key aspects of the LTHS.

Review of the Long Term Housing Demand Projection and the Ten-year Supply Target

Updated Projection

2. The Government has updated the projection of long term housing demand for the ten-year period from 2015-16 to 2024-25, using the methodology recommended by the LTHS Steering Committee. By summing up the projected housing demands from net increase in the number of households, households displaced by redevelopment, inadequately housed households and miscellaneous factors, the projected demand should range from 430 220 to 496 880 units, with the mid-point being 463 500 units. Adding to that a margin for vacancy of private flats[1], the ten-year total housing supply should range from 448 000 to 516 000 units, with the mid-point being 482 000 units. Accordingly, we will adopt **a total housing supply target of 480 000 units for the ten-year period from 2015-16 to 2024-25**. Details of the updated projection are at

Annex A **Annex A**.

3. That said, as explained in Annex A, household formation is dependent on, among other things, economic growth. Following the methodology recommended by the LTHS Steering Committee, we have

[1] Based on about 46 570 vacancy units as at end 2013, and the average vacancy rate of about 5.0% from 2004 to 2013.

adopted the Census and Statistics Department (C&SD)'s domestic household projections as the starting point, which are basically a trend-based projection assuming no change in government policy and that all factors affecting household formation will continue with similar trend in future as in the past. As with all trend-based projections, there is thus an implicit assumption that the economy will grow at around the historical trend rate in the projection period. Yet, it has been increasingly obvious that economic growth in Hong Kong in the coming ten years is likely to be lower than the historical trend growth rate of 4.5% per year during the period from 2004 to 2013[2]. As household formation is sensitive to the economic situation, household formation is expected to slow down with a below-trend economic growth. Therefore, it is rather likely that the actual long term supply needed to meet the community's housing demand would in fact be closer to the lower end of the range, though it is difficult to provide an exact figure at this juncture due to the substantial economic uncertainties which we are currently facing, including the possible new norm of lower global economic growth, the Federal Reserve of the United States' (US) normalisation process for its monetary policy and the population ageing in Hong Kong. Against such background, we will undertake a review of how the various evolving global and local economic factors would affect the domestic household projection and in turn the long term housing demand projection in the annual updating exercise next year when the economic situation is hopefully clearer.

Split between Public and Private Housing

4. To send a clear message to the community that the Government is taking the lead in increasing public housing supply while ensuring the stable and healthy development of the private market, we will maintain the **public/private split of 60:40** for the ten-year period from 2015-16 to 2024-25. To meet the public housing target of 290 000 units, and taking into account the rising aspirations for home ownership in the community, we will aim at providing **200 000 public rental housing (PRH) units and about 90 000 subsidised sale flats,** while keeping the interchangeability of PRH and subsidised sale flats so as to maximise flexibility to respond to changing demand patterns that will be reviewed from time to time. These

[2] Real Gross Domestic Product (GDP) grew at an average rate of 4.5% per annum during 2004 to 2013. By comparison, in the 2014-15 Budget, the medium-term real GDP growth for 2015-18 was forecast at 3.5% per annum; in the Report of the Working Group on Long-Term Fiscal Planning, the assumption on real GDP growth was 3.5% per annum in 2019-21, and at 3.0% per annum in 2022-25.

production targets should be able to strike a reasonable balance between providing PRH units to those who cannot afford private rental accommodation, and providing subsidised sale flats to meet the home ownership aspirations of the lower to middle-income groups, especially first-time home buyers and youngsters. At the same time, the private housing supply target will be 190 000 units over the ten-year period.

Land Supply for Housing

Latest Position

5. The Housing Authority (HA) maintains a Public Housing Construction Programme (PHCP). Updates of the PHCP are presented to the Legislative Council (LegCo)'s Panel on Housing regularly. According to the latest PHCP presented at the meeting of the LegCo's Panel on Housing on 1 December 2014, the total public housing production forecast for 2014-15 to 2018-19 is about 87 700 units, comprising 77 100 PRH units and 10 600 Home Ownership Scheme (HOS) flats.

6. As of now, in terms of land supply, the Government has identified land for the construction of 254 000 public housing units[3] for the period from 2015-16 to 2024-25. As for private housing, the supply target of 190 000 units for the period from 2015-16 to 2024-25 will continue to be met through various private housing land supply sources including government land sale, railway property development projects, urban renewal projects and private development and redevelopment projects. Based on the latest projection as at September 2014, there will be a supply of 74 000 units in the first-hand private residential property market in the coming three to four years.

Measures to Increase Housing Land Supply

7. Meeting the long term housing supply target is undeniably a huge challenge for both the Government and the community. The Government is expeditiously taking forward a series of major land development projects in support of the future housing, social and economic development needs of Hong Kong. These include large-scale new development areas and new

[3] Assuming that all sites identified can be delivered on time for housing construction.

town expansion that aim to provide a quality living environment and space for employment creation through putting in place the necessary infrastructures and striking a balance between development and environmental conservation. Reclamations at suitable locations are also being explored to increase the availability of developable land. Moreover, exploration of cavern developments and underground space is underway so as to increase the land and space for meeting the various needs of Hong Kong. These projects take time to materialise and would serve to ensure our medium to long term land supply.

8. However, there is no easy painless option to increase or to expedite land supply in the short run. The most immediate and effective way to augment land supply for housing in the short to medium term is to make more optimal use of the developed areas in the existing urban areas and new towns, as well as the land in the vicinity of existing infrastructures, through land use reviews and increasing development intensity wherever practicable. These include converting suitable sites for housing development, maximising the use of existing housing sites and fast-tracking the delivery of sites for meeting the demand for housing. These are already being pursued at full steam by the Government under its multi-pronged approach to increase land supply.

9. To make land available for development to meet the housing supply target would require difficult choices and delicate trade-offs to be made by the community as a whole. There is simply no magic solution that can increase land supply without impacting on the local community. For instance, among about 150 potential housing sites identified by the Government that require statutory plan amendments for development within 2014-15 to 2018-19 to produce some 210 000 housing units (over 70% of which are for public housing), some 70 sites are within "Green Belt" zoning with a total size of about 150 hectares and can produce over 80 000 public and private units. Making these sites available would require the community to accept the conversion of these "Green Belt" sites, which amount to about 1% of our overall "Green Belt" areas (for comparison purpose, our country parks are about 43 455 hectares in size) and some have varying degrees of vegetation including trees, for housing development. Likewise, increasing development intensity and converting existing vacant government land for housing would inevitably lead to more

developments within existing communities. This is the kind of choice and trade-off that the society as a whole would have to accept in order to meet the housing target.

Increasing Development Intensity where Planning Terms Permit

10. Taking into account relevant planning considerations, the Chief Executive announced in the 2014 Policy Address that except for the north of Hong Kong Island and Kowloon Peninsula, which are more densely populated, the maximum domestic Plot Ratio (PR) that can be allowed for housing sites located in the other Density Zones of the Main Urban Areas and New Towns would be raised generally by about 20% as appropriate. Increase in development intensity for individual housing sites is not automatic, and will continue to be subject to necessary approval by the Town Planning Board (TPB) under the statutory planning mechanism where applicable. However, it does require the society to accept that there will be more developments within existing communities, and there will inevitably be traffic, environmental and other impacts. The Government will take positive steps to ensure that such impacts are within acceptable limits, but we have to accept that "zero-impact" is simply impossible.

