

Legislative Council Panel on Housing

“Green Form Subsidised Home Ownership Pilot Scheme”

PURPOSE

This paper briefs Members on the implementation details of and selected site for the “Green Form Subsidised Home Ownership Pilot Scheme” (GSH).

BACKGROUND

2. The Long Term Housing Strategy (LTHS) promulgated by the Government in December 2014 reaffirms the role of subsidised home ownership as an essential element of the housing ladder. It also states that the Government will consider how to expand the forms of subsidised home ownership and, where appropriate, introduce supplementary schemes of subsidised sale flats. Meanwhile, there have always been suggestions from the community for provision of subsidised sale flats to Green Form (GF) applicants at prices lower than that of Home Ownership Scheme (HOS) flats to help them achieve home ownership and at the same time release public rental housing (PRH) flats for applicants awaiting PRH allocation.

3. In line with the LTHS framework, the Chief Executive, in his 2015 Policy Address, proposed to the Hong Kong Housing Authority (HA) that suitable flats among its PRH developments under construction be identified for sale to GF applicants in the form of a pilot scheme, with prices set at a level lower than those of HOS flats.

IMPLEMENTATION DETAILS OF GSH

4. At the meeting on 22 January 2015, HA’s Strategic Planning Committee (SPC) unanimously supported the GSH proposal and agreed on the guiding principles. Based on SPC’s guiding principles, HA’s Subsidised Housing Committee (SHC) discussed the implementation details of GSH on 6 May 2015. SHC considers that the implementation details of GSH should as far as possible follow those of HOS since they are effective, widely accepted and easy to understand. Using the same sets of rules, where appropriate, policy consistency across different types of subsidised sale flats under HA can also be maintained. The implementation details endorsed by SHC are set out in paragraphs 5 to 13.

Principles for site selection

5. The site selection principles for GSH include –
- (a) while a site may include certain public facilities (which may be unavoidable if the site is originally intended for PRH development), it should not contain public facilities that will incur very high management and/or maintenance fees;
 - (b) the conversion of a PRH site to GSH development should not result in substantive changes to the original planning (e.g. should not result in substantial reduction in the number of flats; should not entail significant changes to the provision of facilities originally planned for the site, etc.);
 - (c) the site should preferably be a standalone one, or can be easily carved out from a PRH development; and
 - (d) PRH development that will be completed shortly is not suitable, because –
 - (i) flat allocation may have already started; and
 - (ii) converting rental units that will be completed shortly to sale flats involves planning and land procedures which take time¹ and the flats may be left idle in the interim period which is undesirable.

Eligibility Criteria

6. By definition, only GF applicants are eligible for GSH. GSH will adopt the same definition of GF applicants as currently applicable to HOS, i.e. mainly PRH tenants, but also other categories of persons who are eligible for GF status in buying HOS flats, such as PRH applicants who have passed the detailed eligibility vetting and are due for flat allocation in about a year's time. To ensure fairness and to maintain consistency across subsidised housing

¹ Converting PRH flats into flats for sale involves the following steps –

- (a) revision of the approved planning brief; resolution of issues arising from site demarcation, shared facilities and cost sharing arrangements; and approval of general building plans; and
- (b) preparation of land lease and the Deed of Mutual Covenant.

schemes under HA, tenants allocated PRH flats via the Express Flat Allocation Scheme (EFAS) will not be eligible for GSH within three years from the commencement of their PRH tenancies.

Mortgage guarantee

7. HA will follow the practice of HOS to provide mortgage guarantee for GSH flats.

Price setting mechanism

8. To better reflect the prevailing market situation, GSH will follow the practice of HOS whereby the exact selling price of individual projects will be determined by HA's SHC about two months before pre-sale. The following principles will be adopted when setting the prices –

- (a) GSH flats will be sold at a discount to the market price, which will be higher than that applicable to HOS flats;
- (b) the discount will be set at a level so that at least 50% of the flats will be affordable to target applicants based on the following assumptions –
 - (i) a mortgage-to-income ratio of 40%;
 - (ii) a loan repayment period of 20 years;
 - (iii) a mortgage loan-to-price ratio of 95%; and
 - (iv) a household income at the eligibility limit for applying PRH for a four-persons household; and
- (c) the selling price should in general not be lower than the cost, which includes the development costs (consisting of construction costs, direct staff costs and overhead), land costs, and administration and sales-related expenses.

Resale restrictions

9. Resale of GSH flats will be subject to the restrictions as stated in the Schedule to the Housing Ordinance (Cap. 283)².

