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17 May 2016

Ms Sharon Chung  
Clerk to Public Works Subcommittee  
Legislative Council Secretariat  
Legislative Council Complex  
1 Legislative Council Road,  
Central, Hong Kong

Dear Ms Chung,

**Public Works Subcommittee  
41QJ – Youth Hostel Scheme –  
Construction by The Hong Kong Federation of Youth Groups**

The above subject was discussed at the meeting of the Legislative Council (LegCo) Public Works Subcommittee on 11 May 2016. In response to LegCo Members' request for information on the Youth Hostel Scheme (YHS), our reply is as follows –

Rental levels

2. As the YHS is an initiative under the youth development policy, we must ensure that hostel tenants can make use of their stay to accumulate various types of capitals for future personal development. Regarding the rental level that is affordable for tenants, we require that rental levels must not exceed 60% of the market rent for flats of similar size in the nearby areas. Therefore, 60% of the market rent is the rental ceiling of youth hostels. NGOs can charge rents at a level that is lower than the ceiling (please see paragraph 6 below).

3. The rentals for flats in urban areas have always been higher than those in the New Territories. Also, when compared with those in the New Territories, tenants of hostels in urban areas can save commuting time and cost. It is thus reasonable for rental levels to be different. Meanwhile, given that non-governmental organisations (NGOs) are required to run youth hostels on a self-financing basis and that the scale, facilities and services of hostels vary, some NGOs may be unable to break even if a uniform rental level is set. Not only will this discourage NGOs' participation in the YHS, the number of young people who can benefit from the YHS may also decrease. If we adopt the mechanism of linking rents to tenants' income levels, the administrative costs of the scheme would increase. Tenants would be required to regularly declare their income levels, which would be a hassle. Under this mechanism, NGOs would also have a higher incentive to admit applicants with higher income in order to generate more rental revenue. In turn, those with lower income may not be able to benefit from the YHS.

4. Regarding the determination of market rental levels, we will cautiously consider the possibility of including valuation made by surveyors, as recommended by Members. As an example, we can ask NGOs to commission independent surveyors to conduct a valuation on market rental levels before submitting the results to the Government for internal vetting. The Government would then set the hostel rental level based on the said valuation.

5. For the Tai Po project of the Hong Kong Federation of Youth Groups (HKFYG), as the project scheduled for completion in 2018 and in order to calculate more precisely the market rents of similar-sized flats within the Tai Po district, the HKFYG, apart from taking into account the data from the Rating and Valuation Department, will consider commissioning independent professional surveyors for an assessment, with a view to setting an objective and reasonable rent level. According to the preliminary information provided by the HKFYG, the monthly rent for a single hostel unit will be about \$2,300 if it is set at 60% of the market rental rate as at 2016.

6. As for its project in Yuen Long, the Po Leung Kuk (PLK) will, upon the operation of the hostel, make reference to the transaction rental prices of similar flats in the district and set the rent at a level not exceeding 50% of the relevant market rents. According to the preliminary information obtained by

PLK, the rent of a single hostel unit is estimated to be about \$1,700 at the current price level.

7. Under the policy framework of the YHS, the income level of a one-person household applicant should not exceed the 75<sup>th</sup> percentile of the monthly earnings of employed persons age 18 to 30. According to the latest information provided by the Census and Statistics Department, the relevant figure is \$18,000 as at 2015. Even if we consider the median monthly employment earnings of employed persons aged 18 to 30 (\$13,000 as at 2015), the rental levels of both HKFYG and PLK's youth hostels only constitute 18% and 14% of the median income level, which should be affordable to young tenants.

8. Regarding the other three youth hostels located in urban areas (i.e. Sheung Wan, Mong Kok and Jordan), as they have not yet entered the detailed design stage, the relevant NGOs have not yet given an estimate on the rents of youth hostel units. However, according to the preliminary information we gathered, the market rents of flats of similar sizes and with frugal designs are roughly estimated to be about \$42 to \$60 per square foot in respective districts. The rental for a single unit in the three hostels are about \$3,000 to \$3,500 if they are set at 60% of the market rate. These equal to around 23% to 27% of the median monthly employment earnings of employed persons aged 18 to 30 (\$13,000 as at 2015). (About 17% to 19% if we base our estimate on the 75<sup>th</sup> percentile of the monthly earnings.) We believe that they should also be within the affordable level of young tenants. As mentioned in paragraph 3 above, tenants of hostels in urban areas can save commuting expenses and time. It is thus reasonable for rental levels to be higher. On the contrary, if a uniform rental level is set, tenants of hostels in the New Territories would find the policy unfair.

#### Government's monitoring

9. The Government will sign a Grant and Operation Agreement (GOA) with each NGO individually. The NGOs shall operate the youth hostels in accordance with the provisions specified in the GOAs, so as to fulfil the Government's policy objectives. The main features of the GOA are at Annex. In addition, NGOs are required to separately sign tenancy agreements with each tenant. If a youth hostel is not operated in accordance

to the GOA, the Government has right to require the relevant NGO to return the construction costs of the youth hostel. In the light of the uniqueness of various projects and NGOs, we will consider adding further provisions to the GOA subject to the relevant special circumstances.