11. In assessing such cases, the Planning Department (PlanD) will continue to take into account pertinent planning considerations such as the traffic and infrastructure capacity in the area, existing characters and development intensity of the neighbourhood, the potential environmental, visual and air ventilation impacts, etc. in determining the domestic PR of each housing site. The increase in maximum domestic PR will continue to observe relevant planning principles and considerations, and will be adopted only when there is scope in terms of development capacity and the various constraints and impacts so arising, if any, could be addressed or mitigated through appropriate measures. In other words, we will continue to ensure that such constraints would not be insurmountable and such impacts would not be unacceptable from the relevant technical perspectives for the housing developments to proceed.

12. Under this initiative, subject to the necessary planning approvals by the TPB, individual housing sites will be able to provide more developable floor area (the actual increase in population capacity or flat number will depend on family and flat unit size as well as other factors). This can help increase the land supply for housing. Development intensity of the newly identified private and public housing sites has been increased accordingly where appropriate with a view to making optimal use of our scarce land resources. The revised guidelines on development intensity have also been adopted in on-going planning studies and land use reviews as appropriate, and will also apply to future ones. If necessary, the Government will submit planning applications to the TPB to seek approval for increasing the development intensity of individual residential sites. Since February 2014, the TPB has approved such planning applications in respect of nine housing sites in Tuen Mun, Ma On Shan, Sha Tin, Fanling and Kwai Chung. For privately owned sites, the TPB would adopt the same planning principles in considering applications for increasing development intensity.

Land Use Reviews

13. To meet the housing and other development needs of the community, the Development Bureau (DEVB), together with relevant departments, has been carrying out land use reviews, including reviews on government land currently vacant, under Short Term Tenancies or different short-term or government uses, Green Belt sites, as well as sites reserved for various other land uses. Similar to increasing development density of individual housing sites, in converting these sites for housing development, the PlanD will also take into account pertinent planning considerations such as the traffic and infrastructure capacity in the area, the potential environmental, visual and air ventilation impacts, etc., to ensure that the impacts would not be unacceptable. However, it also requires the community to accept that some of the sites currently vacant or vegetated near existing developments will be converted to housing development. The Government will endeavour to ensure that the provision of community facilities would not be adversely affected as a result, through more effective and efficient use of land.

14. As reported in the 2014 Policy Address, the Government has identified about 150 potential housing sites (with a total land area of about 300 hectares) requiring amendments to their respective statutory plans for change of land use and/or increase in development intensity, before they could be made available for housing development in the five years from 2014-15 to 2018-19 for providing over 210 000 flats. Based on preliminary estimate, over 70% of the flats to be constructed on these sites would be public housing units. The Government is consulting 16 District Councils on these 150 or so sites identified in their respective districts. As at mid-November 2014, the Government presented relevant site information to 13 District Councils on over 100 such potential housing sites. Out of these some 150 sites, 42 of them were undergoing the statutory rezoning procedures for residential use. The statutory plan amendment for the rest of the sites will be proceeded with as expeditiously as possible with a view to making them available early for housing development.

Other Measures to Expedite Housing and Land Supply

Streamlining Procedures

15. Relevant bureaux and departments have been working closely to carry out the necessary assessments and/or resolve the technical issues involved, with a view to expediting the land formation, infrastructure construction and other required procedures for the timely delivery of housing units. For instance, the Lands Department (LandsD) works closely with the Housing Department to shorten the land resumption/clearance process where practicable, taking into account the necessary statutory procedures, and the scale and complications of the individual land resumption/clearance involved. The PlanD seeks to expedite the amendments to the relevant Outline Zoning Plans subject to the availability of pertinent information and broad technical assessments on the housing projects. Both the PlanD and the LandsD will conduct site search for permanent and temporary reprovisioning of affected facilities respectively.

16. Besides, to enhance the capability in land supply and development, the manpower in the DEVB and relevant departments has been strengthened to provide support to increasing and expediting land supply. A new Land Supply Tracking Subcommittee has been set up under the Committee on Planning and Land Development to monitor land supply and coordinate the improvement of land-supply-related information systems, so as to further enhance inter-bureau and inter-departmental coordination in site tracking and land production at all levels.

17. Our planning, land administration and building regimes are established and administered by different instruments for different policy objectives. Over the years, these regimes have been modified and enhanced taking into consideration the aspirations of the community as well as the changing circumstances in the business of development. The Government endeavours to streamline and expedite the various processes having regard to the views of stakeholders and practitioners in the relevant fields, while upholding the principles and policy objectives that these regimes are set up to achieve. Our latest initiatives to expedite land and housing supply under the planning, land administration and building regimes are set out at **Annex B**.

Annex B

Enhancing Manpower Supply of the Construction Industry

18. With the onset of major infrastructure projects and other construction works including housing, the forecast overall construction output will be maintained at a high level. Meanwhile, the construction industry is facing the problems of an ageing workforce, shortage of skilled workers and skills mismatch. The DEVB has adopted a multi-pronged approach to help address the manpower demand. Measures include enhancing training and construction productivity, stepping up publicity and promotion, as well as improving the working environment for workers and construction site safety, etc. Details of the measures to enhance manpower supply of the construction industry are set out at **Annex C**.

Annex C

Financing of the Housing Authority

19. As projected in the HA's current five-year Budgets and Forecasts adopted in January 2014, the HA would have sufficient financial resources to meet its recurrent expenditure and implement the public housing construction programme covered in 2013-14 to 2017-18. Nevertheless, the cash and investment balance of the HA was projected to decrease from about $70 billion to about $28 billion by the end of March 2018 due to the increase in public housing production. To achieve the new public housing production target, it is clear that the HA will come under increasing fiscal pressure in the longer term and that the Government's funding support to the HA will become necessary. The Government is fully aware of this and has been in discussion with the HA.

20. On its part, the HA has been working on various measures to consolidate cost savings and enhance revenue to ensure that public funds will continue to be used in the most cost-effective manner. On the expenditure side, the most significant component of the HA's capital expenditure is construction expenditure. The HA has been working towards increasing cost-effectiveness of its construction programme. However, costs have continued to increase due to the notable tender price increase in the local construction market; site specific factors such as small scaled project, substantial site formation works for sloping site, complex foundation for difficult ground condition, etc.; and increasing demand for facilities in housing projects. In this regard, the HA has recently put in place an alert mechanism based on construction cost per flat to facilitate more focused monitoring of individual projects.

21. As regards recurrent expenditure, the Government has recently launched a savings programme with the aim to deliver a cumulative total of 2% recurrent savings over three financial years from 2015-16 to 2017-18 (i.e. 0% in 2015-16, 1% in 2016-17 and another 1% in 2017-18). The HA will consider how to adopt a similar cost saving approach.