10. Given the risk of moral hazard if all the liability and consequences of a falling market are borne by HA, and HA's financial position which is already under serious stress³, HA will not buy back GSH flats.

11. However, when a GSH flat owner offers to sell his flat to HA during the first five years of the first assignment, HA will exercise its power under the Housing Ordinance to nominate GF buyers. According to the Housing Ordinance, the price will be set at the original price of the GSH flat sold by HA within two years from the first assignment; and the prevailing market price of the GSH flat assessed by the Director of Housing less the original discount between the third and fifth year from the first assignment. Same as the current practice of the HOS Secondary Market, the GSH flat owner has to identify eligible GF buyers through his own means, including through estate agents, for nomination by HA. If HA has not received any application for nomination within six months, the GSH flat owner can sell the flat in the open market after paying the premium.

² The Schedule to the Housing Ordinance sets out the following resale restrictions –

- (a) during the first five years of the first assignment from HA, if the flat owner wants to sell his flat, he is required to offer to sell it to HA. HA, or its nominee, may buy the flat at the following price –
 - (i) within two years of the first assignment – original price of the flat sold by HA;
 - (ii) between the third and fifth year from the first assignment – market price of the flat assessed by the Director of Housing less the original discount.If HA, or its nominee, declines to buy the flat, the owner can sell the flat in the open market after payment of premium;
- (b) after five years counting from the first assignment have passed, the owner may sell the flat in the open market upon payment of premium; and
- (c) in addition to (a) and (b) above, from the third year onwards counting from the date of the first assignment, the owner may also sell the flat in the HOS Secondary Market to a person nominated by HA without payment of premium and at his own negotiated price.

There are legal sanctions for unauthorized alienation. The transactions will be void and there would be criminal liability.

³ Under the LTHS announced in December 2014, the Government adopts a public housing supply target of 290 000 units for the ten-year period from 2015-16 to 2024-25 based on the latest projection of housing demand. HA, being the main provider of public housing, will come under increasing fiscal pressure to meet the building target and is likely to require financial support from the Government to deliver its public housing programme.

12. In making the above decision, SHC has taken into account the following –

- (a) the restrictions can be imposed within the current legal framework as set out in the Schedule to the Housing Ordinance without the need to amend the Ordinance;
- (b) in concept it is reasonable to require GSH flat owner to try and sell to GF nominees, since Government subsidy involved in the GSH flat can be retained for circulation within the target group, i.e. GF applicants; and
- (c) in practice, speculators would unlikely want to sell GSH flats to HA's nominees, as the selling price is fixed by the Schedule to the Housing Ordinance and there is no room for negotiation. On the other hand, they would have to wait for at least six months before they can pay premium and sell in the open market. Such a period would increase the risk for speculative activities as it adds uncertainty. We believe that non-speculators who have urgent need to liquidate their asset would be less concerned with such uncertainty.

Premium arrangements

13. GSH will adopt the established formula for subsidised sale flats as set out in the Schedule to the Housing Ordinance⁴ to calculate the premium payable.

⁴ The formula for calculating the premium payable as set out in the Schedule to the Housing Ordinance is as follows –

$$\text{Premium} = \text{Prevailing market value} \times \text{Discount rate}$$

where,

$$\text{Discount rate} = \frac{\text{Initial market value} - \text{Purchase price}}{\text{Initial market value}} \times 100\%$$

SELECTED SITE FOR GSH

14. Based on the site selection principles in paragraph 5, HA's Strategic Planning Committee agreed to convert the PRH development at San Po Kong to GSH at its meeting on 11 May 2015.

15. The selected site is the southern site of the ex-San Po Kong Flatted Factory site held under Vesting Order No. 59 and is located at the south-eastern corner of the San Po Kong business area. It is situated to the west of Rhythm Garden (a Private Sector Participation Scheme) and to the south of the Kai Tak East Playground, bounded by Prince Edward Road East to the south. The site location plan is at **Annex**. The development will provide 857 flats, with the flat size ranging from about 14 m² to 38 m² internal floor area. We consulted Wong Tai Sin District Council on 19 May 2015. Wong Tai Sin District Council supports the conversion of the PRH development at San Po Kong to GSH.