10. As for land leases, the Lands Department will, with the policy support from the HAB, modify the land leases of various projects at nil premium and nil administration fee to ensure that the youth hostels can be developed in line with Government's policy objectives. If the youth hostel contravenes the lease conditions or terminates its operation, the Government reserves the right to recover the land and take over the building concerned. We will work out the details of each land lease with the relevant district land offices and the NGOs concerned, subject to the individual circumstances of each youth hostel project.

#### Other policy principles

11. *Pregnancy during the tenancy at youth hostels:* Youth development is diversified. To benefit more young people under the youth hostel policy, we will allow NGOs to have certain discretion to assist applicants or tenants with special needs. For young applicants who cannot meet some eligibility criteria, if NGOs consider that a tenancy in youth hostels can benefit their personal development, the NGOs may flexibly allocate five percent of the total number of hostel places to these partially eligible cases. Such discretion is also applicable to cases of pregnancy during the tenancy at youth hostels.

12. *Public rental housing (PRH) and youth hostel applications made at the same time:* Provided that youth applicants meet the relevant criteria of income and asset limits, they can apply for both PRH and youth hostels at the same time. However, once they are allocated a unit through either scheme, they have to withdraw the other application. Under the Quota and Points System, the applicant can still score points even if his or her application is frozen. As youth hostels and PRH are both heavily subsidised with public money, allowing single youth applicants living in youth hostels to remain in the queue for PRH and scoring points under the Quota and Points System is equivalent to providing double benefits, which is unfair to other PRH applicants under the Quota and Points System with pressing housing needs

but are not youth hostel tenants.

13. *Ways to ensure tenants moving out in a timely manner:* As stated above, NGOs are required to enter into a tenancy agreement with their tenants, stating that hostel tenants shall move out upon the expiry of the tenancy agreement without tenancy renewal. We shall also make it a provision in the GOA that NGOs shall maintain communication with tenants during their tenancies, in particular when the tenancy agreements are about to expire, NGOs shall provide bridging support so that tenants can move out in a timely manner.

#### HKFYG Youth Hostel

14. The HKFYG project comprises the demolition and reprovisioning of the Youth S.P.O.T. and the construction of a youth hostel. The total construction floor area of the building is about 4 040 m<sup>2</sup>, including around 3 460 m<sup>2</sup> for the youth hostel and around 580 m<sup>2</sup> for the Youth S.P.O.T.. The reprovisioned Youth S.P.O.T. will have the same floor area as the present one and its operation will continue to be funded by the Social Welfare Department. Its original youth development services will be maintained.

15. Regarding the construction cost, subject to funding approval, the Government will closely monitor the construction progress of the project and urge the HKFYG to exercise vigilant control over its expenditure. The HKFYG is also confident that it can contain the total expenditure within the project estimate. In case of any overspending due to factor(s) other than inflation, the amount will be borne by the HKFYG.

16. The Youth Hostel Scheme is a unique programme and the HKFYG youth hostel project is the first to be commissioned under the Scheme. That said, the HKFYG has ample experience in the construction, management and operation of activity venues and hostels, such as the 25-storey Hong Kong Federation of Youth Groups Building (located on Pak Fuk Road, North Point) with a total floor area of about 9 444 m<sup>2</sup>, and the HKFYG Jockey Club Sai Kung Outdoor Training Camp (located on Tai Mong Tsai Road, Sai Kung) with a total floor area of 9 675 m<sup>2</sup> and offering 460 bed spaces.

### Financial estimates of the youth hostels

17. As there are only 78 units in the HKFYG Tai Po youth hostel, the management of the hostel will be simple in principle. The hostel will be operated with smart technology systems as far as possible to achieve greater cost-effectiveness by reducing manpower input. Assuming that the monthly rent for single unit is \$2,300 with an occupancy rate of 95%, it is estimated that the annual rental income for the youth hostel in Tai Po should be about \$2.04 million. The total amount of expenditure on security, cleansing, daily maintenance and repair, insurance, utility fees in common areas and miscellaneous items is estimated to be \$1.8 million, 35% of which is for security and cleansing, 34% for maintenance and repair, and 31% for insurance and utilities in common areas. Any operating surplus will be first transferred to the "maintenance reserve fund", which will be used for future power checking, window inspection, building inspection and major building maintenance works required by the law. The balance, if any, will be transferred to a specified reserve, which will entirely be used on the youth hostel in Tai Po and not for other purposes.

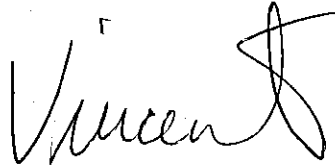
18. As for the youth hostels to be operated by other organisations, since those projects have not yet reached the detailed design stage, accurate budget estimates are currently not available. Upon funding application for the relevant projects at the LegCo Finance Committee in future, we will provide more specific budget estimates for Members' reference.