22. On the revenue side, rental income from PRH is a major source of the HA's income. The HA has conducted the third rent review in accordance with the rent adjustment mechanism specified in Section 16A of the Housing Ordinance, and has increased the PRH rents by 10% with

effect from September 2014. It is estimated that as a result, the total revenue in the current five-year budget and forecast period will be increased by about $5 billion, and this change on its own will increase the HA's cash and investment balance to around $33 billion by end 2017-18. As required by Section 16A of the Housing Ordinance, the next rent review is due in 2016.

23. As for investment return, about 50% of the HA's cash and investment balances are placed with the Exchange Fund as Principal Protection Placements with an investment horizon of six years. To help maintain stable investment return from the HA's decreasing cash and investment balance, the HA has recently reached an in-principle agreement with the Hong Kong Monetary Authority on the extension of an existing placement with the Exchange Fund upon its maturity in October 2015.

24. The HA will continue to conduct its annual rolling five-year Budgets and Forecasts exercise, assess its medium term financial projections, and will seek the Government's funding closer to the time of need so that the assessment could reflect the most up-to-date situation.

Rational Use of Public Rental Housing Resources

25. The LTHS Steering Committee has made a number of recommendations on how to enhance PRH-related polices, such as the Quota and Points System (QPS), the Under-occupation Policy and the "Well-off Tenants Policies", with a view to maximising the rational use of PRH resources. In its Report No. 61 on the allocation and utilisation of PRH flats, the Public Accounts Committee of the LegCo has also recommended the Government to review policies related to the rational utilisation of PRH resources. The HA has taken note of these recommendations and has reviewed the policies relating to the rational use of PRH resources.

Quota and Points System

26. Given the current tight supply of PRH, the HA has reaffirmed its policy to accord priority to general applicants (i.e. family and elderly one-person applicants) over non-elderly one-person applicants under the QPS. It also agrees that, among the QPS applicants, older applicants might have relatively limited upward mobility to improve their living conditions on their own and therefore deserve higher priority for flat allocation.

27. Taking into account the LTHS Steering Committee's recommendation to increase the annual PRH quota for applicants under the QPS, and in order to balance the housing needs of other categories of PRH applicants, the HA has decided to increase the annual QPS quota from 8% to 10% of the number of flats to be allocated to waiting list applicants, subject to a cap to be increased from 2 000 to 2 200 units. It has also agreed to refine the points system by increasing the scale of age points in order to reduce the inadvertent incentive for early application under the QPS as pointed out by the Director of Audit, and to award one-off bonus points to applicants who have reached the age of 45 in order to improve their chance to gain earlier access to PRH[4].

28. The HA has also decided to conduct regular check on QPS applicants who have waited for five years but not yet due for detailed vetting within the next two years, with a view to screening out ineligible applicants. The above refinements to the points system and the regular checking of eligibility will be implemented from 1 February 2015. The increase in quota under the QPS will take effect starting from 2015-16 onwards.

Under-occupation Policy

29. The Under-occupation Policy enables the HA to recover larger PRH units for reallocation to PRH applicants and overcrowded tenant families. Both the LTHS Steering Committee and the Director of Audit recognise the importance of the Under-occupation Policy in ensuring the

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[4] Under the refined arrangement, the scale of age points will be increased from 3 to 9 points per year of age increase at the time of application. In addition, a one-off bonus of 60 points will be awarded to applicants when they have reached the age of 45.

rational allocation of PRH resources. On the other hand, some members of the public have expressed concern over the handling of under-occupation cases, particularly those households with elderly members aged 60 to 69[5].

30. The HA has discussed these views and suggestions for changing the current policy and practice. While the HA will uphold the Under-occupation Policy as a measure to ensure the rational use of precious PRH resources, it will continue to adopt a reasonable and considerate approach in implementing the Policy. The HA has decided to grant a stayput period of one year to those Prioritised Under-occupied households that need transfer to smaller flats because of death of family members. It will also provide Prioritised Under-occupied households rent free periods to encourage early transfer, in addition to current assistance and incentives. In addition, the HA will take into account the views expressed by various parties in its next review of the Under-occupation Policy. Possible areas for consideration include exclusion of under-occupied households with members aged 60 to 69 from the under-occupation list.

Well-off Tenants Policies

31. During the public consultation on the LTHS, various views were expressed regarding the "Well-off Tenants Policies". For example, some respondents called for a further tightening up of the Policies by shortening the initial income declaration period and the subsequent income and asset declaration period, or by requiring tenants to move out of PRH when either their income or asset level exceeded the respective limits, etc. However, some respondents considered that the Well-off Tenants Policies went against the Government's policy to encourage younger members of a family to look after the elderly, and some even considered that the Policies should be scrapped. Such views are diverse to say the least. The HA has considered these views and some preliminary options to refine the Policies. The HA considers that every option has its merits and downside. The HA further notes the potential impact of various options on different sectors of the community, and considers that a prudent approach should be adopted in any review of the Policies and that more deliberations are necessary to reach practical and broadly equitable solutions.

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[5] Under existing policy, households with disabled members or elderly members aged 70 or above are already excluded from the under-occupation list.

Other Measures

32. The HA will continue to implement other on-going measures vigilantly to ensure the best use of PRH resources. In keeping with the recommendation of the Director of Audit, the HA will strive to expedite the allocation of vacant PRH flats. Whenever vacant flats are available for letting, be they new flats or refurbished ones, the HA will make the best endeavour to let them out as quickly as possible. As for less popular flats which cannot be let out in a year's time despite repeated attempts, the HA will provide rent reduction to encourage acceptance. The HA also conducts the Express Flat Allocation Scheme annually to boost up the letting rate of these flats. As at 30 September 2014, the number of lettable vacant flats[6] stood at about 3 880, representing a vacancy rate of 0.52% against the total lettable PRH stock of about 740 700 flats. It was well within the HA's target of below 1.5%.

33. The HA will continue to tackle tenancy abuse. It has already launched a series of publicity campaigns to enhance the public's awareness of the need to cherish PRH resources. Frontline estate management staff will continue to take stringent measures to curb tenancy abuse through daily monitoring and biennial flat inspections. In addition, the HA will conduct investigations into randomly selected cases as well as suspected abuse cases referred by frontline management and the public. In the past three years, the HA carried out in-depth investigation on some 8 000 occupancy-related cases which were either referred by frontline management and the public or detected through special inspection exercises and random selections. On average, some 400 PRH flats were recovered due to tenancy abuse each year. In 2014-15, 30 experienced staff were redeployed to strengthen the action on tackling tenancy abuse.

[6] There are certain flats which are not occupied but are "unlettable" since they are reserved for a purpose and are not available for letting to PRH applicants. They include flats pending or under conversion or structural repairs; flats withheld from allocation for operational/management reasons; flats reserved with reservation fees paid by the Urban Renewal Authority, etc. There are also flats which are "under offer" to applicants and are expected to be taken up in the near future.