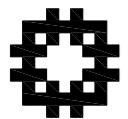
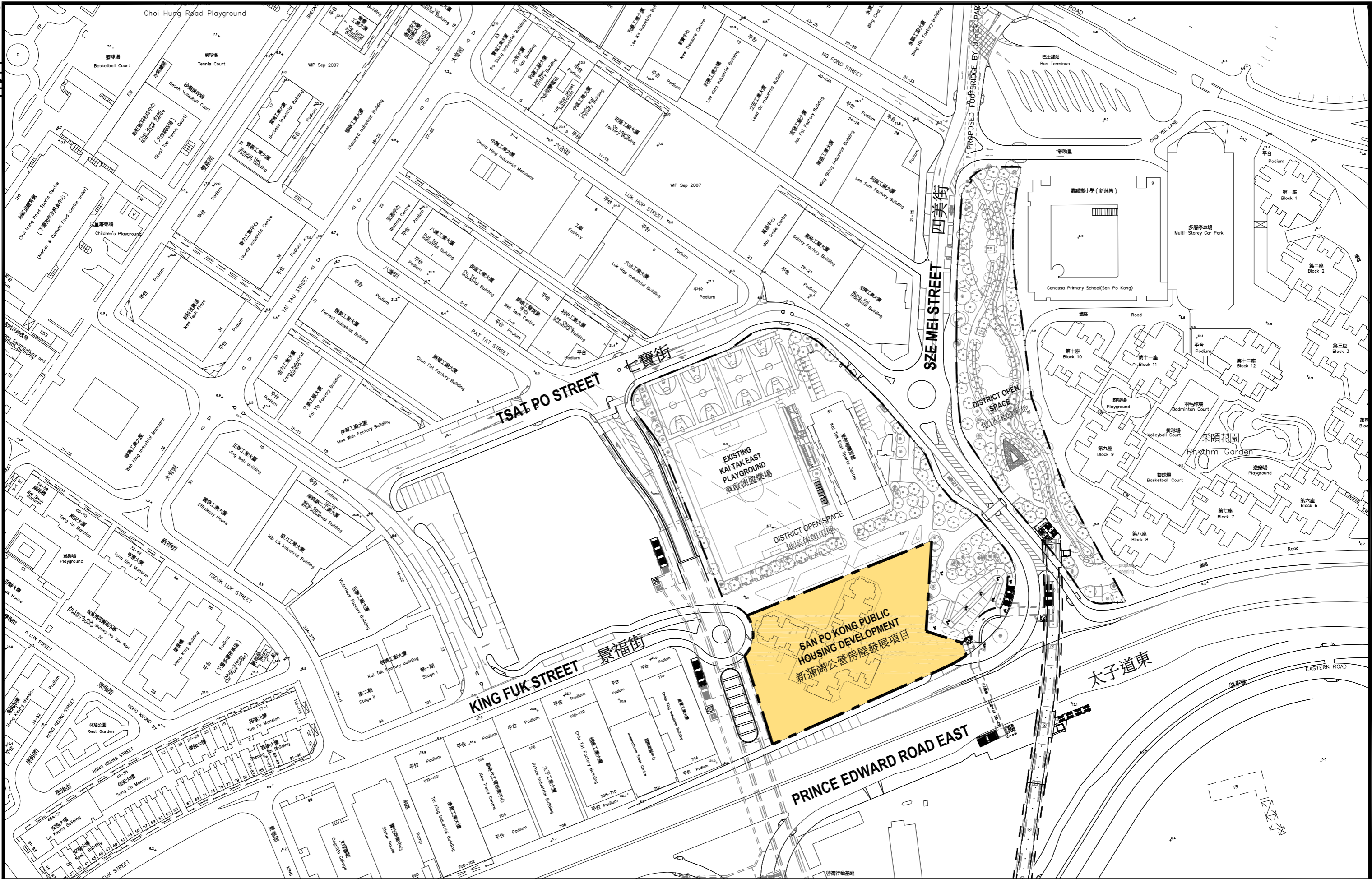
Timing for pre-sale

16. The flats are estimated to be ready for occupation by mid-2017. The timing for pre-sale depends on the time needed to resolve site specific issues of the selected site; and time for preparation of the land lease, the Deed of Mutual Covenant and sales documents etc. For better coordination, we also need to take into account the timing for launching other sale exercises of HA in view of staffing resources and more importantly, to offer reasonable choices to target applicants under different sale programmes of subsidised sale flats. Based on the above considerations, we estimate that we can conduct the pre-sale exercise sometime in the second half of 2016.

FOR INFORMATION

17. Members are invited to note the implementation details of and selected site for the GSH.

Housing Department
May 2015



新蒲崗綠表置居先導計劃

GREEN FORM SUBSIDISED HOME OWNERSHIP PILOT SCHEME AT SAN PO KONG