### Selection criteria for tenants

19. The HKFYG's youth hostel in Tai Po will first assess whether applicants meet the basic eligibility criteria such as income, assets and age. It will then consider other factors provided by the applicants and obtained through interviews, including applicants' current living area, living environment, urgency of moving out and job nature, to further determine the priorities of the applications concerned. Moreover, to cater for applications with special individual needs, the HKFYG will consider exercising discretion to accept special cases according to the policy framework for youth hostels. However, the number of such cases shall not exceed 5% of the total number of hostel places.

20. May I take this opportunity to express our gratitude to Members for their concern over the youth hostel policy.

Yours faithfully,

A handwritten signature in black ink, appearing to read "Vincent", with a stylized flourish at the end.

(Vincent Fung)  
for Secretary for Home Affairs

c.c.

Financial Services and the Treasury Bureau (Attn.: Ms Jasmine Choi)

Fax: 2523 5722

**Main features of the “Grant and Operation Agreement”**

Rent and tenancy period

Non-governmental organisations (NGOs) should charge an affordable rent for their hostels, which should not exceed 60% of the market rent for flats of similar size in the nearby districts. The rent should cover all on-going costs required in managing, operating and maintaining the hostels, such as management fees, cleansing fees, Government rent, rates, etc. The first tenancy should be at least two years, which can be renewed for an aggregate of no more than five years.

The age of target tenants and their permanent resident status

2. Target tenants must be working youth (including self-employed persons) who are Hong Kong permanent residents aged 18 to 30.

Income limits

3. The income level of a one-person household applicant shall not exceed the 75th percentile (\$18,000 in 2015) of the monthly employment earnings of employed persons aged 18 to 30, while the household income level of a two-person household applicant should not exceed twice the level of a one-person household. We will review the relevant income levels and make adjustments according to the latest statistics published by the Census and Statistics Department (C&SD) as necessary.

Asset Limits

4. The total net asset of a one-person household shall not exceed HK\$300,000, while that of a two-person household shall not exceed HK\$600,000. The Home Affairs Bureau will regularly make adjustments to the limits according to the appropriate consumer price indices.
5. Tenants shall be subject to income and asset limit tests only at the time of application but not during a tenancy renewal.



### Flexibility in approving applications

6. NGOs may flexibly allocate their hostel places (up to 5% of the total number of hostel places) to applications with special needs but not meeting all the above eligibility criteria.

### Property ownership

7. Applicants shall not solely or jointly own any residential properties in Hong Kong, or hold any residential properties in Hong Kong in the name of a company. If the tenant subsequently becomes the owner of a residential property, he or she shall declare the interest immediately to the NGO concerned. In that case, the tenant will be given reasonable time to move out from the hostel unit.

### Eligibility criteria for public rental housing (PRH) applications

8. Under the Youth Hostel Scheme (YHS), the following will be arranged for the three categories of youth who are allocated youth hostel units:

- (a) single youth applicants for PRH – upon acceptance of the tenancy offered by youth hostels, hostel tenants are required to withdraw their applications from the PRH Waiting List and are not allowed to re-apply for PRH throughout their tenancies in the hostels;
- (b) two-person household applicants for PRH who are both allocated youth hostel units – upon acceptance of the tenancy offered by youth hostels, the hostel tenants concerned are required to withdraw their applications from the PRH Waiting List and are not allowed to re-apply for PRH throughout their tenancies in the hostels;
- (c) those who are applying for PRH together with their family – If the PRH application is already on the Waiting List, such an application made by the family of a hostel applicant will not be affected in order to prevent his or her personal decision from affecting the PRH application and causing family disputes. If the young person concerned has been admitted to a youth hostel by the time his or her family is allocated a PRH flat, he or she is required to notify the

Housing Department (HD). Their names will not be deleted from PRH tenancies, but they will be regarded as taking “temporary absence” from the PRH, just like those who are having employment or medical treatment outside Hong Kong. Also, the income of the relevant youth hostel tenants will still be subject to the requirement of income and assets declarations under the “Well-off Tenants Policy”.

9. Hostel tenants can continue to apply for subsidised sale flats. Those who have been living in Home Ownership Scheme flats are not required to notify the HD of their youth hostel tenancy.

#### Use of surplus from hostel operation

10. Regarding the use of surplus, we have set down the following requirements:

- (a) An NGO should first establish a “mandatory reserve” at a level sufficient to cover the cost of maintenance for its hostel during the operation period;
- (b) NGOs might deploy the operating surplus arising from the “mandatory reserve” to support their other non-profitable services with the prior approval from the Secretary for Home Affairs (SHA); and
- (c) SHA has the final discretion to reject any requests of participating NGOs to deploy surplus arising from the youth hostel operation to other uses.

#### Other operating conditions

11. NGOs shall maintain communication with tenants during their tenancies, in particular when the tenancy agreements are about to expire, NGOs shall provide bridging support so that tenants can move out in a timely manner.

12. NGOs are required to submit to the Government an annual financial report vetted by an auditor. Such information should be uploaded to the

Internet for public information.

13. If a youth hostel is not operated in accordance to the GOA, the Government has the right to require the relevant NGO to return the construction costs of the youth hostel.