Subsidised Home Ownership

Private Sector's Role

34. Currently, the HA is the primary provider of subsidised sale flats through the HOS. The private sector had in the past also contributed to the provision of subsidised sale flats through the Private Sector Participation Scheme (PSPS) introduced in 1978 as a supplement to the HOS. Under the PSPS, the Government offered sites by tender to private developers to build flats according to requirements laid down in a Technical Schedule. Flats had to be sold to purchasers nominated by the HA. Purchasers were subject to the same set of eligibility criteria and resale restrictions as were applicable to subsidised sale flats sold under the HOS. In addition to the PSPS, the Government introduced a Mixed Development Pilot Scheme (MDPS) in 1997, under which successful tenderers of the relevant residential sites were required to hand over a specified proportion of flats within their development to the Government for sale to eligible purchasers at designated prices. Following the repositioning of the Government's housing policy in 2002, the PSPS and MDPS were terminated.

35. Taking into account the recommendation of the LTHS Steering Committee, the Government is exploring the feasibility of leveraging on the resources of private developers to expedite the supply of subsidised sale flats. The Government is mindful of the views expressed by some respondents during the public consultation exercise that the quality and costs of subsidised housing provided through the private sector should be comparable to (if not more competitive than) those provided by the HA. We are reviewing past experiences with the PSPS and the MDPS, and developments since then, to determine whether and how to involve the private sector in the supply of subsidised sale flats.

Promoting Circulation in the Secondary Market

36. In response to the home ownership aspirations of lower to middle-income families, the HA launched an interim scheme in early 2013 to allow buyers with White Form (WF) status to purchase HOS flats with premium not yet paid under the HOS Secondary Market Scheme (the Interim Scheme). A quota of 5 000 was issued in two batches in May 2013 and December 2013 respectively. As at 30 September 2014, about 2 160 WF buyers purchased HOS flats with premium not yet paid through the Interim Scheme. Without the Interim Scheme, it would be difficult for those 2 160 households (which, afterall, is not a small number) to purchase private housing in the open market in view of their affordability.

37. In addition to helping WF buyers to meet their home ownership aspirations before the completion of the first batch of new HOS flats in 2016-17, the Interim Scheme has also helped promote the circulation of HOS flats with premium not yet paid under the HOS Secondary Market Scheme. However, with only one round of the Interim Scheme, there are still uncertainties about the full and exact impact on prices of flats in the HOS Secondary Market. Given the strong demand for subsidised sale flats in the society nowadays, the HA has decided that before conducting a full review of the Interim Scheme, it will implement one more round of the Interim Scheme in mid-2015 with a reduced quota of 2 500 to better test out the effect of the Interim Scheme.

Healthy and Stable Residential Property Market

38. One of our policy objectives for housing is to maintain a healthy and stable residential property market, which is crucial to the sustainable development of Hong Kong as a whole. As mentioned earlier, the Government will strive to secure a stable supply of land for the development of private residential properties. To address the exuberant property market arising from a tight supply of flats, extremely low interest rates and abundant liquidity environment, the Government has introduced various demand-side management measures including enhanced Special Stamp Duty and Buyer's Stamp Duty in October 2012 and doubled ad valorem stamp duty in February 2013. The relevant bills were passed in February and July 2014 respectively.

39. Demand-side management measures are extraordinary measures introduced under exceptional circumstances. The Government will remain vigilant and continue to monitor the property market closely, and will consider adjusting existing measures or putting in place new measures as and when necessary. In addition, as pledged to the LegCo, the Government will review the implementation of the demand-side management measures in 2015.

Transport and Housing Bureau
December 2014

Annex A

Annual Updating of the Projection of Long Term Housing Demand

Purpose

This Annex sets out the results of the annual updating of the projection of long term housing demand for the ten-year period 2015-16 to 2024-25.

Background

2. In the public consultation document published in September 2013, the LTHS Steering Committee put forward a new methodology for projecting long term housing demand. Under the new projection methodology, housing demand is defined as the total number of new housing units required to provide adequate housing to each and every household over the long term. The methodology takes into account the following components in projecting the number of new housing units required –

(a) net increase in the number of households;

(b) households displaced by redevelopment;

(c) inadequately housed households; and

(d) miscellaneous factors[1].

Last Projection for 2013-14 to 2022-23

3. Based on the above methodology, the LTHS Steering Committee conducted a projection on long term housing demand for the ten-year

[1] The miscellaneous factors taken into account include (a) private permanent living quarters occupied by households with mobile residents only; (b) non-local students who may take up accommodation in Hong Kong; and (c) non-local buyers who take up flats without selling or leasing them.

period from 2013-14 to 2022-23. Details of the projection were set out in the LTHS Consultation Document published in September 2013. During the three-month public consultation exercise, respondents generally accepted the demand components recommended by the LTHS Steering Committee for long term demand projection purposes, and there was considerable support for the ten-year supply target of 470 000 units derived from the projection model as recommended by the LTHS Steering Committee. Respondents also generally agreed that public housing (including PRH and subsidised sale flats (primarily HOS flats)) should play a more prominent role and should account for at least 60% of the new production for the coming ten years. The Government also adopted in the 2014 Policy Address the housing supply target of a total of 470 000 units for the ten-year period from 2013-14 to 2022-23, with public housing accounting for 60%. To meet the target, the Government aims to provide an average of about 20 000 PRH units and about 8 000 HOS units per year.

Updated Projection for 2015-16 to 2024-25

4. In December 2014 the Government published the LTHS. The LTHS requires the annual updating of the ten-year demand projection and supply target, in accordance with the method specified. Accordingly, the Government has conducted an updated projection of the long term housing demand.

5. The ten-year demand projection and supply target adopted in the 2014 Policy Address were prepared by the LTHS Steering Committee in the second quarter of 2013, based on data available primarily in 2012-13, for the ten-year period 2013-14 to 2022-23. Accordingly, the new demand projection and supply target take into account the latest data available in 2014-15, and thus should cover the ten-year period from 2015-16 to 2024-25. In future, the Government will announce by the end of each financial year the updated projection for the following ten years.

(a) Net increase in the number of households

6. The latest domestic household projections published by the C&SD in January 2013[2] are used as the basis for assessing the overall physical housing demand from the net increase in the number of households. Based on the C&SD's latest available information, the average annual net increase in the number of households from mid-2015 to mid-2025, amounting to about **28 280 units** per year is adopted for projecting the housing demand for the ten-year period 2015-16 to 2024-25.

7. Similar to last year's projection exercise, in order to conduct scenario analysis on household formation under different economic and property situations, an econometric modeling exercise has been undertaken to quantify the relationship between household formation and economic performance (as proxied by real Gross Domestic Product (GDP) growth rate) and housing market situations (as proxied by average vacancy rate of private flats). Results show that the number of household formations will be in the range of 254 520 to 311 080, representing a **+/-10.0%**[3] from the C&SD's domestic household projection of 282 800 households over the ten-year projection period 2015-16 to 2024-25.

8. It should be noted that the C&SD's domestic household projections are the starting point in this exercise. They are basically trend-based projections assuming no change in government policy and that all factors affecting household formation will continue with similar trend in

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[2] This is the latest set of domestic household projections available and is based on results of the 2011 Population Census.

[3] According to the econometric model adopted, in the past 20 years, the number of households formed was higher when the local macroeconomic performance was better or the private domestic vacancy rate was higher. Under the base case, it is assumed that the real economic growth and private domestic vacancy rate in the next ten years would be similar to those of the past ten years (i.e. 4.5% and 5.0% respectively) in order to project the household formation in the next ten years.

In order to work out a lower limit of households formed, it is assumed that the real economic growth and the private domestic vacancy rate would be 3.5% and 4.0% respectively in the next ten years (i.e. 1% point lower than the base case). Under this lower case scenario, the household formation in the next ten years would be around 10% lower than the base case.

In order to work out an upper limit of households formed, it is assumed that the real economic growth and the private domestic vacancy rate would be 5.5% and 6.0% respectively in the next ten years (i.e. 1% point higher than the base case). Under this upper case scenario, the household formation in the next ten years would be around 10% higher than the base case.

future as in the past. As with all trend-based projections, there is thus an implicit assumption that the economy will grow at around the historical trend rate in the projection period. Yet, it has been increasingly obvious that economic growth in Hong Kong in the coming ten years is likely to be lower than the historical trend growth rate of 4.5% per year during the period from 2004 to 2013, due to the following factors –

(a) possible new norm of lower global economic growth;

(b) the US Federal Reserve's normalisation process for its monetary policy; and

(c) population ageing in Hong Kong.

In fact, the medium-term real GDP growth forecast for 2015-18 has been marked down to 3.5% per annum in the 2014-15 Budget. In the Report of the Working Group on Long-Term Fiscal Planning, the assumption on real GDP growth was 3.5% per annum in 2019-21, and at 3.0% per annum in 2022-25. These are all below the trend growth of 4.5% per year during 2004 to 2013.

9. Historical data suggests that household formation is dependent on, among other things, economic growth. Conceivably, when the economic growth slows down, household formation and thus housing demand will follow suit. As economic growth in the coming ten years is likely to be lower than the past ten-year growth trend of 4.5% per annum as discussed above, the actual household formation would likely be closer to the lower end of the range projection, rather than at the mid-point. There is thus a case for adopting the lower end, instead of the mid-point, of the range projection for the purpose of projecting housing demand. However, it is difficult to provide an exact figure at this juncture due to the substantial economic uncertainties we are currently facing, especially as the timing and the pace of an eventual interest rate hike and their impact on the Hong Kong economy is uncertain. In view of the above, we will take a conservative approach and adopt the mid-point of the range projection for the current exercise. We would undertake a review of how the various evolving global and local economic factors would affect the domestic household projection and in turn the long term housing demand projection in the annual updating exercise next year when the economic situation is hopefully clearer.

(b) Households displaced by redevelopment

10. Households displaced by the redevelopment of old buildings in the public and the private sectors have to be rehoused, thus generating new housing demand on top of the net increase in the number of households. Based on announced redevelopment plans from the HA and the Hong Kong Housing Society (HS), as well as past trends in the private sector, it is estimated that there will be a new housing demand of about **39 100 units** from households displaced by redevelopment for the ten-year period 2015-16 to 2024-25, with the breakdown as follows –

Redevelopment programmes		Number of units
(a)	Redevelopment of public housing units	
	The HA's redevelopment of Pak Tin Estate	*2 900*
	The HA's clearance of Long Bin interim housing (IH)[4]	*500*
	The HS's redevelopment programme of Ming Wah Dai Ha[5]	*700*
	Sub-total	4 100
(b)	Redevelopment of private units (based on past trend of the number of private flats demolished from 2010 to 2013[6])	35 000
Total = (a) + (b)		**39 100**

(c) Inadequately housed households (IHHs)

11. For households living in public housing which have been built to satisfy the housing needs of the community, they are regarded as living in adequate housing. As regards households living in private housing, the

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4 Following the approval of the HA's Subsidised Housing Committee (SHC) in January 2014 on the clearance date of Long Bin IH by January 2016 and the rehousing and associated arrangements, about 500 households which are residing in Long Bin IH have been included in the projection of demand from households displaced by redevelopment. Although some of these households may have already been rehoused before the start of the projection period (i.e. before 2015-16), a conservative approach has been taken to include all these 500 households affected by clearance of Long Bin IH in the projection of long term housing demand for 2015-16 to 2024-25.

In conducting the projection of long term housing demand for 2013-14 to 2022-23, the demand from households displaced by the HA's conversion of vacant flats in Po Tin IH to PRH units (following the SHC's decision in June 2004) was taken into account. As Po Tin IH will become the sole IH in the New Territories upon the clearance of Long Bin IH in January 2016, the IH units in Po Tin will no longer be converted to PRH in order to meet the anticipated demand for IH. As such, it has not been included in the projection of long term housing demand for 2015-16 to 2024-25.

5 The number of units in the HS's redevelopment programme of Ming Wah Dai Ha refers to the number of units affected by redevelopment.

6 From 2010 to 2013, the average number of private flats demolished was about 1 750 per year. As regards the number of households displaced by private redevelopment, there may be more than one household in a unit in older private buildings, and this should be taken into account in the projection. However, there is currently no reliable data to make a projection of this situation. The only benchmark that we can draw reference from is the data of the Urban Renewal Authority (URA). According to the URA's data, about 960 units were affected in its urban redevelopment projects commenced between 2010-11 and 2013-14, in which 1 900 households were involved. In other words, there were on average about 2.0 households living in a private unit demolished. Therefore, it is estimated that the number of households displaced by redevelopment in the projection period will be 35 000 (=17 500 x 2.0).

following circumstances are taken into account in determining whether households are inadequately housed for the purpose of the projection –

(a) if the housing unit is made up of temporary structures (e.g. huts, squatters and roof-top structures);

(b) if the unit is located in a non-residential building (e.g. commercial and industrial building);

(c) if the unit is shared with other households (e.g. those living in rooms, cubicles, bedspaces and cocklofts in the private permanent buildings); and

(d) if the unit is subdivided.

12. In respect of paragraph 11(a), based on the 2011 Population Census and updated with the findings of the General Household Survey (GHS) conducted by the C&SD, it is estimated that in 2013[7] there were about 15 700 households living in temporary structures. As for paragraph 11(b), according to the 2011 Population Census, there were 3 000 units located in non-residential buildings (there are no updates from the GHS as it does not cover such units). As for paragraph 11(c), according to the 2011 Population Census and updated with the GHS, there were 11 300 households living in shared units.

13. In respect of households living in shared units, and subdivided units (SDUs) discussed below, the LTHS Steering Committee noted that not all households living in these units were necessarily inadequately housed, given that these units vary in standards and actual living environments. However, the LTHS Steering Committee chose to adopt a conservative approach and included all these households in the housing demand projection. It is also worth noting that a unit shared by two or more households or subdivided into two or more units may be able to provide adequate housing for one household if it is not shared or subdivided. In other words, there may not be a need to provide adequate housing to all the households living in a shared unit or an SDU. While these observations are valid, currently there is insufficient data to enable a meaningful analysis of the situation. In future exercises, when more data is available, it may

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[7] For the purpose of the annual updating of the demand projection, the 2011 Population Census results were updated based on annual trend data observed from GHS over the years 2011 to 2013.

be possible to formulate a projection taking into account the above observations. But for this annual updating, following the LTHS Steering Committee's conservative approach, all households sharing units with others or living in SDUs are deemed to be inadequately housed and thus would have housing needs which has been taken into account in the demand projection.

14. As for paragraph 11(d), the C&SD has commissioned a survey on households living in SDUs in its Thematic Household Survey on Housing Conditions. While the fieldwork of the Survey has been completed, the detailed figures are still being compiled. The C&SD has provided some provisional estimates for the purpose of long term housing demand projection. Based on these estimates, there are a total of 86 400 SDUs in Hong Kong , with breakdown as follows –

(a) 5 400 are with unobservable physical partitions (i.e. rooms, cubicles, bedspaces and cocklofts inside a unit of quarters); and

(b) 81 000 are with observable physical partitions. Out of these 81 000 units, 45 700 are located in buildings aged 50 years or below, while the remaining 35 300 units are located in buildings aged above 50 years.

15. On paragraph 14(a) above, as explained in paragraph 12, a similar figure on households living in rooms, cubicles, bedspaces and cocklofts inside a unit of quarters is available from the 2011 Population Census and the GHS. As the coverage of the 2011 Population Census and the GHS is more comprehensive and the estimated figure (i.e. 11 300 households) is larger than that estimated in the Thematic Household Survey on Housing Conditions (i.e. 5 400 households), following the LTHS Steering Committee's conservative approach, the figure of 11 300 households is adopted for the purpose of projecting housing demand.

16. On paragraph 14(b) above, as similar figures are not available in the 2011 Population Census/GHS, only the estimated number provided in the provisional results of the Thematic Household Survey on Housing Conditions can be used in the projection. Following the projection methodology put forward by the LTHS Steering Committee, as SDUs situated in buildings aged above 50 years have a higher chance to be

redeveloped in the next ten years, adjustments are necessary to deduct households living therein from the estimate of housing demand in order to avoid double counting with households displaced by private redevelopment.

17. In last year's projections, the LTHS Steering Committee considered that as buildings aged over 50 years stand a high chance of being targeted for redevelopment, to avoid double counting, it had excluded all SDU households living in buildings aged above 50 years from the counting of IHHs, on the assumption that housing demand from these households should have been covered in the projected demand of households affected by private redevelopment.

18. In conducting this year's updating exercise, we have explored whether we can refine the above assumption by drawing reference from past pattern. Drawing reference from data kept by the Rating and Valuation Department (RVD), we project that the demolition rate of private residential units aged above 50 years old would be 15.3% over a period of ten years[8]. According to the provisional data of the Thematic Household Survey on Housing Conditions, there are 35 300 households living in SDUs with observable physical partitions located in buildings aged above 50 years. Applying the demolition rate of private units aged above 50 over ten years to these 35 300 SDUs located in buildings aged above 50 years, it is estimated that about 5 400 (=35 300 x 15.3%) of them would be redeveloped in the next ten years. Accordingly, they have been deducted from the estimate of IHHs to avoid double counting. While following the LTHS Steering Committee's direction, we consider that this arrangement would be more reliable than simply deducting all SDUs with observable physical partitions in buildings aged above 50 from the projection of demand from IHHs. Although the demolition rate of all private units aged above 50 years may not be comparable with that of SDUs, it takes time

8 According to the RVD's data, there were about 1 090 600 private domestic units in Hong Kong as at the end of 2009, of which about 36 000 units were built before 1960 (i.e. having reached age 50 in 2010). In each of the years of 2010, 2011, 2012 and 2013, about 390, 430, 800 and 580 units which were built before 1960 were demolished respectively. In other words, an average of about 550 units per year is demolished in these four years. Assuming this trend would continue for the future six years, the number of units which have reached age 50 in 2010 and would be demolished in the ten-year period from 2010 to 2019 would be about 5 500 units (=550 x 10), accounting for about 15.3% of the total stock of 36 000 units. We have further applied this demolition rate in the projection for the period from 2015-16 to 2024-25.

before a predictive trend on the redevelopment of SDUs can be observed. When more information is available in future, it can be taken into account in future annual updating of the projection.

19. After deducting 5 400 households living in SDUs with observable physical partitions located in buildings aged above 50, the estimated demand from households living in these SDUs will be about 75 600 units (=81 000 – 5 400).

20. Summing up the above estimations, the estimated number of IHHs is **105 600**, with the breakdown summarised as follows –

	Category of IHHs	**Estimated number**	**Source of information**
(a)	Households living in units made up of temporary structures	15 700	2011 Population Census and updated with the trend based on the GHS
(b)	Households living in non-residential buildings	3 000	2011 Population Census
(c)	Households sharing the same unit with other households	11 300	2011 Population Census and updated with the trend based on the GHS
(d)	Households living in SDUs with observable physical partitions	75 600	Based on provisional estimates from the Thematic Household Survey on Housing Conditions in 2014
	Total	**105 600**	

(d) Miscellaneous factors

21. Apart from the above demand components, there may also be demands in the next ten years which are unaccounted for in the C&SD's domestic household projections. These include –

(a) an increase of some 700 per year for private permanent living quarters occupied by households with mobile residents[9] only, based on the past trend as observed from results of the 2001 Population Census and the 2011 Population Census;

(b) non-local students who might take up accommodation in Hong Kong. On this, reference has been drawn to the past trend of the number of student visas issued (from 12 200 in 2008-09 to 24 400 in 2012-13), and statistics from the Education Bureau and the University Grants Committee in 2012-13 that about 50% of these students (including undergraduates and postgraduate students) were not living in residential halls/hostels provided by the institutions. Assuming a similar trend of increase in the number of non-local students in the next ten years (i.e. a net increase of some 1 200 non-local students per year needing to find their own accommodation in the private housing market), and further assuming that on average two non-local students will share one housing unit, the estimated housing demand will amount to some 600 per year; and

(c) apart from the demand from the local population, there may be some buyers from outside Hong Kong who may purchase flats but without channelling them back to the market (i.e. not selling or leasing out their units). Drawing reference from statistics of the Inland Revenue Department (IRD) and the RVD, it is estimated that the demand of non-local buyers who may take up flats but without channelling them back to the market[10] will be in

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9 Mobile residents refer to Hong Kong permanent residents who have stayed in Hong Kong for at least one month but less than three months during the six months before or after the reference time-point, regardless of whether they are in Hong Kong or not at the reference time-point.

10 Although these units are bought by non-local buyers and without being channelled back to the market, this does not imply that they are vacant units. These units may be occupied by the owners as residence, second home, vacation home or for other purposes.

the range of 1 800 to 2 810 units per year, i.e. a mid-point of about 2 300 units per year[11].

22. Assuming that the past trends as detailed above will continue in the next ten years, there will be an additional housing demand of some 3 600 units per year (= 700 + 600 + 2 300), or a total of 36 000 units over the ten-year period 2015-16 to 2024-25, with an upper and lower range of 41 100 and 31 000 respectively.

(e) Gross total housing demand

23. In gist, it is estimated that there will be a net increase of 282 800 households in the projection period, with an upper and lower range of 311 080 and 254 520 respectively. As regards households displaced by redevelopment, it is estimated that there will be 39 100 households displaced by redevelopment in the projection period. On IHHs, it is estimated that the number of IHHs in Hong Kong to be taken into account in the demand projection is 105 600. As for the miscellaneous factors, it is estimated that there will be a housing demand of 36 000 units, with an upper and lower range of 41 100 and 31 000 respectively. Summing up these demand components, the estimated gross total housing demand will be 463 500 units (mid-point) for the projection period from 2015-16 to

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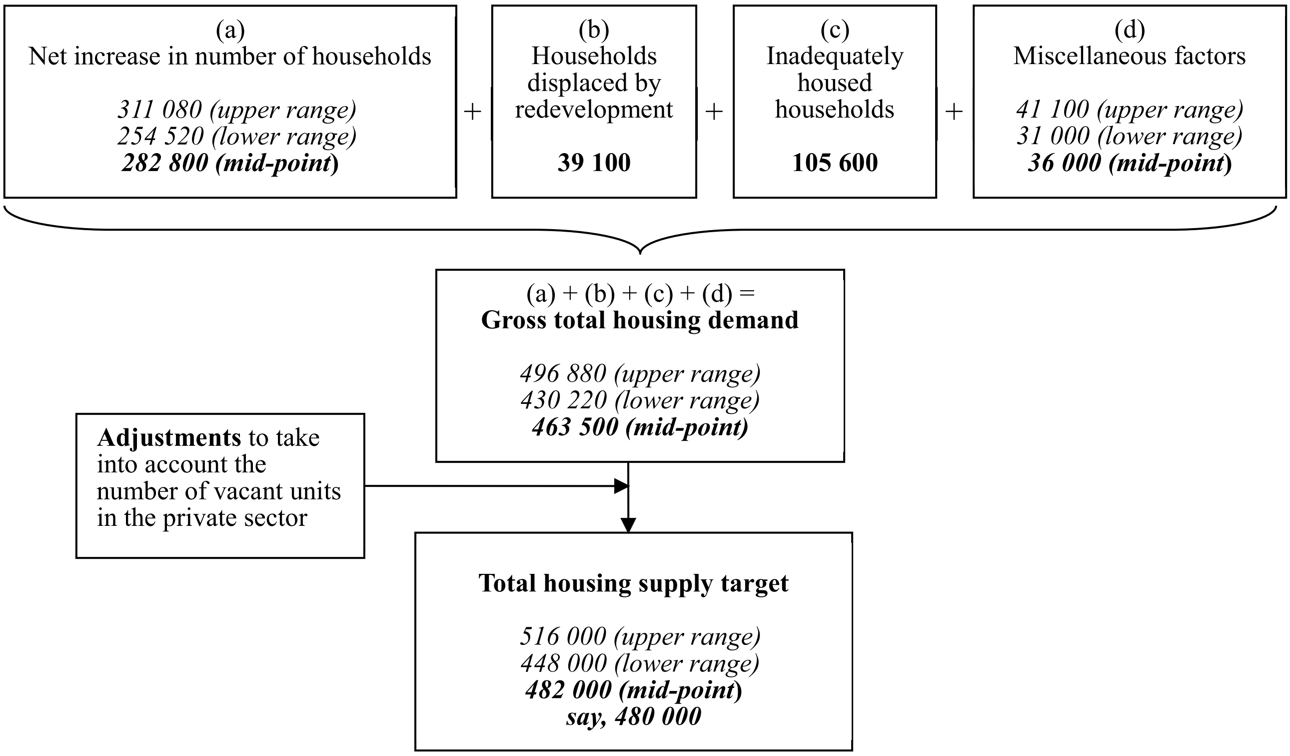
[11] The IRD's stamp duty statistics show that purchases of residential properties by non-local buyers (including non-local individual and non-local company buyers) had been generally rising in 2007 to 2011. Their purchases as a share of total transactions rose from 3.5% in 2007 to 4.5% in 2010 and further to 6.5% in 2011. After the Government introduced the Buyer's Stamp Duty (BSD), their purchases averaged at 2.0% of total transactions in January 2013 to July 2014. With reference to the above, it is crudely assumed that the share of purchases by non-local buyers would be 5.0% (average share of non-local buyers among all transactions in 2009 to 2011) as the upper range and 2.0% as the lower range. Using the annual average number of stamped transactions in 2007 to 2013 (112 340 cases) as rough indication, the purchases by non-local buyers would be around 5 620 cases per year as the upper range and 2 250 cases per year as the lower range in the coming ten years, with a mid-point of 3 930 cases.

According to analysis conducted on transactions suspected to involve non-local buyers, around 52% to 55% of the properties purchased in 2010 to 2012 were let out and had active records in the RVD's rental database. Yet the share plunged to 21% in 2013, which might reflect the more significant effect of BSD on investors than owner-occupiers. Based on the above, it is assumed that in the upper case where the share of purchases by non-local buyers is taken as 5% (or 5 620 cases), half of the purchases (50%) by non-local buyers would be owner-occupied or left vacant, and the remaining 50% would eventually be channelled back into the leasing market for the local population for take-up; whereas in the lower case where the share of purchases by non-local buyers is taken as 2% (or 2 250 cases), it is assumed that 80% of the purchases would be owner-occupied or left vacant. Applying these ratios to the total purchases by non-local buyers, the projected demand by non-local buyers would thus be around 2 810 units per year as the upper range and 1 800 units as the lower range in the coming ten years, and the mid-point would be about 2 300 units per year.

2024-25, with an upper and lower range of 496 880 and 430 220 units respectively.

(f) Total housing supply target

24. As there are always a certain number of flats left vacant in the private sector at any point in time, to derive the total housing supply target, we have to take into account the number of vacant units at the beginning of the projection period (about 46 570) and the possible vacancy rate at the end of the projection period. On this, we have drawn reference from the average vacancy rate in the private sector from 2004 to 2013 (about 5.0%) as the basis for estimation. According to projection results of the gross total housing demand, and taking into account the vacancy situation of private flats, it is projected that the total housing supply in the next ten years should range between 448 000 and 516 000 units, with the mid-point being 482 000 units. Details are summarised in the chart below –



25. As mentioned in paragraphs 7 to 9 above, a major factor of some of the estimates involved is GDP growth, and there are indications that economic growth in Hong Kong in the coming ten years may well be lower than the historical trend growth rate of 4.5% per year during the period

from 2004 to 2013. Nonetheless, as it is difficult to give an exact figure due to the substantial economic uncertainties we are currently facing, we will take a conservative approach and adopt a total housing supply target of **480 000 units** for the ten-year period of 2015-16 to 2024-25. It should be noted that this projected housing supply target falls within the range of projections worked out last year for the period 2013-14 to 2022-23 (i.e. between 440 000 and 500 000 units).

Annex B

Streamlining of the Planning, Land Administration and Building Regimes

Streamlining Town Planning Process

To streamline the planning approval process, the TPB has introduced broad use terms under the Master Schedule of Notes to Statutory Plans (MSN) to allow greater flexibility, thereby reducing the need for planning applications without compromising suitable controls. The TPB also reviews MSN and the Definition of Terms from time to time to take account of the changing planning circumstances. Moreover, with the enactment of the Town Planning (Amendment) Ordinance 2004, exemptions from making amendments to development schemes previously approved under s.16, s.17 and s.17B of the Town Planning Ordinance have been built into the system. In gist, changes which fall under Class A amendments are exempted from submitting further application to the TPB, while Class B amendments are subject to approval by the TPB on application.

2. To further speed up the approval process, the TPB has delegated its authority to the Director of Planning to consider s.16A(2) applications for Class B amendments. Such applications will be considered within six weeks upon receipt. An application which is considered unacceptable by the departments concerned, or involving deletion of the previously proposed Government, Institution or Community facilities (initiated by government departments) will be submitted to the TPB for consideration within the statutory time limit of two months. To facilitate submissions, where necessary, applicants may request a pre-submission meeting with the PlanD with the participation of other relevant government departments prior to formal submissions to the TPB. Furthermore, the PlanD has promulgated a Practice Note for Professional Persons No. 4/2005 setting out guidelines on how an applicant can make enquiries, with a view to facilitating and thereby shortening the time required for the discussion and processing of his/her development submissions. A letter has also been issued to the key developers and consultants in June 2013 encouraging them to make use of this facilitative arrangement.

Streamlining Land Administration Process

3. The LandsD has been reviewing the processes under lease and implemented enhancement measures such as simplification of some lease conditions, alignment with the Buildings Department (BD)'s standard in respect of a number of items in approving building plan submission under lease and streamlining the procedures in processing lease modification (including land exchange) applications. Two consolidated/revised Practice Notes on the processing of building plans under lease were promulgated in August 2014 to assist the trade. The LandsD will continue to review and, where practicable, implement further suitable measures to facilitate land development.

Pilot Scheme for Arbitration on Land Premium

4. A lease modification/land exchange application, including premium negotiation, is a contractual matter between the Government acting in the capacity of a private landlord and the applicant, which could be completed and executed only with mutual agreement. To facilitate early agreement on premium for lease modification/land exchange applications so as to advance land supply for housing and other uses, the Government launched in October 2014 a Pilot Scheme for Arbitration on Land Premium for lease modification/land exchange applications as an administrative initiative for facilitating the determination of premium. The Pilot Scheme will be implemented for a trial period of two years, to be followed by a review by the Government.

Streamlining Building Development Process

5. The BD is committed to adopting a positive attitude towards building development. Its mission is to facilitate building professionals in the approval process while ensuring public safety and health. While the BD is subject to statutory time limits in vetting and approving building plans and related applications, it endeavours to streamline and expedite the application and approval process. Over the years, it has introduced various facilitation measures in consultation with the industry. For

instance, the BD has made available fast-track concurrent approval and consent for certain types of works to expedite the development process. It has also put in place a pre-submission enquiry service to facilitate early clearance of basic design principles prior to formal submission of plans. Practitioners may make use of the enquiry service to consult the BD as early as possible on the use of any new or sophisticated design and construction methods before preparing the detailed design.

6. As part of the recent efforts, the BD issued in September 2012 a "Friendly Reminder on Preparation of Building Plans and Occupation Permit" for use by authorised persons to facilitate preparation of applications for early approval, and introduced in November 2013 simplified procedures for renewal of hoarding permits and refinements on curtailed checking of drainage plans. In early January 2014, after consultation with the industry, the BD promulgated new streamlined procedures for developers to carry out rectification works to completed buildings after the issue of occupation permit. The above process of improving the plan approval procedures is on-going. In addition, the BD is now carrying out a benchmarking exercise jointly with the industry on plan submission quality with a view to further facilitating preparation of plans for early approval. The BD will continue to maintain a close dialogue with the industry through the established channels. In the 2013-14 and 2014-15 financial years, the BD also strengthened its manpower for handling plan approval work.

Annex C

Measures to Enhance Manpower Supply in the Construction Industry

The DEVB obtained funding approvals from the LegCo's Finance Committee for a total of $320 million in 2010 and 2012 to support the Construction Industry Council (CIC) to strengthen its role in training local construction personnel and enhance promotion and publicity efforts to attract more people, especially young people, to join the industry. Amongst other initiatives, the DEVB collaborates with the CIC to launch the Enhanced Construction Manpower Training Scheme (ECMTS) to train about 6 000 semi-skilled workers by end 2014 for trades facing labour shortage, acute ageing and difficulties in recruiting new trainees. Up to September 2014, about 5 500 ECMTS trainees have graduated. The CIC expects that the above-mentioned target of 6 000 can be met as scheduled. To diversify the modes of training and provide more training places, the CIC has launched the Contractor Cooperative Training Scheme, under which trainees can be hired and trained on-site to facilitate early acquisition of site experience. Since the launch of various training initiatives, the CIC has substantially increased the number of training places over the past years.

2. In May 2011, the DEVB collaborated with the CIC to launch the "Build-Up Publicity Campaign" which comprised various publicity and promotion activities to project a positive image of the industry. The latest image tracking survey in 2014 has revealed that the percentage of young people interviewed who are willing to join the industry has been increased significantly to 27.3%, as compared with that of only 7.9% before the launch.

3. Although these initiatives have been implemented smoothly and attained certain achievements, the shortage problem of skilled workers has yet to be fully resolved. The Government will continue to strive to meet the manpower demand by training and re-training local workers and attracting more new entrants to join the industry. However, there are

limitations[1] in training local workers to meet the mounting manpower demand. With due regard to the principle of not affecting the employment and not lowering the wages of local workers, there is a need to import skilled workers in a timely manner. This will not only help meet the manpower demand of the industry, but will also make room for the local in-service skilled workers to nurture semi-skilled workers.

4. Currently, contractors having genuine difficulties in recruiting suitable staff locally may consider applying for importation of workers at or below technician level through the Supplementary Labour Scheme (SLS). The CIC set up a task force with the industry stakeholders including relevant trade associations and labour unions in early 2014, and has identified shortage trades for the industry. On the other hand, having regard to the shortage trades identified by the CIC, after consulting the Labour Advisory Board, the Labour Department rolled out a new arrangement in mid-April 2014 to expedite in collaboration with relevant policy bureaux and departments the preparatory works for SLS applications submitted by contractors involving the shortage trades related to public sector works, with a view to saving time for administrative work. It facilitates timely importation of skilled workers for public sector works with genuine needs, thereby relieving the shortage of skilled workers in the shortage trades for the construction industry on the whole. The Government will liaise closely with the industry to review the effectiveness of the arrangement in a timely manner and make modifications as appropriate.

[1] Graduate trainees are semi-skilled workers who would need time and on-site practice for them to be nurtured as skilled workers. However, there are insufficient in-service skilled workers to nurture them. Further, the productivity of in-service skilled workers will also be affected by nurturing the semi-skilled workers.

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